

Financial Results for the Third Quarter Ended July 31, 2014 [Japan GAAP] (Consolidated)

Date: September 4, 2014
 Company Name and Code: Tomoe Engineering Co., Ltd. and Subsidiaries - 6309
 (Website: http://www.tomo-e.co.jp/index_e.html)
 Stock Exchange Listing: 1st Section, Tokyo Stock Exchange
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 Date to report Consolidated Quarterly Financial Statement: September 12, 2014
 Date for Dividend Payment: Not applicable to this financial quarter.
 Preparation of Supplementary Explanatory Materials for Quarterly Operating Results: Not applicable for this quarter.
 Briefing Session for Quarterly Operating Results: Not planned.

* Any fractional sums less than one million (or one thousand) yen are disregarded.

1. Consolidated Financial Data for the Third Quarter Ended July 31, 2014

(1) Results of Operation (Consolidated) (Percent: Change from the same quarter of the previous year)

	Net Sales		Operating Income		Ordinary Income	
	Millions of Yen	Percent	Millions of Yen	Percent	Millions of Yen	Percent
Quarter Ended July 31, 2014	29,307	5.0	773	-14.1	1,009	-0.6
Quarter Ended July 31, 2013	27,918	-9.0	900	-44.3	1,015	-41.6

	Net Income		Net Income per Share	Fully Diluted Quarterly Net Income per Share
	Millions of Yen	Percent	Yen	Yen
Quarter Ended July 31, 2014	733	25.1	73. ⁴⁷	-
Quarter Ended July 31, 2013	585	-47.4	58. ⁷²	-

(Note) Comprehensive income

Third Quarter ended July 31, 2014: 836 million yen (-28.5%)

Third Quarter ended July 31, 2013: 1,169 million yen (4.0%)

(2) Financial Condition (Consolidated)

	Total Assets (A) (Millions of Yen)	Net Assets (B) (Millions of Yen)	Net Assets Ratio (B) / (A) (Percent)
Quarter Ended July 31, 2014	31,985	23,513	73.5
Year Ended October 31, 2013	33,477	23,575	69.8

(Reference) Net assets

Third Quarter ended July 31, 2014: 23,513 million yen

Year Ended October 31, 2013: 23,353 million yen

2. Dividend Status

(Record Date)	Annual Dividend (Yen)				
	First Quarter	Interim Term	Third Quarter	End of Fiscal Year	Annual
Year Ended October 31, 2013	-	0.00	-	45. ⁰⁰	45. ⁰⁰
Year Ending October 31, 2014	-	22.50	-		
Year Ending October 31, 2014 (Prospect)				22. ⁵⁰	45. ⁰⁰

(Note) Revisions since the most recently released dividend projection: None

3. Forecast for Earnings for the Year Ending October 31, 2014 (Consolidated)

(Percent: change from the previous year for full business year)

	Net Sales		Operating Income		Ordinary Income	
	(Millions of Yen)	(Percent)	(Millions of Yen)	(Percent)	(Millions of Yen)	(Percent)
Full Business Year	40,900	7.1	1,630	7.5	1,840	9.5

	Net Income		Net Income per Share
	(Millions of Yen)	(Percent)	Yen
Full Business Year	1,200	42.7	120. ²⁶

(Note) Revisions since the most recently released dividend projection: None

* Others

(1) Significant changes in subsidiaries during this quarter (Changes in specific subsidiaries in conjunction with a change in the scope of consolidation): None

Number of new subsidiaries: __ (Company names):

Number of eliminated subsidiaries: __ (Company names):

(2) Adoption of simplified accounting method and the specific accounting method: None

(3) Changes of the principles, procedures, and representation of the accounting policies

1) Change due to revision of accounting standard: None

2) Other changes than the above 1): None

3) Change in accounting estimates: None

4) Retrospective restatements: None

(4) Number of outstanding shares (Ordinary shares)

1) Number of outstanding shares as of quarter-end and year-end (including treasury stocks)

At July 31, 2014: 10,533,200 shares

At October 31, 2013: 10,533,200 shares

2) Number of treasury stocks as of quarter-end and year-end

At July 31, 2014: 554,667 shares

At October 31, 2013: 554,592 shares

3) Number of average shares (accumulated quarterly total)

At July 31, 2014: 9,978,577 shares

At July 31, 2013: 9,978,614 shares

*Disclosure concerning status of implementation of quarterly review procedure

This quarterly earnings report is exempt from the quarterly review procedure based on the Financial Instruments and Exchange Act. At the time of disclosure of this quarterly earnings report, the Company has not completed a quarterly review procedure based on the Financial Instruments and Exchange Act.

*Explanations for appropriate use of the earnings forecast and other special instructions

The forward-looking statements such as a forecast of our financial results described herein are based on the information currently available to us and certain assumptions that we believe are reasonable. Actual results could differ materially due to various factors. Please refer to the Financial Results for the Quarter (Attachments) on page 3, (3) [Qualitative Information on Consolidated Earnings Forecast] of 1. [Qualitative Information on Quarterly Consolidated Operating Results] for the operating results forecast and matters to note when using forward-looking statements.

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1. Qualitative Information on Quarterly Consolidated Operating Results

(1) Qualitative Information on Consolidated Operating Results

[General operating results]

During the third quarter under review, Japan's economy maintained its gradual recovery trend spurred by the effect of the government's economic and monetary policies, including improved corporate performance and a recovery in capital investment despite a decline following rush demand associated with the consumption tax hike. Overseas, even as the U.S. economy remained strong, as the European economy showed signs of a slowdown, and as the economic growth of China and other newly developing countries slowed down, the future remained shrouded in unpredictable economic situation.

Given these circumstances, in the Machinery & Equipment Business domestic net sales for the public sector remained strong, but domestic net sales for the private sector and overseas net sales declined. In the Chemical Products Business, net sales in the domestic plastics sector were lackluster but net sales in the domestic fine chemicals, advanced materials, electronics materials and industrial materials sectors, all remained strong. In terms of earnings during the period, while profits were lower in the Machinery & Equipment Business, earnings in the Chemical Products Business increased, primarily reflecting the higher sales. The Tomoe Engineering Group also reported extraordinary income as a result of dividends received from unconsolidated subsidiaries and the acquisition of a minority interest pertaining to the resin plastic compounding business acquired 100% ownership in Shenzhen, China.

As a result of the above, net sales for the Tomoe Engineering Group for the consolidated third quarter rose 5.0% from the same period last year to 29,307 million yen. Operating income was 773 million yen, 14.1% down from the same period of the prior year, ordinary income was 1,009 million yen, 0.6% down from the same period of the prior year, and net income was 733 million yen, 25.1% up from the same period one year earlier.

[Operating results by segment]

(Machinery & Equipment Business)

In the Machinery & Equipment Business, consolidated net sales for the year-to-date period were 6,487 million yen, 3.8% down from the same period last year. Net sales for domestic public sector demand remained steady, but net sales for domestic private sector demand, net sales of machinery, components and repair services in overseas markets as in North America and China, all decreased.

From an earnings aspect, because of the decline in net sales of all of the Tomoe Engineering Group's businesses, and the reporting of projects with lower profitability on net sales of machinery, components and repair services for overseas markets compared with the year-ago period, the operating loss was 101 million yen.

(Chemical Products Business)

In the Chemical Products Business, sales in the plastics sector of commodity plastics including imported wood decreased. On the other hand, sales of UV curing resin in the fine chemicals sector, sales in the advanced materials sector of ceramic for use in semiconductor manufacturing, sales in electronics materials sector of carrier tray for use in semiconductor manufacturing, sales in the industrial materials sector for housing and construction applications were brisk. As a result, consolidated net sales for the quarter were 22,819 million yen, 7.8% up from the same period one year ago.

With respect to earnings, operating income was driven by the growth in net sales for products such as commercial products with comparatively high margins in the advanced materials sector and the industrial material market, and amounted to 874 million yen, 39.7% up from the same period one year earlier.

(2) Qualitative Information on Consolidated Financial Position:

[Assets, Liabilities, and Net Assets]

Total assets as of the end of the consolidated third quarter under review were 31,985 million yen, down 4.5% or 1,491 million yen from the end of the previous consolidated fiscal year. This mainly reflected a reduction of 2,225 million yen in cash and deposits because of repayments of loans and dividend payments.

Liabilities were 8,472 million yen, down 14.4% or 1,430 million yen from the end of the previous consolidated fiscal year, mainly because of a decrease of 494 million yen in payables and a decrease of 775 million yen in loans.

Net assets stood at 23,513 million yen, 61 million yen or 0.3% down from the end of the previous consolidated fiscal year. This mainly reflected a 222 million yen decrease in minority interests.

As a result of the above changes, the equity ratio at the end of the consolidated third quarter under review rose by 3.7 points compared with the end of the previous consolidated fiscal year to 73.5%.

[Cash Flow Status]

Cash and cash equivalents as of the end of the consolidated third quarter under review decreased by 3,725 million yen to 3,446 million yen from the end of the previous consolidated fiscal year. The status of each consolidated cash flow and their factors during the third quarter are as follows:

(Net Cash Provided by (Used in) Operating Activities)

Cash flow used in operating activities was 76 million yen (decrease in cash flow used by 396 million yen from the same consolidated quarter of the previous year). Income before income taxes and minority interests was 1,146 million yen, and notes and accounts payable-trade decreased by 530 million yen, and income taxes payment was 242 million yen.

(Net Cash Provided by (Used in) Investing Activities)

Net cash used in investing activities was 2,161 million yen (decrease in cash flow used by 1,880 million yen from the same consolidated quarter of the previous year), mainly for the disbursements to time deposits and the difference from refund of 1,500 million yen.

(Net Cash Provided by (Used in) Financing Activities)

Cash flow used in financing activities was 1,562 million yen (increase in cash flow used by 1,205 million yen from the same consolidated quarter of the previous year), mainly for the repayment of short-term loans of 751 million yen and the payment of cash dividends of 673 million yen.

(3) Qualitative Information on Consolidated Earnings Forecast:

There are revisions to the consolidated earnings forecast figures for the fiscal year ending in October 2014 that were announced on December 12, 2013. Please refer to "Announcement on Earning Forecast" that was announced on August 28, 2014 for detailed information.

2. Matters Concerning Summary Information (Other)

(1) Changes to material subsidiaries during the quarterly consolidated period under review: None

(2) Application of special accounting method in the preparation of quarterly consolidated financial statements: None.

(3) Changes in accounting principles, changes in accounting estimates and retrospective restatements: None.

3. Consolidated Financial Statement

(1) Consolidated Quarterly Balance Sheets (Third Quarter)

(Thousands of Yen)

Assets	End of Previous Year (October 31, 2013)	End of Third Quarter (July 31, 2014)
Current Assets		
Cash and Deposits	7,171,846	4,946,573
Notes and Accounts Receivable-Trade	12,639,632	12,776,838
Merchandise and Finished Goods	3,231,590	3,118,489
Work in Process	888,624	1,089,252
Raw Materials and Supplies	988,780	1,172,396
Deferred Tax Assets	405,172	286,860
Others	249,739	219,827
Allowance for Doubtful Accounts	-7,053	-3,584
Total Current Assets	25,568,332	23,606,652
Noncurrent Assets		
Property, Plant and Equipment		
Buildings and Structures	2,434,925	2,730,668
Accumulated Depreciation	-1,479,133	-1,516,359
Buildings and Structures, Net	955,791	1,214,309
Machinery, Equipment and Vehicles	3,867,792	3,923,802
Accumulated Depreciation	-3,136,674	-3,229,469
Machinery, Equipment and Vehicles, Net	731,117	694,333
Land	920,536	930,189
Lease Assets	9,867	-
Accumulated Depreciation	-9,538	-
Lease Assets, Net	328	-
Construction in progress	2,583,008	2,575,696
Others	1,035,492	1,094,722
Accumulated Depreciation	-959,869	-966,284
Others, Net	75,623	128,438
Total Property, Plant and Equipment	5,266,406	5,542,966
Intangible Assets	511,391	472,830
Investments and Other Assets		
Investment Securities	1,126,177	1,215,081
Guarantee Deposits	251,735	243,469
Deferred Tax Assets	23,456	43,920
Others	771,667	886,045
Allowance for Doubtful Accounts	-41,232	-24,994
Total Investments and Other Assets	2,131,805	2,363,522
Total Noncurrent Assets	7,909,602	8,379,320
Total Assets	33,477,935	31,985,973

(Thousands of Yen)

Liabilities and Net Assets	End of Previous Year (October 31, 2013)	End of Third Quarter (July 31, 2014)
Liabilities		
Current Liabilities		
Notes and Accounts Payable-Trade	6,096,703	5,601,959
Short-Term Loans Payable	731,535	-
Lease Obligations	775	-
Accounts Payable-Others	614,544	503,667
Income Taxes Payable	32,292	35,625
Advances Received	77,347	239,106
Provision for Bonuses	751,650	481,059
Provision for Directors' Bonuses	35,713	35,231
Allowance for Product Warranty	180,198	203,217
Others	278,980	260,592
Total Current Liabilities	8,799,742	7,360,460
Noncurrent Liabilities		
Long-Term Loans Payable	43,668	-
Provision for Retirement Benefits	47,538	49,432
Provision for Directors' Retirement Benefits	18,680	18,680
Deferred Tax Liabilities	992,832	1,043,844
Total Noncurrent Liabilities	1,102,719	1,111,956
Total Liabilities	9,902,461	8,472,416
Net Assets		
Shareholders' Equity		
Capital Stock	1,061,210	1,061,210
Capital Surplus	1,483,410	1,483,410
Retained Earnings	20,838,441	20,897,989
Treasury Stock	-363,462	-363,591
Total Shareholders' Equity	23,019,599	23,079,018
Valuation and Translation Adjustments		
Valuation Difference on Available-for-Sale Securities	211,320	262,554
Deferred Gains or Losses on Hedges	578	671
Foreign Currency Translation Adjustment	121,844	171,311
Total Valuation and Translation Adjustments	333,743	434,537
Minority Interests	222,130	-
Total Net Assets	23,575,473	23,513,556
Total Liabilities and Net Assets	33,477,935	31,985,973

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

Consolidated Quarterly Statements of Income (Third Quarter)

(Thousands of Yen)

	Third Quarter Ended July 31, 2013	Third Quarter Ended July 31, 2014
Net Sales	27,918,515	29,307,351
Cost of Sales	22,461,999	23,798,779
Gross Profit	5,456,515	5,508,571
Selling, General and Administrative Expenses	4,556,017	4,735,198
Operating Income	900,498	773,372
Non-Operating Income		
Interest Income	14,037	13,942
Dividends Income	15,310	122,252
Rent Income	7,174	7,212
Foreign Exchange Gains	72,896	77,244
Others	35,080	37,889
Total Non-Operating Income	144,498	258,540
Non-Operating Expenses		
Interest Expenses	10,197	5,246
Loss on Sales of Notes Payable	50	-
Commission Paid	8,743	8,719
Sales Discount	5,388	4,212
Others	5,496	4,374
Total Non-Operating Expenses	29,877	22,553
Ordinary Income	1,015,119	1,009,360
Extraordinary Income		
Gain on Sales of Investment Securities	19,218	-
Gain on Negative Goodwill	-	145,132
Total Extraordinary Income	19,218	145,132
Extraordinary Losses		
Loss Retirement of Noncurrent Assets	5,232	6,385
Loss on Sales of Noncurrent Assets	-	2,034
Total Extraordinary Losses	5,232	8,420
Income before Income Taxes and Minority Interests	1,029,105	1,146,073
Income Taxes-Current	140,808	297,252
Income Taxes-Deferred	361,026	123,807
Total Income Taxes	501,834	421,059
Income before Minority Interests	527,270	725,013
Minority Interests in Income or Loss (-)	-58,701	-8,089
Net Income (Loss)	585,972	733,102

Consolidated Quarterly Statements of Comprehensive Income (Third Quarter)

(Thousands of Yen)

	Third Quarter Ended July 31, 2013	Third Quarter Ended July 31, 2014
Income before Minority Interests	527,270	725,013
Other Comprehensive Income		
Valuation Difference on Available-for-sale Securities	152,408	51,233
Deferred Gains or Losses on Hedges	-718	92
Foreign Currency Translation Adjustment	490,927	60,453
Total Other Comprehensive Income	642,618	111,779
Comprehensive Income	1,169,889	836,793
(Breakdown)		
Comprehensive Income attributable to Owners of the Parent	1,143,796	833,896
Comprehensive Income attributable to Minority Interests	26,092	2,896

(3) Consolidated Quarterly Statements of Cash Flows

(Thousands of Yen)

	Third Quarter Ended July 31, 2013	Third Quarter Ended July 31, 2014
Net Cash Provided by (Used in) Operating Activities		
Income before Income Taxes and Minority Interests	1,029,105	1,146,073
Depreciation and Amortization	265,447	304,028
Increase (Decrease) in Provision for Bonuses	(605,293)	(271,244)
Increase (Decrease) in Provision for Directors' Bonuses	(39,857)	(482)
Increase (Decrease) in Allowance for Product Warranty	38,794	23,019
Increase (Decrease) in Provision for Retirement Benefits	3,143	1,727
Increase (Decrease) in Provision for Directors' Retirement Benefits	(10,920)	-
Increase (Decrease) in Allowance for Doubtful Accounts	(5,068)	(19,706)
Interest and Dividends Income	(29,348)	(136,194)
Interest Expenses	10,197	5,246
Foreign Exchange Losses (Gains)	(61,065)	(19,713)
Loss (Gain) on Sales of Investment Securities	(19,218)	-
Gain on Negative Goodwill	-	(145,132)
Loss (Gain) on Sales of Noncurrent Assets	-	2,034
Loss on Retirement of Noncurrent Assets	5,232	6,385
Decrease (Increase) in Notes and Accounts Receivable-Trade	1,956,601	(97,544)
Decrease (Increase) in Inventories	196,733	(236,142)
Increase (Decrease) in Notes and Accounts Payable-Trade	(1,969,647)	(530,175)
Increase (Decrease) in Accounts Payable-Others	(71,352)	(56,074)
Increase (Decrease) in Advances Received	(1,474)	161,389
Increase (Decrease) in Accrued Consumption Taxes	90,305	(50,559)
Others, Net	(165,329)	(54,820)
Sub total	616,987	32,113
Interests and Dividends Income Received	29,069	139,518
Interest Expenses Paid	(10,843)	(5,666)
Income Taxes Paid (-) or Returned	(1,107,728)	(242,123)
Net Cash Provided by (Used in) Operating Activities	(472,515)	(76,158)

(Thousands of Yen)

	Third Quarter Ended July 31, 2013	Third Quarter Ended July 31, 2014
Net Cash Provided by (Used in) Investing Activities		
Deposit of Time Deposits	(7,400,000)	(4,300,000)
Proceeds from Withdrawal of Time Deposits	3,700,000	2,800,000
Purchase of Property, Plant and Equipment	(209,759)	(482,110)
Proceeds from Sales of Property, Plant and Equipment	2,710	100
Purchase of Intangible Assets	(39,143)	(116,333)
Purchase of Investment Securities	(244,495)	(12,673)
Proceeds from Sales of Investment Securities	25,603	-
Payments of Loans Receivable	(3,240)	(2,730)
Collection of Loans Receivable	2,583	1,734
Guarantee Deposits (Increase)	126,948	2,760
Others, Net	(3,703)	(52,469)
Net Cash Provided by (Used in) Investment Activities	(4,042,495)	(2,161,722)
Net Cash Provided by (Used in) Financing Activities		
Net Increase (Decrease) in Short-Term Loans Payable	55,314	(751,299)
Repayments of Long-Term Loans	(6,635)	(56,534)
Repayments of Lease Obligations	(6,185)	(775)
Purchase of Stock from Minority Shareholders	-	(79,894)
Purchase of Treasury Stock	(68)	(128)
Cash Dividends Paid	(399,146)	(673,554)
Net Cash Provided by (Used in) Financing Activities	(356,721)	(1,562,188)
Effect of Exchange Rate Change on Cash and Cash Equivalents	356,367	74,796
Net Increase (Decrease) in Cash and Cash Equivalents	(4,515,365)	(3,725,272)
Cash and Cash Equivalents at Beginning of Period	7,463,174	7,171,846
Cash and Cash Equivalents at End of Period	2,947,808	3,446,573

(4) Note on Going Concern Assumption

None.

(5) Segment Information, etc.

【Segment Information】

Third Quarter Ended July 31, 2013

Information Pertaining to the Amount of Net Sales or Net Loss of Each Reporting Segment

(Thousands of Yen)

	Reported Segment			Grand Total
	Machinery & Equipment Business	Chemical Products Business	Total	
Net Sales				
Net Sales to Unaffiliated Customers	6,742,588	21,175,926	27,918,515	27,918,515
Internal Net Sales among Segments or Amount Transferred	-	-	-	-
Total	6,742,588	21,175,926	27,918,515	27,918,515
Segment Profit or Loss (-)	274,131	626,367	900,498	900,498

(Note) The total amount of segment profit is identical to the operating income reported on the Quarter Statements of Consolidated Income.

Third Quarter Ended July 31, 2014

1 Information Pertaining to the Amount of Net Sales or Net Loss of Each Reporting Segment

(Thousands of Yen)

	Reported Segment			Grand Total
	Machinery & Equipment Business	Chemical Products Business	Total	
Net Sales				
Net Sales to Unaffiliated Customers	6,487,575	22,819,776	29,307,351	29,307,351
Internal Net Sales among Segments or Amount Transferred	-	-	-	-
Total	6,487,575	22,819,776	29,307,351	29,307,351
Segment Profit or Loss (-)	-101,461	874,834	773,372	773,372

(Note) The total amount of segment profit is identical to the operating income reported on the Quarter Statements of Consolidated Income.

2 Information Concerning Impairment Loss on Noncurrent Assets, Goodwill, and Other Items by Reporting Segment

(Material gain on negative goodwill)

The Tomoe Engineering Group had a gain on negative goodwill in the Chemical Products Business in conjunction with the acquisition of the stock of Interstella Co., Ltd., a consolidated subsidiary of Tomoe Engineering, which was owned by another company. The reported amount of the gain on negative goodwill in the consolidated third quarter under review as a result of this acquisition was 145,132,000 yen.

(6) Notes for Significant Changes in Shareholder's Equity

None

4. Overseas Net Sales (Supplemental Information)

Third Quarter Ended July 31, 2013

(Thousands of Yen)

	Asia	Other Regions	Total
I. Overseas Net Sales	3,717,025	604,131	4,321,157
II. Consolidated Net Sales	-	-	27,918,515
III. Ratio of Overseas Net Sales to Consolidated Net Sales (%)	13.3	2.2	15.5

(Notes)

1. Areas including countries or regions are determined based on their degree of geographical proximity.
2. Main countries or regions included in the areas:
 - (1) Asia: China, Korea, Taiwan and Indonesia
 - (2) Other regions: America and Europe
3. Overseas net sales are sales of our company and subsidiaries made in countries and regions other than Japan.

Third Quarter Ended July 31, 2014

(Thousands of Yen)

	Asia	Other Regions	Total
I. Overseas Net Sales	4,178,698	689,038	4,867,737
II. Consolidated Net Sales	-	-	29,307,351
III. Ratio of Overseas Net Sales to Consolidated Net Sales (%)	14.3	2.4	16.6

(Notes)

1. Areas including countries or regions are determined based on their degree of geographical proximity.
2. Main countries or regions included in the areas:
 - (1) Asia: China, Korea, Taiwan and Indonesia
 - (2) Other regions: America and Europe
3. Overseas net sales are sales of our company and subsidiaries made in countries and regions other than Japan.