

Asset Management Report for 9th Period (Semi-Annual Report for 9th Period)

From July 1, 2010 to December 31, 2010



Japan Excellent, Inc.

I. Greetings

To Our Unitholders

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

We have announced our financial results for the ninth period started July 1, 2010 and ended December 31, 2010.

JEI recorded total revenues of 7,094 million yen and net income of 2,218 million yen. Distribution per unit marked 14,353 yen, an increase of 353 yen from our forecast at the beginning of the period.

During the period, JEI shifted significantly to external growth. We resumed property acquisitions and acquired two properties from Kowa Real Estate Co., Ltd., one of our sponsors.

In January 2011, after the closing of the ninth period, JEI implemented the public offering for the first time in three and a half years and acquired an office building from Sekisui House Ltd., one of our sponsors.

About Future Asset Management

With the general improvement of corporate earnings, tenant needs are surfacing particularly for large, quality buildings in central Tokyo as companies require a more prestigious location or larger floor area. Therefore, we expect that occupancy rates will gradually hit bottom starting from quality properties. Based on the recognition that the current market environment justifies asset acquisition, Japan Excellent, Inc. (JEI) will start to pursue new investment opportunities more aggressively than before.

In financing, we will continue to ensure stable and sound financial operation in due consideration of the diversification of sources of financing and maturity dates.

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

Chifumi Toda

Executive Director, Japan Excellent, Inc.

President, Japan Excellent Asset Management Co., Ltd.

II. Asset Management Report

1. Outline of Asset Management Operation

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

Fiscal period Accounting term		5 th period From July 1, 2008 to December 31, 2008	6 th period From January 1, 2009 to June 30, 2009	7 th period From July 1, 2009 to December 31, 2009	8 th period From January 1, 2010 to June 30, 2010	9 th period From July 1, 2010 to December 31, 2010
Revenues	(Millions of yen)	8,501	7,544	7,494	7,302	7,094
(Rental revenues)	(Millions of yen)	7,647	7,544	7,494	7,302	7,094
Operating expenses	(Millions of yen)	4,500	4,266	4,145	4,050	4,040
(Property operating expenses)	(Millions of yen)	3,910	3,720	3,577	3,516	3,494
Operating income	(Millions of yen)	4,000	3,278	3,349	3,252	3,053
Ordinary income	(Millions of yen)	3,156	2,443	2,486	2,367	2,219
Net income	(Millions of yen)	3,155	2,442	2,485	2,366	2,218
Total assets	(Millions of yen)	195,929	195,145	195,040	194,710	199,186
(Period-on-period change)	(%)	(-4.9)	(-0.4)	(-0.1)	(-0.1)	(2.2)
Net assets	(Millions of yen)	90,019	89,363	89,450	89,389	89,272
(Period-on-period change)	(%)	(0.4)	(-0.7)	(0.1)	(0.0)	(-0.1)
Unitholders' capital	(Millions of yen)	87,083	87,083	87,083	87,083	87,083
Outstanding investment units	(Units)	154,550	154,550	154,550	154,550	154,550
Net assets per unit	(Yen)	582,458	578,215	578,780	578,387	577,629
Net income per unit (Note 1)	(Yen)	20,417	15,802	16,084	15,314	14,353
Total distribution	(Millions of yen)	3,155	2,442	2,485	2,366	2,218
Distribution per unit	(Yen)	20,418	15,802	16,085	15,315	14,353
(Profit distribution per unit)	(Yen)	20,418	15,802	16,085	15,315	14,353
(Distribution in excess of earnings per unit)	(Yen)	(-)	(-)	(-)	(-)	(-)
Return on assets (Note 2)	(%)	1.6	1.2	1.3	1.2	1.1
(Annualized rate)		(3.1)	(2.5)	(2.5)	(2.5)	(2.2)
Return on equity (Note 3)	(%)	3.5	2.7	2.8	2.6	2.5
(Annualized rate)		(7.0)	(5.5)	(5.5)	(5.3)	(4.9)
Capital ratio (Note 4)	(%)	45.9	45.8	45.9	45.9	44.8
(Period-on-period change)	(%)	(2.4)	(-0.1)	(0.1)	(0.0)	(-1.1)
Payout ratio (Note 5)	(%)	100.0	99.9	100.0	100.0	99.9
Number of investment properties	(Properties)	18	18	18	18	19
Number of tenants	(Tenants)	127	126	126	124	108
Total leasable space	(m ²)	220,521	220,521	220,521	220,474	228,177
Occupancy rate	(%)	95.2	98.5	97.0	97.4	91.7
Depreciation	(Millions of yen)	995	990	990	992	993
Capital expenditure	(Millions of yen)	799	267	134	248	328
Net operating income (NOI)	(Millions of yen)	4,732	4,814	4,907	4,778	4,593
(Note 6)						
Funds from operation (FFO) per unit (Note 7)	(Yen)	21,331	22,211	22,494	21,737	20,780
FFO multiples (Note 8)	(Times)	9.0	9.1	9.2	9.6	13.0
Debt service coverage ratio (DSCR) (Note 9)	(Times)	5.5	4.5	4.5	4.4	4.3
Interest-bearing debt	(Millions of yen)	95,500	95,500	95,500	95,500	100,400
Loan-to-value (Note 10)	(%)	48.7	48.9	49.0	49.0	50.4
Number of days in operation	(Days)	184	181	184	181	184

- (Note 1) Net income per unit is calculated by dividing net income by the weighted-average number of units outstanding during the six months period.
- (Note 2) Return on assets = Ordinary income / [(Period beginning total assets) + (Period end total assets) / 2] × 100 (The ratio is rounded to one decimal place.)
- (Note 3) Return on equity = Net income / [(Period beginning net assets) + (Period end net assets) / 2] × 100 (The ratio is rounded to one decimal place.)
- (Note 4) Capital ratio = Period end net assets / Period end total assets × 100 (The ratio is rounded to one decimal place.)
- (Note 5) The ratio is rounded down to one decimal place.
- (Note 6) NOI = Rental revenues – Property operating expenses + Depreciation
- (Note 7) FFO per unit = (Net income + Depreciation – Gain on sale of real estate + Loss on sale of real estate) / Number of outstanding investment units (The figure is rounded down to the whole number.)
- (Note 8) FFO multiples = Period end investment unit price / Annualized FFO per unit (The rate is rounded down to one decimal place.)
- (Note 9) DSCR = Net income before interest and taxes / (Interest expenses + Interest expense on investment corporation bonds) (The ratio is rounded to one decimal place.)
- (Note 10) Loan-to-value = Period end interest-bearing debt / Period end total assets × 100 (The ratio is rounded to one decimal place.)

(2) Asset management development

Japan Excellent, Inc. (JEI) was founded on February 20, 2006 in accordance with the Law Concerning Investment Trusts and Investment Corporations of Japan (hereinafter referred to as the “Investment Trust Law”). On March 15, 2006, it completed the corporate registration to the Kanto Finance Bureau (registration number 52, issued by the Head of the Kanto Local Finance Bureau) and listed on the Real Estate Investment Trust Section of the Tokyo Stock Exchange (Securities Code: 8987) on June 27, 2006.

Since the listing, we have continued investment management primarily in office buildings with the aim to maintain sound corporate growth and stable revenues based on the medium- and long-term perspectives. On December 31, 2010, we settled our ninth period.

1) Business Conditions and Results

The domestic economy is slightly in a pick-up trend on the back of strong growth in China and emerging markets in the Asian region.

While recent economic condition shows a slowdown in the pace of recovery given the progressive strong yen and a slow move in the export and productivity, private companies maintain momentum for profitability, driving for a slight rebound in capital investments.

In the office leasing market, the trend for reduced floor areas has been settled and some buyers show their demand for better locations and additional floor areas. Whilst the Tokyo metropolitan area continues to be a renters’ market, exposing a persistently low rent levels, the vacancy rates in large and centrally-located buildings in Tokyo has improved and a favorable sign towards a recovery in the rent level at certain areas started to appear. Osaka and Nagoya areas underwent a series of tenant reductions and relocations and decreased floor areas, suffering a decline in demand for office space and continued slide in the rent level in the market.

Under these difficult circumstances, JEI stimulated leasing activities, worked on refilling vacant

tenants and managed to maintain the average occupancy rate at 94.0 percent for the entire holding properties during the period. In the property operation and management, we were committed to improving building functionalities in conjunction with the renewal of facilities and worked on implementing measures for improving tenant satisfaction and our service level.

In the property trading market, there were signs of recovery in the investors' buying motive on the back of improved fund-raising conditions, indicating a sign of active trading.

JEI determined that the investment environment has been improved and shifted significantly to external growth. Precisely, it acquired No. 32 Kowa Building (a 30 percent equity) on October 29, 2010 and Kowa Shirokanedai Building on December 24, 2010 with the support of sponsor companies, to earn stable revenues from our portfolio.

2) Fund Raising Highlight

During the period, in order to achieve conversion of floating-rate debts to fixed-rate debts and lengthen the borrowing span of these debts as well as to diversify maturity dates, JEI managed to enter into a long-term loan of 6 billion yen (7 year with fixed interest rate) on November 11, 2010 and made advance payment in the amount of 6 billion yen, a part of 13 billion yen of long-term loan with the maturity of less than one year (due on November 29, 2011 with floating interest rate).

On December 24, 2010, JEI entered into a short-term loan of 4.9 billion yen on a revolving credit line basis to raise funds for new property acquisitions.

As a result, the average debt maturity of interest bearing debts became 2.23 years, long-term borrowing ratio was 95.1 percent, fixed rate ratio was 48.1 percent, and weighted average interest rate for loans purchased recorded 1.36 percent. Outstanding interest bearing debts totaled 100.4 billion yen, of which 4.9 billion yen was for short-term loans, 78.5 billion yen was for long-term loans (including those of 34.5 billion yen with the maturity of less than one year) and 17 billion yen was for investment corporation bonds (loan to value ratio for the total assets was 50.4 percent as of the end of the period).

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

(Bond Issuance Registration Highlight)

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

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

The ratings for JEI provided by the following rating agencies are shown below:
(Ratings as of December 31, 2010)

	Moody's Japan	Rating and Investment Information, Inc. (R&I)
Issuer rating (outlook)	A3 (Negative)	AA- (Stable)
Individual debt issue rating*	-	AA-

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

3) Financial Results and Distribution Highlight

As a result of the above investments, JEI recorded 7,094 million yen in total revenues, 3,053 million yen in operating income, 2,219 million yen in ordinary income and 2,218 million yen in net income for the period under review.

As for distributions, JEI determined to distribute all retained earnings at the end of period, rounding down the portion less than 1 yen of distribution per investment unit, with the intent to include the amount of profit distributions in deductible expenses by applying Special Measure Concerning Taxation for Corporation Tax (Section 67-15 of the Act on Special Measures Concerning Taxation). As a result, JEI determined the amount of distribution per unit to be 14,353 yen.

(3) Capital increase

JEI had no changes in the number of outstanding investment units for the period under review. The outline of the changes is as follows:

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

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

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

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

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

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

[Market price of the investment securities]

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

Investment unit market price	Fiscal period (Closing date)	5 th period (December 2008)	6 th period (June 2009)	7 th period (December 2009)	8 th period (June 2010)	9 th period (December 2010)
	Highest (Yen)	535,000	413,000	490,000	496,500	570,000
	Lowest (Yen)	254,000	298,000	388,000	386,500	397,000

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

(4) Distributions paid

The distributions for the ninth fiscal period were determined to be 14,353 yen per unit. The Investment Corporation has determined to distribute all retained earnings at the end of period, rounding down the portion less than 1 yen of distribution per investment unit, with the intent to apply the special treatment of income taxes under the Special Taxation Measures Law (Section 67.15 of the Special Taxation Measures Law) in which the amount equivalent to distributions from profits is deducted from taxable corporate income as a deductible expense.

Fiscal period	5 th period	6 th period	7 th period	8 th period	9 th period
Accounting term	From July 1, 2008 to December 31, 2008	From January 1, 2009 to June 30, 2009	From July 1, 2009 to December 31, 2009	From January 1, 2010 to June 30, 2010	From July 1, 2010 to December 31, 2010
Retained earnings at the end of period (Thousands of yen)	3,155,635	2,442,271	2,486,006	2,366,962	2,218,333
Retained earnings (Thousands of yen)	33	72	69	29	76
Total profit distributions (Thousands of yen)	3,155,601	2,442,199	2,485,936	2,366,933	2,218,256
(Distributions per unit) (Yen)	(20,418)	(15,802)	(16,085)	(15,315)	(14,353)
Total profit distributions (Thousands of yen)	3,155,601	2,442,199	2,485,936	2,366,933	2,218,256
(Profit distribution per unit) (Yen)	(20,418)	(15,802)	(16,085)	(15,315)	(14,353)
Total refund of investment equity	—	—	—	—	—
(Refund of investment per unit)	(—)	(—)	(—)	(—)	(—)

(5) Outlook

1) Investment Environment Outlook

Looking at the first half of fiscal year 2011, whilst the pace of turnaround may be slowed for a while, the domestic economy is anticipated to get back on track little by little with a slight increase in capital investments on the back of recovery in the overseas economy primarily led by emerging markets in the Asian region which will revitalize Japan's export gradually, amid a pick up trend in enterprise profits.

In the office leasing market in the Tokyo metropolitan area, the rent level is likely to keep bottoming out in the coming months. However, with the anticipated improvement in company profits, demand in offices including relocation to wider space and floor expansion can be expected, leading to an increase in both occupancy rate and rent level little by little.

In Osaka and Nagoya areas, a drastic recovery in office demand cannot be expected soon and the supply and demand may persist as weak as ever.

In the real estate investment market, easing trend of fund-raising conditions and revived investor needs are likely to continue and may gradually pick up trading, if further revitalization in the office leasing market is successfully developed.

2) Policy and Issues on Future Investment Management

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

As for the external growth, JEI divested No. 36 Kowa Building and acquired Daiba Garden City Building on February 4, 2011 with the support of our sponsor companies. We will continue to proactively seek for investment opportunities as the environment for revitalizing the real estate trading market is on the mend.

As for the financial environment, we recognize that the fund-raising conditions in the real estate investment industry are generally favorable. Based on this perspective, we will consistently work on stable financial operation through diversifying financing sources including issuance of investment corporation bonds, diversifying maturity dates, lengthening borrowing spans, and converting floating-rate debts to fixed-rate debts.

(6) Subsequent events

1) Issuance of new investment units through public offering

The board of directors of JEI approved the following issuance of new investment units through public offering at its meetings held on January 13, 2011 and January 24, 2011. The payment for the offering was completed on January 31, 2011.

As a result, unitholders' capital is 100,691,534,000 yen and the number of investment units issued and outstanding is 185,550 as of January 31, 2011.

<Overview of the issuance of new investment units through public offering>

(1) Number of new investment units issued	31,000 units
(2) Issue price	454,930 yen per unit
(3) Total issue price	14,102,830,000 yen
(4) Paid-in amount (issue amount)	438,984 yen per unit
(5) Total paid-in amount (issue amount)	13,608,504,000 yen
(6) Payment date	January 31, 2011

2) Issuance of new investment units through third-party allocation (third-party allocation upon exercise of a greenshoe option)

The board of directors of JEI approved the following issuance of new investment units through third-party allocation at its meetings held on January 13, 2011 and January 24, 2011. JEI granted Mizuho Securities Co., Ltd. an option to receive allocation of new investment units to be issued through third-party allocation (greenshoe option). The exercise period of the option expires on February 23, 2011.

<Overview of the issuance of new investment units through third-party allocation>

(1) Number of new investment units issued	3,100 units
(2) Paid-in amount (issue amount)	438,984 yen per unit
(3) Total paid-in amount (issue amount)	1,360,850,400 yen
(4) Allocated party	Mizuho Securities Co., Ltd.
(5) Payment date	February 28, 2011

3) Asset acquisition (Daiba Garden City Building)

On January 13, 2011, JEI concluded the following purchase agreement for trust beneficiary interest in real estate. The property was handed over to JEI on February 4, 2011.

<Overview of the acquired property>

(1) Acquired property	Trust beneficiary interest in real estate
(2) Property name	Daiba Garden City Building
(3) Location	2-3-5 Daiba, Minato-ku, Tokyo
(4) Acquisition price (Note)	11,000,000,000 yen
(5) Date of execution of purchase agreement	January 13, 2011
(6) Handover date	February 4, 2011
(7) Seller	Sekisui House, Ltd.

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

4) Asset transfer

On January 13, 2011, JEI concluded the following transfer agreement for trust beneficiary interest in real estate. JEI handed over the property to the buyer on February 4, 2011.

<Overview of the transferred property>

(1) Transferred property	Trust beneficiary interest in real estate
(2) Property name	No. 36 Kowa Building
(3) Location	5-19 Sanbancho, Chiyoda-ku, Tokyo
(4) Transfer Price (Note)	4,300,000,000 yen
(5) Date of execution of transfer agreement	January 13, 2011
(6) Handover date	February 4, 2011
(7) Buyer	Kowa Real Estate Co., Ltd.

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

2. Outline of the Investment Corporation

(1) Investment unit

Fiscal period	5 th period As of December 31, 2008	6 th period As of June 30, 2009	7 th period As of December 31, 2009	8 th period As of June 30, 2010	9 th period As of December 31, 2010
Number of units authorized	2,000,000 Units	2,000,000 units	2,000,000 units	2,000,000 units	2,000,000 units
Number of units issued and outstanding	154,550 Units	154,550 units	154,550 units	154,550 units	154,550 units
Unitholders' capital	87,083 million yen	87,083 million yen	87,083 million yen	87,083 million yen	87,083 million yen
Number of unitholders	4,515 individuals	4,817 individuals	4,734 individuals	5,469 individuals	5,495 individuals

(2) Unitholders

Major unitholders as of December 31, 2010 are as follows:

Name	Address	Number of units owned (Units)	Ratio of number of units owned to outstanding investment units (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	1-8-11 Harumi, Chuo-ku, Tokyo	24,178	15.64
The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	2-2-2 Otemachi, Chiyoda-ku, Tokyo	15,001	9.71
Kowa Real Estate Co., Ltd.	1-15-5 Minami-Aoyama, Minato-ku, Tokyo	14,312	9.26
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	Harumi Island Toriton Square Office Tower Z, 1-8-12 Harumi, Chuo-ku, Tokyo	11,104	7.18
The Master Trust Bank of Japan, Ltd. (Trust Account)	2-11-3 Hamamatsu-cho, Minato-ku, Tokyo	8,334	5.39
North Pacific Bank, LTD.	3-11 Odori-Nishi, Chuo-ku, Sapporo-shi, Hokkaido	4,590	2.97
The Dai-ichi Life Insurance Company, Limited	1-13-1 Yuraku-cho, Chiyoda-ku, Tokyo	4,132	2.67
The Senshu Ikeda Bank, Ltd.	18-14 Chayamachi, Kita-ku, Osaka-shi, Osaka	2,711	1.75
The Chugoku Bank, LTD.	1-15-20 Marunouchi, Kita-ku, Okayama-shi, Okayama	2,521	1.63
Nomura Bank (Luxembourg) S.A.	BATIMENT A, 33, RUE DE GASPERICH, L-5826, LUXEMBOURG	2,179	1.41
Total		89,062	57.63

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

(3) Officers

1) Directors and accounting auditor

Post	Name	Major additional post	Compensation or fee for the six months ended December 31, 2010 (Thousands of yen)
Executive Director	Chifumi Toda	President and Director, Japan Excellent Asset Management Co., Ltd.	–
Supervisory Director	Makoto Sakagami	Makoto Sakagami Certified Public Accounting Office	6,540
Supervisory Director	Tsuyoshi Nagahama	Advisor, Anderson, Mori & Tomotsune	
Supervisory Director	Shunichi Maekawa	Professor, Faculty of Real Estate, Meikai University	
Accounting Auditor	Ernst & Young ShinNihon LLC	–	13,700 (Note 2)

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

(Note 2) The total compensation shown above is an estimated amount and includes fees for English financial statement audit.

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

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

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

Our asset management company, asset custodian and administrative agents as of December 31, 2010 are as follows:

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

3. Investment Portfolio of the Investment Corporation

(1) Investment portfolio by area

Classification	Use	Area	8 th period (As of June 30, 2010)		9 th period (As of December 31, 2010)	
			Acquisition price (Millions of yen) (Note 1)	Investment ratio in portfolio (%) (Note 2)	Acquisition price (Millions of yen) (Note 1)	Investment ratio in portfolio (%) (Note 2)
Real estate property (Note 3)	Offices	Area II (Note 4)	4,222	2.2	4,221	2.1
Trust beneficiary interest in real estate (Note 3)		Area I (Note 4)	92,335	47.4	99,323	49.9
		Area II (Note 4)	7,592	3.9	7,548	3.8
		Area III (Note 4)	74,283	38.2	73,961	37.1
Total			178,434	91.6	185,054	92.9
Deposits in bank and other assets			16,276	8.4	14,132	7.1
Total assets			194,710	100.0	199,186	100.0

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

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

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

(Note 4) Areas are classified as follows:

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

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

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

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

(2) Major property

The principal properties (top ten properties in net book value) held by JEI as of December 31, 2010 are as follows:

Name of real property	Net book value (Millions of yen)	Leasable space (m ²) (Note 1)	Leased floor space (m ²) (Note 2)	Occupancy rate (%) (Note 3)	Ratio of rental revenue to total rental revenues (%) (Note 4)	Major use
Kowa Kawasaki Nishiguchi Building	31,013	38,332.15	32,487.47	84.8	14.1	Offices
Akasaka Garden City	22,988	8,769.53	8,769.53	100.0	8.0	Offices
Omori Bellport D	22,154	25,828.29	24,516.12	94.9	14.4	Offices
AKASAKA INTERCITY	17,615	5,622.98	5,169.39	91.9	4.6	Offices
Musashikosugi Tower Place	13,281	25,217.28	25,217.28	100.0	11.7	Offices
Kowa Kawasaki Higashiguchi Building	10,481	18,612.72	18,612.72	100.0	(Note 5)	Offices
Shiba 2-Chome Building	9,256	11,749.30	11,654.49	99.2	5.2	Offices
JEI Hamamatsucho Building	8,232	6,411.26	6,411.26	100.0	4.2	Offices
JEI Nishi-Honmachi Building	7,548	10,601.70	10,024.44	94.6	3.4	Offices
No. 32 Kowa Building	7,392	7,570.95	6,365.99	84.1	3.3	Offices
Total	149,963	158,716.16	149,228.69	94.0	76.2	

(Note 1) Leasable space refers to space available for lease of which ownership is attributable to JEI as of December 31, 2010 and is rounded to two decimal places. If the property is a joint ownership property, the value is obtained after multiplying the total leasable space of the shared real estate by the percentage of the interest owned by JEI.

(Note 2) Leased floor space refers to space with lease agreements with end tenants as of December 31, 2010 and is rounded to two decimal places. If the property is a joint ownership property, the value is obtained after multiplying the total leased floor space of the shared real estate by the percentage of the interest owned by JEI. The leased floor space of end tenants who terminated their lease agreement but not yet removed as of the end of period is included in the leased floor space. This also applies to the calculations of occupancy rate in (Note 3) below and the total number of tenants in (Note 1) in (3) Portfolio ownership breakdown.

(Note 3) Occupancy rate is a percentage of total leased floor space to total leasable space as of December 31, 2010 and rounded to one decimal place.

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

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

(3) Portfolio ownership breakdown

Real estate properties and their forms of ownership as of December 31, 2010 are as follows:

Property No.	Name of real property	Location (Displayed address)	Form of ownership	Appraisal value at the end of period (Millions of yen) (Note)	Net book value (Millions of yen)
I-1	Omori Bellport D	6-26-3 Minami-Oi, Shinagawa-ku, Tokyo	Trust beneficiary interest in real estate	24,790	22,154
I-2	Shiba 2-Chome Building	2-6-1 Shiba, Minato-ku, Tokyo	Trust beneficiary interest in real estate	11,400	9,256
I-3	JEI Hamamatsucho Building	2-2-12 Hamamatsu-cho, Minato-ku, Tokyo	Trust beneficiary interest in real estate	8,370	8,232
I-4	No. 32 Kowa Building	5-2-32 Minami-Azabu, Minato-ku, Tokyo	Trust beneficiary interest in real estate	7,445	7,392
I-5	No. 36 Kowa Building	5-19 Sanbancho, Chiyoda-ku, Tokyo	Trust beneficiary interest in real estate	3,953	3,999
I-6	No. 28 Kowa Building	2-20-1 Nishi-Gotanda, Shinagawa-ku, Tokyo	Trust beneficiary interest in real estate	2,880	2,824
I-7	Akasaka Garden City	4-15-1 Akasaka, Minato-ku, Tokyo	Trust beneficiary interest in real estate	18,600	22,988
I-8	AKASAKA INTERCITY	1-11-44 Akasaka, Minato-ku, Tokyo	Trust beneficiary interest in real estate	13,100	17,615
I-9	Kowa Shirokanedai Building	3-19-1 Shirokanedai, Minato-ku, Tokyo	Trust beneficiary interest in real estate	4,950	4,860
Area I				95,488	99,323
II-1	NHK Nagoya Housou Center Building	1-13-3 Higashi-Sakura, Higashi-ku, Nagoya-shi, Aichi	Real estate	4,640	4,221
II-2	JEI Nishi-Honmachi Building	1-3-15 Awaza, Nishi-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	4,540	7,548
Area II				9,180	11,769
III-1	Musashikosugi Tower Place	1-403 Kosugi-machi, Nakahara-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	16,200	13,281
III-2	Kowa Kawasaki Higashiguchi Building	1-53 Nisshin-cho, Kawasaki-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	9,250	10,481
III-3	JEI Hongo Building	2-38-16 Hongo, Bunkyo-ku, Tokyo	Trust beneficiary interest in real estate	4,990	5,271
III-5	Kawasaki Nisshincho Building	7-1 Nisshin-cho, Kawasaki-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	5,230	4,148
III-6	No. 44 Kowa Building	1-2-7 Higashiyama, Meguro-ku, Tokyo	Trust beneficiary interest in real estate	1,520	1,014
III-7	JEI Ryogoku Building	3-25-5 Ryogoku, Sumida-ku, Tokyo	Trust beneficiary interest in real estate	2,132	2,428
III-8	Ebina Prime Tower	2-9-50 Chuo, Ebina-shi, Kanagawa	Trust beneficiary interest in real estate	4,090	6,321

III-9	Kowa Building	Kawasaki Nishiguchi	66-2 Horikawa-cho, Saiwai-ku, Kawasaki- shi, Kanagawa	Trust beneficiary interest in real estate	25,700	31,013
Area III					69,112	73,961
Total					173,780	185,054

(Note) Appraisal value at the end of period indicates the appraisal value described in the real estate appraisal report prepared by a real estate appraiser belonging to Japan Real Estate Institute, Chuo Real Estate Appraisal Co., Ltd., and Japan Valuers Co., Ltd. as of December 31, 2010 based on the articles of incorporation of JEI and the regulations stipulated by the Investment Trusts Association, Japan. When there is a joint ownership property in the current portfolio, its value is obtained after multiplying the total value of the shared real estate by the percentage of the interest owned by JEI or the trustee.

Property No.	Name of real property	8 th period From January 1, 2010 to June 30, 2010				9 th period From July 1, 2010 to December 31, 2010			
		Total number of tenants (At the end of period) (Note 1)	Occupancy rate (At the end of period) (%)	Rental revenues (For the period) (Millions of yen)	Ratio of rental revenue to total rental revenues (%) (Note 2)	Total number of tenants (At the end of period) (Note 1)	Occupancy rate (At the end of period) (%)	Rental revenues (For the period) (Millions of yen)	Ratio of rental revenue to total rental revenues (%) (Note 2)
I-1	Omori Bellport D	1	100.0	1,081	14.8	1	94.9	1,024	14.4
I-2	Shiba 2-Chome Building	2	96.0	371	5.1	2	99.2	368	5.2
I-3	JEI Hamamatsucho Building	1	100.0	295	4.1	1	100.0	297	4.2
I-4	No. 32 Kowa Building	13	81.2	207	2.8	1	84.1	235	3.3
I-5	No. 36 Kowa Building	1	100.0	(Note 3)	(Note 3)	1	100.0	(Note 3)	(Note 3)
I-6	No. 28 Kowa Building	1	89.6	147	2.0	1	89.6	148	2.1
I-7	Akasaka Garden City	1	100.0	555	7.6	1	100.0	565	8.0
I-8	AKASAKA INTERCITY	13	91.9	333	4.6	13	91.9	326	4.6
I-9	Kowa Shirokanedai Building	–	–	–	–	1	100.0	8	0.1
Area I		33	96.8	3,196	43.8	22	95.7	3,183	44.9
II-1	NHK Nagoya Housou Center Building	35	93.0	319	4.4	33	90.6	307	4.3
II-2	JEI Nishi-Honmachi Building	1	100.0	247	3.4	1	94.6	240	3.4
Area II		36	96.8	567	7.8	34	92.7	548	7.7
III-1	Musashikosugi Tower Place	34	100.0	802	11.0	34	100.0	827	11.7
III-2	Kowa Kawasaki Higashiguchi Building	1	100.0	(Note 3)	(Note 3)	1	100.0	(Note 3)	(Note 3)
III-3	JEI Hongo Building	1	100.0	173	2.4	1	100.0	177	2.5
III-5	Kawasaki Nisshincho Building	1	100.0	229	3.1	1	100.0	225	3.2
III-6	No. 44 Kowa Building	1	100.0	93	1.3	1	99.1	93	1.3
III-7	JEI Ryogoku Building	1	98.0	109	1.5	1	100.0	111	1.6
III-8	Ebina Prime Tower	15	97.2	513	7.0	12	67.7	406	5.7
III-9	Kowa Kawasaki Nishiguchi Building	1	95.0	1,083	14.8	1	84.8	999	14.1
Area III		55	97.9	3,538	48.5	52	88.9	3,362	47.4
Total		124	97.4	7,302	100.0	108	91.7	7,094	100.0

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

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

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

(4) Other assets

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

Classification	Type	Contract amount (Thousands of yen) (Note 1)		Fair value (Thousands of yen) (Note 2)
			More than one year (Note 1)	
Over-the-counter transaction	Interest rate swap contracts with floating-rate to fixed-rate interest	6,250,000	–	–28,770

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

(Note 2) Fair value is measured at an amount calculated by the other party to said contracts based on the current market interest rates and other relevant factors.

4. Capital Expenditures for Holding Properties

(1) Scheduled capital expenditures

The following table shows major planned capital expenditures associated with planned maintenance and repair for the properties held by JEI as of December 31, 2010. The values below include those to be expensed for accounting purposes.

Name of real property	Location	Purpose	Scheduled term	Estimated construction costs (Millions of yen)		
				Total	Payment for the six months ended December 31, 2010	Total of advance payment
Kowa Kawasaki Nishiguchi Building	Saiwai-ku, Kawasaki-shi, Kanagawa	Fire prevention and monitoring system renewal construction	From September 2010 to May 2011	98	–	–
NHK Nagoya Housou Center Building	Higashi-ku, Nagoya-shi	Air-conditioning system renewal construction (2 nd term)	From October 2010 to May 2011	68	–	–
		Crime prevention and monitoring system renewal construction	From July 2010 to June 2011	35	–	–

(2) Capital expenditures for the six months ended December 31, 2010

The following table shows constructions completed during the period and to be expensed as capital expenditure pertaining to our portfolio held as of December 31, 2010. During the period, the amount of constructions completed totaled 437 million yen, composed of 328 million yen of capital expenditure and 108 million yen of maintenance and repair classified as an expense for the six months ended December 31, 2010.

Name of real property	Location	Purpose	Scheduled term	Amounts paid (Millions of yen)
Kawasaki Nisshincho Building	Kawasaki-ku, Kawasaki-shi, Kanagawa	Heat source system renewal construction	From July 2010 to December 2010	62
Kowa Kawasaki Higashiguchi Building	Kawasaki-ku, Kawasaki-shi, Kanagawa	Central monitoring system renewal construction	From August 2010 to December 2010	65
NHK Nagoya Housou Center Building	Higashi-ku, Nagoya-shi	Air-conditioning system renewal construction (1 st term)	From September 2010 to December 2010	36
Other constructions			–	164
Total				328

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

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

(Millions of yen)

Item	5 th period From July 1, 2008 to December 31, 2008	6 th period From January 1, 2009 to June 30, 2009	7 th period From July 1, 2009 to December 31, 2009	8 th period From January 1, 2010 to June 30, 2010	9 th period From July 1, 2010 to December 31, 2010
Reserved funds at the end of the previous period	282	254	254	254	254
Increase	—	—	—	—	5
Decrease	28	—	—	—	—
Reserved funds at the end of the current period	254	254	254	254	259

5. Expenses and Liabilities

(1) Expenses associated with asset management

(Thousands of yen)

Account	5 th period From July 1, 2008 to December 31, 2008	6 th period From January 1, 2009 to June 30, 2009	7 th period From July 1, 2009 to December 31, 2009	8 th period From January 1, 2010 to June 30, 2010	9 th period From July 1, 2010 to December 31, 2010
(a) Asset management fees	443,596	418,129	423,890	414,743	416,479
(b) Custodian fees	15,725	15,015	14,960	14,952	14,929
(c) Administrative service fees	27,375	28,219	28,290	28,618	29,597
(d) Compensation for directors	6,540	6,540	6,540	6,540	6,540
(e) Accounting auditor fees	11,500	11,500	11,500	11,500	11,500
(f) Other	85,221	66,201	83,137	57,641	67,263
Total	589,958	545,605	568,317	533,995	546,310

(2) Borrowings

Borrowings by each financing source as of the end of the 9th period (ended December 31, 2010) are as follows:

Classification	Lender	Borrowing date	Balance at the end of the previous period (Thousands of yen)	Balance at the end of the current period (Thousands of yen)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks	
Short-term loans	Mitsubishi UFJ Trust and Banking Corporation	December 24, 2010	—	3,000,000	0.78000	March 24, 2011	Lump-sum	For acquisition of real estate	Unsecured and unguaranteed	
	Mizuho Corporate Bank, Ltd.		—	1,900,000						
Subtotal			—	4,900,000	0.78000	—	—	—	—	
Long-term debt due within one year	Mizuho Corporate Bank, Ltd.	June 29, 2006	5,000,000	5,000,000	1.43470	June 29, 2011	Lump-sum	For acquisition of real estate	Unsecured and unguaranteed	
	Mitsubishi UFJ Trust and Banking Corporation		3,500,000	3,500,000						
	Resona Bank, Ltd.		1,000,000	1,000,000						
	The Dai-ichi Life Insurance Company, Limited		3,000,000	3,000,000	1.96625 (Note 2)					
	Mizuho Corporate Bank, Ltd.	October 24, 2008	6,000,000	6,000,000	0.94000					
	Mitsubishi UFJ Trust and Banking Corporation		4,000,000	4,000,000						
	Sumitomo Mitsui Banking Corporation		3,000,000	3,000,000						
	Mizuho Trust & Banking Co., Ltd.		2,000,000	2,000,000						
	Aozora Bank, Ltd.	June 29, 2009	—	1,615,384	1.34000			November 29, 2011 (Note 3)		For repayment of other borrowing
	The Chuo Mitsui Trust and Banking Company, Limited		—	1,615,384						
	Mizuho Trust & Banking Co., Ltd.		—	1,615,384						
	Sumitomo Mitsui Banking Corporation		—	1,076,923						
	Mizuho Corporate Bank, Ltd.		—	538,461						
	Mitsubishi UFJ Trust and Banking Corporation		—	538,461						
Subtotal			27,500,000	34,500,000	1.24662	—	—	—		
Long-term debt (Note 4)	Aozora Bank, Ltd.	June 29, 2009	3,000,000	—	—	—	Lump-sum	—	Unsecured and unguaranteed	
	The Chuo Mitsui Trust and Banking Company, Limited		3,000,000	—						
	Mizuho Trust & Banking Co., Ltd.		3,000,000	—						
	Sumitomo Mitsui Banking Corporation		2,000,000	—						
	Mizuho Corporate Bank, Ltd.		1,000,000	—						
	Mitsubishi UFJ Trust and Banking Corporation		1,000,000	—						
	Mitsubishi UFJ Trust and Banking Corporation	July 31, 2007	2,300,000	2,300,000	0.69000	July 31, 2012	For acquisition of real estate			
	Sumitomo Mitsui Banking Corporation		2,200,000	2,200,000						
	The Norinchukin Bank		2,000,000	2,000,000						

Resona Bank, Ltd.		500,000	500,000					
Mizuho Corporate Bank, Ltd.	July 31, 2007	2,500,000	2,500,000	1.96907 (Note 2)				
Mizuho Trust & Banking Co., Ltd.		1,500,000	1,500,000					
Sompo Japan Insurance Inc.		2,000,000	2,000,000					
Tokio Marine & Nichido Fire Insurance Co., Ltd.		1,000,000	1,000,000					
Mizuho Corporate Bank, Ltd.	October 24, 2008	6,000,000	6,000,000	1.04000	June 28, 2013			
Mitsubishi UFJ Trust and Banking Corporation		1,000,000	1,000,000					
The Norinchukin Bank	June 29, 2010	3,100,000	3,100,000	1.09000	December 27, 2013			For repayment of other borrowing
Mizuho Corporate Bank, Ltd.		1,800,000	1,800,000					
Mitsubishi UFJ Trust and Banking Corporation		1,800,000	1,800,000					
Mizuho Trust & Banking Co., Ltd.		1,300,000	1,300,000					
The Dai-ichi Life Insurance Company, Limited	July 31, 2007	2,000,000	2,000,000	2.25875 (Note 2)	July 31, 2014			For acquisition of real estate
Development Bank of Japan Inc.		2,000,000	2,000,000	2.28417 (Note 2)				
The Dai-ichi Life Insurance Company, Limited	October 24, 2008	3,000,000	3,000,000	2.27344 (Note 2)	June 30, 2015			For repayment of other borrowing
Development Bank of Japan Inc.		2,000,000	2,000,000					
Development Bank of Japan Inc.	November 30, 2010	—	6,000,000	1.73875 (Note 2)	November 30, 2017			
Subtotal		51,000,000	44,000,000	1.48861	—	—	—	—
Total		78,500,000	83,400,000	1.34688	—	—	—	—

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

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

(Note 3) On November 30, 2010, JEI prepaid 6 billion yen out of the initial principal amount of 13 billion yen.

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

(Thousands of yen)

Classification	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
Long-term debt	14,000,000	15,000,000	4,000,000	5,000,000	6,000,000

(3) Investment corporation bonds and short-term investment corporation bonds

Investment corporation bonds issued as of December 31, 2010 are as follows:

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

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

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

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

6. Condition of Investment Transactions

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

(Millions of yen)

Type of assets	Name of real property	Acquisition		Transfer			
		Acquisition date	Acquisition price (Note 1)	Transfer date	Transfer amount	Net book value	Gain (loss) on transfer
Real estate property (Note3)	No. 32 Kowa Building	October 29, 2010	2,390	–	–	–	–
Trust beneficiary interest in real estate	Kowa Shirokanedai Building	December 24, 2010	4,705	–	–	–	–
			7,095		–	–	–

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

(Note 2) After acquiring co-ownership interest in No. 32 Kowa Building (acquisition of additional 30% interest), JEI immediately established an additional trust for the acquired interest.

(2) Transactions of other assets

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

(3) Research for specified assets value, etc.

1) Real estate, etc.

(Millions of yen)

Acquisition	Property name	Type of assets	Acquisition date	Acquisition price (Note 2)	Research value of specified asset
Acquisition	No. 32 Kowa Building	Real estate	October 29, 2010	2,390	2,544
	Kowa Shirokanedai Building	Trust beneficiary interest in real estate	December 24, 2010	4,705	4,850
Total				7,095	7,394

(Note 1) The research for specified asset value, etc. shown above was conducted by Ernst & Young ShinNihon LLC at the time of acquisition in accordance with the Japanese Institute of Certified Public Accountants (JICPA) Industry Audit Committee Report No. 23, "Price Research of Specified Assets Held by Investment Trusts and Investment

Corporations.” In addition, JEI received a research report containing matters necessary for the identification of the property, such as the location and the lot number of the property.

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

2) Other

Not applicable during the period.

(4) Transactions with interested parties and major shareholders

1) Transactions

Classification	Acquisition price or disposal amount	
	Acquisition price	Disposal amount
Total amount	7,095 million yen	– million yen
	Acquisition price from interested parties and major shareholders 7,095 million yen	Disposal amount to interested parties and major shareholders – million yen
Breakdown for transactions with interested parties and major shareholders		
Kowa Real Estate Co., Ltd.	2,390 million yen (100.0%)	– million yen (–%)
KW Green First Y.K.	4,705 million yen (100.0%)	– million yen (–%)
Total	7,095 million yen (100.0%)	– million yen (–%)

(Note) Above transactions indicate transactions made with interested parties and major shareholders for the six months ended December 31, 2010. “Interested parties” means the interested parties related to the asset management company of JEI as prescribed in Section 26, Paragraph 1, Item 27 of the Regulations for Management Reports Concerning Investment Trusts and Investment Corporations of the Investment Trusts Association, Japan. “Major shareholders” means the major shareholders as defined in Section 29-4, Paragraph 2 of the Financial Instruments and Exchange Act. “Interested parties” include “interested parties” as defined in Section 201 of the Investment Trust Law as well as such juridical persons, etc. as in the case where the majority interest of them is owned by or the majority of their officers come from said interested parties and major shareholders.

2) Amounts of fees paid and other expenses

(Thousands of yen)

Classification	Total amount paid (A)	Breakdown of transactions with interested parties and major shareholders		B/A
		Paid to	Amount paid (B)	
Property management costs and fees (Note 2)	1,012,586	Kowa Real Estate Co., Ltd.	353,666	34.9%
		Sekisui House, Ltd.	45,236	4.5%
Property transaction brokerage fees	141,150	Kowa Real Estate Co., Ltd.	141,150	100%
Total	1,153,736		540,052	46.8%

(Note 1) Figures indicate fees paid to interested parties and major shareholders of asset management companies with whom JEI had transactions during the six months ended December 2010.

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

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

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

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

7. Accounting

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

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

(2) Change in depreciation calculation method

No changes were made during the period.

(3) Change in asset valuation method

No changes were made during the period.

8. Others

(1) Investment trust beneficiary certificates incorporated by JEI

Not applicable during the period.

(2) Scheduled meetings

1) Unitholders' meeting

Not applicable during the period.

2) Board of directors meeting

Outline of major contracts to be entered into or revised which were approved by the board of directors of JEI during the six months ended December 31, 2010 is as follows:

Approval date	Approved agenda	Description
August 13, 2010	Entrusting administrative duties concerning investment corporation bonds	The board of directors appointed Mizuho Securities Co., Ltd. as a general administrator for subscription of investment corporation bonds to be issued during the period from September 1, 2010 to December 31, 2010 and Mizuho Corporate Bank, Ltd. as a general administrator for acceptance of claims for exercising the rights and other inquiries from creditors of the Investment Corporation Bonds and other administrative duties concerning investment corporation bonds during the fiscal period.

(3) Other

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

Financial Statements

Japan Excellent, Inc.

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

Report of Independent Auditors

The Board of Directors and Unitholders
Japan Excellent, Inc.

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

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

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

Supplemental Information

As described in Note 20, Significant Subsequent Events, Japan Excellent, Inc. issued new units, acquired new property and disposed of its property.

The U.S. dollar amounts in the accompanying financial statements with respect to the six-month period ended December 31, 2010 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 24, 2011

Japan Excellent, Inc.

Balance Sheets

As of December 31, 2010 and June 30, 2010

	As of December 31, 2010	As of June 30, 2010	As of December 31, 2010
	(Thousands of yen)		(U.S. dollars) (Note 2)
Assets			
Current assets:			
Cash and cash equivalents including trust accounts (Notes 5 and 6)	¥ 13,151,936	¥ 15,149,859	\$ 161,492,336
Rental receivables	432,986	464,133	5,316,633
Other current assets	135,607	103,828	1,665,111
Total current assets	<u>13,720,529</u>	<u>15,717,820</u>	<u>168,474,080</u>
Property and equipment (Note 8):			
Buildings and building improvements	3,364,688	3,325,628	41,314,936
Machinery and equipment	265	-	3,255
Furniture and fixtures	662	662	8,124
Construction in progress	13,404	13,839	164,584
Buildings and building improvements for trust accounts	66,005,514	64,567,292	810,480,282
Machinery and equipment for trust accounts	414,193	413,595	5,085,863
Furniture and fixtures for trust accounts	70,485	60,948	865,484
Land for trust accounts	114,629,601	108,503,144	1,407,534,399
Less: accumulated depreciation	(8,009,258)	(7,016,054)	(98,345,504)
Net property and equipment	<u>176,489,554</u>	<u>169,869,054</u>	<u>2,167,111,423</u>
Investments and other assets:			
Leasehold rights	1,185,045	1,185,045	14,551,140
Leasehold rights for trust accounts	7,380,017	7,380,017	90,619,066
Security deposits	15,182	15,181	186,415
Long-term prepaid expenses	262,394	404,493	3,221,938
Investment corporation bond issuance costs	70,862	80,708	870,108
Other assets	63,066	58,609	774,393
Total investments and other assets	<u>8,976,566</u>	<u>9,124,053</u>	<u>110,223,060</u>
Total assets	<u>¥ 199,186,649</u>	<u>¥ 194,710,927</u>	<u>\$ 2,445,808,563</u>
Liabilities			
Current liabilities:			
Accounts payable – trade	¥ 584,349	¥ 467,463	\$ 7,175,205
Short-term loans (Notes 6 and 9)	4,900,000	-	60,166,994
Long-term debt due within one year (Notes 6 and 9)	34,500,000	27,500,000	423,624,754
Accounts payable – other	356,104	333,222	4,372,590
Unpaid consumption taxes	4,816	61,516	59,139
Derivative liabilities	28,770	60,222	353,272
Other current liabilities	252,234	243,823	3,097,170
Total current liabilities	<u>40,626,273</u>	<u>28,666,246</u>	<u>498,849,124</u>
Long-term liabilities:			
Investment corporation bonds (Notes 6 and 10)	17,000,000	17,000,000	208,742,633
Long-term debt (Notes 6 and 9)	44,000,000	51,000,000	540,275,049
Security deposits from tenants (Note 6)	428,246	442,205	5,258,427
Security deposits from tenants for trust accounts (Note 6)	7,859,538	8,212,705	96,507,095
Total long-term liabilities	<u>69,287,784</u>	<u>76,654,910</u>	<u>850,783,204</u>
Total liabilities	<u>109,914,057</u>	<u>105,321,156</u>	<u>1,349,632,328</u>
Net assets (Note 11):			
Unitholders' equity:			
Unitholders' capital:			
Units authorized: 2,000,000 units			
Units issued and outstanding: 154,550 units as of December 31, 2010 and June 30, 2010	87,083,030	87,083,030	1,069,290,643
Retained earnings	2,218,333	2,366,963	27,238,864
Total unitholders' equity	<u>89,301,363</u>	<u>89,449,993</u>	<u>1,096,529,507</u>
Valuation and translation adjustments:			
Unrealized loss on deferred hedge transactions (Note 6)	(28,771)	(60,222)	(353,272)
Total valuation and translation adjustments	<u>(28,771)</u>	<u>(60,222)</u>	<u>(353,272)</u>
Total net assets	<u>89,272,592</u>	<u>89,389,771</u>	<u>1,096,176,235</u>
Total liabilities and net assets	<u>¥ 199,186,649</u>	<u>¥ 194,710,927</u>	<u>\$ 2,445,808,563</u>

Japan Excellent, Inc.

Statements of Income and Retained Earnings

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

	For the period from July 1, 2010 to December 31, 2010	For the period from January 1, 2010 to June 30, 2010	For the period from July 1, 2010 to December 31, 2010
	<i>(Thousands of yen)</i>		<i>(U.S. dollars) (Note 2)</i>
Revenues:			
Rental revenues <i>(Note 14)</i>	¥6,506,591	¥6,746,130	\$79,894,291
Other <i>(Note 14)</i>	587,425	556,044	7,212,979
Total revenues	<u>7,094,016</u>	<u>7,302,174</u>	<u>87,107,270</u>
Operating expenses:			
Property operating expenses <i>(Note 14)</i>	3,494,167	3,516,170	42,904,800
Asset management fees	416,479	414,743	5,113,940
Custodian fees	14,930	14,953	183,322
Administrative service fees	29,598	28,619	363,432
Compensation for directors	6,540	6,540	80,305
Other	78,763	69,141	967,132
Total operating expenses	<u>4,040,477</u>	<u>4,050,166</u>	<u>49,612,931</u>
Operating income	<u>3,053,539</u>	<u>3,252,008</u>	<u>37,494,339</u>
Other income:			
Interest income	2,907	3,490	35,699
Penalty income	–	19,141	–
Other	1,019	2,333	12,517
Other expenses:			
Interest expense	546,315	635,048	6,708,191
Loan arrangement fees	157,256	196,694	1,930,948
Interest expense on investment corporation bonds	124,541	55,370	1,529,236
Amortization of investment corporation bond issuance costs	9,846	5,192	120,902
Other	128	16,804	1,575
Income before income taxes	<u>2,219,379</u>	<u>2,367,864</u>	<u>27,251,703</u>
Income taxes <i>(Note 13)</i> :			
Current	1,081	969	13,270
Deferred	(5)	2	(67)
Net income	<u>2,218,303</u>	<u>2,366,893</u>	<u>27,238,500</u>
Retained earnings at beginning of period	<u>30</u>	<u>70</u>	<u>363</u>
Retained earnings at end of period	<u>¥2,218,333</u>	<u>¥2,366,963</u>	<u>\$27,238,863</u>

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

Japan Excellent, Inc.

Statements of Changes in Net Assets

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

For the period from January 1, 2010 to June 30, 2010							
Net assets							
Unitholders' equity				Valuation and translation adjustments			
Number of units in issue	Unitholders' capital	Retained earnings	Total unitholders' equity	Unrealized loss on deferred hedge transactions	Total valuation and translation adjustments	Total net assets	
<i>(Thousands of yen)</i>							
Balance as of December 31, 2009	154,550	¥87,083,030	¥ 2,486,006	¥89,569,036	¥(118,503)	¥(118,503)	¥89,450,533
Changes during the fiscal period:							
Distributions from retained earnings	-	-	(2,485,936)	(2,485,936)	-	-	(2,485,936)
Net income	-	-	2,366,893	2,366,893	-	-	2,366,893
Changes in unrealized loss on deferred hedge transactions	-	-	-	-	58,281	58,281	58,281
Total changes during the fiscal period	-	-	(119,043)	(119,043)	58,281	58,281	(60,762)
Balance as of June 30, 2010	<u>154,550</u>	<u>¥87,083,030</u>	<u>¥ 2,366,963</u>	<u>¥89,449,993</u>	<u>¥ (60,222)</u>	<u>¥ (60,222)</u>	<u>¥89,389,771</u>

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

For the period from July 1, 2010 to December 31, 2010							
Net assets							
Unitholders' equity				Valuation and translation adjustments			
Number of units in issue	Unitholders' capital	Retained earnings	Total unitholders' equity	Unrealized loss on deferred hedge transactions	Total valuation and translation adjustments	Total net assets	
<i>(U.S. dollars) (Note 2)</i>							
Balance as of June 30, 2010	154,550	\$1,069,290,643	\$ 29,063,885	\$1,098,354,528	\$(739,460)	\$(739,460)	\$1,097,615,068
Changes during the fiscal period:							
Distributions from retained earnings	-	-	(29,063,522)	(29,063,522)	-	-	(29,063,522)
Net income	-	-	27,238,501	27,238,501	-	-	27,238,501
Changes in unrealized loss on deferred hedge transactions	-	-	-	-	386,188	386,188	386,188
Total changes during the fiscal period	-	-	(1,825,021)	(1,825,021)	386,188	386,188	(1,438,833)
Balance as of December 31, 2010	<u>154,550</u>	<u>\$1,069,290,643</u>	<u>\$ 27,238,864</u>	<u>\$1,096,529,507</u>	<u>\$(353,272)</u>	<u>\$(353,272)</u>	<u>\$1,096,176,235</u>

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

Japan Excellent, Inc.

Statements of Cash Flows

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

	For the period from July 1, 2010 to December 31, 2010	For the period from January 1, 2010 to June 30, 2010	For the period from July 1, 2010 to December 31, 2010
	<i>(Thousands of yen)</i>		<i>(U.S. dollars) (Note 2)</i>
Cash flows from operating activities			
Income before income taxes	¥ 2,219,379	¥ 2,367,864	\$ 27,251,703
Depreciation and amortization	993,261	992,611	12,196,230
Amortization of investment corporation bond issuance costs	9,846	5,192	120,902
Interest income	(2,907)	(3,490)	(35,699)
Interest expense	670,856	690,418	8,237,427
Gain on liquidation of investment in securities	–	(123)	–
Decrease (increase) in rental receivables	31,147	(6,416)	382,447
(Increase) decrease in prepaid expenses	(26,490)	79,388	(325,267)
(Decrease) increase in accounts payable – trade	(36,115)	3,301	(443,459)
Decrease in accounts payable – other	(1,918)	(15,984)	(23,552)
Decrease in unpaid consumption taxes	(56,700)	(32,762)	(696,219)
Increase (decrease) in advances received	3,724	(701)	45,730
Decrease in long-term prepaid expenses	142,098	64,364	1,744,821
Other, net	7,002	(38,564)	85,981
Subtotal	<u>3,953,183</u>	<u>4,105,098</u>	<u>48,541,045</u>
Interest received	2,907	3,490	35,699
Interest paid	(666,192)	(647,221)	(8,180,154)
Income taxes paid	(1,111)	(2,814)	(13,649)
Net cash provided by operating activities	<u>3,288,787</u>	<u>3,458,553</u>	<u>40,382,941</u>
Cash flows from investing activities			
Proceeds from liquidation of investment in securities	–	10,891	–
Purchases of property and equipment	(9,935)	(70,557)	(121,988)
Purchases of property and equipment for trust accounts	(7,443,973)	(199,441)	(91,404,385)
Proceeds from security deposits from tenants	2,030	10,385	24,919
Payments for security deposits to tenants	(15,988)	(17,085)	(196,315)
Proceeds from security deposits from tenants for trust accounts	502,489	190,590	6,170,057
Payments for security deposits to tenants for trust accounts	(855,657)	(351,395)	(10,506,595)
Net cash used in investing activities	<u>(7,821,034)</u>	<u>(426,612)</u>	<u>(96,034,307)</u>
Cash flows from financing activities			
Proceeds from short-term loans	4,900,000	–	60,166,994
Repayment for short-term loans	–	(12,000,000)	–
Proceeds from long-term debt	6,000,000	8,000,000	73,673,870
Repayment for long-term debt	(6,000,000)	(13,000,000)	(73,673,870)
Proceeds from issuance of investment corporation bonds	–	17,000,000	–
Payments for investment corporation bond issuance costs	–	(85,900)	–
Distributions to unitholders	(2,365,676)	(2,487,342)	(29,048,088)
Net cash provided by (used in) financing activities	<u>2,534,324</u>	<u>(2,573,242)</u>	<u>31,118,906</u>
Net (decrease) increase in cash and cash equivalents	(1,997,923)	458,699	(24,532,460)
Cash and cash equivalents at beginning of period	15,149,859	14,691,160	186,024,796
Cash and cash equivalents at end of period	<u>¥13,151,936</u>	<u>¥15,149,859</u>	<u>\$ 161,492,336</u>

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

Japan Excellent, Inc.

Notes to Financial Statements

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

1. Organization

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

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

JEI was listed on the Tokyo Stock Exchange on June 27, 2006. As of December 31, 2010, JEI held 19 properties with 228,177 square meters of total leasable space and had leases with 108 tenants excluding residential tenants.

2. Basis of Presentation

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

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

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥81.44 = U.S.\$1.00, the foreign exchange rate prevailing on December 31, 2010, 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.

Property and equipment including trust accounts and trademark rights

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

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

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

Deferred assets

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

Income taxes

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

Consumption taxes

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

Property-related taxes

Principally, property-related taxes including property taxes, urban planning taxes and depreciable property taxes are imposed on a calendar-year basis and are expensed as property and other taxes (refer to Note 14).

JEI capitalizes the property-related taxes allocated to the sellers of properties to JEI at the time of acquisition of such properties including trust accounts. The capitalized amount for the period from July 1, 2010 to December 31, 2010 was ¥3,012 thousand (\$36,981). No property-related taxes were capitalized for the period from January 1, 2010 to June 30, 2010.

3. Summary of Significant Accounting Policies (continued)

Revenue recognition

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

Derivatives and hedge accounting

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

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

Properties in trust accounts

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

4. Changes in Accounting Policies

New accounting standard for asset retirement obligations

Effective July 1, 2010, the Company adopted the Accounting Standard for Asset Retirement Obligations (The Accounting Standards Board of Japan (hereinafter referred to as the ASBJ) Statement No. 18, March 31, 2008) and the Guidance on Accounting Standard for Asset Retirement Obligations (ASBJ Guidance No. 21, March 31, 2008). This change had no effect on the Company's revenues and expenses for the period ended December 31, 2010.

5. 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, 2010 and June 30, 2010 consisted of the following:

	As of December 31, 2010	As of June 30, 2010	As of December 31, 2010
	<i>(Thousands of yen)</i>		<i>(U.S. dollars)</i>
Cash and cash deposits	¥ 2,290,294	¥ 3,742,691	\$ 28,122,466
Cash in trust and deposits in trust	10,861,642	11,407,168	133,369,870
Cash and cash equivalents including trust accounts	<u>¥13,151,936</u>	<u>¥15,149,859</u>	<u>\$161,492,336</u>

6. Financial Instruments

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

Overview

(1) Policy for Financial Instruments

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

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

(a) Market Risks (Interest Rate Fluctuation Risks)

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

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

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

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

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

6. Financial Instruments (continued)

Fair Value of Financial Instruments

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

	As of December 31, 2010			As of June 30, 2010			As of December 31, 2010		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
	<i>(Thousands of yen)</i>						<i>(U.S. dollars)</i>		
(1) Cash and cash deposits	¥ 2,290,294	¥ 2,290,294	¥ -	¥ 3,742,691	¥ 3,742,691	¥ -	\$ 28,122,466	\$ 28,122,466	\$ -
(2) Cash in trust and deposits in trust	10,861,642	10,861,642	-	11,407,168	11,407,168	-	133,369,870	133,369,870	-
Total assets	¥ 13,151,936	¥ 13,151,936	¥ -	¥ 15,149,859	¥ 15,149,859	¥ -	\$ 161,492,336	\$ 161,492,336	\$ -
(3) Short-term loans	¥ 4,900,000	¥ 4,900,000	¥ -	¥ -	¥ -	¥ -	\$ 60,166,994	\$ 60,166,994	\$ -
(4) Long-term debt due within one year	34,500,000	34,513,981	13,981	27,500,000	27,525,604	25,604	423,624,754	423,796,422	171,668
(5) Investment corporation bonds	17,000,000	17,198,200	198,200	17,000,000	17,096,300	96,300	208,742,633	211,176,326	2,433,693
(6) Long-term debt	44,000,000	44,388,284	388,284	51,000,000	51,417,729	417,729	540,275,049	545,042,783	4,767,734
Total liabilities	¥ 100,400,000	¥ 101,000,465	¥ 600,465	¥ 95,500,000	¥ 96,039,634	¥ 539,634	\$ 1,232,809,430	\$ 1,240,182,525	\$ 7,373,095
(7) Derivative transactions *	¥ (28,771)	¥ (28,771)	¥ -	¥ (60,222)	¥ (60,222)	¥ -	\$ (353,272)	\$ (353,272)	\$ -

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

(Note 1)

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

Assets

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

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

Liabilities

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

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

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

- (5) Investment corporation bonds

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

- (7) Derivative transactions

Please refer to Note 16, "Derivative Transactions".

6. Financial Instruments (continued)

(Note 2)

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

	As of December 31, 2010	As of June 30, 2010	As of December 31, 2010
	<i>(Thousands of yen)</i>		<i>(U.S. dollars)</i>
(1) Security deposits from tenants *	¥ 428,246	¥ 442,205	\$ 5,258,427
(2) Security deposits from tenants for trust accounts *	¥7,859,538	¥8,212,705	\$96,507,095

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

(Note 3)

Planned redemption amounts after settlement date of financial assets

	As of December 31, 2010					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	<i>(Thousands of yen)</i>					
Cash and cash deposits	¥ 2,290,294	¥ -	¥ -	¥ -	¥ -	¥ -
Cash in trust and deposits in trust	10,861,642	-	-	-	-	-
Total	<u>¥13,151,936</u>	<u>¥ -</u>	<u>¥ -</u>	<u>¥ -</u>	<u>¥ -</u>	<u>¥ -</u>

	As of December 31, 2010					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	<i>(U.S. dollars)</i>					
Cash and cash deposits	\$28,122,466	\$ -	\$ -	\$ -	\$ -	\$ -
Cash in trust and deposits in trust	133,369,870	-	-	-	-	-
Total	<u>\$161,492,336</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

	As of June 30, 2010					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	<i>(Thousands of yen)</i>					
Cash and cash deposits	¥ 3,742,691	¥ -	¥ -	¥ -	¥ -	¥ -
Cash in trust and deposits in trust	11,407,168	-	-	-	-	-
Total	<u>¥15,149,859</u>	<u>¥ -</u>	<u>¥ -</u>	<u>¥ -</u>	<u>¥ -</u>	<u>¥ -</u>

7. Investment and Rental Property (continued)

Carrying value		Fair value	
As of June 30, 2010	Change during period	As of December 31, 2010	As of December 31, 2010
<i>(U.S. dollars)</i>			
\$2,190,988,653	\$81,292,976	\$2,272,281,629	\$2,133,840,864

Carrying value		Fair value	
As of December 31, 2009	Change during period	As of June 30, 2010	As of June 30, 2010
<i>(Thousands of yen)</i>			
¥179,165,422	¥(731,306)	¥178,434,116	¥173,858,000

(Note 1)

Carrying value represents the acquisition cost less accumulated depreciation.

(Note 2)

Changes during period comprise an increase of ¥2,414,453 thousand (\$29,647,015) related to the acquisition of No. 32 Kowa Building and an increase of ¥4,864,128 thousand (\$59,726,518) related to the acquisition of Kowa Shirokanedai Building and a decrease of ¥993,204 thousand (\$12,195,530) for depreciation costs.

(Note 3)

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

8. Property and Equipment

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

	As of December 31, 2010			As of June 30, 2010			As of December 31, 2010		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
<i>(Thousands of yen)</i>									
Buildings and building improvements	¥ 3,364,688	¥ (342,259)	¥ 3,022,429	¥ 3,325,628	¥ (302,949)	¥ 3,022,679	\$ 41,314,936	\$ (4,202,591)	\$ 37,112,345
Machinery and equipment	265	(12)	253	—	—	—	3,255	(147)	3,108
Furniture and fixtures	662	(199)	463	662	(155)	507	8,124	(2,441)	5,683
Construction in progress	13,404	—	13,404	13,839	—	13,839	164,584	—	164,584
Buildings and building improvements for trust accounts	66,005,514	(7,531,240)	58,474,274	64,567,292	(6,596,182)	57,971,110	810,480,282	(92,475,936)	718,004,346
Machinery and equipment for trust accounts	414,193	(118,031)	296,162	413,595	(104,028)	309,567	5,085,863	(1,449,295)	3,636,568
Furniture and fixtures for trust accounts	70,485	(17,517)	52,968	60,948	(12,740)	48,208	865,484	(215,094)	650,390
Land for trust accounts	114,629,601	—	114,629,601	108,503,144	—	108,503,144	1,407,534,399	—	1,407,534,399
Construction in progress for trust accounts	—	—	—	—	—	—	—	—	—
Total	¥184,498,812	¥(8,009,258)	¥176,489,554	¥176,885,108	¥(7,016,054)	¥169,869,054	\$2,265,456,927	\$(98,345,504)	\$2,167,111,423

9. Short-Term Loans and Long-Term Debt

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

	As of December 31, 2010		As of June 30, 2010		As of December 31, 2010
	Amount	Weighted- average interest rate	Amount	Weighted- average interest rate	Amount
	(Thousands of yen)		(Thousands of yen)		(U.S. dollars)
Short-term loans:					
Unsecured loans from banks due on March 24, 2011	¥ 4,900,000	0.780000%	¥ –	–	\$ 60,166,994
Subtotal	<u>4,900,000</u>		<u>–</u>		<u>60,166,994</u>
Long-term debt due within one year:					
Unsecured loans from banks due on June 29, 2011	9,500,000	1.43470%	9,500,000	1.45181%	116,650,294
Unsecured loans from an insurance company due on June 29, 2011	3,000,000	1.96625%	3,000,000	1.96625%	36,836,935
Unsecured loans from banks due on June 29, 2011	15,000,000	0.94000%	15,000,000	1.00308%	184,184,676
Unsecured loans from banks due on November 29, 2011	7,000,000	1.34000%	–	–	85,952,849
Subtotal	<u>34,500,000</u>		<u>27,500,000</u>		<u>423,624,754</u>
Long-term debt:					
Unsecured loans from banks due on November 29, 2011	–	–	13,000,000	1.39000%	–
Unsecured loans from banks due on July 31, 2012	7,000,000	0.69000%	7,000,000	0.75308%	85,952,849
Unsecured loans from banks and insurance companies due on July 31, 2012	7,000,000	1.96907%	7,000,000	1.96907%	85,952,849
Unsecured loans from banks due on June 28, 2013	7,000,000	1.04000%	7,000,000	1.10308%	85,952,849
Unsecured loans from banks due on December 27, 2013	8,000,000	1.09000%	8,000,000	1.14134%	98,231,826
Unsecured loans from an insurance company due on July 31, 2014	2,000,000	2.25875%	2,000,000	2.25875%	24,557,957
Unsecured loans from a bank due on July 31, 2014	2,000,000	2.28417%	2,000,000	2.28417%	24,557,957
Unsecured loans from an insurance company and a bank due on June 30, 2015	5,000,000	2.27344%	5,000,000	2.27344%	61,394,892
Unsecured loans from a bank due on November 30, 2017	6,000,000	1.73875%	–	–	73,673,870
Subtotal	<u>44,000,000</u>		<u>51,000,000</u>		<u>540,275,049</u>
Total	<u>¥83,400,000</u>		<u>¥78,500,000</u>		<u>\$ 1,024,066,797</u>

10. Investment Corporation Bonds

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

	As of December 31, 2010		As of June 30, 2010		As of December 31, 2010
	Amount	Weighted- average interest rate	Amount	Weighted- average interest rate	Amount
	<i>(Thousands of yen)</i>		<i>(Thousands of yen)</i>		<i>(U.S. dollars)</i>
Unsecured bond due on March 11, 2014	¥12,000,000	1.52000%	¥12,000,000	1.52000%	\$147,347,741
Unsecured bond due on June 26, 2015	5,000,000	1.29000%	5,000,000	1.29000%	61,394,892
Total	<u>¥17,000,000</u>		<u>¥17,000,000</u>		<u>\$208,742,633</u>

11. Net Assets

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

12. Per Unit Information

Net assets per unit were ¥577,629 (\$7,093) as of December 31, 2010 and ¥578,387 as of June 30, 2010. Net income per unit was ¥14,353 (\$176) for the period from July 1, 2010 to December 31, 2010 and ¥15,315 for the period from January 1, 2010 to June 30, 2010 and was computed based on the weighted-average number of units outstanding during the respective periods.

13. Income Taxes

JEI is subject to income taxes in Japan.

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

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

	As of December 31, 2010	As of June 30, 2010	As of December 31, 2010
	<i>(Thousands of yen)</i>		<i>(U.S. dollars)</i>
Deferred tax assets:			
Accrued enterprise taxes	¥ 23	¥ 18	\$ 285
Unrealized loss on deferred hedge transactions	11,316	23,685	138,942
Gross deferred tax assets	11,339	23,703	139,227
Valuation reserve	(11,316)	(23,685)	(138,942)
Total deferred tax assets	23	18	285
Net deferred tax assets	¥ 23	¥ 18	\$ 285

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

	For the period from July 1, 2010 to December 31, 2010	For the period from January 1, 2010 to June 30, 2010
Statutory tax rate	39.33%	39.33%
Reconciliation:		
Deductible distributions paid	(39.31)	(39.31)
Other	0.03	0.02
Effective tax rate	0.05%	0.04%

14. Breakdown of Property Rental Business Revenues and Expenses

	For the period from July 1, 2010 to December 31, 2010	For the period from January 1, 2010 to June 30, 2010	For the period from July 1, 2010 to December 31, 2010
	<i>(Thousands of yen)</i>		<i>(U.S. dollars)</i>
Rental business revenues:			
Rental revenues	¥6,506,591	¥6,746,130	\$79,894,291
Other	587,425	556,044	7,212,979
Total rental business revenues	7,094,016	7,302,174	87,107,270
Property operating expenses:			
Property management costs and fees	1,005,851	1,082,750	12,350,826
Utilities	649,690	582,516	7,977,525
Property and other taxes	550,005	540,657	6,753,497
Insurance	20,633	21,087	253,353
Repairs and maintenance	108,223	130,898	1,328,866
Depreciation	993,204	992,554	12,195,530
Other	166,561	165,708	2,045,203
Total property operating expenses	3,494,167	3,516,170	42,904,800
Profit	¥3,599,849	¥3,786,004	\$44,202,470

15. Leases

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

	As of December 31, 2010	As of June 30, 2010	As of December 31, 2010
	<i>(Thousands of yen)</i>		<i>(U.S. dollars)</i>
Due within one year	¥652,359	¥1,032,650	\$8,010,302
Due after one year	8,226	202,840	101,012
Total	¥660,585	¥1,235,490	\$8,111,314

16. Derivative Transactions

Derivative Transactions as of December 31, 2010

(1) Hedge accounting not applied

Not applicable.

(2) Hedge accounting applied

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

Hedge accounting method	Type of derivative transaction	Hedged item	Contract amount		Fair value	Method of calculating the fair value	Contract amount		Fair value	Method of calculating the fair value			
				More than one year				More than one year					
						<i>(Thousands of yen)</i>				<i>(U.S. dollars)</i>			
Principal method	Interest rate swap Receive floating, pay fixed	Long-term debt	¥6,250,000	–	¥(28,771)	*	\$76,743,615	–	\$(353,272)	*			

* Calculated based on prices provided by counterparty financial institutions.

Derivative Transactions as of June 30, 2010

(1) Hedge accounting not applied

Not applicable.

(2) Hedge accounting applied

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

Hedge accounting method	Type of derivative transaction	Hedged item	Contract amount		Fair value	Method of calculating the fair value
				More than one year		
<i>(Thousands of yen)</i>						
Principal method	Interest rate swap Receive floating, pay fixed	Long-term debt	¥6,250,000	–	¥(60,222)	*

* Calculated based on prices provided by counterparty financial institutions.

17. Related Party Transactions

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

(1) Major unitholders

Not applicable.

(2) Directors and major individual unitholders

Name	Description of transaction	Amount		Account	Balance at the end of period	
		(Thousands of yen)	(U.S. dollars)		(Thousands of yen)	(U.S. dollars)
Chifumi Toda	Payment of asset management fees to JEAM	¥416,479	\$5,113,940	Accounts payable	¥253,078	\$3,107,545

For the period from January 1, 2010 to June 30, 2010

(1) Major unitholders

Not applicable.

(2) Directors and major individual unitholders

Name	Description of transaction	Amount		Account	Balance at the end of period	
		(Thousands of yen)	(U.S. dollars)		(Thousands of yen)	(U.S. dollars)
Chifumi Toda	Payment of asset management fees to JEAM	¥414,743	\$4,685,833	Accounts payable	¥254,787	\$2,878,624

18. Segment Information

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

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

Information about products and services

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

18. Segment Information (continued)

Information about geographic area

(1) Revenues

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

(2) Property and equipment

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

Information about major clients

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

(Additional information)

Effective July 1, 2010, JEI adopted the Accounting Standard for Disclosures about Segments of an Enterprise and Related Information (ASBJ Statement No. 17, March 27, 2009) and Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information (ASBJ Guidance No. 20, March 21, 2008).

19. Distribution Information

In accordance with Section 33.1.2 of the bylaws set forth by JEI for distributions of cash dividends, the amount of dividends payable, which is limited by the amount of unappropriated retained earnings, shall be in excess of 90% of its distributable income for the fiscal period as set forth in Section 67.15 of the Special Taxation Measures Law. Consequently, JEI set income available for distributions of dividends at ¥2,218,256,150 (\$27,237,919), the maximum integral multiple of the 154,550 units issued not exceeding unappropriated retained earnings at December 31, 2010. No cash distribution exceeding the income amount set forth in Section 33.1.4 of the bylaws of JEI shall be made.

On February 14, 2011, the Board of Directors approved a resolution to make a cash distribution of ¥14,353 (\$176) per unit aggregating to ¥2,218,256,150 (\$27,237,919) to unitholders of record as of December 31, 2010.

20. Significant Subsequent Events

(1) Issuance of new units

On January 13, 2011 and January 24, 2011, the Board of Directors approved a resolution to complete a public offering of new units as outlined below. JEI received payment on January 31, 2011 and February 28, 2011 for the said units, which were issued in accordance with the conditions outlined below. As a result of the issuance of new units, JEI had unitholders' capital of ¥102,052 million (\$1,253,099 thousand) with 188,650 units in issue at February 28, 2011.

A. Issuance of new units through public offering

(i) Method of issuance	Public offering
(ii) Number of units issued	31,000 units
(iii) Issue price (offer price)	¥454,930 (\$5,586) per unit
(iv) Total offer price	¥14,103 million (\$173,168 thousand)
(v) Proceeds per unit	¥438,984 (\$5,390)
(vi) Aggregate proceeds	¥13,609 million (\$167,099 thousand)
(vii) Payment date	January 31, 2011

B. Issuance of new units through allocation to a third party

(i) Method of issuance	Allocation to a third party
(ii) Number of units issued	3,100 units
(iii) Proceeds per unit	¥438,984 (\$5,390) per unit
(iv) Aggregate proceeds	¥1,361 million (\$16,710 thousand)
(v) Payment date	February 28, 2011
(vi) Allottee	Mizuho Securities Co., Ltd.

(2) Acquisition of property

The following property was acquired.

1. Type of asset acquired	Trust Property
2. Asset	Daiba Garden City Building
3. Location	2-3-5, Daiba, Minato-ku, Tokyo
4. Acquisition price	¥11,000 million (\$135,069 thousand) (Note)
5. Contract date	January 13, 2011
6. Delivery date	February 4, 2011
7. Seller	Sekisui House, Ltd.

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

20. Significant Subsequent Events (continued)

(3) Disposition of property

The following property was transferred.

1. Type of asset sold	Trust Property
2. Asset	No. 36 Kowa Building
3. Location	5-19, Sanbancho, Chiyoda -ku, Tokyo
4. Disposal price	¥4,300 million (\$52,800 thousand) (Note)
5. Contract date	January 13, 2011
6. Delivery date	February 4, 2011
7. Purchaser	Kowa Real Estate Co., Ltd.

(Note) Transfer value does not include fees related to the transfer, adequate JEI share of the applicable real estate tax and city planning tax, and consumption tax.

(4) Early repayment of loans

On February 16, 2011, the Executive Director resolved to repay the following outstanding short-term loans on February 24, 2011 prior to their due date:

1. Total amount of loans	¥4,900 million (\$60,167 thousand)
2. Lender	Mitsubishi UFJ Trust and Banking Corporation Mizuho Corporate Bank, Ltd.
3. Interest rate	0.78% (from January 24, 2011 through February 24, 2011)
4. Start of the loan period	December 24, 2010
5. Original due date	March 24, 2011