

The Second Quarter Consolidated Financial Results for the Fiscal Year Ended March 31, 2015
(Japanese Accounting Standards)

November 5, 2014

Company name: SHOFU INC.
 Listing: Tokyo Stock Exchange (First section)
 Code number: 7979
 URL: <http://www.shofu.co.jp/>
 Representative: Noriyuki Negoro, President
 Contact: Wataru Fujishima, Managing Director (Finance, Personnel, General Affairs and Nail care business)
 Scheduled date for filing of quarterly securities report: November 14, 2014
 Scheduled commencement date of dividend payment: November 28, 2014
 Supplementary documents for quarterly financial results: None
 Quarterly financial results briefing: None

(All amounts are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Second Quarter of Fiscal Year Ended March 31, 2015 (April 1, 2014 – September 30, 2014)

(1) Consolidated Operating Results

(% indicates changes from previous fiscal year)

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended September 30, 2014	9,817	13.6	951	136.0	899	117.1	636	181.5
Six months ended September 30, 2013	8,639	11.2	403	144.1	414	314.6	226	-

(Note) Comprehensive income: Six Months ended September 30, 2014 1,058 million yen (48.8%)
 Six Months ended September 30, 2013 711 million yen (–%)

	Second Quarter Net income per share	Second Quarter Fully diluted net income per share
	Yen	Yen
Six months ended September 30, 2014	39.92	39.66
Six months ended September 30, 2013	14.19	14.11

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
Six months ended September 30, 2014	25,300	20,773	81.9	1,298.26
Year ended March 31, 2014	24,039	19,747	81.9	1,235.34

(Reference) Shareholder's equity: Six Months ended September 30, 2014 20,713 million yen
 Year ended March 31, 2014 19,687 million yen

2. Dividends

	Dividends per share				
	End of first quarter	End of second quarter	End of third quarter	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2014	-	8.00	-	10.00	18.00
Year ended March 31, 2015	-	8.00	-	-	-
Year ending March 31, 2015 (Forecasts)	-	-	-	10.00	18.00

(Notes) Revision to the dividend forecast during the current quarter: None

3. Consolidated Forecasts for the Fiscal Year Ending March 31, 2015. (April 1, 2014 – March 31, 2015)

(% indicates changes from previous fiscal year)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Year ending March 31, 2015	19,667	7.7	1,410	42.9	1,339	36.8	944	86.5	59.21

(Notes) Revision during the current quarter to the performance forecasts: None

*Notes

(1) Changes in significant subsidiaries during the period (change in scope of consolidation): None

(2) Adoption of accounting methods specific to the preparation of quarterly financial statements: Yes

(3) Changes in accounting principles, procedures, or indication methods:

(a) Changes in accounting standards: Yes

(b) Changes other than (a) above: None

(c) Changes in accounting estimates: None

(d) Retrospective restatements: None

(4) Number of shares outstanding (common stock)

(a) Number of shares outstanding at end of period (including treasury stock).

As of September 30, 2014: 16,114,089 shares

As of March 31, 2014: 16,114,089 shares

(b) Number of shares of treasury stock at end of period

As of September 30, 2014: 158,950 shares

As of March 31, 2014: 177,030 shares

(c) Average number of shares during the period

As of September 30, 2014: 15,947,390 shares

As of September 30, 2013: 15,934,099 shares

*Implementation status of audit procedures

This quarterly earnings report is not subject to audit procedures under the Financial Instruments and Exchange Act. At the time of disclosing these consolidated financial statements, audit procedures specified in the Financial Instruments and Exchange Act have not been completed with respect to the financial statements.

*Explanation concerning the appropriate use of business forecasts, and other special items

The forecasts and other statements regarding the future included in this report are based on currently available information and certain assumptions. Actual results may differ from forecasts for a variety of reasons. With respect to the preconditions for the forecasts, please refer to the "Qualitative information related to the company's consolidated business outlook" section on page 3.

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1. Qualitative information related to financial results for the quarter under review

(1) Qualitative information related to the company's consolidated business performance

During the first half of the current consolidated fiscal year (from April 1, 2014, to September 30, 2014), the Japanese economy made gradual progress toward recovery as the government's economic measures and the Bank of Japan's monetary easing led to improvement in corporate earnings and employment, despite the impact of a reactionary decline in demand following the temporary robust rush in demand before the increase in the consumption tax rate in Japan. However, concerns over the future direction of the economy remained due to factors such as concern over a rise in raw materials costs following yen depreciation and the slowdown of economic growth in emerging nations.

Against this backdrop, the SHOFU Group posted net sales of 9,817 million yen for the first half of the consolidated fiscal year under review, an increase of 1,177 million yen or 13.6% from the corresponding period of the previous consolidated fiscal year. Overseas sales were 2,942 million yen, accounting for 30.0% of net sales, increased by 591 million yen or 25.2% year on year.

Despite an increase in selling, general and administrative expenses of 273 million yen or 6.2% from the corresponding period of the previous consolidated fiscal year, increased sales and a decline in the cost to sales ratio led to operating income of 951 million yen, increased by 548 million yen or 136.0% year on year. Although a decline in non-operating income led to a smaller increase in income, ordinary income amounted to 899 million yen, increased by 485 million yen or 117.1% year on year. Net income, net of tax expenses, was 636 million yen, increased by 410 million yen or 181.5% year on year.

(Dental business)

Domestic sales in the dental business increased year on year as sales were bolstered by the launch of new products during the previous consolidated fiscal year such as "SOLIDEX HARDURA," light-cured hard resin for dental crowns; "EyeSpecial C-II," a smart digital camera designed exclusively for dentistry; and CAD/CAM-related new products. Overseas sales in the dental business also increased year on year due to steady progress in every region, especially in North America, Central and South America and China, in addition to a favorable effect from the weakening yen.

As a result of these factors, net sales in the dental business for the first half of the consolidated fiscal year under review increased 1,214 million yen or 15.7% from the corresponding period of the previous consolidated fiscal year to 8,922 million yen. Although selling, general and administrative expenses increased, an increase of net sales offset the higher expenses, resulting in operating income of 939 million yen, an increase by 567 million yen or 152.1% year on year.

(Nail care business)

In the nail care business, in order to explore new markets, the Company released "by Nail Labo," a new and the Company's first gel nail system for general consumers. Also, sales of "Presto Bambina," a new gel nail system launched during the previous consolidated fiscal year, contributed to sales, leading to an year on year increase in sales of gel nail products. However, sales of the flagship product "Nail de Dance" decreased year on year due to the contracting acrylic market and the impact of price competition.

As a result of these factors, net sales in the nail business for the first half of the consolidated fiscal year under review was 853 million yen, decreased by 35 million yen or 4.0% from the corresponding period of the previous consolidated fiscal year. Selling, general and administrative expenses increased due to sales activity costs and other factors, resulting in an operating loss of 3 million yen, an year on year decrease of 20 million yen.

(Other businesses)

SHOFU PRODUCTS KYOTO INC., a Group company, uses its dental abrasives manufacturing technology to manufacture and sell industrial abrasives. Net sales for the first half of the consolidated fiscal year under review decreased by 1 million yen or 2.8% from the corresponding period of the previous consolidated fiscal year to 41 million yen, and operating income decreased by 5 million yen or 33.6% year on year to 10 million yen.

Note: Effective from July 1, 2014, SHOKEN INC. changed its name to SHOFU PRODUCTS KYOTO INC.

(2) Qualitative information related to the company's consolidated financial position

Total assets at the end of the first half of the consolidated fiscal year under review increased by 1,260 million yen from the end of the previous consolidated fiscal year to 25,300 million yen.

The increase was principally due to increases in buildings and structures, as well as an increase in investment securities due to rising market value.

Liabilities increased by 235 million yen from the end of the previous consolidated fiscal year to 4,526 million yen principally due to increases in other noncurrent liabilities such as deferred tax liabilities.

Net assets increased by 1,025 million yen from the end of the previous consolidated fiscal year to 20,773 million yen principally due to increases in retained earnings and valuation difference on available-for-sale securities.

As a result of these factors, the equity ratio was 81.9%, unchanged from the end of the previous consolidated fiscal year.

(3) Qualitative information related to the company's consolidated business outlook

We have made a revision to the forecast for the consolidated fiscal year ending March 31, 2015, announced on May 12, 2014. For details, please refer to "Notice on the Revisions to the Forecast for the Consolidated Fiscal Year Ending March 31, 2015," which was announced on October 29, 2014.

Forecast for the Consolidated Fiscal Year Ending March 31, 2015

	(Millions of yen)			
	Previous forecast (A)	Current forecast (B)	Increase/decrease (B - A)	Increase/decrease ratio
Net sales	18,838	19,667	828	4.4%
Operating income	1,048	1,410	362	34.6%
Ordinary income	925	1,339	414	44.8%
Net income	565	944	379	67.1%

The exchange rates have been reviewed and adjusted as follows.

U.S. dollar (USD): 103.51 yen/USD (Rate at the beginning of the current year: 95.00 yen/USD)

Euro (EUR): 139.07 yen/EUR (Rate at the beginning of the current year: 130.00 yen/EUR)

British pound (GBP): 172.93 yen/GBP (Rate at the beginning of the current year: 150.00 yen/GBP)

Chinese yuan (CNY): 16.67 yen/CNY (Rate at the beginning of the current year: 16.00 yen/CNY)

2. Items related to summary information (other)

(1) Important subsidiary developments during the quarter under review

None

(2) Application of special accounting processing in the compilation of quarterly financial statements

Calculation of tax expenses

To calculate tax expenses, we made a reasonable estimate of the effective tax rate after applying the tax effect accounting to income before income and other taxes for the current consolidated fiscal year and then multiplied income before income and other taxes for the first half of the consolidated fiscal year under review by the estimated effective tax rate. However, in case the use of the estimated effective tax rate to calculate tax expenses would result in an unreasonable figure, the statutory tax rate is used instead.

(3) Changes to accounting policies; changes to and restatements of accounting estimates
(Changes to accounting policies)

Effective from the first quarter of the current consolidated fiscal year (from April 1, 2014 to June 30, 2014), the Company has adopted the “Accounting Standard for Retirement Benefits” (ASBJ Statement No. 26, May 17, 2012; hereinafter, the “Retirement Benefit Standard”) and the “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25, May 17, 2012; hereinafter, the “Retirement Benefit Guidance”) with regard to the provisions in the main clause of Paragraph 35 of the Retirement Benefit Standard and the main clause of Paragraph 67 of the Retirement Benefit Guidance. According to this change, the Company reviewed the method to calculate retirement benefit obligations and service costs, and changed the method for attributing projected retirement benefits to periods from the straight-line basis to the benefit formula basis. The Company also changed the method to determine the discount rate from the one that uses a discount rate based on the period of bonds approximate to the average remaining service periods of employees to the one that uses multiple discount rates determined according to the estimated periods of retirement benefit payments.

As for application of the Retirement Benefit Standard, etc. in line with the transitional treatment provided in Paragraph 37 of the Retirement Benefit Standard, the effect of the change in the calculation method of retirement benefit obligations and service costs was added to or deducted from retained earnings at the beginning of the first half of the current consolidated fiscal year.

As a result, net defined benefit asset at the beginning of the first half of the current consolidated fiscal year increased by 176 million yen, and retained earnings increased by 114 million yen. In addition, operating income, ordinary income and income before income and other taxes for the first half of the consolidated fiscal year under review each increased by 8 million yen.

3. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	Previous fiscal year (as of March 31, 2014)	End of Second Quarter of Fiscal 2014 (as of September 30, 2014)
Assets		
Current assets		
Cash and deposits	5,266	4,869
Notes and accounts receivable-trade	2,910	2,719
Short term investment securities	117	123
Merchandises and finished goods	2,803	3,085
Work in process	615	606
Raw materials and supplies	750	796
Other	931	1,097
Allowance for doubtful accounts	(96)	(94)
Total current assets	13,298	13,203
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	6,544	7,268
Accumulated depreciation	(4,175)	(4,285)
Buildings and structures, net	2,369	2,983
Other	8,274	8,261
Accumulated depreciation	(4,762)	(4,884)
Other, net	3,511	3,376
Total property, plant and equipment	5,881	6,360
Intangible assets	161	201
Investments and other assets		
Investment securities	3,622	4,266
Net defined benefit asset	551	745
Other	534	530
Allowance for doubtful accounts	(10)	(7)
Total investments and other assets	4,698	5,534
Total noncurrent assets	10,741	12,096
Total assets	24,039	25,300

(Millions of yen)

	Previous fiscal year (as of March 31,2014)	End of Second Quarter of Fiscal 2014 (as of September 30, 2014)
Liabilities		
Current liabilities		
Accounts payable-trade	501	526
Income taxes payable	356	258
Provision for directors' bonuses	53	21
Other	1,890	1,997
Total current liabilities	2,801	2,804
Noncurrent liabilities		
Net defined benefit liability	110	109
Other	1,380	1,612
Total noncurrent liabilities	1,490	1,722
Total liabilities	4,291	4,526
Net assets		
Shareholders' equity		
Capital stock	4,474	4,474
Capital surplus	4,576	4,576
Retained earnings	9,697	10,285
Treasury stock	(162)	(145)
Total shareholders' equity	18,586	19,191
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	968	1,390
Foreign currency translation adjustment	43	57
Remeasurements of defined benefit plans	88	75
Total accumulated other comprehensive income	1,101	1,522
Stock acquisition rights	60	59
Total net assets	19,747	20,773
Total liabilities and net assets	24,039	25,300

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
Quarterly Consolidated Statements of Income

(Millions of yen)

	Second Quarter of Fiscal 2013 (from April 1, 2013 to September 30, 2013)	Second Quarter of Fiscal 2014 (from April 1, 2014 to September 30, 2014)
Net sales	8,639	9,817
Cost of sales	3,854	4,209
Gross profit	4,785	5,607
Selling, general, and administrative expenses	4,382	4,656
Operating income	403	951
Non-operating income		
Interest income	11	5
Dividend income	27	33
Annual fee and seminar fee income	69	69
Foreign exchange profits	39	3
Other	43	11
Total non-operating income	192	123
Non-operating expenses		
Interest expenses	4	0
Sales discounts	80	83
Operating expenses for seminars hosted by the company	83	83
Other	13	7
Total non-operating expenses	181	176
Ordinary income	414	899
Income before income and other taxes	414	899
Income and other taxes	187	262
Income before minority interests	226	636
Net income	226	636

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	Second Quarter of Fiscal 2013 (from April 1, 2013 to September 30, 2013)	Second Quarter of Fiscal 2014 (from April 1, 2014 to September 30, 2014)
Income before minority interests	226	636
Other comprehensive income		
Valuation difference on available-for-sale securities	236	421
Foreign currency translation adjustment	248	13
Remeasurements of defined benefit plans net of tax	-	(13)
Total other comprehensive income	484	421
Comprehensive income	711	1,058
Comprehensive income attributable to:		
Comprehensive income attributable to shareholders of parent company	711	1,058
Comprehensive income attributable to minority interests	-	-

(3) Notes Relating to Assumptions for the Going Concern

Not applicable.

(4) Notes to Significant Changes in the Amounts of Shareholders' Equity

Not applicable.

(5) Segment Information, etc

Previous fiscal year (April 1, 2013—September 30, 2013)

1. Information regarding sales, gains (losses) by reportable segment

(Millions of yen)

	Reporting segment				Adjustment *1	Consolidated financial statements *2
	Dental Business	Nail care business	Other businesses	Total		
Net sales						
(1) Sales to external customers	7,708	889	42	8,639	-	8,639
(2) Internal sales or transfers	-	0	2	2	(2)	-
Total	7,708	889	44	8,642	(2)	8,639
Segment profit (loss)	372	17	15	405	(2)	403

*1 The ¥2 million adjustment to segment profit/loss serves to cancel out transactions between segments.

*2 Segment profit (loss) equals the operating income on quarterly consolidated financial statements.

Fiscal year under review (April 1, 2014—September 30, 2014)

1. Information regarding sales, gains (losses) by reportable segment

(Millions of yen)

	Reporting segment				Adjustment *1	Consolidated financial statements *2
	Dental Business	Nail care business	Other businesses	Total		
Net sales						
(1) Sales to external customers	8,922	853	41	9,817	-	9,817
(2) Internal sales or transfers	-	0	3	3	(3)	-
Total	8,922	854	44	9,820	(3)	9,817
Segment profit(loss)	939	(3)	10	946	4	951

*1 The ¥4 million adjustment to segment profit/loss serves to cancel out transactions between segments.

*2 Segment profit (loss) equals the operating income on quarterly consolidated financial statements.

2. Items related to changes in reporting segments

As noted in the section “Changes to accounting policies,” following the change in the method to calculate retirement benefit obligations and service costs effective from the first quarter of the current consolidated fiscal year (from April 1, 2014 to June 30, 2014), the method used to calculate these items for each business segment have been changed in the same manner.

Due to this change, segment profit for the first half of the current consolidated fiscal year in the dental business increased by 8 million yen, whereas segment profit in the nail care business decreased by 0 million

yen.