

# **Fiscal 2007 Interim Earnings Presentation**

August 9, 2007

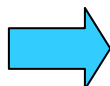
Shoei Co., Ltd.  
(Stock Code: 3003)  
Kenji Watanabe  
President and CEO

1. Fiscal 2007 First-Half Financial Highlights
2. Fiscal 2007 First-Half Segment Information
3. Fiscal 2007 First-Half Infrastructure Enhancements
4. Fiscal 2007 Second-Half Plan

**(1) Overview of Results**

As regards initial forecasts:

- Operating revenues were below forecast
- Net income exceeded forecast



◆ Operating revenues:

- No contribution from condominium sales
- Shoei Electronics Co., Ltd. excluded from scope of consolidation; TOSMAC-i Co., Ltd. included in scope of consolidation

◆ Net income: Benefited from asset replacements and business portfolio realignment

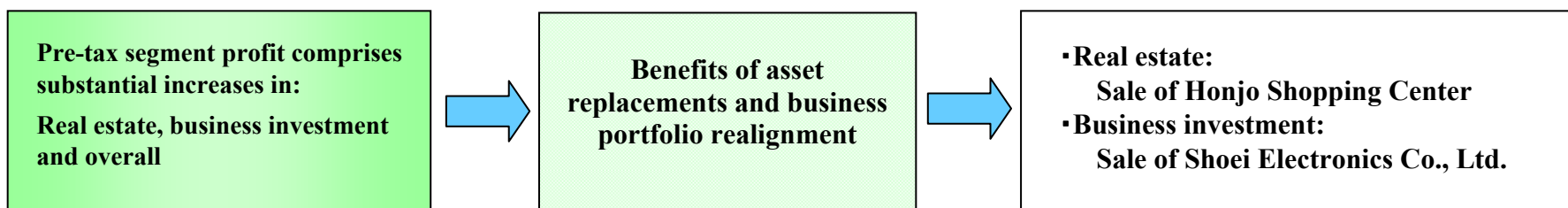
- Sale of Honjo Shopping Center (Started Nishi Arai development)
- Sale of Shoei Electronics Co., Ltd. (Business realignment)

■ Consolidated Results

(¥ million)

	Fiscal 2006 First Half	Fiscal 2006 Second Half	Fiscal 2007 First Half	Year-on-year change	Change vs. Fiscal 2005 Second Half
Operating revenues	10,165	14,091	8,081 (8,300 )	-2,084	-6,010
Operating income	3,274	4,270	3,179	-94	-1,091
Recurring profit	3,789	4,324	3,087 (2,800 )	-701	-1,237
Extraordinary gains	503	82	3,533	3,030	3,451
Extraordinary losses	-70	-58	-23	47	35
Net income	2,933	2,647	3,957 (3,700 )	1,024	1,310

Figures in ( ) are initial forecasts.

**(2) Overview by Segment**

(¥ million)

		Real Estate	Marketable Securities	Business Investment	Head Office and other expenses	Total
Operating income	FH FY06	2,879	779	96	-480	3,274
	SH FY06	4,333	387	84	-534	4,270
	FH FY07	2,761	840	73	-496	3,179
Other income	FH FY06	-542	1,177	7	-126	514
	SH FY06	-1,283	1,849	29	-542	53
	FH FY07	-1,110	975	51	-8	-91
Recurring profit	FH FY06	2,336	1,957	103	-607	3,789
	SH FY06	3,051	2,236	113	-1,077	4,324
	FH FY07	1,650	1,816	125	-504	3,087
Extraordinary gains and losses	FH FY06	503	-	-	-70	432
	SH FY06	50	-	-	-25	25
	FH FY07	2,653	90	784	-17	3,510
Pre-tax segment profit	FH FY06	2,839	1,957	103	-678	4,221
	SH FY06	3,101	2,236	113	-1,102	4,349
	FH FY07	4,304	1,906	909	-522	6,597

### (3) Consolidated Balance Sheets

		(¥ billion)		
		2006/12	2007/6	Change
Assets	Current assets	34.1	38.2	4.1
	Inventories	14.2	14.1	-0.1
	Fixed assets	219.2	237.3	18.1
	Property, plant and equipment	100.3	117.2	16.9
	Investment securities	107.2	109.8	2.6
	Investment in silent partnerships	9.0	6.3	-2.7
<b>Total</b>		<b>253.3</b>	<b>275.6</b>	<b>22.3</b>
Liabilities and equity	Current liabilities	22.7	21.3	-1.4
	Short-term borrowings	11.0	9.2	-1.8
	(Non-recourse loans)	(0.5)	(0.5)	0.0
	Long-term liabilities	166.9	187.0	20.1
	Bonds and long-term debt	100.8	114.0	13.2
	(Non-recourse loans)	(28.0)	(27.7)	0.3
	Long-term deposits	35.9	41.0	5.1
	Deferred tax liabilities	21.7	23.7	2.0
	Equity	63.5	67.2	3.7
	Net unrealized gain on available-for-sale securities	28.8	30.1	1.3
Treasury stock	-1.2	-2.3	-1.1	
<b>Total</b>		<b>253.3</b>	<b>275.6</b>	<b>22.3</b>

**Real estate investment: ¥21.5 billion**

- New acquisitions: 2
- Development operations: 2
- Development properties: 5

	06/12 → 07/06
Canon:	6,700 → 7,230
Mizuho FG :	850,000 → 853,000
Nikkei average :	17,226 → 18,138

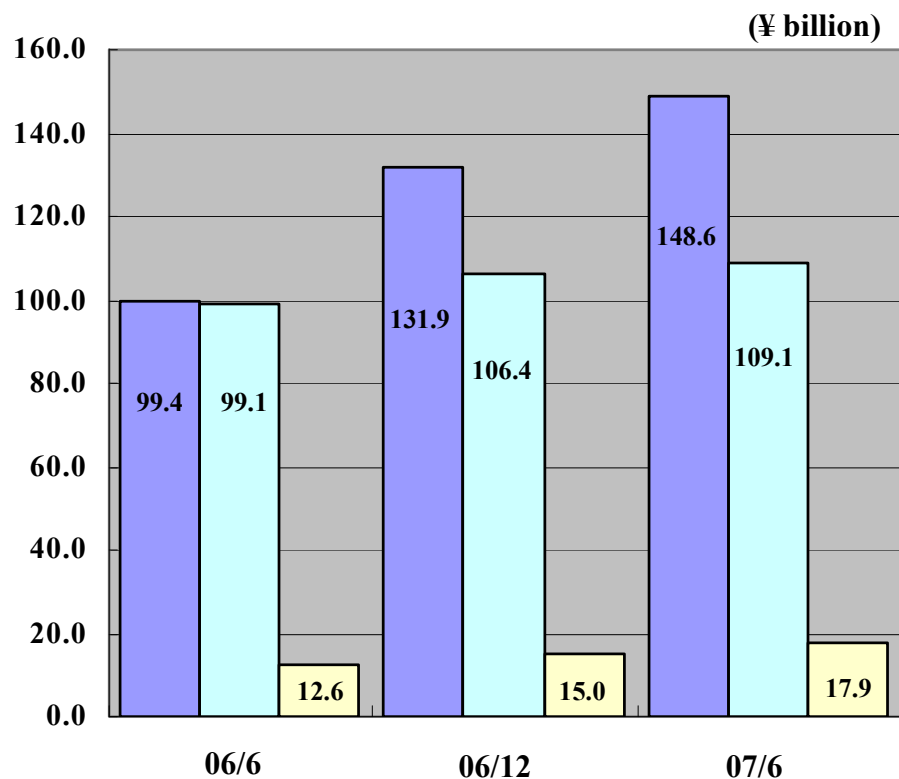
- Increase in debt in line with investments
- No progress in conversion of convertible bonds

- Increase in hedges for shareholdings

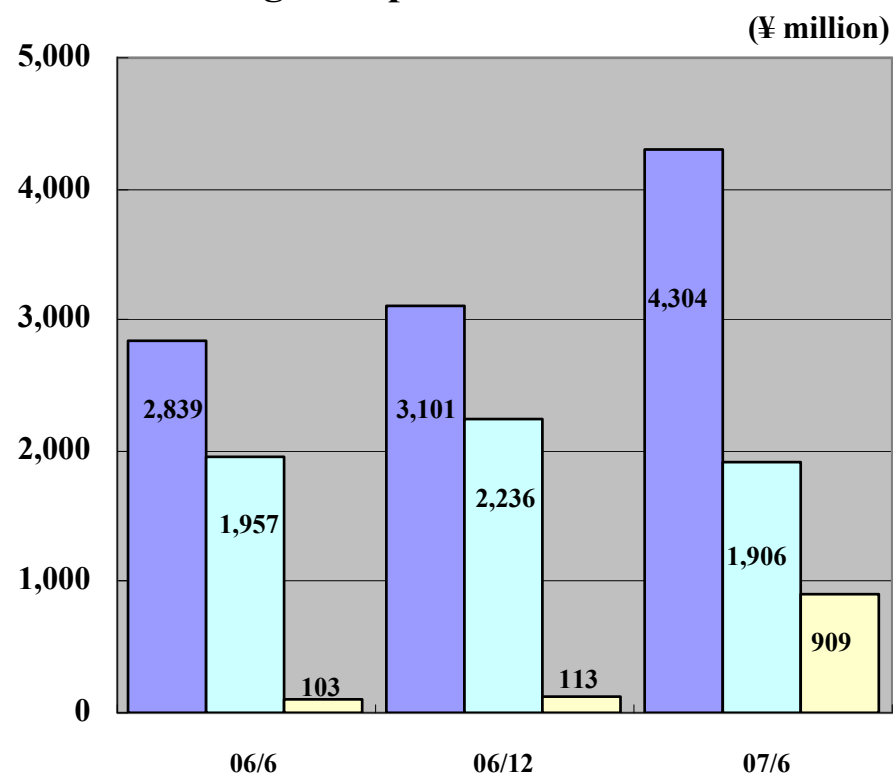
## (4) Real Estate Becomes Core Business in Both Form and Substance

Real estate surpasses marketable securities in terms of both assets and earnings

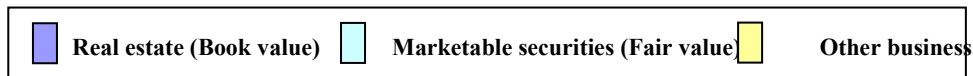
### ◆ Assets



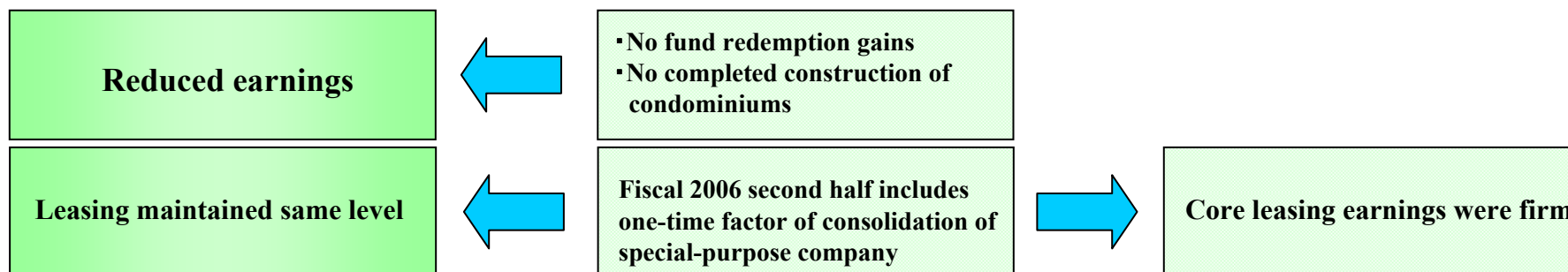
### ◆ Pre-tax segment profit



\*Excludes Head Office expenses



# (1) Real Estate Business



(¥ million)

		Fiscal 2006 First Half	Fiscal 2006 Second Half	Fiscal 2007 First Half	Year-on-year change	Change vs. fiscal 2006 second half
Operating revenues	Leasing	3,542	6,102	5,333	1,790	-769
	Condominium sales	3,243	3,102	42	-3,201	-3,060
	Fund investments	934	1,539	597	-336	-942
	<b>Total</b>	<b>7,720</b>	<b>10,744</b>	<b>5,973</b>	<b>-1,747</b>	<b>-4,771</b>
Pre-tax segment profit	Operating income					
	Leasing	1,744	1,976	1,875	131	-101
	Condominium sales	220	280	2	-218	-278
	Fund investments	914	1,522	578	-336	-944
	<b>Total</b>	<b>2,879</b>	<b>3,779</b>	<b>2,456</b>	<b>-423</b>	<b>-1,323</b>
	Other expenses	-542	(*) -728	(*) -806	-264	-78
	Asset replacements	503	50	2,653	2,150	2,603
<b>Total</b>	<b>2,839</b>	<b>3,101</b>	<b>4,304</b>	<b>1,464</b>	<b>1,203</b>	

## ◆ Breakdown of leasing operating income (¥ million)

	FY06 FH	FY06 SH	FY07 FH
Leasing earnings	1,883	1,840	2,030
Special-purpose company consolidation revision*	-	252	66
Initial expenses	-138	-117	-220
<b>Total</b>	<b>1,744</b>	<b>1,976</b>	<b>1,875</b>

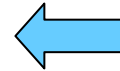
\*Interest paid associated with special-purpose company in fiscal 2006 second half and fiscal 2007 first half was recorded as expenses against leasing earnings in conformity with fiscal 2006 first half accounting standards

	FY06 FH	FY06 SH	FY07 FH
Dividend	555	754	558
Fund redemption gain	340	746	0

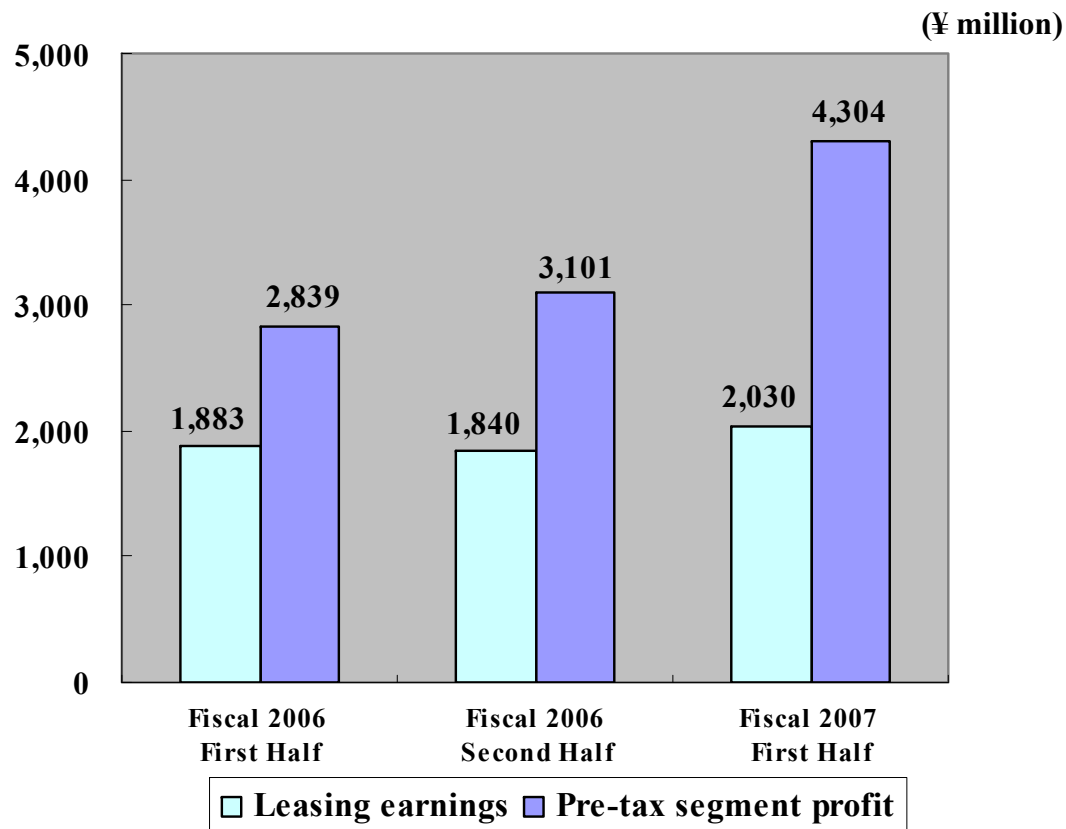
## (2) Earnings

Steady increase in core leasing earnings due to cumulative benefits of investments  
 Together with benefits of asset replacements, pre-tax segment profit also continued to increase

Full occupancy and higher rents also contributed to earnings



### ◆ Earnings



### ◆ Office buildings held by Shoei in Keihin area

#### Average rent (¥)

End of 2006/6	End of 2006/12	End of 2007/6
0.32%	0.00%	0.00%

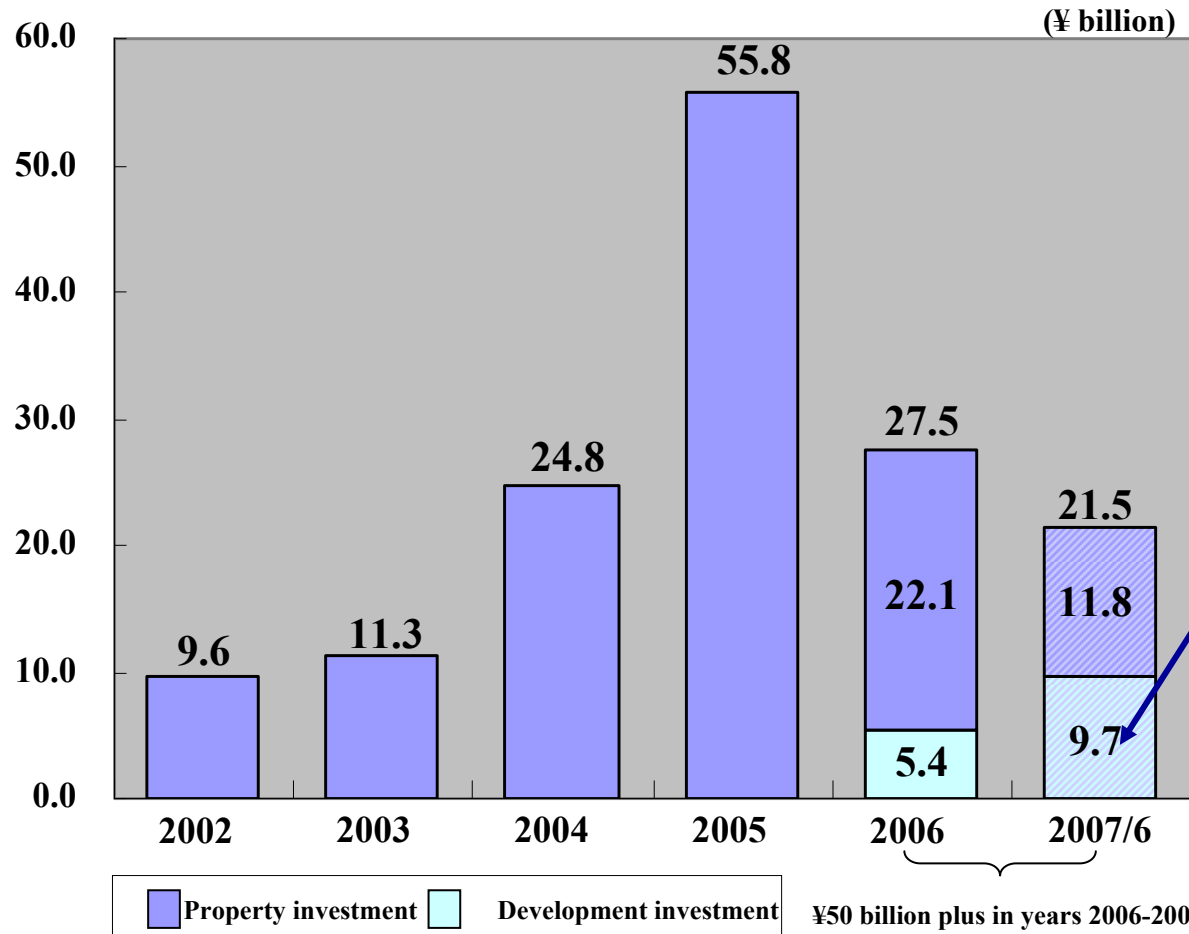
#### Vacancy rate

End of 2006/6	End of 2006/12	End of 2007/6
17,269	17,295	18,362

### (3) Leasing Investments

In a challenging operating environment, Shoei continued to make substantial investments focused on development properties; investment exceeded the plan's lower limit of ¥50 billion.

#### ◆ Leasing investments



- ◆ Properties acquired:
- Toyoko-Inn Chubu Kokusai Kuko (January)
  - MY Takadanobaba No.2 Building (March)

- ◆ Completed development properties:
- Nittsu Uchimoriya Distribution Center (March)
  - Itabashihoncho Student Condominium (March)

- Including investment in development properties of ¥9.7 billion
- Nishi Arai Station West-side Area A Development Project (Provisional)
  - Toyoko-Inn Niigata Kami Okawa Maedori (Provisional)
  - Kamakura Aged Care Facility (Provisional)
  - Toyoko Inn Hiratsuka Station North Entrance (Provisional)
  - Kawasaki Ukishima Distribution Center (Provisional)

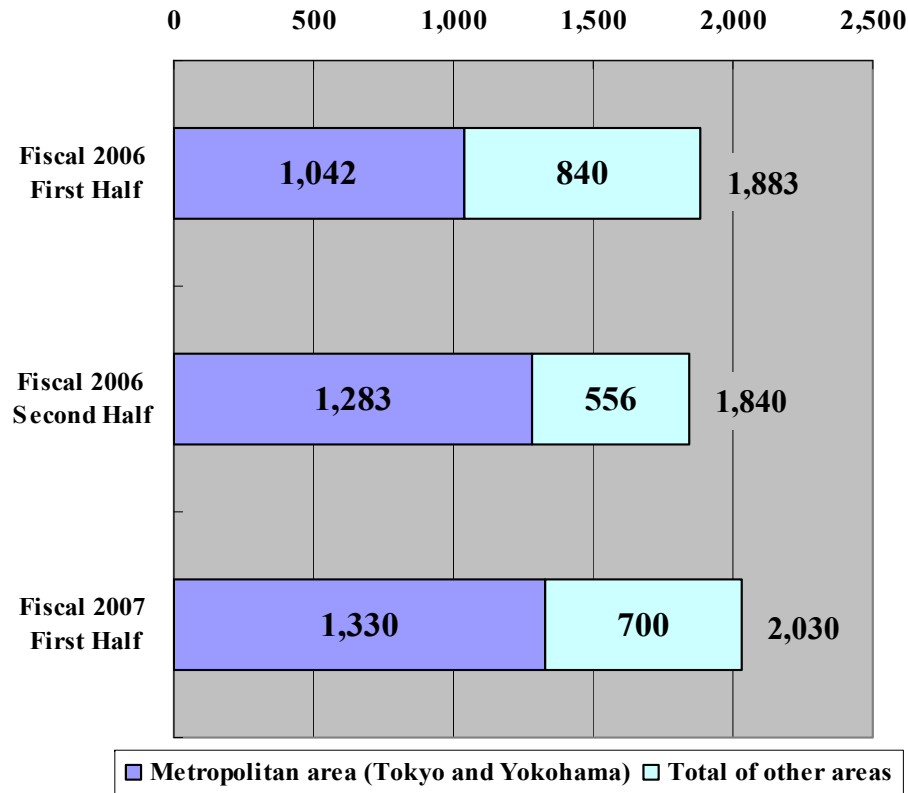
- Successful bid for Nakano 4-chome Development Project (Provisional; former site of Nakano Police College)  
Tokyo Tatemono Co., Ltd. and Shoei Group to sign contract in August

### (4) Portfolio Strategy

#### ◆ Leasing earnings

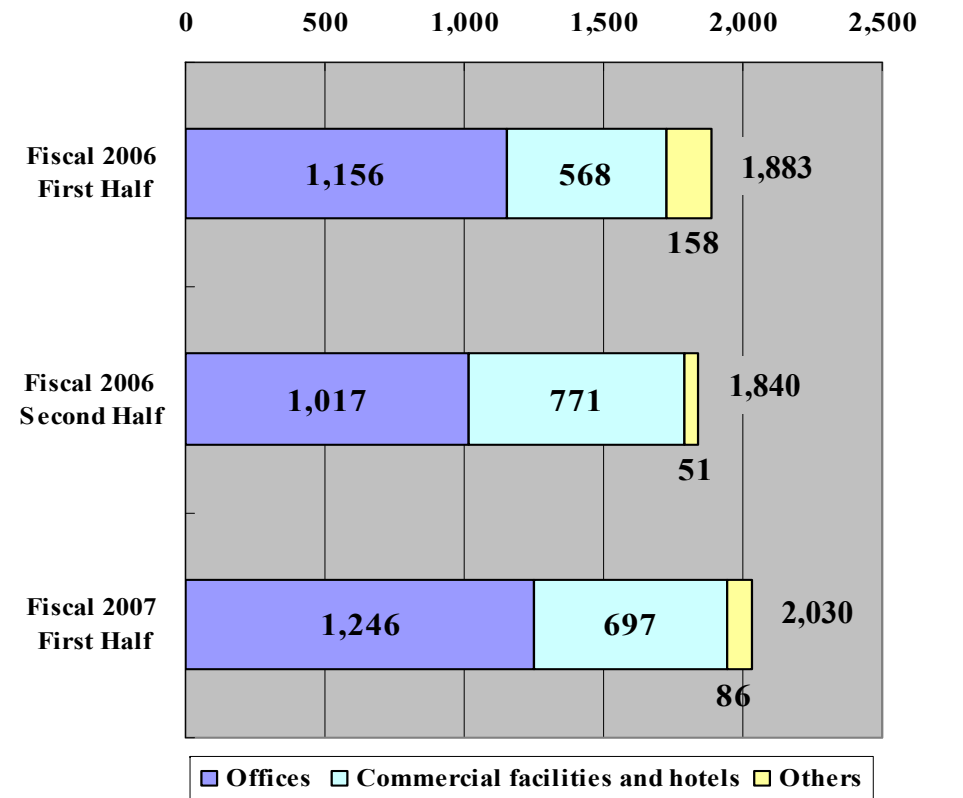
By region

(¥ million)

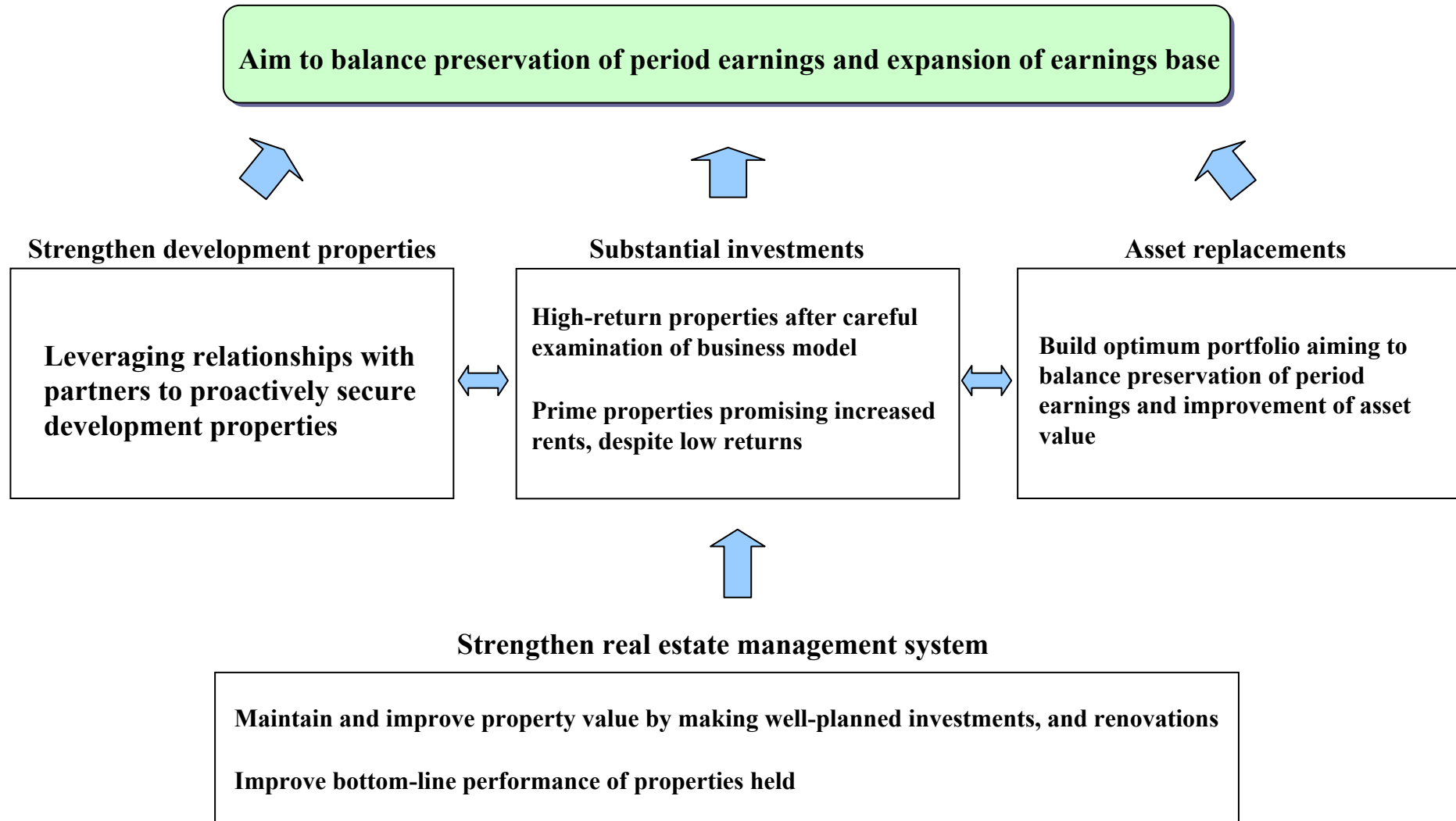


By type

(¥ million)



## (5) Basic Policy of Real Estate Business



## (6) Investment Strategies

### Current situation

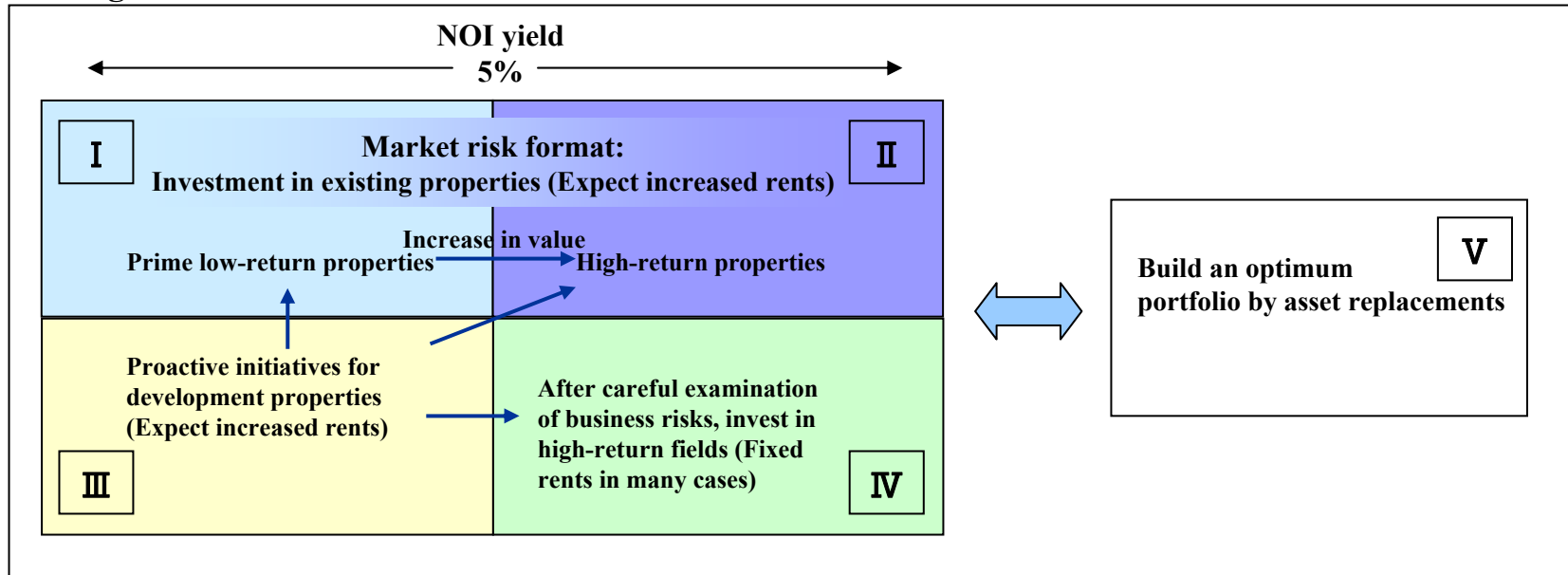
- Difficult to make high-return investments as in deflation era
- Properties held by Shoei are not super-prime
- Percentages of fixed- and variable-rents are about equal



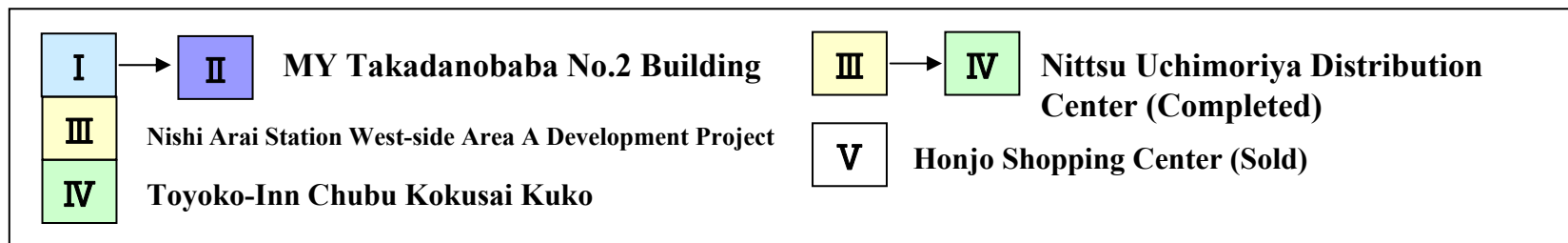
### Objective

Aim to balance preservation of period earnings and expansion of earnings base

### Strategies



### ◆ Main investment properties



## (7) Strengthen Development Capabilities

Rise in property value → Risk that property cannot be bought → Strengthen development of properties with high earnings potential

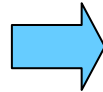
### ◆Nishi Arai Station West-side Area A Development Project (Provisional)

#### Location and current status:

- Good location 20 minutes from Otemachi, Tokyo's central business district
- Commercial market of 360,000 people within 3-kilometer radius

#### Redevelopment:

- Gateway to 11.6-hectare redevelopment area
- 2,000 households and 4,000 residents



Expected to benefit from the area's potential  
Will contribute to the revitalization of the area

Aim to create a multi-functional town in its role as the gateway to the Nishi Arai Station West-side Area



#### <Overview>

Address: Nishi Arai Sakae Cho, Adachi-ku  
 Site area: 5,079.69 square meters  
 Total floor area: Approx. 23,000 square meters  
 Type: Commercial facilities  
 Size: 4 floors above ground; 3 basement floors  
 Scheduled completion of construction: 2010

Note: Plans for the facilities are currently under examination and may change in the future.

### ◆Kawasaki Ukishima Distribution Center (Provisional)

Strategic location for air and sea distribution; good location 500 meters from Kawasaki Ukishima JCT

#### Overview:

Address: Ukishima-cho, Kawasaki-ku, Kawasaki-shi  
 Site area: 17,457.79 square meters  
 Total floor area: 69,398.62 square meters  
 Type: Warehouses  
 Size: 6 floors above ground  
 Scheduled completion of construction: October 2007

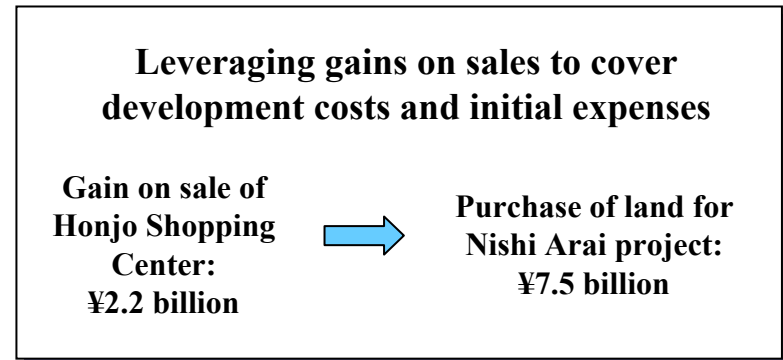
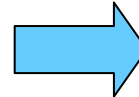
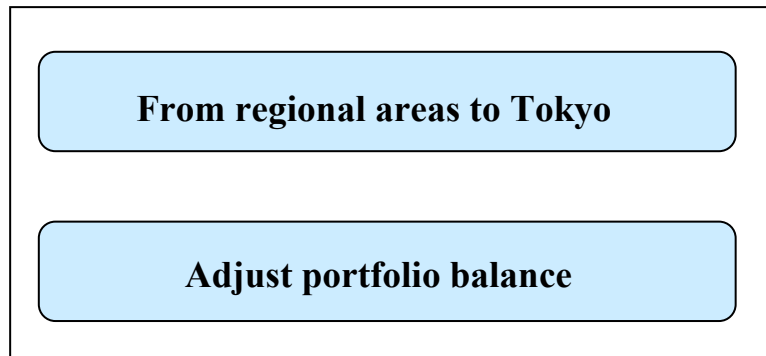


Diagram of completed project

## (8) Asset Replacements

Replace with properties for which rents are projected to rise

### ◆ Replacement policy



### ◆ Actual examples

#### Sale of Honjo Shopping Center

- Gave up idea of complete rebuilding due to difficulty of accommodating interests of landowners
- Competition from large shopping centers scheduled to open in the neighborhood



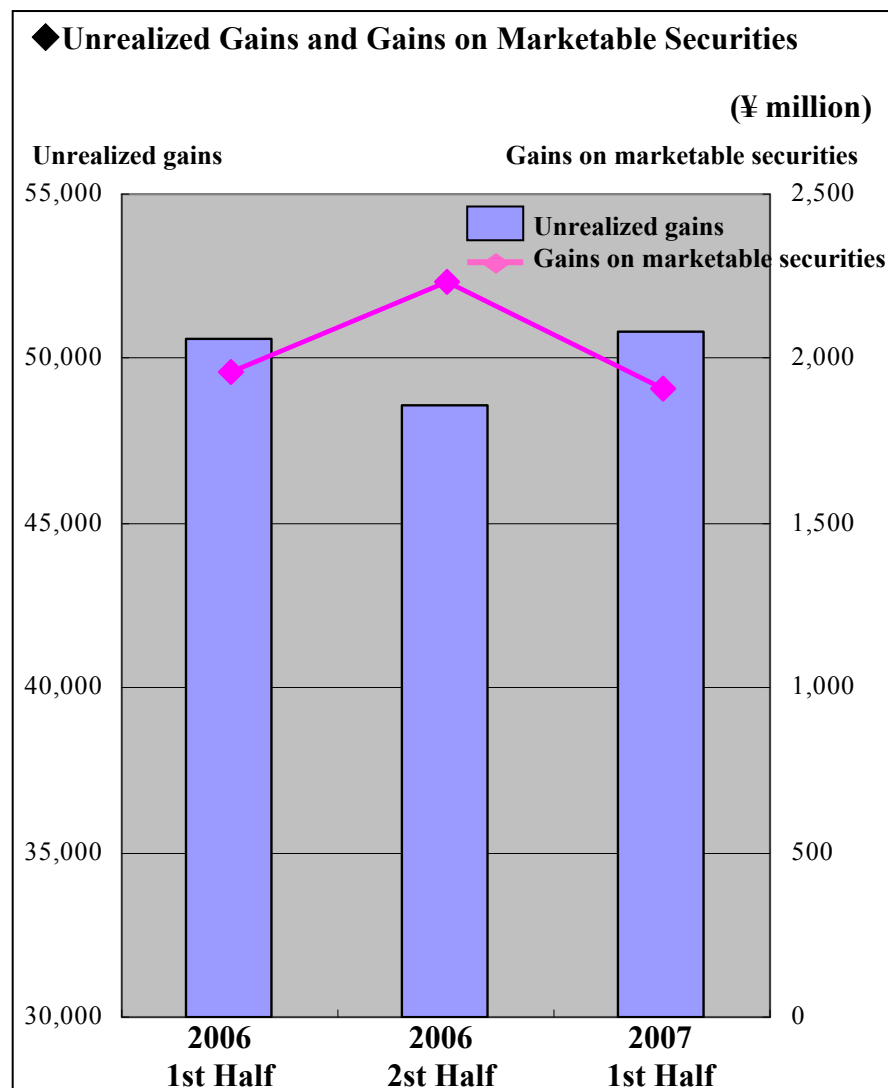
#### Start of redevelopment projects at good locations in front of stations

- Nishi Arai Station West-side Area A Development Project
- Nakano 4-chome Development Project

- Sale of 5 hotels (August)



- Launch of No.2 Fund
- Adjust portfolio balance to make new investments

**(9) Marketable Securities Investment Business**

(¥ million)

	2006 1st Half	2006 2nd Half	2007 1st Half
Fair value (incl. non-listed shares)	99,134	106,408	109,061
Unrealized gains	50,593	48,561	50,822
Gains on marketable securities	1,957	2,236	1,906
(excl. dividends)	1,177	1,849	1,066
Return on fair value	4.07%	4.40%	3.60%
Return on revised fair value	4.60%	5.27%	4.49%

\*Revised fair value: Calculated to reflect the price of hedged shares when hedges are executed.

(¥)

	2006 6/30	2006 12/31	2007 6/30
Nikkei 225	15,505	17,226	18,138
Canon share price	5,610	6,700	7,230

# (10) Portfolio of Marketable Securities Investments

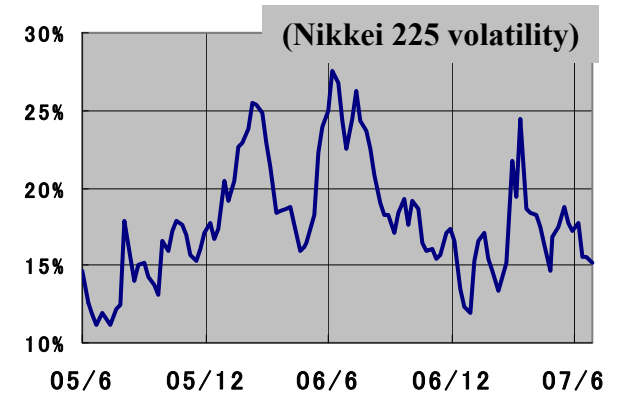
**Decline in premium income due to drop in volatility  
Proper level maintained by increase in dividends**

◆Gentle rise in stock prices



	(¥ million)		
	2006 1st Half	2006 2nd Half	2007 1st Half
Premiums	1,089	856	670
Trading gains	89	993	396
Dividend	779	387	840
Total gains on marketable securities	1,957	2,236	1,906

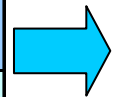
◆Drop in volatility



◆Portfolio Balance

As of December 31, 2006 (¥ million)

	Available for sale		Non-available for sale	
Options	Fair value	2,515	Fair value	64,615
	Unrealized gains	30	Unrealized gains	40,666
No options	Fair value	27,360	Fair value	5,648
	Unrealized gains	4,080	Unrealized gains	3,785



As of June 30, 2007 (¥ million)

	Available for sale		Non-available for sale	
Options	Fair value	3,731	Fair value	69,560
	Unrealized gains	-1	Unrealized gains	41,966
No options	Fair value	24,091	Fair value	6,009
	Unrealized gains	4,697	Unrealized gains	4,160

## (11) Business Investment

**Reposition manufacturing, Shoei's original business, as "Business investment"**

**Manufacturing businesses**



**Achieve further business growth by sales to trustworthy business partners with potential for synergies**

**2005: Sale of concrete manufacturing business  
2007: Sale of electronic devices and components business**

**New investments**



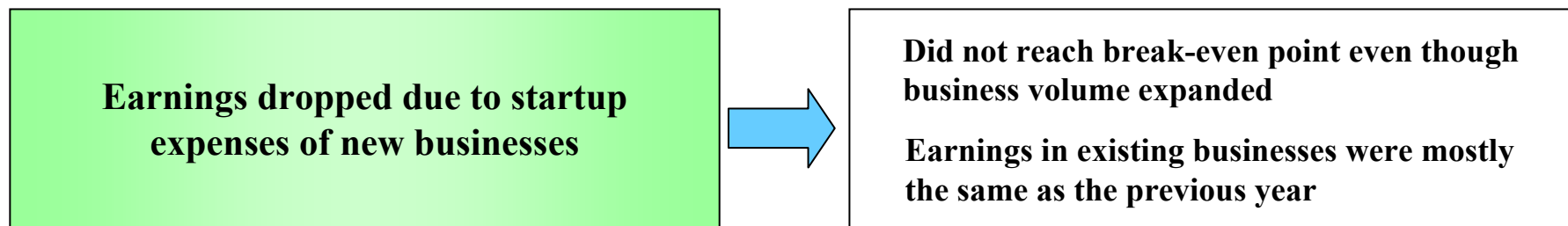
- **Businesses, although small, with high ROE**
- **Growth businesses with potential**
- **Businesses greatly contributing to society**

**2006: Entered the environmental business**



**Concentrate on and specialize in the environmental business in near future**

## (12) Business Investment (Environmental Business)



### ■ Results

(¥ million)

	05/10-06/3	06/10-07/3	Year-on-year change
Operating revenues	1,172	1,256	84
Operating income	154	73	-80

#### ◆ Issues clarified

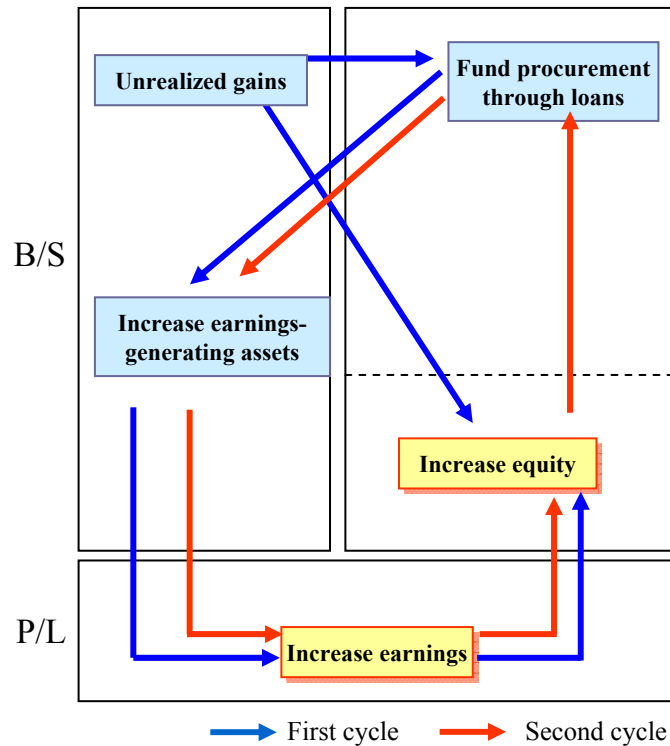
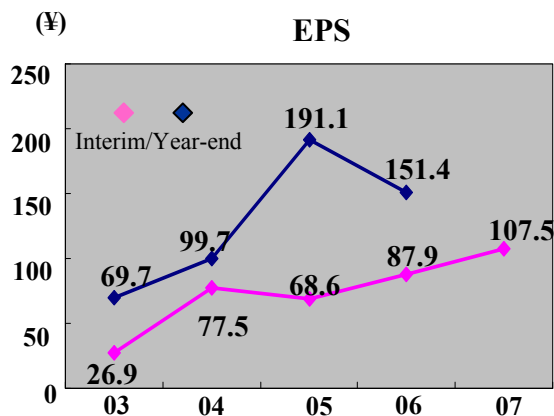
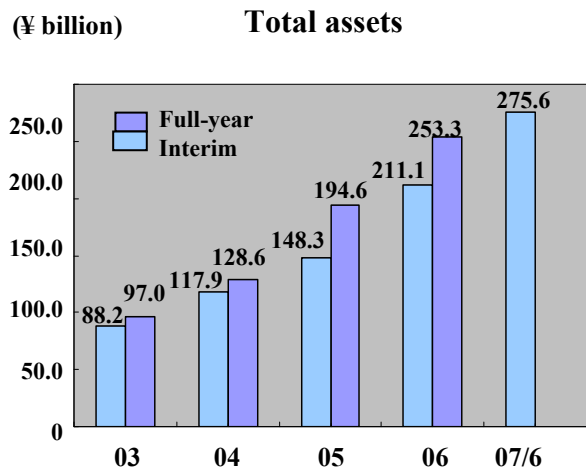
- Preserve stability of RPF manufacturing raw materials
- Review unit prices of RPF manufacturing processes

#### ◆ Full-fledged recycling business

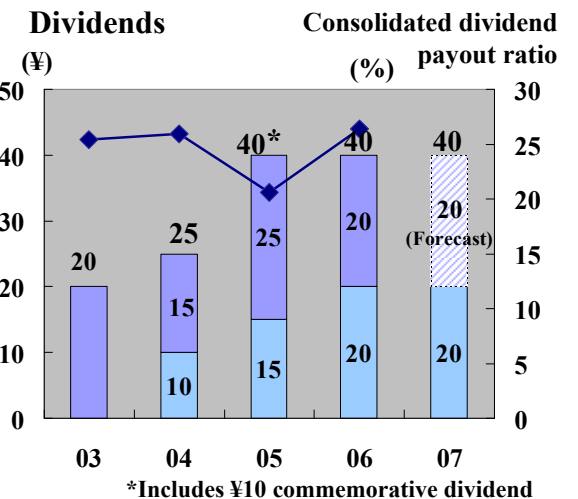
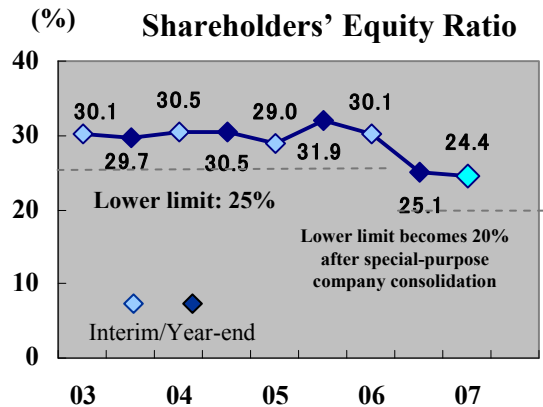
Prepare to launch full-fledged food waste recycling business

# (1) Growth of Equity and Earnings

**Slower pace of growth in earnings than assets**



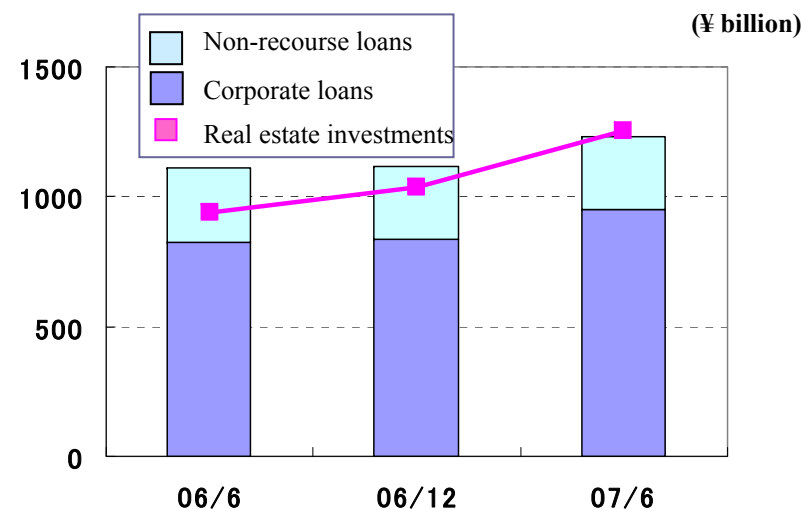
**Stock split**  
2007: 1.1 for 1.0



## (2) Fund Procurement and Collateral Use

- ◆ Basic approach to financing is to pledge properties as collateral for loans  
→ Repay loans with cash flow from properties
- ◆ Large share of Shoei's funding procured with collateral of CB and shares  
→ Share price risk covered by hedging
- ◆ Shoei has ample reserve collateral
- ◆ In response to SPC consolidation  
→ Shoei is also examining buying back properties from the special-purpose company to secure depreciation advantages

### ◆ Investments and Balance of Loans



### ◆ Financial Benchmarks

		Benchmark	2006/12	2007/6
Equity ratio	Previous benchmark	25.0%	28.7%	27.4%
	SPC consolidation	20.0%	25.1%	24.4%
D-E ratio		-	1.61	1.63
Average debt repayment period (years)		15	9.5	9.3

In response to SPC consolidation, equity ratio benchmark lowered from 25.0% to 20.0%

D-E ratio: Net interest-bearing debt / shareholders' equity

Average debt repayment period (years):

Net interest-bearing debt / (Recurring profit + Depreciation and amortization)

### ◆ Reserve collateral as of June 30, 2007

	Equity securities	Real estate	Total
Fair value of holdings	103.7	142.2	245.9
Amount pledged as collateral	45.0	73.1	118.1
Reserve collateral	58.7	69.1	127.8

\*Appraised values

\*\*Pledged amounts (incl. SPC)

### (3) Risk Management

**Increase in assets due to SPC consolidation resulted in increase in assets commensurate with non-recourse loans but no change to amount of risk**

**Calculation of risk capital commensurate with investment risks**



(¥ billion)

	Risk capital <small>(Assets × Amount of risk)</small>
<b>Real estate business</b>	<b>52.3</b>
<b>Marketable securities investment</b>	<b>9.8</b>
<b>Business investment</b>	<b>3.6</b>
<b>Total</b>	<b>65.7</b>

Actual Balance Sheet (¥ billion)

<b>Assets</b>	<b>275.6</b>	<b>Liabilities</b>	<b>Net liabilities</b>	<b>130.1</b>
			<b>Equity-backed</b>	<b>78.3</b>
		<b>Shareholders' equity</b>		<b>67.2</b>
<b>Total</b>	<b>275.6</b>	<b>Total</b>		<b>275.6</b>

**Risk Management Center**

**Currently:** • Actual shareholders' equity and risk capital are largely balanced

**Measures:** {

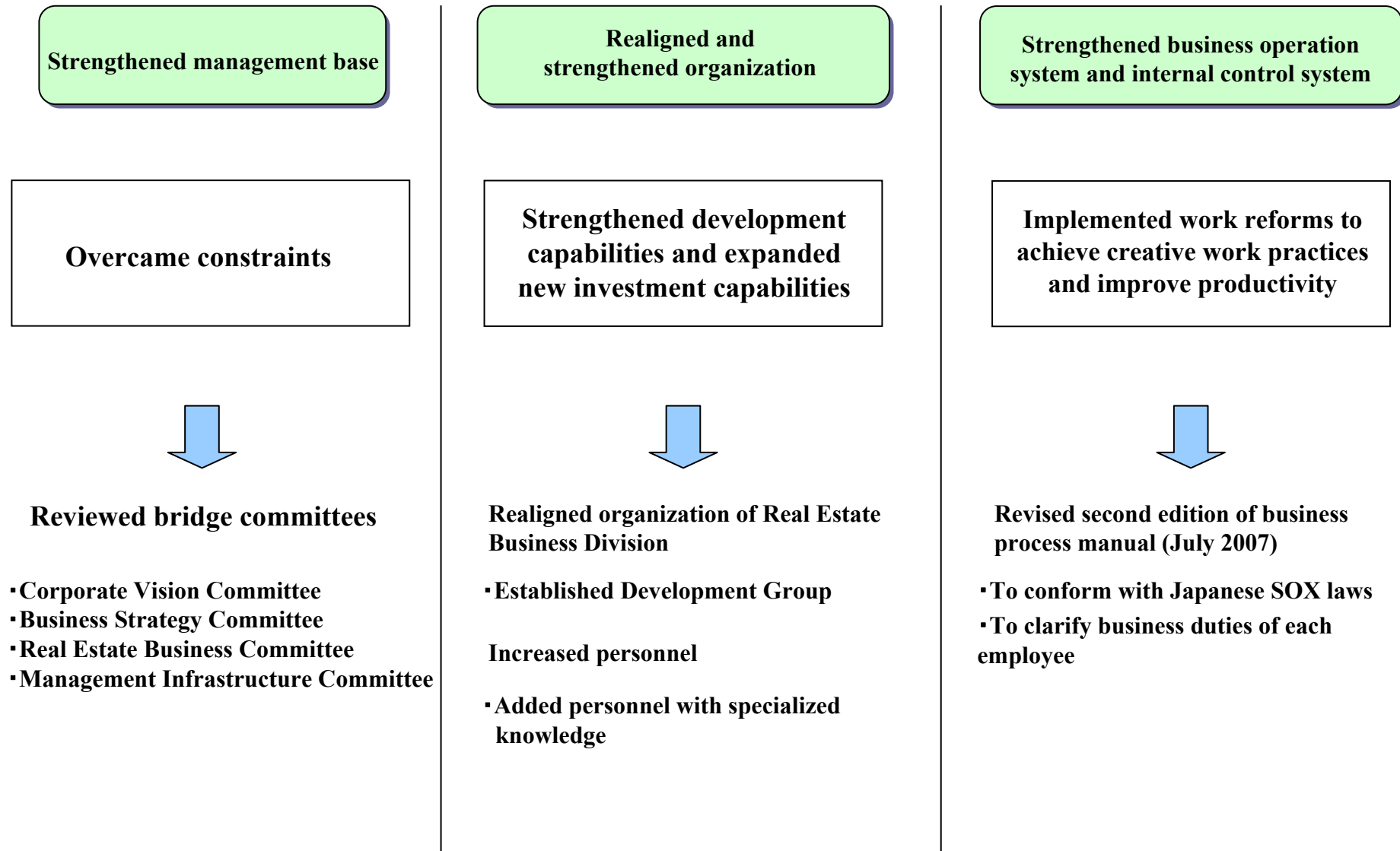
- Constantly check for imbalances
- Manage equity-backed liabilities (convertible bonds and fund procurement with equity securities pledged as collateral) and hedging ratios
- Reassess calculation standards for risk capital in step with changes in the operating environment



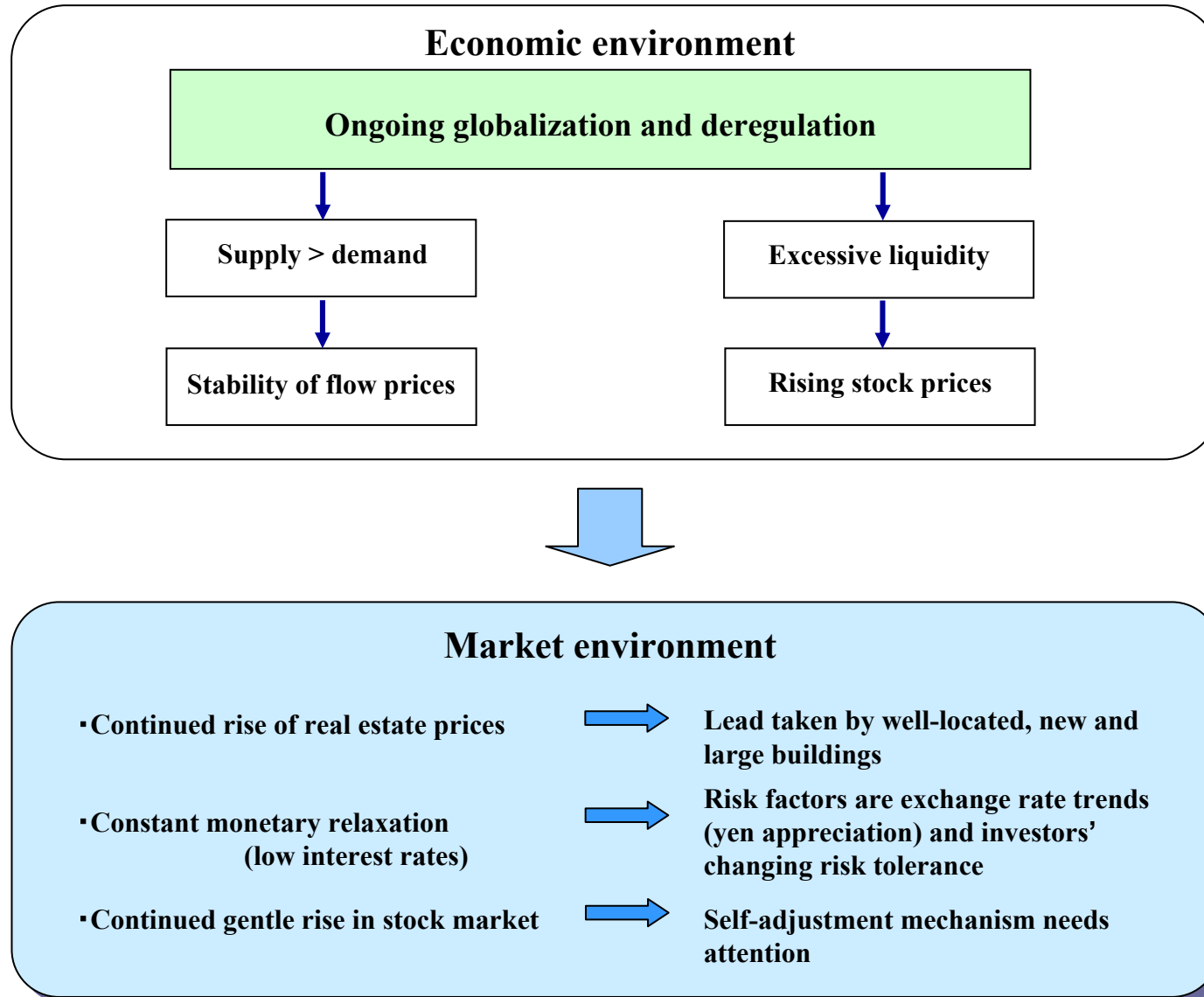
Risk-based Balance Sheet (¥ billion)

<b>Assets</b>	<b>275.6</b>	<b>Liabilities</b>	<b>209.9</b>
		<b>Shareholders' equity</b>	<b>65.7</b>
<b>Total</b>	<b>275.6</b>	<b>Total</b>	<b>275.6</b>

## (4) System Improvements



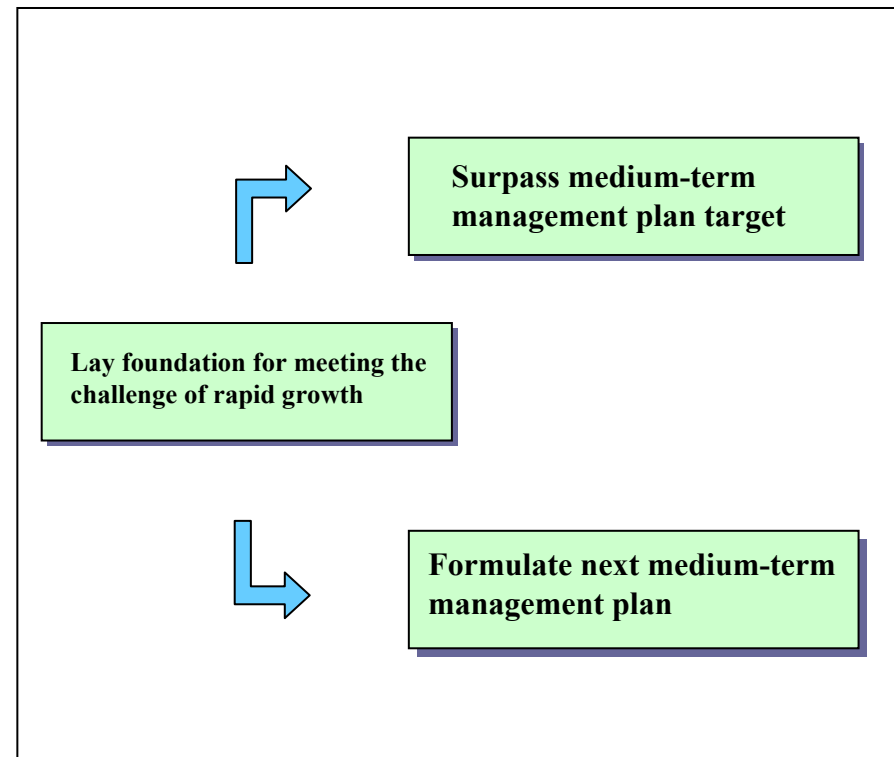
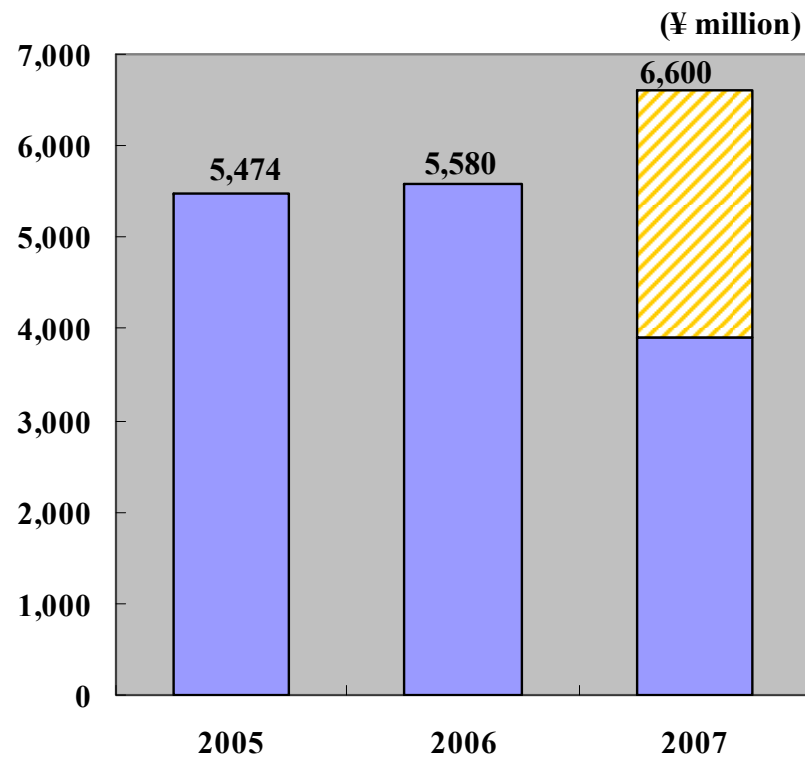
# (1) Awareness of Business Environment



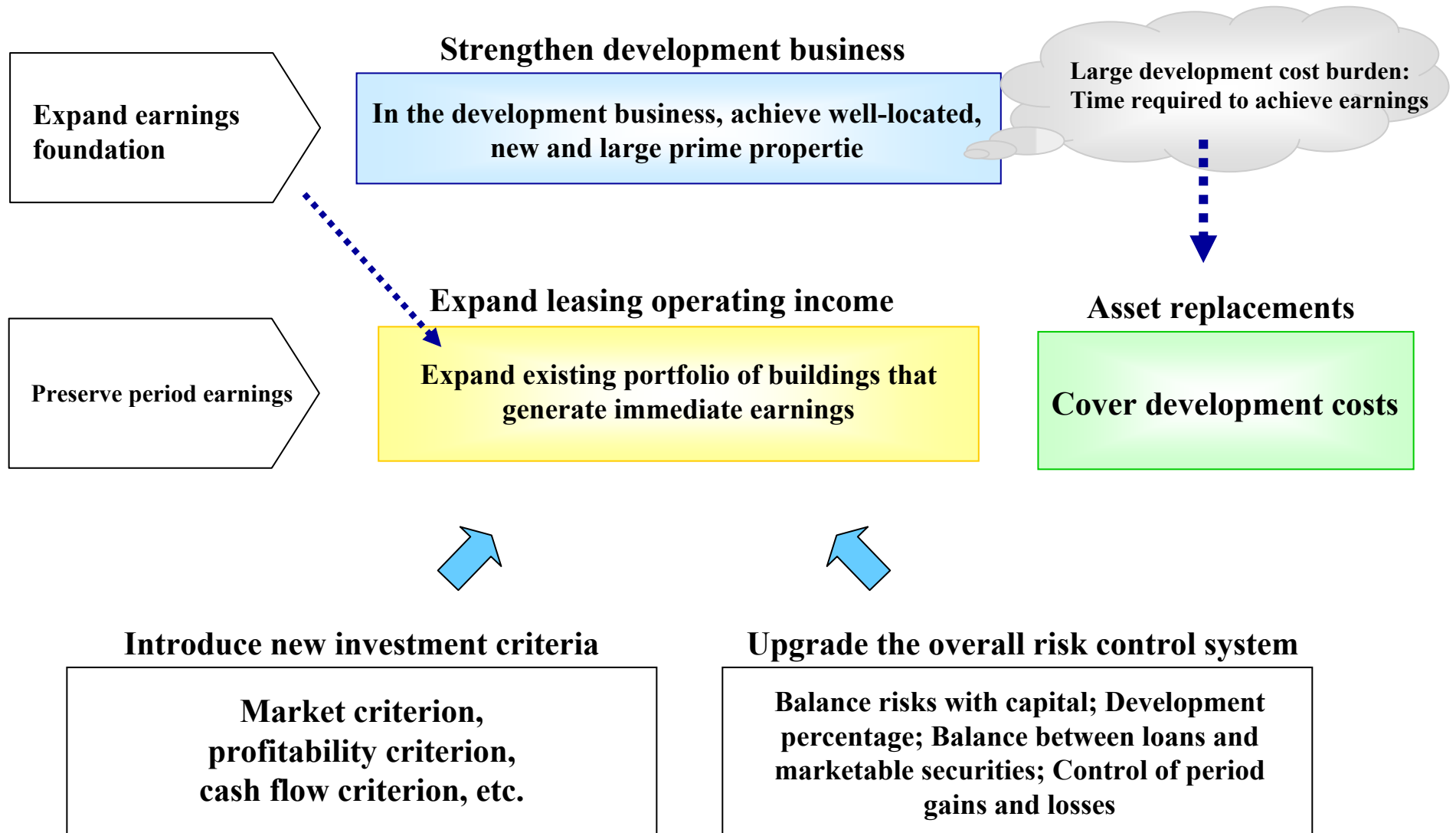
**Final year of Shoei's 3S Challenge 45 + S21 medium-term management plan**

**Shoei will achieve net income target of ¥6.6 billion!**  
**Making a last spurt to surpass our target**

**◆Net income**



### (3) Overview of Plan



**(4) Business Forecasts**

Adequate possibility of achieving targets by cumulative benefits of investments and replacements of assets

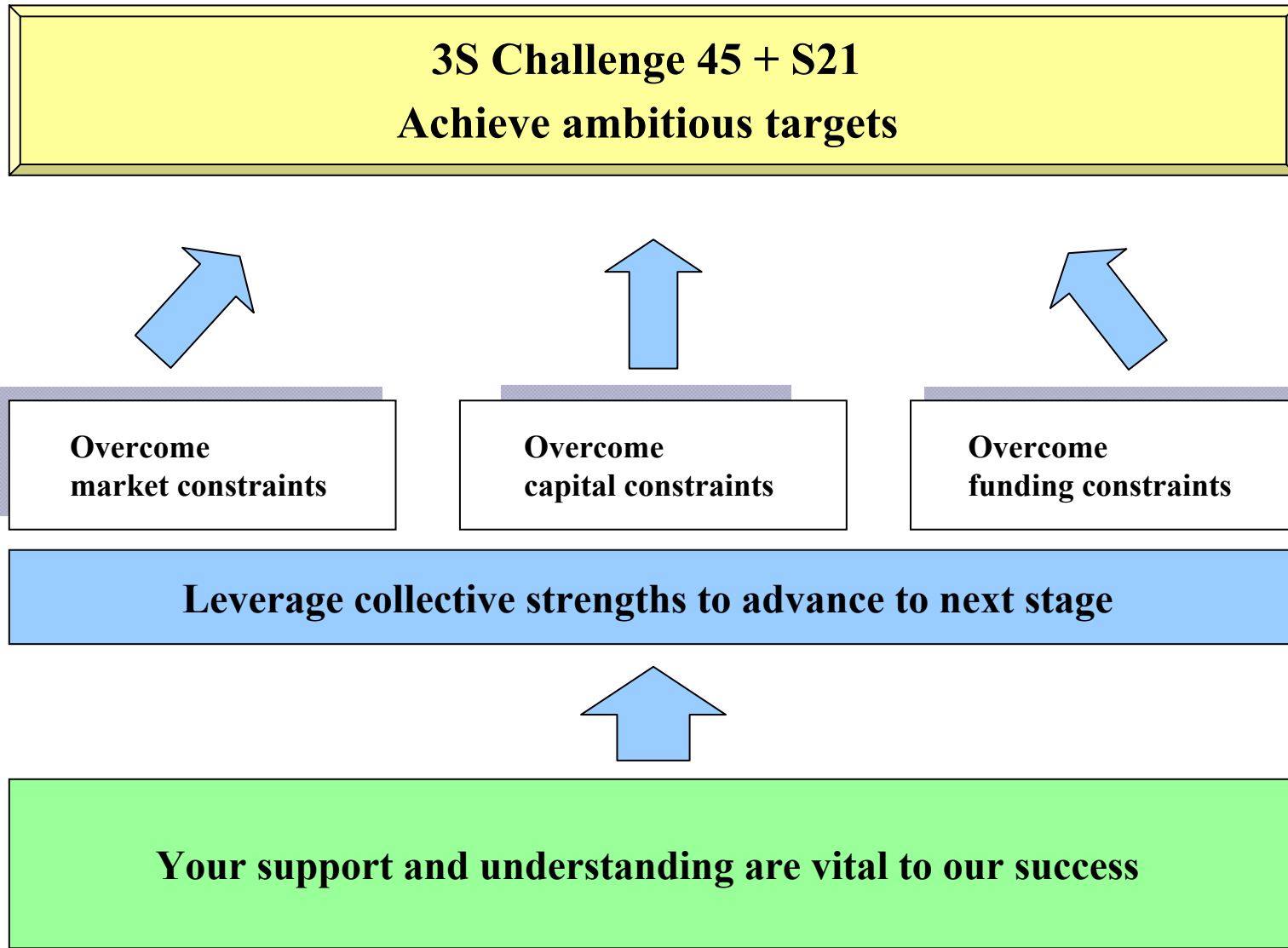
**■ Consolidated results**

(¥ million)

	Initial forecast	Current forecast	Change
Operating revenues	40,000	40,000	0
Operating income	-	8,300	-
Recurring profit	8,500	8,500	0
Net income	6,600	6,600	0

Forecast disclosed for the first time

No change in initial forecast



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**Forecasts of business results and other forecasts in this presentation are based on information available to management at the present time and are subject to inherent risks and uncertainties. Consequently, please be aware that actual results may differ materially from forecasts herein due to changes in various factors.**