

Asset Management Report for 20th Period

(Semi-Annual Report for 20th Period)

From January 1, 2016 to June 30, 2016



Japan Excellent, Inc.

I. Greetings

To Our Unitholders

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

We hereby report the financial results of JEI for the 20th period (from January 1, 2016 to June 30, 2016).

JEI accelerated efforts to increase rents by ensuring to take opportunities of upward rent revision for current contracts. Also, JEI promoted filling of vacancies while setting higher rent levels. As a result, the portfolio occupancy rate improved to 99.1% at the end of the 20th period from 98.5% at the end of the 19th period.

In terms of finance, JEI successfully reduced financial costs through refinancing while adhering to the basic policy of fixing interest rates of loans, extending borrowing periods and diversifying maturity dates. JEI continues to retain rating of AA- from the rating agency as JEI's ongoing stable finance management was recognized.

JEI recorded total revenues of 10,223 million yen, operating income of 3,982 million yen and net income of 3,122 million yen, and the distribution per unit of 2,462 yen for 20th period.

Also in the 21st period (ending December 2016), JEI has continued with quality growth through acquisition of Mansard Daikanyama, a property close to central Tokyo located near a station that is relatively new and has high competitiveness, from the core sponsor, while procuring a total of around 5.5 billion yen through issuance of new investment units in July 2016.

About Future Asset Management

In the real estate market, while a favorable fund procurement environment is expected to continue, real estate transaction prices are expected to remain in the high price range as supply of prime properties is still limited. In the office building leasing market, the rent level is forecast to continue to increase gradually for the time being, in line with the improving trend of the vacancy rate.

With this perspective, JEI will endeavor to enhance profitability of the entire portfolio by not only maintaining the high occupancy rate but also by improving the rent level based on market trends. Furthermore, JEI will continue with growth through pursuit of opportunities to invest in prime real estate, including replacement of assets, with an aim to expand its asset size over the medium to long-term. In terms of finance, JEI will strive to conduct stable financial management by working to reduce financing costs, while continuing to follow the basic policy of fixing interest rates of loans, extending borrowing periods and diversifying maturity dates.

In addition, JEI remains committed to strict adherence to the Financial Instruments and Exchange Act and other laws and regulations to promote compliance, as well as to accurate and easy-to-understand disclosure of the status of our operations and asset management to our unitholders.

We kindly ask for your continued understanding and support.

Hidehiko Ogawa
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		16th Period January 1, 2014 to June 30, 2014	17th Period July 1, 2014 to December 31, 2014	18th Period January 1, 2015 to June 30, 2015	19th Period July 1, 2015 to December 31, 2015	20th Period, January 1, 2016 to June 30, 2016
Revenues	(Millions of yen)	9,558	9,695	10,121	10,839	10,223
(Rental revenues)	(Millions of yen)	(9,558)	(9,695)	(10,121)	(10,669)	(10,223)
Operating expenses	(Millions of yen)	5,592	5,731	6,102	6,537	6,240
(Property operating expenses)	(Millions of yen)	(5,022)	(5,180)	(5,533)	(5,916)	(5,655)
Operating income	(Millions of yen)	3,966	3,963	4,018	4,301	3,982
Ordinary income	(Millions of yen)	3,011	3,041	3,098	3,385	3,113
Net income	(Millions of yen)	3,010	3,040	3,097	3,384	3,112
Total assets	(Millions of yen)	277,842	278,037	300,976	284,443	283,653
(Period-on-period change)	(%)	(7.7)	(0.1)	(8.3)	(-5.5)	(-0.3)
Net assets	(Millions of yen)	130,998	131,028	131,085	137,857	137,808
(Period-on-period change)	(%)	(8.5)	(0.0)	(0.0)	(5.2)	(Δ0.0)
Unitholders' capital	(Millions of yen)	127,950	127,950	127,950	134,434	134,434
Total outstanding investment units	(units)	1,212,750	1,212,750	1,212,750	1,264,450	1,264,450
Net assets per unit	(yen)	108,017	108,042	108,089	109,025	108,987
Net income per unit (Note 1)	(yen)	2,511	2,506	2,554	2,685	2,461
Total distribution	(Millions of yen)	3,010	3,040	3,097	3,161	3,113
Distribution per unit (Distribution per unit after split)	(yen)	2,482	2,507	2,554	2,500	2,462
(Profit distribution per unit) (Of this, profit distribution per unit after split)	(yen)	2,482	2,507	2,554	2,500	2,462
(Distribution in excess of earnings per unit) (Of this, distribution in excess of earnings per unit after split)	(yen)	(-)	(-)	(-)	(-)	(-)
Return on assets (Note 2)	(%)	1.1	1.1	1.1	1.2	1.1
(Annualized rate)	(%)	(2.3)	(2.2)	(2.2)	(2.3)	(2.2)
Return on equity (Note 3)	(%)	2.4	2.3	2.4	2.5	2.3
(Annualized rate)	(%)	(4.8)	(4.6)	(4.8)	(5.0)	(4.5)
Capital ratio (Note 4)	(%)	47.1	47.1	43.6	48.5	48.6
(Period-on-period change)	(%)	(0.3)	(-0.0)	(-3.6)	(4.9)	(0.1)
Payout ratio (Note 5)	(%)	99.9	100.0	99.9	93.4	100.0
Number of investment properties	(properties)	30	30	31	30	30
Number of tenants	(tenants)	206	214	219	224	228
Total leasable space (Note 6, 7)	(㎡)	330,285	330,180	370,671	356,918	356,884
Occupancy rate	(%)	98.3	99.1	97.9	98.5	99.1
Depreciation	(Millions of yen)	1,624	1,657	1,786	1,908	1,899
Capital expenditure	(Millions of yen)	558	415	790	635	729
Net operating income (NOI) (Note 8)	(Millions of yen)	6,160	6,172	6,374	6,662	6,467
Funds from operation (FFO) per	(yen)	3,822	3,873	4,027	4,051	3,964

Asset Management Report for 20th period (Semi-Annual Report for 20th Period)

unit (Note 9)						
FFO multiples (Note 10)	(times)	17.4	20.8	17.4	16.5	17.6
Debt service coverage ratio (DSCR) (Note 11)	(times)	4.8	5.0	5.0	5.6	5.5
Interest-bearing debt	(Millions of yen)	133,900	133,900	155,400	131,900	131,900
Loan-to-value (Note 12)	(%)	48.2	48.2	51.6	46.4	46.5
Number of days in operation	(days)	181	184	181	184	182

(Note 1) Net income per unit is calculated by dividing the 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

(Note 3) Return on equity = Net income / [(Period beginning net assets) + (Period end net assets) / 2] × 100

(Note 4) Capital ratio = Period end net assets / Period end total assets × 100

(Note 5) Payout ratio = Total distribution / Net income × 100 (figures for the 18th period and before are rounded down to one decimal place while figures for the 19th period is rounded to one decimal place.)

(Note 6) For properties with joint ownership, a figure obtained by multiplying the leasable space of the entire property by the ownership ratio is indicated as JEI's leasable space. The same shall apply hereinafter.

(Note 7) Spaces are rounded to the nearest specified unit. The same applies hereinafter.

(Note 8) NOI = Rental revenues – Property operating expenses + Depreciation

(Note 9) FFO per unit = (Net income + Depreciation – Gain on sale real estate + Loss on sale of real estate) / Total Number of Outstanding investment units (the figure is rounded down to the whole number).

(Note 10) FFO multiples = Period end investment unit price / Annualized FFO per unit (The rate is rounded down to one decimal place before 18th fiscal period.)

(Note 11) DSCR = Net income before interest and taxes / (Interest expenses + Interest expense on investment corporation bonds)

(Note 12) Loan-to-value = Period end interest-bearing debt / Period end total assets × 100

(2) Asset Management Development

Japan Excellent, Inc. (JEI) was founded on February 20, 2006 under the Law Concerning Investment Trusts and Investment Corporations of Japan (hereinafter referred to 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 of maintaining sound corporate growth and stable revenues from the medium- to long-term perspectives. On June 30, 2016, we settled our twentieth period.

1) Business conditions and results

The Japanese economy during the 20th period (ended June 2016) continues to be on a moderate recovery trend against the backdrop of continuation of strong corporate earnings and pickup in capital investment as well as the improvement in employment situation although some weakness is also seen.

In the real estate transaction market, a rise in real estate transaction prices due mainly to a decrease in expected yields is observed amid the continuing favorable fund procurement environment, and there is sense of overheating. In addition to the new listings of J-REITs, market participation of not only overseas investors, private funds and private REITs but also of general companies, etc. has become more noticeable.

In the office building leasing market, tenant needs for floor area increase in the same building, relocation for expansion and for better location, etc. continue to be apparent backed by the continuation of strong corporate earnings and the improvement in employment situation, and the vacancy rate continues to be on an improving trend. As a result, new asking rent has been on a rising trend in major regional cities as well as in central Tokyo. JEI has conducted leasing activities emphasizing rent levels and has promoted upward rent revisions to suit the value of properties for current contracts by ensuring to seize opportunities of upward rent revision. As to new contracts, JEI promoted filling of vacancies while setting higher rent levels based on market trends and insisting on the rent level. As a result of these efforts, the portfolio occupancy rate improved 0.6% to 99.1% at the end of the current period from 98.5% at the end of the previous period.

The total number of properties owned and managed by JEI at the end of the current period was 30 with total acquisition price of 275.5 billion yen and total leasable space of 356,883.84 m²(107,957.36 tsubo).

2) Fund raising highlights

JEI has conducted financial operations under the basic policies of extending borrowing periods, diversifying maturity dates and converting to fixed-rate loans. However, with the current low interest rates and the understanding that the risk of interest rate hike is small for the time being, JEI has also started to take out medium-term borrowings with floating rates to focus on reducing financing costs.

With regard to the total of 13 billion yen of long-term borrowings with fixed interest rates which were due at the end of June in the current period, JEI successfully reduced financing costs further by refinancing them with borrowings for 3 and a half years with floating rates.

As a result, the loan to value ratio to the total assets (total assets-based LTV) was 46.5%, the average remaining period of interest-bearing debts (Note 1) was 3.69 years and both long-term borrowing ratio (Note 2) and fixed rate ratio (Note 3) were 89.4%, reducing the period end average interest-bearing debt interest rate (Note 4) to 0.96%.

The total outstanding investment corporation bonds stood at 30.0 billion yen and the total outstanding interest-bearing debts at 131.9 billion yen, unchanged from the previous period.

JEI has commitment lines of 14.0 billion to reduce refinancing risk, enhance stability for fund procurement, etc.

The ratings granted to JEI by the following rating agencies are shown below:

(Ratings as of June 30, 2016)

Credit rating agency	Issuer rating (outlook)	Individual debt issue rating (Note 5)
Japan Credit Rating Agency, Ltd. (JCR)	Long-term issuer rating AA- (Stable)	AA-
Rating and Investment Information, Inc. (R&I)	Issuer rating A+ (Stable)	A+
Moody's Japan	Issuer rating A3 (Stable)	—

3) Financial results and distribution highlights

As a result of the above management, JEI posted 10,223 million yen in total revenues, 3,982 million yen in operating income, 3,113 million yen in ordinary income and 3,112 million yen in net income for the period under review.

Considering distributions in the period under review, JEI determined to distribute the whole unappropriated retained earnings (except for the portion of less than one yen per unit) to be eligible for special provisions of the tax system on investment corporations (Section 67-15 of the Special Taxation Measures Law), that allows JEI to deduct the amount of profit distribution from its taxable income. Accordingly, distribution per unit for the period was 2,462 yen.

(Note 1) Average remaining period of interest-bearing debts = Remaining period of borrowings and investment corporation bonds before repayment dates and maturity dates as the end of the period ÷ Balance of relevant borrowings and investment corporation bonds as of the end of the period (weighted average)

(Note 2) Long-term borrowing ratio = (long-term loans (including long-term loans due within one year) + investment corporation bonds (including investment corporation bonds due within one year) / total interest-bearing debts at the end of the period x 100

(Note 3) Fixed rate ratio = Total interest-bearing debts at fixed interest rate at the end of the period (including long-term loans whose interest rates were fixed through interest rate swap transactions) / total interest-bearing debts x 100

(Note 4) The period end average interest-bearing debt interest rate is calculated by using a weighted-average of the interest at the end of the current period, by balance of respective interest-bearing debt with all the interest-bearing debts.

(Note 5) The rating of JCR is for the 3rd series unsecured investment corporation bonds, 4th series unsecured investment corporation bonds, 5th series unsecured investment corporation bonds, 6th series unsecured investment corporation bonds, 7th series unsecured investment corporation bonds and 8th series unsecured investment corporation bonds. The rating of R&I is for the 3rd series unsecured investment corporation bonds and 4th series unsecured investment corporation bonds.

3) Capital Increase

JEI had no changes in the total number of outstanding investment units for the period under review. The outline of the changes in the total number of outstanding investment units and unitholders' capital until the end of the period under review are as follows:

Paid-up Date	Capital transaction	Capital transaction (units)		Unitholders' capital (Millions of yen)		Remarks
		Change	Balance	Change	Balance	
February 20, 2006	Private placement for incorporation	400	400	200	200	(Note 1)
June 26, 2006	Public offering	128,000	128,400	64,230	64,430	(Note 2)
July 21, 2006	Allocation of investment units to a third party	6,400	134,800	3,211	67,641	(Note 3)
July 11, 2007	Public offering	19,000	153,800	18,702	86,344	(Note 4)
August 8, 2007	Allocation of investment units to a third party	750	154,550	738	87,083	(Note 5)
January 31, 2011	Public offering	31,000	185,550	13,608	100,691	(Note 6)
February 28, 2011	Allocation of investment units to a third party	3,100	188,650	1,360	102,052	(Note 7)
January 30, 2013	Public offering	33,000	221,650	14,408	116,460	(Note 8)
February 27, 2013	Allocation of investment units to a third party	3,300	224,950	1,440	117,901	(Note 9)
January 1, 2014	Split of investment unit	899,800	1,124,750	–	117,901	(Note 10)
January 27, 2014	Public offering	80,000	1,204,750	9,135	127,036	(Note 11)
February 26, 2014	Allocation of investment units to a third party	8,000	1,212,750	913	127,950	(Note 12)
July 13, 2015	Public offering	47,000	1,259,750	5,894	133,845	(Note 13)
August 12, 2015	Allocation of investment units to a third party	4,700	1,264,450	589	134,434	(Note 14)

(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 an offer price of 520,000 yen per unit (issue price of 501,800 yen per unit) through a public offering in order to fund acquisition of new properties which were acquired at the time of the listing.

(Note 3) New investment units were issued at an issue price of 501,800 yen per unit through an allocation of investment units to a third party in order to partially fund new property acquisitions.

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

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

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

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

(Note 8) New investment units were issued at an offer price of 451,425 yen per unit (issue price of 436,609 yen per unit) through a public offering in order to fund acquisition of new properties which were acquired at the fourteenth period.

(Note 9) New investment units were issued at an issue price of 436,609 yen per unit through an allocation of investment units to a third party in order to fund acquisition of properties acquired in the fourteenth period.

(Note 10) With December 31, 2013 as the record date, JEI implemented a 5-for-1 split of its investment units held by Unitholders stated or recorded on that date's final unitholder registry with January 1, 2014 as the effective date.

(Note 11) New investment units were issued at an offer price of 118,072 yen per unit (issue price of 114,196 yen per unit) through a public offering in order to fund acquisition of new properties which were acquired at the sixteenth period.

(Note 12) New investment units were issued at an issue price of 114,196 yen per unit through an allocation of investment units to a third party in order to partially fund future acquisitions of specified assets, repayment of loans and redemption of investment corporation bonds.

(Note 13) New investment units were issued at an offer price of 129,675 yen per unit (issue price of 125,419 yen per unit) through a

Asset Management Report for 20th period (Semi-Annual Report for 20th Period)

public offering in order to partially repay debts procured to acquire properties in the eighteenth period.

(Note 14) New investment units were issued at an issue price of 125,419 yen per unit through an allocation of investment units to a third party in order to partially fund future acquisitions of specified assets and repayment of loans.

(Note 15) At JEI, there exist no investment units held by JEI (investment units without voting rights provided in Article 308-2 of the Corporate Law which will be applied mutatis mutandis pursuant to Article 94 of the Investment Trust Law) or cross-held investment units (investment units without voting rights provided in Article 160 of the Investment Trust Enforcement Ordinance) as of the end of the nineteenth 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 is as follows:

Investment unit market price	Fiscal period (closing date)	16th period (June 2014)	17th period (December 2014)	18th period (June 2015)	19th period (December 2015)	20th period (June 2016)
	Highest (yen)	141,600	164,700	168,400	141,900	161,000
	Lowest (yen)	114,200	133,400	141,400	122,400	123,200

(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 distribution per unit for the period (the 20th period) was 2,462 yen per unit, based on JEI's decision to distribute the whole unappropriated retained earnings (except for the portion of less than one yen per unit) to be eligible for the special tax treatment on investment corporations (Article 67-15 of the Special Taxation Measures Law) that allows JEI to deduct the amount of profit distribution from its taxable income.

Fiscal period	16th period	17th period	18th period	19th period	20th period
Accounting period	January 1, 2014 to June 30, 2014	July 1, 2014 to December 31, 2014	January 1, 2015 to June 30, 2015	July 1, 2015 to December 31, 2015	January 1, 2016 to June 30, 2016
Retained earnings at end of period (Thousands of yen)	3,010,447	3,040,640	3,098,080	3,385,019	3,113,717
Retained income (Thousands of yen)	402	275	717	261,241	641
Total cash distribution amount (Thousands of yen)	3,010,045	3,040,364	3,097,363	3,161,125	3,113,075
(Cash distributions per unit) (yen)	(2,482)	(2,507)	(2,554)	(2,500)	(2,462)
Of which, total profit distributions (Thousands of yen)	3,010,045	3,040,364	3,097,363	3,161,125	3,113,075
(Profit distribution per unit) (yen)	(2,482)	(2,507)	(2,554)	(2,500)	(2,462)
Total refund of investment equity	—	—	—	—	—
(Refund of investment per unit)	(—)	(—)	(—)	(—)	(—)
Of total refund of investment equity, total distribution amount from reserve for temporary difference adjustments	—	—	—	—	—
(Of refund of investment equity per unit, distribution amount per unit from reserve for temporary difference adjustments)	(—)	(—)	(—)	(—)	(—)
Of total refund of investment equity, total distribution amount from distribution reducing unitholders' capital for tax purpose	—	—	—	—	—
(Of refund of investment equity per unit, distribution amount from distribution reducing unitholders' capital for tax purpose)	(—)	(—)	(—)	(—)	(—)

(5) Policy and Issues on Future Investment Management

1) Outlook for investment environment

Although global economic growth rate has been over 3% for the past 2 years, anxiety factors for the world economy are mounting in 2016 as combination of slowdown of Chinese economy, political instability in EU and downward pressure on resource-rich nations' growth due to the fall in crude oil prices are seen. In particular, U.K.'s decision in a referendum to leave EU and lingering financial deficit and debt crisis in Southern European countries are likely to prolong the political confusion in EU and U.K. going forward.

The Japanese economy also shows low business confidence, and while strong yen and fall in stock prices are expected to slow down to a certain degree due to (the anticipation for) additional monetary-easing measures by the B.O.J. following the outcome of the Upper House election in July, it is necessary to pay attention to the possibility that the deep-rooted pressure for strong yen to avoid risks attributable to anxiety factors overseas could worsen the Japanese economy and lead to falling stock prices.

Although domestic long-term interest rates are likely to continue to be pressed downward going forward, the risk of domestic interest rates taking a turn should be closely watched as volatile movements in the financial market due to overseas factors have been observed.

In the real estate transaction market, real estate transaction prices are continued to remain at a high range as the supply of prime properties is still limited, especially in central Tokyo and metropolitan areas, while a favorable fund procurement environment and expansion in market players are expected.

In the office building leasing market, the vacancy rate is expected to continue to be on a moderate improving trend since office demand is anticipated to remain strong, and rent levels of both new rents and ongoing rents are expected to continue to be on an increasing trend though moderate for the time being centering on competitive buildings.

2) Policy and issues on future investment management

For external growth, JEI will continue striving to acquire, including replacing assets, competitive properties with well-balanced investments based on size, concentration and target area to increase asset size and realize stable profitability in our portfolio over the medium to long term. To this end, we will continue enhancing further interaction and collaboration with sponsor companies and have the asset management company cultivate and refine property information sources in an effort to proactively gain access to market information and thereby keep seizing the right business opportunities.

For internal growth, JEI will continue to make efforts to capture the needs of existing tenants in a timely manner by further strengthening finely-tuned relationships. JEI will aim to enhance earnings of the entire portfolio by continuously making additional strategic investments in order to maintain asset value and improve property competitiveness over the medium to long term while setting new rents based on market trends as well as promoting upward rent revisions to realize rents that are more suitable for the property value, along with the aforementioned initiatives.

Regarding financial operations, while fund procurement for long-term and with fixed interest rates will remain as our basic policies so long as the low interest rate environment continues, JEI will make flexible case-by-case judgments taking into account the trend of financial environment, interest rate levels for relevant terms and the balance of maturing debts in each fiscal period.

Since the risk of interest rate hike is limited for the time being, we are considering the possibility of flexibly procuring funds through short-term borrowings with floating interest rates as well while carefully monitoring change in long-term borrowing ratio and fixed rate ratio.

(6) Subsequent Events

1) Issuance of new investment units through public offering (primary offering)

The board of directors of JEI resolved the following issuance of new investment units through public offering at its meetings held on June 22, 2016 and July 4, 2016. The payment for the offering was completed on July 11, 2016.

<Issuance of new units through a public offering>

Number of units issued	37,500 units
Issue price (offer price)	¥138,742 per unit
Total offer price	¥5,202,825,000
Proceeds per unit	¥134,259 per unit
Aggregate proceeds	¥5,034,712,500
Payment date	July 11, 2016

2) Issuance of new investment units through third-party allotment (greenshoe option)

The board of directors of JEI resolved the following issuance of new investment units through third-party allotment at its meetings held on June 22, 2016 and July 4, 2016. The payment for the offering was completed on August 10, 2016.

As a result, unitholders' capital is 139,972,885,150 yen, including the amount increased through the above primary offering, and the number of investment units issued and outstanding is 1,305,700 as of August 10, 2016.

<Issuance of new units through allocation to a third party>

Number of units issued	3,750 units
Issue price (offer price)	¥134,259 per unit
Proceeds per unit	¥503,471,250
Allottee	Mizuho Securities Co., Ltd.
Payment date	August 10, 2016

(Reference information)

1. Asset Acquisition

On June 22, 2016, JEI concluded the following purchase agreement for trust beneficiary interest in real estate. The property was handed over to JEI on July 1, 2016.

< Overview of acquisition asset >

Acquisition asset	Trust beneficiary interest in real estate
Property name	Mansard Daikanyama
Location	10-1 Sarugakucho, Shibuya-ku, Tokyo
Acquisition price (Note)	¥11,420,000,000
Date of execution of purchase agreement	June 22, 2016
Handover date	July 1, 2016
Seller	YK Daikanyama Challengers

(Note) The acquisition price represents the sale price of the trust beneficiary interest excluding costs related to the acquisition, JEI's share of the real estate tax and city planning tax, and consumption taxes.

2. Debt Financing.

JEI concluded the following individual commitment line agreement on July 1, 2016 to partially fund the acquisition of assets described in above 1. and acquisition-related expenses.

< Overview of debt financing >

Lender	Mizuho Bank, Ltd.
Loan amount	¥11,500,000,000
Interest rate	Base interest rate (Japanese Bankers Association (JBA) one-week or one-month Yen-TIBOR) + 0.20%
Drawdown date	July 1, 2016
Principal repayment date	November 29, 2016
Principal repayment method	Repayment on the principal repayment date (early repayment permitted)
Collateral	Unsecured/Non-guaranteed

3. Partial early repayment of borrowing

JEI conducted partial early repayment, on July 15, 2016, of 5,000 million yen for the borrowing described in above 2. using proceeds from the issuance of new investment units through public offering described in above (6) 1), etc.

2. Outline of the Investment Corporation

(1) Investment units

Fiscal period	16th As of June 30, 2014 (Note)	17th As of December 31, 2014	18th As of June 30, 2015	19th As of December 31, 2015	20th As of June 30, 2016
Total number of units authorized	10,000,000 units	10,000,000 units	10,000,000 units	10,000,000 units	10,000,000 units
Total number of units issued and outstanding	1,212,750 units	1,212,750 units	1,212,750 units	1,264,450 units	1,264,450 units
Unitholders' capital	127,950 million yen	127,950 million yen	127,950 million yen	134,434 million yen	134,434 million yen
Number of unitholders	8,451 individuals	7,917 individuals	7,848 individuals	8,465 individuals	7,686 individuals

(2) Unitholders

Major unitholders as of June 30, 2016 are as follows:

Name	Address	Number of units held (Units)	Ratio of number of units held to outstanding investment units (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	1-8-11 Harumi, Chuo-ku, Tokyo	358,453	28.35
The Master Trust Bank of Japan, Ltd. (Trust Account)	2-11-3 Hamamatsu-cho, Minato-ku, Tokyo	112,203	8.87
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	Harumi Island Triton Square Office Tower Z, 1-8-12 Harumi, Chuo-ku, Tokyo	100,601	7.96
NIPPON STEEL KOWA REAL ESTATE CO., LTD.	1-15-5 Minami Aoyama, Minato-ku, Tokyo	71,560	5.66
The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	2-2-2 Otemachi, Chiyoda-ku, Tokyo	53,809	4.26
The Dai-ichi Life Insurance Company, Limited	1-13-1 Yuraku-cho, Chiyoda-ku, Tokyo	20,660	1.63
STATE STREET BANK AND TRUST COMPANY 505223	P.O. BOX 351 BOSTON, MASSACHUSETTS 02101, U.S.A.	20,082	1.59
STATE STREET BANK – WEST PENSION FUND CLIENTS – EXEMPT 505233	1776 HERITAGE DRIVE, NORTH QUINCY, MA 02171, U.S.A.	13,836	1.09
The Fuji Fire and Marine Insurance	1-18-11 Minami-Senba, Chuo-ku, Osaka-shi, Osaka	13,065	1.03
RBC ISB A/C DUB NON RESIDENT/DOMESTIC RATE – UCITS CLIENTS ACCOUNT	14 PORTE DE FRANCE, ESCH-SUR-ALZETTE, LUXEMBOURG, L-4360	13,000	1.03
Total		777,269	61.47

(3) Officers

1) Directors and accounting auditor

Post	Name	Major additional post	Compensation or fee for the six months ended June 30, 2016 (Thousands of yen)
Executive Director	Hidehiko Ogawa	President, Japan Excellent Asset Management Co., Ltd.	–
Supervisory Director	Tsuyoshi Nagahama	Advisor, Anderson, Mori & Tomotsune	6,540
Supervisory Director	Shunichi Maekawa	Professor, Faculty of Real Estate, Meikai University	
Supervisory Director	Eiji Takagi	Eiji Takagi Certified Public Accounting Office	
Accounting Auditor	Ernst & Young ShinNihon LLC	–	12,500 (Note 2)

(Note 1) There are no investment units of JEI held by neither the Executive Director nor the Supervisory Directors. Although Supervisory Directors may have additional posts in companies other than those listed above, there is no conflict of interests between those companies, including those listed above, and JEI.

(Note 2) The total amount of compensation or fee shown above is an estimated amount and includes the fee for the English financial statements audit.

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

The board of directors of JEI shall deliberate dismissal of accounting auditor in accordance with the provisions set out in the Law Concerning Investment Trusts and Investment Corporations, and deliberate discontinuation of reelection based on circumstances in all respects.

3) Matters concerning an entity which received a business suspension order in the past two years

The accounting auditor of JEI received an order to suspend accepting new engagements for 3 months (from January 1, 2016, to March 31, 2016) from the Financial Agency on December 22, 2015.

(4) Name of Asset Management Company, Asset Custodian and Administrative Agents

Our asset management company, asset custodian and administrative agents as of June 30, 2016 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 Bank, Ltd.

3. Investment Portfolio of the Investment Corporation

(1) Investment Portfolio by Area

Classification	Use	Area (Note 1)	19th Period (December 31, 2015)		20th Period (June 30, 2016)	
			Total acquisition price (Millions of yen) (Note 2)	Total acquisition price (Millions of yen)	Total acquisition price (Millions of yen) (Note 2)	Investment ratio in portfolio (%)
Real estate property	Office building	Area I	3,814	1.3	3,800	1.3
		Area II	5,774	2.0	5,708	2.0
Area I		105,290	37.0	104,962	37.0	
Area II		9,154	3.2	9,132	3.2	
Area III		102,635	36.1	102,342	36.1	
Area IV		19,146	6.7	18,995	6.7	
Trust beneficiary interest in real estate	Others (commercial facilities, residence, etc.)	Area I	18,436	6.5	18,308	6.5
Total			264,252	92.9	263,249	92.8
Deposits in bank and other assets			20,191	7.1	20,404	7.2
Total assets			284,443	100.0	283,653	100.0

(Note 1) 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.).

*Central Osaka refers to the areas within about a 10-minute walk from JR Osaka Station, Umeda Station (Hankyu Railway, Hanshin Electric Railway, and Osaka City Subway), Yodoyabashi Station (Osaka City Subway) or Hommachi Station (Osaka City Subway), respectively. Central Nagoya refers to the areas within about a 10-minute walk from Nagoya Station (JR, Nagoya City Subway, and Nagoya Railroad), Fushimi Station (Nagoya City Subway), or Sakae Station (Nagoya City Subway and Nagoya Railroad), respectively. Central Fukuoka refers to the areas within about a 10-minute walk from Hakata Station (JR and Fukuoka City Subway), Tenjin Station (Fukuoka City Subway) and Nishitetsu Fukuoka Station (Nishi-Nippon Railroad), respectively. They are, however, not always in line with administrative districts.

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.

The same applies hereinafter.

(Note 2) Total acquisition price is based on the amounts accounted for in the balance sheets as of the settlement date (amounts of real estate property and trust beneficiary interest in real estate are based on the book value after depreciations).

(2) Major Property

The principal properties (top ten properties in net book value) owned by JEI as of June 30, 2016 are as follows:

Name	Book value (Millions of yen)	Leasable space (m ²) (Note 1)	Leased space (m ²) (Note 2)	Occupancy rate (%) (Note 3)	Ratio of rental revenue to total rental revenues (%)	Major use
Kowa Kawasaki Nishiguchi Building	29,183	38,375.66	37,863.42	98.7	9.0	Office building
AKASAKA INTERCITY	27,318	11,021.03	11,021.03	100.0	5.4	Office building
Nisseki Yokohama Building	24,257	40,440.73	40,314.38	99.7	11.0	Office building
Akasaka Garden City	22,376	8,769.53	8,769.53	100.0	3.7	Office building
Omori Bellport D	21,210	25,801.66	25,709.23	99.6	9.1	Office building
HAMARIKYU INTERCITY	18,308	19,718.11	19,429.98	98.5	7.0	Other (commercial facilities, residence, etc.)
Musashikosugi Tower Place	12,729	25,159.49	25,159.49	100.0	7.7	Office building
Daiba Garden City Building	10,222	12,122.85	12,122.85	100.0	3.3	Office building
Kowa Kawasaki Higashiguchi Building	9,624	18,612.72	18,612.72	100.0	(Note 4)	Office building
Shiba 2-Chome Building	8,918	11,749.30	11,654.49	99.2	3.6	Office building
Total	184,152	211,771.08	210,657.12	99.5	—	—

(Note 1) Leasable space refers to space available for lease of which ownership is attributable to JEI as of June 30, 2016. For properties with joint ownership, the value is obtained by multiplying the total leasable space of the shared property by the percentage of the interest owned by JEI, regarding the figure as JEI's leasable space.

(Note 2) Leased space refers to space with lease contracts or master lease agreements that guarantee a certain amount of fixed rent payment concluded with end tenants as of June 30, 2016. For properties with joint ownership, the value is obtained by multiplying the total leased space of the property by the percentage of the interest owned by JEI, regarding the figure as JEI's leased space. For properties which are used for profit by the master lease company, leased space refers to the portion used and the figures indicate space which can be reasonably calculated based on the lease agreement on the master leasing. The leased space of end tenants who terminated their lease arrangement but have not yet moved out as of the end of period is included in the leased space. This also applies to any figure which is calculated based on "leased space" in this document.

(Note 3) Occupancy rate is a percentage of total leased space to total leasable space as of June 30, 2016.

(Note 4) The values of Kowa Kawasaki Higashiguchi Building are not disclosed as consent on disclosure from the end tenants have not been obtained.

(3) Portfolio Ownership Breakdown

Real estate properties and their forms of ownership as of June 30, 2016 are as follows:

Property No.	Property name	Location (Residential address)	Form of ownership	Appraisal value at 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	25,000	21,210
I -2	Shiba 2-Chome Building	2-6-1 Shiba, Minato-ku, Tokyo	Trust beneficiary interest in real estate	11,900	8,918
I -3	JEI Hamamatsucho Building	2-2-12 Hamamatsu-cho, Minato-ku, Tokyo	Trust beneficiary interest in real estate	7,120	8,320
I -7	Akasaka Garden City	4-15-1 Akasaka, Minato-ku, Tokyo	Trust beneficiary interest in real estate	17,200	22,376
I -8	AKASAKA INTERCITY	1-11-44 Akasaka, Minato-ku, Tokyo	Trust beneficiary interest in real estate	25,100	27,318
I -9	Kowa Shirokanedai Building	3-19-1 Shirokanedai, Minato-ku, Tokyo	Trust beneficiary interest in real estate	5,010	4,819
I -10	Daiba Garden City Building	2-3-5 Daiba, Minato-ku, Tokyo	Trust beneficiary interest in real estate	12,200	10,222
I -12	HAMARIKYU INTERCITY	1-9-1 and 15 Kaigan, Minato-ku, Tokyo	Trust beneficiary interest in real estate	22,000	18,308
I -13	Shintomicho Building	3-10-9 Irifune, Chuo-ku, Tokyo	Trust beneficiary interest in real estate	1,940	1,774
I -14	Kowa Nishi-Shimbashi Building	2-1-1 Nishi-Shimbashi, Minato-ku, Tokyo	Real estate	4,200	3,800
Area I				131,670	127,070
II -1	NHK Nagoya Housou-Center Building	1-13-3 Higashi-Sakura, Higashi-ku, Nagoya-shi, Aichi	Real estate	5,710	5,708
II -2	JEI Nishi-Honmachi Building	1-3-15 Awaza, Nishi-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	4,520	7,267
II -3	Osaka Kogin Building (Land with Leasehold Interest)	4-1-1 Koraibashi, Chuo-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	2,030	1,865
Area II				12,260	14,840
III-1	Musashikosugi Tower Place	1-403 Kosugi-machi, Nakahara-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	19,400	12,729
III-2	Kowa Kawasaki Higashiguchi Building	1-53 Nisshin-cho, Kawasaki-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	9,160	9,624
III-3	JEI Hongo Building	2-38-16 Hongo, Bunkyo-ku, Tokyo	Trust beneficiary interest in real estate	4,580	5,151
III-5	Kawasaki Nisshincho Building	7-1 Nisshin-cho, Kawasaki-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	4,080	4,448
III-6	No. 44 Kowa Building	1-2-7 Higashiyama, Meguro-ku, Tokyo	Trust beneficiary interest in real estate	1,740	994
III-7	JEI RYOGOKU BUILDING	3-25-5 Ryogoku, Sumida-ku, Tokyo	Trust beneficiary interest in real estate	2,150	2,279
III-8	Ebina Prime Tower	2-9-50 Chuo, Ebina-shi, Kanagawa	Trust beneficiary interest in real estate	3,890	5,745
III-9	Kowa Kawasaki Nishiguchi Building	66-2 Horikawa-cho, Saiwai-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	25,000	29,183
III-10	Pacific Square Sengoku	2-29-24 Hon-Komagome, Bunkyo-ku, Tokyo	Trust beneficiary interest in real estate	1,340	1,657
III-11	Core City Tachikawa	2-37-7 Akebono-cho, Tachikawa-shi, Tokyo	Trust beneficiary interest in real estate	7,910	6,269
III-12	Nisseki Yokohama Building	1-1-8 Sakuragi-cho, Yokohama-shi, Kanagawa	Trust beneficiary interest in real estate	25,700	24,257
Area III				104,950	102,342
IV-2	JEI Kyobashi Building	2-2-48 Kata-machi, Tsushima-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	4,130	3,072
IV-3	JEI Hiroshima Hacchobori Building	14-4 Hacchobori, Naka-ku, Hiroshima-shi, Hiroshima	Trust beneficiary interest in real estate	2,980	2,648
IV-4	SE Sapporo Building	1-1-2 Kitananajonishi Kita-ku, Sapporo-shi, Hokkaido	Trust beneficiary interest in real estate	6,530	5,334
IV-5	Aoba-dori Plaza	3-2-1 Chuo, Aoba-ku, Sendai-shi, Miyagi	Trust beneficiary interest in real estate	3,220	2,200
IV-6	Daiwa Minami-morimachi Building	2-6, 2-chome Kita Tenjinbashi, Kita-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	5,010	4,324
IV-7	JEI Naha Building	2-8-1 Kumoji, Naha-shi, Okinawa	Trust beneficiary interest in real estate	1,420	1,414
Area IV				23,290	18,995
Total				272,170	263,249

(Note) Appraisal value at end of period indicates the appraisal value described in the real estate appraisal report prepared by real estate appraisers belonging to Japan Real Estate Institute, Chuo Real Estate Appraisal Co., Ltd., Japan Valuers Co., Ltd. and Daiwa Real Estate Appraisal Co., Ltd. as of June 30, 2016 pursuant to the articles of incorporation of JEI and the regulations stipulated by the Investment Trusts Association, Japan. For properties with joint ownership in the current portfolio, the value is obtained by multiplying the total value of the shared real estate by the percentage of the interest owned by JEI or the trustee.

Property No.	Property name	19th Period July 1, 2015 to December 31, 2015				20th Period January 1, 2016 to June 30, 2016			
		Total number of tenants (At end of period) (Note 1)	Occupancy rate (At end of period) (%)	Rental revenue (Interim) (Millions of yen)	Ratio of rental revenue to total rental revenues (%)	Total number of tenants (At end of period) (Note 1)	Occupancy rate (At end of period) (%)	Rental revenue (Interim) (Millions of yen)	Ratio of rental revenue to total rental revenues (%)
I -1	Omori Bellport D	1	100.0	939	8.8	1	99.6	929	9.1
I -2	Shiba 2-Chome Building	2	99.2	373	3.5	2	99.2	372	3.6
I -3	JEI Hamamatsucho Building	1	100.0	210	2.0	1	100.0	208	2.0
I -4	No. 32 Kowa Building (Note 3)	-	-	242	2.3	-	-	-	-
I -7	Akasaka Garden City	1	100.0	385	3.6	1	100.0	379	3.7
I -8	AKASAKA INTERCITY	14	100.0	557	5.2	14	100.0	549	5.4
I -9	Kowa Shirokanedai Building	1	89.3	162	1.5	1	100.0	161	1.6
I -10	Daiba Garden City Building	1	100.0	335	3.1	1	100.0	334	3.3
I -11	No. 35 Kowa Building (Note 3)	-	-	(Note 2)	(Note 2)	-	-	-	-
I -12	HAMARIKYU INTERCITY	1	99.2	724	6.8	1	98.5	720	7.0
I -13	Shintomicho Building	10	95.4	72	0.7	10	95.4	68	0.7
I -14	Kowa Nishi-Shimbashi Building	6	100.0	(Note 2)	(Note 2)	6	100.0	(Note 2)	(Note 2)
Area I		38	99.1	-	-	38	99.5	-	-
II -1	NHK Nagoya Housou Center	30	94.2	362	3.4	31	95.1	370	3.6
II -2	JEI Nishi-Honmachi Building	1	100.0	196	1.8	1	100.0	193	1.9
II -3	Osaka Kogin Building (Land with Leasehold Interest)	1	100.0	83	0.8	1	100.0	83	0.8
Area II		32	97.3	-	-	33	97.8	-	-
III -1	Musashikosugi Tower Place	37	100.0	795	7.5	37	100.0	789	7.7
III -2	Kowa Kawasaki Higashiguchi	1	100.0	(Note 2)	(Note 2)	1	100.0	(Note 2)	(Note 2)
III -3	JEI Hongo Building	1	100.0	(Note 2)	(Note 2)	1	100.0	(Note 2)	(Note 2)
III -5	Kawasaki Nisshincho Building	1	100.0	191	1.8	1	100.0	190	1.9
III -6	No. 44 Kowa Building	1	100.0	88	0.8	1	100.0	85	0.8
III -7	JEI Ryogoku Building	1	100.0	102	1.0	1	97.8	103	1.0
III -8	Ebina Prime Tower	36	98.8	419	3.9	36	98.6	421	4.1
III -9	Kowa Kawasaki Nishiguchi Building	1	98.7	901	8.4	1	98.7	924	9.0
III -10	Pacific Square Sengoku	9	100.0	47	0.4	9	95.5	49	0.5
III -11	Core City Tachikawa	1	100.0	306	2.9	1	98.5	324	3.2
III -12	Nisseki Yokohama Building	1	98.3	1,109	10.4	1	99.7	1,129	11.0
Area III		90	99.2	-	-	90	99.3	-	-
IV -2	JEI Kyobashi Building	1	84.9	181	1.7	1	94.3	159	1.6
IV -3	JEI Hiroshima Hacchobori Building	1	100.0	145	1.4	1	98.9	144	1.4
IV -4	SE Sapporo Building	1	97.0	362	3.4	1	100.0	354	3.5
IV -5	Aoba-dori Plaza	50	93.8	178	1.7	53	99.4	183	1.8
IV -6	Daiwa Minami-morimachi Building	10	100.0	197	1.9	10	100.0	196	1.9
IV -7	JEI Naha Building	1	95.6	10	0.1	1	100.0	73	0.7
Area IV		64	95.2	-	-	67	98.8	-	-
Total		224	98.5	10,669	100.0	228	99.1	10,223	100.0

(Note 1) Total number of tenants indicates the total number of tenants in each property as of the end of each period. For properties for which master lease agreements have been concluded, the number of tenants is counted as one per property. When a tenant has multiple tenancies in the same property, it is counted as one tenant, and when in multiple properties, it is counted as multiple tenants. As for Osaka Kogin Building (Land with Leasehold Interest), total number of tenants is counted as one based on the lease agreement for the leased land.

(Note 2) No. 35 Kowa Building, Kowa Nishi-Shimbashi Building, Kowa Kawasaki Higashiguchi and JEI Hongo Building are not disclosed as consents on disclosure from the end tenants have not been obtained.

(Note 3) JEI completed sales of No. 32 Kowa Building and No. 35 Kowa Building on December 24, 2015.

(4) Securities Portfolio

None

(5) Renewable power generation facility

None

(6) Right to operate public facility

None

(7) 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)
			Over one year	
Over-the-counter transaction	Interest rate swap transactions Floating interest rate receivable Fixed interest rate payable	63,900,000	51,140,000	—

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

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

(8) Status of JEI's properties by country and region

None for JEI's properties in countries or regions other than Japan.

4. Capital Expenditures for Owned Properties

(1) Scheduled Capital Expenditures

The following table shows major items of scheduled capital expenditures for repairs and maintenance planned for the properties owned by JEI as of the end of the 20th period (ended June 30, 2016). The values below include portions to be expensed for accounting purposes.

Property name	Location	Purpose	Schedule term	Estimated construction costs (Millions of yen)		
				Total	Payment for the six months ended June 30, 2016	Total of advance payment
Nisseki Yokohama Building	Yokohama-shi, Kanagawa	Renewal of air-conditioning systems	From April 2015 To October 2016	480	150	—
Musashikosugi Tower Place	Kawasaki-shi, Kanagawa	Renewal of wall-through type air conditioner (4/5th term)	From July 2016 To December 2016	117	—	—
Ebina Prime Tower	Ebina-shi, Kanagawa	Renewal of central monitoring equipment	From March 2016 To December 2016	98	—	—
Kowa Kawasaki Nishiguchi Building	Kawasaki-shi, Kanagawa	Renewal of common space (1/3th term)	From September 2016 To December 2016	86	—	—
JEI Naha Building	Naha-shi, Okinawa	Renewal of common space	From July 2016 To December 2016	48	—	—

(2) Capital Expenditures for the Six months Ended June 30, 2016

The following table shows constructions conducted by JEI during the period ended June 2016 and expensed as capital expenditures. Capital expenditures for the period ended June 2016 were 729 million yen and, when combined with repairs and maintenance costs of 195 million yen classified as expenses, the amount of constructions completed totaled 925 million yen.

Property name	Location	Purpose	Scheduled term	Amounts Paid (Millions of yen)
Musashikosugi Tower Place	Kawasaki-shi, Kanagawa	Renewal of wall-through type air conditioner (3/5th term)	From January 2016 To March 2016	117
JEI Hongo Building	Bunkyo-ku, Tokyo	Renovation of exterior walls	From June 2015 To June 2016	87
Kowa Kawasaki Nishiguchi Building	Kawasaki-shi, Kanagawa	Renewal of central monitoring equipment	From September 2015 To February 2016	70
Kawasaki Nisshincho Building	Kawasaki-shi, Kanagawa	Renovation of exterior wall sealing	From January 2016 To June 2016	39
JEI Nishi-Honmachi Building	Osaka-shi, Osaka	Renewal of air conditioning systems on standard floor (9/10th term)	From April 2016 To June 2016	32
Other constructions			—	382
Total				729

Asset Management Report for 20th period (Semi-Annual Report for 20th Period)

(3) Reserved Funds for Long-term Repairs and Maintenance Plans

Based on our long-term repairs and maintenance plans developed for each property, JEI has set aside the following cash reserves, derived from depreciation and other excess cash flows, in order to fund large-scale repairs and maintenance and other construction.

(Unit: Millions of yen)

Item	16th Period January 1, 2014 to June 30, 2014	17th Period July 1, 2014 to December 31, 2014	18th Period January 1, 2015 to June 30, 2015	19th Period July 1, 2015 to December 31, 2015	20th Period January 1, 2016 to June 30, 2016
Reserved funds at beginning of period	309	368	316	317	310
Increase	143	80	119	65	619
Decrease	83	132	118	72	492
Reserved funds at the end of period	368	316	317	310	436

5. Expenses and Liabilities
(1) Expenses Associated with Asset Management

(Unit: Thousands of yen)

Account	19th Period July 1, 2015 to December 31, 2015	20th Period January 1, 2016 to June 30, 2016
(a) Asset management fees	442,299	424,387
(b) Custodian fees	22,368	21,211
(c) Administrative service fees	41,825	41,178
(d) Compensation for directors	6,540	6,540
(e) Accounting auditor fees	11,000	11,000
(f) Other	97,565	81,125
Total	621,598	585,442

(2) Borrowings

Borrowings by each financing source as of the end of the 20th period (ended June 30, 2016) are as follows:

Classification	Lender	Drawdown date	Balance at beginning of period (Thousands of yen)	Balance at end of period (Thousands of yen)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
Short-term loans	Nippon Life Insurance Company	December 10, 2015	1,000,000	1,000,000	0.26455	December 10, 2016	Lump-sum	Acquisition of real estate	Unsecured and unguaranteed
Sub Total			1,000,000	1,000,000					
Long-term Loans due within one year	Mitsubishi UFJ Trust and Banking	June 29, 2011	4,600,000	—	1.36375 (Note2)	June 29, 2016	Lump-sum	Repayment of existing borrowing	Unsecured and unguaranteed
	Mizuho Bank, Ltd.		4,400,000	—					
	Sumitomo Mitsui Banking Corporation		4,000,000	—					
	Mitsui Sumitomo Trust & Banking Co., Ltd.	November 29, 2011	1,620,000	1,620,000	1.24375 (Note2)	November 29, 2016			
	Sumitomo Mitsui Banking Corporation		1,080,000	1,080,000					
	Mitsubishi UFJ Trust and Banking		540,000	540,000					
	Mizuho Bank, Ltd.	January 31, 2012	520,000	520,000	1.24750 (Note2)	January 31, 2017			
	Mizuho Bank, Ltd.		—	2,000,000					
	Mitsubishi UFJ Trust and Banking		—	1,500,000					
	Sumitomo Mitsui Banking Corporation	July 31, 2012	—	1,500,000	1.03000 (Note2)	January 31, 2017			
	Mizuho Bank, Ltd.		—	1,500,000					
	Mitsubishi UFJ Trust and Banking		—	1,300,000					
	Sumitomo Mitsui Banking Corporation		—	1,200,000					
	Sompo Japan Nipponkoa Insurance Inc.	July 31, 2012	—	2,000,000	1.09734 (Note2)	July 31, 2012			
Tokio Marine & Nichido Fire Insurance Co., Ltd.	—		1,000,000						
Sub Total			16,760,000	15,760,000					

	Classification	Drawdown date	Balance at beginning of period (Thousands of yen)	Balance at end of period (Thousands of yen)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
	Lender								
Long-term loans	Mizuho Bank, Ltd.	January 31, 2012	2,000,000	—	1.24750 (Note2)	January 31, 2017	Lump-sum	Repayment of existing borrowing	Unsecured and unguaranteed
	Mitsubishi UFJ Trust and Banking		1,500,000	—					
	Sumitomo Mitsui Banking Corporation		1,500,000	—					
	Mizuho Bank, Ltd.	July 31, 2012	1,500,000	—	1.03000 (Note2)				
	Mitsubishi UFJ Trust and Banking		1,300,000	—					
	Sumitomo Mitsui Banking Corporation		1,200,000	—					
	Sompo Japan Nipponkoa Insurance Inc.	July 31, 2012	2,000,000	—	1.09734 (Note2)				
	Tokio Marine & Nichido Fire Insurance Co., Ltd.		1,000,000	—					
	Development Bank of Japan Inc.	November 30, 2010	6,000,000	6,000,000	1.73875 (Note2)	November 30, 2017			
	Mizuho Bank, Ltd.	July 31, 2012	1,000,000	1,000,000	1.08375 (Note2)				
	Mitsubishi UFJ Trust and Banking		1,000,000	1,000,000					
	Sumitomo Mitsui Banking Corporation		1,000,000	1,000,000					
	Mizuho Bank, Ltd.	June 28, 2013	1,000,000	1,000,000	1.04550 (Note2)				
	Aozora Bank, Ltd.		500,000	500,000					
	Resona Bank, Ltd.		500,000	500,000					
	Sompo Japan Nipponkoa Insurance Inc.		500,000	500,000					
	Tokio Marine & Nichido Fire Insurance Co., Ltd.	June 29, 2011	500,000	500,000	1.19212 (Note2)				
	The Dai-ichi Life Insurance Company Limited		3,000,000	3,000,000	1.65125 (Note2)				
	Mizuho Bank, Ltd.	June 28, 2013	5,000,000	5,000,000	0.81225 (Note2)	June 30, 2018			
	Mitsubishi UFJ Trust and Banking		2,000,000	2,000,000					
	Sumitomo Mitsui Banking Corporation		1,100,000	1,100,000					
	The Norinchukin Bank		1,000,000	1,000,000					
	Resona Bank, Ltd.		200,000	200,000					
	The Bank of Fukuoka		700,000	700,000					
	Shinkin Central Bank		1,000,000	1,000,000					
	The Norinchukin Bank	March 11, 2014	1,450,000	1,450,000	0.74500 (Note2)	November 1, 2018			
	Mizuho Bank, Ltd.		850,000	850,000					
Mitsubishi UFJ Trust and Banking	850,000		850,000						
Mizuho Trust & Banking Co., Ltd.	March 11, 2014	600,000	600,000	0.77500 (Note2)	March 8, 2019				
The Norinchukin Bank		1,450,000	1,450,000						
Mizuho Bank, Ltd.		850,000	850,000						
Mitsubishi UFJ Trust and Banking		850,000	850,000						
Mizuho Trust & Banking Co., Ltd.	June 29, 2016	600,000	600,000	0.28364	December 30, 2019				
Mitsubishi UFJ Trust and Banking		—	4,600,000						
Mizuho Trust & Banking Co., Ltd.		—	4,400,000						
Sumitomo Mitsui Banking Corporation	June 29, 2016	—	4,000,000	0.28364	December 30, 2019				
Mitsubishi UFJ Trust and Banking		—	4,000,000						

	Classification	Drawdown date	Balance at beginning of period (Thousands of yen)	Balance at end of period (Thousands of yen)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks	
	Lender									
Long-term loans	Development Bank of Japan Inc.	January 31, 2012	2,000,000	2,000,000	1.60000 (Note2)	January 31, 2020	Lump-sum	Repayment of existing borrowing	Unsecured and unguaranteed	
	Mizuho Bank, Ltd.	June 28, 2013	500,000	500,000	1.36400 (Note2)					
	Mitsubishi UFJ Trust and Banking		500,000	500,000						
	Sumitomo Mitsui Banking Corporation		1,000,000	1,000,000	1.31261 (Note2)					
	Mizuho Trust & Banking Co., Ltd.		600,000	600,000						
	The Dai-ichi Life Insurance Company Limited		1,000,000	1,000,000	1.00000 (Note2)					
	The Norinchukin Bank		1,162,500	1,162,500						
	Mizuho Bank, Ltd.		December 27, 2013	675,000						675,000
	Mitsubishi UFJ Trust and Banking		675,000	675,000						
	Mizuho Trust & Banking Co., Ltd.		487,500	487,500	1.60750 (Note2)					
	Development Bank of Japan Inc.		June 28, 2013	2,000,000		2,000,000				
	The Dai-ichi Life Insurance Company Limited	July 31, 2014	2,000,000	2,000,000		0.98834 (Note2)				June 30, 2021
	Mitsubishi UFJ Trust and Banking	December 29, 2014	2,000,000	2,000,000		0.81875 (Note2)				December 30, 2021
	Mizuho Bank, Ltd.		1,950,000	1,950,000						
	Mizuho Trust & Banking Co., Ltd.		1,200,000	1,200,000						
	Resona Bank, Ltd.		600,000	600,000						
	Development Bank of Japan Inc.	July 31, 2014	2,000,000	2,000,000		1.15417 (Note2)				June 30, 2022
	Mitsubishi UFJ Trust and Banking	December 29, 2014	2,000,000	2,000,000		0.93625 (Note2)				December 30, 2022
	Mizuho Bank, Ltd.		1,950,000	1,950,000						
	Mizuho Trust & Banking Co., Ltd.		1,200,000	1,200,000						
	Resona Bank, Ltd.		600,000	600,000						
	Development Bank of Japan Inc.	June 30, 2015	2,000,000	2,000,000	1.20250 (Note2)	June 30, 2023				
	Mizuho Trust & Banking Co., Ltd.	November 30, 2015	1,560,000	1,560,000	0.84375 (Note2)	November 30, 2023				
	The Norinchukin Bank		1,500,000	1,500,000						
	Aozora Bank, Ltd.		750,000	750,000						
	Resona Bank, Ltd.		500,000	500,000						
	Mizuho Bank, Ltd.		420,000	420,000						
	Mitsubishi UFJ Trust and Banking		250,000	250,000						
	The Bank of Fukuoka		150,000	150,000						
	Sumitomo Mitsui Banking Corporation		140,000	140,000						
Mizuho Trust & Banking Co., Ltd.	November 30, 2015		1,560,000	1,560,000			0.96275 (Note2)	November 30, 2024		
Resona Bank, Ltd.			1,000,000	1,000,000						
Mizuho Bank, Ltd.		870,000	870,000							
Aozora Bank, Ltd.		750,000	750,000							
Mitsubishi UFJ Trust and Banking		590,000	590,000							
Sumitomo Mitsui Banking Corporation		350,000	350,000							
The Bank of Fukuoka		150,000	150,000							
Sub Total		84,140,000	85,140,000							
Total		101,900,000	101,900,000							

(Note 1) The average interest rates are calculated using a weighted-average of the loan balance during the period. 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) Loans are fixed-rate loans (including loans with fixed-rate interest using interest rate swaps).

(3) Investment Corporation Bonds

The outstanding investment corporation bonds issued by JEI as of June 30, 2016 are as follows:

Issue	Issuance date	Balance at beginning of period (Thousands of yen)	Balance at end of period (Thousands of yen)	Interest rate (%)	Maturity date	Repayment method	Use	Remarks		
3rd series unsecured investment corporation bonds	November 4, 2011	5,000,000	5,000,000	1.01000	November 4, 2016	Lump-sum	(Note 1)	(Note 4)		
4th series unsecured investment corporation bonds		2,000,000	2,000,000	1.40000	November 2, 2018					
5th series unsecured investment corporation bonds	November 25, 2013	5,000,000	5,000,000	0.46000			March 11, 2019		(Note 2)	
6th series unsecured investment corporation bonds	March 10, 2014	5,000,000	5,000,000	0.46000	March 11, 2024				(Note 3)	
7th series unsecured investment corporation bonds		8,000,000	8,000,000	1.13000						
8th series unsecured investment corporation bonds	September 9, 2015	5,000,000	5,000,000	1.03000	September 9, 2025		(Note 2)			
Total		30,000,000	30,000,000							

(Note 1) The funds were used for acquiring new properties.

(Note 2) The funds were used for repaying existing borrowings.

(Note 3) The funds are used for redeeming existing investment corporation bonds and repaying existing borrowings.

(Note 4) The bonds are with special pari passu conditions among specified investment corporation bonds.

(4) Short-Term Investment Corporation Bonds

None

(5) Subscription rights for New Investment Units

None

6. Condition of Investment Transactions

(1) Transactions of Property, Asset-Backed Securities, Etc. and Infrastructure Assets, etc. and Infrastructure Related Assets

None

(2) Transactions of Other Assets

None

(3) Appraisal and Research for Specified Asset Value, Etc.

1) Real estate, etc.

None

2) Others

None

(4) Transactions with Interested Parties

1) Transactions

None

2) Amounts of fees paid and other expenses

(Unit: Thousands of yen)

Classification	Total amount paid (A)	Breakdown of transactions with interested parties		B/A
		Paid to	Amount paid (B)	
Property management costs and fees	1,423,291	NIPPON STEEL KOWA REAL ESTATE CO., LTD.	189,453	13.3%
		Kowa Real Estate Facilities, Co., Ltd.	256,557	18.0%
Total	1,423,291	—	446,011	31.3%

(Note 1) Figures indicate fees paid to interested parties of asset management companies with whom JEI had transactions during the six months ended June 30, 2016.

(Note 2) Other than the Total amount paid indicated above, the following payments were made for maintenance and repair work, etc. which were ordered to interested parties and major shareholders during the period.

NIPPON STEEL KOWA REAL ESTATE CO., LTD. 10,897 thousand yen

KOWA REAL ESTATE FACILITIES CO., LTD. 286,090 thousand yen

(5) Transactions with Asset Management Company Concerning the Additional Businesses of the Asset Management Company

The Asset Management Company (Japan Excellent Asset Management Co., Ltd.) does not conduct any additional business falling under the categories of the type I financial instruments business, type II financial instruments business, building lots and buildings transaction business, or real estate specified joint enterprise, and had no 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 and Infrastructure Assets, etc. Valuation Method

No changes were made during the period

8. Others

(1) Notice

1) General unitholders' meeting

There were no applicable items during the period.

2) Board of directors meeting

Major issues related to the execution and modification of major contracts approved by the board of directors of JEI during the six months ended June 30, 2016 is summarized below.

Approval date	Approved agenda	Description
February 18, 2016	Entrustment of general administrative duties concerning investment corporation bonds	The board of directors made a comprehensive resolution on investment corporation bonds to be issued in the period from February 19, 2016 to February 27, 2017. The board of directors approved the respective candidate general administrator for "administrative duties concerning offering of investment corporation bonds" and "administrative duties concerning acceptance of claims for exercise of rights and other inquiries from creditors of the investment corporation, and other administrative duties concerning investment corporation bonds during the period," and assigned decisions on all other necessary matters to the Executive Director.

(2) Investment Trust Beneficiary Certificates Incorporated by JEI

There were no applicable items during the period.

(3) Juridical Persons Owning Overseas Real Estate and Status of the Owned Real Estate

There were no applicable items during the period.

(4) Other

Unless otherwise stated, monetary amounts have been rounded down and percentage figures have been rounded off to the nearest indicated unit in this Report.

9. Risk Factors

An investment in JEI's units involves significant risks. The principal risks with respect to investment in JEI are as follows.

Property and Business Risks

- Any adverse conditions in the Japanese economy could adversely affect JEI.
- JEI may not be able to acquire properties to execute its growth and investment strategy in a manner that is accretive to earnings.
- Illiquidity in the real estate market may limit JEI's ability to grow or adjust its portfolio.
- The past experience of the Asset Management Company in the Japanese real estate market is not an indicator or guarantee of the future results.
- JEI's reliance on the core sponsors, the Asset Management Company and third party service providers could have a material adverse effect on its business.
- There are potential conflicts of interest between JEI and the core sponsors as well as the Asset Management Company.
- JEI's revenues largely comprise leasing revenues from the portfolio properties, which may be negatively affected by factors including vacancies, decreases in rent, and late or missed payments by tenants.
- JEI invests primarily in office properties, the market for which may be affected by macro-economic trends and other forces which JEI cannot control.
- JEI faces significant competition in seeking tenants and it may be difficult to find replacement tenants.
- Increases in prevailing market interest rates may increase JEI's interest expense and may result in a decline in the market price of JEI's units.
- JEI may suffer large losses if any of its properties incurs damage from a natural or man-made disaster such as an earthquake, fire, flood, tsunami or typhoon.
- Due to the concentration of JEI's portfolio in the Tokyo metropolitan area, JEI's business is highly susceptible to circumstances and developments that may adversely impact that area.
- Any inability to obtain financing for future acquisitions could adversely affect the growth of JEI's portfolio.
- The ownership rights in some of JEI's properties may be declared invalid or limited.
- JEI's lack of control over operating costs may adversely affect its business.
- Liquidity and other limitations on JEI's activities under debt financing arrangements may adversely affect its business, financial condition and results of operations.
- Entering into forward commitment contracts or contracts to purchase properties under development may expose JEI to contractual penalties and market risks.
- Decreases in tenant leasehold deposits and/or security deposits may increase JEI's funding costs.
- JEI may lose rental revenues in the event of lease terminations, decreased lease renewals, or the default of a tenant as a result of financial difficulty or insolvency, and is exposed to the risk of careless or imprudent management of properties by tenants.
- Master leases may give rise to certain risks.
- JEI's cost of complying with regulations applicable to its properties could adversely affect the results of its operations.
- Any property defect may adversely affect JEI's financial condition and results of operations.
- JEI relies on expert appraisals and engineering, environmental and seismic reports, which are subject to significant uncertainties.
- JEI relies on industry and market data that are subject to significant uncertainties.

- The environmental assessments of JEI’s properties made prior to its ownership may not uncover all environmental liabilities, and Japanese laws subject property owners to strict environmental liabilities.
- JEI’s performance depends on the efforts of key personnel of the Asset Management Company.
- JEI’s success depends on the performance of service providers to which it is required to assign various key functions.
- J-REITs and its asset managers are subject to tight supervision by the regulatory authorities.

Taxation Risks

- JEI’s failure to satisfy a complex series of requirements pursuant to Japanese tax regulations would disqualify JEI from certain taxation benefits and significantly reduce the cash distributions to the unitholders.
- If the Japanese tax authorities disagree with our interpretations of the Japanese tax laws and regulations for prior periods, JEI may be forced to pay additional taxes for those periods.
- JEI may not be able to benefit from reductions in certain real estate taxes enjoyed by qualified J-REITs.
- Changes in Japanese tax laws may significantly increase JEI’s tax burden.
- JEI expects to be treated as a “passive foreign investment company” for U.S. federal income tax purposes.
- Unitholders may be subject to U.S. Foreign Account Tax Compliance Act (FATCA) withholding tax after 2018.

Legal and Regulatory Risks

- JEI’s ownership rights in some of its properties may be declared invalid or limited.
- JEI may lose its rights in a property if the purchase of the property is recharacterized as a secured financing.
- JEI’s leasehold or subleasehold rights may be terminated or may not be asserted against a third party in some cases.
- JEI’s properties may be held in the form of stratified ownership (*kubun shoyū*) interests, and its rights relating to such properties may be affected by the intentions of other owners.
- JEI’s properties may be held in the form of a property or trust co-ownership interest (*kyōyū-mochibun*), and its rights relating to such properties may be affected by the intentions of other owners.
- JEI may hold interests in some properties through preferred shares of special purpose companies (*tokutei mokuteki kaisha*), and illiquidity in the market for such shares may limit its ability to sell its interest, and its rights relating to the properties held by such special purpose companies may be limited.
- JEI’s properties may be subject to preferential negotiation rights of others.
- JEI may hold interests in some properties through Japanese anonymous association (*tokumei kumiai*) agreements, and JEI’s rights relating to such properties may be limited.
- JEI owns all of its properties through trust beneficiary interests and may suffer losses as a trust beneficiary.
- There are important differences regarding the rights of unitholders in a J-REIT compared to those of shareholders in a corporation.
- The Alternative Investment Fund Managers Directive (AIFMD) may negatively affect JEI’s ability to market its units in the EEA and increase its compliance costs associated with the marketing of its units in the EEA.
- JEI’s units may be deemed to constitute “plan assets” for ERISA purposes, which may lead to the rescission of certain of its transactions, tax or fiduciary liability and JEI being held in violation of ERISA requirements.

Financial Statements

Japan Excellent, Inc.

*For the six-month periods ended
June 30, 2016 and December 31, 2015
with Independent Auditor's Report*

Independent Auditor's Report

The Board of Directors
Japan Excellent, Inc.

We have audited the accompanying financial statements of Japan Excellent, Inc., which comprise the balance sheet as at June 30, 2016, and the related statements of income and retained earnings, changes in net assets, and cash flows for the six-month period then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. The purpose of an audit of the financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Japan Excellent, Inc. as at June 30, 2016, and its financial performance and cash flows for the six-month period then ended in conformity with accounting principles generally accepted in Japan.

Ernst & Young ShinNihon LLC

September 20, 2016
Tokyo, Japan

Japan Excellent, Inc.

Balance Sheets

As of June 30, 2016 and December 31, 2015

	As of June 30, 2016	As of December 31, 2015
	<i>(Thousands of yen)</i>	
Assets		
Current assets:		
Cash and cash equivalents including trust accounts (<i>Notes 4 and 5</i>)	18,373,960	17,970,143
Rental receivables	653,046	795,482
Prepaid expenses and other current assets	149,155	164,012
Total current assets	<u>19,176,162</u>	<u>18,929,637</u>
Property and equipment (<i>Note 7</i>):		
Buildings and building improvements	5,820,683	5,814,316
Machinery and equipment	6,253	6,253
Furniture and fixtures	11,294	10,716
Land	3,032,788	3,032,788
Buildings and building improvements for trust accounts	116,350,394	115,641,899
Machinery and equipment for trust accounts	737,708	730,465
Furniture and fixtures for trust accounts	179,032	172,325
Land for trust accounts	151,752,645	151,752,645
Construction in progress for trust accounts	203,425	37,375
Less: accumulated depreciation	<u>(23,952,945)</u>	<u>(22,053,080)</u>
Net property and equipment	<u>254,141,281</u>	<u>255,145,705</u>
Intangible assets:		
Leasehold rights	1,721,607	1,721,607
Brand and trademark	164	194
Leasehold rights for trust accounts	7,382,016	7,380,016
Other intangible assets for trust accounts	4,689	4,816
Total intangible assets	<u>9,108,477</u>	<u>9,106,635</u>
Investments and other assets:		
Security deposits	15,181	15,181
Long-term prepaid expenses	739,930	775,886
Other assets	367,226	351,768
Total investments and other assets	<u>1,122,338</u>	<u>1,142,836</u>
Deferred assets:		
Investment corporation bond issuance costs	105,433	118,909
Total deferred assets	<u>105,433</u>	<u>118,909</u>
Total assets	<u><u>283,653,693</u></u>	<u><u>284,443,725</u></u>

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

	As of June 30, 2016	As of December 31, 2015
	<i>(Thousands of yen)</i>	
Liabilities		
Current liabilities:		
Accounts payable – trade	986,466	1,363,057
Short-term loans <i>(Notes 5 and 8)</i>	1,000,000	1,000,000
Investment corporation bonds due within one year <i>(Notes 5 and 9)</i>	5,000,000	5,000,000
Long-term debt due within one year <i>(Notes 5 and 8)</i>	15,760,000	16,760,000
Accounts payable – other	439,906	435,955
Accrued expenses	187,327	190,650
Accrued corporation taxes	522	542
Accrued consumption taxes	98,318	530,377
Advances received	82,536	77,102
Other current liabilities	490	12,669
Total current liabilities	<u>23,555,567</u>	<u>25,370,355</u>
Long-term liabilities:		
Investment corporation bonds <i>(Notes 5 and 9)</i>	25,000,000	25,000,000
Long-term debt <i>(Notes 5 and 8)</i>	85,140,000	84,140,000
Security deposits from tenants <i>(Note 5)</i>	740,329	734,945
Security deposits from tenants for trust accounts <i>(Note 5)</i>	11,408,901	11,341,356
Total long-term liabilities	<u>122,289,230</u>	<u>121,216,301</u>
Total liabilities	<u>145,844,798</u>	<u>146,586,656</u>
Net assets <i>(Note 10)</i>		
Unitholders' equity:		
Unitholders' capital	134,434,701	134,434,701
Surplus		
Voluntary reserve		
Reserve for advanced depreciation of non-current assets	260,476	37,347
Retained earnings	3,113,717	3,385,019
Total surplus	<u>3,374,193</u>	<u>3,422,366</u>
Total unitholders' equity	<u>137,808,895</u>	<u>137,857,068</u>
Total net assets	<u>137,808,895</u>	<u>137,857,068</u>
Total liabilities and net assets	<u>283,653,693</u>	<u>284,443,725</u>

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

Japan Excellent, Inc.

Statements of Income and Retained Earnings

For the periods from January 1, 2016 to June 30, 2016
and from July 1, 2015 to December 31, 2015

	For the period from January 1, 2016 to June 30, 2016	For the period from July 1, 2015 to December 31, 2015
	<i>(Thousands of yen)</i>	
Revenues (Notes 13 and 14):		
Rental revenues	9,351,939	9,697,871
Other	871,294	971,892
Gain on sales of real estate properties	-	170,002
Total revenues	<u>10,223,234</u>	<u>10,839,766</u>
Operating expenses (Note 13):		
Property operating expenses	5,655,480	5,916,331
Asset management fees	424,387	442,299
Custodian fees	21,211	22,368
Administrative service fees	41,178	41,825
Compensation for directors	6,540	6,540
Other	92,125	108,565
Total operating expenses	<u>6,240,922</u>	<u>6,537,930</u>
Operating income	<u>3,982,311</u>	<u>4,301,836</u>
Other income:		
Interest income	1,985	2,181
Other	737	2,659
Other expenses:		
Interest expense	565,152	616,982
Loan arrangement fees	142,464	145,627
New investment unit issuance costs	17,451	15,817
Interest expense on investment corporation bonds	132,477	123,986
Amortization of investment corporation bond issuance costs	13,475	12,890
Other	225	6,077
Ordinary income	<u>3,113,786</u>	<u>3,385,295</u>
Income before income taxes	3,113,786	3,385,295
Income taxes (Note 12):		
Current	826	986
Deferred	7	7
Net income	<u>3,112,951</u>	<u>3,384,302</u>
Retained earnings at beginning of period	<u>765</u>	<u>717</u>
Retained earnings at end of period	<u><u>3,113,717</u></u>	<u><u>3,385,019</u></u>

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

Japan Excellent, Inc.

Statements of Changes in Net Assets

For the periods from January 1, 2016 to June 30, 2016
and from July 1, 2015 to December 31, 2015

For the period from July 1, 2015 to December 31, 2015

	Net assets						
	Unitholders' equity						
	Number of units in issue	Unitholders' capital	Surplus			Total unitholders' equity	Total net assets
			Voluntary reserve	Reserve for advanced depreciation of non-current assets	Retained earnings		
			Total surplus				
<i>(Thousands of yen)</i>							
Balance as of June 30, 2015	1,212,750	127,950,539	37,347	3,098,080	3,135,427	131,085,966	131,085,966
Changes during the fiscal period:							
Issuance of new units	51,700	6,484,162	–	–	–	6,484,162	6,484,162
Distributions from retained earnings	–	–	–	(3,097,363)	(3,097,363)	(3,097,363)	(3,097,363)
Net income	–	–	–	3,384,302	3,384,302	3,384,302	3,384,302
Total changes during the fiscal period	51,700	6,484,162	–	286,939	286,939	6,771,101	6,771,101
Balance as of December 31, 2015	1,264,450	134,434,701	37,347	3,385,019	3,422,366	137,857,068	137,857,068

For the period from January 1, 2016 to June 30, 2016

	Net assets						
	Unitholders' equity						
	Number of units in issue	Unitholders' capital	Surplus			Total unitholders' equity	Total net assets
			Voluntary reserve	Reserve for advanced depreciation of non-current assets	Retained earnings		
			Total surplus				
<i>(Thousands of yen)</i>							
Balance as of December 31, 2015	1,264,450	134,434,701	37,347	3,385,019	3,422,366	137,857,068	137,857,068
Reversal of reserve for reduction entry	–	–	(37,347)	37,347	–	–	–
Provision of reserve for reduction entry	–	–	260,476	(260,476)	–	–	–
Distributions from retained earnings	–	–	–	(3,161,125)	(3,161,125)	(3,161,125)	(3,161,125)
Net income	–	–	–	3,112,951	3,112,951	3,112,951	3,112,951
Total changes during the fiscal period	–	–	223,129	(271,302)	(48,173)	(48,173)	(48,173)
Balance as of June 30, 2016	1,264,450	134,434,701	260,476	3,113,717	3,374,193	137,808,895	137,808,895

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

Japan Excellent, Inc.

Statements of Cash Flows

For the periods from January 1, 2016 to June 30, 2016
and from July 1, 2015 to December 31, 2015

	For the period from January 1, 2016 to June 30, 2016	For the period from July 1, 2015 to December 31, 2015
	<i>(Thousands of yen)</i>	
Cash flows from operating activities		
Income before income taxes	3,113,786	3,385,295
Depreciation and amortization	1,900,022	1,908,887
Amortization of investment corporation bond issuance costs	13,475	12,890
New unit issuance costs	17,451	15,817
Interest income	(1,985)	(2,181)
Interest expense	697,629	740,968
Decrease (increase) in rental receivables	142,435	71,772
Decrease (increase) in consumption taxes refundable	–	801,341
Decrease (increase) in prepaid expenses	31,235	34,949
Increase (decrease) in accounts payable – trade	(122,061)	208,798
Increase (decrease) in accounts payable – other	(14,170)	20,510
Increase (decrease) in unpaid consumption taxes	(432,059)	530,377
Increase (decrease) in advances received	5,434	(14,614)
Decrease (increase) in long-term prepaid expenses	35,956	(163,461)
Decrease in property and equipment for trust accounts due to sale	–	15,537,679
Decrease in intangible assets for trust accounts due to sale	–	148
Other, net	(39,142)	(4,954)
Subtotal	<u>5,348,009</u>	<u>23,084,225</u>
Interest received	1,985	2,181
Interest paid	(700,952)	(732,153)
Income taxes paid	(846)	(1,209)
Net cash provided by operating activities	<u>4,648,194</u>	<u>22,353,044</u>
Cash flows from investing activities		
Purchases of property and equipment	(10,356)	(3,234)
Purchases of property and equipment for trust accounts	(1,144,736)	(2,150,745)
Purchases of intangible assets for trust accounts	(2,150)	–
Proceeds from security deposits from tenants	6,133	21,980
Payments for security deposits to tenants	(749)	(10,500)
Proceeds from security deposits in trust accounts from tenants	180,575	402,231
Payments for security deposits in trust accounts to tenants	(113,030)	(901,100)
Net cash used in investing activities	<u>(1,084,314)</u>	<u>(2,641,368)</u>
Cash flows from financing activities		
Proceeds from short-term loans	–	1,000,000
Repayment for short-term loans	–	(29,500,000)
Proceeds from long-term debt	13,000,000	10,540,000
Repayment for long-term debt	(13,000,000)	(10,540,000)
Proceeds from issuance of investment corporation bonds	–	4,964,574
Proceeds from issuance of investment units	–	6,484,162
Payments for new unit issuance costs	–	(40,127)
Distributions to unitholders	(3,160,062)	(3,097,281)
Net cash used in financing activities	<u>(3,160,062)</u>	<u>(20,188,671)</u>
Net increase (decrease) in cash and cash equivalents	403,817	(476,996)
Cash and cash equivalents at beginning of period	17,970,143	18,447,139
Cash and cash equivalents at end of period	<u>18,373,960</u>	<u>17,970,143</u>

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

Japan Excellent, Inc.

Notes to Financial Statements

For the periods from January 1, 2016 to June 30, 2016
and from July 1, 2015 to December 31, 2015

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 was originally owned 45% by NIPPON STEEL KOWA REAL ESTATE CO., LTD., 20% by The Dai-ichi Life Insurance Company, Limited, 15% by Sekisui House, Co., LTD., and 20% by other corporations. Due to the transfer of ownership by Sekisui House, Co., LTD., on May 12, 2014, ownership interests of 9% and 6% were each acquired by NIPPON STEEL KOWA REAL ESTATE CO., LTD., and The Dai-ichi Life Insurance Company, Limited, respectively.

JEI was listed on the Tokyo Stock Exchange on June 27, 2006. As of June 30, 2016, JEI held 30 properties with 356,883.84 square meters of total leasable space and had leases with 228 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.

The amounts have been rounded down to the nearest thousand yen in the accompanying financial statements in accordance with the financial statements originally prepared in Japanese and filed with the regulatory authorities in Japan.

3. Summary of Significant Accounting Policies

Cash and cash equivalents

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

Property and equipment including trust accounts and trademark rights

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

Buildings	2 – 60 years
Building improvements	2 – 59 years
Machinery and equipment	6 – 16 years
Furniture and fixtures	3 – 15 years

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

Deferred assets

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

New investment unit issuance costs are charged to income as incurred.

Income taxes

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

Consumption taxes

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

Property-related taxes

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

3. Summary of Significant Accounting Policies (continued)

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, 2015 to December 31, 2015 was ¥639 thousand. No property-related taxes were capitalized for the period from January 1, 2016 to June 30, 2016.

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 against fluctuation risk in interest rates. JEI has therefore entered into certain interest-rate swap contracts in order to hedge the risk of variable rates for its long-term debt obligations.

Each corresponding interest-rate swap is not required to be re-measured to fair value, because it meets the criteria for the special hedge accounting treatment under Japanese GAAP, which JEI applies to each interest-rate swap agreement.

Under this special hedge accounting treatment, the differentials paid or received under the swap agreements are recognized and included in interest expense of the hedged loans, and the interest-rate swaps are not required to be measured at fair value separately. For interest-rate swaps that meet the specific criteria for the special accounting treatment, assessments of hedge effectiveness are not performed.

Properties in trust accounts

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

4. Cash and Cash Equivalents

Cash and cash equivalents including trust accounts in the accompanying balance sheets and cash and cash equivalents in the accompanying statements of cash flows at June 30, 2016 and December 31, 2015 consisted of the following:

	As of, June 30, 2016	As of December 31, 2015
	<i>(Thousands of yen)</i>	
Cash and cash deposits	2,962,118	2,207,430
Cash and deposits in trust	15,411,841	15,762,712
Cash and cash equivalents including trust accounts	<u>18,373,960</u>	<u>17,970,143</u>

5. Financial Instruments

For the periods from January 1, 2016 to June 30, 2016 and from July 1, 2015 to December 31, 2015

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 over the entire term of the instrument in order to benefit from the recent favorable financial environment with low 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 fixed-rate term deposits. Derivative transactions are used solely for the purpose of hedging against the risk of fluctuations in interest rates of borrowings and investment corporation bonds.

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

(a) Market Risks (Interest rate fluctuation risk)

Borrowings and investment corporation bonds are primarily used to acquire properties or to refinance existing borrowings or bonds. Some of such debt were floating rate instruments and thus were exposed to the risk of interest rate fluctuations. Based on interest rate forecasts developed through constant financial market monitoring activities, JEI has concentrated on hedging against the risk of interest rate fluctuations using interest-rate swaps, through which a floating interest rate is swapped for a fixed interest rate, which finally led to 89.4% of existing borrowings being covered by a fixed interest rate swap for the entire maturity as of June 30, 2016. To reduce credit risk, derivative transactions (interest-rate swaps) are entered into exclusively with counterparties that are financial institutions with high credit ratings. For hedging accounting methods, hedging instruments, hedged items, hedging policies and methods for evaluation of the effectiveness of hedging activities, see "Derivatives and hedge accounting" under Summary of Significant Accounting Policies.

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

Borrowings and investment corporation bonds are exposed to liquidity risk. This risk is reduced through diversification of maturity dates and funding sources, and arrangement of commitment line agreements (as described in Note 8, "Short-Term Loans and Long-Term Debt," there is no balance outstanding under the facility agreements as of June 30, 2016). Liquidity risk is also mitigated through the constant management of liquidity on hand.

5. Financial Instruments (continued)

(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.

Fair value of financial instruments

The following are carrying values and fair values as of June 30, 2016 and December 31, 2015 of financial instruments and the differences between them. When fair value is difficult to ascertain, it is excluded from the following table (Note B).

	As of June 30, 2016			As of December 31, 2015		
	Carrying value	Fair value (Note A)	Difference	Carrying value	Fair value (Note A)	Difference
	<i>(Thousands of yen)</i>					
(1) Cash and cash deposits	2,962,118	2,962,118	–	2,207,430	2,207,430	–
(2) Cash in trust and deposits in trust	15,411,841	15,411,841	–	15,762,712	15,762,712	–
Total assets	<u>18,373,960</u>	<u>18,373,960</u>	<u>–</u>	<u>17,970,143</u>	<u>17,970,143</u>	<u>–</u>
(3) Short-term loans (Note C)	1,000,000	1,000,000	–	1,000,000	1,000,000	–
(4) Investment corporation bonds due within one year (Note C)	5,000,000	5,015,900	15,900	5,000,000	5,033,200	33,200
(5) Long-term debt due within one year (Note C)	15,760,000	15,904,700	144,700	16,760,000	16,861,324	101,324
(6) Investment corporation bonds (Note C)	25,000,000	25,962,830	962,830	25,000,000	25,427,600	427,600
(7) Long-term debt (Note C)	85,140,000	87,359,510	2,219,510	84,140,000	85,557,635	1,417,635
Total liabilities	<u>131,900,000</u>	<u>135,242,941</u>	<u>3,342,941</u>	<u>131,900,000</u>	<u>133,879,759</u>	<u>1,979,759</u>
(8) Derivative transactions *	–	–	–	–	–	–

* The value of assets and liabilities arising from derivative transactions is shown at net value.

(Note A)

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,
- (5) Long-term debt due within one year and

5. Financial Instruments (continued)

(7) Long-term debt

Where floating rates apply, book value is generally considered appropriate as fair value. The fair value of such liabilities is considered to approximate book value, since floating rates reflect market interest rates within a short period of time.

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

The fair value of long-term fixed-rate debt and long-term fixed-rate debt due within one year are calculated by applying a reasonably assumed interest rate as a discount rate, which was determined to be applicable for the borrowings under similar conditions.

(4) Investment corporation bonds due within one year and

(6) Investment corporation bonds

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

(8) Derivative transactions

Please refer to Note 16, "Derivative Transactions."

(Note B)

- *Financial instruments for which fair value is deemed extremely difficult to determine*
The fair values of security deposits from tenants and security deposits from tenants for trust accounts are as follows:

	As of June 30, 2016	As of December 31, 2015
	<i>(Thousands of yen)</i>	
① Security deposits from tenants*	740,329	734,945
② Security deposits from tenants for trust accounts*	11,408,901	11,341,356

- * Security deposits from tenants and security deposits in trust accounts from tenants in leased properties are not subject to fair value disclosure, since such deposits have no market price. Furthermore, due to their characteristics, it is extremely difficult to estimate the fair value of security deposits in advance because of the uncertainty of the timing when the tenant vacates. As a result, it is therefore impossible to rationally estimate the exact cash flow from such security deposits.

5. Financial Instruments (continued)

• The scheduled redemption amounts of financial assets after the balance sheet date

	As of June 30, 2016					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	(Thousands of yen)					
Cash and cash deposits	2,962,118	–	–	–	–	–
Cash in trust and deposits in trust	15,411,841	–	–	–	–	–
Total	18,373,960	–	–	–	–	–

	As of December 31, 2015					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	(Thousands of yen)					
Cash and cash deposits	2,207,430	–	–	–	–	–
Cash in trust and deposits in trust	15,762,712	–	–	–	–	–
Total	17,970,143	–	–	–	–	–

(Note C)

The scheduled redemption amounts of borrowings, investment corporation bonds and other interest-bearing debt after the balance sheet date

	As of June 30, 2016					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	(Thousands of yen)					
Short-term loans	1,000,000	–	–	–	–	–
Investment corporation bonds due within one year	5,000,000	–	–	–	–	–
Long-term debt due within one year	15,760,000	–	–	–	–	–
Investment corporation bonds	–	–	12,000,000	–	–	13,000,000
Long-term debt	–	26,000,000	7,500,000	21,600,000	4,000,000	26,040,000
Total	21,760,000	26,000,000	19,500,000	21,600,000	4,000,000	39,040,000

	As of December 31, 2015					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	(Thousands of yen)					
Short-term loans	1,000,000	–	–	–	–	–
Investment corporation bonds due within one year	5,000,000	–	–	–	–	–
Long-term debt due within one year	16,760,000	–	–	–	–	–
Investment corporation bonds	–	–	7,000,000	5,000,000	–	13,000,000
Long-term debt	–	24,000,000	17,750,000	3,750,000	8,600,000	30,040,000
Total	22,760,000	24,000,000	24,750,000	8,750,000	8,600,000	43,040,000

6. Investment and Rental Property

For the periods from January 1, 2016 to June 30, 2016 and from July 1, 2015 to December 31, 2015

JEI owns rental office buildings and other properties in Tokyo and other regions for the purpose of generating rental income. The following is the carrying value and fair value as of June 30, 2016 and December 31, 2015 for such real estate for lease.

Carrying value			Fair value
As of January 1, 2016	Change during period ^(*1)	As of June 30, 2016	As of June 30, 2016
<i>(Thousands of yen)</i>			
264,252,146	(1,002,551)	263,249,595	272,170,000

Carrying value			Fair value
As of July 1, 2015	Change during period ^(*2)	As of December 31, 2015	As of December 31, 2015
<i>(Thousands of yen)</i>			
279,602,013	(15,349,866)	264,252,146	268,610,000

A) Carrying value represents the acquisition cost less accumulated depreciation.

B) Details of change during period

(*1) The decrease of ¥1,002,551 thousand during the period is mainly due to a decrease of ¥1,899,992 thousand for depreciation costs.

(*2) The decrease of ¥15,349,866 thousand during the period is mainly due to an increase of ¥1,432,381 thousand related to the acquisition of Okinawa No.27 Daikyo Building on one hand, and a decreases of ¥15,537,828 thousand on account of the transfer of No.32 Kowa Building and No.35 Kowa Building on the other hand, and ¥1,908,830 thousand for depreciation costs as well.

C) Fair value

Fair value as of June 30, 2016 and December 31, 2015 is appraisal value provided by third-party real estate appraisers.

7. Property and Equipment

Property and equipment at June 30, 2016 and December 31, 2015 consisted of the following:

	As of June 30, 2016			As of December 31, 2015		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
	<i>(Thousands of yen)</i>					
Buildings and building improvements	5,820,683	(1,078,656)	4,742,027	5,814,316	(992,003)	4,822,312
Machinery and equipment	6,253	(1,692)	4,561	6,253	(1,410)	4,842
Furniture and fixtures	11,294	(3,761)	7,533	10,716	(3,170)	7,546
Land	3,032,788	–	3,032,788	3,032,788	–	3,032,788
Buildings and building improvements for trust accounts	116,350,394	(22,451,366)	93,899,028	115,641,899	(20,673,882)	94,968,017
Machinery and equipment for trust accounts	737,708	(319,724)	417,983	730,465	(293,250)	437,214
Furniture and fixtures for trust accounts	179,032	(97,744)	81,288	172,325	(89,363)	82,962
Land for trust accounts	151,752,645	–	151,752,645	151,752,645	–	151,752,645
Construction in progress for trust accounts	203,425	–	203,425	37,375	–	37,375
Total	278,094,226	(23,952,945)	254,141,281	277,198,786	(22,053,080)	255,145,705

8. Short-Term Loans and Long-Term Debt

Short-term loans and long-term debt as of June 30, 2016 and December 31, 2015 consisted of the following:

	As of June 30, 2016		As of December 31, 2015	
	Amount (Thousands of yen)	Weighted-average interest rate ^(*)	Amount (Thousands of yen)	Weighted-average interest rate ^(*)
Short-term loans:				
Unsecured loans from an insurance company due on December 10, 2016	1,000,000	0.26455%	1,000,000	0.36000%
Subtotal	1,000,000		1,000,000	
Long-term debt due within one year:				
Unsecured loans from banks due on June 29, 2016	—	—	13,000,000	1.36375% ^(*)
Unsecured loans from banks due on November 29, 2016	3,760,000	1.24375% ^(*)	3,760,000	1.24375% ^(*)
Unsecured loans from banks due on January 31, 2017	5,000,000	1.24750% ^(*)	—	—
Unsecured loans from banks due on January 31, 2017	4,000,000	1.03000% ^(*)	—	—
Unsecured loans from insurance companies due on January 31, 2017	3,000,000	1.09734% ^(*)	—	—
Subtotal	15,760,000		16,760,000	
Long-term debt:				
Unsecured loans from banks due on January 31, 2017	—	—	5,000,000	1.24750% ^(*)
Unsecured loans from banks due on January 31, 2017	—	—	4,000,000	1.03000% ^(*)
Unsecured loans from insurance companies due on January 31, 2017	—	—	3,000,000	1.09734% ^(*)
Unsecured loans from a bank due on November 30, 2017	6,000,000	1.73875% ^(*)	6,000,000	1.73875% ^(*)
Unsecured loans from banks due on November 30, 2017	3,000,000	1.08375% ^(*)	3,000,000	1.08375% ^(*)
Unsecured loans from banks due on November 30, 2017	2,000,000	1.04550% ^(*)	2,000,000	1.04550% ^(*)
Unsecured loans from insurance companies due on November 30, 2017	1,000,000	1.19212% ^(*)	1,000,000	1.19212% ^(*)
Unsecured loans from an insurance company due on June 29, 2018	3,000,000	1.65125% ^(*)	3,000,000	1.65125% ^(*)
Unsecured loans from banks due on June 30, 2018	11,000,000	0.81225% ^(*)	11,000,000	0.81225% ^(*)
Unsecured loans from banks due on November 1, 2018	3,750,000	0.74500% ^(*)	3,750,000	0.74500% ^(*)
Unsecured loans from banks due on March 8, 2019	3,750,000	0.77500% ^(*)	3,750,000	0.77500% ^(*)
Unsecured loans from banks due on December 30, 2019	13,000,000	0.28364%	—	—
Unsecured loans from a bank due on January 31, 2020	2,000,000	1.60000% ^(*)	2,000,000	1.60000% ^(*)
Unsecured loans from banks due on January 31, 2020	2,600,000	1.36400% ^(*)	2,600,000	1.36400% ^(*)
Unsecured loans from an insurance company due on January 31, 2020	1,000,000	1.31261% ^(*)	1,000,000	1.31261% ^(*)
Unsecured loans from banks due on January 31, 2020	3,000,000	1.00000% ^(*)	3,000,000	1.00000% ^(*)
Unsecured loans from a bank due on June 30, 2021	2,000,000	1.60750% ^(*)	2,000,000	1.60750% ^(*)
Unsecured loans from an insurance company due on June 30, 2021	2,000,000	0.98834% ^(*)	2,000,000	0.98834% ^(*)
Unsecured loans from banks due on December 30, 2021	5,750,000	0.81875% ^(*)	5,750,000	0.81875% ^(*)
Unsecured loans from a bank due on June 30, 2022	2,000,000	1.15417% ^(*)	2,000,000	1.15417% ^(*)
Unsecured loans from banks due on December 30, 2022	5,750,000	0.93625% ^(*)	5,750,000	0.93625% ^(*)
Unsecured loans from a bank due on June 30, 2023	2,000,000	1.20250% ^(*)	2,000,000	1.20250% ^(*)
Unsecured loans from banks due on November 30, 2023	5,270,000	0.84375% ^(*)	5,270,000	0.84375% ^(*)
Unsecured loans from banks due on November 30, 2024	5,270,000	0.96275% ^(*)	5,270,000	0.96275% ^(*)
Subtotal	85,140,000		84,140,000	
Total	101,900,000		101,900,000	

(*1) The weighted-average interest rate is weighted-average figures during the period. As for the borrowings hedged by interest-rate swaps for the purpose of mitigating interest rate fluctuation risk, the fixed interest rates after entering into the interest rate swap transactions are used to calculate the weighted-average interest rate.

(*2) These are fixed-rate debt (incl. Fixed-rate debt through each interest-rate swap agreement).

8. Short-Term Loans and Long-Term Debt (continued)

The scheduled repayment amounts of long-term debt as of June 30, 2016 are as follows:

	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>					
Long-term debt	15,760,000	26,000,000	7,500,000	21,600,000	4,000,000	26,040,000

JEI has commitment lines of ¥14,000 million with three financial institutions to mitigate refinancing risk and enhance financial stability. As of June 30, 2016, these commitment lines have never been utilized.

9. Investment Corporation Bonds

Details of total investment corporation bonds outstanding as of June 30, 2016 and December 31, 2015 are summarized as follows:

	As of June 30, 2016		As of December 31, 2015	
	Amount	Weighted- average interest rate	Amount	Weighted- average interest rate
	<i>(Thousands of yen)</i>		<i>(Thousands of yen)</i>	
Unsecured bond #3 due on November 4, 2016	5,000,000	1.01000%	5,000,000	1.01000%
Unsecured bond #4 due on November 2, 2018	2,000,000	1.40000%	2,000,000	1.40000%
Unsecured bond #5 due on November 2, 2018	5,000,000	0.46000%	5,000,000	0.46000%
Unsecured bond #6 due on March 11, 2019	5,000,000	0.46000%	5,000,000	0.46000%
Unsecured bond #7 due on March 11, 2024	8,000,000	1.13000%	8,000,000	1.13000%
Unsecured bond #8 due on September 9, 2025	5,000,000	1.03000%	5,000,000	1.03000%
Total	<u>30,000,000</u>		<u>30,000,000</u>	

The scheduled redemption amounts of investment corporation bonds as of June 30, 2016 are as follows:

	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>					
Investment corporation bonds	5,000,000	—	12,000,000	—	—	13,000,000

10. Net Assets

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

11. Per Unit Information

Net assets per unit as of June 30, 2016 and December 31, 2015 were calculated based on the number of units outstanding as of each date (1,264,450 units).

Net income per unit for the periods from January 1, 2016 to June 30, 2016 and July 1, 2015 to December 31, 2015 was calculated based on the weighted-average number of units outstanding during the corresponding periods, that is, 1,264,450 units and 1,260,312 units, respectively.

Accordingly, net assets per unit were ¥108,987 as of June 30, 2016 and ¥109,025 as of December 31, 2015. Net income per unit was ¥2,461 for the period from January 1, 2016 to June 30, 2016, and ¥2,685 for the period from July 1, 2015 to December 31, 2015.

12. Income Taxes

JEI is subject to income taxes in Japan.

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

Details of significant components of deferred tax assets and liabilities as of June 30, 2016 and December 31, 2015 are summarized as follows:

	As of June 30, 2016	As of December 31, 2015
	<i>(Thousands of yen)</i>	
Deferred tax assets:		
Accrued enterprise taxes	10	18
Total deferred tax assets	10	18
Net deferred tax assets	10	18

A reconciliation of the differences between the statutory tax rate and the effective tax rate for the periods from January 1, 2016 to June 30, 2016 and from July 1, 2015 to December 31, 2015 is as follows:

	For the period from January 1, 2016 to June 30, 2016	For the period from July 1, 2015 to December 31, 2015
Statutory tax rate	32.31%	32.31%
Reconciliation:		
Deductible distributions paid	(32.30)	(30.17)
Other	0.02	(2.11)
Effective tax rate	0.03%	0.03%

13. Breakdown of Property Rental Business Revenues and Expenses

	For the period from January 1, 2016 to June 30, 2016	For the period from July 1, 2015 to December 31, 2015
	<i>(Thousands of yen)</i>	
Rental business revenues:		
Rental revenues	9,351,939	9,697,871
Other	871,294	971,892
Total rental business revenues	10,223,234	10,669,763
Property operating expenses:		
Property management costs and fees	1,423,291	1,440,425
Utilities	1,044,708	1,192,804
Property and other taxes	835,657	838,200
Insurance	24,644	27,515
Repairs and maintenance	195,748	269,088
Depreciation	1,899,992	1,908,830
Other	231,438	239,466
Total property operating expenses	5,655,480	5,916,331
Profit	4,567,754	4,753,431

14. Breakdown of Gain on Sales of Real Estate Properties

Gain on sales of real estate properties for the periods from January 1, 2016 to June 30, 2016 and from July 1, 2015 to December 31, 2015 is as follows:

	For the period from January 1, 2016 to June 30, 2016	For the period from July 1, 2015 to December 31, 2015
	<i>(Thousands of yen)</i>	
No. 32 Kowa Building		
Proceeds from sale of real estate	—	6,390,000
Cost of sales of real estate	—	7,359,878
Other related sale expenses	—	1,032
Loss on sale of real estate	—	970,910
	<i>(Thousands of yen)</i>	
No. 35 Kowa Building		
Proceeds from sale of real estate	—	9,320,000
Cost of sales of real estate	—	8,177,950
Other related sale expenses	—	1,136
Gain on sale of real estate	—	1,140,913

15. Leases

JEI leases properties on which rental revenues are earned. At June 30, 2016 and December 31, 2015, future lease revenues under non-cancelable operating leases are summarized as follows:

	As of June 30, 2016	As of December 31, 2015
	<i>(Thousands of yen)</i>	
Due within one year	150,182	150,967
Due after one year	628,373	663,468
Total	778,555	814,435

16. Derivative Transactions

Derivative Transactions as of June 30, 2016

- (1) Transactions to which hedge accounting is not applied:

Not applicable.

- (2) Transactions to which hedge accounting is applied:

The following are the contract values or values corresponding to the principal amount as stipulated by contracts as of June 30, 2016 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>						
Special treatment of interest-rate swaps	Interest-rate swap Receive floating, pay fixed	Long-term debt	63,900,000	51,140,000	*	/

* Since the above interest-rate swap meets the criteria for the special hedge accounting treatment under Japanese GAAP and therefore qualifies for hedge accounting, the swap is not revalued at fair value on the accompanying balance sheets, as described in the summary of significant accounting policies.

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

Derivative Transactions as of December 31, 2015

- (1) Transactions to which hedge accounting is not applied

Not applicable.

- (2) Transactions to which hedge accounting is applied

The following are the contract values or values corresponding to the principal amount as stipulated by contracts as of December 31, 2015 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>						
Special treatment of interest-rate swaps	Interest-rate swap Receive floating, pay fixed	Long-term debt	76,900,000	60,140,000	*	/

16. Derivative Transactions (continued)

* Since the above interest-rate swap meets the criteria for the special hedge accounting treatment under Japanese GAAP and therefore qualifies for hedge accounting, the swap is not revalued at fair value on the accompanying balance sheets, as described in the summary of significant accounting policies.

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

17. Related Party Transactions

For the period from January 1, 2016 to June 30, 2016

- (1) Parent Company and Major Corporate Unitholders

Not applicable.

- (2) Subsidiaries and Affiliated Companies

Not applicable.

- (3) Sister Companies

Not applicable.

- (4) Directors and Major Individual Unitholders

Name	Description of transaction	Amount	Account	Balance at the end of period
		(Thousands of yen)		(Thousands of yen)
Hidehiko Ogawa	Payment of asset management fees to JEAM	424,387	Accounts payable	341,988

For the period from July 1, 2015 to December 31, 2015

- (1) Parent Company and Major Corporate Unitholders

Not applicable.

- (2) Subsidiaries and Affiliated Companies

Not applicable.

- (3) Sister Companies

Not applicable.

- (4) Directors and Major Individual Unitholders

Name	Description of transaction	Amount	Account	Balance at the end of period
		(Thousands of yen)		(Thousands of yen)
Hidehiko Ogawa	Payment of asset management fees to JEAM	442,299	Accounts payable	357,961

18. Segment Information

For the periods from January 1, 2016 to June 30, 2016 and from July 1, 2015 to December 31, 2015

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

Information about products and services

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

Information about geographic area

(1) Revenues

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

(2) Property and equipment

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

Information about major clients

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

19. Distribution Information

In accordance with Section 33.1.2 of the bylaws set forth by JEI for distributions of cash dividends, the amount of dividends payable, which is limited by the amount of retained earnings at end of period, 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 ¥3,113,075,900, which is the maximum integral multiple of the 1,264,450 units issued, but not exceeding ¥3,113,717,142 which is the amount of retained earnings at June 30, 2016. No cash distribution exceeding the income amount set forth in Section 33.1.4 of the bylaws of JEI shall be made.

On August 18, 2016, the Board of Directors approved a resolution to make a cash distribution of ¥2,462 per unit aggregating to ¥3,113,075,900 to unitholders of record as of June 30, 2016.

20. Significant Subsequent Event

Issuance of new units

On June 22, 2016 and July 4, 2016, the Board of Directors approved resolutions to complete a public offering and third-party allocation, respectively, of new units as outlined below. JEI received payments on July 11, 2016 and August 10, 2016 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 ¥139,972 million with 1,305,700 units in issue at August 10, 2016.

A. Issuance of new units through a public offering

(i) Method of issuance	Public offering
(ii) Number of units issued	37,500 units
(iii) Issue price (offer price)	¥138,742 per unit
(iv) Total offer price	¥5,202 million
(v) Proceeds per unit	¥134,259 per unit
(vi) Aggregate proceeds	¥5,034 million
(vii) Payment date	July 11, 2016

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	3,750 units
(iii) Proceeds per unit	¥134,259 per unit
(iv) Aggregate proceeds	¥503 million
(v) Payment date	August 10, 2016
(vi) Allottee	Mizuho Securities Co., Ltd.