

Sun Frontier Fudousan Co., Ltd. Business Report

Shareholder Newsletter 2018

Fiscal Year Ended March 31, 2018



Stock Code: 8934



SUN FRONTIER

To our shareholders

Summary of 19th Fiscal Year

Sales and Ordinary Income Increased for the Seventh Straight Fiscal Year

Thank you all very much for your continued patronage.

The consolidated results for FY 2018/3 (the 19th term) were sales of 47,463 million yen (up 17.5% year over year), an operating income of 11,239 million yen (up 19.8% year over year), an ordinary income of 10,755 million yen (up 20.9% year over year), and a profit attributable to owners of parent amounting to 7,420 million yen (up 15.0% year over year). With your continued support, our performance remained favorable and we managed to record an increase in net sales and ordinary incomes for 7 terms in a row. We also marked record highs in operating and ordinary incomes for 2 terms in a row. We could not achieve this without your warmest support and we thank you heartily.

Dividends have increased 3.5 yen per share from the previous fiscal year to 33.5 yen per share, recording dividend increase for the 6th consecutive term.

New Medium-term Management Plan

We have drawn up a 5-year Medium-term Management Plan with FY 2019/3 being its first year.

We set basic policy “Expansion of the business that are specialized in central Tokyo and growth market” and establish the revenue structure of “standing on the flow and stock feat” to achieve medium to long-term stable growth. (Please refer to P3-4 for the details of the Medium-term Management Plan.)

Capital Increase Carried Out

From December 2017 to January 2018, we increased the capital, raising about 7.1 billion yen. We are going to apply this as the hotel development funds for our original brand “Hiyori Hotels & Resorts,” in order to strengthen the profitability of our company group, maintain the operational stability, and increase our corporate value further. (Please refer to P7-8 for the details of hotel development.)

Enhanced the Shareholder Special Benefit Plan

The Enhanced Shareholder Special Benefit Plan (complimentary hotel stay coupons at the hotels operated by our company group) that we introduced back in 2017 has been given a high evaluation and we enriched its content. We will endeavor to make investing in our shares even more attractive for all our shareholders. (Please refer to P9-10 for the details of the Shareholder Special Benefit Plan.)

We hope to receive your increased support from here on out.

June, 2018
Sun Frontier Fudousan Co., Ltd.

President **Tomoaki Horiguchi**



Consolidated Performance Highlights

(Fiscal Year Ended March 31, 2018)

Net Sales

47.4 billion yen

up 17.5 % year over year

Operating Income

11.2 billion yen

up 19.8 % year over year

Ordinary Income

10.7 billion yen

up 20.9 % year over year

Profit Attributable to Owners of Parent

7.4 billion yen

up 15.0 % year over year

Key Performance Indicators

Ordinary Income Ratio

22.7%

Equity Ratio

53.2%

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Notification on Our New Medium-term Management Plan

Our company group has drawn up a 5-year **Medium-term Management Plan with FY 2019/3 being its first year** (hereinafter referred to as “the management plan”) in order to achieve a continuous growth of the corporate value through increasing the value of real estate in Central Tokyo and presenting them to our customers to contribute to the benefit of the customers and local communities, and to invest in the rapidly growing hotel and overseas businesses more systematically.

Under the basic policy of the management plan **“Expansion of the business that are specialized in central Tokyo and growth market,”** we will endeavor to achieve net sales of **100 billion yen, an ordinary income of 20 billion yen, and a profit attributable to owners of parent amounting to 14 billion yen** in FY 2023/3 and we will act the three strategies below that realized the management plan.

Our Three Strategies

- ① **To boost our core business “Central Tokyo Office Building Business” further by focusing on the Central Tokyo area, as this area is influential and we have advantages there, and creating differentiated added value.**
 - **Office Building Business: sales of 80 billion yen in FY 2023/3 (including the revenue from hotel sell-offs)**
 - To rapidly expand the space rental business while intensifying/expanding real estate revitalization & development businesses, as well as the real estate service business.
- ② **To aggressively operate business focusing on the growing markets: “hotels” and “Asia.”**
 - **Hotel Business: sales of 14 billion yen; 5,000 operated guest rooms in FY 2023/3**
 - Hotels: With the aim to have 5,000 guest rooms operated at the end of FY 2023/3, we will employ diverse methods, including inhouse development, rental, revitalization and M&A.
 - **Overseas Business: sales of 6 billion yen and a total investment amount of 20 billion yen in FY 2023/3**
 - Asia: Concentrated investment (20 billion yen) into residential business in Vietnam and Indonesia to establish the brands trusted by local residents by supplying high quality houses with good plans.
- ③ **Active utilization of “M&A” to speed up the growth of the above businesses.**
 - **More than 20 billion yen worth of M&A in the next 5 years**
 - To actively utilize M&A of the peripheral businesses (real estate utilization, rental conference rooms, hotel operation, building management, construction, equipment, etc.) as the means to promote the growth of the office building business as well as the hotels and overseas businesses.

With the three strategies above, we will establish the revenue structure of “standing on the flow and stock feet” to achieve medium to long-term stable growth.

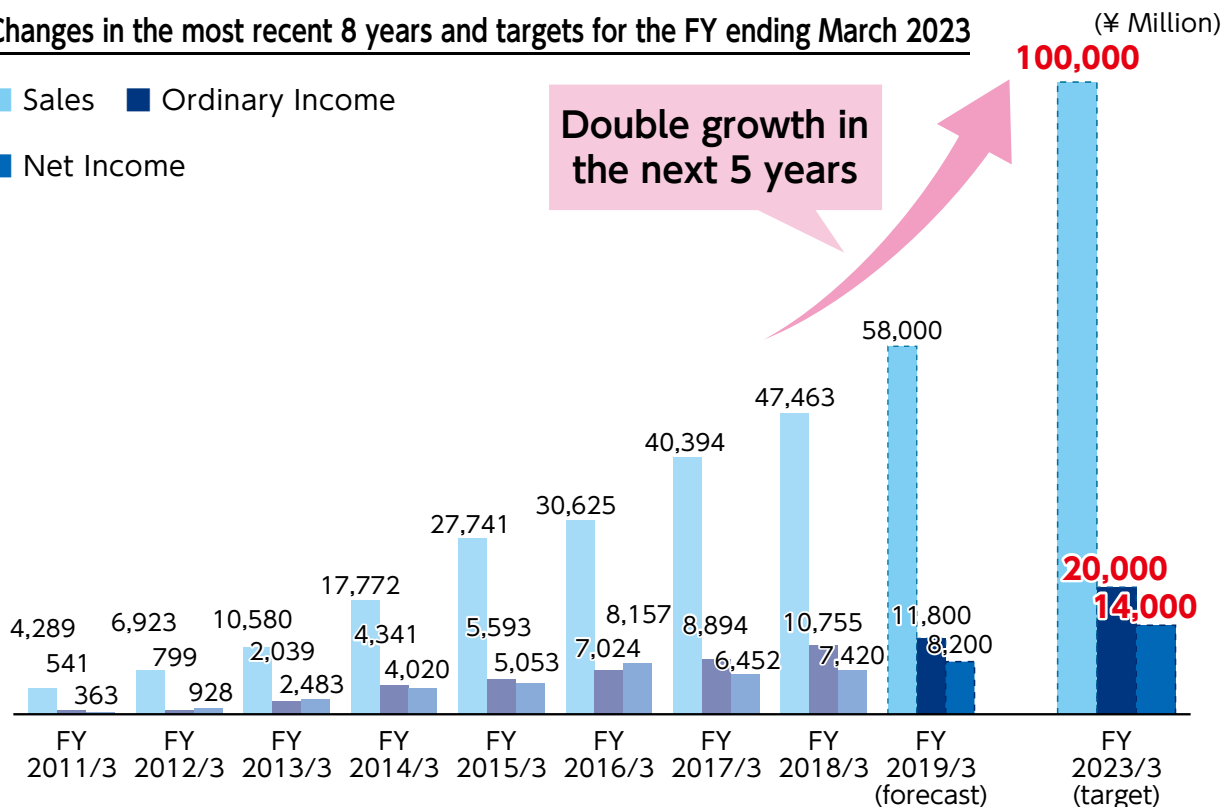
Quantitative Goals of the Medium-term Management Plan

	FY 2018/3 Results	Forecast of FY 2019/3	FY 2023/3 (5-Year Target)
Sales	47.4 billion yen	58 billion yen	100 billion yen
Ordinary Income	10.7 billion yen	11.8 billion yen	20 billion yen
Net Income *	7.4 billion yen	8.2 billion yen	14 billion yen
Equity Ratio	53.2%	—	50% or higher
Ordinary Income Ratio	22.7%	—	20% or higher

*Profit Attributable to Owners of Parent

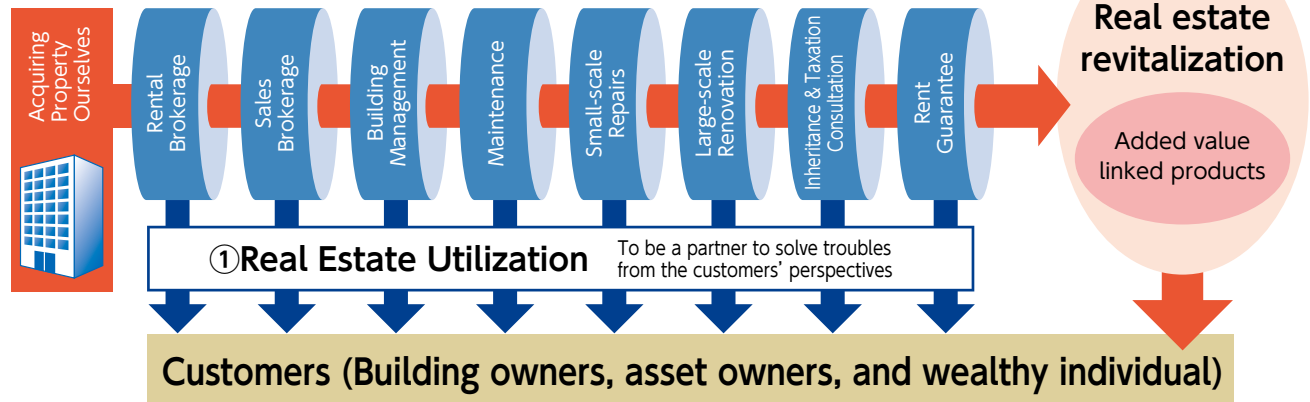
Changes in the most recent 8 years and targets for the FY ending March 2023

■ Sales ■ Ordinary Income
■ Net Income



Business Models for Office Building Businesses

- ① In vertical real estate utilization business, we survey and solve difficulties by listening to customers' concerns.
- ② In horizontal real estate revitalization business, first, we put together the know-how and customer needs learned from the process above. Then we apply this knowledge to renovate used buildings we purchased and transform them into high value-added products. After this, we sell the products to customers.



The News

“Ningyo-cho Sakurasaku Hoikuen (Licensed Day Care Center)” that was renovated by our company awarded the second place in the Examples of “Building Evaluation” Competition.

The “Licensed Day Care Center” project in Ningyocho – a real estate renovation case which was featured in the Shareholder Newsletter 2017 – was **awarded the second place in the Examples of “Building Evaluation” Competition** organized by The Real Estate Transaction Promotion Center. This award is presented to outstanding examples that “identify and utilize the high grade, high added-value and high quality aspects of existing buildings such as construction methods, technologies, materials and designs” and our company’s real estate revitalization business was endorsed very favorably.



“Setup Offices” that respond to the changes of needs of the tenants and offer a comfortable and high-quality space.

Replanning business is one of our core businesses, in which our company group purchases the properties that are lagging in occupancy rate or in need of refurbishment, refurbishes them and finds tenants before reselling them to investors and the wealthy individual. By fully utilizing the knowledge and know-how that our company has accumulated on the ground of the real estate services, we are able to resurrect **small- to mid-sized buildings into attractive and high-grade properties by rendering them renovation that pulls at potential tenants' heartstrings**, by not only adding facilities such as external walls, entrance gates, ventilation, water equipment, elevators, but also such qualities as “optimal usage conversions that bring livelihood to communities” and “rooftop terraces that feel open and comfortable”.



Indoor Before

▲ Ex. A building for investment in Hatchobori



Indoor After

▲ Removed fixtures that separated rented rooms, and the side of the building facing the park refurbished to be all windows

What characterizes our replanning business considerably is the **“set-up offices” in which the interior is set up before tenants move in**. We assume potential tenants by considering the location, environments, and adding to it the local knowledge cultivated by our project members who benefit from working closely within the community. Additionally, our company designs the interior and building facilities that are suited to the needs of tenants that keep shifting side by side with our times, such as the recent working-style reforms and the IoT, then create high-grade and comfortable spaces within. In principle it is not required to return our interior fixtures to its original state, therefore our tenants are able to concentrate on their real works without worrying about the “interior construction works” and “reinstatement” at the point of commencement or termination of tenancy, another point for which we are renowned.



We are going to show you our current new projects in our hotels & overseas businesses with timelines and images (photos & CG).

“Tabino Hotel Hida-Takayama”

Hida-Takayama, Gifu



“Tabino Hotel Sado”

Sado Island, Niigata



“Hiyori Hotel Ginza-Higashi”

Ginza-higashi, Tokyo



● 2018

● 2019



- Acquisition of an existing hotel -
Shimonoseki, Yamaguchi



“Hiyori Hotel Namba”
Osaka Namba, Osaka



“Courtyard by Marriott Osaka Honmachi”
Osaka Honmachi, Osaka

- A new condominium hotel -

Onna, Okinawa



- Hiyori High Brand Hotel -

Shijo-kawaramachi, Kyoto



2020

2021

2022



“HIYORI Garden Tower” - a new condominium residence -

Danang, Vietnam



Projects Ongoing

**“Hiyori Hotel Kyoto
Nijo-kawaramachi” (tentative name)**
Nijo-kawaramachi, Kyoto

* The images and schedules are current ones and subject to change.



1

“Hiyori Hotel Maihama”

Reservation: | **047-390-7300**



▲ Easy access to Maihama theme parks

Address: 2-25-8, Higashino, Urayasu-shi, Chiba
 Transport: Straight 1-min drive from “Urayasu” exit for the outbound line of the Metropolitan Expressway Bayshore Route.
 5 min on a free shuttle bus service from Maihama station on JR Keiyo Line & Musashino Line

Number of rooms: 80



▲ Breakfast buffet with more than 30 dishes on offer



▲ Free shuttle bus

Description of Guest Rooms



▲ Twin rooms



▲ Exciting bunk bed rooms



▲ Traditional Japanese-style rooms



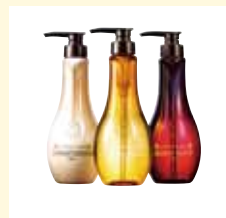
▲ Rooms with Okinawan Tatami that feel comfortable under your feet

Various Services

Beds by Simmons, 40in wide-screen TV, air purifier, hair drier & hair straightener, foot massager, shoe drier, POLA Aroma Ess Gold basic skincare products, complimentary snacks (cup noodles bar), extra amenity goods you can choose from (HIYORI HAPPY Present), and more!



▲ HIYORI HAPPY Present



▲ POLA Aroma Ess Gold



▲ Cup noodles bar where you can choose toppings

* Gained No.1 customer ratings in the Maihama, Urayasu, Funabashi, Makuhari areas on the major accommodation booking site “Rakuten Travel” (as of December 31, 2017)

Okinawan Tatami

2

“Tabino Hotel Hida-Takayama”

Reservation: | **0577-36-1220**

Address: 13-1, Matsunoki-cho, Takayama-shi, Gifu
 Transport: About 10 min drive from Takayama IC on Chubu Jukan Expressway & Takayama Kiyomi Road
 5 min on a free shuttle bus service from Takayama station on JR Takayama Mainline

Number of rooms: 80



▲Great access to many famous locations in Takayama introduced in the Michelin travel guide as “worth travelling all the way to”



▲Open-air bath

**Opened on
May 2, 2018**

Large public bath with natural hot spring and “egg-topping rice” offered in the complimentary breakfast buffet are very popular!

3

“Tabino Hotel Sado”

Reservation: | **0259-58-8020**

Address: 113-12 Chigusa, Sado-shi, Niigata
 Transport: About 20 min by car from Port of Ryotsu
 About 20 min on Public bus service “Niigata Kotsu Sado” from Port of Ryotsu
 Alight at Sado Hospital bus stop and about 2 min walk

Number of rooms: 111



▲Conceptual completion drawing



▲Large public bath

**To be opened on
July 20, 2018**

A new-built hotel in the center of Sado Island that boasts the large public bath and the restaurant open for breakfast and dinner!

About Shareholder Special Benefit Plan

Number of stocks held	Content of Shareholder Special Benefit Plan	Available Hotels	How to use the service
Over 100 stocks	“Special Hotel Stay Coupon” 10,000 yen for 2 guests, 1 room, 1 night stay including breakfast (+3,000 yen per additional guest)	“Hiyori Hotel Maihama”	On some days, the service may not be available; please ask by calling the hotel directly.
Over 500 stocks	5,000 yen worth of “Hotel Stay Voucher” in addition to the hotel stay coupon mentioned above (can be used in conjunction with the hotel stay coupon)	“Hiyori Hotel Maihama”	Please make a reservation at each hotel by calling directly and hand the Hotel Stay Vouchers at the reception at the time of payment. We will deduct the amount of the voucher(s) used from the hotel fee (this service is available all year round).
		“Tabino Hotel Hida-Takayama”	
		“Tabino Hotel Sado”	

*Please refer to the back of “Hotel Stay Coupons” and “Hotel Stay Vouchers” for details of the Special Benefit Plan.

Introducing our Corporate Culture

Vision and Policy of Sun Frontier

Vision

As **professionals of real estate utilization**, our goal is to be the company that customers love and choose the most over any other worldwide.

Customers

Building owners, asset holders and wealthy individual.

Core Business

The revitalization and utilization of real estate.

Policy

Not for profit, but for trust.

To focus on people, rather than property,

Solve any real estate related difficulties based on the perspective of our customers.

Strategy

Central Tokyo

Office

Strength

Tenant Finding Capability

Real Estate Revitalization Capability

Operation Capability

Three Core Management Values at Sun Frontier Fudousan



Since our foundation, our company has always believed in our **corporate motto "Altruism."** In first of all, work for our fellows closest to us, and then when working for our customers, we will try to come together to make the contribution 10 times more powerful. We will help realize a richer society by offering compounded and greater happiness to our customers.

We **promote full participation management** in which everyone works with a sense of being the management by enhancing the profit awareness of each member of staff, by constructing and spreading the small-group profitability system (**Amoeba management**).

We always think from our customers' viewpoints, in order to **change ourselves**, challenge, create, and move forward. Under our motto "business is about benefiting others," we will create **a continuous, compounded, high added value** on the basis of cooperation among all departments.

Events and Efforts to Promote a Corporate Culture to Help Work for Each Other



▲Morning assembly twice a week at the headquarter



▲Cleaning the street outside every morning



▲Communal reading of Management Policy Handbook every morning



▲Birthday party in April - May 2018



▲Workshops after Job Offering Ceremony



▲Award Ceremony for the Employees of the Year



▲Employee study tour (Kagoshima)

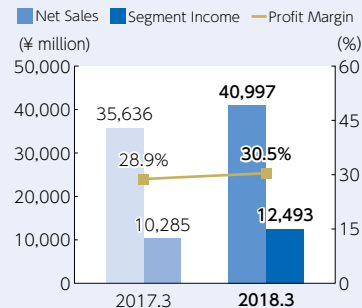


▲Employee study tour (Vietnam)



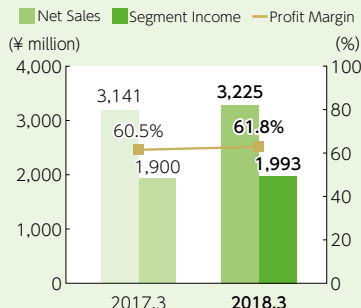
▲Sport camp for all employees

Real Estate Revitalization Business



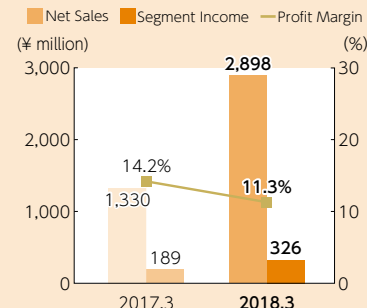
With inter-departmental cooperation in full swing, our original business model that maximizes the attractiveness of buildings has intensified, and both sales and profits have seen an increase. Profit margin is 30.5%, maintaining the high level. We are concentrating more on procurement for our short-term businesses (under a year) and mid- and long-term businesses that forms the stability of our management.

Real Estate Service Business



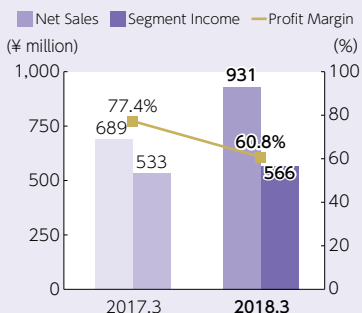
By working for our customers, we endeavor to meet their requests as quickly as possible. With our thorough and attentive solutions, we offer high-quality real estate services to our customers and in turn contribute to the business results of our group as a whole and the expansion of the customer base. The number of properties that we manage by commission is 372 (+10 year over year), and the occupancy rate is currently 95.7% (as of the end of March 2018); we are continuing the high occupancy trend while increasing the number of buildings we manage.

Operation Business



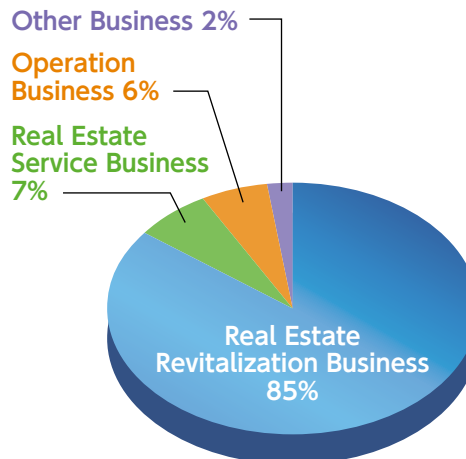
Both sales and profits have increased significantly. The number of properties managed is growing in both hotel operation and space rental (conference room business, etc.) while we managed to increase both the occupancy rate and per-customer transaction amount, and the business results are improving steadily. The depreciation burden is significant, due to the accelerated opening of new facilities, they are expected to contribute to the sales, and growths, and stable profits in the future.

Other Business



The number of the Rent Guarantee Business cases has increased both in the new and renewal deals, helping push both sales and profits up significantly. In the Overseas Business, the business is expanding in Vietnam and Indonesia. The Overseas Business is expected to start contributing to the profit from the 20th term.

Sales composition for each segment



<About Change of Segments>

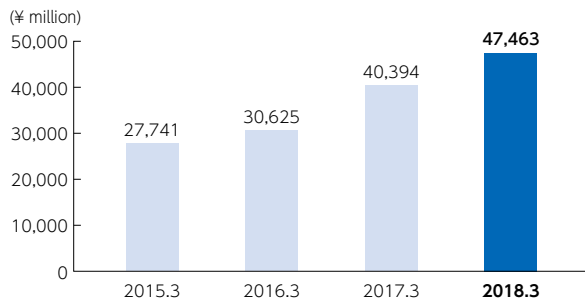
Our company group reviewed the management structure and the segment classification was amended from the current consolidated fiscal year.

The main changes are as follows:

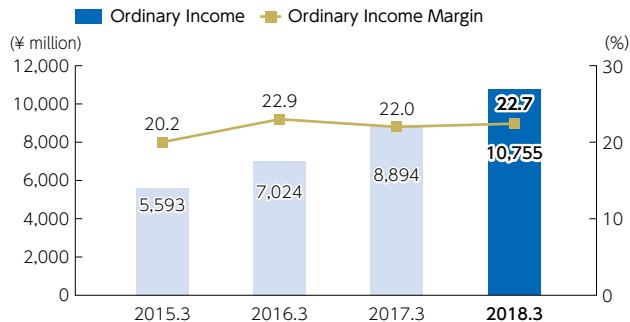
- ① The "Real Estate Service Business" that combined the previous "Sales Brokerage Business" and "Property Management Business" has become a new reporting segment.
- ② The "Hotel Operation Business" and "Space Rental Business", previously included in "Miscellaneous", have been combined to form a new reporting segment: the "Operation Business".

The "Segment Incomes" in results of each business are calculated by subtracting specific expenses, such as interest paid, sales commission, goodwill amortizing, etc. from gross profit.

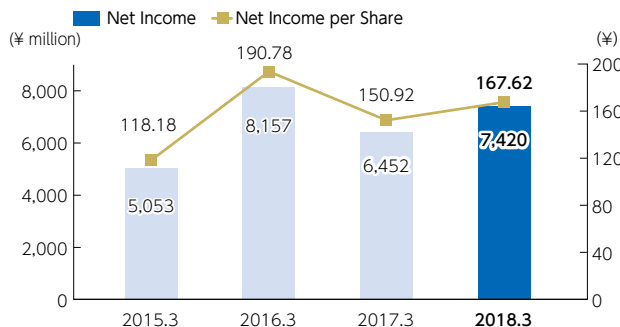
Net Sales



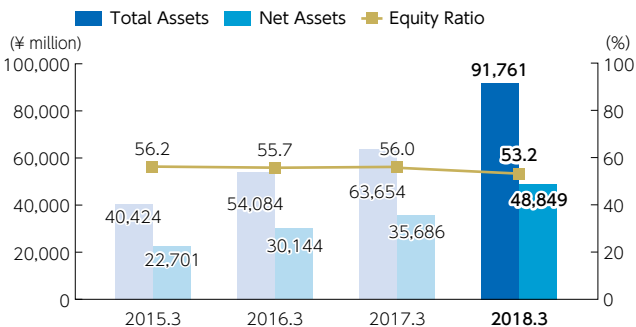
Ordinary Income · Ordinary Income Margin



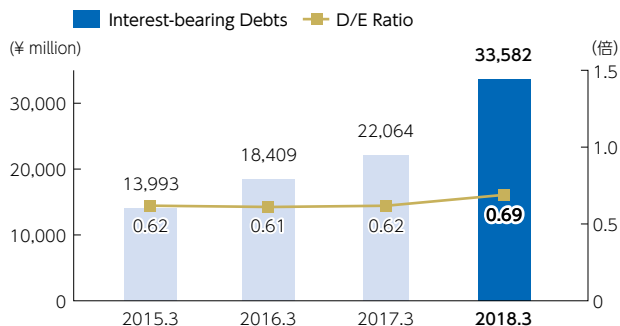
Net Income*1 · Net Income per Share



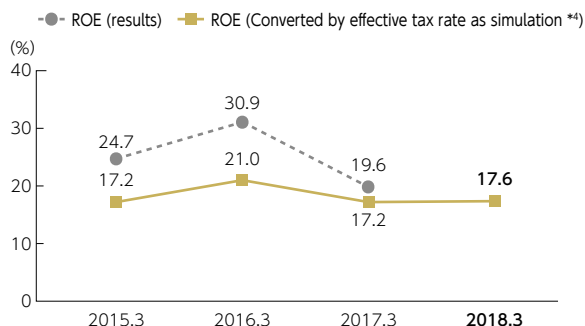
Total Assets, Net Assets, Equity Ratio



Interest-bearing Debts · D/E Ratio*2



Return on Equity (ROE)*3



*1 Profit Attributable to Owners of Parent *2 D/E ratio is calculated by interest-bearing debts / equity capital, and is an indicator of financial soundness.

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

*4 The estimate for the period from FY 2015/3 to FY 2017/3 is based on the supposition that the effective tax ratio (30.86% for FY 2017/3) was imposed while taking into consideration a tax reduction arising from the tax loss brought forward from the previous terms. As the tax loss brought forward from the previous terms was all cleared by the end of FY 2017/3, the actual results are shown for FY 2018/3.

Please refer to our homepage for the detailed financial information.

Sun Frontier IR

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Corporate Information

(As of March 31, 2018)

Share information

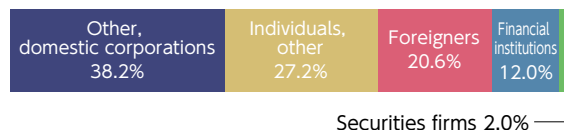
Total Number of authorized shares	91,200,000
Total Number of shares issued	48,755,500
Number of shareholders	12,405

Major Shareholders (Top 10)

Shareholder name	Number of shares held	Shareholding Ratio*
Houon	17,957,500	36.83
Tomoaki Horiguchi	3,007,200	6.17
Japan Trustee Services Bank, Ltd. (Account in trust)	2,059,700	4.22
KBL EPB S.A. 107704	1,821,700	3.74
The Master Trust Bank of Japan, Ltd. (Account in trust)	1,228,400	2.52
MSCO CUSTOMER SECURITIES	616,278	1.26
GOLDMAN SACHS INTERNATIONAL	546,802	1.12
NORTHERN TRUST CO. (AVFC) SUB A/C NON TREATY	506,300	1.04
THE BANK OF NEW YORK MELLON (INTERNATIONAL) LIMITED 131800	487,521	1.00
Ueda Yagi Tanshi Co., Ltd.	478,400	0.98

*Numbers displayed are rounded off to the second decimal place.
Our shareholding ratio is calculated without taking into account 143 treasury stocks, except for 56,500 stocks of our company owned by Mizuho Trust & Banking Co., Ltd. as the trust account of the Employee Stock Ownership Plan (J-ESOP).

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) 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.

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.sunftr.co.jp		
Branches	Ginza, Nihonbashi, Kanda, Kojimachi, Shinjuku, Shibuya, Gotanda, Yokohama		
Capital	¥11,965 million		
Number of employees	381 (consolidated)		
Executives (As of June 22, 2018)	Executive President	Tomoaki Horiguchi	
	Executive Vice President	Seichi Saito	Vice President Executive Officer Seichi Saito*2
	Senior Managing Director	Izumi Nakamura	Senior Executive Officer Izumi Nakamura*2
	Managing Director	Yasushi Yamada	Managing Executive Officer Yasushi Yamada*2
	Outside Director	Toshio Takahara	Executive Officer
	Outside Director	Yukitoshi Kubo	Executive Officer Kenji Honda
	Full-time Auditor	Shinji Ohsawa	Executive Officer
	Outside Auditor	Koichi Kase	Executive Officer Yuji Nozaki
	Outside Auditor	Hirokazu Moriya	*2 This means combined post with the director position.

Principal Consolidated Subsidiaries	Sun Frontier Hotel Management Co., Ltd. Sky Court Hotel Co., Ltd. Sun Frontier Sado Co., Ltd. Sun Frontier Community Arrangement Co., Ltd. SF Building Support Inc. SF Building Maintenance Co., Ltd. Sun Frontier Fudousan Taiwan Co., Ltd. SUN FRONTIER VIETNAM CO., LTD. PT.SUN FRONTIER INDONESIA
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