



**Outline of business conditions**

**TOKYO, October 9, 2008**—RISA Partners, Inc. (“RISA Partners”) today issued the following Q&A as an outline of its current business conditions.

Q: Please give me an overview of recent business conditions.

A: RISA Partners has subdivided each of its three business segments (principle investment business [proprietary investment], fund business, and investment banking business) into the three domains of corporate-related activities, loan credit-related activities, and real estate. We have used this classification (shown below) to focus on diversification as we conduct our business.

**RISA Partners business segments and business domains**

		Segments		
Domains		I. Principal investment business	II. Fund business	III. Investment banking business
		1. Corporate	Corporate investment	Solution funds
2. Loans receivable	Loan asset investment	Regional corporate revitalization funds	Due diligence / Servicing	
3. Real estate	Real estate investment	Real estate co-investment	Real estate solutions	

**I. Principal investment business**

1. Corporate investment involves direct investment in companies through the acquisition of shares. So far we have conducted investments in hotels, ryokans, and other businesses which are contributing to stable revenues. In May 2008 we acquired Hotel JAL City Naha, revenues from which are expected to contribute to earnings from the second half of fiscal 2008.
2. Loan asset investment involves the purchase of non-performing loans (NPL) from financial institutions at a price below face value, following which consolidated subsidiary RISA Servicer uses a broad array of methods to achieve returns, including contract liquidation, collection from guarantors, property sales, and refinancing to maximize returns and accumulate robust profits. We are regularly contacted by financial institutions during the NPL disposal process.
3. In real estate investment, we are reassessing the composition of our investment income, giving consideration to recent stagnation in the sale and purchase market. Specifically, we are making a transition from a stance focused on securing capital gains to one focused on stable income gains from rental income. We currently have an average net yield of more than 7% for all of our revenue property.



## II. Fund business

1. In solution funds, we completed investments for our No. 1 fund in the first half of fiscal 2008, and we have made steady progress in increasing the final investment amount of the No. 2 fund (we expect to achieve our initial total subscription forecast of ¥30 billion). Of the investments in Fund No. 1, we aim to secure one exit (i.e. investment return) within the year.
2. In regional corporate revitalization funds we are securing stable management fees, while maintaining alliances with regional financial institutions through our funds.
3. Real estate co-investment provides earnings from capital gains, asset management fees, contingency fees receivable at the time of exit (i.e. sale), and we had included these earnings in calculating our forecasts. However, owing to turmoil concomitant with contraction in the financial markets, there is a risk that several property sales scheduled to take place within this fiscal year may have to be postponed to the following fiscal year. As a result, we have revised our estimations of capital gains and contingency fees for fiscal 2008. Intense negotiations relating to several properties are underway with a number of domestic businesses. With regard to basic asset management fees, we expect earnings to be in line with initial estimates. Regarding new investments, we continue to work in cooperation with joint real estate investor Grove International Partners ("Grove") as we carefully select high quality properties for assessment.

## III. Investment banking business

1. In financial advisory services, in addition to winning several large-sized advisory mandates (in asset restructuring and large-scale refinancing of domestic and overseas property), we are also expanding our business, mainly through strategic subsidiary Frontier Management, Inc. (which ranked No. 8 in the January-September domestic M&A ranking [based on number of deals] released by Thomson Reuters on October 2, 2008).
2. In due diligence services we constantly receive mandates for financial and operational due diligence, mainly through our consolidated subsidiary RIFAS, Inc. In our loan servicing business we have also begun contractual negotiations toward securing servicing contracts from new investors.
3. We expect real estate solutions such as real estate intermediation, asset management, etc. to provide earnings roughly in line with fiscal 2007. Moving toward fiscal 2009, we will also pursue investment advisory services for overseas investors entering Japan.

Q: Why do you remain in the real estate sector, even though you proclaim yourself to be an investment bank?

A: RISA Partners conducts investment banking operations in a broad array of businesses in each domain of corporate, loans receivable, and real estate. We have been classified as



engaged in the real estate business under the standards of the Tokyo Stock Exchange on the basis that the real estate domain accounted for the larger portion of our revenue. However, owing to notable growth in corporate, loans receivable, and other sectors unrelated to real estate, and to an unbalance whereby, due to accounting reasons, of the yield from our loan credit business only profits are recorded as revenue, we recognize that the real estate sector classification is not strictly necessary. We have applied to the Kanto office of the Ministry of Finance for reclassification of this business as “Other services.”

Q: Why have your inventory assets increased during fiscal 2008?

A: One reason for this is our May 2008 purchase of approximately 1,000 tsubo\* (approximately 3,300m<sup>2</sup>) of land for development as offices and hotels in Higashi Ueno, Tokyo, with the intention of conducting development in collaboration with joint investors. We have also recorded property to be sold within one year as inventory assets, and property for long-term holding as fixed assets. We reassess the scenario each fiscal year and at the end of the first half of fiscal 2008 we reclassified a property for long-term holding to one which is scheduled for sale within one year, which increased our inventory as a result.

(\*Note: The *tsubo* is a Japanese unit of measurement, equal to roughly 3.3m<sup>2</sup>.)

Q: Why was your operating cash flow further negative for the first half of fiscal 2008?

A: This was mainly because of the abovementioned large-scale property purchase in Higashi Ueno, Tokyo in May 2008.

Q: Why was there an increase in fixed assets in the first half of fiscal 2008?

A: This increase was mainly the result of our purchase of Hotel JAL City Naha in May 2008. We purchased Hotel JAL City Naha as a high quality property that will provide stable returns. The hotel, which is situated in a convenient location and enjoys an occupancy rate that is superior among Naha city hotels, is contributing to earnings in the second half of fiscal 2008.

Q: Why did your long-term borrowings increase during the first half of fiscal 2008?

A: This increase was mainly due to the fact that we used long-term borrowings to procure a large portion of the purchasing funds for the abovementioned large-scale property (Higashi Ueno, Tokyo) and Hotel JAL City Naha.

Q: What is the situation with regard to funding procurement? Are you able to continue borrowing from financial institutions without any difficulties?

A: With regard to funding procurement: yes, we are able to continue borrowing without any difficulties. We have developed excellent relations with the financial institutions with which we



conduct business. Since the beginning of this year, in addition to starting new business with six banks, we have obtained funding on excellent conditions for new property purchases including large-scale purchases. Apart from the completion of a project in alliance with the Japan Finance Corporation for Small and Medium Enterprise, which predated our listing on the Tokyo Stock Exchange, all of our business with financial institutions is continuing as usual. Financial institutions, in particular regional financial institutions, are an important group of clients for RISA Partners as it conducts a comprehensive range of businesses including non-performing loan administration, corporate revitalization, and the provision of corporate solutions, and, needless to say, these contribute to stable relations in fund procurement.

Q: Aren't interest rates and other borrowing conditions becoming more severe in fund procurement from financial institutions?

A: No, the average procurement interest rate between January and September 2008 was 2.06%. To give a recent example, we procured an LTV of approximately 85% for a three-year term for the large-sized property that we purchased in May 2008 (Higashi Ueno, Tokyo). In the case of the purchase of Hotel JAL City Naha, the LTV was approximately 90%, with a seven-year term. In both cases the interest rate was in the 2% level. Supporting this kind of stable fund procurement are the excellent relations that RISA Partners enjoys with its affiliate financial institutions.

Q: What are the latest figures for your cash and deposits?

A: In our consolidated interim results of June 30, 2008, we had approximately ¥7.3 billion. Since then, we have continued to maintain ample cash reserves. The approximate figures are as follows: ¥8.5 billion as of July 31, 2008; ¥9.6 billion as of August 31, 2008; and ¥7.1 billion as of September 30, 2008.

Q: Having cancelled the capital increase you announced in August, what are you doing to secure alternative means of funding procurement?

A: We were going to conduct the capital increase in order to respond to a range of investment opportunities that we expect to see in the near future. Market turmoil left us with little alternative but to cancel the capital increase. We will offset the effect of the cancellation by adopting a conservative approach to new investments. We will maintain our stance of collaborating with financial institutions and co-investors when necessary to pursue investments.

Q: Do you have a plan to conduct a capital increase in the near future?

A: No, not in the foreseeable future.



RISA PARTNERS INC.

Q: What is your forecast for the fiscal year ending December 31, 2008?

A: Please refer to the revision of forecasts that we have released separately.

Q: Do you hold any loan assets connected with Lehman Brothers?

A: No, none whatsoever.

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