

# Asset Management Report for 10<sup>th</sup> Period

(Semi-Annual Report for 10<sup>th</sup> Period)

From January 1, 2011 to June 30, 2011



**Japan Excellent, Inc.**

## **I. Greetings**

### **To Our Unitholders**

We would like to express our sincere appreciation for your continued support of Japan Excellent, Inc. (JEI) and Japan Excellent Asset Management Co., Ltd.

We hereby extend our heartfelt sympathies for people affected by the Great East Japan Earthquake, praying for the restoration of the affected areas as early as possible.

We have announced our financial results for the tenth period started January 1, 2011 and ended June 30 of 2011.

JEI recorded total revenues of 7,337 million yen and net income of 2,313 million yen. Distribution per unit marked 12,000 yen as expected in our forecast at the beginning of the period.

JEI resumed property acquisitions in the previous period. During the current period, we acquired an office building from Sekisui House, Ltd., one of our sponsors. It also acquired MID Kyobashi Building in the eleventh term and has a plan to acquire No. 35 Kowa Building.

### **About Future Asset Management**

In the real estate investment market, sale and purchase transactions temporarily slowed down due to the effect of the Great East Japan Earthquake. However, investment needs are expected to be maintained as the financing environment is easing. On the other hand, the supply of quality office buildings remains and is expected to be limited for some time. Based on this recognition, Japan Excellent, Inc. (JEI) will continue to pursue new investment opportunities aggressively.

In financing, we will continue to ensure stable and sound financial operation through diversifying the sources of financing including the issuance of investment corporation bonds, lengthening borrowing spans, converting floating-rate debts to fixed-rate debts, and diversifying maturity dates.

JEI will continue, as before, to promote our compliance system through strict conformance with the Financial Instruments and Exchange Act and other applicable laws and regulations. In addition, we will be always paying attention to provide information about our financial conditions and asset management performance to our unitholders in an accurate and straightforward manner.

Chifumi Toda  
Executive Director, Japan Excellent, Inc.  
President, Japan Excellent Asset Management Co., Ltd.

## II. Asset Management Report

### 1. Outline of Asset Management Operation

#### (1) Operating results and financial position of the Investment Corporation

Fiscal period Accounting term		6 <sup>th</sup> period From January 1, 2009 to June 30, 2009	7 <sup>th</sup> period From July 1, 2009 to December 31, 2009	8 <sup>th</sup> period From January 1, 2010 to June 30, 2010	9 <sup>th</sup> period From July 1, 2010 to December 31, 2010	10 <sup>th</sup> period From January 1, 2011 to June 30, 2011
Revenues	(Millions of yen)	7,544	7,494	7,302	7,094	7,337
(Rental revenues)	(Millions of yen)	7,544	7,494	7,302	7,094	7,034
Operating expenses	(Millions of yen)	4,266	4,145	4,050	4,040	4,117
(Property operating expenses)	(Millions of yen)	3,720	3,577	3,516	3,494	3,555
Operating income	(Millions of yen)	3,278	3,349	3,252	3,053	3,220
Ordinary income	(Millions of yen)	2,443	2,486	2,367	2,219	2,362
Net income	(Millions of yen)	2,442	2,485	2,366	2,218	2,313
Total assets	(Millions of yen)	195,145	195,040	194,710	199,186	209,142
(Period-on-period change)	(%)	(-0.4)	(-0.1)	(-0.1)	(2.2)	(4.9)
Net assets	(Millions of yen)	89,363	89,450	89,389	89,272	104,366
(Period-on-period change)	(%)	(-0.7)	(0.1)	(0.0)	(-0.1)	(16.9)
Unitholders' capital	(Millions of yen)	87,083	87,083	87,083	87,083	102,052
Outstanding investment units	(Units)	154,550	154,550	154,550	154,550	188,650
Net assets per unit	(Yen)	578,215	578,780	578,387	577,629	553,227
Net income per unit (Note 1)	(Yen)	15,802	16,084	15,314	14,353	12,677
Total distribution	(Millions of yen)	2,442	2,485	2,366	2,218	2,263
Distribution per unit	(Yen)	15,802	16,085	15,315	14,353	12,000
(Profit distribution per unit)	(Yen)	15,802	16,085	15,315	14,353	12,000
(Distribution in excess of earnings per unit)	(Yen)	(-)	(-)	(-)	(-)	(-)
Return on assets (Note 2)	(%)	1.2	1.3	1.2	1.1	1.2
(Annualized rate)	(%)	(2.5)	(2.5)	(2.5)	(2.2)	(2.3)
Return on equity (Note 3)	(%)	2.7	2.8	2.6	2.5	2.4
(Annualized rate)	(%)	(5.5)	(5.5)	(5.3)	(4.9)	(4.8)
Capital ratio (Note 4)	(%)	45.8	45.9	45.9	44.8	49.9
(Period-on-period change)	(%)	(-0.1)	(0.1)	(0.0)	(-1.1)	(5.1)
Payout ratio (Note 5)	(%)	99.9	100.0	100.0	99.9	97.8
Number of investment properties	(Properties)	18	18	18	19	19
Number of tenants	(Tenants)	126	126	124	108	109
Total leasable space	(m <sup>2</sup> )	220,521	220,521	220,474	228,177	234,547
Occupancy rate	(%)	98.5	97.0	97.4	91.7	92.4
Depreciation	(Millions of yen)	990	990	992	993	1,080
Capital expenditure	(Millions of yen)	267	134	248	328	347
Net operating income (NOI) (Note 6)	(Millions of yen)	4,814	4,907	4,778	4,593	4,559
Funds from operation (FFO) per unit (Note 7)	(Yen)	22,211	22,494	21,737	20,780	16,391

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FFO multiples (Note 8)	(Times)	9.1	9.2	9.6	13.0	12.2
Debt service coverage ratio (DSCR) (Note 9)	(Times)	4.5	4.5	4.4	4.3	4.5
Interest-bearing debt	(Millions of yen)	95,500	95,500	95,500	100,400	95,500
Loan-to-value (Note 10)	(%)	48.9	49.0	49.0	50.4	45.7
Number of days in operation	(Days)	181	184	181	184	181

(Note 1) Net income per unit is calculated by dividing net income by the weighted-average number of units outstanding during the six months period.

(Note 2) Return on assets = Ordinary income / [(Period beginning total assets) + (Period end total assets) / 2] × 100 (The ratio is rounded to one decimal place.)

(Note 3) Return on equity = Net income / [(Period beginning net assets) + (Period end net assets) / 2] × 100 (The ratio is rounded to one decimal place.)

(Note 4) Capital ratio = Period end net assets / Period end total assets × 100 (The ratio is rounded to one decimal place.)

(Note 5) Payout ratio = Total distribution / Net income × 100 (The ratio is rounded down to one decimal place.)

(Note 6) NOI = Rental revenues – Property operating expenses + Depreciation

(Note 7) FFO per unit = (Net income + Depreciation – Gain on sale of real estate + Loss on sale of real estate) / Number of outstanding investment units (The figure is rounded down to the whole number.)

(Note 8) FFO multiples = Period end investment unit price / Annualized FFO per unit (The rate is rounded down to one decimal place.)

(Note 9) DSCR = Net income before interest and taxes / (Interest expenses + Interest expense on investment corporation bonds) (The ratio is rounded to one decimal place.)

(Note 10) Loan-to-value = Period end interest-bearing debt / Period end total assets × 100 (The ratio is rounded to one decimal place.)

## **(2) Asset management development**

Japan Excellent, Inc. (JEI) was founded on February 20, 2006 in accordance with the Law Concerning Investment Trusts and Investment Corporations of Japan (hereinafter referred to as the “Investment Trust Law”). On March 15, 2006, it completed the corporate registration to the Kanto Finance Bureau (registration number 52, issued by the Head of the Kanto Local Finance Bureau) and listed on the Real Estate Investment Trust Section of the Tokyo Stock Exchange (Securities Code: 8987) on June 27, 2006. Since the listing, we have continued investment management primarily in office buildings with the aim to maintain sound corporate growth and stable revenues based on the medium- and long-term perspectives. On June 30, 2011, we settled our tenth period.

### **1) Business Conditions and Results**

The domestic economy was moving in a slightly upbeat trend since last year on the back of strong economic growth led by China and emerging markets in the Asian region. However, it turned to a tentative downturn in the productivity and export of private companies due to the impact of the Great East Japan Earthquake occurred on March 11, 2011, casting concerns over the economic uncertainty thereafter.

In the office leasing market, office relocations went stagnant tentatively during the immediate post-earthquake period, yet as they have reaffirmed the importance of risk diversification strategies based on their business continuity plans, a move to relocate to an office building highly equipped with quake-resistant and fire prevention features is observed in addition to the conventional relocation needs for better location or cost reduction. In the Tokyo metropolitan area, while vacancy rates are slightly improving even after the occurrence of the earthquake, the market rent level remains unfavorable although a sign for an upturn is seen in certain areas. Osaka and Nagoya areas show a relatively solid supply and demand recently and indicate an improved vacancy rate in certain areas, while the market rent level continued sliding.

Amid these harsh business conditions, JEI managed to increase the occupancy rate of its overall holding properties to 92.4 percent from 91.7 percent of the previous period as of the end of the current period, as a result of our focused efforts in new leasing activities and preventing tenant departures through closely working with our property management companies and office leasing intermediaries.

As for the property management and operation, JEI strived for improving building functionalities in conjunction with renovation of facilities and worked on implementing measures for improving tenant satisfaction and our service level. In addition, JEI was committed to efficient building operation by performing cost reduction in commissioned service fees including facility maintenance fees.

In the real estate investment market, improvement in the fund-raising environment retrieved investors’ interest in acquisitions and stimulated market transactions and capital increase

through public offering of REITs. Under these circumstances, JEI acquired Daiba Garden City Building on February 4, 2011.

On the other hand, in the immediate aftermath of the Great East Japan Earthquake a number of deals were postponed or cancelled and investors, especially those of overseas, reacted carefully to watch the subsequent impact. Sellers also seemed to tend to take a wait-and-see stance.

## 2) Fund Raising Highlight

As for its fund-raising activities during the period, on February 24, 2011, JEI completed payments of short-term loan of 4.9 billion yen (provided by Mitsubishi UFJ Trust and Banking Corporation and Mizuho Corporate Bank, Ltd. on December 24, 2010 for the purpose of property acquisitions) ahead of the maturity date, taking out the proceeds from capital increase through public offering on January 31, 2011.

In refinancing of long-term loan of 27.5 billion yen (composed of 15 billion yen of 2.7-year floating interest loan, 9.5 billion yen of 5-year floating interest loan (fixed rate was achieved for 6.25 billion yen through interest rate swaps), and 3 billion yen of 5-year fixed interest loan), JEI managed to enter into long-term loans in the same amount (composed of 11.5 billion yen of 3.5-year floating interest loan, 13 billion yen of 5-year floating interest loan and 3 billion yen of 7-year fixed interest loan) and promoted lengthening of interest bearing debts and diversification of maturity dates. For the 13 billion yen of 5-year floating interest loan discussed above, we promoted the conversion of floating-rate debts to fixed-rate debts through interest rate swaps. As a result, as of the end of the period, the average remaining debt maturity of interest bearing debts became 3.16 years, long-term borrowing ratio was 100.0 percent, fixed rate ratio was 57.6 percent and weighted average interest rate for loans purchased recorded 1.40 percent.

Outstanding interest bearing debts totaled 95.5 billion yen, composed of 78.5 billion yen of long-term loan (including 7 billion yen of long-term loan with the maturity of less than one year) and 17 billion yen of investment corporation bonds (loan to value ratio for the total assets was 45.7 percent as of the end of the period).

JEI has registered the issuance of investment corporation bonds for the purpose of dynamic arrangement of long-term funds as follows:

### (Bond Issuance Registration Highlight)

Type	Estimated amount of issuance	Scheduled period for issuance
Investment corporation bond	100 billion yen	From January 7, 2010 to January 6, 2012

The balance of the estimated amount of issuance is 83 billion yen. [(Estimated amount of issuance: 100 billion yen) – (Total amount issued: 17 billion yen) = Balance: 83 billion yen]

The ratings for JEI provided by the following rating agencies are shown below:

(Ratings as of July 7, 2011)

	Moody's Japan	Rating and Investment Information, Inc. (R&I)
Issuer rating (outlook)	A3 (Stable) <sup>(Note 1)</sup>	AA- (Stable)
Individual debt issue rating <sup>(Note 2)</sup>	-	AA-

(Note 1) On July 7, 2011, the rating was upgraded from Negative to Stable.

(Note 2) Rating for unsecured investment corporation bonds (No.1 and No.2).

### 3) Financial Results and Distribution Highlight

As a result of the above investments, JEI recorded 7,337 million yen in total revenues, 3,220 million yen in operating income, 2,362 million yen in ordinary income, 47 million yen in extraordinary loss on damages relating to the Great East Japan Earthquake, and 2,313 million yen in net income for the period under review.

As for distributions, JEI determined to retain part of retained earnings at the end of period as reserve for advanced depreciation, applying Special Measure Concerning Taxation for Advance Acquisition of Land, etc. During the Period from Calendar year 2009 to 2010 (Section 66.2 of the Special Taxation Measures Law).

JEI also determined to distribute most of the remaining balance of retained earnings at the end of period after deducting the reserve for advanced depreciation stipulated in Section 66.2 of the Special Taxation Measures Law (rounding down the amount of distribution per investment unit to the nearest yen), with the intent to apply the special treatment of income taxes under the Special Taxation Measures Law (Section 67.15 of the Special Taxation Measures Law). As a result, JEI determined the amount of distribution per investment unit to be 12,000 yen.

### (3) Capital increase

On January 31, 2011, JEI carried out an additional capital increase through public offering of investment units (31,000 units). On February 28, 2011, JEI issued additional investment units (3,100 units) through third-party allocation as a result of the exercise of a greenshoe option by Mizuho Securities Co., Ltd. (lead underwriter in the public offering) to raise funds of 14,969 million yen in total. The outline of the changes is as follows:

Paid-up date	Capital transaction	Outstanding investment units (Units)		Unitholders' capital (Millions of yen)		Remarks
		Change	Balance	Change	Balance	
February 20, 2006	Private placement for corporation	400	400	200	200	(Note 1)
June 26, 2006	Public offering	128,000	128,400	64,230	64,430	(Note 2)
July 21, 2006	Allocation of investment units to a third party	6,400	134,800	3,211	67,641	(Note 3)
July 11, 2007	Public offering	19,000	153,800	18,702	86,344	(Note 4)
August 8, 2007	Allocation of investment units to a third party	750	154,550	738	87,083	(Note 5)
January 31, 2011	Public offering	31,000	185,550	13,608	100,691	(Note 6)
February 28, 2011	Allocation of investment units to a third party	3,100	188,650	1,360	102,052	(Note 7)

(Note 1) JEI was incorporated through private placement at a price of 500,000 yen per unit.

(Note 2) New investment units were issued at a price of 520,000 yen per unit (subscription price of 501,800 yen per unit) through a public offering in order to raise funds for purchasing new properties which were acquired at the time of the listing.

(Note 3) New investment units were issued at a price of 501,800 yen per unit through an allocation of investment units to a third party in order to apply to certain part of funds for new property acquisitions.

(Note 4) New investment units were issued at a price of 1,019,200 yen per unit (subscription price of 984,360 yen per unit) through a public offering in order to refund certain part of debts procured to acquire properties in the second period.

(Note 5) New investment units were issued at a price of 984,360 yen per unit through an allocation of investment units to a third party in order to refund certain part of debts procured to acquire properties in the second period.

(Note 6) New investment units were issued at a price of 454,930 yen per unit (subscription price of 438,984 yen per unit) through a public offering in order to refund certain short-term loans procured to acquire properties in the ninth period and to raise funds to acquire a new property which was acquired in the tenth period.

(Note 7) New investment units were issued at a price of 438,984 yen per unit through an allocation of investment units to a third party in order to refund the short-term loans procured to acquire new properties in the ninth period and to raise funds to acquire a new property which was acquired in the tenth period.



[Market price of the investment securities]

The period-on-period fluctuations in the highest and lowest (closing) prices of JEI's investment units listed on the Real Estate Investment Trust Section of the Tokyo Stock Exchange during each period are as follows:

Investment unit market price	Fiscal period (Closing date)	6 <sup>th</sup> period (June 2009)	7 <sup>th</sup> period (December 2009)	8 <sup>th</sup> period (June 2010)	9 <sup>th</sup> period (December 2010)	10 <sup>th</sup> period (June 2011)
	Highest (Yen)	413,000	490,000	496,500	570,000	543,000
	Lowest (Yen)	298,000	388,000	386,500	397,000	363,500

(Note) The highest and lowest prices of investment units refer to the closing prices on the Real Estate Investment Trust Section of the Tokyo Stock Exchange.

#### (4) Distributions paid

The distributions for the tenth fiscal period were determined to be 12,000 yen per unit. The Investment Corporation has determined to distribute most of retained earnings at the end of period, less reserve for advanced depreciation stipulated in Section 66.2 of the Special Taxation Measures Law, rounding down the portion less than 1 yen of distribution per investment unit, with the intent to apply the special treatment of income taxes under the Special Taxation Measures Law (Section 67.15 of the Special Taxation Measures Law) in which the amount equivalent to distributions from profits is deducted from taxable corporate income as a deductible expense and the special treatment for advance acquisition of land, etc. during the period from 2009 to 2010 (Section 66.2 of the Special Taxation Measures Law).

Fiscal period	6 <sup>th</sup> period	7 <sup>th</sup> period	8 <sup>th</sup> period	9 <sup>th</sup> period	10 <sup>th</sup> period
Accounting term	From January 1, 2009 to June 30, 2009	From July 1, 2009 to December 31, 2009	From January 1, 2010 to June 30, 2010	From July 1, 2010 to December 31, 2010	From January 1, 2011 to June 30, 2011
Retained earnings at the end of period (Thousands of yen)	2,442,271	2,486,006	2,366,962	2,218,333	2,314,032
Retained earnings (Thousands of yen)	72	69	29	76	50,232
Total profit distributions (Thousands of yen)	2,442,199	2,485,936	2,366,933	2,218,256	2,263,800
(Distributions per unit) (Yen)	(15,802)	(16,085)	(15,315)	(14,353)	(12,000)
Total profit distributions (Thousands of yen)	2,442,199	2,485,936	2,366,933	2,218,256	2,263,800
(Profit distribution per unit) (Yen)	(15,802)	(16,085)	(15,315)	(14,353)	(12,000)
Total refund of investment equity	—	—	—	—	—
(Refund of investment per unit)	(—)	(—)	(—)	(—)	(—)

## **(5) Policy and issues on future investment management**

### **1) Outlook for Investment Environment**

An impact of power shortage triggered by the deferred restart of nuclear power stations is likely to pose more time towards an economic upturn than initial assumption. On the other hand, as the devastated supply chains have restored, a v-shaped growth can be expected given the potential demand associated with the earthquake restoration. However, a fundamental turnaround generated by buoyant exports is not expected to come anytime soon due to the ongoing financial restraints in China to control inflation and the economic downturn in Western markets.

In the office leasing market in the Tokyo metropolitan area, the vacancy rate is moving at a slightly upbeat trend on the back of office relocation needs based on the business continuity plans after the Great East Japan Earthquake. As for the rent level in the market, there is no sign of immediate overturn from the ongoing weakened conditions except for a few specific areas. In Osaka and Nagoya areas, amid extended trend in moderate supply and demand due to scheduled supply of major office buildings, a drastic revitalization of the market is expected to come even later.

In the real estate investment market, improvement in fund-raising conditions and investor needs are likely to continue and transactions may gradually pick up if further revitalization in the office leasing market and adjusted pricing are successfully developed. We will have to closely watch the impact and trend in the real estate leasing and investment markets generated by the Great East Japan Earthquake and Fukushima No. 1 nuclear power plant accident.

### **2) Policy and Issues on Future Investment Management**

Amid a consistently softened office leasing market, in order to hold back a potential decline in the profits from our overall portfolio to the minimum level JEI will strive to maintain stable occupancy and rent level in the medium- and long-term perspective through promoting closer relationship with our property management companies, proactively acting to fill vacancies as early as possible, retaining tenancies and further reinforcing effective building management operation that enhances existing tenant satisfactions. We will consistently implement additional strategic investment plans to maintain the asset value and improve competitive position of our properties on a medium- to long-term basis.

For external growth, we will plan and implement well-balanced investments based on the size, profitability and target area to increase asset size and earn stable profits from our portfolio on a medium- to long-term basis. To this end, we will continue enhancing further interaction and collaboration with sponsor companies, have our asset management companies to cultivate and refine property information sources, and seek business opportunities with efforts to proactively gain access to market information.

As for the financial environment, we recognize that the fund-raising environment in the real

estate investment industry are generally favorable. Based on this perspective, we will consistently work on stable financial operation through diversifying lenders including issuance of investment corporation bonds, separating maturity dates, lengthening borrowing spans, and converting floating-rate debts to fixed-rate debts.

## (6) Subsequent events

### 1) Conclusion of purchase option agreement

On August 12, 2011, JEI concluded a purchase option agreement for the following asset under purchase option.

<Overview of the asset under purchase option>

(1) Asset under purchase option	Trust beneficiary interest in real estate (Note1)
(2) Property name	No. 35 Kowa Building
(3) Location	1-14-14 Akasaka, Minato-ku, Tokyo
(4) Exercise price (Note 2)	8,280,000,000 yen
(5) Date of execution of purchase option agreement	August 12, 2011
(6) Expiration date of purchase option exercise period	October 3, 2011
(7) Scheduled acquisition date	October 3, 2011 (Note 3)
(8) Seller under purchase option	Kowa Real Estate Co., Ltd.
(9) Funding for acquisition	Cash in hand and debt financing subject to the exercise of purchase option
(10) Method of settlement	To be settled in full when the acquisition is made after the exercise of purchase option.

(Note 1) The Seller (under the purchase option) currently owns No. 35 Kowa Building in the form of direct ownership in real estate. JEI entered into a Purchase Option Agreement for Trust Beneficiary Interests in Real Estate (hereinafter, "Purchase Option Agreement") pertaining to No. 35 Kowa Building dated August 12, 2011 with the Seller. Under the Purchase Option Agreement, JEI is entitled to decide, at its absolute discretion, whether to acquire No. 35 Kowa Building by exercising the purchase option. However, JEI is required to exercise the purchase option pertaining to No. 35 Kowa Building under the Purchase Option Agreement if it is negotiated and agreed between the Seller and a trust bank (which shall be the trust bank agreed by JEI separately in a reasonable manner and is hereinafter referred to as the "Trustee;" as of the date of this release, Mitsubishi UFJ Trust and Banking Corporation is contemplated to be the Trustee) that a real estate management/disposition trust will be established for No. 35 Kowa Building (hereinafter, "establishment of real estate trust"). If the purchase option under the Purchase Option Agreement is exercised, JEI will acquire trust beneficiary interests in No. 35 Kowa Building. JEI will be able to double-check the status of legal and other compliance of No. 35 Kowa Building as the property is subject to the validation required for the establishment of real estate trust conducted by the Trustee, who is an expert of real estate trusts. With regard to and throughout the process of the establishment of real estate trust, JEI will remain an independent third party. It has been agreed between JEI and the Seller that if the process of the establishment of real estate trust is not completed by the expiration date of the purchase option under the Purchase Option Agreement, which is October 3, 2011, they will negotiate the acquisition of No. 35 Kowa Building by JEI in good faith.

(Note 2) The exercise price for the sale and purchase of trust beneficiary interest, which does not include costs related to the acquisition, JEI's share of the real estate tax and city planning tax, and consumption taxes.

(Note 3) Only if the purchase option under the Purchase Option Agreement is exercised.

## 2) Conclusion of purchase agreement for trust beneficiary interest in real estate

On August 12, 2011, JEI concluded a purchase agreement for trust beneficiary interest in real estate pertaining to the property to be acquired as follows:

<Overview of the asset to be acquired>

(1) Property to be acquired	Trust beneficiary interest in real estate
(2) Property name	MID Kyobashi Building
(3) Location	2-2-48 Kata-machi, Miyakojima-ku, Osaka-shi, Osaka
(4) Acquisition price (Note)	3,308,000,000 yen
(5) Date of execution of purchase agreement	August 12, 2011
(6) Scheduled handover date	September 1, 2011
(7) Seller	Liverpool Asset TMK

(Note) The acquisition price for the sale and purchase of trust beneficiary interest, which does not include costs related to the acquisition, JEI's share of the real estate tax and city planning tax, and consumption taxes.

## 3) Debt financing

On August 12, 2011, JEI concluded the following revolving loan agreement to finance in part the acquisition of No. 35 Kowa Building including the acquisition price and related costs.

(1) Lenders	Mizuho Corporate Bank, Ltd. Mitsubishi UFJ Trust and Banking Corporation Sumitomo Mitsui Banking Corporation Aozora Bank, Ltd.
(2) Amount borrowed	8,300,000,000 yen
(3) Interest rate	To be decided
(4) Scheduled drawdown date	October 3, 2011
(5) Interest payment date	October 31, 2011, November 29, 2011
(6) Principal repayment date	November 29, 2011
(7) Principal repayment method	To be repaid in full on the principal repayment date (early repayment permitted)
(8) Collateral	Unsecured and unguaranteed

## 4) Other

The Purchase Option Agreement for No. 35 Kowa Building referred to in 1) above falls under the "forward commitment by investment corporations<sup>(Note)</sup>" defined in the "Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc." established by the Financial Services Agency (last amended in April 2011). Under this Purchase Option Agreement, JEI is entitled to a purchase option and only upon exercise of this option, a valid Purchase Agreement will be executed (provided, however, that JEI will be required to exercise the purchase option in the case of establishment of real estate trust). It is provided that if there is

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a breach of the provisions of the Purchase Option Agreement by JEI or the Seller after the purchase options is exercised and the Purchase Agreement is executed, the non-breaching party may cancel said Purchase Agreement and claim the penalty payment equivalent to 20% of the purchase price from the breaching party. After the careful examination of the amount required to acquire No. 35 Kowa Building, the likelihood of establishment of real estate trust, the time period from the exercise of purchase option to the handover, and the method of funding for the acquisition, JEI decided to enter into the Purchase Option Agreement under the terms and conditions described above in order to acquire No. 35 Kowa Building based on the judgment that the acquisition will contribute to the enhancement of the investor value.

(Note) This means any postdated purchase agreement under which the payment and the delivery of the target property shall be made after a lapse of one month or more after the execution of such agreement or any other similar agreement.

## 2. Outline of the Investment Corporation

### (1) Investment unit

Fiscal period	6 <sup>th</sup> period As of June 30, 2009	7 <sup>th</sup> period As of December 31, 2009	8 <sup>th</sup> period As of June 30, 2010	9 <sup>th</sup> period As of December 31, 2010	10 <sup>th</sup> period As of June 30, 2011
Number of units authorized	2,000,000 units	2,000,000 units	2,000,000 units	2,000,000 units	2,000,000 units
Number of units issued and outstanding	154,550 units	154,550 units	154,550 units	154,550 units	188,650 units
Unitholders' capital	87,083 million yen	87,083 million yen	87,083 million yen	87,083 million yen	102,052 million yen
Number of unitholders	4,817 individuals	4,734 individuals	5,469 individuals	5,495 individuals	7,411 individuals

### (2) Unitholders

Major unitholders as of June 30, 2011 are as follows:

Name	Address	Number of units owned (Units)	Ratio of number of units owned to outstanding investment units (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	1-8-11 Harumi, Chuo-ku, Tokyo	35,345	18.74
The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	2-2-2 Otemachi, Chiyoda-ku, Tokyo	15,722	8.33
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	Harumi Island Toriton Square Office Tower Z, 1-8-12 Harumi, Chuo-ku, Tokyo	14,863	7.88
Kowa Real Estate Co., Ltd.	1-15-5 Minami-Aoyama, Minato-ku, Tokyo	14,312	7.59
The Master Trust Bank of Japan, Ltd. (Trust Account)	2-11-3 Hamamatsu-cho, Minato-ku, Tokyo	8,435	4.47

NOMURA BANK (LUXEMBOURG) S.A.	Batiment A, 33, Rue de Gasperich, L-5826, Luxembourg	4,872	2.58
North Pacific Bank, LTD.	3-7 Odori-Nishi, Chuo-ku, Sapporo-shi, Hokkaido	4,590	2.43
The Dai-ichi Life Insurance Company, Limited	1-13-1 Yuraku-cho, Chiyoda-ku, Tokyo	4,132	2.19
The Chugoku Bank, LTD.	1-15-20 Marunouchi, Kita-ku, Okayama-shi, Okayama	3,641	1.93
Sekisui House, Ltd.	1-1-88 Oyodonaka, Kita-ku, Osaka-shi, Osaka	2,091	1.11
AIG Edison Life Insurance Company GA Equity PIMJ	4-1-3 Ohira, Sumida-ku, Tokyo	2,091	1.11
Total		110,094	58.36

(Note) Ratio of number of units owned to outstanding investment units is rounded to two decimal places.

### (3) Officers

#### 1) Directors and accounting auditor

Post	Name	Major additional post	Compensation or fee for the six months ended June 30, 2011 (Thousands of yen)
Executive Director	Chifumi Toda	President and Director, Japan Excellent Asset Management Co., Ltd.	-
Supervisory Director	Makoto Sakagami	Makoto Sakagami Certified Public Accounting Office	6,540
Supervisory Director	Tsuyoshi Nagahama	Advisor, Anderson, Mori & Tomotsune	
Supervisory Director	Shunichi Maekawa	Professor, Faculty of Real Estate, Meikai University	
Accounting Auditor	Ernst & Young ShinNihon LLC	-	18,200 (Note 2)

(Note 1) There is no investment unit of JEI held by the Executive Director nor the Supervisory Directors. Although Supervisory Directors may have additional post in other company than listed above, there is no conflict of interests between those companies including listed above and JEI.

(Note 2) The total compensation shown above is an estimated amount and includes fees for English financial statement audit and for the preparation of a comfort letter and other services in relation to the issuance of new investment units in January 2011.

#### 2) Policy on dismissal and discontinuation of re-election of accounting auditor

The board of directors deliberate dismissal of accounting auditor in accordance with the provisions set out in the Investment Trust Law and deliberate discontinuation of re-election based on circumstances in all respects.

### (4) Name of asset management company, asset custodian and administrative agents

Our asset management company, asset custodian and administrative agents as of June 30, 2011 are as follows:

*Asset Management Report for 10<sup>th</sup> Period (Semi-Annual Report for 10<sup>th</sup> Period)*

Classification	Name
Asset management company	Japan Excellent Asset Management Co., Ltd.
Asset custodian	Mizuho Trust & Banking Co., Ltd.
Administrative agent (Transfer agent and other administrative work for accounting and institution operation)	Mizuho Trust & Banking Co., Ltd.
Administrative agent (Investment corporation bonds)	Mizuho Corporate Bank, Ltd.

### 3. Investment Portfolio of the Investment Corporation

#### (1) Investment portfolio by area

Classification	Use	Area	9 <sup>th</sup> period (As of December 31, 2010)		10 <sup>th</sup> period (As of June 30, 2011)	
			Acquisition price (Millions of yen) (Note 1)	Investment ratio in portfolio (%) (Note 2)	Acquisition price (Millions of yen) (Note 1)	Investment ratio in portfolio (%) (Note 2)
Real estate property (Note 3)	Offices	Area II (Note 4)	4,221	2.1	4,309	2.0
Trust beneficiary interest in real estate (Note 3)		Area I (Note 4)	99,323	49.9	106,116	50.7
		Area II (Note 4)	7,548	3.8	7,508	3.6
		Area III (Note 4)	73,961	37.1	73,521	35.2
Total			185,054	92.9	191,455	91.5
Deposits in bank and other assets			14,132	7.1	17,687	8.5
Total assets			199,186	100.0	209,142	100.0

(Note 1) Acquisition price is based on the amounts accounted for in the balance sheets as of the closing date (amounts of real estate and trust beneficiary interest in real estate are based on the book value after adjusting depreciations).

(Note 2) Investment ratio in portfolio is rounded to one decimal place.

(Note 3) Leasehold rights held combined with buildings and other structures are indicated in real estate property and trust beneficiary interest in real estate at the combined amount.

(Note 4) Areas are classified as follows:

Area I: Six central wards of Tokyo (Chiyoda, Chuo, Minato, Shinjuku, Shinagawa and Shibuya)

Area II: Central Osaka (Umeda, Dojima, Nakanoshima, Yodoyabashi, Honmachi, etc.), central Nagoya (Meieki, Fushimi, Sakae, etc.), and central Fukuoka (Tenjin, Hakata-ekimae, etc.)

Area III: Tokyo other than Area I, and its vicinity (Kanagawa, Saitama, and Chiba)

Area IV: Areas in Osaka, Nagoya and Fukuoka other than Area II, and other government designated cities

## (2) Major property

The principal properties (top ten properties in net book value) held by JEI as of June 30, 2011 are as follows:

Name of real property	Net book value (Millions of yen)	Leasable space (m <sup>2</sup> ) (Note 1)	Leased floor space (m <sup>2</sup> ) (Note 2)	Occupancy rate (%) (Note 3)	Ratio of rental revenue to total rental revenues (%) (Note 4)	Major use
Kowa Kawasaki Nishiguchi Building	30,875	38,332.15	32,799.03	85.6	13.0	Offices
Akasaka Garden City	22,932	8,769.53	7,215.53	82.3	7.3	Offices
Omori Bellport D	22,060	25,828.29	25,740.33	99.7	14.5	Offices
AKASAKA INTERCITY	17,577	5,622.98	4,715.80	83.9	4.4	Offices
Musashikosugi Tower Place	13,191	25,217.28	25,217.28	100.0	11.4	Offices
Daiba Garden City Building	11,045	12,122.85	12,122.85	100.0	3.9	Offices
Kowa Kawasaki Higashiguchi Building	10,396	18,612.72	18,612.72	100.0	(Note 5)	Offices
Shiba 2-Chome Building	9,223	11,749.30	11,749.30	100.0	5.3	Offices
JEI Hamamatsucho Building	8,205	6,411.26	6,411.26	100.0	4.2	Offices
JEI Nishi-Honmachi Building	7,508	10,601.70	10,291.32	97.1	3.2	Offices
Total	153,016	163,268.06	154,875.42	94.9	74.2	—

(Note 1) Leasable space refers to space available for lease of which ownership is attributable to JEI as of June 30, 2011 and is rounded to two decimal places. If the property is a joint ownership property, the value is obtained after multiplying the total leasable space of the shared real estate by the percentage of the interest owned by JEI.

(Note 2) Leased floor space refers to space with lease agreements with end tenants as of June 30, 2011 and is rounded to two decimal places. If the property is a joint ownership property, the value is obtained after multiplying the total leased floor space of the shared real estate by the percentage of the interest owned by JEI. The leased floor space of end tenants who terminated their lease agreement but not yet removed as of the end of period is included in the leased floor space. This also applies to the calculations of occupancy rate in (Note 3) below and the total number of tenants in (Note 1) in (3) Portfolio ownership breakdown.

(Note 3) Occupancy rate is a percentage of total leased floor space to total leasable space as of June 30, 2011 and rounded to one decimal place.

(Note 4) Ratio of rental revenue to total rental revenues is rounded to one decimal place.

(Note 5) The value of this property is undisclosed because the consent from the end tenants has not been obtained.



### (3) Portfolio ownership breakdown

Real estate properties and their forms of ownership as of June 30, 2011 are as follows:

Property No.	Name of real property	Location (Displayed address)	Form of ownership	Appraisal value at the end of period (Millions of yen) (Note)	Net book value (Millions of yen)
I-1	Omori Bellport D	6-26-3 Minami-Oi, Shinagawa-ku, Tokyo	Trust beneficiary interest in real estate	24,480	22,060
I-2	Shiba 2-Chome Building	2-6-1 Shiba, Minato-ku, Tokyo	Trust beneficiary interest in real estate	10,600	9,223
I-3	JEI Hamamatsucho Building	2-2-12 Hamamatsu-cho, Minato-ku, Tokyo	Trust beneficiary interest in real estate	8,370	8,205
I-4	No. 32 Kowa Building	5-2-32 Minami-Azabu, Minato-ku, Tokyo	Trust beneficiary interest in real estate	6,934	7,408
I-6	No. 28 Kowa Building	2-20-1 Nishi-Gotanda, Shinagawa-ku, Tokyo	Trust beneficiary interest in real estate	2,750	2,813
I-7	Akasaka Garden City	4-15-1 Akasaka, Minato-ku, Tokyo	Trust beneficiary interest in real estate	18,000	22,932
I-8	AKASAKA INTERCITY	1-11-44 Akasaka, Minato-ku, Tokyo	Trust beneficiary interest in real estate	12,900	17,577
I-9	Kowa Shirokanedai Building	3-19-1 Shirokanedai, Minato-ku, Tokyo	Trust beneficiary interest in real estate	5,090	4,850
I-10	Daiba Garden City Building	2-3-5 Daiba, Minato-ku, Tokyo	Trust beneficiary interest in real estate	11,470	11,045
Area I				100,594	106,116
II-1	NHK Nagoya Housou Center Building	1-13-3 Higashi-Sakura, Higashi-ku, Nagoya-shi, Aichi	Real estate	4,410	4,309
II-2	JEI Nishi-Honmachi Building	1-3-15 Awaza, Nishi-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	4,390	7,508
Area II				8,800	11,817
III-1	Musashikosugi Tower Place	1-403 Kosugi-machi, Nakahara-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	16,300	13,191
III-2	Kowa Kawasaki Higashiguchi Building	1-53 Nisshin-cho, Kawasaki-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	8,330	10,396
III-3	JEI Hongo Building	2-38-16 Hongo, Bunkyo-ku, Tokyo	Trust beneficiary interest in real estate	4,990	5,265
III-5	Kawasaki Nisshincho Building	7-1 Nisshin-cho, Kawasaki-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	4,930	4,113
III-6	No. 44 Kowa Building	1-2-7 Higashiyama, Meguro-ku, Tokyo	Trust beneficiary interest in real estate	1,520	1,007
III-7	JEI Ryogoku Building	3-25-5 Ryogoku, Sumida-ku, Tokyo	Trust beneficiary interest in real estate	2,140	2,412
III-8	Ebina Prime Tower	2-9-50 Chuo, Ebina-shi, Kanagawa	Trust beneficiary interest in real estate	3,960	6,258
III-9	Kowa Kawasaki Nishiguchi Building	66-2 Horikawa-cho, Saiwai-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	25,400	30,875
Area III				67,570	73,521
Total				176,964	191,455

(Note) Appraisal value at the end of period indicates the appraisal value described in the real estate appraisal report prepared by a real estate appraiser belonging to Japan Real Estate Institute, Chuo Real Estate Appraisal Co., Ltd., and Japan Valuers Co., Ltd. as of June 30, 2011 based on the articles of incorporation of JEI and the regulations stipulated by the Investment Trusts Association, Japan. When there is a joint ownership property in the current portfolio, its value is obtained after multiplying the total value of the shared real estate by the percentage of the interest owned by JEI or the trustee.

Property No.	Name of real property	9 <sup>th</sup> period From July 1, 2010 to December 31, 2010				10 <sup>th</sup> period From January 1, 2011 to June 30, 2011			
		Total number of tenants (At the end of period) (Note 1)	Occupancy rate (At the end of period) (%)	Rental revenues (For the period) (Millions of yen)	Ratio of rental revenue to total rental revenues (%) (Note 2)	Total number of tenants (At the end of period) (Note 1)	Occupancy rate (At the end of period) (%)	Rental revenues (For the period) (Millions of yen)	Ratio of rental revenue to total rental revenues (%) (Note 2)
I-1	Omori Bellport D	1	94.9	1,024	14.4	1	99.7	1,020	14.5
I-2	Shiba 2-Chome Building	2	99.2	368	5.2	2	100.0	373	5.3
I-3	JEI Hamamatsucho Building	1	100.0	297	4.2	1	100.0	295	4.2
I-4	No. 32 Kowa Building	1	84.1	235	3.3	1	96.4	277	3.9
I-5	No. 36 Kowa Building (Note 4)	1	100.0	(Note 3)	(Note 3)	–	–	(Note 3)	(Note 3)
I-6	No. 28 Kowa Building	1	89.6	148	2.1	1	95.3	138	2.0
I-7	Akasaka Garden City	1	100.0	565	8.0	1	82.3	516	7.3
I-8	AKASAKA INTERCITY	13	91.9	326	4.6	12	83.9	306	4.4
I-9	Kowa Shirokanedai Building	1	100.0	8	0.1	1	100.0	197	2.8
I-10	Daiba Garden City Building	–	–	–	–	1	100.0	276	3.9
Area I		22	95.7	3,183	44.9	21	96.6	3,418	48.6
II-1	NHK Nagoya Housou Center Building	33	90.6	307	4.3	31	89.4	297	4.2
II-2	JEI Nishi-Honmachi Building	1	94.6	240	3.4	1	97.1	227	3.2
Area II		34	92.7	548	7.7	32	93.6	524	7.5
III-1	Musashikosugi Tower Place	34	100.0	827	11.7	36	100.0	799	11.4
III-2	Kowa Kawasaki Higashiguchi Building	1	100.0	(Note 3)	(Note 3)	1	100.0	(Note 3)	(Note 3)
III-3	JEI Hongo Building	1	100.0	177	2.5	1	100.0	172	2.5
III-5	Kawasaki Nisshincho Building	1	100.0	225	3.2	1	100.0	225	3.2
III-6	No. 44 Kowa Building	1	99.1	93	1.3	1	99.1	90	1.3
III-7	JEI Ryogoku Building	1	100.0	111	1.6	1	98.1	106	1.5
III-8	Ebina Prime Tower	12	67.7	406	5.7	14	69.0	295	4.2
III-9	Kowa Kawasaki Nishiguchi Building	1	84.8	999	14.1	1	85.6	912	13.0
Area III		52	88.9	3,362	47.4	56	89.4	3,091	43.9
Total		108	91.7	7,094	100.0	109	92.4	7,034	100.0

(Note 1) Total number of tenants indicates total number of tenants in each property as of the end of each period. A property entered into a master lease agreement is counted as one tenant. A tenant who has multiple tenancies in one property is counted as one tenant. A tenant who has tenancies in multiple properties is counted as one tenant for each property.

(Note 2) Ratio of rental revenue to total rental revenues is rounded to one decimal place.

(Note 3) The value of this property is undisclosed because the consent from the end tenants has not been obtained.

(Note 4) No. 36 Kowa Building was sold on February 4, 2011.

#### (4) Other assets

##### 1) Contract amount and fair value of specified transactions and foreign exchange forwards transactions

Classification	Type	Contract amount (Thousands of yen) (Note 1)		Fair value (Thousands of yen) (Note 2)
			More than one year	
Over-the-counter transaction	Interest rate swap contracts with floating-rate to fixed-rate interest	13,000,000	13,000,000	–

(Note 1) Contract amount of swap is calculated based on notional principal.

(Note 2) Fair value is omitted for presentation because over-the-counter transactions meet requirements for special accounting under the Accounting Standard for Financial Instruments.

#### 4. Capital Expenditures for Holding Properties

##### (1) Scheduled capital expenditures

The following table shows major planned capital expenditures associated with planned maintenance and repair for the properties held by JEI as of June 30, 2011. The values below include those to be expensed for accounting purposes.

Name of real property	Location	Purpose	Scheduled term	Estimated construction costs (Millions of yen)		
				Total	Payment for the six months ended June 30, 2011	Total of advance payment
NHK Nagoya Housou Center Building	Higashi-ku, Nagoya-shi	Air-conditioning system renewal construction (3 <sup>rd</sup> term)	From December 2010 to December 2011	110	–	–
Kowa Shirokanedai Building	Minato-ku, Tokyo	Bathroom renewal construction	From September 2010 to August 2011	104	–	–
JEI Hamamatsucho Building	Minato-ku, Tokyo	Air-conditioning system renewal construction (1 <sup>st</sup> term)	From September 2011 to November 2011	91	–	–

##### (2) Capital expenditures for the six months ended June 30, 2011

The following table shows constructions completed during the period and to be expensed as capital expenditure pertaining to our portfolio held as of June 30, 2011. During the period, the amount of constructions completed totaled 440 million yen, composed of 347 million yen of capital expenditure and 92 million yen of maintenance and repair classified as an expense for the six months ended June 30, 2011.

Name of real property	Location	Purpose	Scheduled term	Amounts paid (Millions of yen)
Kowa Kawasaki Nishiguchi Building	Saiwai-ku, Kawasaki-shi, Kanagawa	Automatic fire alarm system renewal construction	From October 2010 to June 2011	92

NHK Nagoya Housou Center Building	Higashi-ku, Nagoya-shi	Air-conditioning system renewal construction (2 <sup>nd</sup> term)	From October 2010 to June 2011	58
		Crime prevention and monitoring system renewal construction	From September 2010 to June 2011	36
Other constructions			–	160
Total				347

### (3) Reserved funds for long-term maintenance and repair plan

JEI has reserved funds for maintenance and repair as below to appropriate for future expenditures on large-scale maintenance and repair, taking out from depreciation and other excess cash flow based on our long-term maintenance and repair plan developed for each property.

(Millions of yen)

Item	6 <sup>th</sup> period From January 1, 2009 to June 30, 2009	7 <sup>th</sup> period From July 1, 2009 to December 31, 2009	8 <sup>th</sup> period From January 1, 2010 to June 30, 2010	9 <sup>th</sup> period From July 1, 2010 to December 31, 2010	10 <sup>th</sup> period From January 1, 2011 to June 30, 2011
Reserved funds at the beginning of period	254	254	254	254	259
Increase	–	–	–	5	5
Decrease	–	–	–	–	13
Reserved funds at the end of period	254	254	254	259	251

## 5. Expenses and Liabilities

### (1) Expenses associated with asset management

(Thousands of yen)

Account	9 <sup>th</sup> period From July 1, 2010 to December 31, 2010	10 <sup>th</sup> period From January 1, 2011 to June 30, 2011
(a) Asset management fees	416,479	428,085
(b) Custodian fees	14,929	15,243
(c) Administrative service fees	29,597	29,058
(d) Compensation for directors	6,540	6,540
(e) Accounting auditor fees	11,500	11,500
(f) Other	67,263	70,894
Total	546,310	561,321

## (2) Borrowings

Borrowings by each financing source as of the end of the 10<sup>th</sup> period (ended June 30, 2011) are as follows:

Classification	Lender	Borrowing date	Balance at the beginning of period (Thousands of yen)	Balance at the end of period (Thousands of yen)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks			
Short-term loans	Mitsubishi UFJ Trust and Banking Corporation	December 24, 2010	3,000,000	–	–	March 24, 2011 (Note 3)	Lump-sum	For acquisition of real estate	Unsecured and unguaranteed			
	Mizuho Corporate Bank, Ltd.		1,900,000	–								
Subtotal			4,900,000	–	–	–	–	–	–			
Long-term debt due within one year	Mizuho Corporate Bank, Ltd.	June 29, 2006	5,000,000	–	–	June 29, 2011	Lump-sum	For acquisition of real estate	Unsecured and unguaranteed			
	Mitsubishi UFJ Trust and Banking Corporation		3,500,000	–								
	Resona Bank, Ltd.		1,000,000	–								
	The Dai-ichi Life Insurance Company, Limited		3,000,000	–								
	Mizuho Corporate Bank, Ltd.	October 24, 2008	6,000,000	–	–							
	Mitsubishi UFJ Trust and Banking Corporation		4,000,000	–								
	Sumitomo Mitsui Banking Corporation		3,000,000	–								
	Mizuho Trust & Banking Co., Ltd.		2,000,000	–								
	Aozora Bank, Ltd.	June 29, 2009	1,615,384	1,615,384	1.34000	November 29, 2011						
	The Chuo Mitsui Trust and Banking Company, Limited		1,615,384	1,615,384								
	Mizuho Trust & Banking Co., Ltd.		1,615,384	1,615,384								
	Sumitomo Mitsui Banking Corporation		1,076,923	1,076,923								
	Mizuho Corporate Bank, Ltd.		538,461	538,461								
	Mitsubishi UFJ Trust and Banking Corporation		538,461	538,461								
	Subtotal			34,500,000	7,000,000	1.34000		–		–	–	–
	Long-term debt (Note 4)	Mitsubishi UFJ Trust and Banking Corporation	July 31, 2007	2,300,000	2,300,000	0.69000		July 31, 2012		Lump-sum	For acquisition of real estate	Unsecured and unguaranteed
Sumitomo Mitsui Banking Corporation		2,200,000		2,200,000								
The Norinchukin Bank		2,000,000		2,000,000								
Resona Bank, Ltd.		500,000		500,000								
Mizuho Corporate Bank, Ltd.		July 31, 2007	2,500,000	2,500,000	1.96907 (Note 2)							
Mizuho Trust & Banking Co., Ltd.			1,500,000	1,500,000								
Sompo Japan Insurance Inc.			2,000,000	2,000,000								
Tokio Marine & Nichido Fire Insurance Co., Ltd.			1,000,000	1,000,000								
Mizuho Corporate Bank, Ltd.		October 24, 2008	6,000,000	6,000,000	1.04000	June 28, 2013						
Mitsubishi UFJ Trust and Banking Corporation			1,000,000	1,000,000								
The Norinchukin Bank		June 29, 2010	3,100,000	3,100,000	1.09000	December 27, 2013						
Mizuho Corporate Bank, Ltd.			1,800,000	1,800,000								
Mitsubishi UFJ Trust and Banking Corporation			1,800,000	1,800,000								
Mizuho Trust & Banking Co., Ltd.	1,300,000		1,300,000									

Classification	Lender	Borrowing date	Balance at the beginning of period (Thousands of yen)	Balance at the end of period (Thousands of yen)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
Long-term debt (Note 4)	The Dai-ichi Life Insurance Company, Limited	July 31, 2007	2,000,000	2,000,000	2.25875 (Note 2)	July 31, 2014	Lump-sum	For acquisition of real estate	Unsecured and unguaranteed
	Development Bank of Japan Inc.		2,000,000	2,000,000	2.28417 (Note 2)				
	Mitsubishi UFJ Trust and Banking Corporation	June 29, 2011	–	4,000,000	0.99103	December 29, 2014		For repayment of other borrowing	
	Mizuho Corporate Bank, Ltd.		–	3,900,000					
	Mizuho Trust & Banking Co., Ltd.		–	2,400,000					
	Resona Bank, Ltd.		–	1,200,000					
	The Dai-ichi Life Insurance Company, Limited	October 24, 2008	3,000,000	3,000,000	2.27344 (Note 2)	June 30, 2015			
	Development Bank of Japan Inc.		2,000,000	2,000,000					
	Mitsubishi UFJ Trust and Banking Corporation	June 29, 2011	–	4,600,000	1.36375 (Note 2)	June 29, 2016			
	Mizuho Corporate Bank, Ltd.		–	4,400,000					
	Sumitomo Mitsui Banking Corporation		–	4,000,000					
	Development Bank of Japan Inc.	November 30, 2010	6,000,000	6,000,000	1.73875 (Note 2)	November 30, 2017			
	The Dai-ichi Life Insurance Company, Limited	June 29, 2011	–	3,000,000	1.65125 (Note 2)	June 29, 2018			
	Subtotal		44,000,000	71,500,000	1.39270	–		–	
Total		83,400,000	78,500,000	1.38800	–	–	–	–	

(Note 1) The average interest rates are calculated using a weighted-average of the loan balance at the end of period by multiplying the interest rate of each loan agreement as of period-end, rounding to five decimal places. Borrowings hedged by interest rate swaps to avoid interest rate fluctuation risk are calculated using a weighted-average rate adjusting the effect of the interest rate swaps.

(Note 2) The loans are fixed-rate loans.

(Note 3) The loan was prepaid on February 24, 2011.

(Note 4) The following table shows the total long-term debt maturing each year after the balance sheet date (excluding the portion due within one year).

(Thousands of yen)

Classification	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
Long-term debt	21,000,000	8,000,000	20,500,000	13,000,000	9,000,000

### (3) Investment corporation bonds

Investment corporation bonds issued as of June 30, 2011 are as follows:

Issue	Issuance date	Balance at the beginning of period (Thousands of yen)	Balance at the end of period (Thousands of yen)	Interest rate (Note 1) (%)	Maturity date	Repayment method	Use	Remarks
1st series unsecured investment corporation bonds	March 11, 2010	12,000,000	12,000,000	1.52000	March 11, 2014	Lump-sum	(Note 2)	(Note 3)
2nd series unsecured investment corporation bonds	June 28, 2010	5,000,000	5,000,000	1.29000	June 26, 2015	Lump-sum	(Note 2)	(Note 3)
Total		17,000,000	17,000,000	1.45235				

(Note 1) The interest rate indicated in the total column is calculated using a weighted-average of the balance at the end of period by multiplying the loan interest rate of each investment corporation bond, rounding to five decimal places.

(Note 2) The funds were appropriated to repayments of borrowings.

(Note 3) The bonds are with special pari passu conditions among specified investment corporation bonds.

### (4) Short-term investment corporation bonds

JEI has no outstanding short-term investment corporation bonds as of June 30, 2011.

## 6. Condition of Investment Transactions

### (1) Transactions of property and asset-backed securities, etc.

(Millions of yen)

Type of assets	Name of real property	Acquisition		Transfer			
		Acquisition date	Acquisition price (Note 1)	Transfer date	Transfer amount (Note 1)	Net book value	Gain (loss) on transfer (Note 2)
Trust beneficiary interest in real estate	Daiba Garden City Building	February 4, 2011	11,000	–	–	–	–
Trust beneficiary interest in real estate	No. 36 Kowa Building	–	–	February 4, 2011	4,300	3,995	302
		–	11,000	–	4,300	3,995	302

(Note 1) The acquisition price and transfer amount indicate each contracted amount of the property in each purchase agreement or trust beneficiary interest transfer agreement excluding related expenses (brokerage fee, taxes, etc.).

(Note 2) Gain (loss) on transfer indicates the amount of transfer deducting the net book value and other costs to sell.

### (2) Transactions of other assets

Other assets than property or asset-backed securities, etc. above are mainly bank deposits and bank deposits in trust.



### (3) Research for specified assets value, etc.

#### 1) Real estate, etc.

(Millions of yen)

Acquisition or transfer	Property name	Type of assets	Acquisition or transfer date	Acquisition or transfer price (Note 2)	Research value of specified asset
Acquisition	Daiba Garden City Building	Trust beneficiary interest in real estate	February 4, 2011	11,000	11,300
Transfer	No. 36 Kowa Building	Trust beneficiary interest in real estate	February 4, 2011	4,300	3,949
Total			–	15,300	15,249

(Note 1) The research for specified asset value, etc. shown above was conducted by Ernst & Young ShinNihon LLC at the time of acquisition or transfer in accordance with the Japanese Institute of Certified Public Accountants (JICPA) Industry Audit Committee Report No. 23, “Price Research of Specified Assets Held by Investment Trusts and Investment Corporations.” In addition, JEI received a research report containing matters necessary for the identification of the property, such as the location and the lot number of the property.

(Note 2) The acquisition or transfer price indicates each contracted amount of the property in each purchase agreement or trust beneficiary interest transfer agreement excluding related expenses (brokerage fee, taxes, etc.), rounding to the million yen.

#### 2) Other

Transactions of JEI that are subject to research for specified asset value, etc. under Section 201 of the Investment Trust Law other than those listed in 1) Real estate, etc. above are researched and reported by Ernst & Young ShinNihon LLC.

One interest rate swap contract was subject to the research during the period from January 1, 2011 to June 30, 2011 and we have received the related research report from Ernst & Young ShinNihon LLC. In the research, Ernst & Young ShinNihon LLC is supposed to report on the name of counterparty, currency, contractual interest rate, transaction term and other matters pertaining to the subject interest rate swap contract.

### (4) Transactions with interested parties and major shareholders

#### 1) Transactions

Classification	Acquisition price or disposal amount	
	Acquisition price	Disposal amount
Total amount	11,000 million yen	4,300 million yen
	Acquisition price from interested parties and major shareholders 11,000 million yen	Disposal amount to interested parties and major shareholders 4,300 million yen
Breakdown for transactions with interested parties and major shareholders		
Sekisui House, Ltd.	11,000 million yen (100.0%)	–
Kowa Real Estate Co., Ltd.	–	4,300 million yen (100.0%)
Total	11,000 million yen (100.0%)	4,300 million yen (100.0%)

(Note) Above transactions indicate transactions made with interested parties and major shareholders for the six months ended June 30, 2011. “Interested parties” means the interested parties related to the asset management company of JEI as prescribed in Section 26, Paragraph 1, Item 27 of the Regulations for Management Reports Concerning Investment Trusts and Investment Corporations of the Investment Trusts Association, Japan. “Major shareholders” means the major shareholders as defined in Section 29-4, Paragraph 2 of the Financial Instruments and Exchange Act.

## 2) Amounts of fees paid and other expenses

(Thousands of yen)

Classification	Total amount paid (A)	Breakdown of transactions with interested parties and major shareholders		B/A
		Paid to	Amount paid (B)	
Property management costs and fees (Note 2)	1,040,756	Kowa Real Estate Co., Ltd.	368,756	35.4%
		Sekisui House, Ltd.	48,229	4.6%
Total	1,040,756	–	416,986	40.1%

(Note 1) Figures indicate fees paid to interested parties and major shareholders of asset management companies with whom JEI had transactions during the six months ended June 2011.

(Note 2) Property management costs and fees include construction management fees that were not expensed but capitalized in property management fees and expenses.

(Note 3) The amounts do not include consumption tax and other taxes.

## (5) Transactions with asset management companies concerning the additional businesses of the asset management companies

The Asset Management Company (Japan Excellent Asset Management Co., Ltd.) does not run any additional businesses classified in the type I financial instruments business, type II financial instruments business, building lots and buildings transaction business, or real estate specified joint enterprise and did not have applicable transactions.

## 7. Accounting

### (1) Assets, liabilities, principal, and profit and loss

For assets, liabilities, principal, and profit and loss, please refer to the attached Balance Sheets, Statements of Income and Retained Earnings, Statements of Changes in Net Assets, Notes to Financial Statements and Distribution Information.

### (2) Change in depreciation calculation method

No changes were made during the period.

### (3) Change in asset valuation method

No changes were made during the period.

## 8. Others

### (1) Investment trust beneficiary certificates incorporated by JEI

Not applicable during the period.

### (2) Scheduled meetings

#### 1) Unitholders' meeting

Not applicable during the period.

#### 2) Board of directors meeting

Outline of major contracts to be entered into or revised which were approved by the board of directors of JEI during the six months ended June 30, 2011 is as follows:

Approval date	Approved agenda	Description
January 13, 2011	Conclusion of an agreement for the entrustment of general administrative duties concerning the offering of investment units	In relation to the planned issuance of new investment units, the board of directors appointed Mizuho Securities Co., Ltd., Mitsubishi UFJ Morgan Stanley Securities Co., Ltd., and Mito Securities Co., Ltd. as general administrators for the offering of investment units.
February 14, 2011	Entrusting administrative duties concerning investment corporation bonds	The board of directors made a comprehensive resolution on the issuance of investment corporation bonds for the period from February 15, 2011 to January 6, 2012. In addition, it selected and approved respective general administrators for "subscription of investment corporation bonds" and "acceptance of claims for exercising the rights and other inquiries from creditors of the Investment Corporation Bonds and other administrative duties concerning investment corporation bonds during the fiscal period," and assigned decisions on all other necessary matters to the Executive Director.
June 30, 2011	Entrusting administrative duties concerning investment corporation bonds	With regard to the comprehensive resolution on the issuance of investment corporation bonds passed at the board of directors meeting held on February 14, 2011, the board of directors approved to add a candidate general administrator for "subscription of investment corporation bonds."

### (3) Other

Figures less than unit indicated in each statement have been rounded down for amounts and rounded for ratio unless otherwise indicated in this Report.

**Financial Statements**

**Japan Excellent, Inc.**

*For the six-month periods ended  
June 30, 2011 and December 31, 2010  
with Report of Independent Auditors*

## Report of Independent Auditors

The Board of Directors and Unitholders  
Japan Excellent, Inc.

We have audited the accompanying balance sheets of Japan Excellent, Inc. as of June 30, 2011 and December 31, 2010, and the related statements of income and retained earnings, changes in net assets, and cash flows for the six-month periods then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Japan Excellent, Inc. at June 30, 2011 and December 31, 2010, and the results of its operations and its cash flows for the six-month periods then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying financial statements with respect to the six-month period ended June 30, 2011 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2.

*Ernst & Young ShinNihon LLC*

September 22, 2011

# Japan Excellent, Inc.

## Balance Sheets

As of June 30, 2011 and December 31, 2010

	As of June 30, 2011	As of December 31, 2010	As of June 30, 2011
	<i>(Thousands of yen)</i>		<i>(U.S. dollars)</i> <i>(Note 2)</i>
<b>Assets</b>			
Current assets:			
Cash and cash equivalents including trust accounts <i>(Notes 4 and 5)</i>	¥ 16,496,792	¥ 13,151,936	\$ 204,345,249
Rental receivables	375,348	432,986	4,649,427
Consumption taxes refundable	193,373	–	2,395,304
Other current assets	114,170	135,607	1,414,219
Total current assets	<u>17,179,683</u>	<u>13,720,529</u>	<u>212,804,199</u>
Property and equipment <i>(Note 7)</i> :			
Buildings and building improvements	3,492,109	3,364,688	43,256,643
Machinery and equipment	265	265	3,284
Furniture and fixtures	833	662	10,312
Construction in progress	14,508	13,404	179,714
Buildings and building improvements for trust accounts	72,203,216	66,005,514	894,378,987
Machinery and equipment for trust accounts	416,916	414,193	5,164,326
Furniture and fixtures for trust accounts	74,837	70,485	927,009
Land for trust accounts	115,651,435	114,629,601	1,432,570,723
Less: accumulated depreciation	<u>(8,964,177)</u>	<u>(8,009,258)</u>	<u>(111,038,978)</u>
Net property and equipment	<u>182,889,942</u>	<u>176,489,554</u>	<u>2,265,452,020</u>
Investments and other assets:			
Leasehold rights	1,185,045	1,185,045	14,679,114
Leasehold rights for trust accounts	7,380,017	7,380,017	91,416,038
Security deposits	15,181	15,182	188,055
Long-term prepaid expenses	362,835	262,394	4,494,422
Investment corporation bond issuance costs	61,015	70,862	755,795
Other assets	68,427	63,066	847,604
Total investments and other assets	<u>9,072,520</u>	<u>8,976,566</u>	<u>112,381,028</u>
Total assets	<u>¥ 209,142,145</u>	<u>¥ 199,186,649</u>	<u>\$ 2,590,637,247</u>

*The accompanying notes are an integral part of these financial statements.*

	<b>As of June 30, 2011</b>	<b>As of December 31, 2010</b>	<b>As of June 30, 2011</b>
	<i>(Thousands of yen)</i>		<i>(U.S. dollars) (Note 2)</i>
<b>Liabilities</b>			
<b>Current liabilities:</b>			
Accounts payable – trade	¥ 583,196	¥ 584,349	\$ 7,224,036
Short-term loans <i>(Notes 5 and 8)</i>	–	4,900,000	–
Long-term debt due within one year <i>(Notes 5 and 8)</i>	7,000,000	34,500,000	86,708,782
Accounts payable – other	342,674	356,104	4,244,691
Unpaid consumption taxes	–	4,816	–
Derivative liabilities	–	28,770	–
Provision for loss on disaster	16,430	–	203,517
Other current liabilities	257,942	252,234	3,195,120
<b>Total current liabilities</b>	<b>8,200,242</b>	<b>40,626,273</b>	<b>101,576,146</b>
<b>Long-term liabilities:</b>			
Investment corporation bonds <i>(Notes 5 and 9)</i>	17,000,000	17,000,000	210,578,472
Long-term debt <i>(Notes 5 and 8)</i>	71,500,000	44,000,000	885,668,277
Security deposits from tenants <i>(Note 5)</i>	421,646	428,246	5,222,917
Security deposits from tenants for trust accounts <i>(Note 5)</i>	7,653,840	7,859,538	94,807,871
<b>Total long-term liabilities</b>	<b>96,575,486</b>	<b>69,287,784</b>	<b>1,196,277,537</b>
<b>Total liabilities</b>	<b>104,775,728</b>	<b>109,914,057</b>	<b>1,297,853,683</b>
<b>Net assets <i>(Note 10)</i>:</b>			
<b>Unitholders' equity:</b>			
<b>Unitholders' capital:</b>			
Units authorized: 2,000,000 units			
Units issued and outstanding:			
188,650 units as of June 30, 2011 and			
154,550 units as of December 31, 2010	102,052,384	87,083,030	1,264,119,713
Retained earnings	2,314,033	2,218,333	28,663,851
<b>Total unitholders' equity</b>	<b>104,366,417</b>	<b>89,301,363</b>	<b>1,292,783,564</b>
<b>Valuation and translation adjustments:</b>			
Unrealized loss on deferred hedge transactions <i>(Note 5)</i>	–	(28,771)	–
<b>Total valuation and translation adjustments</b>	<b>–</b>	<b>(28,771)</b>	<b>–</b>
<b>Total net assets</b>	<b>104,366,417</b>	<b>89,272,592</b>	<b>1,292,783,564</b>
<b>Total liabilities and net assets</b>	<b>¥ 209,142,145</b>	<b>¥ 199,186,649</b>	<b>\$ 2,590,637,247</b>

*The accompanying notes are an integral part of these financial statements.*

# Japan Excellent, Inc.

## Statements of Income and Retained Earnings

For the periods from January 1, 2011 to June 30, 2011  
and from July 1, 2010 to December 31, 2010

	<b>For the period from January 1, 2011 to June 30, 2011</b>	<b>For the period from July 1, 2010 to December 31, 2010</b>	<b>For the period from January 1, 2011 to June 30, 2011</b>
	<i>(Thousands of yen)</i>		<i>(U.S. dollars)</i> <i>(Note 2)</i>
Revenues:			
Rental revenues <i>(Note 13)</i>	¥6,565,051	¥6,506,591	\$81,321,085
Other <i>(Note 13)</i>	469,836	587,425	5,819,847
Gain on sale of real estate <i>(Note 14)</i>	302,618	–	3,748,511
Total revenues	<u>7,337,505</u>	<u>7,094,016</u>	<u>90,889,443</u>
Operating expenses:			
Property operating expenses <i>(Note 13)</i>	3,555,973	3,494,167	44,047,727
Asset management fees	428,085	416,479	5,302,676
Custodian fees	15,243	14,930	188,815
Administrative service fees	29,059	29,598	359,951
Compensation for directors	6,540	6,540	81,011
Other	82,394	78,763	1,020,615
Total operating expenses	<u>4,117,294</u>	<u>4,040,477</u>	<u>51,000,795</u>
Operating income	<u>3,220,211</u>	<u>3,053,539</u>	<u>39,888,648</u>
Other income:			
Interest income	1,798	2,907	22,271
Other	5,201	1,019	64,418
Other expenses:			
Interest expense	541,561	546,315	6,708,302
Loan arrangement fees	146,481	157,256	1,814,453
New unit issuance costs	43,953	–	544,439
Interest expense on investment corporation bonds	122,359	124,541	1,515,657
Amortization of investment corporation bond issuance costs	9,846	9,846	121,966
Other	129	128	1,592
Ordinary income	<u>2,362,881</u>	<u>2,219,379</u>	<u>29,268,928</u>
Extraordinary losses:			
Loss on disaster	47,933	–	593,745
Income before income taxes	<u>2,314,948</u>	<u>2,219,379</u>	<u>28,675,183</u>
Income taxes <i>(Note 12)</i> :			
Current	987	1,081	12,227
Deferred	5	(5)	57
Net income	<u>2,313,956</u>	<u>2,218,303</u>	<u>28,662,899</u>
Retained earnings at beginning of period	77	30	952
Retained earnings at end of period	<u>¥2,314,033</u>	<u>¥2,218,333</u>	<u>\$28,663,851</u>

The accompanying notes are an integral part of these financial statements.



# Japan Excellent, Inc.

## Statements of Changes in Net Assets

For the periods from January 1, 2011 to June 30, 2011  
and from July 1, 2010 to December 31, 2010

For the period from July 1, 2010 to December 31, 2010							
Net assets							
Unitholders' equity				Valuation and translation adjustments			
Number of units in issue	Unitholders' capital	Retained earnings	Total unitholders' equity	Unrealized loss on deferred hedge transactions	Total valuation and translation adjustments	Total net assets	
<i>(Thousands of yen)</i>							
<b>Balance as of June 30, 2010</b>	154,550	¥87,083,030	¥ 2,366,963	¥89,449,993	¥(60,222)	¥(60,222)	¥89,389,771
Changes during the fiscal period:							
Distributions from retained earnings	–	–	(2,366,933)	(2,366,933)	–	–	(2,366,933)
Net income	–	–	2,218,303	2,218,303	–	–	2,218,303
Changes in unrealized loss on deferred hedge transactions	–	–	–	–	31,451	31,451	31,451
Total changes during the fiscal period	–	–	(148,630)	(148,630)	31,451	31,451	(117,179)
<b>Balance as of December 31, 2010</b>	154,550	¥87,083,030	¥ 2,218,333	¥89,301,363	¥(28,771)	¥(28,771)	¥89,272,592

For the period from January 1, 2011 to June 30, 2011							
Net assets							
Unitholders' equity				Valuation and translation adjustments			
Number of units in issue	Unitholders' capital	Retained earnings	Total unitholders' equity	Unrealized loss on deferred hedge transactions	Total valuation and translation adjustments	Total net assets	
<i>(Thousands of yen)</i>							
<b>Balance as of December 31, 2010</b>	154,550	¥ 87,083,030	¥ 2,218,333	¥ 89,301,363	¥(28,771)	¥(28,771)	¥ 89,272,592
Changes during the fiscal period:							
Issuance of new units	34,100	14,969,354	–	14,969,354	–	–	14,969,354
Distributions from retained earnings	–	–	(2,218,256)	(2,218,256)	–	–	(2,218,256)
Net income	–	–	2,313,956	2,313,956	–	–	2,313,956
Changes in unrealized loss on deferred hedge transactions	–	–	–	–	28,771	28,771	28,771
Total changes during the fiscal period	34,100	14,969,354	95,700	15,065,054	28,771	28,771	15,093,825
<b>Balance as of June 30, 2011</b>	188,650	¥102,052,384	¥ 2,314,033	¥104,366,417	¥ –	¥ –	¥104,366,417

For the period from January 1, 2011 to June 30, 2011							
Net assets							
Unitholders' equity				Valuation and translation adjustments			
Number of units in issue	Unitholders' capital	Retained earnings	Total unitholders' equity	Unrealized loss on deferred hedge transactions	Total valuation and translation adjustments	Total net assets	
<i>(U.S. dollars) (Note 2)</i>							
<b>Balance as of December 31, 2010</b>	154,550	\$1,078,694,785	\$ 27,478,422	\$1,106,173,207	\$(356,378)	\$(356,378)	\$1,105,816,829
Changes during the fiscal period:							
Issuance of new units	34,100	185,424,928	–	185,424,928	–	–	185,424,928
Distributions from retained earnings	–	–	(27,477,470)	(27,477,470)	–	–	(27,477,470)
Net income	–	–	28,662,899	28,662,899	–	–	28,662,899
Changes in unrealized loss on deferred hedge transactions	–	–	–	–	356,378	356,378	356,378
Total changes during the fiscal period	34,100	185,424,928	1,185,429	186,610,357	356,378	356,378	186,966,735
<b>Balance as of June 30, 2011</b>	188,650	\$1,264,119,713	\$ 28,663,851	\$1,292,783,564	\$ –	\$ –	\$1,292,783,564

The accompanying notes are an integral part of these financial statements.

# Japan Excellent, Inc.

## Statements of Cash Flows

For the periods from January 1, 2011 to June 30, 2011  
and from July 1, 2010 to December 31, 2010

	<b>For the period from January 1, 2011 to June 30, 2011</b>	<b>For the period from July 1, 2010 to December 31, 2010</b>	<b>For the period from January 1, 2011 to June 30, 2011</b>
	<i>(Thousands of yen)</i>		<i>(U.S. dollars) (Note 2)</i>
<b>Cash flows from operating activities</b>			
Income before income taxes	¥ 2,314,948	¥ 2,219,379	\$ 28,675,183
Depreciation and amortization	1,080,842	993,261	13,388,356
Amortization of investment corporation bond issuance costs	9,846	9,846	121,966
Increase in provision for loss on disaster	16,430	—	203,517
New unit issuance costs	43,953	—	544,439
Interest income	(1,798)	(2,907)	(22,271)
Interest expense	663,920	670,856	8,223,959
Decrease in rental receivables	57,638	31,147	713,964
Increase in consumption taxes refundable	(193,373)	—	(2,395,305)
Decrease (increase) in prepaid expenses	17,725	(26,490)	219,556
Increase (decrease) in accounts payable – trade	44,862	(36,115)	555,707
Increase (decrease) in accounts payable – other	9,192	(1,918)	113,857
Decrease in unpaid consumption taxes	(4,816)	(56,700)	(59,659)
Increase in advances received	33,366	3,724	413,308
(Increase) decrease in long-term prepaid expenses	(100,440)	142,098	(1,244,148)
Decrease in property and equipment for trust accounts due to sale	3,995,580	—	49,493,126
Other, net	(24,333)	7,002	(301,405)
Subtotal	<u>7,963,542</u>	<u>3,953,183</u>	<u>98,644,150</u>
Interest received	1,798	2,907	22,271
Interest paid	(691,629)	(666,192)	(8,567,194)
Income taxes paid	(950)	(1,111)	(11,762)
Net cash provided by operating activities	<u>7,272,761</u>	<u>3,288,787</u>	<u>90,087,465</u>
<b>Cash flows from investing activities</b>			
Purchases of property and equipment	(130,421)	(9,935)	(1,615,515)
Purchases of property and equipment for trust accounts	(11,394,014)	(7,443,973)	(141,137,297)
Proceeds from security deposits from tenants	8,804	2,030	109,053
Payments for security deposits to tenants	(15,404)	(15,988)	(190,809)
Proceeds from security deposits from tenants for trust accounts	701,662	502,489	8,691,465
Payments for security deposits to tenants for trust accounts	(907,360)	(855,657)	(11,239,444)
Net cash used in investing activities	<u>(11,736,733)</u>	<u>(7,821,034)</u>	<u>(145,382,547)</u>
<b>Cash flows from financing activities</b>			
Proceeds from short-term loans	—	4,900,000	—
Repayment for short-term loans	(4,900,000)	—	(60,696,148)
Proceeds from long-term debt	27,500,000	6,000,000	340,641,645
Repayment for long-term debt	(27,500,000)	(6,000,000)	(340,641,645)
Issuance of new units	14,969,355	—	185,424,928
Payments for new unit issuance costs	(43,953)	—	(544,439)
Distributions to unitholders	(2,216,574)	(2,365,676)	(27,456,630)
Net cash provided by financing activities	<u>7,808,828</u>	<u>2,534,324</u>	<u>96,727,711</u>
Net increase (decrease) in cash and cash equivalents	3,344,856	(1,997,923)	41,432,629
Cash and cash equivalents at beginning of period	13,151,936	15,149,859	162,912,620
Cash and cash equivalents at end of period	<u>¥ 16,496,792</u>	<u>¥ 13,151,936</u>	<u>\$ 204,345,249</u>

The accompanying notes are an integral part of these financial statements.

# Japan Excellent, Inc.

## Notes to Financial Statements

For the periods from January 1, 2011 to June 30, 2011  
and from July 1, 2010 to December 31, 2010

### 1. Organization

Japan Excellent, Inc. (hereinafter, "JEI"), established on February 20, 2006 under the Law Concerning Investment Trusts and Investment Corporations of Japan (the "Investment Trust Law"), is a real estate investment corporation which primarily invests in office buildings.

JEI is externally managed by a licensed asset management company, Japan Excellent Asset Management ("JEAM"). JEAM is owned 45% by Kowa Real Estate Co., Ltd., 20% by The Dai-ichi Life Insurance Company, Limited, 15% by Sekisui House, Ltd. and 20% by other corporations.

JEI was listed on the Tokyo Stock Exchange on June 27, 2006. As of June 30, 2011, JEI held 19 properties with 234,547 square meters of total leasable space and had leases with 109 tenants excluding residential tenants.

### 2. Basis of Presentation

JEI maintains its accounting records and prepares its financial statements in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), including provisions set forth in the Investment Trust Law, the Corporation Law of Japan, the Financial Instruments and Exchange Law of Japan and related regulations, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

The accompanying financial statements are a translation of the financial statements of JEI, which were prepared in accordance with Japanese GAAP and presented in the securities report of JEI filed with the Kanto Local Finance Bureau. In preparing the accompanying financial statements, certain reclassifications and modifications have been made for the convenience of readers outside Japan. In addition, the notes to the financial statements include information that might not be required under Japanese GAAP but is presented herein as additional information. Amounts have been rounded to the nearest thousand yen in the accompanying financial statements and in the notes thereto, whereas amounts were truncated in the Japanese financial statements prepared in accordance with Japanese GAAP.

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥80.73 = U.S.\$1.00, the foreign exchange rate prevailing on June 30, 2011, has been used for translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled into U.S. dollars at that or any other rate.

### **3. Summary of Significant Accounting Policies**

#### ***Cash and cash equivalents***

Cash and cash equivalents consist of cash on hand, deposits with banks and short-term investments which are highly liquid, readily convertible into cash with an insignificant risk of price fluctuation and with an original maturity of three months or less.

#### ***Property and equipment including trust accounts and trademark rights***

Depreciation is computed by the straight-line method over the estimated useful lives of the respective assets as follows:

Buildings	2 – 59 years
Building improvements	2 – 59 years
Machinery and equipment	7 – 16 years
Furniture and fixtures	4 – 10 years

Amortization of trademark rights is computed using the straight-line method over a period of 10 years.

#### ***Deferred assets***

Investment corporation bond issuance costs are amortized using the straight-line method over the amortization periods.

New unit issuance costs are charged to income as incurred.

#### ***Income taxes***

Income taxes are accounted for on the basis of taxable income for financial statement purposes. The asset and liability method is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities.

#### ***Consumption taxes***

Consumption taxes received and paid are not included in the accompanying statements of income and retained earnings. Consumption tax related to properties, which has not been deducted, is included in the cost of the properties.

#### ***Property-related taxes***

Principally, property-related taxes including property taxes, urban planning taxes and depreciable property taxes are imposed on a calendar-year basis and are expensed as property and other taxes (refer to Note 13).

JEI capitalizes the property-related taxes allocated to the sellers of properties to JEI at the time of acquisition of such properties including trust accounts. The capitalized amounts for the periods from January 1, 2011 to June 30, 2011 and from July 1, 2010 to December 31, 2010 were ¥66,033 thousand (\$817,954) and ¥3,012 thousand, respectively.

### 3. Summary of Significant Accounting Policies (continued)

#### *Provision for loss on disaster*

Provision for loss on disaster is recorded at the amount estimated as of June 30, 2011 to provide for possible repair and recovery costs arising from the Great East Japan Earthquake.

#### *Revenue recognition*

Rental revenues are generally recognized on an accrual basis over the life of each lease.

#### *Derivatives and hedge accounting*

JEI utilizes interest-rate swap agreements as derivative financial instruments solely for the purpose of hedging its exposure to fluctuation in interest rates. JEI has entered into certain interest-rate swap contracts to hedge variable rates for its long-term debt obligations.

The corresponding interest-rate swap meets the criteria for the special hedge accounting treatment under Japanese GAAP, and it is therefore not recorded at fair value.

The amounts paid or received via the swap transaction are recognized as interest adjustments. An assessment of hedge effectiveness is omitted accordingly.

#### *Properties in trust accounts*

All assets and liabilities held in trust, for which real estate in possession of JEI was entrusted, and all earnings and expenses resulting from such trust, are properly reflected in the accompanying balance sheets and statements of income and retained earnings, respectively.

### 4. Cash and Cash Equivalents

Cash and cash equivalents including trust accounts in the accompanying balance sheets and cash and cash equivalents in the accompanying statements of cash flows at June 30, 2011 and December 31, 2010 consisted of the following:

	<b>As of June 30, 2011</b>	<b>As of December 31, 2010</b>	<b>As of June 30, 2011</b>
	<i>(Thousands of yen)</i>		<i>(U.S. dollars)</i>
Cash and cash deposits	¥ 5,560,049	¥ 2,290,294	\$ 68,872,151
Cash in trust and deposits in trust	10,936,743	10,861,642	135,473,098
Cash and cash equivalents including trust accounts	<u>¥16,496,792</u>	<u>¥13,151,936</u>	<u>\$204,345,249</u>

## 5. Financial Instruments

**For the periods from January 1, 2011 to June 30, 2011 and from July 1, 2010 to December 31, 2010**

### *Overview*

#### (1) Policy for Financial Instruments

JEI borrows from banks, issues investment corporation bonds and issues investment units to procure funds required to grow its assets under management and to repay liabilities, based on the financial policy set forth by JEAM and the Company's Annual Funds Procurement Plan. When procuring funds by means of interest-bearing debt, matters such as seeking longer durations and maturities, securing fixed interest rates and diversifying maturity dates are taken into consideration to achieve a more stable financial situation and avoid the risk of future interest rate hikes. Surplus funds may be invested in deposits and safe, liquid financial assets and investment securities, but are, in principle, placed in deposits. Derivative transactions are used solely for the purpose of hedging against the risk of fluctuations in interest rates of borrowings and the like.

#### (2) Types of Financial Instruments, Related Risks and Risk Management System

##### (a) Market Risks (Interest Rate Fluctuation Risks)

Borrowings and investment corporation bonds are primarily used to acquire properties or to refinance existing borrowings. Some of such debt are floating rate instruments and thus are exposed to the risk of interest rate fluctuations. Based on interest rate forecasts developed through constant monitoring activities, JEI hedges against the risk of interest rate fluctuations using derivative transactions (interest-rate swaps), which swap a floating interest rate for a fixed interest rate. To reduce credit risk, derivative transactions (interest-rate swaps) are entered into exclusively with counterparties that are financial institutions having a high credit rating. For hedging accounting methods, hedging instruments, hedged items, hedging policies and methods for evaluation the effectiveness of hedging activities, see "Derivatives and hedge accounting" under Summary of Significant Accounting Policies.

##### (b) Liquidity Risk (the risk of being unable to procure funds required for repayments)

Borrowings and investment corporation bonds are exposed to liquidity risk. This risk is reduced by diversifying maturity dates and funding sources, and liquidity risk is managed through the constant management of liquidity on hand.

#### (3) Supplementary Explanation of the Estimated Fair Value of Financial Instruments

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in a different fair value.

## 5. Financial Instruments (continued)

### *Fair value of financial instruments*

The following are carrying values and fair values as of June 30, 2011 and December 31, 2010 of financial instruments and the differences between them. When fair value is difficult to ascertain, it is excluded from the following table (Note 2).

	As of June 30, 2011			As of December 31, 2010			As of June 30, 2011		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
	<i>(Thousands of yen)</i>						<i>(U.S. dollars)</i>		
(1) Cash and cash deposits	¥ 5,560,049	¥ 5,560,049	¥ -	¥ 2,290,294	¥ 2,290,294	¥ -	\$ 68,872,151	\$ 68,872,151	\$ -
(2) Cash in trust and deposits in trust	10,936,743	10,936,743	-	10,861,642	10,861,642	-	135,473,098	135,473,098	-
Total assets	<u>¥ 16,496,792</u>	<u>¥ 16,496,792</u>	<u>¥ -</u>	<u>¥ 13,151,936</u>	<u>¥ 13,151,936</u>	<u>¥ -</u>	<u>\$ 204,345,249</u>	<u>\$ 204,345,249</u>	<u>\$ -</u>
(3) Short-term loans	¥ -	¥ -	¥ -	¥ 4,900,000	¥ 4,900,000	¥ -	\$ -	\$ -	\$ -
(4) Long-term debt due within one year	7,000,000	7,000,000	-	34,500,000	34,513,981	13,981	86,708,782	86,708,782	-
(5) Investment corporation bonds	17,000,000	17,187,400	187,400	17,000,000	17,198,200	198,200	210,578,472	212,899,789	2,321,317
(6) Long-term debt	71,500,000	71,710,990	210,990	44,000,000	44,388,284	388,284	885,668,277	888,281,800	2,613,523
Total liabilities	<u>¥ 95,500,000</u>	<u>¥ 95,898,390</u>	<u>¥ 398,390</u>	<u>¥100,400,000</u>	<u>¥101,000,465</u>	<u>¥ 600,465</u>	<u>\$1,182,955,531</u>	<u>\$1,187,890,371</u>	<u>\$ 4,934,840</u>
(7) Derivative transactions *	¥ -	¥ -	¥ -	¥ (28,771)	¥ (28,771)	¥ -	\$ -	\$ -	\$ -

\* The value of assets and liabilities arising from derivatives is shown at net value, with the amount in parentheses representing net liability position.

(Note 1)

### *Methods for calculating the fair value of financial instruments and matters related to derivatives transactions*

#### Assets

- (1) Cash and cash deposits and
- (2) Cash in trust and deposits in trust

Carrying value approximates fair value because of the short maturities of these instruments.

#### Liabilities

- (3) Short-term loans,
- (4) Long-term debt due within one year and
- (6) Long-term debt

Where floating rates apply, fair value is based on book value. The fair value of such liabilities is considered to be close to book value because floating rates reflect market interest rates within a short period of time.

If the loan is part of long-term debt, in the case of floating-rate debt hedged by an interest-rate swap, the fair value is calculated in a similar manner using the total principal and interest amount, treated in combination with the interest-rate swap, given that the interest-rate swap is subject to the special treatment of interest-rate swaps under Japanese GAAP.

The fair value of long-term fixed-rate debt is calculated by discounting the combined value of principal and interest of the applicable long-term debt by a reasonable rate assuming the same amount were to be borrowed anew.

## 5. Financial Instruments (continued)

### (5) Investment corporation bonds

The fair value of investment corporation bonds issued by JEI is based on quoted market prices.

### (7) Derivative transactions

Please refer to Note 16, "Derivative Transactions."

(Note 2)

*Financial instruments for which fair value is deemed extremely difficult to determine*

	<b>As of June 30, 2011</b>	<b>As of December 31, 2010</b>	<b>As of June 30, 2011</b>
	<i>(Thousands of yen)</i>		<i>(U.S. dollars)</i>
(1) Security deposits from tenants *	¥ 421,646	¥ 428,246	\$ 5,222,917
(2) Security deposits from tenants for trust accounts *	¥7,653,839	¥7,859,538	\$94,807,871

\* Security deposits from tenants and security deposits from tenants for trust accounts in leased properties are not subject to fair value disclosure because such deposits have no market price. Moreover, it is difficult to calculate the actual period of time on deposit, namely, from the time the tenant moves in until the time the tenant vacates, and it is extremely difficult to rationally estimate cash flow.

(Note 3)

*Planned redemption amounts after settlement date of financial assets*

	<b>As of June 30, 2011</b>					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	<i>(Thousands of yen)</i>					
Cash and cash deposits	¥ 5,560,049	¥ -	¥ -	¥ -	¥ -	¥ -
Cash in trust and deposits in trust	10,936,743	-	-	-	-	-
Total	<u>¥16,496,792</u>	<u>¥ -</u>	<u>¥ -</u>	<u>¥ -</u>	<u>¥ -</u>	<u>¥ -</u>
	<b>As of June 30, 2011</b>					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	<i>(U.S. dollars)</i>					
Cash and cash deposits	\$ 68,872,151	\$ -	\$ -	\$ -	\$ -	\$ -
Cash in trust and deposits in trust	135,473,098	-	-	-	-	-
Total	<u>\$204,345,249</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
	<b>As of December 31, 2010</b>					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	<i>(Thousands of yen)</i>					
Cash and cash deposits	¥ 2,290,294	¥ -	¥ -	¥ -	¥ -	¥ -
Cash in trust and deposits in trust	10,861,642	-	-	-	-	-
Total	<u>¥13,151,936</u>	<u>¥ -</u>	<u>¥ -</u>	<u>¥ -</u>	<u>¥ -</u>	<u>¥ -</u>



## 5. Financial Instruments (continued)

(Note 4)

Planned redemption amounts after settlement date of borrowings, investment corporation bonds and other interest-bearing debt

	As of June 30, 2011					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	(Thousands of yen)					
Short-term loans	¥ -	¥ -	¥ -	¥ -	¥ -	¥ -
Long-term debt due within one year	7,000,000	-	-	-	-	-
Investment corporation bonds	-	-	12,000,000	5,000,000	-	-
Long-term debt	-	21,000,000	8,000,000	20,500,000	13,000,000	9,000,000
Total	<u>¥ 7,000,000</u>	<u>¥ 21,000,000</u>	<u>¥ 20,000,000</u>	<u>¥ 25,500,000</u>	<u>¥ 13,000,000</u>	<u>¥ 9,000,000</u>

	As of June 30, 2011					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	(U.S. dollars)					
Short-term loans	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Long-term debt due within one year	86,708,782	-	-	-	-	-
Investment corporation bonds	-	-	148,643,627	61,934,844	-	-
Long-term debt	-	260,126,347	99,095,751	253,932,863	161,030,596	111,482,720
Total	<u>\$ 86,708,782</u>	<u>\$ 260,126,347</u>	<u>\$ 247,739,378</u>	<u>\$ 315,867,707</u>	<u>\$ 161,030,596</u>	<u>\$ 111,482,720</u>

	As of December 31, 2010					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	(Thousands of yen)					
Short-term loans	¥ 4,900,000	¥ -	¥ -	¥ -	¥ -	¥ -
Long-term debt due within one year	34,500,000	-	-	-	-	-
Investment corporation bonds	-	-	-	12,000,000	5,000,000	-
Long-term debt	-	14,000,000	15,000,000	4,000,000	5,000,000	6,000,000
Total	<u>¥ 39,400,000</u>	<u>¥ 14,000,000</u>	<u>¥ 15,000,000</u>	<u>¥ 16,000,000</u>	<u>¥ 10,000,000</u>	<u>¥ 6,000,000</u>

## 6. Investment and Rental Property

For the periods from January 1, 2011 to June 30, 2011 and from July 1, 2010 to December 31, 2010

JEI owns rental office buildings and other properties in Tokyo and other regions for the purpose of generating rental income. The following is the carrying value and fair value as of June 30, 2011 and December 31, 2010, for such real estate for lease.

As of December 31, 2010	Carrying value		As of June 30, 2011	Fair value As of June 30, 2011
	Change during period <sup>(*)</sup>			
	(Thousands of yen)			
¥185,054,616	¥6,400,387		¥191,455,003	¥176,964,000

## 6. Investment and Rental Property (continued)

Carrying value		Fair value	
As of December 31, 2010	Change during period <sup>(*1)</sup>	As of June 30, 2011	As of June 30, 2011
<i>(U.S. dollars)</i>			
\$2,292,265,774	\$79,281,398	\$2,371,547,172	\$2,192,047,566

  

Carrying value		Fair value	
As of June 30, 2010	Change during period <sup>(*2)</sup>	As of December 31, 2010	As of December 31, 2010
<i>(Thousands of yen)</i>			
¥178,434,116	¥6,620,500	¥185,054,616	¥173,780,000

(Note 1)

Carrying value represents the acquisition cost less accumulated depreciation.

(Note 2)

(\*1) Changes during period comprise an increase of ¥11,115,110 thousand (\$137,682,522) related to the acquisition of Daiba Garden City Building and a decrease of ¥3,995,580 thousand (\$49,493,126) related to the disposition of No. 36 Kowa Building and an decrease of ¥1,080,785 thousand (\$13,387,650) for depreciation costs.

(\*2) Changes during period comprise an increase of ¥2,414,453 thousand related to the acquisition of No. 32 Kowa Building and an increase of ¥4,864,128 thousand related to the acquisition of Kowa Shirokanedai Building and a decrease of ¥993,204 thousand for depreciation costs.

(Note 3)

Fair value as of June 30, 2011 and December 31, 2010 is appraisal value provided by third-party real estate appraisers.

## 7. Property and Equipment

Property and equipment at June 30, 2011 and December 31, 2010 consisted of the following:

	As of June 30, 2011			As of December 31, 2010			As of June 30, 2011		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
<i>(Thousands of yen)</i>									
Buildings and building improvements	¥ 3,492,109	¥ (383,323)	¥ 3,108,786	¥ 3,364,688	¥ (342,259)	¥ 3,022,429	\$ 43,256,643	\$ (4,748,208)	\$ 38,508,435
Machinery and equipment	265	(24)	241	265	(12)	253	3,284	(296)	2,988
Furniture and fixtures	832	(251)	582	662	(199)	463	10,311	(3,107)	7,204
Construction in progress	14,508	-	14,508	13,404	-	13,404	179,715	-	179,715
Buildings and building improvements for trust accounts	72,203,216	(8,425,877)	63,777,339	66,005,514	(7,531,240)	58,474,274	894,378,987	(104,371,078)	790,007,909
Machinery and equipment for trust accounts	416,916	(132,091)	284,825	414,193	(118,031)	296,162	5,164,326	(1,636,210)	3,528,116
Furniture and fixtures for trust accounts	74,838	(22,611)	52,227	70,485	(17,517)	52,968	927,009	(280,079)	646,930
Land for trust accounts	115,651,434	-	115,651,434	114,629,601	-	114,629,601	1,432,570,723	-	1,432,570,723
Total	¥ 191,854,118	¥ (8,964,177)	¥ 182,889,942	¥ 184,498,812	¥ (8,009,258)	¥ 176,489,554	\$2,376,490,998	\$ (111,038,978)	\$2,265,452,020

## 8. Short-Term Loans and Long-Term Debt

Short-term loans and long-term debt as of June 30, 2011 and December 31, 2010 consisted of the following:

	As of June 30, 2011		As of December 31, 2010		As of June 30, 2011
	Amount <i>(Thousands of yen)</i>	Weighted- average interest rate	Amount <i>(Thousands of yen)</i>	Weighted- average interest rate	Amount <i>(U.S. dollars)</i>
<b>Short-term loans:</b>					
Unsecured loans from banks due on March 24, 2011	¥ —	—	¥ 4,900,000	0.780000%	\$ —
Subtotal	—		4,900,000		—
<b>Long-term debt due within one year:</b>					
Unsecured loans from banks due on June 29, 2011	—	—	9,500,000	1.43470%	—
Unsecured loans from an insurance company due on June 29, 2011	—	—	3,000,000	1.96625%	—
Unsecured loans from banks due on June 29, 2011	—	—	15,000,000	0.94000%	—
Unsecured loans from banks due on November 29, 2011	7,000,000	1.34000%	7,000,000	1.34000%	86,708,782
Subtotal	7,000,000		34,500,000		86,708,782
<b>Long-term debt:</b>					
Unsecured loans from banks due on July 31, 2012	7,000,000	0.69000%	7,000,000	0.69000%	86,708,782
Unsecured loans from banks and insurance companies due on July 31, 2012	7,000,000	1.96907%	7,000,000	1.96907%	86,708,782
Unsecured loans from banks due on June 28, 2013	7,000,000	1.04000%	7,000,000	1.04000%	86,708,782
Unsecured loans from banks due on December 27, 2013	8,000,000	1.09000%	8,000,000	1.09000%	99,095,751
Unsecured loans from an insurance company due on July 31, 2014	2,000,000	2.25875%	2,000,000	2.25875%	24,773,938
Unsecured loans from a bank due on July 31, 2014	2,000,000	2.28417%	2,000,000	2.28417%	24,773,938
Unsecured loans from banks due on December 29, 2014	11,500,000	0.99103%	—	—	142,450,142
Unsecured loans from an insurance company and a bank due on June 30, 2015	5,000,000	2.27344%	5,000,000	2.27344%	61,934,845
Unsecured loans from banks due on June 29, 2016	13,000,000	1.36375%	—	—	161,030,596
Unsecured loans from a bank due on November 30, 2017	6,000,000	1.73875%	6,000,000	1.73875%	74,321,814
Unsecured loans from an insurance company due on June 29, 2018	3,000,000	1.65125%	—	—	37,160,907
Subtotal	71,500,000		44,000,000		885,668,277
Total	¥ 78,500,000		¥ 83,400,000		\$ 972,377,059

## 9. Investment Corporation Bonds

Details of total investment corporation bonds outstanding as of June 30, 2011 and December 31, 2010 are summarized as follows:

	As of June 30, 2011		As of December 31, 2010		As of June 30, 2011
	Amount <i>(Thousands of yen)</i>	Weighted- average interest rate	Amount <i>(Thousands of yen)</i>	Weighted- average interest rate	Amount <i>(U.S. dollars)</i>
Unsecured bond due on March 11, 2014	¥12,000,000	1.52000%	¥12,000,000	1.52000%	\$148,643,627
Unsecured bond due on June 26, 2015	5,000,000	1.29000%	5,000,000	1.29000%	61,934,844
Total	<u>¥17,000,000</u>		<u>¥17,000,000</u>		<u>\$210,578,471</u>

## 10. Net Assets

In accordance with the Investment Trust Law, JEI issues only non-par value investment units and maintains net assets of at least ¥50 million.

## 11. Per Unit Information

Net assets per unit were ¥553,227 (\$6,853) as of June 30, 2011 and ¥577,629 as of December 31, 2010. Net income per unit was ¥12,677 (\$157) for the period from January 1, 2011 to June 30, 2011 and ¥14,353 for the period from July 1, 2010 to December 31, 2010 and was computed based on the weighted-average number of units outstanding during the respective periods.

## 12. Income Taxes

JEI is subject to income taxes in Japan.

JEI's policy is to make dividend distributions in excess of 90% of distributable income for each fiscal period in order to meet the condition set forth in the Special Taxation Measures Law of Japan concerning the deductibility of cash dividends paid for income tax purposes.

Details of significant components of deferred tax assets and liabilities as of June 30, 2011 and December 31, 2010 are summarized as follows:

	As of June 30, 2011	As of December 31, 2010	As of June 30, 2011
	<i>(Thousands of yen)</i>	<i>(Thousands of yen)</i>	<i>(U.S. dollars)</i>
Deferred tax assets:			
Accrued enterprise taxes	¥19	¥ 23	\$230
Unrealized loss on deferred hedge transactions	—	11,316	—
Gross deferred tax assets	19	11,339	230
Valuation reserve	—	(11,316)	—
Total deferred tax assets	19	23	230
Net deferred tax assets	<u>¥19</u>	<u>¥ 23</u>	<u>\$230</u>

## 12. Income Taxes (continued)

A reconciliation of the differences between the statutory tax rate and the effective tax rate for the periods from January 1, 2011 to June 30, 2011 and from July 1, 2010 to December 31, 2010 is as follows:

	<b>For the period from January 1, 2011 to June 30, 2011</b>	<b>For the period from July 1, 2010 to December 31, 2010</b>
Statutory tax rate	39.33%	39.33%
Reconciliation:		
Deductible distributions paid	(38.46)	(39.31)
Other	0.82	0.03
Effective tax rate	<u>0.05%</u>	<u>0.05%</u>

## 13. Breakdown of Property Rental Business Revenues and Expenses

	<b>For the period from January 1, 2011 to June 30, 2011</b>	<b>For the period from July 1, 2010 to December 31, 2010</b>	<b>For the period from January 1, 2011 to June 30, 2011</b>
	<i>(Thousands of yen)</i>		<i>(U.S. dollars)</i>
Rental business revenues:			
Rental revenues	¥6,565,051	¥6,506,591	\$81,321,084
Other	469,836	587,425	5,819,847
Total rental business revenues	<u>7,034,887</u>	<u>7,094,016</u>	<u>87,140,931</u>
Property operating expenses:			
Property management costs and fees	1,033,212	1,005,851	12,798,367
Utilities	552,926	649,690	6,849,071
Property and other taxes	561,760	550,005	6,958,507
Insurance	21,687	20,633	268,639
Repairs and maintenance	92,630	108,223	1,147,408
Depreciation	1,080,785	993,204	13,387,650
Other	212,973	166,561	2,638,085
Total property operating expenses	<u>3,555,973</u>	<u>3,494,167</u>	<u>44,047,727</u>
Profit	<u>¥3,478,914</u>	<u>¥3,599,849</u>	<u>\$43,093,204</u>

## 14. Breakdown of Gain on Sale of Real Estate

Gain on sale of real estate for the periods from January 1, 2011 to June 30, 2011 and from July 1, 2010 to December 31, 2010 is as follows:

	<b>For the period from January 1, 2011 to June 30, 2011</b>	<b>For the period from July 1, 2010 to December 31, 2010</b>	<b>For the period from January 1, 2011 to June 30, 2011</b>
	<i>(Thousands of yen)</i>		<i>(U.S. dollars)</i>
No. 36 Kowa Building			
Proceeds from sale of real estate	¥4,300,000	¥ –	\$53,263,966
Cost of sale of real estate	3,995,580	–	49,493,126
Other related sale expenses	1,803	–	22,329
Gain on sale of real estate	<u>¥ 302,617</u>	<u>¥ –</u>	<u>\$ 3,748,511</u>

## 15. Leases

JEI leases properties on which rental revenues are earned. At June 30, 2011 and December 31, 2010, future lease revenues under non-cancelable operating leases are summarized as follows:

	<b>As of June 30, 2011</b>	<b>As of December 31, 2010</b>	<b>As of June 30, 2011</b>
	<i>(Thousands of yen)</i>		<i>(U.S. dollars)</i>
Due within one year	¥ 619,095	¥652,359	\$ 7,668,715
Due after one year	661,873	8,226	8,198,596
Total	<u>¥1,280,968</u>	<u>¥660,585</u>	<u>\$15,867,311</u>

## 16. Derivative Transactions

### Derivative Transactions as of June 30, 2011

(1) Hedge accounting not applied

Not applicable.

(2) Hedge accounting applied

The following are the contract values or values corresponding to the principal amount as stipulated by contract as of the settlement date for each hedge accounting method applied.

Hedge accounting method	Type of derivative transaction	Hedged item	Contract amount		Fair value	Method of calculating the fair value	Contract amount		Fair value	Method of calculating the fair value
				More than one year				More than one year		
<i>(Thousands of yen)</i>						<i>(U.S. dollars)</i>				
Special treatment of interest-rate swaps	Interest-rate swap Receive floating, pay fixed	Long-term debt	¥13,000,000	¥13,000,000	*	/	\$161,030,596	\$161,030,596	*	/

\* Since the above interest-rate swap qualifies for hedge accounting and meets certain matching criteria, the swap is not recorded at fair value on the accompanying balance sheets, as described in the summary of significant accounting policies.

In addition, since the swap and the long-term debt hedged by the swap are accounted for as a unit, the fair value of the swap is disclosed as part of the fair value of the hedged long-term debt in the fair value disclosure in Note 5, "Financial Instruments."

## 16. Derivative Transactions (continued)

### Derivative Transactions as of December 31, 2010

(1) Hedge accounting not applied

Not applicable.

(2) Hedge accounting applied

The following are the contract values or values corresponding to the principal amount as stipulated by contract as of the settlement date for each hedge accounting method applied.

Hedge accounting method	Type of derivative transaction	Hedged item	Contract amount		Fair value	Method of calculating the fair value
				More than one year		
<i>(Thousands of yen)</i>						
Principal method	Interest-rate swap Receive floating, pay fixed	Long-term debt	¥6,250,000	–	¥(28,771)	*

\* Calculated based on prices provided by counterparty financial institutions.

## 17. Related Party Transactions

### For the period from January 1, 2011 to June 30, 2011

(1) Parent company and major corporate unitholders

Not applicable.

(2) Affiliates

Not applicable.

(3) Sister companies

Not applicable.

(4) Directors and major individual unitholders

Name	Description of transaction	Amount		Account	Balance at the end of period	
		<i>(Thousands of yen)</i>	<i>(U.S. dollars)</i>		<i>(Thousands of yen)</i>	<i>(U.S. dollars)</i>
Chifumi Toda	Payment of asset management fees to JEAM	¥428,085	\$5,302,676	Accounts payable	¥264,984	\$3,282,351

## 17. Related Party Transactions (continued)

For the period from July 1, 2010 to December 31, 2010

- (1) Parent company and major corporate unitholders

Not applicable.

- (2) Affiliates

Not applicable.

- (3) Sister companies

Not applicable.

- (4) Directors and major individual unitholders

Name	Description of transaction	Amount	Account	Balance at the end of period
		(Thousands of yen)		(Thousands of yen)
Chifumi Toda	Payment of asset management fees to JEAM	¥416,479	Accounts payable	¥253,078

## 18. Segment Information

For the period from January 1, 2011 to June 30, 2011 and from July 1, 2010 to December 31, 2010

Since JEI has been engaged in the real-estate leasing business as a single segment, segment information has been omitted.

### *Information about products and services*

Since revenues from external customers for a single segment of similar products and services accounted for more than 90% of total operating revenues, information about products and services has been omitted.

### *Information about geographic area*

- (1) Revenues

Since 100% of the total operating revenues were generated from external customers within Japan, geographical breakdown of revenues has been omitted.

- (2) Property and equipment

Since 100% of total property and equipment on the balance sheet are located within Japan, geographical breakdown of such property and equipment has been omitted.

### *Information about major clients*

Since no single external client represents 10% or more of JEI's total operating revenues, information about major clients has been omitted.



## 19. Distribution Information

In accordance with Section 33.1.2 of the bylaws set forth by JEI for distributions of cash dividends, the amount of dividends payable, which is limited by the amount of unappropriated retained earnings, shall be in excess of 90% of its distributable income for the fiscal period as set forth in Section 67.15 of the Special Taxation Measures Law. Consequently, JEI set income available for distributions of dividends at ¥2,263,800,000 (\$28,041,620), which is the maximum integral multiple of the 188,650 units issued among the retained earnings remaining after deducting the amount appropriated to the reserve for advanced depreciation of non-current assets as stipulated in Section 66.2 of the Special Taxation Measures Law. No cash distribution exceeding the income amount set forth in Section 33.1.4 of the bylaws of JEI shall be made.

On August 12, 2011, the Board of Directors approved a resolution to make a cash distribution of ¥12,000 (\$149) per unit aggregating to ¥2,263,800,000 (\$28,041,620) to unitholders of record as of June 30, 2011.

## 20. Significant Subsequent Events

### (1) Purchase option agreement

On August 12, 2011, JEI entered into a purchase option agreement for the property described below.

1. Property under purchase option	Trust beneficiary interest in real estate (Note 1)
2. Property name	No. 35 Kowa Building (Note 1)
3. Location	2-14-14, Akasaka, Minato-ku, Tokyo
4. Purchase option price	¥8,280 million (\$102,564 thousand) (Note 2)
5. Date of execution of purchase option agreement	August 12, 2011
6. Expiration date of purchase option	October 3, 2011
7. Scheduled acquisition date	October 3, 2011 (Note 3)
8. Seller	Kowa Real Estate Co., Ltd. (hereinafter, the "Seller")
9. Planned funding for acquisition	Cash in hand and debt financing subject to the exercise of purchase option
10. Method of settlement	The settlement is planned to be executed when the acquisition is made after the exercise of purchase option

## 20. Significant Subsequent Events (continued)

(Note 1) The Seller currently owns No. 35 Kowa Building in the form of direct ownership in real estate. JEI has entered into a Purchase Option Agreement for Trust Beneficiary Interest in Real Estate (hereinafter, "Purchase Option Agreement") pertaining to No. 35 Kowa Building dated August 12, 2011 with the Seller. Under the Purchase Option Agreement, JEI is entitled to decide, at its absolute discretion, whether to acquire No. 35 Kowa Building by exercising the purchase option. However, JEI is required to exercise the purchase option pertaining to No. 35 Kowa Building under the Purchase Option Agreement if it is negotiated and agreed between the Seller and a trust bank (which shall be the trust bank agreed by JEI separately in a reasonable manner and is hereinafter referred to as the "Trustee;" as of this date, Mitsubishi UFJ Trust and Banking Corporation is contemplated to be the Trustee) that a real estate management/disposition trust will be established for No. 35 Kowa Building (hereinafter, "establishment of real estate trust"). If the purchase option under the Purchase Option Agreement is exercised, JEI will acquire trust beneficiary interest in No. 35 Kowa Building. JEI will be able to confirm the status of legal and other compliance issues related to No. 35 Kowa Building as the property is subject to the validation required for the establishment of a real estate trust by the Trustee, an expert in real estate trusts. With regard to and throughout the process of the establishment of real estate trust, JEI will remain an independent third party. It has been agreed between JEI and the Seller that if the process of the establishment of real estate trust is not completed by the expiration date of the purchase option under the Purchase Option Agreement, which is October 3, 2011, they will negotiate the acquisition of No. 35 Kowa Building by JEI in good faith.

(Note 2) Purchase option price does not include fees related to the acquisition, proportional JEI share of the applicable real estate tax and city planning tax, and consumption tax.

(Note 3) Only if the purchase option under the Purchase Option Agreement is exercised.

### (2) Acquisition of property

The following property was acquired.

1. Type of asset acquired	Trust Property
2. Asset	MID Kyobashi Building
3. Location	2-2-48, Katamachi, Miyakojima-ku, Osaka-shi, Osaka
4. Acquisition price	¥3,308 million (\$40,976 thousand) (Note)
5. Contract date	August 12, 2011
6. Delivery date	September 1, 2011
7. Seller	Liverpool Asset TMK

(Note) Acquisition price does not include fees related to the acquisition, proportional JEI share of the applicable real estate tax and city planning tax, and consumption tax.

## 20. Significant Subsequent Events (continued)

### (3) Debt financing

On August 12, 2011, JEI entered into an individual loan agreement to use as a portion of the payment (including related expenses) for the acquisition of No. 35 Kowa Building.

1. Lenders	Mizuho Corporate Bank, Ltd. Mitsubishi UFJ Trust and Banking Corporation Sumitomo Mitsui Banking Corporation Aozora Bank, Ltd.
2. Loan amount	¥8,300 million (\$102,812 thousand)
3. Interest rate	To be determined
4. Scheduled drawdown date	October 3, 2011
5. Interest payment date	October 31, 2011, November 29, 2011
6. Principal repayment date	November 29, 2011
7. Principal repayment method	To be repaid in full on the principal repayment date (early repayment permitted)
8. Collateral	Unsecured/Non-guaranteed

### (4) Other

The Purchase Option Agreement for No. 35 Kowa Building as described in (1) above falls under forward commitment, etc. defined in the “Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc.” established by the Financial Services Agency (as finally amended in April 2011). Under this Purchase Option Agreement, JEI is entitled to a purchase option and only upon exercise of this option, a valid purchase agreement will be executed (provided, however, that JEI will be required to exercise the purchase option in the case of establishment of the real estate trust). Under the Purchase Option Agreement, it is provided that if there is a breach of the provisions of the Purchase Option Agreement by JEI or the Seller after the purchase option is exercised and the purchase agreement is executed, the non-breaching party may cancel said purchase agreement and claim a penalty payment equivalent to 20% of the purchase price from the breaching party. After the careful examination of the amount required to acquire No. 35 Kowa Building, the likelihood of establishment of the real estate trust, the time period from the exercise of the purchase option to the handover, and the method of funding for the acquisition, JEI has entered into the Purchase Option Agreement under the terms and conditions described above in order to acquire No. 35 Kowa Building based on the judgment that the acquisition will contribute to the enhancement of unitholders’ value.

(Note) A forward commitment is defined in the regulations as any postdated purchase agreement under which the payment and the delivery of the target property shall be made after a lapse of one month or more subsequent to the execution of such agreement or any other similar agreement.