

Sun Frontier Fudousan Co., Ltd.

Business Report 2016

Fiscal Year Ended March 31, 2016



Stock Code: 8934



SUN FRONTIER

As professionals of real estate utilization, our goal is to be
“the company that customers love and choose the most in the world.”

President Tomoaki Horiguchi



Summary of 17th Fiscal Year

Sales and income increased for the fifth straight fiscal year.

In the 17th fiscal year, we achieved the sales of ¥30,625 million yen, operating income of ¥7,387 million, ordinary income of ¥7,024 million and net income of ¥8,157 million. Sales and income both increased for the fifth straight fiscal year. The profit margin is showing a substantial increase because we are pursuing the maximization of added-value through efforts on commercialization process of revitalization business such as attraction of tenant and renovation. As outcome of all these efforts, our net assets exceeded ¥30,000 million and while maintaining high equity ratio (55.7%), we achieved a high level of return on equity (ROE) at 30.9%. All of these achievements are because of our shareholders' support and we would like to express our deepest gratitude for this.

In addition, we increased the dividend per share by about 52 % to 25 yen.

Looking back to the 17th fiscal year, vacancy rate of office building in center district of Tokyo remains stable at a low level and the average rent is also showing moderate improvement.

Under such circumstances, we specialize in small and medium-sized office buildings in central Tokyo and solve any real estate related difficulties based on the viewpoint of customers. We provide services like rental and sales brokerage, management and maintenance, small repair and large scale renovation of buildings, specialists consultation regarding

inheritance and tax affairs, rent guarantee service, etc. We eliminate customers' anxiety and complaints through all these services and create multifaceted earning opportunities.

By linking up unrivalled knowhow and experience gained from the process of providing the above mentioned various services, we have been proactively developing real estate revitalization projects. With the strength of rental brokerage based on community sales, we provide the replanning products of profitable and convenient revitalization building from the viewpoint of clients and tenants.

During the continuous growth of sales and income, we're expanding to hotel development, management and revitalization. By solving the lack of accommodations caused by rapidly growing tourist to Japan, we are contributing to the realization of Japan as a tourism nation. We are developing the inbound city-tourism hotel and make a business alliance with Spring Group of China. As the first hotel of our collaborative brand, "SPRINGSUNNY Hotel Nagoya Tokoname" opened in this fiscal year.

In addition, in order to support the economy development of local city, we are promoting outbound investment by providing wealthy Japanese with real estate investment opportunities in fast-growing Asian metropolises. To accelerate inroads-making into rapidly growing big cities in South East Asia, we are developing city hotels and high-rise apartments in Da Nang, the largest city of central Vietnam, at the same time, we are proceeding with the construction of urban condominiums in Jakarta, capital of Indonesia.

Direction of Company

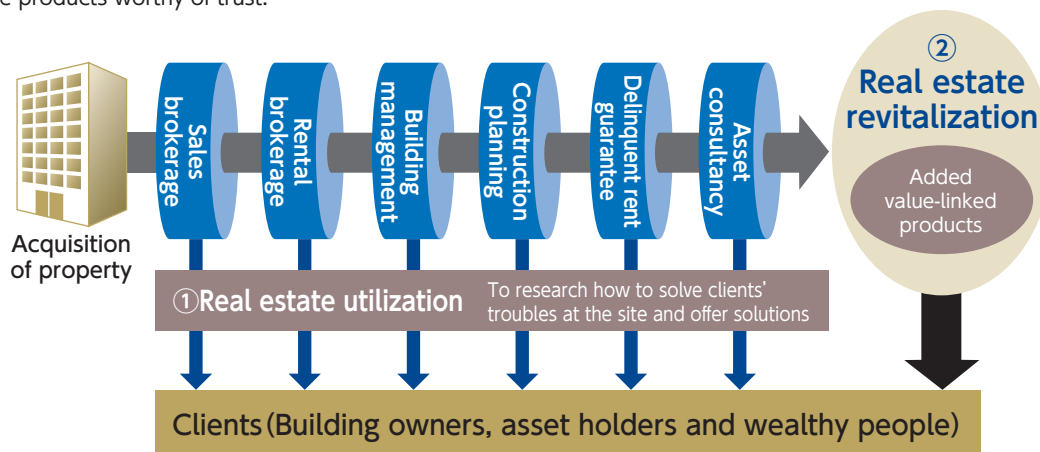
Vision and Policy of Sun Frontier

At Sun Frontier, our customers include building owners, asset holders, and wealthy people. As professionals of real estate utilization, our goal is to be the company that customers love and choose the most in the world. The revitalization and utilization of small and medium-sized office buildings in central Tokyo is our core business. Our policy is to focus on people, rather than property. For owners' and their families' happiness, we utilize our strength of tenant finding, real estate revitalization as well as most appropriate building operation and management to solve any real estate related difficulties for customers.



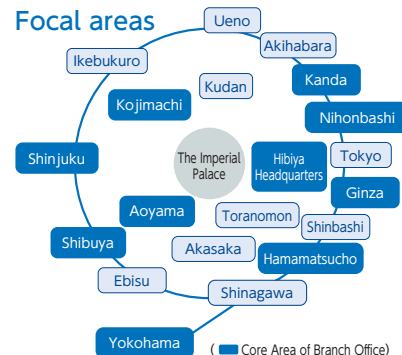
Business model of Sun Frontier

- ① In utilization of real estate (Sales brokerage, rental brokerage, building management, construction planning, delinquent rent guarantee, asset consulting), we closely communicate with customers and solve issues through the cooperation of our internal sections.
- ② In this process, we cultivate and utilize our expertise for our real estate revitalization projects to transform them into investable products worthy of trust.



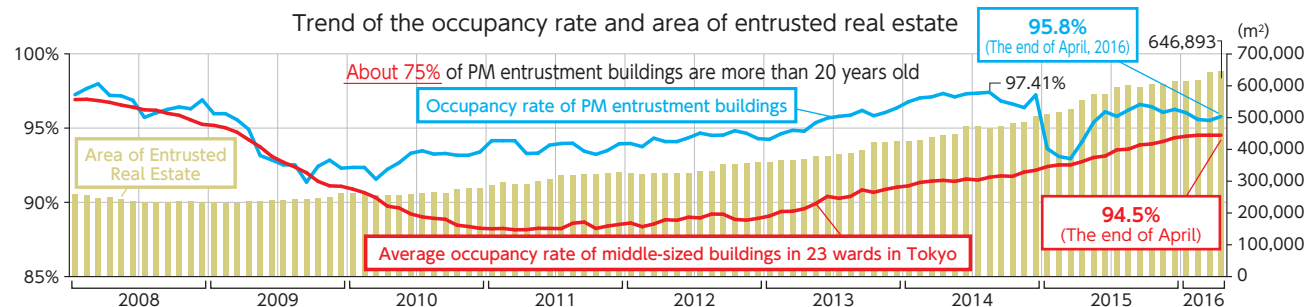
The branch offices network in central Tokyo are functioning as building owners' preferred point of contact.

We operate 10 branch offices across the Tokyo area by focusing mainly on 5 central wards. With strength of rental brokerage based on community sales, we also receive various real estate inquiries from building owners as their preferred point of contact. By solving problems of building owners, a variety of profit-making opportunities are created. Through the contract conclusion of sales brokerage, customers ask us for advices about building renovation and sales. These inquiries sometimes result in opportunities of procurement for revitalization of real estate business, and it's our unique source of procurement.



Management Areas of entrusted buildings and the number of customer is increasing steadily.

In building management, we strive to boost tenants' satisfaction by providing meticulous service and utilizing strength of sales brokerage based on community. Through appropriate rent modification, we succeeded in improving the profitability, and we are implementing a stable building management of high occupancy rate as well. Under such performance background, customers keep increasing and from these customers we are entrusted with several new buildings' managements. Additionally, we are receiving entrustment of building management from customers who purchased revitalized products, and business relationship got developed through this process. Thus, the number of entrusted buildings and customers are increasing steadily.



※Reference: Charts of average occupancy rate of medium-sized buildings in 23 wards of Tokyo is created by our company based on "Office Market Monthly Report" issued by Sanko Estate Co., Ltd.

	Top-ranked companies in Area of entrusted real estate (km ²) [※]	2015	2014
1	XYMAX	11,800	8,287
2	Mitsui Fudosan Building Management	7,854	7,860
3	MITSUBISHI JISHO PROPERTY MANAGEMENT	6,972	6,510
...			
24	MS Building Support	749	730
25	FUKUOKA JISHO	718	-
26	Sun Frontier Fudosan	601	474

	Top-ranked companies in the number of owners [※]	2015	2014
1	Vortex	360	283
2	XYMAX	251	243
3	Sun Frontier Fudosan	207	159
4	RIO CONSULTING	191	-
5	Itochu Urban Community	180	180

※Reference: Created by our company based on "Monthly Property Management", Nov.11, 2015

Note: Occupancy rate of entrusted buildings under our company for management

In the 4th quarter of fiscal year 2014, important tenants relocated to larger offices, vacating some units. Consequently, occupancy rate declined temporarily at the end of the term. Later, new tenants have been moving in steadily, recovering occupancy rate.

Building operation capability is our strength.

The Group has systems to respond to all kinds of real estate issues faced by clients with its strengths of operating capabilities to offer optimal utilization, management, and operation tailored to the unique characteristics of each rental building.

In our revitalization business, we produce revitalized properties and sell them to customers. The purchase of customer is not an end but a new start to us. We take responsibility to our customers seriously, and our goal is to provide an integrated set of support services for customers' purchase, follow up and even sales after purchase as real estate professionals. We want to provide such kind of service that customers could be freed from all the complicated procedures and management of real estate possession.

Sale of revitalized property	Follow up menu						
	Building management maintenance	Rental brokerage	Rent guarantee	Interior finish work	Renewal construction	Assets consulting	Sales brokerage
	<ul style="list-style-type: none"> • Management of account activities • Response to opinions • Accounting report • Negotiation with tenants • Building maintenance • Emergency response • Equipment management 	<ul style="list-style-type: none"> • Tenant finding • Sales brokerage of furnished buildings • Marketing • Consultation 	<ul style="list-style-type: none"> • Immediately make an advance for delinquent rent • Rent guarantee up to 18 months 	<ul style="list-style-type: none"> • Interior design • Design • Restoration to original condition • Work contract for tenants 	<ul style="list-style-type: none"> • Renovation of entrance, air conditioner and exterior wall • Building diagnosis 	<ul style="list-style-type: none"> • Professional consultation • Inheritance countermeasure • Asset management • Business succession • Consultation 	<ul style="list-style-type: none"> • New purchase • Assets sales • Purchase for business replacement • Assets replacement

Revitalization business and rental building operation business

Participative management of all employees based on core principles.

— Change and Challenge ~Sun Frontier Management 3 Core Contents~ —

1. Mental management based on our ethos and philosophy

- We have upheld "altruism" since the establishment of our company.
- By cleaning our office and reading the philosophy booklet every morning we become a group that share the value of "Feeling as happy as for others as you do for yourself."
- We aim to offer greater happiness for customers and contribute to the realization of a rich society.

2. Management among all employees' participation based on the accounting for each section

- By developing and diffusing the accounting system for each division (Amoeba management), we enhance employees' profit awareness and promote the business operation involving all employees with management perspective.

3. Business management based on the viewpoint of customers

- We listen to customers' requests carefully, handle and solve even minor troubles, without being stingy with time.
- We change ourselves from the viewpoint of customers, making efforts to challenge, create and advance.
- With internal collaboration of different sections, we create high added values that are linked to one another.



**Employees play major roles.
Resonant business management**

Three-pronged strategy for future growth

We have developed a three-pronged strategy for future growth.

- 1) **Existing Business Expansion** The first is to enlarge the branch network by developing rental meeting room, small office and hotel. In this process, the operation level could be improved. Then we utilize the model which strength is cultivated in office business to hotel development, management and revitalization business. By solving the lack of accommodations caused by rapidly growing tourist to Japan, we are contributing to the realization of Japan as a tourism nation.
- 2) **M&A** We will rapidly acquire the platforms, personnel and technology for our projects, and strive for growth and development by moving ahead with capital tie-ups and business alliances in order to provide our clients with optimal services that are responsive to changes of environment.
- 3) **Overseas Business Expansion** We're promoting inbound investment from increasing Asia wealthy investors by providing real estate invest opportunities in Tokyo, the largest business market. Meanwhile, with purpose of contributing to city economy development and happiness of local people, we are developing outbound business by providing invest opportunities to wealthy Japanese in rapidly-growing Asia's metropolises.



In conclusion

About financial forecast for the fiscal year ending March 31, 2017, net sales will be ¥41,000 million (33.9% increase year-over-year), operating income will be ¥8,500 million (15.1% increase YOY), ordinary income will be ¥8,200 million (16.7% increase YOY) and net income will be ¥5,600 million (31.3% decrease YOY). Dividends will increase by 3.0 yen per share to 28 yen per share. The main reason for the decrease in net income is that the next FY (ended March 31, 2017) income before tax adjustments is expected to put a complete end to tax loss carry forward from previous fiscal years. As a result, corporate tax rate will rise close to legal effective tax rate's level, which leads to a heavier tax burden than the previous years.

Our business is developing through implementation of growth strategy. By solving problems and fulfilling requests from the viewpoint of customers, we want to create a world where customers trust Sun Frontier only by hearing our name.

In addition, we are developing our company by drawing attention of asset holders and wealthy people in Japan as well as investors from overseas as an investment destination company.

We will continue to change ourselves basing on the viewpoint of customers and create high added value through the cooperation of our internal sections. We will also try our best to enhance our corporate value sustainably and contribute to Japan and Asia's happiness, prosperity and national interests as well.

Your continued support in the future would be greatly appreciated.



From left, Managing Director Yasushi Yamada, Senior Managing Director Izumi Nakamura, Executive President Tomoaki Horiguchi, Executive Vice President Seiichi Saito

Efforts in revitalization business

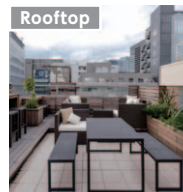


A building which tenants could move in at ease

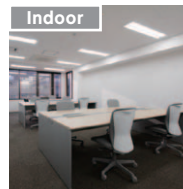
'Revitalization' is a part of our core business. Here, we acquire used buildings with problems and renovate them from the tenant's viewpoint or present-day needs at the time. We convert the building into a product that society demands. Take the Ginza Grass Gate building for example. Despite its location advantage, aging facilities and concerns surrounding earthquake resistance meant its attractiveness as an office building was in decline. Firstly, we implemented seismic reinforcement, allowing tenants to relax and focus on their projects long term. We then focused on renovating the interior at the owner's expense, paying attention to every detail in creating the ideal workspace. The rooftop wasn't previously used that well, so we installed a beautiful garden terrace where customers could enjoy the night view of Ginza. Our transformation was loved by tenants and the community so much that in less than half a year, all vacant rooms on nine floors became rented.



External appearance



Rooftop



Indoor

We transformed the building to a reassuring one for tenants by aseismatic reinforcement. To eliminate elevator hall's narrowness and unisex toilet, we demolished all things besides exterior wall and skeleton and even reset the electric wiring and water plumbing to implement drastic renovation. Inside, we made "premium set-up office" for future tenants' needs. As a result, in less than half a year, all vacant rooms on nine floors became rented at 40% price increase.

The start of space rental for meeting room and small office

As the first project of space rental business, "Vision Center Tokyo" opened in April, 2015, one minute's walk from Tokyo Station. By down-to-earth sales activities and detailed follow-up, repeat customers increased steadily and monthly profit is achieved within half a year.



Seminar room



Event space



Vision Center Tokyo

A donated course started in Graduate School of Management, Kyoto University



As activities for contributing to society, we started the donated course in Graduate School of Management, Kyoto University, on April 1st, 2016. This course features education programme where academics and practitioners conduct research in cooperation. Its purpose is to cultivate management specialists who can contribute to the increase of company value in long term.

Professor Norio Sawabe's aspiration is to improve society through the research of management accounting. We wholeheartedly endorse his ideal and activities and will fulfil our responsibility of citizen enterprise by supporting this donated course as a contribution to society.



Graduate School of Management, Kyoto University Professor Norio Sawabe

Our Prospective Business



Considering the growing number of tourists and inbound demand in Japan the ideal opportunity, we are expanding into the hotel business which includes development, revitalization and operation.

Also, we are pursuing aggressively in overseas expansion as the second prospective business. We're promoting inbound investment from wealthy overseas investors, incorporating Asia's growth into Tokyo, while developing our outbound business in rapidly-growing cities in South-East Asia and contributing to the happiness and prosperity of local people over there.

Hotel Business

Business Alliance with Spring Group of China

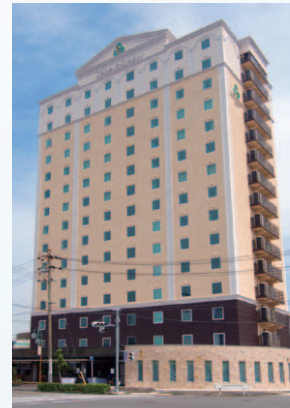
We formed a partnership with Spring Group, the largest travel company of China that its market capitalization is No.1 in Asia's LCC airlines. Through the alliance, we are developing hotel business in Japan and trying our best to create new added value.

Because our management philosophy and corporate creed are very similar, we believe we are able to contribute to society by developing hotel business.



SPRINGSUNNY Hotel Nagoya Tokoname Grand Open

As our first collaborative brand hotel, SPRINGSUNNY Hotel opened in front of Tokoname Station, not far from Chubu Centrair International Airport. Our aim is to become a 'heart-warming' hotel which is attractive to visitors to Japan.



Hotel External Appearance

Overseas Development

Da Nang, Vietnam ~City Hotels and Apartments~

We established “Sun Frontier Vietnam” as an overseas subsidiary in December, 2015. In riverside of Da Nang, the largest city in central Vietnam growing in leaps and bounds in tourism resort industry, we are making efforts in hotel development and operation as the 1st project over there. By developing business to meet increasing demand for hotels, we believe it will make a big economy contribution to Vietnam. Also, we are preparing for the high-rise apartment house project as our 2nd project.



Hotel Effect Drawing



High-Rise Apartment
(30-story, 320 units) Effect Drawing

Jakarta, Indonesia ~Urban Condominium Business~

In March, 2016, we established “Sun Frontier Indonesia” as an overseas subsidiary. In Jakarta, capital of Indonesia and the fourth populous city on earth, we are proceeding with the construction of urban condominiums in association with local partners. Local business development could solve the pressing demands for housing. We believe this should result in contributions for further growth of Indonesia.



External Appearance of Condominium

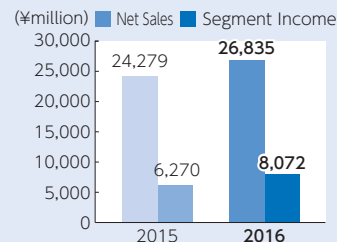


Real estate revitalization business

By creating added value based on the viewpoint of customers, the profit margin of the revitalization business rose further and profit increased in result. The stocks of revitalization property and their commercialization are proceeding favourably.

In revitalization business, we don't just pay attention to the stability of assets but unique location and local history as well. We make efforts in office renovation for regional needs, seismic reinforcement and correction of volume rates. Though these efforts we create "true value" from buyers' viewpoint.

In result, we achieved sales of ¥26,835 million (10.5% increase year-over-year) and segment income of 8,072 million (28.7% increase YOY), both sales and income increased from the previous year.

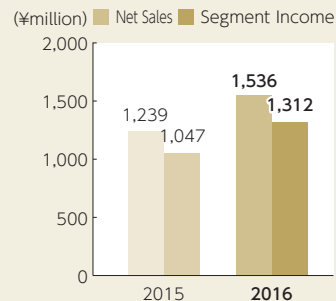


Brokerage business

Focusing on repeat customers and customers via introduction, we deepen the business relationship by enhancement of internal cooperation, and it results in performance improvement. As the contact point for procurement, sales and building entrustment, the brokerage business is also contributing to profit of the whole company.

In sales brokerage business, we have been focusing on customer referrals from other sections such as property management and rental brokerage. By providing high-added value and satisfaction to customers, the business flourishes through a good circulation of referrals and repeaters. In the rental brokerage business, while occupancy rate continuously improves, we are active not only in finding tenants, but also in solving building owners' various problems. Furthermore, the brokerage business is also contributing to the whole group's profit by engaging in recruiting tenants for properties of revitalization business, and bringing in new customers entrusting their buildings to property management section.

As a result of the above activities, we achieved sales of ¥1,536 million (up by 24.0% from the previous fiscal year) and segment income of ¥1,312 million (up by 25.2%).

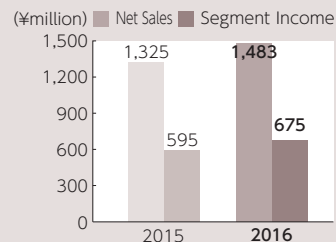


Property management business

Customers keep increasing steadily, and the number of entrusted building increased by 57 over the previous fiscal year to 333 now.

We strove to boost tenants' satisfaction by providing meticulous building management and utilizing strength of rental sales based on community. Through appropriate rent modification, we succeeded in improving the profitability, and we are implementing a stable building management of high occupancy rate as well. As a result of all these efforts, the number of entrusted building increased by 57 over the previous fiscal year to 333 now. Furthermore, the occupancy rate is up by 2.6% to 95.5%. The business scale is continuously growing and expanding.

As a result of the above activities, we achieved sales of ¥1,483 million (up by 11.9% from the previous fiscal year) and segment income of ¥675 million (up by 13.5%).

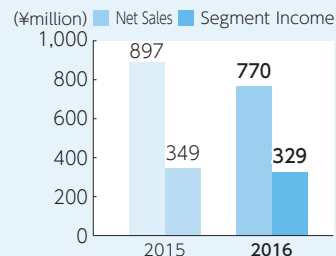


Other

Delinquent rent guarantee business contracts increased by 15%, sales and income both increased over 30%. Space rental business and hotel business started.

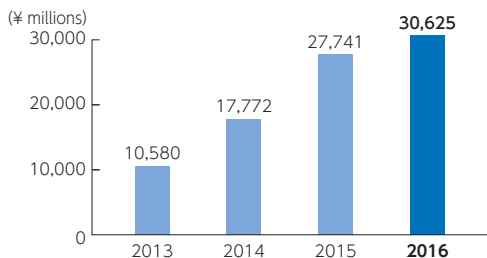
In the rent guarantee business, with the help of concentration on new client acquisition and enhancement of cooperation with internal sections and affiliated companies, number of dealing is increasing steadily. As for the construction solution business, due to the lack of large-scale project orders compared to the previous fiscal year, entrusted projects are limited to small ones. Space rental and hotel business is our newly started business and is developing well as the result of our active efforts.

In the business above, we achieved sales of ¥770 million (down by 14.1% from the previous fiscal year) and segment income of ¥329 million (down by 5.6%).

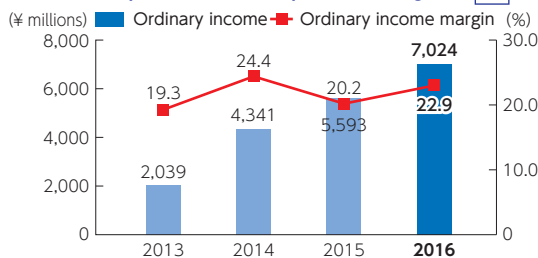


"Segment income" is calculated by subtracting the expenses for respective businesses, such as interest paid, sales commission, and goodwill amortization from gross profit on sales.

Net sales



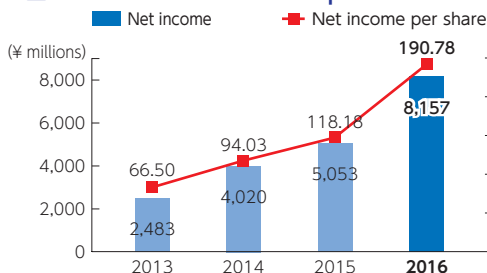
Ordinary income • Ordinary income margin



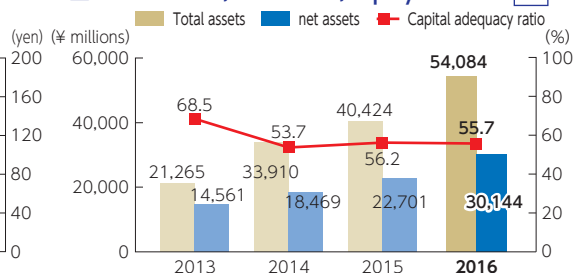
Point 1

The average ordinary income margin in the real estate industry is around 10%, but Sun Frontier has maintained a high standard of 20%, a testament to the development of our high value-added business.

Net income • Net income per share



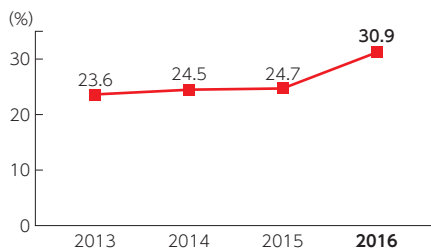
Total assets, net assets, equity ratio



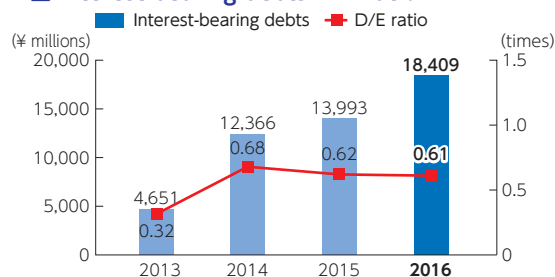
Point 2

Our capital adequacy ratio also compares favourably with the industry, tracking above 50% compared to the 30% average. This demonstrates our strong and stable financial position.

Return on equity (ROE)



Interest-bearing debts D/E ratio



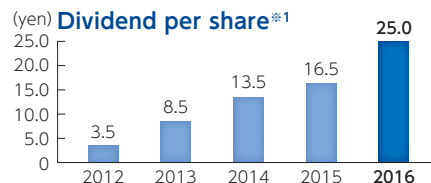
Point 3

Return on equity is consistently above 20%, compared to the industry average of 8%. The effective utilization of capital allows us to maintain a high level of profitability.

About return to shareholders

Dividend of ¥25 per share

Our company has a fundamental policy of returning profits to shareholders on a long-term, stable basis while retaining enough internal reserves for flexible response to business environment changes. In this fiscal year, we increased dividend per share by 52% to 25 yen.



※ 1 Since the company conducted a 1:100 stock split of common stocks on October 1, 2013, for ease of reference, 1/100 is used to calculate net income per share and dividend per share

※ 2 ROE is calculated by net income/equity capital (average of year beginning and ending) × 100, and is an indicator for capital efficiency.

※ 3 D/E ratio is calculated by interest-bearing debts /equity capital, and is an indicator of financial soundness.

Please refer to our homepage for the detailed financial information.

Sun Frontier IR

Search

(As of March 31, 2016)

Share information

Total number of authorized shares	91,200,000
Total number of shares issued	42,755,500
Number of shareholders	9,682

Major shareholders (Top 10)

Shareholder name	Number of shares held	Shareholding Ratio*
Houon	17,957,500	42.00
Japan Trustee Services Bank, Ltd.	3,276,000	7.66
Tomoaki Horiguchi	3,002,900	7.02
The Master Trust Bank of Japan, Ltd.	781,200	1.83
STATE STREET LONDON CARE OF STATE STREET BANK AND TRUST, BOSTON SSBTC A/C UK LONDON BRANCH CLIENTS- UNITED KINGDOM	650,000	1.52
CBNY-VICTORY MUNDER INTERNATIONAL SMALL-CAP FUND	518,200	1.21
CHASE MANHATTAN BANK GTS CLIENTS ACCOUNT ESCROW	465,741	1.09
Keiko Horiguchi	399,000	0.93
Japan Trustee Services Bank, Ltd.	285,400	0.67
Inter X, Ltd.	271,900	0.64

*Numbers displayed are rounded off to the second decimal place.
Shareholding ratio is calculated after deducting treasury shares (143 shares).

Breakdown of Shareholders (by share number)



Shareholder memo

Fiscal year	From April 1 to March 31 of the following year
Annual shareholder meeting	June
Date of record	March 31
Announcement listing method	Electronic public notice (the Company homepage) <small>If an electronic public notice is not possible due to accident or any other unavoidable circumstances, the notice will be published in the Nihon Keizai Shimbun.</small>
Shareholder registry administrator	Mizuho Trust and Banking Co., Ltd. 1-2-1 Yaesu, Chuo-ku, Tokyo
Location for handling this business	Security Agency Department. Mizuho Trust and Banking Co., Ltd.
Contact address	[Number for inquiries only] ☎0120-288-324

Company overview

Name	Sun Frontier Fudousan Co., Ltd. (Code number: 8934)		
Headquarters	Toho Hibiya Building, 1-2-2, Yurakucho, Chiyoda-ku, Tokyo 100-0006 TEL.03-5521-1301 https://www.sunfrt.co.jp		
Branches	Ginza, Nihonbashi, Kanda, Kojimachi, Shinjuku, Shibuya, Aoyama, Yokohama		
Capital	¥8,387 million		
Number of employees	276(consolidated)		
Executives (As of June 24, 2016)	Executive President	Tomoaki Horiguchi	
	Executive Vice President	Seiichi Saito	Vice President Seiichi Saito ^{#1} Executive Officer
	Senior Managing Director	Izumi Nakamura	Senior Executive Officer Izumi Nakamura ^{#1}
	Managing Director	Yasushi Yamada	Managing Executive Officer Yasushi Yamada ^{#1}
	Outside Director	Toshio Takahara	Executive Officer Ichiro Mizuno
	Outside Director	Yukitoshi Kubo	Executive Officer Kenji Honda
	Full-time Auditor	Shinji Ohsawa	Executive Officer Mitsuhiro Ninomiya
	Outside Auditor	Koichi Kase	Executive Officer Yuji Nozaki
	Outside Auditor	Koichi Moriya	※1 This means combined post with the director position.
Principal Consolidated Subsidiaries	Sun Frontier Hotel Management Co., Ltd. SF Building Support Inc. K.K. Yubi Sun Frontier Real Estate Investment Advisors Inc. SUN FRONTIER FUDOUSAN TAIWAN CO., LTD. SUN FRONTIER VIETNAM CO., LTD. PT. SUN FRONTIER INDONESIA		