KENEDIX

February 12, 2010

Summary of Financial Results for the Year Ended December 31, 2009

Described below is an abstract in English of the financial result for the fiscal year ended December 31, 2009 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 30, 2010
Scheduled date of filing of Annual Securities Report (*Yuka Shoken Houkokusho*): March 30, 2010

(Amounts rounded off to million yen)

1. Consolidated Financial Results (Jan. 1, 2009 – Dec. 31, 2009)

(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 Dec. 31, 2009	77,831	(43.4)	8,433	(48.2)	225	(95.8)	(18,438)	-
Year ended Dec. 31, 2008	137,431	(0.4)	16,267	(47.3)	5,316	(79.6)	(10,850)	-

	Net income per share, (basic)	Net income per share, (diluted)	Return on equity	Ordinary income/ total assets	Operating income/ revenue
	Yen	Yen	%	%	%
Year ended Dec. 31, 2009	(23,968.93)	-	(39.4)	0.1	10.8
Year ended Dec. 31, 2008	(17,062.66)	-	(20.2)	1.7	11.8

Reference: Equity in earnings of non-consolidated subsidiaries and affiliates (million yen) Dec. 2009: (2,036) Dec. 2008: (2,523)

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Dec. 31, 2009	218,603	54,525	21.4	38,577.82
As of Dec. 31, 2008	273,149	57,558	17.1	73,438.21

Reference: Shareholders' equity (million yen) As of Dec. 31, 2009: 46,741 As of Dec. 31, 2008: 46,739

(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 Dec. 31, 2009	54,553	(10,980)	(37,809)	21,665
Year ended Dec. 31, 2008	(56,864)	(9,438)	44,094	16,281

2. Dividends

	Dividend per share					Total dividends (annual)	Payout ratio (consolidated)	Dividends/net assets (consolidated)
(Record date)	1Q-end	2Q-end	3Q-end	Year-end	Annual			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
Year ended Dec. 31, 2008	-	0.00	-	0.00	0.00	-	-	-
Year ended Dec. 31, 2009	-	0.00	-	0.00	0.00	-	-	-
Year ending Dec. 31, 2010 (forecast)	-	0.00	-	0.00	0.00	-	-	-

3. Forecast of Consolidated Income for the Year Ending December 31, 2010 (Jan. 1, 2010 – Dec. 31, 2010)

(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	13,000	(78.5)	3,500	(67.5)	500	(92.4)	(800)	-	(660.07)
Full year	44,900	(42.3)	8,600	2.0	3,300	-	400	-	330.03

4. Others

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

Newly added: 1 company (Name: Neptune Silent Partnership) Excluded: -

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

1) Changes caused by revision of accounting standards: Yes

2) Other changes: None

(3) Number of shares outstanding (common shares)

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

As of Dec. 31, 2009: 1,211,982 shares As of Dec. 31, 2008: 636,982 shares

2) Number of treasury stock at end of period

As of Dec. 31, 2009: 365 shares As of Dec. 31, 2008: 539 shares

(Reference) Summary Non-consolidated Financial Results

1. Non-consolidated Financial Results (Jan. 1, 2009 – Dec. 31, 2009)

(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 Dec. 31, 2009	12,677	(19.9)	(5,799)	-	(6,967)	-	3,426	-
Year ended Dec. 31, 2008	15,826	(40.7)	5,504	(76.2)	4,994	(77.0)	(12,569)	-

	Net income per share, (basic)	Net income per share, (diluted)
	Yen	Yen
Year ended Dec. 31, 2009	4,452.49	4,124.04
Year ended Dec. 31, 2008	(19,748.61)	-

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Dec. 31, 2009	133,841	64,702	48.3	53,385.82
As of Dec. 31, 2008	165,781	42,886	25.9	67,328.38

Reference: Shareholders' equity (million yen) As of Dec. 31, 2009: 64,702 As of Dec. 31, 2008: 42,886

<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 2009, a variety of economic stimulus measures produced signs of an improvement in some sectors of the Japanese economy in the wake of the economic downturn that began in 2008 due to turmoil in global financial markets. However, corporate earnings remained under pressure because of the sharp rise in the yen's value and a continuation in the deflationary environment. Consumer spending remained sluggish due to high unemployment and falling personal incomes.

In the real estate services and real estate finance sectors, where the Kenedix Group ("the Group") is active, there has been a slow improvement in the previously unstable environment for fund procurement caused by turmoil in financial markets. Despite this improvement, the operating environment is still uncertain.

In this environment, the Group established a medium-term management plan in order to respond with speed and flexibility to the rapid changes in the operating environment. The central goals of the plan are increasing assets under management, downsizing the balance sheet and building a stable profit structure. The Group has been making steady progress toward achieving these goals.

Many actions were taken to achieve consistent growth in the volume of assets under management. The Group concentrated on locating quality properties and providing investment opportunities to investors in Japan and other countries who are interested in purchasing Japanese real estate. The Group also enhanced its capabilities in the asset management business.

In 2009, despite poor liquidity in the real estate market, the Kenedix Group sold properties held in principal to buyers outside the Group that generated total proceeds of approximately 57 billion yen. One significant sale was the June sale of KDX Toyosu Grandsquare, a large office building that was developed by Kenedix, Inc. ("the Company") in Shinonome, Koto-ku, Tokyo. The building was sold to a fund managed by The Carlyle Group, which is a prominent institutional investor. At the same time, the Group signed an asset management contract for this building. In August, the Group signed an asset management contract for the holdings of a real estate fund managed by The Carlyle Group that has assets of about 24 billion yen. Through these activities, the Group has been able to steadily increase the volume of assets under management even during challenging market conditions. At the end of December 2009, assets under management totaled approximately 940 billion yen. The Group has thus succeeded in simultaneously downsizing the balance sheet and raising assets under management, which are two central goals of the medium-term management plan. In December 2009, a basic contract was signed for the purpose of extending support to Pacific Holdings, Inc. and associated companies, which are undergoing corporate reorganization proceedings. This agreement is expected to contribute to further growth in assets under management and the stability of earnings.

The Group has reclassified some properties that were included in inventories as real estate for sale as long-term holdings for the purpose of earning a consistent stream of leasing income. By shifting some properties from inventories to property and equipment along with the longer time frames of funds procured, the Group is making progress toward establishing a profit structure that is even more stable.

Regarding fund procurement, the Company in March 2009 entered into syndicated loan contracts amounting to 15.8 billion yen with Sumitomo Mitsui Banking Corporation and Bank of Tokyo-Mitsubishi UFJ, Ltd. acting as joint arrangers. By taking this action to stabilize fund procurement activities, the Group does not need to sell properties at unfavorable terms in order to repay loans. In addition, this loan makes it possible to earn stable leasing income from properties while they are owned by the Group.

The Company's Board of Directors approved a resolution on October 9, 2009 to issue stock and zero coupon convertible bonds that are due in 2012 ("2012 Convertible Bonds"). Proceeds were used for to meet the request by bondholders for the early redemption of a 20 billion yen zero coupon convertible bonds due in 2011 ("2011 Convertible Bonds") with a December 2009 redemption provision. A payment of 18,391 million yen for the newly issued stock was received on October 26. Holders of the 2011 Convertible Bonds received a cash payment of 16,936 million yen, which was funded by proceeds from the stock issue, and 2,093 million yen of the 2012 Convertible Bonds in exchange for the 2011 Convertible Bonds. The purchase of all of the 2011 Convertible Bonds was made on

November 9, 2009 by making this payment of 19,030 million yen.

Kenedix Asset Management, Inc. (“KDAM”) was established as a supervisory company for the asset management business. This company was formed to strengthen asset management operations and improve fund procurement capabilities, including the receipt of loans from financial institutions. In December, two Group companies became subsidiaries of KDAM: Kenedix REIT Management, Inc., the asset manager for Kenedix Realty Investment Corporation, and Kenedix Advisors, Inc., which is primarily engaged in managing private funds for pension funds. At the same time, KDAM completed the receipt of loans from its major financial institutions and other sources and received an investment from business alliance partner MAX-REALTY, Inc. The Group plans to use these actions to build a more powerful base of operations and increase earnings.

Starting in 2009, the Company has adopted the “Accounting Standard for Measurement of Inventories” (Accounting Standards Board of Japan (ASBJ) Statement No. 9, July 5, 2006). As a result, the Company recorded losses on valuation of inventories of 3.8 billion yen as cost of revenue and of 12.8 billion yen as an extra-ordinary loss.

Due to these factors, consolidated revenue decreased 43.4% year-on-year to 77,831 million yen, operating income decreased 48.2% to 8,433 million yen, ordinary income fell 95.8% to 225 million yen, and there was a net loss of 18,438 million yen compared with a net loss of 10,850 million yen in 2008.

The following section explains performance by business segments.

1) Real Estate Investment Advisory Business

In the real estate investment advisory business, brokerage fees and profit distributions from silent partnerships were higher than one year earlier but there was a decrease in acquisition fees. The result was a 44.5% decline in revenue to 1,564 million yen and a 65.9% drop in operating income to 643 million yen.

2) Real Estate Investment Business

In the real estate investment business, there was a decline in revenue from real estate sales, a decline in leasing income as the balance sheet was downsized, and loss on valuation of inventories. Revenue was down 46.9% to 69,918 million yen and operating income decreased 45.3% to 6,834 million yen.

3) Asset Management Business

In the asset management business, asset management fees continued to increase, reflecting steady growth in assets under management, but revenue from incentive fees and disposition fees decreased. The result was a 19.1% decline in revenue to 4,884 million yen and a 13.3% drop in operating income to 3,161 million yen.

4) NPL Investment Management Business

In the NPL investment management business, asset management fees and incentive fees increased steadily, but there were losses on transfer of non-performing loans and dividends from silent partnerships. Revenue was up 869.5% to 3,023 million yen but there was an operating loss of 1,074 million yen (compared with an operating loss of 290 million yen a year earlier.)

b. Outlook for 2010

The initiatives outlined above that have been taken following the February 2009 announcement of the five-year medium-term management plan are already starting to produce benefits. The Group will continue to take these actions in 2010 in order to work even harder on building a powerful profit structure that generates earnings from stable fee income. 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. Another goal is increasing the amount of assets under management by positioning KDAM, the supervisory company for the asset management business, at the center of the asset management business. In addition, the Group anticipates revenue from the sale of real estate held in principal as these properties are sold to private funds. These sales will be used to further streamline the balance sheet.

Due to the above items, the Company forecasts consolidated revenue of 44,900 million yen, operating income of 8,600 million yen, ordinary income of 3,300 million yen and net income of 400 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. Consequently, the purpose of holding certain properties has been changed because some properties have become long-term holdings for the purpose of earning a consistent stream of leasing revenue.

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. 2006	Dec. 2007	Dec. 2008	Dec. 2009
Interest-bearing debt (1)	106,630	238,269	202,806	153,038
(Non-recourse loans included) (2)	(29,640)	(120,366)	(78,528)	(68,419)
Net assets (3)	39,794	80,488	57,558	54,525
Cash and deposits (4)	34,390	39,369	11,872	18,291
Net debt (5) (1-2-4)	42,599	78,533	112,404	66,327
Net debt-equity ratio net of non-recourse loans (5)/(3) *(%)*	107.0	97.6	195.3	121.6

Balance Sheet Position

Total assets amounted to 218,603 million yen on December 31, 2009, 54,546 million yen less than a year earlier. The primary reason was a decrease of 73,503 million yen in property owned by the Group. One cause was inventory valuation losses resulting from the adoption of "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9, July 5, 2006). Sales of properties also contributed to this decrease. The change made during 2009 in the purpose of holding some properties resulted in the transfer to property and equipment of 69,563 million yen of inventories at the beginning of 2009 and 18,562 million yen of inventories at the end of 2009.

Total liabilities decreased 51,514 million yen to 164,077 million yen. This was mainly the result of lower loans due to reduction of inventories and repurchase of the zero coupon convertible bonds due in 2011 of 20 billion yen.

Net assets decreased 3,032 million yen to 54,525 million yen. There was an increase in net assets because of proceeds of 18,391 million yen for the sale of newly issued stock to fund the early redemption of the zero coupon convertible bonds due in 2011. However, this increase was more than offset by the 18,433 million yen decrease in retained earnings, which was attributable mainly to the net loss, and the 3,034 million yen decrease in minority interests in consolidated subsidiaries, which represent primarily the investments of external parties in funds consolidated by the Group.

Cash Flows

Operating activities provided net cash of 54,553 million yen, investing activities used net cash of 10,980 million yen and financing activities used net cash of 37,809 million yen. The result was a net increase of 5,384 million yen in cash and cash equivalents during 2009 to 21,655 million yen as of December 31, 2009.

Operating Activities

Net cash provided by operating activities was 54,553 million yen, compared to the net cash used of 56,864 million yen a year earlier. This was mainly the result of loss before provision for income taxes of 16,566 million yen, a decrease in inventories of 54,759 million yen, and income taxes refund of 5,304 million yen.

Investing Activities

Net cash used in investing activities rose 16.3% year on year to 10,980 million yen. This was mainly attributable to the proceeds of 7,128 million yen from sales of property and equipment and payment of 19,446 million yen for purchase of property and equipment.

Financing Activities

Net cash used in financing activities was 37,809 million yen, compared to the net cash provided of 44,094 million yen a year earlier. Although there were proceeds from issuance of stock of 17,735 million yen, there was the payment for redemption of bonds of 23,454 million yen and a decrease in loans associated with the sale of inventories.

(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, although the fund procurement environment is starting to improve, there are still no signs of an upturn in liquidity in the real estate investment market. In addition, the Group posted a loss because of the adoption of the "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9, July 5, 2006).

Because of this operating environment and the Group's performance in 2009, the Company has decided to make no dividend payment for 2009 and 2010.

The Company is determined to use the medium-term management plan 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 because of depressed financial conditions, or the Company's credit substantially deteriorates, the Group may not be able to procure sufficient funds, and its operating results and financial condition may be adversely affected.

2) Competition

The performance of the real estate funds offered in the real estate investment advisory business, real estate investment business and the asset management business, the Company's 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 has a policy of recruiting individuals with outstanding skills as required. 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 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. 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. The Group has already made progress in reducing debt by following the debt-reduction plan contained in the medium-term management plan. However, declines in the value 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.

Since 2008, there have been quarterly net losses and other events that are significant items with regard to the going concern assumption.

However, as is explained in "(5) Important Information about Going Concern Assumption," the Group is making steady progress in building a business structure that can adapt with flexibility to rapid changes in the operating environment. Furthermore, there is already progress with respect to financial soundness in terms of converting and stabilizing the fund procurement structure. As a result, management believes that there are no significant uncertainties with regard to these initiatives.

Currently, the Group is continuing to take the actions outlined above. However, if progress falls short of the plans or there is an economic downturn or other event that negatively impacts the operating environment, there may be a negative effect on the Group's operating results.

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 the general incorporated association 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 Practical Issues Task Force (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.

(5) Important Information about Going Concern Assumption

In 2008, the Group recorded a significant net loss and its operating cash flows have been consistently negative. In addition, the Group is in violation of financial covenants governing some loan agreements. The Group again reported a significant net loss in the first quarter of 2009. As a result, there are events and situations that cause significant doubt about the ability of the Group to continue business operations as well as other items that have a significant effect on the Group's business operations.

To eliminate this doubt, the Group has established a medium-term management plan with three central goals: increase assets under management, downsize the balance sheet and build a stable profit structure. The Group has been making steady progress in building a business structure that can respond with speed and flexibility to the rapid changes in the operating environment. As a result, some benefits of these actions are already emerging. The Company sold KDX Toyosu Grandsquare, a large office building that was developed by the Company in Shinonome, Koto-ku, Tokyo in June, to a fund managed by The Carlyle Group, which is a prominent institutional investor. At the same time, the Group signed an asset management contract for this building. In August, the Group signed an asset management contract for the holdings of a real estate fund managed by The Carlyle Group that has assets of about 24 billion yen. Through these activities, the Group has been able to steadily increase the volume of assets under management even during challenging market conditions. At the end of December 2009, assets under management totaled approximately 940 billion yen. This action simultaneously contributed to achieving two central goals of the medium-term management plan: downsizing the balance sheet and increasing assets under management. The Group will continue to take similar actions. In December 2009, a basic contract was signed for the purpose of extending support to Pacific Holdings, Inc. and associated companies, which are undergoing corporate reorganization proceedings. This agreement is expected to contribute to further growth in assets under management and the stability of earnings. Furthermore, the Group has reclassified some properties that were included in inventories as real estate for sale as long-term holdings for the purpose of earning a consistent stream of leasing income. By shifting some properties from inventories to property and equipment along with the longer time frames of funds procured, the Group is making progress toward establishing a profit structure that is even more stable.

In 2009, the Group recorded a net loss of 18,438 million yen mainly because of valuation losses resulting from the adoption of “Accounting Standard for Measurement of Inventories” (ASBJ Statement No. 9, July 5, 2006). Despite this loss, there was a positive operating cash flow of 54,553 million yen. In 2010, the Group is aiming for positive net income and operating cash flows and forecasts operating income of 8,600 million yen in this year.

With regard to the fund procurement, the Company in March 2009 entered into syndicated loan contracts with a term of more than one year amounting to 15.8 billion yen with Sumitomo Mitsui Banking Corporation and Bank of Tokyo-Mitsubishi UFJ, Ltd. acting as joint arrangers. This syndicated loan and other measures have transformed and stabilized the structure of funds procured by the Group. As of December 31, 2009, the Group was in violation of the financial covenants of certain loan contracts. The Company asked the lenders participating in this syndicated loan not to use the acceleration clause. It is expected that the Company will receive a sufficient number of agreements to this request in writing not to activate the acceleration clause. The Company’s Board of Directors approved a resolution on October 9, 2009 to issue stock and zero coupon convertible bonds that are due in 2012 (“2012 Convertible Bonds”). Proceeds were used for to meet the request by bondholders for the early redemption of a 20 billion yen zero coupon convertible bond issue due in 2011 (“2011 Convertible Bonds”) with a December 2009 redemption provision. A payment of 18,391 million yen for the newly issued stock was received on October 26. Holders of the 2011 Convertible Bonds received a cash payment of 16,936 million yen, which was funded by proceeds from the stock issue, and 2,093 million yen of the 2012 Convertible Bonds in exchange for the 2011 Convertible Bonds. The purchase of all of the 2011 Convertible Bonds was made on November 9, 2009 by making this payment of 19,030 million yen.

Kenedix Asset Management, Inc. (“KDAM”) was established as a supervisory company for the asset management business. This company was formed to strengthen asset management operations and improve fund procurement capabilities, including the receipt of loans from financial institutions. In December, two Group companies became subsidiaries of KDAM: Kenedix REIT Management, Inc., the asset manager for Kenedix Realty Investment Corporation, and Kenedix Advisors, Inc., which is primarily engaged in managing private funds for pension funds. At the same time, KDAM completed the receipt of loans from its major financial institutions and other sources and received an investment from business alliance partner MAX-REALTY, Inc. The Group plans to use these actions to build a more powerful base of operations and increase earnings.

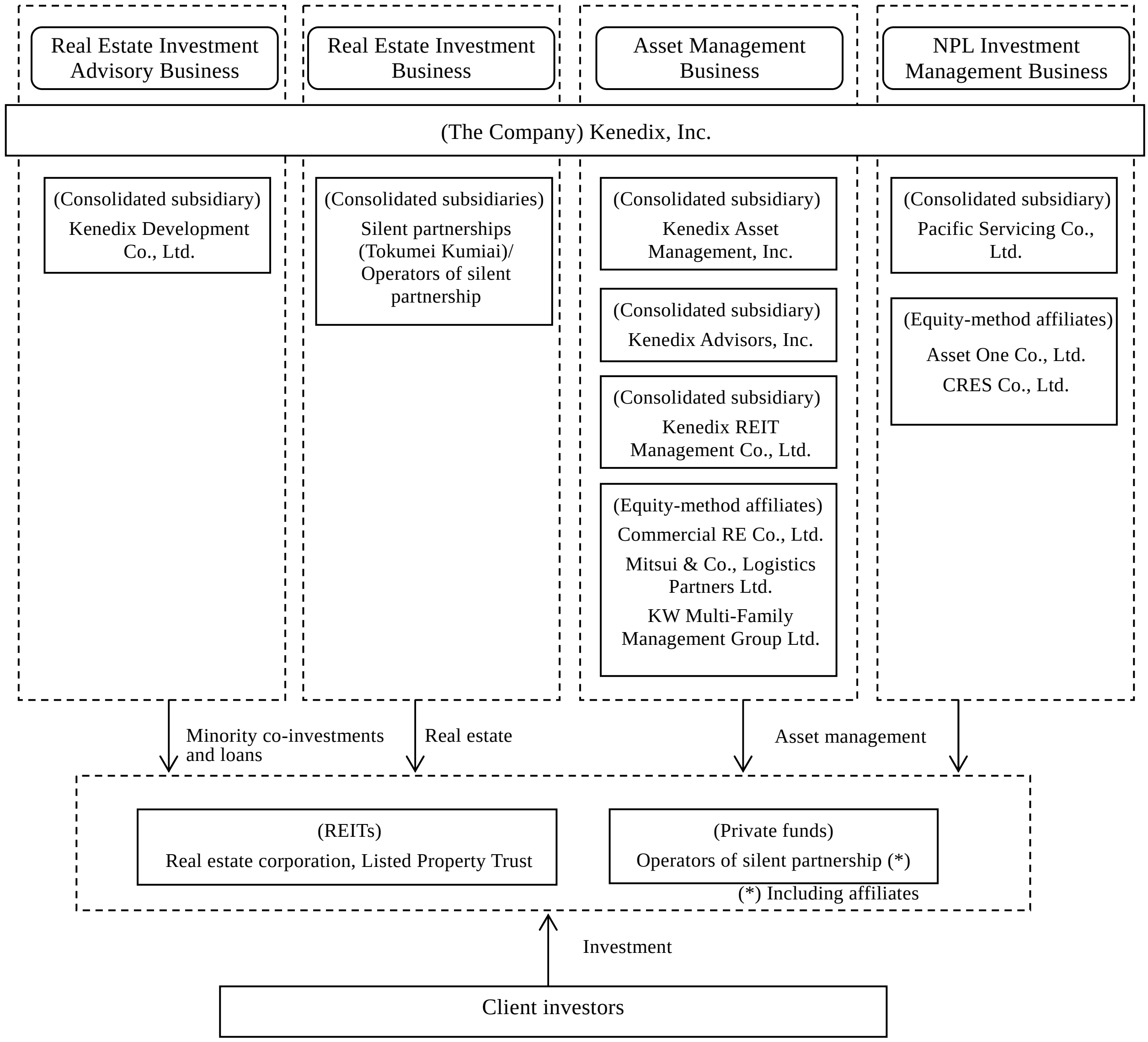
Concerning the funding of operations for the time being, the Company will work on building a stable base of operations by establishing a sound financial position through measures that include seeking even more assistance from the Company’s lending banks.

Due to the measures explained above, the Company believes there are no longer any significant sources of uncertainty about its operations.

2. The Kenedix Group

The Kenedix Group is made up of Kenedix, Inc., 72 subsidiaries and 81 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 for two purposes: temporary ownership until properties are transferred to funds and long-term ownership to earn a consistent stream of leasing income.

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



(Changes in significant subsidiaries)

The following subsidiary is classified as specified subsidiary (*Tokutei Kogaisha*). The Company invests in a silent partnership (*Tokumei Kumiai*). It is also included in the consolidation.

Name	Address	Investments (Millions of yen)	Business	Voting rights		Relationship
				Owned by the Company (%)	Owned by the third parties (%)	
(Consolidated subsidiary) Tokumei-Kumiai Neptune	Minato Ward, Tokyo	5,200	Real estate investment	-	-	Investment vehicle for real estate investment

(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, as well as the long-term ownership to earn a consistent stream of leasing income. 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 agreement, 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-secured 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 real estate 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 2009, these assets amounted to 940 billion yen, a net increase of 95.7 billion yen, or 11.3%, compared with the end of 2008.

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

Although there has been a slow improvement in the fund procurement environment following the instability caused by financial market turmoil, liquidity in the real estate market is still limited. Lower liquidity is resulting in a longer holding period for investors 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 2008 (As of Dec. 31, 2008)	Year 2009 (As of Dec. 31, 2009)
Assets		
Current assets		
Cash and deposits	11,872	18,291
Deposits held in trust	8,958	4,916
Accounts receivable-trade	979	1,128
Inventories	209,255	-
Real estate for sale	-	63,909
Real estate for sale in process	-	2,461
Acquired non-performing loans	5,259	3,210
Income taxes refundable	5,304	1,191
Deferred tax assets	499	299
Other	3,037	3,265
Allowance for doubtful accounts	(125)	(137)
Total current assets	245,041	98,536
Fixed assets		
Property and equipment		
Buildings and structures	147	45,131
Accumulated depreciation	(49)	(877)
Buildings and structures, net	97	44,253
Land	-	53,461
Other	166	530
Accumulated depreciation	(79)	(101)
Other, net	86	428
Total property and equipment	184	98,143
Intangible assets		
Goodwill	1,490	236
Other	20	38
Total intangible assets	1,510	275
Investments and other assets		
Investment securities	23,646	19,047
Investment in capital	320	300
Long-term loans receivable	1,153	869
Deferred tax assets	0	160
Other	1,323	1,570
Allowance for doubtful accounts	(32)	(300)
Total investment and other assets	26,412	21,647
Total fixed assets	28,108	120,066
Total assets	273,149	218,603

(Millions of yen)

	Year 2008 (As of Dec. 31, 2008)	Year 2009 (As of Dec. 31, 2009)
Liabilities		
Current liabilities		
Accounts payable-trade	554	436
Short-term borrowings	63,712	16,898
Long-term borrowings-due within one year	20,117	48,970
Corporate bonds-due within one year	5,558	18,086
Accrued income taxes	558	502
Security deposits	7,252	2,294
Deferred tax liabilities	1,725	1,722
Other	2,103	2,575
Total current liabilities	101,582	91,488
Long-term liabilities		
Bonds payable	40,236	8,553
Long-term borrowings	73,181	60,529
Silent partnership contribution received	233	-
Deferred tax liabilities	1	7
Allowance for employees’ retirement benefits	25	34
Security deposits	-	3,067
Other	331	395
Total long-term liabilities	114,009	72,588
Total liabilities	215,591	164,077
Net assets		
Shareholders’ equity		
Common stock	14,591	23,787
Additional paid-in capital	14,850	24,046
Retained earnings	18,439	5
Treasury stock	(130)	(88)
Total shareholders’ equity	47,751	47,751
Valuation and translation adjustments		
Net unrealized holding gains/losses on other securities	(24)	31
Deferred gains (losses) on hedges	-	(3)
Foreign currency translation adjustments	(988)	(1,038)
Total valuation and translation adjustments	(1,012)	(1,009)
Minority interests in consolidated subsidiaries	10,819	7,784
Total net assets	57,558	54,525
Total liabilities and net assets	273,149	218,603

(2) Consolidated Statements of Income

(Millions of yen)

	Year 2008 (Jan. 1, 2008 – Dec. 31, 2008)	Year 2009 (Jan. 1, 2009 – Dec. 31, 2009)
Revenue	137,431	77,831
Cost of revenue	115,018	64,316
Gross profit	22,413	13,514
Selling, general and administrative expenses		
Provision for doubtful accounts	103	49
Directors' and corporate auditors' salaries	295	197
Salaries and bonuses	1,396	1,328
Provision for employees' retirement benefits	11	-
Commissions paid	1,282	1,067
Amortization of goodwill	1,411	1,222
Other	1,643	1,216
Total selling, general and administrative expenses	6,145	5,080
Operating income	16,267	8,433
Non-operating income		
Interest income	284	47
Dividends income	-	55
Interest on refund	-	52
Consumption taxes differential (after being offset by suspense payments and receipt)	-	98
Other	162	59
Total non-operating income	446	312
Non-operating expenses		
Interest expense	5,758	4,233
Stock issue expenses	1	655
Commissions paid	1,878	1,304
Bond issue expenses	-	163
Equity in losses of non-consolidated subsidiaries and affiliates	2,523	2,036
Other	1,235	126
Total non-operating expenses	11,397	8,521
Ordinary income	5,316	225
Extra-ordinary income		
Gain on sale of investment securities	21	106
Gain on sale of affiliate stock	155	-
Gain on abolishment of hedge accounting	860	-
Gain on cancellation of derivative contracts	87	-
Gain on liquidation of affiliate stock	-	69
Gain on sale of fixed assets	-	55
Other	35	16
Total extra-ordinary income	1,160	249

(Millions of yen)

	Year 2008 (Jan. 1, 2008 – Dec. 31, 2008)	Year 2009 (Jan. 1, 2009 – Dec. 31, 2009)
Extra-ordinary losses		
Loss on sale of investment securities	175	1,041
Loss on valuation of investment securities	3,380	412
Loss on valuation of affiliate stock	105	-
Loss on valuation of inventories	1,434	12,827
Exit penalty	1,115	281
Impairment loss	325	-
Dilution losses from changes in equity interest	275	126
Bad debts written off	371	51
Impairment loss on investment in affiliated company	4,352	-
Provision for doubtful accounts	-	247
Loss on sale of fixed assets	-	1,456
Other	268	602
Total extra-ordinary losses	11,804	17,046
Loss before income taxes and profit distribution to silent partners	(5,326)	(16,572)
Profit distribution to silent partners	74	(6)
Loss before provision for income taxes	(5,401)	(16,566)
Current income taxes	1,895	1,048
Reversal of the prior year's income taxes	(183)	-
Deferred income taxes	1,997	40
Total income taxes	3,709	1,089
Minority interests in income	1,739	783
Net loss	(10,850)	(18,438)

(3) Consolidated Statements of Changes in Net Assets

(Millions of yen)

	Year 2008 (Jan. 1, 2008 – Dec. 31, 2008)	Year 2009 (Jan. 1, 2009 – Dec. 31, 2009)
Shareholders' equity		
Common stock		
Balance at the end of previous period	14,546	14,591
Changes of items during the period		
Issuance of new shares	45	9,195
Total changes of items during the period	45	9,195
Balance at the end of current period	14,591	23,787
Additional paid-in capital		
Balance at the end of previous period	14,805	14,850
Changes of items during the period		
Issuance of new shares	45	9,195
Total changes of items during the period	45	9,195
Balance at the end of current period	14,850	24,046
Retained earnings		
Balance at the end of previous period	30,821	18,439
Changes of items during the period		
Dividends from surplus	(1,492)	-
Net loss	(10,850)	(18,438)
Change of scope of consolidation	(38)	29
Disposal of treasury stock	-	(24)
Total changes of items during the period	(12,381)	(18,433)
Balance at the end of current period	18,439	5
Treasury stock		
Balance at the end of previous period	(124)	(130)
Changes of items during the period		
Disposal of treasury stock	-	42
Change in equity in affiliates accounted for by equity method-treasury stock	(5)	-
Total changes of items during the period	(5)	42
Balance at the end of current period	(130)	(88)
Total shareholders' equity		
Balance at the end of previous period	60,047	47,751
Changes of items during the period		
Issuance of new shares	90	18,391
Dividends from surplus	(1,492)	-
Net loss	(10,850)	(18,438)
Change of scope of consolidation	(38)	29
Disposal of treasury stock	-	17
Change in equity in affiliates accounted for by equity method-treasury stock	(5)	-
Total changes of items during the period	(12,296)	(0)
Balance at the end of current period	47,751	47,751

(Millions of yen)

	Year 2008 (Jan. 1, 2008 – Dec. 31, 2008)	Year 2009 (Jan. 1, 2009 – Dec. 31, 2009)
Valuation and translation adjustments		
Net unrealized holding gains/losses on other securities		
Balance at the end of previous period	773	(24)
Changes of items during the period		
Net changes of items other than shareholders' equity	(798)	55
Total changes of items during the period	(798)	55
Balance at the end of current period	(24)	31
Deferred gains (losses) on hedges		
Balance at the end of previous period	72	-
Changes of items during the period		
Net changes of items other than shareholders' equity	(72)	(3)
Total changes of items during the period	(72)	(3)
Balance at the end of current period	-	(3)
Foreign currency translation adjustments		
Balance at the end of previous period	(57)	(988)
Changes of items during the period		
Net changes of items other than shareholders' equity	(930)	(50)
Total changes of items during the period	(930)	(50)
Balance at the end of current period	(988)	(1,038)
Total valuation and translation adjustments		
Balance at the end of previous period	788	(1,012)
Changes of items during the period		
Net changes of items other than shareholders' equity	(1,800)	2
Total changes of items during the period	(1,800)	2
Balance at the end of current period	(1,012)	(1,009)
Minority interests		
Balance at the end of previous period	19,652	10,819
Changes of items during the period		
Net changes of items other than shareholders' equity	(8,833)	(3,034)
Total changes of items during the period	(8,833)	(3,034)
Balance at the end of current period	10,819	7,784
Total net assets		
Balance at the end of previous period	80,488	57,558
Changes of items during the period		
Issuance of new shares	90	18,391
Dividends from surplus	(1,492)	-
Net loss	(10,850)	(18,438)
Change of scope of consolidation	(38)	29
Disposal of treasury stock	-	17
Change in equity in affiliates accounted for by equity method-treasury stock	(5)	-
Net changes of items other than shareholders' equity	(10,634)	(3,032)
Total changes of items during the period	(22,930)	(3,032)
Balance at the end of current period	57,558	54,525

(4) Consolidated Statements of Cash Flows

(Millions of yen)

	Year 2008 (Jan. 1, 2008 – Dec. 31, 2008)	Year 2009 (Jan. 1, 2009 – Dec. 31, 2009)
Operating activities		
Loss before provision for income taxes	(5,401)	(16,566)
Depreciation and amortization	-	1,041
Impairment loss	325	-
Amortization of goodwill	1,411	1,222
Loss (gain) on sales and collection of acquired non-performing loans	(320)	572
Loss (gain) on investments in silent partnership	254	68
Increase (decrease) in allowance for doubtful accounts	(169)	279
Increase (decrease) in accrued directors' and corporate auditors' bonuses	(430)	-
Increase (decrease) in allowance for employees' retirement benefits	8	9
Interest income	(284)	(47)
Interest expense	5,758	4,233
Profit distribution from silent partners	74	-
Equity in (earnings) losses of non-consolidated subsidiaries and affiliates	2,523	2,036
Loss (gain) on sales of fixed assets	-	1,400
Loss (gain) on sales of investment securities	-	934
Loss (gain) on valuation of investment securities	3,380	412
Impairment loss on investment in affiliated company	4,352	-
Loss (gain) on change in equity interest	275	126
Decrease (increase) in notes and accounts receivable-trade	(72)	(150)
Increase (decrease) in notes and accounts payable-trade	84	1,927
Decrease (increase) in inventories	(48,973)	54,759
Purchase of acquired non-performing loans	(208)	(1,500)
Proceeds from sale and collection of acquired non-performing loans	801	2,475
Distributions from silent partnerships	223	799
Contribution paid in silent partnerships	(1,318)	-
Proceeds from receipt of deposits for contribution to silent partnerships	34	-
Redemption of silent partners contribution received	(39)	(220)
Other, net	783	1,971
Subtotal	(36,926)	55,785
Interests and dividends received	291	112
Interests paid	(5,723)	(4,309)
Income taxes paid	(14,505)	(2,339)
Income taxes refund	-	5,304
Net cash provided by (used in) operating activities	(56,864)	54,553

(Millions of yen)

	Year 2008 (Jan. 1, 2008 – Dec. 31, 2008)	Year 2009 (Jan. 1, 2009 – Dec. 31, 2009)
Investing activities		
Payment for purchase of property and equipment	(28)	(19,446)
Proceeds from sale of property and equipment	6	7,128
Payment for purchase of intangible assets	(2)	(27)
Payment for loans receivable	(2,499)	(240)
Proceeds from repayment of loans receivable	5,600	731
Payment for purchase of investment securities	(3,197)	(603)
Proceeds from sales of investment securities	57	1,805
Payment for purchase of stocks of subsidiaries and affiliates	(1,210)	(874)
Proceeds from sales of stocks of subsidiaries and affiliates	226	440
Payment for purchase of investment in subsidiaries involving change in scope of consolidation	(8,961)	-
Other, net	570	106
Net cash provided by (used in) investing activities	(9,438)	(10,980)
Financing activities		
Proceeds from short-term borrowings	194,734	36,468
Repayment of short-term borrowings	(192,551)	(83,281)
Proceeds from issuance of commercial papers	10,000	-
Payment for redemption of commercial papers	(16,000)	-
Proceeds from long-term borrowings	69,051	60,953
Repayment of long-term borrowings	(27,876)	(45,443)
Proceeds from issuance of new shares	89	17,735
Proceeds from issuance of bonds	-	4,300
Payment for redemption of bonds	(4,751)	(23,454)
Proceeds from minority interest	14,170	2,668
Dividends to minority interest	(225)	(78)
Distributions to minority interest	(1,046)	(7,583)
Dividends paid	(1,488)	(3)
Other, net	(12)	(89)
Net cash provided by (used in) financing activities	44,094	(37,809)
Effect of exchange rate changes on cash and cash equivalents	(179)	(50)
Increase (decrease) in cash and cash equivalents	(22,388)	5,712
Cash and cash equivalents at beginning of period	44,962	16,281
Increase (decrease) in cash and cash equivalents resulting from changes in scope of consolidation	(6,293)	(328)
Cash and cash equivalents at end of period	16,281	21,665

(5) Segment Information

(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 (loss)	1,888	12,489	3,646	(290)	(1,465)	16,267

(Millions of yen)

	Year 2009 (Jan. 1, 2009 – Dec. 31, 2009)					
	Real Estate Investment Advisory Business	Real Estate Investment Business	Asset Management Business	NPL Investment Management Business	Adjusts and Elimination	Consolidated
Revenue	1,564	69,918	4,884	3,023	(1,559)	77,831
Costs and expenses	921	63,083	1,722	4,098	(428)	69,397
Operating income (loss)	643	6,834	3,161	(1,074)	(1,130)	8,433