

FINANCIAL STATEMENTS FOR THE THIRTEENTH FISCAL PERIOD

(March 1, 2012 — August 31, 2012)

To Our Unitholders

I would like to express my sincere gratitude to unitholders for your unwavering support of Daiwa House Residential Investment Corporation (“DHI”).

Recently, DHI marked the closing of the 13th Fiscal Period (from March 1, 2012 to August 31, 2012). I again would like to extend my heartfelt thanks to unitholders for this could not have been achieved without your understanding and support.

I hereby report on the management status and financial results for the 13th Fiscal Period.

In the 13th Fiscal Period, concerning the replacement of properties, DHI acquired two properties (acquisition price total: ¥4,030 million) and sold four properties (sale price total: ¥3,324 million), thereby managing to achieve both external growth and enhanced portfolio quality.

Concerning the occupancy status of portfolio properties, too, DHI managed to maintain high occupancy as the previous fiscal period’s favorable performance continued into the 13th Fiscal Period with the period-average occupancy rate exceeding 96%. In addition, DHI introduced a new brand name “Castalia” on December 1, 2011, based on which the scheduled name change of all properties was completed by the end of the 13th Fiscal Period. DHI will continue to strive to increasingly raise recognition in the rental market and boost the efficiency of leasing activities as well as stabilize occupancy rates, enhance tenant satisfaction and such.

Concerning fund procurement, DHI refinanced loans that became due, thereby achieving longer procurement periods and reduced financial costs. Concerning the loans, DHI signed interest-rate swap agreements to in effect fix interest rates and thereby hedge future interest rate fluctuation risk. Moreover, efforts were made to also diversify fund procurement means by issuing the No. 1 Unsecured Investment Corporation Bonds (¥3,000 million), which is DHI’s first bond issuance since listing.

The results of the management above in the 13th Fiscal Period were operating revenues of ¥7,746 million, operating income of ¥3,691 million, ordinary income of ¥2,724 million, net income of ¥2,616 million and net income per unit of ¥16,301 for increased revenues and increased income. Concerning distributions, with ¥2,610 million, which is the amount of unappropriated retained earnings after setting aside ¥5 million in gain on sales of real estate properties as internal reserves, set as total distributions, DHI declared distribution per investment unit of ¥16,264.

DHI, together with the asset management company, will continue to make utmost efforts to achieve steady growth of the portfolio and maximization of returns for unitholders while making the most of the comprehensive strengths and know-how of the sponsor the Daiwa House Group in also the next and subsequent fiscal periods.

The continued support of unitholders is greatly appreciated.

Daiwa House Residential Investment Corporation
Executive Director
Michio Taki



Distribution per Unit (Yen) ¥16,264

Actual

Thirteenth Fiscal Period (March 1, 2012 — August 31, 2012)

Distribution per Unit (Yen) ¥16,500

Forecast*

Fourteenth Fiscal Period: (September 1, 2012 – February 28, 2013)

Distribution per Unit (Yen) ¥16,500

Forecast*

Fifteenth Fiscal Period: (March 1, 2013 – August 31, 2013)

*Forecast as of October 11, 2012.

1. FINANCIAL HIGHLIGHT

(1) Management Highlight

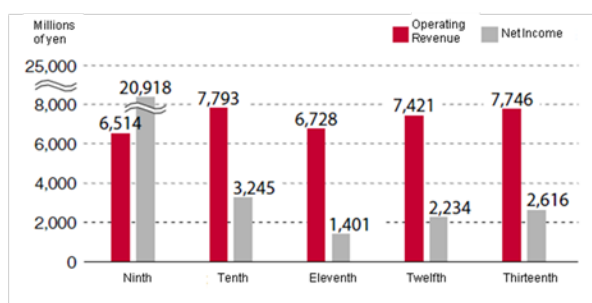
				(Millions of yen)
	Operating Revenues	Operating Income	Ordinary Income	Net Income
Thirteenth Fiscal Period	¥7,746	¥3,691	¥2,724	¥2,616
Twelfth Fiscal Period	¥7,421	¥3,434	¥2,357	¥2,234
Eleventh Fiscal Period	¥6,728	¥2,478	¥1,437	¥1,401
Tenth Fiscal Period	¥7,793	¥3,796	¥2,761	¥3,245
Ninth Fiscal Period	¥6,514	¥2,951	¥1,845	¥20,918

			(Millions of yen, Yen; days)
	Distribution per Unit (Yen)	Total Distributions (Millions of yen)	Management Days (days)
Thirteenth Fiscal Period	¥16,264	¥2,610	184
Twelfth Fiscal Period	¥16,000	¥2,568	182
Eleventh Fiscal Period	¥16,320	¥1,937	184
Tenth Fiscal Period	¥16,880	¥2,004	181
Ninth Fiscal Period	¥15,341	¥1,821	274

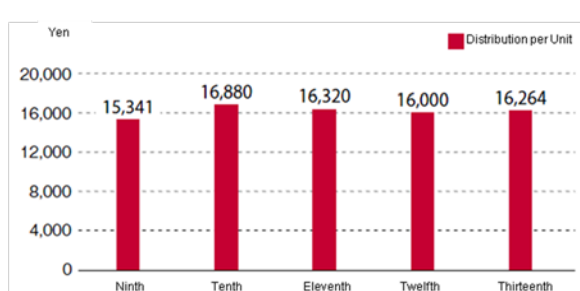
Notes:

- Thirteenth Fiscal Period: March 1, 2012 — August 31, 2012
Twelfth Fiscal Period: September 1, 2011 — February 29, 2012
Eleventh Fiscal Period: March 1, 2011 — August 31, 2011
Tenth Fiscal Period: September 1, 2010 — February 28, 2011
Ninth Fiscal Period: December 1, 2009 — August 31, 2010
- “Net income” for the Thirteenth Fiscal Period is the amount including the reversal of internal reserves (5 million yen) and differ from the funds from which distributions are paid out.
The funds from which distributions are paid out for the Twelfth Fiscal Period and Eleventh Fiscal Period are the amount including the reversal of internal reserves and differ from “net income”.
“Net income” for the Tenth Fiscal Period is the amount including the reversal of internal reserves.
“Net income” for the Ninth Fiscal Period is the amount including the gain on negative goodwill (19,009 million yen) at the merger.

< Operating Revenue / Net Income >



< Distribution per Unit >



(2) Financial Position

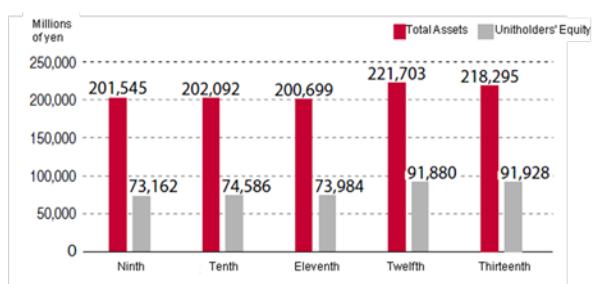
(Millions of yen; Yen; %)

	Total Assets (Millions of yen)	Unitholders' Equity (Millions of yen)	Equity Ratio (%)	Unitholders' Equity per Unit (Yen)	Interest-bearing Debt (Millions of yen)	LTV (%)
Thirteenth Fiscal Period	¥218,295	¥91,928	42.1%	¥572,640	¥121,834	55.8%
Twelfth Fiscal Period	¥221,703	¥91,880	41.4%	¥572,339	¥125,325	56.5%
Eleventh Fiscal Period	¥200,699	¥73,984	36.9%	¥623,103	¥122,653	61.1%
Tenth Fiscal Period	¥202,092	¥74,586	36.9%	¥628,176	¥123,325	61.0%
Ninth Fiscal Period	¥201,545	¥73,162	36.3%	¥616,183	¥124,590	61.8%

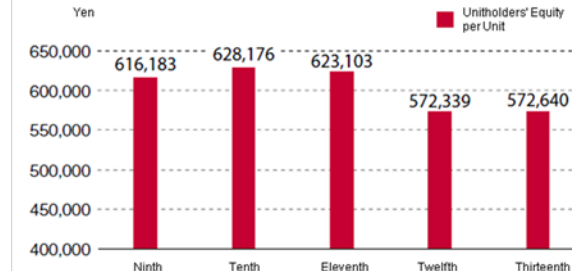
Notes:

- Thirteenth Fiscal Period: March 1, 2012 — August 31, 2012
Twelfth Fiscal Period: September 1, 2011 — February 29, 2012
Eleventh Fiscal Period: March 1, 2011 — August 31, 2011
Tenth Fiscal Period: September 1, 2010 — February 28, 2011
Ninth Fiscal Period: December 1, 2009 — August 31, 2010

< Total Assets / Unitholders' Equity >



< Unitholders' Equity per Unit >



Independent Auditor's Report

The Board of Directors
Daiwa House Residential Investment Corporation

We have audited the accompanying financial statements of Daiwa House Residential Investment Corporation which comprise the balance sheet as at August 31, 2012, and the statements of income and retained earnings, changes in net assets, and cash flows for the six-month period then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Daiwa House Residential Investment Corporation as at August 31, 2012, and its financial performance and cash flows for the six-month period then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying financial statements have been properly translated on the basis described in Note 1.

Ernst & Young Shin Nihon LLC

November 15, 2012
Tokyo, Japan

Daiwa House Residential Investment Corporation

Balance Sheets

As of February 29, 2012 and August 31, 2012

	As of February 29, 2012	As of August 31, 2012	
	<i>(Thousands of yen)</i>	<i>(Thousands of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Assets			
Current assets:			
Cash and bank deposits (including trust accounts)	¥ 11,177,156	¥ 7,989,685	\$ 101,649
Rental receivables	98,397	52,959	673
Prepaid expenses	198,111	231,595	2,946
Consumption taxes receivable	101,809	—	—
Other current assets	7,894	2,964	37
Allowance for doubtful accounts	(20,784)	(9,358)	(119)
Total current assets	11,562,584	8,267,846	105,188
Property and equipment:			
Land	21,393,132	21,150,419	269,089
Buildings and structures	28,394,794	28,218,208	359,010
Machinery and equipment	432,205	432,205	5,498
Tools, furniture and fixtures	644,106	647,236	8,234
Land in trust	73,208,489	73,763,336	938,464
Buildings and structures in trust	86,996,245	87,670,028	1,115,394
Machinery and equipment in trust	1,315,940	1,320,493	16,800
Tools, furniture and fixtures in trust	292,737	290,791	3,699
Less – accumulated depreciation	(6,384,275)	(7,649,203)	(97,318)
Net property and equipment	206,293,377	205,843,516	2,618,874
Investments and other assets:			
Long-term prepaid expenses	356,006	703,379	8,948
Guarantee deposits	10,030	10,030	127
Leasehold rights in trust	2,250,129	2,244,584	28,557
Trademark rights	1,901	4,612	58
Lease and guarantee deposits in trust	1,229,521	1,200,020	15,267
Total investments and other assets	3,847,589	4,162,627	52,959
Deferred assets:			
Investment corporation bond issuance costs	—	21,183	269
Total deferred assets	—	21,183	269
Total assets	¥ 221,703,552	¥ 218,295,174	\$ 2,777,292

	As of February 29, 2012	As of August 31, 2012	
	<i>(Thousands of yen)</i>	<i>(Thousands of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Liabilities and net assets			
Current liabilities:			
Trade and other payables	¥ 418,059	¥ 503,195	\$ 6,401
Short-term loans	3,200,000	—	—
Current portion of long-term loans	12,519,000	—	—
Accrued expenses	482,222	530,550	6,750
Consumption taxes payable	—	61,465	781
Rent received in advance	841,654	716,182	9,111
Deposits received	226,140	166,082	2,113
Current portion of rehabilitation obligations	22,435,033	15,012,890	191,003
Total current liabilities	40,122,110	16,990,366	216,162
Long-term liabilities:			
Investment corporation bonds	—	3,000,000	38,167
Long-term loans	42,300,000	73,795,000	938,867
Tenant leasehold and security deposits	333,971	327,220	4,163
Tenant leasehold and security deposits in trust	1,811,945	1,839,111	23,398
Asset retirement obligations	383,545	387,898	4,935
Rehabilitation obligations	44,871,495	30,026,737	382,019
Total long-term liabilities	89,700,958	109,375,968	1,391,551
Total liabilities	129,823,069	126,366,334	1,607,714
Net assets:			
Unitholders' equity:			
Unitholders' capital:			
Units authorized: 2,000,000			
Units issued and outstanding: 160,535	41,602,436	41,602,436	529,293
Capital surplus	28,241,587	28,241,587	359,307
Reserve for distribution	19,802,245	19,467,899	247,683
Retained earnings	2,234,214	2,616,916	33,294
Total unitholders' equity	91,880,482	91,928,839	1,169,578
Total net assets	91,880,482	91,928,839	1,169,578
Total liabilities and net assets	¥ 221,703,552	¥ 218,295,174	\$ 2,777,292

See accompanying notes to financial statements.

Daiwa House Residential Investment Corporation

Statements of Income and Retained Earnings

For the period from September 1, 2011 to February 29, 2012
and for the period from March 1, 2012 to August 31, 2012

	From September 1, 2011 to February 29, 2012	From March 1, 2012 to August 31, 2012	
	<i>(Thousands of yen)</i>	<i>(Thousands of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Operating revenues:			
Rental revenues	¥ 7,421,373	¥ 7,633,251	\$ 97,115
Gain on sales of real estate properties	—	112,869	1,436
Total operating revenues	<u>7,421,373</u>	<u>7,746,121</u>	<u>98,551</u>
Operating expenses:			
Real estate rental expenses	3,167,042	3,270,619	41,610
Loss on sales of real estate properties	63,408	—	—
Asset management fees	445,962	488,247	6,211
Asset custodian and consignment fees	21,457	21,791	277
Administrative service and consignment fees	69,977	72,631	924
Directors' remuneration	6,600	6,600	83
Provision of allowance for doubtful accounts	7,032	—	—
Other operating expenses	205,494	194,643	2,476
Total operating expenses	<u>3,986,975</u>	<u>4,054,533</u>	<u>51,584</u>
Operating income	<u>3,434,398</u>	<u>3,691,587</u>	<u>46,966</u>
Non-operating income (expenses):			
Interest income	730	693	8
Interest expense	(825,519)	(770,560)	(9,803)
Reversal of allowance for doubtful accounts	—	2,921	37
Interest expenses on investment corporation bonds	—	(16,109)	(204)
Amortization of investment corporation bond issuance costs	—	(2,353)	(29)
Financing related expenses	(191,746)	(178,222)	(2,267)
Investment unit issuance expenses	(59,352)	—	—
Other, net	(1,328)	(3,438)	(43)
Total non-operating income (expenses)	<u>(1,077,216)</u>	<u>(967,068)</u>	<u>(12,303)</u>
Ordinary income	<u>2,357,181</u>	<u>2,724,518</u>	<u>34,663</u>
Extraordinary income:			
Gain on retirement of rehabilitation obligations due to payments	7,079	—	—
Other	1,224	—	—
Total extraordinary income	<u>8,304</u>	<u>—</u>	<u>—</u>
Extraordinary loss:			
Impairment loss	130,666	106,996	1,361
Total extraordinary loss	<u>130,666</u>	<u>106,996</u>	<u>1,361</u>

Income before income taxes	2,234,819	2,617,521	33,301
Income taxes:			
Current	605	605	7
Total income taxes	<u>605</u>	<u>605</u>	<u>7</u>
Net income	2,234,214	2,616,916	33,294
Retained earnings at beginning of period	<u>—</u>	<u>—</u>	<u>—</u>
Retained earnings at end of period	<u>¥ 2,234,214</u>	<u>¥ 2,616,916</u>	<u>\$ 33,294</u>

See accompanying notes to financial statements.

Daiwa House Residential Investment Corporation

Statements of Changes in Net Assets

For the period from September 1, 2011 to February 29, 2012

	For the period from September 1, 2011 to February 29, 2012						
	Net assets						
	Unitholders' equity						
	Number of units	Unitholders' capital	Capital surplus	Reserve for distribution	Retained earnings	Total unitholders' equity	Total net assets
	(Thousands of yen)						
Balance as of August 31, 2011	118,735	¥24,002,588	¥28,241,587	¥20,338,145	¥1,401,854	¥73,984,175	¥73,984,175
Changes during the fiscal period:							
Issuance of new investment units	41,800	17,599,848	—	—	—	17,599,848	17,599,848
Reserve for distribution	—	—	—	—	—	—	—
Reversal of reserve for distribution	—	—	—	(535,900)	535,900	—	—
Dividends from retained earnings	—	—	—	—	(1,937,755)	(1,937,755)	(1,937,755)
Net income	—	—	—	—	2,234,214	2,234,214	2,234,214
Total changes during the fiscal period	41,800	17,599,848	—	(535,900)	832,359	17,896,307	17,896,307
Balance as of February 29, 2012	160,535	¥41,602,436	¥28,241,587	¥19,802,245	¥2,234,214	¥91,880,482	¥91,880,482

For the period from March 1, 2012 to August 31, 2012

	For the period from March 31, 2011 to August 31, 2012						
	Net assets						
	Unitholders' equity						Total unitholders' equity
	Number of units	Unitholders' capital	Capital surplus	Reserve for distribution	Retained earnings	Total net assets	
	<i>(Thousands of yen)</i>						
Balance as of February 29, 2012	160,535	¥41,602,436	¥28,241,587	¥19,802,245	¥2,234,214	¥91,880,482	¥91,880,482
Changes during the fiscal period:							
Reversal of reserve for distribution	—	—	—	(334,345)	334,345	—	—
Dividends from retained earnings	—	—	—	—	(2,568,560)	(2,568,560)	(2,568,560)
Net income	—	—	—	—	2,616,916	2,616,916	2,616,916
Total changes during the fiscal period	—	—	—	(334,345)	382,702	48,356	48,356
Balance as of August 31, 2012	160,535	¥41,602,436	¥28,241,587	¥19,467,899	¥2,616,916	¥91,928,839	¥91,928,839

For the period from March 1, 2012 to August 31, 2012

	Net assets						
	Unitholders' equity						Total net assets
	Number of units	Unitholders' capital	Capital surplus	Reserve for distribution	Retained earnings	Total unitholders' equity	
<i>(Thousands of U.S. dollars)</i>							
Balance as of February 29, 2012	160,535	\$529,293	\$359,307	\$251,936	\$ 28,425	\$1,168,962	\$1,168,962
Changes during the fiscal period:							
Reversal of reserve for distribution	—	—	—	(4,253)	4,253	—	—
Dividends from retained earnings	—	—	—	—	(32,678)	(32,678)	(32,678)
Net income	—	—	—	—	33,294	33,294	33,294
Total changes during the fiscal period	—	—	—	(4,253)	4,868	615	615
Balance as of August 31, 2012	160,535	\$529,293	\$359,307	\$247,683	\$33,294	\$1,169,578	\$1,169,578

See accompanying notes to financial statements.

Daiwa House Residential Investment Corporation

Statements of Cash Flows

For the period from September 1, 2011 to February 29, 2012
and for the period from March 1, 2012 to August 31, 2012

	From September 1, 2011 to February 29, 2012	From March 1, 2012 to August 31, 2012	
	<i>(Thousands of yen)</i>	<i>(Thousands of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Cash flows from operating activities			
Income before income taxes	¥ 2,234,819	¥ 2,617,521	\$ 33,301
Depreciation and amortization	1,363,674	1,411,821	17,962
Amortization of investment corporation bond issuance costs	—	2,353	29
Gain on retirement of rehabilitation obligations due to payments	(7,079)	—	—
Impairment loss	130,666	106,996	1,361
Loss on retirement of noncurrent assets	—	9,133	116
Amortization of trademark rights	285	335	4
Investment unit issuance expenses	59,352	—	—
Interest income	(730)	(693)	(8)
Interest expense	825,519	786,669	10,008
Change in rental receivables	10,840	45,437	578
Change in accounts receivable, other	(162)	16	0
Change in consumption taxes receivable	(43,979)	101,809	1,295
Change in advance payments	(30,112)	(33,483)	(425)
Change in trade payables	(237,114)	103,933	1,322
Change in other payables	(28,684)	(24,546)	(312)
Change in accrued consumption taxes	(14,654)	61,465	781
Change in accrued expenses	51,064	22,763	289
Change in deposits received	3,709	(2,055)	(26)
Change in rent received in advance	233,708	(125,472)	(1,596)
Change in long-term prepaid expenses	(252,046)	(347,372)	(4,419)
Change in allowance for doubtful accounts	(595)	(11,425)	(145)
Decrease in disposal of property and equipment	—	416,641	5,300
Decrease in disposal of property and equipment in trust	820,892	2,778,353	35,348
Change in lease and guarantee deposits in trust	(788,448)	29,501	375
Other	(66,987)	(82,988)	(1,055)
Subtotal	4,263,937	7,866,716	100,085
Interest received	730	693	8
Interest paid	(801,263)	(761,104)	(9,683)
Income taxes paid	(442)	(597)	(7)
Net cash provided by operating activities	3,462,962	7,105,707	90,403
Cash flows from investing activities			
Purchases of property and equipment	(1,029,534)	(14,617)	(185)
Purchases of property and equipment in trust	(19,021,982)	(4,252,922)	(54,108)
Purchases of intangible fixed assets	—	(3,047)	(38)
Proceeds from tenant leasehold and security deposits	61,071	43,290	550
Payment of tenant leasehold and security deposits	(19,353)	(23,949)	(304)
Proceeds from tenant leasehold and security deposits in trust	349,887	204,398	2,600
Payment of tenant leasehold and security deposits in trust	(142,903)	(167,054)	(2,125)
Net cash used in investing activities	(19,802,814)	(4,213,903)	(53,611)
Cash flows from financing activities			
Proceeds from short-term loans	3,200,000	3,200,000	40,712
Repayment of short-term loans	—	(6,400,000)	(81,424)
Proceeds from long-term loans	31,800,000	31,495,000	400,699
Repayment of long-term loans	(15,833,000)	(12,519,000)	(159,274)
Proceeds from issuance of investment corporation bonds	—	2,976,462	37,868
Repayment of rehabilitation obligations	(16,487,569)	(22,268,926)	(283,319)
Proceeds from issuance of new investment units	17,540,495	—	—
Dividend payment	(1,933,340)	(2,562,811)	(32,605)
Net cash provided by (used in) financing activities	18,286,585	(6,079,275)	(77,344)

Net (decrease) increase in cash and cash equivalents	1,946,733	(3,187,470)	(40,553)
Cash and cash equivalents at beginning of period	9,230,422	11,177,156	142,203
Cash and cash equivalents at end of period	<u>¥ 11,177,156</u>	<u>¥ 7,989,685</u>	<u>\$ 101,649</u>

See accompanying notes to financial statements.

Daiwa House Residential Investment Corporation

Notes to Financial Statements

For the period from September 1, 2011 to February 29, 2012
and for the period from March 1, 2012 to August 31, 2012

1. Organization and Basis of Presentation

(a) Organization

Daiwa House Residential Investment Corporation (“DHI”), a Japanese real estate investment corporation, was established on June 7, 2005 with an initial capitalization of ¥300 million under the Law Concerning Investment Trusts and Investment Corporations of Japan, or the Investment Trust Law. DHI was formed to invest primarily in residential and retail properties in Japan. DHI is externally managed by a licensed asset management company, Daiwa House Asset Management Co., Ltd.

DHI has concentrated on its beautiful life and residence vision by focusing its investment efforts on real estate properties and aims to build a hybrid portfolio to secure stable revenues in the mid- to long-term periods. By selecting properties suitable for modern lifestyle that appeal to tenants and consumers residential properties using strict but transparent and high standards such as by considering the area, building quality and amenities, DHI aims to gain steady growth for its portfolio and expand its primary investment income.

(b) Basis of presentation

The accompanying financial statements have been prepared in accordance with the provisions set forth in the Investment Trust Law, the Financial Instruments and Exchange Law of Japan and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

The accompanying financial statements have been compiled and translated into English (with certain reclassifications and expanded descriptions) from the financial statements of DHI prepared in accordance with Japanese GAAP and filed with the Kanto Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law.

In preparing the accompanying financial statements, relevant notes have been added and certain reclassifications have been made to the financial statements issued domestically in order to present them in a form that is more familiar to readers outside Japan. DHI’s fiscal period is a six-month period which ends at the end of February or August of each year. DHI has not prepared consolidated financial statements as it has no subsidiaries.

1. Organization and Basis of Presentation (continued)

The U.S. dollar amounts in the accompanying financial statements have been translated from yen amounts solely for the convenience of readers outside Japan and, as a matter of arithmetic computation only, at ¥78.60 = U.S.\$1.00, the rate of exchange prevailing on August 31, 2012. This translation should not be construed as a representation that yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

2. Summary of Significant Accounting Policies

(a) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and in trust, bank deposits and deposits in trust redeemable on demand, and short-term investments, which are readily convertible to cash, with an original maturity of three months or less, and an insignificant risk of price fluctuation.

(b) Property and equipment

Property and equipment are stated at cost. Depreciation of property and equipment is calculated on a straight-line basis over the estimated useful lives of the respective assets ranging as stated below:

Buildings	2 – 69 years
Structures	6 – 63 years
Machinery and equipment	10 – 29 years
Tools, furniture and fixtures	2 – 28 years

(c) Intangible fixed assets

Amortization of intangible fixed assets is calculated on a straight-line basis. Leasehold rights (fixed-term land lease rights in general) are amortized on a straight-line basis over the life of each contract.

(d) Investment corporation bond issuance costs

Investment corporation bond issuance costs are amortized on a straight-line basis over the term of the bonds.

(e) Investment unit issuance expenses

Investment unit issuance expenses are charged to income as incurred.

(f) Revenue recognition

Revenues from leasing of property are recognized on a straight-line accrual basis over the life of each lease contract.

(g) Taxes on property and equipment

Property and equipment are subject to various taxes, such as property taxes and city planning taxes. An owner of a property is registered in a record maintained by the local government of the applicable jurisdiction, and taxes are imposed on the owner registered in the record as of January 1, based on an assessment made by the local government. The taxes are determined in April to June each year and are paid in four installments during the year.

When a property is purchased prior to January 1 of any given calendar year, taxes for the previous year are imposed on the seller. DHI pays the seller the corresponding

amount of the taxes for the period from the property's disposition date to December 31 of the previous year as included in the purchase price of the property, and capitalizes this amount as a cost of the property.

(h) Income taxes

Deferred tax assets and liabilities are computed based on the differences between the financial reporting and income tax bases of assets and liabilities using the enacted tax rates.

(i) Allowance for doubtful accounts

Allowance for doubtful accounts is provided at the amount considered sufficient to cover possible losses on collection.

(j) Consumption taxes

Consumption taxes withheld and consumption taxes paid are not included in the accompanying statements of income and retained earnings. Non-deductible consumption taxes for acquisition of assets are added on to the acquisition cost of each asset.

(k) Trust beneficiary interests

For trust beneficiary interests in real estate, each of the trust assets and liabilities as well as all income generated and expenses incurred in trusts are recorded in the relevant balance sheet and income statement accounts.

(l) Derivatives and hedge accounting

(1) Derivatives and hedge accounting

DHI adopts deferral hedge accounting. However, the special treatment is applied for interest-rate swaps that meet certain conditions.

(2) Hedging instruments and hedged items

Hedging instruments:	Interest-rate swaps
Hedged items:	Interest rates on loans

(3) Hedging policy

DHI utilizes derivative financial instruments in accordance with basic risk management policies for the purpose of hedging risks specified in its bylaws.

(4) Method of evaluating hedge effectiveness

Hedging effectiveness is assessed and validated by comparing the cumulative gains or losses on the hedging instrument with the cumulative gains or losses the underlying hedged item. However, the evaluation of hedging effectiveness is omitted for interest-rate swaps meeting specific criteria.

3. Cash and Cash Equivalents

A reconciliation of cash and bank deposits in the accompanying balance sheets at February 29, 2012 and August 31, 2012 with cash and cash equivalents in the accompanying statements of cash flows is as follows:

	As of February 29, 2012 <i>(Thousands of yen)</i>	As of August 31, 2012 <i>(Thousands of yen) (Thousands of U.S. dollars)</i>	
Cash and bank deposits	¥ 6,286,819	¥ 2,969,663	\$ 37,781
Cash in trust and deposits in trust	4,890,336	5,020,022	63,867
Cash and cash equivalents	<u>¥ 11,177,156</u>	<u>¥ 7,989,685</u>	<u>\$ 101,649</u>

4. Lease Transactions

Operating lease transactions as lessor at February 29, 2012 and August 31, 2012 are as follows:

	As of February 29, 2012 <i>(Thousands of yen)</i>	As of August 31, 2012 <i>(Thousands of yen) (Thousands of U.S. dollars)</i>	
Future lease receivable equivalents			
Due within one year	¥ 937,191	¥ 937,191	\$ 11,923
Due after one year	1,246,126	1,203,378	15,310
Total	<u>¥ 2,183,317</u>	<u>¥ 2,140,569</u>	<u>\$ 27,233</u>

5. Short-Term Loans, Current Portion of Long-Term Loans and Long-Term Loans

Short-term loans, current portion of long-term loans and the long-term loans as of February 29, 2012 and August 31, 2012 consisted of the following:

Lender	As of February 29, 2012 <i>(Thousands of yen)</i>	As of August 31, 2012 <i>(Thousands of yen)</i>	As of August 31, 2012 <i>(Thousands of U.S. dollars)</i>	Average interest rate (%) (1)	Due on	Use of funds	Note
Short-term loans:							
The Bank of Tokyo -Mitsubishi UFJ, Ltd.	¥800,000	—	—				
Sumitomo Mitsui Banking Corporation	800,000	—	—	1.08	December 18, 2012	(2)	Unsecured
Sumitomo Mitsui Trust Bank, Limited.	800,000	—	—				
Mizuho Corporate Bank, Ltd.	800,000	—	—				
Subtotal	3,200,000	—	—	—	—	—	—
Current portion of long-term loans:							
Sumitomo Mitsui Banking Corporation	¥3,514,780	—	—				
Sumitomo Mitsui Trust Bank, Limited.	3,514,780	—	—	1.30	July 31, 2012	(3)	Unsecured
Mizuho Corporate Bank, Ltd.	3,514,780	—	—				
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,974,660	—	—				
Subtotal	12,519,000	—	—	—	—	—	—
Long-term loans:							
Sumitomo Mitsui Banking Corporation	¥1,800,000	¥1,800,000	\$22,900				
Sumitomo Mitsui Trust Bank, Limited.	1,800,000	1,800,000	22,900				
Mizuho Corporate Bank, Ltd.	1,800,000	1,800,000	22,900				
The Bank of Tokyo -Mitsubishi UFJ, Ltd.	1,800,000	1,800,000	22,900	1.40	December 28, 2015	(4)	Unsecured
Mitsubishi UFJ Trust and Banking Co., Ltd.	1,400,000	1,400,000	17,811				
Resona Bank, Ltd.	1,400,000	1,400,000	17,811				
Shinsei Bank, Limited.	500,000	500,000	6,361				
Sumitomo Mitsui Trust Bank, Limited.	5,200,000	5,200,000	66,157				
Sumitomo Mitsui Banking Corporation	5,200,000	5,200,000	66,157				
Mizuho Corporate Bank, Ltd.	5,200,000	5,200,000	66,157				
The Bank of Tokyo -Mitsubishi UFJ, Ltd.	5,200,000	5,200,000	66,157	1.10	September 30, 2016	(5)	Unsecured
Aozora Bank, Ltd.	4,500,000	4,500,000	57,251				
Mitsubishi UFJ Trust and Banking Co., Ltd.	3,000,000	3,000,000	38,167				
Resona Bank, Ltd.	2,500,000	2,500,000	31,806				
Shinsei Bank, Limited.	1,000,000	1,000,000	12,722				
Sumitomo Mitsui Banking Corporation	—	3,000,000	38,167				
Aozora Bank, Ltd.	—	1,500,000	19,083	0.97	March 31, 2017	(6)	Unsecured
Mitsubishi UFJ Trust and Banking Co., Ltd.	—	1,500,000	19,083				
Shinkin Central Bank	—	1,000,000	12,722				
Mizuho Corporate Bank, Ltd.	—	3,000,000	38,167				
Sumitomo Mitsui Trust Bank, Limited.	—	3,000,000	38,167				
Mizuho Trust & Banking Co., Ltd.	—	1,000,000	12,722	0.97	March 31, 2017	(6)	Unsecured
The Bank of Tokyo -Mitsubishi UFJ, Ltd.	—	4,000,000	50,890	1.07	March 27, 2019	(6)	Unsecured
Resona Bank, Ltd.	—	1,095,000	13,931	0.94	March 31, 2017	(7)	Unsecured

Sumitomo Mitsui Trust Bank, Limited.	—	3,480,000	44,274	0.70	July 31, 2017	(7)	Unsecured
Sumitomo Mitsui Banking Corporation	—	3,480,000	44,274				
Mizuho Corporate Bank, Ltd.	—	3,480,000	44,274				
The Bank of Tokyo -Mitsubishi UFJ, Ltd.	—	1,960,000	24,936				
Subtotal	42,300,000	73,795,000	938,867				
Total	¥58,019,000	¥73,795,000	\$938,867				

- (1) The average interest rate for each loan has been rounded to the second decimal place.
- (2) Acquisition of trust beneficiary rights and real estate (incl. these co- ownership interests).
- (3) Refinance or acquisition of real estate in trust.
- (4) Purchase of rehabilitation obligations (others), retirement of rehabilitation obligations (investment corporation bonds), and repayment of part of rehabilitation obligations (loans).
- (5) Repayment of loans and rehabilitation obligations with right of separate satisfaction.
- (6) Purchase of rehabilitation obligations (investment corporation bonds) and repayment of rehabilitation obligations (loans).
- (7) Repayment of existing loans (refinance fund).

6. Commitment Line

DHI has entered into separate commitment line agreements with four respective trading banks.

	As of February 29, 2012	
	<i>(Thousands of yen)</i>	
Total amount of commitment line	¥ 6,000,000	
Outstanding loans at end of the period	3,200,000	
Amount unutilized at end of the period	¥ 2,800,000	

	As of August 31, 2012	
	<i>(Thousands of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Total amount of commitment line	¥ 6,000,000	\$ 76,335
Outstanding loans at end of the period	—	—
Amount unutilized at end of the period	¥ 6,000,000	\$ 76,335

7. Details of Rental Revenues and Expenses

	From September 1, 2011 to February 29, 2012	From March 1, 2012 to August 31, 2012	
	<i>(Thousands of yen)</i>	<i>(Thousands of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Real estate rental revenues:			
Rental income	¥ 6,756,200	¥ 6,922,889	\$ 88,077
Common service fees	195,784	208,117	2,647
Subtotal	<u>6,951,985</u>	<u>7,131,007</u>	<u>90,725</u>
Other rental revenues:			
Facility charges	187,516	193,530	2,462
Incidental revenues	31,910	35,311	449
Other rental business revenues	249,962	273,401	3,478
Subtotal	<u>469,388</u>	<u>502,243</u>	<u>6,389</u>
Total rental revenues	<u>7,421,373</u>	<u>7,633,251</u>	<u>97,115</u>
Real estate rental expenses:			
Management fees	791,837	793,286	10,092
Utilities	100,707	104,040	1,323
Taxes and public dues	356,797	393,807	5,010
Repairs	134,136	103,176	1,312
Insurance premiums	12,294	11,624	147
Restoration costs	181,346	206,729	2,630
Custodian fees	50,903	47,736	607
Depreciation and amortization	1,363,674	1,411,821	17,962
Other operating expenses	175,344	198,396	2,524
Total real estate rental expenses	<u>3,167,042</u>	<u>3,270,619</u>	<u>41,610</u>
Rental income	<u>¥ 4,254,331</u>	<u>¥ 4,362,631</u>	<u>\$ 55,504</u>

Details of Gain and Loss on Sales of Real Estate Properties

	From September 1, 2011 to February 29, 2012
	<i>(Thousands of yen)</i>
New City Residence Minamirinkan	
Revenue from sale of real estate	¥ 313,751
Cost of real estate sales	351,743
Other sales expenses	3,937
Loss on sales of real estate	<u>(41,928)</u>
New City Residence Kumegawa	
Revenue from sale of real estate	453,000
Cost of real estate sales	469,149
Other sales expenses	5,330
Loss on sales of real estate	<u>(21,479)</u>

7. Details of Rental Revenues and Expenses (continued)

	From March 1, 2012 to August 31, 2012	
	<i>(Thousands of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Comfort Time Otsuka		
Revenue from sale of real estate	¥ 803,010	\$ 10,216
Cost of real estate sales	752,214	9,570
Other sales expenses	14,954	190
Gain on sales of real estate	35,841	455
Aprile Tarumi		
Revenue from sale of real estate	30,031	382
Cost of real estate sales	17,063	217
Other sales expenses	540	6
Gain on sales of real estate	12,427	158
New City Residence Ichigaya Sanaicho		
Revenue from sale of real estate	450,925	5,736
Cost of real estate sales	416,641	5,300
Other sales expenses	9,607	122
Gain on sales of real estate	24,676	313
New City Residence Toyoda		
Revenue from sale of real estate	720,151	9,162
Cost of real estate sales	712,150	9,060
Other sales expenses	8,001	101
Gain on sales of real estate	—	—
New City Residence Todoroki		
Revenue from sale of real estate	1,350,000	17,175
Cost of real estate sales	1,296,925	16,500
Other sales expenses	13,150	167
Gain on sales of real estate	39,924	507

7. Details of Rental Revenues and Expenses (continued)

Impairment loss

DHI recognized an impairment loss on the following asset group:

			From September 1, 2011 to February 29, 2012
			<i>(Thousands of yen)</i>
Purpose of use	Location	Type	
Rental apartment	Hino City, Tokyo	Land in trust	¥ 59,197
		Buildings in trust, etc.	71,469

(Note)The above rental apartment is New City Residence Toyota.

For the impairment loss calculation, an asset group is classified individually by each property. Therefore, the carrying amount of one fixed asset group that DHI plans to sell was reduced to the recoverable amount, and this reduction was recognized as an impairment loss (¥130,666 thousand), and included in extraordinary loss for the period.

The breakdown of the impairment loss is ¥69,819 thousand for buildings in trust, ¥782 thousand for structures in trust, ¥776 thousand for machinery and equipment in trust, ¥91 thousand for tools, furniture and fixtures in trust, and ¥59,197 thousand for land in trust.

The recoverable amount of this asset group is measured at fair value less costs to sell, which is calculated by subtracting the expected disposal cost from the actual sales price.

			From March 1, 2012 to August 31, 2012	
			<i>(Thousands of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Purpose of use	Location	Type		
Rental apartment	Minato-ku, Tokyo	Land in trust	¥ 76,077	\$ 967
		Buildings in trust, etc.	30,918	393

(Note)The above rental apartment is New City Residence Nishi Azabu Twin Tower.

For the impairment loss calculation, an asset group is classified individually by each property. Therefore, the carrying amount of one fixed asset group that DHI plans to sell was reduced to the recoverable amount, and this reduction was recognized as an impairment loss (¥106,996 thousand) (\$1,361 thousand), and included in extraordinary loss for the current period.

The breakdown of the impairment loss is ¥30,580 thousand (\$389 thousand) for buildings in trust, ¥260 thousand (\$3 thousand) for structures in trust, ¥77 thousand (\$0.9 thousand) for tools, furniture and fixtures in trust, and ¥76,077 thousand (\$967 thousand) for land in trust.

The recoverable amount of this asset group is measured at fair value less costs to sell, which is calculated by subtracting the expected disposal cost from the actual sales price.

8. Financial Instruments

1. Status of Financial Instruments

(a) Policy for the use of financial instruments

As a policy, when acquiring real estate and other properties, as well as when repaying its obligations, DHI raises necessary funds through loans from banks, issuance of investment corporation bonds and issuance of investment units, etc. As for financing efforts, DHI carefully pays attention to the long-term, cost effectiveness and soundness of the financial instruments, while considering the diversification of financial methods and repayment deadlines.

DHI may use derivative financial instruments for such purposes as hedging interest rate fluctuation risk, but does not engage in speculative transactions using these instruments.

Surplus funds can be invested in securities or monetary claims, however, as a current policy of DHI, they are deposited in interest-bearing accounts.

(b) Details of financial instruments, related risks and risk management system

Asset management companies stipulate basic provisions of risk management in their risk management rules.

Investment corporation bonds, long-term loans and rehabilitation obligations are used to finance such efforts as acquisition of real estate and repayment of loans. These financial instruments are exposed to liquidity risk, though DHI controls such risk by maintaining the ratio of interest-bearing debt to total assets under a certain percentage, diversifying repayment deadlines, and retaining a certain amount of highly liquid cash and deposits.

For floating rate borrowings exposed to the risk of interest rate fluctuations, DHI, in order to reduce the impact caused by rising interest rates, closely watches the movement of interest rates, and intends to increase the ratio of fixed rate loans, etc.

Deposits are exposed to credit risks, including collapse of the financial institutions where deposits are made, and, thus, are managed through the use of liquid deposits.

(c) Supplementary explanation concerning fair value of financial instruments

The fair values of financial instruments are determined by market prices, and in the case of financial instruments without observable market prices, reasonable estimates are included in valuation. Since certain assumptions are used to measure applicable fair values, the amounts are subject to change under the different assumptions.

8. Financial Instruments (continued)

2. Fair Value of Financial Instruments

The book value on the balance sheet, fair value and the difference as of February 29, 2012 and August 31, 2012 are as follows.

	As of February 29, 2012		
	<i>(Thousands of yen)</i>		
	Book Value	Fair Value	Difference
(1) Cash and bank deposits (including trust accounts)	¥ 11,177,155	¥ 11,177,155	—
(2) Short-term loans	3,200,000	3,200,000	—
(3) Current portion of long-term loans	12,519,000	12,519,000	—
(4) Current portion of rehabilitation obligations	22,435,033	22,435,033	—
(5) Investment corporation bonds	—	—	—
(6) Long-term loans	42,300,000	42,248,790	¥51,209
(7) Rehabilitation obligations	44,871,495	44,909,110	(37,614)
(8) Derivatives	—	—	—

	As of August 31, 2012		
	<i>(Thousands of yen)</i>		
	Book Value	Fair Value	Difference
(1) Cash and bank deposits (including trust accounts)	¥ 7,989,685	¥ 7,989,685	—
(2) Short-term loans	—	—	—
(3) Current portion of long-term loans	—	—	—
(4) Current portion of rehabilitation obligations	15,012,890	15,012,890	—
(5) Investment corporation bonds	3,000,000	2,997,186	¥2,813
(6) Long-term loans	73,795,000	73,986,152	(191,152)
(7) Rehabilitation obligations	30,026,737	30,115,804	(89,066)
(8) Derivatives	—	—	—

	As of August 31, 2012		
	<i>(Thousands of U.S. dollars)</i>		
	Book Value	Fair Value	Difference
(1) Cash and bank deposits (including trust accounts)	\$101,649	\$101,649	—
(2) Short-term loans	—	—	—
(3) Current portion of long-term loans	—	—	—
(4) Current portion of rehabilitation obligations	191,003	191,003	—
(5) Investment corporation bonds	38,167	38,132	\$35
(6) Long-term loans	938,867	941,299	(2,431)
(7) Rehabilitation obligations	382,019	383,152	(1,133)
(8) Derivatives	—	—	—

8. Financial Instruments (continued)

(Note 1) Methods of calculating the fair values of financial instruments.

(1) Cash and bank deposits (including trust accounts)

These instruments are settled in the short term and their fair values are approximately equal to their book values, thus, the measurement is based on their book values.

(2) Short-term loans, (3) Current portion of long-term loans and (4) Current portion of rehabilitation obligations

These instruments carry floating interest rates, and their fair values are approximately equal to their book values, thus, the measurement is based on their book values.

(5) Investment corporation bonds

The fair value of these bonds is measured as the present value, which is calculated by discounting the combined total of principal and interest by the interest rate determined taking into account the current maturity and corresponding credit risk.

(6) Long-term loans

These instruments carry floating interest rates, and their fair value is approximately equal to their book value, thus, the measurement is based on their book value. However, for long-term loans carrying floating interest rates that are hedged by interest-rate swaps meeting hedge accounting criteria, DHI employs a method to calculate the fair value by discounting the combined total of principal and interest under a separate accounting treatment as part of the corresponding interest-rate swaps, using an estimate of the interest rate to be applied to similar types of loans.

(7) Rehabilitation obligations

Among rehabilitation obligations, those with variable interest rates have market values approximately equal to their book values, thus, the measurement is based on their book values. Also, those with fixed interest rates are measured based on a calculation method where the total principal is discounted at a reasonably estimated rate that would be applied if similar rehabilitation obligations (loans) were entered into.

(8) Derivatives

Please refer to “9. Derivative Transactions” below.

(Note 2) Amount of redemption (scheduled) for monetary claims after February 29, 2012 and August 31, 2012 are as follows.

	As of February 29, 2012	As of August 31, 2012	
	<i>(Thousands of yen)</i>	<i>(Thousands of yen)</i>	<i>(Thousands of U.S. dollars)</i>
	Within one year		
Cash and bank deposits (including trust accounts)	¥11,177,155	¥7,989,685	\$101,649
Total	¥11,177,155	¥7,989,685	\$101,649

8. Financial Instruments (continued)

(Note 3) Redemptions (scheduled) for investment corporation bonds, long-term loans and rehabilitation obligations after February 29, 2012 and August 31, 2012 are as follows.

As of February 29, 2012						
<i>(Thousands of yen)</i>						
	Within one year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
Current portion of long-term loans	¥12,519,000	—	—	—	—	—
Current portion of rehabilitation obligations	22,435,033	—	—	—	—	—
Long-term loans	—	—	—	¥10,500,000	¥31,800,000	—
Rehabilitation obligations	—	¥22,435,033	¥22,436,462	—	—	—
Total	¥34,954,033	¥22,435,033	¥22,436,462	¥10,500,000	¥31,800,000	—

As of August 31, 2012						
<i>(Thousands of yen)</i>						
	Within one year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
Current portion of rehabilitation obligations	¥15,012,890	—	—	—	—	—
Investment corporation bonds	—	—	—	—	¥3,000,000	—
Long-term loans	—	—	—	¥10,500,000	59,295,000	¥4,000,000
Rehabilitation obligations	—	¥15,012,890	¥15,013,847	—	—	—
Total	¥15,012,890	¥15,012,890	¥15,013,847	¥10,500,000	¥62,295,000	¥4,000,000

As of August 31, 2012						
<i>(Thousands of U.S. dollars)</i>						
	Within one year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
Current portion of rehabilitation obligations	\$191,003	—	—	—	—	—
Investment corporation bonds	—	—	—	—	\$38,167	—
Long-term loans	—	—	—	\$133,587	754,389	\$50,890
Rehabilitation obligations	—	\$191,003	\$191,015	—	—	—
Total	\$191,003	\$191,003	\$191,015	\$133,587	\$792,557	\$50,890

9. Derivative Transactions

(1) Derivative transactions for which hedge accounting has not been applied

Not applicable.

(2) Derivative transactions for which hedge accounting has been applied

Contract amount, or amount equivalent to principal specified in the contract according to the hedge accounting method is shown as follows.

Hedge accounting method	Type of derivative transaction	Primary hedged item
Special treatment for interest-rate swaps	Interest-rate swap agreements Receive floating and pay fixed	Long-term loan

As of February 29, 2012

(Thousands of yen)

Hedge accounting method	Contract amount, etc.		Fair value	Calculation method for applicable fair value
		Due after one year		
Special treatment for interest-rate swaps	¥42,300,000	¥42,300,000	(Note)	—
Total	¥42,300,000	¥42,300,000	—	—

As of August 31, 2012

(Thousands of yen)

Hedge accounting method	Contract amount, etc.		Fair value	Calculation method for applicable fair value
		Due after one year		
Special treatment for interest-rate swaps	¥68,700,000	¥68,700,000	(Note)	—
Total	¥68,700,000	¥68,700,000	—	—

As of August 31, 2012

(Thousands of U.S. dollars)

Hedge accounting method	Contract amount, etc.		Fair value	Calculation method for applicable fair value
		Due after one year		
Special treatment for interest-rate swaps	\$874,045	\$874,045	(Note)	—
Total	\$874,045	\$874,045	—	—

(Note) Interest-rate swaps subject to special accounting treatment are included in the accounting for the hedged long-term loan, thus, the fair value is included in the fair value of the corresponding applicable long-term loan. (Please refer to “8.Financial Instruments” above.)

10. Asset Retirement Obligations

1. Details of applicable asset retirement obligations

DHI has entered into agreements involving fixed-term land lease rights with the landowners of assets of the Company, and recognizes asset retirement obligations associated with restoration obligations upon expiration of the lease agreements.

2. Methods of calculating the amounts of applicable asset retirement obligations

DHI estimates the useful life of applicable assets as the remaining agreement period of the applicable fixed-term land lease rights (54-60 years), and uses a 2.1%-2.4% discount rate for the calculation of applicable asset retirement obligations.

3. Changes in applicable asset retirement obligations

	From September 1, 2011 to February 29, 2012
	<i>(Thousands of yen)</i>
Balance at August 31, 2011	¥184,241
Increase due to purchase of property and equipment	195,389
Accretion expense	3,914
Balance at February 29, 2012	383,545
	From March 1, 2012 to August 31, 2012
	<i>(Thousands of yen)</i>
Balance at February 29, 2012	¥383,545
Increase due to purchase of property and equipment	—
Accretion expense	4,353
Balance at August 31, 2012	387,898
	From March 1, 2012 to August 31, 2012
	<i>(Thousands of U.S. dollars)</i>
Balance at February 29, 2012	\$4,879
Increase due to purchase of property and equipment	—
Accretion expense	55
Balance at August 31, 2012	4,935

11. Investment and Rental Properties

DHI owns residential housing for lease in Tokyo and other areas for the purpose of earning rental revenues. The book value on the balance sheet corresponding to these rental and other real estate properties, changes during the period and the fair value are as follows.

	As of February 29, 2012	As of August 31, 2012	
	<i>(Thousands of yen)</i>	<i>(Thousands of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Book value on balance sheets			
Balance at beginning of the period	¥190,611,835	¥208,543,507	\$2,653,225
Change during the period	17,931,672	(455,406)	(5,793)
Balance at end of the period	208,543,507	208,088,100	2,647,431
Fair value at end of the period	200,882,000	202,699,000	2,578,867

(Note 1) The book value on the balance sheet is the acquisition cost less accumulated depreciation.

(Note 2) Change during the period as of February 29, 2012, increase (¥19,949,885 thousand) was primarily caused by the acquisition of 6 properties (Shibaura Island Bloom Tower etc). Decrease (¥820,892 thousand) was primarily due to the sale of 2 properties (New City Residence Kumegawa etc), depreciation and amortization.

Change during the period as of August 31, 2012, increase (¥4,187,426 thousand) (\$53,275 thousand) was primarily caused by the acquisition of 2 properties (Castalia Arakawa etc). Decrease (¥3,194,994 thousand) (\$40,648 thousand) was primarily due to the sale of 4 properties (New City Residence Todoroki etc) and part of the land (Aprile Tarumi), depreciation and amortization.

(Note 3) The fair value at end of the period represents the value assessed by a third-party real estate appraiser.

The profit or loss regarding rental and other real estate properties are as shown in “7. Details of Rental Revenues and Expenses.”

12. Segment Information

1. Segment Information

Since DHI has been engaged in a single segment of the real estate leasing business, and there is no other business segment for disclosure, segment information has been omitted.

2. Related Information

(1) Information about products and services

Since operating revenues from external customers for a single segment of product and service account for over 90% of total operating revenues in DHI's statements of income and retained earnings for the periods ended February 29, 2012 and August 31, 2012, information about products and services has been omitted.

(2) Information about geographic areas

(a) Operating revenues

Since operating revenues from external customers within Japan account for over 90% of total operating revenues in DHI's statement of income and retained earnings for the periods ended February 29, 2012 and August 31, 2012, information about geographic areas has been omitted.

(b) Property and equipment

Since over 90% of total property and equipment on the balance sheet as of February 29, 2012 and August 31, 2012 are located within Japan, information about geographic areas on such property and equipment has been omitted.

(3) Information about major customers

Since no single external client represents 10% or more of total operating revenues in DHI's statement of income and retained earnings for the periods ended February 29, 2012 and August 31, 2012, information about major client has been omitted.

3. Information about impairment loss for fixed assets

DHI booked ¥130,666 thousand of impairment loss for fixed assets for the period ended February 29, 2012 and ¥106,996 thousand (\$1,361 thousand) for the period ended August 31, 2012. Related segment information has been omitted since DHI has been engaged in a single segment of the real estate leasing business.

13. Deferred Income Taxes

(a) Details of significant components of deferred tax assets and liabilities

	As of February 29, 2012 <i>(Thousands of yen)</i>
Deferred tax assets - current:	
Allowance for doubtful accounts	¥1,661
Others	22,672
Subtotal-Deferred tax assets - current	24,333
Valuation reserve	¥24,333
Total deferred tax assets - current	—
Net deferred tax assets - current	—
Deferred tax assets - non-current:	
Valuation difference from the time of merger (Long-term prepaid expenses, etc.)	¥4,712
Valuation difference from the time of merger (Land, Buildings)	1,947,629
Loss carryforward assumed at the time of merger	15,209,408
Asset retirement obligations	131,019
Impairment loss	51,391
Others	1,613
Subtotal	17,345,774
Deferred tax liabilities - non-current:	
Valuation difference from the time of merger (Land, Buildings)	2,038,716
Asset retirement costs (associated with asset retirement obligations)	128,585
Subtotal	2,167,301
Valuation reserve	¥15,178,472
Total deferred tax assets - non-current	—
Net deferred tax assets - non-current	—

13. Deferred Income Taxes (continued)

	As of August 31, 2012	
	<i>(Thousands of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Deferred tax assets - current:		
Allowance for doubtful accounts	—	—
Others	¥20,704	\$263
Subtotal-Deferred tax assets - current	20,704	263
Valuation reserve	¥20,704	\$263
Total deferred tax assets - current	—	—
Net deferred tax assets - current	—	—
Deferred tax assets - non-current:		
Valuation difference from the time of merger (Long-term prepaid expenses, etc.)	¥3,756	\$47
Valuation difference from the time of merger (Land, Buildings)	1,880,520	23,925
Loss carryforward assumed at the time of merger	15,209,408	193,503
Asset retirement obligations	132,506	1,685
Impairment loss	39,150	498
Others	3,507	44
Subtotal	17,268,850	219,705
Deferred tax liabilities - non-current:		
Valuation difference from the time of merger (Land, Buildings)	1,993,127	25,357
Asset retirement costs (associated with asset retirement obligations)	128,585	1,635
Subtotal	2,121,712	26,993
Valuation reserve	¥15,147,137	\$192,711
Total deferred tax assets - non-current	—	—
Net deferred tax assets - non-current	—	—

- (b) Details of main entries causing significant differences between the statutory tax rate and the effective tax rates after applying deferred income tax accounting

	From September 1, 2011 to February 29, 2012	From March 1, 2012 to August 31, 2012
Statutory tax rate	39.33%	39.33%
(Adjustment)		
Tax-deductible dividends paid	(41.15)	(38.58)
Other	1.85	(0.73)
Effective tax rates after applying deferred income tax accounting	0.03%	0.02%

14. Related Party Transactions

1) Controlling company and major corporate investors

Not applicable.

2) Affiliates

Not applicable.

3) Sister companies

(a) For the period from September 1, 2011 to February 29, 2012

Attribute	Name	Location	Capital (Millions of yen)	Business type or occupation	Ownership percentage of investment units (Owned)	Type of relationship		Transaction type	Transaction amount (Thousands of yen)	Line item	Balance at end of period (Thousands of yen)
						Position of director(s) serving concurrently	Business relationship				
Subsidiary of DHI's major corporate investors	Daiwa House Asset Management Co., Ltd.	Chiyoda -ku, Tokyo	¥300	Asset management	—	—	Consigned asset- management operations	Asset- management compensation payment	¥545,908	Accrued operating expenses payable	¥278,690
	Royal Parks Hanakoganei Co., Ltd.	Chiyoda -ku, Tokyo	¥100	Selling, buying, exchanging trust beneficiary rights in real estate	—	—	Selling, buying, trust beneficiary rights in real estate	Acquisition of trust beneficiary rights in real estate	¥5,300,000	—	—
	Shibaura Canal Development Ltd.	Chiyoda -ku, Tokyo	¥3	Selling, buying, managing trust beneficiary rights in real estate	—	—	Selling, buying, trust beneficiary rights in real estate	Acquisition of trust beneficiary rights in real estate	¥7,580,000	—	—

(b) For the period from March 1, 2012 to August 31, 2012

Attribute	Name	Location	Capital (Millions of yen) (Millions of U.S. dollars)	Business type or occupation	Ownership percentage of investment units (Owned)	Type of relationship		Transaction type	Transaction amount (Thousands of yen) (Thousands of U.S. dollars)	Line item	Balance at end of period (Thousands of yen) (Thousands of U.S. dollars)
						Position of director(s) serving concurrently	Business relationship				
Subsidiary of DHI's major corporate investors	Daiwa House Asset Management Co., Ltd.	Chiyoda- ku, Tokyo	¥300 (\$3)	Asset management	—	—	Consigned asset- management operations	Asset- management compensation payment	¥488,247 (\$6,211)	Accrued operating expenses payable	¥299,999 (\$3,816)

(Note 1) In the above table, consumption taxes are not included in the transaction amounts but are included in the balances at the end of the period.

(Note 2) Transaction terms and conditions and policies for determining transaction terms and conditions: market value is considered in such determinations.

(Note 3) Acquisition price of trust beneficiary rights in real estate determining based on appraisal value by third party.

4) Director and major individual investors

Not applicable.

15. Per Unit Information

- (a) Information about net assets per unit and net income per unit:

	As of / For the six months ended February 29, 2012	As of / For the six month ended August 31, 2012	
	<i>(yen)</i>	<i>(yen)</i>	<i>(U.S. dollars)</i>
Net assets per unit	¥572,339	¥572,640	\$7,285
Net income per unit	¥14,665	¥16,301	\$207

Net income per unit is calculated by dividing net income by the number of average investment units weighted by the number of days in the period. Net income per unit after adjustment for latent units has not been reported because there were no latent units.

- (b) Basis of calculation for the amounts of net income per unit is stated as follows:

	From September 1, 2011 to February 29, 2012	From March 1, 2012 to August 31, 2012	
	<i>(Thousands of yen)</i>	<i>(Thousands of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Net income	¥2,234,214	¥2,616,916	\$33,294
Amount not attributable to common unitholders	—	—	—
Net income attributable to common units	¥2,234,214	¥2,616,916	\$33,294
Average number of investment units during the period (in units)	152,350	160,535	160,535

16. Net Assets

DHI shall maintain net assets of at least ¥50,000 thousand (\$636 thousand) as required by Clause 4 of Article 67 of the Investment Trust Law.

17. Significant Subsequent Events

(a) For the period from September 1, 2011 to February 29, 2012

1. Cash dividends

On April 10, 2012, DHI's Board of Directors approved a resolution for the payment of cash dividends of ¥16,000 per unit, aggregating to ¥2,568,560,000, to unitholders of record as of February 29, 2012.

(Method of calculation of cash dividends)

In accordance with Section 37.1.1 of the bylaws set forth by DHI for distributions of cash dividends, the amount of dividends payable is limited by the amount of income and more than 90% of income available for distribution of dividends of DHI as set forth in Section 67.15 of the Special Taxation Measures Law.

Beginning from this fiscal period, DHI has introduced the concept of target distribution, intending to implement its policy of stabilized distribution by utilizing the reserve fund for distribution.

With the target of distribution per unit set at ¥16,000 for this period, the distribution shall not be affected, as previous, by extraordinary profit or loss, if any, in connection with losses on sales of properties (including impairment loss) and/or gains on retirement by purchase of rehabilitation obligations, and to reverse the reserve for distribution to cover the difference, if any, between the total distribution calculated based on a target of ¥16,000 per unit and the income available for this distribution.

In accordance with the foresaid policy, ¥2,568,560,000 (¥16,000 per unit) was set as the amount of distribution of dividends. The difference of ¥334,345,957, between the total distribution of ¥2,568,560,000 and the period's unappropriated income of ¥2,234,214,043, is covered by partially reversing the reserve for distribution.

No cash distribution exceeding the income amount set forth in Section 37.1.2 of the bylaws of DHI shall be made.

17. Significant Subsequent Events (continued)

(b) For the period from March 1, 2012 to August 31, 2012

1. Cash dividends

On October 11, 2012, DHI's Board of Directors approved a resolution for the payment of cash dividends of ¥16,264 (\$206) per unit, aggregating to ¥2,610,941,240 (\$33,218,081), to unitholders of record as of August 31, 2012.

(Method of calculation of cash dividends)

In accordance with Section 37.1.1 of the bylaws set forth by DHI for distributions of cash dividends, the amount of dividends payable is limited by the amount of income and more than 90% of income available for distribution of dividends of DHI as set forth in Section 67.15 of the Special Taxation Measures Law.

Also, since the previous fiscal period, DHI has introduced the concept of target distribution, intending to implement its policy of stabilized distribution by utilizing the reserve fund for distribution. With the target of distribution per unit set at ¥16,100 (\$204) for this period, the distribution shall not be affected, as previously, by extraordinary profit or loss, if any, in connection with losses on sales of properties or impairment loss, etc.

In accordance with the foresaid policy, ¥2,610,941,240 (\$33,218,081) (¥16,264 per unit) (\$206 per unit) was set as the amount for distribution of dividends. In addition, the difference of ¥5,975,621 (\$76,025), between the total distribution of ¥2,610,941,240 (\$33,218,081) and the current period's unappropriated income of ¥2,616,916,861 (\$33,294,107), is reserved as the fund for distribution.

No cash distribution exceeding the income amount set forth in Section 37.1.2 of the bylaws of DHI shall be made.

17. Significant Subsequent Events (continued)

2. Acquisition and disposition of property

DHI acquired of the following assets subsequent to August 31, 2012.

Property Name	Castalia Tsutsujigaoka
Acquisition Price (Thousands of yen) (Thousands of U.S. dollars)	¥1,208,573 (\$15,376)
Seller	Limited company in Japan
Asset Type	Beneficiary right in trust that places real estate in trust
Location	4-2-35, Shintera, Wakabayashi-ku, Sendai City
Acquisition Date	September 3, 2012

(Note) Excluding such amounts as expenses related to acquisition, amount equivalent to reimbursement of taxes and dues, etc., and amount equivalent to consumption taxes.

DHI disposed of the following assets subsequent to August 31, 2012.

Property Name	New City Residence Nishi Azabu Twin Tower
Disposition Price (Thousands of yen) (Thousands of U.S. dollars)	¥2,210,000 (\$28,117)
Book Value (Thousands of yen) (Thousands of U.S. dollars)	¥2,207,400 (as of August 31, 2012) (\$28,083)
Buyer	Not disclosed
Asset Type	Beneficiary right in trust that places real estate in trust
Disposition Date	September 27, 2012

(Note) Excluding such amounts as expenses related to disposition, amount equivalent to reimbursement of taxes and dues, etc., and amount equivalent to consumption taxes.

3. New loans based on commitment line

DHI borrowed the following funds in order to acquire the property stated previously in “2. Acquisition and disposition of property” Above.

The details of new loans are as follows:

Commitment Line I-3

Lenders:	Bank of Tokyo Mitsubishi UFJ, Ltd., Sumitomo Mitsui Banking Corporation, Sumitomo Mitsui Trust Bank, Limited, Mizuho Corporate Bank, Ltd.
Loan amount:	¥1,300,000 thousand (\$16,539 thousand)
Interest rate:	Base rate (JBA 1-month Yen TIBOR) + 0.90% (floating interest rate)
Transaction date:	September 3, 2012
Due date:	September 2, 2013
Method of payment:	Bullet repayment (lump sum payment at maturity)
Collateral and guarantee:	Unsecured and non-guaranteed

17. Significant Subsequent Events (continued)

4. Changes in commitment line

DHI agreed to amend the terms of the commitment line as of September 27, 2012 as follows.

Total credit limit:	¥10,000,000 thousand (\$127,226 thousand)
Lenders:	Bank of Tokyo Mitsubishi UFJ, Ltd., Sumitomo Mitsui Banking Corporation, Sumitomo Mitsui Trust Bank, Limited, Mizuho Corporate Bank, Ltd.
Drawdown period:	From October 4, 2012 to October 3, 2013
Individual loan period:	Within 1 year
Collateral and guarantee:	Unsecured and non-guaranteed
Usage of funds:	To fund the acquisition of trust beneficiary rights and real estate, as well as payment of related expenses, the repayment and redemption of loans (including investment corporation bonds).

18. Changes in Investment Units Issued

The number of investment units issued and the changes in total unitholders' capital for the last five years are reported as follows:

Date	Type	Investment units issued (Units)		Total unitholders' capital (Millions of yen)		Comments
		Change in number	Balance	Amount of change	Balance	
March 2, 2007	Third-party allotment	8,000	49,260	¥ 4,034	¥24,002	(Note 1)
April 1, 2010	Merger	69,475	118,735	0	¥24,002	(Note 2)
October 4, 2011	Capital increase by public offering	38,000	156,735	¥15,999	¥40,002	(Note 3)
November 2, 2011	Third-party allotment	3,800	160,535	¥ 1,599	¥41,602	(Note 4)

(Note 1) Additional units were issued at an issue price of ¥504,261 per unit to obtain funds for acquiring new properties.

(Note 2) DHI merged with NCR on April 1, 2010.

(Note 3) Investment units were issued at ¥435,337 per unit (value of investment unit issued ¥421,049) by public offering to obtain funds for acquiring new properties.

(Note 4) Investment units were issued at ¥421,049 per unit by third-party allotment to obtain property acquisition funds.

19. Other Supplementary Information

1) Detailed Schedule of Portfolio

Not applicable.

2) Table of Contract Amounts and Market Value of Futures Trades of Marketable Portfolio and Foreign Exchange Contract Amounts and Their Values

(Thousands of yen)

Category	Type	Contract amount, etc.		Fair value
			Due after one year	
Over-the-counter transaction	Interest-rate swap agreements	¥68,700,000	¥68,700,000	—
Total		¥68,700,000	¥68,700,000	—

(Thousands of U.S. dollars)

Category	Type	Contract amount, etc.		Fair value
			Due after one year	
Over-the-counter transaction	Interest-rate swap agreements	\$874,045	\$874,045	—
Total		\$874,045	\$874,045	—

(Note 1) Contract amount, etc. is based on notional principal amount.

(Note 2) Interest rate swap agreements are subject to special accounting treatment. (Please see “8. Financial Instruments” for details.)

3) General Overview of Detailed Schedule of Real Estate as of August 31, 2012

(Thousands of yen)

Type of asset		Balance at beginning of the period	Increase during the period	Decrease during the period	Balance at end of the period	Less accumulated depreciation or accumulated amortization		Net book value at end of the period
							Depreciation or amortization for the period	
Tangible fixed assets	Buildings	¥ 28,157,619	¥ 29,148	¥ 207,405	¥27,979,362	¥ 1,315,986	¥281,174	¥26,663,376
	Structures	237,174	3,154	1,483	238,845	11,674	2,548	227,171
	Machinery and equipment	432,205	—	—	432,205	36,253	7,884	395,952
	Tools, furniture and fixtures	644,106	3,950	820	647,236	114,346	23,799	532,890
	Land	21,393,132	—	242,713	21,150,419	—	—	21,150,419
	Buildings in trust	86,344,743	2,075,927	1,476,443 [30,580]	87,014,046	5,799,643	1,018,095	81,214,403
	Structures in trust	651,501	19,252	15,555 [260]	655,981	45,861	12,047	610,120
	Machinery and equipment in trust	1,315,940	15,928	12,151	1,320,493	246,618	43,641	1,073,874
	Tools, furniture and fixtures in trust	292,737	6,487	8,524 [77]	290,791	78,819	17,085	211,972
	Land in trust	73,208,489	2,135,327	1,639,678 [76,077]	73,763,336	—	—	73,763,336
	Total	¥212,677,653	¥4,289,176	¥3,604,777 [¥106,996]	¥213,492,720	¥7,649,203	¥1,406,276	¥205,843,516
Intangible fixed assets	Leasehold rights in trust	¥2,254,750	—	—	¥2,254,750	¥10,166	¥5,545	¥2,244,584
	Trademark rights	3,508	¥3,047	—	6,556	1,943	335	4,612
	Total	¥2,258,259	¥3,047	—	¥2,261,306	¥12,109	¥5,881	¥2,249,197

19. Other Supplementary Information (continued)

(Thousands of U.S. dollars)

Type of asset		Balance at beginning of the period	Increase during the period	Decrease during the period	Balance at end of the period	Less accumulated depreciation or amortization		Net book value at end of the period
							Depreciation or amortization for the period	
Tangible fixed assets	Buildings	\$358,239	\$370	\$2,638	\$355,971	\$ 16,742	\$3,577	\$339,228
	Structures	3,017	40	18	3,038	148	32	2,890
	Machinery and equipment	5,498	–	–	5,498	461	100	5,037
	Tools, furniture and fixtures	8,194	50	10	8,234	1,454	302	6,779
	Land	272,177	–	3,087	269,089	–	–	269,089
	Buildings in trust	1,098,533	26,411	\$18,784 [389]	1,107,048	73,786	12,952	1,033,262
	Structures in trust	8,288	244	197 [3]	8,345	583	153	7,762
	Machinery and equipment in trust	16,742	202	154	16,800	3,137	555	13,662
	Tools, furniture and fixtures in trust	3,724	82	108 [0]	3,699	1,002	217	2,696
	Land in trust	931,405	27,167	20,861 [967]	938,464	–	–	938,464
	Total	\$2,705,822	\$54,569	\$45,862 [\$1,361]	\$2,716,192	\$97,318	\$17,891	\$2,618,874
Intangible fixed assets	Leasehold rights in trust	\$28,686	–	–	\$28,686	\$129	\$70	\$28,557
	Trademark rights	44	\$38	–	83	24	\$4	58
	Total	\$28,731	\$38	–	\$28,769	\$154	\$74	\$28,615

(Note 1) Amount in square brackets of decrease during the period indicates of impairment loss.

(Note 2) Details of the increase (decrease) during the period are shown below.

19. Other Supplementary Information (continued)

1. Increase in buildings in trust etc. (increase by acquisition and disposition etc.)

(Thousands of yen)

Arakawa-ku, Tokyo	Castalia Arakawa	Building in trust etc.	¥ 1,148,216
Ota-ku, Tokyo	Castalia Omori II	Building in trust etc.	¥903,882

(Thousands of U.S. dollars)

Arakawa-ku, Tokyo	Castalia Arakawa	Building in trust etc.	\$ 14,608
Ota-ku, Tokyo	Castalia Omori II	Building in trust etc.	\$11,499

2. Increase in land in trust (increase by acquisition and disposition etc.)

(Thousands of yen)

Arakawa-ku, Tokyo	Castalia Arakawa	Land in trust	¥ 599,853
Ota-ku, Tokyo	Castalia Omori II	Land in trust	¥1,535,473

(Thousands of U.S. dollars)

Arakawa-ku, Tokyo	Castalia Arakawa	Land in trust	\$ 7,631
Ota-ku, Tokyo	Castalia Omori II	Land in trust	\$19,535

3. Decrease in buildings etc. (decrease by acquisition and disposition etc.)

(Thousands of yen)

Shinjuku-ku, Tokyo	New City Residence Ichigaya Sanaicho	Buildings etc.	¥ 182,624
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(Thousands of U.S. dollars)

Shinjuku-ku, Tokyo	New City Residence Ichigaya Sanaicho	Buildings etc.	\$ 2,323
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4. Decrease in land (decrease by acquisition and disposition etc.)

(Thousands of yen)

Shinjuku-ku, Tokyo	New City Residence Ichigaya Sanaicho	Land	¥ 242,713
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(Thousands of U.S. dollars)

Shinjuku-ku, Tokyo	New City Residence Ichigaya Sanaicho	Land	\$ 3,087
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19. Other Supplementary Information (continued)

5. Decrease in buildings in trust etc. (decrease by acquisition and disposition etc.)

(Thousands of yen)

Toshima-ku, Tokyo	Comfort Time Otsuka	Building in trust etc.	¥ 517,023
Hino City, Tokyo	New City Residence Toyoda	Building in trust etc.	¥ 416,510
Setagaya-ku, Tokyo	New City Residence Todoroki	Building in trust etc.	¥ 470,770

(Thousands of U.S. dollars)

Toshima-ku, Tokyo	Comfort Time Otsuka	Building in trust etc.	\$ 6,577
Hino City, Tokyo	New City Residence Toyoda	Building in trust etc.	\$ 5,299
Setagaya-ku, Tokyo	New City Residence Todoroki	Building in trust etc.	\$ 5,989

6. Decrease in land in trust etc. (decrease by acquisition and disposition etc.)

(Thousands of yen)

Toshima-ku, Tokyo	Comfort Time Otsuka	Land in trust	¥ 306,299
Hino City, Tokyo	New City Residence Toyoda	Land in trust	¥ 322,633
Setagaya-ku, Tokyo	New City Residence Todoroki	Land in trust	¥ 858,406
Kobe City, Hyogo	Aprile Tarumi	Land in trust	¥17,063

(Thousands of U.S. dollars)

Toshima-ku, Tokyo	Comfort Time Otsuka	Land in trust	\$ 3,896
Hino City, Tokyo	New City Residence Toyoda	Land in trust	\$ 4,104
Setagaya-ku, Tokyo	New City Residence Todoroki	Land in trust	\$ 10,921
Kobe City, Hyogo	Aprile Tarumi	Land in trust	\$ 217

4) Detailed Schedule of Other Specific Assets Not applicable.

19. Other Supplementary Information (continued)

5) Detailed Schedule of Investment Corporation Bonds

(Thousands of yen)

Name of bond	Date of issuance	Balance at beginning of the period	Decrease during the period	Balance at end of the period	Interest rate	Repayment deadline	Purpose of use	Comments
Daiwa House Residential Investment Corporation No. 1 Unsecured Investment Corporation Bonds (Note 1)	March 9, 2012	—	—	¥3,000,000	1.12%	March 9, 2017	(Note 2)	Unsecured

(Thousands of U.S. dollars)

Name of bond	Date of issuance	Balance at beginning of the period	Decrease during the period	Balance at end of the period	Interest rate	Repayment deadline	Purpose of use	Comments
Daiwa House Residential Investment Corporation No. 1 Unsecured Investment Corporation Bonds (Note 1)	March 9, 2012	—	—	\$38,167	1.12%	March 9, 2017	(Note 2)	Unsecured

(Note 1) This bond is issued with special pari passu conditions among specified DHI Bonds

(Note 2) Proceeds are used as funds for repayment of existing loans.

(Note 3) Scheduled payment per year for the investment corporation bonds within a period of 5 years subsequent to August 31, 2012 is as follows.

(Thousands of yen)

Classification	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years
Investment corporation bonds	—	—	—	¥3,000,000
Total	—	—	—	¥3,000,000

(Thousands of U.S. dollars)

Classification	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years
Investment corporation bonds	—	—	—	\$38,167
Total	—	—	—	\$38,167

(Note 4) Please refer to the following 7) Detailed Schedule of Rehabilitation Obligations for the rehabilitation obligations (investment corporation bonds).

19. Other Supplementary Information (continued)

6) Detailed Schedule of Loans as of August 31, 2012

b) Detailed Schedule of Loans as of August 31, 2012									
Classification		Balance at beginning of the period (Thousands of yen) (Thousands of U.S. dollars)	Increase during the period (Thousands of yen) (Thousands of U.S. dollars)	Decrease during the period (Thousands of yen) (Thousands of U.S. dollars)	Balance at end of the period (Thousands of yen) (Thousands of U.S. dollars)	Average interest rate (Note 1)	Repayment deadline	Purpose of use	Comments
	Lender								
Short-term loans	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	¥800,000 (\$10,178)	—	¥800,000 (\$10,178)	—	1.08%	December 18, 2012	(Note 7)	Unsecured without warranty
	Sumitomo Mitsui Banking Corporation	800,000 (10,178)	—	800,000 (10,178)	—				
	Sumitomo Mitsui Trust Bank, Limited.	800,000 (10,178)	—	800,000 (10,178)	—				
	Mizuho Corporate Bank, Ltd.	800,000 (10,178)	—	800,000 (10,178)	—				
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	—	¥800,000 (\$10,178)	800,000 (10,178)	—	1.08%	March 27, 2013		
	Sumitomo Mitsui Banking Corporation	—	800,000 (10,178)	800,000 (10,178)	—				
	Sumitomo Mitsui Trust Bank, Limited.	—	800,000 (10,178)	800,000 (10,178)	—				
	Mizuho Corporate Bank, Ltd.	—	800,000 (10,178)	800,000 (10,178)	—				
	Subtotal	3,200,000 (40,712)	3,200,000 (40,712)	6,400,000 (81,424)	—	—	—	—	—
Current portion of long-term loans	Sumitomo Mitsui Banking Corporation	3,514,780 (44,717)	—	3,514,780 (44,717)	—	1.30%	July 31, 2012	(Note 8)	Unsecured without warranty (Note 13)
	Sumitomo Mitsui Trust Bank, Limited.	3,514,780 (44,717)	—	3,514,780 (44,717)	—				
	Mizuho Corporate Bank, Ltd.	3,514,780 (44,717)	—	3,514,780 (44,717)	—				
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,974,660 (25,122)	—	1,974,660 (25,122)	—				
	Subtotal	12,519,000 (159,274)	—	12,519,000 (159,274)	—	—	—	—	—
Long-term loans	Sumitomo Mitsui Banking Corporation	1,800,000 (22,900)	—	—	¥1,800,000 (\$22,900)	1.40% (Note 2)	December 28, 2015	(Note 9)	Unsecured without warranty
	Sumitomo Mitsui Trust Bank, Limited.	1,800,000 (22,900)	—	—	1,800,000 (22,900)				
	Mizuho Corporate Bank, Ltd.	1,800,000 (22,900)	—	—	1,800,000 (22,900)				
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,800,000 (22,900)	—	—	1,800,000 (22,900)				
	Mitsubishi UFJ Trust and Banking Co., Ltd.	1,400,000 (17,811)	—	—	1,400,000 (17,811)				
	Resona Bank, Ltd.	1,400,000 (17,811)	—	—	1,400,000 (17,811)				
	Shinsei Bank, Limited.	500,000 (6,361)	—	—	500,000 (6,361)	1.10% (Note 3)	September 30, 2016	(Note 10)	Unsecured without warranty
	Sumitomo Mitsui Trust Bank, Limited.	5,200,000 (66,157)	—	—	5,200,000 (66,157)				
	Sumitomo Mitsui Banking Corporation	5,200,000 (66,157)	—	—	5,200,000 (66,157)				
	Mizuho Corporate Bank, Ltd.	5,200,000 (66,157)	—	—	5,200,000 (66,157)				
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	5,200,000 (66,157)	—	—	5,200,000 (66,157)				
	Aozora Bank, Ltd.	4,500,000 (57,251)	—	—	4,500,000 (57,251)				
	Mitsubishi UFJ Trust and Banking Co., Ltd.	3,000,000 (38,167)	—	—	3,000,000 (38,167)				
	Resona Bank, Ltd.	2,500,000 (31,806)	—	—	2,500,000 (31,806)				
	Shinsei Bank, Limited.	1,000,000 (12,722)	—	—	1,000,000 (12,722)				

19. Other Supplementary Information (continued)

Classification	Lender	Balance at beginning of the period (Thousands of yen) (Thousands of U.S. dollars)	Increase during the period (Thousands of yen) (Thousands of U.S. dollars)	Decrease during the period (Thousands of yen) (Thousands of U.S. dollars)	Balance at end of the period (Thousands of yen) (Thousands of U.S. dollars)	Average interest rate (Note 1)	Repayment deadline	Purpose of use	Comments
Long-term loans	Sumitomo Mitsui Banking Corporation	—	¥3,000,000 (\$38,167)	—	¥3,000,000 (\$38,167)	0.97% (Note 4)	March 31, 2017	(Note 11)	Unsecured without warranty
	Aozora Bank, Ltd.	—	1,500,000 (19,083)	—	1,500,000 (19,083)				
	Mitsubishi UFJ Trust and Banking Co., Ltd.	—	1,500,000 (19,083)	—	1,500,000 (19,083)				
	Shinkin Central Bank	—	1,000,000 (12,722)	—	1,000,000 (12,722)				
	Mizuho Corporate Bank, Ltd.	—	3,000,000 (38,167)	—	3,000,000 (38,167)	0.97% (Note 4)	March 31, 2017	(Note 11)	Unsecured without warranty
	Sumitomo Mitsui Trust Bank, Limited.	—	3,000,000 (38,167)	—	3,000,000 (38,167)				
	Mizuho Trust & Banking Co., Ltd.	—	1,000,000 (12,722)	—	1,000,000 (12,722)				
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	—	4,000,000 (50,890)	—	4,000,000 (50,890)	1.07% (Note 5)	March 27, 2019	(Note 11)	Unsecured without warranty
	Resona Bank, Ltd.	—	1,095,000 (13,931)	—	1,095,000 (13,931)	0.94%	March 31, 2017	(Note 12)	Unsecured without warranty
	Sumitomo Mitsui Trust Bank, Limited.	—	3,480,000 (44,274)	—	3,480,000 (44,274)	0.70% (Note 6)	July 31, 2017	(Note 12)	Unsecured without warranty
	Sumitomo Mitsui Banking Corporation	—	3,480,000 (44,274)	—	3,480,000 (44,274)				
	Mizuho Corporate Bank, Ltd.	—	3,480,000 (44,274)	—	3,480,000 (44,274)				
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	—	1,960,000 (24,936)	—	1,960,000 (24,936)				
	Subtotal	42,300,000 (538,167)	31,495,000 (400,699)	—	73,795,000 (938,867)	—	—	—	—
Total		¥58,019,000 (\$738,155)	¥34,695,000 (\$441,412)	¥18,919,000 (\$240,699)	¥73,795,000 (\$938,867)	—	—	—	—

(Note 1) Average interest rates are loan interest rates (weighted average during the applicable term) of the corresponding lenders, and are rounded off to the nearest second decimal place.

(Note 2) On and after March 31, 2011, interest rate is substantially fixed at an annual rate of 1.40% based on interest-rate swap agreement dated on March 23, 2011.

(Note 3) On and after December 30, 2011, interest rate is substantially fixed at an annual rate of 1.096% based on interest-rate swap agreement dated on December 20, 2011.

(Note 4) On and after June 29, 2012, interest rate is substantially fixed at an annual rate of 1.025% based on interest-rate swap agreement dated on June 7, 2012.

(Note 5) This loan carries a fixed interest rate.

(Note 6) On and after July 31, 2012, the interest rate is substantially fixed at an annual rate of 0.69536% based on interest-rate swap agreement dated on July 24, 2012.

(Note 7) To be used to acquire trust beneficiary rights and real estate (including these co-ownership interests).

(Note 8) To be used as to acquire real estate properties in trust, or to refinance such funds.

(Note 9) To be used to purchase rehabilitation obligations (others), retire rehabilitation obligations (investment corporation bonds), and return part of rehabilitation obligations (loans).

(Note 10) To be used to refinance loans and rehabilitation obligations with right of separate satisfaction.

(Note 11) To be used to purchase rehabilitation obligations (investment corporation bonds) and repayment of rehabilitation obligations (loans).

(Note 12) To be used to repayment of existing loans (refinance fund).

(Note 13) Terms have been changed to unsecured and non-guaranteed as of October 4, 2011.

19. Other Supplementary Information (continued)

(Note 14) Payment schedule for long-term loans over five years subsequent to August 31, 2012 as follows:

(Thousands of yen)

Classification	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years
Long-term loans	–	–	¥10,500,000	¥59,295,000

(Thousands of U.S. dollars)

Classification	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years
Long-term loans	–	–	\$133,587	\$754,389

7) Detailed Schedule of Rehabilitation Obligations as of August 31, 2012

Classification		Date of modification of rights	Balance at beginning of the period (Thousands of yen) (Thousands of U.S. dollars)	Increase during the period (Thousands of yen) (Thousands of U.S. dollars)	Decrease during the period (Thousands of yen) (Thousands of U.S. dollars)	Balance at end of the period (Thousands of yen) (Thousands of U.S. dollars)	Average interest rate (Note 1)	Repayment deadline	Purpose of use	Comments
Current portion of rehabilitation obligations (Loans)	Sumitomo Mitsui Trust Bank, Limited.	January 5, 2010 (Note 5)	¥3,217,992 (\$40,941)	–	–	¥3,217,992 (\$40,941)	1.43%	January 31, 2013	(Note 6)	Unsecured without warranty
	The Norinchukin Bank		3,039,055 (38,664)	–	–	3,039,055 (38,664)				
	Aozora Bank, Ltd.		2,353,146 (29,938)	–	–	2,353,146 (29,938)				
	Sumitomo Mitsui Banking Corporation		1,883,861 (23,967)	–	–	1,883,861 (23,967)				
	Mizuho Corporate Bank, Ltd.		1,215,486 (15,464)	–	–	1,215,486 (15,464)				
	Mizuho Trust & Banking Co., Ltd.		914,707 (11,637)	–	–	914,707 (11,637)				
	Development Bank of Japan Inc.		516,666 (6,573)	–	–	516,666 (6,573)				
	Mitsubishi UFJ Trust and Banking Corporation		455,817 (5,799)	–	–	455,817 (5,799)				
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.		425,537 (5,413)	–	–	425,537 (5,413)				
	Resona Bank, Ltd.		364,727 (4,640)	–	364,727 (4,640)	–				
	Mitsui Sumitomo Insurance Company, Limited		303,883 (3,866)	–	303,883 (3,866)	–				
	The Chiba Bank, Ltd.		303,879 (3,866)	–	–	303,879 (3,866)				
	North Pacific Bank, Ltd.		151,949 (1,933)	–	–	151,949 (1,933)				
	Subtotal	–	15,146,712 (192,706)	–	668,611 (8,506)	14,478,100 (184,199)	–	–	–	–
Current portion of rehabilitation obligations (Investment corporation bonds)	First Series Unsecured Investment Corporation Bonds (Note 2) (Note 4)	January 5, 2010 (Note 5)	4,278,319 (54,431)	–	3,743,529 (47,627)	534,789 (6,803)	1.43%	January 31, 2013	(Note 7)	Unsecured without warranty
	Second Series Unsecured Investment Corporation Bonds (Note 3) (Note 4)		2,375,418 (30,221)	–	2,375,418 (30,221)	–	1.43%		(Note 8)	
	Third Series Unsecured Investment Corporation Bonds (Note 3) (Note 4)		634,584 (8,073)	–	634,584 (8,073)	–	1.43%			
	Subtotal	–	7,288,321 (92,726)	–	6,753,531 (85,922)	534,789 (6,803)	–	–	–	–
Total		–	¥22,435,033 (\$285,432)	–	¥7,422,142 (\$94,429)	¥15,012,890 (\$191,003)	–	–	–	–

19. Other Supplementary Information (continued)

Classification		Date of modification of rights	Balance at beginning of the period (Thousands of yen) (Thousands of U.S. dollars)	Increase during the period (Thousands of yen) (Thousands of U.S. dollars)	Decrease during the period (Thousands of yen) (Thousands of U.S. dollars)	Balance at end of the period (Thousands of yen) (Thousands of U.S. dollars)	Average interest rate (Note 1)	Repayment deadline	Purpose of use	Comments
Rehabilitation obligations (loans)	Sumitomo Mitsui Trust Bank, Limited.	January 5, 2010 (Note 5)	¥3,217,992 (\$40,941)	—	—	¥3,217,992 (\$40,941)	1.43%	January 31, 2014	(Note 6)	Unsecured without warranty
			3,218,197 (40,943)	—	—	3,218,197 (40,943)		January 30, 2015		
	The Norinchukin Bank		3,039,055 (38,664)	—	—	3,039,055 (38,664)		January 31, 2014		
			3,039,249 (38,667)	—	—	3,039,249 (38,667)		January 30, 2015		
	Aozora Bank, Ltd.		2,353,146 (29,938)	—	—	2,353,146 (29,938)		January 31, 2014		
			2,353,296 (29,940)	—	—	2,353,296 (29,940)		January 30, 2015		
	Sumitomo Mitsui Banking Corporation		1,883,861 (23,967)	—	—	1,883,861 (23,967)		January 31, 2014		
			1,883,981 (23,969)	—	—	1,883,981 (23,969)		January 30, 2015		
	Mizuho Corporate Bank, Ltd.		1,215,486 (15,464)	—	—	1,215,486 (15,464)		January 31, 2014		
			1,215,563 (15,465)	—	—	1,215,563 (15,465)		January 30, 2015		
	Mizuho Trust & Banking Co., Ltd.		914,707 (11,637)	—	—	914,707 (11,637)		January 31, 2014		
			914,765 (11,638)	—	—	914,765 (11,638)		January 30, 2015		
	Development Bank of Japan Inc.		516,666 (6,573)	—	—	516,666 (6,573)		January 31, 2014		
			516,699 (6,573)	—	—	516,699 (6,573)		January 30, 2015		
	Mitsubishi UFJ Trust and Banking Corporation		455,817 (5,799)	—	—	455,817 (5,799)		January 31, 2014		
			455,846 (5,799)	—	—	455,846 (5,799)		January 30, 2015		
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.		425,537 (5,413)	—	—	425,537 (5,413)		January 31, 2014		
			425,564 (5,414)	—	—	425,564 (5,414)		January 30, 2015		
	Resona Bank, Ltd.		364,727 (4,640)	—	364,727 (4,640)	—		January 31, 2014		
			364,751 (4,640)	—	364,751 (4,640)	—		January 30, 2015		
	Mitsui Sumitomo Insurance Company, Limited		303,883 (3,866)	—	303,883 (3,866)	—		January 31, 2014		
			303,902 (3,866)	—	303,902 (3,866)	—		January 30, 2015		
	The Chiba Bank, Ltd.		303,879 (3,866)	—	—	303,879 (3,866)		January 31, 2014		
			303,898 (3,866)	—	—	303,898 (3,866)		January 30, 2015		
	North Pacific Bank, Ltd.		151,949 (1,933)	—	—	151,949 (1,933)		January 31, 2014		
			151,959 (1,933)	—	—	151,959 (1,933)		January 30, 2015		
	Subtotal		—	30,294,389 (385,424)	—	1,337,265 (17,013)	28,957,124 (368,411)	—	—	—

19. Other Supplementary Information (continued)

Classification		Date of modification of rights	Balance at beginning of the period (Thousands of yen) (Thousands of U.S. dollars)	Increase during the period (Thousands of yen) (Thousands of U.S. dollars)	Decrease during the period (Thousands of yen) (Thousands of U.S. dollars)	Balance at end of the period (Thousands of yen) (Thousands of U.S. dollars)	Average interest rate (Note 1)	Repayment deadline	Purpose of use	Comments
Rehabilitation obligations (Investment corporation bonds)	First Series Unsecured Investment Corporation Bonds (Note 2) (Note 4)	January 5, 2010 (Note 5)	4,278,319 (54,431)	—	3,743,529 (47,627)	534,789 (6,803)	1.43%	January 31, 2014	(Note 7)	Unsecured without warranty
			4,278,591 (54,435)	—	3,743,767 (47,630)	534,823 (6,804)		January 30, 2015		
	Second Series Unsecured Investment Corporation Bonds (Note 3) (Note 4)		2,375,418 (30,221)	—	2,375,418 (30,221)	—	1.43%	January 31, 2014	(Note 8)	
			2,375,569 (30,223)	—	2,375,569 (30,223)	—		January 30, 2015		
	Third Series Unsecured Investment Corporation Bonds (Note 3) (Note 4)		634,584 (8,073)	—	634,584 (8,073)	—	1.43%	January 31, 2014		
			634,624 (8,074)	—	634,624 (8,074)	—		January 30, 2015		
	Subtotal		—	14,577,106 (185,459)	—	13,507,492 (171,851)	1,069,613 (13,608)	—	—	—
Total		—	44,871,495 (570,884)	—	14,844,757 (188,864)	30,026,737 (382,019)	—	—	—	—
Total rehabilitation obligations		—	67,306,529 (856,317)	—	22,266,900 (283,293)	45,039,628 (573,023)	—	—	—	—

(Note 1) Average interest rates are loan interest rates (weighted average during the applicable term) of the corresponding lenders or investment corporation bonds, and are rounded off to the nearest second decimal place.

(Note 2) Limited only to qualified institutional investors, and with special pari passu conditions among specified Daiwa House Residential Investment Corporation bonds.

(Note 3) With special pari passu conditions among specified Daiwa House Residential Investment Corporation bonds.

(Note 4) Rehabilitation obligations (investment corporation bonds) have been reduced through retirement by purchase.

(Note 5) NCR's rehabilitation plan (hereinafter referred to as "Rehabilitation Plan") filed at the Tokyo District Court as of November 9, 2009 was also approved at the creditors' meeting held on December 9, 2009. Approval by the Tokyo District Court was received as of the same day, and the order of confirmation of the Rehabilitation Plan became final and binding on January 5, 2010. Under the Rehabilitation Plan, terms and conditions for rehabilitation obligations with rights of separate satisfaction have been amended based on the agreement on rights of separate satisfaction made on October 13, 2009, and for other rehabilitation obligations, terms and conditions have been amended pursuant to the provisions stipulated in the Rehabilitation Plan.

(Note 6) The loan was made for use in funding repayment of loans, or to purchase real estates and real estate trust beneficiary rights.

(Note 7) These bonds were issued to finance funds for repayment of short-term loans, and for purchase of real estate trust beneficiary rights.

(Note 8) These bonds were used as funds for repayment of short-term loans.

(Note 9) With regard to each rehabilitation obligation, excluding those with rights of separate satisfaction, a fixed interest rate has been applied to the balance of the principal with a maturity of January 30, 2015 (¥15,013,847 thousand at end of the period) (\$191,015 thousand) from September 1, 2010. Also, though a floating interest rate is currently applied as of the end of this period for the unpaid principal balances with maturity dates of January 31, 2013, and January 31, 2014 (¥15,012,890 thousand for respective balance at the end of this period) (\$191,003 thousand), DHI has the option to convert to a fixed interest rate without changing the spread.

19. Other Supplementary Information (continued)

(Note 10) Payment schedule per year for rehabilitation obligations over five years subsequent to August 31, 2012 is as follows.

(Thousands of yen)

Classification	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years
Rehabilitation obligations (loans)	¥14,478,100	¥14,479,023	—	—
Rehabilitation obligations (investment corporation bonds)	534,789	534,823	—	—
Total	¥15,012,890	¥15,013,847	—	—

(Thousands of U.S. dollars)

Classification	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years
Rehabilitation obligations (loans)	\$184,199	\$184,211	—	—
Rehabilitation obligations (investment corporation bonds)	6,803	6,804	—	—
Total	\$191,003	\$191,015	—	—