Q1 FY3/09 Financial Statements (Consolidated)

August 12, 2008

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 Q1 financial statements: August 12, 2008

(Figures are rounded down to the nearest million yen)

1. Q1 FY3/09 Consolidated results (April 1, 2008 – June 30, 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)	%
Q1 FY3/09	58,256		3,870		4,038		2,441	
Q1 FY3/08	45,574	13.8	2,750	91.7	2,840	75.9	1,699	70.1

	Net income per share	Diluted net income per share
	Yen	Yen
Q1 FY3/09	93.33	—
Q1 FY3/08	71.48	—

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

(2) Changes in consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	(millions of yen)	(millions of yen)	%	Yen
Q1 FY3/09	64,115	33,302	51.9	1,273.07
FY3/08	62,945	31,462	50.0	1,202.99

(Reference) Shareholders' equity Q1 FY3/09 33,302 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	—	—		—	—
FY3/09 (Projections)	—	12.00	—	12.00	24.00

(Note) Changes in projections of dividends in Q1 FY3/09: Yes
(Note) The company plans to enact 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
1H FY3/09	110,000	19.0	5,800	24.8	6,000	25.9	3,600	22.2	125.11
FY3/09	217,000	11.4	10,000	10.0	10,200	15.1	6,100	15.4	211.99

(Note) Changes in projections of consolidated earnings Q1 FY3/09: Yes
(Note) The company announced the adjustment of earnings projections on August 7, 2008

4. Other

(1) Changes in subsidiaries during the fiscal year (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 3 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 3 for details.

(4) Number of issued shares (common shares)

(a) Number of issued shares at the end of the period (including treasury shares)

Q1 FY3/09 26,280,529 FY3/08 26,280,529

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

Q1 FY3/09 121,769 FY3/08 127,549

(c) Average number of shares during the period

Q1 FY3/09 26,158,922 Q1 FY3/08 23,780,441

* 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) As announced on May 12, 2008, shares owned by shareholders and the beneficial owners listed on the last shareholders' register as of August 31, 2008 will be split 1.1 for 1. And net income per share for FY3/09 projection are calculated assuming that this stock split had been enacted.

1) Total outstanding shares before the split 26,280,529

2) Number of additional shares resulting from the split 2,628,052

3) Total outstanding shares after the split 28,908,581

(3) 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

During Q1 FY3/09 the Japanese economy was in the doldrums, with soaring prices of natural resources leading to a downturn in corporate profits and a slowdown in manufacturing and capital investment.

Under these conditions, in the Group's precious metals business, the amounts of recycled precious metals we recovered continued to be at generally good levels, and sales of precious metals products increased. This was achieved despite an inventory adjustment impacting the production in the semiconductor and electronic parts industries which are the main customers of our precious metals recycling business. With the increase in the price of gold, silver and platinum, sales from these products exceeded the sales in Q1 FY3/08. Due to changes in the measurement of inventories (detailed below), Q1 FY3/09 operating income, ordinary income and income before income taxes increased by ¥572 million respectively compared to when the earlier method was used.

In the food business, soaring prices of natural resources have led to continuing difficulties in procuring raw food materials, and the volume of sales decreased. Despite this, net sales of marine and livestock products increased.

As a result, Q1 FY3/09 consolidated net sales were ¥58.256 billion (up 27.8% year on year), operating income was ¥3.870 billion (up 40.7% year on year), ordinary income was ¥4.038 billion (up 42.2% year on year) and net income was ¥2.441 billion (up 43.6% year on year).

2. Qualitative information concerning consolidated financial position

At the end of Q1 FY3/09, total assets came to ¥64.115 billion, up ¥1.169 billion over FY3/08. Net assets came to ¥33.302 billion, up ¥1.84 billion.

The increase in total assets was primarily due to a rise in trade receivables.

3. Qualitative information concerning consolidated earnings projections

In Q1 FY3/09, sales quantity increased in our precious metals business and prices of precious metals were up. And, we have changed the valuation method for our product inventory this quarter and this led to an increase of our operating income by ¥572 million compared to when the earlier method was used. Further, net sales increased in our food business because of an increase in unit prices. For the above reasons, we adjusted our forecasts for the first half and for the full fiscal year which we announced May 12, 2008, and announced it on August 7, 2008.

We have left the second half forecast unaltered. The adjustments to the full year forecast are solely from the adjustments for the first half.

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)

(a) 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 was to reduce operating income, ordinary income and income before income taxes by ¥24 million respectively compared to when the earlier method was used.

(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, Q1 FY3/09 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. The effect of adoption of this accounting standard was not material.

(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 ¥572 million respectively.

5. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheet

(millions of yen)

	Q1 FY3/09 (June 30, 2008)	FY3/08 Summary (March 31, 2008)
(Assets)		
Current assets		
Cash and deposits	4,396	2,727
Notes and accounts receivable	22,023	20,868
Merchandise	5,259	4,370
Finished goods	4,113	3,638
Raw materials	6,942	9,468
Work in process	302	364
Supplies	51	46
Deferred tax assets	544	605
Other accounts receivable	4,633	4,276
Others	2,426	3,196
Allowance for doubtful accounts	-43	-25
Total current assets	50,650	49,537
Fixed assets		
Tangible fixed assets		
Buildings and structures	4,643	4,708
Accumulated depreciation	-2,462	-2,420
Buildings and structures, net	2,180	2,287
Machinery and delivery equipment	4,251	4,267
Accumulated depreciation	-2,825	-2,788
Machinery and equipment, net	1,425	1,478
Land	4,696	4,752
Construction in progress	26	0
Others	556	561
Accumulated depreciation	-391	-381
Buildings and structures, net	164	180
Total tangible fixed assets	8,493	8,699
Intangible fixed assets		
Goodwill	31	38
Others	1,367	1,181
Total intangible fixed assets	1,399	1,219
Investments and other assets		
Investment securities	2,384	2,256
Deferred tax assets	177	207
Others	1,291	1,286
Allowance for doubtful accounts	-281	-259
Total investments and other assets	3,572	3,489
Total fixed assets	13,465	13,408
Total assets	64,115	62,945

(millions of yen)

	Q1 FY3/09 (June 30, 2008)	FY3/08 Summary (March 31, 2008)
Liabilities		
Current liabilities		
Notes and accounts payable	12,801	12,880
Short-term debt	5,130	6,030
Long-term debt expected to be repaid within a year	540	640
Accrued income taxes	1,616	2,001
Allowance for bonuses	338	590
Other accounts payable	4,953	4,289
Others	3,449	2,960
Total current liabilities	28,830	29,392
Fixed liabilities		
Long-term debt	1,322	1,307
Allowance for retirement benefits	396	410
Allowance for directors' retirement benefits	260	370
Others	3	3
Total fixed liabilities	1,982	2,090
Total liabilities	30,813	31,483
Net assets		
Shareholders' equity		
Common stock	3,559	3,559
Legal capital surplus	4,008	4,009
Retained earnings	25,622	23,494
Treasury stock	-116	-121
Total shareholders' equity	33,073	30,941
Valuation and translation adjustments		
Unrealized gains on other marketable securities	253	203
Deferred hedge gain/loss	-62	54
Foreign currency translation adjustments	37	263
Total of valuation and translation adjustments	228	520
Total net assets	33,302	31,462
Total liabilities and net assets	64,115	62,945

(2) Quarterly Consolidated Statement of Income

(millions of yen)

	Q1 FY3/09 (April 1, 2008 – June 30, 2008)
Net sales	58,256
Cost of sales	51,628
Gross profit	6,628
Selling, general, and administrative expenses	2,757
Operating income	3,870
Non-operating income	
Interest income	1
Dividends income	9
Equity in earnings of affiliates	69
Purchase discounts	18
Insurance income	50
Foreign exchange gains	35
Other	18
Total non-operating income	204
Non-operating expenses	
Interest expenses	27
Commission fee	1
Other	8
Total non-operating expenses	37
Ordinary income	4,038
Extraordinary losses	
Loss on retirement or sales of fixed assets	0
Loss on sales of investment securities	11
Total extraordinary losses	12
Income before income taxes	4,025
Income taxes, etc.	1,447
Income taxes-deferred	136
Total income taxes	1,584
Net income	2,441

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, Q1 FY3/09 financial statements were prepared in accordance with the “Regulation Concerning Terminology, Forms and Methods of Preparation of Quarterly Consolidated Financial Statements.”

(3) Going Concern

There is nothing to report.

(4) Changes in Equity

There is nothing to report.

Reference

(Summary) Q1 FY3/08 Consolidated Statement of Income

(thousand yen, %)

Item	Q1 FY3/08 (April 1, 2007 – June 30, 2007)	
	Amount	(% of tl.)
I. Net sales	45,574,491	100.0
II. Cost of sales	40,177,629	88.2
Gross profit	5,396,862	11.8
III. Selling, general, and administrative expenses	2,646,168	5.8
Operating income	2,750,693	6.0
IV. Non-operating income	106,675	0.2
V. Non-operating expenses	16,813	0.0
Ordinary income	2,840,555	6.2
VI. Extraordinary income	—	—
VIII. Extraordinary losses	—	—
Income before income taxes	2,840,555	6.2
Income taxes, etc.	1,140,699	2.5
Minority interest in income/ (loss)	—	—
Net income	1,699,855	3.7