

Japan Excellent, Inc. Semi-Annual Report

From February 20, 2006 to December 31, 2006

1st Fiscal Period



Japan Excellent, Inc.

<http://www.excellent-reit.co.jp/eng/>



**Japan Excellent, Inc.
Semi-Annual Report**

From February 20, 2006 to December 31, 2006



■ Distribution

Distribution per Unit **¥13,773**

■ Highlights

Total Revenues **¥4,751** million

Operating Income **¥2,369** million

Net Income **¥1,856** million

Total Assets **¥114,199** million

Total Unitholders' Equity **¥69,329** million

Unitholders' Equity per Unit **¥514,317**

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To Our Unitholders

Junichi Tamura

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



On behalf of Japan Excellent, Inc. (“JEI” or the “Investment Corporation”) and Japan Excellent Asset Management Co., Ltd. (“JEAM” or the “Asset Management Company”), I would like to thank all of our unitholders for their steadfast support. JEI was listed on J-REIT Section of the Tokyo Stock Exchange on June 27, 2006 and recently closed its first fiscal period. This report contains details of JEI’s operating conditions and financial results during the first fiscal period, February 20, 2006 through December 31, 2006.

■ Performance in the First Fiscal Period

Revenues in the first fiscal period were ¥4,751 million, income before income tax amounted to ¥1,858 million, while net income totaled to ¥1,856 million. As a result, a distribution to unitholders was ¥13,773 per investment unit. We firmly believe that in addition to enhancing unitholder value, the business of REIT management involves providing a sense of security and safety to the society. We will continue to manage our business activities in this conviction and ask for your continuous support and understanding.

About JEI

Maximum Utilization of Collective Strengths of Sponsor Companies

JEI's greatest hallmark is the eight sponsor companies that support the Asset Management Company. These sponsor companies have strengths in terms of both quality and quantity, offering expertise in their respective business domains of real estate and finance. JEI's most fundamental business strategy is taking full advantage of the comprehensive strengths of sponsor companies. Our second fundamental strategy is to pursue stability and growth of revenues in a balanced manner in line with the quality of a REIT, that is stable and medium- to long-term growth, through balanced portfolio management focusing on office buildings in metropolitan areas, with careful consideration given to balancing of regional, property scale and tenants.

Growth Strategies

The Investment Corporation aims to secure stable revenues through the properties it acquires in cooperation with sponsor companies.

At the time of its public listing, JEI's portfolio consisted of 14 properties, 13 of which were acquired by utilizing its core sponsor companies, Kowa Real Estate Co., Ltd. ("Kowa Real Estate") and The Dai-ichi Mutual Life Insurance Company ("Dai-ichi Mutual Life") and the networks of its sponsor companies.

Anticipating future external growth, JEI entered into a pipeline support agreement with each of Kowa Real Estate and Sekisui House, Ltd., its core sponsor companies, as well as with Mizuho Trust & Banking Co., Ltd.



Concrete Initiatives

Investment Activities

At the time of its public listing, JEI acquired 14 properties for a total acquisition price of ¥98,316 million and began its investment activities. In November 2006, JEI additionally acquired a portion of co-ownership interest of Kawasaki Nishincho Building, a building that it had already acquired a portion of co-ownership interest at the time of its public listing. As a result, total acquisition price of properties held by JEI as of December 31, 2006 amounted to ¥98,446 million.

Following JEI's public listing, the Asset Management Company or property management companies of JEI's respective assets approached major end tenants directly to deepen their understanding of the Investment Corporation and build good relationships with them continuously. We have also worked meticulously to meet needs of tenants and thus raise their satisfaction. Moreover, we are actively negotiating with tenants whose rent rates are below market levels about the upward revision of these rates.



We have achieved increases in revenues by raising rent rates on new lease agreements reached through aggressive tenant recruitment. JEI conducts regular on-site surveys of the quality of building management at its properties and make an effort to maintain and improve that quality. We also worked to reduce maintenance and

To Our Unitholders

management fees by taking competitive bids when selecting building management companies for certain properties. Moreover, JEI introduced water-saving systems at some of its properties as a part of efforts to contribute to environmental conservation. We will maintain a medium- to long-term perspective and endeavor to enhance tenant satisfaction at all properties through such activities as regular building safety inspections. At the same time, we will take active steps to implement eco-friendly measures that contribute to cost reductions.

In and after the second fiscal period, we will continue with our investment policy of pursuing stability and growth of revenues, focusing on office buildings in metropolitan areas. We will work in close collaboration with sponsor companies to improve our portfolio.

Financial Activities

JEI issued 128,000 investment units at the time of its listing and 6,400 investment units in an over-allotment later to raise a total of ¥67,441 million in the market. In order to allow JEI to procure debt financing under more favorable conditions, the Investment Corporation received an issuer rating of A3 from Moody's Investors Service (Moody's) before its listing. At the time of its listing, JEI undertook a total of ¥38,500 million of long-term debt with maturity dates of three to five years. As a result of these activities, the LTV ratio (loans-to-value ratio, or the ratio of interest-bearing debts to total assets) for the first fiscal period was approximately 34%.

Working in the conviction that a potential of interest rate increases during 2006 was low and that, should they occur, the periods of such increases would not be prolonged, JEI followed a strategy of hedging gradually against the risk of floating interest rates. In July 2006, JEI entered into interest rate swap agreements to fix the interest on 19% of its debt financing balance. Furthermore, in August 2006, JEI concluded an interest rate swap agreement with a future effective date to fix the interest from December 29, 2006, on an additional 23% of its debt financing balance. This served to hedge against interest rate increases from December 29, 2006, enabled JEI to enjoy merits of floating interest rates, which remained low through the effective date. In addition, capital procurement costs for the first fiscal period were approximately 19% lower than JEI's initial forecast at the beginning of the period. As of December 31, 2006, JEI's overall ratio of debt financing with fixed rate interest, including debt financing with fixed rate interest originally, stood at 50%.

On January 25, 2007, Moody's announced that the Investment Corporation's issuer rating would be upgraded to A2. In the second fiscal period, JEI will leverage merits of this higher rating and undertake steady capital procurement activities, primarily through the Mizuho Financial Group. We determine to invest flexibly and rationally in a manner suited to the financial environment.

We ask our unitholders for their continuous support and understanding.



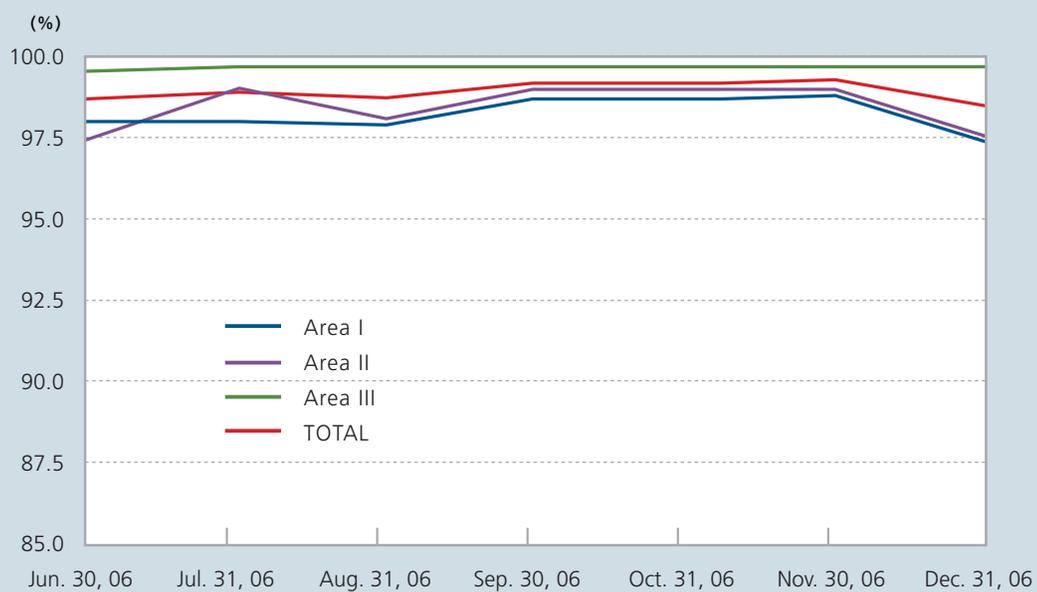
Junichi Tamura

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

Unit Price



Occupancy Rate



Core Sponsor Companies with an Extensive Track Record in Office Building Development, Investment and Management

JEAM considers Kowa Real Estate Co., Ltd., the Dai-ichi Mutual Life Insurance Company and Sekisui House, Ltd. as its core sponsor companies. These companies provide expert staff to JEAM, and also provide expertise in real estate development, management, risk control and other requisite skills for the operations of JEAM. Greatly benefiting from their support, JEAM engages in asset management operations with the aim of increasing the value of JEI's assets.



Real Estate Business of **Kowa Real Estate Co., Ltd.**

- Profile**
- A real estate company with a close relationship with Mizuho Corporate Bank, Ltd.
 - Actively involved in office building related businesses
 - Comprehensively engages in construction, maintenance, and management operations of leading-edge office buildings in the Tokyo metropolitan area and other regions
 - Prime development projects include Shinagawa Intercity (Tokyo) and Akasaka Intercity (Tokyo)



SHINAGAWA INTERCITY*1



AKASAKA INTERCITY*1



Real Estate Business of **The Dai-ichi Mutual Life Insurance Company**

- Profile**
- Extensive experience and historical achievements in the real estate leasing businesses
 - Managing various office buildings throughout major cities in Japan that offer customers a high level of satisfaction, and provides high-quality office space
 - Demonstrates sophisticated risk management capabilities by longstanding asset management experience
 - Prime development projects include Harumi Triton Square (Tokyo) and Omori Bellport (Tokyo)



HARUMI TRITON SQUARE*1



OMORI BELLPORT*2



Real Estate Business of **Sekisui House, Ltd.**

- Profile**
- A major home-builder in Japan with an established track record in large-scale urban development
 - Prime development projects include Rokko Island City (Kobe) and Akasaka Garden City (Tokyo)



ROKKO ISLAND CITY*1



AKASAKA GARDEN CITY*1

*1: As of Dec. 31, 2006, JEI has not acquired this property.

*2: As of Dec. 31, 2006, JEI has acquired compartmentalized ownership of this property.

Investment policy

Focusing on properties primarily in Tokyo's 6 central Wards and concentrating over 90% of its investment in office buildings

The office building market is characterized by its substantial scale and relatively high liquidity. Due to these characteristics, increasing investment opportunities in this market can be expected, and considering future development projects and other positive factors, the stable supply of office buildings is likely to continue.

Another positive aspect of the office building market is its potential to benefit from stable and mid-to long-term profitability in comparison with other types of real estate. Such profitability potential can be realized by carefully and strategically selecting portfolio properties and pursuing appropriate property management and maintenance. To maximize unitholder value by balancing the stability and growth of revenues, we consider that office buildings are the most suitable target of investment under our investment policy.

Investment Ratio by Property Type

Type*1	Investment Ratio of Total Portfolio*2
Office Buildings	90% or more
Other (Commercial Facilities, Residential Properties, and Others)	10% or less

*1: Each asset related to real estate is classified into the types in the above table by reference to the actual usage of the majority portion of total leasable floor space for each such building. Once the type of property is determined for each such property, the total acquisition price for each property type is considered to fall in one category of the type in the above table.

*2: The investment ratio of total portfolio refers to the ratio of the total acquisition price of assets related to real estate by type to the total acquisition price of the entire portfolio.

Target Regions of Investment

JEI prioritizes investment in Tokyo's 6 central Wards (Area I), which is characterized by the substantial scale of the office building market and high occupancy rate. Second priority is given to the central areas of Osaka, Nagoya and Fukuoka Cities (Area II), which demonstrate both a high concentration of office buildings and higher rent levels than other regional cities. Area III is comprised of Tokyo (excluding Tokyo's 6 central Wards defined as Area I), and areas surrounding Tokyo, namely Kanagawa, Saitama and Chiba Prefectures. JEI defines Areas I, II and III as core regions and shall selectively make investments in properties in these areas.

Targeting portfolio composition of 80% or more in office buildings located in core areas; strategic planning of investment ratios within core areas

Target Regions of Investment		Investment Ratio of Total Portfolio*2
Core Areas		80% or more
Area I	Tokyo's six central wards (Chiyoda, Chuo, Minato, Shinjuku, Shinagawa and Shibuya Wards)	50% or more of total core areas
Area II*1	Central Osaka City (Umeda, Dojima, Nakanoshima, Yodoyabashi, Honmachi and other areas) Central Nagoya City (Meieki, Fushimi, Sakae and other areas) Central Fukuoka City (Tenjin, Hakata Terminal Peripheral and other areas)	50% or less of total core areas
Area III	Tokyo excluding Tokyo's six central wards defined as Area I, and areas surrounding Tokyo (Kanagawa, Saitama and Chiba Prefectures)	50% or less of total core areas
Area IV	Osaka, Nagoya and Fukuoka Cities excluding districts specified in Area II, and other government-designated cities	20% or less

*1: • Central Osaka City comprises districts located within a 10-minute walk from Osaka Station (JR), Umeda Station (Hankyu Line, Hanshin Line and Subway), Yodoyabashi Station (Subway) and Honmachi Station (Subway).
• Central Nagoya City indicates districts located within a 10-minute walk from Nagoya Station (JR, Subway and Meitetsu Line), Fushimi Station (Subway) and Sakae Station (Subway and Meitetsu Line).
• Central Fukuoka City indicates areas within a 10-minute walk from Hakata Station (JR and Subway), Tenjin Station (Subway) and Nishitetsu Fukuoka Station (Nishitetsu Line).
The definition of these areas, however, does not necessarily correspond to administrative districts defined by the government and municipalities.

*2: The percentage share of total portfolio is based on the total acquisition price of assets related to real estate by area to the total acquisition price for the entire portfolio. JEI's operations are continuously affected by economic trends, real-estate market conditions and factors specific to individual properties. Consequently, the regional breakdown of JEI's actual total portfolio may not necessarily comply with the categories prescribed in the above table.

■ Developing the portfolio with a focus on regional, property scale and tenant balance

1 Regional Balance

JEI recognizes that Area I is the top priority for its investment activities, but will also perform proactive investment in properties situated in Areas II and III. Through these actively conducted 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 metropolitan areas.

2 Property Scale Balance

JEI pursues optimal portfolio development by effectively balancing its investment in large-scale 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 defines buildings located in the 23 wards of Tokyo with total floor space of approximately 33,058 m² or larger as large-scale buildings, and those with total floor space between 3,306 m² and 33,057 m² as medium-sized buildings. For properties in all other areas, JEI defines buildings in such areas with total floor space of approximately 13,223 m² or larger as large-scale buildings, and those with total floor space between 3,306 m² and 13,222 m² as medium-sized buildings.

3 Tenant Balance

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.

■ Investment in real estate other than office buildings through stringent selection

JEI recognizes the potential of real estate other than office buildings. Through its asset management company, JEI examines profitability, stability, liquidity and other aspects of such other categories of property with due consideration given to their specific usage and characteristics. Among real estate that potentially meets its investment policies, JEI engages in investment activities selectively in order to identify the properties equivalent to office buildings in terms of investment value. Specifically, when making investment decisions for commercial facilities, such facilities must be situated at the center of a city with a population of one million or larger*. For residential units, JEI only considers real estate in Tokyo as its primary target of investment.

* As of October 1, 2005, cities that satisfy this condition are Sapporo, Sendai, Saitama, Tokyo, Kawasaki, Yokohama, Nagoya, Kyoto, Osaka, Kobe, Hiroshima and Fukuoka.

Portfolio

Real Estate Portfolio

Property Number	Building Type	Name	Location	Total Floor Space* ¹ (m ²)	Acquisition Price* ² (Millions of Yen)	Investment Ratio* ³ (%)
I-1	Office	Omori Bellport D	Minami-Oi, Shinagawa-ku, Tokyo	155,788.75	22,553	22.9
I-2	Office	Shiba 2-Chome Building	Shiba, Minato-ku, Tokyo	19,518.15	9,450	9.6
I-3	Office	Shuwa Daiichi Hamamatsucho Building	Hamamatsu-cho, Minato-ku, Tokyo	8,327.53	8,350	8.5
I-4	Office	No. 32 Kowa Building	Minami-Azabu, Minato-ku, Tokyo	10,110.96	5,040	5.1
I-5	Office	No. 36 Kowa Building	Sanbancho, Chiyoda-ku, Tokyo	8,266.55	4,000	4.1
I-6	Office	No. 28 Kowa Building	Nishi-Gotanda, Shinagawa-ku, Tokyo	6,282.23	2,859	2.9
II-1	Office	NHK Nagoya Housou-Center Building	Higashi-ku, Nagoya, Aichi Prefecture	80,809.95	4,300	4.4
III-1	Office	Musashikosugi Tower Place	Nakahara-ku, Kawasaki, Kanagawa Prefecture	53,711.13	13,890	14.1
III-2	Office	Kowa Kawasaki Higashiguchi Building	Kawasaki-ku, Kawasaki, Kanagawa Prefecture	31,009.62	10,976	11.1
III-3	Office	Hongo TS Building	Hongo, Bunkyo-ku, Tokyo	5,877.11	5,400	5.5
III-4	Office	Shuwa Iidabashi Building	Koraku, Bunkyo-ku, Tokyo	5,083.77	4,023	4.1
III-5	Office	Kawasaki Nisshincho Building	Kawasaki-ku, Kawasaki, Kanagawa Prefecture	22,141.60	3,905	4.0
III-6	Office	No. 44 Kowa Building* ⁴	Higashiyama, Meguro-ku, Tokyo	3,359.55	1,150	1.2
III-7	Office	Ryogoku Dai-ichi Life Building	Ryogoku, Sumida-ku, Tokyo	5,820.56	2,550	2.6
Total				416,107.46	98,446	100.0

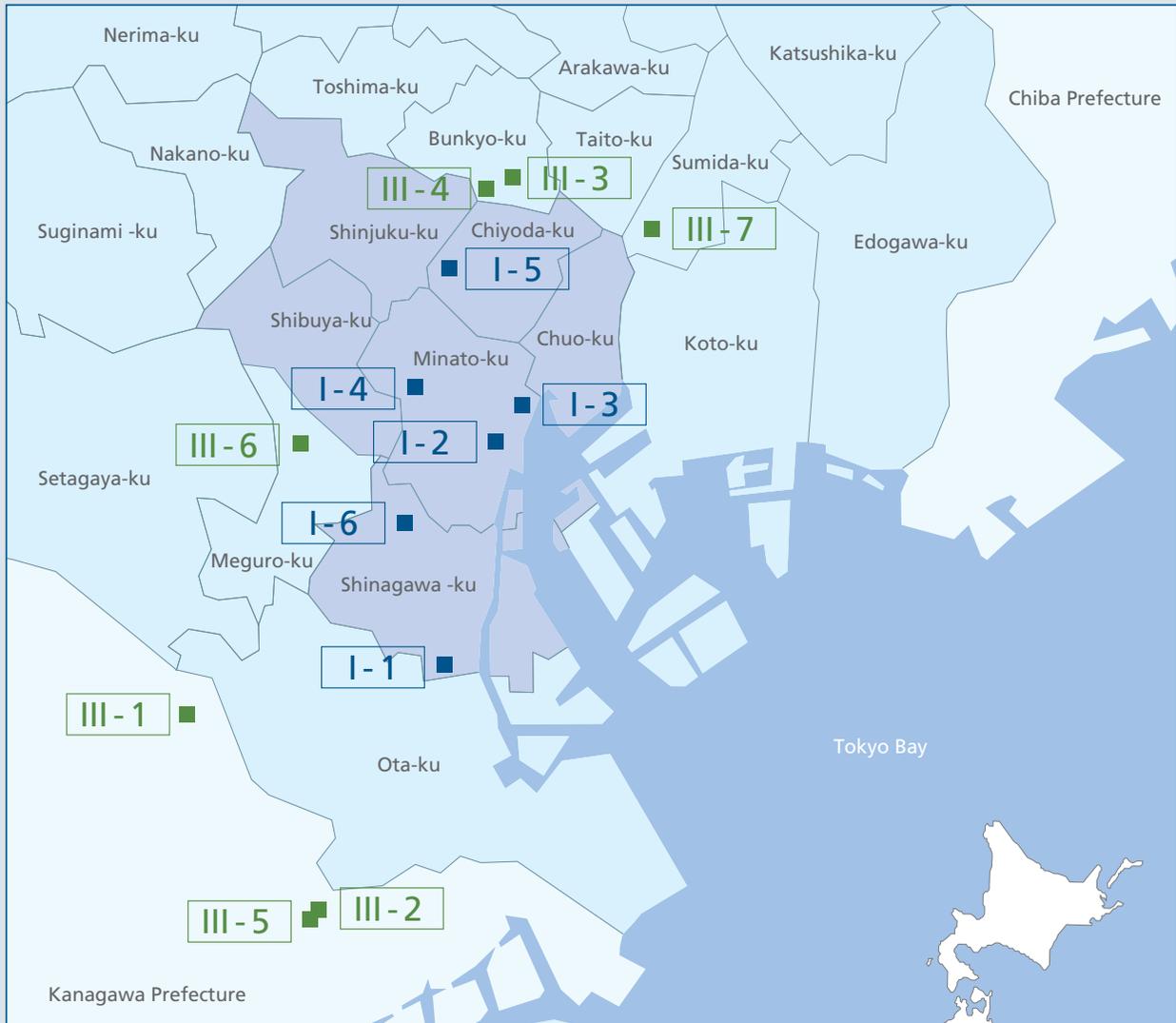
*1: Figures for "Total Floor Space" are for each entire building, including buildings in which JEI has acquired compartmentalized ownership or co-ownership.

*2: Figures for "Acquisition Price" are sales prices recorded in conditional 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.

*4: The acquisition price for the No. 44 Kowa Building includes ¥115 million of money held in trust.

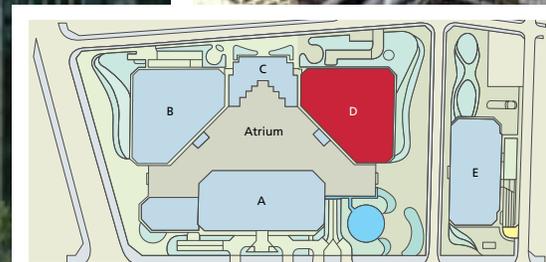
Portfolio Map



- Area I I-1 I-2 I-3 I-4 I-5 I-6
- Area II II-1
- Area III III-1 III-2 III-3 III-4 III-5 III-6 III-7

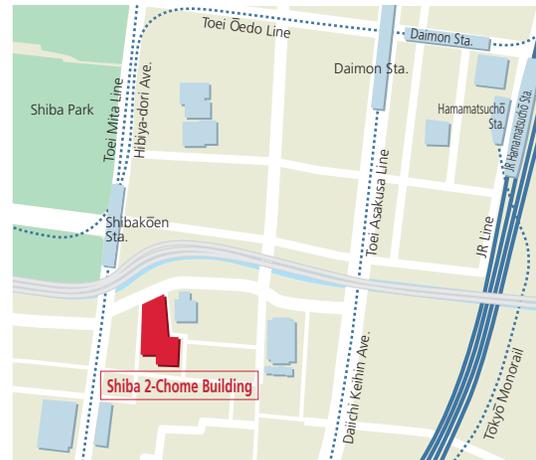


Portfolio



I-1 Omori Bellport D

Location : 6-26-3 Minami-Oi, Shinagawa-ku, Tokyo
Site Area : 22,294.51 m²
Floor Space : 155,788.75 m²
Structure : S,RC,SRC
Floors : B3/17F
Completed : September 24, 1996



I-2 Shiba 2-Chome Building

Location : 2-6-1 Shiba, Minato-ku, Tokyo
 Site Area : 3,355.00 m²
 Floor Space : 19,518.15 m²
 Structure : Offices: S, RC, SRC, Residences: SRC
 Floors : Offices: B2/12F, Residences: 14F
 Completed : March 17, 1994



I-4 No.32 Kowa Building

Location : 5-2-32 Minami-Azabu, Minato-ku, Tokyo
 Site Area : 2,592.39 m²
 Floor Space : 10,110.96 m²
 Structure : SRC
 Floors : B1/9F
 Completed : March 19, 1979



Portfolio



I-3 Shuwa Daiichi Hamamatsucho Building

Location : 2-2-12 Hamamatsu-cho, Minato-ku, Tokyo
 Site Area : 1,102.48 m² (of which 387.85 m² is leasehold)
 Floor Space : 8,327.53 m²
 Structure : SRC, S
 Floors : B1/8F
 Completed : December 16, 1991



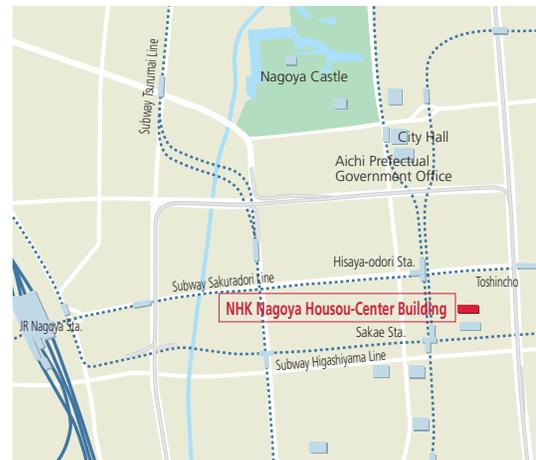
I-5 No.36 Kowa Building

Location : 5-19 Sanbancho, Chiyoda-ku, Tokyo
 Site Area : 1,988.49 m²
 Floor Space : 8,266.55 m²
 Structure : SRC
 Floors : B1/7F
 Completed : September 30, 1982



I-6 No.28 Kowa Building

Location : 2-20-1 Nishi-Gotanda, Shinagawa-ku, Tokyo
 Site Area : 925.13 m²
 Floor Space : 6,282.23 m²
 Structure : SRC
 Floors : B1/10F
 Completed : February 21, 1975



II-1 NHK Nagoya Housou-Center Building

Location : 1-13-3 Higashisakura, Higashi-ku, Nagoya, Aichi Prefecture
 Site Area : 7,927.36 m²
 Floor Space : 80,809.95 m²
 Structure : SRC, S
 Floors : B4/22F
 Completed : July 3, 1991



III-1 Musashikosugi Tower Place

Location : 1-403 Kosugi-cho, Nakahara-ku, Kawasaki, Kanagawa Prefecture
 Site Area : 8,329.62 m²
 Floor Space : 53,711.13 m²
 Structure : S, SRC
 Floors : B2/23F
 Completed : July 15, 1995



Portfolio



III-2 Kowa Kawasaki Higashiguchi Building

Location : 1-53 Nisshin-cho, Kawasaki-ku, Kawasaki, Kanagawa Prefecture
Site Area : 1,652.89 m²
Floor Space : 31,009.62 m²
Structure : S, SRC
Floors : B3/21F
Completed : April 30, 1988



III-5 Kawasaki Nisshincho Building

Location : 7-1 Nisshincho, Kawasaki-ku, Kawasaki, Kanagawa Prefecture
Site Area : 3,673.94 m²
Floor Space : 22,141.60 m²
Structure : S, SRC
Floors : B2/15F
Completed : April 24, 1992





III-6 No.44 Kowa Building

Location : 1-2-7 Higashiyama, Meguro-ku, Tokyo
 Site Area : 699.87 m²
 Floor Space : 3,359.55 m²
 Structure : SRC
 Floors : 9F
 Completed : July 31, 1984



III-7 Ryogoku Dai-ichi Life Building

Location : 3-25-5 Ryogoku, Sumida-ku, Tokyo
 Site Area : 968.33 m²
 Floor Space : 5,820.56 m²
 Structure : S, SRC
 Floors : B2/11F
 Completed : August 8, 1996



III-3 Hongo TS Building

Location : 2-38-16 Hongo, Bunkyo-ku, Tokyo
 Site Area : 984.89 m²
 Floor Space : 5,877.11 m²
 Structure : SRC
 Floors : B1/8F
 Completed : February 6, 1991



III-4 Shuwa Iidabashi Building

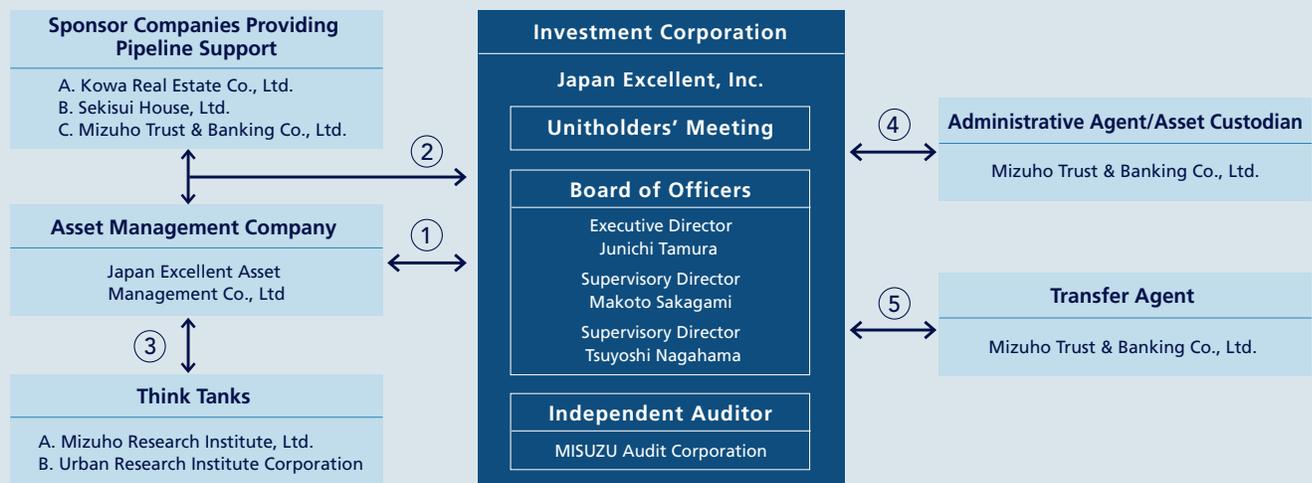
Location : 2-3-19 Koraku, Bunkyo-ku, Tokyo
 Site Area : 904.38 m²
 Floor Space : 5,083.77 m²
 Structure : SRC
 Floors : B1/8F
 Completed : October 31, 1988

Profile of JEI

History of Japan Excellent, Inc.

- February 16, 2006**
The founder company (Japan Excellent Asset Management Co., Ltd.) filed for establishment of JEI under Article 69 of the Law Concerning Investment Trusts and Investment Corporations.
- February 20, 2006**
Japan Excellent, Inc. was established and registered under Article 166 of the Law Concerning Investment Trusts and Investment Corporations.
- February 21, 2006**
Application was submitted for registration under Article 188 of the Law Concerning Investment Trusts and Investment Corporations.
- March 15, 2006**
The Prime Minister of Japan approved the registration under Article 187 of the Law Concerning Investment Trusts and Investment Corporations (Registration Number: No. 52, Head of the Kanto Local Finance Bureau).
- May 10, 2006**
JEI modified its Articles of Incorporation.
- May 12, 2006**
Application was submitted for listing on the J-REIT Section of the Tokyo Stock Exchange.
- May 26, 2006**
JEI was approved for listing on the J-REIT Section of the Tokyo Stock Exchange.
- June 27, 2006**
JEI was listed on the J-REIT Section of the Tokyo Stock Exchange (Securities Code: 8987).

Structure



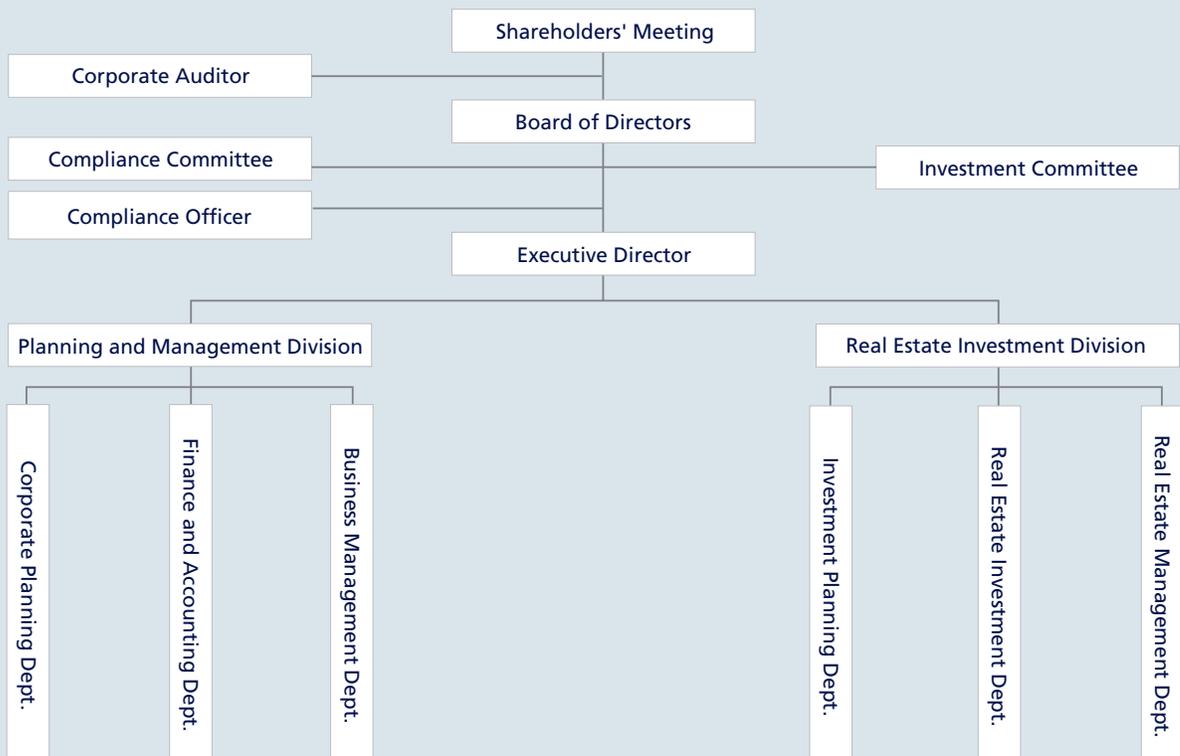
1. Asset management agreement
2. (A.) Pipeline support agreement with Kowa Real Estate
(B.) Pipeline support agreement with Sekisui House
(C.) Pipeline support agreement with Mizuho Trust & Banking
3. (A.) Agreement with Mizuho Research Institute for provision of market and other information
(B.) Agreement with Urban Research Institute for provision of market and other information
4. Agreement to entrust administrative duties and asset custody
5. Agreement to entrust administration of unitholders' register

Outline of the Asset Management Company

Profile

Established	April 14, 2005	
Capital	450 Million Yen	
Shareholders	Kowa Real Estate Co., Ltd. 40.0% The Dai-ichi Mutual Life Insurance Company 20.0% Sekisui House, Ltd. 15.0% The Dai-ichi Building Co., Ltd. 5.0% Sohgo Housing Co., Ltd. 5.0% Morgan Stanley Properties Japan K.K. 5.0% Mizuho Corporate Bank, Ltd. 5.0% Mizuho Trust and Banking Co., Ltd. 5.0%	
Officers	President Junichi Tamura Director of Planning & Management Nobuyuki Tanabe Director of Real Estate Investment Ryuichi Yamamoto Director (Non-executive) Takashi Uchida Auditor (Non-executive) Masatoshi Tamaru Compliance Officer Michiro Ezaki	

Organization



1. Summary of Asset Management

(1) Result of operation and financial position

		1st fiscal period From February 20, 2006 to December 31, 2006
Total Revenues	(JPY MM)	4,751
Operating expenses	(JPY MM)	2,382
(Property operating expenses)	(JPY MM)	1,977
Operating income	(JPY MM)	2,369
Income before income taxes	(JPY MM)	1,858
Net income	(JPY MM)	1,856
Total assets	(JPY MM)	114,199
Net assets	(JPY MM)	69,329
Unitholders' capital	(JPY MM)	67,641
Total Investment Units Outstanding	(Units)	134,800
Net assets per Unit	(JPY)	514,317
Cash Distribution	(JPY MM)	1,856
Cash distribution per Unit	(JPY)	13,773
(Distribution of accumulated earnings per unit)	(JPY)	13,773
(Cash distribution in excess of accumulated earnings per unit)	(JPY)	(-)
ROA (Return on Assets) (Note 1)	(%)	2.0
ROE (Return on Equity) (Note 2)	(%)	2.8
Unitholders Ratio (Note 3)	(%)	60.7
Dividend Payout Ratio (Note 4)	(%)	99.9
Number of properties at the end of period	(Buildings)	14
Number of tenants	(Tenants)	99
Total leasable floor space	(m ²)	135,264
Occupancy rate at the end of period	(%)	98.5
Depreciation	(JPY MM)	631
Capital Expenditures	(JPY MM)	155
Net Operating Income (Note 5)	(JPY MM)	3,405
FFO per Unit (Note 6)	(JPY)	18,459
Funds from Operation ratio (Note 7)	(times)	21.1
Debt Service Coverage Ratio (Note 8)	(times)	9.9
Cost of Interest Bearing Debt	(JPY MM)	38,500
Loan-to-Value (Note 9)	(%)	33.7

Notes:

- ROA = Recurring Profit / ((Beginning Total Assets + Ending Total Assets) / 2) × 100
Rounded to the first decimal place.
For this period, June 27, 2006 is used as the starting date.
- ROE = Net Income / ((Beginning Net Assets + Ending Net Assets) / 2) × 100
Rounded to the first decimal place.
For this period, June 27, 2006 is used as the starting date.
- Unitholders Ratio = (Ending Net Assets / Ending Total Assets) × 100
Rounded to the first decimal place.
- Rounded down to the first decimal place.
- Net Operating Income = Lease Revenue – Property Operating Expenses + Depreciation
- FFO per Unit = (Net Income + Depreciation) / Total Investment Units Outstanding

Rounded down to unit

7. Funds from Operation ratio = unit price/annualized FFO per Unit
Rounded down to the first decimal place.
8. Debt Service Coverage Ratio = Net Income before Interest, Tax, Depreciation and Amortization/Interest
Rounded to the first decimal place.
9. Loan-to-Value = (Ending Debt + Ending Total Assets) × 100
Rounded to the first decimal place.
10. Calculation period is for the first term was 315 days from February 20, 2006 to December 31, 2006, but actual operating days was 188 days from June 27, 2006 to December 31, 2006.

(2) Status of Assets Under Management for the Fiscal Period Ended December 31, 2006

1) Major Changes in the Investment Corporation

Under the Law Concerning Investment Trusts and Investment Corporations (the “Investment Trust Law”), the Investment Corporation was established by Japan Excellent Asset Management Co., Ltd. as a promoter on February 20, 2006. On March 15, 2006, the Investment Corporation registered with the Kanto Local Finance Bureau (Registration No. 52 of the Head of the Kanto Local Finance Bureau) and was listed on J-REIT Section of the Tokyo Stock Exchange (Securities Code: 8987) on June 27, 2006.

2) Asset Management Environment and Results

In the office rental market, steady demand, including for office floor space, continues, supported by brisk corporate performance, and vacancy rates throughout the nation declined while such demand remains strong. Owing to a shortage of large office buildings, rents with regard to both new and existing tenants show a rising trend continuously in metropolitan areas, particularly in central Tokyo, Osaka City and Nagoya City.

In the real estate investment market, the down slide in land prices is clearly slowing, and in metropolitan areas including Tokyo, there are remarkable increases of growing trend toward higher land prices. Moreover, reflecting strong rental office demand, investments in real estates through private funds, real estate investment trusts (J-REITs) and other instruments has increased. As a result, competition for prime real estate remains intense, and real estate prices are rising and the expected rate of return is declining.

Under such conditions, immediately after its June 2006 listing on the Tokyo Stock Exchange, JEI acquired, through the cooperation of and by taking advantage of its close relationship with its asset management company’s sponsor companies, a total of 14 properties for a total acquisition price of ¥98,316 million and commenced its asset management. In November 2006, JEI additionally acquired a portion of co-ownership interest of Kawasaki Nisshincho Building of which it had previously acquired a portion of co-ownership interest. Accordingly, the total cost of JEI acquisitions (real estate and beneficiary interests in real estate, the “Portfolio under the First Fiscal Period”) amounted to ¥98,446 million as of the end of the first period.

JEI invests in office properties, primarily office buildings located in metropolitan area, in accordance with a basic investment policy of pursuing stability and growth of revenues in a balanced manner in line with the quality of a REIT, that is stable and medium- to long-term growth.

During the period under review, we interviewed all of our major end tenants through the Asset Management Company and property management companies to improve tenants’ understanding of the Investment Corporation and build better relations with them. Those thorough and meticulous responses to needs of tenants enhance their satisfaction. Meanwhile, we are taking the initiative to negotiate with tenants about revising rents upward to reflect market trends.

Furthermore, as a result of our aggressive tenant recruitment activities, including searching for new tenants to fill vacancies and for new tenants after the expiration or cancellation of lease agreements, an occupancy rate amounted to 98.5% as of December 31, 2006.

At the same time, we took steps to reduce costs by putting maintenance contracts up for bid on some properties and worked to protect the environment through the introduction of such measures as water-saving systems.

Note: Sponsor companies are the eight companies that are shareholders of the Asset Management Company, i.e. Kowa Real Estate Co., Ltd., The Dai-ichi Mutual Life Insurance Company, Sekisui House, Ltd., Morgan Stanley Properties Japan K.K., The Dai-ichi Building Co., Ltd., Sohgo Housing Co., Ltd., Mizuho Corporate Bank, Ltd. and Mizuho Trust & Banking Co., Ltd.

3) Financing Overview

In addition to the 128,000 investment units issued through the primary offering of June 26, 2006, 6,400 investment units were issued and allocated to Mizuho Securities Co., Ltd. (lead underwriter for the primary offering) through its exercising of a greenshoe option (third-party allotment) on July 21, 2006. As a result, JEI was able to raise funds totaling approximately ¥67,441 million.

Furthermore, on June 29, 2006, JEI borrowed a total of ¥38,500 million from nine financial institutions. These borrowings represent long-term debts, of which ¥3,000 million was procured at a fixed rate interest. JEI applied the proceeds of those loans to the acquisition of 14 properties on June 27 and June 29, 2006. Moreover, of the borrowed funds that have no fixed rate interest, interest on ¥16,250 million has been converted to fixed rate interest through interest rate swap transactions. Consequently, as of December 31, 2006, the ratio of JEI's debt financing with fixed rate interest stood at 50%.

Prior to its public listing, JEI received the following issuer rating.

Rating Agency	Rating
Moody's Investors Service	Issuer Rating: A3 (stable)

Furthermore, as described below, Moody's Investors Service announced the upgrade of the above-mentioned rating to A2 on January 25, 2007.

	Before Change	After Change
Issuer Rating	A3	A2
Rating Outlook	(Under review for upgrade)	Stable

4) Performance and Cash Distribution Overview

As a result of the actions stated above, revenues were ¥4,751 million, operating income totaled to ¥2,369 million, ordinary income amounted to ¥1,858 million, and net income was ¥1,856 million.

With respect to distributions, JEI plans to deduct an amount equivalent to the profit distribution from its taxable income amounts through the application of a special exception with regard to corporate taxes (Article 27-15 of the Special Taxation Measures Law). Accordingly, JEI decides to distribute the full amount of retained earnings for the period to its unitholders, excluding fractional amounts of less than ¥1 of distribution per unit, and the distribution per unit is ¥13,773.

(3) Capital Increase

Outstanding investment units and changes in unitholders' capital are as follows.

Issue Date	Event	Outstanding Investment Units		Unitholders' Capital (Millions of yen)		Remarks
		Change	Balance	Change	Balance	
February 20, 2006	Private offering	400	400	200	200	(Note 1)
June 26, 2006	Public offering	128,000	128,400	64,230	64,430	(Note 2)
July 21, 2006	Allocation of new units to third parties	6,400	134,800	3,211	67,641	(Note 3)

Notes:

1. JEI was incorporated upon issue of units at an offering price of ¥500,000 per unit.
2. To raise funds to purchase properties at the time of listing, JEI issued new investment units through a public offering at an offering price of ¥520,000 (issue price: ¥501,800) per unit.
3. JEI issued new investment units (at an issue price of ¥501,800 per unit) through third party allotment for the purpose of covering a portion of the financing of new property acquisitions.

[Changes in Stock Market Prices for Investment Units]

The highest and lowest closing prices for JEI investment units by period in the J-REIT Section of the Tokyo Stock Exchange on which JEI investment units are listed are as follows:

Highest/Lowest Investment Unit Price by Period (the first fiscal period)	By Period	First Fiscal Period
	Highest	¥815,000
	Lowest	¥548,000

Notes:

1. The investment units were listed on the J-REIT Section of the Tokyo Stock Exchange on June 27, 2006.
2. The highest and lowest investment unit prices by period depend on the trading price in the J-REIT Section of the Tokyo Stock Exchange.

(4) Distributions

The distribution for the first fiscal period is ¥13,773 per unit. JEI plans to deduct an amount equivalent to the profit distribution from JEI's taxable income through the application of special exception with regard to corporate taxes (Article 27-15 of Special Taxation Measures Law). We will distribute, excluding fractional amounts of less than ¥1 of distribution per unit, the full amount of retained earnings for the period.

Period	First Period
Accounting Period	from February 20, 2006 to December 31, 2006
Retained Earnings	¥1,856,675,000
Accumulated Earnings	¥75,000
Total Cash Distribution	¥1,856,600,000
(Distribution Per Unit)	(¥13,773)
Total Profit Distribution	¥1,856,600,000
(Profit Distribution Per Unit)	(¥13,773)
Total Capital Reimbursement	—
(Reimbursement Per Unit)	(—)

(5) Future Management Policies and Challenges

1) Investment Environment Outlook

The office rental market for metropolitan areas, including central Tokyo, is on a strong recovery track and vacancies are showing a notable decline. On the other hand, discrepancies in the relative merits of such tangible factors as location, building and furnishing grade and such intangible factors as tenant services become clear. JEI recognizes that future rent levels for properties that boast a competitive edge with regard to such factors will rise and that the gap between these and less-competitive properties will continue to grow.

Moreover, because the real estate investment market is reflecting the recovery trend in the office rental market, demand for real estate investment through such instruments as private funds and J-REITs still shows no sign of diminishing. Continued stiff competition for the acquisition of prime properties in metropolitan areas is expected.

2) Future Management Policies and Challenges

With respect to investment in new properties, JEI will maintain a policy of expanding its asset value over the medium- to long-term and steadily achieving external growth in a continuous difficult acquisition environment. JEI will acquire new properties based on the cooperative relationship with our sponsor companies.

Although the office rental market is in the midst of a full-scale recovery trend, we recognize that there is growing disparity between rates of recovery as a result of competition for space in the areas in which the aforementioned properties are located and for the properties themselves. With regard to tangible factors, in addition to providing proper maintenance for and improving the function and grade of buildings and furnishings to reflect tenant demand, it is

becoming increasingly important to improve tenant satisfaction in the areas of property administration and management.

Therefore, while we continually work to raise rents and reduce costs, we consider that it is our greatest mission to be evaluated by tenants that rent levels at each of our properties is appropriate for those buildings, and we further recognize the need to take the following actions.

a. Raise Existing Rent Levels

The occupancy rate of JEI's building portfolio as of period-end stood at 98.5%, nearly full occupancy. We recognize that the maintenance of high occupancy rates and the further raising of rents based on market prices and the competitiveness of the individual properties are immediate challenges. The majority of our lease agreements with existing tenants are two-year renewable leasehold agreements (as of the end of this period, of all our tenants, only one had a fixed leasehold agreement). In the future, for contracts in which we believe rents are not in line with current market levels, we will continue renewal negotiations with tenants with the intention of amending said contracts to reflect market conditions. Furthermore, in the course of these negotiations, we will present comprehensive proposals to tenants that take into account not only the level of rent, but also the time periods of the contracts, type of contract and other factors. This will allow us to gain a better understanding of each other and build good relations.

b. Maintain and Improve Management Quality and Lower Costs

JEI's property management companies are intimately involved with their respective properties and manage each building so as to maintain mutual understanding with tenants. JEI is always working to preserve and improve management quality by conducting routine on-site reviews and developing case studies of actions taken at various properties. With respect to costs for janitorial and other outsourcing expenses, we are taking a number of steps to lower unit costs without reducing management quality while striking a balance between service qualities and outsourcing costs. In future, we will still continue to implement these measures as well as those targeting energy conservation through the reduction of utilities expenses, including, for example, the introduction of water-saving systems for restrooms.

c. Effective Additional Investments (Renovation Work)

Over the medium- to long-term, JEI will take steps to further improve customer satisfaction and systematically make additional investments as needed (for example, renovation work). And also, JEI will strive to maintain up-to-date and accurate knowledge of the state of its properties and properly maintain them. In the period under review, immediately after listing, JEI carried out inspections of hazardous building areas and ensured building safety by renovating problem areas. In addition, measures were taken to improve tenant comfort and convenience by, for example, installing bidet-type toilet fixtures and automatic doors on side entrances. As in this period, JEI will continue to make effective additional investments (renovation work).

(6) Important Events Subsequent to the First Fiscal Period

No relevant facts to report.

2. About JEI

(1) Summary of unitholders' contributions

	1st fiscal period As of December 31, 2006	
Total number of investment units authorized	2,000,000	units
Total number of outstanding investment units	134,800	units
Unitholders' Capital	67,641	million Yen
Number of unitholders	2,529	holders

(2) Details Regarding Investment Unit

The following table sets forth our major unitholders' information as of December 31, 2006.

Name of Unitholder	Location	Number of Investment Units Held (Units)	Ratio in total number of outstanding investment units (%)
Kowa Real Estate Co., Ltd.	1-15-5 Minami-Aoyama, Minato-ku, Tokyo	14,312	10.62
Japan Trustee Services Bank, Ltd. (Trust account)	1-8-11 Harumi, Chuo-ku, Tokyo	11,376	8.44
NikkoCiti Trust and Banking Corporation (Trust account)	2 -3-14 Higashi-shinagawa, Shinagawa-ku, Tokyo	10,007	7.42
The Master Trust Bank of Japan , Ltd. (Trust account)	2-11-3 Hamamatsu-cho, Minato-ku, Tokyo	8,600	6.38
Trust & Custody Services Bank, Ltd. (Trust account)	Harumi Island Triton Square Office Tower-Z 1-8-12 Harumi, Chuo-ku, Tokyo	7,380	5.47
The Hiroshima Bank, Ltd.	1-3-8 Kamiyacho, Naka-ku, Hiroshima, Hiroshima	4,955	3.68
The Dai-ichi Mutual Life Insurance Company	1-13-1 Yurakucho, Chiyoda-ku, Tokyo	4,132	3.07
North Pacific Bank, Ltd.	3-11 Odori-nishi, Chuo-ku, Sapporo, Hokkaido	3,839	2.85
The Joyo Bank, Ltd.	2-5-5 Minami-machi, Mito, Ibaraki	2,785	2.07
The Nomura Trust and Banking Co., Ltd. (Trust account)	2-2-2 Otemachi, Chiyoda-ku, Tokyo	2,749	2.04
Total		70,135	52.03

Note: The ratio in total number of outstanding investment units is rounded to the second decimal place.

(3) Directors and Auditor**1) Names of Executives and Independent Auditor**

Title	Name or Name of Company	Primary Positions	Total Remuneration During the Fiscal Period Under Review
Executive Director	Junichi Tamura	President and Representative Director, Japan Excellent Asset Management Co., Ltd.	—
Supervisory Director	Makoto Sakagami	CPA, Makoto Sakagami Accounting Office	¥11,858,000
Supervisory Director	Tsuyoshi Nagahama	Partner, Anderson Mori & Tomotsune	
Supervisory Director	Yasuyuki Maeba ¹	Vice President, Dexia Crédit Local, Tokyo Branch	
Independent Auditor	MISUZU Audit Corporation	—	¥4,500,000

Notes:

1. Yasuyuki Maeba, a supervisory director, retired from office as of January 31, 2007.
2. The executive director and supervisory directors do not own JEI investment units. Supervisory directors may hold executive positions at corporations other than those listed above. However, no conflicts of interest exist between JEI and any of these corporations, including those mentioned above.

2) Payments to the Independent Auditor for Non-Auditing Services

JEI has paid remuneration to the independent auditor, to for the following non-auditing services other than the services defined under Article 2, Paragraph 1 of the Certified Public Accountant Law (Law No. 103 of 1948).

Description of Non-Auditing Service	Payment
Remuneration for support in public listing	¥11,000,000
Total	¥11,000,000

(4) Asset Management Company, Asset Custodian and Administrative Agent

As of December 31, 2006, the Asset Management Company, the Asset Custodian and the Administrative Agent were as follows.

Entrusted Service	Name or Company Name
Asset Management Company	Japan Excellent Asset Management Co., Ltd.
Asset Custodian	Mizuho Trust & Banking Co., Ltd.
Administrative Agent (tasks concerning the register of unitholders (Transfer Agent), tasks concerning the management of JEI's organs)	Mizuho Trust & Banking Co., Ltd.

3. Portfolio

(1) Portfolio summary

Asset type	Type	Area	1st fiscal period As of December 31, 2006	
			Total amount (Millions of yen) (Note 1)	Percentage of total assets (%) (Note 2)
Real Estate (Note 3)	Office	Area II (Note 4)	4,340	3.8
Beneficiary Interest in Real Estate (Note 3)		Area I (Note 4)	52,747	46.2
		Area III (Note 4)	41,834	36.6
Total			98,921	86.6
Deposits and Other assets			15,277	13.4
Total assets			114,199	100.0

Notes:

- Total amount is taken from the balance sheets at the end of the period. (Real Estate and Beneficiary Interest in Real Estate represent the total book value after depreciation.)
- Percentage of total assets is rounded to the first decimal place.
- The leasehold rights with the building was added the building up and mentioned in the column “Real Estate” or “Beneficiary Interest in Real Estate”
- Following shows target area.
 Area I : Tokyo’s 6 central Wards (Chiyoda, Chuo, Minato, Shinjuku, Shinagawa and Shibuya Wards)
 Area II : Central Osaka (Umeda, Dojima, Nakanoshima, Yodoyabashi, Honmachi areas), Nagoya (Meieki, Fushimi, Sakae areas) and Fukuoka (Tenjin, Hakata Station areas)
 Area III : Tokyo 23 Wards and surrounding areas (Kanagawa, Saitama and Chiba) other than Area I

(2) Major properties held

The major components of assets (the 10 largest properties by book value as of December 31, 2006) are as follows.

Name of Property	Book value (Millions of yen)	Total leasable floor space (㎡)	Leased Area (㎡)	Occupancy Rate (%)	Percentage in total rental revenue from property (%)	Primary Use
Omori Bellport D	22,882	25,828.29	25,133.58	97.3	21.6	office
Musashikosugi Tower Place	13,914	25,275.07	25,275.07	100.0	17.2	office
Kowa Kawasaki Higashiguchi Building	10,972	18,612.72	18,612.72	100.0	11.9	office
Shiba 2-Chome Building	9,499	11,749.30	11,559.68	98.4	7.4	office
Shuwa Daiichi Hamamatsucho Building	8,372	6,411.26	5,748.15	89.7	5.9	office
Hongo TS Building	5,390	4,078.37	4,078.37	100.0	3.8	office
No. 32 Kowa Building	5,058	5,363.07	5,363.07	100.0	5.0	office
NHK Nagoya Housou-Center Building	4,340	8,974.96	8,762.83	97.6	7.5	office
No. 36 Kowa Building	4,062	5,720.34	5,720.34	100.0	4.3	office
Shuwa Idabashi Building	4,023	3,821.76	3,821.76	100.0	3.2	office
Total	88,517	115,835.14	114,075.57	98.5	87.9	

(3) Details of Portfolio

Details of real estate (real estate or trust beneficiary interests in real estate) owned by JEI as of December 31, 2006 are as follows: (Millions of yen)

Property Number	Property Name	Location (Address)	Type of Ownership	Period-End Appraisal Value at the End of Period	Tenants	Occupancy Rate	Rental Revenues During Period	Ratio in Total Rental Revenues	Book Value
I-1	Omori Bellport D	6-26-3 Minami-Oi, Shinagawa-ku, Tokyo	Trust beneficiary interest in real estate	23,230	1	97.3%	1,028	21.6%	22,882
I-2	Shiba 2-Chome Building	2-6-1 Shiba, Minato-ku, Tokyo	Trust beneficiary interest in real estate	11,700	2	98.4%	351	7.4%	9,499
I-3	Shuwa Daiichi Hamamatsucho Building	2-2-12 Hamamatsu-cho, Minato-ku, Tokyo	Trust beneficiary interest in real estate	8,910	1	89.7%	281	5.9%	8,372
I-4	No. 32 Kowa Building	5-2-32 Minami-Azabu, Minato-ku, Tokyo	Trust beneficiary interest in real estate	5,251	17	100.0%	238	5.0%	5,058
I-5	No. 36 Kowa Building	3-5-19 Sanbancho, Chiyoda-ku, Tokyo	Trust beneficiary interest in real estate	4,189	1	100.0%	203	4.3%	4,062
I-6	No. 28 Kowa Building	2-20-1 Nishi-Gotanda, Shinagawa -ku, Tokyo	Trust beneficiary interest in real estate	3,050	1	100.0%	158	3.3%	2,871
Area I				56,330	23	97.4%	2,260	47.6%	52,747
II-1	NHK Nagoya Housou-Center Building	1-13-3 Higashi-ku, Nagoya, Aichi	Real estate	5,230	39	97.6%	358	7.5%	4,340
Area II				5,230	39	97.6%	358	7.5%	4,340
III-1	Musashikosugi Tower Place	1-403 Nakaraha-ku, Kawasaki, Kanagawa	Trust beneficiary interest in real estate	16,700	31	100.0%	815	17.2%	13,914
III-2	Kowa Kawasaki Higashiguchi Building	1-53 Kawasaki-ku, Kawasaki, Kanagawa	Trust beneficiary interest in real estate	11,060	1	100.0%	563	11.9%	10,972
III-3	Hongo TS Building	2-38-16 Hongo, Bunkyo-ku, Tokyo	Trust beneficiary interest in real estate	5,470	1	100.0%	182	3.8%	5,390
III-4	Shuwa Idabashi Building	2-3-19 Koraku, Bunkyo-ku, Tokyo	Trust beneficiary interest in real estate	4,190	1	100.0%	152	3.2%	4,023
III-5	Kawasaki Nisshincho Building	7-1 Kawasaki-ku, Kawasaki, Kanagawa	Trust beneficiary interest in real estate	4,830	1	100.0%	209	4.4%	3,945
III-6	No. 44 Kowa Building	1-2-7 Higashiyama, Meguro-ku, Tokyo	Trust beneficiary interest in real estate	1,350	1	100.0%	94	2.0%	1,036
III-7	Ryogoku Dai-ichi Life Building	3-25-5 Ryogoku, Sumida-ku, Tokyo	Trust beneficiary interest in real estate	2,572	1	94.5%	115	2.4%	2,550
Area III				46,172	37	99.7%	2,132	44.9%	41,834
Total				107,732	99	98.5%	4,751	100.0%	98,921

Note: Appraisal values at the end of the period are based upon rules stipulated by JEI's Articles of Incorporation and the Investment Trusts Association, Japan. Appraisal values at the end of the period shown are values described in real estate appraisal reports prepared by real estate appraisers (i.e. the Japan Real Estate Institute, Chuo Real Estate Appraisal Co., Ltd. or HIRO & REAS network, Inc.) and the appraisal date of those appraisal values is December 31, 2006.

(4) Status of Other Assets**1) Stocks and Investment Units**

Company	Number of Stocks	Purchase Price (Thousands of Yen)		Valuation (Thousands of Yen)		Valuation Gain (Loss)	Remarks
		Price per Stock	Total Amount	Price per Stock	Total Amount		
NHK Nagoya Build Systems Co., Ltd.	64	168	10,768	168	10,768	—	Note

Note: The purchase price is used for the valuation amount of the non-listed stock listed above.

2) Outstanding Amount and Market Value of Specified Transactions

Category	Type	Contract Amount (Thousands of Yen)		Market Value (Thousands of Yen) (Note 2)
		(Note 1)	Longer than One Year (Note 1)	
Transaction other than market transaction	Interest rate swap transactions: Floating rate receivable and fixed rate payable	16,250,000	16,250,000	(168,610)

Notes:

1. The indicated balance of the swap transactions is based upon the notional principal amount.
2. Evaluated at the price provided by the counterparty based on the prevailing market rate.

4. Capital Expenditures

(1) Planned Capital Expenditures

Major capital expenditure plans, as of December 31, 2006, for renovation of properties held by the Investment Corporation as at the end of the first fiscal period are as follows. Estimated cost of works includes the amount to be classified into expenses for accounting purposes.

Property Name	Location	Purpose	Schedule	Estimated Cost (Millions of yen)		
				Total	Paid in the Fiscal Period Under Review	Paid before the Fiscal Period Under Review
Shuwa Daiichi Hamamatsucho Building	Minato-ku, Tokyo	New restroom facilities on the first floor	from December 2006 to January 2007	15	—	—
Omori Bellport D	Shinagawa-ku, Tokyo	Restroom renovations	from February 2007 to June 2007	62	—	—

(2) Capital Expenditures During the First Fiscal Period

JEI undertook the following major capital expenditures during the first fiscal period for works of the renovation of properties held by it as at the end of the first fiscal period. During the first fiscal period, the Investment Corporation completed works at a cost totaling ¥275 million. This total comprised of ¥155 million of capital expenditures and ¥120 million of expenses related to repairs and maintenance expenses.

Property Name	Location	Purpose	Schedule	Amount of Expenditure (Millions of yen)
Kawasaki Nisshincho Building	Kawasaki-ku, Kawasaki, Kanagawa	Renewal of air conditioning fan coils and plumbing (first fiscal period)	from April 2006 to December 2006	32
No. 36 Kowa Building	Chiyoda-ku, Tokyo	Renewal of air conditioning	from November 2006 to December 2006	31
Shuwa Daiichi Hamamatsucho Building	Minato-ku, Tokyo	Upgrade of restroom facilities, renovations of first floor entrance hall	from November 2006 to December 2006	16
Other construction work			—	76
Total				155

(3) Reserve for Repairs and Maintenance Expenses

(Millions of yen)

Item	First Fiscal Period February 20, 2006 – December 31, 2006
Reserve balance at the end of the previous period	—
Reserve for the fiscal period under review	164
Reversal of reserve for the fiscal period under review	—
Reserve carried forward to the next period	164

5. Expenses and Debts

(1) Expenses related to asset management

(Thousand of yen)

	1st fiscal period (from February 20, 2006) to December 31, 2006
(a) Asset management fees	306,290
(b) Custodian fees	8,975
(c) Administrative service fees	18,014
(d) Compensation for directors	11,858
(e) Accounting Auditors' fees	4,500
(f) Other	54,513
Total	404,152

(2) Status of Borrowings

The status of debt from the financial institutions as of December 31, 2006 is as follows.

	Lender	Draw-down Date	Balance at beginning of year (Millions of yen)	Outstanding as at the End of 1st period (Millions of yen)	Average Interest Rate (%) (Note 1)	Date of Repayment	Method of Repayment	Use of Borrowings	Note
Long-Term Debt	Aozora Bank, Ltd.	June 29, 2006	—	3,000	0.96370	June 29, 2009	(Principal Repayment in Full on Maturity)	To purchase property-related assets	Unsecured/Uninsured
	The Chuo Mitsui Trust and Banking Company, Limited		—	3,000					
	Mizuho Trust & Banking Co., Ltd.		—	3,000					
	Sumitomo Mitsui Banking Corporation		—	2,000					
	Mizuho Corporate Bank, Ltd.		—	1,000					
	Mitsubishi UFJ Trust and Banking		—	1,000					
	The Norinchukin Bank	June 29, 2006	—	5,000	1.02857	June 29, 2010	(Principal Repayment in Full on Maturity)		
	Mizuho Corporate Bank, Ltd.		—	3,000					
	Mitsubishi UFJ Trust and Banking		—	3,000					
	Aozora Bank, Ltd.	June 29, 2006	—	2,000	0.96834	June 29, 2011	(Principal Repayment in Full on Maturity)		
	Mizuho Corporate Bank, Ltd.		—	5,000					
	Mitsubishi UFJ Trust and Banking		—	3,500					
	Resona Bank, Ltd.	June 29, 2006	—	1,000	1.96625 (Note 2)	June 29, 2011	(Principal Repayment in Full on Maturity)		
	The Dai-ichi Mutual Life Insurance Company		—	3,000					
Total		—	38,500	—					

Notes:

1. Average interest rate is weighted average interest rate during the period, and rounded to the fifth decimal place. As for the borrowings, which were hedged by interest rate swaps for the purpose of avoiding interest rate fluctuation risk, the swapped interest rates are used to calculate the weighted average of interest.
2. It is borrowed by fixed interest.
3. Following table shows the total amounts of long-term debt to be repaid for each year.

	Due within one year (Millions of yen)	Due after one year to two years (Millions of yen)	Due after two years to three years (Millions of yen)	Due after three years to four years (Millions of yen)	Due after four years to five years (Millions of yen)
Long-term debt	—	—	13,000	13,000	12,500

(3) Status of corporation bonds

Not applicable.

6. Acquisitions and Sales During the First Fiscal Period

(1) Acquisitions and Sales of Real Estate and Securities Backed by Real Estate

(Millions of yen)

Type of Property	Property Name	Acquisitions		Sales			
		Date of Acquisition	Acquisition Price ¹	Date of Sale	Sale Price	Book Value	Gain (Loss)
Trust Beneficial Interest in Real Estate	Omori Bellport D	June 29, 2006	22,553	—	—	—	—
	Shiba 2-Chome Building	June 29, 2006	9,450				
	Shuwa Daiichi Hamamatsucho Building	June 29, 2006	8,350				
	No. 32 Kowa Building	June 27, 2006	5,040				
	No. 36 Kowa Building	June 27, 2006	4,000				
	No. 28 Kowa Building	June 27, 2006	2,859				
	Musashikosugi Tower Place	June 27, 2006	13,890				
	Kowa Kawasaki Higashiguchi Building	June 27, 2006	10,976				
	Hongo TS Building	June 29, 2006	5,400				
	Shuwa Iidabashi Building	June 29, 2006	4,023				
	Kawasaki Nisshincho Building	June 27, 2006	3,775				
		November 30, 2006	130				
	No. 44 Kowa Building ²	June 27, 2006	1,150				
	Ryogoku Dai-ichi Life Building	June 27, 2006	2,550				
	Subtotal		94,146				
Real Estate	NHK Nagoya Housou-Center Building	June 27, 2006	4,300	—	—	—	—
	Subtotal		4,300		—	—	—
Total			98,446		—	—	—

Notes:

- Acquisition prices indicate the purchase prices for real estates as recorded in trust beneficiary interest sales agreements and do not include acquisition expenses (brokerage fees and property and other taxes).
- The acquisition price for the No. 44 Kowa Building includes ¥115 million of money held in trust.

(2) Acquisitions and Sales of Other Assets

Type of Asset	Acquisitions		Sales		Period-End Balance	
	Number	Price (Thousands of yen)	Number	Price (Thousands of yen)	Number	Price (Thousands of yen)
Stocks	64	10,368	—	—	64	10,768
Total	64	10,368	—	—	64	10,768

Note: The price shown for acquisitions and sales does not include such fees as purchase and sales commissions.

(3) Surveys of Prices for Specified Assets**1) Real Estates**

Acquisition or Sale	Property Name	Type of Asset	Acquisition Date	Acquisition Price ² (Millions of yen)	Survey Price of Specified Assets (Millions of yen)
Acquisitions	Omori Bellport D	Trust beneficiary interest in real estate	June 29, 2006	22,553	22,610
	Shiba 2-Chome Building	Trust beneficiary interest in real estate	June 29, 2006	9,450	9,480
	Shuwa Daiichi Hamamatsucho Building	Trust beneficiary interest in real estate	June 29, 2006	8,350	8,410
	No. 32 Kowa Building	Trust beneficiary interest in real estate	June 27, 2006	5,040	5,045
	No. 36 Kowa Building	Trust beneficiary interest in real estate	June 27, 2006	4,000	4,065
	No. 28 Kowa Building	Trust beneficiary interest in real estate	June 27, 2006	2,859	2,870
	NHK Nagoya Housou-Center Building	Real estate	June 27, 2006	4,300	4,580
	Musashikosugi Tower Place	Trust beneficiary interest in real estate	June 27, 2006	13,890	14,100
	Kowa Kawasaki Higashiguchi Building	Trust beneficiary interest in real estate	June 27, 2006	10,976	11,020
	Hongo TS Building	Trust beneficiary interest in real estate	June 29, 2006	5,400	5,440
	Shuwa Iidabashi Building	Trust beneficiary interest in real estate	June 29, 2006	4,023	4,030
	Kawasaki Nisshincho Building	Trust beneficiary interest in real estate	June 27, 2006 November 30, 2006 ³	3,775 130	3,790 130
	No. 44 Kowa Building ⁴	Trust beneficiary interest in real estate	June 27, 2006	1,150	1,240
	Ryogoku Dai-ichi Life Building	Trust beneficiary interest in real estate	June 27, 2006	2,550	2,551
Total				98,446	99,361

Notes:

- The surveys of prices for specified assets detailed above were conducted by MISUZU Audit Corporation at the time of property acquisitions based upon the Japanese Institute of Certified Public Accountants (JICPA) Industry Audit Committee Report No. 23, "Examination of Prices for Specified Assets held by Investment Trusts and Investment Corporations." In addition to the above price surveys, JEI receives survey reports on locations, lots and other items needed to define the real estate in question.
- Acquisition prices indicate the purchase prices for real estates as recorded in trust beneficiary interest sales agreements and do not include acquisition expenses (brokerage fees and property and other taxes).
- JEI additionally acquired ownership interest on November 30, 2006.
- The acquisition price for the No. 44 Kowa Building includes ¥115 million of money held in trust.

2) Other

JEI entrusts MISUZU Audit Corporation with performing surveys of transactions, other than those recorded above in “Real Estates,” that require surveys of prices and other items in accordance with Article 34-4 of the Law Concerning Investment Trusts and Investment Corporations.

Six interest rate swap transactions were subject to such surveys during the period from February 20, 2006 to December 31, 2006, and JEI has received reports from MISUZU Audit Corporations regarding the examination of these transactions.

In the event that such surveys are required, JEI entrusts the investigation of the name of the other party involved, currency denomination used, contracted interest rates, the period in which the interest rate swap transactions took place and other details pertaining to the transactions.

(4) Transactions with Related Parties and Major Shareholders

1) Details of Transactions

	Purchase and Sales Amounts	
	Purchase Amount (Millions of yen)	Sales Amount (Millions of yen)
Total	98,446	—
	Amount of Purchases from Related Parties and Major Shareholders	Amount of Sales to Related Parties and Major Shareholders
Breakdown of Transactions with Related Parties and Major Shareholders		
Kowa Real Estate Co., Ltd.	22,875 (23.2%)	— (— %)
The Dai-ichi Mutual Life Insurance Company	15,370 (15.6%)	— (— %)
Higashisakura Special Purpose Company	9,450 (9.6%)	— (— %)
Total	47,695 (48.4%)	— (— %)

2) Fees

	Total Fees Paid (Thousands of yen) (A)	Transactions with Related Parties and Major Shareholders		B/A
		Name of Related Parties and Major Shareholders	Amount Paid (Thousands of yen) (B)	
Property Management Costs and Fees ²	716,235	Kowa Real Estate Co., Ltd.	235,308	32.9%
Total	716,235		235,308	32.9%

Notes:

- The above tables show the related parties, as defined under Article 20 of the Enforcement Order of the Law Concerning Investment Trusts and Investment Corporations, and the major shareholders, as defined under Article 9, Paragraph 3 of the Law Concerning Investment Trusts and Investment Corporations, of the Asset Management Company with which JEI concluded asset management agreement during the first fiscal period. As indicated, these were Kowa Real Estate Co., Ltd., Dai-ichi Mutual Life Insurance Company and Higashizakura Special Purpose Company.
- Property management costs and fees include property management fees and construction management fees, the latter of which have been recorded as assets rather than expenses.
- Figures in the above tables do not include consumption taxes.

(5) Transactions with the Asset Management Company for Services other than Asset Management Service for JEI

The Asset Management Company (Japan Excellent Asset Management Co., Ltd.) does not perform services related to securities, the building lots and building transaction business or the specified joint real estate business. Accordingly, there were no transactions which fall under this category during the first fiscal period.

7. Accounting

(1) Assets, Liabilities, Unitholders' Equity and Profit and Losses

For details regarding assets, liabilities, unitholders' equity and profit and losses, please refer to the "Balance Sheets," "Statements of Income," "Statements of Change in Unitholders' Equity" and "Notes to Financial Statements" below.

(2) Changes in Method of Calculating Depreciation Amount

Not applicable.

(3) Changes in Method of Appraising Real Estate

Not applicable.

8. Other

(1) Notices

The following is a summary of the major agreements or changes to agreements approved by JEI's Board of Directors during the first fiscal period.

Date Approved	Item	Summary
February 20, 2006	<ul style="list-style-type: none"> • Conclusion of asset management agreement • Investment unit transfer agency agreement • Asset custody agreement • Administrative agency agreement 	<p>JEI entrusted asset management operations to Japan Excellent Asset Management Co., Ltd.</p> <p>JEI entrusted transfer agency operations to Mizuho Trust & Banking Co., Ltd.</p> <p>JEI entrusted asset custody services and administrative services related to accounting to Mizuho Trust & Banking Co., Ltd.</p> <p>JEI entrusted administrative agency operations to Mizuho Trust & Banking Co., Ltd.</p>
June 19, 2006	<ul style="list-style-type: none"> • Underwriting agreement • Agreements for purchase of new investment units related to the green shoe option 	<p>JEI reached agreements for underwriting new investment units with Japan Excellent Asset Management Co., Ltd., Mizuho Securities Co., Ltd., Morgan Stanley Japan Securities Co., Ltd. and Shinko Securities Co., Ltd.</p> <p>JEI reached agreements for the purchase of new investment units with Japan Excellent Asset Management Co., Ltd. and Mizuho Securities Co., Ltd.</p>

(2) Other

In this report, except where indicated otherwise, monetary amounts below unit are rounded down and ratios rounded to the nearest decimal place.

Misuzu Audit Corporation
Kasumigaseki Bldg., 32nd Floor
3-2-5, Kasumigaseki, Chiyoda-ku
Tokyo 100-6088, JAPAN
Telephone 81-3-5532-2100
Facsimile 81-3-5532-2901

Report of Independent Auditors

To the Board of Directors and Unitholders of Japan Excellent, Inc.

We have audited the accompanying balance sheet of Japan Excellent, Inc. as of December 31, 2006, and the related statements of income, changes in unitholders' equity, and cash flows for the year then ended, all expressed in Japanese 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 consolidated 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. as of December 31, 2006, and the results of its operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

As described in Note 12, Japan Excellent, Inc. decided to acquire investment properties

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 2 to the accompanying financial statements.

Misuzu Audit Corporation

Tokyo, Japan

March 20, 2007

Japan Excellent, Inc.
Balance sheets as of December 31, 2006

Assets	Thousands of yen	U.S. dollars
Current Assets		
Cash and cash equivalents	¥ 13,119,877	\$ 110,140,005
Rental receivables	195,683	1,642,739
Consumption taxes refundable	1,765,147	14,818,222
Other current assets	32,671	274,273
Total current assets	¥ 15,113,378	\$ 126,875,239
Property and Equipment (Note5)		
Buildings and Building improvements including trust accounts	37,307,372	313,191,500
Machinery and equipment including trust accounts	315,648	2,649,834
Furniture and fixtures including trust accounts	2,147	18,021
Land for trust accounts	53,363,405	447,980,233
Construction in progress	6,396	53,697
Less: accumulated depreciation	(631,656)	(5,302,688)
Total property and equipment	¥ 90,363,312	\$ 758,590,597
Investments and other assets		
Leasehold rights including trust accounts	8,565,062	71,902,801
Investment in securities (Note4)	10,768	90,396
Security deposit	15,182	127,449
Long-term prepaid expenses	131,521	1,104,105
Other assets	576	4,840
Total investments and other assets	¥ 8,723,109	\$ 73,229,591
Total Assets	¥ 114,199,799	\$ 958,695,427
Liabilities		
Current Liabilities		
Accounts payable - trade	¥ 472,372	\$ 3,965,512
Accounts payable - others	299,964	2,518,169
Other current liabilities	26,636	223,604
Total current liabilities	¥ 798,972	\$ 6,707,285
Long-term liabilities		
Long-term debt (Note6)	38,500,000	323,203,492
Security deposits from tenants including trust accounts	5,402,232	45,351,175
Derivative liabilities	168,610	1,415,468
Total long-term liabilities	¥ 44,070,842	\$ 369,970,135
Total Liabilities	¥ 44,869,814	\$ 376,677,420
Unitholders' Equity (Note7)		
Unitholders' capital	¥ 67,641,920	\$ 567,846,877
<i>Authorized 2,000,000 units</i>		
<i>Issued and outstanding 134,800 units</i>		
Retained earnings	1,856,675	15,586,598
Revaluation and translation adjustment	(168,610)	(1,415,468)
Loss on deferred hedges	(168,610)	(1,415,468)
Total Unitholders' equity	¥ 69,329,985	\$ 582,018,007
Total Liabilities and Unitholders' equity	¥ 114,199,799	\$ 958,695,427

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

Japan Excellent, Inc.

Statements of Income For the period from February 20, 2006 to December 31, 2006

	Thousands of yen	U.S. dollars
Revenues		
Rental revenues (Note10)	¥ 4,335,709	\$ 36,397,828
Others (Note10)	416,137	3,493,429
Total revenues	4,751,846	39,891,257
Operating Expenses		
Property operating expenses (Note10)	1,977,987	16,604,995
Asset management fees	306,291	2,571,280
Custodian fees	8,975	75,347
Administrative service fees	18,014	151,230
Compensation for directors	11,858	99,547
Other operating expenses	59,014	495,415
Total operating expenses	2,382,139	19,997,814
Operating income	2,369,707	19,893,443
Other Income		
Interest income	5,017	42,119
Other Expenses		
Interest expenses	208,919	1,753,852
Loan arrangement fees	85,468	717,500
New unit issuance costs	62,916	528,171
IPO Expenses	104,727	879,174
Organization costs	54,305	455,882
Other	1	6
Income before income taxes	1,858,388	15,600,977
Income taxes-current (Note9)	1,750	14,690
Income taxes-deferred	(37)	(311)
Net Income	1,856,675	15,586,598
Retained earnings at beginning of period	-	-
Retained earnings at end of period	¥ 1,856,675	\$ 15,586,598

Statements of Change in unitholders' equity

Thousands of yen							
	Number of units issued	Unitholders' capital	Retained earnings	Total	Revaluation and translation adjustment		Total unitholders' equity
					Loss on deferred hedges	Total revaluation and translation adjustments	
Balance as of February 20, 2006		-	-		-	-	-
Changes during the period							
Issuance of new units	134,800	67,641,920	-	67,641,920	-	-	67,641,920
Net income			1,856,675	1,856,675			1,856,675
Differed hedge losses			-	-	(168,610)	(168,610)	(168,610)
Balance as of December 31, 2006	134,800	67,641,920	1,856,675	69,498,595	(168,610)	(168,610)	69,329,985
U.S. dollars							
	Number of units issued	Unitholders' capital	Retained earnings	Total	Revaluation and translation adjustment		Total unitholders' equity
					Loss on deferred hedges	Total revaluation and translation adjustments	
Balance as of February 20, 2006		-	-		-	-	-
Changes during the period							
Issuance of new units	134,800	567,846,877	-	567,846,877	-	-	567,846,877
Net income			15,586,598	15,586,598			15,586,598
Differed hedge losses			-	-	(1,415,468)	(1,415,468)	(1,415,468)
Balance as of December 31, 2006	134,800	567,846,877	15,586,598	583,433,475	(1,415,468)	(1,415,468)	582,018,007

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

*Japan Excellent, Inc.**Statement of Cash Flows for the period from February 20, 2006 to December 31, 2006*

	Thousands of yen	U.S. dollars
<u>Cash flows from operating activities</u>		
Income before income taxes	1,858,388	15,600,977
Depreciation and amortization	631,715	5,303,178
Amortization of new units issuance costs	62,916	528,171
IPO expenses	104,727	879,174
Interest income	(5,017)	(42,119)
Interest expenses	208,919	1,753,852
Increase in rental receivables	(195,683)	(1,642,739)
(Increase) in consumption tax refundable	(1,765,147)	(14,818,222)
(Increase) in prepaid expenses	(30,387)	(255,095)
(Increase) in long-term prepaid expenses	(131,521)	(1,104,105)
Increase in accounts payable-trade	279,758	2,348,537
Increase in accounts payable-other	245,719	2,062,787
Increase in advance received	17,649	148,165
Other-net	16,454	138,129
Subtotal	1,298,490	10,900,690
Interest received	3,806	31,953
Interest paid	(204,649)	(1,718,011)
Income taxes paid	(761)	(6,391)
Net cash provided by operating activities	1,096,886	9,208,241
<u>Cash flows from investing activities</u>		
Purchase of investment in securities	(10,768)	(90,396)
Purchases of property and equipment including trust accounts	(90,826,203)	(762,476,520)
Purchases of intangible assets including trust accounts	(8,565,580)	(71,907,156)
Payments for security deposits	(15,182)	(127,449)
Proceeds from security deposits from tenants including trust accounts	5,551,409	46,603,499
Payments of security deposits from tenants including trust accounts	(85,122)	(714,587)
Net cash used in investing activities	(93,951,446)	(788,712,609)
<u>Cash flows from financing activities</u>		
Proceeds from long-term debt	38,500,000	323,203,492
Issuance of units	67,641,920	567,846,877
Payments for new unit issuance costs	(62,916)	(528,171)
Payments for IPO expenses	(104,567)	(877,825)
Net cash provided by financing activities	105,974,437	889,644,373
Net increase in cash and cash equivalents	13,119,877	110,140,005
Cash and cash equivalents at beginning of period	-	-
Cash and cash equivalents at end of period	13,119,877	110,140,005

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

Japan Excellent, Inc.

Notes to financial statements

1. Organizations

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

Japan Excellent Asset Management (“JEAM”), entrusted asset management from JEI, 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 listed on the Tokyo Stock Exchange on June 27, 2006. As of December 31, 2006, JEI holds 14 properties with 135,264 square meters of the total leasable space and leases to 99 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 provision set forth in the Investment Trust Law, Corporate Law, the Securities and Exchange Law of Japan and related regulations, which are different in certain respect 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 were presented in the Securities Report of JEI filed with the Kanto Local Financial Bureau. In preparing the accompanying financial statements, certain reclassification and modifications have been made for the convenience of readers outside Japan. In addition, the notes to 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 of Yen in the accompanying financial statements and their notes whereas amounts have been 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 ¥119.12=US\$1.00, the foreign exchange rate on December 31, 2006, has been used for translation. The inclusion of such amounts is not intended to imply that Japanese yen has been or could be readily converted, realized or settled into U.S. dollars at that rate 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 bank and short-term investments which are highly liquid, readily convertible to cash and with insignificant risk of price fluctuation, with original maturity of three months or less.

Investment in security

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

Property and equipment

Depreciation is computed based on a straight-line method over the estimated useful lives of the assets as follows:

Buildings 2-55 years

Building improvements 4-56 years

Machinery and Equipments 7-16years

Furniture and fixtures 4-10years

Amortization of intangible assets is computed using the straight-line method over the 5 years.

Organization costs and units issuance costs

Organization costs and new units issuance costs are charged to income as incurred.

Income Taxes

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

Consumption taxes

Consumption taxes received and paid are not included in the statement of income.

Property related taxes

Principally, property related taxes including property taxes, urban planning taxes and depreciable property taxes are imposed on calendar year and are expensed accrued as rental expenses.

For the period, JEI capitalized the property related taxes allocated by the sellers at the time of acquisition of

properties including trust accounts.

The capitalized amount for the period was ¥339,095 thousand.

Revenue recognition

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

Hedge account

JEI has entered into interest rate swap contracts to hedge variable rate for the long-term debt obligations.

The interest hedge is accounted for by the deferred hedge method.

Accounting for properties in trust accounts

All the assets and liabilities held in trust, to which the real estate in possession of JEI were entrusted, and all the earnings and expenses incurred from the trust are properly reflected on the balance sheets and statements of income.

4. Investment in security

	Thousands of Yen	U.S dollars
<u>As of December 31, 2006</u>		
Non-listed stock	10,768	90,396

5. Schedule of property and equipment

Property and equipment at December 31, 2006 consisted of the following

	Thousands of yen			U.S. dollars		
	<u>As of December 31, 2006</u>			<u>As of December 31, 2006</u>		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Building and structures including trust accounts	37,307,372	(619,226)	36,688,146	313,191,500	(5,198,335)	307,993,165
Machinery and equipment including trust accounts	315,648	(12,372)	303,276	2,649,834	(103,861)	2,545,973
Furniture and fixtures including trust accounts	2,147	(58)	2,089	18,021	(492)	17,529
Land for trust accounts	53,363,405	-	53,363,405	447,980,233	-	447,980,233
Construction in progress	6,396	-	6,396	53,697	-	53,697
Total	90,994,968	(631,656)	90,363,312	763,893,285	(5,302,688)	758,590,597

6. Long-term Debt

Long-term debt as of December 31, 2006 consisted of the following

	As of December 31, 2006		Weighted- average interest rate
	Amount (Thousands of Yen)	Amount (U.S. dollars)	
Loans from Banks due on June 29, 2009	13,000,000	109,133,647	0.96370%
Loans from Banks due on June 29, 2010	13,000,000	109,133,647	1.02857%
Loans from Banks due on June 29, 2011	9,500,000	79,751,511	0.96834%
Loans from Insurance Company due on June 29, 2011	3,000,000	25,184,687	1.96625%
Total	38,500,000	323,203,492	

7. Unitholders' Equity

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 by the Investment Trust Law.

8. Per unit information

Net asset value per unit was ¥514,317 as of December 31, 2006 and net income per unit was ¥13,858 for the period ended December 31, 2006 which are computed based on weighted average number of units outstanding from June 27, 2006 to December 31, 2006.

9. 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 purpose.

The reconciliation of tax rate difference between the adjusted statutory tax rate and effective tax rate for the period ended December 31, 2006 were as follows.

	For the period from February 20, 2006 to December 31, 2006
Statutory income tax rate	39.39%
(Reconciliation)	
Deductible distributions paid	(39.35)
Others	0.05
Income tax rate per statements of income	0.09%

10. Breakdown of real estate rental revenues and expenses

	<u>Thousands of yen</u>	<u>U.S. dollars</u>
	For the period ended December 31, 2006	For the period ended December 31, 2006
Rental Revenue	4,751,846	39,891,257
Rental Income	4,335,709	36,397,828
Other	416,137	3,493,429
Property operating expenses	1,977,987	16,604,995
Property management costs and fees	712,749	5,983,452
Utilities	406,340	3,411,180
Insurance	13,790	115,769
Repairs and maintenance	120,178	1,008,885
Depreciation	631,656	5,302,688
Other	93,274	783,021
Profits	2,773,859	23,286,262

11. Related party transactions

JEI has entered into the real estate lease agreement and purchase agreement of investment assets with Kowa real estate Co., Ltd. who owns 10% of the outstanding units of JEI.

Also JEI has entered into asset management agreement and other transaction with Junichi Tamura who is the president of JEAM and Executive Director of JEI.

(1) Major unitholders

Company name	Description of transaction	Amount (Thousands of yen)	Amount (U.S dollars)	Account	Balance at the end of period (Thousands of yen)	Balance at the end of period (U.S dollars)
Kowa real estate Co., Ltd.	Acquisition of real estate	22,875,000	192,033,243	—	—	—
	Property Leasing	1,364,656	11,456,146	Advance received	147	1,237
				Security deposit	1,533,889	12,876,844
	Payment of Property management costs and fees	232,973	1,955,788	Accounts payable-trade	40,739	342,005

(2) Directors and Major individual unitholders

Name	Description of transaction	Amount (Thousands of yen)	Amount (U.S dollars)	Account	Balance at the end of period (Thousands of yen)	Balance at the end of period (U.S dollars)
Junichi Tamura	Payment of asset management fee to JEAM	306,290	2,571,279	Accounts payable	184,708	1,550,605
	Payment of Foundation arrangement fee to JEAM	50,000	419,744	—	—	—

12. Significant subsequent events

1) Cash distribution

On February 21, 2007, the Board of Directors decided to make a cash distribution of ¥13,773 per unit aggregating ¥1,856 million unitholders at the record date of December 31, 2006.

2) Acquisition of investment properties

On March 16, 2007, JEI decided to acquire three properties set forth below.

(Akasaka Garden City)

Address: Akasaka, 4-15-1, Minato-ku, Tokyo

Use: Office / Retail premises / parking

Acquisition price: 23,300,000 thousand yen

Acquisition date: March 28, 2007

Type of specified asset: Trust beneficiary in real estate

Trustee: Mizuho Trust & Banking Co., Ltd.

Contract term of trust: From March 28, 2007 to March 31, 2017

(Nishi-honmachi Mitsui Building)

Address: 1-3-15 Awaza, Nishi-ku, Osaka

Use: Office / parking

Acquisition price: 6,673,500 thousand yen

Acquisition date: March 28, 2007

Type of specified asset: Trust beneficiary in real estate

Trustee: Mitsubishi UFJ Trust and Banking Corporation

Contract term of trust: From March 28, 2007 to March 31, 2017

(Ebina Prime Tower)

Address: 2-9-50 Chuo-ku, Ebina-shi, Kanagawa

Use: Office / Hotel / Hall / Shops / Fitness center

Acquisition price: 6,470,000 thousand yen

Acquisition date: March 29, 2007

Type of specified asset: Trust beneficiary in real estate

Trustee: Mizuho Trust & Banking Co., Ltd.

Contract term of trust: From March 29, 2007 to March 31, 2017

Unitholder Information

1 Address Change Procedures

JEI uses a storage transfer system that requires certain information. If you do not have your investment certificates in your immediate possession, please contact your brokerage firm directly to change your name, address or other account-related information. If you do have your investment certificates in your immediate possession, please contact the Securities Transfer Department of Mizuho Trust & Banking Co., Ltd.

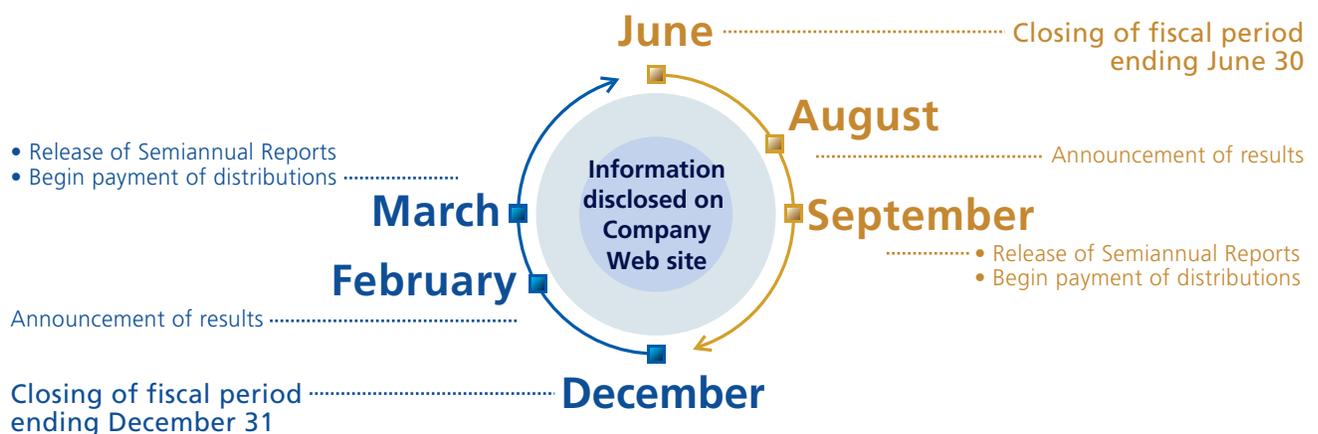
2 Distributions

Distributions can be received by submitting your “Postal Money Transfer Payment Notification” at your nearest post office. If the period for receiving distributions has past, please write on the reverse of the notification the form in which you would prefer to receive payment and mail the notification to the Securities Transfer Department of the Mizuho Trust & Banking Co., Ltd. Alternatively, you may submit the notification at a teller window at the main or any of the branch offices of the Mizuho Trust & Banking Co., Ltd., or Mizuho Investors Securities to receive payment. (Note: Due to procedural requirements, it may take several days before the distribution can be paid at some bank locations.) Unitholders who wish to receive future distributions by bank transfer should contact the Securities Transfer Department of the Mizuho Trust & Banking Co, Ltd.

3 Unitholder Notes

Fiscal Periods:	Six-month fiscal periods ending on June 30 and December 31 of each year
Unitholders’ Meeting:	Held at least once every two years
Unitholder Voting Date:	Date to be announced in advance
Distribution Payment Date:	June 30 and December 31 of each year.
Listed Stock Exchange:	Tokyo Stock Exchange (securities code: 8987)
Announcements:	Announcements shall be published in the Nihon Keizai Shimbun (Nikkei)
Transfer Agent:	Mizuho Trust & Banking Co., Ltd., 2-1, Yaesu 1-chome, Chuo-ku, Tokyo, Japan
Business Office of the Transfer Agent:	Mizuho Trust & Banking Co., Ltd., 2-1, Yaesu 1-chome, Chuo-ku, Tokyo, Japan Mailing Address 17-7, Saga 1-chome, Koto-ku, Tokyo 135-8722
Securities Transfer Department:	Mizuho Trust & Banking Co., Ltd. All nationwide branches of Mizuho Trust & Banking Co., Ltd. Mizuho Investors Securities Main office and branch offices nationwide

4 Yearly Schedule



Web Site Information

Press releases, financial statements, property information and a variety of other content are posted on the Japan Excellent Investment Corporation's Web site in order to ensure swift and accurate information disclosure. JEI will continue to offer more content and promptly disseminate information.

Website

<http://www.excellent-reit.co.jp/eng/>

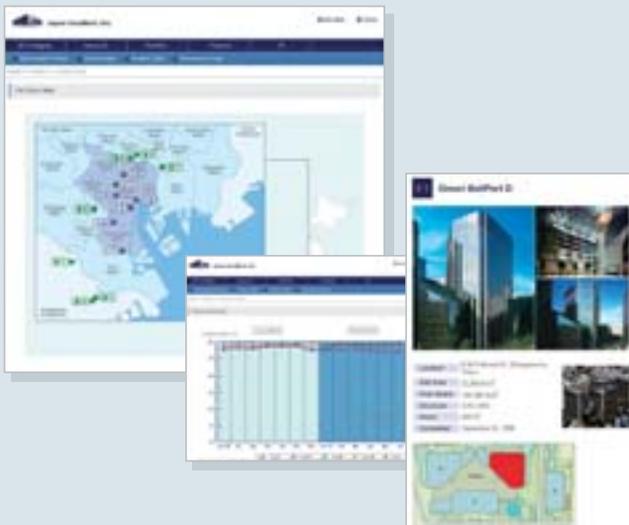
Top Page

What's New provides the most recent information about the Investment Corporation.



Portfolio

Detailed information regarding JEI's building portfolio and most recent performance data



IR Information: Press Release

Contains information announced in the media



IR Information: Documents for Disclosure

Contains semiannual reports, results briefing materials, and other related information





Japan Excellent, Inc.