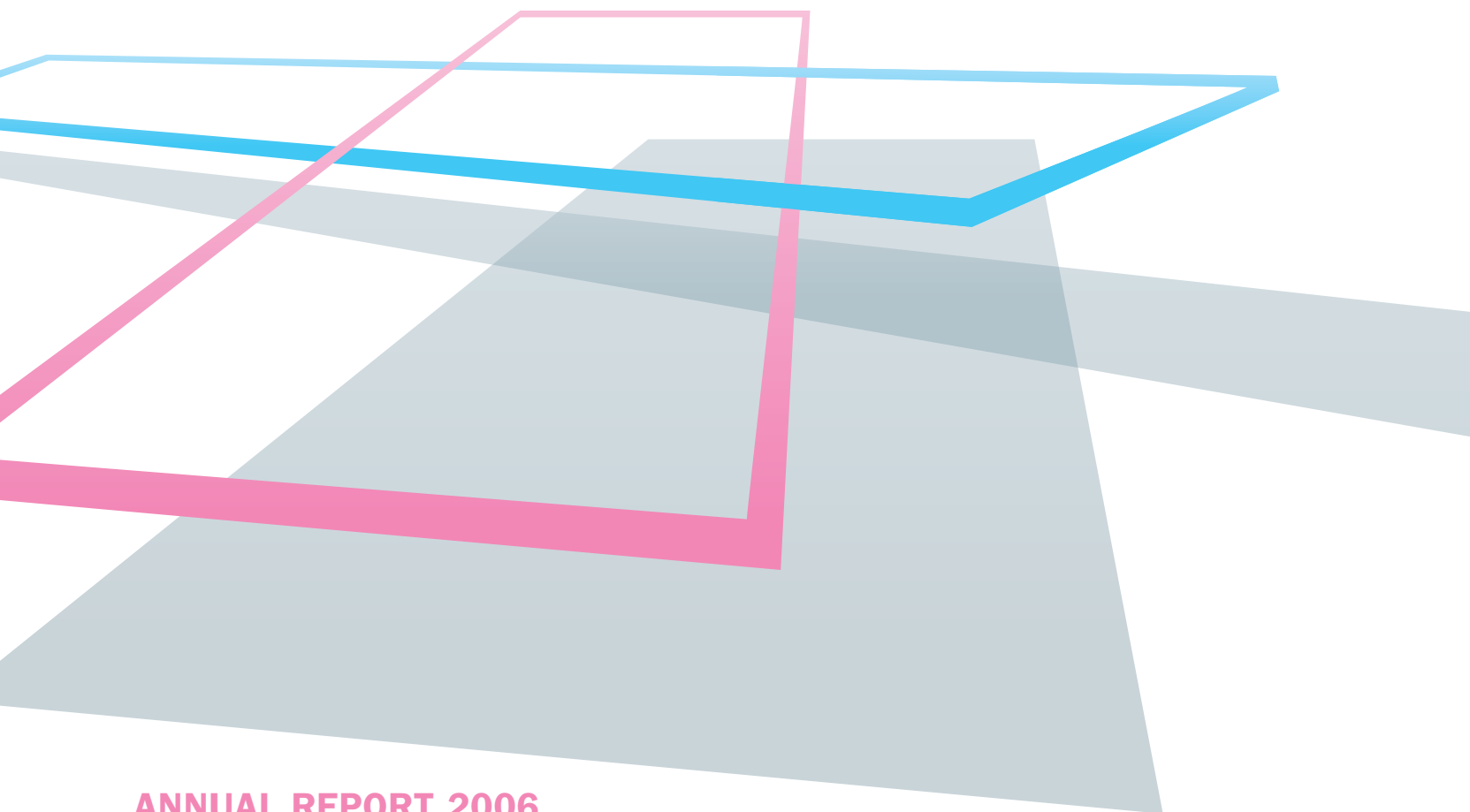
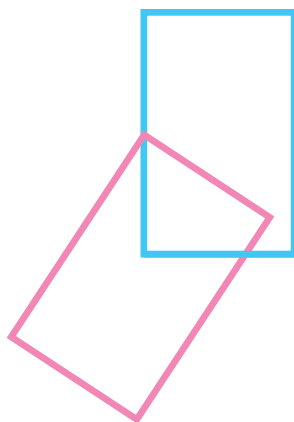


# **GROWTH** with Visibility



**ANNUAL REPORT 2006**

For the year ended March 31, 2006



## PROFILE

### Growth with Visibility

Established in 1986, JOINT Corporation has enjoyed growth as a real estate firm largely specializing in condominium development in the popular areas of central and southern Tokyo. Over the years, JOINT has grown by flexibly adapting its operations to changing market trends and management objectives. In recent years, the Company has moved into real estate securitization. As Japan's securitization market has taken off, so has JOINT's Securitization Development business, which for the first time posted higher profits than any other Group business in the fiscal year ended March 31, 2006. Going forward, JOINT is set to enjoy growth from the Securitization Development business, as well as continued stability from the Condominium Development business.

Since listing on the First Section of the Tokyo Stock Exchange in 2001, JOINT has leveraged its experience and expertise to enter the Securitization Development business. This business has allowed JOINT to fully capitalize on real estate developer skills honed in the Condominium Development business, and is now a source of competitive advantage. The Company continues to sell residential and commercial properties in Japan's burgeoning and dynamic real estate securitization market. As of March 31, 2006, JOINT's Securitization Development business accounted for roughly 42.8% of consolidated net sales and around 63.1% of operating income. Consequently, this business has joined Condominium Development as one of the core businesses of the JOINT Group.

The JOINT Group will continue to pursue an optimal mix between the Condominium Development business—already home to consistent growth—and the Securitization Development business—where ample growth is expected for some time to come. The goal is to steadily grow in tandem with these two businesses by adapting to market changes as they emerge.

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### FORWARD-LOOKING STATEMENTS

Plans regarding future operating results, discussions of strategies and statements of assumptions are forward-looking statements based on management's judgment in light of information available at the time such statements were prepared. As such, these statements are subject to unlimited risks and uncertainties. The general economic conditions in the markets in which the JOINT Group operates pose potential risks and uncertainties. Risks include, but are not limited to, consumption trends, interest rates, taxation and the company's ability to continuously provide successful products and services in the real estate market, a sector where competition is intense and other companies are constantly introducing new products and services.

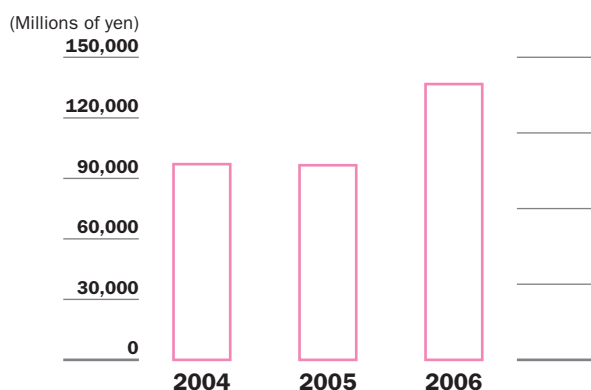
## FINANCIAL HIGHLIGHTS

JOINT CORPORATION and Consolidated Subsidiaries  
Years ended March 31, 2004, 2005 and 2006

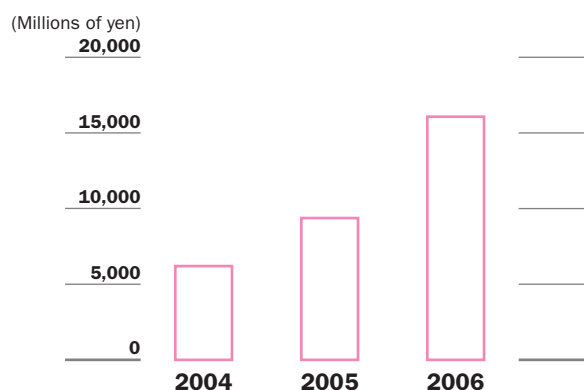
	Millions of yen except per share data			Thousands of U.S. dollars except per share data
	2004/3	2005/3	2006/3	2006/3
<b>For the year:</b>				
Net sales	¥ 97,022	¥ 96,471	<b>¥136,721</b>	<b>\$1,163,880</b>
Operating income	6,198	9,373	<b>16,073</b>	<b>136,826</b>
Income before income taxes	4,880	7,381	<b>21,349</b>	<b>181,740</b>
Net income	3,063	4,175	<b>11,929</b>	<b>101,549</b>
<b>Per share data:</b>				
Net income	¥ 164	¥ 222	<b>¥ 295</b>	<b>\$ 2.5</b>
Net income-diluted	163	220	<b>292</b>	<b>2.5</b>
Cash dividends	25.00	25.00	<b>25.00</b>	<b>0</b>
<b>At year-end:</b>				
Shareholders' equity	¥ 29,969	¥ 33,670	<b>¥ 61,585</b>	<b>\$ 524,262</b>
Total assets	135,124	182,840	<b>217,626</b>	<b>1,852,609</b>
Ratio of shareholders' equity to total assets	22.2%	18.4%	<b>28.3%</b>	

Note: The U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥117.47=U.S.\$1.00, the approximate closing rate at the Tokyo foreign exchange market as of March 31, 2006. (Note 1 of Notes to Consolidated Financial Statements.)

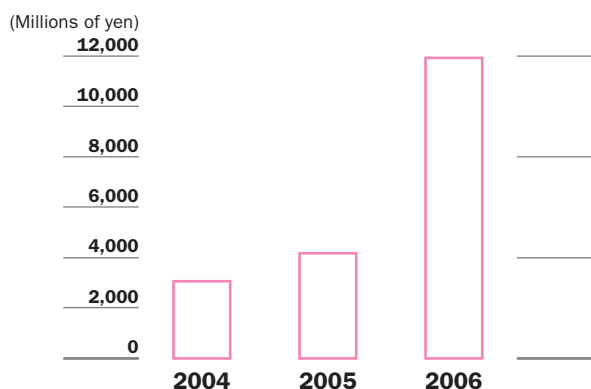
### NET SALES



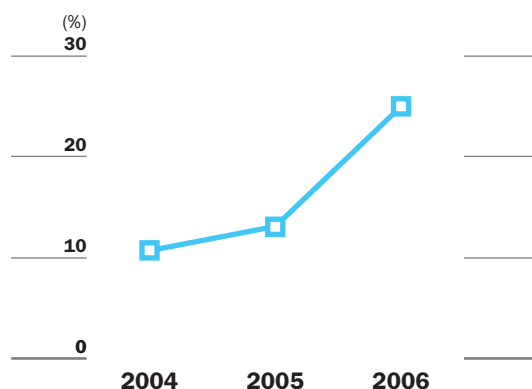
### OPERATING INCOME



### NET INCOME



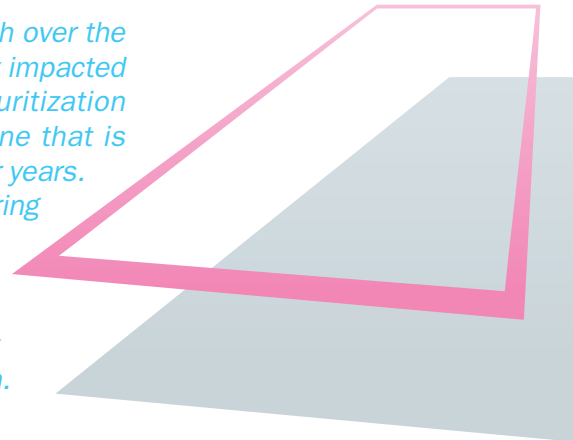
### ROE



## STRUCTURED FOR BALANCED GROWTH

Japan's securitization market is projected to undergo significant growth over the long term. Nevertheless, the rate of market growth could be adversely impacted by possible interest rate hikes and other uncertainties. In the Securitization Development business, however, JOINT has an ample land bank; one that is nearly sufficient to support operations in this business for the next four years.

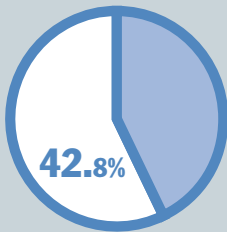
Going forward, the Securitization Development business should bring the most dynamic growth to JOINT, while the Condominium Development business continues to underpin the consistent earnings required to ensure stability. A four-year land bank for the Securitization Development business, meanwhile, provides the kind of far-reaching visibility that lends greater accuracy to planning in support of our future growth.



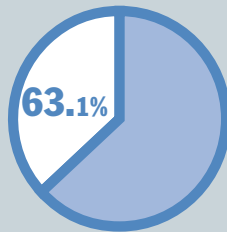
### SECURITIZATION DEVELOPMENT

The Securitization Development business primarily involves the development of rental condominiums, commercial properties and other properties for eventual sale to J-REITs and other real estate funds. Though property sales revenue comprises the majority of the sales, recently other revenue streams such as fees from asset management, leasing income and dividends from SPCs, have risen in importance due to their high profitability.

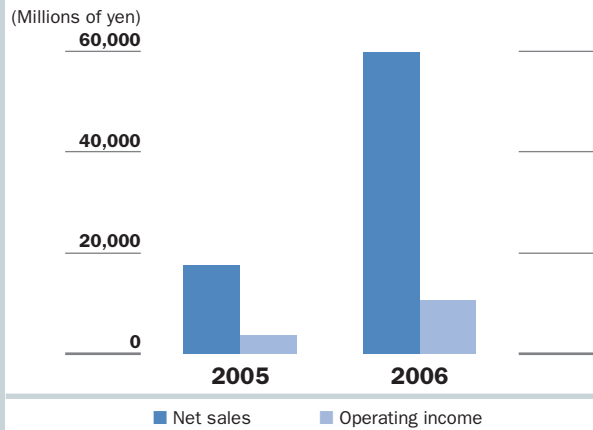
Share of Net Sales (2006)



Share of Operating Income (2006)



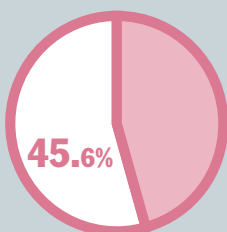
#### NET SALES AND OPERATING INCOME



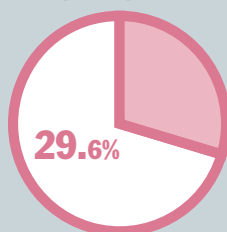
### CONDOMINIUM DEVELOPMENT

In this business, JOINT is involved in the planning, development and sale of condominiums and single-family houses primarily in the Tokyo metropolitan area. JOINT conducts a fully integrated operation, from acquisition of target land, to planning, development and retail sales, enabling it to grasp market changes in real time to create products that match client needs.

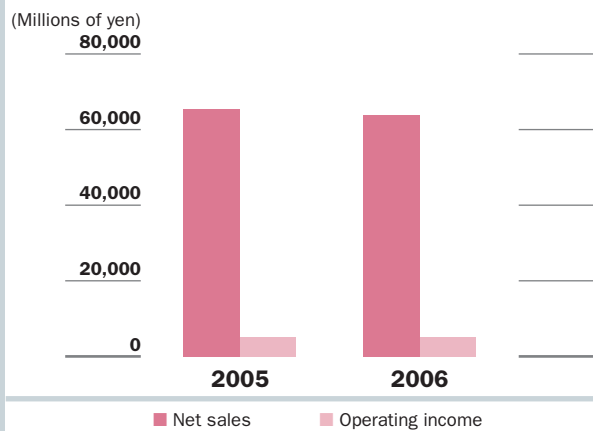
Share of Net Sales (2006)



Share of Operating Income (2006)



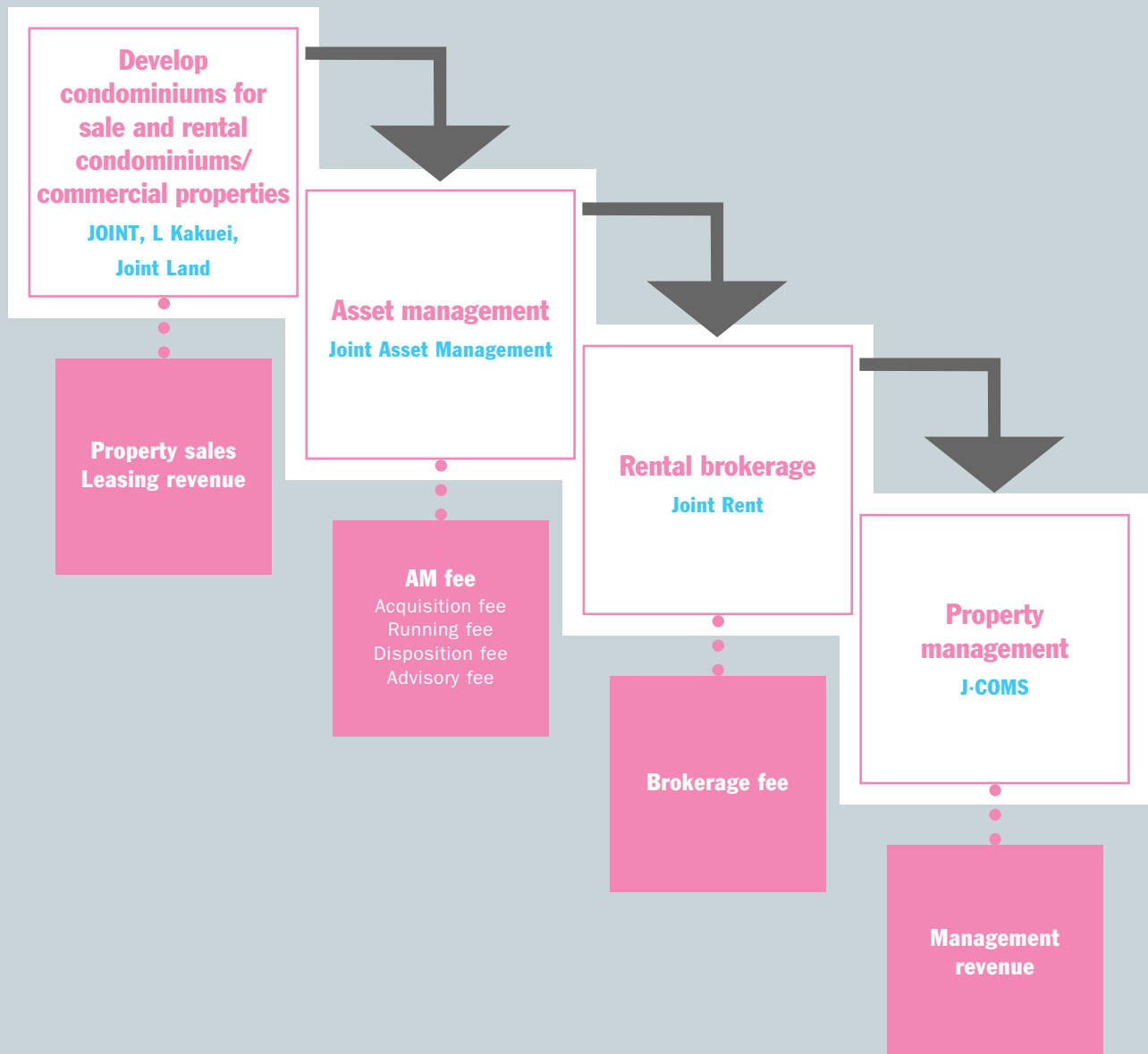
#### NET SALES AND OPERATING INCOME



Note: From fiscal 2006, the business segments were changed. Figures for fiscal 2005 are shown for reference only.

## JOINT GROUP: STRENGTH

Along with development capability, provide “one stop” real estate service



**TO OUR SHAREHOLDERS****Dedicated to** Balanced Growth**YOSHINOBU SHOJI***President and Chief Executive Officer*

Buoyed by a favorable market environment, JOINT posted record earnings during the past fiscal year, ended March 31, 2006. As our market continues to expand, we are taking assertive steps forward in the Securitization Development business, while aiming for steady growth in the Condominium Development business. Future growth, in fact, is the goal in mind as we make the most of collective Group strengths and our keen awareness of conditions on the ground in Japan's real estate market.

**RESULTS OF OPERATIONS****RECORD EARNINGS THROUGH HEALTHY SECURITIZATION DEVELOPMENT BUSINESS**

For the year under review, the JOINT Group posted consolidated net sales of ¥136,721 million, an improvement of 41.7% from the previous fiscal year. Operating income, meanwhile, soared 71.5% to a record high of ¥16,073 million. Firm growth in the Securitization Development business was the major factor driving this substantial growth in sales and earnings. Net income skyrocketed 185.8% year on year to ¥11,929 million. This result partly reflected the end of rehabilitation proceedings for L Kakuei Corporation, resulting in extraordinary income of ¥8,122 million as our subsidiary repaid its ¥19,500 million in remaining rehabilitation liabilities 11 years ahead of schedule.

Right now, we have positioned Securitization Development as the business that will spearhead growth for the entire JOINT Group. Already, this business is delivering clear-cut results as the securitization market continues to expand. Among the first to enter this business area in Japan, we have been able to fully capitalize on our accumulated knowledge and experience. Our ability to develop properties also meshed perfectly with a market hungry for properties. Increased sales of properties to

real estate funds and J-REITs, and other growing revenue streams, such as leasing income, fees from the asset management business, and dividends from SPCs, contributed heavily to greater earnings. The result is that sales in the Securitization Development business climbed 242.0% from the previous year, to ¥59,842 million. During the same period, operating income surged 187.8% to ¥10,705 million\*<sup>1</sup>. This marked the first time that the Securitization Development business actually surpassed the Condominium Development business on an operating income basis to become the JOINT Group's biggest earner. The ratio of selling, general and administrative (SG&A) expenses to net sales for the year was 9.4%, representing an improvement of 1.3 percentage points over the previous year. The Securitization Development business, where the SG&A expense ratio is low, was instrumental in holding the ratio lower overall.

In the Condominium Development business, sales and operating income, at ¥63,782 million and ¥5,028 million\*<sup>1</sup>,

respectively, both edged lower on the year because some sales were shifted to the March 2007 fiscal year. This modest downturn came despite business expansion in Chiba and Saitama prefectures, areas to the east and north of Tokyo, which covered a decline in product supply in central and southern\*<sup>2</sup> Tokyo. Our emphasis on initiatives targeting profit margins, however, helped the operating income ratio improve by 0.1 of a percentage point, to 7.9%.

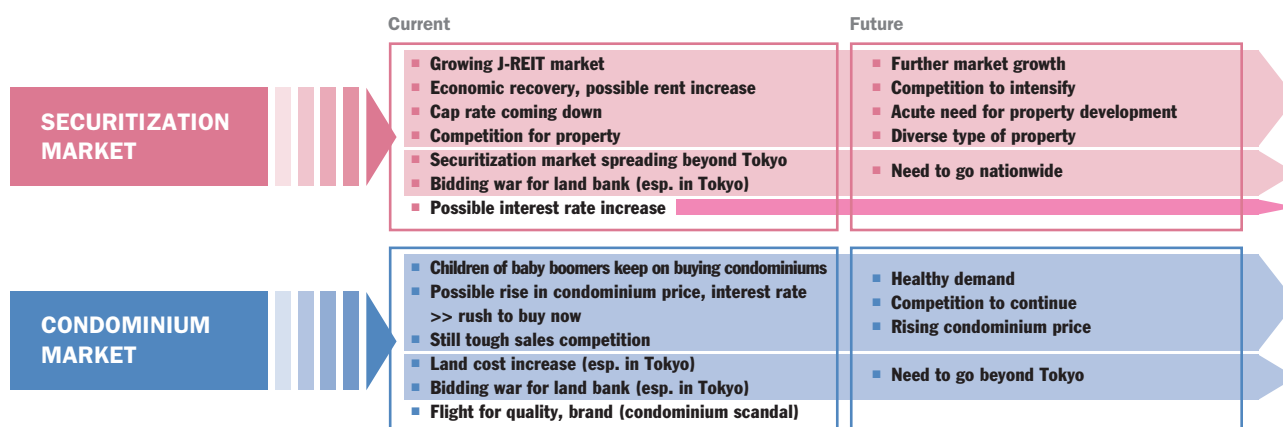
\*<sup>1</sup> Sales and Operating income include intersegment transactions.

\*<sup>2</sup> Central Tokyo includes Chiyoda, Chuo, Minato, Bunkyo and Shibuya wards; southern Tokyo includes Setagaya, Meguro, Shinagawa and Ota wards (all wards part of the City of Tokyo).

## BUSINESS ENVIRONMENT OUTLOOK

Our business environment during the fiscal year under review saw official land prices in Tokyo rise for the first time in 15 years. I believe this confirms that Japan's deflationary era has ended, and should lead to a favorable business environment for both our Securitization Development and Condominium Development businesses.

### Operating Environment



The securitization market, in particular, saw an acceleration in investment inflows from a variety of funds and from overseas. My view is that this is no short-term trend, but rather signals the full-blown start of the real estate securitization business in Japan. We used to simply own or utilize real estate properties in Japan. Over the last few years, however, we've taken a completely new approach to investing in real estate properties. What's more, the interaction between the real estate and financial markets has spurred the growth of Japan's securitization market. This business, which in the past was largely concentrated in and around central Tokyo, now extends out to Japan's key regional cities. This development prompted the JOINT Group to successively open offices in Osaka, Okinawa, and Nagoya during the year. These sales bases will anchor our determined efforts to develop the Securitization Development business in these regions.

As for the condominium development market, the market in greater Tokyo has seen a high level of sales during the last seven years or so. We anticipate healthy sales in this market to continue for some time to come as the children of baby-boomers reach their early thirties and become homebuyers. Although Japan's overall population began to decline last year, the population and number of households in greater Tokyo is not expected to peak for another ten to fifteen years.

Naturally, new challenges have also emerged. The competition to acquire properties has intensified, driving up procurement costs, particularly in central Tokyo, and making it more difficult to purchase developable land. In the Condominium Development business, we are now shifting our business area out of Tokyo and into surrounding areas like Kanagawa, Chiba and Saitama. Even in these areas, we use our expertise to tailor condominiums to customer needs in these markets.

Our businesses are those where the weight of loans and other borrowings can be quite heavy. Accordingly, rising interest rates have a negative and noticeable impact on operations. That said, with Japan's economy now recovering, we are anticipating additional earnings from both increased leasing income and higher selling prices in the Securitization Development business. Backed by these pluses, we aim to maintain business results at a level adequate to absorb rising interest rates. Our other concern for the Condominium Development business is that higher rates will increase the burden that mortgage loans place on homebuyers. For our part, we will strive to offer affordable condominiums by carefully designing and planning each project.

## PROGRESS ON THE MEDIUM-TERM MANAGEMENT PLAN

### STEADY PROGRESS PROMPTS DRAFTING OF NEW MEDIUM-TERM PLAN

In the past fiscal year, we made solid progress in clearing the targets of our medium-term management plan, including posting operating income that far outstripped initial targets.

In Securitization Development, a growth field that we've worked to enlarge, we rode the market's own expansion wave to better-than-expected business results. The number of properties we sold to real estate funds and J-REITs increased, boosting revenue from the sale of properties by a sharp 267.9% compared to a year earlier. We also recorded an 83.7% jump in revenue from fees and other sources. And while the competition to acquire properties has grown tougher, we made steady progress in securing our land bank as well. Actually, we have, as of June 2006, completed amassing the

## MEDIUM-TERM PLAN CONSOLIDATED INCOME STATEMENT

(Millions of yen)

	06/3 (result)		07/3 (budget)		08/3 (budget)		09/3 (budget)	
	Amount	Share	Amount	Share	Amount	Share	Amount	Share
<b>Net sales</b>	136,721	100.0%	160,000	100.0%	185,000	100.0%	210,000	100.0%
<b>Gross income</b>	28,979	21.2%	36,000	22.5%	40,700	22.0%	45,400	21.6%
<b>Operating income</b>	16,073	11.8%	20,300	12.7%	23,700	12.8%	27,200	13.0%
<b>Ordinary income</b>	13,010	9.5%	16,500	10.3%	18,500	10.0%	21,000	10.0%
<b>Net income</b>	11,929	8.7%	9,400	5.9%	10,900	5.9%	12,200	5.8%

land bank needed to meet our planned securitization sales budget for the three-year medium-term management plan and to cover sales for another year.

In Condominium Development, our aim was to achieve a stable supply and consistent growth while retaining an emphasis on profit margins in this market, which is starting to mature. Broadening the areas where we develop was another major theme of the medium-term management plan and we ventured out beyond our stronghold in central and southern Tokyo to Kanagawa, Chiba and Saitama prefectures. Our detailed product planning closely reflecting the market needs of the regions that supply our properties also enabled JOINT to make steady sales progress in new regions.

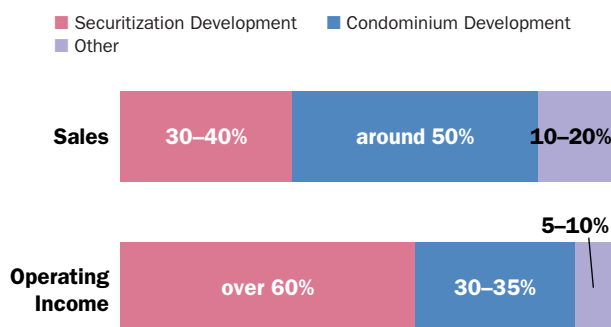
This past year witnessed the eruption of a major scandal in Japan involving poorly constructed condominiums. At JOINT, however, we continue to deploy a robust inspection system whereby our special team visits construction sites on a monthly basis to conduct thorough checks of all on-site processes.

As for our brand strategy in Condominium Development, we chose to use the Adenium brand for all condominium developments by JOINT Corporation from the year under review. In the past, JOINT has offered three condominium brands—Adenium, J-PARK and FEEL. Now that these brands have been unified under our flagship Adenium condominium model, we plan to leverage know-how gained from all three brands to bolster Adenium's market penetration.

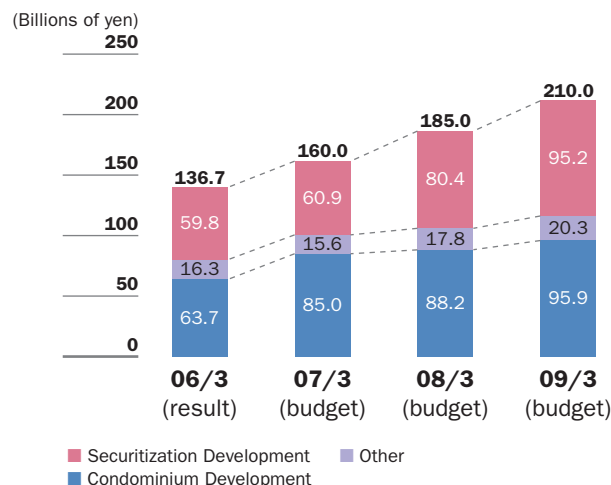
To take advantage of the momentum these and other initiatives have generated, we decided to draft a new medium-term management plan that will carry us through to March 2009. This new plan outlines the following fundamental policies that will guide our hand in Securitization Development, Condominium Development and Other Businesses.

In Securitization Development, the goal is to develop operations across Japan by actively developing new projects and continuing to diversify our types of properties. Doing so will allow JOINT to capitalize decisively on the opportunities

## MEDIUM-TERM PLAN BUSINESS MIX



## SEGMENT SALES



presented by this market's ongoing expansion. In Condominium Development, we will advance into regions outside of Tokyo as we continue to stress steady growth in this business. A keener focus on profit margins, meanwhile, will lead to greater selectivity when choosing location. In other businesses, we will try to expand business and also encourage each Group company to contribute to our two main businesses of Securitization Development and Condominium Development. By enacting these policies, we are targeting consolidated net sales of ¥210.0 billion and consolidated operating income of ¥27.2 billion for the fiscal year ending March 31, 2009.

## SECURITIZATION DEVELOPMENT

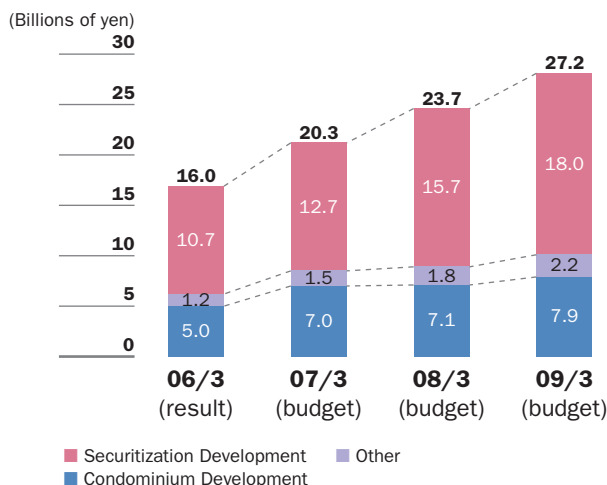
### FLEXIBLE PURCHASING FOR AGGRESSIVE NATIONWIDE DEVELOPMENT

For the current fiscal year, we are working to take our Securitization Development business nationwide while diversifying the types of property JOINT handles. Our business offices

set up in Osaka, Okinawa and Nagoya during the past year will help JOINT to develop intensive marketing operations in major cities in each area of Japan. In assertively promoting business, we are taking a more flexible approach to developing different types of properties, such as commercial facilities, rental condominiums, office buildings and other properties within and outside of the Tokyo metropolitan area. When information presenting opportunities arises, I want us positioned to take advantage of it in every way possible.

Where our land bank for development is concerned, we have vastly increased it in size to capitalize on expansion in Japan's real estate market. We're projecting ¥202.9 billion in revenue from the sale of properties in the Securitization Development business over the three-year period ending March 31, 2009, the final year of our new medium-term management plan. Roughly 80% of the purchases needed to reach this sales target, however, were already completed by the end of the past fiscal year. Moreover, the ratio went up to 100% at the end of

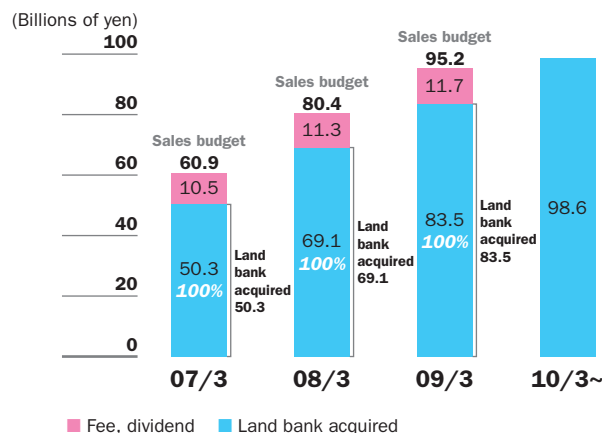
## OPERATING INCOME BY SEGMENT



Note: Operating income by segment includes intersegment transactions

## LAND BANK (SECURITIZATION DEVELOPMENT)

(As of June 2006)



Note: "Land bank acquired" number represents sales estimate generated by acquired land



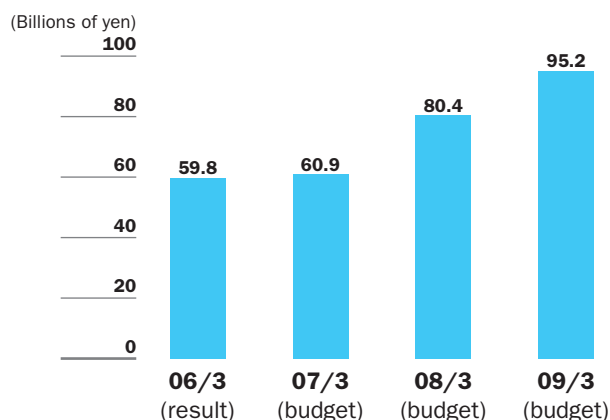
ADENIUM KICHIJOJI

June 2006. In our drive to raise profit margins and monetary profits, we are also giving more attention to enhancing the value of existing real estate for sale to funds and investors.

We have accumulated a tremendous amount of expertise and experience in Securitization Development since the JOINT Group embarked on this business in the March 2001 fiscal year. We were among the first companies in Japan's real estate industry to enter real estate securitization, and the assets gained since have given JOINT a decisive advantage over other real estate firms.

Another JOINT strength is the ability to offer comprehensive securitization solutions to our customers. The JOINT Group possesses most of the various functions required for the successful execution of a securitization scheme, making most of the spectrum of services customers need available within the Group. Take for instance a securitization scheme with a rental condominium business. In this case, our rental brokerage unit provides support to property owners that helps keep occupancy rates high.

### SALES (SECURITIZATION DEVELOPMENT)



Complementing all of this was the listing of Joint Reit Investment Corporation on the J-REIT market in July 2005, a step that has helped us gather more useful information on properties than ever before. We intend to take full advantage of this sort of benefit in conducting our Securitization Development business.

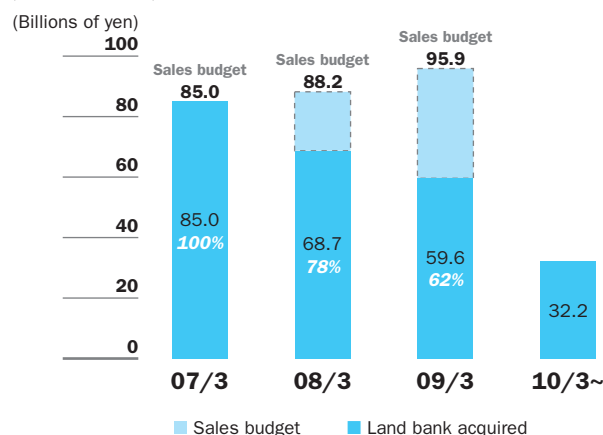
### CONDOMINIUM DEVELOPMENT & OTHER BUSINESSES

#### ADVANCING BEYOND TOKYO WHILE RETAINING STEADY GROWTH

In contrast to Securitization Development, where the full extent of growth has yet to be seen, the Condominium Development business is one where our mission is to carve out steady growth. The task during the current fiscal year is to strengthen the delivery of products tailored to market needs by drawing out and combining the skills of three Group companies involved in condominium development—JOINT Corporation, L Kakuei

### LAND BANK (CONDOMINIUM DEVELOPMENT)

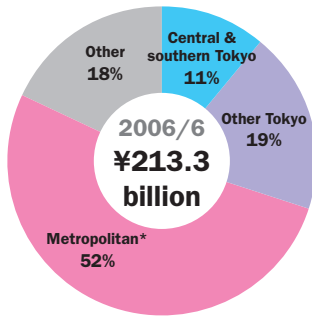
(As of June 2006)



Note: "Land bank acquired" number represents sales estimate generated by acquired land

**GO BEYOND TOKYO**

Regional breakdown of assets for Condominium Development



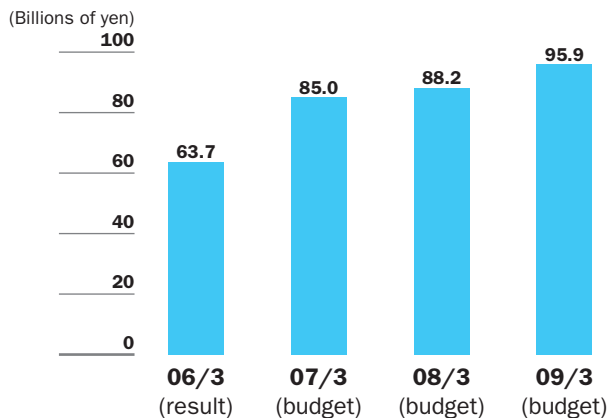
\*Kanagawa, Chiba, Saitama

Corporation, and Joint Land Co., Ltd. Of course, this will be in addition to efforts to develop prime properties and expand business operations.

In parallel, we will be gradually shifting our center of gravity, away from fiercely competitive central Tokyo to expand our business domain into the surrounding areas of Kanagawa, Chiba and Saitama.

In April 2005, Adenium became JOINT Corporation’s unified condominium brand, which we will work to help penetrate further into the market. For the Company, a key theme will be to take more proactive steps to get customers to experience for themselves the healing and refreshment at the heart of the brand concept for Adenium condominiums. “Adenium” is the name of an alluring flower often called the “rose of the desert.” For me, the three keywords that the Adenium brand embodies—security, comfort, and refinement—capture succinctly what the ideal home should be. My hope is to heighten trust in JOINT Corporation properties by conveying to customers all that this brand implies.

**SALES (CONDOMINIUM DEVELOPMENT)**



In Other Businesses, home to our real estate rental and management, construction subcontracting, and other operations, we expect to see higher revenue from rental brokerage and management, for example, as businesses related to our Securitization Development and Condominium Development businesses expand. We plan to actively enlarge these businesses supporting our two core operations, again to boost the level of trust in properties handled by the JOINT Group.

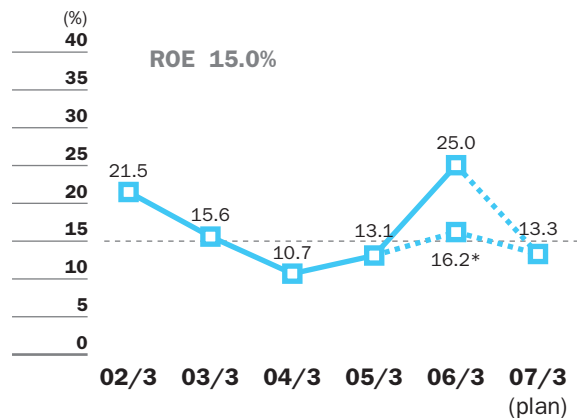
**FUTURE DEVELOPMENTS AND IMPROVEMENT OF CORPORATE VALUE**

**REALIZING FUTURE GROWTH**

Given our present market environment, we can reasonably expect the Condominium Development business to account for around 50% of sales for the near future as we continue to build up our Securitization Development business with its high rate of growth.

Two management indicators have received special attention in the JOINT Group’s latest medium-term management plan:

**TARGET FOR ROE**

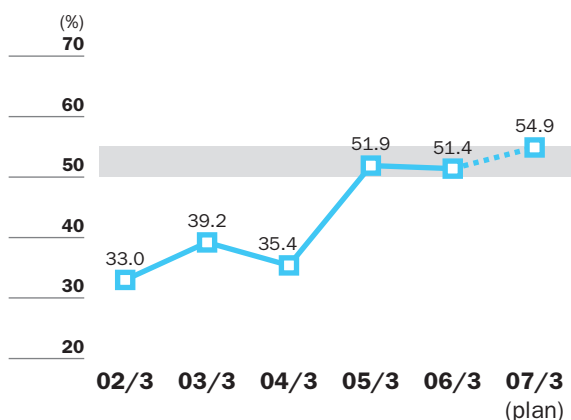


\*Excludes ¥8.1 billion extraordinary income (L Kakuei: discount on rehabilitation liabilities)

return on equity (ROE) and interest-bearing debt to total assets. Our goal for ROE is 15.0%, which we intend to meet by raising shareholder value. While we anticipate a temporary decline in ROE to 13.3% during the March 2007 fiscal year, we are determined to lift that to 15.0% from the March 2008 fiscal year onward. Interest-bearing debt to total assets, meanwhile, should be maintained at between 50.0% to 55.0%. Proactively securing our land bank is a must in the current market environment. This notwithstanding, we intend to pay constant attention to keeping within this range to preserve the soundness of JOINT's financial position.

Thanks to your support, the JOINT Group will celebrate 20 years in business in September 2006. One reason for the solid growth that has propelled business to where it is today is the proper value we've placed on one of JOINT's strengths—our insight into conditions on the ground in Japan's real estate market. This knowledge allows us to quickly intuit what customers are really looking for, and to take full advantage of this

#### INTEREST-BEARING DEBT (VS. TOTAL ASSETS) 50–55%



information in our business activities. I'm convinced that in real estate, everything comes down to knowing conditions on the ground. That's why I still make a point of frequently visiting properties myself. In addition to providing highly trusted properties and services based on our insight into actual conditions, the overarching goal going forward is to spark another leap forward in growth by giving full play to the kind of strengths that only the JOINT Group can offer, from the purchase of developable land to sales and after-sales services.

In real estate, it's really not an overstatement to say that a company's value is essentially determined by the number of assets it has that lead directly to sales. On this point, one of JOINT's major strengths is that we have the land bank as of June 30, 2006, to support roughly ¥550 billion in sales from both the Securitization Development and Condominium Development businesses. This quality land bank, moreover, is extremely well balanced in terms of content. On this note, let me close here by inviting our shareholders and other investors to expect great things from the JOINT Group as we look ahead to the future.

July 2006

YOSHINOBU SHOJI  
President and Chief Executive Officer

# Securitization Development

## — What Makes JOINT Different?

### REAL ESTATE SECURITIZATION BUSINESS IN JAPAN

#### BRIGHT FUTURE FOR SECURITIZATION MARKET IN JAPAN

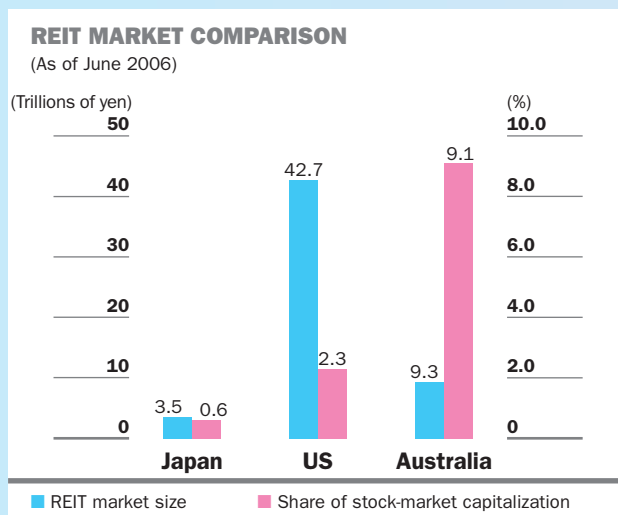
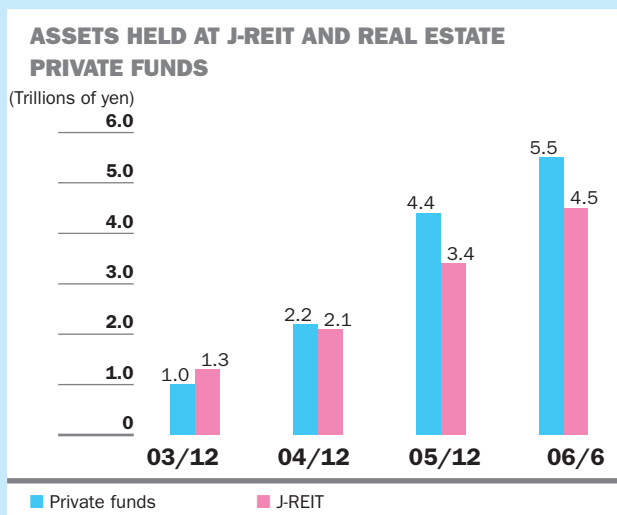
As the chart below illustrates, Japan's real estate securitization market has grown rapidly for the last several years. We believe there are two reasons for this growth. The first is the interaction that has begun to take place between Japan's real estate and financial markets, which should yield excellent growth potential. We believe that this is a long-term, structural growth driver for the securitization market. For years, the real estate and financial markets in Japan had stood as apart with little, if any, interaction. The conventional wisdom was that real estate properties existed for either owners or users, not for investors. It is only in the last several years that the market has opened for investment in real estate properties. Today, the return on investment products backed by real estate properties is very attractive, and we should see funds continue to pour into the securitization market.

As shown below, Japan's real estate securitization market is still very much in its infancy compared to the size of the U.S.

and Australian securitization markets. The size of Japan's REIT market is ¥3.5 trillion, accounting for just 0.6% of the market capitalization of all Japanese stocks.

A second, but more short-term, cyclical driver of market growth, is the rather large gap that exists between the return on real estate investment and the return from other available investment opportunities. The return differential is substantial by Japanese standards, and viewed even more so as such in the eyes of investors outside of Japan. It appears that some investors are more interested in taking advantage of these spreads than investing in real estate properties per se. As interest rates increase, however, these spreads should narrow, leading to a subsequent decline in fund inflows from these types of investors.

All in all, we are very bullish on the long-term growth of the securitization market in Japan, although we would not be surprised to see the rate of growth take a more moderate turn in



the coming years. This eventuality is precisely why we retain the Condominium Development business, and the baseline stability it brings, alongside the Securitization Development business. Future speculation aside, Japan today has a dynamic real estate securitization market, with investment inflows coming from a range of different funds and from overseas.

The J-REIT market has seen the IPO rush of 2005 continue in 2006. As of June 30, 2006, there were 34 REITs, one of JOINT Corporation's among them. Since December 31, 2003, the J-REIT market has nearly tripled in value, holding a combined total of some ¥4.5 trillion in assets. Assets held by private funds, meanwhile, stood at ¥5.5 trillion as of June 30, 2006, more than quadruple the value seen just two years earlier. Furthermore, demand for properties from both the J-REIT market and private funds remains firm, suggesting that Japan's securitization market holds much promise for future expansion.

As the securitization market expands, competition to acquire properties is expected to escalate, particularly as the race to purchase properties in and around Tokyo intensifies. As this development unfolds, the securitization market has already begun expanding to Osaka and other areas outside of the nation's capital.

## THE JOINT ADVANTAGE

### LAND BANK SECURED FOR NEXT FOUR YEARS THROUGH ROBUST PURCHASING

As the pace of progress in securing our land bank shows, JOINT continues to make steady strides despite stiffer competition for properties in the market. The Company has secured an adequate supply of land and properties by broadening the regions purchased and the types of properties it later develops. By June 30, 2006, JOINT had already secured enough land bank to meet 100% of the securitization sales goals in its medium-term management plan. Moreover, JOINT has an additional land bank sufficient to support ¥98,600 million in sales from properties that will be developed and delivered in the March 2010 fiscal year and beyond. We thus have excellent visibility for forecasting sales for the Securitization Development business for the next four years. This is what we mean by "Growth With Visibility."

### CONVERTING JOINT REIT INVESTMENT CORPORATION'S LISTING INTO GREATER INFORMATION-GATHERING CAPABILITIES

Joint Reit Investment Corporation was listed on the J-REIT market in July 2005, a move that will contribute to growth in JOINT's securitization business. Having the JOINT name attached to the growing J-REIT market has led to greater name recognition for the Company throughout Japan. This higher profile has brought JOINT more high-quality information for adding to its land bank, as well as more promising property development opportunities.

**LIST OF RECENT REAL ESTATE SECURITIZATION DEVELOPMENTS**

	Region	Site area	Revenue scale	Construction completion
Commercial facility (38 stores)	Tokyo	Approx. 2,160m <sup>2</sup>	Approx. ¥20.0 billion	September 2006
Property with office/commercial/residential spaces	Tokyo	Approx. 6,700m <sup>2</sup>	Approx. ¥33.0 billion	Around 2010
Logistics facilities	Kanagawa Prefecture	Approx. 11,300m <sup>2</sup>	Approx. ¥6.0 billion	May 2007
Business office	Osaka	Approx. 800m <sup>2</sup>	Approx. ¥2.0 billion	April 2006
Rental condominiums	Tokyo	Approx. 3,300m <sup>2</sup>	Approx. ¥10.0 billion	February 2008
	Tokyo	Approx. 4,100m <sup>2</sup>	Approx. ¥13.0 billion	January 2008

**THE JOINT APPROACH TO REAL ESTATE SECURITIZATION**

**EXPANSION IN TYPES OF PROPERTY HANDLING**

JOINT is diversifying the types of property it develops. In the past, JOINT mainly developed rental condominiums and commercial facilities. Today, it develops a multifaceted range of properties that includes office buildings, logistics facilities, resort facilities, and hotels.

One recent example is JOINT’s investment in the developing company for the Okinawa Intercontinental Hotel (tentative name), scheduled to be built in the city of Ginowan in Okinawa Prefecture. Construction on this hotel is set to commence in fall 2006, with the facility scheduled to open its doors two years later. JOINT won a tender on land adjacent to the hotel, bringing within reach the possibility of developing integrated commercial facilities and other properties.

In the city of Kawasaki, JOINT acquired a logistics facility, formerly owned by a Japanese manufacturer, which it began upgrading and expanding in May 2006. JOINT has also started developing office buildings in the city of Nagoya.

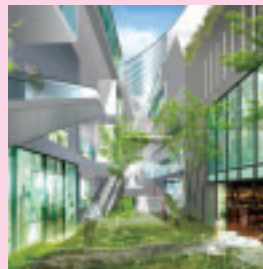
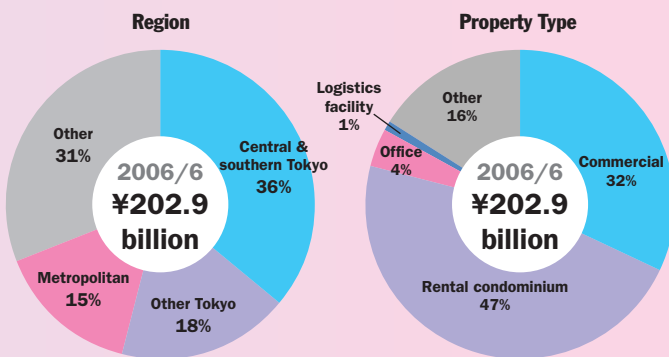
Location is the key in deciding which types of properties to develop. Diversifying these properties helps JOINT to capture more opportunities for supplementing its available land bank.

**LOOKING BEYOND TOKYO**

In parallel with the handling of a wider range of properties, JOINT is expanding the regions where it seeks out real estate opportunities. As the breakdown of the land bank by area shows, areas outside of Tokyo now account for about 50%. With escalating land prices and more intense competition to acquire properties on the horizon for central Tokyo, JOINT believes that the next business opportunities for acquiring land bank lie in key regional cities across Japan. In 2005 and 2006, the Company took steps to facilitate this area expansion strategy by opening business offices in Osaka, Okinawa and Nagoya. Taking its operations nationwide and diversifying the types of properties it handles have been essential in helping JOINT to build its land bank in an otherwise very competitive market.

Going forward, JOINT will continue to target different types of property in a variety of regions, marshalling the expertise gained from its new securitization business in the drive to boost related earnings.

**ASSET FOR SECURITIZATION DEVELOPMENT**



“b6” Project



SPACIA MEGURO TOWER



Higashi-Ogijima logistics facility

# FINANCIAL SECTION

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## FIVE-YEAR SUMMARY

JOINT CORPORATION and Consolidated Subsidiaries  
Years ended March 31

	Millions of yen except per share data				
	2002/3	2003/3	2004/3	2005/3	2006/3
<b>For the year:</b>					
Net sales	¥ 71,948	¥ 93,893	¥ 97,022	¥ 96,471	<b>¥136,721</b>
Cost of sales	58,586	81,097	82,350	76,790	<b>107,742</b>
Selling, general and administrative expenses	5,242	7,596	8,474	10,308	<b>12,906</b>
Operating income	8,120	5,200	6,198	9,373	<b>16,073</b>
Income before income taxes	7,208	5,157	4,880	7,381	<b>21,349</b>
Net income	4,343	4,030	3,063	4,175	<b>11,929</b>
<b>At year-end:</b>					
Shareholders' equity	24,231	27,534	29,969	33,670	<b>61,585</b>
Total assets	130,743	137,468	135,124	182,840	<b>217,626</b>
Ratio of shareholders' equity to total assets	18.5%	20.0%	22.2%	18.4%	<b>28.3%</b>
<b>Per share data:</b>					
Net income	¥ 241	¥ 213	¥ 164	¥ 222	<b>¥ 295</b>
Net income-diluted	241		163	220	<b>292</b>
Cash dividends	* 25.00	25.00	25.00	25.00	<b>25.00</b>
	**12.50				
<b>Number of shares outstanding at year-end</b>	<b>18,915,000</b>	<b>18,915,000</b>	<b>18,915,000</b>	<b>18,915,000</b>	<b>43,812,400</b>

\* Existing shares

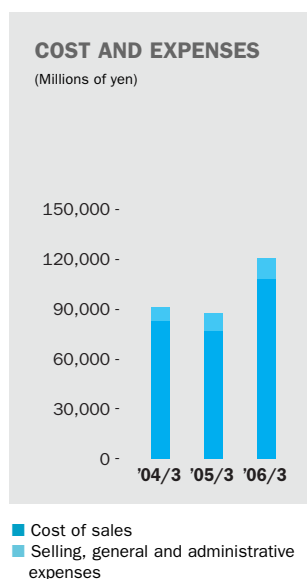
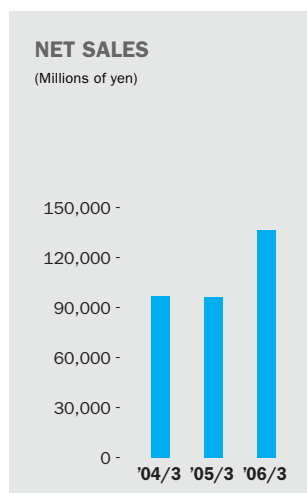
\*\* New shares

Notes: 1. Per share data are calculated as if the February 2002 1.5-to-1.0 stock split had been conducted at the beginning of the March 2002 fiscal year.

2. Number of shares outstanding as of March 31, 2006 includes 186,756 shares of treasury stock.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

JOINT CORPORATION and Consolidated Subsidiaries  
Years ended March 31, 2005 and 2006



### Management's Discussion and Analysis of Operations

Healthy performance in fiscal 2006, the year ended March 31, 2006, led JOINT to post record-high net sales and ordinary income. This impressive result owed much to progress in building our land bank in the Securitization Development business, as well as strong demand from investors for properties we developed. In the Condominium Development business, already stable earnings were boosted by efforts to strengthen quality assurance. Land bank procurement progressed smoothly, with JOINT having nearly completed all purchases required to meet the sales targets outlined in its medium-term management plan for the Securitization Development business.

JOINT strives to maintain a balanced financial position that gives sufficient weight to financial soundness, the ability to procure funds, and the level of cash required to conduct business activities. As in the previous year, the Company continued to make steady progress in this area, procuring ¥16.1 billion in capital through public offerings and the private placement of shares. A stronger balance sheet also proved vital to efforts to aggressively build the Company's land bank.

### Net Sales

In fiscal 2006, consolidated net sales jumped 41.7% over the previous fiscal year, to ¥136,721 million, the result of sharply higher revenue in the Securitization Development business. Refer to the section titled "Business Segment Information" for more details regarding net sales.

### Expenses and Net Income

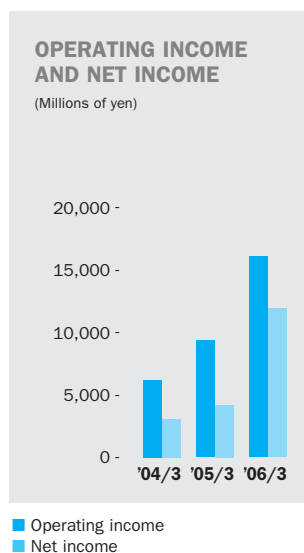
The cost of sales rose 40.3% year on year, to ¥107,742 million. The ratio to net sales, however, declined 0.8 of a percentage point, to 78.8%. Similarly, while selling, general and administrative (SG&A) expenses rose 25.2% to ¥12,906 million, the ratio of SG&A expenses to net sales decreased 1.3 percentage points to 9.4%. This was largely the result of sales growth in the Securitization Development business, where the SG&A expenses ratio is low.

Operating income soared 71.5% year on year, to a record-high ¥16,073 million, buoyed by growth in the high-margin Securitization Development business. The operating margin was 11.8%, up from 9.7% a year earlier.

Net income was ¥11,929 million, a substantial 185.8% higher than the previous year. Growth was supported mainly by significantly higher net sales and operating income, as well as a gain on early extinguishment of obligation under reorganization proceeding of subsidiaries of ¥8,122 million (¥4,600 million net of tax) as subsidiary L Kakuei Corporation repaid rehabilitation liabilities 11 years ahead of schedule. Net income per share was ¥295, compared to ¥222 per share in fiscal 2005. As of March 31, 2006, the Company's treasury stock holdings stood at 186,756 shares, with 43,812,400 shares issued and outstanding. Cash dividends applicable to the year were unchanged from a year earlier at ¥25 per share. Dividends effectively doubled for the year, however, due to a two-for-one stock split carried out in January 2006.

### Business Segment Information

For accounting purposes, the Company previously classified its operations according to four business segments: real estate development, real estate leasing, real estate management, and securitization and other activities. However, effective from the fiscal year ended March 31, 2006, the real estate development business was separated into two business segments: Securitization Development, which has steadily grown in



importance, and Condominium Development. Reflecting this change, the Company now classifies its operations into five business segments: Securitization Development, Condominium Development, Real estate leasing, Real estate management, and Other activities businesses.

#### Securitization Development

This business primarily involves the development and sale to J-REITs and real estate funds of rental condominium blocks, commercial facilities, and other properties. Revenue largely consists of proceeds from sales of properties and other revenues such as fees from asset management and property management operations, leasing income from real estate inventories (rental condominiums, etc.), and dividends and other income from special purpose companies (SPCs). These revenues are now more important than ever due to their high profit margins.

During the year under review, segment sales skyrocketed 242.0% to ¥59,842 million. Major contributions came mainly from a year-on-year increase of 267.9% in the sale of properties to real estate funds and J-REITs and an 83.7% jump in other revenues such as those mentioned above. Operating income rose 187.8% to ¥10,705 million. Earnings growth was attributable to steady progress in securing the Company's land bank amid persistently strong demand for properties from real estate funds and J-REITs. This situation enabled the Company to complete the sale of far more properties ahead of schedule, including those initially slated for sale in fiscal 2007.

#### Condominium Development

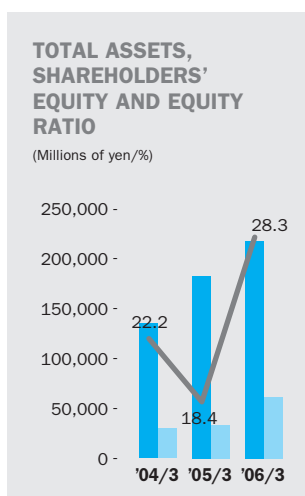
This business primarily comprises the planning, development and sale of condominiums and houses to consumers.

Segment sales edged 2.7% lower year on year, to ¥63,782 million, due to a slight delay until the March 2007 fiscal year in the handover of certain properties originally slated to take place during the year under review. Though operating income declined 1.2% to ¥5,028 million because of this sales shift, the operating margin improved 0.1 of a percentage point to 7.9%.

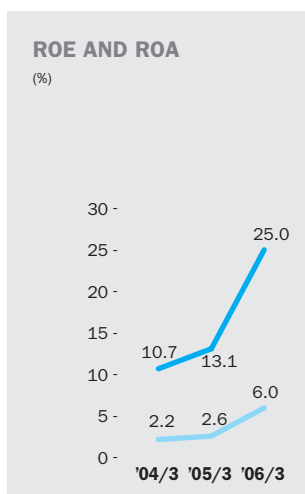
A condominium scandal in late November 2005 in Japan had a somewhat negative impact on showroom attendance in December and January. Business has since returned to normal, and the incident has subsequently had little impact on business results.

#### Condominiums—Offered for Sale, Contracts Received, Contracts Closed, and Contracts Carried Over

	Fiscal 2005/3		Fiscal 2006/3		Fiscal 2007/3 (Planned)	
	Units	Millions of yen	Units	Millions of yen	Units	Millions of yen
Offered for sale	1,955	¥70,968	<b>1,966</b>	<b>¥70,552</b>	2,213	¥70,577
Contracts received	1,887	64,211	<b>1,670</b>	<b>62,034</b>	2,233	76,597
Contracts closed	1,637	57,377	<b>1,488</b>	<b>54,049</b>	1,820	63,248
Contracts carried over	738	26,089	<b>918</b>	<b>34,047</b>	1,332	47,397



■ Total assets  
■ Shareholders' equity  
— Equity ratio



— ROE  
— ROA

### Real Estate Leasing

Operations in this business include sublease of condominiums, office buildings and other properties, rental brokerage, and rental property management. Segment sales climbed 9.7% to ¥7,667 million and operating income rose 34.0% to ¥871 million, the result of an increased number of units properties leased and managed and expansion of the Company's rental brokerage business. As a result, the operating income ratio improved 2.1 percentage points to 11.4%.

### Real Estate Management

This business is largely responsible for the upkeep, maintenance and property management of the JOINT Group and other companies' condominiums and rental condominiums, office buildings and other properties sold to real estate funds. Segment sales declined 7.5% to ¥4,458 million, and operating income fell 26.8% to ¥101 million.

### Other Activities

This segment mainly encompasses the Company's construction and remodeling subcontracting and hotel management operations. Segment sales declined 4.4% to ¥4,203 million, and operating income increased 86.1% to ¥255 million. The operating margin improved 3.0 percentage points to 6.1%.

### Financial Position

Total assets as of March 31, 2006 were ¥217,626 million, an increase of 19.0% from a year ago. As of the same date, current assets, which accounted for 94.3% of total assets, rose 18.6% to ¥205,209 million. Current assets mainly comprised cash, time deposits and inventories. Inventories climbed 27.1% year on year, to ¥156,728 million, reflecting the proactive building of the Company's land bank. The Securitization Development business accounted for roughly 46% of inventories, with the Condominium Development business comprising the remaining 54%. Investments in real estate held for sale declined 70.6% to ¥2,301 million. These investments are made in Securitization Development projects conducted by SPCs. Investments and other assets increased 59.6% to ¥7,622 million, due to investments made in Joint Reit Investment Corporation. Property and equipment, at cost amounted to ¥5,742 million, a decline of 3.4% from the previous fiscal year-end.

Interest-bearing debt increased ¥16,917 million to ¥111,791 million. This increase resulted from higher liabilities accompanying the increase in inventories. Other liabilities declined ¥10,457 million to ¥43,207 million, attributable to the repayment of rehabilitation claims by subsidiary L Kakuei Corporation and the reclassification of remaining rehabilitation claims as long-term liabilities.

During fiscal 2006, the Company moved to strengthen its financial position by raising funds through public offerings and private placements of shares. As a result, shareholders' equity rose 82.9% year on year, to ¥61,585 million. The equity ratio climbed from 18.4% to 28.3%, and ROE was 25.0%, up from the previous year's 13.1%.

### Cash Flows

Net cash used in operating activities improved to ¥18,852 million, compared to ¥48,329 million used one year earlier. The major components of this result were sharply higher income before income taxes and a decrease in cash flows used to develop inventories. Net cash used in investing activities was ¥2,698 million, compared to ¥955 million used in the previous year. Cash was used mainly for the acquisition of investment securities (Joint Reit Investment Corporation). Net cash provided by financing activities was ¥21,800 million, compared to ¥43,497 million a year ago, and primarily reflected proceeds from the issuance of common stock. Consequently, cash and cash equivalents as of March 31, 2006 stood at ¥31,995 million, an increase of ¥248 million from the previous fiscal year-end.

### Outlook

The JOINT Group, in addition to the Tokyo metropolitan area, is taking a more aggressive approach to building its land bank in Japan's key regional cities. In doing so, the Group seeks to expand its operations by supplying attractive products that match needs in these regions. In Securitization Development, this approach saw the Company open its first business office in Osaka in October 2005, followed by the opening of similar offices in Okinawa and Nagoya, to expand its business area nationwide. Going forward, the Group intends to move beyond an exclusive focus on Tokyo and the surrounding region to expand its sales area nationwide. Similarly, the Company will assume a more proactive stance regarding the types of properties it develops and enhances the value of, adding office buildings, logistics facilities and other properties to the commercial facilities and rental condominiums in which it primarily specialized to date. Although the securitization market in Japan is still growing and we see ample opportunities going forward, its growth prospects have attracted the attention of many different players. This situation requires that we be flexible in terms of business area and the types of properties we deal with to capture opportunities wherever available. From these actions, the Group plans to boost sales in the Securitization Development business to ¥60,900 million for the fiscal year ending March 31, 2007. The fact that procurement of the land bank needed to meet securitization sales objectives over the next three years has been completed as of June 2006 makes the sales outlook for this business a fairly easy one to accurately forecast.

In Condominium Development, as JOINT extends its sales area to include Kanagawa, Chiba and Saitama prefectures, the Company is striving to attain further growth by supplying attractive properties reflecting a detailed understanding of needs in these markets. Plans call for achieving sales of ¥85,000 million in this business for the March 2007 fiscal year.

As land prices start to rise, at issue is whether we can keep pace with subsequent increases in condominium prices to maintain an acceptable margin. As Japan's economy recovers and deflationary concerns dissipate, we believe consumers will be more accepting of price increases going forward.

In real estate leasing, real estate management and other businesses, the outlook is for combined sales of ¥15,600 million, largely due to expansion in businesses related to the Company's core Condominium Development and Securitization Development operations.

All told, this business outlook is expected to result in consolidated net sales of ¥160,000 million and net income of ¥9,400 million for the fiscal year ending March 31, 2007.

**Note: Effect of Termination of Rehabilitation Proceedings for L Kakuei Corporation on the JOINT Group**

In July 2005, consolidated subsidiary L Kakuei Corporation ended rehabilitation proceedings 11 years ahead of schedule through the early settlement of ¥19,500 million in rehabilitation claims, resulting in a discount gain of ¥8,122 million as other income for the year under review.

A rough description of the mechanics behind this discount gain is as follows: L Kakuei planned to repay ¥19,500 million in rehabilitation claims in equal disbursements through 2016. Under the rehabilitation plan, if L Kakuei repaid the claims one year earlier than planned, the company was entitled to a ten percent discount on its claims. If the claims were repaid two years earlier, this discount would be compounded. Therefore, when L Kakuei repaid most of the claims eleven years ahead of schedule, the compounded discount amounted to ¥8,122 million.

**CONSOLIDATED BALANCE SHEETS**JOINT CORPORATION and Consolidated Subsidiaries  
March 31, 2005 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005/3	2006/3	2006/3
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and time deposits (Notes 10 and 16)	¥ 31,759	¥ <b>32,731</b>	\$ <b>278,633</b>
Trade accounts receivable	1,130	<b>1,407</b>	<b>11,978</b>
Allowance for doubtful accounts	(138)	<b>(97)</b>	<b>(826)</b>
Inventories (Notes 4 and 10)	123,344	<b>156,728</b>	<b>1,334,196</b>
Investments in real estate held for sale (Notes 2 and 9)	7,817	<b>2,301</b>	<b>19,588</b>
Advances paid for purchases (Note 5)	1,648	<b>3,202</b>	<b>27,258</b>
Deferred income taxes (Note 8)	423	<b>1,015</b>	<b>8,641</b>
Other current assets	7,011	<b>7,922</b>	<b>67,438</b>
Total current assets	172,994	<b>205,209</b>	<b>1,746,905</b>
<b>Investments and other assets:</b>			
Investment in securities (Notes 9 and 10)	1,312	<b>4,189</b>	<b>35,660</b>
Investments in other than securities	288	–	–
Long-term loans receivable	365	<b>285</b>	<b>2,426</b>
Allowance for doubtful accounts	(33)	<b>(33)</b>	<b>(281)</b>
Deferred income taxes (Note 8)	271	<b>163</b>	<b>1,388</b>
Other assets (Notes 2 and 10)	2,574	<b>3,018</b>	<b>25,692</b>
	4,777	<b>7,622</b>	<b>64,885</b>
<b>Property and equipment, at cost:</b>			
Land (Note 10)	2,774	<b>2,540</b>	<b>21,623</b>
Buildings and structures (Note 10)	2,596	<b>2,601</b>	<b>22,142</b>
Other	575	<b>601</b>	<b>5,116</b>
	5,945	<b>5,742</b>	<b>48,881</b>
Accumulated depreciation	(876)	<b>(947)</b>	<b>(8,062)</b>
Net property and equipment	5,069	<b>4,795</b>	<b>40,819</b>
	¥182,840	<b>¥217,626</b>	<b>\$1,852,609</b>

See accompanying notes to consolidated financial statements.

LIABILITIES, MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005/3	2006/3	2006/3
<b>Current liabilities:</b>			
Short-term bank loans (Note 10)	¥ 10,668	¥ <b>10,161</b>	\$ <b>86,499</b>
Long-term debt due within one year (Note 10)	18,708	<b>36,316</b>	<b>309,151</b>
Bond due within one year	1,605	<b>9,325</b>	<b>79,382</b>
Trade notes payable	7,983	<b>6,758</b>	<b>57,530</b>
Trade accounts payable	8,339	<b>9,918</b>	<b>84,430</b>
Accrued expenses	640	<b>797</b>	<b>6,785</b>
Income taxes payable (Note 8)	2,311	<b>7,733</b>	<b>65,830</b>
Advances and deposits received (Note 6)	4,358	<b>4,613</b>	<b>39,270</b>
Other current liabilities	3,451	<b>4,747</b>	<b>40,408</b>
Total current liabilities	58,063	<b>90,368</b>	<b>769,285</b>
<b>Long-term liabilities:</b>			
Retirement and severance benefits (Note 15)	224	<b>116</b>	<b>987</b>
Bond	15,914	<b>9,630</b>	<b>81,978</b>
Long-term debt due after one year (Note 10)	47,978	<b>46,359</b>	<b>394,645</b>
Reorganization claims payable (Note 11)	24,711	–	–
Long-term accrued amount payable (Note 11)	–	<b>4,392</b>	<b>37,388</b>
Other long-term liabilities	1,649	<b>4,133</b>	<b>35,185</b>
Total long-term liabilities	90,476	<b>64,630</b>	<b>550,183</b>
<b>Minority interests in consolidated subsidiaries</b>	631	<b>1,043</b>	<b>8,879</b>
<b>Contingent liabilities</b> (Note 13)			
<b>Shareholders' equity</b> (Note 12):			
Common stock			
Authorized — 75,660,000 shares			
Issued — 18,915,000 shares in 2005 and 43,812,400 shares in 2006	7,672	<b>15,800</b>	<b>134,502</b>
Capital surplus	7,555	<b>15,687</b>	<b>133,541</b>
Retained earnings	18,823	<b>30,231</b>	<b>257,351</b>
Foreign currency translation adjustments	1	–	–
Net unrealized holding gains (losses) on securities	0	<b>(28)</b>	<b>(238)</b>
	34,051	<b>61,690</b>	<b>525,156</b>
Treasury stock	(381)	<b>(105)</b>	<b>(894)</b>
Total shareholders' equity	33,670	<b>61,585</b>	<b>524,262</b>
	¥182,840	<b>¥217,626</b>	<b>\$1,852,609</b>

## CONSOLIDATED STATEMENTS OF INCOME

JOINT CORPORATION and Consolidated Subsidiaries  
Years ended March 31, 2005 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005/3	2006/3	2006/3
Net sales (Note 2)	¥96,471	<b>¥136,721</b>	<b>\$1,163,880</b>
<b>Costs and expenses:</b>			
Cost of sales (Note 2)	76,790	<b>107,742</b>	<b>917,187</b>
Selling, general and administrative expenses	10,308	<b>12,906</b>	<b>109,867</b>
Total costs and expenses	87,098	<b>120,648</b>	<b>1,027,054</b>
<b>Operating income</b>	9,373	<b>16,073</b>	<b>136,826</b>
<b>Other income (expenses):</b>			
Interest and dividend income	77	<b>34</b>	<b>289</b>
Interest expense	(1,606)	<b>(2,080)</b>	<b>(17,707)</b>
Gain on early extinguishment of obligation under reorganization proceeding of subsidiaries	–	<b>8,122</b>	<b>69,141</b>
Other, net	(463)	<b>(800)</b>	<b>(6,809)</b>
	(1,992)	<b>5,276</b>	<b>44,914</b>
<b>Income before income taxes</b>	7,381	<b>21,349</b>	<b>181,740</b>
<b>Income taxes (Notes 2 and 8):</b>			
Current	2,713	<b>9,535</b>	<b>81,170</b>
Deferred	373	<b>(533)</b>	<b>(4,538)</b>
	3,086	<b>9,002</b>	<b>76,632</b>
<b>Minority interests</b>	120	<b>418</b>	<b>3,559</b>
Net income	¥ 4,175	<b>¥ 11,929</b>	<b>\$ 101,549</b>

	Yen		U.S. dollars
	2005/3	2006/3	2006/3
Amounts per share of common stock (Note 2):			
Net income	¥222	<b>¥295</b>	<b>\$2.5</b>
Net income-diluted	220	<b>292</b>	<b>2.5</b>
Cash dividends applicable to the year	25	<b>25</b>	<b>0</b>

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

JOINT CORPORATION and Consolidated Subsidiaries  
Years ended March 31, 2005 and 2006

	Number of shares of common stock (Thousands)	Millions of yen					
		Common stock	Capital surplus	Retained earnings	Foreign currency translation adjustment	Net unrealized holding gains (losses) on securities	Treasury stock
<b>Balance at March 31, 2004</b>	18,915	¥ 7,672	¥ 7,447	¥15,174	¥ 2	¥ (1)	¥(325)
Net income	-	-	-	4,175	-	-	-
Treasury stock	-	-	-	-	-	-	(56)
Cash dividends paid (¥25.0 per share)	-	-	-	(463)	-	-	-
Bonuses to directors and corporate auditors	-	-	-	(41)	-	-	-
Decrease in retained earnings due to change of scope of consolidation	-	-	-	(22)	-	-	-
Gain from the sales of treasury stock	-	-	108	-	-	-	-
Net unrealized holding gains on securities	-	-	-	-	-	1	-
Foreign currency translation adjustments	-	-	-	-	(1)	-	-
<b>Balance at March 31, 2005</b>	18,915	¥ 7,672	¥ 7,555	¥18,823	¥ 1	¥ 0	¥(381)
Net income	-	-	-	11,929	-	-	-
Treasury stock	-	-	-	-	-	-	276
Cash dividends paid (¥25.0 per share)	-	-	-	(466)	-	-	-
Bonuses to directors and corporate auditors	-	-	-	(59)	-	-	-
Increase in retained earnings due to change of scope of consolidation	-	-	-	4	-	-	-
Issuance of capital stock	2,991	8,128	8,122	-	-	-	-
Stock split	21,906	-	-	-	-	-	-
Gain from the sales of treasury stock	-	-	10	-	-	-	-
Net unrealized holding gains on securities	-	-	-	-	-	(28)	-
Foreign currency translation adjustments	-	-	-	-	(1)	-	-
<b>Balance at March 31, 2006</b>	<b>43,812</b>	<b>¥15,800</b>	<b>¥15,687</b>	<b>¥30,231</b>	<b>¥ -</b>	<b>¥(28)</b>	<b>¥(105)</b>

	Thousands of U.S. dollars (Note 1)					
	Common stock	Capital surplus	Retained earnings	Foreign currency translation adjustment	Net unrealized holding gains (losses) on securities	Treasury stock
<b>Balance at March 31, 2005</b>	\$ 65,310	\$ 64,315	\$160,237	\$ 9	\$ 0	\$(3,244)
Net income	-	-	101,549	-	-	-
Treasury stock	-	-	-	-	-	2,350
Cash dividends paid (¥25.0 per share)	-	-	(3,967)	-	-	-
Bonuses to directors and corporate auditors	-	-	(502)	-	-	-
Increase in retained earnings due to change of scope of consolidation	-	-	34	-	-	-
Issuance of capital stock	69,192	69,141	-	-	-	-
Gain from the sales of treasury stock	-	85	-	-	-	-
Net unrealized holding gains on securities	-	-	-	-	(238)	-
Foreign currency translation adjustment	-	-	-	(9)	-	-
<b>Balance at March 31, 2006</b>	<b>\$134,502</b>	<b>\$133,541</b>	<b>\$257,351</b>	<b>\$ -</b>	<b>\$(238)</b>	<b>\$( 894)</b>

See accompanying notes to consolidated statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

JOINT CORPORATION and Consolidated Subsidiaries  
Years ended March 31, 2005 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005/3	2006/3	2006/3
<b>Cash flows from operating activities:</b>			
Income before income taxes	¥ 7,381	¥ 21,349	\$ 181,740
Adjustments to reconcile income before income taxes to net cash used in operating activities:			
Depreciation	258	261	2,222
Allowance for doubtful accounts	55	(41)	(349)
Interest and dividend income	(76)	(34)	(289)
Interest expense	1,606	2,080	17,707
Gain on early extinguishment of obligation under reorganization proceeding of subsidiaries	-	(8,122)	(69,141)
Bonuses paid to directors and corporate auditors	(41)	(59)	(502)
Other	(21)	(78)	(665)
Net changes in operating assets and liabilities:			
Decrease (increase) in trade accounts receivable	203	(277)	(2,358)
Increase in inventories	(46,376)	(33,457)	(284,813)
Decrease (increase) in investments in real estate held for sale	(5,013)	5,479	46,642
Increase in advances paid for purchases	(1,174)	(1,554)	(13,229)
Increase (decrease) in trade notes and accounts payable	(1,834)	424	3,609
Increase (decrease) in advances and deposits received	(320)	1,702	14,489
Other, net	1,262	(355)	(3,023)
Interest and dividends received	56	66	562
Interest paid	(2,099)	(2,123)	(18,073)
Income taxes paid	(2,196)	(4,113)	(35,013)
Net cash used in operating activities	(48,329)	(18,852)	(160,484)
<b>Cash flows from investing activities:</b>			
Net decrease in property and equipment	42	245	2,086
Net increase in investment securities	(95)	(2,827)	(24,066)
Net decrease in investments other than securities	224	81	690
Increase in long-term loans receivable	(1,851)	(2,577)	(21,938)
Decrease in long-term loans receivable	797	3,271	27,845
Net decrease in time deposits	(12)	(723)	(6,155)
Other	(60)	(168)	(1,430)
Net cash used in investing activities	(955)	(2,698)	(22,968)
<b>Cash flows from financing activities:</b>			
Net increase (decrease) in short-term bank loans	6,905	(1,040)	(8,853)
Proceeds from long-term debt	53,305	61,737	525,556
Repayment of long-term debt	(26,645)	(45,215)	(384,907)
Net decrease in reorganization claims payable	(2,483)	(11,186)	(95,224)
Proceeds from issuance of bond	15,200	3,755	31,966
Payment for redemption of bond	(2,505)	(2,319)	(19,741)
Proceeds from issuance of common stock	-	16,250	138,333
Proceeds from sale of treasury stock	274	293	2,494
Payment for acquisition of treasury stock	(222)	(7)	(60)
Cash dividends paid	(463)	(466)	(3,967)
Other	131	(2)	(17)
Net cash provided by financing activities	43,497	21,800	185,580
Effect of exchange rate changes on cash and cash equivalents	(0)	-	-
<b>Net increase (decrease) in cash and cash equivalents</b>	(5,787)	250	2,128
Increase due to change of scope of consolidation	8	-	-
Decrease due to exclusion of consolidated subsidiaries	-	(2)	(17)
<b>Cash and cash equivalents at beginning of year</b> (Notes 2 and 16)	37,526	31,747	270,256
<b>Cash and cash equivalents at end of year</b> (Notes 2 and 16)	¥ 31,747	¥ 31,995	\$ 272,367

See accompanying notes to consolidated financial statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JOINT CORPORATION and Consolidated Subsidiaries  
Years ended March 31, 2005 and 2006

## 1. BASIS OF PRESENTING FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law 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 application and disclosure requirements of International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of shareholders’ equity) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2006, which was ¥117.47 to U.S. \$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

## 2. SIGNIFICANT ACCOUNTING POLICIES

**Consolidation** — The consolidated financial statements include the accounts of JOINT CORPORATION (the “Company”) and 25 subsidiaries in accordance with the Securities and Exchange Law and related regulations of Japan.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are recorded based on the fair value at the time the Company acquired control of the respective subsidiaries.

The difference between the investment cost and the net assets acquired in consolidated subsidiaries at the date of acquisition is amortized over 5 years on a straight-line basis.

All significant intercompany accounts and transactions have been eliminated.

**Cash and cash equivalents** — Cash and cash equivalents include cash on hand, readily-available deposits and short-term highly liquid investments with maturities of not exceeding three months at the time of purchase.

**Allowance for doubtful accounts** — The Company and its subsidiaries (the “Companies”) provide for doubtful accounts principally at an amount computed based on the historical bad debt ratio during certain reference period plus an estimated uncollectible amount based on the analysis of certain individual accounts.

**Securities** — Available-for-sale securities, whose fair values are readily determinable are stated at fair values on the day of the closing of consolidated accounts, with unrealized gains and losses, net of applicable deferred income taxes, not reflected in earnings, but directly reported as a separate component of shareholders’ equity. Realized gains and losses on sale of such securities are computed using the moving-average cost.

Available-for-sale securities whose fair value is not readily determinable are stated primarily at moving-average cost. The Companies have neither trading securities nor held-to-maturity debt securities.

Investments in real estate held for sale represent investments in special purpose companies (SPCs), which were established for the purpose of Securitization Development and sales. The Companies have invested in these SPCs with the intent to sell the investments after the completion of developments of real estates.

Investments in real estate held for sale are stated at cost, cost being determined mainly by the specific-identification method.

**Derivatives and hedge accounting** — Companies are required to state derivative financial instruments at fair value and to recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

If interest rate swap contracts are used as hedge and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

**Inventories, revenue and related costs** — Inventories are stated at cost, cost being determined mainly by the specific-identification method. Costs do not include interest or administrative expenses incurred during or after development of real estate, which are charged to income when incurred.

Revenue from the leasing of office space is recognized on an accrual basis over the life of the lease.

Revenue from sale of land and apartment houses are recognized when they are delivered to and accepted by customers. Payment terms generally include a down-payment prior to delivery, a further payment upon delivery and a final payment shortly after delivery.

In the year ended March 31, 2006, “buildings and structures” amounting to ¥37 million (\$315 thousand) and “land” amounting to ¥61 million (\$519 thousand) were transferred to inventories, because of the change in the intent of owning them.

**Property and equipment** — Property and equipment are stated at cost. Depreciation is provided by the declining-balance method at rates based on the estimated useful lives of the respective assets except for the buildings, excluding building fixtures, acquired after March 31, 1998, which are depreciated by the straight-line method. The followings are the estimated useful lives of the assets.

Buildings and structures	8–50 years
--------------------------	------------

**Impairment of long-lived assets** — On August 9, 2002, the Business Accounting Council of Japan issued new accounting standards entitled “Statement of Opinion on the Establishment of Accounting Standards for Impairment of Fixed Assets”. Further, on October 31, 2003, the Accounting Standards Board of Japan issued Financial Accounting Standards Implementation Guidance No. 6-“Application Guidance on Accounting Standards for impairment of Fixed Assets”. Effective April 1, 2005, the Companies have adopted these new accounting standards for impairment of fixed assets.

As a result of adopting the new accounting standards, these had no affect on the financial statements.

**Software costs** — The Companies depreciate software for their own use using the straight-line method over the estimated useful lives (five years).

**Retirement and severance benefits** — Under the terms of the Company’s severance plan, eligible employees are entitled, under most circumstances, upon mandatory retirement or earlier voluntary severance, to severance payment based on compensation at the time of severance and years of service and certain other factors.

Employee severance and retirement benefits covering substantially all employees are provided through two arrangements, an unfunded lump-sum benefit plan and a funded qualified pension plan.

The Company and a subsidiary have unfunded lump-sum plans and funded qualified pension plans generally covering 50% each of the amount that would be required had the eligible employees voluntarily retired at the balance sheet date.

As permitted for certain small companies, under “Opinion on Setting Accounting Standard for Employee’ Severance and Pension Benefits”, issued by the Business Accounting Deliberation Council on June 16, 1998, the Companies do not use actuarial calculations for determining the liabilities and expenses for such retirement benefits. Instead, the Companies recognize such liabilities at an amount obtained by deducting the amount of plan assets deemed to be maintained by the pension funds from the amount required had all eligible employees voluntarily terminated their employment as of the balance sheet date.

Directors and corporate auditors of certain subsidiaries are entitled to lump-sum payments at the time of severance, subject to the approval of the shareholders. The liabilities for such benefits are determined based on these internal rules.

Effective April 1, 2005, these subsidiaries abolished their directors’ and corporate auditors’ severance benefit system. Accordingly, these benefits were reversed and charged to income.

**Income taxes** — The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement basis and the tax basis of assets and liabilities.

**Stock issuance expense** — Stock issuance expense is charged to income in the year incurred.

**Bond issuance expense** — Bond issuance expense is charged to income in the year incurred.

**Accounting for certain finance leases** — Finance leases which do not transfer ownership of the leased assets to the lessee, are accounted for in the same manner as operating leases.

**Amounts per share** — The computation of net income per share of common stock is based on the weighted-average number of shares of common stock outstanding during each fiscal year.

Cash dividends applicable to the year represent the actual amount declared as applicable to the respective years.

**Foreign currency transactions** — Receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates.

Balance sheets and Income statements of the consolidated overseas subsidiary are translated into Japanese yen at the year-end rates except for shareholder’s equity accounts, which are translated at the historical rates.

### 3. DERIVATIVE FINANCIAL INSTRUMENTS

The Company utilizes interest rate swap contracts as derivative financial instruments in order to minimize the risk of interest rate fluctuation on borrowings. The Company does not use derivatives for speculative purposes.

Possible exposure to risks from the Company’s transaction is immaterial as financial institutions with whom the Company conducts derivative transactions are those with high reputations. The Company executes such transactions based on the resolutions of the Board of Directors of the Company and within the limits of the approved amounts. The Company reports the results of the transactions to the Board of Directors of the Company periodically.

The following summarizes hedging derivative financial instruments used by the Companies and items hedged:

Hedging instruments:	Hedged items:
Interest rate swap contracts	Interest on loans payable

The Companies evaluate hedge effectiveness semi-annually by comparing the cumulative changes in cash flows from or the changes in fair value of hedged items and the corresponding changes in the hedging derivative instruments.

The following tables summarize market value information as of March 31, 2005 and 2006 of derivative transactions for which hedge accounting has not been applied:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005/3	2006/3	2006/3
Interest rate swap:			
Receive variable/pay fixed:			
Contract outstanding	¥ 5,000	<b>¥5,000</b>	<b>\$42,564</b>
[Amount due after one year]	[5,000]	[-]	[-]
Market value	(94)	<b>(40)</b>	<b>(341)</b>
Recognized losses	(94)	<b>(40)</b>	<b>(341)</b>

#### 4. INVENTORIES

Inventories at March 31, 2005 and 2006 comprised the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005/3	2006/3	2006/3
Real estate for sale	¥ 38,168	<b>¥ 38,506</b>	<b>\$ 327,794</b>
Expenditure on construction in progress	85,153	<b>118,202</b>	<b>1,006,232</b>
Purchased components and supplies	23	<b>20</b>	<b>170</b>
	<b>¥123,344</b>	<b>¥156,728</b>	<b>\$1,334,196</b>

#### 5. ADVANCES PAID FOR PURCHASES

Advances paid for purchases comprise primarily advance payments for purchasing real estate.

#### 6. ADVANCES AND DEPOSITS RECEIVED

Advances and deposits received consist mainly of advances received from customers before delivering completed properties.

#### 7. ACCOUNTING FOR CERTAIN FINANCE LEASES

The Companies lease software and other assets. Assuming that finance leases were capitalized, they would have been recorded on the consolidated financial statements as of March 31, 2005 and 2006 as follows:

Type	Millions of yen					
	2005/3			2006/3		
	Acquisition cost	Accumulated depreciation	Book value	Acquisition cost	Accumulated depreciation	Book value
Tools, furniture and fixture	¥35	22	¥13	<b>¥123</b>	<b>46</b>	<b>¥ 77</b>
Software	¥62	19	¥43	<b>¥ 79</b>	<b>34</b>	<b>¥ 45</b>
Total	¥97	41	¥56	<b>¥202</b>	<b>80</b>	<b>¥122</b>

Type	Thousands of U.S. dollars (Note 1)		
	2006/3		
	Acquisition cost	Accumulated depreciation	Book value
Tools, furniture and fixture	<b>\$1,047</b>	<b>392</b>	<b>\$ 655</b>
Software	<b>\$ 673</b>	<b>289</b>	<b>\$ 384</b>
Total	<b>\$1,720</b>	<b>681</b>	<b>\$1,039</b>

The payment schedules of the lease obligation, which are computed on the exclusive of interest method at March 31, 2005 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005/3	2006/3	2006/3
Due within one year	¥18	¥ 37	\$ 315
Due over one year	¥39	¥ 89	\$ 758
Total	¥57	¥126	\$1,073

The lease payments, depreciation equivalents and interest expense equivalents on such leases are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005/3	2006/3	2006/3
Lease payments	¥14	¥36	\$306
Depreciation equivalents	¥13	¥35	\$298
Interest expense equivalents	¥ 0	¥ 2	\$ 17

Interest expense equivalents were calculated by allocating the difference between the total lease payments and the fair representing value of the leased property to each accounting period in the lease term based on the interest method.

Depreciation equivalent is computed using the straight-line method over the lease terms assuming no residual values.

## 8. INCOME TAXES

Income taxes in the consolidated statements of income consist of corporation tax, inhabitant taxes and enterprise tax.

The aggregate statutory income tax rate was approximately 40.5% for the years ended March 31, 2005 and 2006.

The actual effective income tax rates in the accompanying consolidated statements of income differ from the statutory income tax rate due to such items as permanently non-deductible expenses.

The differences between the statutory income tax rate and the actual effective income tax rates for the years ended March 31, 2005 and 2006 were immaterial.

Significant components of the deferred income taxes as of March 31, 2005 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005/3	2006/3	2006/3
Deferred income tax assets			
Current assets:			
Enterprise tax payable	¥177	¥ 614	\$5,227
Excess bonuses accrued	82	91	775
Write-down of inventories	67	127	1,081
Others	116	269	2,290
	442	1,101	9,373
Less: Valuation allowance	(19)	(86)	(732)
Total deferred tax assets (Current)	¥423	¥1,015	\$8,641
Non-current assets:			
Write-down of properties	112	112	953
Excess employee retirement benefits	68	50	426
Retirement benefits for directors and corporate auditors	16	17	145
Others	115	93	792
	311	272	2,316
Less: Valuation allowance	(40)	(109)	(928)
Total differed tax assets (Non-current)	¥271	¥ 163	\$1,388

## 9. SECURITIES

(1) The following tables summarize acquisition costs, book values and fair value of securities with available fair value as of March 31, 2005 and 2006.

### Available-for-sale securities

Type	Millions of yen					
	2005/3			2006/3		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs						
Bonds	¥ 25	¥25	¥0	¥ -	¥ -	¥ -
Sub total	25	25	0	-	-	-
Other securities						
Other	-	-	-	2,856	2,808	(48)
Sub total	25	25	-	2,856	2,808	(48)
Total	¥250	¥25	¥-	¥2,856	¥2,808	¥(48)

## Available-for-sale securities

Type	Thousands of U.S. dollars (Note 1)		
	2006/3		
	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs			
Bonds	\$ -	\$ -	\$ -
Sub total	-	-	-
Other securities			
Other	24,313	23,904	(409)
Sub total	24,313	23,904	(409)
Total	\$24,313	\$23,904	\$(409)

(2) The following tables summarize book values of securities with no available fair values as of March 31, 2005 and 2006.

Type	Millions of yen	
	2005/3	2006/3
	Book value	Book value
Available-for-sale securities		
Unlisted equity securities	¥ 560	¥ 557
Investment in anonymous association	727	824
Investments in real estate held for sale	7,817	2,301
	¥9,104	¥3,682

Type	Thousands of U.S. dollars (Note 1)	
	2006/3	
	Book value	
Available-for-sale securities		
Unlisted equity securities		\$ 4,741
Investment in anonymous association		7,015
Investments in real estate held for sale		19,588
		\$31,344

(3) Available-for-sale securities with maturities as of March 31, 2005 and 2006 were as follows:

Millions of yen								
Type	2005/3				2006/3			
	Due within one year	Due after one year through five years	Due after five years through ten years	Total	Due within one year	Due after one year through five years	Due after five years through ten years	Total
Bonds								
Governmental bill	¥25	¥-	¥-	¥25	¥-	¥-	¥-	¥-
	¥25	¥-	¥-	¥25	¥-	¥-	¥-	¥-

Thousands of U.S. dollars (Note 1)				
Type	2006/3			
	Due within one year	Due after one year through five years	Due after five years through ten years	Total
Bonds				
Governmental bill	\$-	\$-	\$-	\$-
	\$-	\$-	\$-	\$-

#### 10. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans consist of short-term notes and short-term borrowings under the loan agreements. The short-term bank loans bore a weighted-average interest rate of 2.1% as of March 31, 2005, and 1.8% as of March 31, 2006.

Long-term debt at March 31, 2005 and 2006 comprised the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005/3	2006/3	2006/3
Long-term debt, principally from banks:			
Loans secured by collateral maturing in installments through 2011	¥38,746	¥44,099	\$375,406
Unsecured loans due through 2007	27,940	38,576	328,390
	66,686	82,675	703,796
Amount due within one year (The weighted average interest rate: 2.1%)	18,708	36,316	309,151
Long-term debt in the consolidated balance sheets (The weighted average interest rate: 1.8%)	¥47,978	¥46,359	\$394,645

The following assets were pledged as collateral for secured loans:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005/3	2006/3	2006/3
Cash and time deposits	¥ 4,557	¥ 588	\$ 5,006
Inventories	68,126	88,526	753,605
Buildings and structures (less accumulated depreciation)	967	687	5,848
Land	1,948	877	7,466
Investment in securities	6	-	-
Other assets	895	28	238
	¥76,499	¥90,706	\$772,163

The annual maturities of long-term debt at March 31, 2006 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars (Note 1)
2007	¥36,316	\$309,151
2008	38,576	328,390
2009	6,316	53,767
2010	428	3,643
2011 and thereafter	1,039	8,845

At March 31, 2006, the Company had committed lines of credit amounting to ¥16,400 million (\$139,610 thousand), and ¥110 million (\$936 thousand) of such lines of credit were not used.

#### 11. REORGANIZATION CLAIMS PAYABLE

Reorganization claim means the long-term debt of L Kakuei Corporation, which was in reorganization proceedings under the Corporate Rehabilitation Law.

The Company accepted approximately 95% of the outstanding shares of L Kakuei Corporation on October 31, 2001 and as a result, the Company acquired the control of L Kakuei Corporation and its subsidiaries.

L Kakuei Corporation early extinguished claims amounted to ¥19,500 million (\$166,000 thousand) as part of reorganization claims payable amounted to ¥24,525 million (\$208,777 thousand) and the remaining balances amounted to ¥8,122 million (\$69,141 thousand) were charged to income. Accordingly, the plan of reorganization of L Kakuei Corporation under the Corporate Rehabilitation Law was completed on July 29, 2005.

#### 12. SHAREHOLDERS' EQUITY

Under the Japanese Commercial Code (the "Code"), at least 50% of the issue price of new shares is required to be credited to common stock. The portion which is to be credited to common stock is determined by resolution of the Board of Directors. Proceeds in excess of the amounts credited to common stock are credited to additional paid-in capital, which is included in capital surplus.

The Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal earnings reserve until the total amount of legal earnings reserve and additional paid-in capital equals 25% of common stock. The legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the stockholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal earnings reserve and additional paid-in capital remains being equal to or exceeding 25% of common stock, they are available for distribution by the resolution of shareholders' meeting.

Legal earnings reserve is included in retained earnings in the consolidated balance sheets.

The maximum amount that the Company can distribute, subject to approval of shareholders, as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Code. Such amounts at March 31, 2005 and 2006 were ¥10,697 million (\$91,062 thousand) and ¥15,066 million (\$128,254 thousand), respectively.

Appropriations are not accrued in the financial statements for the period to which they relate, but are recorded in the subsequent accounting period when the shareholders' approval has been obtained. Retained earnings at March 31, 2006 included amounts representing the year-end cash dividends and bonuses to directors and corporate auditors, which were approved at the shareholders' meeting held on June 24, 2006 as described in Note 14.

On January 5, 2006, the Company effected 2-for-1 common stock split. The amount of common stock did not increase by this stock split.

#### 13. CONTINGENT LIABILITIES

At March 31, 2006, the Companies were contingently liable as a guarantor for mortgage loans of the Companies' customers in the amount of ¥3,469 million (\$29,531 thousand) for the period until the registration of mortgages on the real property sold was completed.

The Company was also contingently liable as a guarantor for bank loans of its subsidiary in the amount of ¥2,730 million (\$23,240 thousand).

#### 14. SUBSEQUENT EVENT

The following appropriation of retained earnings at March 31, 2006 was approved at the annual general meeting of shareholders held on June 24, 2006.

	Millions of yen	Thousands of U.S. dollars (Note 1)
Cash dividends (¥12.50 per share)	¥545	\$4,639
Bonuses to directors and corporate auditors	110	936

#### 15. EMPLOYEE RETIREMENT AND SEVERANCE BENEFITS

As explained in Note 2, the liabilities and expenses for retirement and severance benefits are determined based on the amounts obtained by simplified calculations.

In conformity with the enactment of "Defined Contribution Plan Law", the Company transferred to a defined contribution plan on January 1, 2006. The Company applied "Accounting Treatment upon Transferring Retirement Remuneration Plans" (Financial Accounting Standards Implementation Guidance No. 1). The effect of this change was immaterial.

The liabilities for retirement and severance benefits included in the liability section of the consolidated balance sheets as of March 31, 2005 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005/3	2006/3	2006/3
Projected benefit obligation	¥485	<b>¥375</b>	<b>\$3,192</b>
Less fair value of pension assets	303	<b>259</b>	<b>2,205</b>
Liability for retirement and severance benefits	¥182	<b>¥116</b>	<b>\$ 987</b>

Retirement and severance benefit expenses included in the consolidated statements of income for the years ended March 31, 2005 and 2006 comprised of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005/3	2006/3	2006/3
Service costs — benefits earned during the year	¥62	<b>¥82</b>	<b>\$698</b>
Retirement and severance benefit expenses	¥62	<b>¥82</b>	<b>\$698</b>

#### 16. CASH AND CASH EQUIVALENTS

Reconciliations of cash and time deposits shown in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows as of March 31, 2005 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005/3	2006/3	2006/3
Cash and time deposits	¥31,759	<b>¥32,731</b>	<b>\$278,633</b>
Less: Time deposits with maturities exceeding three months	(12)	<b>(735)</b>	<b>(6,257)</b>
Cash and cash equivalents	¥31,747	<b>¥31,996</b>	<b>\$272,376</b>

#### 17. SEGMENT INFORMATION

The Companies have classified their businesses into five business segments: Condominium Development business, Securitization Development business, Real estate leasing business, Real estate management business and Other activities business.

Geographic segment information is not required to be disclosed because revenues and total assets in countries other than Japan were immaterial. The Companies have no overseas sales.

Business segment information is as follows:

### Business segment information

	Millions of yen						
	Year ended March 31, 2005						
	Real estate development	Real estate leasing	Real estate management	Securitization and other activities	Total	Eliminations or Corporate	Consolidated
<b>Revenue and operating income</b>							
Revenue from:							
External customers	¥ 81,664	¥6,557	¥4,343	¥3,907	¥ 96,471	¥ -	¥ 96,471
Intersegment or transfers	1	431	476	1,865	2,773	(2,773)	-
Total revenue	81,665	6,988	4,819	5,772	99,244	(2,773)	96,471
Operating expense	72,852	6,318	4,682	5,688	89,540	(2,442)	87,098
Operating income	¥ 8,813	¥ 670	¥ 137	¥ 84	¥ 9,704	¥ (331)	¥ 9,373

### Total assets, depreciation, and capital expenditures

	Real estate development	Real estate leasing	Real estate management	Securitization and other activities	Total	Eliminations or Corporate	Consolidated
Assets	¥164,062	¥6,709	¥1,936	¥2,934	¥175,641	¥ 7,199	¥182,840
Depreciation	26	145	18	17	206	52	258
Capital expenditures	41	424	25	64	554	58	612

	Millions of yen							
	Year ended March 31, 2006							
	Condominium Development	Securitization Development	Real estate leasing	Real estate management	Other activities	Total	Eliminations or Corporate	Consolidated
<b>Revenue and operating income</b>								
Revenue from:								
External customers	¥ 63,781	¥58,162	¥7,387	¥3,962	¥3,429	¥136,721	¥ -	¥136,721
Intersegment or transfers	1	1,680	280	496	774	3,231	(3,231)	-
Total revenue	63,782	59,842	7,667	4,458	4,203	139,952	(3,231)	136,721
Operating expense	58,754	49,137	6,796	4,357	3,948	122,992	(2,344)	120,648
Operating income	¥ 5,028	¥10,705	¥ 871	¥ 101	¥ 255	¥ 16,960	¥ (887)	¥ 16,073
<b>Total assets, depreciation, and capital expenditures</b>								
Assets	¥114,178	¥81,823	¥7,041	¥2,153	¥1,544	¥206,739	¥10,887	¥217,626
Depreciation	24	4	155	21	7	211	50	261
Capital expenditures	22	27	303	27	6	385	128	513

	Thousands of U.S. dollars							
	Year ended March 31, 2006							
	Condominium Development	Securitization Development	Real estate leasing	Real estate management	Other activities	Total	Eliminations or Corporate	Consolidated
<b>Revenue and operating income</b>								
Revenue from:								
External customers	\$542,956	\$495,122	\$62,884	\$33,728	\$29,190	\$1,163,880	\$ -	\$1,163,880
Intersegment or transfers	8	14,302	2,384	4,222	6,589	27,505	(27,505)	-
Total revenue	542,964	509,424	65,268	37,950	35,779	1,191,385	(27,505)	1,163,880
Operating expense	500,162	418,294	57,853	37,090	33,610	1,047,009	(19,954)	1,027,055
Operating income	\$ 42,802	\$ 91,130	\$ 7,415	\$ 860	\$ 2,169	\$ 144,376	\$ (7,551)	\$ 136,826
<b>Total assets, depreciation, and capital expenditures</b>								
Assets	\$971,976	\$696,544	\$59,939	\$18,328	\$13,143	\$1,759,930	\$ 92,679	\$1,852,609
Depreciation	204	34	1,319	179	60	1,796	426	2,222
Capital expenditures	187	230	2,579	230	51	3,277	1,090	4,367

Through March 31, 2005, the Companies disclosed business segment information on “Real estate development” and “Securitization and other activities” for revenue from rental condominiums and commercial properties.

Effective April 1, 2005, the Companies changed its method of classifying its “Condominium Development” and “Securitization Development”.

Management believes that this change reflects a more accurate presentation of the various business segments involved in the companies operations.

As a result of the change, revenue and operating expense for “Condominium Development” have decreased by ¥1,759 million (\$14,974 thousand) and ¥1,699 million (\$14,463 thousand), respectively, compared with what would have been recorded under the new presentation.

As a result of the change, revenue and operating expense for “Securitization Development” have increased by ¥42,344 million (\$360,467 thousand) and ¥35,359 million (\$301,005 thousand), respectively, compared with what would have been recorded under the new presentation.

As a result of the change, revenue and operating expense for “Real estate leasing” have increased by ¥677 million (\$5,763 thousand) and ¥457 million (\$3,890 thousand), respectively, compared with what would have been recorded under the new presentation.

As a result of the change, revenue and operating expense for “Real estate management” have decreased by ¥362 million (\$3,082 thousand) and ¥325 million (\$2,767 thousand), respectively, compared with what would have been recorded under the new presentation.

As a result of the change, revenue and operating expense for “Other activities” have decreased by ¥194 million (\$1,651 thousand) and ¥312 million (\$2,656 thousand), respectively, compared with what would have been recorded under the new presentation.

Millions of yen								
Year ended March 31, 2005								
	Condominium Development	Securitization Development	Real estate leasing	Real estate management	Other activities	Total	Eliminations or Corporate	Consolidated
<b>Revenue and operating income</b>								
Revenue from:								
External customers	¥65,540	¥17,181	¥6,557	¥4,343	¥2,850	¥ 96,471	¥ -	¥ 96,471
Intersegment or transfers	1	317	431	477	1,548	2,774	(2,774)	-
Total revenue	65,541	17,498	6,988	4,820	4,398	99,245	(2,774)	96,471
Operating expense	60,453	13,778	6,338	4,682	4,261	89,512	(2,414)	87,098
Operating income	¥ 5,088	¥ 3,720	¥ 650	¥ 138	¥ 137	¥ 9,733	¥ (360)	¥ 9,373
<b>Total assets, depreciation, and capital expenditures</b>								
Assets	¥90,908	¥74,345	¥6,709	¥1,936	¥1,743	¥175,641	¥ 7,199	¥182,840
Depreciation	28	0	145	18	15	206	52	258
Capital expenditures	49	3	424	25	53	554	58	612

Thousands of U.S. dollars								
Year ended March 31, 2005								
	Condominium Development	Securitization Development	Real estate leasing	Real estate management	Other activities	Total	Eliminations or Corporate	Consolidated
<b>Revenue and operating income</b>								
Revenue from:								
External customers	\$557,930	\$146,258	\$55,819	\$36,971	\$24,262	\$ 821,240	\$ -	\$ 821,240
Intersegment or transfers	8	2,699	3,669	4,061	13,177	23,614	(23,614)	-
Total revenue	557,938	148,957	59,488	41,032	37,439	844,854	(23,614)	821,240
Operating expense	514,625	117,290	53,954	39,857	36,273	761,999	(20,550)	741,449
Operating income	\$ 43,313	\$ 31,667	\$ 5,534	\$ 1,175	\$ 1,166	\$ 82,855	\$ (3,064)	\$ 79,791
<b>Total assets, depreciation, and capital expenditures</b>								
Assets	\$773,883	\$632,885	\$57,112	\$16,481	\$14,838	\$1,495,199	\$ 61,284	\$1,556,483
Depreciation	238	0	1,234	153	128	1,753	443	2,196
Capital expenditures	417	26	3,609	213	451	4,716	494	5,210

## 18. STOCK OPTION

By special resolution at the 16th general shareholders' meeting held on June 26, 2002, the Company introduced a stock option plan in accordance with Article 280-21 of the Commercial Code of Japan, and granted stock purchase rights at advantageous terms to (i) directors, (ii) corporate auditors, (iii) employees of the Company, and (iv) directors of subsidiary companies.

The stock purchase rights can be exercised at a price of ¥816 per share in the period from July 1, 2005 to June 30, 2007, and a total of 16,200 shares of common stock could be issued by the exercise of these rights. The exercise price of stock purchase rights would be adjusted, if the Company issues new shares at a price below the market price.

By special resolution at the 17th general shareholders' meeting held on June 24, 2003, the Company introduced a stock option plan in accordance with Article 280-21 of the Commercial Code of Japan, and granted stock purchase rights at advantageous terms to (i) directors, (ii) corporate auditors, (iii) employees of the Company, and (iv) directors of subsidiary companies.

The stock purchase rights can be exercised at a price of ¥497 per share in the period from July 1, 2005 to June 30, 2008, and a total of 35,400 shares of common stock could be issued by the exercise of these rights. The exercise price of stock purchase rights would be adjusted, if the Company issues new shares at a price below the market price.

By special resolution at the 18th general shareholders' meeting held on June 24, 2005, the Company introduced a stock option plan in accordance with Article 280-21 of the Commercial Code of Japan, and granted stock purchase rights at advantageous terms to (i) directors, (ii) corporate auditors, (iii) employees of the Company, and (iv) directors of subsidiary companies.

The stock purchase rights can be exercised at a price of ¥1,205 per share in the period from July 1, 2005 to June 30, 2008, and a total of 291,400 shares of common stock could be issued by the exercise of these rights. The exercise price of stock purchase rights would be adjusted, if the Company issues new shares at a price below the market price.

Furthermore, the Company made a two-for-one stock split on January 5, 2006.

## INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of  
JOINT CORPORATION:

We have audited the accompanying consolidated balance sheets of JOINT CORPORATION and consolidated subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

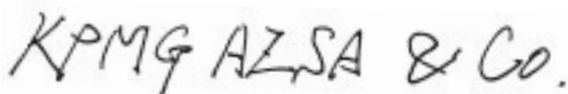
We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis,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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of JOINT CORPORATION and subsidiaries as of March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following.

As described in Note 17 to the consolidated financial statements, effective April 1, 2005, the Companies have changed its method of classifying business segmentation.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.



Tokyo, Japan  
June 24, 2006

## BOARD OF DIRECTORS

(As of June 24, 2006)

### PRESIDENT AND CHIEF EXECUTIVE OFFICER

Yoshinobu Shoji

### SENIOR MANAGING DIRECTOR

Tatsuya Sekine

### MANAGING DIRECTOR

Hitoshi Suzuki

### DIRECTORS

Koji Yamashita  
Yusaku Kato  
Kenichiro Iwaya  
Toshinobu Oono  
Hisashi Oribe  
Komao Hirose

### AUDITORS

Tadao Suzuki  
Atsuo Taenaka  
Tomio Takayama  
Masaru Mizuno

## CORPORATE DATA

(As of March 31, 2006)

### CORPORATE NAME

JOINT CORPORATION

### HEAD OFFICE

10-11, Meguro 2-chome,  
Meguro-ku, Tokyo 153-0063, Japan

### OFFICE

Osaka  
1-17, Tanimachi 3-chome, Chuo-ku, Osaka, Osaka 540-0012

### Okinawa

20-5, Isa 2-chome, Ginowan, Okinawa 901-2221

### Nagoya

3-3, Sakae 1-chome, Naka-ku, Nagoya, Aichi 460-0008  
(Opened at April 2006)

### ESTABLISHMENT

September 1986

### CAPITAL

¥15,800,178 thousand

### EMPLOYEES

214 (Non-consolidated)  
959 (Consolidated)

### STOCK EXCHANGE LISTING

Tokyo Stock Exchange, First Section

### SHAREHOLDERS

6,891

### TRANSFER AGENT

The Sumitomo Trust and Banking Company, Limited  
5-33, Kitahama 4-chome, Chuo-ku,  
Osaka 540-8639, Japan

### INDEPENDENT ACCOUNTANTS

KPMG AZSA & Co.

# JOINT CORPORATION

10-11, Meguro 2-chome, Meguro-ku, Tokyo 153-0063, Japan  
URL <http://www.jointcorporation.co.jp>

