Q3 FY3/09 Financial Statements

February 13, 2009

Company Name: Matsuda Sangyo Co., Ltd.
Exchanges listed on: Tokyo Stock Exchange (First Section)
Company code: 7456 URL: http://www.matsuda-sangyo.co.jp
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Date of the formal Q3 financial statements: February 13, 2009

(Figures are rounded down to the nearest million yen)

1. Q3 FY3/09 Consolidated results (April 1, 2008 – December 31, 2008)

(1) Consolidated operating results (percentages are year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income	
	(millions of yen)	%	(millions of yen)	%	(millions of yen)	%	(millions of yen)	%
Q3 FY3/09	151,876		5,990		5,329		3,121	
Q3 FY3/08	142,526	14.5	6,822	12.5	6,877	4.1	4,084	3.0

	Net income per share	Diluted net income per share
	Yen	Yen
Q3 FY3/09	108.77	—
Q3 FY3/08	156.14	—

(Note) The company enacted a 1.1:1 stock split on September 1, 2007 and September 1, 2008.

(2) Changes in consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	(millions of yen)	(millions of yen)	%	Yen
Q3 FY3/09	56,380	32,985	58.5	1,168.27
FY3/08	62,945	31,462	50.0	1,202.99

(Reference) Shareholders' equity Q3 FY3/09 32,985 million yen FY3/08 31,462 million yen

2. Dividends

	Dividend per share				
(Record date)	Q1	Q2	Q3	Q4	Full fiscal year
	Yen	Yen	Yen	Yen	Yen
FY3/08	—	12.00	—	12.00	24.00
FY3/09	—	12.00	—	—	—
FY3/09 (Projections)	—	—	—	12.00	24.00

(Note) Changes in projections of dividends in Q3 FY3/09: None
(Note) The company enacted a 1.1:1 stock split on September 1, 2008

3. FY3/09 consolidated earnings projections (April 1, 2008–March 31, 2009)

(percentages are year-on-year changes)

	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
FY3/09	185,000	- 5.0	6,500	- 28.5	5,500	-37.9	3,200	-39.5	113.33

(Note) Changes in projections of consolidated earnings Q3 FY3/09: Yes

(Note) Shares of our stock were split 1 to 1.1 on September 1, 2007 and on September 1, 2008. Net income per share for the Q3 of the FY ended March 2008 and Q3 of the FY ending March 2009 have been calculated as though the stock splits occurred at the beginning of each FY, that is, April 1, 2007 and April 1, 2008.

The projection for net income per share for the FY ending March 2009 was also calculated using the same assumption.

4. Other

(1) Changes in subsidiaries during the period (changes in specified subsidiaries resulting from changes in scope of consolidation): None

(2) Application of the simplified accounting method and/or the special accounting method for quarterly consolidated financial statements: Yes
(Note) Refer to section 4, Other in Qualitative information and financial statements, on page 6 for details.

(3) Changes in accounting principles and procedures or format of quarterly consolidated financial statements (those listed in changes to important items forming the basis for preparation of quarterly consolidated financial statements)
(a) Changes accompanying revisions to items such as accounting standards: Yes
(b) Other changes: Yes
(Note) Refer to section 4, Other in Qualitative information and financial statements, on page 6 for details.

(4) Number of issued shares (common shares)
(a) Number of issued shares at the end of the period (including own shares)
Q3 FY3/09 28,908,581 FY3/08 26,280,529
(b) Number of own shares at the end of the period
Q3 FY3/09 674,554 FY3/08 127,549
(c) Average number of shares during the period (9 months)
Q3 FY3/09 28,694,317 Q3 FY3/08 26,158,320

* Explanation of the proper use of earnings projections and other notes
(1) The statements about future described on this material such as earnings projections have been made based on information currently available and some conditions that we judge rational. Actual earnings may differ greatly from the above projections for various reasons such as changes in business conditions.
(2) Effective from this consolidated fiscal year, ASBJ Statement No.12, “Accounting Standard for Quarterly Financial Reporting,” and ASBJ Guidance No.14, “Guidance on Accounting Standard for Quarterly Financial Reporting,” have been applied. In addition, quarterly financial statements were prepared in accordance with the “Regulation Concerning Terminology, Forms and Methods of Preparation of Quarterly Consolidated Financial Statements.”

[Qualitative information and financial statements]

1. Qualitative information concerning consolidated results

The financial chaos triggered by the US subprime loan crisis had a dramatic effect on demand for housing, automobiles, home electronics and other consumer goods in the first 9 months. Resulting cutbacks in production together with the strong yen have precipitated a rapid decline in the economy in Q3. In addition, the long-term rise in prices for crude oil, grains and other natural resources, the worsening of the real economy and the credit crunch contributed to the major downturn.

Under these conditions, the Group's precious metals business has conducted sales and developed technology and products to respond to a wide range of customer needs in the semiconductor and electronic parts industries, among others. In the food business, we have strived to meet the needs of customers for safe imported foods by strengthening relationships with overseas suppliers while finding and developing new production regions and food materials.

Performance by business segment was as follows.

Precious metals business

Because of the drastic production adjustments occurred in Q3 FY3/09 in the semiconductor and electronic parts industries, the chief targets of our precious metals recycling business, the sales of precious metal chemical products and gold bonding wires decreased, and the recovery and recycling of precious metals was also on a declining trend. Although the production of precious metal bullions was firm partly due to the liquidation of raw materials inventories, the sales in Q3 were down from the previous Q3. On the other hand, the first 9 months sales exceeded the previous first 9 months due to the good performance of the first half.

In the environment division, we used our strong countrywide recovery and transportation network to increase the amount of materials handled in 1H. However, in 3Q with cutbacks in production among our main customers waste products were greatly reduced and we experienced a decline in volume for the first 9 months.

In addition, as the market continued to fall at the end of December, some of the precious metals inventory, which is difficult to hedge, had write-down in the book value of ¥647 million (recorded as a valuation loss). Also, because we changed the method for assessing the value of products (except some processes and inventory) and work in progress from last in first out to first in first out, operating income decreased by ¥72 million.

As a result, for this business, net sales were ¥113, 003 million, and operating income was ¥4, 847 million.

Food business

Consumer confidence has been undermined due to concerns over the slowing economy and difficult business conditions look set to continue in the food business. Under these conditions, the amount of seafood (such as surimi) sold declined, but sales prices rose, especially for high-end foods, so that sales were up. Though the sales price of livestock products including poultry and chicken meat as well as agricultural products such as vegetables rose, the chicken meat and low-price surimi market experienced a decline since the summer, worsening results.

As a result, for this business, net sales were ¥38,923 million, and operating income was ¥1,143 million.

Thus, for this first 9 months, consolidated net sales were ¥151,876 million, operating income was ¥5,990 million. However, ordinary income was ¥5,329 million, and net income was ¥3,121 million due to foreign exchange losses and equity in losses of affiliates caused by a sharp hike in the yen.

2. Qualitative information concerning consolidated financial position

(1) Assets, liabilities and net assets

Total assets

Total assets as of the end of this Q3 were ¥56,380 million, down ¥6,564 million from the end of the previous FY. Chiefly, this is the result of a decrease in inventory of ¥3,993 million, a decrease in accounts due of ¥3,579 million.

Liabilities

Total liabilities as of the end of this Q3 were ¥23,395 million, down ¥8,087 million from the end of the previous FY. Chiefly, this is the result of a decrease in accounts payable of ¥2,114 million, a decrease in accrued liability of ¥3,545 million, and a decrease in income taxes payable of ¥1,473 million.

Net assets

Net assets as of the end of this Q3 were ¥32,985 million, up ¥1,523 million from the end of the previous FY. Chiefly, this is the result of subtracting a reduction due to payment of dividends from the 9 months income for a gain in retained earnings of ¥2,462 million and a loss by share buyback of ¥533 million.

(2) Cash Flow Status

Cash and cash equivalents (hereafter, “cash”) for the Q3 were as follows: Cash flow from operating activities rose 4,699 million yen, cash flow from investing activities decreased 1,133 million yen, and cash flow from financing activities decreased 2,553 million yen. Cash on hand at the end of the Q3, after adjusting for translations, increased 813 million yen from the end of the previous FY to 3,537 million yen.

Cash flow from operating activities:

Operating activities resulted in a cash inflow of 4,699 million yen. This was mainly due to net income after income taxes and a decrease of inventories.

Cash flow from investing activities:

Investing activities resulted in an outflow of 1,133 million yen. This was due to the replacement of factory equipments, purchase of land, development of ERP system.

Cash flow from financing activities:

Financing activities resulted in an outflow of 2,553 million yen. This was due to the payment of short-term debt and long-term debt, and dividend payment and share buyback.

3. Qualitative information concerning consolidated earnings projections

The drastic cutbacks in production in the semiconductor and electronic parts industries in Q3 caused the decline of sales of precious metal chemical products and gold bonding wires. Because production cutbacks seem to continue through Q4, the full fiscal year forecast announced on November 11, 2008 is hereby adjusted as follows.

Adjustment of full year forecast of consolidated results (April 1, 2008 - March 31, 2009) (Millions of yen)

	Net sales	Operating income	Ordinary income	Net income	Earnings per share (Yen)
Previous forecast (A)	200,000	7,200	7,200	4,300	149.45
New forecast (B)	185,000	6,500	5,500	3,200	113.33
Difference (B-A)	-15,000	-700	-1,700	-1,100	—
Difference (%)	-7.5	-9.7	-23.6	-25.6	—
(Reference) Previous FY results (FY ended March 2008)	194,795	9,088	8,863	5,286	202.10

4. Other

(1) Changes in subsidiaries during the period (changes in specified subsidiaries resulting from changes in scope of consolidation):

There is nothing to report.

(2) Application of the simplified accounting method and/or the special accounting method for quarterly consolidated financial statements:

(Simplified accounting method)

Depreciation and amortization method for tangible fixed assets

Assets depreciated with the declining balance method will have their depreciation and amortization expense for the corresponding consolidated FY calculated by charging the expense proportionality over each period.

(Additional information)

Changes in the useful life of tangible fixed assets

In line with revisions to the statutory useful life and classification of assets based on the Corporate Tax Law of Japan as amended in 2008 (April 30, 2008, finance ministry ordinance No.32 concerning useful life in depreciation and amortization), the Group and its Japanese subsidiaries have taken the opportunity to revise the useful life of their tangible fixed assets. From the start of the Q1 FY3/09 consolidated accounting period the useful life applied to machinery and equipment was reduced from 10 years to 7 years.

The effect of adoption of this change in this period was to reduce operating income, ordinary income and income before income taxes by ¥80 million respectively compared to when the earlier method was used.

The effect of the above on segment information can be found in the corresponding parts of this document.

(3) Changes in accounting principles and procedures or format of quarterly consolidated financial statements

(a) Application of “Accounting Standard for Quarterly Financial Reporting” and related guidance

Effective from consolidated FY3/09, ASBJ Statement No.12, “Accounting Standard for Quarterly Financial Reporting,” and ASBJ Guidance No.14, “Guidance on Accounting Standard for Quarterly Financial Reporting,” have been applied. In addition, quarterly financial statements were prepared in accordance with the “Regulation Concerning Terminology, Forms and Methods of Preparation of Quarterly Consolidated Financial Statements.”

(b) Application of “Accounting Standard for Measurement of Inventories” and related guidance

The Accounting Standard Board of Japan statement No. 9 “Accounting Standard for Measurement of Inventories” issued on July 5, 2006 was adopted from the start of Q1 FY3/09. It requires that inventories held for sale in the ordinary course of business be valued at the lower of cost or net selling value.

Because of these changes, the operating income, ordinary income and income before income taxes for this period have each been reduced by ¥770 million.

The effect of the above on segment information can be found in the corresponding parts of this document.

(c) Application of “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements” and related guidance

The "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements (May 17, 2006, ASBJ PITF No. 18)" was adopted from the start of Q1 FY3/09.

The effect of adoption of this accounting standard was not material.

(d) Method of inventory valuation

Previously, merchandise, finished goods, (excluding precious bullion in process) and work in process in the Group's precious metals business were accounted for by use of LIFO cost accounting. From the start of Q1 FY3/09 consolidated accounting period FIFO cost accounting (whereby book value declines with a decline in profitability) was used.

Due to the recent large increases in the price of precious metal bullions, the total value for inventories presented on the balance sheet differs greatly from prevailing prices. The change to the FIFO system and its effect on the value of inventories on the balance sheet aims to present our financial situation more accurately, and bring the accounting system in line with international standards. In order to strengthen our revenue base and management efficiency we have taken this opportunity to implement the newly developed precious metals business core systems.

From Q1 FY3/09, in order to shorten delivery times whilst maintaining production efficiency and to accurately reflect the purpose of the precious metal bullions on hand, precious metal bullions in process has been treated as a separate category, and the accounting method for this has changed from LIFO to the total average cost accounting method (whereby book value declines with a decline in profitability).

The effect of adoption of this change was to increase, operating income, ordinary income and income before income taxes by ¥72 million respectively.

The effect of the above on segment information can be found in the corresponding parts of this document.

5. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheet

(millions of yen)

	Q3 FY3/09 (December 31, 2008)	FY3/08 Summary (March 31, 2008)
(Assets)		
Current assets		
Cash and deposits	3,542	2,727
Notes and accounts receivable	21,066	20,868
Merchandise	4,922	4,370
Finished goods	2,523	3,638
Raw materials	6,216	9,468
Work in process	183	364
Supplies	48	46
Deferred tax assets	624	605
Other accounts receivable	697	4,276
Others	3,235	3,196
Allowance for doubtful accounts	- 29	-25
Total current assets	43,030	49,537
Fixed assets		
Tangible fixed assets		
Buildings and structures	4,604	4,708
Accumulated depreciation	- 2,529	-2,420
Buildings and structures, net	2,075	2,287
Machinery and delivery equipment	4,191	4,267
Accumulated depreciation	- 2,904	-2,788
Machinery and equipment, net	1,286	1,478
Land	4,966	4,752
Construction in progress	189	0
Others	559	561
Accumulated depreciation	- 409	-381
Buildings and structures, net	149	180
Total tangible fixed assets	8,667	8,699
Intangible fixed assets		
Goodwill	19	38
Others	1,440	1,181
Total intangible fixed assets	1,459	1,219
Investments and other assets		
Investment securities	2,030	2,256
Deferred tax assets	201	207
Others	1,198	1,286
Allowance for doubtful accounts	- 207	-259
Total investments and other assets	3,223	3,489
Total fixed assets	13,350	13,408
Total assets	56,380	62,945

(millions of yen)

	Q3 FY3/09 (December 31, 2008)	FY3/08 Summary (March 31, 2008)
Liabilities		
Current liabilities		
Notes and accounts payable	10,765	12,880
Short-term debt	4,930	6,030
Long-term debt expected to be repaid within a year	340	640
Accrued income taxes	527	2,001
Allowance for bonuses	301	590
Other accounts payable	743	4,289
Others	3,789	2,960
Total current liabilities	21,399	29,392
Fixed liabilities		
Long-term debt	1,352	1,307
Allowance for retirement benefits	366	410
Allowance for directors’ retirement benefits	275	370
Others	3	3
Total fixed liabilities	1,996	2,090
Total liabilities	23,395	31,483
Net assets		
Shareholders’ equity		
Common stock	3,559	3,559
Legal capital surplus	4,008	4,009
Retained earnings	25,956	23,494
Treasury stock	－654	-121
Total shareholders’ equity	32,869	30,941
Valuation and translation adjustments		
Unrealized gains on other marketable securities	124	203
Deferred hedge gain/loss	0	54
Foreign currency translation adjustments	－9	263
Total of valuation and translation adjustments	115	520
Total net assets	32,985	31,462
Total liabilities and net assets	56,380	62,945

(2) Quarterly Consolidated Statement of Income

(millions of yen)

	First 9 months FY3/09 (April 1, 2008 – December 31, 2008)
Net sales	151,876
Cost of sales	137,242
Gross profit	14,633
Selling, general, and administrative expenses	8,642
Operating income	5,990
Non-operating income	
Interest income	5
Dividends income	15
Purchase discounts	54
Insurance income	56
Other	42
Total non-operating income	175
Non-operating expenses	
Interest expenses	72
Equity in losses of affiliates	52
Commission fee	9
Foreign exchange loss	689
Other	12
Total non-operating expenses	836
Ordinary income	5,329
Extraordinary income	
Gain on sales of fixed assets	0
Gain on sales of investment securities	0
Provision of allowance for doubtful accounts	2
Total extraordinary income	4
Extraordinary losses	
Loss on sales of fixed assets	34
Loss on valuation of investment securities	29
Loss on sales of investment securities	11
Total extraordinary losses	76
Income before income taxes	5,257
Income taxes, etc.	2,058
Income taxes-deferred	77
Total income taxes	2,136
Net income	3,121

(3) Quarterly Consolidated Statement of Cash Flow

(millions of yen)

	First 9 months FY3/09 (April 1, 2008 – December 31, 2008)
Cash flow from operating activities	
Income before income taxes	5,257
Depreciation and other amortization	776
Change in allowance for doubtful accounts ('-' means decrease)	-48
Change in allowance for bonuses ('-' means decrease)	-289
Change in allowance for retirement benefits ('-' means decrease)	-44
Change in allowance for directors' retirement bonuses ('-' means decrease)	-95
Interest or dividends received	-21
Interest paid	72
Equity in earnings or losses of affiliates ('-' means gain)	52
Gain or loss on sales of investment securities ('-' means gain)	10
Gain or loss on valuation of investment securities ('-' means gain)	29
Gain or loss on sales of tangible fixed assets ('-' means gain)	34
Change in accounts receivable ('-' means increase)	-432
Change in other accounts due ('-' means increase)	3,569
Change in inventory ('-' means increase)	3,421
Change in accounts payable - trade ('-' means decrease)	-1,581
Changes in other accounts payable ('-' means decrease)	-3,447
Other changes	976
Subtotal	8,242
Interest and dividends received	23
Interest paid	-72
Corporate & other taxes paid	-3,494
Cash flow from operating activities	4,699
Cash flow from investment activities	
Expenditure for the purchase of tangible fixed assets	-837
Proceeds from the sale of tangible fixed assets	1
Expenditure for the purchase of intangible fixed assets	-405
Expenditure for the purchase of investment securities	-13
Proceeds from the sale of investment securities	22
Others	99
Cash flow from investing activities	- 1,133
Cash flow from financing activities	
Net change in short-term loans ('-' means decrease)	-1,100
Proceeds from long-term loans	300
Expenditure for the repayment of long-term loans	-555
Expenditure for the purchase of own shares	-538
Dividends paid	-659
Cash flow from financing activities	-2,553
Foreign currency translation adjustment on cash and cash equivalents	-199
Change in cash and cash equivalents ('-' means decrease)	813
Cash and cash equivalents at beginning of period	2,724
Cash and cash equivalents at end of period	3,537

Effective from consolidated FY3/09, ASBJ Statement No.12, “Accounting Standard for Quarterly Financial Reporting,” and ASBJ Guidance No.14, “Guidance on Accounting Standard for Quarterly Financial Reporting,” have been applied. In addition, quarterly financial statements were prepared in accordance with the “Regulation Concerning Terminology, Forms and Methods of Preparation of Quarterly Consolidated Financial Statements.”

(4) Going Concern

There is nothing to report.

(5) Segment Information

1. Segment information by business

First 9 months FY3/09 (April 1, 2008–December 31, 2008)

	Precious metals business (millions of yen)	Food business (millions of yen)	Total (millions of yen)	Eliminations or corporate (millions of yen)	Consolidated (millions of yen)
Net sales	113,003	38,923	151,926	(50)	151,876
Operating income	4,847	1,143	5,990	—	5,990

2. Segment information by region

First 9 months FY3/09 (April 1, 2008–December 31, 2008)

	Japan (millions of yen)	Asia (millions of yen)	Total (millions of yen)	Eliminations or corporate (millions of yen)	Consolidated (millions of yen)
Net sales	150,369	17,215	167,584	(15,708)	151,876
Operating income	5,369	604	5,974	16	5,990

(Note 1) Countries and regions above are segmented geographically.

(Note 2) ‘Asia’ above mainly consists of Thailand, Singapore, Philippines, and China.

3. Overseas sales

First 9 months FY3/09 (April 1, 2008–December 31, 2008)

	Asia (millions of yen)	Total (millions of yen)
Overseas sales (A)	24,237	24,237
Consolidated net sales (B)	151,876	151,876
A / B (%)	16.0	16.0

(Note 1) Countries and regions above are segmented geographically.

(Note 2) ‘Asia’ above mainly consists of Taiwan, Thailand, Singapore, Philippines, Malaysia, and China.

(5) Notes about large variations in shareholders’ equity during the period (April 1, 2008–December 31, 2008):

There is nothing to report.

Reference

(Summary) Previous First 9 Months Consolidated Statement of Income

Item	First 9 months FY3/08 (April 2007 – December 2007)	
	thousands of yen	% of total
I. Net sales	142,526,267	100.0
II. Cost of sales	127,623,409	89.5
Gross profit	14,902,858	10.5
III. Selling, general, and administrative expenses	8,080,830	5.7
Operating income	6,822,028	4.8
IV. Non-operating income	251,714	0.2
V. Non-operating expenses	196,221	0.1
Ordinary income	6,877,521	4.9
VI. Extraordinary income	38,723	0.0
VIII. Extraordinary losses	20,438	0.0
Income before income taxes	6,895,806	4.9
Income taxes, etc.	2,811,302	2.0
Net income	4,084,504	2.9