KENEDIX

February 13, 2009
(Revised on February 27, 2009)

Summary of Financial Results for the Year Ended December 31, 2008

Described below is an abstract in English of the financial result for the fiscal year ended December 31, 2008 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, Director, Member of the Board Tel: +81-3-3519-2530
Scheduled date of General Meeting of Shareholders: March 31, 2009
Scheduled date of filing of Annual Security Report (*Yuka Shoken Houkokusho*): March 31, 2009

(Amounts rounded off to million yen)

1. Consolidated Financial Results (January 1, 2008 – December 31, 2008)

(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 2008	137,431	(0.4)	16,247	(47.3)	5,316	(79.6)	(10,850)	-
Year ended December 2007	138,025	410.4	30,863	65.6	26,120	58.7	14,662	62.6

	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 2008	(17,062.66)	-	(20.2)	1.7	11.8
Year ended December 2007	24,833.95	22,375.29	29.9	10.5	22.4

Reference: Equity in earnings of non-consolidated subsidiaries and affiliates (million yen) Dec. 2008: (2,523) Dec. 2007: 813

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2008	273,149	57,558	17.1	73,438.21
As of December 31, 2007	338,509	80,488	18.0	95,872.59

Reference: Shareholders' equity (million yen) Dec. 2008:46,739 Dec. 2007: 60,836

(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 2008	(56,785)	(9,438)	44,015	16,281
Year ended December 2007	(48,778)	(35,962)	91,886	44,962

2. Dividends

	Dividend per share			Total dividends (annual)	Payout ratio (consolidated)	Dividends/net assets (consolidated)
(Record date)	Interim	Year-end	Annual			
	Yen	Yen	Yen	Million yen	%	%
Year ended December 2007	-	2,350.00	2,350.00	1,492	9.5	2.9
Year ended December 2008	0.00	0.00	0.00	0	-	-
Year ending December 2009 (forecast)	0.00	0.00	0.00	0	-	-

3. Forecast of Consolidated Income for the Year Ending December 31, 2009
(January 1, 2009 – December 31, 2009) *(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	69,300	(13.6)	13,900	(10.0)	10,900	(9.4)	(1,200)	-	(1,883.88)
Full year	108,400	(21.1)	18,000	10.6	13,200	148.3	200	-	313.98

4. Others

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

Newly added: 5 companies Excluded: 6 companies

Note: Please refer to “2. The Kenedix Group” on page 8 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: No

2) Other changes: Yes

(3) Number of shares outstanding (common shares)

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

December 2008: 636,982 shares December 2007: 635,140 shares

2) Number of treasury stock at end of period

December 2008: 539 shares December 2007: 587 shares

(Reference) Summary Non-consolidated Financial Results

1. Non-consolidated Financial Results (January 1, 2008 – December 31, 2008)

(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 2008	15,826	(40.7)	5,504	(76.2)	4,994	(77.0)	(12,569)	-
Year ended December 2007	26,674	50.8	23,106	57.2	21,686	57.5	13,352	60.8

	Net income per share, (basic)	Net income per share, (diluted)
	Yen	Yen
Year ended December 2008	(19,748.61)	-
Year ended December 2007	22,606.96	20,369.49

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2008	165,781	42,886	25.9	67,328.38
As of December 31, 2007	179,431	57,680	32.1	90,814.88

Reference: Shareholders’ equity (million yen) Dec. 2008: 42,886 Dec. 2007: 57,680

2. Forecast of Non-consolidated Income for the Year Ending December 31, 2009
(January 1, 2009 – December 31, 2009) *(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	11,400	(14.4)	10,000	(11.6)	8,600	(28.7)	1,000	(87.4)	1,569.90
Full year	14,900	(5.9)	11,900	116.2	9,600	92.2	2,000	-	3,139.80

<u>* Cautionary statement with respect to forward-looking statements</u>

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 page 4 for further information concerning above projections.

1. Results of Operations

(1) Analysis of Results of Operations

a. Summary of the fiscal year

In 2008, turmoil in financial markets caused by the sub-prime loan problem had a severe impact on corporate earnings, employment and personal income in Japan.

In the real estate services and finance industries, in which the Kenedix Group (the Group) is active, procuring funds became increasingly difficult as worldwide financial instability prompted financial institutions to adopt stricter standards for the approval of real estate financing. These events reduced liquidity in the real estate market and caused prices to fall. Along with a downturn in stock prices, the result was increasing uncertainty for the real estate investment market.

In this environment, the Group worked on further enhancing its capabilities in the asset management business. The Group concentrated on locating quality properties and providing investment opportunities to investors in Japan and other countries that are interested in purchasing Japanese real estate.

In the first half of 2008, the Group sold office buildings to Challenger Kenedix Japan Trust to support the growth of this trust. In addition, the Group established a private fund (Pension Fund No. 10) that invests only in residential real estate. In the second half of 2008, using funds from German investors, the Group established a 28 billion yen private fund that invests only in commercial properties, primarily suburban retail properties. In September 2008, the Group sold part of a private nursing home portfolio for 7.8 billion yen to a publicly owned health care REIT that is listed in Singapore. Overall, there was steady progress in the establishment of funds and other activities despite the current downturn in the real estate investment market.

However, due to the significant challenges created by the downturns in the real estate investment market and fund procurement environment, the Group sold inventories in order to downsize the balance sheet and improve the quality of assets. As a result, losses were posted as the Group sold properties and investments in silent partnerships. Furthermore, there was an extraordinary loss of 11.8 billion yen that was primarily the result of valuation losses on securities held at the end of 2008 due to stock market weakness.

Due to these factors, consolidated revenue decreased 0.4% year-on-year to 137,431 million yen. In addition, operating income declined 47.3% to 16,267 million yen and ordinary income fell 79.6% to 5,316 million yen. There was a net loss of 10,850 million yen compared with net income of 14,662 million yen in 2007.

The following section explains performance by business segments.

1) Real Estate Investment Advisory Business

In the real estate investment advisory business, revenue declined 51.7% year-on-year to 2,817 million yen, and operating income was down 55.7% to 1,888 million yen, on lower profit distributions from silent partnerships.

2) Real Estate Investment Business

In the real estate investment business, leasing income continued to increase, but there was a decline in revenue from real estate sales as well as the profit margins on those sales. In addition, there was a loss on the sale of subordinate investments in silent partnerships. As a result, revenue increased 3.6% to 131,561 million yen but operating income fell 43.9% to 12,489 million yen.

3) Asset Management Business

Although asset management fees increased, reflecting steady growth in assets under management, incentive fees associated with the sale of assets under management declined since sale of assets under management to external customers were lower. As a result, revenue declined 23.5% year-on-year to 6,037 million yen and operating income was down 32.8% to 3,646 million yen.

4) NPL Investment Management Business

Segment revenue declined 82.4% year-on-year to 311 million yen and there was an operating loss of 290 million yen, operating income of 1,105 million yen in 2007. This was due mainly to a decline in gain on collection of non-performing loans and lower incentive fees.

b. Outlook for 2009

In 2009, the Group's goal is to shift to a profit structure that is not dependent on gains on sales of properties and other activities that are highly vulnerable to changes in market conditions in the real estate and finance sectors. Specifically, the Group plans to establish a profit structure that can use stable fee income in order to remain profitable even when there is a significant decline in real estate market liquidity. To accomplish this goal, the Group will continue to establish private funds. This is expected to increase acquisition fees earned when properties are purchased as well as asset management fees following these purchases. Establishing these funds will also increase the amount of assets under management. In addition, the Group anticipates revenue from the sale of real estate in 2009, chiefly from the sale of a large office building that was completed in May 2008. The Group will use the sale of properties to further streamline its balance sheet.

However, since the Group values real estate at the lower of cost or market, an extraordinary loss of approximately 9.2 billion yen is expected for inventories at the beginning of 2009 based on prices evaluated by an external appraisal firm.

Due to the above items, the Company is forecasting consolidated revenue of 108,400 million yen, operating income of 18,000 million yen, ordinary income of 13,200 million yen and net income of 200 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. The Group purchases these properties with the intention of owning them for only a short time. However, due to the current decline in real estate market liquidity, the Group is holding these properties for a longer time.

Short-term bank loans, including loans obtained through credit facilities, have been the primary means of funding the acquisition of properties. Due to the longer holding period, there is a need to use fund procurement methods with a longer term.

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. 2005	Dec. 2006	Dec. 2007	Dec. 2008
Interest-bearing debt (1)	59,562	106,630	238,269	202,806
[Non-recourse loans included] (2)	[11,049]	[29,640]	[120,366]	[78,528]
Net assets (3)	28,561	39,794	80,488	57,558
Cash and deposits (4)	18,658	34,390	39,369	11,872
Net debt (5) (1-2-4)	29,853	42,599	78,533	112,404
Net debt-equity ratio net of non-recourse loans (5)/(3) *(%)*	104.5	107.0	97.6	195.3

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 273,149 million yen on December 31, 2008, 65,359 million yen less than a year earlier. This was mainly attributable to a 34,640 million yen decline in inventories.

Total liabilities decreased 42,429 million yen to 215,591 million yen. This was mainly the result of lower debt due to a reduction in inventories.

Net assets decreased 22,930 million yen to 57,558 million yen. One reason was a 12,381 million yen decrease in retained earnings because of net loss. There was also an 8,833 million yen decrease 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 used net cash of 56,785 million yen, investing activities used net cash of 9,438 million yen and financing activities provided net cash of 44,015 million yen. The result was a net decrease of 28,681 million yen in cash and cash equivalents from a year earlier to 16,281 million yen as of December 31, 2008.

Operating Activities

Net cash used in operating activities increased 16.4% to 56,785 million yen. This was mainly the result of loss before provision for income taxes of 5,401 million yen and income taxes paid of 14,505 million yen.

Investing Activities

Net cash used in investing activities decreased 73.8% to 9,438 million yen. This was mainly attributable to the decrease of 8,961 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 decreased 52.1% to 44,015 million yen. Cash was provided mainly by drawdown of commitment lines and new borrowings of non-recourse loan. During 2008, proceeds from minority interests amounted to 14,170 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 and Next Fiscal Years

The Company positions 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 dividend for each year is determined by taking into account all applicable factors, including operating results, the need to retain earnings to generate growth, the dividend payout ratio and other items.

However, the operating environment is extremely difficult. Liquidity in the real estate investment market has dropped sharply because of the worsening climate for fund procurement caused by financial market turmoil. As a result, the Group posted an extraordinary loss in 2008 which represent losses on sales of properties and silent partnership investments, valuation losses on securities, and other items.

Because of this performance in 2008, the Company has decided to make no dividend payment for 2008 and 2009.

The Company is determined to build a profit structure that can be consistently profitable in order to resume dividend payments and increase the dividend payout ratio.

(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.

The Group raises necessary funds through the borrowings from the financial institutions and the issuance of corporate bonds. In the event that the financial institutions restrain their lending activities, or the Company's credit substantially deteriorates, the Group may not be able to procure sufficient funds, and its operation may be adversely affected.

2) Competition

The performance of the real estate funds offered in the Company's real estate investment advisory business and the asset management business, the Company's two core businesses, are expected to face intensified competition as their performance is evaluated relative to 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: Financial Instruments and Exchange Law, Building Lots and Buildings Transaction Business Law, the Law Concerning Investment Trusts and Investment Corporations, the Special Measures Law Concerning the Claims Servicing Business, Money Lending Law, and the Law for Architects and Building Engineers.

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, and this could have an affect 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 posted rapid growth in the scale of operations over the years and achieved rapid growth in revenue and earnings as well. Increases in inventories and investment securities have accompanied this growth as the Group purchased properties held in principal investment and made small investments in the funds the Group structured. Due to these actions, there has been an increase in debt. Declines in the value of these investments and pressure to repay this debt may have an effect on the Group’s financial condition and operating results. The Group will place priority on maintaining a proper scale of operations while increasing equity and improving 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.

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

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.

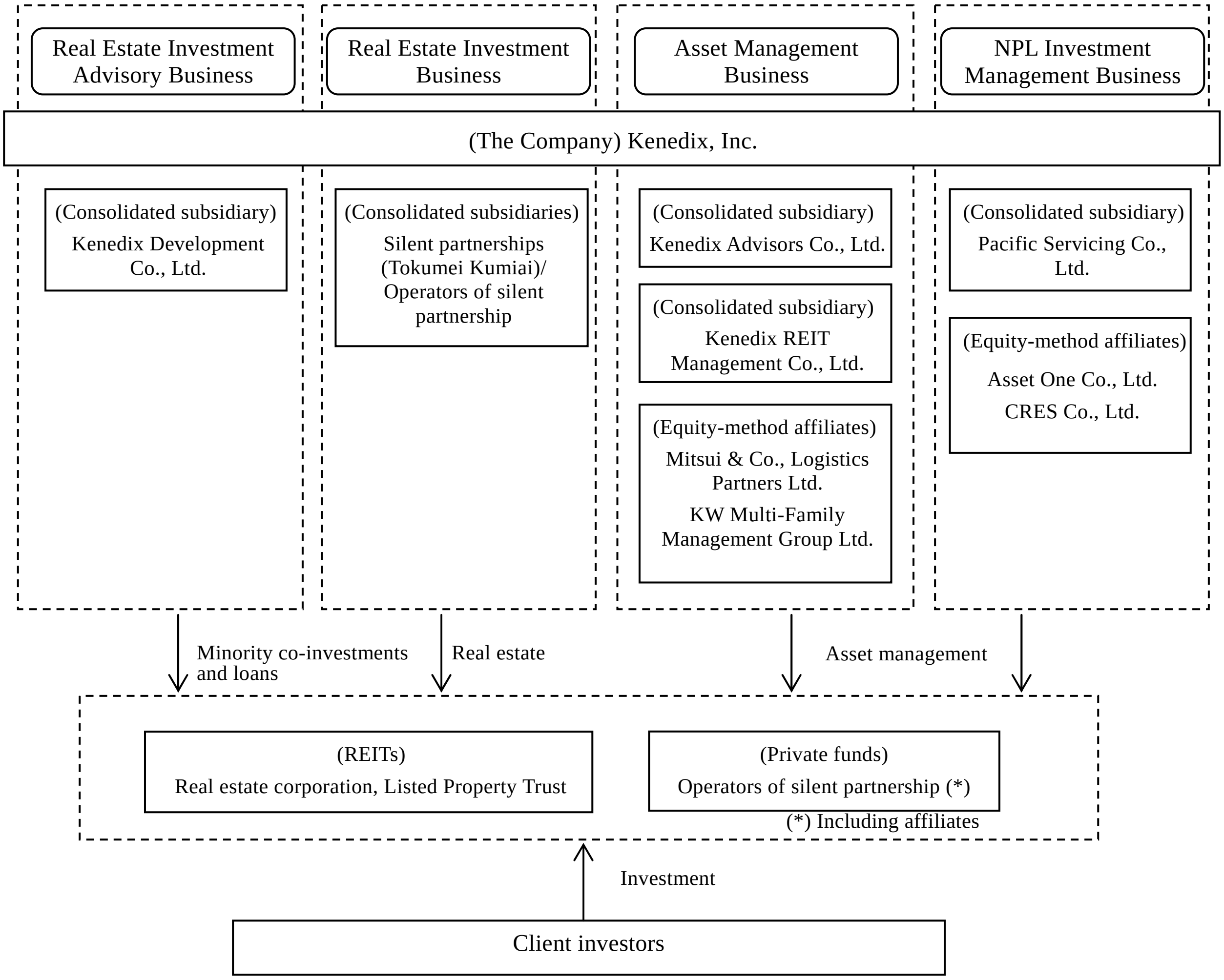
On September 8, 2006 the Accounting Standards Board of Japan released its PITF No. 20, “Practical Solution on Application of Control Criteria and Influence Criteria to Investment Associations,” and the Group has applied the provisions of this PITF starting with the fiscal year 2006. Currently, the Group 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 respective 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 is made up of Kenedix, Inc., 112 subsidiaries and 76 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.



Note: Jyuutaku Ryuutsu Co., Ltd. changed the company name to CRES Co., Ltd.

(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.

(Changes in significant subsidiaries)

The following subsidiaries are classified as specified subsidiaries (*Tokutei Kogaisha*). The Company invests in several silent partnerships (*Tokumei Kumiai*). They are also included in the consolidation.

Name	Address	Capital or investments (Millions of yen)	Business	Voting rights		Relationship
				Owned by the Company (%)	Owned by the third parties (%)	
(Consolidated subsidiary)						
Tokumei-Kumiai KRF 25	Minato Ward, Tokyo	5,500	Real estate investment	-	-	Investment vehicle for real estate investment
Tokumei-Kumiai KWR Fourth	Minato Ward, Tokyo	3,090	Real estate investment	-	-	Investment vehicle for real estate investment
Tokumei-Kumiai Roseo	Minato Ward, Tokyo	2,200	Real estate investment	-	-	Investment vehicle for real estate investment

Tokumei-Kumiai KW Fifth became a consolidated subsidiary because of an investment in this partnership in 2008. However, this partnership is accounted for as an equity-method affiliate due to the subsequent sale of part of this investment in 2008.

Tokumei-Kumiai KDX 10 (formerly Tokumei-Kumiai KRF 20) became a consolidated subsidiary because of an investment in this partnership in 2008. However, this partnership is no longer consolidated due to the subsequent sale of all of this investment in 2008.

Tokumei-Kumiai Fairy Castle One, Tokumei-Kumiai Wonderland Operation and Tokumei-Kumiai Wonderland Five have become equity-method affiliates in 2008 due to the partial sale of investments in these partnerships.

Tokumei-Kumiai KDX 9 is no longer consolidated due to the sale of all of this investment in 2008.

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 December 2008, these assets amounted to 844.3 billion yen, a net increase of 109.3 billion yen, or 14.9%, compared with the end of 2007.

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

Current concerns about the financial system have stopped growth in the real estate and real estate finance sectors, which are primary markets for the Group’s business operations. However, the Group expects that these markets will become even larger from a medium and long-term perspective. Accordingly, the Group believes that there will always be demand for its specialized skills and creativity. Consequently, the Group plans to continue providing a comprehensive line of real estate asset management services that cover all steps of the real estate investment process.

The Group’s goal is to increase the amount of assets under management by skillfully targeting opportunities created when the market starts recovering. This will be accomplished by analyzing real estate market conditions and the financial needs of investors and responding with flexibility. In particular, the Group plans to serve a broader spectrum of investors. When the real estate market starts recovering, particular emphasis will be placed on establishing private funds, which have a higher risk tolerance, and on establishing relationships with more overseas investors.

Another objective is reducing inventories in order to lower the level of business risk associated with changes in market conditions. Reducing inventories also allows the Group to improve its financial soundness by lowering debt.

The Group is determined to preserve the stability of its operations even when the operating climate is volatile. For this purpose, asset management fees and leasing income will be positioned as the primary sources of revenue. This is expected to increase the coverage ratio for SG&A expenses, interest expenses and other fixed expenses.

(4) Important Management Issues

There has been a steep drop in real estate liquidity because of financial market turmoil and other events. Lower liquidity is resulting in a longer holding period for inventories held as principal investments. This has created an urgent need to assemble a fund procurement structure that matches this longer holding period. To achieve this structure, the Group plans to shift some of its debt to long-term instruments with the cooperation of financial institutions.

Regarding client investors, the Group’s goal is to attract more investors, especially Japanese pension funds and overseas core investors, that seek stable, long-term investments. In addition, over the short term, the Group plans to diversify the client base by increasing the volume of business with foreign investors that can accept a variety of risks.

In the rapidly changing real estate market, success demands the ability to acquire the latest information and gain expertise in new business schemes, as well as the development of a talented workforce. With this in mind, the Group is dedicated to preserving and increasing the motivation of employees while constantly recruiting highly skilled workers.

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)

	Year 2007 (As of Dec. 31, 2007)			Year 2008 (As of Dec. 31, 2008)		
Account title	Amount		%	Amount		%
Assets						
I Current assets						
1. Cash and deposits		39,369			11,872	
2. Deposits held in trust		6,966			8,958	
3. Accounts receivable-trade		971			979	
4. Inventories		243,895			209,255	
5. Acquired non-performing loans		5,532			5,259	
6. Income taxes receivable		-			5,304	
7. Deferred tax assets		2,729			499	
8. Other		8,629			3,037	
9. Allowance for doubtful accounts		(327)			(125)	
Total current assets		307,766	90.9		245,041	89.7
II Fixed assets						
1. Property and equipment						
(1) Buildings	143			147		
Accumulated depreciation	34	108		49	97	
(2) Other	153			166		
Accumulated depreciation	59	94		79	86	
Total property and equipment		203	0.1		184	0.1
2. Intangible assets						
(1) Intangible assets		973			20	
(2) Other		-			1,490	
Total intangible assets		973	0.3		1,510	0.5
3. Investments and other assets						
(1) Investment securities		25,131			23,646	
(2) Investment in capital		188			320	
(3) Long-term loans receivable		1,920			1,153	
(4) Deferred tax assets		-			0	
(5) Other		2,326			1,323	
(6) Allowance for doubtful accounts		-			(32)	
Total investment and other assets		29,566	8.7		26,412	9.7
Total fixed assets		30,743	9.1		28,108	10.3
Total assets		338,509	100.0		273,149	100.0

(Millions of yen)

	Year 2007 (As of Dec. 31, 2007)		Year 2008 (As of Dec. 31, 2008)	
Account title	Amount	%	Amount	%
Liabilities				
I Current liabilities				
1. Accounts payable-trade	477		554	
2. Short-term borrowings	60,720		63,712	
3. Commercial paper	6,000		-	
4. Long-term borrowings-due within one year	17,312		20,117	
5. Corporate bonds-due within one year	3,435		5,558	
6. Accrued income taxes	8,409		558	
7. Security deposits	5,405		7,252	
8. Deferred tax liabilities	521		1,725	
9. Accrued director's and corporate auditor's bonuses	430		-	
10. Other	3,683		2,103	
Total current liabilities	106,397	31.4	101,582	37.2
II Long-term liabilities				
1. Bonds payable	47,110		40,236	
2. Long-term borrowings	103,691		73,181	
3. Silent partnership contribution received	162		233	
4. Deferred tax liabilities	306		1	
5. Allowance for directors' and corporate auditor's retirement benefits	17		25	
6. Other	335		331	
Total long-term liabilities	151,623	44.8	114,009	41.7
Total liabilities	258,020	76.2	215,591	78.9
Net Assets				
I Shareholders' equity				
1. Common stock	14,546	4.3	14,591	5.3
2. Additional paid-in capital	14,805	4.3	14,850	5.4
3. Retained earnings	30,821	9.1	18,439	6.8
4. Treasury stock	(124)	(0.0)	(130)	(0.0)
Total shareholders' equity	60,047	17.7	47,751	17.5
II Valuation and translation adjustments				
1. Net unrealized holding gains/losses on other securities	773	0.3	(24)	(0.0)
2. Deferred gains (losses) on hedges	72	0.0	-	
3. Foreign currency translation adjustments	(57)	(0.0)	(988)	(0.4)
Total valuation and translation adjustments	788	0.3	(1,012)	(0.4)
III Minority interests in consolidated subsidiaries	19,652	5.8	10,819	4.0
Total net assets	80,488	23.8	57,558	21.1
Total liabilities and net assets	338,509	100.0	273,149	100.0

(2) Consolidated Statements of Income

(Millions of yen)

	Year 2007 (Jan. 1, 2007 – Dec. 31, 2007)			Year 2008 (Jan. 1, 2008 – Dec. 31, 2008)		
Account title	Amount		%	Amount		%
I Revenue		138,025	100.0		137,431	100.0
II Cost of revenue		101,476	73.5		115,018	83.7
Gross profit		36,549	26.5		22,413	16.3
III Selling, general and administrative expenses						
1. Provision for doubtful accounts	5			103		
2. Directors' and corporate auditors' salaries	275			295		
3. Provision for accrued employees' bonuses	1,747			1,396		
4. Provision for accrued directors' and corporate auditors' bonuses	430			-		
5. Provision for employees' retirement benefits	8			11		
6. Provision for directors' and corporate auditors' retirement benefits	103			-		
7. Commissions paid	1,038			1,282		
8. Amortization of goodwill	372			1,411		
9. Other	1,705	5,686	4.1	1,643	6,145	4.5
Operating income		30,863	22.4		16,267	11.8
IV Non-operating income						
1. Interest income	150			284		
2. Equity in earnings of non-consolidated subsidiaries and affiliates	813			-		
3. Consumption taxes differential (after being offset by suspense payments and receipt)	393			-		
4. Other	162	1,519	1.1	162	446	0.3
V Non-operating expenses						
1. Interest expense	3,319			5,758		
2. Stock issue expenses	56			1		
3. Bond issue expenses	179			-		
4. Commissions paid	1,903			1,878		
5. Equity in losses of non-consolidated subsidiaries and affiliates	-			2,523		
6. Other	802	6,261	4.6	1,235	11,397	8.2
Ordinary income		26,120	18.9		5,316	3.9

(Millions of yen)

Account title	Year 2007 (Jan. 1, 2007 – Dec. 31, 2007) Amount		%	Year 2008 (Jan. 1, 2008 – Dec. 31, 2008) Amount		%
VI Extra-ordinary income						
1. Gain on sale of affiliate stock	141			155		
2. Gain on sale of investment securities	-			21		
3. Gain on abolishment of hedge accounting	-			860		
4. Gain on cancellation of derivative contracts	-			87		
5. Other	-	141	0.1	35	1,160	0.8
VII Extra-ordinary losses						
1. Loss on sale of investment securities	-			175		
2. Loss on valuation of investment securities	-			3,380		
3. Loss on valuation of affiliate stock	-			105		
4. Loss on valuation of inventories	-			1,434		
5. Exit penalty	-			1,115		
6. Impairment loss	-			325		
7. Dilution losses from changes in equity interest	-			275		
8. Bad debts written off	-			371		
9. Impairment loss on investment in affiliated company				4,352		
10. Other	-	-		268	11,804	8.6
Income (loss) before provision for income taxes and profit distribution to silent partners		26,262	19.0		(5,326)	(3.9)
Profit distribution to silent partners		90	0.0		74	0.1
Income (loss) before provision for income taxes		26,172	19.0		(5,401)	(4.0)
Current income taxes	12,605			1,895		
Reversal of the prior year's income taxes	-			(183)		
Deferred income taxes	(2,797)	9,807	7.2	1,997	3,709	2.6
Minority interests in income		1,702	1.2		1,739	1.3
Net income (loss)		14,662	10.6		(10,850)	(7.9)

(3) Consolidated Statement of Changes in Net Assets

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
Dividends from surplus	-	-	(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 gains (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
Dividends from surplus	-	-	-	-	-	(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

Year 2008 (Jan. 1, 2008 – Dec. 31, 2008)

(Millions of yen)

	Shareholders' equity				
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of December 31, 2007	14,546	14,805	30,821	(124)	60,047
Changes in the fiscal year	-	-	-	-	-
New stock issue	45	45	-	-	90
Dividends from surplus	-	-	(1,492)	-	(1,492)
Net loss	-	-	(10,850)	-	(10,850)
Increase (decrease) in retained earnings and treasury stock involving change in scope of consolidation	-	-	(38)	(5)	(44)
Net changes of items other than shareholders' equity	-	-	-	-	-
Total changes in the fiscal year	45	45	(12,381)	(5)	(12,296)
Balance as of December 31, 2008	14,591	14,850	18,439	(130)	47,751

(Millions of yen)

	Valuation and translation adjustments				Minority interest in consolidated subsidiaries	Total net assets
	Net unrealized holding gain /losses on other securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Total valuation and translation adjustments		
Balance as of December 31, 2007	773	72	(57)	788	19,652	80,488
Changes in the fiscal year	-	-	-	-	-	-
New stock issue	-	-	-	-	-	90
Dividends from surplus	-	-	-	-	-	(1,492)
Net loss	-	-	-	-	-	(10,850)
Increase (decrease) in retained earnings and treasury stock involving change in scope of consolidation	-	-	-	-	-	(44)
Net changes of items other than shareholders' equity	(798)	(72)	(930)	(1,800)	(8,833)	(10,634)
Total changes in the fiscal year	(798)	(72)	(930)	(1,800)	(8,833)	(22,930)
Balance as of December 31, 2008	(24)	-	(988)	(1,012)	10,819	57,558

(4) Consolidated Statement of Cash Flows

(Millions of yen)

	Year 2007 (Jan. 1, 2007 – Dec. 31, 2007)	Year 2008 (Jan. 1, 2008 – Dec. 31, 2008)
Account title	Amount	Amount
I Operating activities		
1. Income (loss) before provision for income taxes	26,172	(5,401)
2. Gain on sales and collection of acquired non-performing loans	(1,010)	(320)
3. Profit distribution from silent partnerships	(1,393)	254
4. Increase (decrease) in allowance for doubtful accounts	5	(169)
5. Increase (decrease) in accrued directors' and corporate auditors' bonuses	160	(430)
6. Increase (decrease) in allowance for employees' retirement benefits	4	8
7. Increase (decrease) in allowance for directors' and corporate auditors' retirement benefits	(164)	-
8. Interest income	(150)	(284)
9. Interest expense	3,319	5,758
10. Profit distribution to silent partners	90	74
11. Equity in (earnings) losses of affiliates	(813)	2,523
12. Loss on valuation of investment securities	-	3,380
13. Impairment loss	-	325
14. Impairment loss on investment in affiliated company	-	4,352
15. Dilution losses from changes in equity interest	-	275
16. Decrease (increase) in accounts receivable-trade	(73)	(72)
17. Decrease (increase) in inventories	(63,679)	(48,973)
18. Increase (decrease) in accounts payable-trade	113	84
19. Purchase of acquired non-performing loans	(10,722)	(208)
20. Proceeds from sale and collection of acquired non-performing loans	9,643	801
21. Distributions from silent partnerships	3,645	223
22. Contribution paid in silent partnerships	(3,722)	(1,318)
23. Proceeds from receipt of deposits for contribution to silent partnerships	-	34
24. Redemption of silent partners contribution received	(17)	39
25. Amortization of goodwill	-	1,411
26. Other, net	1,644	783
Subtotal	(36,948)	(36,847)
27. Interests and dividends received	132	291
28. Interests paid	(2,713)	(5,723)
29. Income taxes paid	(9,248)	(14,505)
Net cash used in operating activities	(48,778)	(56,785)

(Millions of yen)

	Year 2007 (Jan. 1, 2007 – Dec. 31, 2007)	Year 2008 (Jan. 1, 2008 – Dec. 31, 2008)
Account title	Amount	Amount
II Investing activities		
1. Payment for purchase of property and equipment	(96)	(28)
2. Proceeds from sale of property and equipment	1	6
3. Payment for purchase of intangible assets	(20)	(2)
4. Proceeds from sale of intangible assets	0	-
5. Payment for loans receivable	(7,589)	(2,499)
6. Proceeds from repayment of loans receivable	2,799	5,600
7. Payment for acquisition of investment securities	(1,217)	(3,197)
8. Proceeds from sales of investment securities	4	57
9. Proceeds from capital reduction with compensation of investment securities	130	-
10. Payment for capital investment in affiliates	(7,389)	(1,210)
11. Proceeds from capital investments in affiliates	104	226
12. Proceeds from capital reduction of affiliates	2,347	-
13. Payment for purchase of investment in subsidiaries involving change in scope of consolidation	(24,935)	(8,961)
14. Other, net	(101)	570
Net cash used in investing activities	(35,962)	(9,438)
III Financing activities		
1. Proceeds from short-term borrowings	172,198	194,734
2. Repayment of short-term borrowings	(147,379)	(192,551)
3. Proceeds from issuance of commercial papers	28,000	10,000
4. Payment for redemption of commercial papers	(22,000)	(16,000)
5. Proceeds from long-term borrowings	88,392	69,051
6. Repayment of long-term borrowings	(61,734)	(27,876)
7. Proceeds from issuance of stock	9,739	89
8. Proceeds from issuance of bonds	17,820	-
9. Payment for redemption of bonds	(3,962)	(4,751)
10. Proceeds from minority interest	14,567	14,170
11. Dividends to minority interest	(108)	(225)
12. Distributions to minority interest	(2,895)	(1,125)
13. Dividends paid	(856)	(1,488)
14. Other, net	105	(12)
Net cash provided by financing activities	91,886	44,015
IV Effect of exchange rate changes on cash and cash equivalents	(209)	(179)
V Increase (decrease) in cash and cash equivalents	6,935	(22,388)
VI Cash and cash equivalents at beginning of period	37,074	44,962
VII Increase (decrease) in cash and cash equivalents resulting from changes in scope of consolidation	952	(6,293)
VIII Cash and cash equivalents at end of period	44,962	16,281

(5) Segment Information

(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

(Millions of yen)

	Year 2008 (Jan. 1, 2008 – Dec. 31, 2008)					
	Real Estate Investment Advisory Business	Real Estate Investment Business	Asset Management Business	NPL Investment Management Business	Adjusts and Elimination	Consolidated
Revenue	2,817	131,561	6,037	311	(3,295)	137,431
Costs and expenses	929	119,071	2,390	602	(1,830)	121,163
Operating income	1,888	12,489	3,646	(290)	(1,465)	16,267