

Summary of Interim Financial Results for the Year Ending December 31, 2007 (Six months ended June 30, 2007)

Described below is an abstract in English of the financial result for the interim period ended June 30, 2007 that was released today in Tokyo. The translation is prepared and provided for the purpose of the readers' convenience only. All of readers are strongly recommended to refer to the original version in Japanese of the news release for complete and accurate information.

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Scheduled date of filing of Semiannual Report: September 13, 2007	

(Amounts rounded off to million yen)

1. Consolidated Interim Financial Results (Jan. 1, 2007 – Jun. 30, 2007)

(1) Consolidated results of operations

(Percentage figures represent year-on-year changes)

	Revenue		Operating income		Ordinary income	
	Million yen	%	Million yen	%	Million yen	%
First half ended June 2007	99,670	491.2	20,088	50.3	17,471	39.6
First half ended June 2006	16,859	205.6	13,367	298.4	12,515	329.1
Year ended December 2006	27,044	-	18,637	-	16,461	-

	Net income		Net income per share, (basic)	Net income per share, (diluted)
	Million yen	%	Yen	Yen
First half ended June 2007	9,949	39.3	34,797.02	31,523.83
First half ended June 2006	7,140	315.1	25,220.75	24,828.00
Year ended December 2006	9,015	-	31,750.48	30,625.34

Reference: Equity in earnings of non-consolidated subsidiaries and affiliates (million yen)

June 2007: 242 June 2006: 95 Dec. 2006: 170

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of June 30, 2007	265,167	66,508	17.9	165,125.67
As of June 30, 2006	100,024	35,021	35.0	123,043.04
As of December 31, 2006	158,147	39,794	23.5	130,380.08

Reference: Shareholders' equity (million yen)

June 2007: 47,380 June 2006: 34,996 Dec. 2006: 37,210

(3) Consolidated cash flow position

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	Million yen	Million yen	Million yen	Million yen
First half ended June 2007	945	(27,404)	24,267	35,803
First half ended June 2006	25,245	(6,165)	(16,671)	21,612
Year ended December 2006	(2,900)	(8,894)	28,283	37,074

2. Dividend per Share

Record date	Interim	Year-end	Annual
	Yen	Yen	Yen
Year ended December 2006	-	3,000.00	3,000.00
Year en ending December 2007 (results)	-	-	
Year ending December 2007 (forecast)	-	1,750.00	1,750.00

3. Forecast of Consolidated Income for the Year Ending December 31, 2007 (Jan. 1, 2007 – Dec. 31, 2007)*(Percentage figures represent year-on-year changes)*

	Revenue		Operating income		Ordinary income		Net income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	132,500	389.9	27,600	48.1	22,200	34.9	11,900	32.0	20,102.26

4. Others

(1) Changes in consolidated subsidiaries during the period (changes in scope of consolidation): Yes

(2) Changes in accounting principles, procedures and presentation methods for preparation of interim consolidated financial statements

1) Changes caused by revision of accounting standards: None

2) Other changes: Yes

(3) Number of shares outstanding (common shares)

1) Number of shares outstanding at end of period (including treasury stock)

June 2007: 287,023 shares June 2006: 284,514 shares Dec. 2006: 285,489 shares

2) Number of treasury stock at end of period

June 2007: 87 shares June 2006: 87 shares Dec. 2006: 87 shares

(Reference) Summary Non-consolidated Interim Financial Results**1. Non-consolidated Interim Financial Results (Jan. 1, 2007 – Jun. 30, 2007)**

(1) Non-consolidated results of operations

(Percentage figures represent year-on-year changes)

	Revenue		Operating income		Ordinary income	
	Million yen	%	Million yen	%	Million yen	%
First half ended June 2007	16,721	33.4	14,895	35.9	14,940	39.7
First half ended June 2006	12,533	241.1	10,958	328.2	10,697	306.7
Year ended December 2006	17,694	-	14,701	-	13,769	-

	Net income		Net income per share, (basic)
	Million yen	%	Yen
First half ended June 2007	9,375	44.2	32,777.12
First half ended June 2006	6,503	251.9	22,962.19
Year ended December 2006	8,303	-	29,234.94

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of June 30, 2007	143,009	44,710	31.3	155,774.92
As of June 30, 2006	71,490	32,996	46.2	115,974.43
As of December 31, 2006	110,378	35,106	31.8	122,971.01

Reference: Shareholders' equity (million yen)

June 2007: 44,710 June 2006: 32,996 Dec. 2006: 35,106

2. Forecast of Non-consolidated Income for the Year Ending December 31, 2007 (Jan. 1, 2007 – Dec. 31, 2007)*(Percentage figures represent year-on-year changes)*

	Revenue		Operating income		Ordinary income		Net income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	23,700	33.9	19,700	34.0	18,000	30.7	11,200	34.9	16,831.41

*** Cautionary statement with respect to forward-looking statements**

The above forecast is based on information available as of the announcement date of the summary. Actual results are affected by various factors and may differ substantially.

Please refer to page 4 of the attached documents regarding preconditions or other related matters for the forecast shown above.

1. Results of Operations

(1) Analysis of Results of Operations

a. Summary of the first half

During the first half of 2007, the Japanese economy continued to expand as strong corporate earnings supported growth in capital expenditures, income levels and consumer spending.

In the real estate services and finance industries, where the Kenedix Group (the Group) is active, the real estate investment market continues to expand. Two examples of this growth are increases in the aggregate market capitalization of publicly owned real estate investment trusts (J-REIT) and the balance of assets in private real estate funds.

In this environment, the Group concentrated on locating quality properties and providing investment opportunities to client investors. Efforts also targeted enhancing capabilities in the asset management business.

Challenger Kenedix Japan Trust, a listed property trust established by Kenedix (the Company) and Challenger Financial Service Group Limited, a publicly owned Australian company, was listed on the Australian Securities Exchange on April 30. The trust invests in Japanese real estate. The Group sold 12 commercial properties with a combined value of 41 billion yen (based on the purchase price) to Challenger Kenedix Japan Trust. At the same time, the Group began managing these properties for this trust. The Group views this venture as a means of serving a broader spectrum of client investors while establishing a platform for greater stability in operating results. Accordingly, the Group aims to increase the amount of assets owned by Challenger Kenedix Japan Trust.

In addition, Kenedix Realty Investment Corporation, which is sponsored by the Group, conducted a public offering of investment units. Following this offering, the Group sold five properties to this company for 22 billion yen (based on the purchase price) on June 1.

As of the end of June 2007, total assets under management at the Group, including the properties of Challenger Kenedix Japan Trust, Kenedix Realty Investment Corporation and Japan Logistics Fund, Inc., which the Group also sponsors, amounted to approximately 622 billion yen.

Due to these factors, first half consolidated revenue increased 491.2% to 99,670 million yen compared with one year earlier. In addition, operating income increased 50.3% to 20,088 million yen, ordinary income increased 39.6% to 17,471 million yen and net income increased 39.3% to 9,949 million yen.

In the previous fiscal years, when selling real estate for sale, the Group recognized as revenue only the difference between the proceeds and cost. Beginning with the first half of 2007, all proceeds are included in revenue and the corresponding cost of these properties is included in the cost of revenue. Although this change resulted in large increases in revenue and the cost of revenue, there is no effect on gross profit and all other earnings figures.

The following section explains performance by business segments. Beginning with the first half of 2007, the Group has revised its business segments. The real estate investment business, which was included in the real estate investment advisory business, is now a separate business segment. Consequently, there are no year-on-year comparisons for these two segments in the following discussion.

A) Real Estate Investment Advisory Business

Consistent progress in the acquisition of properties produced growth in acquisition fees and there was also growth in brokerage fees and other fees. The result was revenue of 3,713 million yen and operating income of 3,040 million yen.

B) Real Estate Investment Business

Revenue primarily represents the sale of properties held in principal investment to funds that are managed by the Group. Revenue was 92,332 million yen and operating income was 13,306 million yen.

In the previous fiscal years, when selling real estate for sale, the Group recognized as revenue only the difference between the proceeds and cost. Beginning with the first half of 2007, all proceeds are included in revenue and the corresponding cost of these properties is included in the cost of revenue. Although this change resulted in large

increases in revenue and the cost of revenue, there is no effect on gross profit and all other earnings figures.

C) Asset Management Business

A large increase in incentive fees associated with the sale of assets under management was mainly responsible for a 154.7% increase in revenue to 5,690 million yen and a 273.3% increase in operating income to 4,338 million yen.

D) NPL Investment Management Business

There was a small decline in incentive fees and other fees, but revenue from the collection of non-performing loans through principal investments increased. These factors resulted in a 22.8% increase in revenue to 1,035 million yen and a 40.5% increase in operating income to 672 million yen.

b. Outlook for the Fiscal Year 2007

Although competition for acquiring properties is intensifying, there is immense demand for real estate investments among pension funds and other financial institutions. As in the first half of 2007, the Group will focus on increasing assets under management to serve client investors, such as pension funds and other that have investment policies stressing stable, long-term returns. The Group will also move aggressively to participate in real estate developments and other projects with high profit margins.

As explained in “a. Summary of the first half”, capital gains exceeded the plan for the first half. The primary cause was sales of properties to Kenedix Realty Investment Corporation and Challenger Kenedix Japan Trust, a listed property trust in Australia.

Due to the above items, the Company is forecasting consolidated revenue of 132,500 million yen, ordinary income of 22,200 million yen and net income of 11,900 million yen.

(2) Analysis of Financial Position

The Group purchases and holds real estate through consolidated subsidiaries for the purpose of building a portfolio of quality properties in its own account.

These real estate acquisitions represent up-front investments for the purpose of generating a steady stream of earnings through the incorporation of these properties in real estate funds for pension funds and other investors. Since each property is held for a short period of time, the Group’s total assets fluctuate considerably depending on the volume of principal investment properties at a particular time.

Short-term bank loans are the primary source of funds used to purchase properties held by the Group. Consequently, these loans also fluctuate considerably depending on the volume of principal investment properties.

The Group has established a commitment line to facilitate the stable and flexible procurement of funds as well as to permit participation in large projects, and has a 77.6 billion yen commitment line that was established as of the end of June 2007.

In some cases, consolidated subsidiaries use non-recourse loans to procure funds to acquire properties. Such loans are solely the responsibility of the subsidiary holding the properties, and loan repayments can be no greater than cash flows from assets held by the subsidiary. Consequently, non-recourse loans should be excluded from consideration when analyzing the Group’s debt-equity ratio.

The following table presents changes in the debt-equity ratio.

(Millions of yen)

	Dec. 2004	Dec. 2005	Dec. 2006	Jun. 2007
Interest-bearing debt (1) (Note)	27,022	59,562	106,630	177,832
[Non-recourse loans included] (2)	[1,742]	[11,049]	[29,640]	[75,475]
Net assets (3)	9,360	28,561	39,794	66,508
Cash and deposits (4)	4,089	18,658	34,390	30,708
Net debt (5) (1-2-4)	21,190	29,853	42,599	71,648
Net debt-equity ratio net of non-recourse loans (5)/(3) (%)	226.4%	104.5%	107.0%	107.7%

Note: Includes 20 billion yen of zero coupon convertible bonds with stock acquisition rights issued in December 2006.

Balance Sheet Position

Total assets amounted to 265,167 million yen on June 30, 2007, 107,020 million yen more than at the end of 2006. This was mainly attributable to a 91,432 million yen increase in inventories and a 9,742 million yen increase in acquired non-performing loans.

Total liabilities increased 80,306 million yen to 198,659 million yen. This was mainly the result of additional debt to fund the growth in inventories.

Net assets increased 26,714 million yen to 66,508 million yen. One reason was a 9,075 million yen increase in retained earnings because of first half net income. There was also a 16,544 million yen increase in minority interests in consolidated subsidiaries, which represent primarily the investments of external parties in funds consolidated by the Group.

Cash Flow Position

Operating activities provided net cash of 945 million yen, investing activities used net cash of 27,404 million yen and financing activities provided net cash of 24,267 million yen. The result was a net decrease of 1,271 million yen in cash and cash equivalents during the first half of 2007 to 35,803 million yen as of June 30, 2007.

Operating Activities

Net cash provided by operating activities was 945 million yen, 96.3% less than in the first half of 2006. Although income before provision for income taxes increased 5,393 million yen to 17,472 million yen, cash was used for payments of 10,502 million yen for the purchase of non-performing loans and other operating activities.

Investing Activities

Net cash used in investing activities increased 344.5% to 27,404 million yen. This was mainly attributable to the payment of 23,694 million yen in purchases of investments in subsidiaries involving change in scope of consolidation. This represents purchases of stock in subsidiaries and other investments, mostly for the acquisition of interests in silent partnerships.

Financing Activities

Net cash provided by financing activities was 24,267 million yen. In the first half of 2006, financing activities used net cash of 16,671 million yen. Cash was provided mainly by an increase in debt to fund the growth in inventories and the purchase of stock in subsidiaries and other investments. During the first half of 2007, proceeds from minority interests amounted to 13,664 million yen. These proceeds represent primarily the investments of external parties in funds consolidated by the Group.

(3) Basic Policy for Allocation of Earnings and Dividend for the Current Fiscal Year

The Company regards the distribution of earnings to shareholders as one of its highest priorities. The basic policy regarding dividends is to make continuous dividend payments in line with operating results.

The Company is currently in a growth phase. Accordingly, management believes this is a period when retained earnings are needed for investments, such as for the acquisition of high-return properties held in principal investment, and other actions to generate future growth.

The Company therefore determines the dividend based on operating results, the need to retain earnings to generate growth, the dividend payout ratio and other items.

The Company plans to pay a dividend of 1,750 yen per share of common stock applicable to 2007. The Company will try to increase its payout ratio in the future. At the same time, retained earnings will be used for the acquisition of properties held in principal investment that can contribute to further growth.

While adhering to the position that further improving operating results is the most effective way to return earnings to

shareholders, the Company will also examine various other means of rewarding shareholders.

(4) Business Risk

The following is a list of items that may have a significant effect on investors' decisions. The Group is aware of these risks and is taking actions to prevent the occurrence of the problems and respond as necessary should a problem arise. Forward-looking statements in the document are based on the judgments of the Group's management as of the end of the period under review.

1) Economic downturn

The Group is engaged in the provision of real estate investment services and of real estate asset management services. An economic downturn could impact real estate market conditions, such as by raising vacancy rates and bringing down leasing rates. These events could adversely affect the Group's operating results.

2) Competition

In recent years, there has been a growing number of companies in Japan that are active in the real estate investment advisory business and the asset management business, the Company's two core businesses. This situation may adversely affect the Group's operating results by heightening competition to acquire properties, increasing price-based competition involving various fees, and creating other challenges.

Furthermore, real estate funds are expected to become subject to competition based on the relative performances of various financial products and investments. In the event that real estate funds become less attractive than other types of investments, the Group's operating results may be adversely affected.

3) Interest rates

In the event that interest rates rise in the future, the Group would see an increase in its cost of fund procurement as well as in the returns that client investors expect. Higher interest rates could also cause real estate prices to decline. These events may adversely affect the Group's operating results.

4) Recruiting activities

The Group is dedicated to offering competitive services based on the knowledge and experience of its workforce concerning real estate investments. Offering these services requires a team of talented employees. Accordingly, the Company works hard on recruiting individuals with outstanding skills. However, the Group may not be able to hire a sufficient number of these individuals or may have to deal with a large defection of talented employees. These events could have an effect on business operations and may also adversely affect the Group's operating results.

5) Changes in laws and regulations

The Group is conducting its business activities in conformity with all currently applicable laws and regulations and based on the risks associated with these laws and regulations. However, any future changes in these laws and regulations could have a negative impact on the Group's business activities. The Group is primarily subject to the following laws and regulations: Building Lots and Buildings Transaction Business Law, registrations based on the Real Estate Investment Advisory Business Registration Code, the Law for Regulating Securities Investment Advisory Business, the Law Concerning Investment Trusts and Investment Corporations, registration as a seller of trust beneficiary rights as prescribed by the Trust Business Law, the Law for Architects and Building Engineers, and the Special Measures Law Concerning the Claims Servicing Business.

With the provisions of the Financial Instruments and Exchange Law going into effect in September 2007, the real estate funds managed by the Group will become subject to regulation. The Group is moving to address this legislation, but the finer points of the law have not yet been interpreted and depending on legal trends and interpretations it may not be able to adequately address this new law, particularly with respect to acquiring necessary approvals and licenses, and this could have an affect on the Group's operating results.

6) Risk of impact of fires and other disasters on value of investment properties

Properties that the Group owns and invests in are located in regions that might be subject to earthquakes, wars, terrorism, fires and other disasters. Such events could reduce the value of these properties, negatively affecting the Group's operating results and financial condition.

7) Changes in financial condition and operating results

The Group has consistently posted rapid growth since it became a publicly owned company. Management believes that the Group is still in a phase of rapid growth. The Group plans to continue to purchase properties to be held in principal investment, make small investments in the funds the Group structures, and take other actions of this nature. These actions will cause increases in inventories and investment securities that raise total assets and the need for debt to fund these assets. There may be changes in the Group's financial condition and operating results as a result of these actions. The Group will place priority on expanding scale of operations while increasing equity and reinforcing its financial soundness. Management plans to achieve steady growth and limit risk exposure by maintaining the proper balance between growth and financial soundness.

8) Risks associated with defects and other problems involving real estate

Real estate, the primary asset in which the Group invests, has the potential of having defects and problems involving holders of rights, soil conditions, structural integrity of buildings and other items. Prior to acquiring a property, the Group conducts a rigorous due-diligence. However, the Group may incur unexpected costs to resolve defects and other problems that emerge following an acquisition. These expenses may have a negative effect on the Group's financial condition and operating results.

Based on information gathered by examinations performed by the Group, the Group's assets under management include no properties with involvement by architecture firms associated with the scandal concerning falsified structural designs.

9) Mergers and acquisitions, equity alliances, and other actions

The Group is following a policy of aggressively expanding business activities by diversifying the types of properties in which it invests. This policy is adopted from the standpoints of increasing assets under management and increasing investments in real estate that can generate high returns.

The Group has expanded the scope of its real estate funds from office buildings and rental residential properties to include commercial and logistics facilities as well. At this time, the Group is further enlarging this scope to acquire attractive properties where investment income is dependent on the operation of facilities. Examples include nursing care facilities and other health care facilities and hotels. In addition, the Group views mergers and acquisitions and equity alliances as effective means of achieving growth. Such actions will be taken only when they will contribute to growth in assets under management or diversification of real estate investments, and generate synergies with existing businesses.

The Group will conduct thorough examinations and take steps to reduce all risks prior to executing a merger, acquisition or equity alliance. However, it is possible that, after the transaction is finalized, contingent liabilities or other problems may arise or that the counterparty of the Group may not perform as expected. These events may have a negative effect on the Group's financial condition and operating results.

10) Determining of the scope of consolidation

Most of the private funds that are formed and managed by the Group are structured using silent partnership agreements, and ordinarily the investment interest of the operator of the silent partnership is held by an intermediary company to ensure bankruptcy remoteness. The Group belongs to the real estate fund and NPL investment fund industries, and it is recognized that in these industries the accounting practices for determining control and influence with respect to asset management agreements and servicer agreements under such a structure have not yet been

established.

On September 8, 2006 the Accounting Standards Board of Japan released its PITF No. 20, “Practical Solution on Application of Control Criteria and Influence Criteria to Investment Associations,” and the Group has applied the provisions of this PITF starting with the fiscal year 2006. Currently, the Group determines the scope of consolidation by deciding whether each fund or SPC is a subsidiary or affiliate by individually determining whether it exerts control or influence, taking into consideration the asset management agreement or silent partnership agreement.

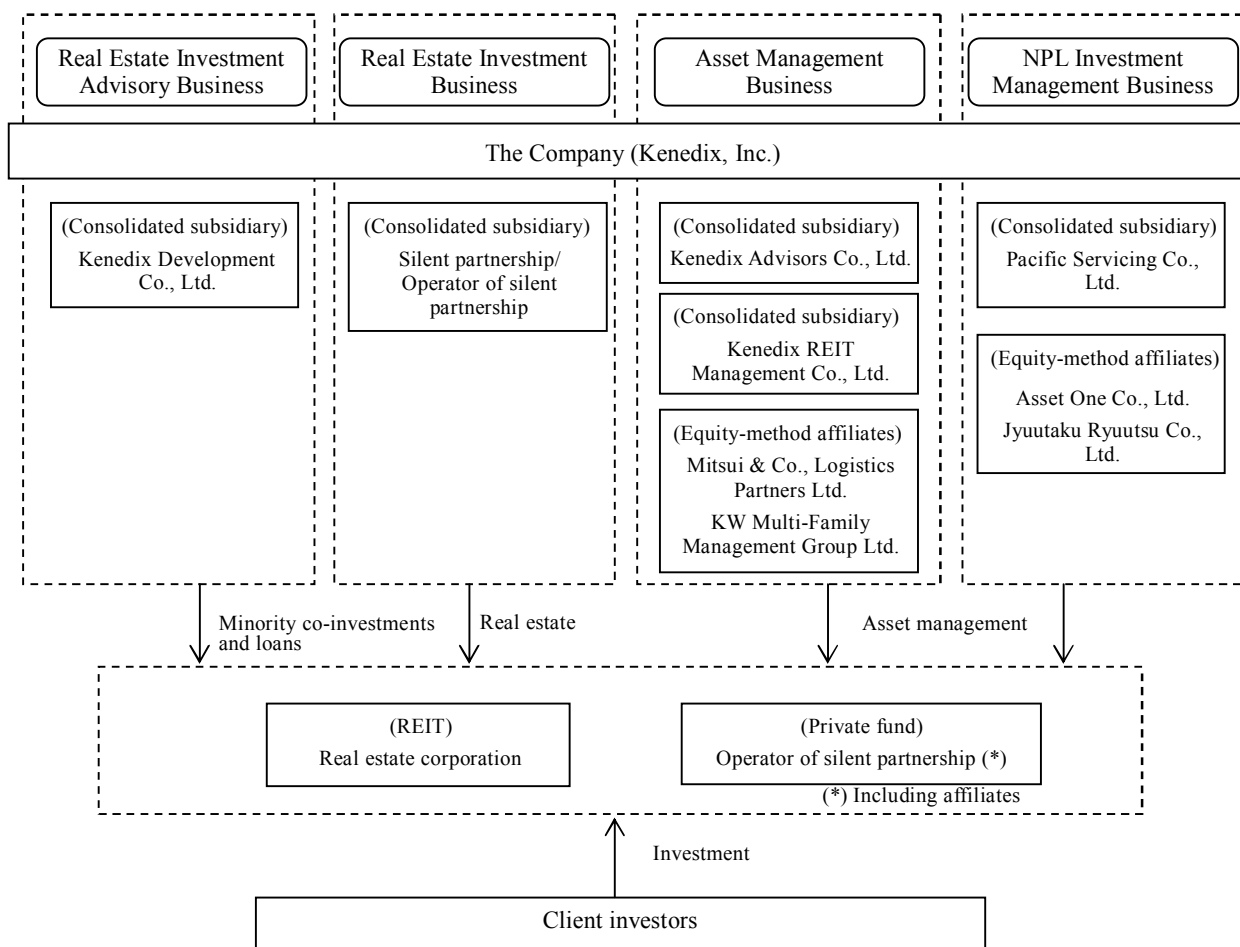
In the event that accounting practices that differ greatly from the policies that have been adopted by the Company with respect to the determination of the scope of consolidation for SPCs become established as a result of the establishment of new accounting standards or the release of practical guidelines, this could cause substantial changes in the Company’s policies for determining the scope of consolidation, having an effect on the operating results and financial condition of the Group.

2. The Kenedix Group

The Kenedix Group (the Group) is made up of Kenedix, Inc. (the Company), 109 consolidated subsidiaries and 56 affiliates.

The Group is engaged in the real estate investment advisory business, real estate investment business, asset management business and NPL investment management business. The Group provides a comprehensive line of investment services that cover all client investment objectives. Using REITs and private funds, the Group creates investment strategies and offers advice, operates and administers investments and performs other services for investments by clients in real estate, real estate-secured loans and other assets. For some investment schemes where the Company establishes, the Group makes minority co-investments and loans to align its own interests with those of clients while also creating opportunities to generate larger profits. In addition, the Group has properties held in principal investment in order to temporarily hold properties until they are transferred to funds.

A summary of the structure and activities of the Group is shown below.



(1) Real Estate Investment Advisory Business

The real estate investment advisory business is primarily engaged in services to assist in the real estate investments of client investors (“clients”) and investment in the real estate funds.

Real estate investment assistance services involve the structuring of investment schemes, origination of suitable investment properties, analysis of profitability, procurement of funds through non-recourse loans and other means, and execution of such investments. All steps are conducted in line with the needs and investment strategies of each client. The Company receives an acquisition fee and consulting fee only at the time a transaction is closed.

At the same time, the Group participates in some of the investment schemes it proposes to clients through the provision of minority co-investments and loans. This aligns the Company’s interests with those of its clients while also creating opportunities to generate larger profits.

(2) Real Estate Investment Business

The real estate investment business involves the temporary ownership of properties that are to be acquired by real estate funds established by the Group. The Company uses investment vehicles (consolidated subsidiaries) to maintain an inventory of these properties that are held in its own account. The Group earns leasing income from these properties until their sale and generates capital gains when selling these properties by taking steps to increase their value.

(3) Asset Management Business

The asset management business formulates and executes plans to increase the asset value of real estate investments during the time they are held. The Group earns asset management fees in return for the provision of a full line of services that include the operation and management of real estate, submission of reports to clients and financial institutions, and other related tasks.

The Group also receives a disposition fee when properties are sold, in accordance with the asset management contract, as well as an incentive fee, as well as an incentive fee, which is linked to earnings from investments, in the event that earnings exceed a prescribed return attributable to the Company's management.

(4) NPL Investment Management Business

The Group invests in real estate-backed NPLs (non-performing loans) that are sold by financial institutions. In line with an investment plan that matches each client's needs, a typical investment cycle includes: creation of an investment scheme; selection of notes and collateral and determination of their values; executing the acquisition; and selling the collateralized real estate to collect the outstanding loan amounts due.

As with real estate investments, the Group earns acquisition, asset management, disposition, and incentive fees from the provision of these services.

In some of the investment schemes proposed to clients, the Group makes minority co-investments and loans to align its own interests with those of clients while also creating opportunities to generate larger profits.

In addition, the Group in some cases provides advice and other assistance for the creation of investment schemes for parties involved in the resolution of bad debt at financial institutions and corporate rehabilitation procedures. In this case, the Group earns consulting fees and other fees.

Furthermore, the Group directly purchases and holds non-performing loans in some cases.

3. Management Policies

(1) Fundamental Management Policy

The Group is an organization specializing in real estate services and finance. The Group's overall goal is to maximize returns on investments. This is accomplished by leveraging the Group's comprehensive research skills and extensive knowledge of the real estate business to accurately analyze and evaluate trends in a constantly changing market.

The Group will remain focused on meeting targets and offering value-added services, and placing priority on long-term relationships rooted in trust with clients, employees and investors. Through this stance, the Group intends to fulfill its obligations to society by maximizing its corporate value.

(2) Targeted Performance Indicators

Placing priority on further stabilizing its operations, the Company is concentrating on expanding the asset management business, which provides a steady source of revenues. In line with this policy, management regards the balance of real estate assets under management as a key performance indicator. At the end of the interim period, these assets totaled 622.3 billion yen, 14.3% more than six months earlier.

Sustained growth in shareholder value is another company priority. Accordingly, the Company's management practices reflect on the return on equity and similar indicators.

(3) Medium-term Management Strategy

The real estate services and finance fields, which are the core businesses of the Group, are expected to continue growing backed by progress in separation of real estate ownership and management. Another notable development is the growing recognition of real estate as an important investment vehicle, as is demonstrated by the growth of J-REIT market and the success of the Company's real estate investments for pension funds. In this environment, demand for the kind of specialized knowledge and creativity offered by the Group is expected to continue to grow. In response, the Group's policy is to act aggressively to offer a comprehensive line of investment services that cover all client investment objectives.

The goal of the Group is to become one of Japan's most prominent real estate asset managers. This is to be accomplished by building a highly stable and profitable corporate group. One element will be the growth of assets under management, which is a source of consistent earnings. Activities will also include earning incentive fees, which have a high profit margin, and executing highly profitable real estate and note investments.

In order to increase investments in highly profitable real estate, the Group plans aggressively to enlarge its business activities by targeting a broader range of properties.

The Group has expanded the scope of its real estate funds from office buildings and residential properties to include commercial facilities and logistics facilities as well. At this time, the Group is further enlarging this scope to acquire attractive properties where investment income is dependent on the operation of facilities such as health care facilities and hotels. In addition, the Group views mergers and acquisitions and capital alliances as effective means of achieving growth. Such actions will be taken only when they will contribute to growth in assets under management or diversification of real estate investments, and generate synergies with existing businesses.

Additionally, the Group gathers, analyzes and examines information on financial and real estate trends in many countries and regions. The objectives are to respond in a timely manner to investor needs involving global capital flows, as Japanese investors purchase overseas real estate and foreigners invest in real estate in Japan. The Group wants to become a "gatekeeper" that can match client investors with suitable real estate investments.

(4) Important Management Issues

Interest in real estate investments is rising along with the growth of the J-REIT market and advancements in the real estate securitization business. The resulting growth in the number of new entrants in this industry is leading to even more intense competition for the acquisition of quality properties. In this environment, ensuring the stable procurement of quality properties is the most important issue concerning the Group's business activities.

For this purpose, the Group is utilizing its experience and expertise to step up efforts to identify and acquire quality properties. The Company is targeting a more diverse range of properties, taking steps such as participating in development projects and extending geographic coverage to various regions of Japan as well as to other countries.

Regarding client investors, efforts will be increased to attract pension funds and other institutions with long-term investment policies that emphasize stability.

Two J-REITs formed by the Group are listed on the Tokyo Stock Exchange. These are Japan Logistics Fund, Inc., which was formed jointly with Mitsui & Co., Ltd. and The Chuo Mitsui Trust & Banking Co., Ltd., and Kenedix Realty Investment Corporation, which is operated as a wholly owned subsidiary of the Group. The Group believes that the sustained growth of these J-REITs will contribute to the consistent growth of the Group itself. Consequently, the Group is taking steps to continue expanding its J-REIT business. In addition, the Group plans to increase the assets of Challenger Kenedix Japan Trust, a listed property trust that is listed on the Australian Securities Exchange.

In the rapidly changing real estate market, success requires acquisition of the latest information and skill in new business schemes, as well as the development of a talented workforce. With this in mind, the Company conducts an incentive plan and other programs to motivate employees while conducting an aggressive program to recruit talented individuals.

Furthermore, the Group is monitoring changes in laws and regulations, such as Japan's enactment of the Financial Instruments and Exchange Law, and building an effective compliance system.

(5) Other Important Management Matters

Not applicable.

4. Consolidated Interim Financial Statements**(1) Consolidated Balance Sheets***(Millions of yen)*

Account title	First half of 2006 (As of Jun. 30, 2006)		First half of 2007 (As of Jun. 30, 2007)		Year 2006 Summary (As of Dec. 31, 2006)	
	Amount	%	Amount	%	Amount	%
Assets						
I Current assets						
1. Cash and deposits	20,414		30,708		34,390	
2. Deposits held in trust	3,778		7,065		4,821	
3. Accounts receivable - trade	1,179		680		866	
4. Inventories	42,082		178,280		86,848	
5. Acquired non-performing loans	6,197		13,345		3,603	
6. Other	4,199		8,558		4,067	
7. Allowance for doubtful accounts	(43)		(329)		(32)	
Total current assets	77,809	77.8	238,310	89.9	134,566	85.1
II Fixed assets						
1. Property and equipment	142	0.1	179	0.1	153	0.1
2. Intangible assets	9	0.0	532	0.2	8	0.0
3. Investments and other assets						
(1) Investment securities	17,260		20,669		17,558	
(2) Investment in capital	3,127		2,284		3,126	
(3) Long-term loans receivable	1,323		1,165		1,431	
(4) Other	351		2,027		1,303	
Total investment and other assets	22,063	22.1	26,146	9.8	23,419	14.8
Total fixed assets	22,215	22.2	26,857	10.1	23,581	14.9
Total assets	100,024	100.0	265,167	100.0	158,147	100.0

(Millions of yen)

Account title	First half of 2006 (As of Jun. 30, 2006)		First half of 2007 (As of Jun. 30, 2007)		Year 2006 Summary (As of Dec. 31, 2006)	
	Amount	%	Amount	%	Amount	%
Liabilities						
I Current liabilities						
1. Accounts payable - trade	326		411		362	
2. Short-term borrowings	17,891		53,657		35,900	
3. Commercial paper	-		4,000		-	
4. Long-term borrowings - due within one year	3,626		8,742		15,259	
5. Corporate bonds – due within one year	2,386		3,385		2,785	
6. Accrued income taxes	5,270		9,601		5,066	
7. Security deposits	3,091		4,196		3,575	
8. Accrued employees' bonuses	400		350		-	
9. Accrued director's and corporate auditor's bonuses	-		150		270	
10. Other	1,465		4,629		1,552	
Total current liabilities	34,457	34.5	89,124	33.6	64,772	41.0
II Long-term liabilities						
1. Bonds payable	8,578		33,469		30,519	
2. Long-term borrowings	20,659		74,577		22,166	
3. Silent partnership contribution received	871		163		279	
4. Allowance for employees' retirement benefits	10		14		13	
5. Allowance for directors' and corporate auditor's retirement benefits	153		-		164	
6. Other	273		1,308		438	
Total long-term liabilities	30,546	30.5	109,535	41.3	53,581	33.8
Total liabilities	65,003	65.0	198,659	74.9	118,353	74.8
Net Assets						
I Shareholders' equity						
1. Common stock	9,601	9.6	9,747	3.7	9,648	6.1
2. Additional paid-in capital	9,860	9.8	10,006	3.8	9,907	6.2
3. Retained earnings	15,125	15.1	26,072	9.8	16,996	10.8
4. Treasury stock	(42)	(0.0)	(42)	(0.0)	(42)	(0.0)
Total shareholders' equity	34,545	34.5	45,784	17.3	36,510	23.1
II Valuation and translation adjustments						
1. Net unrealized holding gains/losses on other securities	416	0.4	1,621	0.6	674	0.4
2. Deferred losses on hedges	(84)	(0.0)	(139)	(0.0)	(111)	(0.0)
3. Foreign currency translation adjustments	118	0.1	114	0.0	137	0.1
Total valuation and translation adjustments	450	0.5	1,596	0.6	700	0.5
III Minority interests in consolidated subsidiaries						
Total net assets	35,021	35.0	66,508	25.1	39,794	25.2
Total liabilities and net assets	100,024	100.0	265,167	100.0	158,147	100.0

(2) Consolidated Statements of Income*(Millions of yen)*

Account title	First half of 2006 (Jan. 1, 2006 – Jun. 30, 2006)		First half of 2007 (Jan. 1, 2007 – Jun. 30, 2007)		Year 2006 Summary (Jan. 1, 2006 – Dec. 31, 2006)				
	Amount	%	Amount	%	Amount	%			
I Revenue		16,859	100.0		99,670	100.0		27,044	100.0
II Cost of revenue		1,706	10.1		76,718	77.0		4,659	17.2
Gross profit		15,153	89.9		22,952	23.0		22,384	82.8
III Selling, general and administrative expenses									
1. Provision for doubtful accounts	0			6			-		
2. Directors' and corporate auditors' salaries	117			124			240		
3. Salaries and bonuses	449			578			1,536		
4. Provision for accrued employees' bonuses	400			350			-		
5. Provision for accrued directors' and corporate auditors' bonuses	-			150			270		
6. Provision for employees' retirement benefits	3			4			8		
7. Provision for directors' and corporate auditors' retirement benefits	13			103			24		
8. Commissions paid	167			440			403		
9. Other	634	1,785	10.6	1,105	2,863	2.9	1,264	3,747	13.9
Operating income		13,367	79.3		20,088	20.1		18,637	68.9
IV Non-operating income									
1. Interest income	23			57			63		
2. Equity in earnings of non-consolidated subsidiaries and affiliates	95			242			170		
3. Consumption taxes differential (after being offset by suspense payments and receipt)	-			74			77		
4. Other	56	175	1.0	58	433	0.4	65	376	1.4
V Non-operating expenses									
1. Interest expense	524			1,549			1,223		
2. Stock issue expenses	1			1			2		
3. Bond issue expenses	97			117			283		
4. Commissions paid	350			1,088			879		
5. Other	53	1,027	6.1	293	3,050	3.0	164	2,552	9.4
Ordinary income		12,515	74.2		17,471	17.5		16,461	60.9
VI Extra-ordinary income									
1. Gain on sale of investment securities	20	20	0.2	-	-	-	20	20	0.0
Income before income taxes and profit distribution to silent partners		12,535	74.4		17,471	17.5		16,481	60.9
Profit distribution to silent partners		456	2.8		(0)	0.0		474	1.7
Income before income taxes		12,079	71.6		17,472	17.5		16,007	59.2
Current income taxes	5,265			9,483			6,739		
Deferred income taxes	(325)	4,939	29.2	(2,415)	7,067	7.1	(263)	6,475	24.0
Minority interests (loss)		(1)	(0.0)		455	0.4		515	1.9
Net income		7,140	42.4		9,949	10.0		9,015	33.3

(3) Consolidated Statement of Changes in Net Assets

First half of 2006 (Jan. 1, 2006 – Jun. 30, 2006)

(Millions of yen)

	Shareholders' equity				
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of December 31, 2005	9,507	9,766	8,433	-	27,708
Changes in the period					
New stock issue	93	93	-	-	187
Cash dividends	-	-	(352)	-	(352)
Bonuses to directors and corporate auditors	-	-	(96)	-	(96)
Net income	-	-	7,140	-	7,140
Acquisition of treasury stocks	-	-	-	(42)	(42)
Net changes of items other than shareholders' equity	-	-	-	-	-
Total changes in the period	93	93	6,692	(42)	6,837
Balance as of June 30, 2006	9,601	9,860	15,125	(42)	34,545

(Millions of yen)

	Valuation and translation adjustments				Minority interest in consolidated subsidiaries	Total net assets
	Net unrealized holding gain /losses on other securities	Deferred losses on hedges	Foreign currency translation adjustments	Total valuation and translation adjustments		
Balance as of December 31, 2005	739	-	113	853	16	28,578
Changes in the period						
New stock issue	-	-	-	-	-	187
Cash dividends	-	-	-	-	-	(352)
Bonuses to directors and corporate auditors	-	-	-	-	-	(96)
Net income	-	-	-	-	-	7,140
Acquisition of treasury stocks	-	-	-	-	-	(42)
Net changes of items other than shareholders' equity	(323)	(84)	5	(402)	8	(394)
Total changes in the period	(323)	(84)	5	(402)	8	6,442
Balance as of June 30, 2006	416	(84)	118	450	24	35,021

First half of 2007 (Jan. 1, 2007 – Jun. 30, 2007)

(Millions of yen)

	Shareholders' equity				
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of December 31, 2006	9,648	9,907	16,996	(42)	36,510
Changes in the period					
New stock issue	99	99	-	-	198
Cash dividends	-	-	(856)	-	(856)
Decrease in retained earnings due to decrease in equity-method affiliates	-	-	(18)	-	(18)
Net income	-	-	9,949	-	9,949
Net changes of items other than shareholders' equity	-	-	-	-	-
Total changes in the period	99	99	9,075	-	9,273
Balance as of June 30, 2007	9,747	10,006	26,072	(42)	45,784

(Millions of yen)

	Valuation and translation adjustments				Minority interest in consolidated subsidiaries	Total net assets
	Net unrealized holding gain /losses on other securities	Deferred losses on hedges	Foreign currency translation adjustments	Total valuation and translation adjustments		
Balance as of December 31, 2006	674	(111)	137	700	2,583	39,794
Changes in the period						
New stock issue	-	-	-	-	-	198
Cash dividends	-	-	-	-	-	(856)
Decrease in retained earnings due to decrease in equity-method affiliates	-	-	-	-	-	(18)
Net income	-	-	-	-	-	9,949
Net changes of items other than shareholders' equity	947	(28)	(23)	896	16,544	17,440
Total changes in the period	947	(28)	(23)	896	16,544	26,714
Balance as of June 30, 2007	1,621	(139)	114	1,596	19,127	66,508

Year 2006 (Jan. 1, 2006 – Dec. 31, 2006)

(Millions of yen)

	Shareholders' equity				
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of December 31, 2005	9,507	9,766	8,433	-	27,708
Changes in the fiscal year					
New stock issue	140	140	-	-	281
Cash dividends	-	-	(352)	-	(352)
Bonuses to directors and corporate auditors	-	-	(99)	-	(99)
Net income	-	-	9,015	-	9,015
Acquisition of treasury stocks	-	-	-	(42)	(42)
Net changes of items other than shareholders' equity	-	-	-	-	-
Total changes in the fiscal year	140	140	8,562	(42)	8,802
Balance as of December 31, 2006	9,648	9,907	16,996	(42)	36,510

(Millions of yen)

	Valuation and translation adjustments				Minority interest in consolidated subsidiaries	Total net assets
	Net unrealized holding gain /losses on other securities	Deferred losses on hedges	Foreign currency translation adjustments	Total valuation and translation adjustments		
Balance as of December 31, 2005	739	-	113	853	16	28,578
Changes in the fiscal year						
New stock issue	-	-	-	-	-	281
Cash dividends	-	-	-	-	-	(352)
Bonuses to directors and corporate auditors	-	-	-	-	-	(99)
Net income	-	-	-	-	-	9,015
Acquisition of treasury stocks	-	-	-	-	-	(42)
Net changes of items other than shareholders' equity	(65)	(111)	24	(153)	2,566	2,413
Total changes in the fiscal year	(65)	(111)	24	(153)	2,566	11,215
Balance as of December 31, 2006	674	(111)	137	700	2,583	39,794

(4) Consolidated Statement of Cash Flows*(Millions of yen)*

	First half of 2006 (Jan. 1, 2006 – Jun. 30, 2006)	First half of 2007 (Jan. 1, 2007 – Jun. 30, 2007)	Year 2006 Summary (Jan. 1, 2006 – Dec. 31, 2006)
Account title	Amount	Amount	Amount
I Operating activities			
1. Income before provision for income taxes	12,079	17,472	16,007
2. Gain on sales and collection of acquired non-performing loans	(189)	(513)	(314)
3. Profit distribution from silent partnerships	(1,819)	(1,265)	(2,287)
4. Increase (decrease) in allowance for doubtful accounts	0	6	(9)
5. Increase (decrease) in accrued employees' bonuses	400	350	-
6. Increase (decrease) in accrued directors' and corporate auditors' bonuses	-	(120)	270
7. Increase (decrease) in allowance for employees' retirement benefits	(0)	1	2
8. Increase (decrease) in allowance for directors' and corporate auditors' retirement benefits	13	(164)	24
9. Interest income	(23)	(57)	(63)
10. Interest expense	524	1,549	1,223
11. Profit distribution to silent partners	456	(0)	474
12. Equity in earnings of non-consolidated subsidiaries and affiliates	(95)	(242)	(170)
13. Gain on sale of real estate held for sale	(9,453)	-	(10,848)
14. Gain on sale of investment securities	(20)	-	(20)
15. Decrease (increase) in accounts receivable - trade	(563)	217	(246)
16. Payment for acquisition of real estate held for sale	(35,045)	-	(86,082)
17. Proceeds from sale of real estate held for sale	75,451	-	92,544
18. Decrease (increase) in inventories	-	(1,014)	-
19. Increase (decrease) in accounts payable - trade	61	47	86
20. Purchase of acquired non-performing loans	(8,137)	(10,502)	(8,368)
21. Proceeds from sale and collection of acquired non-performing loans	1,272	1,273	4,222
22. Distributions from silent partnerships	4,823	1,380	6,453
23. Contribution paid in silent partnerships	(10,340)	(1,555)	(10,359)
24. Proceeds from sale of silent partnerships	700	-	700
25. Proceeds from receipt of deposits for contribution to silent partnerships	214	-	159
26. Redemption of silent partners contribution received	(1,073)	(112)	(804)
27. Directors' and corporate auditors' bonuses	(96)	-	(99)
28. Other, net	(641)	712	336
Subtotal	28,498	7,461	2,828
29. Interests and dividends received	34	55	57
30. Interests paid	(528)	(1,237)	(1,349)
31. Income taxes paid	(2,759)	(5,333)	(4,436)
Net cash provided by (used in) operating activities	25,245	945	(2,900)

(Millions of yen)

	First half of 2006 (Jan. 1, 2006 – Jun. 30, 2006)	First half of 2007 (Jan. 1, 2007 – Jun. 30, 2007)	Year 2006 Summary (Jan. 1, 2006 – Dec. 31, 2006)
Account title	Amount	Amount	Amount
II Investing activities			
1. Payment for purchase of property and equipment	(21)	(51)	(52)
2. Proceeds from sale of property and equipment	-	-	6
3. Payment for purchase of intangible assets	-	(18)	-
4. Payment for loans receivable	(722)	(3,288)	(948)
5. Proceeds from repayment of loans receivable	37	2,536	143
6. Payment for acquisition of investment securities	(2,921)	(1,916)	(5,377)
7. Proceeds from sales of investment securities	25	3	28
8. Proceeds from capital reduction with compensation of investment securities	9	51	17
9. Payment for capital investment in affiliates	(2,033)	(1,739)	(2,090)
10. Proceeds from capital investments in affiliates	6	65	86
11. Proceeds from capital reduction of affiliates	-	683	-
12. Purchase of investment in subsidiaries involving change in scope of consolidation	(24)	(23,694)	(24)
13. Other, net	(519)	(33)	(684)
Net cash used in investing activities	(6,165)	(27,404)	(8,894)
III Financing activities			
1. Proceeds from short-term borrowings	53,350	87,241	88,406
2. Repayment of short-term borrowings	(64,472)	(68,199)	(82,520)
3. Proceeds from issuance of commercial papers	-	10,000	-
4. Payment for redemption of commercial papers	-	(6,000)	-
5. Proceeds from long-term borrowings	10,575	45,166	23,565
6. Repayment of long-term borrowings	(18,633)	(55,899)	(25,127)
7. Proceeds from issuance of stock	185	196	278
8. Proceeds from issuance of bonds	3,502	2,882	26,616
9. Payment for redemption of bonds	(826)	(2,652)	(1,786)
10. Proceeds from minority interest	-	13,664	1,030
11. Dividends to minority interest	-	(108)	-
12. Distributions to minority interest	-	(1,166)	(1,826)
13. Dividends paid	(352)	(856)	(352)
Net cash provided by (used in) financing activities	(16,671)	24,267	28,283
IV Effect of exchange rate changes on cash and cash equivalents	5	(7)	14
V Decrease in cash and cash equivalents	2,413	(2,197)	16,503
VI Cash and cash equivalents at beginning of period	19,178	37,074	19,178
VII Increase (decrease) in cash and cash equivalents resulting from changes in scope of consolidation	20	926	1,392
VIII Cash and cash equivalents at end of period	21,612	35,803	37,074

(5) Segment Information*(Millions of yen)*

	First half of 2006 (Jan. 1, 2006 – Jun. 30, 2006)				
	Real Estate Investment Advisory Business	Asset Management Business	NPL Investment Management Business	Adjusts and Elimination	Consolidated
Revenue	14,062	2,234	843	(281)	16,859
Costs and expenses	2,005	1,072	364	49	3,491
Operating income	12,057	1,162	478	(331)	13,367

(Millions of yen)

	First half of 2007 (Jan. 1, 2007 – Jun. 30, 2007)					
	Real Estate Investment Advisory Business	Real Estate Investment Business	Asset Management Business	NPL Investment Management Business	Adjusts and Elimination	Consolidated
Revenue	3,713	92,332	5,690	1,035	(3,100)	99,670
Costs and expenses	672	79,026	1,351	363	(1,832)	79,581
Operating income	3,040	13,306	4,338	672	(1,268)	20,088

(Millions of yen)

	Year 2006 (Jan. 1, 2006 – Dec. 31, 2006)				
	Real Estate Investment Advisory Business	Asset Management Business	NPL Investment Management Business	Adjusts and Elimination	Consolidated
Revenue	21,253	5,255	1,309	(773)	27,044
Costs and expenses	5,832	1,908	756	(89)	8,407
Operating income	15,420	3,346	553	(683)	18,637