

## *LETTER TO STAKEHOLDERS*

The Japanese economy has gradually managed to regain moderate stability in the aftermath of the global financial crisis. Ecological tax deduction policies have also helped to recover some manufacturing activities though in limited segments. Overall, the economy in our current accounting period has suffered continuing challenges of stronger yen tendency, stagnant consumer spending, weak corporate capital investment, and ensuing unemployment.

The textile industries, concerned with our major customers, have seen contrasting domestic and overseas business climates. The stronger Japanese currency caused domestic reduction or shutdown of commodity product lines, and enhanced offshore production. In China, thanks to the government policy stimulating domestic consumption, they achieved consistent recovery to almost where they stood before the global recession. In the other areas, they have recovered stably.

For the non-textile industries, the domestic auto industry registered moderate recovery. The housing and the construction material markets still suffer dull activities. China and the Asian markets gained impetus, while the auto and housing sectors remained dormant in the USA.

In our consolidated attempt to secure as much sales and profit as might be warranted by the pressing circumstances, we made pointed emphases on development of quality and competitive price products plus timely introduction of merchandise meeting the market demand.

Our consolidated sales for the current year stood at ¥23,552 million (96.7% of last period), operating income at ¥988 million(266.2%), and net income at ¥707 million (498.2%), respectively.

In terms of business categories, the surfactant division sold ¥16,865 million (99.7%),

and achieved operating income of ¥671 million (304.2%).

The anionic surfactant segment saw sales decline to the domestic synthetic fiber manufacturers. Commodity items overseas almost restored its market prior to the recession. However, our overall sales stood at ¥2,706 million (96.4%).

The nonionic surfactant domestically registered declined sales to the textile industries. However, overseas especially in China as noted in the preceding paragraphs, we sold more than last year and compensated for the domestic decline. Our consolidated sales attained ¥13,367 million (100.5%).

For the cationic and amphotenic surfactant segment, our sales declined to the textile business while the chemical industry purchased more from us but at lesser pricing than last year. We ended up with sales of ¥ 792 million (98.4%).

The high polymer and inorganic chemicals segment, collectively sold as much as ¥6,687 million (89.8%) with operating income of ¥317 million (210.5%).

Geographically, Japan represented sales of ¥22,904 million (96.0%) with operating income at ¥876 million (365.5%). Indonesian market accounted for the group sales of ¥648 million (130.7%) and operating income of ¥ 95million (73.8%).

With the domestic economy yet to recover from the deflationary trends, our business environment will remain tough for a foreseeable future.

We are determined to further promote competitive products development, sales channels, and rationalization of our systems and organization.

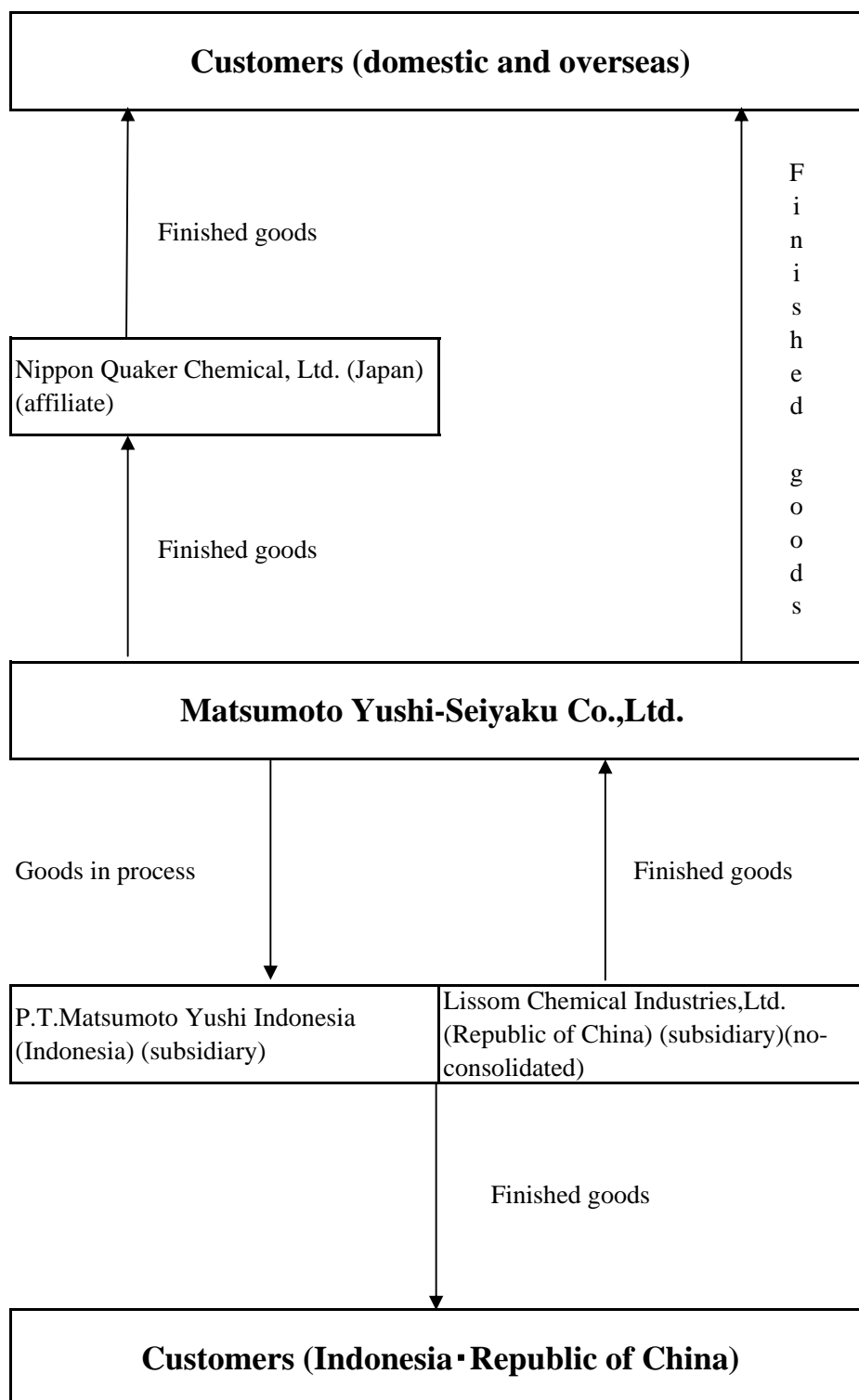
Further to a major renovation at the Shizuoka plant and investment in the new Osaka plant, we will endeavour to keep our facilities proactive to the changing environment.

As always, we will very much appreciate your continued support.

Sincerely,

NAOKI KIMURA  
President and CEO

# Holding Company Configuration and Highlights of Business



## *CORPORATE GOVERNANCE*

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 well understand our management concept, various sources of enterprise value and mutually supportive relationship between Matsumoto Yushi-Seiyaku Co.,Ltd. and stakeholders, and are committed to jointly improving our enterprise value. Thus, we are firmly dedicated to long-term shareholders' interest.

The board of directors meets once a month regularly and also on ad-hoc basis to stand ready for timely corporate decision making. Directors, statutory auditors and the chiefs of department have a joint meeting once in a week. They insure legal compliance and the legitimate execution of business.

The board of statutory auditors deliberates and decides on substantive issues relative to auditing. They also attend the director meetings and other major discussions to watch appropriateness of managerial business execution.

Internal auditing is a corporate function. An ad-hoc staff team is organized to assist the internal auditing when necessary. The board of statutory auditors and the independent auditor may have meetings as need be to exchange views and opinions.

**MATSUMOTO YUSHI-SEIYAKU CO., LTD. AND A SUBSIDIARY****Selected Financial Data****Years ended March 31**

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b>Results for the year (millions of Yen):</b>					
Net Sales	23,552	24,359	27,326	25,339	23,493
Cost of sales	18,692	19,888	21,330	18,695	17,019
Gross profit	4,859	4,470	5,996	6,645	6,475
Selling, general and administrative expenses	3,871	4,099	4,613	4,565	4,574
Operating income	988	371	1,383	2,080	1,900
Other income(expenses)	103	39	815	874	1,053
Income before income taxes and minority interests	1,091	410	2,198	2,954	2,953
Income taxes					
current	640	43	788	1,165	1,157
deferred	(287)	173	(3)	15	(17)
Minority interests in subsidiary	31	52	44	23	60
Net income	707	142	1,369	1,751	1,753
Acquisition of property, plant and equipment	370	2,958	1,144	903	519
Depreciation and amortization	846	845	661	520	480
<b>Per share of common stock(Yen):</b>					
Net income	69.46	13.29	122.41	156.59	155.06
Cash dividends	50.00	50.00	60.00	55.00	50.00
<b>Year-end financial position(millions of Yen):</b>					
Total current assets	28,946	26,813	34,058	32,988	32,451
Total property, plant and equipment	5,681	6,146	4,063	3,600	3,214
Total investments and other assets	11,028	10,676	11,361	13,560	13,453
Total current liabilities	7,393	5,886	9,075	8,403	7,630
Total long-term liabilities	350	315	316	1,244	1,628
Minority interests	200	155	187	164	147
Foreign currency translation adjustments	188	209	102	95	168
Total net assets	37,913	37,435	40,092	40,501	39,713
<b>Other year-end data:</b>					
Number of shares issued(thousands)	11,282	11,282	11,282	11,282	11,282
Number of shareholders	437	457	608	600	594

**MATSUMOTO YUSHI-SEIYAKU CO.,LTD. AND A SUBSIDIARY**  
**CONSOLIDATED BALANCE SHEETS**  
**MARCH 31, 2010 and 2009**

ASSETS	Millions of yen		Thousands of U.S.dollars (Note 1)	
	2010	2009	2010	2009
Current assets:				
Cash and cash equivalents(Note 3)	¥ 16,391	¥ 13,288	\$ 176,242	\$ 142,887
Short-term investments (Note 3,4)	1,840	1,138	19,785	12,239
Notes and accounts receivable(Note 3):				
Trade	5,170	4,269	55,590	45,901
Associates	1,693	1,372	18,200	14,753
Other	6	3	70	30
Allowance for doubtful accounts	(4)	(3)	(45)	(31)
	<u>6,865</u>	<u>5,641</u>	<u>73,815</u>	<u>60,653</u>
Inventories (Note 5)	3,065	3,287	32,960	35,344
Deferred income taxes (Note 10)	521	385	5,604	4,143
Other current assets (Note 3)	265	3,073	2,845	33,045
Total current assets	<u>28,946</u>	<u>26,813</u>	<u>311,251</u>	<u>288,311</u>
Property, plant and equipment :				
Land	532	529	5,725	5,687
Building and structures	6,169	5,669	66,338	60,952
Machinery and equipment	11,249	10,687	120,961	114,912
Construction in progress	3	781	30	8,395
	<u>17,954</u>	<u>17,665</u>	<u>193,053</u>	<u>189,946</u>
Accumulated depreciation	(12,273)	(11,519)	(131,962)	(123,856)
	<u>5,681</u>	<u>6,146</u>	<u>61,091</u>	<u>66,089</u>
Investments and other assets:				
Investments in affiliates (Note 13)	452	363	4,857	3,898
Investments in securities (Note 3,4)	9,561	9,219	102,802	99,126
Long-term loans(Note 3), net of allowance for doubtful accounts	90	205	963	2,201
Deferred income taxes(Note 10)	311	303	3,346	3,262
Other (Note 9)	615	587	6,614	6,312
	<u>11,028</u>	<u>10,676</u>	<u>118,582</u>	<u>114,799</u>
	<u>¥ 45,656</u>	<u>¥ 43,636</u>	<u>\$ 490,924</u>	<u>\$ 469,200</u>

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2010	2009	2010	2009
Current liabilities:				
Short-term bank loans (Note 3,6)	¥ 700	¥ 700	\$ 7,527	\$ 7,527
Accounts payable(Note 3):				
Trade	4,340	3,303	46,671	35,521
Associates	867	459	9,318	4,931
Other	623	1,049	6,701	11,278
Accrued income taxes	548	26	5,888	280
Accrued bonuses to employees	285	315	3,063	3,387
Other current liabilities(Note 3)	31	34	329	364
Total current liabilities	<u>7,393</u>	<u>5,886</u>	<u>79,497</u>	<u>63,288</u>
Allowance for retirement benefits(Note 7)	262	237	2,814	2,551
Other liabilities	88	78	947	837
Total long-term liabilities	<u>350</u>	<u>315</u>	<u>3,760</u>	<u>3,388</u>
Total liabilities	<u>7,743</u>	<u>6,201</u>	<u>83,257</u>	<u>66,676</u>
Contingencies (Note 8)				
Net assets:				
Shareholders' equity				
Common stock				
Authorized 40,000,000 shares				
Issued 2010- 11,281,629 shares	6,090	6,090	65,484	65,484
Capital surplus	6,518	6,518	70,083	70,083
Retained earnings	27,362	27,164	294,218	292,088
Less, treasury stock, at cost:	(1,742)	(1,739)	(18,728)	(18,696)
Total Shareholders' equity	<u>38,228</u>	<u>38,033</u>	<u>411,056</u>	<u>408,960</u>
Valuation and translation adjustments				
Unrealized gain (loss) on other securities	(327)	(545)	(3,517)	(5,856)
Foreign currency translation adjustments	(188)	(209)	(2,019)	(2,244)
Total Valuation and translation adjustments	<u>(515)</u>	<u>(753)</u>	<u>(5,536)</u>	<u>(8,101)</u>
Minority interests	200	155	2,146	1,664
Total net assets	<u>37,913</u>	<u>37,435</u>	<u>407,667</u>	<u>402,523</u>
	<u>¥ 45,656</u>	<u>¥ 43,636</u>	<u>\$ 490,924</u>	<u>\$ 469,200</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, 2010 and 2009**

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2010	2009	2010	2009
Net sales(Note 11,12)	¥ 23,552	¥ 24,359	\$ 253,246	\$ 261,923
Cost of sales(Note 11)	18,692	19,888	200,994	213,854
Gross profit	4,859	4,470	52,252	48,069
Selling, general and administrative expenses (Note 11)	3,871	4,099	41,627	44,077
Operating income	988	371	10,625	3,992
Other income (expenses):				
Interest and dividend income	371	375	3,985	4,027
Interest expenses	(9)	(16)	(96)	(172)
Investment profit (loss) on equity method	29	(23)	309	(251)
Foreign exchange profit (loss)	(110)	(195)	(1,184)	(2,093)
Profit (loss) on disposal of property and equipment	(5)	(7)	(49)	(76)
Profit (Loss) on securities sold	4	0	46	1
Loss from revaluation of securities	(453)	(357)	(4,876)	(4)
Other, net	276	262	2,969	2,819
Income before income taxes and minority interests	1,091	410	11,729	4,406
Income taxes (Note 10):				
Current	640	43	6,882	462
Deferred	(287)	173	(3,089)	1,857
	353	216	3,793	2,319
Income before minority interests	738	194	7,936	2,087
Minority interests in subsidiary	(31)	(52)	(332)	(561)
Net income	¥ 707	¥ 142	\$ 7,603	\$ 1,526

	Yen		U.S. dollars (Note 1)	
	2010	2009	2010	2009
Net income per share:				
Basic	¥ 69.46	¥ 13.29	\$ 0.747	\$ 0.143
Cash dividends per share	50.00	50.00	0.538	0.538

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, 2010 and 2009**

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, 2008	11,282	6,090	6,518	27,693	(283)	(10)	(102)	187	40,092
Cash dividends				(671)					(671)
Net income for the year				142					142
Bonuses to directors and corporate auditors				(0)	1				1
Purchase of treasury stock					(6)				(6)
Net change of items other than shareholders' equity					(1,450)	(535)	(107)	(32)	(2,124)
Balance at March 31, 2009	11,282	6,090	6,518	27,164	(1,739)	(545)	(209)	155	37,435
Cash dividends				(509)					(509)
Net income for the year				707					707
Purchase of treasury stock					(3)				(3)
Net change of items other than shareholders' equity						218	21	45	283
Balance at March 31, 2010	<u>11,282</u>	<u>¥ 6,090</u>	<u>¥ 6,518</u>	<u>¥ 27,362</u>	<u>¥ (1,742)</u>	<u>¥ (327)</u>	<u>¥ (188)</u>	<u>¥ 200</u>	<u>¥ 37,913</u>

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, 2008	\$ 65,484	\$ 70,083	\$ 297,775	\$ (3,045)	\$ (106)	\$ (1,098)	\$ 2,008	\$ 431,100
Cash dividends			(7,212)					(7,212)
Net income for the year			1,526					1,526
Bonuses to directors and corporate auditors			(0)	6				5
Purchase of treasury stock				(60)				(60)
Net change of items other than shareholders' equity				(15,596)	(5,750)	(1,146)	(344)	(22,836)
Balance at March 31, 2009	\$ 65,484	\$ 70,083	\$ 292,088	\$ (18,696)	\$ (5,856)	\$ (2,244)	\$ 1,664	\$ 402,523
Cash dividends			(5,474)					(5,474)
Net income for the year			7,603					7,603
Purchase of treasury stock				(33)				(33)
Net change of items other than shareholders' equity					2,339	226	482	3,047
Balance at March 31, 2010	<u>\$ 65,484</u>	<u>\$ 70,083</u>	<u>\$ 294,217</u>	<u>\$ (18,728)</u>	<u>\$ (3,517)</u>	<u>\$ (2,019)</u>	<u>\$ 2,146</u>	<u>\$ 407,667</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, 2010 and 2009**

	Millions of yen		Thousands of U.S. dollars	
			(Note 1)	
	2010	2009	2010	2009
Cash flows from operating activities:				
Net income before income taxes and minority interests	¥ 1,091	¥ 410	\$ 11,729	\$ 4,406
Adjustments for:				
Depreciation and amortization	846	845	9,096	9,088
Loss (gain) on sales and disposal of property,	5	7	49	76
Loss (gain) on evaluation of securities				
and other assets	453	357	4,876	3,842
Loss (gain) on sale of securities				
and other assets	(4)	(0)	(46)	(1)
Allowance for doubtful accounts	(10)	8	(103)	87
Investment (profit) loss on equity method	(29)	23	(309)	251
Accrued severance indemnities	16	1	170	13
Accrued bonuses to employees	(30)	(32)	(324)	(340)
Interest and dividend income	(371)	(375)	(3,985)	(4,027)
Interest expenses	9	16	96	172
Foreign exchange (profit) loss	169	111	1,813	1,197
Decrease (Increase) in notes and accounts receivable	(1,202)	2,071	(12,921)	22,267
Decrease (Increase) in inventories	256	113	2,755	1,210
Increase (Decrease) in accounts payable	1,427	(2,750)	15,348	(29,566)
Increase (Decrease) in accrued consumption tax	79	(39)	854	(417)
Other, net	2,372	(2,448)	25,504	(26,327)
Sub total	5,078	(1,680)	54,602	(18,070)
Interest and dividend income received	375	380	4,034	4,084
Interest expenses paid	(9)	(16)	(96)	(171)
Income taxes paid	(142)	(489)	(1,528)	(5,257)
Net cash provided by operating activities	5,302	(1,805)	57,013	(19,413)
Cash flows from investing activities:				
Proceeds from maturity of time deposits	200	2,800	2,151	30,108
Receipt from sale of short-term investments	93	—	1,000	—
Payments for purchase of property, plant and equipment	(370)	(2,958)	(3,977)	(31,809)
Receipt from sale of investments in securities	69	153	739	1,649
Payments for purchase of investments in securities	(1,434)	(768)	(15,419)	(8,260)
Decrease (Increase) of long-term loans receivable	45	1	487	5
Other, net	(34)	18	(363)	189
Net cash provided by (used in) investing activities	(1,430)	(755)	(15,381)	(8,118)
Cash flows from financing activities:				
Increase (Decrease) in short-term bank loans, ne	—	(300)	—	(3,226)
Cash dividends paid	(520)	(671)	(5,587)	(7,212)
Purchase of treasury stock	(3)	(1,456)	(33)	(15,651)
Net cash used in financing activities	(523)	(2,426)	(5,620)	(26,089)
Effect of exchange rate changes on cash and cash equivalents	(247)	(148)	(2,656)	(1,591)
Net increase (decrease) in cash and cash equivalents	3,102	(5,135)	33,356	(55,211)
Cash and cash equivalents at beginning of year	13,288	18,423	142,887	198,098
Cash and cash equivalents at end of year	¥ 16,391	¥ 13,288	\$ 176,242	\$ 142,887

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, 2010 and 2009**

### **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 Financial Instruments and Exchange Act 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.

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 Financial Instruments and Exchange Act.

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, 2010, which was ¥93 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 affiliate and subsidiary(non-consolidated) 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 Financial Instruments and Exchange Act, securities should be classified into four categories: trading securities, held-to-maturities securities, equity investments in an affiliate 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 (net realized value method) by the weighted average method. Raw materials are stated at cost determined (net realized value method) by the weighted average method. Supplies and containers are stated at the most recent purchase prices.

**(f) Property, Plant and Equipment**

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

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 of machinery and equipment**

Effective April 1, 2009, the Company changed the method of depreciation of machinery and equipment from the declining-balance method to straight-line method. The Company carried out large-scale investments in the current fiscal year to effect the reinforcement of the producing capacity and strengthening of the price competitiveness. And we checked the condition of using the plants, as a result, we found that those plants are and will be used steadily in the long run. The environment where the plants are operated warrants, the Company believes, the said change in the method of depreciation.

As a result, gross profit and operating income were increased ¥321 million (U.S.\$3,452 thousand) and income before income tax was also increased ¥321 million (U.S.\$3,455 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 Financial Instruments and Exchange Act 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.

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)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.

**(n)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 10,180 thousand and 10,681 thousand for the periods ended March 31, 2010 and 2009, respectively.

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

### 3. Financial Instrument

Financial instruments at March 31, 2010 consisted of the following:

	millions of yen		
	2010		
	Book Value	Fair Value	Differences
Cash and cash equivalents	¥ 16,391	¥ 16,391	¥ -
Notes and accounts receivable	6,865	6,865	-
Other current assets	265	265	-
Short-term investments and investments in securities	1,840	1,840	-
Long-term loans	90	86	4
Total assets	¥ 25,450	¥ 25,446	¥ 4
Accounts payable	5,830	5,830	-
Other current liabilities	31	31	-
Short-term bank loans	700	700	-
Total liabilities	¥ 6,561	¥ 6,561	¥ -

	thousands of U.S.dollars(Note 1)		
	2010		
	Book Value	Fair Value	Differences
Cash and cash equivalents	\$ 176,242	\$ 176,242	\$ -
Notes and accounts receivable	73,815	73,815	-
Other current assets	2,845	2,845	-
Short-term investments and investments in securities	19,785	19,785	-
Long-term loans	963	922	41
Total assets	\$ 273,651	\$ 273,610	\$ 41
Accounts payable	62,690	62,690	-
Other current liabilities	329	329	-
Short-term bank loans	7,527	7,527	-
Total liabilities	\$ 70,546	\$ 70,546	\$ -

#### 4. Short-term Investments and Investments in Securities

Short-term investment at March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2010	2009	2010
Other securities:			
Bonds and debentures	¥ -	¥ -	\$ -
Time deposits	1,840	1,138	19,785
	<u>¥ 1,840</u>	<u>¥ 1,138</u>	<u>\$ 19,785</u>

The following is a summary of investments in securities at March 31, 2010 and 2009 respectively:

	Millions of yen				
	March 31, 2010				
	Other securities				
Cost	Gross unrealized gains	Gross unrealized losses	Book Value (Estimated fair value)		
Equity securities	¥ 1,801	¥ 892	¥ (176)	¥ 2,517	
Bonds and debentures	829	-	(259)	570	
Other	2,421	101	(419)	2,103	
	<u>¥ 5,051</u>	<u>¥ 993</u>	<u>¥ (854)</u>	<u>¥ 5,190</u>	
Add: Securities without readily determinable fair value				4,371	
				<u>¥ 9,561</u>	

	Millions of yen				
	March 31, 2009				
	Other securities				
Cost	Gross unrealized gains	Gross unrealized losses	Book Value (Estimated fair value)		
Equity securities	¥ 1,598	¥ 510	¥ (260)	¥ 1,848	
Bonds and debentures	946	-	(291)	655	
Other	2,133	-	(859)	1,274	
	<u>¥ 4,677</u>	<u>¥ 510</u>	<u>¥ (1,410)</u>	<u>¥ 3,777</u>	
Add: Securities without readily determinable fair value				5,442	
				<u>¥ 9,219</u>	

	Thousands of U.S.dollars(Note 1)				
	March 31, 2010				
	Other securities				
Cost	Gross unrealized gains	Gross unrealized losses	Book Value (Estimated fair value)		
Equity securities	\$ 19,370	\$ 9,590	\$ (1,895)	\$ 27,065	
Debt securities	8,911	-	(2,784)	6,127	
Other	26,031	1085	(4,505)	22,611	
	<u>\$ 54,312</u>	<u>\$ 10,674</u>	<u>\$ (9,184)</u>	<u>\$ 55,802</u>	
Add: Securities without readily determinable fair value				46,999	
				<u>\$ 102,802</u>	

## 5. Inventories

Inventories at March 31, 2010 and 2009 comprise the following:

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2010	2009	2010
Finished goods	¥ 1,670	¥ 1,597	\$ 17,957
Work in process	382	463	4,103
Raw materials and supplies	1,014	1,227	10,900
	<u>¥ 3,065</u>	<u>¥ 3,287</u>	<u>\$ 32,960</u>

## 6. Short-term Bank Loans and Long-term Debt

The annual average interest rates applicable to short-term bank loans at March 31, 2010 is 1.03 %

Long-term debt at March 31, 2010 and 2009 consisted of the following respectively:

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2010	2009	2010
Loans from banks:			
Unsecured loans, maturing in 2010	¥ (700)	¥ (700)	\$ (7,527)
Total	(700)	(700)	(7,527)
Less: current portion	(700)	(700)	(7,527)
Long-term debt, less current portion	<u>¥ -</u>	<u>¥ -</u>	<u>\$ -</u>

## 7. Accrued Severance Indemnities

The following tables set forth the changes in benefit obligation, and plan assets of the Company at March 31, 2010 and 2009 respectively:

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2010	2009	2010
Benefit obligation at end of years	¥ (1,344)	¥ (1,529)	\$ (14,447)
Fair value of plan assets at end of years	997	1,067	10,715
Benefit obligation in excess of plan assets	(347)	(462)	(3,732)
Unrecognized actuarial loss	85	225	916
Accrued severance indemnities	<u>¥ (262)</u>	<u>¥ (237)</u>	<u>¥ (2,814)</u>

Benefit expenses of the Company included the following components for the year ended March 31, 2010 and 2009 respectively:

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2010	2009	2010
Service cost	¥ 80	¥ 81	\$ 863
Interest cost	28	28	302
Expected return on plan assets	(16)	(38)	(172)
Amortization: Actuarial losses	49	7	526
Benefit expenses	<u>¥ 141</u>	<u>¥ 78</u>	<u>\$ 1,520</u>

Assumption used in the accounting for the defined benefit plans for the year ended March 31, 2010 and 2009 is as follows:

	2010	2009
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	1.5%	3.0%
Amortization period for actuarial losses	5years	5years

## 8. Contingencies

The Group was contingently liable as guarantor of indebtedness of affiliates for ¥270 million (U.S.\$2,903,thousand) and ¥324 million (U.S.\$3,484 thousand) at March 31, 2010 and 2009 respectively.

## 9. Research and Development and Computer Software

Research and development expenditure charged to income was ¥968 million(U.S.\$10,409 thousand) and ¥1,009 million (U.S.\$10,296 thousand) for the year ended March 31, 2010 and 2009, respectively.

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

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2010	2009	2010
Balance of beginning of year	¥ 21	¥ 13	\$ 224
Additions	-	12	-
Amortization	(7)	(4)	(72)
Balance at end of year	<u>¥ 14</u>	<u>¥ 21</u>	<u>\$ 152</u>

## 10. 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, 2010 and 2009.

Foreign subsidiary is subject to income taxes of the country in which it operates.

The effective rate for the two years ended March 31, 2010 and 2009 differs from the Company's statutory tax rate for the following reasons:

	2010	2009
Statutory tax rate	40.7	40.7
Permanently nondeductible expenses	2.6	8.4
Permanently nontaxable dividends received	(0.9)	(3.7)
Per capital levy of residents tax	1.5	4
Reserve for special depreciation	(7.7)	-
Effect due to consolidation	(1.3)	9.9
Difference of tax rate of overseas subsidiary	(1.2)	(6.2)
Other	(1.4)	(0.5)
Effective tax rate	<u>32.3</u>	<u>52.6</u>

The significant components of deferred tax assets and deferred tax liabilities at March 31, 2010 and 2009 are presented below:

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2010	2009	2010
Gross deferred tax assets:			
Accrued severance indemnities	¥ 104	¥ 90	\$ 1,118
Accrued employee bonuses	116	128	1,247
Unrealized gains on inventories	15	22	161
Net unrealized holding losses on securities	516	476	5,546
Other	378	107	4,068
Total gross deferred tax assets	1129	823	12,139
Gross deferred tax liabilities:			
Net unrealized holding profits on securities	291	(102)	3,132
Accrued enterprise tax receivable	-	(27)	-
Reserve for special depreciation	(5)	(5)	(57)
Total gross deferred tax liabilities	(297)	(135)	(3,189)
Net deferred tax assets(liabilities)	832	689	8,950

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.

## 11. Segment Information

Information about operations in industry segments, geographic segments and sales to foreign customers of the Group for the years ended March 31, 2010 and 2009, is as follows respectively:

### (1) Industry Segments

#### a. Sales and Operating Income

	Millions of yen				
	2010				
	Surfactant	Other	Total	Eliminations/ Corporate	Consolidated
Sales to customers	¥ 16,865	¥ 6,687	¥ 23,552	¥ -	¥ 23,552
Intersegment	-	-	-	-	-
Total sales	16,865	6,687	23,552	-	23,552
Operating expenses	16,194	6,370	22,564	-	22,564
Operating income	¥ 671	¥ 317	¥ 988	¥ -	¥ 988

	Millions of yen				
	2009				
	Surfactant	Other	Total	Eliminations/ Corporate	Consolidated
Sales to customers	¥ 16,910	¥ 7,448	¥ 24,358	¥ -	¥ 24,358
Intersegment	-	-	-	-	-
Total sales	16,910	7,448	24,358	-	24,358
Operating expenses	16,689	7,297	23,987	-	23,987
Operating income	¥ 220	¥ 150	¥ 371	¥ -	¥ 371

## Thousands of U.S.dollars

2010					
	Surfactant	Other	Total	Eliminations/ Corporate	Consolidated
Sales to customers	\$ 181,342	\$ 71,904	\$ 253,246	\$ -	\$ 253,246
Intersegment	-	-	-	-	-
Total sales	181,342	71,904	253,246	-	253,246
Operating expenses	174,130	68,491	242,621	-	242,621
Operating income	\$ 7,212	\$ 3,413	\$ 10,625	\$ -	\$ 10,625

## b. Assets, Depreciation and Capital Expenditure

Millions of yen					
2010					
	Surfactant	Other	Total	Eliminations/ Corporate	Consolidated
Assets	¥ 13,300	¥ 5,363	¥ 18,663	¥ 26,993	¥ 45,656
Depreciation	605	241	846	-	846
Capital expenditure	264	106	370	-	370

Millions of yen					
2009					
	Surfactant	Other	Total	Eliminations/ Corporate	Consolidated
Assets	¥ 15,396	¥ 6,942	¥ 22,338	¥ 21,298	¥ 43,636
Depreciation	584	261	845	-	845
Capital expenditure	2,059	912	2,971	-	2,971

Thousands of U.S.dollars					
2010					
	Surfactant	Other	Total	Eliminations/ Corporate	Consolidated
Assets	\$ 143,013	\$ 57,662	\$ 200,675	\$ 290,249	\$ 490,924
Depreciation	6,509	2,587	9,096	-	9,096
Capital expenditure	2,841	1,136	3,977	-	3,977

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, and Touch improvers.

**(2)Geographic Segments**

The domestic and foreign operations of the Group for the years ended March 31, 2010 and 2009 are summarized as follows:

Millions of yen					
2010					
	Japan	Indonesia	Total	Eliminations/ Corporate	Consolidated
Sales to customers	¥ 22,904	¥ 648	¥ 23,552	¥ -	¥ 23,552
Intersegment	139	46	185	(185)	-
Total sales	23,043	694	23,737	(185)	23,552
Operating expenses	22,167	598	22,766	(202)	22,564
Operating income	¥ 876	¥ 95	¥ 971	¥ 17	¥ 988
Assets	¥ 18,313	¥ 422	¥ 18,736	¥ 26,920	¥ 45,656

Millions of yen					
2009					
	Japan	Indonesia	Total	Eliminations/ Corporate	Consolidated
Sales to customers	¥ 23,863	¥ 495	¥ 24,359	¥ -	¥ 24,359
Intersegment	176	61	236	(236)	-
Total sales	24,039	556	24,595	(236)	24,359
Operating expenses	23,799	427	24,226	(239)	23,988
Operating income	¥ 240	¥ 129	¥ 369	¥ 2	¥ 371
Assets	¥ 22,007	¥ 382	¥ 22,389	¥ 21,246	¥ 43,636

Thousands of U.S.dollars					
2010					
	Japan	Indonesia	Total	Eliminations/ Corporate	Consolidated
Sales to customers	\$ 246,283	\$ 6,993	\$ 253,246	\$ -	\$ 253,246
Intersegment	1,495	495	1,990	(1,990)	-
Total sales	247,778	7,457	255,236	(1,990)	253,246
Operating expenses	238,358	6,432	244,790	(2,170)	242,621
Operating income	\$ 9,420	\$ 1,025	\$ 10,445	\$ 180	\$ 10,625
Assets	\$ 196,919	\$ 4,540	\$ 201,459	\$ 289,465	\$ 490,924

### (3) Sales to Foreign Customers

Sales to foreign customers for the years ended March 31, 2010 and 2009 are as follows:

Millions of yen			
2010			
	Asia	Other	Total
Sales to foreign customers (A)	¥ 9,053	¥ 1,007	¥ 10,060
Total sales (B)	-	-	23,552
(A)/(B)	38.4%	4.3%	42.7%

Millions of yen			
2009			
	Asia	Other	Total
Sales to foreign customers (A)	¥ 8,063	¥ 1,068	¥ 9,131
Total sales (B)	-	-	24,359
(A)/(B)	33.1%	4.4%	37.5%

Thousands of U.S.dollars			
2010			
	Asia	Other	Total
Sales to foreign customers (A)	\$ 97,348	\$ 10,823	\$ 108,171
Total sales (B)	-	-	253,246
(A)/(B)	38.4%	4.3%	42.7%

## 12. Related Party Transactions

Principal transactions between the Company and its affiliate for the years ended March 31, 2010 and 2009 are summarized as follows:

	Millions of yen		Thousands of U.S.dollars
	2010	2009	2010
Sales(Nippon Quaker Chemical,Ltd.)	¥ 3,719	¥ 4,112	\$ 39,991

## 13. Subsidiaries

The Company's subsidiaries are as follows:

Name	Ownership	Country of Incorporation
	Interest	
P.T.Matsumoto-Yushi Indonesia	49%	Indonesia
Lissom Chemical Industries.,Ltd (not consolidated)	50%	Republic of China

## 14. Subsequent Event

The following appropriations of the Company's retained earnings in respect of the year ended March 31, 2010 were proposed by the Board of Directors and approved by the shareholders at the annual general meeting held on June 25, 2010:

Appropriations	Millions of yen	Thousands of U.S.dollars
Cash dividends (¥ 50.0per share)	¥ 509	\$ 5,473
Total appropriations	¥ 509	\$ 5,473

## 15. Net income Per Share

	Millions of yen		Thousands of U.S.dollars
	2010	2009	2010
Net income	¥ 707	¥ 142	\$ 7,603
Net income available to common shareholders	707	142	7,603

	Thousand Shares	
	2010	2009
The weighted average number of shares of common stock outstanding	10,181	10,680

	yen		U.S.dollars
	2010	2009	2010
Net income per share	¥ 69.46	¥ 13.29	\$ 0.75