KENEDIX

February 14, 2011

Summary of Financial Results for the Year Ended December 31, 2010

Described below is an abstract in English of the financial result for the fiscal year ended December 31, 2010 that was released today in Tokyo. The translation is prepared and provided for the purpose of the readers' convenience only. All of readers are strongly recommended to refer to the original version in Japanese of the news release for complete and accurate information.

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Stock code: 4321 URL: http://www.kenedix.com
President: Atsushi Kawashima
Contact: Taiji Yoshikawa, Director Tel: +81-3-3519-2530
Scheduled date of General Meeting of Shareholders: March 29, 2011
Scheduled date of payment of dividend: -
Scheduled date of filing of Annual Securities Report (*Yuka Shoken Houkokusho*): March 29, 2011

(Amounts rounded off to million yen)

1. Consolidated Financial Results (Jan. 1, 2010 – Dec. 31, 2010)

(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, 2010	38,589	(50.4)	7,331	(13.1)	2,202	877.2	(2,542)	-
Year ended Dec. 31, 2009	77,831	(43.4)	8,433	(48.2)	225	(95.8)	(18,438)	-

	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, 2010	(1,563.02)	-	(4.8)	1.0	19.0
Year ended Dec. 31, 2009	(23,968.93)	-	(39.4)	0.1	10.8

Reference: Equity in earnings of non-consolidated subsidiaries and affiliates (million yen) Dec. 2010: (50) Dec. 2009: (2,036)

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Dec. 31, 2010	206,228	71,147	29.1	26,216.42
As of Dec. 31, 2009	218,603	54,525	21.4	38,577.82

Reference: Shareholders' equity (million yen) As of Dec. 31, 2010: 60,066 As of Dec. 31, 2009: 46,741

(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, 2010	23,737	(15,333)	(17,481)	12,616
Year ended Dec. 31, 2009	54,553	(10,980)	(37,809)	21,665

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	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
Year ended Dec. 31, 2009	-	0.00	-	0.00	0.00	-	-	-
Year ended Dec. 31, 2010	-	0.00	-	0.00	0.00	-	-	-
Year ending Dec. 31, 2011 (forecast)	-	0.00	-	0.00	0.00		-	

3. Forecast of Consolidated Income for the Year Ending December 31, 2011 (Jan. 1, 2011 – Dec. 31, 2011)

(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	-	-	-	-	-	-	-	-	-
Full year	21,900	(43.2)	7,600	3.7	3,700	68.0	2,000	-	872.79

4. Others

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

Newly added: 2 companies (Name: KRF35 Silent Partnership, Silver Wave Silent Partnership)

Excluded: -

(2) Changes in accounting principles, procedures, presentation methods, etc. 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, 2010:	2,291,186 shares	As of Dec. 31, 2009:	1,211,982 shares

2) Number of treasury stock at end of period

As of Dec. 31, 2010:	- shares	As of Dec. 31, 2009:	365 shares

(Reference) Summary of Non-consolidated Financial Results

1. Non-consolidated Financial Results (Jan. 1, 2010 – Dec. 31, 2010)

(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, 2010	5,875	(53.7)	(589)	-	(2,305)	-	(3,678)	-
Year ended Dec. 31, 2009	12,677	(19.9)	(5,799)	-	(6,967)	-	3,426	-

	Net income per share, (basic)	Net income per share, (diluted)
	Yen	Yen
Year ended Dec. 31, 2010	(2,260.61)	-
Year ended Dec. 31, 2009	4,452.49	4,124.04

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Dec. 31, 2010	116,497	75,910	65.2	33,131.53
As of Dec. 31, 2009	133,841	64,702	48.3	53,385.82

Reference: Shareholders' equity (million yen) As of Dec. 31, 2010: 75,910 As of Dec. 31, 2009: 64,702

* Cautionary statement with respect to forward-looking statements

Forecasts of future performance in this report are based on assumptions judged to be valid and information currently available to the Company. Actual results are affected by various factors and may differ substantially. Please refer to page 3 for further information concerning above projections.

1. Results of Operations

(1) Analysis of Results of Operations

a. Summary of the fiscal year

In the fiscal year under review, there were improvements in corporate earnings, as growth in emerging economies benefited export-oriented industries, and a partial rebound in consumer spending backed by economic stimulation measures. Despite this gradual recovery, however, the environment for corporate earnings, jobs, and personal income remains uncertain, owing to concerns over a downturn in overseas economies, the stronger yen, and deflation in Japan.

In the real estate services and real estate finance sectors, where the Kenedix Group ("the Group") is active, the environment for procuring funds is improving and J-REITs are starting to purchase properties again. Emerging signs of a recovery in real estate market liquidity are moving the market back toward normalcy. In addition, comprehensive monetary easing by the Bank of Japan has created funds for the purchase of assets including J-REITs. As of the end of December 2010, J-REIT purchases totaled 2.2 billion yen. This indicates that the market environment is normalizing, but there still remain some concerns over business conditions.

To respond with flexibility to rapid changes in its operating environment, the Group is making steady progress with actions based on its medium-term management plan. The central goals of the plan are increasing assets under management (AUM), downsizing the balance sheet and building a stable profit structure. In February 2010, the medium-term management plan was reexamined in association with changes taking place in the Group and the operating environment. This review led to the decision to increase the speed of growth in AUM while returning to a focus on the asset management business. The Group is now further strengthening initiatives aimed at achieving this goal.

Many actions were taken to achieve consistent growth in the volume of AUM. 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 May 2010, the Group established a private real estate fund with assets of about 10 billion yen that is funded by Korean institutional investors such as pension funds. The Group sold assets held in its own account to this private real estate fund. In July, the Group sold part of its private nursing home portfolio for about 3 billion yen to a health care REIT that is listed in Singapore, but it continues to manage the assets of the portfolio. By establishing funds and taking other actions like these, the Group has made progress in streamlining its balance sheet.

In April 2010, the Group signed an asset management agreement for a portion valued at about 13 billion yen of the portfolio sold by an external institutional investor. The following month, the Group started extending support to Pacific Holdings, Inc. and associated companies, which are undergoing corporate reorganization proceedings. Furthermore, in August the Group concluded an asset management agreement with a fund created by the Company and other equity investors for a real estate portfolio of around 33 billion yen, which was transferred from the Japan Retail Fund Investment Corporation.

Through these activities, the Group has steadily increased the volume of AUM that it handles. AUM totaled about 1,097.9 billion yen at the end of December 2010, a net increase of 158 billion yen, or 16.8%, from the end of 2009. As a result, the Group has made progress simultaneously with regard to two central goals of the medium-term management plan: downsizing the balance sheet and increasing AUM.

Regarding fund procurement, the Company in June 2010 signed a syndicated loan contract to procure 14.6 billion yen over three years with Sumitomo Mitsui Banking Corporation and Bank of Tokyo-Mitsubishi UFJ, Ltd. acting as joint arrangers. By obtaining this stable, long-term funding, the Group will not have to sell properties at unfavorable terms in order to repay loans. In addition, this loan makes it possible to earn consistent leasing income from properties while they are owned by the Group. Also, in September the Company concluded an agreement with UDS III Corporate Mezzanine Limited Partnership, managed by the Development Bank of Japan Inc., for a subordinated term loan commitment line of one billion yen, under which it can receive unsecured loans for a maximum tenor of approximately two years and nine months. These funds will be used for real estate equity investments. Thus, these funds will further enhance the Company’s ability to make strategic investments while maintaining financial flexibility, by acquiring long-term stable funds with high flexible availability.

Moreover, the Company’s Board of Directors approved a resolution on July 15, 2010 to issue new shares of the Company’s stock through a public offering and also to establish a business alliance with ITOCHU Corporation and to sell newly issued stock to this company through a third-party allotment. This was in order to procure part of the funds for the redemption of its Unsecured Publicly-offered Bonds No.1 due on November 9, 2010, worth 14.9 billion yen, as well as to raise money for joint fund creation and the acquisition of real estate for warehousing. On August 3, the Company completed receipt of 14,178 million yen from the issuance of new shares via public offering. This was followed, on August 4, by the receipt of 891 million yen from the third-party allotment to ITOCHU Corporation. In addition to its existing cash on hand, the Company applied 7.5 billion yen of the funds procured to the retirement of 13.2 billion yen of the publicly-offered bond mentioned above by September 30. The remaining portion of 1.7 billion yen was redeemed on the date due. In addition, on December 10, 2010 the Company used its cash on hand to cancel the remaining portion of 110 million yen related to its Euro-yen convertible bonds due 2011. This resulted in a reduction in interest-bearing debt and thus, an improved financial standing as well as the acquisition of strategic funds. The Company will continue to further strengthen its financial basis, in line with its medium-term management plan.

However, there were extra-ordinary losses of 2.6 billion yen resulting from actions taken to streamline the balance sheet. These losses are attributable mainly to losses on the reorganization of consolidated subsidiaries holding overseas real estate and losses on the sale of fixed assets. The result was a 50.4% year-on-year drop in consolidated revenue to 38,589 million yen in the current fiscal year. Operating income was down 13.1% to 7,331 million yen, ordinary income increased 877.2% to 2,202 million yen and there was a net loss of 2,542 million yen compared with an 18,438 million yen loss one year earlier.

The following section explains performance by business segments.

1) Real Estate Investment Advisory Business

In the real estate investment advisory business, there was an increase in acquisition fees, but dividend income from silent partnerships and brokerage fees declined. The result was an 11.8% increase in revenue to 1,749 million yen and a 63.4% decrease in operating income to 235 million yen.

2) Real Estate Investment Business

In the real estate investment business, there were sales of properties owned by the Group to a private real estate fund established by Korean institutional investors such as pension funds. However, revenues from real estate sales were down significantly because of the large volume of sales in the 2009, including the sale of KDX Toyosu Grandsquare, a large office building in Shinonome, Koto-ku, Tokyo that was developed by the Company. In addition, leasing income declined due to measures to downsize the balance sheet. Revenue was down 53.4% to 32,612 million yen and operating income decreased 20.6% to 5,424 million yen.

3) Asset Management Business

In the asset management business, although asset management fees continued to increase, reflecting steady growth in assets under management, there was an increase in costs and expenses. Revenue increased 0.7% to 4,920 million yen and operating income was down 13.3% to 2,740 million yen.

4) NPL Investment Management Business

In the NPL investment management business, incentive fees based on successful deals and dividend income from silent partnerships increased. There was a decline in revenue from sales of loans acquired by the Group, but segment profitability improved from a year earlier because of losses on sale of NPLs reported in 2009. The result was a 76.0% drop in revenue to 725 million yen and operating income of 66 million yen, compared with a loss of 1,074 million yen one year earlier.

b. Outlook for 2011

As the real estate investment market continues to return to normal conditions, the Kenedix Group is moving forward with the initiatives listed above. These actions are based on the five-year medium-term management plan that was created in 2009. Benefits are starting to emerge and the Group plans to work even harder on these initiatives. In 2011 as well, the Group will further increase its commitment to numerous medium-term plan measures. The goal is to build an even more powerful profit structure that can generate earnings consistently. Toward accomplishing this goal, the Group will continue to establish new private funds in order to increase acquisition fees associated with property purchases and asset management fees following these purchases. Generating a steady flow of real estate leasing revenue from long-term holdings is another objective.

Based on this outlook, Kenedix expects revenue of 21,900 million yen, operating income of 7,600 million yen, ordinary income of 3,700 million yen and net income of 2,000 million yen.

Signs of a recovery in real estate market liquidity are starting to appear. However, the slow pace of this improvement means that uncertainty about the business environment still remains. Furthermore, there are many sources of uncertainty associated with economic trends in Japan and other countries and with other events. In this environment, Kenedix anticipates large variations in the timing of starting new funds and in the size of newly established funds. As a result, Kenedix has decided not to announce a forecast for the first half of 2011. A first half forecast will be announced promptly if progress with regard to 2011 results of operations makes this possible.

(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 they have become long-term holdings for the purpose of earning a consistent stream of leasing revenue.

Short-term bank loans have been the primary means of funding the acquisition of properties invested in for the account of the Company. 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, these 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. 2007	Dec. 2008	Dec. 2009	Dec. 2010
Interest-bearing debt (1)	238,269	202,806	153,038	123,625
(Non-recourse loans included) (2)	(120,366)	(78,528)	(68,419)	(69,764)
Net assets (3)	80,488	57,558	54,525	71,147
Cash and deposits (4)	39,369	11,872	18,291	10,913
Net debt (5) ((1)-(2)-(4))	78,533	112,404	66,327	42,947
Net debt-equity ratio net of non-recourse loans (5)/(3) *(%)*	97.6	195.3	121.6	60.4

Balance Sheet Position

Total assets decreased 12,375 million yen from December 31, 2009 to 206,228 million yen as of December 31, 2010. The primary reason was a decrease of 26,930 million yen in property owned by the Group due to its sales and a decline in cash and deposits resulting from the repayment of interest-bearing debt. The change made during 2010 in the purpose of holding some properties resulted in the transfer to property and equipment of 4,475 million yen of inventories at the end of 2010.

Total liabilities decreased 28,996 million yen to 135,080 million yen. This was mainly due to the decrease in interest-bearing debt, led by the redemption of 14.9 billion yen of Unsecured Publicly-offered Bond No.1.

Net assets increased 16,621 million yen to 71,147 million yen. The main factors affecting net assets were: a decrease of 2,600 million yen in retained earnings, mainly because of the net loss incurred; an increase of 15,069 million yen in common stock and additional paid-in capital, resulting from the public offering and third-party allotment; and an increase of 3,296 million yen 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 23,737 million yen, investing activities used net cash of 15,333 million yen and financing activities used net cash of 17,481 million yen. The result was a net decrease of 9,049 million yen in cash and cash equivalents during 2010 to 12,616 million yen as of December 31, 2010.

Operating Activities

Net cash provided by operating activities decreased 56.5% year on year to 23,737 million yen. This was mainly attributable to the decrease in inventories of 18,188 million yen.

Investing Activities

Net cash used in investing activities increased 39.6% year on year to 15,333 million yen. This was mainly attributable to the proceeds of 6,947 million yen from sales of property and equipment, while there were payments of 16,908 million yen for the purchase of property and equipment, payments of 1,797 million yen for purchase of investment in subsidiaries involving change in scope of consolidation, and 1,055 million yen for the purchase of investment securities.

Financing Activities

Net cash used in financing activities decreased 53.8% year on year to 17,481 million yen. Although there were proceeds of 14,738 million yen from issuance of new shares and proceeds of 4,253 million yen from minority interests, cash was used for loan repayments and bond redemptions in association with sales of properties owned by the Group. The proceeds from minority interests 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, although the fund procurement environment is starting to improve, there are still no signs of a quick recovery in liquidity in the real estate investment market. Amid this environment, the Group posted an extra-ordinary loss of 2.6 billion yen, related to its efforts to streamline its balance sheet.

Because of this operating environment and the Group's performance in 2010, the Company has decided to make no dividend payment for 2010 and 2011.

The Company remains committed to its intention to resume dividend payment and raise the payout ratio, based on successful execution of its medium-term management plan to build a profit structure that can be consistently profitable.

(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, resulting from financial, political, or other factors whether in Japan or abroad, could depress real estate market conditions, for instance, by dampening interest in real estate investment, stifling real estate transactions, raising vacancy rates, and bringing down leasing rates. These events could adversely affect the Group's operating results.

2) Losses related to the re-valuation and impairment of assets invested in

The Company acquires real estate on its own investment account, as well as invests in real estate funds established by the Group. The value of assets invested in can be affected by re-valuation or asset impairment, or upon sale of the real estate, by losses from sales. These events could adversely affect the Group's operating results.

3) Fund procurement

The Group raises necessary funds through borrowings from financial institutions and the issuance of bonds, and carries out steady refinancing of its bank borrowings. There is a possibility that financial institutions may restrain their lending activities because of depressed financial or political conditions, or the Company's relationship with its creditors may deteriorate, or its credit worthiness (including credit rating) may substantially deteriorate. In any of these events, the Group may not be able to refinance its borrowings, or be forced to sell real estate owned by the Group on unfavorable terms in order to procure sufficient funds. This may adversely affect the Group’s operating results and financial position.

4) Liquidity in the real estate market

Instability in the economic environment or real estate market may depress liquidity in real estate transactions. As a consequence, it may be impossible to sell real estate owned by the Company or by the Group's real estate funds, or to sell it as planned, or the real estate may have to be sold at unfavorable prices. This may adversely affect the Group's operating results and financial position.

5) Financial covenant

Some of the Group's bank borrowings are subject to the financial covenants provided in the loan agreements. Infringement on these restrictions and the invocation of acceleration clauses may trigger cross default clauses which do not only require the repayment of these borrowings but of all other outstanding borrowings of and bonds issued by the Company. This would negatively impact the Group's financial position. Also, with certain syndicated loans and other loans extended to the Company, there are restrictions as a covenant, for instance, not to post ordinary losses in the consolidated full-term and interim statements of income. In the case of infringement, there may be a negative impact on the Group's operations, results, and financial position, unless the creditors concerned endorse it as they may refuse a request by the Company not to invoke the acceleration clause.

In addition, there are also some restrictions on loans extended to one of the Company's subsidiaries, Kenedix Asset Management, Inc. These restrictions may make it impossible for the Company to receive the dividends from the subsidiary or its repayment of loans made by the Company, or the Company may have to provide financial support to the subsidiary in order to avoid infringement of the clauses. These events would negatively affect the Group's operating results and financial position.

6) 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. Especially an early recovery in the real estate market may trigger increased competition.

7) 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.

8) 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.

9) Changes in laws and regulations

The Group is conducting its business activities in conformity with all currently applicable laws and regulations and subject to 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, Soil Contamination Countermeasures, 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. Future changes to the laws and regulations or their interpretation and application may affect the Group's operating results.

10) Geographical bias and risk of disaster damage to real estate value

Most properties that the Group invests in, owns, or manages are located in the Tokyo area. Any deterioration in the economic conditions in this area may affect the Group's operating results. Also, the Tokyo area and other regions where the Group's properties are located may 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 position.

11) Medium-term management plan

The Group has posted rapid growth in the scale of operations over the years. However, partly because of turmoil in the financial markets, liquidity in the real estate market has recently dropped sharply. Given this situation, the Group decided to rebuild its business model to the changed conditions, and in February 2009 it drafted a medium-term management plan for the five-year period starting in the fiscal year 2009. Based on this plan, the Group is aiming at: (1) an increase in assets under management, (2) an improvement in financial condition, by streamlining its balance sheet, and (3) the establishment of a stable profit structure. Among the measures taken is the transfer, in December 2009, of most asset management operations to two companies, Kenedix REIT Management, Inc. and Kenedix Advisors, Inc. As part of the same endeavor to strengthen and reorganize its asset management business, it also established Kenedix Asset Management, Inc. as the supervisory company for this business, and placed the above two companies under its control. In February 2010, the Group revised its medium-term management plan, in line with the reorganization of the Group structure and changes in the business environment. While maintaining its focus on the core asset management business, it decided to further increase assets under management, to accelerate the implementation of its medium-term management plan.

The Group will continue to take the actions outlined above. However, operational changes and changes in the environment, including fund procurement, liquidity in the real estate market, and other economic aspects, may make it impossible to realize the management plan.

12) 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 operating results and financial position.

13) 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 or the Company may not perform as expected. These events may have a negative effect on the Group’s operating results and financial position.

On July 15, 2010 the Company concluded an agreement on business alliance with ITOCHU Corporation, including the third-part allotment of new shares to ITOCHU, the consideration of a new jointly established real estate fund, the exchange of staff for asset management operations, and the mutual use of information on domestic and foreign investor networks. Based on this business alliance, the Company, on August 4, 2010, completed the receipt of funds from the issuance of new share via third-party allotment. The Company believes that the equity and business alliance with ITOCHU will further enhance its corporate value, as synergies with ITOCHU will help it flexibly respond to drastic environmental changes surrounding the real estate investment market, and meet diversified customer needs, in order to expanding the scale of its business for the future. However, there is a risk that these synergies and their benefits may not materialize as expected.

14) 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. In the real estate fund and NPL investment fund industries the Group belongs to, 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 the Company exerts control or influence, taking into consideration the asset management agreement or silent partnership agreement.

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

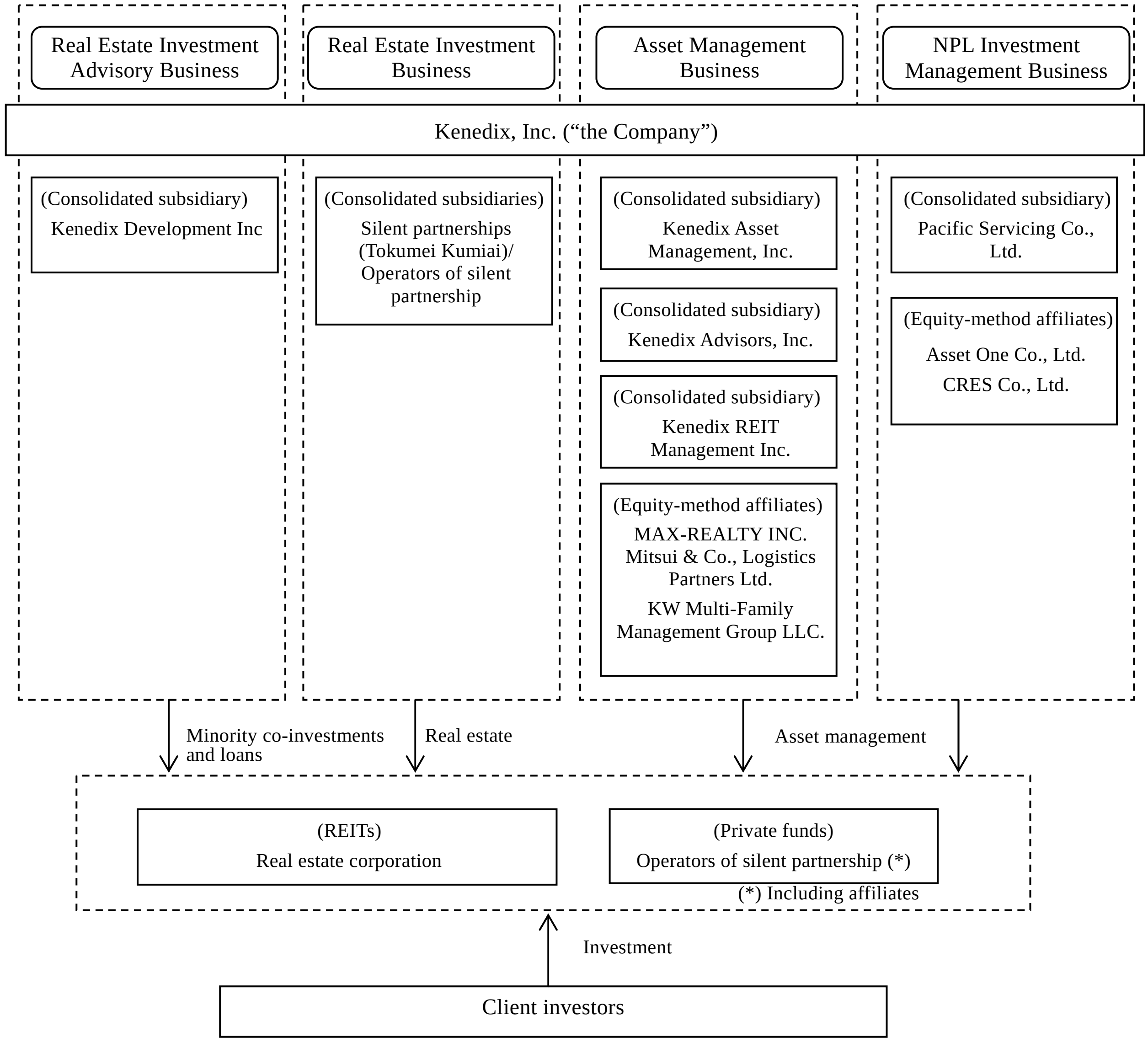
15) Management of personal information

The Group stores all personal information of tenants and other parties involved in a responsible way. However, if unforeseen circumstances were to result in an information leak, it may be subject to indemnity charges and thus incur losses, as well as hurt the Group's credibility. This may affect the Group's operating results and financial position.

2. The Kenedix Group

The Kenedix Group is made up of Kenedix, Inc., 74 subsidiaries and 66 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 closely 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 subsidiaries are classified as specified subsidiaries (*Tokutei Kogaisha*). The Company invested in these silent partnerships (*Tokumei Kumiai*) in the fiscal year 2010. They are 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 subsidiaries)						
KRF35	Minato Ward, Tokyo	3,500	Real estate investment	-	-	Investment vehicle for real estate investment
Silver Wave	Minato Ward, Tokyo	6,016	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 Group 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 or loans. This aligns the Company’s interests closely 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 or loans to align its own interests closely 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 2010, these assets amounted to 1,097.9 billion yen, a net increase of 158 billion yen, or 16.8%, compared with the end of 2009.

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- and Long-term Management Strategy

At present, it seems that there will be no immediate recovery in the real estate services and real estate finance sectors, which are primary markets for the Group's business operations. However, the Group expects that these markets will become larger over the medium and long term. 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.

Following the previous years, 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 interest-bearing 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

On the way back from instability after the financial turmoil, the environment for procuring funds is improving. There are signs of a recovery emerging in real estate market liquidity as J-REITs are starting to purchase properties. However, it is still at a moderate pace.

Amid these circumstances, the Group has strived to assemble a fund procurement structure that matches the longer holding period of its inventory assets. To achieve this structure, the Group continues 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, 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 2009 (As of Dec. 31, 2009)	Year 2010 (As of Dec. 31, 2010)
Assets		
Current assets		
Cash and deposits	18,291	10,913
Deposits held in trust	4,916	3,327
Accounts receivable-trade	1,128	1,642
Real estate for sale	63,909	43,006
Real estate for sale in process	2,461	-
Acquired non-performing loans	3,210	1,618
Income taxes refundable	1,191	319
Deferred tax assets	299	99
Other	3,265	2,200
Allowance for doubtful accounts	(137)	(414)
Total current assets	98,536	62,712
Fixed assets		
Property and equipment		
Buildings and structures	45,131	48,716
Accumulated depreciation	(877)	(1,828)
Buildings and structures, net	44,253	46,887
Land	53,461	71,511
Other	530	534
Accumulated depreciation	(101)	(103)
Other, net	428	430
Total property and equipment	98,143	118,830
Intangible assets		
Goodwill	236	-
Other	38	59
Total intangible assets	275	59
Investments and other assets		
Investment securities	19,047	19,442
Investment in capital	300	429
Long-term loans receivable	869	672
Deferred tax assets	160	343
Other	1,570	3,991
Allowance for doubtful accounts	(300)	(252)
Total investment and other assets	21,647	24,626
Total fixed assets	120,066	143,515
Total assets	218,603	206,228

	Year 2009 (As of Dec. 31, 2009)	Year 2010 (As of Dec. 31, 2010)
		(Millions of yen)
Liabilities		
Current liabilities		
Accounts payable-trade	436	348
Short-term borrowings	16,898	7,577
Long-term borrowings-due within one year	48,970	21,216
Corporate bonds-due within one year	18,086	1,750
Accrued income taxes	502	1,031
Security deposits	2,294	1,449
Deferred tax liabilities	1,722	-
Other	2,575	3,135
Total current liabilities	91,488	36,508
Long-term liabilities		
Bonds payable	8,553	6,793
Long-term borrowings	60,529	86,288
Deferred tax liabilities	7	1,880
Allowance for employees' retirement benefits	34	48
Long-term lease deposited	3,067	3,207
Other	395	354
Total long-term liabilities	72,588	98,571
Total liabilities	164,077	135,080
Net assets		
Shareholders' equity		
Common stock	23,787	31,322
Additional paid-in capital	24,046	31,581
Retained earnings	5	(2,594)
Treasury stock	(88)	-
Total shareholders' equity	47,751	60,308
Valuation and translation adjustments		
Net unrealized holding gains/losses on other securities	31	(84)
Deferred gains (losses) on hedges	(3)	-
Foreign currency translation adjustments	(1,038)	(157)
Total valuation and translation adjustments	(1,009)	(242)
Minority interests in consolidated subsidiaries	7,784	11,080
Total net assets	54,525	71,147
Total liabilities and net assets	218,603	206,228

(2) Consolidated Statements of Income

(Millions of yen)

	Year 2009 (Jan. 1, 2009 – Dec. 31, 2009)	Year 2010 (Jan. 1, 2010 – Dec. 31, 2010)
Revenue	77,831	38,589
Cost of revenue	64,316	27,177
Gross profit	13,514	11,411
Selling, general and administrative expenses		
Provision for doubtful accounts	49	366
Directors' and corporate auditors' salaries	197	251
Salaries and bonuses	1,328	1,287
Commissions paid	1,067	678
Amortization of goodwill	1,222	192
Other	1,216	1,304
Total selling, general and administrative expenses	5,080	4,080
Operating income	8,433	7,331
Non-operating income		
Interest income	47	71
Dividends income	55	42
Interest on refund	52	39
Consumption taxes differential (after being offset by suspense payments and receipt)	98	419
Gain on bond retirement	-	64
Other	59	55
Total non-operating income	312	692
Non-operating expenses		
Interest expense	4,233	4,543
Stock issue expenses	655	331
Commissions paid	1,304	700
Bond issue expenses	163	-
Equity in losses of non-consolidated subsidiaries and affiliates	2,036	50
Other	126	195
Total non-operating expenses	8,521	5,821
Ordinary income	225	2,202
Extra-ordinary income		
Gain on sale of investment securities	106	0
Gain on liquidation of affiliate stock	69	-
Gain on sale of fixed assets	55	43
Gain on negative goodwill	-	31
Other	16	0
Total extra-ordinary income	249	75

(Millions of yen)

	Year 2009 (Jan. 1, 2009 – Dec. 31, 2009)	Year 2010 (Jan. 1, 2010 – Dec. 31, 2010)
Extra-ordinary losses		
Loss on sale of investment securities	1,041	-
Loss on valuation of investment securities	412	15
Loss on valuation of inventories	12,827	-
Exit penalty	281	-
Dilution losses from changes in equity interest	126	85
Bad debts written off	51	-
Provision for doubtful accounts	247	-
Loss on sale of fixed assets	1,456	435
Impairment loss	-	1,508
Loss on liquidation of subsidiaries and affiliates	-	554
Other	602	66
Total extra-ordinary losses	17,046	2,667
Loss before income taxes and profit distribution to silent partners	(16,572)	(389)
Profit distribution to silent partners	(6)	16
Loss before provision for income taxes	(16,566)	(406)
Current income taxes	1,048	1,570
Deferred income taxes	40	91
Total income taxes	1,089	1,662
Minority interests in income	783	474
Net loss	(18,438)	(2,542)

(3) Consolidated Statements of Changes in Net Assets

(Millions of yen)

	Year 2009 (Jan. 1, 2009 – Dec. 31, 2009)	Year 2010 (Jan. 1, 2010 – Dec. 31, 2010)
Shareholders’ equity		
Common stock		
Balance at the end of previous period	14,591	23,787
Changes of items during the period		
Issuance of new shares	9,195	7,534
Total changes of items during the period	9,195	7,534
Balance at the end of current period	23,787	31,322
Additional paid-in capital		
Balance at the end of previous period	14,850	24,046
Changes of items during the period		
Issuance of new shares	9,195	7,534
Total changes of items during the period	9,195	7,534
Balance at the end of current period	24,046	31,581
Retained earnings		
Balance at the end of previous period	18,439	5
Changes of items during the period		
Net loss	(18,438)	(2,542)
Change of scope of consolidation	29	(57)
Disposal of treasury stock	(24)	-
Total changes of items during the period	(18,433)	(2,600)
Balance at the end of current period	5	(2,594)
Treasury stock		
Balance at the end of previous period	(130)	(88)
Changes of items during the period		
Change of scope of consolidation	-	88
Disposal of treasury stock	42	-
Total changes of items during the period	42	88
Balance at the end of current period	(88)	-
Total shareholders’ equity		
Balance at the end of previous period	47,751	47,751
Changes of items during the period		
Issuance of new shares	18,391	15,069
Net loss	(18,438)	(2,542)
Change of scope of consolidation	29	30
Disposal of treasury stock	17	-
Total changes of items during the period	(0)	12,557
Balance at the end of current period	47,751	60,308

(*Millions of yen*)

	Year 2009 (Jan. 1, 2009 – Dec. 31, 2009)	Year 2010 (Jan. 1, 2010 – Dec. 31, 2010)
Valuation and translation adjustments		
Net unrealized holding gains/losses on other securities		
Balance at the end of previous period	(24)	31
Changes of items during the period		
Net changes of items other than shareholders' equity	55	(115)
Total changes of items during the period	55	(115)
Balance at the end of current period	31	(84)
Deferred gains (losses) on hedges		
Balance at the end of previous period	-	(3)
Changes of items during the period		
Net changes of items other than shareholders' equity	(3)	3
Total changes of items during the period	(3)	3
Balance at the end of current period	(3)	-
Foreign currency translation adjustments		
Balance at the end of previous period	(988)	(1,038)
Changes of items during the period		
Net changes of items other than shareholders' equity	(50)	880
Total changes of items during the period	(50)	880
Balance at the end of current period	(1,038)	(157)
Total valuation and translation adjustments		
Balance at the end of previous period	(1,012)	(1,009)
Changes of items during the period		
Net changes of items other than shareholders' equity	2	767
Total changes of items during the period	2	767
Balance at the end of current period	(1,009)	(242)
Minority interests		
Balance at the end of previous period	10,819	7,784
Changes of items during the period		
Net changes of items other than shareholders' equity	(3,034)	3,296
Total changes of items during the period	(3,034)	3,296
Balance at the end of current period	7,784	11,080
Total net assets		
Balance at the end of previous period	57,558	54,525
Changes of items during the period		
Issuance of new shares	18,391	15,069
Net loss	(18,438)	(2,542)
Change of scope of consolidation	29	30
Disposal of treasury stock	17	-
Net changes of items other than shareholders' equity	(3,032)	4,064
Total changes of items during the period	(3,032)	16,621
Balance at the end of current period	54,525	71,147

(4) Consolidated Statements of Cash Flows

(Millions of yen)

	Year 2009 (Jan. 1, 2009 – Dec. 31, 2009)	Year 2010 (Jan. 1, 2010 – Dec. 31, 2010)
Operating activities		
Loss before provision for income taxes	(16,566)	(406)
Depreciation and amortization	1,041	1,255
Amortization of goodwill	1,222	192
Loss (gain) on sales and collection of acquired non-performing loans	572	(0)
Loss (gain) on investments in silent partnership	68	784
Increase (decrease) in allowance for doubtful accounts	279	224
Increase (decrease) in allowance for employees' retirement benefits	9	-
Interest income	(47)	(71)
Interest expense	4,233	4,543
Equity in (earnings) losses of non-consolidated subsidiaries and affiliates	2,036	50
Loss (gain) on sales of fixed assets	1,400	392
Loss (gain) on sales of investment securities	934	-
Loss (gain) on valuation of investment securities	412	-
Impairment loss	-	1,508
Loss (gain) on change in equity interest	126	85
Decrease (increase) in notes and accounts receivable-trade	(150)	(525)
Increase (decrease) in notes and accounts payable-trade	1,927	(82)
Decrease (increase) in inventories	54,759	18,188
Proceeds from sale and collection of acquired non-performing loans	2,475	1,493
Purchase of acquired non-performing loans	(1,500)	-
Distributions from silent partnerships	799	828
Contribution paid in silent partnerships	(220)	-
Other, net	1,971	(1,069)
Subtotal	55,785	27,392
Interests and dividends received	112	149
Interests paid	(4,309)	(3,587)
Income taxes paid	(2,339)	(1,277)
Income taxes refund	5,304	1,060
Net cash provided by operating activities	54,553	23,737
Investing activities		
Payment for purchase of property and equipment	(19,446)	(16,908)
Proceeds from sale of property and equipment	7,128	6,947
Payment for purchase of intangible assets	(27)	(33)
Payment for loans receivable	(240)	(46)
Proceeds from repayment of loans receivable	731	88
Payment for purchase of investment securities	(603)	(1,055)
Proceeds from sales of investment securities	1,805	-
Payment for purchase of stocks of subsidiaries and affiliates	(874)	(499)
Proceeds from sales of stocks of subsidiaries and affiliates	440	-
Payment for purchase of investment in subsidiaries involving change in scope of consolidation	-	(1,797)
Other, net	106	(2,029)
Net cash used in investing activities	(10,980)	(15,333)

(Millions of yen)

	Year 2009 (Jan. 1, 2009 – Dec. 31, 2009)	Year 2010 (Jan. 1, 2010 – Dec. 31, 2010)
Financing activities		
Proceeds from short-term borrowings	36,468	6,828
Repayment of short-term borrowings	(83,281)	(16,149)
Proceeds from long-term borrowings	60,953	39,735
Repayment of long-term borrowings	(45,443)	(47,396)
Proceeds from issuance of new shares	17,735	14,738
Proceeds from issuance of bonds	4,300	100
Payment for redemption of bonds	(23,454)	(18,131)
Proceeds from minority interest	2,668	4,253
Dividends to minority interest	(78)	(15)
Distributions to minority interest	(7,583)	(1,437)
Dividends paid	(3)	-
Other, net	(89)	(5)
Net cash used in financing activities	(37,809)	(17,481)
Effect of exchange rate changes on cash and cash equivalents	(50)	47
Increase (decrease) in cash and cash equivalents	5,712	(9,030)
Cash and cash equivalents at beginning of period	16,281	21,665
Increase (decrease) in cash and cash equivalents resulting from changes in scope of consolidation	(328)	(19)
Cash and cash equivalents at end of period	21,665	12,616

Segment Information

(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

(Millions of yen)

	Year 2010 (Jan. 1, 2010 – Dec. 31, 2010)					
	Real Estate Investment Advisory Business	Real Estate Investment Business	Asset Management Business	NPL Investment Management Business	Adjusts and Elimination	Consolidated
Revenue	1,749	32,612	4,920	725	(1,418)	38,589
Costs and expenses	1,514	27,187	2,179	791	(415)	31,257
Operating income (loss)	235	5,424	2,740	(66)	(1,002)	7,331