Business Report 2009

Fiscal Year Ended March 31, 2009




Sun Frontier Fudousan Co., Ltd.

Striving to revitalize real estate business through resource conservation and fostering an environmental recycling-oriented society

Bolstering our strength while retaining our core fundamentals

Aim to be the new frontier through developing existing business and creating new one

Tomoaki Horiguchi, President & Chief Executive Officer

Review of this fiscal year (ended March 2009)

Q The earnings for this fiscal year were very tough due to the rapid deterioration in the financial markets. Could you begin by giving us your overview of this term?

A I would like first to express my sincere apology for the substantial loss recorded.

In this fiscal year, we suffered a severe loss. Based on sales of ¥26,870 million (down 44.2% from the previous fiscal year), leading to an operating loss of ¥17,090 million, an ordinary loss of ¥17,794 million, and a net loss of ¥17,666 million for this fiscal year. Accordingly, we decided to forgo a dividend for this term. I proffer a sincere apology to all shareholders for not preventing these problems and causing such concern.

The main factors behind these massive losses were the losses incurred upon the sale of properties for replanning business and valuation losses on inventories. This is entirely my responsibility as president. The replanning business was our core business, from which nearly 90% of sales for the previous fiscal year (ended March 2008) were derived. It was our breadwinner producing considerable profits. While our earnings soared, we may not have exercised sufficient caution and may have misestimated the conditions. We purchased properties with tight margins relying on short-term borrowings. Although we were managing projects, as soon as the economic environment changed, potential buyers in the real estate market held back to see how things developed and our sell-off plan was delayed. Despite that, we tried to dispose of them as repayment of the short-term borrowings was impending, but funding to purchase properties was not being made available to potential buyers in the market, resulting in a further drop in market value, thus perpetuating a downward spiral. As we tried to expand our business too quickly, we underestimated the economic perspective and business risks, and placed a disproportionate emphasis on our replanning business that exceeded acceptable risks.

Q What sort of action did you take when the economic environment rapidly changed?

A I promoted a thorough streamlining of our balance sheet and severe cost cutting.

While the economic climate rapidly deteriorated, our priority from January 2008 was “survival rather than growth.” We immediately set about implementing significant cost cutting and streamlining of our balance sheet by reducing our inventories and interest-bearing debts. In order to reduce our inventories, we actively promoted sales activities in full expectation of substantial losses at the time of sale. As a result, we were able to sell off properties as planned despite the extremely sluggish real estate market, and reduced our inventories by 56.9% compared to the previous fiscal year. In the same manner, interest-bearing debts were cut by 29.9% compared to the previous term.We have also been trying to stabilize our finances by shifting short-term borrowings to long-term borrowings with the support and understanding of the relevant financial institutions. In order to cut costs, we thoroughly minimized expenses by listing up all costs to be cut without exception based on three pillars, namely general expenses, construction, and purchase costs. We have been promoting significant cost cuts by taking heed of our employees’ wisdom while enjoying the challenge of creating a system better able to cope with economic turbulence.

For next fiscal year (ending March 2010)

Q Would you describe the management strategy for next term and the current real estate market status?

A Although we have survived the worst period, there is no predicting the future.

As regards the state of the current real estate market, there are some promising signs, such as recovering demand for residential properties, but everything remains in the balance.

Through this financial crisis, I have become keenly aware that services whose sales may evaporate to zero depending on the economic environment must not form our core. We felt a desperate need to establish a well-balanced sales structure without focusing on rapid growth, enhancing a stable profit base and establishing a system which are not easily affected by economic upheavals.

In order to achieve this, “bolstering our strength while retaining our core fundamentals,” the following three points are required for management strategies. 1, Strengthening the fee-based businesses and building leasing business (rent income) as stable profits. 2, Lowering the break-even point by continuously working to cut costs. 3, Strengthening and promoting real estate revitalization.

Q What significance do you place on the strengthening of fee-based businesses?

A Strengthening of our fee-based businesses, which has constant demand, bolsters our stable profit stream.

We have particular experience handling small and mid-sized buildings in Tokyo’ s downtown areas, such as Ginza, Nihonbashi and Kanda, and business districts near major terminal stations, such as Shinjuku, Shibuya and Yokohama.

Brokerage for office leasing and property management, etc. may seem like unrefined and unexciting businesses, but its downstream businesses in the real estate mean that they are not easily affected by the economic environment, and constant demand can be expected. Strengthening such fee-based businesses increases stable profitability and reinforces our operating foundation.

In order to do that, we reviewed our allocation of personnel and increased the number of sales staff on the brokerage and property management sides to about 100. In March 2009, we set up a dedicated team for lease brokerages involving about twenty employees in total for Minato ward and the Yaesu area to ensure efficient cover for the business districts in central Tokyo. We intend to further strengthen the advantages and to improve locally adhered customer satisfaction levels by providing leasing and sales brokerage, property management, leasing guarantee and replanning businesses based on the solid customer base that we have accumulated.

Q How would you describe the future as far as real estate revitalization is concerned?

A Under the concept of "reuse," we will contribute to the establishment of an environmental recycling-oriented society.

Until now, the real estate business has been primarily concerned with development and new construction as the star in a society based on mass production and consumption. However, we believe that real estate revitalization, through the employment of innovative ideas to make effective use of existing resources rather than simply knocking down old buildings and building new ones, has the potential to become a common theme worldwide as we focus more on global environmental issues, including resource conservation.We aim to develop further with the placing of important value for the thought of "MOTTAINAI" (things too good to throw away), bearing in mind the reuse of resources under this concept. Specifically, we will adopt and materialize our customers' needs and regional characteristics that have been acquired through the fee-based businesses into the revitalization business, and revitalize the real estate which is more environmentally friendly and energy efficient while conserving resources.We provide it to many customers with high occupancy rate, or conduct environment-conscious management. In other words, we believe all our businesses, such as replanning, brokerage and property management must maintain a sense of social justice to contribute to the establishment of an environmental recycling-oriented society under the concept of reuse.

Q Lastly, what sort of messages you would like to give to the shareholders?

A We aim to establish a steady profit base under the theme of balancing "caution against positiveness."

I apologize for the loss of valuable assets held for our shareholders under trust. However, I also believe that "every crisis affords a hidden opportunity." We will continue to push forward with various reforms and build a steady profit base under the theme of balancing "caution against positiveness" for the next year. Our employees are full of energy and enthusiasm even under these circumstances, and I too am full of vigor. We aim to improve our earnings by accurately evaluating the market and timing, proactively taking on challenges at the appropriate time to provide useful and satisfactory services to our customers. I am certain we will emerge a greater company after weathering this storm. We appreciate your continued support.

The explanation offered by President Horiguchi is summarized in the following charts.

Point 1 Management strategy for next fiscal year

Strengthening fee-based businesses

- Strengthening of personnel to reinforce the leasing sales team.
- Specializing in small and mid-sized office buildings in central Tokyo.
- Further expansion of customer base through community-based activities.

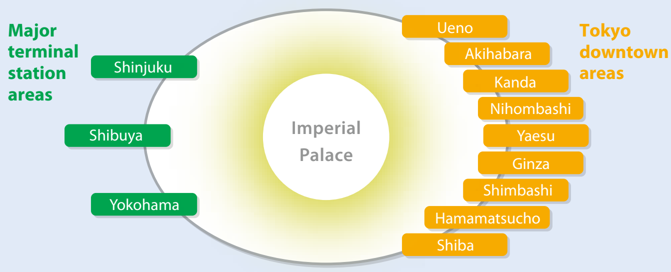
Thorough implementation of cost cuts

- Target of reducing costs by ¥1 billion compared to the previous fiscal year.
- Increasing in-house operation by improving each individual's skills.
- Derive satisfaction in cost cutting by utilizing our own wisdom and innovative ideas.

New real estate revitalization service

- Contributing to the establishment of an environmental recycling-oriented society through reuse of resources.
- Maximizing the value of revitalized properties.
- Fully examining business risks and avoiding the temptation to grow more quickly than we can manage.

Point 2 Strengthening our leasing brokerage operations focused on downtown in central Tokyo and major terminal station areas



Point 3 Adopting and materializing customer needs that have be en acquired through fee-based businesses into the revitalization business

Overview of Business Segments

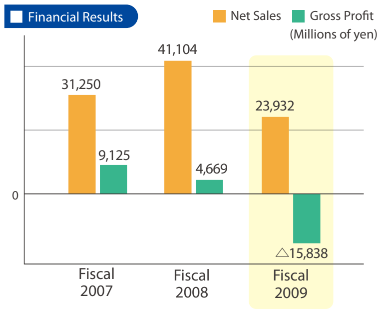
Explanation of primary business conditions.

Replanning Business

The replanning business is a real estate revitalization business involving the purchase of used office buildings whose occupancy rate for leasing of these has been reduced by age, etc., then the bolstering of their value through refurbishment and securing new tenants, etc. The property is then sold.

The replanning business for this fiscal year (ended March 2009) suffered a great reduction of sales in a sudden downturn in the real estate market due to the global financial crisis, and experienced a massive loss of confidence caused by posting of the valuation loss on inventories, etc. However, we were able to improve our financial stability by proactively promoting the sale of inventory properties even under these tough market conditions, and managed to significantly reduce our interest-bearing debt. As a result, thirty properties were sold during the term totaling sales of ¥23,932 million, and incurring a gross loss of ¥15,838 million.

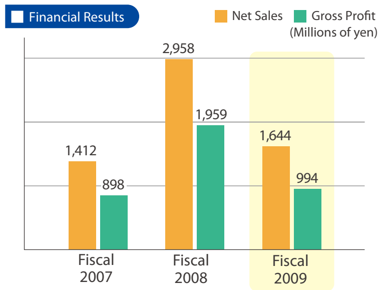
For the next fiscal year (ending March 2010), we are steadily promoting the commercialization of properties that are under construction to quickly increase profits. At the same time, we shall focus on small and mid-sized properties whose liquidity is relatively high, purchase properties after carefully examining the risks, and tackle revitalization and sales in a short period.



Building Leasing Business

Although fixed assets (properties retained for the long term) have benefited from almost full occupancy throughout the year, rent income declined compared to the previous fiscal year because of the number of properties sold to reduce the inventory for replanning business and the sale of one property on the fixed asset list, resulting in sales for the fiscal year of ¥1,644 million and gross profit of ¥994 million.

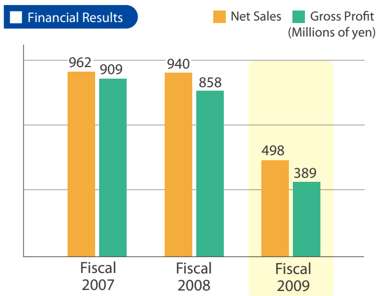
This is a stock-type business that can earn stable rent income by retaining properties for the long term while maintaining a high occupancy rate. We will establish a stable profit base by quickly securing full occupancy of these properties under our replanning business, and by increasing rent income as a result of new purchase properties.



Real Estate Brokerage Business

External brokerage activities for the sales brokerage during this fiscal year were practically suspended because the sales staff members were reassigned to the sale of properties under the replanning business. As regards the leasing brokerage, we have been focusing on soliciting new tenants for those properties under our replanning business, and at the same time, we set out to expand our external brokerage based on the sales power accumulated through the service. While the degree of response, and rate and number of properties for which contracts were concluded, had a strong showing due to the increased demand for small and mid-sized properties, which is our area of expertise, as many more offices have downsized under these deteriorating conditions, but this still did not offset the reduction in sales for the sales brokerage, and proceeds for the overall brokerage service fell significantly to ¥498 million in sales with ¥389 million in gross profit.

For the next fiscal year, we are re-starting external brokerage activities based on data for customers and properties accumulated through sales activities for properties under the replanning business. In terms of leasing brokerage, we aim to strengthen our competitiveness and profitability by further promoting community-based sales. These will be focused mainly on the Tokyo's downtown area and office districts near the major terminal stations, such as Shinjuku, Shibuya and Yokohama, for example new sales promotion activities by a dedicated team in the Minato ward and Yaesu areas.

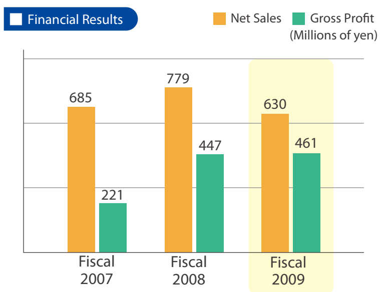


Property Management / Construction Management / Leasing Guarantee Business

As regards property management business, we have been working hard to improve profitability per building by maintaining high occupancy rates in our entrusted properties by leveraging our substantial leasing brokerage strength. We shall continuously focus on identifying new profit opportunities by proposing renovation, etc. while advancing and developing our existing strategies.

In terms of the leasing guarantee business, we have been trying to prevent payment defaults through strict checks and quick response in the event that any payment is delayed against a backdrop of increased vacancies. At the same time, in order to strengthen the receipt of new contracts, we have been proactively trying to increase sales, with the result that both the number of properties handled and the outstanding balance of guarantees have grown.

Regarding the construction planning business, as we have been focusing on commercialization of properties under our replanning service, we have suspended acceptance of any external subcontracts throughout the year. As per the above, in terms of overall property management, construction planning and leasing guarantee businesses generated ¥630 million in sales and ¥461 million in gross profit, which represented decreased sales but increased profit.



IR TOPICS

IR Activities in Fiscal 2009

Jul-2008	IR Conference (in Singapore)
Aug-2008	Nikkei IR Fair (having a booth and large meeting for 100 individual investors)
Oct-2008	IR Conference (in London and NY)
Dec-2008	Information Meeting for 300 individual investors

Consolidated Financial Statements

Consolidated Balance Sheets (Summary)

Account title (Millions of yen)	As of March 31, 2008	As of March 31, 2009
Current Assets	52,960	23,836
Cash and bank deposits	5,222	3,994
Inventories	45,404	19,575
Other current assets	2,333	266
Fixed Assets	4,355	3,643
Property and Equipment	2,440	1,690
Intangible Fixed Assets	73	53
Investments and Other Assets	1,841	1,899
Total Assets	**57,316**	**27,479**
Current Liabilities	24,428	4,975
Short-term borrowings*	21,176	4,028
Income taxes payable	1,490	14
Other current liabilities	1,762	931
Long-term Liabilities	6,801	14,564
Long-term debts and bonds	4,201	13,768
Other long-term liabilities	2,600	795
Total Liabilities	**31,230**	**19,539**
Shareholders' Equity	26,047	7,884
Others	37	55
Total Net Assets	**26,085**	**7,939**
Total Liabilities and Net Assets	**57,316**	**27,479**

Inventories

Sales and valuation loss on inventories resulted in inventories falling by ¥25,829 million compared to the end of the previous fiscal year.

Interest-bearing debt

Repayment of borrowings by selling properties resulted in interest-bearing debt falling by ¥7,579 million compared to the end of the previous fiscal year. In addition, shifting from short-term borrowings to long-term borrowings have extended financial stability.

*short-term borrowings / total of short-term borrowings, Current portion of bonds, Current portion of long-term debts.

Net Assets

Posting a net loss of ¥17,666 million resulted in Net Assets falling by ¥18,145 million compared to the end of the previous fiscal year. (Equity Ratio / 28.7%)

Consolidated Statements of Income (Summary)

Account title (Millions of yen)	Fiscal 2008 (April 1, 2007– March 31, 2008)	Fiscal 2009 (April 1, 2008– March 31,2009)
Net Sales	**48,150**	**26,870**
Cost of Sales	37,877	40,752
Gross Profit (Loss)	**10,273**	**△13,881**
Selling, General and Administrative Expenses	3,312	3,208
Operating Income (Loss)	**6,960**	**△17,090**
Other Income	76	43
Other Expenses	690	747
Ordinary Income (Loss)	**6,346**	**△17,794**
Extraordinary Gains	17	1,059
Extraordinary Losses	11	27
Income (Loss) before Income Taxes	**6,352**	**△16,763**
Income taxes-current and other	3,250	△47
Income taxes-deferred	△549	951
Net Income (Loss)	**3,650**	**△17,666**

Gross Profit (or Loss)

By a loss on sales of ¥7,550 million and valuation loss of ¥9,471 million, gross loss of ¥13,881 million was recorded.

Extraordinary Gains

Extraordinary Gains of ¥1,059 million was recorded by profit of ¥1,058 million on sales of a fixed asset for building leasing business.

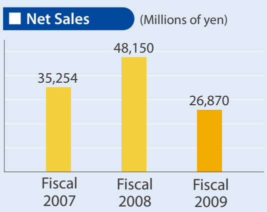
Income taxes-deferred

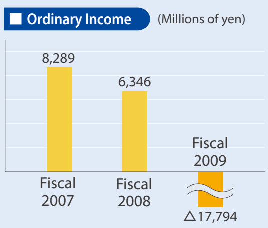
Income taxes-deferred of ¥951 million was recorded by allocating deferred tax assets of ¥1,290 million.

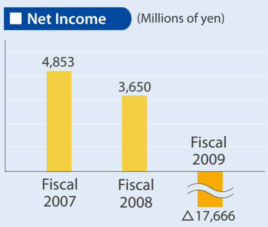
Consolidated Statements of Cash Flows (Summary)

Account title (Millions of yen)	Fiscal 2008 (April 1, 2007– March 31, 2008)	Fiscal 2009 (April 1, 2008– March 31,2009)
Cash Flows from Operating Activities	△4,955	5,483
Cash Flows from Investing Activities	△388	1,515
Cash Flows from Financing Activities	△36	△8,074
Increase (Decrease) Equivalents	△5,381	△1,075
Cash and Cash Equivalents at Beginning of Year	10,169	4,787
Cash and Cash Equivalents at End of Year	4,787	3,712

Financial Highlight







Case Study

During the fiscal year under review, we completed renewal construction on the following replanning properties, both of which were renovated under the concept of "creating office space that is earth- and office worker-friendly."

FRONTIER EBISU

Office building that can feel "seasons" even in downtown of Tokyo

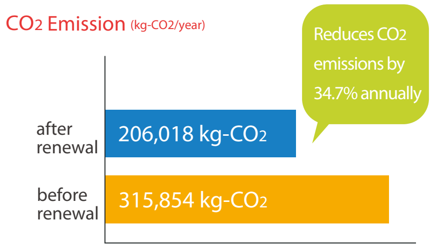
Features a variety of useful ideas for protecting the environment and promotes energy conservation

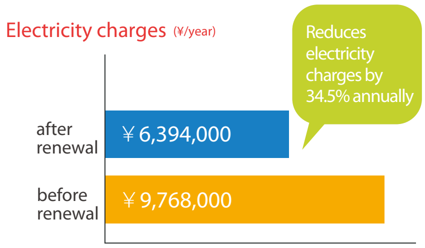
※Photos are image drawings or have been partially processed using computer graphics.

Newly employed environmental measures

1. energy-saving airconditioning system
2. energy-saving lighting system
3. heat insulating films for all windows
4. selecting ecological members for all floors
5. water-saving sanitary instruments (toilets)

Estimated energy conserved by the building during operation after the replanning work





※Ecological estimation is based on each manufactures' catalogs, the actual emission may differ slightly depending on frequency of usage.

■Address : Shibuya-ku, Tokyo
■Use : office
■Renovated : November 2008

FRONTIER EBISU is an office building that features not only locational advantages of standing near Ebisu Station and along the Meiji-dori street, but also is in a peaceful environment with a quiet atmosphere. It employs wide, openable glass windows in three directions, relaxation rooms, a rooftop garden with balcony and other facilities to realize a refreshing and comfortable office space. In addition, the building works to reduce energy consumption and CO2 emissions during operation by employing a variety of environmental measures that include use of an energy-conserving air conditioning system, and lighting as well as recycled products, greenery on a rooftop garden and solar panels.

AKIHABARA CROSSGATE

Office building in Akihabara - a district creatingnext - generation business

Comfort from greenery harmonized with wood decks in a rooftop garden to provide a relaxation space

※Photos are image drawings or have been partially processed using computer graphics.

Major renovation items

1 Glass curtain walls

Walls have been replaced with glass curtain walls to let light enter deep into the office. Windows are openable

2 Earthquake-resistance reinforcement construction

Earthquake-resistance reinforcement construction has been implemented to secure building safety.

3 Rooftop garden

A rooftop garden has been installed where comfort from greenery is harmonized with wood decks.

4 Entrance directly connected with subway station

Traveling is possible without going outside, keeping people free from getting wet on a rainy day.

■Address : Chiyoda-ku, Tokyo
■Use : Office
■Renovated : March 2009

AKIHABARA CROSSGATE is an office building located close to Akihabara Station that boasts traffic access that is among the best in Tokyo. The building walls have been replaced with glass curtain walls (openable) that let light and fresh air into the office to create a comfortable space. The building also pursues convenience by placing an entrance that directly connects to the subway station, employing security systems using PASMO and SUICA cards (IC cards used for transportation and other purposes) and other measures. In addition, a garden full of greenery with wood decks and benches has been installed on the rooftop, providing a place of comfort as well as contributing to environmental preservation.

Corporate Information

(As of March 31, 2009)

Share information

Number of authorized shares	912,000 shares
Number of shares issued	331,495 shares
Number of shareholders	8,943

Principal Shareholders

(Trade name)	(number of the Company's shares held)	(Voting rights)
Tomoaki Horiguchi	176,392shares	53.21%
JP Morgan Chase Bank 380055	8,086shares	2.44%
Japan Securities Finance Co., Ltd.	7,385shares	2.23%
Japan Trustee Services Bank, Ltd. (trust account 4G)	7,356shares	2.22%
Mellon Bank, N.A. as Agent for its Client Mellon Omnibus US Pension	4,561shares	1.38%

Breakdown of Shareholders

Corporate profile

Name	Sun Frontier Fudousan Co., Ltd
Headquarters	Toho Hibiya building 14F 2-2, Yurakucho 1-chome, Chiyoda-ku, Tokyo 100-0006
Branches	Kanda, Shinjuku, Yokohama, Shibuya
Paid-in capitals	¥7,228 million
Number of employees	141 (consolidated)
Group Companies	SF Building Support Inc. Sun Frontier Real Estate Investment Advisors Inc. SF Capital Co., Ltd.

Board of Directors and Corporate Auditors		
	President	Tomoaki Horiguchi
	Senior Managing Director	Seiichi Saito
	Managing Director	Kunihiro Kotaki
	Director	Izumi Nakamura
	Full-time Outside Auditor	Koichiro Shimomura
	Outside Auditor	Mizue Akita
	Outside Auditor	Koichi Kase

Information

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