



# Sensible Strategies for Growth and Value Creation



## **Japan Excellent, Inc.** SEMI-ANNUAL REPORT

For the 8th Period  
from January 1, 2010 to June 30, 2010

# Profile

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







# Sensible Strategies for Growth and Value Creation

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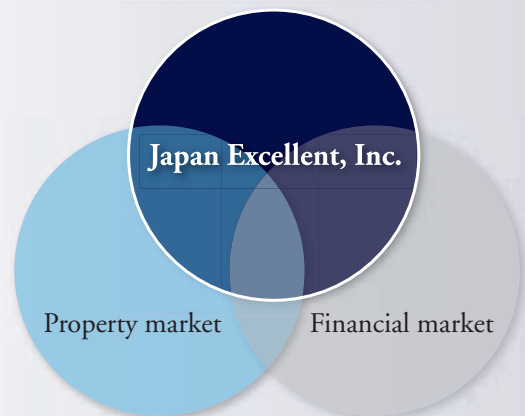
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## Basic Strategies

### Our Corporate Sponsors Provide Stability and Flexibility

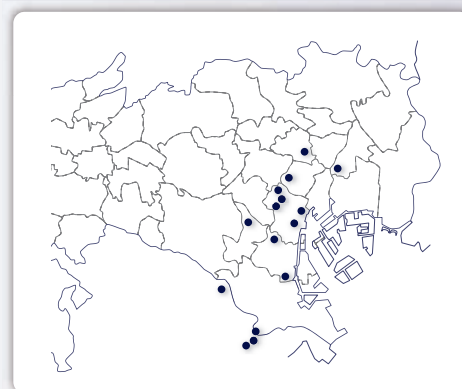
JEI's sponsors are strong in both real estate and finance. From the real estate industry, JEI's core sponsors are Kowa Real Estate Co., Ltd., The Dai-ichi Life Insurance Company, Limited, and Sekisui House, Ltd. Kowa Real Estate has developed and manages many leading-edge office buildings, mainly in the central business districts of Tokyo. Dai-ichi Life Insurance is a leading life insurer that has invested in numerous buildings throughout major cities in Japan, and Sekisui House is Japan's No. 1 home builder, with a wealth of experience in large-scale urban development. These three sponsors give us a real advantage as a source of property supply, human resources and real estate expertise.

From the financial industry, our core sponsors include Mizuho Corporate Bank, Ltd. and Mizuho Trust & Banking Co., Ltd. They are part of the Mizuho Financial Group, which is one of Japan's three mega banking groups. We use the comprehensive strengths of our sponsors to steadily manage operations.



### Stable Operations Centered on Metropolitan Tokyo Office Buildings

JEI invests primarily in office buildings. All properties in our portfolio at this time are office buildings. We primarily invest in Tokyo, where property leasing demand is strong. Currently, on an acquisition price basis 94 percent of our portfolio is in metropolitan Tokyo.



Tokyo

## Portfolio

18 properties

Sixteen of the eighteen properties in JEI's portfolio are in metropolitan Tokyo.

Total leasable floor space

220,474.77 m<sup>2</sup>

Generates stable revenues.

Acquisition price

181.0 billion yen

Steady portfolio expansion over the 3 years since JEI listed on the Tokyo Stock Exchange.

124 tenants

Tenant leasing risk is well dispersed.

Occupancy rate

97.4 %

Stable at a very high level.

## Profitability

Distribution per unit

15,315 yen

JEI has maintained stable distributions since listing its investment units.

NOI yield

5.3 %

JEI is securing stable returns from its properties through efforts to generate internal growth despite the unstable real estate market.

## Financial Stability

Ratings

A3, AA-  
(Moody's/R&I)

JEI maintains ratings from international rating agencies to provide high levels of transparency.

LTV ratio

49.0 %

JEI's LTV compares favorably with its peers in the J-REIT market.

# Financial Highlights

	8th Period January 1, 2010 to June 30, 2010	7th Period July 1, 2009 to December 31, 2009	6th Period January 1, 2009 to June 30, 2009	8th Period January 1, 2010 to June 30, 2010
	Millions of yen, except per unit data or where otherwise indicated			Thousands of U.S. dollars (Note 1)
Total revenues (Note 2).....	¥ 7,302	¥ 7,494	¥ 7,544	\$ 82,501
Operating income.....	3,252	3,349	3,278	36,741
Net income.....	2,366	2,485	2,442	26,741
Funds from operations (Note 3).....	3,359	3,476	3,432	37,951
Net operating income (NOI) (Note 3).....	4,778	4,907	4,814	53,983
Total distribution.....	2,366	2,485	2,442	26,741
Total assets.....	194,710	195,040	195,145	2,199,874
Interest-bearing debt.....	95,500	95,500	95,500	1,078,974
Net assets.....	89,389	89,450	89,363	1,009,939
LTV (Loan to value) ratio (Note 3).....	49.0%	49.0%	48.9%	
Total number of outstanding investment units (units).....	154,550	154,550	154,550	
Net assets per unit (Yen/\$).....	578,387	578,780	578,215	6,537
Distribution per unit (Yen/\$).....	15,315	16,085	15,802	173
Funds from operations per unit (Yen/\$) (Note 3).....	21,737	22,494	22,211	246

Notes: 1. U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥88.51 = U.S.\$1.00, the approximate exchange rate on June 30, 2010.

2. Total revenues do not include consumption taxes.

3. Funds from operations: Net income (excluding Gain on sale of investment properties + Gain on exchange of investment properties) + Depreciation and amortization  
Net operating income: (Rental business revenues - Property operating expenses) + Depreciation and amortization

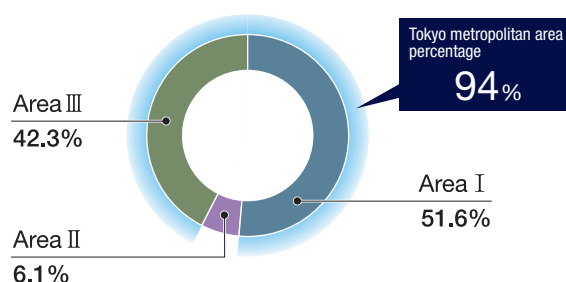
Loan to value ratio: Interest-bearing debt / Total assets

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

## Portfolio Highlights

(As of June 30, 2010)

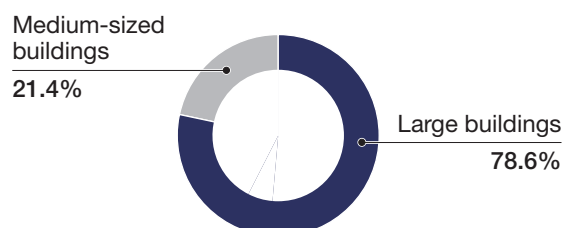
### Investment Areas (Acquisition price basis)



Note: Area I: Six central wards of Tokyo  
Area II: Central Osaka, central Nagoya and central Fukuoka  
Area III: Tokyo other than Area I, and its vicinity

For details see page 10.

### By Property Size (Acquisition price basis)



Note:

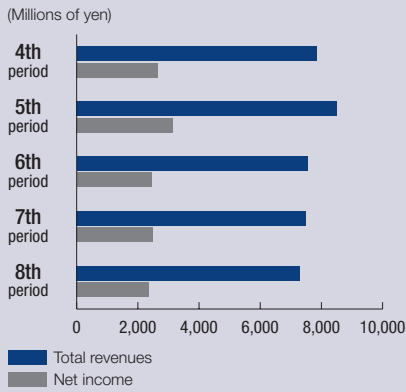
Large buildings: Floor areas of over 10,000 *tsubo*\* within Tokyo's 23 wards or over 4,000 *tsubo* outside Tokyo's 23 wards

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

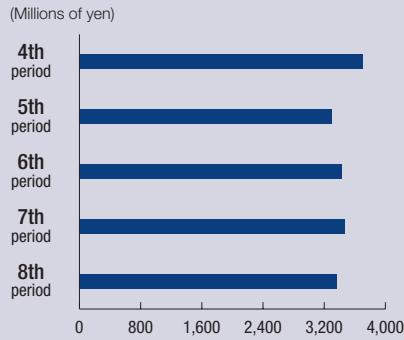
\* 1 *tsubo* = 3.306m<sup>2</sup>

For details see page 10.

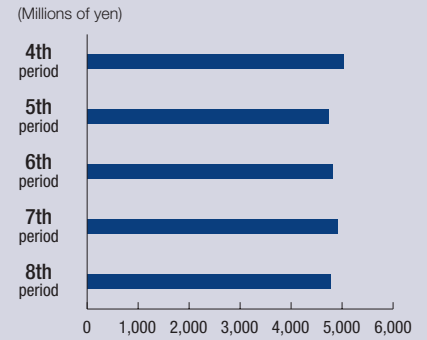
## Total Revenues / Net Income



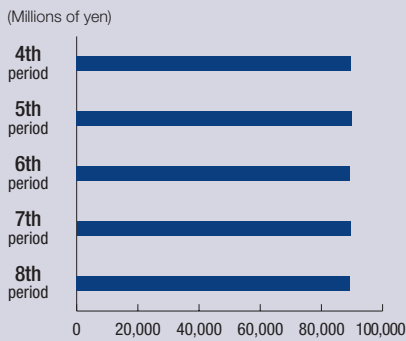
## Funds from Operations



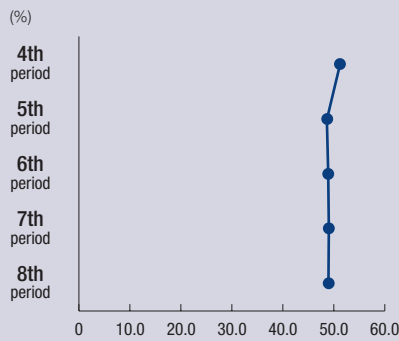
## Net Operating Income (NOI)



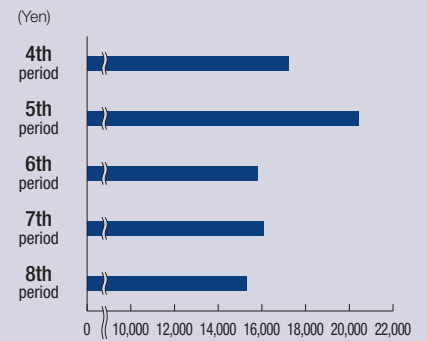
## Net Assets



## LTV (Loan to Value) Ratio



## Distribution per Unit



## Major Tenants

Name	Property	Leased Space (m <sup>2</sup> )	Percentage of Total Leased Area
Toshiba Information Systems (Japan) Corporation	Kowa Kawasaki Higashiguchi Building	18,612.72	8.7
National Mutual Insurance Federation of Agricultural Cooperatives	Kowa Kawasaki Nishiguchi Building	18,206.18	8.5
Roche Diagnostics K.K.	Shiba 2-Chome Building	9,284.18	4.3
Fujitsu Social Science Laboratory Ltd.	Musashikosugi Tower Place	8,680.74	4.0
Fujitsu Network Solutions Ltd.	Kawasaki Nisshincho Building	7,259.45	3.4

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



## To Our Unitholders



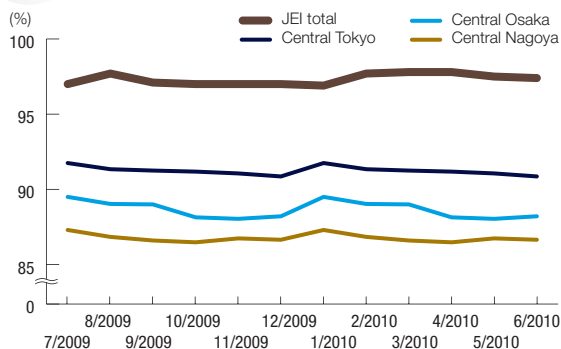
**Chifumi Toda**

Executive Director,  
Japan Excellent, Inc.

While maintaining solid management,  
we will implement sensible strategies  
for growth and value creation  
over the medium-to-long term.

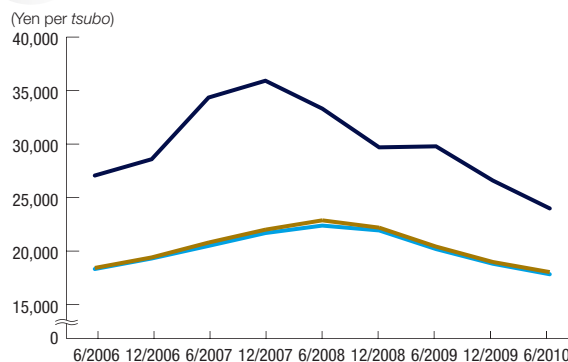


## Occupancy Rate in Central Tokyo, Central Osaka and Central Nagoya



Central Tokyo: Chiyoda, Chuo, Minato, Shinjuku and Shibuya wards  
 Central Osaka: Umeda, Minami-Morimachi, Yodoyabashi / Honcho, Senba, Shinsaibashi / Namba, and Shin-Osaka districts  
 Central Nagoya: Meieki, Fushimi, Sakae and Marunouchi districts  
 Source: Miki Shoji Co., Ltd.

## Average Asking Rents in Central Tokyo



— Average asking rent for new buildings  
 — Average asking rent for existing buildings  
 — Total average asking rent

Central Tokyo: Chiyoda, Chuo, Minato, Shinjuku and Shibuya wards  
 Source: Miki Shoji Co., Ltd.

## Overview of 8th Period Results

**Although revenue and profit declined, we minimized the effects of the harsh market environment.**

During the 8th Period (the six-month period ended June 30, 2010), the office leasing market saw vacancy rates increase in all areas as corporations continued to cut costs and consolidate office space. Even in the Tokyo metropolitan area, in general, vacancy rates continued to rise. There were isolated signs of improvement in the office leasing market, however, as vacancy rates in large high-grade buildings located in central Tokyo declined. Meanwhile, in Osaka, Nagoya and other regional cities, the market continued to see vacancy rates rise and market rents fall as the balance between supply and demand worsened.

Amid such an environment, in the 8th Period Japan Excellent Inc. (JEI) focused its efforts on quickly filling vacated space by strengthening leasing activities in collaboration with property managers. Furthermore, we maintained a high portfolio occupancy rate of 97.4 percent as of the end of the 8th Period (up 0.4 percentage points compared to the end of the previous period) due to improved service in building operations and management, including enhanced building functions resulting from equipment upgrades and effective tenant satisfaction improvement measures.

Nevertheless, our average rent declined as rent cuts for existing tenants renewing their leases were unavoidable.

Operations in the 8th Period resulted in a decline in revenue and profit. Total revenues were ¥7,302 million (down ¥192 million, or 2.6 percent, compared to the previous period), operating income was ¥3,252 million (down ¥97 million, or 2.9 percent) and net income was ¥2,366 million (down ¥119 million, or 4.8 percent).

Despite the decline in revenue and profit, we take pride in the fact we minimized the effects of the harsh environment and succeeded in maintaining a high occupancy rate, the most important factor in this environment.

## Our External Growth Strategy

**Invest selectively and acquire high-grade properties, tapping our sponsors' networks of information.**

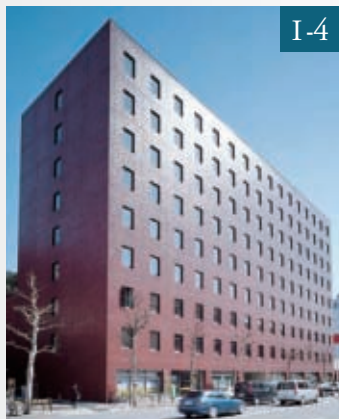
While the real estate investment market is improving, there remain few transactions for high-grade properties. Despite that fact, JEI will strive to enhance the quality of its portfolio by positioning external growth as an important management challenge and making selective investments in high-grade properties.

In August 2010, JEI decided to pay ¥2,390 million to acquire an additional stake in one of its existing portfolio properties—the No. 32 Kowa Building. The

## Planned Acquisition in the 9th Period

### No. 32 Kowa Building

Additional Acquisition of 30% of Co-ownership

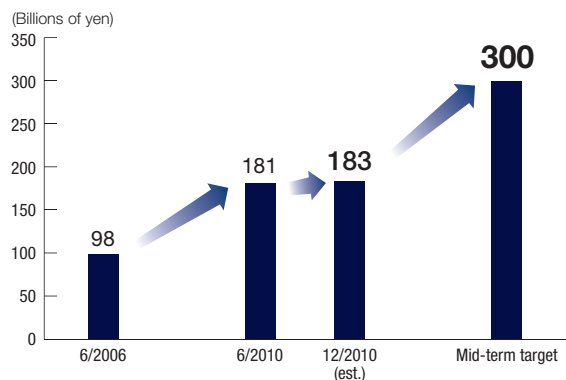


I-4

Acquisition price:	¥2,390 million
Scheduled acquisition date:	December 24, 2010
Location:	5-2-32 Minami-Azabu, Minato-ku, Tokyo
Site area:	
Land	2,592.39m <sup>2</sup>
Building	10,110.96m <sup>2</sup>
Leasable floor space:	
	2,271.29m <sup>2</sup> *
Seller:	Kowa Real Estate Co., Ltd.

\* Figure indicates total leasable area of the co-owned compartmentalized portion multiplied by the ratio of the co-ownership acquired (30/100).

### Asset Growth (Acquisition Price Basis)



No. 32 Kowa Building is a highly competitive building that lies in a prime location in central Tokyo that is home to many embassy buildings. (The planned date of acquisition is December 24, 2010, and the planned seller is Kowa Real Estate, one of our sponsors).

At JEI, this negotiated deal is an example of how, moving forward, we plan to leverage our sponsors' networks of information to make selective investments in high-grade buildings located primarily in the Tokyo metropolitan area. By doing so, we seek to enhance the quality and grow the size of our portfolio and establish a solid earnings base, even in a stagnant real estate investment market.

### Our Internal Growth Strategy

**Position maintaining and raising our occupancy rate as our most important challenge. Focus on leasing up vacant space through enhanced tenant satisfaction and leasing activities.**

In the office leasing market, with the exception of some large, high-grade buildings located in central Tokyo, vacancy rates continued to rise and average asking rent levels continue to fall. We expect it will take some time before the market bottoms out.

Meanwhile, although at JEI we are receiving some tenant cancellations, we believe the JEI portfolio has

bottomed out, as cancellations motivated by cost-cutting and other factors have mostly run their course.

Moving forward, we will position maintaining and raising our occupancy rate as our most important challenge and focus on quickly leasing up vacant space. To that end, we will continue to improve satisfaction among existing tenants to maintain our occupancy rate and pursue leasing activities that fully leverage the comprehensive resources of our sponsor companies.

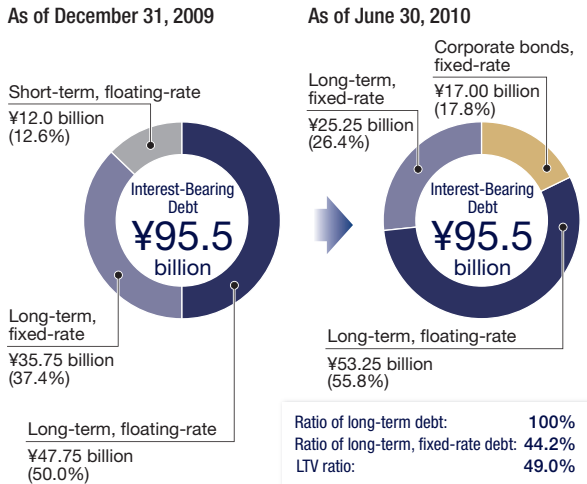
### Our Financial Strategy

**Pursue a variety of measures aimed at further stabilizing our funding base.**

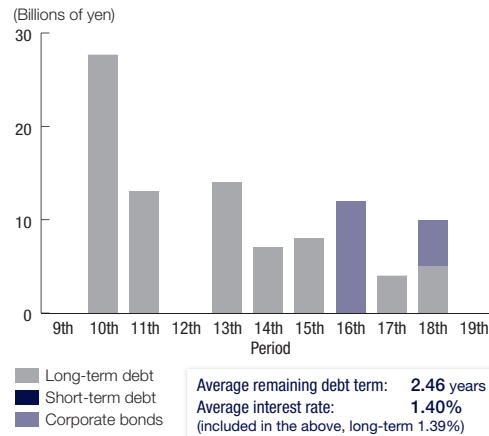
The financing environment for J-REITs is recovering to its state preceding the collapse of Lehman Brothers, as refinancing risk has subsided due to the establishment of the Real Estate Market Stabilization Fund in September 2009 and credit improvements realized through the reorganization of certain J-REITs.

At JEI, however, we consider a solid funding base to be an important factor in our future growth strategy and plan to adhere to conservative financial management moving forward. Specifically, we will work to shift to debt with longer maturities and fixed interest rates, level out our maturity schedule and diversify our funding sources. In the 8th Period, we issued

## Balance of Interest-Bearing Debt



## Balance by Repayment Date and Average Interest Rate



investment corporation bonds in March (¥12 billion issuance with a maturity of 4 years) and, as of March 31, 2010, prepaid ¥12 billion in short-term borrowings. Additionally, we refinanced ¥13 billion in long-term borrowings due to mature in June, 2010 with ¥5 billion in investment corporation bonds and ¥8 billion in long-term borrowings, with a maturity of 3.5 years.

As a result of these efforts, as of the end of the 8th Period, all outstanding borrowings are long-term, and fixed interest rate debt accounted for 44.2 percent of the total, up from 37.4 percent as of the end of the previous period.

At JEI, we will raise the stability of our funding base, working together with financial institutions such as Mizuho Corporate Bank, Ltd.

## Forecasts and our Basic Approach Moving Forward

**Accurately assess changes in the market environment and implement sensible strategies for growth and value creation over the medium-to-long term.**

The office building market environment continues to be weak, but we believe that the highly competitive JEI portfolio has already bottomed out. Over the near-term, we expect earnings to decline on the effects of tenant cancellations. However, we intend to return to growth

by accurately assessing changes in the market environment.

In the 9th Period (the six-month period ending December 31, 2010) we forecast total revenues of ¥7,063 million, operating income of ¥2,963 million, net income of ¥2,163 million and distributions per unit of ¥14,000. In the 10th Period (the six-month period ending June 30, 2011), we forecast total revenues of ¥6,992 million, operating income of ¥2,833 million, net income of ¥2,009 million and distributions per unit of ¥13,000.

At JEI, we aim to maximize unitholder value and achieve stable medium-to-long term growth as we continue solid operations while fully leveraging the collective resources of our sponsors, who have strength in both real estate and finance.

**Chifumi Toda**

Executive Director, Japan Excellent, Inc.

# Investment Strategy

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

JEI invests primarily in office buildings, and has set other usage at less than 10 percent of its portfolio. As of June 30, 2010, office buildings accounted for 100 percent of JEI's portfolio. JEI invests in urban properties, primarily in the central business districts of Tokyo, and is moving to further enhance the stability and profitability of its portfolio with a focus on strong tenant relationships, property scale and quality, and a balanced tenant mix.

## Portfolio Composition Target by Usage

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

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

## Portfolio Composition Target by Area

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

## Portfolio with a Focus on Regional, Property Scale, and Tenant Mix Balance

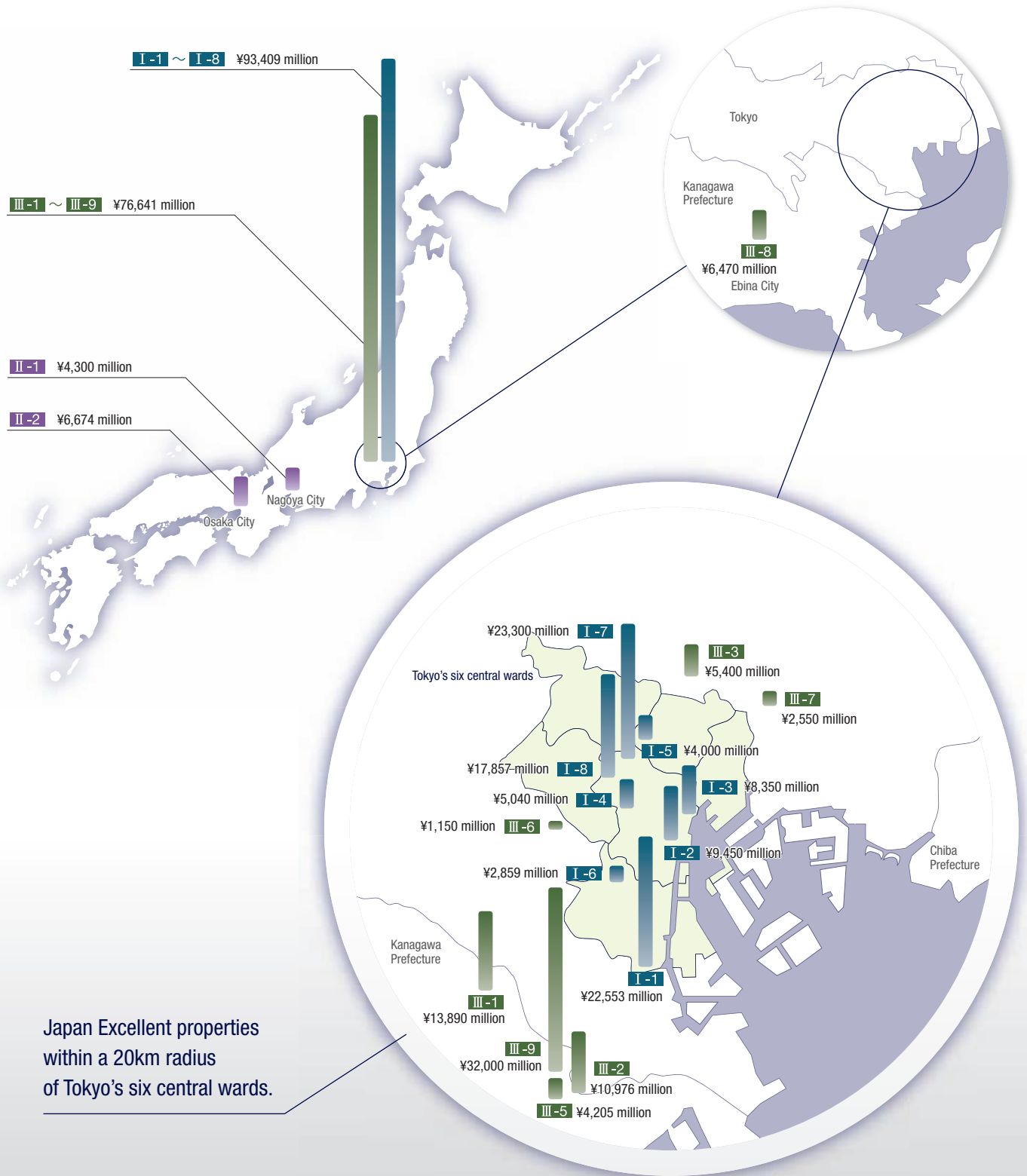
Regional Balance	Property Scale Balance	Tenant Mix Balance
JEI recognizes that Area I is the top priority for its investment activities, but will also proactively invest in properties situated in Areas II and III. Through these initiatives, JEI expects to minimize the impact of any market fluctuations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

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



# Portfolio Map

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



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

# Portfolio

Property Number	Name	Investment Type	Year Built	Acquisition Price <sup>1</sup> (Millions of yen)	Book Value (Millions of yen)	Appraisal Value (Millions of yen)
I-7	Akasaka Garden City	Trust	2006	23,300	23,044	21,300
I-1	Omori Bellport D	Trust	1996	22,553	22,266	24,780
I-8	AKASAKA INTERCITY	Trust	2005	17,857	17,656	13,300
I-2	Shiba 2-Chome Building	Trust	1994	9,450	9,279	11,500
I-3	JEI Hamamatsucho Building	Trust	1991	8,350	8,260	8,900
I-4	No. 32 Kowa Building	Trust	1979	5,040	4,987	5,356
I-5	No. 36 Kowa Building	Trust	1982	4,000	4,011	4,030
I-6	No. 28 Kowa Building	Trust	1975	2,859	2,829	3,390
<b>Subtotal</b>				<b>93,409</b>	<b>92,335</b>	<b>92,556</b>
II-2	JEI Nishi-Honmachi Building	Trust	1988	6,674	7,592	4,650
II-1	NHK Nagoya Housou-Center Building	Ownership	1991	4,300	4,222	4,800
<b>Subtotal</b>				<b>10,974</b>	<b>11,814</b>	<b>9,450</b>
III-9	Kowa Kawasaki Nishiguchi Building	Trust	1988	32,000	31,191	27,300
III-1	Musashikosugi Tower Place	Trust	1995	13,890	13,370	16,200
III-2	Kowa Kawasaki Higashiguchi Building	Trust	1988	10,976	10,500	9,940
III-8	Ebina Prime Tower	Trust	1995	6,470	6,380	4,360
III-3	JEI Hongo Building	Trust	1991	5,400	5,266	5,160
III-5	Kawasaki Nisshincho Building	Trust	1992	4,205	4,108	5,230
III-7	JEI Ryogoku Building	Trust	1996	2,550	2,444	2,182
III-6	No. 44 Kowa Building	Trust	1984	1,150	1,021	1,480
<b>Subtotal</b>				<b>76,641</b>	<b>74,283</b>	<b>71,852</b>
<b>Total</b>				<b>181,023</b>	<b>178,434</b>	<b>173,858</b>

Notes: 1. Figures for "Acquisition Price" are sales prices recorded in sales agreements (excluding taxes). Amounts of less than one million yen are rounded.

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

3. Figures for "Investment Ratio" show the ratio of the acquisition price for each acquired property in proportion to the total acquisition price for all acquired properties in the portfolio. Figures are rounded to the first decimal place.

Total Floor Space <sup>2</sup> (m <sup>2</sup> )	Total Leasable Floor Space (m <sup>2</sup> )	Total Leased Space at End of Period (m <sup>2</sup> )	Occupancy Rate at End of Period (%)	Revenue (Millions of yen)	NOI (Millions of yen)	Investment Ratio <sup>3</sup> (%)	PML
46,776.76	8,769.53	8,769.53	100.0	555	449	12.9	8.6
155,778.75	25,828.29	25,828.29	100.0	1,081	714	12.5	8.0
73,061.33	5,622.98	5,169.39	91.9	333	234	9.9	9.2
19,518.15	11,749.30	11,275.24	96.0	371	282	5.2	8.2
8,327.53	6,411.26	6,411.26	100.0	295	218	4.6	8.2
10,110.96	5,299.67	4,303.54	81.2	207	151	2.8	13.2
8,266.55	5,720.34	5,720.34	100.0	—	130	2.2	13.2
6,282.23	4,472.71	4,009.77	89.6	147	99	1.6	13.5
<b>328,122.26</b>	<b>73,874.08</b>	<b>71,487.36</b>	<b>96.8</b>	<b>—</b>	<b>2,280</b>	<b>51.6</b>	<b>—</b>
15,800.31	10,601.70	10,601.70	100.0	247	126	3.7	11.5
80,809.95	8,964.88	8,335.47	93.0	319	178	2.4	11.9
<b>96,610.26</b>	<b>19,566.58</b>	<b>18,937.17</b>	<b>96.8</b>	<b>—</b>	<b>304</b>	<b>6.1</b>	<b>—</b>
61,856.92	38,332.15	36,433.38	95.0	1,083	703	17.7	7.9
53,711.13	25,217.28	25,217.28	100.0	802	528	7.7	11.5
31,009.62	18,612.72	18,612.72	100.0	—	316	6.1	6.7
55,806.20	25,373.27	24,660.49	97.2	513	231	3.6	12.2
5,877.11	4,078.37	4,078.37	100.0	173	132	3.0	14.2
22,141.60	8,980.70	8,980.70	100.0	229	172	2.3	14.7
5,820.56	3,871.64	3,792.82	98.0	109	72	1.4	14.3
3,359.55	2,567.98	2,567.98	100.0	93	35	0.6	13.4
<b>239,582.69</b>	<b>127,034.11</b>	<b>124,343.74</b>	<b>97.9</b>	<b>—</b>	<b>2,194</b>	<b>42.3</b>	<b>—</b>
<b>664,315.21</b>	<b>220,474.77</b>	<b>214,768.27</b>	<b>97.4</b>	<b>7,302</b>	<b>4,778</b>	<b>100.0</b>	<b>6.6</b>

# Main Properties







I-7

I-8



I-2

- I-1 | Omori Bellport D
- I-2 | Shiba 2-Chome Building
- I-3 | JEI Hamamatsucho Building
- I-4 | No. 32 Kowa Building
- I-5 | No. 36 Kowa Building
- I-6 | No. 28 Kowa Building
- I-7 | Akasaka Garden City
- I-8 | AKASAKA INTERCITY



II-1



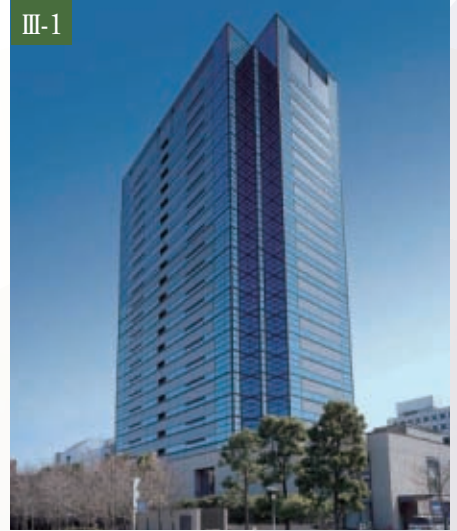
II-2



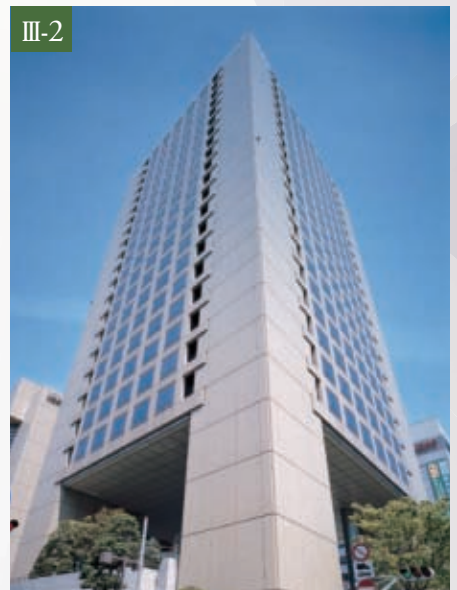
II-1 | NHK Nagoya  
Housou-Center Building

II-2 | JEI Nishi-Honmachi Building

III-1



III-2



III-3





- III-1 | Musashikosugi Tower Place
- III-2 | Kowa Kawasaki Higashiguchi Building
- III-3 | JEI Hongo Building
- III-5 | Kawasaki Nisshincho Building
- III-6 | No. 44 Kowa Building
- III-7 | JEI Ryogoku Building
- III-8 | Ebina Prime Tower
- III-9 | Kowa Kawasaki Nishiguchi Building



# Management

## Overview of Investment Corporation (As of June 30, 2010)

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

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

## Organization



- 1** Asset management agreement
- 2** (A) Pipeline support agreement with Kowa Real Estate  
(B) Pipeline support agreement with Sekisui House  
(C) Pipeline support agreement with Mizuho Trust & Banking
- 3** (A) Agreement with Mizuho Research Institute for provision of market and other relevant information  
(B) Agreement with Urban Research Institute for provision of market and other relevant information
- 4** Agreement to entrust administrative duties and asset custody
- 5** Agreement to entrust administration of unitholders' register
- 6** Fiscal, issuing and paying agency agreement related to the first issuance of unsecured investment corporation bonds

## Japan Excellent, Inc. Management Team

<b>Chifumi Toda</b>	Executive Director	February 1998 September 2000 July 2004  March 2009  November 2009	Manager, Namba Branch, Industrial Bank of Japan, Limited General Manager, Mizuho Holdings, Inc. Executive Officer / General Manager, Sales Department, Office Building Business Division, Kowa Real Estate Co., Ltd. President and Representative Director, Japan Excellent Asset Management Co., Ltd. (current) Executive Director, Japan Excellent, Inc. (current)
<b>Makoto Sakagami</b>	Supervisory Director	December 1990  July 2000 February 2006	Partner, Chuo Coopers & Lybrand Consulting Co., Ltd. (currently IBM Business Consulting Services K.K.) Established Makoto Sakagami Certified Public Accounting Office (current) Supervisory Director, Japan Excellent, Inc. (current)
<b>Tsuyoshi Nagahama</b>	Supervisory Director	April 1961  April 1964 February 2006 January 2009	Entered the Ministry of Transport (currently Ministry of Land, Infrastructure, Transport and Tourism) Registered as lawyer (Daini Tokyo Bar Association) Supervisory Director, Japan Excellent, Inc. (current) Advisor, Anderson, Mori & Tomotsune (current)
<b>Shunichi Maekawa</b>	Supervisory Director	February 1983 April 1999 November 2007 April 2008	Registered as real estate appraiser Professor, Faculty of Real Estate Sciences, Meikai University (current) Supervisory Director, Japan Excellent, Inc. (current) Director, Land Information Center (current)



## Overview of Asset Management Company (As of June 30, 2010)

### Company Outline

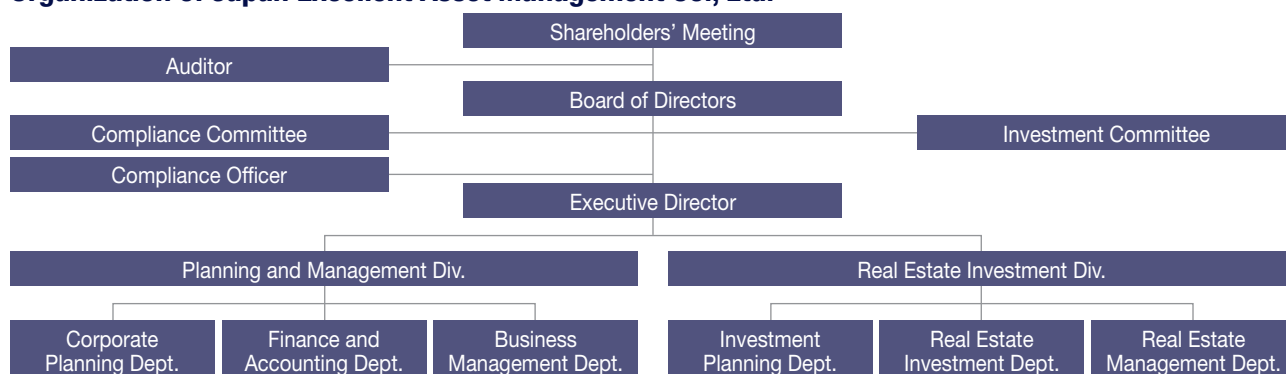
<b>Corporate Name</b>	Japan Excellent Asset Management Co., Ltd.		<b>Officers</b>	President	Chifumi Toda
<b>Headquarters</b>	1-9-20 Akasaka, Minato-ku, Tokyo			Director, Chief Financial Officer	Miki Naito
<b>Established</b>	April 14, 2005			Director, Chief Investment Officer	Naoki Fukuda
<b>Capital</b>	¥450 million			Director (Non-executive)	Takashi Uchida
<b>Shareholders</b>	Kowa Real Estate Co., Ltd.	40.0%		Auditor (Non-executive)	Masatoshi Tamaru
	The Dai-ichi Life Insurance Company, Limited	20.0%		Compliance Officer	Michiro Ezaki
	Sekisui House, Ltd.	15.0%		<b>Business Operations</b>	Financial Instrument Dealer
	Morgan Stanley Capital K.K.	5.0%			Investment Management Business: Director-General of Kanto Local Financial Bureau No. 331
	The Dai-ichi Building Co., Ltd.	5.0%	Real Estate Agency License: Governor of Tokyo (2) No. 84511		
	Sohgo Housing Co., Ltd.	5.0%	Discretionary License: Minister of Land, Infrastructure, Transport and Tourism No. 44		
Mizuho Corporate Bank, Ltd.	5.0%				
Mizuho Trust & Banking Co., Ltd.	5.0%				

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

### Japan Excellent Asset Management Co., Ltd. Management Team

<b>Chifumi Toda</b>	President and Representative Director	February 1998 September 2000 July 2004  March 2009 November 2009	Manager, Namba Branch, Industrial Bank of Japan, Limited General Manager, Mizuho Holdings, Inc. Executive Officer / General Manager, Sales Department, Office Building Business Division, Kowa Real Estate Co., Ltd. President and Representative Director, Japan Excellent Asset Management Co., Ltd. (current) Executive Director, Japan Excellent, Inc. (current)
<b>Miki Naito</b>	Director, Chief Financial Officer	July 2002 May 2009 April 2010	Deputy General Manager, Otemachi Corporate Banking Division No. 6, Mizuho Corporate Bank, Ltd. General Manager, Planning Department, Office Building Business Division, Kowa Real Estate Co., Ltd. Director, Chief Financial Officer, Japan Excellent Asset Management Co., Ltd. (current)
<b>Naoki Fukuda</b>	Director, Chief Investment Officer	April 1998 April 2004  April 2006 April 2008	President, Dai-ichi Life Capital Properties, Inc. Deputy General Manager, Real Estate Planning Group, Real Estate Department, Dai-ichi Mutual Life Insurance Company President, Dai-ichi Life International (U.S.A.), Inc. Director, Chief Investment Officer, Japan Excellent Asset Management Co., Ltd. (current)
<b>Takashi Uchida</b>	Director (Non-executive)	August 2005 April 2006	Director, Japan Excellent Asset Management Co., Ltd. (current) Director and Managing Executive Officer, Sekisui House, Ltd. (current)
<b>Masatoshi Tamaru</b>	Auditor (Non-executive)	April 2004 April 2005 July 2007	Executive Officer, General Manager, Finance Control Department, Kowa Real Estate Co., Ltd. Auditor, Japan Excellent Asset Management Co., Ltd. (current) Auditor, Kowa Real Estate Co., Ltd. (current)
<b>Michiro Ezaki</b>	Compliance Officer	June 2001 April 2002 September 2005	Corporate Auditor, Auditing Department, Industrial Bank of Japan, Limited Chief Corporate Auditor, Internal Audit Division, Mizuho Corporate Bank, Ltd. Compliance Officer, Japan Excellent Asset Management Co., Ltd. (current)

### Organization of Japan Excellent Asset Management Co., Ltd.



# Performance Report

## Summary of Selected Financial Data

	8th Period January 1, 2010 to June 30, 2010	7th Period July 1, 2009 to December 31, 2009	6th Period January 1, 2009 to June 30, 2009	8th Period January 1, 2010 to June 30, 2010
	Millions of yen, except per share data or where otherwise indicated			Thousands of U.S. dollars except per share data (Note 1)
Total revenues (Note 2).....	¥ 7,302	¥ 7,494	¥ 7,544	\$ 82,501
Rental business revenues.....	7,302	7,494	7,544	82,501
Operating expenses.....	4,050	4,145	4,266	45,759
Property operating expenses.....	3,516	3,577	3,720	39,726
Income before income taxes.....	2,367	2,486	2,443	26,752
Net income.....	2,366	2,485	2,442	26,741
Funds from operations (Note 3).....	3,359	3,476	3,432	37,951
Net operating income (NOI) (Note 3).....	4,778	4,907	4,814	53,983
Total distribution.....	2,366	2,485	2,442	26,741
Depreciation and amortization.....	992	990	990	11,214
Capital expenditures.....	248	134	267	2,800
Total assets.....	194,710	195,040	195,145	2,199,874
Interest-bearing debt.....	95,500	95,500	95,500	1,078,974
Net assets.....	89,389	89,450	89,363	1,009,939
Total number of outstanding investment units (units).....	154,550	154,550	154,550	
Net assets per unit (Yen/\$).....	578,387	578,780	578,215	6,537
Distribution per unit (Yen/\$).....	15,315	16,085	15,802	173
Funds from operations per unit (Yen/\$) (Note 3).....	21,737	22,494	22,211	246
ROA (%) (Note 3).....	1.2	1.3	1.2	
(Annualized rate) (%).....	(2.5)	(2.5)	(2.5)	
ROE (%) (Note 3).....	2.6	2.8	2.7	
(Annualized rate) (%).....	(5.3)	(5.6)	(5.5)	
LTV (Loan to value) ratio (%) (Note 3).....	49.0	49.0	48.9	
Capital ratio (%).....	45.9	45.9	45.8	
Payout ratio (%) (Note 4).....	100.0	100.0	99.9	
Number of days.....	181	184	181	
Number of investment properties (Note 5).....	18	18	18	
Number of tenants (Note 5).....	124	126	126	
Total rentable area (m <sup>2</sup> ).....	220,474	220,521	220,521	
Occupancy rate (Note 5).....	97.4	97.0	98.5	

Notes: 1. U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥88.51 = U.S. \$1.00, the approximate exchange rate on June 30, 2010.

2. Total revenues do not include consumption tax.

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

ROA:  $\text{Income before income taxes} / (\text{Initial total assets} + \text{Total assets at end of period}) \div 2$

ROE:  $\text{Net income} / (\text{Initial net assets} + \text{Net assets at end of period}) \div 2$

Net operating income:  $(\text{Rental business revenues} - \text{Property operating expenses}) + \text{Depreciation and amortization}$

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

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

Loan to value ratio:  $\text{Interest-bearing debt} / \text{Total assets}$

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

5. Number of investment properties means units generally perceived to be one office building. Number of tenants means gross number of tenants by building. Occupancy rate is the ratio of gross leased area to total rentable area at the end of the period.

## Operating Environment

During the 8th Period (the six-month period ended June 30, 2010), corporate earnings improved and capital expenditures rose on continued increases in exports and production levels driven by economic strength in China and other emerging markets of Asia. Despite concerns about a global economic slowdown primarily centered on Europe and the effects of deflation, the Japanese economy experienced a moderate recovery, including an upturn in personal spending, as government economic measures took effect.

The office leasing market saw vacancy rates increase in all areas as corporations cut costs and consolidated office space. Even in the Tokyo metropolitan area, in general, vacancy rates continued to rise. There were isolated signs of improvement in the office leasing market, however, as vacancy rates declined in large high-grade buildings located in central Tokyo. Meanwhile, in Osaka, Nagoya and other regional cities, the market continued to see vacancy rates rise and market rents fall as the balance between supply and demand worsened.

The flow of deals in the real estate investment market remained stagnant, due to the ongoing scarcity of information about prime properties available for sale and a wide gap between buyers and sellers on pricing.

## Overview of Performance

In the 8th Period, Japan Excellent Inc. (JEI) focused its efforts on quickly filling vacated space by strengthening leasing activities in collaboration with property managers. Furthermore, we maintained a high portfolio occupancy rate of 97.4 percent as of the end of the 8th Period (up 0.4 percentage points compared to the end of the previous period) due to improved service in building operations and management, including enhanced building functions resulting from equipment upgrades and effective tenant satisfaction improvement measures. Nevertheless, our average rent declined 2.1 percent as rent cuts for existing tenants renewing their leases were unavoidable.

Operations in the 8th Period resulted in a decline in revenue and profit. Total revenues were ¥7,302 million (down ¥192 million, or 2.6 percent, compared to the previous period), operating income was ¥3,252 million (down ¥97 million, or 2.9 percent) and net income was ¥2,366 million (down ¥119 million, or 4.8 percent).

As of the end of the 8th Period, JEI owned a portfolio of 18 properties (no change from the previous period) with a total investment value of ¥181 billion (on an acquisition price basis), having 220,474 m<sup>2</sup> (66,693 *tsubo*) in aggregate leasable space and housing 124 tenants.

## Property Acquisition Slated for the 9th Period (the six-month period ending December 31, 2010)

On August 6, 2010, JEI decided to pay ¥2,390 million to acquire an additional 30% stake in one of our existing portfolio properties—the No. 32 Kowa Building. The planned date of acquisition is December 24, 2010, and the seller is Kowa Real Estate, one of our sponsors. This transaction is an example of how we effectively leverage our sponsors' networks of information in a stagnant real estate investment market.

## Distribution for Current Period

Distribution per unit totaled ¥15,315. The payout ratio was therefore 100.0 percent.

	8th Period	7th Period	6th Period
	January 1, 2010 to June 30, 2010	July 1, 2009 to December 31, 2009	January 1, 2009 to June 30, 2009
	Thousands of yen, except per share amounts		
Retained earnings .....	¥2,366,962	¥2,486,006	¥2,442,271
Undistributed earnings .....	29	69	72
Total distribution .....	2,366,933	2,485,936	2,442,199
(Total distribution per unit) .....	15,315	(16,085)	(15,802)
Distribution of accumulated earnings .....	2,366,933	2,485,936	2,442,199
(Distribution of accumulated earnings per unit) .....	15,315	(16,085)	(15,802)
Distribution in excess of accumulated earnings .....	—	—	—
(Per share) .....	(—)	(—)	(—)

## Unitholders' Capital

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

Issue date	Remarks	Investment units outstanding		Paid-in capital		Notes
		Increase	Balance	Increase	Balance	
		Units		Millions of yen		
February 20, 2006	Initial capital (private)	400	400	¥ 200	¥ 200	Note 1
June 26, 2006	Public offering	128,000	128,400	64,230	64,430	Note 2
July 21, 2006	Third party	6,400	134,800	3,211	67,641	Note 3
July 11, 2007	Public offering	19,000	153,800	18,702	86,344	Note 4
August 8, 2007	Third party	750	154,550	738	87,083	Note 5

- Notes: 1. JEI was established with an issue of investment units priced at ¥500,000 per unit.  
2. JEI issued new investment units through a public offering at a price of ¥520,000 per unit (underwriting price: ¥501,800 per unit) to raise capital primarily for the acquisition of properties following its listing on the Tokyo Stock Exchange.  
3. JEI issued new investment units through a private placement at a price of ¥501,800 per unit to raise a portion of the capital required for the acquisition of properties.  
4. JEI issued new investment units through a public offering at a price of ¥1,019,200 per unit (underwriting price: ¥984,360 per unit) to raise a portion of the capital required for the acquisition of properties during the second period.  
5. JEI issued new investment units through a private placement at a price of ¥984,360 per unit to raise a portion of the capital required for the acquisition of properties during the second period.

## Market Price of Units

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

	8th Period	7th Period	6th Period
	January 1, 2010 to June 30, 2010	July 1, 2009 to December 31, 2009	January 1, 2009 to June 30, 2009
	Yen		
High .....	¥496,500	¥490,000	¥413,000
Low .....	386,500	388,000	298,000

## Loans

Loans by lending institution as of June 30, 2010 are summarized below.

### List of lenders

Lender	Outstanding debt at end of this period	Share	Long-term	Short-term
	Millions of yen		Millions of yen	
Mizuho Corporate Bank, Ltd.	¥22,300	28.4%	¥22,300	¥0
Mitsubishi UFJ Trust and Banking Corporation	13,600	17.3%	13,600	0
The Dai-ichi Life Insurance Company, Limited	8,000	10.2%	8,000	0
Mizuho Trust & Banking Co., Ltd.	7,800	9.9%	7,800	0
Sumitomo Mitsui Banking Corporation	7,200	9.2%	7,200	0
The Norinchukin Bank	5,100	6.5%	5,100	0
Development Bank of Japan	4,000	5.1%	4,000	0
Aozora Bank, Ltd.	3,000	3.8%	3,000	0
Chuo Mitsui Trust & Banking Co., Ltd.	3,000	3.8%	3,000	0
Sompo Japan Insurance Inc.	2,000	2.5%	2,000	0
Resona Bank, Ltd.	1,500	1.9%	1,500	0
Tokio Marine & Nichido Fire Insurance Co., Ltd.	1,000	1.3%	1,000	0
<b>Total</b>	<b>¥78,500</b>	<b>100.0%</b>	<b>¥78,500</b>	<b>¥0</b>

### Long-term debt due within 1 year

Lender	Due on	Balance	Average interest rate (%) (Note 1)	Repayment method	Use of funds	Notes
		Millions of yen				
Mizuho Corporate Bank, Ltd.	June 29, 2011	¥ 5,000	1.5	Bullet payment	Acquisition of real estate	Unsecured / unguaranteed
Mitsubishi UFJ Trust and Banking Corporation	June 29, 2011	3,500	1.5			
Resona Bank, Ltd.	June 29, 2011	1,000	1.5			
The Dai-ichi Life Insurance Company, Limited	June 29, 2011	3,000	2.0			
Mizuho Corporate Bank, Ltd.	June 29, 2011	6,000	1.0		Repayment of loans	
Mitsubishi UFJ Trust and Banking Corporation	June 29, 2011	4,000	1.0			
Resona Bank, Ltd.	June 29, 2011	3,000	1.0			
The Dai-ichi Life Insurance Company, Limited	June 29, 2011	2,000	1.0			
<b>Total long-term debt due within 1 year</b>		<b>¥27,500</b>	<b>1.3</b>	—	—	—



### Long-term loans (Note 3)

Lender	Due on	Balance Millions of yen	Average interest rate (%) (Note 1)	Repayment method	Use of funds	Notes
Aozora Bank, Ltd.	November 29, 2011	¥ 3,000	1.4			
Chuo Mitsui Trust & Banking Co., Ltd.	November 29, 2011	3,000	1.4			
Mizuho Trust & Banking Co., Ltd.	November 29, 2011	3,000	1.4		Repayment of loans	
Sumitomo Mitsui Banking Corporation	November 29, 2011	2,000	1.4			
Mizuho Corporate Bank, Ltd.	November 29, 2011	1,000	1.4			
Mitsubishi UFJ Trust and Banking Corporation	November 29, 2011	1,000	1.4			
Mitsubishi UFJ Trust and Banking Corporation	July 31, 2012	2,300	0.8			
Sumitomo Mitsui Banking Corporation	July 31, 2012	2,200	0.8			
The Norinchukin Bank	July 31, 2012	2,000	0.8			
Resona Bank, Ltd.	July 31, 2012	500	0.8			
Mizuho Corporate Bank, Ltd.	July 31, 2012	2,500	2.0 (Note 2)		Acquisition of real estate	
Mizuho Trust & Banking Co., Ltd.	July 31, 2012	1,500	2.0 (Note 2)			
Sompo Japan Insurance Inc.	July 31, 2012	2,000	2.0 (Note 2)	Bullet payment		Unsecured / unguaranteed
Tokio Marine & Nichido Fire Insurance Co., Ltd.	July 31, 2012	1,000	2.0 (Note 2)			
Mizuho Corporate Bank, Ltd.	June 28, 2013	6,000	1.1			
Mitsubishi UFJ Trust and Banking Corporation	June 28, 2013	1,000	1.1			
The Norinchukin Bank	December 27, 2013	3,100	1.1		Repayment of loans	
Mizuho Corporate Bank, Ltd.	December 27, 2013	1,800	1.1			
Mitsubishi UFJ Trust and Banking Corporation	December 27, 2013	1,800	1.1			
Mizuho Trust & Banking Co., Ltd.	December 27, 2013	1,300	1.1			
The Dai-ichi Life Insurance Company, Limited	July 31, 2014	2,000	2.3 (Note 2)		Acquisition of real estate	
Development Bank of Japan	July 31, 2014	2,000	2.3 (Note 2)			
The Dai-ichi Life Insurance Company, Limited	June 30, 2015	3,000	2.3 (Note 2)			
Development Bank of Japan	June 30, 2015	2,000	2.3 (Note 2)		Repayment of loans	
<b>Total long-term loans</b>		<b>¥51,000</b>	<b>1.5</b>	—	—	—
<b>Total loans</b>		<b>¥78,500</b>	<b>1.4</b>	—	—	—

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

2. Fixed-rate loans

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

	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	5 to 10 years
	Millions of yen				
Amount borrowed.....	¥13,000	¥21,000	¥8,000	¥9,000	¥—

### Bonds

Issue	Issue date	Balance as of June 30, 2010 Millions of yen	Coupon	Maturity date	Redemption	Use of proceeds
1st Series Unsecured Investment Corporation Bond	March 11, 2010	¥12,000	1.5%	March 11, 2014		
2nd Series Unsecured Investment Corporation Bond	June 28, 2010	5,000	1.3%	June 26, 2015	Bullet payment	Note
<b>Total</b>		<b>¥17,000</b>	<b>1.5%</b>			

Notes: Use of funds includes repayment of loans.

## Capital Expenditures

### Planned Capital Expenditures

Primary planned capital expenditures for properties in JEI's portfolio as of June 30, 2010 for renovation and other purposes are as follows. The planned construction expenditures below include the portion already recorded as expenses.

Name of property	Address	Objective	Estimated duration	Estimated amounts		
				Total amounts	Payment for the current period	Cumulative amount paid
Millions of yen						
Kawasaki Nisshincho Building	Kawasaki-ku, Kawasaki, Kanagawa Prefecture	Upgrade heat source equipment	July 2010 to December 2010	¥87	—	—
Kowa Kawasaki Higashiguchi Building	Kawasaki-ku, Kawasaki, Kanagawa Prefecture	Upgrade central monitoring equipment	August 2010 to December 2010	70	—	—
NHK Nagoya Housou-Center Building	Higashi-ku, Nagoya	Upgrade air-conditioning equipment (first phase)	July 2010 to December 2010	67	—	—

### Capital Expenditures for the Current Period

Construction requiring capital expenditures during the period ended June 30, 2010 for properties in JEI's portfolio as of June 30, 2010 is outlined below. Capital expenditures during the period ended June 30, 2010 totaled ¥248 million. The total of capital expenditures and repair expenses of ¥130 million during the period ended June 30, 2010 was ¥379 million.

Name of property	Address	Objective	Estimated duration	Expenditure
				Millions of yen
Omori Bellport D	Shinagawa-ku, Tokyo	Upgrade central monitoring equipment	September 2009 to May 2010	¥ 61
NHK Nagoya Housou-Center Building	Higashi-ku, Nagoya	Upgrade central monitoring equipment	March 2009 to March 2010	50
Kowa Kawasaki Higashiguchi Building	Kawasaki-ku, Kawasaki, Kanagawa Prefecture	Improve automatic Fire alarm equipment	August 2009 to May 2010	39
Other buildings			—	96
Total				¥248

### Cash Reserve for Capital Improvements

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

	8th Period January 1, 2010 to June 30, 2010	7th Period July 1, 2009 to December 31, 2009
Millions of yen		
Reserve balance at the beginning of the period .....	¥254	¥254
Amount accumulated in the current period .....	—	—
Withdrawal from reserves in the current period.....	—	—
Amount carried forward.....	¥254	¥254

## Trading Activities during the Current Period

### Trading of Real Estate and Real Estate Held in Trust

None

### Trading of Other Assets Including Total Amount and Transactions

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

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

#### Ongoing Transactions

None

#### Fees Paid for the Period from January 1, 2010 to June 30, 2010

Category	Total fees paid (A) (Millions of yen)	Description of transactions with related parties (Note 1)		
		Paid to	Amount of payment (B) (Millions of yen)	B/A
Maintenance expenses (Note 2)	¥1,087	Kowa Real Estate Co., Ltd.	¥393	36.2%
		Sekisui House, Ltd.	43	4.0%
Total	¥1,087		¥436	40.2%

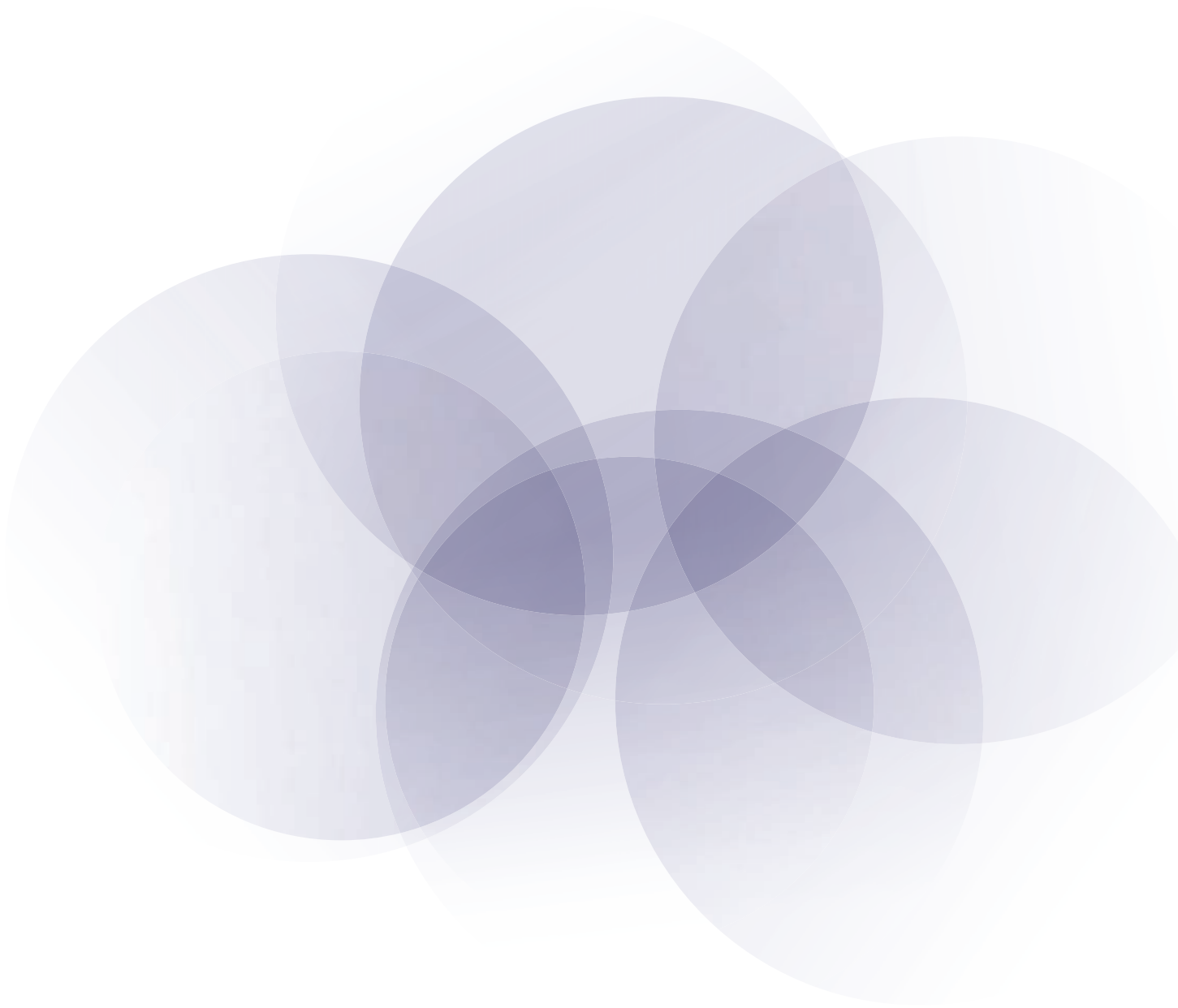
Notes: 1. "Related parties" are defined as related parties of asset management companies under the asset management agreement with JEI as defined in Article 123 of Order for Enforcement of the Law Concerning Investment Trusts and Investment Corporations. "Major shareholders" are the major shareholders of asset management companies as defined in Article 29, Section 4, Paragraph 2 of the Financial Instruments and Exchange Law. During the period ended June 30, 2009, transactions with Kowa Real Estate Co., Ltd. and Sekisui House, Ltd. are as described above.

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

3. Amounts do not include consumption or other taxes.

# Financial Statements

For the six-month periods ended June 30, 2010 and December 31, 2009  
with Report of Independent Auditors



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# Report of Independent Auditors



Ernst & Young ShinNihon LLC  
Hibiya Kokusai Bldg.  
2-2-3 Uchisaiwai-cho  
Chiyoda-ku, Tokyo, Japan 100-0011  
Tel: +81 3 3503 1100  
Fax: +81 3 3503 1197

## Report of Independent Auditors

The Board of Directors and Unitholders  
Japan Excellent, Inc.

We have audited the accompanying balance sheets of Japan Excellent, Inc. as of June 30, 2010 and December 31, 2009, and the related statements of income and retained earnings, changes in net assets, and cash flows for the six-month periods then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Japan Excellent, Inc. at June 30, 2010 and December 31, 2009, and the results of its operations and its cash flows for the six-month periods then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying financial statements with respect to the six-month period ended June 30, 2010 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2.

*Ernst & Young ShinNihon LLC*

September 21, 2010

# Balance Sheets

As of June 30, 2010 and December 31, 2009

	As of June 30, 2010	As of December 31, 2009	As of June 30, 2010
	Thousands of yen		U.S. dollars (Note 2)
<b>Assets</b>			
Current assets:			
Cash and cash equivalents including trust accounts (Note 4) .....	¥ 15,149,859	¥ 14,691,160	\$ 171,165,511
Rental receivables .....	464,133	467,058	5,243,849
Other current assets .....	103,828	168,511	1,173,061
Total current assets .....	15,717,820	15,326,729	177,582,421
Property and equipment (Note 8):			
Buildings and building improvements .....	3,325,628	3,264,543	37,573,475
Furniture and fixtures .....	662	662	7,475
Construction in progress .....	13,839	5,488	156,354
Buildings and building improvements for trust accounts .....	64,567,292	64,382,651	729,491,494
Machinery and equipment for trust accounts .....	413,595	409,185	4,672,866
Furniture and fixtures for trust accounts .....	60,948	55,172	688,604
Land for trust accounts .....	108,503,144	108,502,799	1,225,885,702
Construction in progress for trust accounts .....	—	3,360	—
Less: accumulated depreciation .....	(7,016,054)	(6,023,500)	(79,268,488)
Net property and equipment .....	169,869,054	170,600,360	1,919,207,482
Investments and other assets:			
Leasehold rights .....	1,185,045	1,185,045	13,388,825
Leasehold rights for trust accounts .....	7,380,017	7,380,017	83,380,598
Investment in securities (Note 5) .....	—	10,768	—
Security deposits .....	15,181	15,182	171,525
Long-term prepaid expenses .....	404,493	468,857	4,570,024
Investment corporation bond issuance costs .....	80,708	—	911,851
Other assets .....	58,609	53,248	662,173
Total investments and other assets .....	9,124,053	9,113,117	103,084,996
Total assets .....	¥194,710,927	¥195,040,206	\$2,199,874,899
<b>Liabilities</b>			
Current liabilities:			
Accounts payable – trade .....	¥ 467,463	¥ 472,913	\$ 5,281,471
Short-term loans (Note 9) .....	27,500,000	25,000,000	310,699,356
Accounts payable – other .....	333,222	351,764	3,764,797
Unpaid consumption taxes .....	61,516	94,279	695,022
Derivative liabilities .....	60,222	40,020	680,394
Other current liabilities .....	243,823	220,459	2,754,746
Total current liabilities .....	28,666,246	26,179,435	323,875,786
Long-term liabilities:			
Investment corporation bonds (Note 10) .....	17,000,000	—	192,068,693
Long-term debt (Note 9) .....	51,000,000	70,500,000	576,206,078
Security deposits from tenants .....	442,205	448,904	4,996,100
Security deposits from tenants for trust accounts .....	8,212,705	8,382,851	92,788,448
Derivative liabilities .....	—	78,483	—
Total long-term liabilities .....	76,654,910	79,410,238	866,059,319
Total liabilities .....	105,321,156	105,589,673	1,189,935,105
Net assets (Note 11):			
Unitholders' equity:			
Unitholders' capital:			
Units authorized: 2,000,000 units			
Units issued and outstanding: 154,550 units as of			
June 30, 2010 and December 31, 2009 .....	87,083,030	87,083,030	983,877,867
Retained earnings .....	2,366,963	2,486,006	26,742,321
Total unitholders' equity .....	89,449,993	89,569,036	1,010,620,188
Valuation and translation adjustments:			
Unrealized loss on deferred hedge transactions .....	(60,222)	(118,503)	(680,394)
Total valuation and translation adjustments .....	(60,222)	(118,503)	(680,394)
Total net assets .....	89,389,771	89,450,533	1,009,939,794
Total liabilities and net assets .....	¥194,710,927	¥195,040,206	\$2,199,874,899

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

# Statements of Income and Retained Earnings

For the periods from January 1, 2010 to June 30, 2010  
and from July 1, 2009 to December 31, 2009

	For the period from January 1, 2010 to June 30, 2010	For the period from July 1, 2009 to December 31, 2009	For the period from January 1, 2010 to June 30, 2010
	Thousands of yen		U.S. dollars (Note 2)
<b>Revenues:</b>			
Rental revenues (Note 14).....	¥6,746,130	¥6,886,689	\$76,218,847
Other (Note 14) .....	556,044	608,029	6,282,277
<b>Total revenues</b> .....	<b>7,302,174</b>	<b>7,494,718</b>	<b>82,501,124</b>
<b>Operating expenses:</b>			
Property operating expenses (Note 14) .....	3,516,170	3,577,299	39,726,249
Asset management fees .....	414,743	423,891	4,685,833
Custodian fees.....	14,953	14,960	168,939
Administrative service fees .....	28,619	28,290	323,339
Compensation for directors.....	6,540	6,540	73,890
Other .....	69,141	94,637	781,168
<b>Total operating expenses</b> .....	<b>4,050,166</b>	<b>4,145,617</b>	<b>45,759,418</b>
<b>Operating income</b> .....	<b>3,252,008</b>	<b>3,349,101</b>	<b>36,741,706</b>
<b>Other income:</b>			
Interest income .....	3,490	2,743	39,429
Penalty income .....	19,141	—	216,261
Other.....	2,333	603	26,358
<b>Other expenses:</b>			
Interest expense .....	635,048	701,727	7,174,873
Loan arrangement fees.....	196,694	163,780	2,222,286
Interest expense on investment corporation bonds .....	55,370	—	625,577
Amortization of investment corporation bond issuance costs .....	5,192	—	58,661
Other.....	16,804	1	189,856
<b>Income before income taxes</b> .....	<b>2,367,864</b>	<b>2,486,939</b>	<b>26,752,501</b>
<b>Income taxes (Note 13)</b>			
Current .....	969	1,004	10,947
Deferred .....	2	1	20
<b>Net income</b> .....	<b>2,366,893</b>	<b>2,485,934</b>	<b>26,741,534</b>
Retained earnings at beginning of period .....	70	72	787
<b>Retained earnings at end of period</b> .....	<b>¥2,366,963</b>	<b>¥2,486,006</b>	<b>\$26,742,321</b>

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

# Statements of Changes in Net Assets

For the periods from January 1, 2010 to June 30, 2010  
and from July 1, 2009 to December 31, 2009

	For the period from July 1, 2009 to December 31, 2009						
	Net assets						
	Unitholders' equity				Valuation and translation adjustments		
	Number of units in issue	Unitholders' capital	Retained earnings	Total unitholders' equity	Unrealized loss on deferred hedge transactions	Total valuation and translation adjustments	Total net assets
Thousands of yen							
<b>Balance as of June 30, 2009</b> .....	154,550	¥87,083,030	¥ 2,442,271	¥89,525,301	¥(162,163)	¥(162,163)	¥89,363,138
Changes during the fiscal period:							
Distributions from retained earnings...	—	—	(2,442,199)	(2,442,199)	—	—	(2,442,199)
Net income.....	—	—	2,485,934	2,485,934	—	—	2,485,934
Changes in unrealized loss on deferred hedge transactions.....	—	—	—	—	43,660	43,660	43,660
Total changes during the fiscal period....	—	—	43,735	43,735	43,660	43,660	87,395
<b>Balance as of December 31, 2009</b> .....	154,550	¥87,083,030	¥ 2,486,006	¥89,569,036	¥(118,503)	¥(118,503)	¥89,450,533

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

	For the period from January 1, 2010 to June 30, 2010						
	Net assets						
	Unitholders' equity				Valuation and translation adjustments		
	Number of units in issue	Unitholders' capital	Retained earnings	Total unitholders' equity	Unrealized loss on deferred hedge transactions	Total valuation and translation adjustments	Total net assets
U.S. dollars (Note 2)							
<b>Balance as of December 31, 2009</b> .....	154,550	\$983,877,867	\$ 28,087,294	\$1,011,965,161	\$(1,338,864)	\$(1,338,864)	\$1,010,626,297
Changes during the fiscal period:							
Distributions from retained earnings...	—	—	(28,086,507)	(28,086,507)	—	—	(28,086,507)
Net income.....	—	—	26,741,534	26,741,534	—	—	26,741,534
Changes in unrealized loss on deferred hedge transactions.....	—	—	—	—	658,470	658,470	658,470
Total changes during the fiscal period....	—	—	(1,344,973)	(1,344,973)	658,470	658,470	(686,503)
<b>Balance as of June 30, 2010</b> .....	154,550	\$983,877,867	\$ 26,742,321	\$1,010,620,188	\$ (680,394)	\$ (680,394)	\$1,009,939,794

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



# Statements of Cash Flows

For the periods from January 1, 2010 to June 30, 2010  
and from July 1, 2009 to December 31, 2009

	For the period from January 1, 2010 to June 30, 2010	For the period from July 1, 2009 to December 31, 2009	For the period from January 1, 2010 to June 30, 2010
	Thousands of yen		U.S. dollars (Note 2)
<b>Cash flows from operating activities</b>			
Income before income taxes.....	¥ 2,367,864	¥ 2,486,939	\$ 26,752,501
Depreciation and amortization .....	992,611	990,621	11,214,676
Amortization of investment corporation bond issuance costs.....	5,192	—	58,661
Interest income.....	(3,490)	(2,743)	(39,429)
Interest expense .....	690,418	701,727	7,800,451
Gain on liquidation of investment in securities.....	(123)	—	(1,393)
Increase in rental receivables .....	(6,416)	(13,083)	(72,491)
Decrease (increase) in prepaid expenses.....	79,388	(3,761)	896,937
Increase (decrease) in accounts payable – trade .....	3,301	(17,003)	37,293
(Decrease) increase in accounts payable – other.....	(15,984)	17,204	(180,589)
(Decrease) increase in unpaid consumption taxes.....	(32,762)	61,931	(370,150)
Decrease in advances received.....	(701)	(66,764)	(7,919)
Decrease in long-term prepaid expenses .....	64,364	105,388	727,200
Other, net.....	(38,564)	16,237	(435,703)
Subtotal.....	4,105,098	4,276,693	46,380,045
Interest received .....	3,490	2,743	39,429
Interest paid.....	(647,221)	(685,618)	(7,312,407)
Income taxes paid.....	(2,814)	(721)	(31,785)
Net cash provided by operating activities.....	3,458,553	3,593,097	39,075,282
<b>Cash flows from investing activities</b>			
Proceeds from liquidation of investment in securities.....	10,891	—	123,052
Purchases of property and equipment.....	(70,557)	(1,465)	(797,167)
Purchases of property and equipment for trust accounts .....	(199,441)	(171,448)	(2,253,319)
Purchases of intangible fixed assets.....	—	(281)	—
Proceeds from security deposits from tenants .....	10,385	—	117,332
Payments for security deposits to tenants.....	(17,085)	(16,601)	(193,026)
Proceeds from security deposits from tenants for trust accounts.....	190,590	474,198	2,153,311
Payments for security deposits to tenants for trust accounts .....	(351,395)	(591,946)	(3,970,111)
Net cash used in investing activities .....	(426,612)	(307,543)	(4,819,928)
<b>Cash flows from financing activities</b>			
Proceeds from short-term loans .....	—	12,000,000	—
Repayment for short-term loans .....	(12,000,000)	(12,000,000)	(135,577,901)
Proceeds from long-term debt.....	8,000,000	—	90,385,267
Repayment for long-term debt.....	(13,000,000)	—	(146,876,059)
Proceeds from issuance of investment corporation bonds .....	17,000,000	—	192,068,693
Payments for investment corporation bond issuance costs.....	(85,900)	—	(970,512)
Distributions to unitholders .....	(2,487,342)	(2,435,440)	(28,102,383)
Net cash used in financing activities.....	(2,573,242)	(2,435,440)	(29,072,895)
Net increase in cash and cash equivalents.....	458,699	850,114	5,182,459
Cash and cash equivalents at beginning of period.....	14,691,160	13,841,046	165,983,052
Cash and cash equivalents at end of period.....	¥ 15,149,859	¥ 14,691,160	\$ 171,165,511

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

# Notes to Financial Statements

For the periods from January 1, 2010 to June 30, 2010  
and from July 1, 2009 to December 31, 2009

## 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 Co., Ltd. ("JEAM"). JEAM is owned 40% by Kowa Real Estate Co., Ltd., 20% by The Dai-ichi Life Insurance Company, Limited, 15% by Sekisui House, Ltd. and 25% by other corporations.

JEI was listed on the Tokyo Stock Exchange on June 27, 2006. As of June 30, 2010, JEI held 18 properties with 220,474 square meters of total leasable space and had leases with 124 tenants excluding residential tenants.

## 2. Basis of Presentation

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

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

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥88.51 = U.S.\$1.00, the foreign exchange rate prevailing on June 30, 2010, has been used for translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled into U.S. dollars at that or any other rate.

## 3. Summary of Significant Accounting Policies

### ● Cash and cash equivalents

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

### ● Securities

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

### ● Property and equipment including trust accounts and trademark rights

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

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

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

### ● Deferred assets

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

### ● Income taxes

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

### ● Consumption taxes

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

● **Property-related taxes**

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

JEI capitalizes the property-related taxes allocated to the sellers of properties to JEI at the time of acquisition of such properties including trust accounts. For the periods from January 1, 2010 to June 30, 2010 and from July 1, 2009 to December 31, 2009, no property-related taxes were capitalized.

● **Revenue recognition**

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

● **Derivatives and hedge accounting**

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

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

● **Properties in trust accounts**

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

## 4. Cash and Cash Equivalents

Cash and cash equivalents including trust accounts in the accompanying balance sheets and cash and cash equivalents in the accompanying statements of cash flows at June 30, 2010 and December 31, 2009 consisted of the following:

	As of June 30, 2010	As of December 31, 2009	As of June 30, 2010
	Thousands of yen		U.S. dollars
Cash and cash deposits.....	¥ 3,742,691	¥ 3,027,658	\$ 42,285,515
Cash in trust and deposits in trust .....	11,407,168	11,663,502	128,879,996
Cash and cash equivalents including trust accounts.....	¥15,149,859	¥14,691,160	\$171,165,511

## 5. Securities

(1) **Investment in securities**

Investment in securities at December 31, 2009 consisted of the following:

	As of December 31, 2009
	Thousands of yen
Unlisted stock.....	¥10,768

As of December 31, 2009						
Name	Number of shares	Acquisition cost		Book value		Gain or loss on valuation
		Unit price	Total price	Unit price	Total price	Total price
Thousands of yen						
<b>Unlisted stock</b>						
NHK Nagoya Build Systems Co., Ltd. ....						
	64	¥168	¥10,768	¥168	¥10,768	¥—
<b>Total .....</b>	<b>64</b>	<b>¥168</b>	<b>¥10,768</b>	<b>¥168</b>	<b>¥10,768</b>	<b>¥—</b>

Note: There were no investments in securities at June 30, 2010.

## 6. Financial Instruments

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

### • Overview

#### (1) Policy for Financial Instruments

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

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

##### (a) Market Risks (Interest Rate Fluctuation Risks)

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

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

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

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

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

### • Fair Value of Financial Instruments

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

	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
	(Thousands of yen)			(U.S. dollars)		
(1) Cash and cash deposits.....	¥ 3,742,691	¥ 3,742,691	¥ —	\$ 42,285,515	\$ 42,285,515	\$ —
(2) Cash in trust and deposits in trust.....	11,407,168	11,407,168	—	128,879,996	128,879,996	—
Total assets.....	15,149,859	15,149,859	—	171,165,511	171,165,511	—
(3) Long-term debt due within one year.....	27,500,000	27,525,604	25,604	310,699,356	310,988,640	289,284
(4) Investment corporation bonds.....	17,000,000	17,096,300	96,300	192,068,693	193,156,706	1,088,013
(5) Long-term debt.....	51,000,000	51,417,729	417,729	576,206,078	580,925,653	4,719,575
Total liabilities.....	95,500,000	96,039,634	539,634	1,078,974,127	1,085,070,999	6,096,872
(6) Derivative transactions* .....	¥ (60,222)	¥ (60,222)	¥ —	\$ (680,394)	\$ (680,394)	\$ —

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

# Notes to Financial Statements

(Note 1) Methods for calculating the fair value of financial instruments and matters related to derivatives transactions

## Assets

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

The carrying value approximates fair value because of the short maturity of these instruments.

## Liabilities

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

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

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

### (4) Investment corporation bonds

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

### (6) Derivative transactions

1. Hedge accounting not applied: Not applicable.

2. Hedge accounting applied: The following are contract values or values corresponding to the principle as stipulated by contract as of the settlement date for each hedge accounting method.

Hedge accounting method	Type of derivative transaction	Hedge item	Contract amount	More than one year (Thousands of yen)	Fair value (Thousands of yen)	Method of calculating the fair value	Contract amount	More than one year (U.S. dollars)	Fair value (U.S. dollars)	Method of calculating the fair value
Principle method	Interest rate swap Receive floating, pay fixed	Long-term debt	¥6,250,000	*	¥(60,222)	*	\$70,613,490	*	\$(680,394)	*

\* Calculated based on prices provided by counterparty financial institutions.

(Note 2) Financial instruments for which fair value is deemed extremely difficult to determine

Category	Carrying value (Thousands of yen)	Carrying value (U.S. dollars)
1. Security deposits from tenants*	¥ 442,205	\$ 4,996,100
2. Security deposits from tenants for trust accounts*	8,212,705	92,788,448

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

(Note 3) Planned redemption amounts after settlement date of financial assets

	Cash and cash deposits (Thousands of yen)	Cash in trust and deposits in trust (Thousands of yen)	Total (Thousands of yen)	Cash and cash deposits (U.S. dollars)	Cash in trust and deposits in trust (U.S. dollars)	Total (U.S. dollars)
1 year or less.....	¥3,742,690	¥11,407,168	¥15,149,859	\$42,285,515	\$128,879,996	\$171,165,511
1 to 2 years .....	—	—	—	—	—	—
2 to 3 years .....	—	—	—	—	—	—
3 to 4 years .....	—	—	—	—	—	—
4 to 5 years .....	—	—	—	—	—	—
Over 5 years.....	—	—	—	—	—	—

(Note 4) Planned redemption amounts after settlement date of borrowings, investment corporation bonds and other interest-bearing debt

	Long-term debt due within one year (Thousands of yen)	Investment corporation bonds (Thousands of yen)	Long-term debt (Thousands of yen)	Total (Thousands of yen)	Long-term debt due within one year (U.S. dollars)	Investment corporation bonds (U.S. dollars)	Long-term debt (U.S. dollars)	Total (U.S. dollars)
1 year or less.....	¥27,500,000	¥ —	¥ —	¥27,500,000	\$310,699,356	\$ —	\$ —	\$310,699,356
1 to 2 years .....	—	—	13,000,000	13,000,000	—	—	146,876,059	146,876,059
2 to 3 years .....	—	—	21,000,000	21,000,000	—	—	237,261,326	237,261,326
3 to 4 years .....	—	12,000,000	8,000,000	20,000,000	—	135,577,901	90,385,267	225,963,168
4 to 5 years .....	—	5,000,000	9,000,000	14,000,000	—	56,490,792	101,683,426	158,174,218
Over 5 years.....	—	—	—	—	—	—	—	—

## • Additional Information

Effective January 1, 2010, the Company adopted the Accounting Standards for Financial Instruments (Accounting Standards Board of Japan (hereinafter referred to as the ASBJ) Statement No. 10, March 10, 2008) and the Implementation Guidance for Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 10, 2008).



## 7. Investment and Rental Property

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

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, 2010, for such real estate for lease.

Carrying value			Fair value	Carrying value			Fair value
As of December 31, 2009	Change during period	As of June 30, 2010	As of June 30, 2010	As of December 31, 2009	Change during period	As of June 30, 2010	As of June 30, 2010
(Thousands of yen)				(U.S. dollars)			
¥179,165,422	¥(731,306)	¥178,434,116	¥173,858,000	\$2,024,239,320	\$(8,262,414)	\$2,015,976,905	\$1,964,275,223

(Note 1) Carrying value represents the acquisition cost less accumulated depreciation.

(Note 2) Change during period comprises an increase of ¥61,064 thousand in capital expenditures on construction work for central monitoring equipment for Omori Bellport and a decrease of ¥992,554 thousand for depreciation costs.

(Note 3) Fair value as of June 30, 2010 is appraisal value provided by third-party real estate appraisers.

#### • Additional Information

Effective January 1, 2010, the Company adopted the Accounting Standards for Fair Value of Investment and Rental Property (ASBJ Statement No. 20, November 28, 2008) and the Implementation Guidance for Disclosures about Fair Value of Investment and Rental Property (ASBJ Guidance No. 23, November 28, 2008).

## 8. Property and Equipment

Property and equipment at June 30, 2010 and December 31, 2009 consisted of the following:

	As of June 30, 2010			As of December 31, 2009			As of June 30, 2010		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
	Thousands of yen						U.S. dollars		
Buildings and building improvements .....	¥ 3,325,628	¥ (302,949)	¥ 3,022,679	¥ 3,264,543	¥ (264,342)	¥ 3,000,201	\$ 37,573,475	\$ (3,422,771)	\$ 34,150,704
Furniture and fixtures .....	662	(155)	507	662	(111)	551	7,475	(1,748)	5,727
Construction in progress .....	13,839	—	13,839	5,488	—	5,488	156,354	—	156,354
Buildings and building improvements for trust accounts .....	64,567,292	(6,596,182)	57,971,110	64,382,651	(5,660,442)	58,722,209	729,491,494	(74,524,709)	654,966,785
Machinery and equipment for trust accounts .....	413,595	(104,028)	309,567	409,185	(90,104)	319,081	4,672,866	(1,175,320)	3,497,546
Furniture and fixtures for trust accounts .....	60,948	(12,740)	48,208	55,172	(8,501)	46,671	688,604	(143,940)	544,664
Land for trust accounts .....	108,503,144	—	108,503,144	108,502,799	—	108,502,799	1,225,885,702	—	1,225,885,702
Construction in progress for trust accounts .....	—	—	—	3,360	—	3,360	—	—	—
<b>Total .....</b>	<b>¥176,885,108</b>	<b>¥(7,016,054)</b>	<b>¥169,869,054</b>	<b>¥176,623,860</b>	<b>¥(6,023,500)</b>	<b>¥170,600,360</b>	<b>\$1,998,475,970</b>	<b>\$(79,268,488)</b>	<b>\$1,919,207,482</b>

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

Short-term loans and long-term debt as of June 30, 2010 and December 31, 2009 consisted of the following:

	As of June 30, 2010		As of December 31, 2009		As of June 30, 2010
	Amount	Weighted-average interest rate	Amount	Weighted-average interest rate	Amount
	Thousands of yen		Thousands of yen		U.S. dollars
<b>Short-term loans:</b>					
Unsecured loans from banks due on September 30, 2010 .....	¥ —	—	¥12,000,000	1.07364%	\$ —
Subtotal .....	—		12,000,000		—
<b>Long-term debt due within one year:</b>					
Unsecured loans from banks due on June 29, 2010 .....	—	—	13,000,000	1.49485%	—
Unsecured loans from banks due on June 29, 2011 .....	9,500,000	1.45181%	—	—	107,332,505
Unsecured loans from an insurance company due on June 29, 2011 ...	3,000,000	1.96625%	—	—	33,894,475
Unsecured loans from banks due on June 29, 2011 .....	15,000,000	1.00308%	—	—	169,472,376
Subtotal .....	27,500,000		13,000,000		310,699,356
<b>Long-term debt:</b>					
Unsecured loans from banks due on June 29, 2011 .....	—	—	9,500,000	1.47669%	—
Unsecured loans from an insurance company due on June 29, 2011 .....	—	—	3,000,000	1.96625%	—
Unsecured loans from banks due on June 29, 2011 .....	—	—	15,000,000	1.13545%	—
Unsecured loans from banks due on November 29, 2011 .....	13,000,000	1.39000%	13,000,000	1.52364%	146,876,059
Unsecured loans from banks due on July 31, 2012 .....	7,000,000	0.75308%	7,000,000	0.88545%	79,087,109
Unsecured loans from banks and insurance companies due on July 31, 2012 .....	7,000,000	1.96907%	7,000,000	1.96907%	79,087,109
Unsecured loans from banks due on June 28, 2013 .....	7,000,000	1.10308%	7,000,000	1.23545%	79,087,109
Unsecured loans from banks due on December 27, 2013 .....	8,000,000	1.14134%	—	—	90,385,266
Unsecured loans from an insurance company due on July 31, 2014 ....	2,000,000	2.25875%	2,000,000	2.25875%	22,596,317
Unsecured loans from a bank due on July 31, 2014 .....	2,000,000	2.28417%	2,000,000	2.28417%	22,596,317
Unsecured loans from an insurance company and a bank due on June 30, 2015 .....	5,000,000	2.27344%	5,000,000	2.27344%	56,490,792
Subtotal .....	51,000,000		70,500,000		576,206,078
<b>Total .....</b>	<b>¥78,500,000</b>		<b>¥95,500,000</b>		<b>\$886,905,434</b>

## 10. Investment Corporation Bonds

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

	As of June 30, 2010		
	Amount	Weighted- average interest rate	Amount
	Thousands of yen		U.S. dollars
Unsecured bond due on March 11, 2014 .....	¥12,000,000	1.52000%	\$135,577,901
Unsecured bond due on June 26, 2015.....	5,000,000	1.29000%	56,490,792
<b>Total .....</b>	<b>¥17,000,000</b>		<b>\$192,068,693</b>

## 11. Net Assets

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

## 12. Per Unit Information

Net assets per unit were ¥578,387 (\$6,535) as of June 30, 2010 and ¥578,781 as of December 31, 2009. Net income per unit was ¥15,315 (\$173) for the period from January 1, 2010 to June 30, 2010 and ¥16,085 for the period from July 1, 2009 to December 31, 2009 and was computed based on the weighted-average number of units outstanding during the respective periods.

## 13. Income Taxes

JEI is subject to income taxes in Japan.

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

Details of significant components of deferred tax assets and liabilities as of June 30, 2010 and December 31, 2009 are summarized as follows:

	As of June 30, 2010	As of December 31, 2009	As of December 31, 2009
	Thousands of yen		U.S. dollars
Deferred tax assets:			
Accrued enterprise taxes .....	¥ 18	¥ 19	\$ 202
Unrealized loss on deferred hedge transactions .....	23,685	46,607	267,599
Gross deferred tax assets .....	23,703	46,626	267,801
Valuation reserve.....	(23,685)	(46,607)	(267,599)
Total deferred tax assets .....	18	19	202
Net deferred tax assets .....	¥ 18	¥ 19	\$ 202

## Notes to Financial Statements

A reconciliation of the differences between the statutory tax rate and the effective tax rate for the periods from January 1, 2010 to June 30, 2010 and from July 1, 2009 to December 31, 2009 is as follows:

	For the period from January 1, 2010 to June 30, 2010	For the period from July 1, 2009 to December 31, 2009
Statutory tax rate.....	39.33%	39.33%
Reconciliation:		
Deductible distributions paid.....	(39.31)	(39.31)
Other.....	0.02	0.02
Effective tax rate.....	0.04%	0.04%

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

	For the period from January 1, 2010 to June 30, 2010	For the period from July 1, 2009 to December 31, 2009	For the period from January 1, 2010 to June 30, 2010
	Thousands of yen		U.S. dollars
Rental business revenues:			
Rental revenues .....	¥6,746,130	¥6,886,689	\$76,218,847
Other.....	556,044	608,029	6,282,277
Total rental business revenues .....	7,302,174	7,494,718	82,501,124
Property operating expenses:			
Property management costs and fees.....	1,082,750	1,066,242	12,233,084
Utilities .....	582,516	648,642	6,581,359
Property and other taxes .....	540,657	542,202	6,108,431
Insurance .....	21,087	21,500	238,246
Repairs and maintenance .....	130,898	142,858	1,478,902
Depreciation.....	992,554	990,577	11,214,032
Other.....	165,708	165,278	1,872,195
Total property operating expenses.....	3,516,170	3,577,299	39,726,249
Profit.....	¥3,786,004	¥3,917,419	\$42,774,875

### 15. Leases

JEI leases properties on which rental revenues are earned. At June 30, 2010 and December 31, 2009, future lease revenues under non-cancelable operating leases are summarized as follows:

	As of June 30, 2010	As of December 31, 2009	As of June 30, 2010
	Thousands of yen		U.S. dollars
Due within one year.....	¥1,032,650	¥1,128,389	\$11,667,044
Due after one year .....	202,840	671,295	2,291,713
Total.....	¥1,235,490	¥1,799,684	\$13,958,757

## 16. Derivatives and Hedge Accounting

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

The following table summarizes the notional amount and the estimated fair value of the interest-related positions outstanding as of June 30, 2010:

	Notional amount	Estimated fair value (negative)	Notional amount	Estimated fair value (negative)
	Thousands of yen		U.S. dollars	
Interest-rate swap:				
Receive/floating and pay/fixed .....	¥6,250,000	¥(60,222)	\$70,613,490	\$(680,394)

## 17. Related Party Transactions

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

### (1) Major unitholders

Not applicable

### (2) Directors and major individual unitholders

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

For the period from July 1, 2009 to December 31, 2009

### (1) Major unitholders

Not applicable

### (2) Directors and major individual unitholders

Name	Description of transaction	Amount	Amount	Account	Balance at the end of period	Balance at the end of period
		Thousands of yen	U.S. dollars		Thousands of yen	U.S. dollars
Chifumi Toda	Payment of asset management fees to JEAM	¥423,891	\$4,604,003	Accounts payable	¥259,814	\$2,821,913



## 18. Distribution Information

In accordance with Section 33.1.2 of the bylaws set forth by JEI for distributions of cash dividends, the amount of dividends payable, which is limited by the amount of unappropriated retained earnings, shall be in excess of 90% of its distributable income for the fiscal period as set forth in Section 67.15 of the Special Taxation Measures Law. Consequently, JEI set income available for distributions of dividends at ¥2,366,933,250 (\$26,741,987), the maximum integral multiple of the 154,550 units issued not exceeding unappropriated retained earnings at June 30, 2010. No cash distribution exceeding the income amount set forth in Section 33.1.4 of the bylaws of JEI shall be made.

On August 13, 2010, the Board of Directors approved a resolution to make a cash distribution of ¥15,315 (\$173) per unit aggregating to ¥2,366,933,250 (\$26,741,987) to unitholders of record as of June 30, 2010.

## 19. Significant Subsequent Events

### (1) Conclusion of real estate transaction agreement

On August 6, 2010, JEI concluded a real estate transaction agreement related to a planned asset acquisition (hereinafter, the Agreement).  
Overview of the planned asset acquisition

(1) Asset to be acquired	Real estate
(2) Asset	No. 32 Kowa Building Additional acquisition of co-ownership stake (acquiring additional 30% stake)
(3) Location	5-2-32, Minami Azabu, Minato-ku, Tokyo
(4) Acquisition price	¥2,390,000,000
(5) Contract date	August 6, 2010
(6) Delivery date	December 24, 2010
(7) Seller	Kowa Real Estate Co., Ltd.

### (2) Other

The Agreement is subject to forward commitments under Comprehensive Supervision Guidelines for Dealers in Financial Instruments (Latest revision: June 2010) set forth by the Financial Services Agency of Japan. In case, JEI or the seller violates the Agreement, the counterparty may cancel the Agreement and claim a penalty in the amount of 20% of the transaction amount.

Forward commitment: A postdated transaction agreement that calls for settlement or delivery to take place one month or more after the agreement conclusion or other similar agreements.

# Investor Information

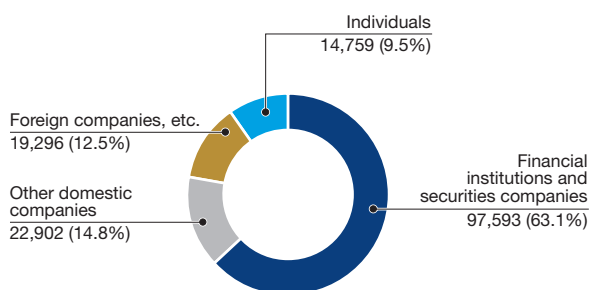
As of June 30, 2010

<b>Name</b>	Japan Excellent, Inc.	
<b>Location</b>	1-9-20 Akasaka, Minato-ku, Tokyo, Japan	
<b>Established</b>	February 20, 2006	
<b>Fiscal Periods</b>	Six months ending June 30 and December 31	
<b>Unitholders</b>	5,469	
<b>Total Number of Common Units Issued</b>	8th Period (From January 1, 2010 to June 30, 2010)	154,550
	7th Period (From July 1, 2009 to December 31, 2009)	154,550
<b>Distributions</b>	Confirmed distribution for the 8th Period (ended June 30, 2010) ¥15,315 per unit	

## Major Unitholders

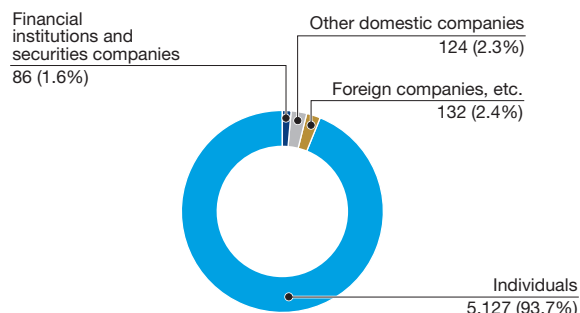
Name	Number of Units Held	Percentage of Total
Japan Trustee Services Bank, Ltd. (Trust account)	19,186	12.41%
Kowa Real Estate Co., Ltd.	14,312	9.26%
NCT Trust and Banking Corporation (Trust account)	11,481	7.43%
Trust & Custody Services Bank, Ltd. (Securities investment trust account)	11,263	7.29%
The Master Trust Bank of Japan, Ltd. (Trust account)	9,331	6.04%
The Nomura Trust and Banking Co., Ltd. (Investment trust account)	7,865	5.09%
North Pacific Bank, Ltd.	4,590	2.97%
The Dai-ichi Life Insurance Company, Limited	4,132	2.67%
The Senshu Ikeda Bank, Ltd.	3,711	2.40%
Sekisui House, Ltd.	2,091	1.35%
AIG Edison Life Insurance Company	2,091	1.35%
<b>Total</b>	<b>90,053</b>	<b>58.27%</b>

## Investment Units



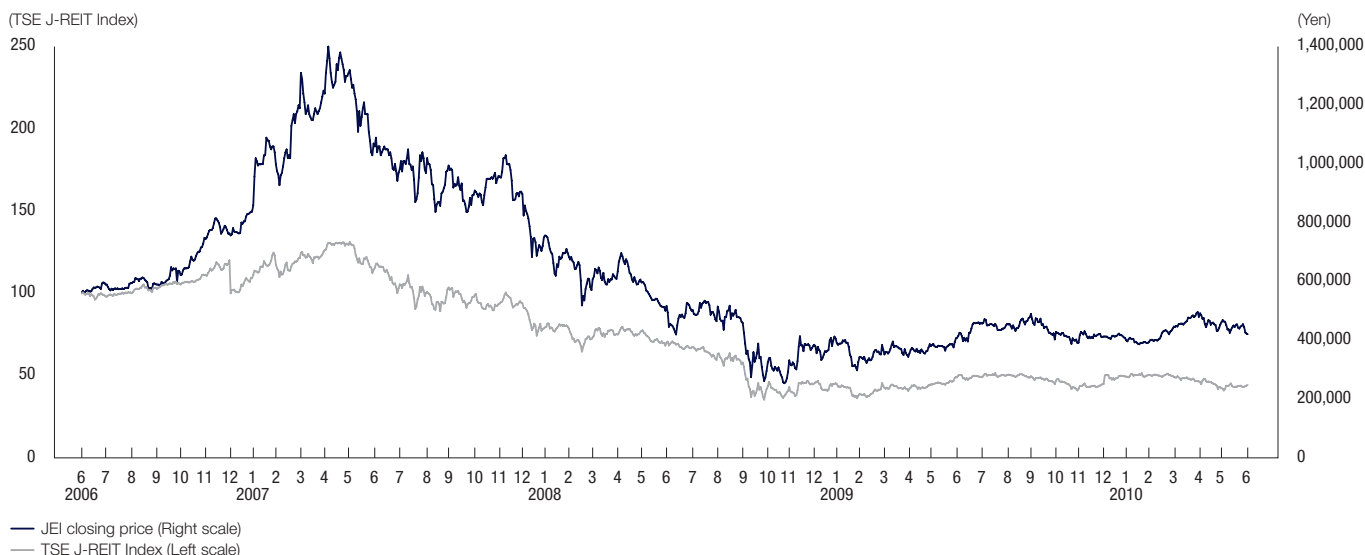
Total number of units issued: 154,550

## Investors (Number of unitholders)



Total number of unitholders: 5,469

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



## Disclaimer

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

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

URL: <http://www.excellent-reit.co.jp/eng>  
 TEL: 81-3-5575-3511  
 E-mail: [info@jeam.co.jp](mailto:info@jeam.co.jp)



**Japan Excellent, Inc.**

Address: 1-9-20 Akasaka, Minato-ku, Tokyo, Japan

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

E-mail: [info@jeam.co.jp](mailto:info@jeam.co.jp)