

## Summary of Financial Results for the Year Ended December 31, 2007

Described below is an abstract in English of the financial result for the fiscal year ended December 31, 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.

Company name: Kenedix, Inc. Listing: First Section, Tokyo Stock Exchange  
 Stock code: 4321 URL: <http://www.kenedix.com>  
 President: Atsushi Kawashima  
 Contact: Taiji Yoshikawa, Member of the Board of Directors and CFO Tel: +81-3-3519-2530  
 Scheduled date of General Meeting of Shareholders: March 25, 2008  
 Scheduled date of payment of dividend: March 26, 2008  
 Scheduled date of filing of Annual Security Report (*Yuka Shoken Houkokusho*): March 26, 2008

(Amounts rounded off to million yen)

### 1. Consolidated Financial Results (Jan. 1, 2007 – Dec. 31, 2007)

#### (1) Consolidated results of operations

(Percentage figures for revenue, operating income, ordinary income and net income represent year-on-year changes)

	Revenue		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Year ended December 2007	138,025	410.4	30,863	65.6	26,120	58.7	14,662	62.6
Year ended December 2006	27,044	93.7	18,637	103.9	16,461	102.9	9,015	89.5

	Net income per share, (basic)	Net income per share, (diluted)	Return on equity	Ordinary income/total assets	Operating income/revenue
	Yen	Yen	%	%	%
Year ended December 2007	24,833.95	22,375.29	29.9	10.5	22.4
Year ended December 2006	31,750.48	30,625.34	27.4	13.0	68.9

Reference: Equity in earnings of non-consolidated subsidiaries and affiliates (million yen) Dec. 2007: 813 Dec. 2006: 170

#### (2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2007	338,509	80,488	18.0	95,872.59
As of December 31, 2006	158,147	39,794	23.5	130,380.08

Reference: Shareholders' equity (million yen) Dec. 2007: 60,836 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
Year ended December 2007	(48,778)	(35,962)	91,886	44,962
Year ended December 2006	(2,900)	(8,894)	28,283	37,074

### 2. Dividends

(Record date)	Dividend per share			Total dividends (annual)	Payout ratio (consolidated)	Dividends/net assets (consolidated)
	Interim	Year-end	Annual			
	Yen	Yen	Yen	Million yen	%	%
Year ended December 2006	-	3,000.00	3,000.00	856	9.4	3.0
Year ended December 2007	-	2,350.00	2,350.00	1,492	9.5	2.9
Year ending December 2008 (forecast)	-	2,350.00	2,350.00	-	9.8	-

### 3. Forecast of Consolidated Income for the Year Ending December 31, 2008 (Jan. 1, 2008 – Dec. 31, 2008)

(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
First half	78,600	(21.1)	17,400	(13.4)	14,800	(15.3)	7,900	(20.6)	12,424.78
Full year	164,400	19.1	34,800	12.8	29,000	11.0	15,300	4.3	24,039.39

**4. Others**

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

Newly added: 10 companies

Note: Please refer to “2. The Kenedix Group” on page 9 for further information.

(2) Changes in accounting principles, procedures and presentation methods for preparation of 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)

Dec. 2007: 635,140 shares      Dec. 2006: 285,489 shares

2) Number of treasury stock at end of period

Dec. 2007: 587 shares      Dec. 2006: 87 shares

**(Reference) Summary Non-consolidated Financial Results****1. Non-consolidated Financial Results (Jan. 1, 2007 – Dec. 31, 2007)**

(1) Non-consolidated results of operations *(Percentage figures represent year-on-year changes)*

	Revenue		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Year ended December 2007	26,674	50.8	23,106	57.2	21,686	57.5	13,352	60.8
Year ended December 2006	17,694	76.6	14,701	97.7	13,769	93.3	8,303	81.5

	Net income per share, (basic)	Net income per share, (diluted)
	Yen	Yen
Year ended December 2007	22,606.96	20,369.49
Year ended December 2006	29,234.94	28,199.24

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2007	179,431	57,680	32.1	90,814.88
As of December 31, 2006	110,378	35,106	31.8	122,971.01

Reference: Shareholders' equity (million yen)      Dec. 2007: 57,680      Dec. 2006: 35,106

**2. Forecast of Non-consolidated Income for the Year Ending December 31, 2008 (Jan. 1, 2008 – Dec. 31, 2008)**

*(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
First half	14,800	(11.5)	12,800	(14.1)	13,000	(13.0)	8,400	(10.4)	13,211.16
Full year	31,800	19.2	27,700	19.9	26,100	20.4	15,900	19.1	24,982.11

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

Forecasts of future performance in this report are based on assumptions judged to be valid and information currently available to the Company. Actual results are affected by various factors and may differ substantially.

Please refer to “1. Results of Operations, (1) Analysis of Results of Operations, b. Outlook for the Fiscal Year 2008” on page 4 or further information concerning above projections.

## 1. Results of Operations

### (1) Analysis of Results of Operations

#### a. Summary of the fiscal year

In 2007, the Japanese economy continued to expand at a moderate pace due to growth in capital expenditures and to other factors. However, the outlook for the economy is becoming increasingly uncertain because of the high cost of oil and worries about a U.S. economic slowdown caused by the subprime mortgage loan problem.

In the real estate services and finance industries, where the Kenedix Group (the Group) is active, there is intense competition to acquire quality properties. On the other hand, a decline in the J-REIT market and other negative trends fueled growing concerns in the second half of 2007 about the outlook for Japan's real estate market.

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, Inc. (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. In addition to selling properties to Challenger Kenedix Japan Trust, the Group was managing 15 commercial properties with a combined value of 47.1 billion yen for this trust as of the end of December 2007.

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 December 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 734.9 billion yen.

Due to these factors, consolidated revenue increased 410.4% to 138,025 million yen compared with one year earlier. In addition, operating income increased 65.6% to 30,863 million yen, ordinary income increased 58.7% to 26,120 million yen and net income increased 62.6% to 14,662 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 fiscal year under review, 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 fiscal year under review, 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

In this business, the Group earned acquisition fees in conjunction with steady progress in the acquisition of properties. In addition, there was an increase in brokerage fees and other fees. The result was revenue of 5,838 million yen and operating income of 4,260 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 127,034 million yen and operating income was 22,277 million yen.

#### C) Asset Management Business

An increase in incentive fees associated with the sale of assets under management was mainly responsible for a 50.2% increase in revenue to 7,891 million yen and a 62.1% increase in operating income to 5,425 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 35.0% increase in revenue to 1,768 million yen and a 99.8% increase in operating income to 1,105 million yen.

**b. Outlook for the Fiscal Year 2008**

The Company expects the continued growth of assets under management from client investors with investment policies emphasizing stable returns over the long term. With respect to its investments, the Company intends to create funds that invest in income properties that are more diversified than ever before. The structuring of these funds and acquisition of properties is expected to generate growth in acquisition fees that are received when properties are acquired and in asset management fees that are received following purchases. The Company also expects to generate development profits upon the completion of real estate development projects, a business sector where the Company has been active for some time, and sales of these properties to funds. Consequently, the Company is forecasting growth in revenue and earnings in 2008.

Due to the above items, the Company is forecasting consolidated revenue of 164,400 million yen (19.1% increase), operating income of 34,800 million yen (12.8% increase), ordinary income of 29,000 million yen (11.0% increase) and net income of 15,300 million yen (4.3% increase).

**(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 74.6 billion yen commitment line that was established as of the end of December 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	Dec. 2007
Interest-bearing debt (1)	27,022	59,562	106,630	238,269
[Non-recourse loans included] (2)	[1,742]	[11,049]	[29,640]	[120,366]
Net assets (3)	9,360	28,561	39,794	80,488
Cash and deposits (4)	4,089	18,658	34,390	39,369
Net debt (5) (1-2-4)	21,190	29,853	42,599	78,533
Net debt-equity ratio net of non-recourse loans (5)/(3) (%)	226.4%	104.5%	107.0%	97.6

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

**Cash Flow Position**

Operating activities used net cash of 48,778 million yen, investing activities used net cash of 35,962 million yen and financing activities provided net cash of 91,886 million yen. The result was a net increase of 7,887 million yen in

cash and cash equivalents from a year earlier to 44,962 million yen as of December 31, 2007.

#### Operating Activities

Net cash used in operating activities was 48,778 million yen, 1,581.9% more than in 2006. Income before provision for income taxes was 26,172 million yen, but there was a 63,679 million yen increase in inventories, and income tax payments of 9,248 million yen.

#### Investing Activities

Net cash used in investing activities increased 304.3% to 35,962 million yen. This was mainly attributable to the payment of 24,935 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 increased 224.9% to 91,886 million yen. Cash was provided mainly by an increase in debt to fund the growth in inventories, and proceeds from minority interests amounted to 14,567 million yen in the fiscal year under review. These proceeds represent primarily the investments of external parties in funds consolidated by the Group.

There were proceeds of 9,739 million yen from the issuance of stock, including 9,411 million yen from a public offering and proceeds from the exercise of stock options.

In addition, the Company used its 50,000 million yen shelf registration to issue 15,000 million yen of unsecured bonds.

### **(3) Basic Policy for Allocation of Earnings and Dividend for the Current and Next Fiscal Years**

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 consolidated 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 2,350 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 fiscal year 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 Company 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 Concerning Investment Trusts and Investment Corporations, registration as a financial institution as prescribed by Financial Instruments and Exchange law, the Law for Architects and Building Engineers, and the Special Measures Law Concerning the Claims Servicing Business.

Due to the enactment of the Financial Instruments and Exchange Law in Japan, the real estate funds managed by the Group are now subject to the provisions of this law. 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 effect on the Group's operating results.

6) Risk of impact of 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, falsified structural designs, 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.

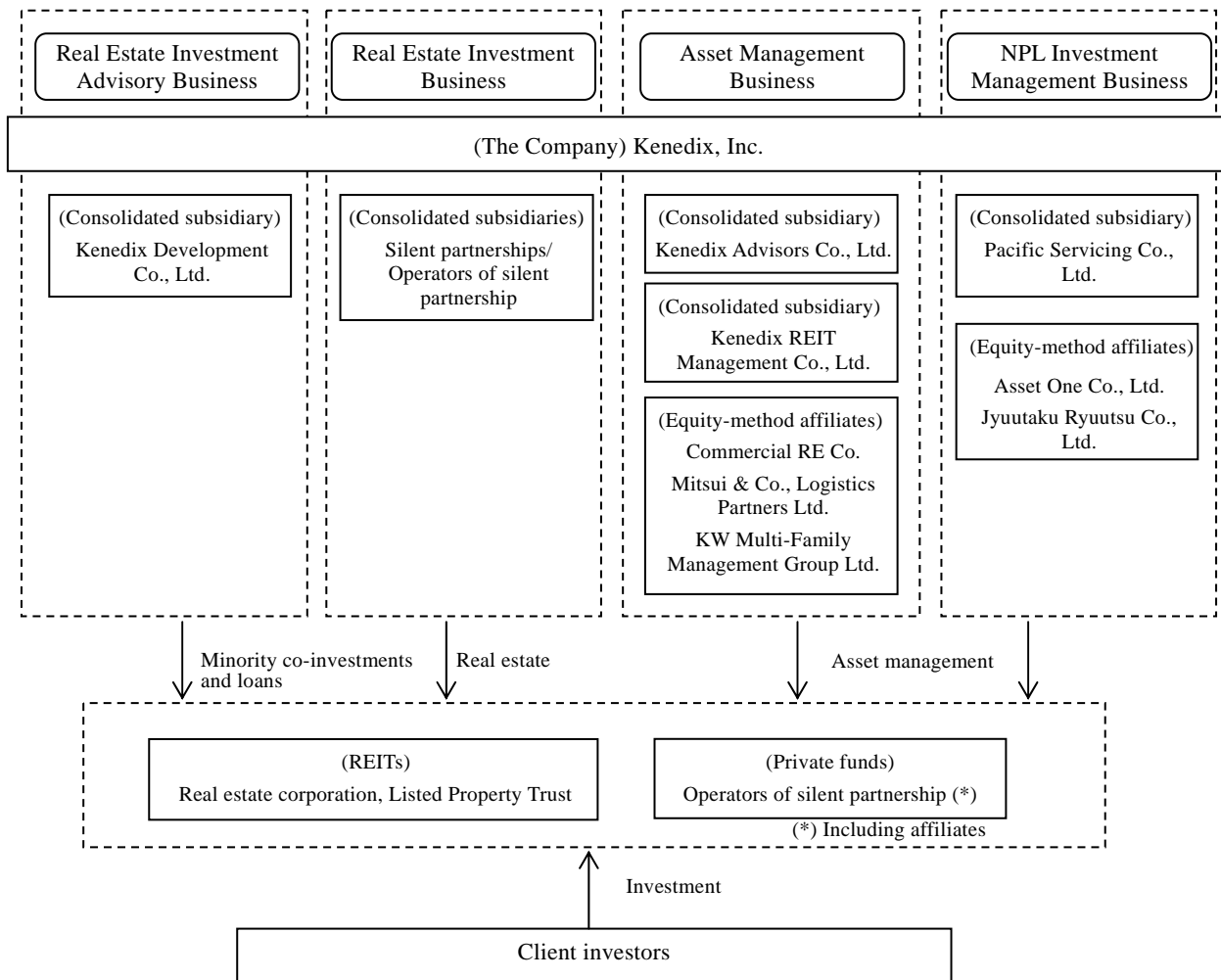
In the event that accounting practices that differ greatly from the policies that have been adopted by the Company with respect to the determination of the scope of consolidation for SPCs become established as a result of the establishment of new accounting standards or the release of practical guidelines, 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), 113 subsidiaries and 64 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, 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.

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 2007, these assets amounted to 734.9 billion yen, a net increase of 190.5 billion yen, or 35.0%, compared with the end of 2006.

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**

Growth of the J-REIT market and the real estate securitization business is producing an increasing number of new entrants in these markets. One result is intense competition to purchase 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 locate and acquire quality properties. Specifically, the Group is targeting a more diverse range of properties, participating in development projects and extending geographic coverage to various regions of Japan as well as to other countries.

Regarding client investors, the Group aims to further diversify its client base. To accomplish this, the Group is focusing on attracting more 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: Kenedix Realty Investment Corporation and Japan Logistics Fund, Inc. In addition, Challenger Kenedix Japan Trust, a listed property trust, is listed on the Australian Securities Exchange. The Group believes that the sustained growth of these trusts will contribute to the consistent growth of the Group itself. Based on this position, the Group will continue to take actions aimed at increasing the amount of assets in these trusts.

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 Financial Statements

## (1) Consolidated Balance Sheets

(Millions of yen)

Account title	Year 2006 (As of Dec. 31, 2006)		Year 2007 (As of Dec. 31, 2007)	
	Amount	%	Amount	%
<b>Assets</b>				
I Current assets				
1. Cash and deposits	34,390		39,369	
2. Deposits held in trust	4,821		6,966	
3. Accounts receivable - trade	866		971	
4. Inventories	86,848		243,895	
5. Acquired non-performing loans	3,603		5,532	
6. Deferred tax assets	579		2,729	
7. Other	3,488		8,629	
8. Allowance for doubtful accounts	(32)		(327)	
Total current assets	134,566	85.1	307,766	90.9
II Fixed assets				
1. Property and equipment				
(1) Buildings	110		143	
Accumulated depreciation	22	87	34	108
(2) Other	111		153	
Accumulated depreciation	45	66	59	94
Total property and equipment	153	0.1	203	0.1
2. Intangible assets	8	0.0	973	0.3
3. Investments and other assets				
(1) Investment securities	17,558		25,131	
(2) Investment in capital	3,126		188	
(3) Long-term loans receivable	1,431		1,920	
(4) Deferred tax assets	77		-	
(5) Other	1,225		2,326	
Total investment and other assets	23,419	14.8	29,566	8.7
Total fixed assets	23,581	14.9	30,743	9.1
Total assets	158,147	100.0	338,509	100.0

(Millions of yen)

Account title	Year 2006 (As of Dec. 31, 2006)		Year 2007 (As of Dec. 31, 2007)	
	Amount	%	Amount	%
<b>Liabilities</b>				
<b>I Current liabilities</b>				
1. Accounts payable - trade	362		477	
2. Short-term borrowings	35,900		60,720	
3. Commercial paper	-		6,000	
4. Long-term borrowings - due within one year	15,259		17,312	
5. Corporate bonds – due within one year	2,785		3,435	
6. Accrued income taxes	5,066		8,409	
7. Security deposits	3,575		5,405	
8. Deferred tax liabilities	-		521	
9. Accrued director's and corporate auditor's bonuses	270		430	
10. Other	1,552		3,683	
Total current liabilities	64,772	41.0	106,397	31.4
<b>II Long-term liabilities</b>				
1. Bonds payable	30,519		47,110	
2. Long-term borrowings	22,166		103,691	
3. Silent partnership contribution received	279		162	
4. Deferred tax liabilities	303		306	
5. Allowance for employees' retirement benefits	13		17	
6. Allowance for directors' and corporate auditor's retirement benefits	164		-	
7. Other	135		335	
Total long-term liabilities	53,581	33.8	151,623	44.8
Total liabilities	118,353	74.8	258,020	76.2
<b>Net Assets</b>				
<b>I Shareholders' equity</b>				
1. Common stock	9,648	6.1	14,546	4.3
2. Additional paid-in capital	9,907	6.2	14,805	4.3
3. Retained earnings	16,996	10.8	30,821	9.1
4. Treasury stock	(42)	(0.0)	(124)	(0.0)
Total shareholders' equity	36,510	23.1	60,047	17.7
<b>II Valuation and translation adjustments</b>				
1. Net unrealized holding gains/losses on other securities	674	0.4	773	0.3
2. Deferred gains (losses) on hedges	(111)	(0.0)	72	0.0
3. Foreign currency translation adjustments	137	0.1	(57)	(0.0)
Total valuation and translation adjustments	700	0.5	788	0.3
<b>III Minority interests in consolidated subsidiaries</b>	2,583	1.6	19,652	5.8
Total net assets	39,794	25.2	80,488	23.8
Total liabilities and net assets	158,147	100.0	338,509	100.0

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

Account title	Year 2006 (Jan. 1, 2006 – Dec. 31, 2006)		Year 2007 (Jan. 1, 2007 – Dec. 31, 2007)			
	Amount	%	Amount	%		
I Revenue		27,044	100.0	138,025	100.0	
II Cost of revenue		4,659	17.2	101,476	73.5	
Gross profit		22,384	82.8	36,549	26.5	
III Selling, general and administrative expenses						
1. Provision for doubtful accounts	-			5		
2. Directors' and corporate auditors' salaries	240			275		
3. Salaries and bonuses	1,536			1,747		
4. Provision for accrued directors' and corporate auditors' bonuses	270			430		
5. Provision for employees' retirement benefits	8			8		
6. Provision for directors' and corporate auditors' retirement benefits	24			103		
7. Commissions paid	403			1,038		
8. Amortization of goodwill	-			372		
9. Other	1,264	3,747	13.9	1,705	5,686	4.1
Operating income		18,637	68.9	30,863	22.4	
IV Non-operating income						
1. Interest income	63			150		
2. Equity in earnings of non-consolidated subsidiaries and affiliates	170			813		
3. Consumption taxes differential (after being offset by suspense payments and receipt)	77			393		
4. Other	65	376	1.4	162	1,519	1.1
V Non-operating expenses						
1. Interest expense	1,223			3,319		
2. Stock issue expenses	2			56		
3. Bond issue expenses	283			179		
4. Commissions paid	879			1,903		
5. Other	164	2,552	9.4	802	6,261	4.6
Ordinary income		16,461	60.9	26,120	18.9	
VI Extra-ordinary income						
1. Gain on sale of affiliate stock	-			141		
2. Gain on sale of investment securities	20	20	0.0	-	141	0.1
Income before provision for income taxes and profit distribution to silent partners		16,481	60.9	26,262	19.0	
Profit distribution to silent partners		474	1.7	90	0.0	
Income before provision for income taxes		16,007	59.2	26,172	19.0	
Current income taxes	6,739			12,605		
Deferred income taxes	(263)	6,475	24.0	(2,797)	9,807	7.2
Minority interests		515	1.9		1,702	1.2
Net income		9,015	33.3	14,662	10.6	

**(3) Consolidated Statement of Changes in Net Assets**

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

Year 2007 (Jan. 1, 2007 – Dec. 31, 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 fiscal year					
New stock issue	4,897	4,897	-	-	9,795
Cash dividends	-	-	(856)	-	(856)
Net income	-	-	14,662	-	14,662
Increase (decrease) in retained earnings and treasury stock involving change in scope of consolidation	-	-	18	(82)	(64)
Net changes of items other than shareholders' equity	-	-	-	-	-
Total changes in the fiscal year	4,897	4,897	13,824	(82)	23,537
Balance as of December 31, 2007	14,546	14,805	30,821	(124)	60,047

*(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 fiscal year						
New stock issue	-	-	-	-	-	9,795
Cash dividends	-	-	-	-	-	(856)
Net income	-	-	-	-	-	14,662
Increase (decrease) in retained earnings and treasury stock involving change in scope of consolidation	-	-	-	-	-	(64)
Net changes of items other than shareholders' equity	99	184	(195)	88	17,069	17,157
Total changes in the fiscal year	99	184	(195)	88	17,069	40,694
Balance as of December 31, 2007	773	72	(57)	788	19,652	80,488

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

	Year 2006 (Jan. 1, 2006 – Dec. 31, 2006)	Year 2007 (Jan. 1, 2007 – Dec. 31, 2007)
Account title	Amount	Amount
I Operating activities		
1. Income before provision for income taxes	16,007	26,172
2. Gain on sales and collection of acquired non-performing loans	(314)	(1,010)
3. Profit distribution from silent partnerships	(2,287)	(1,393)
4. Increase (decrease) in allowance for doubtful accounts	(9)	5
5. Increase (decrease) in accrued directors' and corporate auditors' bonuses	270	160
6. Increase (decrease) in allowance for employees' retirement benefits	2	4
7. Increase (decrease) in allowance for directors' and corporate auditors' retirement benefits	24	(164)
8. Interest income	(63)	(150)
9. Interest expense	1,223	3,319
10. Profit distribution to silent partners	474	90
11. Equity in earnings of non-consolidated subsidiaries and affiliates	(170)	(813)
12. Gain on sale of real estate held for sale	(10,848)	-
13. Gain on sale of investment securities	(20)	-
14. Decrease (increase) in accounts receivable - trade	(246)	(73)
15. Payment for acquisition of real estate held for sale	(86,082)	-
16. Proceeds from sale of real estate held for sale	92,544	-
17. Decrease (increase) in inventories	-	(63,679)
18. Increase (decrease) in accounts payable - trade	86	113
19. Purchase of acquired non-performing loans	(8,368)	(10,722)
20. Proceeds from sale and collection of acquired non-performing loans	4,222	9,643
21. Distributions from silent partnerships	6,453	3,645
22. Contribution paid in silent partnerships	(10,359)	(3,722)
23. Proceeds from sale of silent partnerships	700	-
24. Proceeds from receipt of deposits for contribution to silent partnerships	159	-
25. Redemption of silent partners contribution received	(804)	(17)
26. Directors' and corporate auditors' bonuses	(99)	-
27. Other, net	336	1,644
Subtotal	2,828	(36,948)
28. Interests and dividends received	57	132
29. Interests paid	(1,349)	(2,713)
30. Income taxes paid	(4,436)	(9,248)
Net cash used in operating activities	(2,900)	(48,778)

*(Millions of yen)*

	Year 2006 (Jan. 1, 2006 – Dec. 31, 2006)	Year 2007 (Jan. 1, 2007 – Dec. 31, 2007)
Account title	Amount	Amount
<b>II Investing activities</b>		
1. Payment for purchase of property and equipment	(52)	(96)
2. Proceeds from sale of property and equipment	6	1
3. Payment for purchase of intangible assets	-	(20)
4. Proceeds from sale of intangible assets	-	0
5. Payment for loans receivable	(948)	(7,589)
6. Proceeds from repayment of loans receivable	143	2,799
7. Payment for acquisition of investment securities	(5,377)	(1,217)
8. Proceeds from sales of investment securities	28	4
9. Proceeds from capital reduction with compensation of investment securities	17	130
10. Payment for capital investment in affiliates	(2,090)	(7,389)
11. Proceeds from capital investments in affiliates	86	104
12. Proceeds from capital reduction of affiliates	-	2,347
13. Purchase of investment in subsidiaries involving change in scope of consolidation	(24)	(24,935)
14. Other, net	(684)	(101)
Net cash used in investing activities	(8,894)	(35,962)
<b>III Financing activities</b>		
1. Proceeds from short-term borrowings	88,406	172,198
2. Repayment of short-term borrowings	(82,520)	(147,379)
3. Proceeds from issuance of commercial papers	-	28,000
4. Payment for redemption of commercial papers	-	(22,000)
5. Proceeds from long-term borrowings	23,565	88,392
6. Repayment of long-term borrowings	(25,127)	(61,734)
7. Proceeds from issuance of stock	278	9,739
8. Proceeds from issuance of bonds	26,616	17,820
9. Payment for redemption of bonds	(1,786)	(3,962)
10. Proceeds from minority interest	1,030	14,567
11. Dividends to minority interest	-	(108)
12. Distributions to silent partners	(1,826)	(2,895)
13. Dividends paid	(352)	(856)
14. Other, net	-	105
Net cash provided by financing activities	28,283	91,886
<b>IV Effect of exchange rate changes on cash and cash equivalents</b>	14	(209)
<b>V Increase (decrease) in cash and cash equivalents</b>	16,503	6,935
<b>VI Cash and cash equivalents at beginning of period</b>	19,178	37,074
<b>VII Increase (decrease) in cash and cash equivalents resulting from changes in scope of consolidation</b>	1,392	952
<b>VIII Cash and cash equivalents at end of period</b>	37,074	44,962

**(5) Segment Information***(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

*(Millions of yen)*

	Year 2007 (Jan. 1, 2007 – Dec. 31, 2007)					
	Real Estate Investment Advisory Business	Real Estate Investment Business	Asset Management Business	NPL Investment Management Business	Adjusts and Elimination	Consolidated
Revenue	5,838	127,034	7,891	1,768	(4,507)	138,025
Costs and expenses	1,577	104,756	2,465	662	(2,300)	107,162
Operating income	4,260	22,277	5,425	1,105	(2,206)	30,863