

**The Second Quarter Consolidated Financial Results for the Fiscal Year Ended March 31, 2016
(Japanese Accounting Standards)**

November 4, 2015

Company name: SHOFU INC.
 Listing: Tokyo Stock Exchange (First section)
 Code number: 7979
 URL: <http://www.shofu.co.jp/>
 Representative: Noriyuki Negoro, President
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 Scheduled date for filing of quarterly securities report: November 11, 2015
 Scheduled commencement date of dividend payment: November 30, 2015
 Supplementary documents for quarterly financial results: Yes
 Quarterly financial results briefing: Yes (for analysts and institutional investors)

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

1. Consolidated Financial Results for the Second Quarter of Fiscal Year Ended March 31, 2016 (April 1, 2015 – September 30, 2015)

(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, 2015	11,600	18.2	842	Δ11.4	825	Δ8.2	495	Δ22.1
Six months ended September 30, 2014	9,817	13.6	951	136.0	899	117.1	636	181.5

(Note) Comprehensive income: Six Months ended September 30, 2015 452 million yen (Δ57.2%)
 Six Months ended September 30, 2014 1,058 million yen (48.8%)

	Second Quarter Net income (loss) per share	Second Quarter Fully diluted net income (loss) per share
	Yen	Yen
Six months ended September 30, 2015	31.05	30.86
Six months ended September 30, 2014	39.92	39.66

(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, 2015	28,955	22,084	76.0	1,377.25
Year ended March 31, 2015	29,442	21,781	73.7	1,360.19

(Reference) Shareholder's equity: Six Months ended September 30, 2015 22,010 million yen
 Year ended March 31, 2015 21,701 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, 2015	-	8.00	-	10.00	18.00
Year ended March 31, 2016	-	8.00	-	-	-
Year ending March 31, 2016 (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, 2016. (April 1, 2015 – March 31, 2016)

(% 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, 2016	23,526	19.5	1,507	30.0	1,392	24.9	912	57.0	57.13

(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, 2015: 16,114,089 shares

As of March 31, 2015: 16,114,089 shares

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

As of September 30, 2015: 132,779 shares

As of March 31, 2015: 159,400 shares

(c) Average number of shares during the period

As of September 30, 2015: 15,971,281 shares

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

Accompanying Materials—Contents

- 1. Qualitative information related to financial results for the quarter under review2
 - (1) Qualitative information related to the company’s consolidated business performance2
 - (2) Qualitative information related to the company’s consolidated financial position3
 - (3) Qualitative information related to the company’s consolidated business outlook3
- 2. Items related to summary information (other)3
 - (1) Important subsidiary developments during the quarter under review.....3
 - (2) Application of special accounting processing in the compilation of quarterly financial statements3
 - (3) Changes to accounting policies; changes to and restatements of accounting estimates4
- 3. Quarterly Consolidated Financial Statements.....5
 - (1) Quarterly Consolidated Balance Sheets5
 - (2) Quarterly Consolidated Statements of Income and Comprehensive Income.....7
 - (3) Notes Relating to Assumptions for the Going Concern8
 - (4) Notes to Significant Changes in the Amounts of Shareholders’ Equity.....8
 - (5) Segment Information,etc.....8

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 consolidated fiscal year (from April 1, 2015 to September 30, 2015), the Japanese economy was on a moderate recovery trend as corporate earnings and employment conditions continued to improve against a backdrop of the government's economic measures and the Bank of Japan's monetary easing. However, factors such as a deceleration in economies of emerging countries such as China, were unable to eliminate future economic uncertainties.

Under such circumstances, the SHOFU Group posted net sales of 11,600 million yen for the first half of the consolidated fiscal year under review, an increase of 1,783 million yen (18.2%) from the corresponding period of the previous consolidated fiscal year, owing to factors such as contributions of sales from Merz Dental GmbH, which was newly included in the SHOFU Group. Overseas sales accounted for 4,791 million yen (41.3% of net sales), an increase of 1,849 million yen (62.8%).

Concerning profits, a rise in expenses in line with the consolidation of Merz Dental GmbH led to an increase in selling, general and administrative expenses of 1,116 million yen (24.0%) from the corresponding period of the previous consolidated fiscal year, resulting in an operating income of 842 million yen, a decrease of 108 million yen (11.4%) from the corresponding period of the previous consolidated fiscal year. With regard to ordinary income, the positive effect of foreign exchange profits and other factors on non-operating income lessened the range of profit decrease. As a result, ordinary income was 825 million yen, a decrease of 73 million yen (8.2%) from the corresponding period of the previous consolidated fiscal year. As a result of recording gain on sales of investment securities under extraordinary income, profit attributable to owners of parent, after deducting tax expenses, was 495 million yen, a decrease of 140 million yen (22.1%).

(Dental business)

Domestic sales in the dental business decreased year on year as a result of sluggish sales from CAD/CAM-related products which were popular last quarter, despite robust sales of products such as "Eye Special C-II," a small digital camera designed exclusively for dentistry, and "SOLIDEX HARDURA," light-cured hard resin for dental crowns. Overseas sales increased year on year due to solid performance from regions such as North America, Central and South America, Europe, and China, in addition to the contribution of sales from Merz Dental GmbH.

As a result of these factors, net sales for the first half of the consolidated fiscal year under review increased 1,648 million yen (18.5%) from the corresponding period of the previous consolidated fiscal year to 10,570 million yen. However, due to the addition of consolidated subsidiaries and other factors, selling, general and administrative expenses increased, in turn causing a decrease in operating income of 147 million yen (15.7%) to 792 million yen.

(Nail care business)

Market conditions in the nail care business are harsh as intensifying price competition continues in the domestic market. Under such circumstances, sales of "by Nail Labo," a gel nail system for general consumers released during the previous fiscal year, contributed to sales. Overseas, sales of "Presto" LED gel were robust in regions such as the United States and Taiwan.

As a result of these factors, net sales during the first half of the consolidated fiscal year under review increased 136 million yen (16.0%) from the corresponding period of the previous consolidated fiscal year to 990 million yen, and operating income returned to profit of 32 million yen, an increase of 36 million yen.

However, in the nail care business, there were non-operating expenses of 26 million yen, due to the voluntary recall of some finished goods.

(Other businesses)

SHOFU PRODUCTS KYOTO INC., a Group company, uses its dental abrasives manufacturing technology to manufacture and sell industrial abrasives. Net sales in the “other businesses” segment for the first half of the consolidated fiscal year under review decreased 1 million yen (4.8%) from the corresponding period of the previous consolidated fiscal year to 39 million yen, and operating income increased 2 million yen (26.3%) to 12 million yen.

(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 dropped by 487 million yen from the end of the previous consolidated fiscal year to 28,955 million yen.

The primary decrease in assets were in cash and deposits and investment securities.

Liabilities decreased 790 million yen to 6,870 million yen. The primary factor was a decrease in short-term loans payable.

Net assets increased 303 million yen to 22,084 million yen. The primary factor was an increase in retained earnings.

As a result of the above, the capital-to-assets ratio rose to 76.0%, an increase of 2.3 points from the end of the previous consolidated fiscal year.

(3) Qualitative information related to the Company’s consolidated business outlook

The performance forecast for the fiscal year ending March 31, 2016, announced on May 14, 2015, has been revised. For more details, please refer to “Notice Regarding the Revision of Performance Forecast,” announced on October 30, 2015.

Performance forecast for the full-year of the fiscal year ending March 31, 2016

(Millions of yen)

	Previous forecast (A)	Revised forecast (B)	Increase/decrease (B-A)	Increase/decrease ratio
Net sales	23,526	23,526	-	-
Operating income	1,418	1,507	89	6.3%
Ordinary income	1,246	1,392	145	11.7%
Profit attributable to owners of parent	608	912	304	50.0%

The main foreign exchange rates are revised as follows.

US Dollar	1 USD	=	121.50 yen	(110.00 yen at beginning of fiscal year)
Euro	1 EUR	=	134.60 yen	(135.00 yen at beginning of fiscal year)
British Pound	1 GBP	=	186.62 yen	(170.00 yen at beginning of fiscal year)
Chinese Yuan	1 RMB	=	19.36 yen	(17.00 yen at beginning of fiscal year)

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 the application of tax effect accounting to current net income before tax for the current consolidated

fiscal year and then multiplied the current net income before tax for the quarter under review by the estimated effective tax rate. However, where use of the estimated effective tax rate to calculate tax expenses would result in an unreasonable figure, we have used the legal effective tax rate instead.

(3) Changes to accounting policies, estimates and restatements

(Changes to accounting policies)

Beginning with the first quarter of the consolidated fiscal year under review, the Accounting Standard for Business Combinations (Accounting Standards Board of Japan (ASBJ) Statement No. 21, September 13, 2013, hereinafter the “Business Combinations Accounting Standard”), the Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22, September 13, 2013, hereinafter the “Consolidated Financial Statements Accounting Standard”), and the Accounting Standard for Business Divestures (ASBJ Statement No. 7, September 13, 2013, hereinafter the “Business Divestures Accounting Standard”), etc., have been applied, and method of recording acquisition-related expenses has been changed to be recorded during the consolidated fiscal year in which they were incurred. Additionally, for business combinations occurring on or after April 1, 2015, method of recording revised allocations of acquisition cost due to the finalization of the temporary accounting treatment has been changed to be reflected in the consolidated financial statements of the corresponding quarter in which said business combination occurs. The presentation of net income, etc., has been changed as well as the presentation of minority interests, which has been changed to non-controlling interests. In order to reflect these changes in presentation, reclassifications have been made in the quarterly consolidated financial statements and consolidated financial statements for the first half of the previous consolidated fiscal year and the previous consolidated fiscal year.

With regard to the Business Combinations Accounting Standard, etc., the Company complies with the transitional treatments stated in Paragraph 58-2 (4) of the Business Combinations Accounting Standard, Paragraph 44-5 (4) of the Consolidated Financial Statements Accounting Standard, and Paragraph 57-4 (4) of the Business Divestures Accounting Standard from April 1, 2015 onwards.

Furthermore, during the first half of the consolidated fiscal year under review, the effect on the quarterly consolidated financial statements was insignificant.

3. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	Previous fiscal year (as of March 31, 2015)	End of Second Quarter of Fiscal 2015 (as of September 30, 2015)
Assets		
Current assets		
Cash and deposits	4,724	4,204
Notes and accounts receivable-trade	2,673	3,010
Short term investment securities	36	85
Merchandises and finished goods	3,484	3,839
Work in process	674	874
Raw materials and supplies	781	904
Other	3,333	1,149
Allowance for doubtful accounts	△81	△87
Total current assets	15,625	13,981
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	7,705	8,146
Accumulated depreciation	△4,402	△4,747
Buildings and structures, net	3,302	3,398
Other	8,232	9,155
Accumulated depreciation	△5,018	△5,578
Other, net	3,213	3,577
Total property, plant and equipment	6,516	6,976
Intangible assets		
Goodwill	-	714
Other	229	1,134
Total intangible assets	229	1,848
Investments and other assets		
Investment securities	5,278	4,726
Net defined benefit asset	1,065	1,087
Other	735	343
Allowance for doubtful accounts	△8	△8
Total investments and other assets	7,070	6,148
Total non-current assets	13,816	14,973
Total assets	29,442	28,955

(Millions of yen)

	Previous fiscal year (as of March 31,2015)	End of Second Quarter of Fiscal 2015 (as of September 30, 2015)
Liabilities		
Current liabilities		
Accounts payable-trade	660	546
Short-term loans payable	3,000	-
Current portion of long-term loans payable	8	130
Income taxes payable	136	183
Provision for directors' bonuses	60	21
Other	1,645	1,865
Total current liabilities	5,510	2,747
Noncurrent liabilities		
Long-term loans payable	111	1,985
Net defined benefit liability	106	104
Other	1,933	2,031
Total noncurrent liabilities	2,150	4,122
Total liabilities	7,660	6,870
Net assets		
Shareholders' equity		
Capital stock	4,474	4,474
Capital surplus	4,576	4,576
Retained earnings	10,102	10,435
Treasury shares	△146	△122
Total shareholders' equity	19,007	19,364
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,082	1,894
Foreign currency translation adjustment	340	498
Remeasurements of defined benefit plans	271	252
Total accumulated other comprehensive income	2,693	2,646
Subscription rights to shares	72	61
Non-controlling interests	8	12
Total net assets	21,781	22,084
Total liabilities and net assets	29,442	28,955

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

(Millions of yen)

	Second Quarter of Fiscal 2014 (from April 1, 2014 to September 30, 2014)	Second Quarter of Fiscal 2015 (from April 1, 2015 to September 30, 2015)
Net sales	9,817	11,600
Cost of sales	4,209	4,984
Gross profit	5,607	6,615
Selling, general, and administrative expenses	4,656	5,773
Operating income	951	842
Non-operating income		
Interest income	5	4
Dividend income	33	35
Membership fee income	69	54
Foreign exchange profits	3	21
Other	11	51
Total non-operating income	123	167
Non-operating expenses		
Interest expenses	0	9
Sales discounts	83	84
Membership fee	83	64
Other	7	27
Total non-operating expenses	176	185
Ordinary income	899	825
Extraordinary income		
Gain on sales of investment securities	-	35
Total extraordinary income	-	35
Extraordinary loss		
Loss on sales of investment securities	-	25
Total extraordinary losses	-	25
Income before income taxes and minority interests	899	835
Income taxes	262	333
Profit	636	501
Profit attributable to non-controlling interests	-	5
Profit attributable to owners of parent	636	495

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	Second Quarter of Fiscal 2014 (from April 1, 2014 to September 30, 2014)	Second Quarter of Fiscal 2015 (from April 1, 2015 to September 30, 2015)
Profit	636	501
Other comprehensive income		
Valuation difference on available-for-sale securities	421	△ 187
Foreign currency translation adjustment	13	157
Remeasurements of defined benefit plans, net of tax	△ 13	△ 18
Other comprehensive income	421	△ 48
Comprehensive income	1,058	452
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,058	448
Comprehensive income attributable to non-controlling interests	-	4

(3) Notes relating to assumptions for the going concern

None

(4) Notes to significant changes in the amounts of shareholders' equity

None

(5) Segment information, etc.

Previous fiscal year (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 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, 2015 – September 30, 2015)

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	10,570	990	39	11,600	-	11,600
(2) Internal sales or transfers	-	0	3	3	(3)	-
Total	10,570	990	42	11,603	(3)	11,600
Segment profit (loss)	792	32	12	838	4	842

*1 The 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. Information regarding assets by reportable segment

(Significant increase in assets resulting from acquisition of a subsidiary)

During the first quarter of the consolidated fiscal year under review, the acquisition of stock in Merz Dental GmbH and its subsequent inclusion in the scope of consolidation have caused segment assets in the dental business to increase 2,187 million yen from the final day of the previous consolidated fiscal year.

3. Information regarding impairment loss of noncurrent assets and goodwill, etc., by reportable segment
(Important changes in goodwill amounts)

In the dental business segment, due to the acquisition of stock in Merz Dental GmbH, the provisionally calculated increase in goodwill was 1,383 million yen in the first quarter of the consolidated fiscal year under review. However, after the distribution of acquisition costs was complete during the second quarter under review, this amount was revised to 709 million yen.