



Japan Excellent, Inc.

**Japan Excellent, Inc.**

# SEMI-ANNUAL REPORT

For the 5th Period

from July 1, 2008 to December 31, 2008

## Structured for Consistently Solid Returns



Profile

A photograph of a modern, multi-story building with a glass and metal facade. The building features a grid of windows and a prominent vertical glass section. The building is surrounded by lush greenery, including trees and bushes, and a paved walkway leads through the garden area. The sky is clear and blue.

Structured for Consistently  
Solid Returns



Akasaka Garden City green zone

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Japan Excellent, Inc. (JEI) listed its units in the real estate investment trust market of the Tokyo Stock Exchange on June 27, 2006, and initiated operations on the same date. Since then, JEI has used the support of its group of sponsors, which are leading companies in real estate and finance, to invest mainly in office buildings in major urban areas, primarily Tokyo. Over the medium-to-long term, JEI will manage its portfolio with the fundamental policies of achieving steady asset expansion and stable revenue growth.

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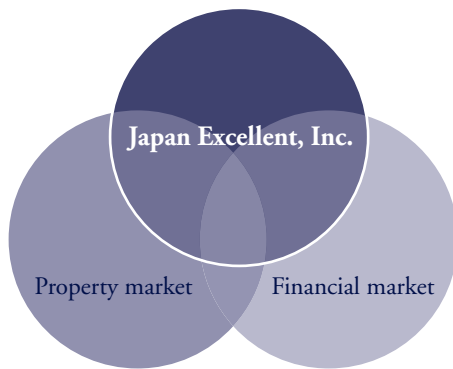
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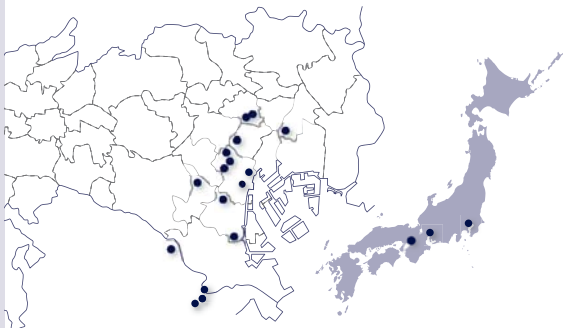
## Basic Strategies

### Deploy the Comprehensive Strengths of Our Corporate Sponsors



JEI's sponsors are strong in both real estate and finance. Kowa Real Estate Co., Ltd., The Dai-ichi Mutual Life Insurance Company and Sekisui House, Ltd. have developed numerous office buildings and are experienced in managing properties. These companies supply properties, human resources and expertise to JEI. Our sponsors from the financial industry are Mizuho Corporate Bank, Ltd. and Mizuho Trust and Banking Co., Ltd. They are part of the Mizuho Financial Group, which is one of Japan's three mega banking groups. We use the comprehensive strengths of our sponsors to steadily manage operations.

### Stable Operations Centered on Metropolitan Tokyo Office Buildings



JEI invests primarily in office buildings. All properties in our portfolio at this time are office buildings. We primarily invest in Tokyo, where property leasing demand is strong, and also have properties in Japan's large regional cities. Currently 94 percent of our portfolio is in metropolitan Tokyo.

<p>Portfolio</p>	<p>18 properties</p> <p>Sixteen of the eighteen properties in JEI's portfolio are in metropolitan Tokyo.</p>	<p>Total leasable floor space</p> <p>220,521.65m<sup>2</sup></p> <p>Generates stable revenues.</p>
<p>Acquisition price</p> <p>181.0 billion yen</p> <p>Steady portfolio expansion over the 2.5 years since JEI listed on the Tokyo Stock Exchange.</p>	<p>127 tenants</p> <p>Tenant recruiting risk is well dispersed.</p>	<p>Occupancy rate</p> <p>95.2%</p> <p>Stable at a high level.</p>
<p>Profitability</p>	<p>Distribution per unit</p> <p>20,418 yen</p> <p>JEI has maintained stable distributions since listing its investment units.</p>	<p>NOI yield</p> <p>5.2%</p> <p>JEI is securing stable returns from its properties through efforts to generate internal growth despite the unstable real estate market.</p>
<p>Financial Stability</p>	<p>Ratings</p> <p>A3, AA- (Moody's/R&amp;I)</p> <p>JEI continues to obtain ratings from international rating agencies to maintain high levels of transparency.</p>	<p>LTV ratio</p> <p>48.7%</p> <p>JEI's LTV compares favorably with the J-REIT market.</p>

# Financial Highlights

	5th Period July 1, 2008 to December 31, 2008	4th Period January 1, 2008 to June 30, 2008	3rd Period July 1, 2007 to December 31, 2007	5th Period July 1, 2008 to December 31, 2008
	Millions of yen, except per unit data or where otherwise indicated			Thousands of U.S. dollars (Note 1)
Total revenues (Note 2) .....	8,501	7,840	6,982	93,416
Operating income .....	4,000	3,432	3,055	43,961
Net income .....	3,155	2,661	2,420	34,673
Funds from operations (Note 3) .....	3,296	3,703	3,314	36,215
Net operating income (NOI) (Note 3) .....	4,732	5,033	4,438	51,994
Total distribution .....	3,155	2,661	2,420	34,673
Total assets .....	195,929	206,079	205,486	2,152,839
Interest-bearing debt .....	95,500	105,500	105,500	1,049,335
Net assets .....	90,019	89,655	89,292	989,111
LTV (Loan to value) (Note 3) .....	48.7%	51.2%	51.3%	
Total number of outstanding investment units (units) .....	154,550	154,550	154,550	—
Net assets per unit (Yen/\$) .....	582,458	580,107	577,758	6,398
Distribution per unit (Yen/\$) .....	20,418	17,218	15,663	224
Funds from operations per unit (Yen/\$) (Note 3) .....	21,331	23,963	21,447	234

Notes: 1. U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥91.01 = U.S.\$1.00, the approximate exchange rate on December 31, 2008.

2. Total revenues do not include consumption taxes.

3. Funds from operations: Net income (excluding Gain on sale of investment properties + Gain on exchange of investment properties) + Depreciation and amortization

Net operating income: (Revenue from property leasing - Rental expenses) + Depreciation and amortization

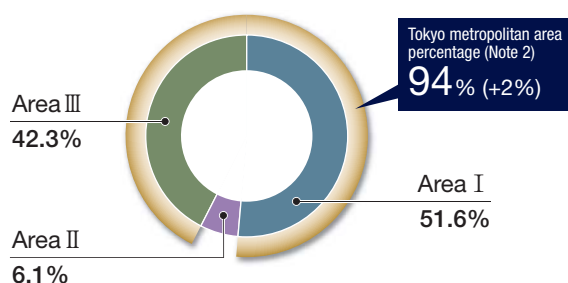
Loan to value: (Interest-bearing debt + Deposits under management) / Total assets

Funds from operations per unit: (Net income (excluding Gain on sale of investment properties + Gain on exchange of investment properties) + Depreciation and amortization) / Weighted average number of common units issued and outstanding during the period

## Portfolio Highlights

As of December 31, 2008

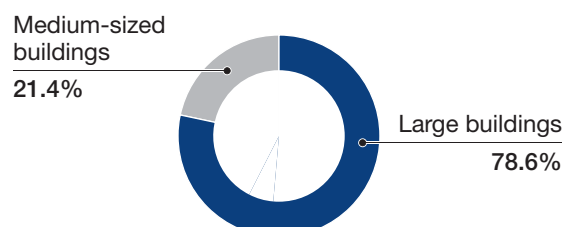
### Investment Areas (Note 1)



Notes: 1. Area I: Six central wards of Tokyo  
Area II: Central Osaka, central Nagoya and central Fukuoka  
Area III: Tokyo other than Area I  
2. The percentage of JEI's portfolio located in Areas I and III increased 2% from the end of the previous fiscal period to 94%.

For details see page 12.

### By Property Size



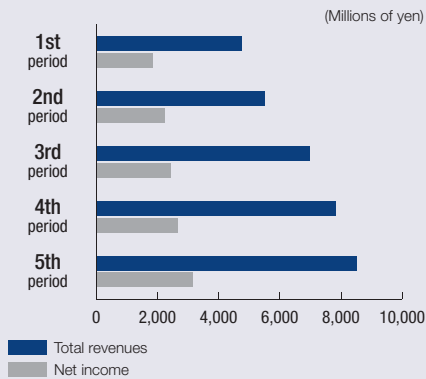
Note:

Large buildings: Floor areas of over 10,000 *tsubo*\* within Tokyo's 23 wards or over 4,000 *tsubo* outside Tokyo's 23 wards

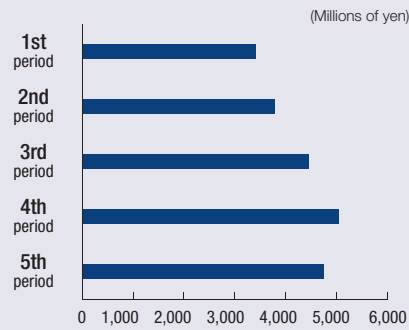
Medium-sized buildings: Floor areas of 1,000 - 10,000 *tsubo* within Tokyo's 23 wards or 1,000 - 4,000 *tsubo* outside Tokyo's 23 wards

\* 1 *tsubo* = 3.306m<sup>2</sup>

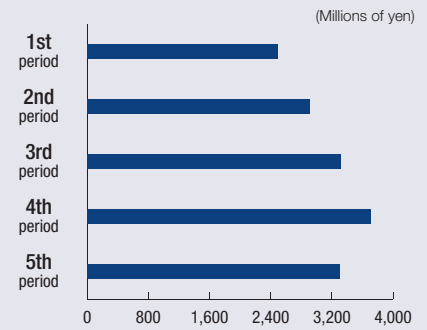
### Total Revenues / Net Income



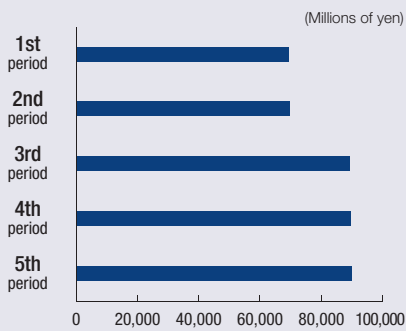
### Net Operating Income (NOI)



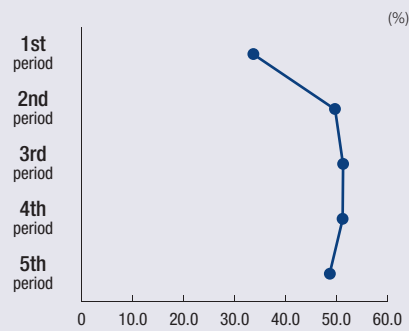
### Funds from Operations



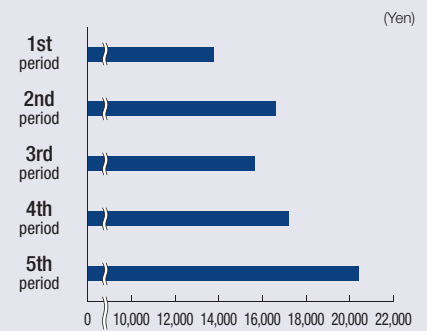
### Net Assets



### LTV (Loan to value)



### Distribution per Unit



### Major Tenants

Name	Property	Leased Space (m <sup>2</sup> )	Percentage of Total Leased Area
Toshiba Information Systems (Japan) Corporation	Kowa Kawasaki Higashiguchi Building	18,612.72	8.9
National Mutual Insurance Federation of Agricultural Cooperatives	Kowa Kawasaki Nishiguchi Building	18,206.18	8.7
Roche Diagnostics K.K.	Shiba 2-Chome Building	9,284.18	4.4
Fujitsu Social Science Laboratory Ltd.	Musashikosugi Tower Place	8,680.74	4.1
Fujitsu Network Solutions Ltd.	Kawasaki Nisshincho Building	7,259.45	3.5

Note: Major tenants are the portfolio's top five tenants in terms of total leased floor space. If a tenant leases space in multiple properties held by the investment corporation, floor space in such properties is included in the tenant's total leased floor space.

# To Our Unitholders

**Our balanced, fiscally sound approach to management and the value we offer tenants support our ability to deliver consistently solid returns to unitholders. Our comprehensive strategy to further enhance earnings encompasses external, internal and financial initiatives.**

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## **Overview of Results for the Period** **Higher Revenues and Earnings from Portfolio Adjustments** **Based on Understanding Market Changes**

During the fifth period, the six months ended December 31, 2008, Japan's economy was impacted by the turmoil in global financial markets caused by the financial crisis in the United States. Factors such as deteriorating corporate performance and the related decrease in capital investment affected the real economy. In addition, the operating environment remained particularly challenging in the real estate industry, where for the first time ever Japanese real estate investment trusts (J-REITs) entered bankruptcy.

In the office building leasing market, the national average vacancy rate trended upward against a backdrop of falling demand due to deteriorating corporate results. While asking rents softened, primarily at high-end

properties, our contracted rents were still lower than market rents. Moreover, we have invested in the Tokyo metropolitan area, where the markets are relatively firm. Thus, the value that Japan Excellent, Inc. (JEI) provides to tenants has insulated results from the effect of worsening market conditions.

On the other hand, purchase transactions dropped off sharply in the real estate investment market as the global credit crunch caused a sharp decline in demand for investment in risk assets and lending for real estate continued to decrease. The cap rate for office buildings in Tokyo's central business districts clearly trended upward.

In this environment, JEI worked to raise the quality of its portfolio and executed a timely sale of the Shuwa Iidabashi Building and the Sendai Kowa Building because of factors that were likely to destabilize their profitability over the medium term. Gain on sale totaled ¥854 million. Moreover, JEI added to its interest in the highly profitable Kawasaki Nisshincho Building in working to strengthen portfolio competitiveness.

As a result of these initiatives, total revenues for the six months ended December 31, 2008 increased 8.4 percent, or ¥661 million, compared with the previous period to ¥8,501 million. Operating income increased 16.6 percent, or ¥568 million, to ¥4,000 million. Net income increased 18.6 percent, or ¥494 million, to ¥3,155 million. Distribution per unit increased ¥3,200 to ¥20,418.

As of December 31, 2008, JEI's portfolio consisted of 18 properties with a total investment value of ¥181,023





	<b>5th Period</b> July 1, 2008 to December 31, 2008	<b>6th Period (Forecast)</b> January 1, 2009 to June 30, 2009
Total revenues (Millions of yen)	8,501	7,549
Excluding disposition factor (Note)	7,565	7,549
Distribution per unit (Yen)	20,418	14,500
Excluding disposition factor (Note)	15,188	14,500

Note: Excludes gain on sale of real estate and related rental revenue during the period

million on an acquisition price basis. Total rentable area for the portfolio was 220,521m<sup>2</sup> and the occupancy rate was 95.2 percent.

## Future Management Policies and Outlook

### Accurate Response to External Changes for Stable Medium- and Long-Term Growth

JEI is working to achieve stable medium- and long-term growth by investing primarily in office buildings in large cities, emphasizing stable revenues, and taking a balanced approach to opportunities to expand the scale of its assets.

External growth is one way for JEI to achieve its objectives. However, given the current uncertainties of the real estate investment environment, we are taking a conservative approach to new acquisitions. While the environment for acquiring new properties may be improving, we will remain even more selective than in the past in considering acquisition opportunities.

Internal growth is another means for JEI to reach its goals. Despite the trend toward weaker markets, we are working to increase rental revenues, enhance the

competitiveness of our properties and minimize the gap between contract and market rents.

Financially, we will continue to increase the proportion of long-term, fixed-rate debt. We will also continue to diversify maturities and lenders as we work to reduce financing risk.

For the six months ending June 30, 2009, we forecast total revenues of ¥7,549 million, operating income of ¥3,171 million, net income of ¥2,241 million, and distribution per unit of ¥14,500. (These projections assume no acquisitions or transfers of buildings, and no issue of new shares.)

The operating environment for real estate and finance is currently challenging. We will make maximum use of the know-how of our powerful sponsors and will accurately grasp changes in our operating environment to respond to the challenging environment appropriately and smoothly with the aim of generating stable medium- and long-term growth.



**Junichi Tamura**

Executive Director, Japan Excellent, Inc.

## External Growth

# Raising Portfolio Quality

## through Selective Investment

JEI is working to achieve stable medium- and long-term growth by investing primarily in office buildings in large cities, emphasizing stable revenues, and taking a balanced approach to opportunities to expand the scale of its assets.

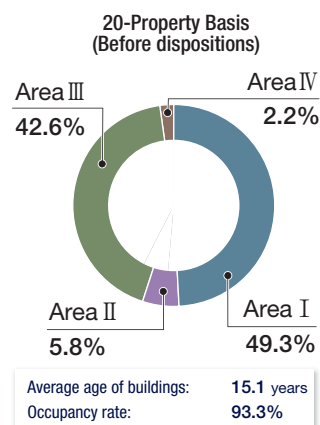
### Initiatives during the Fifth Period

#### JEI adjusted its property portfolio according to its outlook for market change and worked to raise portfolio quality.

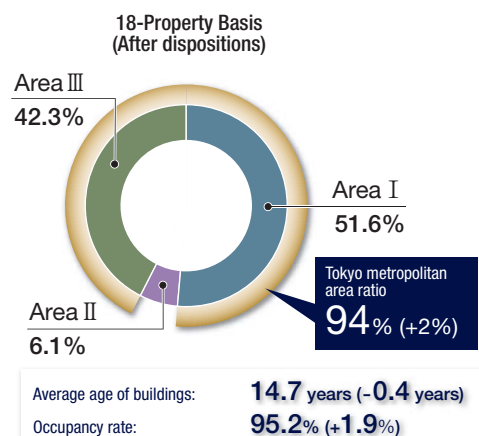
During the fifth period, JEI worked to adjust its property portfolio to raise portfolio quality in order to achieve stable medium- and long-term growth. Specifically, we sold the Shuwa Iidabashi Building in July 2008 and the Sendai Kowa Building in August 2008 because of factors that were likely to destabilize their profitability over the medium term. Moreover, we added to our interest in the highly profitable Kawasaki Nisshincho Building in October 2008.

We completed the above sale of the two properties prior to the rapid deterioration of real estate market conditions following the bankruptcy of Lehman Brothers Holdings Inc. Gain on sale totaled ¥854 million.

We steadily improved portfolio quality and profitability as a result of these initiatives. As of December 31, 2008, our portfolio consisted of 18 properties with a total investment value of ¥181,023 million on an acquisition price basis. Total rentable area for the portfolio was 220,521m<sup>2</sup>, down slightly from the end of the previous period.



Enhancement of Competitiveness





## Strategy for the Future

### JEI aims for stable growth through selective investment while prudently observing the market environment.

JEI's target for assets is ¥300 billion over the medium-to-long term. However, recently the real estate trading market has been affected by the global credit crunch. Therefore, domestic and foreign investors and financial institutions have significantly cut back the flow of investment in and lending for risk assets. These and other factors have significantly increased uncertainty. As a result, JEI does not simply intend to expand assets. Rather, under a basic policy of generating stable medium- and long-term growth, we will place priority on improving portfolio quality while also aiming for prudent expansion.

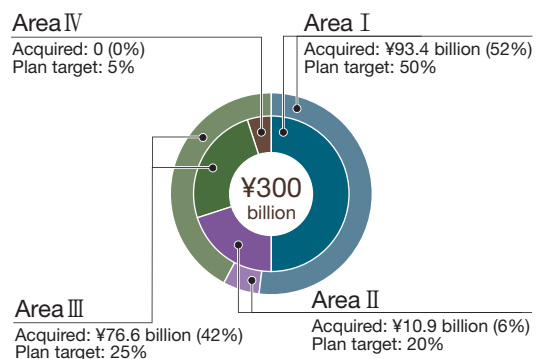
Therefore, our stance regarding property acquisition has become more conservative. However, we see improvement in the office building acquisition market because of evidence such as rising cap rates throughout Japan. We are therefore being more selective than ever regarding issues such as investment area, location, and building grade in prudently studying opportunities.

### Portfolio Diversification Policy

- Regional balance
- Property scale balance
- Tenant balance

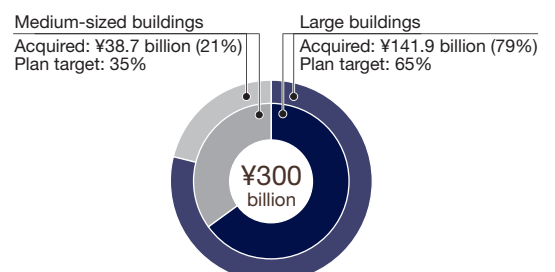
#### Regional Balance

(Properties acquired / Medium-term plan acquisitions)



#### Property Scale Balance

(Properties acquired / Medium-term plan acquisitions)



# Internal Growth

## Increasing Profitability

by Maintaining a High Occupancy Rate and Raising Rents

JEI is increasing profitability by strengthening relationships with tenants to maintain a high occupancy rate while maximizing the potential of its properties by raising rents.

### Initiatives during the Fifth Period

#### JEI worked to increase profitability by recruiting tenants and raising rents.

During the fifth period, JEI focused on the pressing task of recruiting tenants for empty space at the JEI Nishi-honmachi Building in Osaka and Akasaka Garden City in Tokyo. Renovation work had constrained new occupancy at the JEI Nishi-honmachi Building, but with work complete and tenant recruiting activities in progress, we project the building's occupancy rate will rise to 85 percent by the end of the sixth period. The occupancy rate of Akasaka Garden City has already reached 100 percent. We therefore have excellent prospects of raising our occupancy rate in the sixth period and thereafter.

Moreover, we are moving to rectify situations where contract rent is below the market. Negotiations to raise rents added ¥62 million to rental revenues.

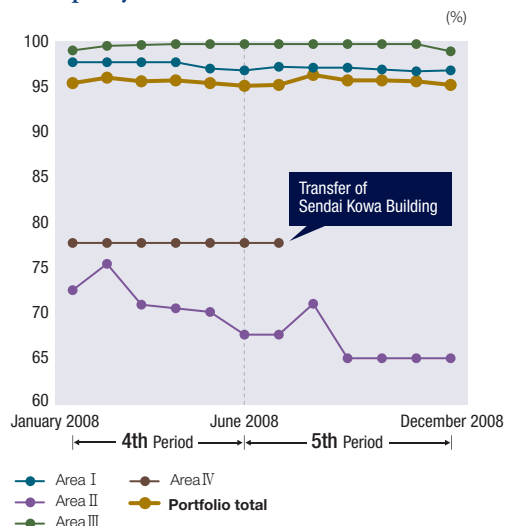
### Strategies for the Future

#### JEI is focusing on raising rents and maintaining the occupancy rate in working to increase profitability.

At JEI, 75 percent of total contracts had rent below the market at the end of the fifth period. In other words, they are contracts with leeway for raising rents. From the sixth period, we will maximize the potential for raising rent with the aim of steadily increasing rental revenues.

In addition, although prospects for increasing the occupancy rate improved during the fifth period, the office building market has clearly softened. We are fortifying our revenue base in ways such as strengthening tenant relationships by enhancing tenant satisfaction and reducing management costs.

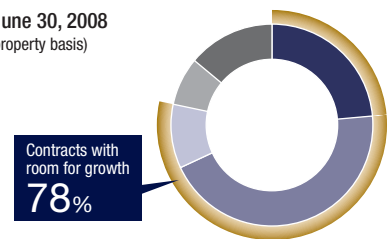
### Occupancy Rate



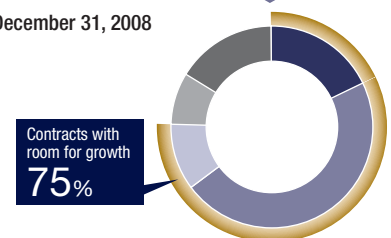
### Opportunity for Rent Increases

Note: (Average renewal rate)  
\*New tenants\*: Excluded from calculation of average rate of renewal because there were vacant rooms at time of acquisition.

As of June 30, 2008  
(18-property basis)



As of December 31, 2008



- More than 20% lower than the market
- Between 10-20% lower than the market
- 3-10% lower than the market
- Same as the market
- More than 3% higher than the market

# Financial Strategies

## Reducing Risk

### by Increasing Long-Term, Fixed-Rate Financing

JEI is reducing financial risk by increasing long-term, fixed-rate financing and diversifying maturities.

#### Initiatives during the Fifth Period

**While reducing total interest-bearing debt, JEI increased long-term, fixed-rate financing in working to significantly strengthen its financial structure.**

JEI worked to significantly strengthen its financial structure during the fifth period. We reduced interest-bearing debt by using ¥10.0 billion of the proceeds from sales of properties, etc. to retire debt prior to its maturity. We also shifted away from short-term debt in favor of long-term, fixed-rate financing.

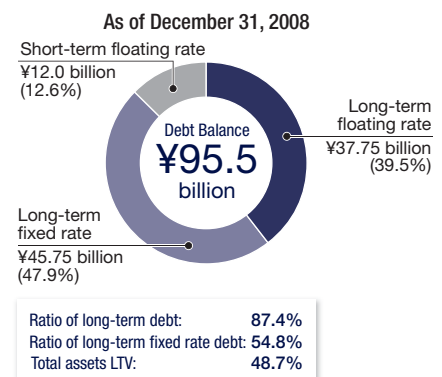
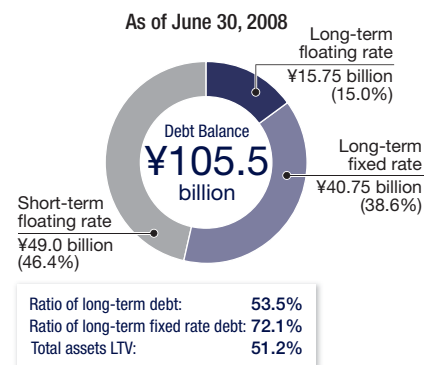
As a result, the loan-to-value (LTV) ratio as of December 31, 2008 decreased to 48.7 percent from 51.2 percent at the end of the previous period. The proportion of long-term debt to total debt was 87.4 percent, a substantial improvement compared with 53.5 percent at the end of the previous period. Moreover, we maintained the average interest rate at a favorable 1.57 percent.

#### Strategies for the Future

**JEI is working to disperse various risks in order to reduce refinancing risk.**

The global credit crunch that has resulted from the financial crisis in the United States has caused financial institutions to tighten their lending policies. In this environment, refinance risk has become a major concern for J-REITs. JEI's excellent creditworthiness is backed by collateral and the powerful financial sector sponsors Mizuho Financial Group and The Dai-ichi Mutual Life Insurance Company. However, looking to further reduce risk, during the sixth period and beyond we will continue to promote long-term, fixed-rate financing while working to diversify maturities and lenders as we move to reduce refinancing risk.

#### Debt Balance



#### Balance of Repayment Date and Average Borrowing Rate



# Investment Strategy

## JEI has built a portfolio centered on office buildings in major metropolitan areas that balances stable profitability and revenue growth.

JEI invests primarily in office buildings, and has set other uses at less than 10 percent of its portfolio. As of December 31, 2008, office buildings accounted for 100 percent of JEI's portfolio. JEI invests in urban properties, primarily in the central business districts of Tokyo, and is moving to further enhance the stability and profitability of its portfolio with a focus on strong tenant relationships, property scale and quality, and a balanced tenant mix.

### Portfolio Composition by Usage

Usage*	Investment Ratio in Portfolio
Office buildings	90% or more
Others (commercial facilities, housing, etc.)	10% or less

\* Usage of a building is defined as the usage to which more than 50% of the total floor space available for rent revenue of the asset is designated.

### Target Investment Areas

Targeted Investment Areas		Investment Ratio in Portfolio
<b>Core areas (80% or more)</b>		
<b>Area I</b>	Six central wards of Tokyo (Chiyoda, Chuo, Minato, Shinjuku, Shinagawa and Shibuya)	<b>50% or more of the core areas</b>
<b>Area II</b>	Central Osaka (Umeda, Dojima, Nakanoshima, Yodoyabashi, Honmachi districts, etc.) Central Nagoya (Meieki, Fushimi, Sakae districts, etc.) Central Fukuoka (Tenjin, Hakata-Terminal peripheral districts, etc.)	<b>50% or less of the core areas</b>
<b>Area III</b>	Tokyo other than Area I, and its vicinity (Kanagawa, Saitama and Chiba Prefectures)	<b>50% or less of the core areas</b>
<b>Non-core areas</b>		
<b>Area IV</b>	Osaka, Nagoya and Fukuoka other than Area II, and other government-ordinance designated cities, etc.	<b>20% or less</b>

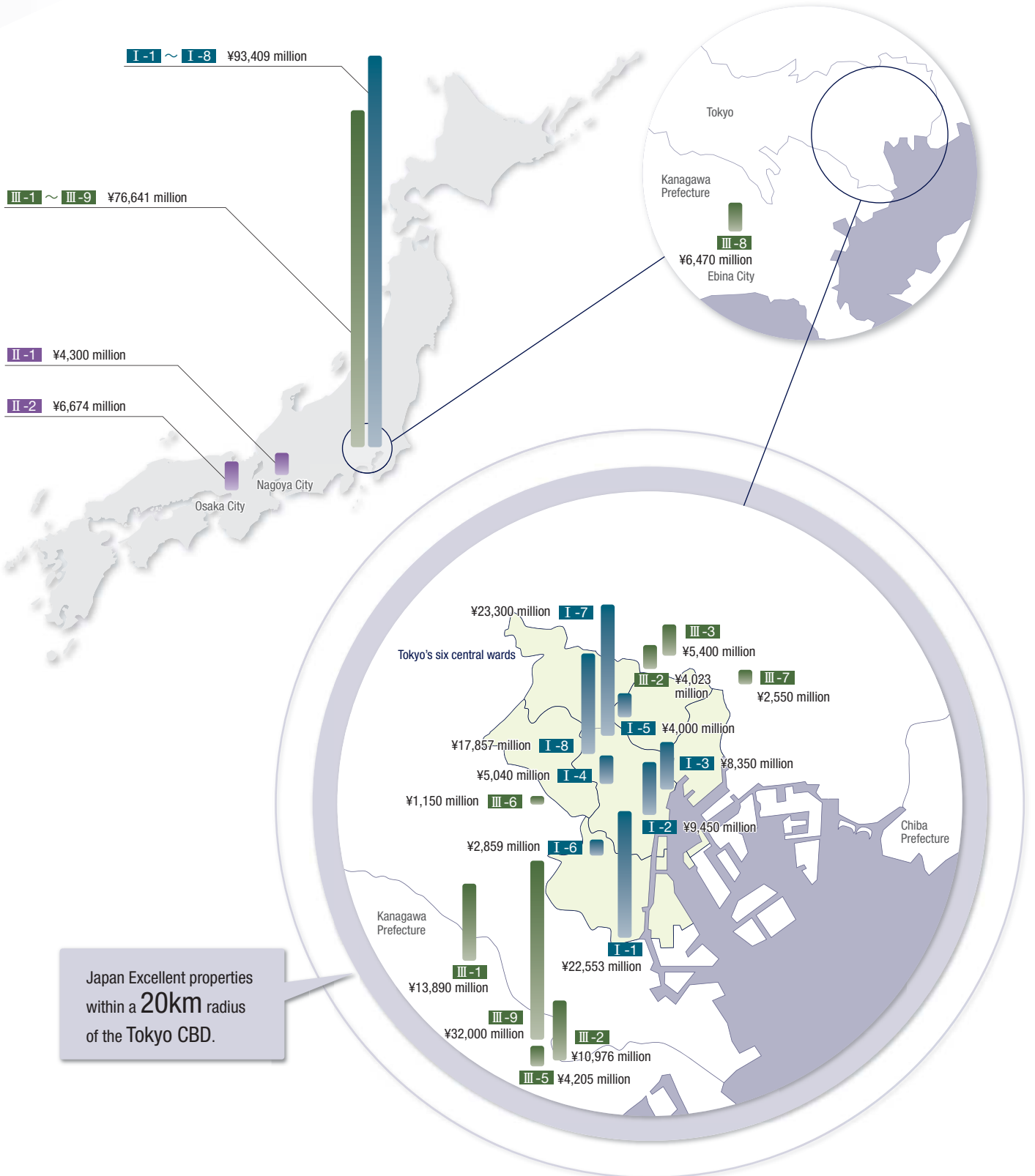
### Target Investment Areas

Regional Balance	Property Scale Balance	Tenant Mix Balance
JEI recognizes that Area I is the top priority for its investment activities, but will also proactively invest in properties situated in Areas II and III. Through these initiatives, JEI expects to minimize the impact of any market fluctuations caused by changes in economic conditions and the concentration of large-scale development projects in major urban areas.	JEI pursues optimal portfolio development by effectively balancing its investment in large buildings*, which are believed to offer advantages and competitiveness in the real-estate market, and medium-sized buildings*, which are regarded as assets with high liquidity and stable rent levels.	JEI aims to minimize various risks related to tenants, such as tenants vacating the properties. To this end, JEI is endeavoring to optimize tenant mix and diversify risks by avoiding the over-concentration of the same kind of tenants or tenants from the same industries in its portfolio.

\* JEI defines buildings located in the 23 wards of Tokyo with total floor space of approximately 33,058m<sup>2</sup> (10,000 *tsubo*) or larger as large buildings, and those with total floor space between 3,306m<sup>2</sup> (1,000 *tsubo*) and 33,057m<sup>2</sup> as medium-sized buildings. For properties in all other areas, JEI defines buildings with total floor space of approximately 13,223m<sup>2</sup> (4,000 *tsubo*) or larger as large buildings, and those with total floor space between 3,306m<sup>2</sup> and 13,222m<sup>2</sup> as medium-sized buildings.

# Portfolio Map

(Length of bars indicates portfolio on an acquisition price basis / Figures have been rounded to the nearest million yen.)



	Area I	Area II	Area III
Area	Area I	Area II	Area III
Total acquisition price (Millions of yen)	93,409	10,974	76,641
No. of properties	8	2	8

# Portfolio

Property Number	Name	Investment Type	Year Built	Acquisition Price <sup>2</sup> (Millions of yen)	Book Value (Millions of yen)	Appraisal Value (Millions of yen)
I-7	Akasaka Garden City	Trust	2006	23,300	23,207	23,200
I-1	Omori Bellport D	Trust	1996	22,553	22,509	26,560
I-8	AKASAKA INTERCITY	Trust	2005	17,857	17,779	15,800
I-2	Shiba 2-Chome Building	Trust	1994	9,450	9,373	12,200
I-3	JEI Hamamatsucho Building	Trust	1991	8,350	8,334	10,200
I-4	No. 32 Kowa Building	Trust	1979	5,040	5,016	5,762
I-5	No. 36 Kowa Building	Trust	1982	4,000	4,026	4,398
I-6	No. 28 Kowa Building	Trust	1975	2,859	2,856	3,710
<b>Subtotal</b>				<b>93,409</b>	<b>93,104</b>	<b>101,830</b>
II -2	JEI Nishi-honmachi Building	Trust	1988	6,674	7,700	5,450
II -1	NHK Nagoya Housou-Center Building	Ownership	1991	4,300	4,249	5,140
<b>Subtotal</b>				<b>10,974</b>	<b>11,950</b>	<b>10,590</b>
III -9	Kowa Kawasaki Nishiguchi Building	Trust	1988	32,000	31,755	31,200
III -1	Musashikosugi Tower Place	Trust	1995	13,890	13,603	16,400
III -2	Kowa Kawasaki Higashiguchi Building	Trust	1988	10,976	10,692	11,200
III -8	Ebina Prime Tower	Trust	1995	6,470	6,582	5,820
III -3	JEI Hongo Building	Trust	1991	5,400	5,318	5,410
III -5	Kawasaki Nisshincho Building	Trust	1992	4,205	4,198	5,750
III -7	JEI Ryogoku Building	Trust	1996	2,550	2,490	2,450
III -6	No. 44 Kowa Building	Trust	1984	1,150	1,037	1,680
<b>Subtotal</b>				<b>76,641</b>	<b>75,678</b>	<b>79,910</b>
<b>Total</b>				<b>181,023</b>	<b>180,733</b>	<b>192,330</b>

- Notes: 1. Figures for "Total Floor Space" are for each entire building, including buildings in which JEI has acquired compartmentalized ownership or co-ownership.  
2. Figures for "Acquisition Price" are sales prices recorded in sales agreements (excluding taxes). Amounts of less than one million yen are rounded.  
3. Figures for "Investment Ratio" 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. Figures are rounded to the first decimal place.



Total Floor Space <sup>1</sup> (m <sup>2</sup> )	Total Leasable Floor Space (m <sup>2</sup> )	Total Leased Space at End of Period (m <sup>2</sup> )	Occupancy Rate at End of Period (%)	Revenue (Millions of yen)	NOI	Investment Ratio <sup>3</sup> (%)	PML
46,776.76	8,769.53	7,215.53	82.3	463	373	12.9	8.6
155,778.75	25,828.29	25,828.29	100.0	1,096	693	12.5	8.0
73,061.33	5,622.98	5,622.98	100.0	374	267	9.9	9.2
19,518.15	11,749.30	11,275.24	96.0	366	268	5.2	8.2
8,327.53	6,411.26	6,411.26	100.0	315	208	4.6	8.2
10,110.96	5,299.67	4,987.79	94.1	252	190	2.8	13.2
8,266.55	5,720.34	5,720.34	100.0	—	125	2.2	13.2
6,282.23	4,472.71	4,472.71	100.0	171	119	1.6	13.5
<b>328,122.26</b>	<b>73,874.08</b>	<b>71,534.14</b>	<b>96.8</b>	<b>—</b>	<b>2,247</b>	<b>51.6</b>	<b>—</b>
15,800.31	10,601.70	4,722.30	44.5	130	54	3.7	11.5
80,809.95	8,964.87	8,011.91	89.4	323	177	2.4	11.9
<b>96,610.26</b>	<b>19,566.57</b>	<b>12,734.21</b>	<b>65.1</b>	<b>—</b>	<b>123</b>	<b>6.1</b>	<b>—</b>
61,856.92	38,332.15	37,343.57	97.4	1,241	713	17.7	7.9
53,711.13	25,275.07	25,275.07	100.0	838	541	7.7	11.5
31,009.62	18,612.72	18,612.72	100.0	—	385	6.1	6.7
55,806.20	25,362.37	25,021.36	98.7	563	257	3.6	12.2
5,877.11	4,078.37	4,078.37	100.0	178	139	3.0	14.2
22,141.60	8,980.70	8,980.70	100.0	225	165	2.3	14.7
5,820.56	3,871.64	3,787.50	97.8	119	73	1.4	14.3
3,359.55	2,567.98	2,567.98	100.0	97	65	0.6	13.4
<b>239,582.69</b>	<b>127,081.00</b>	<b>125,667.27</b>	<b>98.9</b>	<b>—</b>	<b>2,341</b>	<b>42.3</b>	<b>—</b>
<b>664,315.21</b>	<b>220,521.65</b>	<b>209,935.62</b>	<b>95.2</b>	<b>7,565</b>	<b>4,713</b>	<b>100.0</b>	<b>6.6</b>

# Main Properties



I -1 Omori Bellport D



I -2 Shiba 2-Chome Building



I -3 JEI Hamamatsucho Building



I -4 No. 32 Kowa Building



I -7 Akasaka Garden City



I -8 AKASAKA INTERCITY



I -5 No. 36 Kowa Building



I -6 No. 28 Kowa Building



II -1 NHK Nagoya  
Housou-Center Building



II -2 JEI Nishi-honmachi  
Building



III -2 Kowa Kawasaki  
Higashiguchi Building



III -1 Musashikosugi  
Tower Place



III -3 JEI Hongo  
Building



III -5 Kawasaki Nisshincho Building



III -9 Kowa Kawasaki Nishiguchi Building



III -7 JEI Ryogoku Building



III -6 No. 44 Kowa Building



III -8 Ebina Prime Tower

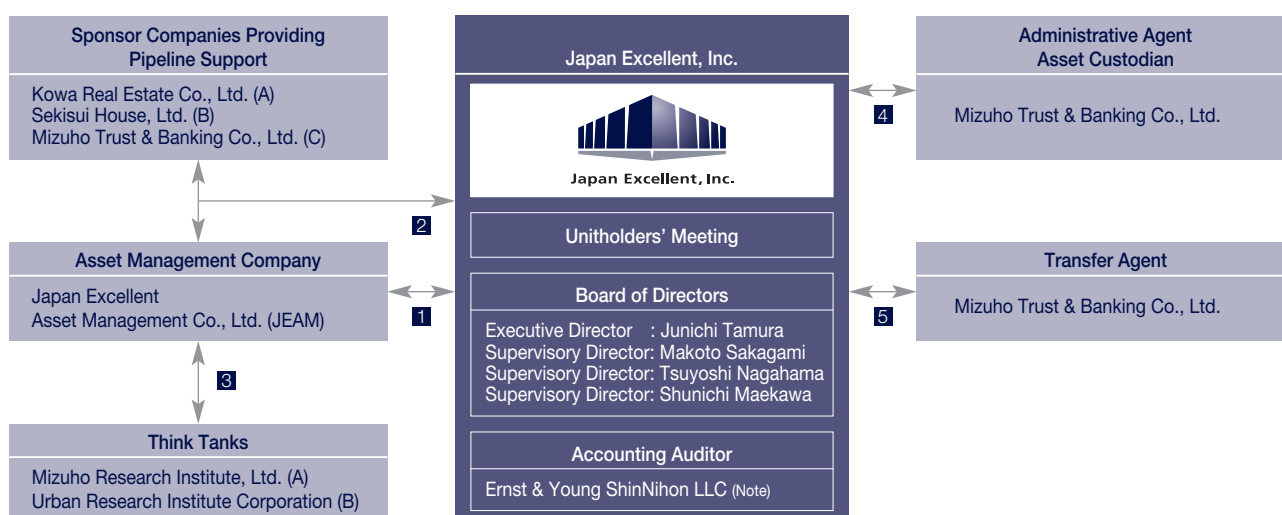
# Management

## Overview of Investment Corporation

Japan Excellent, Inc. (JEI) was established with the aim of managing investment in the form of specified assets under the Trust Law. The asset management company Japan Excellent Asset Management (JEAM) performs all the asset management.

JEI is characterized by asset management that aims at securing steady earnings and stable growth of assets under management from a medium-to-long-term perspective. It accomplishes this by having as target investment areas the major metropolitan areas centering on the six central wards of Tokyo, investing 90 percent or more of the total portfolio in office buildings or real estate constructed on such sites, and investing in marketable securities, beneficiary trust rights, and other assets that back the real estate.

## Organization



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 market and other relevant information (B) Agreement with Urban Research Institute for provision of market and other relevant information

4 Agreement to entrust administrative duties and asset custody

5 Agreement to entrust administration of unitholders' register

Note: Ernst & Young ShinNihon changed its corporate name to Ernst & Young ShinNihon LLC as of July 1, 2008, after becoming a limited liability auditing firm.

## Japan Excellent, Inc. Management Team

<b>Junichi Tamura</b>	Executive Director	April 1976 June 1999 April 2004  February 2006	Entered Industrial Bank of Japan, Limited Executive Director, Equity Research Department, IBJ Securities Co., Ltd. Executive Officer and General Manager, Corporate Business Promoting & Planning Department, Shinko Securities Co., Ltd. Executive Director, Japan Excellent, Inc.
<b>Makoto Sakagami</b>	Supervisory Director	December 1990  July 2000 February 2006	Partner, Chuo Coopers & Lybrand Consulting Co., Ltd. (currently IBM Business Consulting Services K.K.) Established Makoto Sakagami Certified Public Accounting Office (current) Supervisory Director, Japan Excellent, Inc. (current)
<b>Tsuyoshi Nagahama</b>	Supervisory Director	April 1961  January 1972  February 2006	Entered the Ministry of Transport (currently Ministry of Land, Infrastructure, Transport and Tourism) Partner, Attorney at law, Anderson Mori and Rabinowitz (currently Anderson Mori & Tomotsune) Supervisory Director, Japan Excellent, Inc. (current)
<b>Shunichi Maekawa</b>	Supervisory Director	April 1978 April 1999 November 2007 April 2008	Entered Japan Real Estate Institute Professor, Faculty of Real Estate Sciences, Meikai University Supervisory Director, Japan Excellent, Inc. (current) Director, Land Information Center (current)

## Overview of Asset Management Company

### Company Outline

<b>Corporate Name</b>	Japan Excellent Asset Management Co., Ltd. (JEAM)	
<b>Headquarters</b>	1-9-20 Akasaka, Minato-ku, Tokyo	
<b>Established</b>	April 14, 2005	
<b>Capital</b>	¥450 million	
<b>Shareholders</b>	Kowa Real Estate Co., Ltd.	40.0%
	The Dai-ichi Mutual Life Insurance Company	20.0%
	Sekisui House, Ltd.	15.0%
	Morgan Stanley Capital K.K.	5.0%
	The Dai-ichi Building Co., Ltd.	5.0%
	Sohgo Housing Co., Ltd.	5.0%
	Mizuho Corporate Bank, Ltd.	5.0%
	Mizuho Trust & Banking Co., Ltd.	5.0%

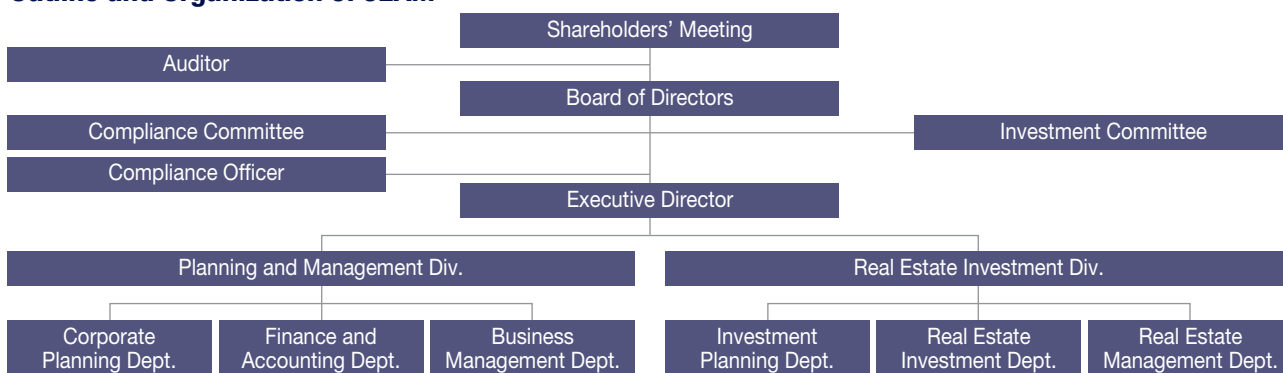
<b>Officers</b>	President	Chifumi Toda
	Director, Chief Operating Officer	Hiroshi Tabei
	Director, Chief Investment Officer	Naoki Fukuda
	Director (Non-executive)	Takashi Uchida
	Auditor (Non-executive)	Masatoshi Tamaru
	Compliance Officer	Michiro Ezaki
<b>Business Operations</b>	Financial Instrument Dealer	
	Investment Management Business:	
	Director-General of Kanto Local Financial Bureau No. 331	
	Real Estate Agency License:	
	Governor of Tokyo (1) No. 84511	
	Discretionary License: Minister of Land, Infrastructure, Transport and Tourism No. 44	

Note: The ratio stated in the table above represents the ratio of the number of investment units held to the total number of outstanding investment units.

### JEAM Management Team

<b>Chifumi Toda</b>	President	February 1998 September 2000 July 2004 March 2009	Manager, Nanba branch, Industrial Bank of Japan, Limited General Manager, Mizuho Holdings, Inc. Executive Officer / General Manager, Building Business Sales Department, Kowa Real Estate Co., Ltd. President and Representative Director, Japan Excellent Asset Management Co., Ltd. (current)
<b>Hiroshi Tabei</b>	Director, Chief Operating Officer	October 2004 April 2008 April 2009	Advisor, ALC Advisory Division (Business Research Division), Mizuho Bank, Ltd. General Manager, Corporate Planning Division, Japan Excellent Asset Management Co., Ltd. (current) Director, Japan Excellent Asset Management Co., Ltd. (current)
<b>Naoki Fukuda</b>	Director, Chief Investment Officer	April 1998 April 2004 April 2006 April 2008	President, Dai-ichi Life Capital Properties, Inc. Deputy General Manager, Real Estate Planning Group, Real Estate Department, Dai-ichi Mutual Life Insurance Company President, Dai-ichi Life International (U.S.A.), Inc. Director, Chief Investment Officer, Japan Excellent Asset Management Co., Ltd. (current)
<b>Takashi Uchida</b>	Director (Non-executive)	August 2005 April 2006	Director, Japan Excellent Asset Management Co., Ltd. (current) Director and Managing Executive Officer, Sekisui House, Ltd. (current)
<b>Masatoshi Tamaru</b>	Auditor (Non-executive)	April 2004 April 2005 July 2007	Executive Officer, General Manager, Finance Control Department, Kowa Real Estate Co., Ltd. Supervisory Director, Japan Excellent Asset Management Co., Ltd. (current) Standing Auditor, Kowa Real Estate Co., Ltd. (current)
<b>Michiro Ezaki</b>	Compliance Officer	June 2001 April 2002 September 2005	Corporate Auditor, Auditing Department, Industrial Bank of Japan, Limited Chief Corporate Auditor, Internal Audit Division, Mizuho Corporate Bank, Ltd. Compliance Officer, Japan Excellent Asset Management Co., Ltd. (current)

### Outline and Organization of JEAM



# Performance Report

## Summary of Selected Financial Data

	5th Period July 1, 2008 to December 31, 2008	4th Period January 1, 2008 to June 30, 2008	3th Period July 1, 2007 to December 31, 2007	5th Period July 1, 2008 to December 31, 2008
	Millions of yen, except per share data or where otherwise indicated			Thousands of U.S. dollars except per share data (Note 1)
Total revenues (Note 2) .....	¥ 8,501	7,840	6,982	\$ 93,386
Revenue from property leasing .....	7,647	7,840	6,982	84,005
Operating expenses .....	4,500	4,408	3,926	49,434
Rental expenses .....	3,910	3,849	3,437	42,952
Income before income taxes .....	3,156	2,662	2,421	34,669
Net income .....	3,155	2,661	2,420	34,658
Funds from operations (Note 3) .....	32,967	37,035	331,477	362,155
Net operating income (NOI) (Note 3) .....	4,732	5,033	4,438	51,982
Total distribution .....	3,155	2,661	2,420	34,658
Depreciation and amortization .....	995	1,042	894	10,930
Capital expenditures .....	799	530	319	8,777
Total assets .....	195,929	206,079	205,486	2,152,356
Interest-bearing debt .....	95,500	105,500	105,500	1,049,104
Net assets .....	90,019	89,655	89,292	988,893
Total number of outstanding investment units (units) .....	154,550	154,550	154,550	—
Net assets per unit (Yen/\$) .....	582,458	580,107	577,758	6,398
Distribution per unit (Yen/\$) .....	20,418	17,218	15,663	224
Funds from operations per unit (Yen/\$) (Note 3) .....	21,331	23,963	21,447	234
ROA (Note 3) .....	1.6	1.3	1.3	
(Annual rate) .....	(3.1)	(2.6)	(2.7)	
ROE (Note 3) .....	3.5	3.0	3.0	
(Annual rate) .....	(7.0)	(6.0)	(6.0)	
LTV (Loan to value) (Note 3) .....	48.7%	51.2%	51.3%	
Capital ratio .....	45.9	43.5	43.5	
Payout ratio (Note 4) .....	100.0	100.0	99.9	
Number of days .....	184	182	184	
Number of investment properties (Note 5) .....	18	20	20	
Number of tenants .....	127	131	132	
Total rentable area (m <sup>2</sup> ) .....	220,521	234,006	234,007	
Occupancy rate .....	95.2	95.1	95.3	

Notes: 1. U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥91.01 = U.S. \$1.00, the approximate exchange rate on December 31, 2008.

2. Total revenues do not include consumption tax.

3. All valuations are calculated through the following formulas. The figures in parentheses are annualized based on the 6-month figures for the period.

ROA: Income before income taxes / (Initial total assets + Total assets at end of period) ÷ 2

ROE: Net income / (Initial net assets + Net assets at end of period) ÷ 2

Net operating income: (Revenue from property leasing – Rental expenses) + Depreciation and amortization

Funds from operations: Net income (excluding Gain on sale of investment properties + Gain on exchange of investment properties) + Depreciation and amortization

Funds from operations per unit: (Net income (excluding Gain on sale of investment properties + Gain on exchange of investment properties) + Depreciation and amortization) / Weighted average number of common units issued and outstanding during the period

Loan to value: (Interest-bearing debt + Deposits under management) / Total assets

4. Payout ratio figures are calculated to one decimal place only.

5. Number of investment properties means units generally perceived to be one office building. Number of tenants means gross number of tenants by building.

Occupancy rate is the ratio of gross leased area to total rentable area at the end of the period.



## Operating Environment and Results

During the fifth period, the six months ended December 31, 2008, the turmoil in global financial markets caused by the financial crisis that originated in the United States reduced corporate profits and restrained capital investment. These and other factors affected the real economy, and Japan's economy entered a recession.

The global credit crunch impacted the real estate investment market. Reduced demand among investors for risk assets resulted in a significant decrease in trading transactions. The cap rate for buildings in the central business districts of Tokyo rose and the trend toward lower prices intensified. Investment risk increased in regional areas and a trend toward lower prices was evident, particularly among less competitive properties.

On the other hand, conditions in the office building leasing market became increasingly uncertain. Rents trended lower, particularly among high-rent properties in central business districts.

In office building leasing markets outside metropolitan Tokyo, even the central business districts of Osaka and Nagoya are oversupplied. Demand is stable at properties that are highly competitive because of factors such as location and building grade, but rents are decreasing at other types of properties. Moreover, in regional cities such as Sapporo, Sendai and Fukuoka, demand is decreasing because of worsening economic conditions and the oversupply of space that existed previously. Overall, vacancy rates are rising and rents are decreasing.

In this operating environment, JEI worked to generate growth externally by understanding the changes in the office building leasing market and strengthening the competitiveness of its portfolio over the medium and long term by selling the Shuwa Iidabashi Building and the Sendai Kowa Building. Moreover, we added to our existing interest in the highly profitable Kawasaki Nisshincho Building by acquiring additional interest from a co-owner. As a result, as of December 31, 2008 the percentage of our portfolio located in areas I and III of metropolitan Tokyo increased to 93.9 percent from 91.9 percent at the beginning of the period.

In working to generate growth internally in a softening office building leasing market, JEI executed initiatives to enhance tenant satisfaction, such as installing a coffee shop and smoking areas and investing in remodeling. Moreover, JEI maintained the tenant non-renewal rate (Note) at under 1.5 percent. During the fifth period, we worked on the priority task of finding tenants for vacant space. We completely leased vacant space at Akasaka Garden City, and prepared the JEI Nishi-honmachi Building for full-scale operation from the sixth period onward through progress in tenant recruiting. Moreover, a majority of the lease contracts for our properties carry below-market rents. We therefore worked to raise rents during contract renewal negotiations, with the result that we added ¥62 million to rental revenues on an 18-property basis.

As of December 31, 2008, our portfolio consisted of 18 properties with a total investment value of ¥181,023 million on an acquisition price basis. Total rentable area for the portfolio was 220,521m<sup>2</sup> (66,707 *tsubo*). Our portfolio served 127 tenants, and had a occupancy rate of 95.2 percent, which was 0.1 percentage points higher than at the end of the previous term.

## Overview of Performance

During the fifth period, the divestiture of two properties generated gain on sale of ¥854 million. Total revenues for the six months ended December 31, 2008 increased 8.4 percent, or ¥661 million, compared with the previous period to ¥8,501 million. Operating income increased 16.6 percent, or ¥568 million, to ¥4,000 million. Net income increased 18.6 percent, or ¥494 million, to ¥3,155 million. Of note, JEI's 18 properties as of December 31, 2008 generated real growth in revenues and earnings despite factors such as the sale of properties and asbestos removal work at the JEI Nishi-honmachi Building.

Note: The tenant non-renewal rate is floor space for which tenants did not renew their contract during a period as a percentage of rentable area at the end of the previous period. Any increase in rentable area obtained through the acquisition of properties during a period increases the total rentable area used in the calculation. Any decrease in rentable area resulting from sale of properties during the period is not deducted from total rentable area.

## Distribution for Current Period

Distribution per unit totaled ¥20,418. The payout ratio was therefore 100 percent.

	5th Period July 1, 2008 to December 31, 2008	4th Period January 1, 2008 to June 30, 2008	3th Period July 1, 2007 to December 31, 2007
Thousands of yen, except per share amounts			
Retained earnings.....	¥3,155,635	¥2,661,098	¥2,420,792
Undistributed earnings .....	33	56	76
Total distribution.....	3,155,601	2,661,041	2,420,716
(Total distribution per unit) .....	(20,418)	(17,218)	(15,663)
Distribution of accumulated earnings.....	3,155,601	2,661,041	2,420,716
(Distribution of accumulated earnings per unit).....	(20,418)	(17,218)	(15,663)
Distribution in excess of accumulated earnings .....	—	—	—
(Per share).....	(—)	(—)	(—)

## Unitholders' Capital

An overview of the issue of investment units is as follows.

Issue date	Remarks	Common shares outstanding		Paid-in capital		Notes
		Increase	Balance	Increase	Balance	
		Shares		Millions of yen		
February 20, 2006	Initial capital (private)	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	6,400	134,800	3,211	67,641	Note 3
July 11, 2007	Public offering	19,000	153,800	18,702	86,344	Note 4
August 8, 2007	Third party	750	154,550	738	87,083	Note 5

- Notes: 1. JEI was established with an issue of investment units priced at ¥500,000 per unit.  
2. JEI issues new investment units through a public offering at a price of ¥520,000 per unit (underwriting price: ¥501,800 per unit) to raise capital primarily for the acquisition of properties following its listing on the Tokyo Stock Exchange.  
3. JEI issues new investment units through a private placement at a price of ¥501,800 per unit to raise a portion of the capital required for the acquisition of properties.  
4. JEI issues new investment units through a public offering at a price of ¥1,109,200 per unit (underwriting price: ¥984,360 per unit) to raise a portion of the capital required for the acquisition of properties during the second period.  
5. JEI issues new investment units through a private placement at a price of ¥984,360 per unit to raise a portion of the capital required for the acquisition of properties during the second period.

## Market Price of Units

High/Low (closing price) of units on the TSE:

	5th Period July 1, 2008 to December 31, 2008	4th Period January 1, 2008 to June 30, 2008	3th Period July 1, 2007 to December 31, 2007
Yen			
High .....	¥535,000	¥859,000	¥1,090,000
Low .....	254,000	501,000	837,000

## Loans

Loans by lending institution as of December 31, 2008 are summarized below.

### List of lenders

Lender	Outstanding debt at end of this period	Share	Long-term	Short-term
	Millions of yen		Millions of yen	
Mizuho Corporate Bank, Ltd.	¥29,500	30.9%	¥23,500	¥ 6,000
Mitsubishi UFJ Trust and Banking Corporation	17,800	18.6%	14,800	3,000
Sumitomo Mitsui Banking Corporation	9,200	9.6%	7,200	2,000
The Dai-ichi Mutual Life Insurance Company	8,000	8.4%	8,000	0
Mizuho Trust & Banking Co., Ltd.	7,500	7.9%	6,500	1,000
The Norinchukin Bank	7,000	7.3%	7,000	0
Aozora Bank, Ltd.	5,000	5.2%	5,000	0
Development Bank of Japan	4,000	4.2%	4,000	0
Chuo Mitsui Trust & Banking Co., Ltd.	3,000	3.1%	3,000	0
Sompo Japan Insurance Inc.	2,000	2.1%	2,000	0
Resona Bank, Ltd.	1,500	1.6%	1,500	0
Tokio Marine & Nichido Fire Insurance Co., Ltd.	1,000	1.0%	1,000	0
<b>Total</b>	<b>¥95,500</b>	<b>100.0%</b>	<b>¥83,500</b>	<b>¥12,000</b>

### Short-term loans

Lender	Due on (Note 1)	Balance	Average interest rate (%)	Repayment method	Use of funds	Notes
		Millions of yen				
Mizuho Corporate Bank, Ltd.	October 24, 2008	—	—	Bullet payment	Acquisition of real estate	Unsecured / unguaranteed
Mitsubishi UFJ Trust and Banking Corporation	October 24, 2008	—	—			
Sumitomo Mitsui Banking Corporation	October 24, 2008	—	—			
Mizuho Trust & Banking Co., Ltd.	October 24, 2008	—	—			
Aozora Bank, Ltd.	October 24, 2008	—	—			
Mizuho Corporate Bank, Ltd.	March 31, 2009	¥ 6,000	1.2	Repayment of loans		
Mitsubishi UFJ Trust and Banking Corporation	March 31, 2009	3,000	1.2			
Sumitomo Mitsui Banking Corporation	March 31, 2009	2,000	1.2			
Mizuho Trust & Banking Co., Ltd.	March 31, 2009	1,000	1.2			
<b>Total short-term loans</b>		<b>¥12,000</b>	<b>1.2</b>	<b>—</b>	<b>—</b>	<b>—</b>

### Long-term debt due within 1 year

Lender	Due on (Note 1)	Balance	Average interest rate (%)	Repayment method	Use of funds	Notes
		Millions of yen				
Aozora Bank, Ltd.	June 29, 2009	¥ 3,000	1.4	Bullet payment	Acquisition of real estate	Unsecured / unguaranteed
Chuo Mitsui Trust & Banking Co., Ltd.	June 29, 2009	3,000	1.4			
Mizuho Trust & Banking Co., Ltd.	June 29, 2009	3,000	1.4			
Sumitomo Mitsui Banking Corporation	June 29, 2009	2,000	1.4			
Mizuho Corporate Bank, Ltd.	June 29, 2009	1,000	1.4			
Mitsubishi UFJ Trust and Banking Corporation	June 29, 2009	1,000	1.4			
<b>Total long-term debt due within 1 year</b>		<b>¥13,000</b>	<b>1.4</b>	<b>—</b>	<b>—</b>	<b>—</b>

### Long-term loans (Note 3)

Lender	Due on (Note 1)	Balance	Average	Repayment method	Use of funds	Notes
		Millions of yen	interest rate (%)			
The Norinchukin Bank	June 29, 2010	¥ 5,000	1.6			
Mizuho Corporate Bank, Ltd.	June 29, 2010	3,000	1.6			
Mitsubishi UFJ Trust and Banking Corporation	June 29, 2010	3,000	1.6			
Aozora Bank, Ltd.	June 29, 2010	2,000	1.6		Acquisition of real estate	
Mizuho Corporate Bank, Ltd.	June 29, 2011	5,000	1.6			
Mitsubishi UFJ Trust and Banking Corporation	June 29, 2011	3,500	1.6			
Resona Bank, Ltd.	June 29, 2011	1,000	1.6			
The Dai-ichi Mutual Life Insurance Company	June 29, 2011	3,000	2.0 (Note 2)			
Mizuho Corporate Bank, Ltd.	June 29, 2011	6,000	1.5			
Mitsubishi UFJ Trust and Banking Corporation	June 29, 2011	4,000	1.5		Repayment of loans	
Sumitomo Mitsui Banking Corporation	June 29, 2011	3,000	1.5			
Mizuho Trust & Banking Co., Ltd.	June 29, 2011	2,000	1.5			
Mitsubishi UFJ Trust and Banking Corporation	July 31, 2012	2,300	1.2			
Sumitomo Mitsui Banking Corporation	July 31, 2012	2,200	1.2			
The Norinchukin Bank	July 31, 2012	2,000	1.2	Bullet payment		Unsecured / unguaranteed
Resona Bank, Ltd.	July 31, 2012	500	1.2			
Mizuho Corporate Bank, Ltd.	July 31, 2012	2,500	2.0 (Note 2)		Acquisition of real estate	
Mizuho Trust & Banking Co., Ltd.	July 31, 2012	1,500	2.0 (Note 2)			
Sompo Japan Insurance Inc.	July 31, 2012	2,000	2.0 (Note 2)			
Tokio Marine & Nichido Fire Insurance Co., Ltd.	July 31, 2012	1,000	2.0 (Note 2)			
Mizuho Corporate Bank, Ltd.	June 28, 2013	6,000	1.6		Repayment of loans	
Mitsubishi UFJ Trust and Banking Corporation	June 28, 2013	1,000	1.6			
The Dai-ichi Mutual Life Insurance Company	July 31, 2014	2,000	2.3 (Note 2)		Acquisition of real estate	
Development Bank of Japan	July 31, 2014	2,000	2.3 (Note 2)			
The Dai-ichi Mutual Life Insurance Company	June 30, 2015	3,000	2.3 (Note 2)		Repayment of loans	
Development Bank of Japan	June 30, 2015	2,000	2.3 (Note 2)			
<b>Total long-term loans</b>		<b>¥70,500</b>	<b>1.7</b>	—	—	—
<b>Total loans</b>		<b>¥95,500</b>	<b>1.6</b>	—	—	—

Notes: 1. Average interest rate is a weighted average of interest rates on each loan contract as of the end of the period. In addition, JEI uses interest-rate swaps to mitigate the risk associated with variable interest rates. The weighted average is calculated after adjusting the interest rate for applicable loans for the effect of the interest-rate swap.

2. Fixed-rate loans

3. Annual maturities of long-term loans (excluding long-term loans due within one year) due after more than one year from the balance sheet date are listed below.

	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	5 to 10 years
	Millions of yen				
Amount borrowed .....	¥13,000	¥27,500	¥14,000	¥7,000	¥9,000

### Bonds

JEI has submitted a shelf registration so that it can smoothly issue investment corporation bonds, but has not issued such bonds.

## Capital Expenditures

### Planned Capital Expenditures

Primary planned capital expenditures for properties in JEI's portfolio as of December 31, 2008 for renovation and other purposes are as follows. The planned construction expenditures below include the portion already recorded as expenses.

Name of property	Address	Objective	Estimated duration	Estimated amounts		
				Total amounts	Payment for the current period	Cumulative amount paid
Millions of yen						
Kowa Kawasaki Nishiguchi Building	Saiwai-ku, Kawasaki, Kanagawa Prefecture	Asbestos removal (Second quarter)	December 2008 to June 2009	¥200	—	—
No. 36 Kowa Building	Chiyoda-ku, Tokyo	Overhaul of air-conditioning on first floor	February 2009 to May 2009	20	—	—
No. 32 Kowa Building	Minato-ku, Tokyo	Upgrade of residences for leasing	March 2009 to April 2009	20	—	—

### Capital Expenditures for the Current Period

Construction requiring capital expenditures during the period ended December 31, 2008 for properties in JEI's portfolio as of December 31, 2008 is outlined below. Capital expenditures during the period ended December 31, 2008 totaled ¥799 million. The total of capital expenditures and repair expenses of ¥313 million during the period ended December 31, 2008 was ¥1,113 million.

Name of property	Address	Objective	Estimated duration	Expenditure
				Millions of yen
JEI Nishi-honmachi Building	Nishi-ku, Osaka	Asbestos removal and upgrade of residences for leasing (Third quarter)	May 2008 to November 2008	¥370
		Overhaul of common-use space		37
Ebina Prime Tower	Ebina, Kanagawa Prefecture	Conversion of unfinished floors to office space	September 2008 to December 2008	59
Kowa Kawasaki Nishiguchi Building	Saiwai-ku, Kawasaki, Kanagawa Prefecture	Coating, impregnation and hardening of fireproof covering, and installation of exit for roof inspection	August 2008 to December 2008	100
		Installation of fire shutters	September 2008 to November 2008	30
Other buildings			—	200
Total				¥799

### Cash Reserve for Capital Improvements

JEI formulates a long-term maintenance plan for each of its properties, and uses it as the basis for provisions to the cash reserve for capital improvements to cover major repairs and other future property issues, as outlined below.

	5th Period July 1, 2008 to December 31, 2008	4th Period January 1, 2008 to June 30, 2008
Millions of yen		
Reserve balance at the beginning of the period .....	¥282	¥282
Amount accumulated in the current period .....	—	—
Withdrawal from reserves in the current period .....	28	—
Amount carried forward .....	¥254	¥282

## Trading Activities during the Current Period

### Acquisition

Type of asset	Name of property	Acquisitions	
		Date	Acquisition price (Note) Millions of yen
Real estate trust beneficiary rights	Kawasaki Nisshincho Building	October 17, 2008	¥300
Total			¥300

### Sale

Type of asset	Name of property	Date	Sales		
			Sale price	Book value	Gain on sale
			Millions of yen		
Real estate trust	Shuwa Iidabashi Building	July 4, 2008	¥4,580	¥4,025	¥413
beneficiary rights	Sendai Kowa Building	August 29, 2008	4,814	4,201	440
Total			¥9,394	¥8,227	¥854

Note: Acquisition price and transfer price (transfer price of real estate or other assets as stated in documents such as the contract transferring trust beneficiary rights) do not include expenses such as brokerage fees and taxes and public charges associated with the acquisitions or transfers.

## Trading of Other Assets Including Total Amount and Transactions

Assets other than real estate, securitized assets and other assets principally consist of current bank deposits, including trust accounts.

## Transactions with Related Parties and Transactions with Major Shareholders of Asset Management Company

### Ongoing Transactions

None.

### Fees Paid for the Period from July 1, 2008 to December 31, 2008

Category	Total fees paid (A) (Millions of yen)	Description of transactions with related parties (Note 1)		
		Paid to	Amount of payment (B) (Millions of yen)	B/A (Note 2)
Office management fees, etc. (Note 2)	¥1,086	Kowa Real Estate Co., Ltd.	¥403	37.1%
		Sekisui House, Ltd.	26	2.5%
Total	¥1,086		¥430	39.6%

Notes: 1. "Related parties" are defined as related parties of asset management companies under the asset management agreement with JEI as defined in Article 123 of Order for Enforcement of the Law Concerning Investment Trusts and Investment Corporations. "Major shareholders" are the major shareholders of asset management companies as defined in Article 29, Section 4, Paragraph 2 of the Financial Instruments and Exchange Law. During the period ended December 31, 2008, transactions with Kowa Real Estate Co., Ltd. and Sekisui House, Ltd. are as described above.

2. Maintenance expenses include construction management compensation associated with assets that have not been adjusted to reflect compensation and expenses related to project management.

3. Amounts do not include consumption or other taxes.

# Financial Statements

For the six-month periods ended December 31, 2008 and June 30, 2008  
with Report of Independent Auditors

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# Report of Independent Auditors



## Report of Independent Auditors

The Board of Directors and Unitholders  
Japan Excellent, Inc.

We have audited the accompanying balance sheets of Japan Excellent, Inc. as of December 31, 2008 and June 30, 2008, 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, 2008 and June 30, 2008, 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, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2.

*Ernst & Young ShinNihon LLC*

March 23, 2009

# Balance Sheets

As of December 31, 2008 and June 30, 2008

	As of December 31, 2008	As of June 30, 2008	As of December 31, 2008
	Thousands of yen		U.S. dollars (Note 2)
<b>Assets</b>			
Current assets:			
Cash and cash equivalents including trust accounts (Notes 4 and 5).....	¥ 14,208,501	¥ 16,409,367	\$ 156,120,221
Rental receivables.....	370,534	420,122	4,071,354
Derivative assets.....	545	6,330	5,985
Other current assets.....	119,941	160,823	1,317,888
Total current assets.....	14,699,521	16,996,642	161,515,448
Property and equipment (Note 6):			
Buildings and building improvements.....	3,251,136	3,240,198	35,722,837
Furniture and fixtures.....	363	363	3,993
Construction in progress.....	2,777	1,739	30,514
Buildings and building improvements for trust accounts.....	64,035,334	65,556,671	703,607,669
Machinery and equipment for trust accounts.....	393,541	383,743	4,324,154
Furniture and fixtures for trust accounts.....	24,427	18,675	268,399
Land for trust accounts.....	108,502,799	114,300,880	1,192,207,439
Less: accumulated depreciation.....	(4,042,346)	(3,242,515)	(44,416,502)
Net property and equipment.....	172,168,031	180,259,754	1,891,748,503
Investments and other assets:			
Leasehold rights.....	1,185,045	1,185,045	13,021,040
Leasehold rights for trust accounts.....	7,380,017	7,380,017	81,090,174
Investment in securities (Note 5).....	10,768	10,768	118,317
Security deposits.....	15,182	15,182	166,813
Long-term prepaid expenses.....	429,382	148,653	4,717,971
Derivative assets.....	—	46,992	—
Other assets.....	41,984	36,598	461,315
Total investments and other assets.....	9,062,378	8,823,255	99,575,630
Total assets.....	¥195,929,930	¥206,079,651	\$2,152,839,581
<b>Liabilities</b>			
Current liabilities:			
Accounts payable - trade.....	¥ 766,906	¥ 571,646	\$ 8,426,610
Short-term loans (Note 7).....	25,000,000	62,000,000	274,695,088
Accounts payable - other.....	339,723	336,334	3,732,807
Unpaid consumption taxes.....	121,946	220,578	1,339,924
Derivative liabilities.....	21,380	26,567	234,924
Other current liabilities.....	209,883	127,050	2,306,157
Total current liabilities.....	26,459,838	63,282,175	290,735,510
Long-term liabilities:			
Long-term debt (Note 7).....	70,500,000	43,500,000	774,640,150
Security deposits from tenants.....	452,048	476,914	4,967,012
Security deposits from tenants for trust accounts.....	8,300,428	9,052,173	91,203,474
Derivative liabilities.....	198,604	94,279	2,182,219
Other long-term liabilities.....	—	18,510	—
Total long-term liabilities.....	79,451,080	53,141,876	872,992,855
Total liabilities.....	105,910,918	116,424,051	1,163,728,365
Net assets (Note 8):			
Unitholders' equity:			
Unitholders' capital:.....	87,083,030	87,083,030	956,851,225
Units authorized: 2,000,000 units			
Units issued and outstanding: 154,550 units as of December 31, 2008 and June 30, 2008			
Retained earnings.....	3,155,635	2,661,098	34,673,503
Total unitholders' equity.....	90,238,665	89,744,128	991,524,728
Valuation and translation adjustments:			
Unrealized loss on deferred hedge transactions.....	(219,653)	(88,528)	(2,413,512)
Total valuation and translation adjustments.....	(219,653)	(88,528)	(2,413,512)
Total net assets.....	90,019,012	89,655,600	989,111,216
Total liabilities and net assets.....	¥195,929,930	¥206,079,651	\$2,152,839,581

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

# Statements of Income and Retained Earnings

For the periods from July 1, 2008 to December 31, 2008  
and from January 1, 2008 to June 30, 2008

	For the period from July 1, 2008 to December 31, 2008	For the period from January 1, 2008 to June 30, 2008	For the period from July 1, 2008 to December 31, 2008
	Thousands of yen		U.S. dollars (Note 2)
<b>Revenues:</b>			
Rental revenues (Note 11) .....	¥6,909,524	¥7,135,748	\$75,920,496
Other (Note 11) .....	738,009	704,917	8,109,103
Gain on sales of real estate (Note 12).....	854,292	—	9,386,791
<b>Total revenues</b> .....	<b>8,501,825</b>	<b>7,840,665</b>	<b>93,416,390</b>
<b>Operating expenses:</b>			
Property operating expenses (Note 11).....	3,910,891	3,849,842	42,972,101
Asset management fees .....	443,596	436,367	4,874,148
Custodian fees.....	15,726	15,684	172,789
Administrative service fees .....	27,375	27,201	300,797
Compensation for directors.....	6,540	6,540	71,860
Other .....	96,721	72,697	1,062,754
<b>Total operating expenses</b> .....	<b>4,500,849</b>	<b>4,408,331</b>	<b>49,454,449</b>
<b>Operating income</b> .....	<b>4,000,976</b>	<b>3,432,334</b>	<b>43,961,941</b>
<b>Other income:</b>			
Refund of consumption taxes including interest .....	—	2,067	—
Interest income .....	18,297	15,720	201,048
Other.....	13	7	142
<b>Other expenses:</b>			
Interest expense .....	702,689	686,658	7,721,015
Loan arrangement fees.....	121,654	67,451	1,336,706
Other.....	38,382	33,989	421,735
<b>Income before income taxes</b> .....	<b>3,156,561</b>	<b>2,662,030</b>	<b>34,683,675</b>
Income taxes - current (Note 10) .....	981	1,004	10,782
Income taxes - deferred .....	1	4	13
<b>Net income</b> .....	<b>3,155,579</b>	<b>2,661,022</b>	<b>34,672,880</b>
Retained earnings at beginning of period .....	57	76	623
<b>Retained earnings at end of period</b> .....	<b>¥3,155,636</b>	<b>¥2,661,098</b>	<b>\$34,673,503</b>

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

# Statements of Changes in Net Assets

For the periods from July 1, 2008 to December 31, 2008  
and from January 1, 2008 to June 30, 2008

	For the period from January 1, 2008 to June 30, 2008						
	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							
<b>Balance as of December 31, 2007</b> .....	154,550	¥87,083,030	¥ 2,420,792	¥89,503,822	¥(211,254)	¥(211,254)	¥89,292,568
Changes during the fiscal period:							
Distributions from retained earnings ...	—	—	(2,420,716)	(2,420,716)	—	—	(2,420,716)
Net income .....	—	—	2,661,022	2,661,022	—	—	2,661,022
Changes in unrealized loss on deferred hedge transactions .....	—	—	—	—	122,727	122,727	122,727
Total changes during the fiscal period ....	—	—	240,306	240,306	122,727	122,727	363,032
<b>Balance as of June 30, 2008</b> .....	154,550	¥87,083,030	¥ 2,661,098	¥89,744,128	¥ (88,527)	¥ (88,527)	¥89,655,600

	For the period from July 1, 2008 to December 31, 2008						
	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							
<b>Balance as of June 30, 2008</b> .....	154,550	¥87,083,030	¥ 2,661,098	¥89,744,128	¥ (88,527)	¥ (88,527)	¥89,655,600
Changes during the fiscal period:							
Distributions from retained earnings ...	—	—	(2,661,042)	(2,661,042)	—	—	(2,661,042)
Net income .....	—	—	3,155,579	3,155,579	—	—	3,155,579
Changes in unrealized loss on deferred hedge transactions .....	—	—	—	—	(131,126)	(131,126)	(131,126)
Total changes during the fiscal period ....	—	—	494,537	494,537	(131,126)	(131,126)	363,412
<b>Balance as of December 31, 2008</b> .....	154,550	¥87,083,030	¥ 3,155,635	¥90,238,665	¥(219,653)	¥(219,653)	¥90,019,012

	For the period from July 1, 2008 to December 31, 2008						
	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)							
<b>Balance as of June 30, 2008</b> .....	154,550	\$956,851,225	\$ 29,239,628	\$986,090,853	\$ (972,728)	\$ (972,728)	\$985,118,126
Changes during the fiscal period:							
Distributions from retained earnings ...	—	—	(29,239,005)	(29,239,005)	—	—	(29,239,005)
Net income .....	—	—	34,672,880	34,672,880	—	—	34,672,880
Changes in unrealized loss on deferred hedge transactions .....	—	—	—	—	(1,440,784)	(1,440,784)	(1,440,784)
Total changes during the fiscal period ....	—	—	5,433,875	5,433,875	(1,440,784)	(1,440,784)	3,993,090
<b>Balance as of December 31, 2008</b> .....	154,550	\$956,851,225	\$ 34,673,503	\$991,524,728	\$(2,413,512)	\$(2,413,512)	\$989,111,216

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

# Statements of Cash Flows

For the periods from July 1, 2008 to December 31, 2008  
and from January 1, 2008 to June 30, 2008

	For the period from July 1, 2008 to December 31, 2008	For the period from January 1, 2008 to June 30, 2008	For the period from July 1, 2008 to December 31, 2008
	Thousands of yen		U.S. dollars (Note 2)
<b>Cash flows from operating activities</b>			
Income before income taxes.....	¥ 3,156,561	¥ 2,662,030	\$ 34,683,676
Depreciation and amortization .....	995,423	1,042,494	10,937,507
Interest income.....	(18,297)	(15,720)	(201,048)
Interest expense.....	702,689	686,658	7,721,015
Decrease in rental receivables .....	49,588	125,996	544,864
Decrease in consumption taxes refundable.....	—	669,083	—
Decrease (increase) in prepaid expenses .....	33,981	(52,413)	373,372
Increase (decrease) in accounts payable - trade .....	52,420	(164,026)	575,983
(Decrease) increase in accounts payable - other .....	(2,124)	48,115	(23,339)
(Decrease) increase in unpaid consumption taxes .....	(98,631)	220,578	(1,083,739)
(Decrease) increase in advances received .....	(1,950)	576	(21,423)
(Increase) decrease in long-term prepaid expenses .....	(280,729)	26,889	(3,084,601)
Decrease in property and equipment for trust accounts due to sales.....	8,227,227	—	90,399,150
Other, net .....	4,161	34,828	45,723
Subtotal.....	12,820,319	5,285,088	140,867,140
Interest received.....	18,297	15,720	201,049
Interest paid .....	(615,628)	(696,752)	(6,764,401)
Income taxes paid.....	(3,659)	(3,188)	(40,206)
Net cash provided by operating activities.....	12,219,329	4,600,868	134,263,582
<b>Cash flows from investing activities</b>			
Purchases of property and equipment.....	(4,104)	(23,288)	(45,093)
Purchases of property and equipment for trust accounts .....	(982,849)	(538,497)	(10,799,355)
Proceeds from security deposits from tenants .....	285	22,624	3,135
Payments for security deposits to tenants.....	(25,151)	(12,382)	(276,353)
Proceeds from security deposits from tenants for trust accounts.....	112,235	519,036	1,233,221
Payments for security deposits to tenants for trust accounts .....	(863,980)	(332,928)	(9,493,246)
Net cash used in investing activities .....	(1,763,564)	(365,435)	(19,377,691)
<b>Cash flows from financing activities</b>			
Proceeds from short-term loans .....	12,000,000	—	131,853,642
Repayment for short-term loans .....	(49,000,000)	—	(538,402,373)
Proceeds from long-term debt.....	27,000,000	—	296,670,696
Distributions to unitholders .....	(2,656,631)	(2,412,972)	(29,190,539)
Net cash used in financing activities.....	(12,656,631)	(2,412,972)	(139,068,574)
Net (decrease) increase in cash and cash equivalents .....	(2,200,866)	1,822,461	(24,182,683)
Cash and cash equivalents at beginning of period.....	16,409,367	14,586,906	180,302,904
Cash and cash equivalents at end of period.....	¥ 14,208,501	¥ 16,409,367	\$ 156,120,221

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

# Notes to Financial Statements

For the periods from July 1, 2008 to December 31, 2008  
and from January 1, 2008 to June 30, 2008

## 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, 2008, JEI held 18 properties with 220,521 square meters of total leasable space and had leases with 127 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 ¥91.01 = U.S.\$1.00, the foreign exchange rate prevailing on December 31, 2008, 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, a negotiable certificate of deposit 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.

### ● Securities

The negotiable certificate of deposit, classified under other securities but with the same characteristics as a time deposit, is carried at cost. The cost is determined by the moving average method.

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.

### ● 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.

## Notes to Financial Statements

### ● Consumption taxes

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

### ● Property-related taxes

Principally, property-related taxes including property taxes, urban planning taxes and depreciable property taxes are imposed on a calendar-year basis and are expensed as property and other taxes (refer to Note 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, 2008 to December 31, 2008 and from January 1, 2008 to June 30, 2008 were ¥343 thousand and ¥0, respectively.

### ● 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, 2008 and June 30, 2008 consisted of the following:

	As of December 31, 2008	As of June 30, 2008	As of December 31, 2008
	Thousands of yen		U.S. dollars
Cash and cash deposits.....	¥ 1,279,525	¥ 3,892,158	\$ 14,059,173
Cash in trust and deposits in trust .....	11,428,976	12,517,209	125,579,343
Negotiable certificate of deposit .....	1,500,000	—	16,481,705
Cash and cash equivalents including trust accounts.....	¥14,208,501	¥16,409,367	\$156,120,221

## 5. Securities

### (1) Investment in securities

Investment in securities at December 31, 2008 and June 30, 2008 consisted of the following:

	As of December 31, 2008	As of June 30, 2008	As of December 31, 2008
	Thousands of yen		U.S. dollars
Unlisted stock .....	¥10,768	¥10,768	\$118,317

As of December 31, 2008									
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	Thousands of yen	U.S. dollars
Unlisted stock									
NHK Nagoya Build Systems Co., Ltd.....	64	¥168	¥10,768	\$118,317	¥168	¥10,768	\$118,317	¥—	\$—
Total .....	64	¥168	¥10,768	\$118,317	¥168	¥10,768	\$118,317	¥—	\$—

As of June 30, 2008						
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	U.S. dollars	Thousands of yen	U.S. dollars	U.S. dollars
Unlisted stock						
NHK Nagoya Build Systems Co., Ltd.....	64	¥168	¥10,768	¥168	¥10,768	¥—
Total .....	64	¥168	¥10,768	¥168	¥10,768	¥—

## (2) Non-trading securities

Non-trading securities at December 31, 2008 and June 30, 2008 consisted of the following:

	As of December 31, 2008	As of June 30, 2008	As of December 31, 2008
	Thousands of yen		U.S. dollars
Negotiable certificate of deposit .....	¥1,500,000	¥—	\$16,481,705

## 6. Property and Equipment

Property and equipment at December 31, 2008 and June 30, 2008 consisted of the following:

	As of December 31, 2008			As of June 30, 2008			As of December 31, 2008		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
	Thousands of yen			Thousands of yen			U.S. dollars		
Buildings and building improvements.....	¥ 3,251,136	¥ (189,776)	¥ 3,061,360	¥ 3,240,198	¥ (152,793)	¥ 3,087,405	\$ 35,722,837	\$ (2,085,218)	\$ 33,637,619
Furniture and fixtures ...	363	(48)	315	363	(21)	342	3,993	(527)	3,466
Buildings and building improvements for trust accounts .....	64,035,334	(3,786,792)	60,248,542	65,556,671	(3,038,372)	62,518,299	703,607,669	(41,608,529)	661,999,140
Machinery and equipment for trust accounts.....	393,541	(62,785)	330,756	383,743	(49,875)	333,868	4,324,154	(689,870)	3,634,284
Furniture and fixtures for trust accounts .....	24,427	(2,945)	21,482	18,675	(1,454)	17,221	268,399	(32,358)	236,041
Land for trust accounts.....	108,502,799	—	108,502,799	114,300,880	—	114,300,880	1,192,207,439	—	1,192,207,439
Construction in progress .....	2,777	—	2,777	1,739	—	1,739	30,514	—	30,514
Total .....	¥176,210,377	¥(4,042,346)	¥172,168,031	¥183,502,269	¥(3,242,515)	¥180,259,754	\$1,936,165,005	\$(44,416,502)	\$1,891,748,503



## Notes to Financial Statements

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

Short-term loans and long-term debt as of December 31, 2008 and June 30, 2008 consisted of the following:

	As of December 31, 2008		As of June 30, 2008		As of December 31, 2008
	Amount	Weighted-average interest rate	Amount	Weighted-average interest rate	Amount
	Thousands of yen				U.S. dollars
<b>Short-term loans:</b>					
Unsecured loans from banks due on October 24, 2008 .....	¥ —	—	¥ 49,000,000	0.95917%	\$ —
Unsecured loans from banks due on March 31, 2009.....	12,000,000	1.20333%	—	—	131,853,642
Subtotal.....	12,000,000		49,000,000		131,853,642
<b>Long-term debt due within one year:</b>					
Unsecured loans from banks due on June 29, 2009 .....	13,000,000	1.37644%	13,000,000	1.39779%	142,841,446
Subtotal.....	13,000,000		13,000,000		142,841,446
<b>Long-term debt:</b>					
Unsecured loans from banks due on June 29, 2010.....	13,000,000	1.55042%	13,000,000	1.56821%	142,841,446
Unsecured loans from banks due on June 29, 2011 .....	9,500,000	1.57554%	9,500,000	1.60718%	104,384,134
Unsecured loans from an insurance company due on June 29, 2011 .....	3,000,000	1.96625%	3,000,000	1.96625%	32,963,410
Unsecured loans from banks due on June 29, 2011 .....	15,000,000	1.49250%	—	—	164,817,053
Unsecured loans from banks due on July 31, 2012 .....	7,000,000	1.23583%	7,000,000	1.18667%	76,914,625
Unsecured loans from banks and insurance companies due on July 31, 2012 .....	7,000,000	1.96907%	7,000,000	1.96907%	76,914,625
Unsecured loans from banks due on June 28, 2013.....	7,000,000	1.59250%	—	—	76,914,625
Unsecured loans from an insurance company due on July 31, 2014 .....	2,000,000	2.25875%	2,000,000	2.25875%	21,975,607
Unsecured loans from a bank due on July 31, 2014 .....	2,000,000	2.28417%	2,000,000	2.28417%	21,975,607
Unsecured loans from an insurance company and a bank due on June 30, 2015.....	5,000,000	2.27344%	—	—	54,939,018
Subtotal .....	70,500,000		43,500,000		774,640,150
<b>Total .....</b>	<b>¥95,500,000</b>		<b>¥105,500,000</b>		<b>\$1,049,335,238</b>

## 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 ¥582,458 as of December 31, 2008 and ¥580,107 as of June 30, 2008. Net income per unit was ¥20,417 for the period from July 1, 2008 to December 31, 2008 and ¥17,217 for the period from January 1, 2008 to June 30, 2008 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 and liabilities as of December 31, 2008 and June 30, 2008 are summarized as follows:

	As of December 31, 2008	As of June 30, 2008	As of December 31, 2008
	Thousands of yen		U.S. dollars
Deferred tax assets:			
Accrued enterprise taxes.....	¥ 19	¥ 20	\$ 206
Unrealized loss on deferred hedge transactions.....	86,520	47,601	950,662
Gross deferred tax assets.....	86,538	47,621	950,868
Valuation reserve.....	(86,520)	(47,601)	(950,662)
Total deferred tax assets.....	¥ 19	¥ 20	\$ 206
Deferred tax liabilities:			
Unrealized loss on deferred hedge transactions.....	¥ 214	¥ 21,003	\$ 2,354
Total deferred tax liabilities.....	214	21,003	2,354
Net deferred tax liabilities.....	¥ 196	¥ 20,983	\$ 2,148

A reconciliation of the differences between the statutory tax rate and the effective tax rate for the period from July 1, 2008 to December 31, 2008 and for the period from January 1, 2008 to June 30, 2008 is as follows:

	For the period from July 1, 2008 to December 31, 2008	For the period from January 1, 2008 to June 30, 2008
Statutory tax rate.....	39.39%	39.39%
Reconciliation:		
Deductible distributions paid.....	(39.38)	(39.38)
Other.....	0.02	0.02
Effective tax rate.....	0.03%	0.04%

### ● Tax rate change after the closing date

Due to the latest Japanese corporate income tax rate revision and the introduction of a new local corporate special tax, which applies to accounts for fiscal periods commencing on or after January 1, 2009, the revised statutory tax rate of 39.33% will be used in the calculation of deferred tax assets and liabilities with respect to the temporary differences that are scheduled for elimination after January 1, 2009. The projected impact of this tax rate change on the Company's deferred tax assets as of the end of the fiscal period under review is estimated to be minor.

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

	For the period from July 1, 2008 to December 31, 2008	For the period from January 1, 2008 to June 30, 2008	For the period from July 1, 2008 to December 31, 2008
	Thousands of yen		U.S. dollars
Rental business revenues: .....	¥7,647,533	¥7,840,666	\$84,029,599
Rental revenues .....	6,909,524	7,135,748	75,920,496
Other .....	738,009	704,918	8,109,103
Property operating expenses: .....	3,910,891	3,849,843	42,972,101
Property management costs and fees .....	1,063,510	1,257,523	11,685,640
Utilities .....	759,128	672,143	8,341,152
Property and other taxes .....	560,697	457,502	6,160,827
Insurance .....	21,662	23,409	238,016
Repairs and maintenance .....	313,757	217,246	3,447,503
Depreciation .....	995,391	1,042,463	10,937,158
Other .....	196,746	179,557	2,161,805
Profit .....	¥3,736,642	¥3,990,823	\$41,057,498

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

Gain on sale of real estate for the period from July 1, 2008 to December 31, 2008 and for the period from January 1, 2008 to June 30, 2008 is as follows:

	For the period from July 1, 2008 to December 31, 2008	For the period from January 1, 2008 to June 30, 2008	For the period from July 1, 2008 to December 31, 2008
	Thousands of yen		U.S. dollars
<b>Shuwa Iidabashi Building</b>			
Proceeds from sale of real estate .....	¥4,580,000	¥—	\$50,324,140
Cost of sale of real estate .....	4,025,626	—	44,232,794
Other restated sale expenses .....	140,936	—	1,548,572
Gain on sale of real estate .....	¥ 413,438	¥—	\$ 4,542,774
<b>Sendai Kowa Building</b>			
Proceeds from sale of real estate .....	¥4,814,600	¥—	\$52,901,879
Cost of sale of real estate .....	4,201,600	—	46,166,356
Other restated sale expenses .....	172,146	—	1,891,506
Gain on sale of real estate .....	¥ 440,854	¥—	\$ 4,844,017

## 13. Leases

JEI leases properties on which rental revenues are earned. At December 31, 2008 and June 30, 2008, future lease revenues under non-cancelable operating leases are summarized as follows:

	For the period from July 1, 2008 to December 31, 2008	For the period from January 1, 2008 to June 30, 2008	For the period from July 1, 2008 to December 31, 2008
	Thousands of yen		U.S. dollars
Due within one year.....	¥ 864,340	¥ 864,340	\$ 9,497,193
Due after one year.....	1,245,528	1,677,698	13,685,622
Total .....	¥2,109,868	¥2,542,038	\$23,182,815

Changes in significant accounting policies

From the fiscal year period December 31, 2008, the Company adopted Accounting Standard for Lease Transactions (Statement No. 13 issued on June 17, 1993 and amended on March 30, 2007) and Guidance on Accounting Standard for Lease Transactions (Guidance No. 16 issued on January 18, 1994 and amended on March 30, 2007). These changes do not have any impact on the statements of income and retained earnings.

## 14. 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, 2008:

	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 .....	¥26,750,000	¥(219,439)	\$293,923,745	\$(2,411,158)

## 15. Related Party Transactions

For the period from July 1, 2008 to December 31, 2008

### (1) Major unitholders

Not applicable.

### (2) Directors and major individual unitholders

Name	Description of transaction	Amount	Amount	Account	Balance at the end of period	Balance at the end of period
		Thousands of yen	U.S. dollars		Thousands of yen	U.S. dollars
Junichi Tamura	Payment of asset management fees to JEAM	¥443,596	\$4,874,148	Accounts payable	¥274,677	\$3,018,091

# Notes to Financial Statements

For the period from January 1, 2008 to June 30, 2008

**(1) Major unitholders**

Not applicable.

**(2) Directors and major individual unitholders**

Name	Description of transaction	Amount	Amount	Account	Balance at the end of period	Balance at the end of period
		Thousands of yen	U.S. dollars		Thousands of yen	U.S. dollars
Junichi Tamura	Payment of asset management fees to JEAM	¥436,367	\$4,100,420	Accounts payable	¥268,836	\$2,526,183

## 16. Significant Subsequent Events

### 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 ¥3,155,601,900 (\$34,673,134), the maximum integral multiple of the 154,550 units issued not exceeding unappropriated income at December 31, 2008. No cash distribution exceeding the income amount set forth in Section 33.1.4 of the bylaws of JEI shall be made.

On March 16, 2009, the Board of Directors approved a resolution to make a cash distribution of ¥20,418 (\$224) per unit aggregating to ¥3,155,601,900 (\$34,673,134) to unitholders of record as of December 31, 2008.

# Investor Information

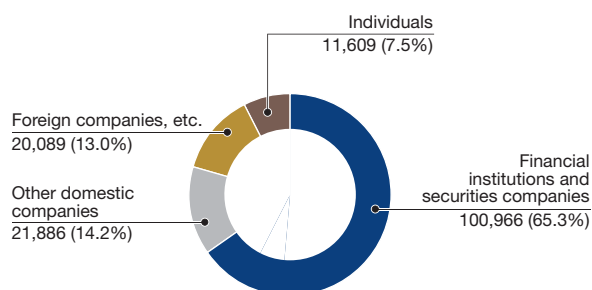
As of December 31, 2008

<b>Name</b>	Japan Excellent, Inc.	
<b>Location</b>	1-9-20 Akasaka, Minato-ku, Tokyo, Japan	
<b>Established</b>	February 20, 2006	
<b>Fiscal Periods</b>	Six months ending June 30 and December 31	
<b>Unitholders</b>	4,515	
<b>Total Number of Common Units Issued</b>	5th Period (From July 1, 2008 to December 31, 2008)	154,550
	4th Period (From January 1, 2008 to June 30, 2008)	154,550
<b>Distributions</b>	Confirmed distribution for the 5th Period (ended December 31, 2008) ¥20,418 per unit	

## Major Unitholders

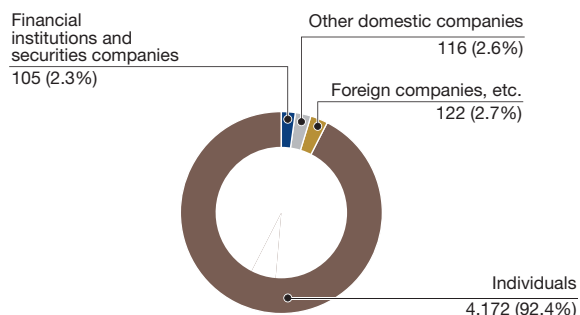
Name	Number of Units Held	Percentage of Total
Kowa Real Estate Co., Ltd.	14,312	9.26%
NikkoCiti Trust And Banking Corporation (Investment trust account)	12,887	8.34%
The Master Trust Bank of Japan Ltd. (Trust account)	12,851	8.32%
Trust & Custody Services Bank, Ltd. (Securities investment trust account)	12,806	8.29%
Japan Trustee Services Bank, Ltd. (Trust account)	12,016	7.77%
The Nomura Trust And Banking Co., Ltd. (Investment trust account)	5,920	3.83%
North Pacific Bank, Ltd.	4,590	2.97%
The Dai-ichi Mutual Life Insurance Company	4,132	2.67%
The Bank of Ikeda, Ltd.	3,711	2.40%
The Chugoku Bank, Ltd.	3,517	2.28%
<b>Total</b>	<b>86,742</b>	<b>56.13%</b>

## Investment Units



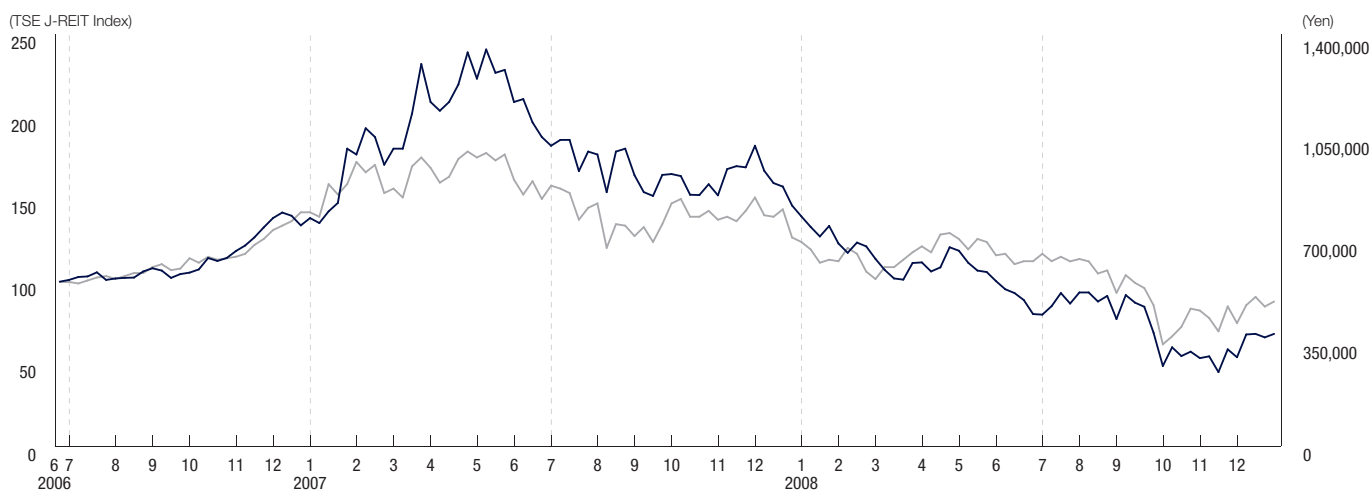
Total number of units: 154,550

## Investors (Number of unitholders)



Total number of unitholders: 4,515

## JEI Unit Performance Measured against TSE J-REIT Index



— JEI closing price (Right scale)  
 — TSE J-REIT Index (Left scale)  
 \* June 2006 is used as the base 100 index.

## Disclaimer

This semi-annual report in English is a translation of an equivalent document prepared in the Japanese language and filed in Japan in accordance with the Financial Instruments and Exchange Law of Japan. This English translation was prepared solely for the convenience of readers outside Japan and should not be considered as a disclosure statement. The original Japanese document shall prevail in the event of any discrepancies or difference arising from the translations or interpretations contained in this English report. Estimates and projections for Japan Excellent, Inc.'s results of future operations contained in this English semi-annual report are forward-looking statements and are based on information currently available to us, and involve risks, uncertainties and assumptions.

Consequently, investors are cautioned not to place undue reliance on these estimates and projections for evaluating Japan Excellent, Inc. Should any of the risks or uncertainties materialize or should underlying assumptions prove incorrect, the actual results may differ substantially from these estimates and projections depending on numerous factors.

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