

LETTER TO SHAREHOLDERS

Matsumoto Yushi-Seiyaku Co., Ltd., has been growing since its establishment in 1926, thanks to the friendly support of our customers. All of our workforce understand the roles of our products, most of which are used behind the scenes of industries, and have always been concentrating on research and study with their best effort. Now we are confident that we have gained the steady reputation, “Matsumoto, the excellent producer of surface active agents.”

Our products are widely employed in various fields including not only textile industries but also non-textile industries, such as automobiles, precision instruments, civil engineering, construction, rubber, plastics, cosmetics, toiletries and agriculture.

We are trying to get in closer business relationship with our customers for grasping their needs more precisely for quicker response.

We gained the certificates of ISO 9001, a quality management standard in 1995 and ISO 14001, an environmental management standard, in 1998. We are concentrating on the optimization of our quality and environmental management systems for satisfying our customers' requirement. We are retaining challenging spirit as a company of venture management for contributing to society.

In this accounting year, Matsumoto Yushi-Seiyaku Co.,Ltd. and its subsidiary (the Group) got results as follows;

The Group managed to achieve ¥22,892 million sales (2.4% increase), and ¥1,982 million of operating income (15.2% decrease). With profit on securities sold and with exchange gain, the Group achieved ¥1,540 million of net income (35.9% increase).

It is said that the nation's economy continued recovering by civilian demand for investment and consumption in the accounting year. But the volume of products by domestic textile companies was down, because of the production moving overseas and the rising prices of the raw materials due to high prices of the crude oil.

On non-textile industries, the situation continued that companies were inequally affected especially in surfactant industries, and the recovery is delayed because of the high prices of the raw materials.

In order to cope with the foregoing domestic economy, our Group developed high-quality and low-price products. To make sure of earning sales and profit, we worked all the sections closely, and endeavored to analyze the demand from consumer,

to develop new products and to save costs of products.

The surfactant division managed to achieve ¥14,603 million sales (0.1% decrease), and ¥1,288 million of operating income (12.3% decrease), respectively.

The anionic surfactant segment, because of the sales promotion of the lubricants for the textile overseas, secured ¥3,173 million sales (6.0% increase).

The nonionic surfactant gained ¥10,536 million sales (1.5% increase) thanks to the sales promotion of new solvents in China.

In the cationic and amphoteric surfactant category, the surfactant for acryl and wool had a hard fight, and so did the amphoteric surfactant use for toiletry. As a result, sales for the year stood at ¥894 million (28.2% decrease).

The other divisions recorded ¥8,289 million of sales (7.2% increase), and ¥693 million of operating income (20.3% decrease).

For the high polymer and inorganic chemicals category, the sales of thermo-expansive microcapsules and some other construction materials increased. Sales for the year reached ¥8,289 million (7.2% increase) .

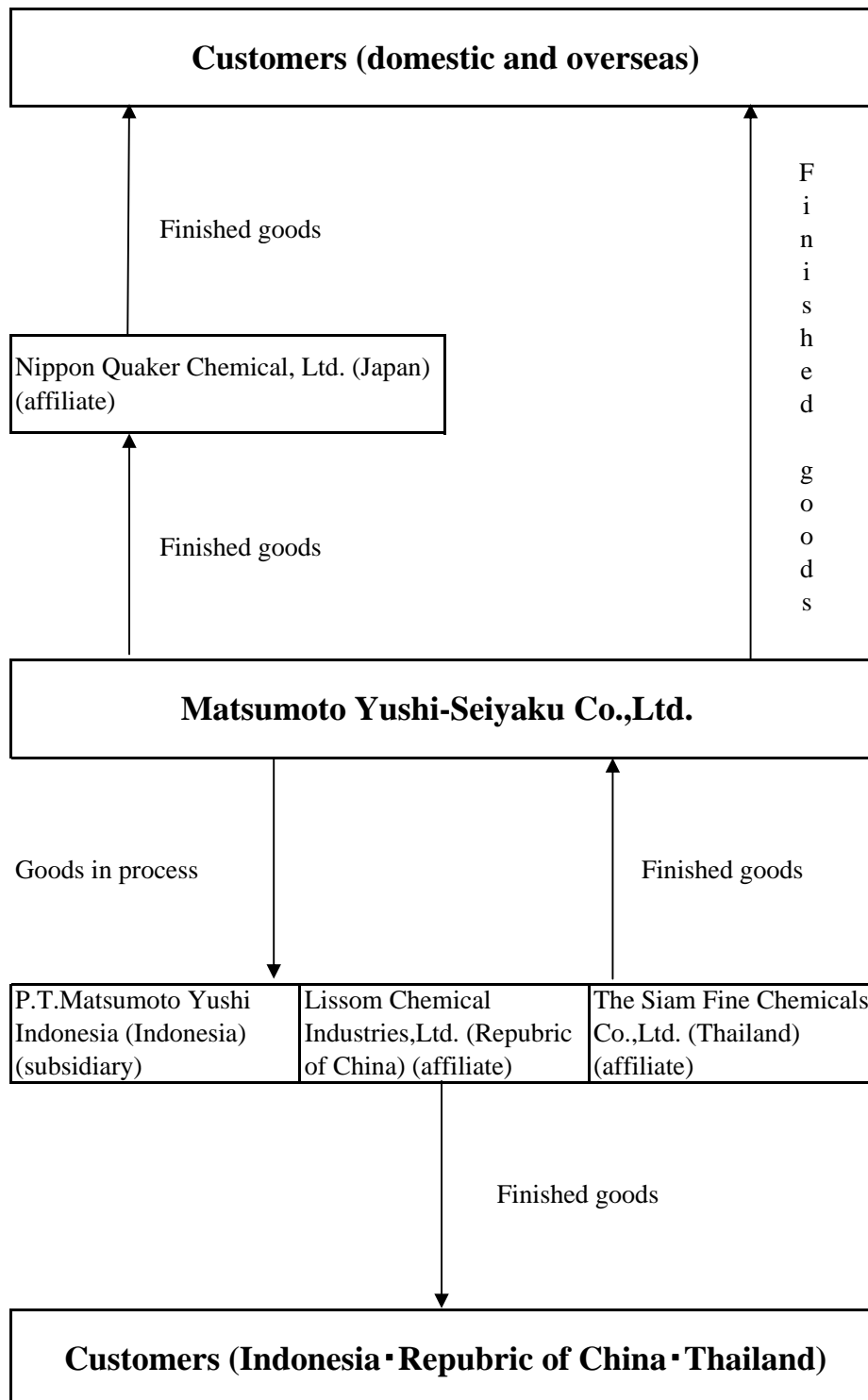
Geographically, the Group achieved in Japan sales of ¥22,209 million (2.5% increase) and the operating income in the amount of ¥1,959 million (9.9% decrease).

In Indonesia, we sold as much as ¥933 million (1.2% increase) and managed to get ¥26 million (84.2% decrease) on the operating income as a result.

We anticipate a tougher economic and business environment for the next year. Your management is firmly determined to take proactive leadership, as always, through aggressive resources reallocation, further registration of new customers, and enhanced sharing of information with the employees for reinforced awareness of business management.

NAOKI KIMURA
President

Holding Company Configuration and Highlights of Business



MATSUMOTO YUSHI-SEIYAKU CO., LTD**Selected Financial Data**

Years ended March 31

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Results for the year (millions of Yen):					
Net Sales	22,892	22,352	22,813	22,181	23,193
Cost of sales	16,297	15,416	15,403	14,946	15,730
Gross profit	6,595	6,936	7,409	7,235	7,463
Selling, general and administrative expenses	4,613	4,598	4,574	4,454	4,410
Operating income	1,982	2,338	2,835	2,781	3,053
Other income(expenses)	518	(340)	(1,515)	(324)	662
Income before income taxes and minority interests	2,500	1,998	1,320	2,457	3,715
Income taxes					
current	902	978	519	1,028	1,614
deferred	57	(197)	29	84	77
Minority interests in subsidiary	1	84	52	31	14
Net income	1,540	1,133	721	1,314	2,010
Prior years' tax effect					
Acquisition of property, plant and equipment	529	379	431	480	803
Depreciation and amortization	448	462	493	512	452
Per share of common stock(Yen):					
Net income	135.90	99.66	62.30	117.33	179.42
Cash dividends	45.00	40.00	35.00	35.00	35.00
Year-end financial position(millions of Yen):					
Total current assets	22,370	24,801	29,491	30,000	21,812
Total investments and other assets	19,690	16,698	9,757	8,658	17,325
Total property, plant and equipment	3,203	3,136	3,239	3,298	3,342
Total current liabilities	7,797	7,762	6,903	6,865	7,993
Total long-term liabilities	533	842	642	665	942
Minority interests	85	89	113	57	23
Foreign currency translation adjustments	184	186	81	70	91
Total shareholders' equity	36,848	35,942	34,828	34,369	33,520
Other year-end data:					
Number of shares issued(thousands)	11,282	11,282	11,282	11,282	11,282
Number of shareholders	610	680	698	711	747

MATSUMOTO YUSHI-SEIYAKU CO.,LTD. AND A SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
MARCH 31, 2005 and 2004

ASSETS	Millions of yen		Thousands of U.S.dollars (Note 1)	
	2005	2004	2005	2004
Current assets:				
Cash and cash equivalents	¥ 11,302	¥ 11,909	\$ 105,626	\$ 111,301
Short-term investments (Note 3)	1,014	2,022	9,475	18,893
Notes and accounts receivable:				
Trade	5,084	4,838	47,511	45,213
Associates	1,386	1,342	12,951	12,541
Other	29	6	274	55
Allowance for doubtful accounts	—	(3)	—	(25)
	<u>6,499</u>	<u>6,183</u>	<u>60,736</u>	<u>57,784</u>
Inventories (Note 4)	3,000	2,916	28,042	27,253
Deferred income taxes (Note 9)	479	580	4,479	5,425
Other current assets	76	1,191	709	11,130
Total current assets	<u>22,370</u>	<u>24,801</u>	<u>209,067</u>	<u>231,786</u>
Property, plant and equipment :				
Land	537	538	5,016	5,028
Buildings and structures	3,909	3,836	36,529	35,853
Machinery and equipment	8,787	8,509	82,123	79,522
Construction in progress	36	35	334	326
	<u>13,269</u>	<u>12,918</u>	<u>124,002</u>	<u>120,729</u>
Accumulated depreciation	<u>(10,066)</u>	<u>(9,782)</u>	<u>(94,072)</u>	<u>(91,424)</u>
	<u>3,203</u>	<u>3,136</u>	<u>29,930</u>	<u>29,305</u>
Investments and other assets:				
Investments in affiliates (Note 12)	502	478	4,688	4,466
Investments in securities (Note 3)	18,207	14,250	170,159	133,174
Long-term loans, net of allowance for doubtful accounts	407	409	3,804	3,827
Other (Note 8)	574	1,561	5,366	14,590
	<u>19,690</u>	<u>16,698</u>	<u>184,017</u>	<u>156,057</u>
	<u>¥ 45,263</u>	<u>¥ 44,635</u>	<u>\$ 423,014</u>	<u>\$ 417,148</u>

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2005	2004	2005	2004
Current liabilities:				
Short-term bank loans (Note 5)	¥ 1,362	¥ 1,150	\$ 12,733	\$ 10,748
Accounts payable:				
Trade	4,603	4,507	43,023	42,118
Associates	82	93	764	869
Other	909	824	8,496	7,706
Accrued income taxes (Note 9)	434	726	4,052	6,787
Accrued employee bonuses	357	435	3,333	4,061
Other current liabilities	50	27	472	252
Total current liabilities	<u>7,797</u>	<u>7,762</u>	<u>72,873</u>	<u>72,541</u>
Long-term debt (Note 5)	—	100	—	934
Accrued severance indemnities(Note 6)	356	392	3,326	3,659
Deferred income taxes (Note 9)	98	254	919	2,378
Other liabilities	79	96	733	895
Total long-term liabilities	<u>533</u>	<u>842</u>	<u>4,978</u>	<u>7,866</u>
Total liabilities	<u>8,330</u>	<u>8,604</u>	<u>77,851</u>	<u>80,407</u>
Minority interests	85	89	792	833
Contingencies (Note 7)				
Shareholders' equity (Note 2(p)):				
Common stock				
Authorized 21,000,000 shares				
Issued				
2005- 11,281,629 shares	6,090	6,090	56,916	56,916
Capital surplus	6,518	6,518	60,913	60,913
Retained earnings	24,536	23,462	229,311	219,273
Net unrealized holding gains (losses) on securities	149	311	1,390	2,908
Foreign currency translation adjustments	(184)	(186)	(1,723)	(1,738)
	<u>37,109</u>	<u>36,195</u>	<u>346,807</u>	<u>338,272</u>
Less, treasury stock, at cost:	(261)	(253)	(2,436)	(2,364)
	<u>36,848</u>	<u>35,942</u>	<u>344,371</u>	<u>335,908</u>
	<u>¥ 45,263</u>	<u>¥ 44,635</u>	<u>\$ 423,014</u>	<u>\$ 417,148</u>

The accompanying notes are an integral part of these statements.

MATSUMOTO YUSHI-SEIYAKU CO.,LTD AND A SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED MARCH 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2005	2004	2005	2004
Net sales(Note 10,11)	¥ 22,892	¥ 22,352	\$ 213,945	\$ 208,895
Cost of sales(Note 10)	16,297	15,416	152,308	144,069
Gross profit	6,595	6,936	61,637	64,826
Selling, general and administrative expenses (Note 10)	4,613	4,598	43,111	42,972
Operating income	1,982	2,338	18,526	21,854
Other income (expenses):				
Interest and dividend income	256	170	2,394	1,590
Interest expenses	(36)	(27)	(338)	(256)
Equity in earnings of affiliates	45	3	421	26
Foreign exchange profit (loss)	178	(400)	1,659	(3,737)
Profit (Loss) on securities sold	248	(88)	2,321	(826)
Loss from revaluation of securities	(140)	—	(1,308)	—
Other, net	(33)	2	(312)	21
Income before income taxes and minority interests	2,500	1,998	23,363	18,672
Income taxes (Note 9):				
Current	902	978	8,433	9,138
Deferred	57	(197)	530	(1,844)
	959	781	8,963	7,294
Income before minority interests	1,541	1,217	14,400	11,378
Minority interests in subsidiary	(1)	(84)	(9)	(788)
Net income	¥ 1,540	¥ 1,133	\$ 14,391	\$ 10,590

	Yen		U.S. dollars (Note 1)	
	2005	2004	2005	2004
Net income per share:				
Basic	¥ 135.90	¥ 99.66	\$ 1.270	\$ 0.931
Cash dividends per share	45.00	40.00	0.421	0.374

The accompanying notes are an integral part of these statements.

**MATSUMOTO YUSHI-SEIYAKU CO.,LTD AND A SUBSIDIARY
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
YEARS ENDED MARCH 31, 2005 and 2004**

	Number of shares issued (thousands)	Millions of yen					
		Common stock	Capital surplus	Retained earnings	Net unrealized holding gains (loses) on securities	Foreign currency translation adjustments	Treasury stock
Balance at April 1, 2003	11,282	6,090	6,518	22,744	(196)	(81)	(247)
Net income for the year				1,133			
Net unrealized holding gains on securities					507		
Foreign currency translation adjustments						(105)	
Cash dividends				(392)			
Bonuses to directors and corporate auditors				(23)			
Purchase of treasury stock							(6)
Balance at March 31, 2004	11,282	6,090	6,518	23,462	311	(186)	(253)
Net income for the year				1,540			
Net unrealized holding gains on securities					(162)		
Foreign currency translation adjustments						2	
Cash dividends				(448)			
Bonuses to directors and corporate auditors				(18)			
Purchase of treasury stock							(8)
Loss on disposals of treasury stock				(0)			
Balance at March 31, 2005	<u>11,282</u>	<u>¥ 6,090</u>	<u>¥ 6,518</u>	<u>¥ 24,536</u>	<u>¥ 149</u>	<u>¥ (184)</u>	<u>¥ (261)</u>

	Thousands of U.S. dollars (Note 1)						
	Common stock	Capital surplus	Retained earnings	Net unrealized holding gains (loses) on securities	Foreign currency translation adjustments	Treasury stock	
Balance at April 1, 2003	\$ 56,916	\$ 60,913	\$ 212,564	\$ (1,833)	\$ (755)	\$ (2,308)	
Net income for the year			10,590				
Net unrealized holding gains on securities				4,741			
Foreign currency translation adjustments					(983)		
Cash dividends			(3,661)				
Bonuses to directors and corporate auditors			(220)				
Purchase of treasury stock						(56)	
Balance at March 31, 2004	\$ 56,916	\$ 60,913	\$ 219,273	\$ 2,908	\$ (1,738)	\$ (2,364)	
Net income for the year			14,391				
Net unrealized holding gains on securities				(1,518)			
Foreign currency translation adjustments					15		
Cash dividends			(4,183)				
Bonuses to directors and corporate auditors			(167)				
Purchase of treasury stock						(72)	
Loss on disposals of treasury stock			(3)				
Balance at March 31, 2005	<u>\$ 56,916</u>	<u>\$ 60,913</u>	<u>\$ 229,311</u>	<u>\$ 1,390</u>	<u>\$ (1,723)</u>	<u>\$ (2,436)</u>	

The accompanying notes are an integral part of these statements.

MATSUMOTO YUSHI-SEIYAKU CO.,LTD AND A SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED MARCH 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars	
			(Note 1)	
	2005	2004	2005	2004
Cash flows from operating activities:				
Net income before income taxes and minority interests	¥ 2,500	¥ 1,998	\$ 23,363	\$ 18,672
Adjustments for:				
Depreciation and amortization	448	462	4,191	4,319
Loss(gain) on sales and disposals of property, plant and equipment	9	12	81	109
Loss(gain) on sales and evaluation of securities and other assets	(76)	121	(709)	1,132
Allowance for doubtful accounts	(2)	(12)	(19)	(111)
Equity in earnings of affiliates	(45)	(3)	(421)	(26)
Accrued severance indemnities	(36)	(52)	(332)	(485)
Accrued employee bonuses	(78)	44	(728)	409
Interest and dividend income	(256)	(170)	(2,394)	(1,590)
Interest expenses	36	27	338	256
Decrease(Increase) in notes and accounts receivable	(249)	52	(2,329)	489
Decrease(Increase) in inventories	(92)	(0)	(862)	(3)
Increase(Decrease) in accounts payable	94	163	876	1,520
Increase (Decrease) in accrued consumption tax	(59)	49	(551)	457
Other,net	(189)	(422)	(1,767)	(3,946)
Sub total	2,005	2,269	18,737	21,202
Interest and dividend income received	392	50	3,666	464
Interest expenses paid	(36)	(28)	(339)	(264)
Income taxes paid	(1,195)	(271)	(11,167)	(2,528)
Net cash provided by operating activities	1,166	2,020	10,897	18,874
Cash flows from investing activities:				
Receipt from sales of short-term investments	30	48	278	445
Payments for purchase of property, plant and equipment	(529)	(379)	(4,938)	(3,538)
Receipt from sales of investments in securities	4,438	2,855	41,477	26,681
Payments for purchase of investments in securities	(6,555)	(8,384)	(61,257)	(78,355)
Decrease(Increase)of long-term loans receivable	5	79	43	739
Other,net	1,073	(1,973)	10,026	(18,438)
Net cash provided by (used in) investing activities	(1,538)	(7,754)	(14,371)	(72,466)
Cash flows from financing activities:				
Increase(Decrease) in short-term bank loans, net	117	(23)	1,084	(212)
Cash dividends paid	(448)	(392)	(4,183)	(3,661)
Purchase of treasury stock	(8)	(6)	(74)	(57)
Net cash used in financing activities	(339)	(421)	(3,173)	(3,930)
Effect of exchange rate changes on cash and cash equivalents	104	(193)	972	(1,805)
Net increase (decrease) in cash and cash equivalents	(607)	(6,348)	(5,675)	(59,327)
Cash and cash equivalents at beginning of year	11,909	18,257	111,301	170,628
Cash and cash equivalents at end of year	¥ 11,302	¥ 11,909	\$ 105,626	\$ 111,301

The accompanying notes are an integral part of these statements.

MATSUMOTO YUSHI-SEIYAKU CO.,LTD. AND A SUBSIDIARY

Notes to Financial Statements Years Ended March 31, 2005 and 2004

1. Basis of Presenting Consolidated Financial Statements

Matsumoto Yushi-Seiyaku Co.,Ltd.(the "Company") maintains its accounts and records in accordance with the provisions set forth in the Commercial Code of Japan(the "Code") and the Securities and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan, which are different from the accounting and disclosure requirements of International Accounting Standards. Such differences include those relating to (1) inventory valuation at the lower of cost or market value (2) accounting for impairment of assets.

The Company's overseas subsidiary maintains its accounts and records in conformity with generally accepted accounting principles and practices prevailing in its country of domicile.

The accompanying consolidated financial statements are prepared based on the consolidated financial statements of the Company and its subsidiary (the "Group") which were filed with the Director of Kanto Local Finance Bureau as required by the Securities and Exchange Law.

In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of the reader, using the approximate exchange rate at March 31, 2005, which was ¥107 to U.S.\$1.00. These translations for convenience should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Summary of Significant Accounting Policies

(a)Consolidation Principles

The consolidated financial statements include the accounts of the Company's subsidiary. All significant inter-company transactions and accounts are eliminated.

Investments in affiliates are accounted for by the equity method whereby the Group includes in net income its share of income or losses of these companies, and records its investments at cost adjusted for its share of income, losses or dividends received.

Generally, companies that are owned more than 50% fall under the category of subsidiaries and companies that are owned 20% or more but not more than 50% fall under the category of affiliates, respectively.

However, companies that are owned 40% to 50% may also fall under the category of subsidiaries and companies that are owned 15% or more but not more than 20% may also fall under the category of affiliates, respectively, if the Company substantially controls the investees' management or has significant influence and relationship with the investees.

(b)Translation of Foreign Currencies

Foreign currency receivables and payables are translated into Japanese yen at the exchange rates in effect on the balance sheet date, and translation gains or losses are charged to income in the year incurred.

Assets, liabilities, revenue and expenses of overseas subsidiary are translated into Japanese

yen at the exchange rates in effect on balance sheet date and shareholders' equity is translated into Japanese yen at historical rates. Differences arising from translation are presented as "Minority interests" and "Foreign currency translation adjustments" in the accompanying consolidated balance sheets.

(c) Consolidated Statement of Cash Flows

For the purposes of cash flow statements, cash and cash equivalents comprise cash on hand, deposits held at call with banks, net of overdrafts and all highly liquid investments with maturities of three months or less.

(d) Short-term Investments and Investments in Securities

In accordance with the Accounting Standards for Financial Instrument, securities should be classified into four categories: trading securities, held-to-maturities, equity investments in affiliates and other securities. Equity and debt securities are classified as other securities.

Marketable equity and debt securities are stated at fair value with unrealized gains and losses, net of applicable income taxes, reported as a separate component of shareholders' equity. Gains and losses are credited or charged to income when realized, with cost determined by the weighted average method.

However, if the fair value falls below 50% of cost and if there is no prospect of recovery, the unrealized losses have to be charged to income. The Company charged ¥140 million (U.S.\$ 1,308 thousand) to income as loss from revaluation of securities in the fiscal year ended on March 31, 2005.

Other securities without readily determinable fair value are stated at weighted average cost.

Investments in securities include ¥2,757 million (U.S.\$25,768 thousand) of investments for Limited Liability Partnership of Investments on March 31, 2005, because of the revision of the Securities and Exchange Law.

(e) Golf Club Membership

In accordance with the Accounting Standards for Financial Instruments, an impairment loss on deposits for golf club membership is required to be recognized when fair value is extremely lower than the cost.

The Company charged ¥ 33 million (U.S.\$ 305 thousand) and ¥ 33 million (U.S.\$ 307 thousand) to income in the fiscal year ended on March 31, 2005 and 2004 respectively.

(f) Inventories

Finished products, work in process and purchased merchandise are stated at cost determined by the weighted average method. Raw materials are stated at the lower of weighted average cost or market value. Supplies and containers are stated at the most recent purchase prices.

(g) Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is principally computed by the declining-balance method based on the estimated useful lives of the respective assets same as determined by Japanese Income Tax Law.

Costs of maintenance, repairs and minor renewals are charged to expenses in the year incurred, although major renewals and improvements are capitalized.

Effective April 1, 1998, the Company adopted the straight line method of depreciation for buildings, which, previously, had been depreciated by the declining-balance method. This change was made owing to revision of Japanese Income Tax Law.

(h)Intangible Assets

Amortization of intangible assets is computed by the straight-line method. Computer software is recorded as intangible assets as per the Securities and Exchange Law in Japan.

(i)Accrued Severance Indemnities

In accordance with the Accounting Standards for Retirement Benefit accrued severance indemnities are provided based on the amount of projected benefit obligation reduced by pension plan assets at fair value at the end of the period.

Employees' retirement benefits, covering employees of the Company, are provided through unfunded lump-sum benefit plans and funded noncontributory pension plans. Under the plans, eligible employees are entitled, under most circumstances, to severance payments based on compensation at the time of severance and year of service.

The Company records such accrued severance indemnities as at March 31. Yet its subsidiary does not record such accrued severance indemnities.

Actuarial losses shall be amortized over five years beginning with the next year.

(j)Research and Development and Computer Software

Research and development expenditure is charged to income when incurred.

Expenditure relating to computer software developed for internal use is charged to income when incurred. When it contributes to the generation of income or to future cost savings, such expenditure is capitalized as an asset and is amortized using the straight-line method over its estimated useful life, namely, 5 years.

(k)Allowance for Doubtful Accounts

In accordance with the Accounting Standards for Financial Instruments, allowance for doubtful accounts is provided by actual bad debt expense ratio to normal receivables and by specific examination of collectibility to bad debt.

(l)Consumption Tax

The consumption tax is imposed at the flat rate of 5% on the Company's sales to customers and purchases of goods and services. The consumption tax thus withheld on sales and paid on purchases by the Company is not included in the amounts of revenue and expense items. Under the consumption tax law, the tax paid on purchases can generally be deducted from the tax withheld.

(m)Accrued Employee Bonuses

As a general practice in Japan, bonuses are normally payable to employees in early summer and early winter covering the first and second half of the year, respectively. The Company records such accrued bonus liabilities as at March 31. Yet its subsidiary does not record such accrued bonuses liabilities.

(n)Income Taxes

Deferred tax assets and liabilities are determined based on the differences between financial statements and the tax bases of the assets and liabilities and are measured using the enacted

tax rates and laws which will be in effect when the differences are expected to be settled.

(o) Per Share Information

The computation of basic net income per share is based on net income available to common shareholders and the weighted average number of shares of common stock outstanding during each period. The average number of shares used in the computation was 11,187 thousand and 11,191 thousand for the periods ended March 31, 2005 and 2004, respectively.

Cash dividends per share shown in the statements of income are the amounts applicable to the respective years.

(p) Shareholders' Equity

Under the Code, at least 50% of the issue price of new shares is required to be designated as stated common stock.

The portion which is to be designated as stated common stock is determined by resolution of the Board of Directors. Proceeds in excess of the amounts designated as stated common stock are to be credited to capital surplus.

Under certain circumstances specified by the Code, the Company may issue upon approval of the Board of Directors, new shares of its common stock to existing shareholders. As the Code has been amended, from October 1, 2001, the Company may reduce capital surplus and legal retained earnings to 25% of stated common stock by approval of shareholders at a general meeting.

3. Short-term Investments and Investments in Securities

Short-term investment at March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2005	2004	2005
Other securities:			
Bonds and debentures	¥ 74	¥ 32	\$ 690
Time deposits	940	940	8,785
Cash in trust	-	1,050	-
	<u>¥ 1,014</u>	<u>¥ 2,022</u>	<u>\$ 9,475</u>

The following is a summary of other securities at March 31, 2005 and 2004 respectively:

	Millions of yen			Book Value (Estimated fair value)
	March 31, 2005			
	Other securities			
	Cost	Gross unrealized gains	Gross unrealized losses	
Equity securities	¥ 2,713	¥ 1,454	¥ (67)	¥ 4,100
Bonds and debentures	549	31	(0)	580
Other	8,409	7	(1,137)	7,279
	<u>¥ 11,671</u>	<u>¥ 1,492</u>	<u>¥ (1,204)</u>	<u>¥ 11,959</u>
Less: Short-term investments				(74)
Add: Securities without readily determinable fair value				6,322
				<u>¥ 18,207</u>

Millions of yen			
March 31, 2004			
Other securities			
Cost	Gross unrealized gains	Gross unrealized losses	Book Value (Estimated fair value)
Equity securities	¥ 2,932	¥ 1,618	¥ (246)
Debt securities	579	88	(0)
Other	7,813	14	(883)
	<u>¥ 11,324</u>	<u>¥ 1,720</u>	<u>¥ (1,129)</u>
Less:Short-term investments			(32)
Add:Securities without readily determinable fair value			2,367
			<u>¥ 14,250</u>

Thousands of U.S.dollars(Note 1)			
March 31, 2005			
Other securities			
Cost	Gross unrealized gains	Gross unrealized losses	Book Value (Estimated fair value)
Equity securities	\$ 25,353	\$ 13,589	\$ (623)
Debt securities	5,130	291	(0)
Other	78,591	67	(10,631)
	<u>\$ 109,074</u>	<u>\$ 13,947</u>	<u>\$ (11,254)</u>
Less:Short-term investments			(690)
Add:Securities without readily determinable fair value			59,082
			<u>\$ 170,159</u>

4. Inventories

Inventories at March 31, 2005 and 2004 comprise the following:

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2005	2004	2005
Finished goods	¥ 1,585	¥ 1,581	\$ 14,816
Work in process	297	279	2,777
Raw materials and supplies	1,118	1,056	10,449
	<u>¥ 3,000</u>	<u>¥ 2,916</u>	<u>\$ 28,042</u>

5. Short-term Bank Loans and Long-term Debt

The annual average interest rates applicable to short-term bank loans at March 31, 2005 is 0.80%

Long-term debt at March 31, 2005 and 2004 consisted of the following respectively:

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2005	2004	2005
Loans from banks:			
Unsecured loans, maturing in 2006	¥ 100	¥ 100	\$ 934
Total	¥ 100	¥ 100	\$ 934
Less: current portion	100	-	934
Long-term debt, less current portion	¥ -	¥ 100	\$ -

Aggregate annual maturities of long-term debt subsequent to March 31, 2005 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2006	¥ 100	\$ 934
	¥ 100	\$ 934

6. Accrued Severance Indemnities

The following tables set forth the changes in benefit obligation, and plan assets of the Company at March 31, 2005 and 2004 respectively:

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2005	2004	2005
Benefit obligation at end of years	¥ (1,804)	¥ (1,780)	\$ (16,854)
Fair value of plan assets at end of years	1,325	1,291	12,381
Benefit obligation in excess of plan assets	(479)	(489)	(4,473)
Unrecognized actuarial loss	123	97	1,147
Accrued severance indemnities	(356)	(392)	(3,326)

Benefit expenses of the Company included the following components for the year ended March 31, 2005 and 2004 respectively:

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2005	2004	2005
Service cost	¥ 76	¥ 82	\$ 711
Interest cost	32	32	298
Expected return on plan assets	(26)	(24)	(241)
Amortization: Actuarial losses	48	64	447
Benefit expenses	¥ 130	¥ 154	\$ 1,215

Assumption used in the accounting for the defined benefit plans for the year ended March 31, 2005 and 2004 is as follows:

	2005	2004
Method of attributing benefit to periods of service	straight-line basis	straight-line basis
Discount rate	1.8%	1.8%
Long-term rate of return on fund assets	2.0%	2.0%
Amortization period for actuarial losses	5years	5years

7. Contingencies

The Group was contingently liable as guarantor of indebtedness of affiliates for ¥203 million (U.S.\$1,901 thousand) and ¥193 million (U.S.\$1,806 thousand) at March 31, 2005 and 2004 respectively.

8. Research and Development and Computer Software

Research and development expenditure charged to income was ¥1,241 million (U.S.\$11,594 thousand) and ¥1,263 million (U.S.\$11,802 thousand) for the year ended March 31, 2005 and 2004, respectively.

Capitalized expenditure for the development of computer software was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Balance of beginning of year	¥ 7	¥ 9	\$ 69
Additions	3	1	25
Amortization	(3)	(3)	(26)
Balance at end of year	<u>¥ 7</u>	<u>¥ 7</u>	<u>\$ 68</u>

9. Income taxes

The Company is subject to several taxes based on income, which in the aggregate resulted in statutory tax rates of approximately 40.7% and 42.1% for the years ended March 31, 2005 and 2004. Foreign subsidiary is subject to income taxes of the country in which it operates.

The effective rate for the two years ended March 31, 2005 and 2004 differs from the Company's statutory tax rate for the following reasons:

	2005	2004
Statutory tax rate	40.7	42.1
Permanently nondeductible expenses	1.6	2.3
Permanently nontaxable dividends received	(0.5)	(0.6)
Per capital levy of residents tax	0.5	0.6
Tax on undistributed profits	1.4	2.3
Difference of tax rate of overseas subsidiary	-	(3.2)
Tax credit on research and development	(4.6)	(6.3)
Other	(0.7)	1.9
Effective tax rate	<u>38.4</u>	<u>39.1</u>

The significant components of deferred tax assets and deferred tax liabilities at March 31, 2005 and 2004 are presented below:

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2005	2004	2005
Gross deferred tax assets:			
Accrued severance indemnities	¥ 130	¥ 129	\$ 1,214
Accrued employee bonuses	145	248	1,357
Accrued enterprise tax	44	70	410
Over-depreciation	6	6	55
Unrealized gains on inventories	18	17	169
Net unrealized holding losses on securities	55	242	512
Other	85	69	797
Total gross deferred tax assets	483	781	4,514
Gross deferred tax liabilities:			
Net unrealized holding profits on securities	102	455	954
Total gross deferred tax liabilities	102	455	954
Net deferred tax assets	381	326	3,560

The ultimate realization of deferred tax assets is entirely dependent upon the generation of future taxable income in specific tax jurisdictions during the period in which those temporary differences become deductible.

10. Segment Information

Information about operations in industry segments, geographic segments and sales to foreign customers of the Group for the years ended March 31, 2005 and 2004, is as follows respectively:

(1) Industry Segments

a. Sales and Operating Income

	Millions of yen				
	2005				
	Surfactant	Other	Total	Eliminations/ Corporate	Consolidated
Sales to customers	¥ 14,603	¥ 8,289	¥ 22,892	¥ -	¥ 22,892
Intersegment	-	-	-	-	-
Total sales	14,603	8,289	22,892	-	22,892
Operating expenses	13,315	7,595	20,910	-	20,910
Operating income	¥ 1,288	¥ 694	¥ 1,982	¥ -	¥ 1,982
	Millions of yen				
	2004				
	Surfactant	Other	Total	Eliminations/ Corporate	Consolidated
Sales to customers	¥ 14,618	¥ 7,734	¥ 22,352	¥ -	¥ 22,352
Intersegment	-	-	-	-	-
Total sales	14,618	7,734	22,352	-	22,352
Operating expenses	13,150	6,864	20,014	-	20,014
Operating income	¥ 1,468	¥ 870	¥ 2,338	¥ -	¥ 2,338

Thousands of U.S.dollars

	2005				
	Surfactant	Other	Total	Eliminations/ Corporate	Consolidated
Sales to customers	\$ 136,475	\$ 77,470	\$ 213,945	\$ -	\$ 213,945
Intersegment	-	-	-	-	-
Total sales	136,475	77,470	213,945	-	213,945
Operating expenses	124,435	70,984	195,419	-	195,419
Operating income	\$ 12,040	\$ 6,486	\$ 18,526	\$ -	\$ 18,526

b. Assets, Depreciation and Capital Expenditure

Millions of yen

	2005				
	Surfactant	Other	Total	Eliminations/ Corporate	Consolidated
Assets	¥ 10,919	¥ 6,304	¥ 17,223	¥ 28,040	¥ 45,263
Depreciation	284	164	448	-	448
Capital expenditure	343	188	531	-	531

Millions of yen

	2004				
	Surfactant	Other	Total	Eliminations/ Corporate	Consolidated
Assets	¥ 17,326	¥ 8,831	¥ 26,157	¥ 18,478	¥ 44,635
Depreciation	300	162	462	-	462
Capital expenditure	245	135	380	-	380

Thousands of U.S.dollars

	2005				
	Surfactant	Other	Total	Eliminations/ Corporate	Consolidated
Assets	\$ 102,047	\$ 58,915	\$ 160,962	\$ 262,052	\$ 423,014
Depreciation	2,653	1,538	4,191	-	4,191
Capital expenditure	3,206	1,757	4,963	-	4,963

Notes: Surfactant consists of Spinning lubricants for artificial fibers, Sizing lubricants for spun yarn weaving, Antistatic agents for spinning and finishing.
Other consists of Warp sizes for spun yarn weaving, Touch improvers.

(2)Geographic Segments

The domestic and foreign operations of the Group for the years ended March 31, 2005 and 2004 are summarized as follows:

Millions of yen

	2005				
	Japan	Indonesia	Total	Eliminations/ Corporate	Consolidated
Sales to customers	¥ 21,983	¥ 909	¥ 22,892	¥ -	¥ 22,892
Intersegment	226	24	250	(250)	-
Total sales	22,209	933	23,142	(250)	22,892
Operating expenses	20,250	907	21,157	(247)	20,910
Operating income	¥ 1,959	¥ 26	¥ 1,985	¥ (3)	¥ 1,982
Assets	¥ 16,782	¥ 632	¥ 17,414	¥ 27,849	¥ 45,263

Millions of yen					
2004					
	Japan	Indonesia	Total	Eliminations/ Corporate	Consolidated
Sales to customers	¥ 21,464	¥ 888	¥ 22,352	¥ -	¥ 22,352
Intersegment	199	35	234	(234)	-
Total sales	21,663	923	22,586	(234)	22,352
Operating expenses	19,487	758	20,245	(231)	20,014
Operating income	¥ 2,176	¥ 165	¥ 2,341	¥ (3)	¥ 2,338
Assets	¥ 25,849	¥ 491	¥ 26,340	¥ 18,295	¥ 44,635

Thousands of U.S.dollars					
2005					
	Japan	Indonesia	Total	Eliminations/ Corporate	Consolidated
Sales to customers	\$ 205,450	\$ 8,495	\$ 213,945	\$ -	\$ 213,945
Intersegment	2,114	228	2,342	(2,342)	-
Total sales	207,564	8,723	216,287	(2,342)	213,945
Operating expenses	189,253	8,480	197,733	(2,314)	195,419
Operating income	\$ 18,311	\$ 243	\$ 18,554	\$ (28)	\$ 18,526
Assets	\$ 156,841	\$ 5,903	\$ 162,744	\$ 260,270	\$ 423,014

(3)Sales to Foreign Customers

Sales to foreign customers for the years ended March 31, 2005 and 2004 are as follows:

Millions of yen			
2005			
	South-east Asia	Other	Total
Sales to foreign country (A)	¥ 7,275	¥ 1,152	¥ 8,427
Sales to customers (B)	-	-	22,892
(A)/(B)	31.8%	5.0%	36.8%

Millions of yen			
2004			
	South-east Asia	Other	Total
Sales to foreign country (A)	¥ 7,226	¥ 1,205	¥ 8,431
Sales to customers (B)	-	-	22,352
(A)/(B)	32.3%	5.4%	37.7%

Thousands of U.S.dollars			
2005			
	South-east Asia	Other	Total
Sales to foreign country (A)	\$ 67,989	\$ 10,772	\$ 78,761
Sales to customers (B)	-	-	213,945
(A)/(B)	31.8%	5.0%	36.8%

11. Related Party Transactions

Principal transactions between the Company and its affiliates for the years ended March 31, 2005 and 2004 are summarized as follows:

	Millions of yen		Thousands of U.S.dollars
	2005	2004	2005
	¥	¥	\$
Sales	3,190	2,998	29,812

12. Subsidiary

The Company's subsidiary is as follows:

<u>Name</u>	<u>Ownership Interest</u>	<u>Country of Incorporation</u>
P.T.Matsumoto-Yushi Indonesia	49%	Indonesia

13. Subsequent Event

The following appropriations of the Company's retained earnings in respect of the year ended March 31, 2005 were proposed by the Board of Directors and approved by the shareholders at the annual general meeting held on June 29, 2005:

<u>Appropriations</u>	<u>Millions of yen</u>	<u>Thousands of U.S.dollars</u>
Cash dividends (¥45.0 per share)	¥ 503	\$ 4,705
Bonuses to directors and corporate auditors	20	181
Total appropriations	<u>¥ 523</u>	<u>\$ 4,886</u>

14. Net income Per Share

	<u>Millions of yen</u>		<u>Thousands of U.S dollars</u>
	<u>2005</u>	<u>2004</u>	<u>2005</u>
Net income	¥ 1,540	¥ 1,133	\$ 14,391
Deduction			
Bonuses to derectors and corporate auditors	20	18	181
Net income available to common shareholders	1,520	1,115	14,210
	<u>Thousand Shares</u>		
	<u>2005</u>	<u>2004</u>	
The weighted average number of shares of common stock outstanding	11,187	11,191	
	<u>yen</u>		<u>U.S.dollars</u>
	<u>2005</u>	<u>2004</u>	<u>2005</u>
Net income per share	¥ 135.90	¥ 99.66	\$ 1.270