

LETTER TO SHAREHOLDERS

Matsumoto Yushi-Seiyaku Co., Ltd., has been growing since its establishment in 1939, 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 ¥27,326 million sales (7.8% increase), and ¥1,383 million of operating income (33.5% decrease). The Group achieved ¥1,369 million of net income (33.4% decrease).

We considered that the nation's economy was going well, due to the growth of economy of the BRICs and the wide economic recovery from the capital investment through general consumption. But, the growth of economy of the BRICs caused the inflation of the crude oil and raw materials. Because the price of crude oil soared, the animal oil and vegetable oil was demanded. That spurred price inflations of crude oil

and animal-vegetable oil at the same time, totally new to our experience.

On the other side, the sub-prime loan problem caused the credit uncertainty across the global financial world, weakened US dollar and strengthened, in a strengthened, in a radical way.

The textile industries, which are our important sales field, are aggressive in high valued products. The general purpose goods are dominantly supplied by China and India by means of mass production. The non-textile industries see more gaps among companies. In the surfactant business, we can not raise the price of products.

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 ¥18,243 million sales (11.0% increase), and ¥868 million of operating income (34.7% decrease), respectively.

In the anionic surfactant segment, though the synthetic fiber manufactures in Japan made a large products of the fibers for nonwoven fabric, the result was ¥3,010 million sales (1.5% decrease).

The nonionic surfactant gained ¥14,319 million sales (15.1% 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 in this year also, but the amphoteric surfactant use for toiletry got a growth. As a result, sales for the year stood at ¥912 million (2.8% decrease).

The other divisions recorded ¥9,083 million of sales (2.1% increase), and ¥515 million of operating income (31.3% 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 ¥9,083 million (2.1% increase) .

Geographically, the Group achieved in Japan sales of ¥26,778 million (8.2% increase) and the operating income in the amount of ¥1,272 million (36.4% decrease).

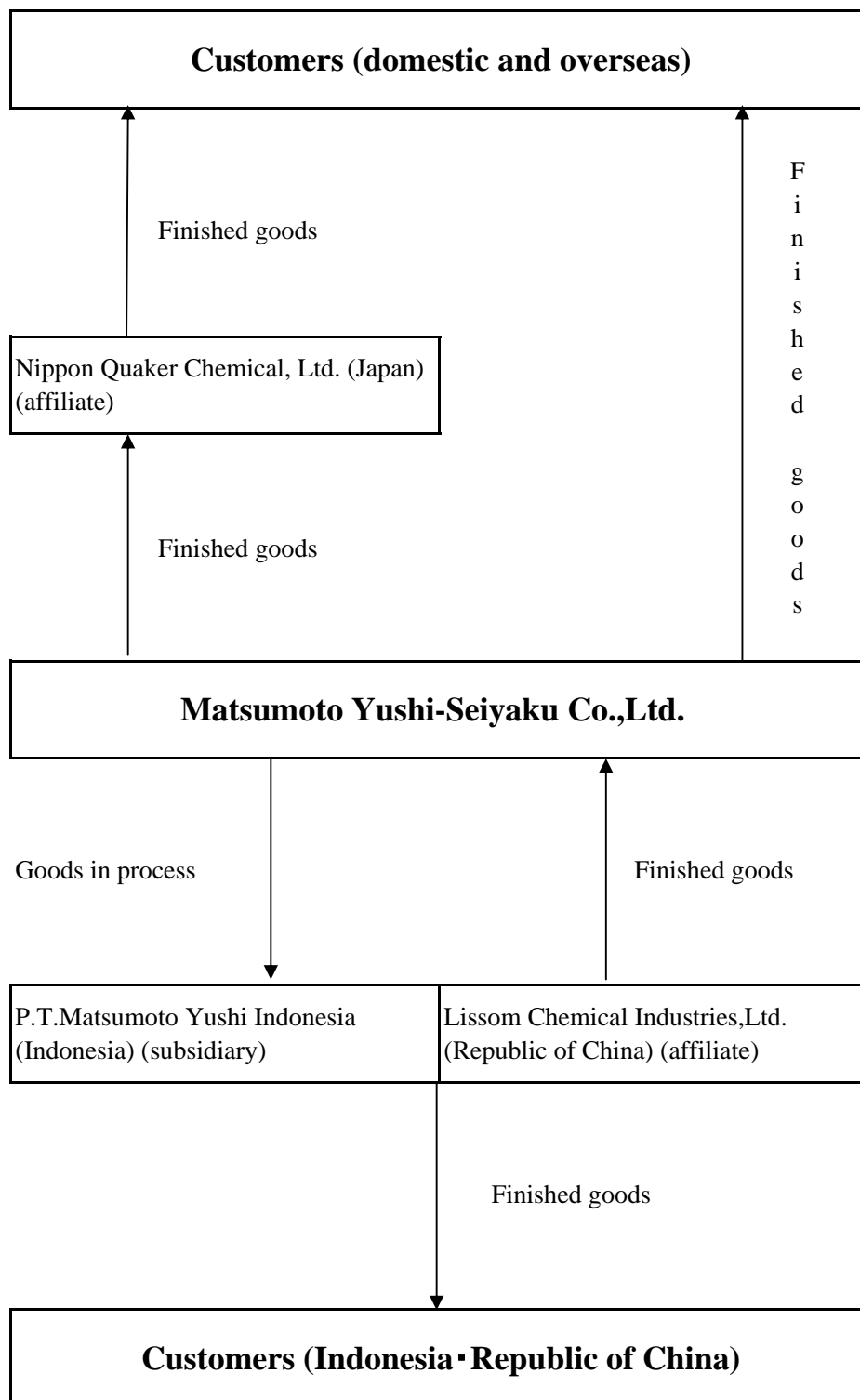
In Indonesia, we sold as much as ¥864 million (0.3% decrease) and managed to get

¥119 million (46.6% increase) 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



THE POLICY OF DIRECTORS WHO DECIDE RULES OF FINANCE AND BUSINESS & CORPORATE GOVERNANCE

The policy of directors who decide rules of finance and business

Matsumoto Yushi-Seiyaku Co.,Ltd. has been making every effort to realize stable and continuous improvement of enterprise value. Directors who decide rules of finance and business will understand that our management concept, various sources of enterprise value and mutually supportive relationship between Matsumoto Yushi-Seiyaku Co.,Ltd. and stakeholders, jointly improve our enterprise value. We are dedicated to common long-term shareholders' interest.

The Matsumoto Yushi-Seiyaku Group constantly endeavors to achieve the shareholders' maximum interest and the lasting stability of the Group under the management which strongly supports the law and the interest of stakeholders. We believe in an optimum scale of business for timely decisions as well as legal and social compliances.

The directors' meeting is held at least once a month to decide the basic policy and strategy of the Group. In the Group, directors, corporate auditors and the chiefs of department have a meeting once in a week. They check the compliance and the execution of business.

Comprising three Corporate Auditors, of which one is Outside Auditor, Corporate Auditors exchange views, deliberate, and decide on substantive issues relating to auditing. A standing statutory auditor attends other important meetings and watch the management.

Internal Auditing is a corporate function. A team is organized to audit when necessary. The Board of Corporate Auditors and the Independent Auditor may have meetings as need be to exchange opinions.

Seiryō Audit Corporation is contracted as an independent auditor to perform the financial audit in accord with the Company Code and Securities Law. The partners and their assistants of Seiryō Audit Corporation designated to perform the audit for fiscal 2008 were as follows.

Designated partners:

Hiroshi Takahashi, CPA

Kazuya Ishii, CPA

Assistants:

The independent auditor forms a team of assistants for performance of the audit in accordance with its audit plan. The team mainly comprises certified public accountants, junior accountants, and others.

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

Years ended March 31

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Results for the year (millions of Yen):					
Net Sales	27,326	25,339	23,493	22,892	22,352
Cost of sales	21,330	18,695	17,019	16,297	15,416
Gross profit	5,996	6,645	6,475	6,595	6,936
Selling, general and administrative expenses	4,613	4,565	4,574	4,613	4,598
Operating income	1,383	2,080	1,900	1,982	2,338
Other income(expenses)	815	874	1,053	518	(340)
Income before income taxes and minority interests	2,198	2,954	2,953	2,500	1,998
Income taxes					
current	788	1,165	1,157	902	978
deferred	(3)	15	(17)	57	(197)
Minority interests in subsidiary	44	23	60	1	84
Net income	1,369	1,751	1,753	1,540	1,133
Acquisition of property, plant and equipment	1,144	903	519	528	379
Depreciation and amortization	661	520	480	448	462
Per share of common stock(Yen):					
Net income	122.41	156.59	155.06	135.90	99.66
Cash dividends	60.00	55.00	50.00	45.00	40.00
Year-end financial position(millions of Yen):					
Total current assets	34,058	32,988	32,451	22,370	24,801
Total investments and other assets	11,361	13,560	13,453	19,690	16,698
Total property, plant and equipment	4,063	3,600	3,214	3,203	3,136
Total current liabilities	9,075	8,403	7,630	7,797	7,762
Total long-term liabilities	316	1,244	1,628	533	842
Minority interests	187	164	147	85	89
Foreign currency translation adjustments	102	95	168	184	186
Total shareholders' equity	40,092	40,501	39,713	36,848	35,942
Other year-end data:					
Number of shares issued(thousands)	11,282	11,282	11,282	11,282	11,282
Number of shareholders	608	600	594	610	680

MATSUMOTO YUSHI-SEIYAKU CO.,LTD. AND A SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
MARCH 31, 2008 and 2007

	Millions of yen		Thousands of U.S.dollars (Note 1)	
	2008	2007	2008	2007
ASSETS				
Current assets:				
Cash and cash equivalents	¥ 18,423	¥ 15,661	\$ 169,019	\$ 143,677
Short-term investments (Note 3)	3,840	5,840	35,229	53,578
Notes and accounts receivable:				
Trade	5,766	6,284	52,901	57,655
Associates	1,880	1,669	17,247	15,315
Other	6	3	59	27
	<u>7,652</u>	<u>7,957</u>	<u>70,206</u>	<u>72,998</u>
Inventories (Note 4)	3,462	2,984	31,763	27,375
Deferred income taxes (Note 9)	481	447	4,417	4,097
Other current assets	199	100	1,827	919
Total current assets	<u>34,058</u>	<u>32,988</u>	<u>312,462</u>	<u>302,644</u>
Property, plant and equipment :				
Land	537	539	4,924	4,948
Building and structures	4,233	4,185	38,831	38,394
Machinery and equipment	9,616	9,350	88,222	85,783
Construction in progress	600	59	5,504	538
	<u>14,985</u>	<u>14,133</u>	<u>137,480</u>	<u>129,663</u>
Accumulated depreciation	(10,922)	(10,533)	(100,206)	(96,631)
	<u>4,063</u>	<u>3,600</u>	<u>37,274</u>	<u>33,032</u>
Investments and other assets:				
Investments in affiliates (Note 12)	401	463	3,679	4,245
Investments in securities (Note 3)	10,049	12,150	92,193	111,465
Long-term loans, net of allowance for doubtful accounts	290	357	2,660	3,271
Deferred income taxes	13			
Other (Note 8)	608	591	5,582	5,419
	<u>11,361</u>	<u>13,560</u>	<u>104,233</u>	<u>124,401</u>
	<u>¥ 49,483</u>	<u>¥ 50,148</u>	<u>\$ 453,970</u>	<u>\$ 460,077</u>

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2008	2007	2008	2007
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Short-term bank loans (Note 5)	¥ 1,000	¥ 900	\$ 9,174	\$ 8,257
Accounts payable:				
Trade	5,757	4,988	52,820	45,765
Associates	795	563	7,294	5,168
Other	1,042	1,060	9,562	9,724
Accrued income taxes (Note 9)	99	512	913	4,697
Accrued bonuses to employees	347	341	3,180	3,126
Accrued bonuses to officers	—	21	—	193
Other current liabilities	34	18	311	163
Total current liabilities	<u>9,075</u>	<u>8,403</u>	<u>83,254</u>	<u>77,091</u>
Long-term debt (Note 5)	—	100	—	917
Accrued severance indemnities(Note 6)	236	302	2,166	2,770
Deferred income taxes (Note 9)	—	761	—	6,979
Other liabilities	80	81	730	746
Total long-term liabilities	<u>316</u>	<u>1,244</u>	<u>2,896</u>	<u>11,412</u>
Total liabilities	<u>9,390</u>	<u>9,647</u>	<u>86,150</u>	<u>88,504</u>
Contingencies (Note 7)				
Net assets (Note 2(p)):				
Shareholders' equity				
Common stock				
Authorized 21,000,000 shares				
Issued 2006- 11,281,629 shares	6,090	6,090	55,872	55,872
Capital surplus	6,518	6,518	59,796	59,796
Retained earnings	27,693	26,940	254,065	247,151
Less, treasury stock, at cost:	(283)	(278)	(2,598)	(2,551)
Total Shareholders' equity	<u>40,018</u>	<u>39,269</u>	<u>367,134</u>	<u>360,267</u>
Valuation and translation adjustments				
Unrealized gain (loss) on other securities	(10)	1,164	(91)	10,678
Foreign currency translation adjustments	(102)	(95)	(937)	(876)
Total Valuation and translation adjustments	<u>(112)</u>	<u>1,068</u>	<u>(1,028)</u>	<u>9,802</u>
Minority interests	187	164	1,713	1,504
Total net assets	<u>40,092</u>	<u>40,501</u>	<u>367,819</u>	<u>371,573</u>
	<u>¥ 49,483</u>	<u>¥ 50,148</u>	<u>\$ 453,970</u>	<u>\$ 460,077</u>

MATSUMOTO YUSHI-SEIYAKU CO.,LTD AND A SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED MARCH 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2008	2007	2008	2007
Net sales(Note 10,11)	¥ 27,326	¥ 25,339	\$ 250,695	\$ 232,470
Cost of sales(Note 10)	21,330	18,695	195,684	171,510
Gross profit	5,996	6,645	55,011	60,960
Selling, general and administrative expenses (Note 10)	4,613	4,565	42,325	41,879
Operating income	1,383	2,080	12,687	19,081
Other income (expenses):				
Interest and dividend income	754	487	6,921	4,468
Interest expenses	(14)	(11)	(127)	(101)
Investment profit (loss) on equity method	(15)	75	(141)	689
Foreign exchange profit (loss)	(594)	(4)	(5,451)	(33)
Profit (loss) on disposal of property and equipment	(12)	—	(113)	
Profit (Loss) on securities sold	379	205	3,475	1,877
Loss from revaluation of securities	(35)	(61)	(321)	(1)
Governmental subsidy	36	—	0	
Advanced depreciation deduction of property and equipment	(36)	—	(0)	
Other, net	353	183	3,235	1,683
Income before income taxes and minority interests	2,198	2,954	20,165	27,104
Income taxes (Note 9):				
Current	788	1,165	7,230	10,690
Deferred	(3)	15	(27)	135
Income before minority interests	1,413	1,774	12,961	16,279
Minority interests in subsidiary	(44)	(23)	(406)	(215)
Net income	¥ 1,369	¥ 1,751	\$ 12,555	\$ 16,064

	Yen		U.S. dollars (Note 1)	
	2008	2007	2008	2007
Net income per share:				
Basic	¥ 122.41	¥ 156.59	\$ 1.123	\$ 1.437
Cash dividends per share	60.00	55.00	0.550	0.505

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, 2008 and 2007**

Millions of yen

	Number of shares issued (thousands)	Shareholders' equity				Valuation and translation adjustments		Minority interests	Total net assets
		Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized gain (loss) on other securities	Foreign currency translation adjustments		
Balance at April 1, 2006	11,282	6,090	6,518	25,767	(273)	1,779	(168)	147	39,860
Cash dividends				(559)					(559)
Net income for the year				1,751					1,751
Bonuses to directors and corporate auditors				(19)					(19)
Purchase of treasury stock					(6)				(6)
Net change of items other than shareholders' equity						(615)	73	17	(525)
Balance at March 31, 2007	11,282	6,090	6,518	26,940	(278)	1,164	(95)	164	40,501
Cash dividends				(615)					(615)
Net income for the year				1,369					1,369
Value of shares retired				(0)	1				1
Purchase of treasury stock					(6)				(6)
Net change of items other than shareholders' equity						(1,174)	(7)	23	(1,158)
Balance at March 31, 2008	11,282	¥ 6,090	¥ 6,518	¥ 27,693	¥ (283)	¥ (10)	¥ (102)	¥ 187	¥ 40,092

Thousands of U.S. dollars (Note 1)

	Shareholders' equity				Valuation and translation adjustments		Minority interests	Total net assets
	Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized gain (loss) on other securities	Foreign currency translation adjustments		
Balance at April 1, 2006	\$ 55,872	\$ 59,796	\$ 236,394	\$ (2,500)	\$ 16,319	\$ (1,541)	\$ 1,347	\$ 365,686
Cash dividends			(5,130)					(5,130)
Net income for the year			16,064					16,064
Bonuses to directors and corporate auditors			(176)					(176)
Purchase of treasury stock				(51)				(51)
Net change of items other than shareholders' equity								
Balance at March 31, 2007	\$ 55,872	\$ 59,796	\$ 247,151	\$ (2,551)	\$ 10,678	\$ (876)	\$ 1,504	\$ 371,573
Cash dividends			(5,642)					(5,642)
Net income for the year			12,555					12,555
Purchase of treasury stock				(51)				(51)
Net change of items other than shareholders' equity								
Balance at March 31, 2008	\$ 55,872	\$ 59,796	\$ 254,065	\$ (2,598)	\$ (91)	\$ (937)	\$ 1,713	\$ 367,819

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, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars	
			(Note 1)	
	2008	2007	2008	2007
Cash flows from operating activities:				
Net income before income taxes and minority interests	¥ 2,198	¥ 2,954	\$ 20,165	\$ 27,104
Adjustments for:				
Depreciation and amortization	661	520	6,062	4,773
Loss(gain) on sales and disposal of property,	12	6	113	51
Loss(gain) on evaluation of securities				
and other assets	37	—	343	—
Loss(gain) on sale of securities				
and other assets	(379)	(144)	(3,475)	(1,317)
Allowance for doubtful accounts	11	2	99	17
Investment (profit) loss on equity method	15	(75)	141	(689)
Accrued severance indemnities	(66)	(33)	(604)	(305)
Accrued bonuses to employee	6	(3)	54	(24)
Accrued bonuses to officers	(21)	21	(193)	193
Interest and dividend income	(754)	(487)	(6,921)	(4,468)
Interest expenses	14	11	127	101
Foreign exchange (profit) loss	597	5	5,476	42
Decrease(Increase) in notes and accounts receivable	149	(1,192)	1,370	(10,933)
Decrease(Increase) in inventories	(494)	(60)	(4,533)	(551)
Increase(Decrease) in accounts payable	1,010	736	9,267	6,756
Increase (Decrease) in accrued consumption tax	(66)	(2)	(601)	(16)
Other,net	1	158	10	1,452
Sub total	2,932	2,418	26,899	22,185
Interest and dividend income received	773	473	7,091	4,338
Interest expenses paid	(14)	(11)	(127)	(100)
Income taxes paid	(1,203)	(1,335)	(11,041)	(12,245)
Net cash provided by operating activities	2,488	1,545	22,822	14,179
Cash flows from investing activities:				
Repayment of maturity of time deposits	—	(5,010)	—	(45,963)
Proceeds from maturity of time deposits	2,000	—	18,349	—
Receipt from sale of short-term investments	—	300	—	2,752
Payments for purchase of property, plant and equipment	(1,144)	(903)	(10,499)	(8,281)
Receipt from sale of investments in securities	4,328	2,442	39,709	22,403
Payments for purchase of investments in securities	(3,736)	(3,341)	(34,276)	(30,650)
Decrease(Increase)of long-term loans receivable	2	92	21	846
Other,net	(21)	(12)	(190)	(111)
Net cash provided by (used in) investing activities	1,429	(6,432)	13,114	(59,005)
Cash flows from financing activities:				
Cash dividends paid	(615)	(559)	(5,642)	(5,130)
Purchase of treasury stock	(5)	(6)	(47)	(51)
Net cash used in financing activities	(620)	(565)	(5,688)	(5,181)
Effect of exchange rate changes on cash and cash equivalents	(535)	(53)	(4,905)	(486)
Net increase (decrease) in cash and cash equivalents	2,762	(5,504)	25,342	(50,494)
Cash and cash equivalents at beginning of year	15,661	21,165	143,677	194,170
Cash and cash equivalents at end of year	¥ 18,423	¥ 15,661	\$ 169,019	\$ 143,677

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, 2008 and 2007

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 Company 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 inventory valuation at the lower of cost or market value.

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, 2008, which was ¥109 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 securities, 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.

(e) 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.

The Company recorded loss on reduction of inventory amounting to ¥32 million (U.S.\$290 thousand), ¥20million (U.S.\$172thousand) in the fiscal year ended on March 31, 2008 and 2007, respectively.

(f) 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.

Change in accounting policy

Effective April 1, 2007, the Company changed the rate of amortization which was acquired from April 1, 2007. This change was made owing to revision of Japanese Income Tax Law. As a result, operating income and income before income tax and minority interests increased by ¥22 million (U.S.\$206\$thousand).

Additional information

Effective April 1, 2007, the Company depreciates the residual value over 5 years. This additional depreciation is permitted only when the ordinary depreciation is completed.

This change was made owing to revision of Japanese Income Tax Law. As a result, operating income and income before income tax and minority interests decreased by ¥63 million (U.S.\$83\$thousand).

(g)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.

(h)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.

(i)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.

(j)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.

(k)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.

(l)Accrued Bonuses to Employees

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.

(m)Accrued Bonuses to Officers

The Company records accrued bonus liabilities to officers as at March 31. Yet its subsidiary does not record such accrued bonus 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 11,181 thousand and 11,178 thousand for the periods ended March 31, 2008 and 2007, respectively.

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

3. Short-term Investments and Investments in Securities

Short-term investment at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2008	2007	2008
Other securities:			
Bonds and debentures	¥ -	¥ -	\$ -
Time deposits	3,840	5,840	35,229
	<u>¥ 3,840</u>	<u>¥ 5,840</u>	<u>\$ 35,229</u>

The following is a summary of investments in securities at March 31, 2008 and 2007 respectively:

	Millions of yen			Book Value (Estimated fair value)
	March 31, 2008			
	Other securities			
	Cost	Gross unrealized gains	Gross unrealized losses	
Equity securities	¥ 1,423	¥ 1,185	¥ (285)	¥ 2,323
Bonds and debentures	947	-	(144)	803
Other	1,569	4	(142)	1,431
	<u>¥ 3,939</u>	<u>¥ 1,189</u>	<u>¥ (571)</u>	<u>¥ 4,557</u>
Add:Securities without readily determinable fair value				5,492
				<u>¥ 10,049</u>

Millions of yen			
March 31, 2007			
Other securities			
Cost	Gross unrealized gains	Gross unrealized losses	Book Value (Estimated fair value)
Equity securities	¥ 3,248	¥ 2,431	¥ (24)
Bonds and debentures	229	3	-
Other	2,456	72	-
	<u>¥ 5,933</u>	<u>¥ 2,506</u>	<u>¥ 8,415</u>
Add: Securities without readily determinable fair value			3,735
			<u>¥ 12,150</u>

Thousands of U.S.dollars(Note 1)			
March 31, 2008			
Other securities			
Cost	Gross unrealized gains	Gross unrealized losses	Book Value (Estimated fair value)
Equity securities	\$ 13,055	\$ 10,871	\$ (2,614)
Debt securities	8,688	-	(1,321)
Other	14,395	37	(1,303)
	<u>\$ 36,138</u>	<u>\$ 10,908</u>	<u>\$ 41,808</u>
Add: Securities without readily determinable fair value			50,385
			<u>\$ 92,193</u>

4. Inventories

Inventories at March 31, 2008 and 2007 comprise the following:

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2008	2007	2008
Finished goods	¥ 1,889	¥ 1,659	\$ 17,331
Work in process	365	376	3,349
Raw materials and supplies	1,208	949	11,083
	<u>¥ 3,462</u>	<u>¥ 2,984</u>	<u>\$ 31,763</u>

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

The annual average interest rates applicable to short-term bank loans at March 31, 2008 is 1.22 %

Long-term debt at March 31, 2008 and 2007 consisted of the following respectively:

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2008	2007	2008
Loans from banks:			
Unsecured loans, maturing in 2009	¥ 100	¥ 100	\$ 847
Total	100	100	847
Less: current portion	100	-	-
Long-term debt, less current portion	¥ -	¥ 100	\$ 847

6. Accrued Severance Indemnities

The following tables set forth the changes in benefit obligation, and plan assets of the Company at March 31, 2008 and 2007 respectively:

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2008	2007	2008
Benefit obligation at end of years	¥ (1,623)	¥ (1,676)	\$ (14,890)
Fair value of plan assets at end of years	1278	1446	11,725
Benefit obligation in excess of plan assets	(345)	(230)	(3,165)
Unrecognized actuarial loss	109	(72)	999
Accrued severance indemnities	¥ (236)	¥ (302)	¥ (2,166)

Benefit expenses of the Company included the following components for the year ended March 31, 2008 and 2007 respectively:

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2008	2007	2008
Service cost	¥ 73	¥ 73	\$ 670
Interest cost	28	29	257
Expected return on plan assets	(51)	(49)	(468)
Amortization: Actuarial losses	(12)	9	(110)
Benefit expenses	¥ 38	¥ 61	\$ 349

Assumption used in the accounting for the defined benefit plans for the year ended March 31, 2008 and 2007 is as follows:

	2008	2007
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	3.5%	3.5%
Amortization period for actuarial losses	5 years	5 years

7. Contingencies

The Group was contingently liable as guarantor of indebtedness of affiliates for ¥368 million (U.S.\$3,376thousand) and ¥275 million (U.S.\$2,331thousand) at March 31, 2008 and 2007 respectively.

8. Research and Development and Computer Software

Research and development expenditure charged to income was ¥1,070 million(U.S.\$9,817 thousand) and ¥1,123 million(U.S.\$9,521thousand) for the year ended March 31, 2007 and 2006, respectively.

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

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2008	2007	2008
Balance of beginning of year	¥ 16	¥ 11	\$ 147
Additions	2	9	18
Amortization	(5)	(4)	(46)
Balance at end of year	<u>¥ 13</u>	<u>¥ 16</u>	<u>\$ 119</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% for the years ended March 31, 2008 and 2007. Foreign subsidiary is subject to income taxes of the country in which it operates.

The effective rate for the two years ended March 31, 2008 and 2007 differs from the Company's statutory tax rate for the following reasons:

	2008	2007
Statutory tax rate	40.7	40.7
Permanently nondeductible expenses	1.8	1.5
Permanently nontaxable dividends received	(1.1)	(0.6)
Per capital levy of residents tax	0.7	0.5
Reserve for special depreciation	(0.4)	-
Tax on undistributed profits	-	0.6
Difference of tax rate of overseas subsidiary	(1.0)	0.1
Tax credit on research and development	(4.2)	(3.4)
Other	(0.8)	0.5
Effective tax rate	<u>35.7</u>	<u>39.9</u>

The significant components of deferred tax assets and deferred tax liabilities at March 31, 2008 and 2007 are presented below:

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2008	2007	2007
Gross deferred tax assets:			
Accrued severance indemnities	¥ 96	¥ 123	\$ 881
Accrued employee bonuses	141	138	1,293
Accrued enterprise tax	27	52	248
Unrealized gains on inventories	22	19	202
Net unrealized holding losses on securities	489	265	4,486
Other	99	98	908
Total gross deferred tax assets	874	695	8,018
Gross deferred tax liabilities:			
Net unrealized holding profits on securities	(371)	(1,009)	3,404
Reserve for special depreciation	(9)	-	82
Total gross deferred tax liabilities	(380)	(1,009)	(3,486)
Net deferred tax assets(liabilities)	494	(314)	4,532

The Company is positive on the realizability of deferred tax assets. However, 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, 2008 and 2007, is as follows respectively:

(1) Industry Segments

a. Sales and Operating Income

	Millions of yen				
	2008			Eliminations/ Corporate	Consolidated
	Surfactant	Other	Total		
Sales to customers	¥ 18,243	¥ 9,083	¥ 27,326	¥ -	¥ 27,326
Intersegment	-	-	-	-	-
Total sales	18,243	9,083	27,326	-	27,326
Operating expenses	17,375	8,568	25,943	-	25,943
Operating income	¥ 868	¥ 515	¥ 1,383	¥ -	¥ 1,383

	Millions of yen				
	2007			Eliminations/ Corporate	Consolidated
	Surfactant	Other	Total		
Sales to customers	¥ 16,440	¥ 8,899	¥ 25,339	¥ -	¥ 25,339
Intersegment	-	-	-	-	-
Total sales	16,440	8,899	25,339	-	25,339
Operating expenses	15,110	8,149	23,259	-	23,259
Operating income	¥ 1,330	¥ 750	¥ 2,080	¥ -	¥ 2,080

Thousands of U.S.dollars					
2008					
	Surfactant	Other	Total	Eliminations/ Corporate	Consolidated
Sales to customers	\$ 167,364	\$ 83,331	\$ 250,695	\$ -	\$ 250,695
Intersegment	-	-	-	-	-
Total sales	167,364	83,331	250,695	-	250,695
Operating expenses	159,401	78,607	238,008	-	238,008
Operating income	\$ 7,963	\$ 4,724	\$ 12,687	\$ -	\$ 12,687

b. Assets, Depreciation and Capital Expenditure

Millions of yen					
2008					
	Surfactant	Other	Total	Eliminations/ Corporate	Consolidated
Assets	¥ 13,530	¥ 6,835	¥ 20,365	¥ 29,118	¥ 49,483
Depreciation	442	219	661	-	661
Capital expenditure	777	369	1146	-	1146

Millions of yen					
2007					
	Surfactant	Other	Total	Eliminations/ Corporate	Consolidated
Assets	¥ 15,249	¥ 8,218	¥ 23,467	¥ 26,681	¥ 50,148
Depreciation	336	184	520	-	520
Capital expenditure	599	313	912	-	912

Thousands of U.S.dollars					
2008					
	Surfactant	Other	Total	Eliminations/ Corporate	Consolidated
Assets	\$ 124,128	\$ 62,705	\$ 186,834	\$ 267,138	\$ 453,970
Depreciation	4,054	2,008	6,062	-	6,062
Capital expenditure	7,128	3,385	10,513	-	10,513

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, 2008 and 2007 are summarized as follows:

	Millions of yen				
	2008				
	Japan	Indonesia	Total	Eliminations/ Corporate	Consolidated
Sales to customers	¥ 26,545	¥ 781	¥ 27,326	¥ -	¥ 27,326
Intersegment	233	83	316	(316)	-
Total sales	26,778	864	27,642	(316)	27,326
Operating expenses	25,506	745	26,251	(308)	25,943
Operating income	¥ 1,272	¥ 119	¥ 1,391	¥ (8)	¥ 1,383
Assets	¥ 19,926	¥ 524	¥ 20,450	¥ 29,033	¥ 49,483

	Millions of yen				
	2007				
	Japan	Indonesia	Total	Eliminations/ Corporate	Consolidated
Sales to customers	¥ 24,522	¥ 817	¥ 25,339	¥ -	¥ 25,339
Intersegment	218	49	267	(267)	-
Total sales	24,740	866	25,606	(267)	25,339
Operating expenses	22,739	785	23,524	(265)	23,259
Operating income	¥ 2,001	¥ 81	¥ 2,082	¥ (2)	¥ 2,080
Assets	¥ 23,085	¥ 532	¥ 23,617	¥ 26,531	¥ 50,148

	Thousands of U.S.dollars				
	2008				
	Japan	Indonesia	Total	Eliminations/ Corporate	Consolidated
Sales to customers	\$ 243,531	\$ 7,164	\$ 250,695	\$ -	\$ 250,695
Intersegment	2,138	761	2,899	(2,899)	-
Total sales	245,669	7,925	253,594	(2,899)	250,695
Operating expenses	234,000	6,834	240,834	(2,826)	238,008
Operating income	\$ 11,669	\$ 1,091	\$ 12,760	\$ (73)	\$ 12,687
Assets	\$ 182,806	\$ 4,807	\$ 187,613	\$ 266,357	\$ 453,970

(3)Sales to Foreign Customers

Sales to foreign customers for the years ended March 31, 2008 and 2007 are as follows:

	Millions of yen		
	2008		
	South-east Asia	Other	Total
Sales to foreign customers (A)	¥ 9,422	¥ 1,400	¥ 10,822
Total sales (B)	-	-	27,326
(A)/(B)	34.5%	5.1%	39.6%

	Millions of yen		
	2007		
	South-east Asia	Other	Total
Sales to foreign customers (A)	¥ 8,627	¥ 1,173	¥ 9,800
Total sales (B)	-	-	25339
(A)/(B)	34.0%	4.6%	38.6%

	Thousands of U.S.dollars		
	2008		
	South-east Asia	Other	Total
Sales to foreign customers (A)	\$ 86,440	\$ 12,844	\$ 99,284
Total sales (B)	-	-	250,695
(A)/(B)	34.5%	5.1%	39.6%

11. Related Party Transactions

Principal transactions between the Company and its affiliates for the years ended March 31, 2008 and 2007 are summarized as follows:

	Millions of yen		Thousands of U.S.dollars
	2008	2007	2008
	¥	¥	\$
Sales(Nippon Quaker Chemical,Ltd.)	4,199	3,710	38,523

12. Subsidiary

The Company's subsidiary is as follows:

Name	Ownership Interest	Country of Incorporation
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, 2008 were proposed by the Board of Directors and approved by the shareholders at the annual general meeting held on June 26, 2008:

Appropriations	Millions of yen	Thousands of U.S.dollars
Cash dividends (¥60.0per share)	¥ 671	\$ 6,156
Total appropriations	¥ 671	\$ 6,156

14. Net income Per Share

	Millions of yen		Thousands of U.S dollars
	2008	2007	2008
	¥	¥	\$
Net income	1,369	1,751	12,555
Deduction			
Bonuses to directors and corporate auditors	-	-	-
Net income available to common shareholders	1,369	1,751	12,555

	<u>Thousand Shares</u>		
	<u>2008</u>	<u>2007</u>	
The weighted average number of shares of common stock outstanding	11,179	11,181	
	<u>yen</u>		<u>U.S.dollars</u>
	<u>2008</u>	<u>2007</u>	<u>2008</u>
Net income per share	¥ 122.41	¥ 156.59	\$ 1.06