



# SEMI-ANNUAL REPORT FOR THE 3RD FISCAL PERIOD

***July 1, 2007 - December 31, 2007***

JAPAN EXCELLENT, INC.



Japan Excellent, Inc.

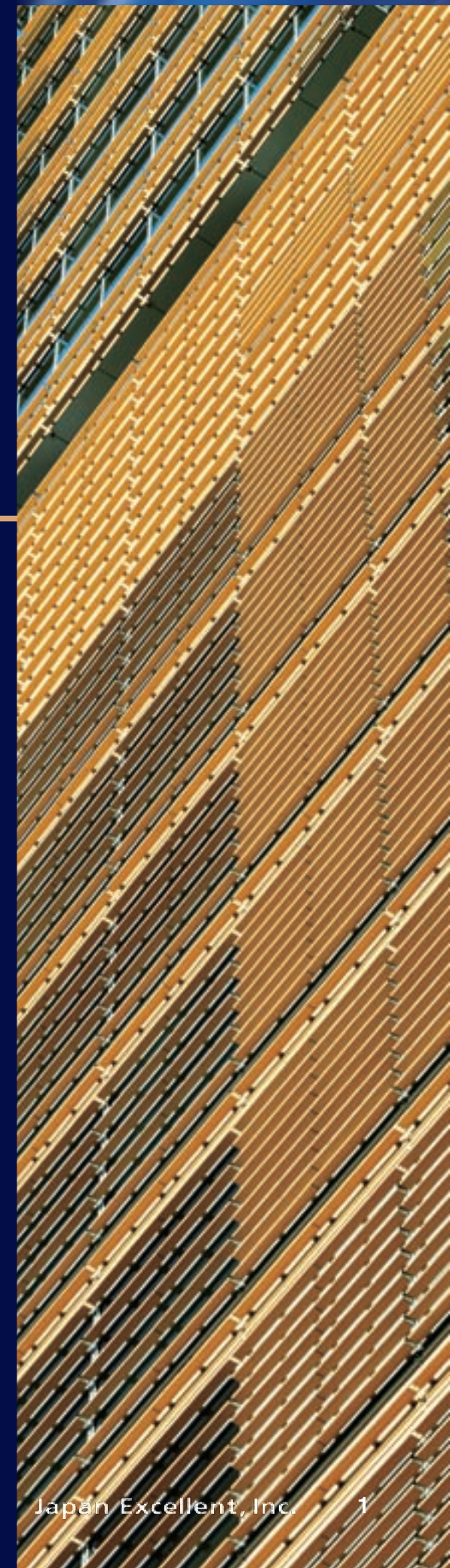




**Distribution**  
Distribution per unit: **15,663** yen

**Financial Highlights**

Revenues:	6,982 mm yen
Operating income:	3,055 mm yen
Net income:	2,420 mm yen
Total assets:	205,486 mm yen
Net assets:	89,292 mm yen
Dividend yield (annualized):	3.0 %
Net assets per investment unit:	577,758 yen



**Japan Excellent is committed to applying and combining the comprehensive strengths of our sponsors** (Note)

▲  
Sponsors with  
robust real estate  
pedigrees

▲  
Sponsors with  
robust finance  
pedigrees

►  
**Committed to  
maximizing  
investor value**

**The core of the portfolio  
is in major metropolises**

Investment target  
(breakdown by use (Note))      Office buildings: 90% or more  
Other: 10% or less

Note: See the sections later on sponsors and on portfolio management for details.

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# Message to Our Unitholders



## Performance in the Third Fiscal Period

First, we would like to thank you, our unitholders, for your support of Japan Excellent, Inc. (JEI) and Japan Excellent Asset Management Co., Ltd. (JEAM).

JEI listed on the real estate investment trust market of the Tokyo Stock Exchange on June 27, 2006. JEI primarily invests in and manages office buildings with our greatest objective being to steadily grow in asset size and maximize unitholder value from a medium-to long-term perspective. We have just concluded our third fiscal period, which ran from July 1, 2007 to December 31, 2007. Here I would like to use this message to report on operating and management conditions and our financial accounts.

JEI posted revenues of 6,982 million yen, income before income taxes of 2,421 million yen and net income of 2,420 million yen. As a result we were able to distribute 15,663 yen per investment unit this fiscal period.

JEI also acquired two excellent properties from one of our core sponsors, Kowa Real Estate Co., Ltd., this fiscal period - AKASAKA INTERCITY and Kowa Kawasaki Nishiguchi Building. Consequently, our portfolio as of the end of the third fiscal period has grown to twenty office buildings and a total acquisition price of 188.9 billion yen. We have continued to work closely with our property managers to achieve consistent tenant satisfaction, and to raise rent levels, as key tactics of our internal growth strategy. The strategy has borne fruit with a 2.4% increase per annum in total rents from the last fiscal period for the fourteen properties initially in our portfolio.

JEI also raised capital through a secondary offering and used these funds to repay short-term borrowings. Short-term borrowings were also converted into long-term borrowings to reinforce the financial stability of JEI. JEI further submitted a shelf registration for investment corporation bonds (effective on January 7, 2008) with the objective of gaining the ability to dynamically raise long-term funds.

The full-period contribution of the four properties acquired in the second fiscal period and the two properties JEI acquired this fiscal period contributed to the raise in revenues by 1,476 million yen and net income by 181 million yen. However, the accompanying 14.7% increase in investment units due to the increase in capital reduced the dividends paid per investment unit by 951 yen.

## Future Management of JEI

JEI follows a basic asset management policy of striving to manage a portfolio with a balance in region, property-size, and tenants - centering on office buildings in major metropolitan areas - by pursuing a balance between steady profits and expansion, while maintaining the REIT characteristic of steady growth over the medium to long term.

Geographically, our greatest emphasis is on the six central wards of Tokyo - Minato, Chuo, Chiyoda, Shinjuku, Shibuya and Shinagawa. The percentage of properties in these six wards to the total portfolio is currently around 50%.

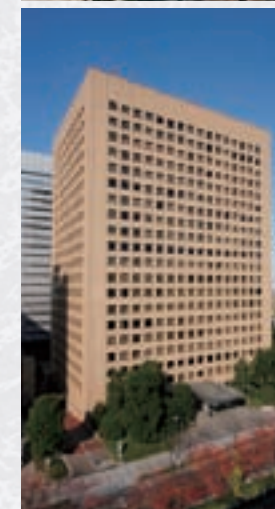
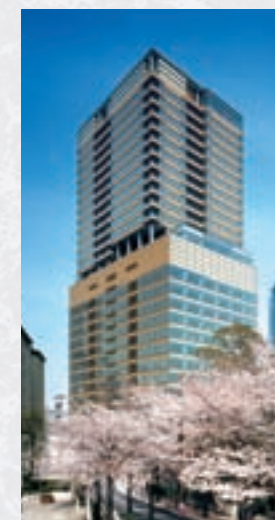
Under the continuing severe market assessment of the investment environment at hand, JEI has been convinced of the need for a more prudent investment managing strategy. This is in part due to the apparent peaking of high rents in the Tokyo Metropolitan Area and growing vacancies in central regional cities.

In accordance with this understanding of the market environment, JEI will continue to maintain its policy of acquiring new properties and expanding the portfolio over the medium to long term, and will continue to place assets provided by sponsors at the core of our acquisition strategy while at times acquiring new properties from third parties. The three core sponsors of JEI are real estate developers but JEI expects a strong inflow of properties from them in the future due to their awareness of the need for off-balancing their assets. An analysis of the twenty properties JEI owns at the end of the third fiscal period reveals that seventeen were supplied by sponsors and two by parties found using the network of sponsors and divergence.

JEI believes there is a growing divergence in the value of individual properties in the market, and is committed through the management of portfolio properties to maintain and improve the management quality and conduct effective follow up investment in the properties. These steps will be used to raise tenant satisfaction at each property, which will then be used to raise rents.

As for our financial strategy, JEI plans to implement an efficient and dynamic capital raising strategy that considers the floating of investment corporation bonds while taking steps to diversify lenders and repayment periods in order to maintain a balance between short-and long-term borrowings in the process of external growth. JEI also intends to fix the interest rates of borrowings as a step to assuage the risk of rising interest rates in the future.

The real estate and financial environments surrounding REITs are undergoing dramatic changes due to a variety of measures and developments. These include the Financial Instruments and Exchange Law that was implemented in September 2007, the revisions to the Trust Law and Trust Business Act, revision of the real estate appraiser assessment standards, and systematic revisions like the new BIS regulations. JEI and JEAM also plan to appropriately respond to these environmental changes and construct prudent and appropriate measures for JEI now and in the future.



*Junichi Tamura*

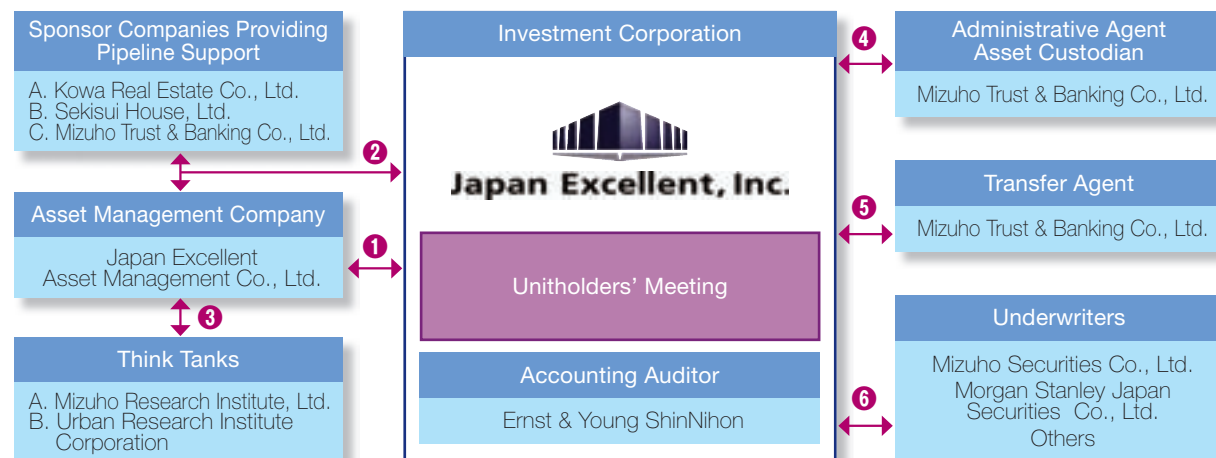
**Junichi Tamura**

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





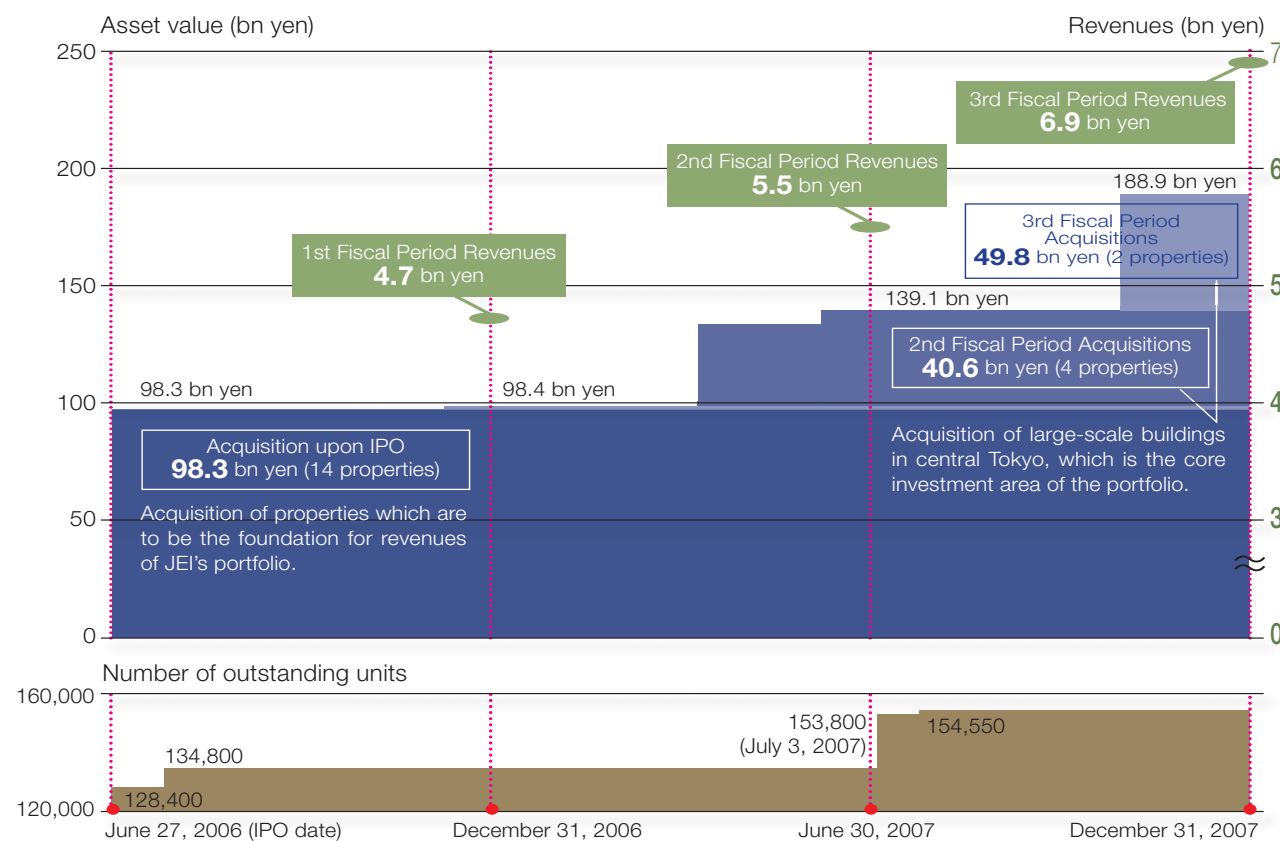
# About Japan Excellent, Inc.



- ① Asset management agreement ② (A) Pipeline support agreement with Kowa Real Estate (B) Pipeline support agreement with Sekisui House (C) Pipeline support agreement with Mizuho Trust & Banking  
③ (A) Agreement with Mizuho Research Institute for provision of economic trend analysis (B) Agreement with Urban Research Institute for provision of real estate market analysis ④ Agreement to entrust administrative duties and asset custody ⑤ Agreement to entrust administration of unitholders' register  
⑥ New issue underwriting agreement

## Overview of Japan Excellent History of Portfolio Growth

JEI's asset size expanded from 98.3 billion yen with 14 properties to 188.9 billion yen with 20 properties in approximately one year and four months from its IPO.



Note 1: Asset value is indicated based on acquisition prices.

Note 2: Asset value, acquisition prices, and revenues are rounded down to the nearest million yen.

# 3rd Fiscal Period Highlights

## External Growth

- Acquisition of AKASAKA INTERCITY and Kowa Kawasaki Nishiguchi Building (Total Acquisition Price: 49.8 bn yen)

	Number of Properties	Total Acquisition Price
2nd Fiscal Period	18 properties	139.1 billion yen
3rd Fiscal Period	20 properties	188.9 billion yen (36% increase)

## Internal Growth

- Total Rental Revenues Increase: 2.4% per annum (14 asset base)

	Rental Revenues
2nd Fiscal Period	4,209 mm yen
3rd Fiscal Period	4,259 mm yen

## Financial Strategy

- Public Offering

Public Offering: 19,000 units

- Debt Financing

Fixed Long-term Debt (%) at end of 3rd Fiscal Period: 54% (72% as of February 2008)

- Fixation of Interest Rates

Shelf Registration for the issuance of Corporate Bonds

## Compliance and Risk Management

- Internal Management Structure

Internal audit using outside consultant (completed in September 2007)

- Abiding by the Financial Instruments and Exchange Law

Supervisory Directors increased by one (November 2007)

Registered as an Investment Management Firm (November 2007)

# Core Sponsors Supporting JEI

JEAM considers Kowa Real Estate Co., Ltd., the Dai-ichi Mutual Life Insurance Company, and Sekisui House, Ltd. as its core sponsor companies. The three sponsors have strengths in development, investment, and management of office buildings.

Percentage of the entire portfolio



**Kowa Real Estate Co., Ltd.**  
**Core Sponsor** 40.7%  
**Pipeline Support Company**

- Mizuho Corporate Bank's Close Partner in Real Estate
- Development and Management of Office Buildings and Luxury Condominiums in Tokyo's Center



AKASAKA INTERCITY



Kowa Kawasaki Nishiguchi Building



Kowa Kawasaki Higashiguchi Building



Sendai Kowa Building



No. 32 Kowa Building



No. 36 Kowa Building



No. 28 Kowa Building



**The Dai-ichi Mutual Life Insurance Company**  
**Core Sponsor** 31.4%

- One of the Leading Life Insurers in Japan in Total Assets and Amount of Insurance in Force
- Managing Approximately 280 Real Estate Properties for Investment Nationwide with a Focus on Office Buildings (as of December 31, 2007)



Omori Bellport D



NHK Nagoya Housou-Center Building



Musashikosugi Tower Place



Ebina Prime Tower




Kawasaki Nisshincho Building



Shiba 2-Chome Building




Ryogoku Dai-ichi Life Building



**Sekisui House Co., Ltd.**  
**Core Sponsor** 12.3%  
**Pipeline Support Company**


- Japan's Premier Housing Construction Company Also Active in Large-scale Urban Development
- Rokko Island City and Akasaka Garden City Exemplify Sekisui House's Achievements in Development




Akasaka Garden City





**Morgan Stanley** **Morgan Stanley Capital K.K.** 9.4%




**The Dai-ichi Building Co., Ltd.**



**Sohgo Housing Co., Ltd.** 2.0% 



**Mizuho Corporate Bank, Ltd.**



**Mizuho Trust & Banking Co., Ltd.** **Pipeline Support Company**

# Collective Strengths of Sponsor Companies

JEI collaborates with the asset management company's eight sponsor companies in management of the J-REIT. The below diagram indicates in which part each company provides support.

	Investment in JEAM	Provision of Expertise to JEAM	Assistance in Property Acquisition	Provision of Pipeline Support Function	Provision of Warehousing Function	Provision of Research Function (Note 2)
 <b>Core Sponsor</b> Kowa Real Estate Co., Ltd.	●	●	●	●	●	
 <b>Core Sponsor</b> The Dai-ichi Mutual Life Insurance Company	●	●	●			
 <b>Core Sponsor</b> Sekisui House Co., Ltd.	●	●	●	●		
<b>Morgan Stanley</b> Morgan Stanley Capital K.K.	●		●			
 <b>The Dai-ichi Building Co., Ltd.</b>	●		●			
 <b>Sohgo Housing Co., Ltd.</b>	●					
 <b>Mizuho Corporate Bank, Ltd.</b>	●	●				●
 <b>Mizuho Trust &amp; Banking Co., Ltd.</b>	●	●		●		●

● indicates the areas in which sponsor companies provide support for JEI or JEAM. (Note 1)

(Note 1) Property acquisition in cooperation with and through utilization of the close relationship with sponsor companies

(Note 2) JEAM has entered into an agreement with Mizuho Research Institute (98.4% of its shares held by Mizuho Financial Group) and Urban Research Institute Corporation (100% of its shares held by Mizuho Trust & Banking Co., Ltd.) for the entrustment of research operations. The support to be provided by Mizuho Corporate Bank, Ltd. in the above table includes, accordingly, the service to be provided by the Mizuho Research Institute. Similarly, the support to be provided by Mizuho Trust & Banking Co., Ltd. in the above table includes that provided by Urban Research Institute Corporation.





# A Solid Investment Policy

## A Portfolio of Stability and Expansion

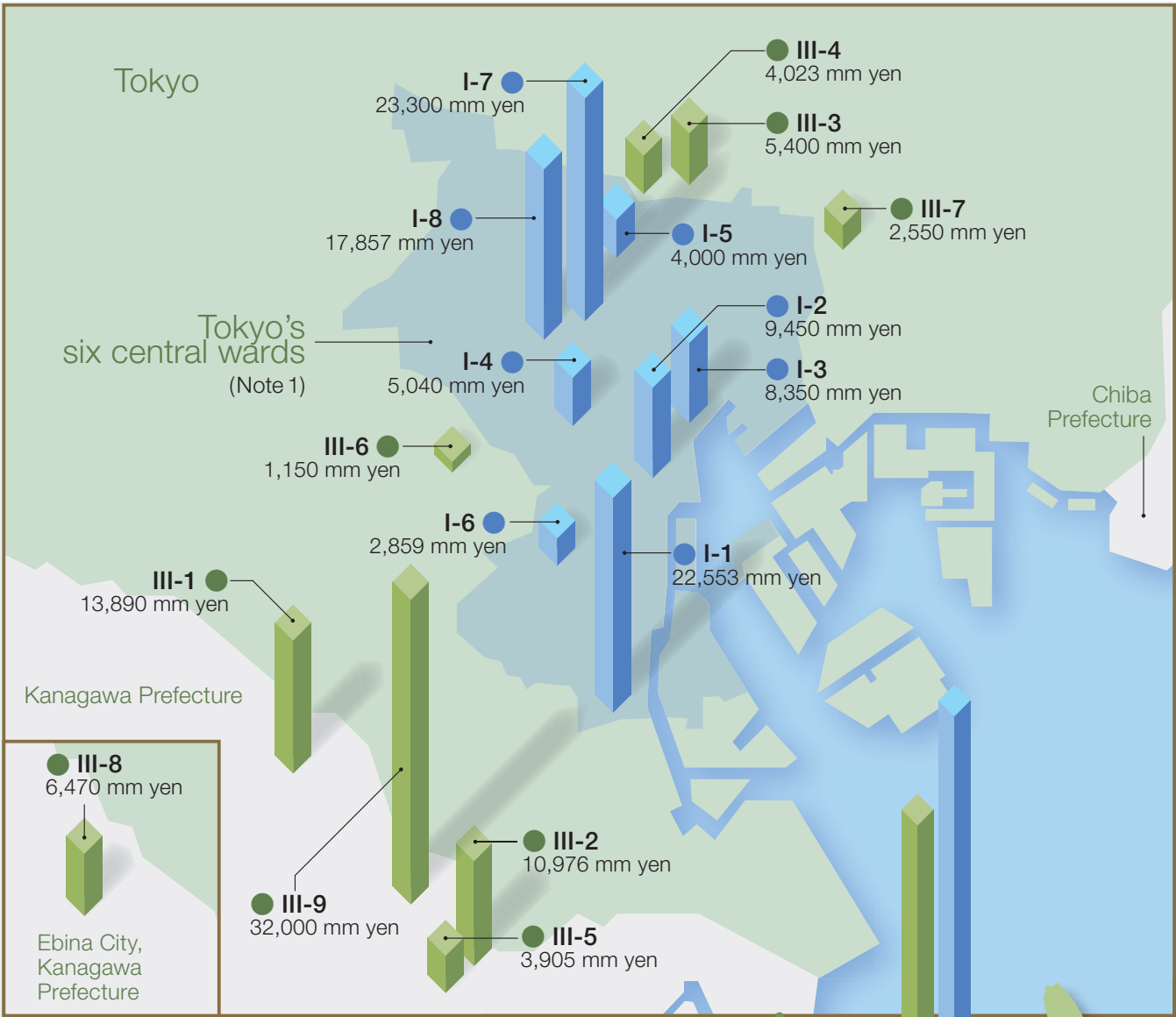
JEI is committed to configuring a portfolio that optimally combines large and medium-sized office buildings according to a geographic allocation to provide investors with stable growth and maximized user value. JEI's investment policy has 90% or more of the portfolio's leasable area being invested in office buildings, with the remaining 10% or less being invested in commercial, residential, and other properties. (As of December 31, 2007, the main usage for the assets in the portfolio is 100% office buildings.)

Property Type	Share of Portfolio
Office Buildings	90% or more
Others (commercial, residential, and other properties)	10% or less

## Geographic Breakdown of Targeted Investment Areas and Share of Portfolio

Targeted Investment Areas		Share of Portfolio (Note 1)
Core Areas		80% or more
Area I:	Six central wards of Tokyo – Chiyoda, Chuo, Minato, Shinjuku, Shinagawa, and Shibuya wards	50% or more of core areas
Area II:	Central Osaka City (Umeda, Dojima, Nakanoshima, Yodoyabashi, and Honmachi districts, etc.) Central Nagoya City (Meieki, Fushimi, and Sakae districts, etc.) Central Fukuoka City (Tenjin and Hakata Terminal peripheral districts, etc.)	50% or less of core area
Area III:	Tokyo and surrounding area (Kanagawa, Saitama, and Chiba Prefectures) excluding Area I	50% or less of core area
Area IV:	Osaka, Nagoya, and Fukuoka Cities excluding Area II and government ordinance designated cities, etc.	20% or less

(Note) Area II includes Central Osaka City, generally referred to as the area within a ten-minute walk of Osaka Station (JR), Umeda Station (Hankyu Railway, Hanshin Railway, and Osaka City Subway), Yodoyabashi Station (Osaka City Subway) and Honmachi Station (Osaka City Subway); Central Nagoya City is within a ten-minute walk from Nagoya Station (JR, Nagoya City Subway, and Meitetsu Line), Fushimi Station (Nagoya City Subway), and Sakae Station (Nagoya City Subway and Meitetsu Line); and Central Fukuoka City is within a ten-minute walk from Hakata Station (JR and Fukuoka City Subway), Tenjin Station (Fukuoka City Subway), and Nishitetsu Fukuoka Station (Nishitetsu Line).

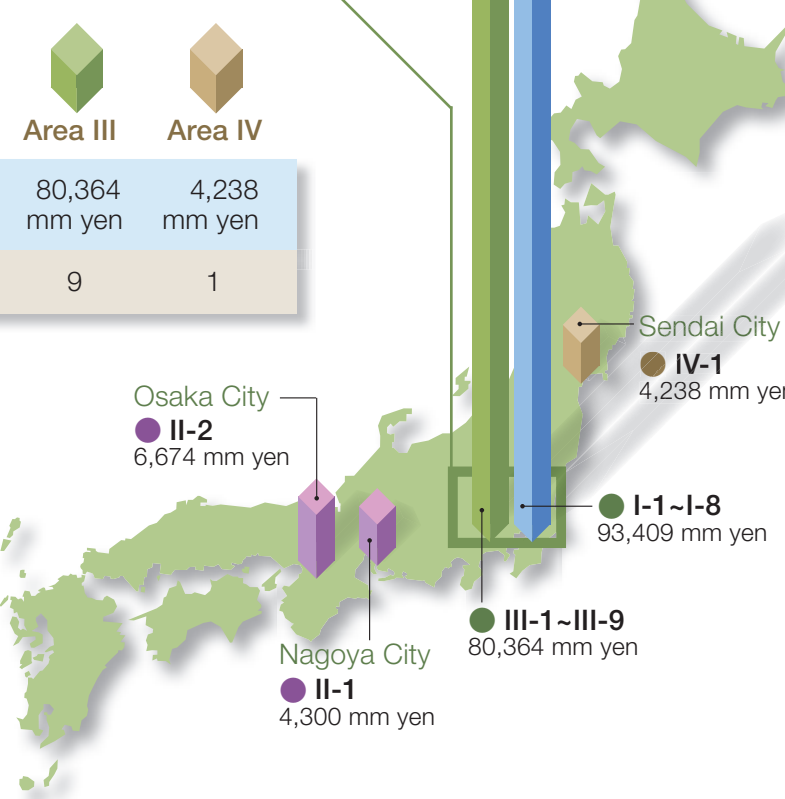


## Portfolio Diversification in 3rd Fiscal Period

	Area I	Area II	Area III	Area IV
Total acquisition price	93,409 mm yen	10,974 mm yen	80,364 mm yen	4,238 mm yen
No. of properties	8	2	9	1

The map shows the successful concentration of properties in the six central wards of Tokyo combined with our regional diversification. The figures are a representation of the acquisition prices of individual properties or combination of properties in the area.

Note The figures indicated in mm yen have been rounded to the nearest million yen.

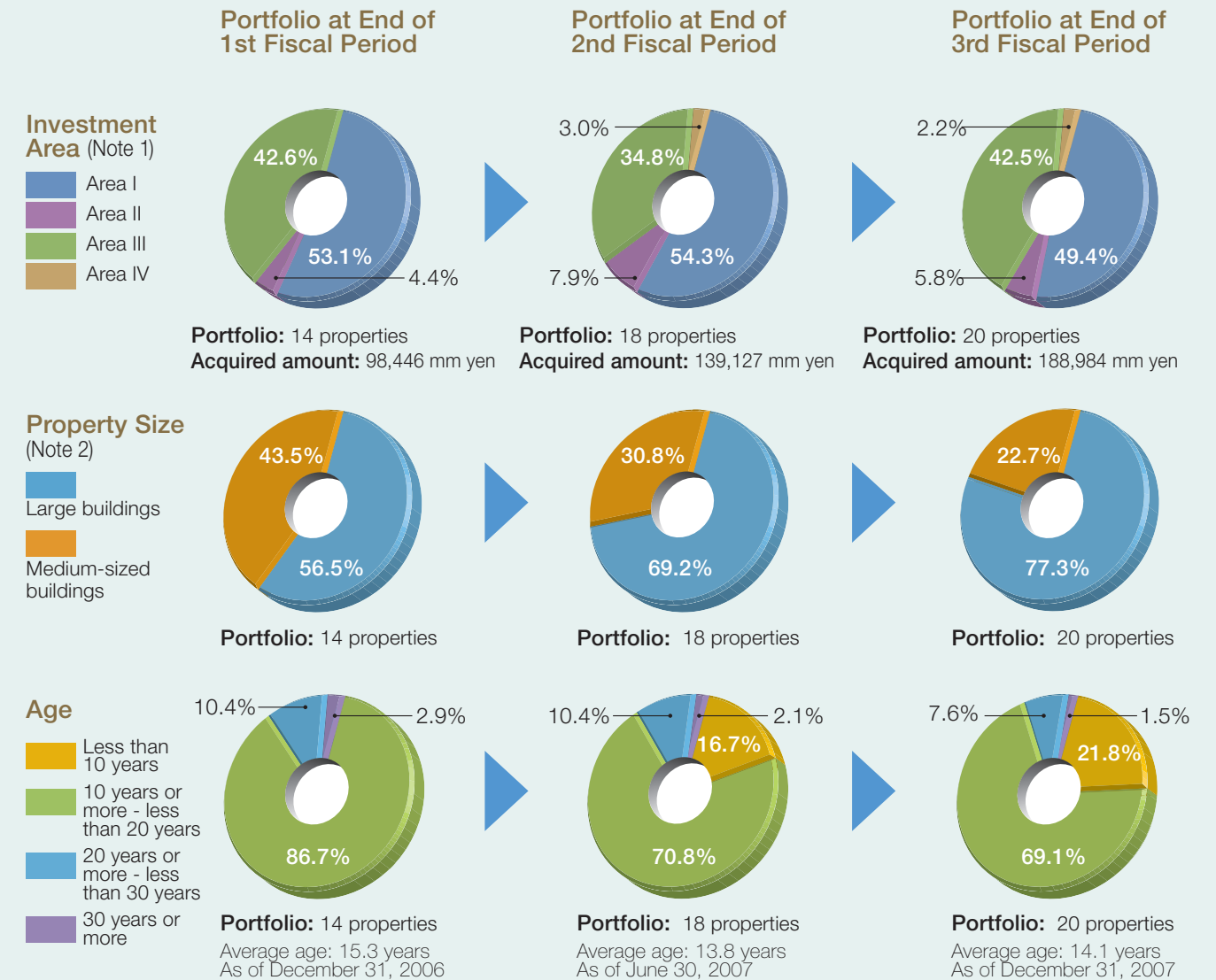


# Portfolio Overview

Pro- perty No.	Name	Location	Total Floor Area (m <sup>2</sup> ) (Note 1)	Completion (Note 2)	Acquisition Price (mm yen) (Note 3)	Appraised Value (mm yen) (Note 4)	Invest- ment Ratio (%) (Note 5)	PML (%) (Note 6)
I-1	Omori Bellport D	Minami-Oi, Shinagawa Ward, Tokyo	155,778.75	Sep 1996	22,553	25,630	11.9	8.0
I-2	Shiba 2-Chome Building	Shiba, Minato Ward, Tokyo	19,518.15	Mar 1994	9,450	13,200	5.0	8.2
I-3	Shuwa Daiichi Hamamatsucho Building	Hamamatsucho, Minato Ward, Tokyo	8,327.53	Dec 1991	8,350	10,300	4.4	8.2
I-4	No. 32 Kowa Building	Minami-Azabu, Minato Ward, Tokyo	10,110.96	Mar 1979	5,040	5,676	2.7	13.2
I-5	No. 36 Kowa Building	Sanbancho, Chiyoda Ward, Tokyo	8,266.55	Sep 1982	4,000	4,234	2.1	13.2
I-6	No. 28 Kowa Building	Nishi-Gotanda, Shinagawa Ward, Tokyo	6,282.23	Feb 1975	2,859	4,210	1.5	13.5
I-7	Akasaka Garden City	Akasaka, Minato Ward, Tokyo	46,776.76	Jan 2006	23,300	25,700	12.3	8.6
I-8	AKASAKA INTERCITY	Akasaka, Minato Ward, Tokyo	73,061.33	Jan 2005	17,857	18,300	9.4	9.2
II-1	NHK Nagoya Housou-Center Building	Higashi Ward, Nagoya City, Aichi Prefecture	80,809.95	Jul 1991	4,300	5,570	2.3	11.9
II-2	JEI Nishi-Honmachi Building (former Nishi-Honmachi Mitsui Building)	Nishi Ward, Osaka City, Osaka	15,800.31	Feb 1988	6,674	6,760	3.5	11.5
III-1	Musashikosugi Tower Place	Kawasaki Ward, Kawasaki City, Kanagawa Prefecture	53,711.13	Jul 1995	13,890	18,300	7.3	11.5
III-2	Kowa Kawasaki Higashiguchi Building	Kawasaki Ward, Kawasaki City, Kanagawa Prefecture	31,009.62	Apr 1988	10,976	11,300	5.8	6.7
III-3	Hongo TS Building	Hongo, Bunkyo Ward, Tokyo	5,877.11	Feb 1991	5,400	5,500	2.9	14.2
III-4	Shuwa Iidabashi Building	Koraku, Bunkyo Ward, Tokyo	5,083.77	Oct 1988	4,023	4,940	2.1	12.9
III-5	Kawasaki Nisshincho Building	Kawasaki Ward, Kawasaki City, Kanagawa Prefecture	22,141.60	Apr 1992	3,905	5,790	2.1	14.7
III-6	No. 44 Kowa Building	Higashiyama, Meguro Ward, Tokyo	3,359.55	Jul 1984	1,150	1,840	0.6	13.4
III-7	Ryogoku Dai-ichi Life Building	Ryogoku, Sumida Ward, Tokyo	5,820.56	Aug 1996	2,550	2,566	1.3	14.3
III-8	Ebina Prime Tower	Chuo, Ebina City, Kanagawa Prefecture	52,733.59	May 1995	6,470	6,610	3.4	12.2
III-9	Kowa Kawasaki Nishiguchi Building	Saiwai Ward, Kawasaki, Kanagawa Prefecture	61,856.92	Feb 1988	32,000	32,300	16.9	7.9
IV-1	Sendai Kowa Building	Aoba Ward, Sendai City, Miyagi Prefecture	18,564.45	Aug 1979	4,238	4,462	2.2	9.2
Total			684,890.82		188,984	213,188	100.0	6.3

As of the end of December 31, 2007, the properties held by JEI are all office properties.

- Note 1. Figures for "Total Floor Area" are the respective totals for the entire building, including buildings in which JEI has acquired sectional ownership or co-ownership.
2. Dates of "Completion" are the dates of new construction indicated in the registry.
3. Figures for "Acquisition Price" are sales prices recorded in sales agreements (excluding taxes) and have been rounded to the nearest million yen.
4. Figures for "Appraised Value" are the values entered in the real estate appraisals prepared by the Japan Real Estate Institute, Chuo Real Estate Appraisal Co., Ltd., and HIRO & REAS network, Inc., based on the Articles of Incorporation of JEI and the rules of the Investment Trusts Association. The appraised value of real estate is only an indication of the opinion of those that conducted the valuation for the value of the subject real estate by a real estate appraiser who conducted the appraisal in accordance with the Law concerning Real Estate Appraisals (Law No. 152 in 1963 and ensuing revisions), real estate appraisal standards, etc.
5. "Investment Ratio" figures show the ratio of the acquisition price for each acquired property in proportion to the total acquisition price for all acquired properties in the portfolio and have been rounded to the first decimal place.
6. "PML" figures are based on the PML in the structural condition study report including the PML calculation report. The figures are no more than a representation of opinions indicated in the report and JEI does not guarantee their accuracy.



(Note 1) The percentage breakdowns for the Investment Area, Property Size, and Age are all based on the acquisition price.

(Note 2) The investment corporation defines "large buildings" in the 23 wards of Tokyo as buildings with a total floor space of 10,000 tsubo or more, and medium-sized buildings as buildings with a total floor space of 1,000 tsubo or more but less than 10,000 tsubo. Large buildings outside of Tokyo's 23 wards are defined as those with a total floor space of 4,000 tsubo or more, and medium-sized buildings as those with a total floor space of 1,000 tsubo or more but less than 4,000 tsubo (1 tsubo=3.3m<sup>2</sup>).

## Major Tenant Information

As of December 31, 2007

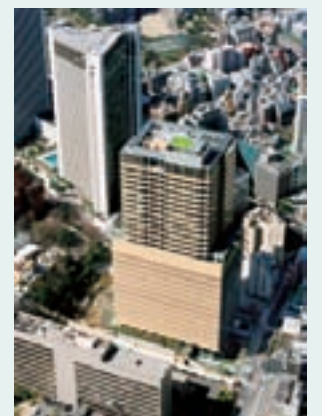
Tenant	Property	Total Leased Floor Space (m <sup>2</sup> )	Ratio of Total Leased Floor Space to Total Portfolio (%)
Toshiba Information Systems (Japan) Corporation	Kowa Kawasaki Higashiguchi Building	18,612.72	8.3
National Mutual Insurance Federation of Agricultural Cooperatives	Kowa Kawasaki Nishiguchi Building	17,444.02	7.8
Roche Diagnostics K.K.	Shiba 2-Chome Building	9,284.18	4.2
Fujitsu Social Science Laboratory Ltd.	Musashikosugi Tower Place	8,680.74	3.9
Fujitsu Network Solutions Limited	JEI Nishi-Honmachi Building	6,884.00	3.1
Total for Major Tenants		60,905.66	27.3
Total Portfolio		222,928.07	100.0



# External Growth:

## Solid Growth Within Investment Policy

The external growth strategy of JEI is focused on close collaboration with the sponsors of the asset management company, manifested in the acquisition of two large-scale buildings from Kowa Real Estate, Co., Ltd. during the third fiscal period, which were acquired based on the policies of 1) Acquiring assets in favorable locations that will be core assets of the portfolio and 2) Adding value to existing properties in the portfolio.



### AKASAKA INTERCITY

- ◆ Located in an internationally sophisticated area (Akasaka/Roppongi) next to the political and economic center
- ◆ A prominent property developed by Kowa Real Estate, with environmentally friendly design and advanced technology
- ◆ The standard floor plate of about 550 tsubos is pillar free
- ◆ Uses a hybrid anti-vibration system which can prevent building collapse in the largest-scale earthquakes
- ◆ This environmentally friendly building features an advanced ventilation system along with advanced heat shielding glass, and also a water recycling system

Address:	1-11-44 Akasaka, Minato-Ward, Tokyo
Site area:	8,019.87m <sup>2</sup>
Total floor space:	73,061.33m <sup>2</sup>
Floors:	29 (3 basement floors)
PML:	9.2%
Constructed:	January 28, 2005
Acquisition price:	17,857 mm yen
Annual NOI:	719 mm yen
NOI return:	4.0%
Asset form:	Trust beneficiary interests in real estate
Acquisition date:	October 26, 2007

**Akasaka Tidbit:** The area of Akasaka is a part of Minato Ward, Tokyo, with an area of approximately 4km<sup>2</sup>. In recent years, the area has been undergoing commercial redevelopment and is becoming one of the most renowned business areas in central Tokyo. Recent representative development projects in this area include Tokyo Midtown and Akasaka Sakas, with a total facility floor area of approximately 218,000m<sup>2</sup> and 564,000m<sup>2</sup> respectively. It is also one of the most cosmopolitan areas in Tokyo, with many foreign-affiliated companies and embassies.





**Kawasaki City Tidbit:** The city was home to 1,369,443 residents in 2007. The port of the city is robust, located 15km from Central Tokyo, and Yokohama and Haneda Airport, the fourth busiest airport in the world, are 20-minute train rides away. The area along the Tama River is home to many machinery, electronics, and IT companies and the city also boasts a massive concentration of steel, petrochemical, and metal conglomerates. Some of the major enterprises with factories or core operations in Kawasaki are NEC, Fujitsu, Kao, Fuji Electric, Nippon Oil, Canon, Toshiba, and JFE Steel. Industrial shipment in 2002 ranked fourth in Japan.



Kowa  
Kawasaki Nishiguchi Building

- ◆ The building is a key part of Kawasaki Technopia
- ◆ The building boasts a roughly 60m wide frontage and a strong presence
- ◆ The floor plate is about 600 tsubos per floor and features office automation specifications, and a pillar-free design that allows for a flexible floor layout
- ◆ The building enjoys excellent access to both JR Kawasaki Station, a key terminal station in the Kanto region, and Keikyu Kawasaki Station

Address:	66-2 Horikawa-cho, Saiwai Ward, Kawasaki City, Kanagawa Prefecture
Site area:	8,196.21m <sup>2</sup>
Total floor space:	61,856.92m <sup>2</sup>
Floors:	21 (2 basement floors)
PML:	7.9%
Constructed:	February 29, 1988
Acquisition price:	32,000 mm yen
Annual NOI:	1,690 mm yen
NOI return:	5.3%
Asset form:	Trust beneficiary interests in real estate
Acquisition date:	October 26, 2007





# Portfolio Profile:

A presentation of the eighteen previously acquired properties



Akasaka Garden City

- ◆ Enjoys excellent access to three subway stations: Akasaka-Mitsuke, Akasaka, and Aoyama-Itchome
- ◆ Extremely close proximity to embassies, leading corporate offices, and central governmental institutions
- ◆ A cutting-edge building with a ceiling height of 2,800mm and windows on three sides further increasing the sense of openness

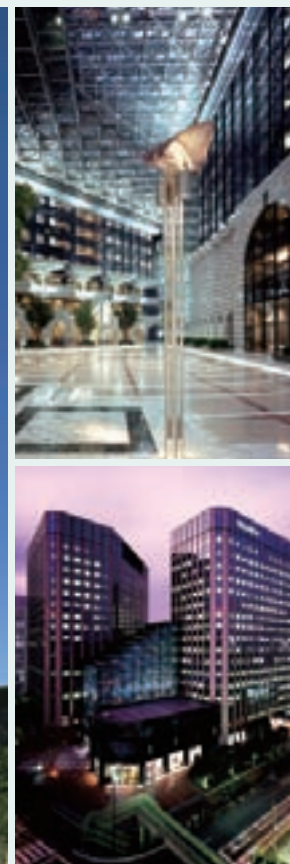
Address:	4-15-1 Akasaka, Minato Ward, Tokyo
Site area:	6,888.97m <sup>2</sup> (co-ownership of 308,671.7536/1,000,000)
Total floor space:	46,776.76m <sup>2</sup> (co-ownership of 6,432/10,000)
Floors:	19 (2 basement floors)
PML:	8.6%
Constructed:	January 31, 2006
Asset form:	Trust beneficiary interests in real estate
Share of total rental income:	8.0%



Omori Bellport D

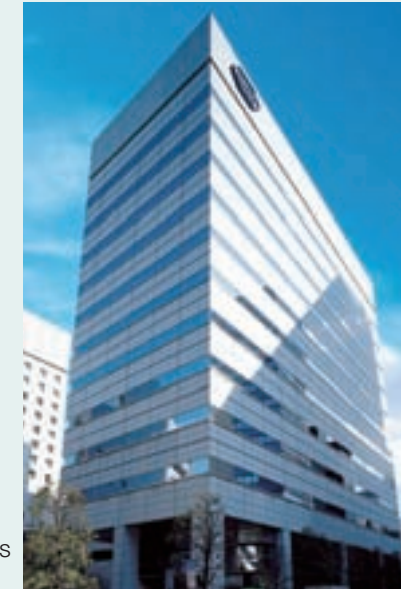
- ◆ This property boasts excellent access to two key Shinkansen stations - Shinagawa and Tokyo
- ◆ This property is one of the core buildings in the landmark Bellport development of The Dai-ichi Mutual Life Insurance Company

Address:	6-26-3 Minami-Oi, Shinagawa Ward, Tokyo
Site area:	22,294.51m <sup>2</sup>
Total floor space:	155,778.75m <sup>2</sup>
Floors:	17 (3 basement floors)
PML:	8.0%
Constructed:	September 24, 1996
Asset form:	Trust beneficiary interests in real estate
Share of total rental income:	15.3%



Shiba 2-Chome Building

- ◆ A 2-minute walk from Shiba-Koen Station, a 7-minute ride to the Marunouchi CBD
- ◆ This property lies adjacent to Shiba Koen, one of the oldest parks in Japan



Address:	2-6-1 Shiba, Minato Ward, Tokyo
Site area:	3,355.00m <sup>2</sup>
Total floor space:	19,518.15m <sup>2</sup>
Floors:	Office:12 (2 basement floors); residential: 14
PML:	8.2%
Constructed:	March 17, 1994
Asset form:	Trust beneficiary interests in real estate
Share of total rental income:	5.3%



No. 32 Kowa Building

- ◆ A 3-minute walk from Hiroo Station
- ◆ This property is surrounded by embassies and prestigious private schools

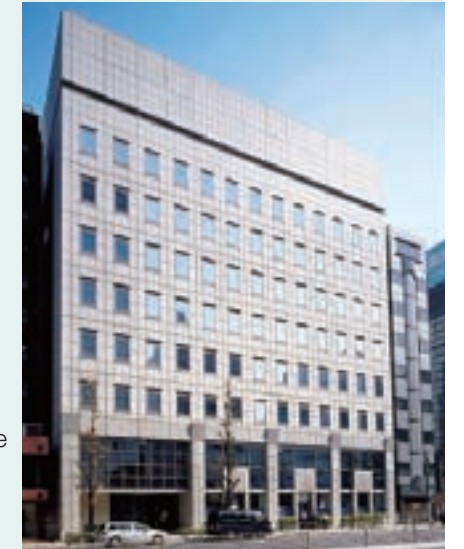


Address:	5-2-32 Minami-Azabu, Minato Ward, Tokyo
Site area:	2,592.39m <sup>2</sup>
Total floor space:	10,110.96m <sup>2</sup>
Floors:	9 (1 basement floor)
PML:	13.2%
Constructed:	March 19, 1979
Asset form:	Trust beneficiary interests in real estate
Share of total rental income:	3.5%



Shuwa Daiichi Hamamatsu-cho Building

- ◆ A 4-minute walk from Hamamatsucho Station, a 20-minute ride to Narita International Airport
- ◆ This property is in close proximity to the vibrant emerging community of Shiodome



Address:	2-2-12 Hamamatsucho, Minato Ward, Tokyo
Site area:	1,102.48m <sup>2</sup> (of which, 387.85m <sup>2</sup> is leasehold land)
Total floor space:	8,327.53m <sup>2</sup>
Floors:	8 (1 basement floor)
PML:	8.2%
Constructed:	December 16, 1991
Asset form:	Trust beneficiary interests in real estate
Share of total rental income:	4.1%



No. 36 Kowa Building

- ◆ Located 1/4 km from the Imperial Palace and lies amidst universities and embassies
- ◆ This property is 6 minutes by subway from Marunouchi CBD



Address:	5-19 Sanbancho, Chiyoda Ward, Tokyo
Site area:	1,988.49m <sup>2</sup>
Total floor space:	8,266.55m <sup>2</sup>
Floors:	7 (1 basement floor)
PML:	13.2%
Constructed:	September 30, 1982
Asset form:	Trust beneficiary interests in real estate
Share of total rental income:	(Note 1)

(Note) There are no disclosures for these properties due to the end tenants decline of granting the right to disclose for the corresponding figures.





## No.28 Kowa Building

- ◆ A 3-minute walk from Gotanda Station on the Yamanote Line
- ◆ Completed facility renovation including seismic reinforcement in 2000



Address:	2-20-1 Nishi-Gotanda, Shinagawa Ward, Tokyo
Site area:	925.13m <sup>2</sup>
Total floor space:	6,282.23m <sup>2</sup>
Floors:	10 (1 basement floor)
PML:	13.5%
Constructed:	February 21, 1975
Asset form:	Trust beneficiary interests in real estate
Share of total rental income:	2.3%



## JEI Nishi- Honmachi Building

- ◆ This property enjoys excellent access being a 2-minute walk to Honmachi Station on the Yotsubashi Line
- ◆ An expansive feeling achieved with more than 1,000m<sup>2</sup> floor plates on each floor

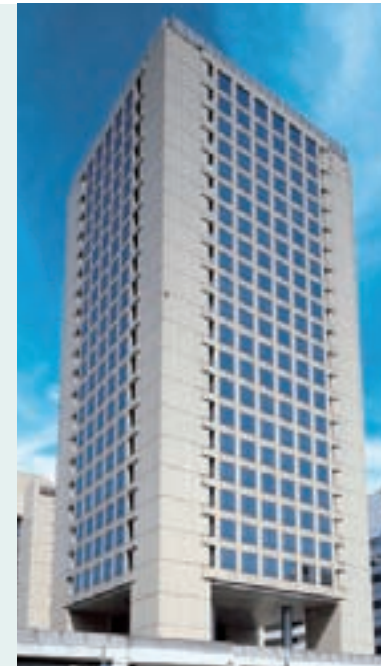


Address:	1-3-15 Awaza, Nishi Ward, Osaka City
Site area:	1,970.44m <sup>2</sup>
Total floor space:	15,800.31m <sup>2</sup>
Floors:	11 (1 basement floor)
PML:	11.5%
Constructed:	February 19, 1988
Asset form:	Trust beneficiary interests in real estate
Share of total rental income:	3.7%



## Kowa Kawasaki Higashiguchi Building

- ◆ A 2-minute walk from Kawasaki Station
- ◆ This property is located in a rapidly metamorphosing district of the Tokyo metropolitan area



Address:	1-53 Nisshincho, Kawasaki Ward, Kawasaki City, Kanagawa Prefecture
Site area:	1,652.89m <sup>2</sup>
Total floor space:	31,009.62m <sup>2</sup>
Floors:	21 (3 basement floors)
PML:	6.7%
Constructed:	April 30, 1988
Asset form:	Trust beneficiary interests in real estate
Share of total rental income:	(Note 1)



## Shuwa Iidabashi Building

- ◆ This property enjoys phenomenal access to both Shinjuku and Marunouchi CBDs
- ◆ Located in the Iidabashi district, which is fast evolving into a very competitive district of central Tokyo



Address:	2-3-19 Koraku, Bunkyo Ward, Tokyo
Site area:	904.38m <sup>2</sup>
Total floor space:	5,083.77m <sup>2</sup>
Floors:	8 (1 basement floor)
PML:	12.9%
Constructed:	October 31, 1988
Asset form:	Trust beneficiary interests in real estate
Share of total rental income:	(P.13, Note 1)



## NHK Nagoya Housou- Center Building

- ◆ This property is located in the most vibrant commercial area in Nagoya
- ◆ A 4-minute walk to Sakae Station



Address:	1-13-3 Higashi-Sakura, Higashi Ward, Nagoya City, Aichi Prefecture
Site area:	7,927.36m <sup>2</sup>
Total floor space:	80,809.95m <sup>2</sup>
Floors:	22 (4 basement floors)
PML:	11.9%
Constructed:	July 3, 1991
Asset form:	Real estate
Share of total rental income:	4.8%



## Musashi- Kosugi Tower Place

- ◆ This property is immediately in front of Musashi-Kosugi Station which has trackages for 3 railway lines and easy access to Yokohama, Kawasaki, and Tokyo



Address:	1-403 Kosugicho, Nakahara Ward, Kawasaki City, Kanagawa Prefecture
Site area:	8,329.62m <sup>2</sup>
Total floor space:	53,711.13m <sup>2</sup>
Floors:	23 (2 basement floors)
PML:	11.5%
Constructed:	July 15, 1995
Asset form:	Trust beneficiary interests in real estate
Share of total rental income:	11.7%



## Hongo TS Building

- ◆ This property lies in close proximity to Hongo-sanchome Station, a 7-minute ride from Tokyo Station

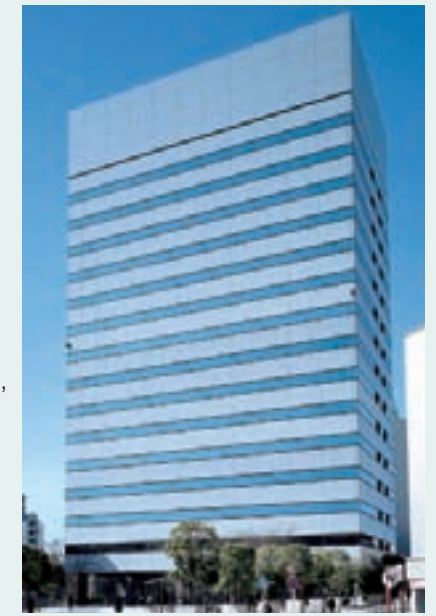


Address:	2-38-16 Hongo, Bunkyo Ward, Tokyo
Site area:	984.89m <sup>2</sup>
Total floor space:	5,877.11m <sup>2</sup>
Floors:	8 (1 basement floor)
PML:	14.2%
Constructed:	February 6, 1991
Asset form:	Trust beneficiary interests in real estate
Share of total rental income:	2.6%



## Kawasaki Nisshin- cho Building

- ◆ This property is close to Kawasaki Station, 20 minutes from Tokyo Station
- ◆ This property is a part of the quickly transforming commercial area of Kawasaki



Address:	7-1 Nisshincho, Kawasaki Ward, Kawasaki City, Kanagawa Prefecture
Site area:	3,673.94m <sup>2</sup>
Total floor space:	22,141.60m <sup>2</sup>
Floors:	15 (2 basement floors)
PML:	14.7%
Constructed:	April 24, 1992
Asset form:	Trust beneficiary interests in real estate
Share of total rental income:	3.0%



## Portfolio Profile

AREA  
III-6

### No.44 Kowa Building

- ◆ An 8-minute walk from Nakameguro Station, located on the popular Yamate-Dori Ave.
- ◆ Close to an enormous development project that is expected to greatly raise the intrinsic value of the area

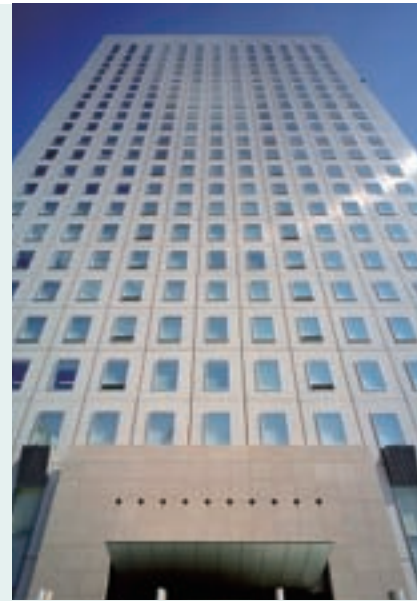


Address:	1-2-7 Higashiyama, Meguro Ward, Tokyo
Site area:	699.87m <sup>2</sup>
Total floor space:	3,359.55m <sup>2</sup>
Floors:	9
PML:	13.4%
Constructed:	July 31, 1984
Asset form:	Trust beneficiary interests in real estate
Share of total rental income:	1.4%

AREA  
III-8

### Ebina Prime Tower

- ◆ A multi-use building redevelopment with office, hotel, auditorium, and fitness center functions
- ◆ Ebina Station provides trackage to the Odakyu Odawara Line, Sagami Railway Line, and JR Sagami Line



Address:	2-9-50 Chuo Ward, Ebina City, Kanagawa Prefecture
Site area:	12,008.62m <sup>2</sup> (JEI co-ownership portion 70/100)
Total floor space:	52,733.59m <sup>2</sup> (JEI co-ownership portion 70/100)
Floors:	Main tower: 25 (1 basement floor); fitness center: 3
PML:	12.2%
Constructed:	May 31, 1995
Asset form:	Trust beneficiary interests in real estate
Share of total rental income:	8.0%

AREA  
III-7

### Ryogoku Dai-ichi Life Building

- ◆ Located in front of Ryogoku Station
- ◆ This property is in the Ryogoku area, home to the renowned Kokugikan sumo stadium



Address:	3-25-5 Ryogoku, Sumida Ward, Tokyo
Site area:	968.33m <sup>2</sup>
Total floor space:	5,820.56m <sup>2</sup>
Floors:	11 (2 basement floors)
PML:	14.3%
Constructed:	August 8, 1996
Asset form:	Trust beneficiary interests in real estate
Share of total rental income:	1.7%

AREA  
IV-1

### Sendai Kowa Building

- ◆ Built in an excellent location in central Sendai, amidst commercial and governmental facilities
- ◆ An 8-minute walk from Sendai Station, a key Shinkansen and terminal station



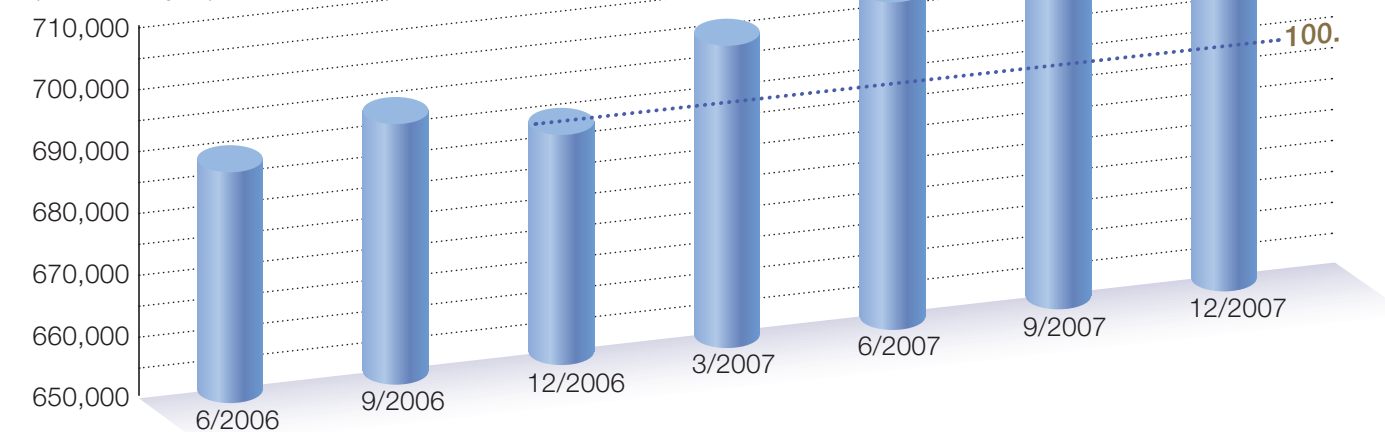
Address:	2-4-1 Ichibancho, Aoba Ward, Sendai City, Miyagi Prefecture
Site area:	2,715.39m <sup>2</sup> (co-ownership 85.244/100)
Total floor space:	18,564.45m <sup>2</sup> (co-ownership 88.094/100)
Floors:	15 (2 basement floors)
PML:	9.2%
Constructed:	August 20, 1979
Asset form:	Trust beneficiary interests in real estate
Share of total rental income:	3.6%

## Internal Growth

Total rental revenue has steadily increased at 2.4% in the most recent year (based on fourteen assets). This increase is a result of a combination of positive market conditions and our proactive stance of renegotiating rates upon expiration and renewal of existing rental contracts.

### Track Record of Total Monthly Rents

(thousand yen)



(Note 1) The total monthly rents for December 2006, March, June, September and December 2007 include the monthly rent (930,000 yen) of a part of the co-owned interest in the Kawasaki Nisshincho Building (acquisition price of 130 million yen) additionally acquired in November 2006.

(Note 2) The total monthly rent for December 2007 equates to 102.4 when the total monthly rent of December 2006 is indexed to 100.

### Key Operational Measures

Japan Excellent, Inc. (JEI) is continuing with its proactive policy of renovating and upgrading portfolio properties to raise their values. JEI first implements measures to grasp the current conditions of properties, and then renovates properties when needed, to raise their asset value based on a medium-to long-term perspective.

JEI Nishi-Honmachi Building



Office space on 5th floor post removal of asbestos and renovation

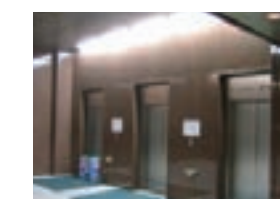
#### Example 1: The removal of asbestos and renovation of office space in the JEI Nishi-Honmachi Building

In addition to removing asbestos located above the ceiling in the office space, JEI raised the ceiling height, installed IT flooring, and increased light intensity.

#### Example 2: Renovation of the Sendai Kowa Building

After acquiring the Sendai Kowa Building, JEI began renovation work on the entrance hall, restrooms, and other shared spaces, along with air conditioning and other key facilities at the previous owner's expense. (Note: The work was completed in March 2008.)

Sendai Kowa Building Entrance Hall



Before



After



# Financial Strategy

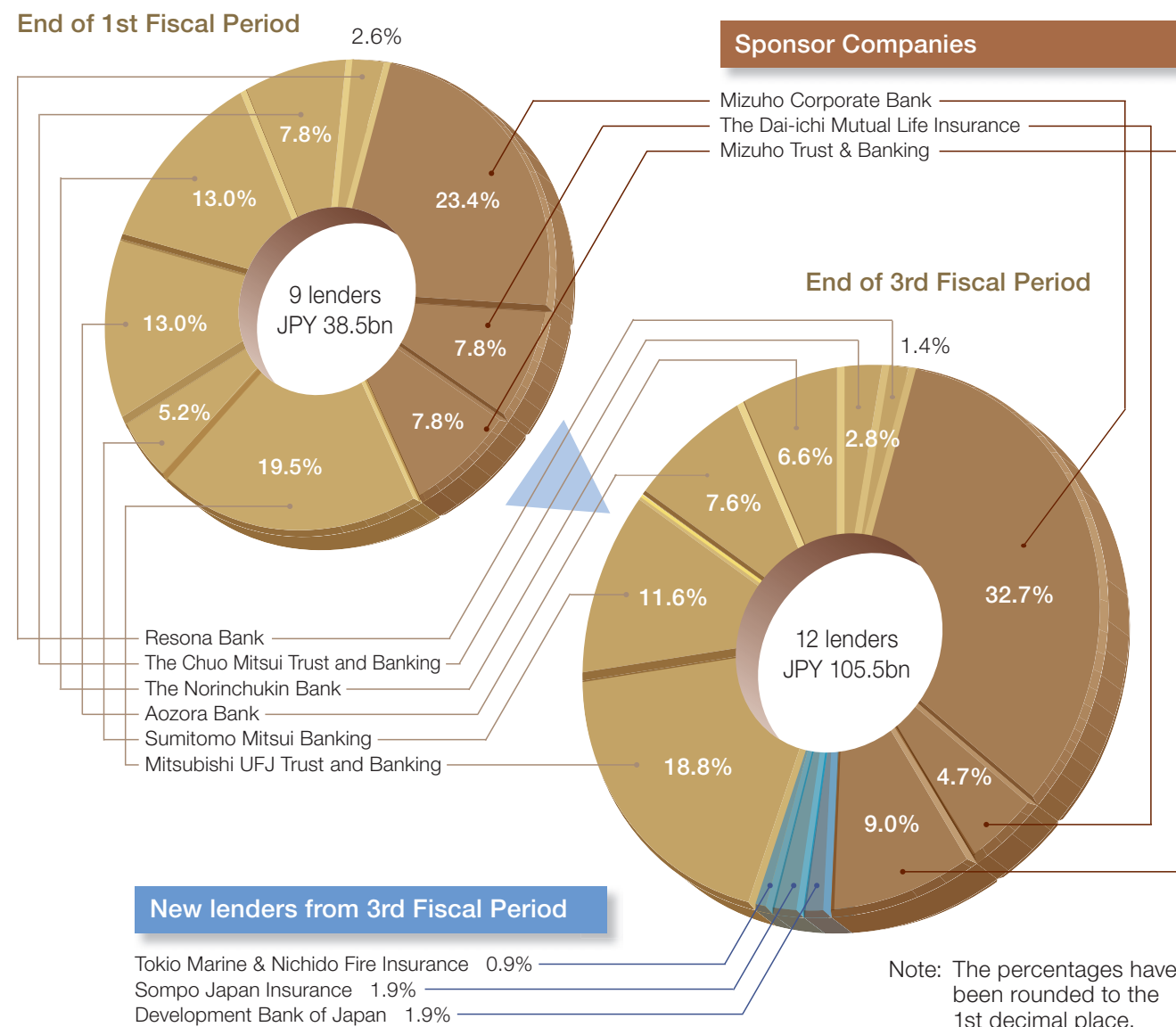
Japan Excellent, Inc. (JEI) is committed to drafting and executing financial strategies based on fine-tuned and flexible operations, by effectively applying the know-how of asset management staff experienced in finance, and utilizing the research of Mizuho Research Institute, Ltd. In line with its mission as a J-REIT, JEI will prudently manage the loan-to-value ratio at a conservative level and consider the implementation of equity finance at the appropriate timing with an eye on the balance of finance to enable flexible achievement of external growth.

## Financial Standing as of December 31, 2007

### Borrowings

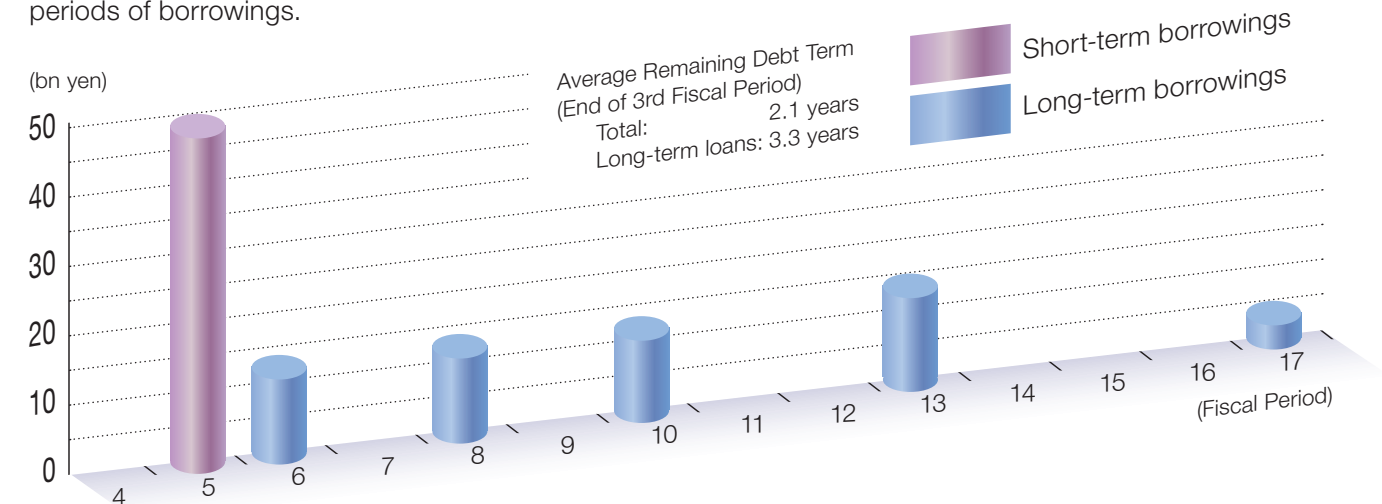
At the end of the third fiscal period, JEI has borrowings of 105.5 billion yen from twelve financial institutions including its sponsor, Mizuho Corporate Bank, Ltd., and continues to strive to diversify lenders.

### Diversified Financial Institutions



### Spreading Out of Repayment Periods for Borrowings

JEI is also taking steps to reduce refinancing risks by decentralizing the repayment periods of borrowings.



### Status of LTV

JEI continues to observe its LTV policy at a ceiling of 60% and desired scope of 35%-50%. As of the end of the third fiscal period, JEI had an LTV of 51.3%.

### Ratings

Although JEI has not employed the issuance of bonds in the procurement of capital to date, it has taken an essential step toward bond issuance by obtaining ratings from the following rating agencies.

Rating Agency	Description (Outlook)
Moody's Investors Service	Issuer rating: <b>A2</b> (stable)
R&I	Issuer rating: <b>AA-</b> (stable)

### Corporate Bonds

In addition, JEI has filed a shelf registration for corporate bonds for JEI's further flexible procurement of long-term borrowings.

Corporate Bonds	Planned Issue Amount	Planned Length of Issue
	100 billion yen	January 7, 2008 - January 6, 2010

## Breakdown of Unitholders





# Japan Excellent's Future Management Strategies

- Our medium-to-long-term management target is steady growth in distributions
- Our goal is to increase both profitability and assets under management through a well-balanced plan, while also optimizing our capital strategy and improving corporate governance

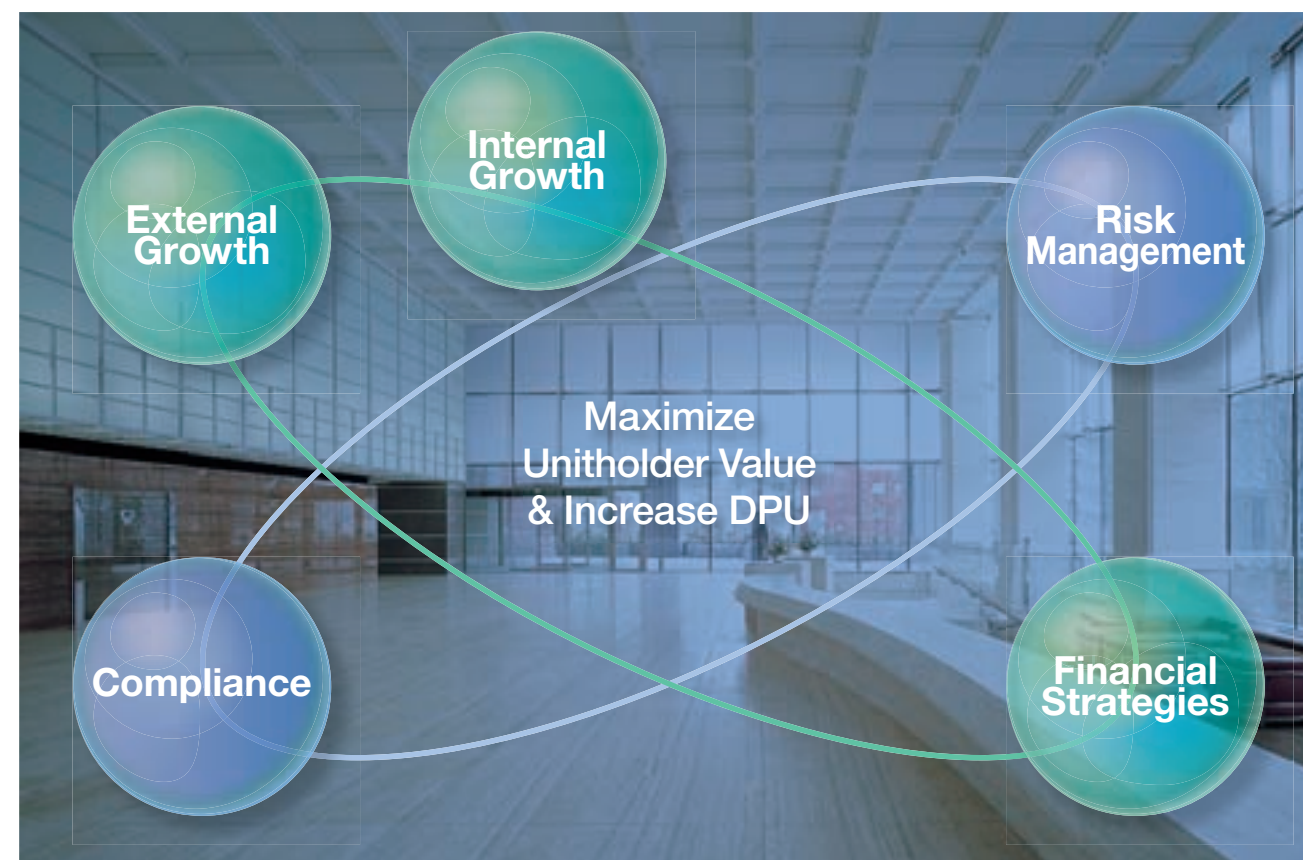
## ◆ External Growth Strategies

- ◇ Increasing rental income by portfolio expansion through properties provided by sponsors
- ◇ Diluting management fees through portfolio expansion

## ◆ Internal Growth Strategies

- ◇ Raising rent levels
- ◇ Improving occupancy rates
- ◇ Reducing management fees

Increasing profitability



## ◆ Enhancement of Compliance and Risk Management

- ◇ Improved internal management structure with the support of an outside consultant
- ◇ Strengthened governance functions with the appointment of a certified real estate appraiser as supervisory director

## ◆ Financial Strategies

- ◇ Accurate understanding of the market environment
- ◇ Preparation for rising interest rates
- ◇ Maintain LTV level between 35%-50%
- ◇ Improvement of credit rating

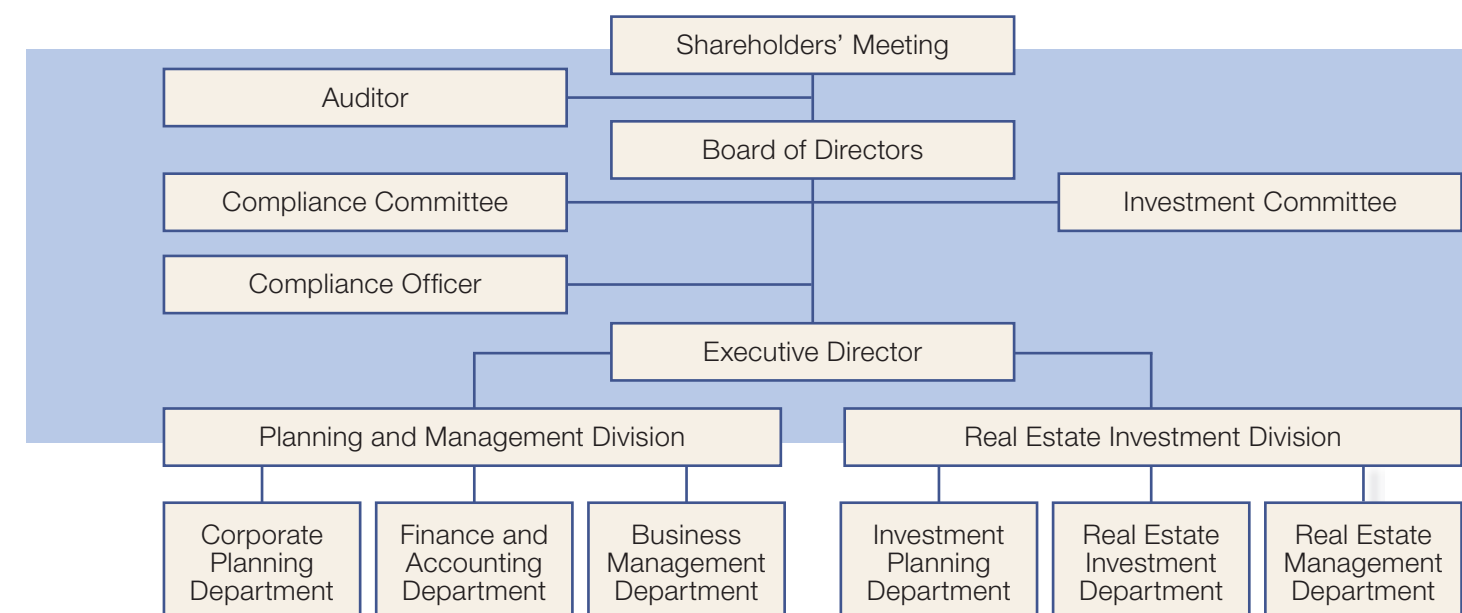
Optimized capital strategy

# The Asset Management Company

Company Outline		
Corporate Name	Japan Excellent Asset Management Co., Ltd.	
Headquarters	1-9-20 Akasaka, Minato Ward, Tokyo	
Established	April 14, 2005	
Paid-in Capital	450 mm yen	
Shareholders	Kowa Real Estate Co., Ltd. 40.0% The Dai-ichi Mutual Life Insurance Company 20.0% Sekisui House Ltd. 15.0% The Dai-ichi Building Co., Ltd. 5.0% Sohgo Housing Co., Ltd. 5.0% Morgan Stanley Capital K.K. 5.0% Mizuho Corporate Bank, Ltd. 5.0% Mizuho Trust & Banking Co., Ltd. 5.0%	
Others	President	Junichi Tamura
	Director of Planning & Management	Nobuyuki Tanabe
	Director of Real Estate Investment	Ryuichi Yamamoto (Note)
	Director (Non-executive)	Takashi Uchida
	Auditor (Non-executive)	Masatoshi Tamaru
Business Operations	Compliance Officer	Michiro Ezaki
	Asset Management for Investment Corporation ● Invest. Co. Asset Mgt. License: Prime Minister No. 61 ● Discretionary License: Minister of MLIT No. 44 ● Real Estate Agency License: Governor of Tokyo (1) No. 84511	

(Note) Naoki Fukuda was appointed Director of Real Estate Investment to replace Ryuichi Yamamoto on April 1, 2008.

## Organizational Chart of Asset Manager





# Compliance and Risk Management

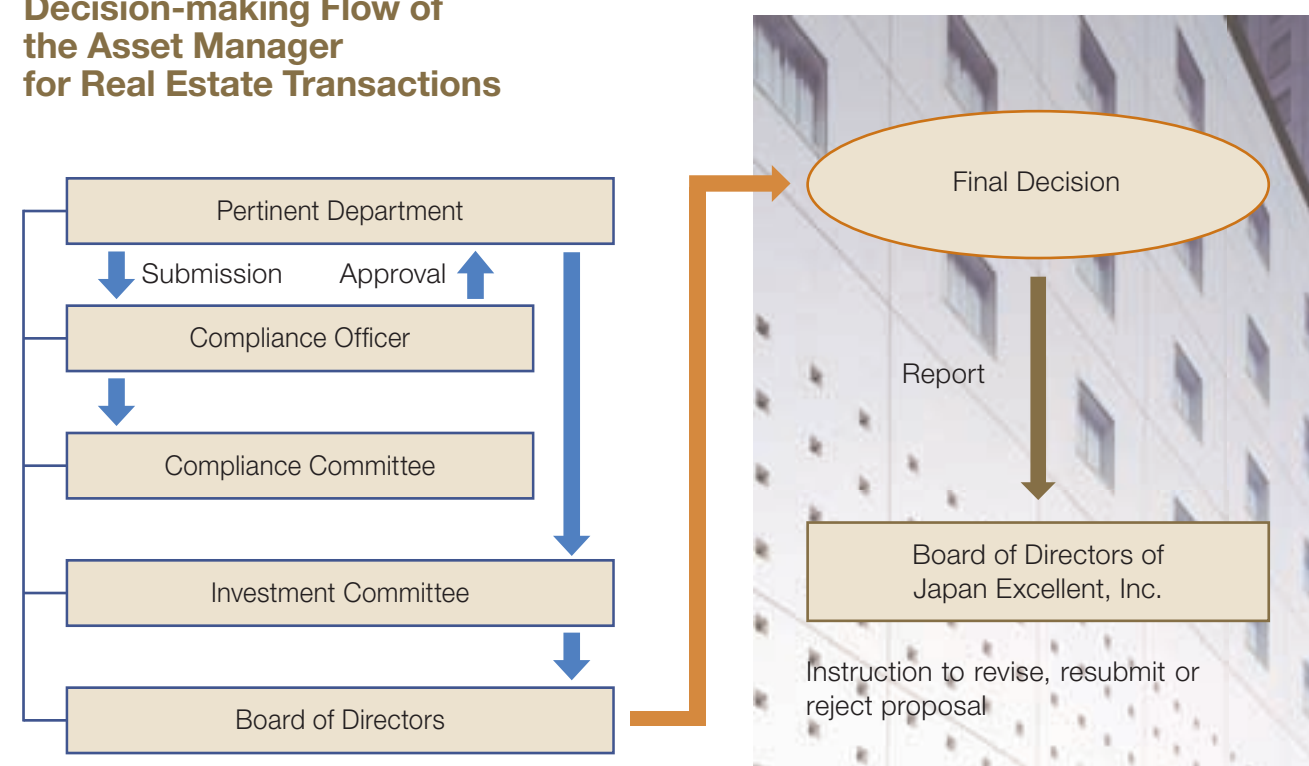
Japan Excellent, Inc. (JEI) recognizes compliance is one of the pillars of the J-REIT system and is committed to ensuring through its asset manager, Japan Excellent Asset Management (JEAM), that its operations are run in strict accordance with the governing laws including the Law concerning Investment Trusts and Investment Corporations and the Financial Instruments and Exchange Law (FIEL). One of the methods that JEI has employed to ensure compliance since its founding is to have the asset manager establish a transparent organization.

The key to our compliance strategy is a periodical review and facilitating process. The close relationship with sponsors at JEI is achieved by the pipeline support agreements made with Kowa Real Estate Co., Ltd., Sekisui House, Ltd., and Mizuho Trust & Banking Co., Ltd. (JEI also maintains strong ties with Morgan Stanley Capital K.K. and other JEAM sponsors). While this provides JEI with a distinct advantage in sourcing information on properties and contracting them, a firmly constructed organizational structure is required to ensure that JEI is paying what is recognized as a rational and fair market price in the event of such transactions.

JEAM has established internal rules to restrict and prudently oversee transactions, including the acquisition and disposition of assets, between JEI and interested parties. Under these internal rules, in principle, the purchase price of an asset to be acquired from interested parties should be no more than the appraised value of the property obtained from a real estate appraiser (appraised value), and the sale price of an asset JEI disposes to interested parties should be no less than the appraised value.

Consequently, JEI has established the below decision-making flow to ensure that compliance and transparency are secured in its real estate transactions.

## Decision-making Flow of the Asset Manager for Real Estate Transactions



Proposals for decisions to buy or sell assets are submitted by the Real Estate Investment Department to the Compliance Officer (CO). The CO verifies that said transaction is not in violation of the respective laws, regulations, and asset manager/REIT rules and contracts, along with generally accepted compliance practices. If no problems regarding compliance are found, the CO returns the proposal to the Real Estate Investment Department, which then submits it to the Compliance Committee and then to the Investment Committee. If the ensuring Investment Committee and Board of Directors' examinations reveal any issues with the proposal, they return it to the Real Estate Investment Department and the process is re-initiated, unless the instruction has been to abandon the proposal. After approvals by the Investment Committee and JEAM Board of Directors are reported to the JEI Board of Directors, and a final decision is reached. In this manner, a proposed acquisition or disposition must be approved at several levels and can be rejected at any levels, allowing for numerous safeguards against decisions that would be detrimental to the interests of unitholders, for whom the REIT seeks to maximize value.

The CO and the compliance team also conduct an internal operational audit once a year to ensure that decisions and operations are proceeding in compliance with laws, regulations, and asset manager/REIT rules. Further, with the implementation of FIEL, the asset manager engaged the assignment of an outside consultant in November 2006 to examine the internal management system and provide advice for reinforcing the system. The preparation of the foundation for this internal management, or corporate governance system, was completed in September 2007 in the form of Internal Audit Guidelines that contain risk-management countermeasures, internal audit policies and other essential procedures.

As a result of and in correlation with these measures, JEAM submitted required documents under FIEL to the Prime Minister to be recognized as an investment manager on November 14, 2007. Additionally, several training sessions were held on compliance with FIEL and one real estate appraiser was added as a supervisory director to enhance compliance through the supervisory system.







# PERFORMANCE REPORT

## I. Overview of Asset Management

### (1) Operating Performance

Fiscal Period		First Fiscal Period	Second Fiscal Period	Third Fiscal Period
Calculation Period		February 20, 2006 - December 31, 2006	January 1, 2007 - June 30, 2007	July 1, 2007 - December 31, 2007
Revenues	(mm yen)	4,751	5,505	6,982
Of which, rental revenues	(mm yen)	4,751	5,505	6,982
Operating expenses	(mm yen)	2,382	2,851	3,926
Of which, property operating expenses	(mm yen)	1,977	2,409	3,437
Operating income	(mm yen)	2,369	2,653	3,055
Income before Income taxes	(mm yen)	1,858	2,240	2,421
Net income	(mm yen)	1,856	2,239	2,420
Total assets	(mm yen)	114,199	156,291	205,486
Net assets	(mm yen)	69,329	69,813	89,292
Unitholders' capital	(mm yen)	67,641	67,641	87,083
Total investment units outstanding	(units)	134,800	134,800	154,550
Net assets per unit	(yen)	514,317	517,906	577,758
Net income per unit (Note 1)	(yen)	13,858	16,614	15,784
Total cash distributions	(mm yen)	1,856	2,239	2,420
Cash distributions per unit	(yen)	13,773	16,614	15,663
Of which, distributions of earnings per unit	(yen)	13,773	16,614	15,663
Of which, distributions in excess of earnings per unit	(yen)	(-)	(-)	(-)
ROA (Return on Assets) (Note 2)	(%)	2.0	1.7	1.3
ROE (Return on Equity) (Note 3)	(%)	2.8	3.2	3.0
Unitholders' equity ratio (Note 4)	(%)	60.7	44.7	43.5
Dividend payout ratio (Note 5)	(%)	99.9	100.0	99.9
Number of properties at end of period	(buildings)	14	18	20
Number of tenants at end of period	(tenants)	99	120	132
Total leasable floor space	(m <sup>2</sup> )	135,264	190,051	234,007
Occupancy rate at end of period	(%)	98.5	98.2	95.3
Depreciation and amortization	(mm yen)	631	674	894
Capital expenditures	(mm yen)	155	182	319
NOI (Net Operating Income) (Note 6)	(mm yen)	3,405	3,770	4,438
FFO (Funds from Operations) per unit (Note 7)	(yen)	18,459	21,616	21,447
FFO ratio (Note 8)	(times)	21.1	24.3	21.1
Debt service coverage ratio (Note 9)	(times)	9.9	7.2	5.5
Interest-bearing debt	(mm yen)	38,500	77,600	105,500
LTV (Loan-to-Value) (Note 10)	(%)	33.7	49.7	51.3
Management period	(number of days)	188	181	184

(Note 1) The net income per unit is calculated by dividing the net income by the weighted average (number of days) number of investment units. In the case of the first fiscal period, the value entered is the net income per unit calculated by dividing the net income by the weighted average (number of days) number of investment units using the actual management initiation date of June 27, 2006.

(Note 2)  $ROA = \text{Ordinary income} \div [(\text{Total assets at beginning of period} + \text{Total assets at end of period}) \div 2] \times 100$   
The figures are rounded to the first decimal place.  
June 27, 2006 is deemed the beginning of the first fiscal period.



- (Note 3)  $\text{ROE} = \text{Net income} \div [(\text{Net assets at beginning of period} + \text{Net assets at end of period}) \div 2] \times 100$   
The figures are rounded to the first decimal place.  
June 27, 2006 is deemed the beginning of the first fiscal period.
- (Note 4)  $\text{Unitholders' equity ratio} = \text{Net assets at end of period} \div \text{Total assets at end of period} \times 100$   
The figures are rounded to the first decimal place.
- (Note 5) The figures are rounded down to the first decimal place.
- (Note 6)  $\text{NOI} = \text{Rental revenues} - \text{Property operating expenses} + \text{Depreciation and amortization}$
- (Note 7)  $\text{FFO per unit} = (\text{Net income} + \text{Depreciation and amortization}) \div \text{Total investment units outstanding}$   
The figures are rounded down to the nearest whole number.
- (Note 8)  $\text{FFO multiple} = \text{Investment unit price at end of period} \div \text{Annualized FFO per unit}$   
The figures are rounded down to the first decimal place.
- (Note 9)  $\text{Debt service coverage ratio} = \text{Net income before interest and income taxes} \div \text{Interest expenses}$   
The figures are rounded to the first decimal place.
- (Note 10)  $\text{LTV} = \text{Interest-bearing debt at end of period} \div \text{Total assets at end of period}$   
The figures are rounded to the first decimal place.

## (2) Overview of Asset Management This Fiscal Period

Japan Excellent, Inc. (JEI) was established on February 20, 2006, based on the Investment Trusts and Investment Corporations Law (ITL). Registration with the Kanto Local Finance Bureau was completed on March 15, 2006 (registration number: Director-General of Kanto Local Finance Bureau No. 52), and JEI was successfully listed on the Tokyo Stock Exchange's Real Estate Investment Trust section (securities code: 8987) on June 27, 2006.

Since listing, JEI has striven to secure both steady growth and earnings in the medium-to long-term perspective, and the third fiscal period recently completed with the end of December 2007. JEI primarily invests and manages office buildings.

### Management Environment and Performance

The office rental market performed solidly with market expansion caused by integrations, expansions, transfers, and such of offices supported by strong corporate performance. Central Tokyo in particular continued to see a tightening of supply and demand centering on blue-chip office properties, which drove the continued rise in rents. On the other hand, there was an increase in vacancies in regional cities due to the slump in supply and demand.

The real estate investment market saw an increase in the intensity of competition to acquire blue-chip properties with active investments by developers, private funds, real estate investment corporations, and the like. Central Tokyo saw transactions of large properties such as the Toranomon Pastoral Hotel and the Ginza Toshiba Building.

In this environment, JEI, with the collaboration and the application of relationships with the sponsors (Note 1) of Japan Excellent Asset Management (asset manager) to whom JEI outsources asset management, contributed to the enhancement of the JEI portfolio through the acquisition of two properties: Kowa Kawasaki Nishiguchi Building (acquisition price: 32 billion yen) and AKASAKA INTERCITY (acquisition price: 17.857 billion yen). This was made possible by continuing the policy from the second fiscal period of: 1) acquiring large buildings located in the city center to be the core of the portfolio while also maintaining profitability, and 2) promoting regional diversification. As a result, JEI owns twenty office buildings as of the end of the third fiscal period for a total acquisition price of 188.984 billion yen.

Portfolio Management is conducted in accordance with the basic investment policy of JEI of pursuing a strong balance between steady earnings and expansion over the medium to long term, by primarily investing in office buildings in major metropolises.

As for internal growth, the greatest priority has been placed on improving net operating income (NOI) through improvement of rental revenues from existing tenants and cost reduction. The asset manager and property managers collaborate to achieve higher rental revenues at each property and negotiate with existing tenants for rental contracts felt to be far below present market levels. In these negotiations, we are calling for tenants to renew agreements at appropriate rent levels based on market levels and property competitiveness.

Additionally, the property managers of each property closely monitor and manage the buildings in a manner that ensures the understanding of end tenants (Note 2). While negotiating to raise rents, JEI is also endeavoring to make beneficial investments (renovations) to meet specific tenant needs and raise tenant satisfaction.

Besides active application of energy conservation and management cost reduction measures, JEI has implemented innovations to effectively utilize unused space in its our properties. As a result, sublease contracts have been concluded with parking lot operators for three portfolio assets with low or unused parking lots.

(Note 1) Sponsor companies refer to the following eight companies that are shareholders of the asset manager: Kowa Real Estate Co., Ltd., The Dai-ichi Mutual Life Insurance Company, Sekisui House, Ltd., Dai-ichi Building Co., Ltd., Sohgo Housing Co., Ltd., Morgan Stanley Capital K.K., Mizuho Corporate Bank, Ltd., and Mizuho Trust & Banking Co., Ltd.

(Note 2) The end tenant is the lessee that has directly concluded a lease agreement with JEI, or the trust fiduciary (excluding master lessees) or sub-lessees that have concluded lease agreements with the master lessees.

### Fund-raising Performance and an Overview of Fund Raising

There were active developments in the fund procurement conditions of JEI during this fiscal period. The paid-in money for the follow-on offering on July 11, 2007 was used for the early repayment on July 24, 2007, of short-term borrowings taken out to acquire properties. Specifically, the borrowings from Mizuho Corporate Bank totaling 20,700 million yen that were borrowed on March 28 and 29, 2007 were repaid early.

The repayment deadline for the 18,400 million yen in short-term borrowings borrowed from two financial institutions on April 24, 2007 was July 31, 2007. On the same day, we borrowed long-term borrowings totaling 18,000 million yen from ten financial institutions and used these funds to convert the short-term borrowings into long-term borrowings, of which 11,000 million yen were borrowed in the form of a fixed interest loan.

On October 26, 2007, JEI borrowed 49,000 million yen from five financial institutions in correlation with the acquisition of assets. This money was borrowed as a short-term borrowing using an uncommitted revolving credit facility agreement. As a result, borrowings as of the end of the third fiscal period (December 31, 2007) totaled 105,500 million yen, borrowed from twelve financial institutions including JEI's sponsor, Mizuho Corporate Bank. Further, 53.5% of the total long-term borrowings (56,500 million yen) have had the interest rate fixed through fixed interest loans and interest swaps.



JEI also completed a shelf registration for issuing investment corporation bonds on December 26, 2007 with the objective of ensuring a flexible procurement of long-term funds.

(Overview of Shelf Registration)

Type	Planned Issuance	Planned Issuance Period
Investment corporation bonds	100 billion yen	January 7, 2008 – January 6, 2010

The following is the rating JEI has obtained, with the objective of issuing investment corporation bonds in the future.

(Ratings as of December 31, 2007.)

	Moody's Investors Service	R&I
Issuer rating	A2	AA-
Outlook	Stable	Stable

Performance and Distribution Overview

As a result of the above management performance, JEI posted the following figures this fiscal period: Revenues of 6,982 million yen; operating income of 3,055 million yen; income before income taxes of 2,421 million yen, and net income of 2,420 million yen.

Due to the application of the special tax treatment under tax convention (Special Taxation Measures Law Article 67-15), distributions on earnings are included in expenses. With this in mind, it was decided that the distribution per investment unit for this period would amount to the entire disposable profit at the end of this fiscal period minus fractions of less than one yen in distribution per investment unit. As a result, the distribution per investment unit for this fiscal period was set at 15,663 yen.

(3) Capital Raising

JEI conducted a secondary offering on July 11, 2007 (19,000 units) and also executed its green shoe option through Mizuho Securities Co., Ltd. (joint lead manager in the secondary offering) on August 8, 2007 to issue investment units through a third-party allotment (750 units). JEI raised a total of approximately 19,441 million yen in funds through this offering and option. The following table shows the number of outstanding units and unitholders' capital and variation for the current and preceding fiscal periods.

Payment Date	Description	No. of Outstanding Units		Total Equity (mm yen)		Remarks
		Variation	Total	Variation	Total	
February 20, 2006	Founded through private placement	400	400	200	200	(Note 1)
June 26, 2006	Public offering	128,000	128,400	64,230	64,430	(Note 2)
July 21, 2006	Third-party allotment	6,400	134,800	3,211	67,641	(Note 3)
July 11, 2007	Secondary offering	19,000	153,800	18,702	86,344	(Note 4)
August 8, 2007	Third-party allotment	750	154,550	738	87,083	(Note 5)

(Note 1) JEI was founded with an issue price of 500,000 per investment unit.

(Note 2) The issue price per investment unit was 520,000 yen (underwriting price: 501,800 yen). New investment units were issued through a secondary offering to raise capital to acquire properties purchased upon listing.

(Note 3) The issue price per investment unit was 501,800 yen. These new investment units were issued through a third-party allotment with the objective of applying some of the funds raised to acquire new properties.

(Note 4) New investment units were issued through a secondary offering at an issue price per investment unit of 1,019,200 yen (underwriting price: 984,360 yen) with the objective of partially repaying the funds procured to acquire properties in the second fiscal period.

(Note 5) New investment units were issued through a third-party allotment at an issue price per investment unit of 984,360 yen, with the objective of partially repaying the funds procured to acquire properties in the second fiscal period.

Performance of Investment Unit Price on the Tokyo Stock Exchange

Japan Excellent's investment securities are listed on the Real Estate Investment Trust section of the Tokyo Stock Exchange. The high and low prices for each period are listed below based on the respective closing prices.

High and low investment unit prices by fiscal period	Fiscal Period Settlement Date	First Fiscal Period December 2006	Second Fiscal Period June 2007	Third Fiscal Period December 2007
	High (yen)	815,000	1,400,000	1,090,000
	Low (yen)	548,000	761,000	837,000

(4) Distribution Results

The distribution per unit for the third fiscal period is 15,663 yen, and the entire disposable profit as of the end of this fiscal period will be distributed, except for the fraction below one yen in distribution per unit that exists when the profit is divided by this distribution. This amount was reached to meet a special corporation tax measure that allows an investment corporation to deduct an amount equivalent to profit distributions from taxable income as expenses (Special Taxation Measures Law Article 67-15).

Period	First Fiscal Period	Second Fiscal Period	Third Fiscal Period
Accounting Period	February 20, 2006 – December 31, 2006	January 1, 2007 – June 30, 2007	July 1, 2007 – December 31, 2007
Retained earnings for this fiscal period	1,856,675,000 yen	2,239,620,000 yen	2,420,792,000 yen
Undistributed earnings	75,000 yen	53,000 yen	76,000 yen
Total cash distributions	1,856,600,000 yen	2,239,567,000 yen	2,420,716,000 yen
(distribution per unit)	(13,773 yen)	(16,614 yen)	(15,663 yen)
Of which, total profit distributions of earnings (profit distribution)	1,856,600,000 yen (13,773 yen)	2,239,567,000 yen (16,614 yen)	2,420,716,000 yen (15,663 yen)
Of which, refund of unitholders' capital	-	-	-
(refund of unitholders' capital per unit)	(-)	(-)	(-)



## **(5) Future Management Policies and Current Issues**

### **Outlook of Investment Environment**

The Tokyo metropolitan area as a whole is expected to continually perform solidly, but JEI is a convinced that a cautious investment stance is necessary because some high class properties are seeing rents peak and the supply-demand balance is weakening in regional cities and leading to an increase in vacancy rates. It has also become more difficult to obtaining financing due to the aftereffects of the subprime loan issue. Consequently, JEI expects private funds to continue selling off properties but without a change in the cap rate, so the environment for procuring properties is expected to continue to be severe.

### **Future Management Policy and Current Issues**

As for the acquisition of new properties, JEI will maintain its medium-to long-term policy of expanding its asset portfolio next fiscal period and afterwards based on a collaborative relationship with sponsor companies, so that JEI can continue to post external growth. As for the management of portfolio properties, the improving of tenant satisfaction regarding hardware such as buildings and facilities through the implementation of appropriate maintenance and preservation and the improving of functions and grades by accurately grasping tenant needs will only increase in importance. With regard to the hardware aspects of the building and facilities, JEI puts high priority on the improvement of tenant satisfaction, which shall be achieved by implementing measures to maintain appropriate maintenance and by raising the level of functions and the grades of units to more accurately ascertain tenant needs.

Therefore, JEI will continue to work to improve both rent levels and cost reductions. JEI is convinced of the importance of implementing the following measures, based on our foremost mission of achieving the evaluation that the rent levels on each property truly reflect the value of that building.

#### **1) Improving the Rent Levels of Existing Tenants**

The portfolio occupancy of JEI was 95.3% as of December 31, 2007, and the issues for the time being are maintaining the high occupancy level and increasing rent levels where the upward trend continues. Most of the contracts with existing tenants are standard two-year lease agreements with renewals every two years (there are fifteen fixed-period lease agreements as of December 31, 2007). JEI will determine the contracted rents that are distinctly different from present market levels and continue negotiations with those tenants to renew at appropriate levels given the market price and property competitiveness. JEI is focused on building strong relations with tenants through these negotiations by developing a mutual understanding through the proffering of comprehensive proposals that take into account not only rent levels but also contract periods, contract methods, etc.

#### **2) Maintaining and Improving Property Management Quality and Reducing Costs**

The property managers of each of the properties owned by JEI provide building management attuned to the properties for which they are responsible, which enables the maintenance of mutual understanding with tenants. As for management quality, on-site surveys are conducted periodically and efforts are constantly made to maintain and improve management quality by implementing measures successful at other properties in the portfolio. Measures to reduce outsourcing janitorial costs and other changes have been taken with a well-balanced approach to both service quality and the outsourcing costs. JEI is also examining measures to increase income by efficiently utilizing unused space in buildings such as concluding sub-leasing contracts with parking lot operators for parking lots that are poorly occupied or not occupied at all. These reductions in operating and management fees and examination and implementation of measures to increase income will be

applied for the generation of internal growth.

### **3) Implementing Beneficial Investments (Renovations)**

Naturally, JEI will also analyze properties from a medium-to long-term perspective and initiate appropriate maintenance while implementing planned investments (renovations) to further improve tenant satisfaction and enhance value of properties. JEI will conduct corrective work upon property acquisition and then check building usage safety, convenience, and enact further measures in areas where it is determined that safety and convenience require further enhancement.

Specifically, JEI is initiating major renovations at the Sendai Kowa Building and JEI Nishi-Honmachi Building, the properties it acquired in the second fiscal period, in the pursuit of quality increase. Regarding the Sendai Kowa Building, one of the purchase conditions at the time of acquisition was the conducting of renovations by the former owner, and primarily common use area renovations such as the virtually comprehensive renewal (renewal of entrance, restrooms, and other common use areas and replacement of air conditioning and other major facilities) are currently in progress for completion in March 2008. These renovations are being conducted at the expense of the previous owner. For JEI Nishi-Honmachi Building, JEI has improved safety by removing asbestos and also raising the ceiling height and installing floors for automated office equipment, improved lighting and conducted other work to upgrade the building so that its convenience could be improved further. The sprayed on asbestos existed behind the ceilings in rooms occupied by tenants (offices) and so the work required tenants to relocate within the building. Therefore, to complete the removal JEI obtained the cooperation of tenants to relocate within the building rationally and quickly. A proposal was made to remove the asbestos one floor at a time and JEI is in the midst of this process.

As for the Kowa Kawasaki Nishiguchi Building acquired during the third fiscal period, JEI plans to remove the material that has been sprayed on in the air conditioning control room and EPS room which contains asbestos.

### **4) Solidifying the JEI Brand**

JEI is taking steps to solidify the JEI brand by changing the names of buildings whose previous owners remain in their names. JEI is changing these names to building names that use JEI after their acquisition. In accordance with the concerned policy, JEI changed the name of the Nishi-Honmachi Mitsui Building that was acquired during the second fiscal period to JEI Nishi-Honmachi Building as of March 28, 2007.

As for financial strategy, JEI will work to efficiently and flexibly raise capital by diversifying lenders and spreading out repayment terms as well as considering the possibility of bond issuances. This, in line with external growth, will be performed while taking into account the balance between short- and long-term loans. JEI also plans to pursue the fixing of interest rates on borrowings to prepare for any future rise in interest rates.

Meanwhile, the environment surrounding the REIT business is undergoing changes both in terms of acquisition and financing. There are also a number of major systematic changes to the environment underway or already implemented, including the Financial Instruments and Exchange Law which was put into effect from September 2007, the revision of the Trust Law and Trust Business Law, the revision of real estate appraisal standards, and the system for executing new BIS regulations. In recognition of these changes, JEI and JEAM will work to ensure that appropriate steps are taken.

### **(6) Material Developments after Closing of Accounts**

Not applicable



II. Overview of Investment Corporation

1. Overview of Equity Capital

Period	First Fiscal Period (as of December 31, 2006)	Second Fiscal Period (as of June 30, 2007)	Third Fiscal Period (as of December 31, 2007)
Number of issuable investment units	2,000,000 units	2,000,000 units	2,000,000 units
Total number of outstanding investment units	134,800 units	134,800 units	154,550 units
Total unitholders' capital	67,641 mm yen	67,641 mm yen	87,083 mm yen
No. of unitholders	2,529	2,193	3,708

2. Information on Investment Units

The following are the primary unitholders as of December 31, 2007.

Name	Address	Units Owned	Ownership Ratio (%)
Kowa Real Estate Co., Ltd.	1-15-5 Minami Aoyama, Minato Ward, Tokyo	14,312	9.26
Japan Trustee Services Bank, Ltd. (investment trust account)	1-8-11 Harumi, Chuo Ward, Tokyo	12,879	8.33
Trust & Custody Services Bank, Ltd. (securities investment trust account)	Harumi Island Triton Square Office Tower Z, 1-8-12 Harumi, Chuo Ward, Tokyo	11,281	7.30
NikkoCiti Trust and Banking Corporation (investment trust account)	2-3-14 Higashi Shinagawa, Shinagawa Ward, Tokyo	11,062	7.16
The Master Trust Bank of Japan, Ltd. (investment trust account)	2-11-3 Hamamatsucho, Minato Ward, Tokyo	8,660	5.60
North Pacific Bank, Ltd	3-11 Odori-Nishi, Chuo Ward, Sapporo, Hokkaido	4,573	2.96
JPMorgan Chase Goldman Sachs Trust Jasdac Lending Account	Goldman Sachs and Co., 180 Maiden Lane, New York, NY 10038 U.S.A.	4,414	2.86
The Dai-ichi Mutual Life Insurance Company	1-13-1 Yurakucho, Chiyoda Ward, Tokyo	4,132	2.67
Bank of Ikeda, Ltd.	2-1-11 Jonan, Ikeda City, Osaka Prefecture	3,432	2.22
The Nomura Trust and Banking Co., Ltd. (investment trust account)	2-2-2 Otemachi, Chiyoda Ward, Tokyo.	3,400	2.20
Total		78,145	50.56

(Note) Figures for Ownership Ratio have been rounded to the second decimal place.

3. Information on Board of Directors

Names of Directors during the Third Fiscal Period

Post	Name	Primary Concurrent Positions	Compensation during Concerned Operational Period
Executive Director	Junichi Tamura	President and Representative Director, Japan Excellent Asset Management Co., Ltd.	-
Supervisory Director	Makoto Sakagami	Sakagami CPA Office	5.1 mm yen
Supervisory Director	Tsuyoshi Nagahama	Partner, Anderson Mori & Tomotsune	
Supervisory Director	Shunichi Maekawa (Note 2)	Professor, Faculty of Real Estate Sciences, Meikai University	
Accounting Auditor	Misuzu Audit Corporation (Note 3)	-	-
Accounting Auditor	Ernst & Young ShinNihon (Note 4)	-	11.3 mm yen

(Note 1) Neither the executive director nor the supervisory directors own investment units of JEI. There are cases where the supervisory directors are directors of corporations not indicated above, but in none of the cases including the above does an interest relationship exist with JEI.

(Note 2) Maekawa was selected as a supervisory director of JEI on November 1, 2007 based on the resolution of the Second Unitholders' Meeting for JEI held on October 5, 2007.

(Note 3) Misuzu Audit Corporation resigned as the accounting auditor of JEI on July 31, 2007. Further, in regard to Misuzu Audit Corporation, the former accounting auditor of JEI, it has been separately paid compensation for the AUP work that accompanied the issuance of new investment units.

(Note 4) Ernst & Young ShinNihon was selected as the temporary accounting auditor of JEI on August 1, 2007 in correlation with the resignation of Misuzu Audit Corporation. Ernst & Young ShinNihon was selected as the accounting auditor at the Second Unitholders' Meeting of JEI. The above entered total amount of compensation is an estimate and includes the compensation for auditing English financial statements.

(Note 5) The Second Unitholders' Meeting of JEI also selected Nobuyuki Tanabe, a Director of Japan Excellent Asset Management, as an alternate Executive Director of JEI.

Policy on Dismissal of Accounting Auditor and Decision to Not Re-employ

The board of directors shall examine the dismissal of an accounting auditor in accordance with stipulations of the Investment Trusts and Investment Corporation Law and examine the non re-employment of said party after thorough consideration of various circumstances.

4. Asset Management Company, Asset Custodian, and Administrative Agent

The asset management company, asset custodian, and administrative agent as of December 31, 2007 are as follows.

Description	Name
Asset management company	Japan Excellent Asset Management Co., Ltd.
Asset custodian	Mizuho Trust & Banking Co., Ltd.
Administrative agent (affairs regarding the management of the unitholders' list, administering of accounts and the institution, etc.)	Mizuho Trust & Banking Co., Ltd.



### III. Overview of Assets Managed by JEI

#### 1. Configuration of Japan Excellent's Portfolio

Asset Type	Usage	Area	Second Fiscal Period (as of June 30, 2007)		Third Fiscal Period (as of December 31, 2007)	
			Total Assets under Management (mm yen) (Note 1)	Share of Portfolio (%) (Note 2)	Total Assets under Management (mm yen) (Note 1)	Share of Portfolio (%) (Note 2)
Real estate (Note 3)	Office	Area II (Note 4)	4,310	2.8	4,288	2.1
Trust beneficiary interests in real estate (Note 3)	Office	Area I (Note 4)	76,007	48.6	93,629	45.6
		Area II (Note 4)	6,928	4.4	7,026	3.4
		Area III (Note 4)	48,345	30.9	80,134	39.0
		Area IV (Note 4)	4,276	2.7	4,244	2.1
		Total		139,868	89.5	189,323
Deposits and other assets			16,422	10.5	16,162	7.9
Total assets			156,291	100.0	205,486	100.0

(Note 1) The Total Assets under Management amount is the amount entered on the balance sheet as of the settlement date (the book value after depreciation for the real estate and trust beneficiary interests in real estate).

(Note 2) The figures for the Share of Portfolio have been rounded to the first decimal place.

(Note 3) Land leasehold rights owned with buildings are combined with the buildings and entered in the real estate and trust beneficiary interests in real estate rows.

(Note 4) The following are the divisions of area.

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

Area II: Central Osaka City (Umeda, Dojima, Nakanoshima, Yodoyabashi, Honmachi District, etc.), central Nagoya City (Meieki area, Fushimi, Sakae district, etc.), and central Fukuoka City (Tenjin, area in front of Hakata Station, etc.)

Area III: Tokyo excluding Area I and the area around Tokyo (Kanagawa, Saitama, and Chiba Prefectures)

Area IV: Osaka City, Nagoya City, and Fukuoka Cities excluding Area II and other ordinance-designated cities, etc.

#### 2. Primary Assets under Management

An overview of the primary assets under management by JEI (top ten in terms of book value) as of December 31, 2007 is as follows.

Property Name	Book Value (mm yen)	Leasable Floor Space (m <sup>2</sup> ) (Note 1)	Leased Floor Space (m <sup>2</sup> ) (Note 2)	Occupancy (%) (Note 3)	Ratio of Rental Revenue (%) (Note 4)	Primary Usage
Kowa Kawasaki Nishiguchi Building	32,019	38,332.15	37,569.99	98.0	6.0	Office
Akasaka Garden City	23,319	8,769.53	7,215.53	82.3	8.0	Office
Omori Bellport D	22,709	25,828.29	25,828.29	100.0	15.3	Office
AKASAKA INTERCITY	17,861	5,622.98	5,546.06	98.6	1.9	Office
Musashikosugi Tower Place	13,751	25,275.07	25,275.07	100.0	11.7	Office
Kowa Kawasaki Higashiguchi Building	10,810	18,612.72	18,612.72	100.0	(Note 5)	Office
Shiba 2-Chome Building	9,430	11,749.30	11,654.49	99.2	5.3	Office
Shuwa Daiichi Hamamatsucho Building	8,365	6,411.26	6,411.26	100.0	4.1	Office
JEI Nishi-Honmachi Building	7,026	10,601.70	5,532.91	52.2	3.7	Office
Ebina Prime Tower	6,666	25,362.37	24,909.39	98.2	8.0	Office
Total	151,960	176,565.37	168,555.71	95.5	72.1	

(Note 1) The area for leasable floor space is the leasable floor space of the portion acquired by JEI as of December 31, 2007, and is rounded to the second decimal place. For jointly-owned properties, the figure entered is the leasable floor space of the entire jointly-owned property multiplied by the percentage actually owned by JEI.

(Note 2) In the case of the leased floor space, it is rounded to the second decimal place and the area under the lease agreement with the end tenants as of December 31, 2007 is entered. For jointly-owned properties, the figure entered is the leased floor space of the entire jointly-owned property multiplied by the percentage actually owned by JEI.

(Note 3) Occupancy is the ratio of leased floor space to leasable floor space as of December 31, 2007, and is rounded to the first decimal place.

(Note 4) The ratio of rental revenue of each asset is rounded to the first decimal place.

(Note 5) JEI has not obtained agreement to disclose the rent from the end tenant of this property and so the amount is not disclosed here.



3. Itemized Statement of Incorporated Real Estate and Other Assets

The following is an itemized statement of the real estate, etc. owned by JEI (real estate or trust beneficiary interests in real estate) as of December 31, 2007.

Property No.	Property Name	Address	Ownership Form	End-of-Period Appraisal (mm yen) (Note)	Book Value (mm yen)
I-1	Omori Bellport D	6-26-3 Minami-Oi, Shinagawa Ward, Tokyo	Trust beneficiary interests in real estate (TBIRE)	25,630	22,709
I-2	Shiba 2-Chome Building	2-6-1 Shiba, Minato Ward, Tokyo	TBIRE	13,200	9,430
I-3	Shuwa Daiichi Hamamatsucho Building	2-2-12 Hamamatsucho, Minato Ward, Tokyo	TBIRE	10,300	8,365
I-4	No. 32 Kowa Building	5-2-32 Minami-Azabu, Minato Ward, Tokyo	TBIRE	5,676	5,030
I-5	No. 36 Kowa Building	5-19 Sanbancho, Chiyoda Ward, Tokyo	TBIRE	4,234	4,049
I-6	No. 28 Kowa Building	2-20-1 Nishi-Gotanda, Shinagawa Ward, Tokyo	TBIRE	4,210	2,863
I-7	Akasaka Garden City	4-15-1 Akasaka, Minato Ward, Tokyo	TBIRE	25,700	23,319
I-8	AKASAKA INTERCITY	1-11-44 Akasaka, Minato Ward, Tokyo	TBIRE	18,300	17,861
Area I				107,250	93,629
II-1	NHK Nagoya Housou-Center Building	1-13-3 Higashi-Sakura, Higashi Ward, Nagoya City, Aichi Prefecture	Real Estate	5,570	4,288
II-2	JEI Nishi-Honmachi Building	1-3-15 Awaza, Nishi Ward, Osaka City, Osaka Prefecture	TBIRE	6,760	7,026
Area II				12,330	11,314

Property No.	Property Name	Address	Ownership Form	End-of-Period Appraisal (mm yen) (Note)	Book Value (mm yen)
III-1	Musashikosugi Tower Place	1-403 Kosugimachi, Nakahara Ward, Kawasaki City, Kanagawa Prefecture	TBIRE	18,300	13,751
III-2	Kowa Kawasaki Higashiguchi Building	1-53 Nisshincho, Kawasaki Ward, Kawasaki City, Kanagawa Prefecture	TBIRE	11,300	10,810
III-3	Hongo TS Building	2-38-16 Hongo, Bunkyo Ward, Tokyo	TBIRE	5,500	5,357
III-4	Shuwa Iidabashi Building	2-3-19 Koraku, Bunkyo Ward, Tokyo	TBIRE	4,940	4,048
III-5	Kawasaki Nisshincho Building	7-1 Nisshincho, Kawasaki Ward, Kawasaki City, Kanagawa Prefecture	TBIRE	5,790	3,906
III-6	No. 44 Kowa Building	1-2-7 Higashiyama, Meguro Ward, Tokyo	TBIRE	1,840	1,052
III-7	Ryogoku Dai-ichi Life Building	3-25-5 Ryogoku, Sumida Ward, Tokyo	TBIRE	2,566	2,521
III-8	Ebina Prime Tower	2-9-50 Chuo, Ebina City, Kanagawa Prefecture	TBIRE	6,610	6,666
III-9	Kowa Kawasaki Nishiguchi Building	66-2 Horikawacho, Saiwai Ward, Kawasaki City, Kanagawa Prefecture	TBIRE	32,300	32,019
Area III				89,146	80,134
IV-1	Sendai Kowa Building	2-4-1 Ichibancho, Aoba Ward, Sendai City, Miyagi Prefecture	TBIRE	4,462	4,244
Area IV				4,462	4,244
Total				213,188	189,323

(Note) In accordance with the articles of incorporation of JEI and the rules designated by the Investment Trusts Association, the end-of-period appraisal values have been written in appraisal reports prepared with a pricing point of December 31, 2007, by appraisers of the Japan Real Estate Institute, Chuo Real Estate Appraisal Co., Ltd., or HIRO & REAS Network, Inc. Further, in the case of co-owned properties, JEI has entered a value arrived at by multiplying the proportion owned by JEI or the trustee by the total amount for the entire co-owned real estate.



Property No.	Property Name	Second Fiscal Period (January 1, 2007 - June 30, 2007)				Third Fiscal Period (July 1, 2007 - December 31, 2007)			
		No. of Tenants (end-of-period) (Note 1)	Occupancy (end-of-period) (%)	Rental Revenue (during period) (mm yen)	Share of Rental Revenue (%) (Note 2)	No. of Tenants (end-of-period) (Note 1)	Occupancy (end-of-period) (%)	Rental Revenue (during period) (mm yen)	Share of Rental Revenue (%) (Note 2)
I-1	Omori Bellport D	1	99.7	1,042	18.9	1	100.0	1,071	15.3
I-2	Shiba 2-Chome Building	2	98.4	346	6.3	2	99.2	369	5.3
I-3	Shuwa Daiichi Hamamatsucho Building	1	100.0	277	5.0	1	100.0	288	4.1
I-4	No. 32 Kowa Building	15	100.0	237	4.3	15	94.3	244	3.5
I-5	No. 36 Kowa Building	1	100.0	(Note 3)	(Note 3)	1	100.0	(Note 3)	(Note 3)
I-6	No. 28 Kowa Building	1	100.0	154	2.8	1	100.0	160	2.3
I-7	Akasaka Garden City	1	100.0	295	5.4	1	82.3	557	8.0
I-8	AKASAKA INTERCITY	-	-	-	-	12	98.6	132	1.9
Area I		22	99.6	2,553	46.4	34	97.3	3,024	43.3
II-1	NHK Nagoya Housou-Center Building	39	98.0	349	6.3	41	95.7	337	4.8
II-2	JEI Nishi-Honmachi Building	1	96.1	150	2.7	1	52.2	261	3.7
Area II		40	96.9	500	9.1	42	72.1	599	8.6
III-1	Musashikosugi Tower Place	32	100.0	789	14.3	32	100.0	814	11.7
III-2	Kowa Kawasaki Higashiguchi Building	1	100.0	(Note 3)	(Note 3)	1	100.0	(Note 3)	(Note 3)
III-3	Hongo TS Building	1	100.0	176	3.2	1	100.0	179	2.6
III-4	Shuwa Iidabashi Building	1	100.0	(Note 3)	(Note 3)	1	100.0	(Note 3)	(Note 3)
III-5	Kawasaki Nisshincho Building	1	100.0	211	3.8	1	100.0	212	3.0
III-6	No. 44 Kowa Building	1	100.0	88	1.6	1	94.5	97	1.4
III-7	Ryogoku Dai-ichi Life Building	1	100.0	114	2.1	1	100.0	119	1.7
III-8	Ebina Prime Tower	19	98.7	291	5.3	16	98.2	559	8.0
III-9	Kowa Kawasaki Nishiguchi Building	-	-	-	-	1	98.0	419	6.0
Area III		57	99.6	2,360	42.9	55	99.0	3,110	44.5
IV-1	Sendai Kowa Building	1	77.8	91	1.7	1	77.8	248	3.6
Area IV		1	77.8	91	1.7	1	77.8	248	3.6
Total		120	98.2	5,505	100.0	132	95.3	6,982	100.0

(Note 1) The figure for the number of tenants is the total number of tenants at each property as of the end of each fiscal period. In the case of a master lease agreement, the number of tenants is entered as 'one.' When a single tenant leases multiple spaces, it is recognized as one tenant on a single property, and as multiple tenants on multiple properties.

(Note 2) The share of rental revenue is rounded to the first decimal place.

(Note 3) No figure is entered for said property because approval for disclosure has not been obtained from the end tenants.

#### 4. Other Asset Information

##### Stocks and Investment Securities

Issue	No. of Stocks	Acquisition Price (1,000 yen)		Appraised Value (1,000 yen)		Latent Profit/Loss (1,000 yen)	Remarks
		Unit Price	Amount	Unit Price	Amount		
NHK Nagoya Build Systems Co., Ltd.	64	168	10,768	168	10,768	-	(Note)

(Note) The acquisition price is entered as the appraised value of said unlisted stocks.

##### Table of Specific Transaction Agreements and Market Values

Category	Type	Contract Amount (1,000 yen)		Market Value (1,000 yen) (Note 2)
		(Note 1)	Of which, more than 1 year (Note 1)	
Non-market transaction	Interest rate swap Floating interest and fixed interest	16,250,000	16,250,000	(211,254)

(Note 1) The indicated balance for the interest rate swap is indicated based on the assumed principal.

(Note 2) The appraisal is made at the amount calculated by the other party involved in said transaction based on the going rate of interest, etc.



IV. Capital Expenditures on Owned Real Estate

1. Planned Capital Expenditures

The following table indicates the primary scheduled capital expenditures as of December 31, 2007 for scheduled renovations, etc. to assets owned at the end of the third fiscal period by JEI. The following planned construction amounts include portions that will be treated as expenses for accounting purposes.

Property Name	Location	Objective	Planned Schedule	Planned Construction Amount (mm yen)		
				Total	Amount Paid This Period	Amount Already Paid
Shiba 2-Chome Building	Minato Ward, Tokyo	Renewal of residential building entrance	April 2008 - June 2008	10	-	-
Kawasaki Nisshincho Building	Kawasaki Ward, Kawasaki City, Kanagawa Prefecture	Upgrading of fan coils for air conditioning system and piping	October 2007 - January 2008	29	-	-
JEI Nishi-Honmachi Building	Nishi Ward, Osaka City, Osaka Prefecture	Asbestos removal work and leasable unit maintenance work (phase 2)	November 2007- June 2008	313	-	-

2. Capital Expenditures during the Third Fiscal Period

The following is the construction work on assets under management as of the end of the third fiscal period that fall under capital expenditures conducted by JEI during the fiscal period ended December 2007. Capital expenditures during this period were 319 million yen, and the total amount for construction work was 682 million yen when the preceding figure is combined with the 363 million yen in maintenance and repair costs classified as expenses in the period ended December 2007.

Property Name	Location	Objective	Schedule	Amount Paid (mm yen)
JEI Nishi-Honmachi Building	Nishi Ward, Osaka City, Osaka Prefecture	Asbestos removal work and leasable unit maintenance work (phase 1)	August 2007 - December 2007	125
Shuwa Iidabashi Building	Bunkyo Ward, Tokyo	Upgrading of ventilation and humidifier	October 2007 - December 2007	35
Ebina Prime Tower	Ebina City, Kanagawa Prefecture	Setting of shower toilets	October 2007 - November 2007	12
No. 44 Kowa Building	Meguro Ward, Tokyo	Renovation of common areas	October 2007 - December 2007	11
Shuwa Daiichi Hamamatsucho Building	Minato Ward, Tokyo	Upgrading of humidifier	October 2007 - December 2007	18
Other construction			-	115
Total				319

3. Reserves for Maintenance and Repair Costs

JEI is applying maintenance and repair reserves to payment for major maintenance and repairs, etc. based on long-term maintenance and repair plans established for each property. These funds are being accumulated from among depreciation and other surplus cash flow.

Category	First Fiscal Period (February 20, 2006 - December 31, 2006)	Second Fiscal Period (January 1, 2007 - June 30, 2007)	Third Fiscal Period (July 1, 2007 - December 31, 2007)
Balance of reserves from preceding fiscal period (mm yen)	-	164	232
Current reserves (mm yen)	164	67	50
Withdrawals from reserves (mm yen)	-	-	-
Amount carried forward (mm yen)	164	232	282



## V. Expenses and Liabilities

### 1. Itemization of Management Expenses

(unit: thousand yen)

Category	First Fiscal Period (February 20, 2006 - December 31, 2006)	Second Fiscal Period (January 1, 2007 - June 30, 2007)	Third Fiscal Period (July 1, 2007 - December 31, 2007)
(a) Asset management fees	306,290	328,491	369,974
(b) Asset custodian outsourcing fee	8,975	7,435	12,240
(c) Administrative agent fee	18,014	14,541	24,648
(d) Director compensation	11,858	4,690	5,100
(e) Accounting auditor compensation	4,500	4,500	6,000
(f) Other expenses	54,513	83,014	70,678
<b>Total</b>	<b>404,152</b>	<b>442,671</b>	<b>488,642</b>

### 2. Borrowing Conditions

The following are the borrowing conditions for each financial institution as of the end of the third fiscal period (as of December 31, 2007).

Category	Lender	Loan Execution Date	Balance End of Previous Period (mm yen)	Balance End of This Period (mm yen)	Average Interest (%) (Note 1)	Repayment Date	Repayment Method	Usage	Description
Short-term Borrowings	Mizuho Corporate Bank, Ltd.	10/26/07	20,700	23,000	1.04667	10/24/08	One-time payment	For property acquisition funds	No collateral or guarantee
	Mitsubishi UFJ Trust and Banking Corporation		10,400	10,000					
	Sumitomo Mitsui Banking Corporation		8,000	8,000					
	Mizuho Trust & Banking Co., Ltd.		-	5,000					
	Aozora Bank, Ltd.		-	3,000					
<b>Subtotal</b>	<b>-</b>	<b>-</b>	<b>39,100</b>	<b>49,000</b>	<b>1.04667</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Category	Lender	Loan Execution Date	Balance End of Previous Period (mm yen)	Balance End of This Period (mm yen)	Average Interest (%) (Note 1)	Repayment Date	Repayment Method	Usage	Description
Long-term borrowings	Aozora Bank, Ltd.	6/29/06	3,000	3,000	1.43420	6/29/09	One-time payment	For property acquisition funds	No collateral or guarantee
	Chuo Mitsui Trust and Banking Co., Ltd.		3,000	3,000					
	Mizuho Trust & Banking Co., Ltd.		3,000	3,000					
	Sumitomo Mitsui Banking Corporation		2,000	2,000					
	Mizuho Corporate Bank, Ltd.		1,000	1,000					
	Mitsubishi UFJ Trust and Banking Corporation		1,000	1,000					
	The Norinchukin Bank	6/29/06	5,000	5,000	1.58785	6/29/10			
	Mizuho Corporate Bank, Ltd.		3,000	3,000					
	Mitsubishi UFJ Trust and Banking Corporation		3,000	3,000					
	Aozora Bank, Ltd.		2,000	2,000					
	Mizuho Corporate Bank, Ltd.	6/29/06	5,000	5,000	1.59975	6/29/11			
	Mitsubishi UFJ Trust and Banking Corporation		3,500	3,500					
	Resona Bank, Ltd.		1,000	1,000					
	The Dai-ichi Mutual Life Insurance Company		3,000	3,000	1.96625 (Note 2)				



Category		Loan Execution Date	Balance End of Previous Period (mm yen)	Balance End of This Period (mm yen)	Average Interest (%) (Note 1)	Repayment Date	Repayment Method	Usage	Description
	Lender								
Long-term borrowings	Mitsubishi UFJ Trust and Banking Corporation	7/31/07	-	2,300	1.200000	7/31/12	One-time payment	For property acquisition funds	No collateral or guarantee
	Sumitomo Mitsui Banking Corporation		-	2,200					
	The Norinchukin Bank		-	2,000					
	Resona Bank, Ltd.		-	500					
	Mizuho Corporate Bank, Ltd.		-	2,500	1.96907 (Note 2)				
	Mizuho Trust & Banking Co., Ltd.		-	1,500					
	Sompo Japan Insurance Inc.		-	2,000					
	Tokio Marine & Nichido Fire Insurance Co., Ltd.		-	1,000					
	The Dai-ichi Mutual Life Insurance Company		-	2,000		2.25875 (Note 2)			
	Development Bank of Japan		-	2,000	2.28417 (Note 2)				
Subtotal	-	-	38,500	56,500	1.62217	-	-	-	-
Total	-	-	77,600	105,500	1.35487	-	-	-	-

(Note 1) The indicated average interest is the weighted average of the end-of-period balance with the borrowing interest rate for each loan agreement as of the end of the period, and has been rounded to the fifth decimal place. The weighted average after factoring in the benefits of the interest rate swap has been entered for the borrowings where interest rate swaps have been concluded to avoid the risk of interest variations.

(Note 2) This is a fixed-interest loan.

(Note 3) The following is the scheduled repayment amount by years of the settlement date for the borrowings.

Category	Less than 1 year (mm yen)	1 year – Less than 2 years (mm yen)	2 years – Less than 3 years (mm yen)	3 years – Less than 4 years (mm yen)	4 years – Less than 5 years (mm yen)	5 years – (mm yen)
Borrowings	49,000	13,000	13,000	12,500	14,000	4,000

### 3. Overview of Investment Corporation Bonds

Not applicable.

## VI. Property Sales and Purchase Conditions during the Third Fiscal Period

### 1. Sale and Purchase Conditions of Real Estate and Asset-backed Securities

(unit: mm yen)

Asset Type	Property Name	Acquisition		Transfer			
		Acquisition Date	Acquisition Price (Note 1)	Transfer Date	Transfer Price	Book Value	Capital Gains
Trust beneficiary interests in real estate	AKASAKA INTERCITY	October 26, 2007	17,857	-	-	-	-
	Kowa Kawasaki Nishiguchi Building	October 26, 2007	32,000				
Total			49,857		-	-	-

(Note) The figure entered for the acquisition price (property transfer price entered in the agreement to transfer beneficiary interests in trust, etc.) is an amount that does not factor in the acquisition costs of the concerned property, etc. (brokerage fee, public charges, etc.), and figures have been rounded to the nearest million yen.

### 2. Other Asset Sale and Purchase Conditions

The primary assets other than the above property, asset-backed securities, etc. are bank deposits or bank deposits of property placed in trust.

### 3. Appraisal of Qualified Asset Values

#### (1) Real estate, etc. (Note 1)

Acquisition or Transfer	Property Name	Type of Asset	Acquisition Date	Acquisition Price (mm yen) (Note 2)	Appraised Value of Qualified Asset (mm yen)
Acquisition	AKASAKA INTERCITY	Trust beneficiary interests in real estate (TBIRE)	October 26, 2007	17,857	18,000
	Kowa Kawasaki Nishiguchi Building	TBIRE	October 26, 2007	32,000	32,200
Total				49,857	50,200

(Note 1) The appraisals of the values, etc. for the qualified assets above were conducted at the time of acquisition of the assets by Ernst & Young ShinNihon based on Occupation Audit Committee Report No. 23 Investigation of Qualified Asset Prices for Investment Trusts and Investment Corporations of the Japanese Institute of Certified Public Accountants. In addition to the above appraised value, JEI has



received appraisal reports for other items needed for determination of the actual concerned property such as property address and lot number.

(Note 2) The acquisition price figures (property transfer price entered in the agreement to transfer beneficiary interests in trust, etc.) do not factor in acquisition costs for the concerned property, etc. (brokerage fee, public charges, etc.) and figures have been rounded to the nearest million yen.

(2) Negotiable Securities (Note 1)

Acquisition or Transfer	Issue	No. of Shares	Acquisition Date	Acquisition Price (thousand yen) (Note 2)	Appraised Value of Qualified Asset (thousand yen)
Acquisition	NHK Nagoya Build Systems Co., Ltd.	64	June 27, 2006	162	106-218

(Note 1) The appraisals of the values, etc. for the qualified assets above were conducted by Ernst & Young Shin-Nihon based on Occupation Audit Committee Report No. 23 Investigation of Qualified Asset Prices for Investment Trusts and Investment Corporations of the Japanese Institute of Certified Public Accountants. In addition to the above appraised value, JEI has received appraisal reports for other items needed for determination of the actual concerned negotiable securities.

(Note 2) The acquisition price figures do not factor in acquisition costs for the concerned qualified assets, etc. (stock price appraisal fee) and figures have been rounded to the nearest thousand yen.

(Note 3) The acquisition price and investigated price of the qualified assets have been entered as the unit price per share.

4. Transactions with Interested Parties and Major Stockholders

(1) Transactions

Category	Sale or Purchase Amount	
	Purchase Amount	Sale Amount
Total Amount	49,857 mm yen	- mm yen
	Of which, 49,857 mm yen are acquisitions from interested parties and major stockholders.	- mm yen
Breakdown of transactions with interested parties and major stockholders		
Kowa Real Estate Co., Ltd.	49,857 mm yen (100%)	- mm yen (-%)
Total	49,857 mm yen (100%)	- mm yen (-%)

(2) Amounts of Fees Paid

Category	Total Fees Paid (A)	Breakdown of Transactions with Interested Parties and Major Stockholders		B/A
		Paid To	Amount Paid (B)	
Maintenance and Management Fees (Note 2)	1,092,035,000 yen	Kowa Real Estate Co., Ltd.	367,909,000 yen	33.7%
		Sekisui House, Ltd.	57,967,000 yen	5.3%
Total	1,092,035,000 yen		425,876,000 yen	39.0%

(Note 1) The entries are for Kowa Real Estate Co., Ltd., and Sekisui House, Ltd., with whom the asset manager had transactions this fiscal period and which fall under interested parties, etc. of the investment trust manager that has concluded an asset management agreement with JEI as stipulated in Article 15-2 of the Investment Trusts and Investment Corporations Law before being revised by Law for the Partial Amendment of the Securities and Exchange Law (Law No. 65 in 2006) and major stockholders of the investment trust manager as defined in Article 9-3 of the Investment Trusts and Investment Corporation Law.

(Note 2) The maintenance and management fees include property management fees and construction management fees recorded as assets and not treated as expenses.

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

5. Existence of Transactions between the Asset Manager and Concurrent Operations of Said Manager

This entry is not applicable because the asset manager – JEAM – is not involved in Type I and Type II financial instruments, real estate brokerage, or real estate syndication businesses.

VII. Accounting

1. Conditions of Assets, Liabilities, Principal, and Profits/Losses

Please refer to the Balance Sheet, Income Statement, Form of Changes to Investor Capital, Annotation Table, and Cash Distribution Calculation Form for information on the conditions of assets, liabilities, principal, and profits/losses noted later.

2. Changes to the Depreciation Calculation Method

Not applicable

3. Changes to the Real Estate Valuation Method

Not applicable



VIII. Other

1. Notification

1) Unitholders’ Meeting

The Second Unitholders’ Meeting of JEI was held on October 5, 2007. The following is an overview of the primary items approved by the Unitholders’ Meeting

Agendum	Description
Partial amendment to the articles of incorporation	The following items were amended in the articles of incorporation. -Required amendments accompanying the establishment/revision to the Investment Trust Law and other laws and orders that occurred with the implementation of the Law concerning Adjustment and Coordination of Relevant Laws in Association with the Enforcement of the Corporation -Required amendments accompanying revisions to the tax system -Changes to the types of assets subject to asset management -Necessary regulatory changes to enable the issuance of short-term investment corporation bonds -The transfer and deletion of article text, correction of article numbering and such accompanying the above described changes
Appointment of Executive Director	Junichi Tamura was selected as the executive director. His term is two years from November 1, 2007.
Appointment of Three Supervisory Directors	Three people – Makoto Sakagami, Tsuyoshi Nagahama and Shunichi Maekawa – were selected as supervisory directors. Their terms are two years from November 1, 2007.
Appointment of Deputy Executive Director	Nobuyuki Tanabe was selected as the deputy executive director.

2) Board of Directors’ Meeting

The following is an overview of the primary agreements concluded, changed, etc. with the approval of the board of directors of JEI during this fiscal period.

Date of Approval by Board of Directors	Approval Item	Description
July 3, 2007	Concluding agreement to entrust administrative services regarding issue of investment units	JEI consigned the administrative services regarding the issue of new investment units to Mizuho Securities Co., Ltd., Morgan Stanley Japan Securities Co., Ltd., Shinko Securities Co., Ltd., Nomura Securities Co., Ltd., Nikko Citigroup Ltd., Mitsubishi UFJ Securities Co., Ltd., and Mito Securities Co., Ltd.

2. Other

When there is no particular indication, values below those indicated in this document have been cut off in the case of monetary amounts and rounded in the case of ratios (percentages).

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**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 December 31, 2007 and June 30, 2007, 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 December 31, 2007 and June 30, 2007, 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 December 31, 2007 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 Shin Nihon*

March 27, 2008



## Japan Excellent, Inc.

## Balance Sheets

As of December 31, 2007 and June 30, 2007

	As of December 31, 2007	As of June 30, 2007	As of December 31, 2007
	(Thousands of yen)		(U.S. dollars) (Note 2)
<b>Assets</b>			
Current assets:			
Cash and cash equivalents including trust accounts (Note 4)	¥ 14,586,906	¥ 15,319,710	\$ 127,787,177
Rental receivables	546,118	357,859	4,784,211
Consumption taxes refundable	669,083	518,641	5,861,437
Other current assets	127,993	86,645	1,121,275
Total current assets	15,930,100	16,282,855	139,554,100
Property and equipment (Note 6):			
Buildings and building improvements	3,219,074	3,204,845	28,200,384
Construction in progress	126	126	1,103
Buildings and building improvements for trust accounts	65,049,362	47,625,937	569,858,629
Machinery and equipment for trust accounts	382,373	380,957	3,349,747
Furniture and fixtures for trust accounts	6,593	4,771	57,754
Land for trust accounts	114,300,604	81,393,329	1,001,319,353
Construction in progress for trust accounts	210	210	1,840
Less: accumulated depreciation	(2,200,053)	(1,306,053)	(19,273,350)
Net property and equipment	180,758,289	131,304,122	1,583,515,460
Investments and other assets:			
Leasehold rights	1,185,045	1,185,045	10,381,471
Leasehold rights for trust accounts	7,380,017	7,380,017	64,651,921
Investment in securities (Note 5)	10,768	10,768	94,332
Security deposits	15,182	15,182	132,997
Long-term prepaid expenses	175,542	112,681	1,537,822
Other assets	31,213	545	273,435
Total investments and other assets	8,797,767	8,704,238	77,071,978
Total assets	¥205,486,156	¥156,291,215	\$1,800,141,538
<b>Liabilities</b>			
Current liabilities:			
Accounts payable – trade	¥ 753,529	¥ 447,648	\$ 6,601,224
Short-term loans (Note 7)	49,000,000	39,100,000	429,259,746
Accounts payable – other	280,475	308,346	2,457,072
Other current liabilities	115,592	26,978	1,012,633
Total current liabilities	50,149,596	39,882,972	439,330,675
Long-term liabilities:			
Long-term debt (Note 7)	56,500,000	38,500,000	494,962,768
Security deposits from tenants	466,672	516,494	4,088,235
Security deposits from tenants for trust accounts	8,866,066	7,510,209	77,670,304
Derivative liabilities	211,254	67,776	1,850,674
Total long-term liabilities	66,043,992	46,594,479	578,571,981
Total liabilities	116,193,588	86,477,451	1,017,902,656
Net assets (Note 8):			
Unitholders' equity:			
Unitholders' capital:	87,083,030	67,641,920	762,882,435
Units authorized: 2,000,000 units			
Units issued and outstanding: 154,550 units as of December 31, 2007 and 134,800 units as of June 30, 2007			
Retained earnings	2,420,792	2,239,620	21,207,121
Total unitholders' equity	89,503,822	69,881,540	784,089,556
Valuation and translation adjustments:			
Unrealized loss on deferred hedge transactions	(211,254)	(67,776)	(1,850,674)
Total valuation and translation adjustments	(211,254)	(67,776)	(1,850,674)
Total net assets	89,292,568	69,813,764	782,238,882
Total liabilities and net assets	¥205,486,156	¥156,291,215	\$1,800,141,538

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

## Japan Excellent, Inc.

## Statements of Income and Retained Earnings

For the periods from July 1, 2007 to December 31, 2007  
and from January 1, 2007 to June 30, 2007

	For the period from July 1, 2007 to December 31, 2007	For the period from January 1, 2007 to June 30, 2007	For the period from July 1, 2007 to December 31, 2007
	(Thousands of yen)		(U.S. dollars) (Note 2)
Revenues:			
Rental revenues (Note 11)	¥6,335,265	¥5,069,179	\$55,499,467
Other (Note 11)	647,070	436,637	5,668,597
Total revenues	6,982,335	5,505,816	61,168,064
Operating expenses:			
Property operating expenses (Note 11)	3,437,912	2,409,279	30,117,492
Asset management fees	369,975	328,491	3,241,128
Custodian fees	12,240	7,435	107,231
Administrative service fees	24,648	14,542	215,930
Compensation for directors	5,100	4,690	44,678
Other	76,679	87,514	671,735
Total operating expenses	3,926,554	2,851,951	34,398,194
Operating income	3,055,781	2,653,865	26,769,870
Other income:			
Refund of consumption taxes including interest	2,625	16,384	23,003
Interest income	13,885	7,975	121,643
Other	257	319	2,259
Other expenses:			
Interest expense	533,711	361,110	4,675,529
Loan arrangement fees	76,270	46,777	668,157
New unit issuance costs	40,747	30,126	356,962
Other	1	1	11
Income before income taxes	2,421,819	2,240,529	21,216,116
Income taxes – current (Note 10)	1,086	965	9,516
Income taxes – deferred	(6)	19	(53)
Net income	2,420,739	2,239,545	21,206,653
Retained earnings at beginning of period	53	75	468
Retained earnings at end of period	¥2,420,792	¥2,239,620	\$21,207,121

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

## Japan Excellent, Inc.

## Statements of Changes in Net Assets

For the periods from July 1, 2007 to December 31, 2007  
and from January 1, 2007 to June 30, 2007

For the period from January 1, 2007 to June 30, 2007							
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	
(Thousands of yen)							
Balance as of December 31, 2006	134,800	¥67,641,920	¥ 1,856,675	¥69,498,595	¥(168,610)	¥(168,610)	¥69,329,985
Changes during the fiscal period:							
Distributions from retained earnings	—	—	(1,856,600)	(1,856,600)	—	—	(1,856,600)
Net income	—	—	2,239,545	2,239,545	—	—	2,239,545
Changes in unrealized loss on deferred hedge transactions	—	—	—	—	100,834	100,834	100,834
Total changes during the fiscal period	—	—	382,945	382,945	100,834	100,834	483,779
Balance as of June 30, 2007	134,800	¥67,641,920	¥ 2,239,620	¥69,881,540	¥ (67,776)	¥ (67,776)	¥69,813,764

For the period from July 1, 2007 to December 31, 2007							
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	
(Thousands of yen)							
Balance as of June 30, 2007	134,800	¥67,641,920	¥ 2,239,620	¥69,881,540	¥ (67,776)	¥ (67,776)	¥69,813,764
Changes during the fiscal period:							
Issuance of new units	19,750	19,441,110	—	19,441,110	—	—	19,441,110
Distributions from retained earnings	—	—	(2,239,567)	(2,239,567)	—	—	(2,239,567)
Net income	—	—	2,420,739	2,420,739	—	—	2,420,739
Changes in unrealized loss on deferred hedge transactions	—	—	—	—	(143,478)	(143,478)	(143,478)
Total changes during the fiscal period	19,750	19,441,110	181,172	19,622,282	(143,478)	(143,478)	19,478,804
Balance as of December 31, 2007	154,550	¥87,083,030	¥ 2,420,792	¥89,503,822	¥(211,254)	¥(211,254)	¥89,292,568

For the period from July 1, 2007 to December 31, 2007							
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	
(U.S. dollars) (Note 2)							
Balance as of June 30, 2007	134,800	\$592,570,477	\$ 19,619,980	\$612,190,457	\$ (593,748)	\$ (593,748)	\$611,596,709
Changes during the fiscal period:							
Issuance of new units	19,750	170,311,958	—	170,311,958	—	—	170,311,958
Distributions from retained earnings	—	—	(19,619,512)	(19,619,512)	—	—	(19,619,512)
Net income	—	—	21,206,653	21,206,653	—	—	21,206,653
Changes in unrealized loss on deferred hedge transactions	—	—	—	—	(1,256,926)	(1,256,926)	(1,256,926)
Total changes during the fiscal period	19,750	170,311,958	1,587,141	171,899,099	(1,256,926)	(1,256,926)	170,642,173
Balance as of December 31, 2007	154,550	\$762,882,435	\$ 21,207,121	\$784,089,556	\$(1,850,674)	\$(1,850,674)	\$782,238,882

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

## Japan Excellent, Inc.

## Statements of Cash Flows

For the periods from July 1, 2007 to December 31, 2007  
and from January 1, 2007 to June 30, 2007

	For the period from July 1, 2007 to December 31, 2007	For the period from January 1, 2007 to June 30, 2007	For the period from July 1, 2007 to December 31, 2007
	(Thousands of yen)		(U.S. dollars) (Note 2)
<b>Cash flows from operating activities</b>			
Income before income taxes	¥ 2,421,819	¥ 2,240,529	\$ 21,216,116
Depreciation and amortization	894,032	674,428	7,832,081
Amortization of new unit issuance costs	40,747	30,126	356,962
Interest income	(13,885)	(7,975)	(121,643)
Interest expense	533,711	361,110	4,675,529
Increase in rental receivables	(188,259)	(162,175)	(1,649,226)
(Increase) decrease in consumption taxes refundable	(150,442)	1,246,506	(1,317,934)
Increase in prepaid expenses	(9,771)	(55,059)	(85,594)
Increase in accounts payable – trade	246,623	82,743	2,160,517
(Decrease) increase in accounts payable – other	(3,884)	31,107	(34,031)
Increase (decrease) in advances received	10,544	(1,333)	92,365
(Increase) decrease in long-term prepaid expenses	(62,861)	18,839	(550,684)
Other, net	(61,728)	(14,842)	(540,762)
Subtotal	3,656,646	4,444,004	32,033,696
Interest received	13,885	9,186	121,642
Interest paid	(454,211)	(356,787)	(3,979,076)
Income taxes paid	(3,059)	(2,677)	(26,799)
Net cash provided by operating activities	<u>3,213,261</u>	<u>4,093,726</u>	<u>28,149,463</u>
<b>Cash flows from investing activities</b>			
Purchases of property and equipment	(14,752)	(10,963)	(129,236)
Purchases of property and equipment for trust accounts	(50,274,542)	(41,687,477)	(440,425,244)
Purchases of intangible assets	—	(8)	—
Purchases of intangible assets for trust accounts	—	(108)	—
Proceeds from security deposits from tenants	7,453	33,452	65,291
Payments for security deposits to tenants	(57,275)	(3,872)	(501,754)
Proceeds from security deposits from tenants for trust accounts	2,054,486	3,002,228	17,998,122
Payments for security deposits to tenants for trust accounts	(698,629)	(471,393)	(6,120,269)
Net cash used in investing activities	<u>(48,983,259)</u>	<u>(39,138,141)</u>	<u>(429,113,090)</u>
<b>Cash flows from financing activities</b>			
Proceeds from short-term loans	49,000,000	53,100,000	429,259,746
Repayment for short-term loans	(39,100,000)	(14,000,000)	(342,531,756)
Proceeds from long-term debt	18,000,000	—	157,687,253
Issuance of new units	19,441,110	—	170,311,958
Payments for new unit issuance costs	(65,687)	(1,197)	(575,440)
Payments for initial public offering expenses	—	(161)	—
Distributions to unitholders	(2,238,229)	(1,854,394)	(19,607,791)
Net cash provided by financing activities	<u>45,037,194</u>	<u>37,244,248</u>	<u>394,543,970</u>
Net (decrease) increase in cash and cash equivalents	(732,804)	2,199,833	(6,419,657)
Cash and cash equivalents at beginning of period	15,319,710	13,119,877	134,206,834
Cash and cash equivalents at end of period	<u>¥ 14,586,906</u>	<u>¥ 15,319,710</u>	<u>\$ 127,787,177</u>

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



## Japan Excellent, Inc.

### Notes to Financial Statements

For the periods from July 1, 2007 to December 31, 2007  
and from January 1, 2007 to June 30, 2007

#### 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 40% by Kowa Real Estate Co., Ltd., 20% by The Dai-ichi Mutual Life Insurance Company, 15% by Sekisui House, Ltd. and 25% by other corporations.

JEI was listed on the Tokyo Stock Exchange on June 27, 2006. As of December 31, 2007, JEI held 20 properties with 234,007 square meters of total leasable space and had leases with 132 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, the Securities 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 ¥114.15 = U.S.\$1.00, the foreign exchange rate prevailing on December 31, 2007, 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.

##### Investments in securities

Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

##### 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	4 – 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.

##### Unit issuance costs

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.

##### 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 11).

JEI capitalized 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 July 1, 2007 to December 31, 2007 and from January 1, 2007 to June 30, 2007 were ¥35,951 thousand and ¥193,439 thousand, respectively.

3. Summary of Significant Accounting Policies (continued)

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.

JEI deferred recognition of gains or losses resulting from changes in the fair value of interest-rate swap agreements because its interest-rate agreements met the criteria for deferred hedge accounting.

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 December 31, 2007 and June 30, 2007 consisted of the following:

	As of December 31, 2007	As of June 30, 2007	As of December 31, 2007
	(Thousands of yen)		(U.S. dollars)
Cash and cash deposits	¥ 2,440,880	¥ 5,223,560	\$ 21,383,091
Cash in trust and deposits in trust	12,146,026	10,096,150	106,404,086
Cash and cash equivalents	¥14,586,906	¥15,319,710	\$127,787,177

5. Investment in Securities

Investment in securities at December 31, 2007 and June 30, 2007 consisted of the follows:

	As of December 31, 2007	As of June 30, 2007	As of December 31, 2007
	(Thousands of yen)		(U.S. dollars)
Unlisted stock	¥10,768	¥10,768	\$94,332

5. Investment in Securities (continued)

As of December 31, 2007									
Name	Number of shares	Acquisition cost			Book value			Gain or loss on valuation	
		Unit price	Total price	Total price	Unit price	Total price	Total price	Total price	Total price
		(Thousands of yen)		(U.S. dollars)	(Thousands of yen)		(U.S. dollars)	(Thousands of yen)	(U.S. dollars)
Unlisted stock NHK Nagoya Build Systems Co., Ltd.	64	¥168	¥10,768	\$94,332	¥168	¥10,768	\$94,332	¥—	\$—
Total	64	¥168	¥10,768	\$94,332	¥168	¥10,768	\$94,332	¥—	\$—

As of June 30, 2007						
Name	Number of shares	Acquisition cost		Book value		Gain or loss on valuation
		Unit price	Total price	Unit price	Total price	Total price
		(Thousands of yen)				
Unlisted stock NHK Nagoya Build Systems Co., Ltd.	64	¥168	¥10,768	¥168	¥10,768	¥—
Total	64	¥168	¥10,768	¥168	¥10,768	¥—

6. Property and Equipment

Property and equipment at December 31, 2007 and June 30, 2007 consisted of the following:

	As of December 31, 2007			As of June 30, 2007			As of December 31, 2007		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
	(Thousands of yen)						(U.S. dollars)		
Buildings and building improvements	¥ 3,219,074	¥ (115,854)	¥ 3,103,220	¥ 3,204,845	¥ (79,365)	¥ 3,125,480	\$ 28,200,384	\$ (1,014,926)	\$ 27,185,458
Buildings and building improvements for trust accounts	65,049,362	(2,046,300)	63,003,062	47,625,937	(1,201,899)	46,424,038	569,858,629	(17,926,414)	551,932,215
Machinery and equipment for trust accounts	382,373	(37,142)	345,232	380,957	(24,450)	356,507	3,349,747	(325,375)	3,024,372
Furniture and fixtures for trust accounts	6,593	(757)	5,835	4,771	(339)	4,432	57,754	(6,635)	51,119
Land for trust accounts	114,300,604	—	114,300,604	81,393,329	—	81,393,329	1,001,319,353	—	1,001,319,353
Construction in progress	126	—	126	126	—	126	1,103	—	1,103
Construction in progress for trust accounts	210	—	210	210	—	210	1,840	—	1,840
Total	¥182,958,342	¥(2,200,053)	¥180,758,289	¥132,610,175	¥(1,306,053)	¥131,304,122	\$1,602,788,810	\$(19,273,350)	\$1,583,515,460



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

Short-term loans and long-term debt as of December 31, 2007 and June 30, 2007 consisted of the following:

	As of December 31, 2007		As of June 30, 2007		As of December 31, 2007
	Amount	Weighted- average interest rate	Amount	Weighted- average interest rate	Amount
	(Thousands of yen)		(Thousands of yen)		(U.S. dollars)
Short-term loans:					
Unsecured loans from banks due on July 31, 2007	¥ —	—	¥39,100,000	0.87250%	\$ —
Unsecured loans from banks due on October 24, 2008	49,000,000	1.04667%	—	—	429,259,746
Subtotal	49,000,000		39,100,000		429,259,746
Long-term debt:					
Unsecured loans from banks due on June 29, 2009	13,000,000	1.43420%	13,000,000	1.35712%	113,885,239
Unsecured loans from banks due on June 29, 2010	13,000,000	1.58785%	13,000,000	1.51077%	113,885,239
Unsecured loans from banks due on June 29, 2011	9,500,000	1.59975%	9,500,000	1.49832%	83,223,827
Unsecured loans from an insurance company due on June 29, 2011	3,000,000	1.96625%	3,000,000	1.96625%	26,281,209
Unsecured loans from banks due on July 31, 2012	7,000,000	1.20000%	—	—	61,322,821
Unsecured loans from banks and insurance companies due on July 31, 2012	7,000,000	1.96907%	—	—	61,322,821
Unsecured loans from an insurance company due on July 31, 2014	2,000,000	2.25875%	—	—	17,520,806
Unsecured loans from a bank due on July 31, 2014	2,000,000	2.28417%	—	—	17,520,806
Subtotal	56,500,000		38,500,000		494,962,768
Total	¥105,500,000		¥77,600,000		\$924,222,514

## 8. Net Assets

JEI issues only non-par value investment units in accordance with the Investment Trust Law.

JEI is required to maintain net assets of at least ¥50 million in accordance with the Investment Trust Law.

## 9. Per Unit Information

Net assets per unit were ¥577,758 as of December 31, 2007 and ¥517,906 as of June 30, 2007. Net income per unit was ¥15,784 for the period from July 1, 2007 to December 31, 2007 and ¥16,614 for the period from January 1, 2007 to June 30, 2007 and was computed based on the weighted-average number of units outstanding during the respective periods.

## 10. Income Taxes

JEI is subject to income taxes in Japan.

JEI's policy is to make dividend distributions in excess of 90% of taxable 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 as of December 31, 2007 and June 30, 2007 are summarized as follows:

	As of December 31, 2007	As of June 30, 2007	As of December 31, 2007
	(Thousands of yen)		(U.S. dollars)
Deferred tax assets:			
Accrued enterprise taxes	¥ 24	¥ 18	\$ 210
Unrealized loss on deferred hedge transactions	83,213	26,697	728,981
Gross deferred tax assets	83,237	26,715	729,191
Valuation reserve	(83,213)	(26,697)	(728,981)
Total deferred tax assets	24	18	210
Net deferred tax assets	¥ 24	¥ 18	\$ 210

A reconciliation of the differences between the statutory tax rate and the effective tax rate for the period from July 1, 2007 to December 31, 2007 and for the period from January 1, 2007 to June 30, 2007 is as follows:

	For the period from July 1, 2007 to December 31, 2007	For the period from January 1, 2007 to June 30, 2007
Statutory tax rate	39.39%	39.39%
Reconciliation:		
Deductible distributions paid	(39.37)	(39.38)
Other	0.02	0.03
Effective tax rate	0.04%	0.04%

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

	For the period from July 1, 2007 to December 31, 2007	For the period from January 1, 2007 to June 30, 2007	For the period from July 1, 2007 to December 31, 2007
	(Thousands of yen)		(U.S. dollars)
Rental business revenues:	¥6,982,335	¥5,505,816	\$61,168,064
Rental revenues	6,335,265	5,069,179	55,499,467
Other	647,070	436,637	5,668,597
Property operating expenses:	3,437,912	2,409,279	30,117,492
Property management costs and fees	1,083,074	859,980	9,488,169
Utilities	613,617	452,266	5,375,529
Property and other taxes	330,655	174,558	2,896,670
Insurance	22,082	19,063	193,448
Repairs and maintenance	363,094	124,121	3,180,847
Depreciation	894,000	674,396	7,831,802
Other	131,390	104,895	1,151,027
Profit	¥3,544,423	¥3,096,537	\$31,050,572

## 12. Leases

JEI leases properties on which rental revenues are earned. At December 31, 2007 and June 30, 2007, future lease revenues under non-cancelable operating leases are summarized as follows:

	For the period from July 1, 2007 to December 31, 2007	For the period from January 1, 2007 to June 30, 2007	For the period from July 1, 2007 to December 31, 2007
	(Thousands of yen)		(U.S. dollars)
Due within one year	¥ 864,339	¥1,050,491	\$ 7,571,962
Due after one year	2,109,868	2,875,559	18,483,294
Total	¥2,974,207	¥3,926,050	\$26,055,256

## 13. Derivatives and Hedge Accounting

JEI has entered into certain interest-rate swap contracts with several Japanese financial institutions to hedge its variable rate long-term debt obligations. JEI utilizes interest-rate swap contracts, which are derivative financial instruments, only for the purpose of mitigating future risk arising from fluctuation in interest rates, and does not enter into such transactions for speculative or trading purposes. JEI entered into such derivative transactions to hedge risk in accordance with its Articles of Incorporation and the established risk management policies of JEAM.

The following table summarizes the notional amounts and the estimated fair value of the interest-related positions outstanding as of December 31, 2007:

	Notional amount	Estimated fair value (negative)	Notional amount	Estimated fair value (negative)
	(Thousands of yen)		(U.S. dollars)	
Interest-rate swap:				
Receive/floating and pay/fixed	¥16,250,000	¥(211,254)	\$142,356,548	\$(1,850,674)

## 14. Related Party Transactions

For the period from July 1, 2007 to December 31, 2007

### (1) Major unitholders

Not applicable.

### (2) Directors and major individual unitholders

Name	Description of transaction	Amount (Thousands of yen)	Amount (U.S. dollars)	Account	Balance at the end of period (Thousands of yen)	Balance at the end of period (U.S. dollars)
Junichi Tamura	Payment of asset management fees to JEAM	¥369,975	\$3,241,128	Accounts payable	¥229,765	\$2,012,835

For the period from January 1, 2007 to June 30, 2007

### (1) Major unitholders

Company name	Description of transaction	Amount (Thousands of yen)	Account	Balance at the end of period (Thousands of yen)
Kowa Real Estate Co., Ltd.	Acquisition of real estate	¥4,238,000	—	—
	Property leasing	¥1,399,789	Advance received	¥ 801
	Payment of property management costs and fees	¥ 245,054	Security deposit	¥1,985,940
			Accounts payable – trade	¥ 67,539



14. Related Party Transactions (continued)

(2) Directors and major individual unitholders

Name	Description of transaction	Amount (Thousands of yen)	Account	Balance at the end of period (Thousands of yen)
Junichi Tamura	Payment of asset management fees to JEAM	¥328,491	Accounts payable	¥216,850

15. Significant Subsequent Event

Cash distribution

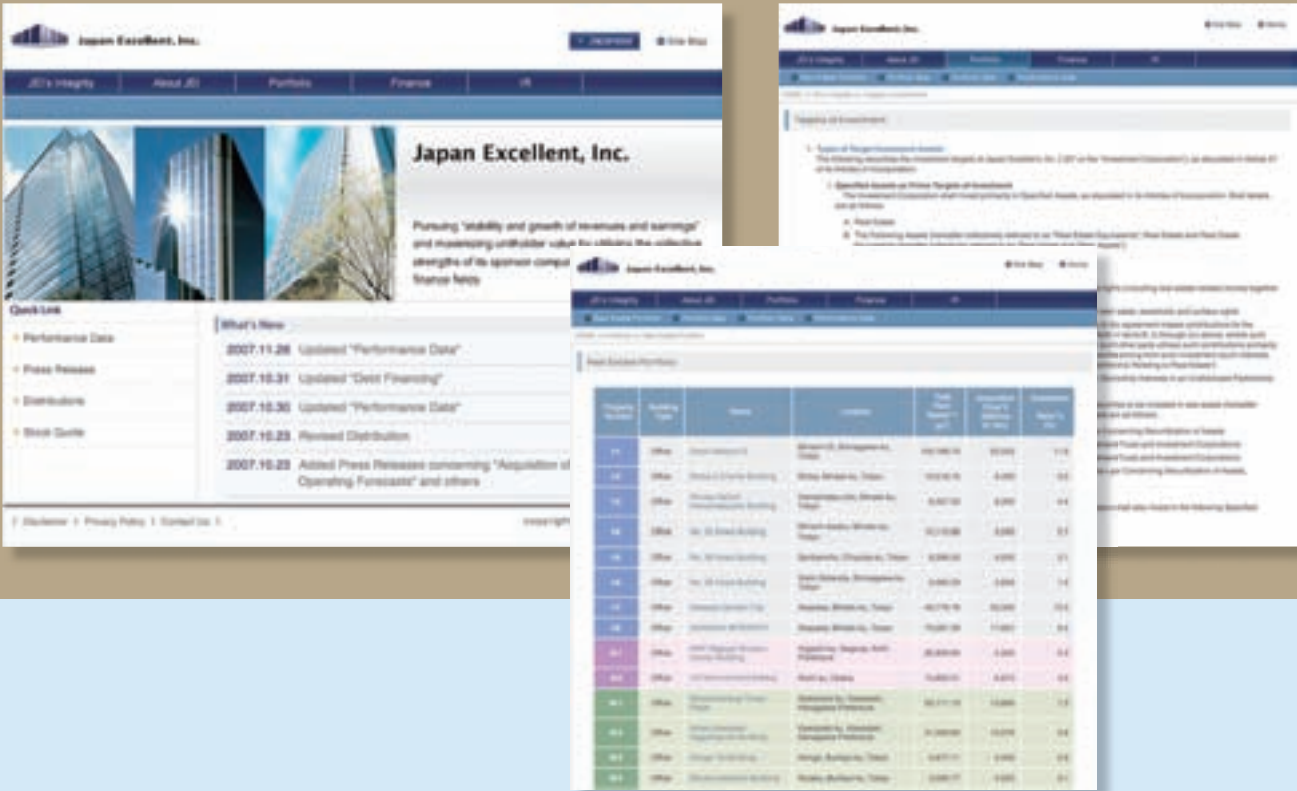
In accordance with Section 33.1.2 of the bylaws set forth by JEI for distributions of cash dividends, the amount of dividends payable is limited by the amount of income and is equivalent to an amount exceeding 90% of income available for distributions of dividends of JEI as set forth in Section 67.15 of the Special Taxation Measures Law. Consequently, JEI set income available for distributions of dividends at ¥2,420,716,650 (\$21,206,453), the maximum integral multiple of the 154,550 units issued not exceeding unappropriated income at December 31, 2007. No cash distribution exceeding the income amount set forth in Section 33.1.4 of the bylaws of JEI shall be made.

On February 18, 2008, the Board of Directors approved a resolution to make a cash distribution of ¥15,663 (\$137) per unit aggregating to ¥2,420,716,650 (\$21,206,453) to unitholders of record as of December 31, 2007.

Website

Japan Excellent, Inc. (JEI) is committed to disclosing information in a timely manner. Our website is the best vehicle to do this, where information is provided through web releases, presentation documents, and the like.

The URL for the English website is <http://www.excellent-reit.co.jp/eng/>, with disclosure documents at <http://www.excellent-reit.co.jp/eng/cms/disclosure.html> and the portfolio covered at [http://www.excellent-reit.co.jp/eng/portfolio/portfolio\\_01.html](http://www.excellent-reit.co.jp/eng/portfolio/portfolio_01.html).



Information for Investors

The annual IR schedule is as follows.

March: Payment of the distributions for the period ending in December

February: Announcement of the accounts for the period ending in December

December: Closing of accounts

June: Closing of accounts

August: Announcement of the accounts for the period ending in June

September: Payment of the distributions for the period ending in June





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