

# Consolidated Earnings Report for the Second Quarter of Fiscal 2011 [Japanese Standards]

August 4, 2011

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Preparation of supplementary references regarding quarterly results: Yes

Holding the briefing of quarterly results: Yes (For institutional investors and security analysts)

(¥ million, rounded down)

## 1. Consolidated Results for the Second Quarter of Fiscal 2011 (January 1, 2011 – June 30, 2011)

### (1) Consolidated Operating Results (Cumulative)

(Percentages represent changes over the corresponding period of the previous fiscal year.)

	Net Sales (¥ million)		Operating income (¥ million)		Ordinary income (¥ million)		Net income (¥ million)	
		%		%		%		%
2Q, Fiscal 2011	5,871	-21.8	2,741	-6.1	1,656	-12.7	811	-10.7
2Q, Fiscal 2010	7,503	-5.6	2,917	15.3	1,897	84.7	908	10.7

	Net income per share (¥)	Diluted net income per share (¥)
2Q, Fiscal 2011	20.24	19.42
2Q, Fiscal 2010	22.66	21.75

### (2) Consolidated Financial Position

	Total assets (¥ million)	Net assets (¥ million)	Equity ratio (%)	Net assets per share (¥)
As of June 30, 2011	221,557	41,360	18.6	1,029.97
As of December 31, 2010	221,748	41,790	18.8	1,039.37

(Reference) Equity (Net assets - Subscription rights to shares) As of June 30, 2011: ¥41,302 million  
 Year ended December 31, 2010: ¥41,671 million

## 2. Dividends

	Dividends per share				
	First Quarter (¥)	Interim (¥)	Third Quarter (¥)	Year-end (¥)	Annual (¥)
Fiscal 2010	— —	5.00	— —	5.00	10.00
Fiscal 2011	— —	5.00			
Fiscal 2011 (projected)			— —	5.00	10.00

(Note) Revision of dividend forecasts during the second quarter: No

## 3. Consolidated Outlook for Fiscal 2011 (January 1, 2011 - December 31, 2011)

(Percentages represent changes over the corresponding period of the previous fiscal year)

	Net sales (¥ million)		Operating income (¥ million)		Ordinary income (¥ million)		Net income (¥ million)		Net income per share (¥)
		%		%		%		%	
Full year	11,500	-17.7	5,000	-11.0	2,700	-16.1	1,600	-18.8	39.91

(Note) Revision of outlook during the second quarter: No

#### 4. Others (For details, please see “Other information” on page 4)

(1) Changes in significant subsidiaries during the period under review: None

(Note) Whether or not the changes in specific subsidiaries was moved due to the change in certain specified subsidiaries resulting in revised scope of consolidation in the current quarter

(2) Adoption of simplified accounting and special accounting treatments: Yes

(Note) Whether or not the adoption of simplified accounting treatment and special accounting treatments to prepare quarterly consolidated financial statements

(3) Changes in principles, procedures and classifications of accounting treatments

1) Changes associated with revised accounting standards: Yes

2) Changes other than those in 1 above: No

(Note) Whether or not the principles, procedures, and display methods, etc., for accounting were changed. These are related to the creation of quarterly consolidated financial statements and are listed for “Changes in principles, procedures and classifications of accounting treatments associated with the preparation of consolidated financial statements”.

(4) Number of shares issued and outstanding (common stock)

1) Number of shares issued and outstanding at period-end (including treasury stock)

2) Number of shares in treasury stock at period-end

3) Average number of shares outstanding during the period (the second quarter):

As of June 30, 2011	41,330,382 shares	As of December 31, 2010	41,322,282 shares
As of June 30, 2011	1,229,830 shares	As of December 31, 2010	1,229,311 shares
Second quarter ended June 30, 2011	40,093,771 shares	Second quarter ended June 30, 2010	40,093,266 shares

\*Displays concerning the implantation status of quarterly review procedures

At the time of disclosure of these quarterly financial results, review procedures for quarterly financial statements based on the Financial Instruments and Trade Act were complete.

\* Cautionary statement regarding forecasts and other matters

Forecasts of business results and other forecasts in this release 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. For further details on cautionary matters regarding projections and their underlying assumptions, please refer to “Qualitative Information Concerning Consolidated Outlook” in “Qualitative Information Regarding the Consolidated Performance for the Current Quarter, etc.” on page 3.

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## 1. Qualitative Information Regarding the Consolidated Performance for the Current Quarter, etc.

### (1) Qualitative Information Concerning Consolidated Operating Results

#### (a) Consolidated Results

Our country's economy during the second quarter of fiscal 2011 continued to experience difficult circumstances such as the decrease in production activity and stagnation of consumer confidence continued due to the impact of the Great East Japan Earthquake, however, with the rapid recovery of the supply chain, signs of recovery in production/export can now be seen. Yet, there are still downside risks to the economic climate including concerns about electricity shortages and slowdown of overseas economies.

In the real estate leasing market, which is the core of our business, direct impact from the great earthquake was relatively slight and vacancy rates showed a gradual tendency to improve after peaking at the end of March. However average rent moderately continued to fall and we assume the difficult circumstances will continue for the time being. In the stock market as well, the situation is unstable due to uncertainty over the future of the domestic economy after the Great East Japan Earthquake and financial issues in Europe.

The situation being as it is, our company has been steadily working on strengthening of earning capacity and financial standing.

In the real estate business, we have made an effort to ensure stable profits by aiming at an improvement of vacancy rates and rent through reinforcement of the leasing power, at the same time implementing measures aiming at overhead cost reduction.

In the marketable securities investment business, we have advanced very carefully by taking measures such as holding down the outstanding amount reserved for marketable securities.

In addition, due to efforts to condense assets owned by Shoei and strengthen the financial standing through the transfer of all shares of TOSMAC-i Co., Ltd., which was a consolidated subsidiary of our company involved in environmental business, and sale of Shoei real estate, etc., the company's earning assets decreased. As a result, net sales in the second quarter of fiscal 2011 (cumulative) decreased 21.8% year on year to ¥5,871 million, operating income decreased 6.1% to ¥2,741 million, ordinary income decreased 12.7% to ¥1,656 million.

The commercial facility "PASSAGGIO" in front of Nishiarai Station that has been open for one year, is facing a serious challenge due to factors that could not be foreseen at the project planning stage such as the consumer recession following the Bankruptcy of Lehman Brothers and significantly sluggish consumption after the Great East Japan Earthquake. Recently, in order to improve the situation as much as possible, a renewal of the ground floor was decided. We will continue to do our best to improve the value of the commercial facility.

Loss on retirement of noncurrent assets associated with the above- mentioned B1 floor renewal of "PASSAGGIO", expenses in response to the Great East Japan Earthquake, and loss on the valuation of investment securities, etc. were included in extraordinary loss, and as a result, net income totaled 811 million yen (year over year 10.7% decrease).

#### Consolidated Results

(¥ million)

	FY10 2Q (Cumulative)	FY11 2Q (Cumulative)	Change	%
Net sales	7,503	5,871	-1,632	-21.8
Operating income	2,917	2,741	-176	-6.1
Ordinary income	1,897	1,656	-241	-12.7
Extraordinary income	1,690	684	-1,005	—
Extraordinary loss	-1,638	-1,060	578	—
Net income	908	811	-97	-10.7

(b) Results by Segment

(Real Estate Business)

In the second quarter of fiscal 2011 (cumulative), as a consequence of the decrease in rent income due to sales of property and impact from rent decreases, etc., net sales in the second quarter of fiscal 2011 fell 10.4 % year on year to ¥4,917 million and operating income decreased 8.0% to ¥2,237 million.

Under the severe environment where the average vacancy rate of Tokyo office buildings in the market continues to be around the high 8% range, we made an effort to prevent tenants from leaving by strengthening our connections with them at the same time striving to get new tenants by strengthening our information gathering force. It was decided that leasing activity for some properties would be halted until the completion of earthquake resistance construction, and partly due to such reasons, the vacancy rate of office buildings that Shoei owns in Tokyo was 4.09%.

In regards to individual properties, the commercial facility “PASSAGGIO” that opened in April last year was as described in (a) above. In addition, for development projects that are underway through investment in special purpose company (TMK), we decided to name the facility name “Nakano Central Park” in the “Nakano Station Front Development Project (Nakano Station Front Development TMK)”. Completion of construction is scheduled in March 2012 to May 2012 and construction is currently going smoothly. In addition, we are dedicated to leasing activity. Due to consideration of the current economic circumstances, we believe further efforts are necessary to attract tenants for the success of the project. In addition, “(Tentative name) Kanda Surugadai 4-6 Plan (Surugadai Development TMK)” is scheduled to complete construction in March 2013 and construction is smoothly underway at present.

Real Estate Business Result

(¥ million)

	FY10 2Q (Cumulative)	FY11 2Q (Cumulative)	Change	%
Net sales	5,489	4,917	-572	-10.4
Operating income	2,431	2,237	-193	-8.0

(Marketable Securities Investment Business)

In the Marketable Securities Investment Business, net sales in the second quarter of fiscal 2011 (cumulative) increased 21.2% year on year to ¥953 million and operating income increased 20.8% to ¥932 million owing to a year-on-year increase in dividends on stock holdings, etc. Non-operating income declined 52.0% year on year to ¥193 million. This result was due to stock price drop after the Great East Japan Earthquake and the selling off of some stocks with a paper loss.

Marketable Securities Investment Business Results

(¥ million)

	FY10 2Q (Cumulative)	FY11 2Q (Cumulative)	Change	%
Net sales	787	953	166	21.2
Operating income	771	932	160	20.8
Non-operating income (investment gains)	402	193	-209	-52.0
Operating income + non- operating income	1,174	1,125	-48	-4.1

**(2) Qualitative Information Concerning Consolidated Financial Position**

Total assets decreased ¥190 million over the previous consolidated fiscal year-end to ¥221,557 million. This was mainly due to the decrease of noncurrent assets by depreciation and amortization in spite of an increase of deposits from a loan for operating funds.

Total liabilities increased ¥239 million over the previous consolidated fiscal year-end to ¥180,196 million. The main cause was an increase of borrowing due to a loan for operating funds.

Net assets decreased ¥430 million over the previous consolidated fiscal year-end to ¥41,360 million. This was mainly due to a decline in valuation difference on available-for-sale securities caused by decreases in prices of shares held.

Equity ratio has declined from 18.8% of the previous consolidated fiscal year to 18.6% due to the fact above.

**(3) Qualitative Information Concerning Consolidated Outlook**

There are no changes in the full-year outlook announced on February 4, 2011 at this point; however, there is a possibility that the outlook may change after the results of our properties are re-evaluated on a timely basis in light of current real estate market trends from the viewpoint of financial strength.

## **2. Other Information**

### **(1) Summary of changes in significant subsidiaries**

None

### **(2) Summary of adoption of simplified accounting treatment and special accounting treatments**

[Simplified accounting treatment]

(Method for calculating doubtful account estimates for general claims)

Estimates of doubtful accounts for general claims are calculated based on the historical default ratio calculated in the previous consolidated fiscal year, because there was no significant change from the value calculated at the end of the previous consolidated fiscal year.

(Method of calculating deferred tax assets and liabilities)

The recoverability of deferred tax assets is judged based on the estimation of future operating results used at the previous fiscal consolidated year-end and information of tax planning because there have been no significant changes that would require a reclassification of corporate business segments as described in “Auditing Treatment to Determine the Collectability of Deferred Tax Assets,” Auditing Committee Report No. 66 of the Japanese Institute of Certified Public Accountants.

[Special accounting treatment to prepare quarterly consolidated financial statements]

(Calculation of income taxes)

Income taxes are calculated by reasonably estimating the effective tax rate after tax-effect accounting that is applicable to income before income taxes and minority interests for the consolidated fiscal year that includes the second quarter of this consolidated fiscal year, and multiplying income before income taxes and minority interests for the second quarter by this estimated effective tax rate. Note that income taxes-deferred is included in income taxes.

### **(3) Summary of changes in principles, procedures and classifications of accounting treatments**

(Adoption of accounting standards, etc. concerning asset retirement obligations)

Since the first quarter of this consolidated fiscal year, “Accounting Standards for Asset Retirement Obligations” (ASB Japan Statement No.18, March 31, 2008) and “Guidance on Accounting Standards for Asset Retirement Obligations” (ASBJ Guidance No. 21, March 31, 2008) are adopted.

Due to this change, operating income and ordinary income in the second quarter of this consolidated fiscal year each respectively decreased by ¥6,242 thousand and income before income taxes and minority interests for the second quarter decreased by ¥55,577 thousand. In addition, the change due to adoption of the above standards, etc. in asset retirement obligations is ¥193,426 thousand.

### 3. Quarterly consolidated financial statements

#### (1) Quarterly consolidated balance sheets

(¥ thousand)

	As of June 30, 2011	As of December 31, 2010
<b>Assets</b>		
Current assets		
Cash and deposits	15,666,048	11,738,806
Notes and accounts receivable-trade	28,138	24,480
Other	1,589,165	3,622,126
Allowance for doubtful accounts	-150	-480
Current assets	<u>17,283,202</u>	<u>15,384,933</u>
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	58,069,197	59,233,392
Land	68,695,410	68,263,337
Other, net	939,681	1,076,796
Property, plant and equipment	<u>127,704,289</u>	<u>128,573,526</u>
Intangible assets	2,782,584	2,806,613
Investments and other assets		
Investment securities	56,919,252	56,665,928
Real estate investment securities	16,400,998	17,798,133
Other	512,544	564,657
Allowance for doubtful accounts	-45,700	-45,716
Investments and other assets	<u>73,787,095</u>	<u>74,983,003</u>
Noncurrent assets	<u>204,273,969</u>	<u>206,363,144</u>
Assets	<u>221,557,171</u>	<u>221,748,078</u>
<b>Liabilities</b>		
Current liabilities		
Short-term loans payable	30,625,758	22,177,558
Current portion of bonds	3,746,000	3,746,000
Provision for bonuses	17,195	19,050
Provision for loss on disaster	113,363	-
Other	3,426,510	5,446,888
Current liabilities	<u>37,928,827</u>	<u>31,389,496</u>
Noncurrent liabilities		
Long-term loans payable	103,954,820	107,313,174
Provision for retirement benefits	40,658	39,994
Long-term deposits received	26,461,104	28,697,634
Other	11,811,579	12,517,135
Noncurrent liabilities	<u>142,268,162</u>	<u>148,567,938</u>
Liabilities	<u>180,196,990</u>	<u>179,957,434</u>
<b>Net assets</b>		
Shareholders' equity		
Capital stock	8,207,089	8,203,700
Capital surplus	8,629,849	8,626,800
Retained earnings	18,852,251	18,241,284
Treasury stock	-2,997,333	-2,997,287
Shareholders' equity	<u>32,691,856</u>	<u>32,074,497</u>
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	8,610,456	9,596,827
Valuation and translation adjustments	<u>8,610,456</u>	<u>9,596,827</u>
Subscription rights to shares	<u>57,868</u>	<u>119,317</u>
Net assets	<u>41,360,181</u>	<u>41,790,643</u>
Liabilities and net assets	<u>221,557,171</u>	<u>221,748,078</u>

(2) Quarterly consolidated statements of income  
Second quarter

(¥ thousand)

	Fiscal 2010 Second Quarter June 30, 2010	Fiscal 2011 Second Quarter June 30, 2011
Net sales	7,503,842	5,871,172
Cost of sales	3,987,545	2,680,180
Gross profit	3,516,296	3,190,991
Selling, general and administrative expenses		
Salaries and allowances	175,700	110,175
Provision for bonuses	16,387	7,377
Other	406,418	332,267
Selling, general and administrative expenses	598,505	449,821
Operating income	2,917,790	2,741,170
Non-operating income		
Gain on investment of securities	451,384	193,325
Other	84,809	23,922
Non-operating income	536,193	217,247
Non-operating expenses		
Interest expenses	1,386,940	1,296,820
Other	169,443	5,036
Non-operating expenses	1,556,383	1,301,857
Ordinary income	1,897,600	1,656,561
Extraordinary income		
Gain on sales of investment securities	1,545,681	620,766
Other	144,467	64,195
Extraordinary income	1,690,148	684,962
Extraordinary loss		
Loss on retirement of noncurrent assets	-	308,139
Loss on valuation of investment securities	-	552,182
Loss on valuation of real estate investment securities	1,150,750	-
Other	488,194	199,769
Extraordinary loss	1,638,944	1,060,091
Income before income taxes and minority interests	1,948,805	1,281,432
Income taxes	1,040,189	470,000
Income before minority interests	-	811,432
Net income	908,615	811,432

## (3) Quarterly consolidated statements of cash flows

(¥ thousand)

	Fiscal 2010 Second Quarter June 30, 2010	Fiscal 2011 Second Quarter June 30, 2011
Net cash provided by (used in) operating activities		
Income before income taxes and minority interests	1,948,805	1,281,432
Depreciation and amortization	1,328,651	1,277,050
Loss on adjustment for changes of accounting standard for asset retirement obligations	-	49,335
Increase (decrease) in allowance for doubtful accounts	643	-345
Increase (decrease) in provision for bonuses	-24,026	-1,854
Increase (decrease) in provision for loss on disaster	-	113,363
Increase (decrease) in provision for retirement benefits	2,410	664
Interest and dividends income	-796,508	-955,290
Interest expenses	1,386,940	1,296,820
Gain on sales of investment securities	-1,545,681	-620,766
Loss (gain) on securities operation	-451,384	-193,325
Loss on retirement of noncurrent assets	-	308,139
Loss (gain) on valuation of investment securities	-	552,182
Loss on valuation of real estate investment securities	1,150,750	-
Other loss (gain)	607,480	-5,996
Decrease (increase) in notes and accounts receivable-trade	-33,017	-3,658
Decrease (increase) in inventories	1,554	-
Decrease (increase) in other assets	-368,189	718,476
Increase (decrease) in other liabilities	-187,426	-90,288
Subtotal	<u>3,021,001</u>	<u>3,725,939</u>
Interest and dividends income received	778,358	954,453
Interest expenses paid	-1,408,750	-1,302,393
Refund of income taxes	302,109	805,894
Net cash provided by (used in) operating activities	<u>2,692,718</u>	<u>4,183,892</u>
Net cash provided by (used in) investing activities		
Proceeds from withdrawal of time deposits	163,967	-
Payments into time deposits	-198,408	-
Proceeds from sales of property, plant and equipment	22,983,480	-
Purchase of property, plant and equipment	-3,849,430	-476,086
Proceeds from sales of investment securities	10,418,369	4,850,797
Purchase of investment securities	-12,492,161	-7,271,070
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation	2,542,212	-
Proceeds from sales of real estate investment securities	745,144	-
Proceeds from redemption of real estate investment securities	1,401,072	32,121
Payments for real estate investment securities	-1,608,561	-293,100
Proceeds from hedging transactions	-	213,928
Payments for hedging transactions	-3,980,335	-
Other, net	301,668	220,037
Net cash provided by (used in) investing activities	<u>16,427,018</u>	<u>-2,723,370</u>
Net cash provided by (used in) financing activities		
Redemption of bonds	-1,000,000	-
Net increase (decrease) in short-term loans payable	-1,075,000	4,080,000
Proceeds from long-term loans payable	14,825,000	8,800,000
Repayment of long-term loans payable	-33,037,760	-7,790,154
Increase (decrease) in long term deposits received	-3,396,045	-2,236,529
Cash dividends paid	-	-200,464
Other, net	-343,628	-186,130
Net cash provided by (used in) financing activities	<u>-24,027,433</u>	<u>2,466,720</u>
Net increase (decrease) in cash and cash equivalents	<u>-4,907,696</u>	<u>3,927,242</u>
Cash and cash equivalents	<u>18,022,195</u>	<u>11,738,806</u>
Cash and cash equivalents, end of period	<u>13,114,498</u>	<u>15,666,048</u>

#### (4) Notes on Premise of Going Concern

None.

#### (5) Segment Information

##### [Segment information]

Second Quarter of Fiscal 2010 (January 1, 2010 – June 30, 2010)

(¥ thousand)

	Real estate	Marketable securities investment	Environmental	Total	Elimination or corporate	Consolidated
Net sales						
(1) Net sales derived from outside customers	5,489,961	787,238	1,226,642	7,503,842	—	7,503,842
(2) Inter-segment sales or transfer	—	—	—	—	—	—
Total	5,489,961	787,238	1,226,642	7,503,842	—	7,503,842
Operating income	2,431,052	771,445	167,093	3,369,591	(451,801)	2,917,790

Notes: 1. The classification of business segments is based on consideration of similarity in products and type of operation.

2. Principal goods and services offered by each business segment.

Real Estate	.....	Leasing of office buildings, shopping centers, hotels, delivery centers, land, condominiums and other properties; development and sale in lots of office buildings, commercial facilities and other real estate; investment in real estate securitization products.
Marketable Securities Investment	.....	Dividend and other income from marketable securities holdings.
Environmental	.....	Treatment and recycling of waste; maintenance, inspection and cleaning of septic tanks; maintenance and administration of various facilities, and civil engineering dredging

3. Changes in accounting methods

Changes in the method for depreciating material property, plant and equipment

Property, plant and equipment (excluding buildings, acquired on or after April 1, 1998) were depreciated using the declining-balance method; however, the straight-line method is used from the first quarter of the current consolidated fiscal year.

In the medium-term management plan starting from current fiscal year, this change clarified shift from the conventional real estate investment business of aggressively replacing assets to real estate values to the real estate lease business to own real estate of good quality for long periods to realize stable profit-making. In the current term and later, real estate developed on large scales is scheduled to be put to leasing business. In accordance with stable income from the real estate lease fees, this change enables the depreciation and amortization costs to be apportioned evenly in periods for rational matching of expenditure and income.

Due to this change, operating income from “Real estate” and “Corporate” increased by ¥337,342 thousand and ¥2,198 thousand, respectively, compared with the previous method.

4. Significant amount of change in assets by segment

In this second fiscal quarter, we excluded TOSMAC-i Co., Ltd. from our scope of consolidation by transferring all shares of TOSMAC-i, and withdrew from the environmental business. As a result, assets for our environmental business decreased by ¥4,883,343 thousand from the end of previous fiscal year.

##### [Geographical segment information]

As there were no overseas subsidiaries and no overseas branches for the second quarter of the previous consolidated fiscal year (January 1, 2010 to June 30, 2010) geographical segment information has not been presented for this period.

##### [Overseas revenues]

As there were no overseas revenues for the second quarter of the previous consolidated fiscal year (January 1, 2010 to June 30, 2010), overseas revenues have not been presented for this period.

[Segment Information]

1) Overview of Report Segments

As for the report segments of Shoei, financial information separated from components of the company can be acquired and are subject to regular examination in order for the Board of Directors to decide the allocation of management resources and evaluate the results.

Shoei established business divisions corresponding to the service at head office and is developing business activities. Report segments of Shoei are "Real estate" and "Marketable securities". "Real estate" is the leasing of office buildings, shopping centers, hotels, delivery centers, land, condominiums and other properties; development of office buildings and other real estate and investment in real estate securitization products. With respect to "Marketable securities", Shoei basically receives dividend and other income from holding marketable securities over the long and medium term.

2) Information related to net sales and income for each report segment

Second quarter of this consolidated fiscal year (January 1, 2011 – June 30, 2011)

(¥ thousand)

	Report segment			Adjustment (Note 1)	Amounts shown on quarterly consolidated statements of income (Note 2)
	Real Estate	Marketable Securities	Total		
Net sales					
Net sales to outside customers	4,917,347	953,824	5,871,172	—	5,871,172
Inter-segment sales or transfer	—	—	—	—	—
Total	4,917,347	953,824	5,871,172	—	5,871,172
Segment income	2,237,067	932,217	3,169,285	-428,114	2,741,170

Notes: 1. The adjustment of segment income of - ¥428,114 thousand is a cost of company-wide and is not allocated across each report segment. Company-wide costs are mainly costs for general affairs and other administrative sections of Shoei's head office not belonging to the report segments.

2. Segment income is adjusted with the operating income of the quarterly consolidated statements of operating income.

(Additional information)

From the first quarter of the current consolidated fiscal year, "the Accounting Standard for Disclosures about Segments of an Enterprise and Related information" (ASBJ Statement No.17, March 27, 2009) and "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No.20, March 21, 2008) are applied.

**(6) Notes on significant changes in monetary value of shareholders' equity**

Not applicable.