

LETTER TO STAKEHOLDERS

In the wake of the Great East Japan Earthquake in March, 2011, the Japanese economy managed to gain some modest stability for the current business period.

The Japanese economy was annoyed in the first half of the year by the abrupt yen's appreciation and the price hikes in raw materials, though slightly tamed, but is yet to fully improve.

The European financial crises and the Middle East turmoils, jointly have the world economy losing impetus for consistent growth, with adversely affecting brisk China and other emerging economies.

In the domestic textile industry as one of our major markets, the shift to offshore production has almost completed, thus causing a minimal effect on our business. In overseas, China, as a locomotive engine, now suffers stagnant market, decline in products prices, and severe production adjustment. The production in Thailand still remains suspended due to a large-scale urban flood. All these phenomena negatively affected the economy of Asia and other regions.

Regarding the non-textile industry at home, the automobile industry has by now overcome shortages of electricity and raw materials, and finds itself on a rapid path of recovery. The markets of housing and construction materials continue to enjoy active demands, particularly for repairing parts and materials. In overseas such as China and other Asian countries, markets are active with a particular increase in automobile production. A bullish market often entails price hikes on raw materials. We stay alert to keep adjusting our production prices in competitive moderation.

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

Our consolidated sales for the current year stood at ¥27,038 million (U.S.\$32,973 thousand)(101.8% of last year), operating income at ¥1,320 million (U.S.\$16,105 thousand)(112.9%), and net income at ¥626 million (U.S.\$7,637 thousand)(87.7%), respectively.

Geographically, Japan represented sales of ¥26,446 million (U.S.\$322,514 thousand)(101.8%) and operating income at ¥1,297 million (U.S.\$15,826 thousand)(114.5%).

For the anionic surfactant segment, sales to domestic synthetic fiber manufacturers hit the bottom and ended with a moderately stable performance. Our export sales declined at ¥2,885 million (U.S.\$35,186 thousand)(97.6%) due, among others, to the synthetic fiber manufacturer in China cutting on their output.

The nonionic surfactant segment, including carbon fibers, overall registered a consistent performance with sales at ¥15,484 million (U.S.\$188,832 thousand)(100.9%).

For the cationic and amphotenic surfactant, cutbacks on textile output hit the bottom and our sales exceeded the performance of last year. Our business with the chemical industry remains active while the continued challenge is how to cope with the yet rising raw material prices. Our sales stood at ¥960 million (U.S.\$11,710 thousand)(120.6%).

The high polymer and inorganic chemicals segment overall maintained a consistent performance with sales at ¥7,116 million (U.S.\$86,787 thousand)(103.6%).

The segment sales in Indonesia contributed to ¥592 million (U.S.\$7,220 thousand)(100.7%) with operating income of ¥46 million (U.S.\$573 thousand)(86.6%).

The nonionic surfactant business saw decline in quantity yet managed to record sales at ¥270 million (U.S.\$3,298 thousand)(100.3%).

As for the high polymer and inorganic chemicals, the filament textiles sold well both at home and abroad for the first half of the year and helped promote our sales, which stood at ¥313 million (U.S.\$3,825 thousand)(101.4%).

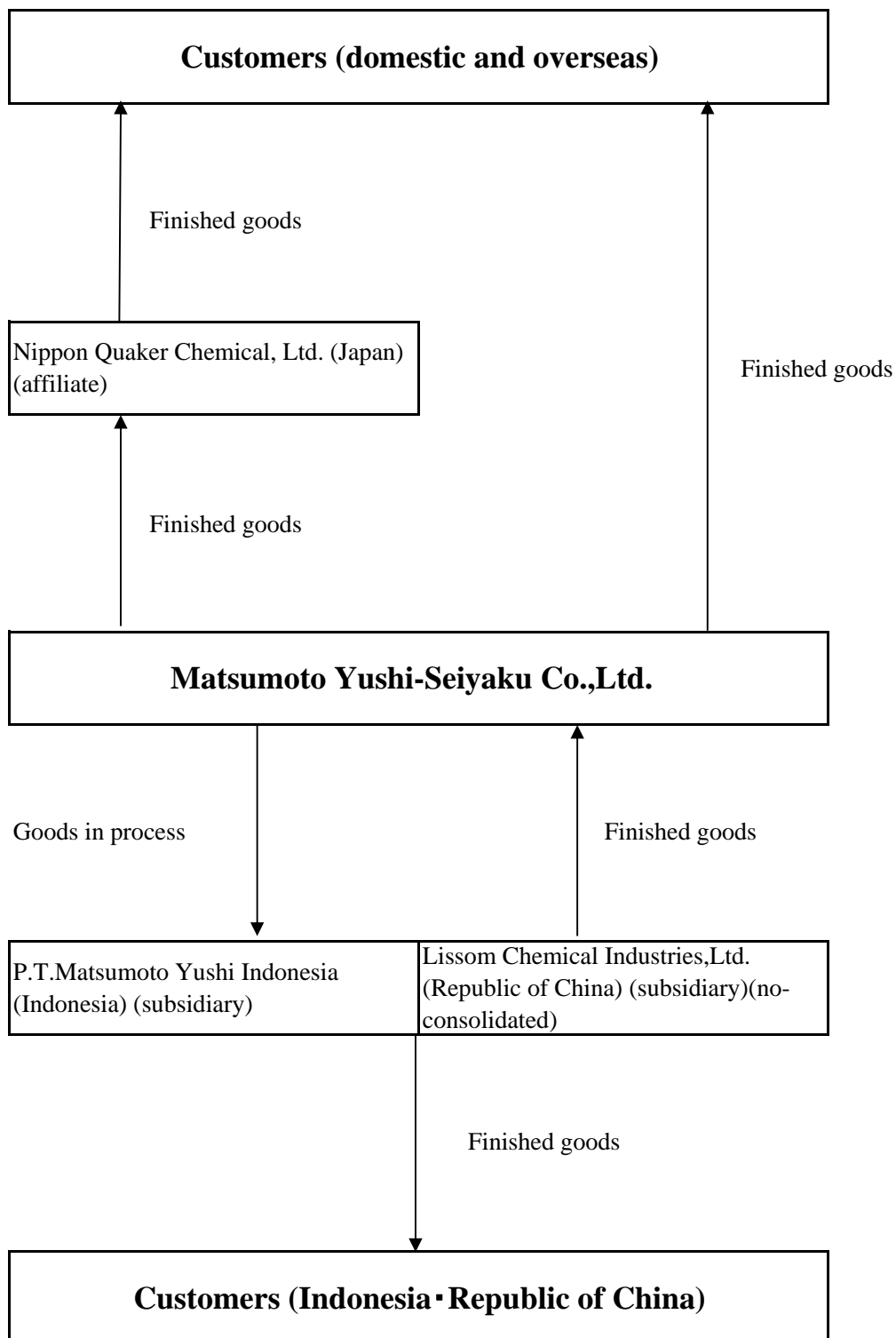
The domestic economic and business climate remains tough due to the European debt crises, and is concerned with electric power shortage, together with the prolonged yen's appreciation and price hikes in raw materials.

We confirm our determination to further competitive products development, sales network, and rationalization of our systems and organization. We also confirm our endeavour to stay proactive on facilities renovation and R&D human resources development.

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>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Results for the year (millions of Yen):					
Net Sales	27,038	26,557	23,552	24,359	27,326
Cost of sales	21,902	21,510	18,692	19,888	21,330
Gross profit	5,136	5,046	4,859	4,470	5,996
Selling, general and administrative expenses	3,816	3,876	3,871	4,099	4,613
Operating income	1,321	1,170	988	371	1,383
Other income(expenses)	(178)	(52)	103	39	815
Income before income taxes and minority interests	1,142	1,118	1,091	410	2,198
Income taxes					
current	417	343	640	43	788
deferred	92	47	(287)	173	(3)
Minority interests in subsidiary	7	14	31	52	44
Net income	626	714	707	142	1,369
Acquisition of property, plant and equipment	303	406	370	2,958	1,144
Depreciation and amortization	790	830	846	845	661
Per share of common stock(Yen):					
Net income	61.52	70.17	69.46	13.29	122.41
Cash dividends	50.00	50.00	50.00	50.00	60.00
Year-end financial position(millions of Yen):					
Total current assets	32,713	30,660	28,946	26,813	34,058
Total property, plant and equipment	4,761	5,250	5,681	6,146	4,063
Total investments and other assets	8,665	10,591	11,028	10,676	11,361
Total current liabilities	7,647	8,357	7,393	5,886	9,075
Total long-term liabilities	438	418	350	315	316
Minority interests	173	186	200	155	187
Foreign currency translation adjustments	217	205	188	209	102
Total net assets	38,055	37,726	37,913	37,435	40,092
Other year-end data:					
Number of shares issued(thousands)	11,282	11,282	11,282	11,282	11,282
Number of shareholders	437	437	437	457	608

MATSUMOTO YUSHI-SEIYAKU CO.,LTD. AND A SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
MARCH 31, 2012 and 2011

ASSETS	Millions of yen		Thousands of U.S.dollars (Note 1)		LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2012	2011	2012	2011		2012	2011	2012	2011
Current assets:					Current liabilities:				
Cash and cash equivalents(Note 3)	¥ 16,239	¥ 17,195	\$ 198,038	\$ 209,694	Short-term bank loans (Note 3,6)	¥ 700	¥ 800	\$ 8,537	\$ 9,756
Short-term investments (Note 3,4)	4,720	910	57,561	11,098	Accounts payable(Note 3):				
Notes and accounts receivable(Note 3):					Trade	4,888	5,319	59,607	64,866
Trade	6,068	5,796	74,004	70,689	Associates	658	1,140	8,027	13,898
Associates	1,785	1,818	21,774	22,176	Other	834	748	10,174	9,124
Other	8	6	99	71	Accrued income taxes	267	47	3,257	571
Allowance for doubtful accounts	(4)	(5)	(51)	(56)	Accrued bonuses to employees	268	271	3,270	3,305
	7,858	7,616	95,827	92,880	Other current liabilities(Note 3)	32	32	390	396
Inventories (Note 5)	3,318	3,305	40,469	40,300	Total current liabilities	7,647	8,357	93,261	101,916
Deferred income taxes (Note 10)	513	526	6,255	6,419	Long-term liabilities				
Other current assets (Note 3)	65	1,108	794	13,513	Allowance for retirement benefits(Note 7)	252	235	3,071	2,871
Total current assets	32,713	30,660	398,943	373,905	Asset retirement obligations	95	92	1,153	1,123
					Other liabilities	92	91	1,118	1,105
Property, plant and equipment :					Total long-term liabilities	438	418	5,343	5,099
Land	530	531	6,460	6,474	Total liabilities	8,086	8,775	98,604	107,015
Building and structures	6,320	6,213	77,072	75,764	Contingencies (Note 8)				
Machinery and equipment	11,347	11,322	138,376	138,069	Net assets:				
Construction in progress	79	58	966	706	Shareholders' equity				
	18,276	18,123	222,875	221,013	Common stock				
Accumulated depreciation	(13,514)	(12,873)	(164,809)	(156,992)	Authorized 40,000,000 shares				
	4,761	5,250	58,065	64,021	Issued 2012- 11,281,629 shares	6,090	6,090	74,269	74,269
Investments and other assets:					Capital surplus	6,518	6,518	79,484	79,484
Investments in affiliates (Note 13)	501	464	6,112	5,661	Retained earnings	27,685	27,567	337,619	336,189
Investments in securities (Note 3,4)	7,178	8,861	87,539	108,060	Less, treasury stock, at cost:	(1,746)	(1,745)	(21,297)	(21,275)
Long-term loans(Note 3),					Total Shareholders' equity	38,546	38,431	470,075	468,667
net of allowance for doubtful accounts	168	186	2,053	2,273	Valuation and translation adjustments				
Deferred income taxes(Note 10)	236	503	2,882	6,140	Unrealized gain (loss) on available-for-sale securities	(448)	(686)	(5,459)	(8,360)
Other (Note 9)	581	576	7,091	7,026	Foreign currency translation adjustments	(217)	(205)	(2,647)	(2,499)
	8,665	10,591	105,677	129,160	Total Valuation and translation adjustments	(665)	(891)	(8,106)	(10,860)
	¥ 46,140	¥ 46,501	\$ 562,685	\$ 567,086	Minority interests	173	186	2,113	2,264
					Total net assets	38,055	37,726	464,081	460,071
						¥ 46,140	¥ 46,501	\$ 562,685	\$ 567,086

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, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2012	2011	2012	2011
Net sales(Note 11,12)	¥ 27,038	¥ 26,557	\$ 329,734	\$ 323,860
Cost of sales(Note 11)	21,902	21,510	267,099	262,320
Gross profit	5,136	5,046	62,636	61,541
Selling, general and administrative expenses (Note 11)	3,816	3,876	46,531	47,272
Operating income	1,321	1,170	16,105	14,269
Other income (expenses):				
Interest and dividend income	162	266	1,971	3,243
Interest expenses	(8)	(8)	(100)	(96)
Investment profit (loss) on equity method	57	42	701	506
Foreign exchange profit (loss)	111	(181)	1,354	(2,202)
Profit (loss) on disposal of property and equipment	(3)	(7)	(33)	(88)
Profit (Loss) on securities sold	(36)	26	(436)	318
Loss from revaluation of securities	(297)	(37)	(3,618)	(456)
Loss on revaluation of membership rights of golf-club	(11)	—	(0)	—
Advanced depreciation deduction of property and	(134)	(32)	(2)	(392)
Profit (Loss) on redemption of securities	17	—		
Other, net	(38)	(120)	(467)	(1,469)
Income before income taxes and minority interests	1,142	1,118	13,930	13,634
Income taxes (Note 10):				
Current	417	343	5,084	4,185
Deferred	92	47	1,125	569
	509	390	6,209	4,754
Income before minority interests	633	728	7,721	8,880
Minority interests in subsidiary	(7)	(14)	(85)	(170)
Net income	¥ 626	¥ 714	\$ 7,636	\$ 8,710

	Yen		U.S. dollars (Note 1)	
	2012	2011	2012	2011
Net income per share:				
Basic	¥ 61.52	¥ 69.46	\$ 0.750	\$ 0.847
Cash dividends per share	50.00	50.00	0.610	0.610

The accompanying notes are an integral part of these statements.

MATSUMOTO YUSHI-SEIYAKU CO.,LTD AND A SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED MARCH 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2012	2011	2012	2011
Income before minority interests	¥ 633	¥ 728	\$ 7,721	\$ 8,880
Other comprehensive income				
Unrealized gains (losses) on available-for-sale securities	238	(358)	2,901	(4,372)
Foreign currency translation adjustments	(20)	(31)	(247)	(379)
Share of other comprehensive income of associates accounted for using equity method	(2)	(2)	(27)	(24)
Total other comprehensive income (loss) (Note)	215	(392)	2,628	(4,775)
Comprehensive income	<u>¥ 849</u>	<u>¥ 337</u>	<u>\$ 10,349</u>	<u>\$ 4,105</u>
Comprehensive income attributable to:				
Owners of the parent company	852	339	10,390	4,129
Minority interests	(3)	(2)	(41)	(23)

**MATSUMOTO YUSHI-SEIYAKU CO.,LTD
AND A SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED MARCH 31, 2012 and 2011**

Millions of yen											
	Number of shares issued (thousands)	Shareholders' equity				Total Shareholders' equity	Accumulated other comprehensive income			Minority interests	Total net assets
		Common stock	Capital surplus	Retained earnings	Treasury stock		Unrealized gain (loss) on other securities	Foreign currency translation adjustments	Total Accumulator other comprehensive income		
Balance at March 31, 2010	11,282	6,090	6,518	27,362	(1,742)	38,228	(327)	(188)	(515)	200	37,913
Cash dividends				(509)		(509)					(509)
Net income for the year				714		714					714
Purchase of treasury stock					(3)	(3)					(3)
Net change of items other than shareholders' equity							(358)	(17)	(376)	(14)	(390)
Balance at March 31, 2011	11,282	6,090	6,518	27,568	(1,745)	38,431	(686)	(205)	(891)	186	37,726
Cash dividends				(509)		(509)					(509)
Net income for the year				626		626					626
Purchase of treasury stock					(2)	(2)					(2)
Net change of items other than shareholders' equity							238	(12)	226	(12)	213
Balance at March 31, 2012	<u>11,282</u>	<u>¥ 6,090</u>	<u>¥ 6,518</u>	<u>¥ 27,685</u>	<u>¥ (1,746)</u>	<u>¥ 38,546</u>	<u>¥ (448)</u>	<u>¥ (217)</u>	<u>¥ (665)</u>	<u>¥ 173</u>	<u>¥ 38,055</u>

Thousands of U.S. dollars (Note 1)											
	Number of shares issued (thousands)	Shareholders' equity				Total Shareholders' equity	Accumulated other comprehensive income			Minority interests	Total net assets
		Common stock	Capital surplus	Retained earnings	Treasury stock		Unrealized gain (loss) on other securities	Foreign currency translation adjustments	Total Accumulator other comprehensive income		
Balance at March 31, 2011	11,282	\$ 74,269	\$ 79,484	\$ 333,687	\$ (21,241)	\$ 466,199	\$ (3,989)	\$ (2,290)	\$ (6,278)	\$ 2,434	\$ 462,355
Cash dividends				(6,207)		(6,207)					(6,207)
Net income for the year				8,710		8,710					8,710
Purchase of treasury stock					(37)	(37)					(37)
Net change of items other than shareholders' equity							(4,372)	(210)	(4,581)	(170)	(4,752)
Balance at March 31, 2011	11,282	\$ 74,269	\$ 79,484	\$ 336,190	\$ (21,275)	\$ 468,668	\$ (8,360)	\$ (2,499)	\$ (10,860)	\$ 2,264	\$ 460,072
Cash dividends				(6,206)		(6,206)					(6,206)
Net income for the year				7,636		7,636					7,636
Purchase of treasury stock					(22)	(22)					(22)
Net change of items other than shareholders' equity							2,901	(148)	2,753	(151)	2,602
Balance at March 31, 2012	<u>11,282</u>	<u>\$ 74,269</u>	<u>\$ 79,484</u>	<u>\$ 337,619</u>	<u>\$ (21,297)</u>	<u>\$ 470,076</u>	<u>\$ (5,459)</u>	<u>\$ (2,647)</u>	<u>\$ (8,106)</u>	<u>\$ 2,113</u>	<u>\$ 464,082</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, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars	
			(Note 1)	
	2012	2011	2012	2011
Cash flows from operating activities:				
Net income before income taxes and minority interests	¥ 1,142	¥ 1,118	\$ 13,930	\$ 13,634
Adjustments for:				
Depreciation and amortization	790	830	9,637	10,126
Loss (gain) on sales and disposal of property,	3	7	33	88
Loss (gain) on evaluation of securities	297	37	3,618	456
Loss (gain) on sale of securities	36	(26)	436	(318)
Allowance for doubtful accounts	3	(6)	37	(75)
Investment (profit) loss on equity method	(57)	(42)	(701)	(506)
Accrued severance indemnities	13	(29)	161	(349)
Accrued bonuses to employees	(3)	(14)	(35)	(169)
Interest and dividend income	(162)	(266)	(1,971)	(3,243)
Interest expenses	8	8	100	96
Foreign exchange (profit) loss	12	96	140	1,170
Influence of applying the Accounting Standard for Asset Retirement Obligations	—	23	—	281
Decrease (Increase) in notes and accounts receivable	(251)	(760)	(3,055)	(9,272)
Decrease (Increase) in inventories	(25)	(252)	(301)	(3,073)
Increase (Decrease) in accounts payable	(905)	1,257	(11,041)	15,329
Increase (Decrease) in accrued consumption tax	54	(50)	665	(611)
Other, net	360	446	4,392	5,437
Sub total	1,316	2,378	16,046	28,999
Interest and dividend income received	166	271	2,029	3,299
Interest expenses paid	(8)	(7)	(94)	(89)
Income taxes paid	(199)	(843)	(2,431)	(10,274)
Income taxes refund	15	—	179	—
Net cash provided by operating activities	1,290	1,799	15,729	21,935
Cash flows from investing activities:				
Repayment of maturity of time deposits	(3,810)	(1,400)	(46,464)	(17,073)
Proceeds from maturity of time deposits	—	1,330	—	16,220
Receipt from sale of short-term investments	—	1,000	—	12,195
Payments for purchase of property, plant and equipment	(303)	(406)	(3,697)	(4,949)
Receipt from sale of investments in securities	291	480	3,551	5,856
Payments for purchase of investments in securities	(17)	(447)	(213)	(5,450)
Decrease (Increase) of loans receivable	15	8	188	92
Other, net	621	32	7,570	391
Net cash provided by (used in) investing activities	(3,203)	597	(39,065)	7,280
Cash flows from financing activities:				
Increase (Decrease) in short-term bank loans, net	(100)	100	(1,220)	1,220
Cash dividends paid	(509)	(509)	(6,206)	(6,207)
Cash dividends paid to minority shareholders	(9)	(12)	(110)	(147)
Purchase of treasury stock	(2)	(3)	(22)	(34)
Net cash used in financing activities	(620)	(424)	(7,558)	(5,169)
Effect of exchange rate changes on cash and cash equivalents	(28)	(271)	(337)	(3,308)
Net increase (decrease) in cash and cash equivalents	(2,561)	1,701	(31,231)	20,738
Cash and cash equivalents at beginning of year	18,201	16,500	221,962	201,224
Cash and cash equivalents at end of year (Note)	¥ 15,640	¥ 18,201	\$ 190,730	\$ 221,962

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, 2012 and 2011

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, 2012, which was ¥82 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, plant and equipment are stated at cost. Depreciation of property, plant and equipment are as follows:

Buildings	i Buildings acquired before March 31, 1998 Declining-balance method based on the estimated useful lives of the respective assets same as determined by Japanese Income Tax Law
	ii Buildings acquired after April 1, 1998 Straight-line method based on the estimated useful lives of the respective assets same as determined by Japanese Income Tax Law
Structures	Declining-balance method based on the estimated useful lives of the respective assets same as determined by Japanese Income Tax Law
Machinery	Straight-line method based on the estimated useful lives of the respective assets same as determined by Japanese Income Tax Law
Equipment	Declining-balance method based on the estimated useful lives of the respective assets same as determined by Japanese Income Tax Law

(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 10,177 thousand and 10,178 thousand for the periods ended March 31, 2012 and 2011, respectively.

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

(o)Change in accounting policy

Effective retroactively with the years ended March 31, 2012 and 2011, certain temporary idle deposits for securities investment are included in cash and cash equivalents for the purposes of cash flow statements.

The effects of this change were to increase net cash provided by investing activities and net increase in cash and cash equivalents by ¥896 million (U.S.\$10,929 thousand), and cash equivalents at end of year by ¥1,005 million (U.S.\$12,267 thousand) respectively.

(p)Additional Information

Effective with the beginning balances and transactions for the year ended March 31, 2012, changes and corrections in accounting are dealt with in accordance with ASBJ Statement No.24 and the corresponding Guidance No.24, enacted December 4, 2009.

3.Financial Instrument

Financial instruments at March 31, 2012 and 2011 consisted of the following:

	millions of yen		
	2012		
	Book Value	Fair Value	Differences
Cash and cash equivalents	¥ 16,239	¥ 16,239	¥ -
Notes and accounts receivable	7,858	7,858	-
Short-term investments and investments in securities	4,720	4,720	-
Long-term loans	168	145	(23)
Total assets	¥ 28,985	¥ 28,962	¥ (23)
Accounts payable	6,380	6,380	-
Short-term bank loans	700	700	-
Total liabilities	¥ 7,080	¥ 7,080	¥ -

	millions of yen		
	2011		
	Book Value	Fair Value	Differences
Cash and cash equivalents	¥ 17,195	¥ 17,195	¥ -
Notes and accounts receivable	7,616	7,616	-
Short-term investments and investments in securities	910	910	-
Long-term loans	186	178	8
Total assets	¥ 25,907	¥ 25,899	¥ 8
Accounts payable	7,207	7,207	-
Short-term bank loans	800	800	-
Total liabilities	¥ 8,007	¥ 8,007	¥ -

	thousands of U.S.dollars(Note 1)		
	2012		
	Book Value	Fair Value	Differences
Cash and cash equivalents	\$ 198,038	\$ 198,038	\$ -
Notes and accounts receivable	95,827	95,827	-
Short-term investments and investments in securities	57,561	57,561	-
Long-term loans	2,053	1,770	(283)
Total assets	\$ 353,479	\$ 353,196	\$ (283)
Accounts payable	77,807	77,807	-
Short-term bank loans	8,537	8,537	-
Total liabilities	\$ 86,344	\$ 86,344	\$ -

4. Short-term Investments and Investments in Securities

Short-term investment at March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2012	2011	2012
Other securities:			
Bonds and debentures	¥ -	¥ -	\$ -
Time deposits	4,720	910	57,561
	<u>¥ 4,720</u>	<u>¥ 910</u>	<u>\$ 57,561</u>

The following is a summary of investments in securities at March 31, 2012 and 2011 respectively:

	Millions of yen				
	March 31, 2012				
	Other securities				
Cost	Gross unrealized gains	Gross unrealized losses	Book Value (Estimated fair value)		
Equity securities	¥ 1,730	¥ 740	¥ (133)	¥ 2,337	
Bonds and debentures	1,000	-	(253)	747	
Other	2,353	197	(371)	2,179	
	<u>¥ 5,083</u>	<u>¥ 937</u>	<u>¥ (757)</u>	<u>¥ 5,263</u>	
Add: Securities without readily determinable fair value				1,915	
				<u>¥ 7,178</u>	

	Millions of yen				
	March 31, 2011				
	Other securities				
Cost	Gross unrealized gains	Gross unrealized losses	Book Value (Estimated fair value)		
Equity securities	¥ 1,751	¥ 702	¥ (147)	¥ 2,306	
Bonds and debentures	1,829	-	(554)	1,275	
Other	2,863	151	(431)	2,583	
	<u>¥ 6,443</u>	<u>¥ 853</u>	<u>¥ (1,132)</u>	<u>¥ 6,165</u>	
Add: Securities without readily determinable fair value				2,696	
				<u>¥ 8,861</u>	

	Thousands of U.S.dollars(Note 1)				
	March 31, 2012				
	Other securities				
Cost	Gross unrealized gains	Gross unrealized losses	Book Value (Estimated fair value)		
Equity securities	\$ 21,098	\$ 9,025	\$ (1,627)	\$ 28,496	
Debt securities	12,195	-	(3,083)	9,112	
Other	28,697	2,404	(4,525)	26,576	
	<u>\$ 61,990</u>	<u>\$ 11,429</u>	<u>\$ (9,235)</u>	<u>\$ 64,184</u>	
Add: Securities without readily determinable fair value				23,355	
				<u>\$ 87,539</u>	

5. Inventories

Inventories at March 31, 2012 and 2011 comprise the following:

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2012	2011	2012
Finished goods	¥ 1,760	¥ 1,865	\$ 21,467
Work in process	442	395	5,393
Raw materials and supplies	1,116	1,045	13,609
	<u>¥ 3,318</u>	<u>¥ 3,305</u>	<u>\$ 40,469</u>

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

The annual average interest rates applicable to short-term bank loans at March 31, 2012 is 0.75 %

Short-term Bank Loans and Long-term debt at March 31, 2012 and 2011 consisted of the following respectively:

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2012	2011	2012
Loans from banks:			
Less: current portion	(700)	(800)	(8,537)
Long-term debt, less current portion	<u>¥ -</u>	<u>¥ -</u>	<u>\$ -</u>

7. Allowance for retirement benefits

The following tables set forth the changes in benefit obligation, and plan assets of the Company at March 31, 2012 and 2011 respectively:

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2012	2011	2012
Benefit obligation at end of years	¥ (1,127)	¥ (1,196)	\$ (13,739)
Fair value of plan assets at end of years	832	872	10,145
Benefit obligation in excess of plan assets	(295)	(324)	(3,594)
Unrecognized actuarial loss	43	89	523
Allowance for retirement benefits	<u>¥ (252)</u>	<u>¥ (235)</u>	<u>\$ (3,071)</u>

Benefit expenses of the Company included the following components for the year ended March 31, 2012 and 2011 respectively:

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2012	2011	2012
Service cost	¥ 60	¥ 63	\$ 736
Interest cost	20	22	244
Expected return on plan assets	(17)	(18)	(202)
Amortization: Actuarial losses	46	16	556
Benefit expenses	<u>¥ 109</u>	<u>¥ 84</u>	<u>\$ 1,334</u>

Assumption used in the accounting for the defined benefit plans for the year ended March 31, 2012 and 2011 is as follows:

	2012	2011
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	1.9%	1.8%
Amortization period for actuarial losses	5years	5years

8. Contingencies

The Group was contingently liable as guarantor of indebtedness of affiliates for ¥312 million (U.S.\$3,811thousand) and ¥315 million (U.S.\$3,795thousand) at March 31, 2012 and 2011 respectively.

9. Research and Development and Computer Software

Research and development expenditure charged to income was ¥897 million(U.S.\$10,943 thousand) and ¥915 million (U.S.\$11,024thousand) for the year ended March 31, 2012 and 2011, respectively.

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

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2012	2011	2012
Balance of beginning of year	¥ 9	¥ 14	\$ 108
Additions	-	1	-
Amortization	(4)	(6)	(52)
Balance at end of year	<u>¥ 5</u>	<u>¥ 9</u>	<u>\$ 57</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, 2012 and 2011. Foreign subsidiary is subject to income taxes of the country in which it operates.

The effective rate for the two years ended March 31, 2012 and 2011 differs from the Company's statutory tax rate for the following reasons:

	2012	2011
Statutory tax rate	40.7	40.7
Permanently nondeductible expenses	1.9	2.3
Permanently nontaxable dividends received	(1.6)	(1.9)
Per capital levy of residents tax	1.4	1.5
Reserve for special depreciation	(6.7)	(7.0)
Adjustment on deferred tax assets due to change in income tax-rate	4.6	-
Effect due to consolidation	0.0	0.0
Difference of tax rates of overseas subsidiary	0.2	(0.2)
Valuation allowance	4.9	-
Other	(0.8)	(0.5)
Effective tax rate	<u>44.6</u>	<u>34.9</u>

The significant components of deferred tax assets and deferred tax liabilities at March 31, 2012 and 2011 are presented below:

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2012	2011	2012
Deferred tax assets:			
Accrued severance indemnities	¥ 88	¥ 93	\$ 1,074
Accrued employee bonuses	102	110	1,242
Unrealized gains on inventories	15	18	184
Net unrealized holding losses on securities	557	699	6,790
Other	320	341	3,903
Gross deferred tax assets	<u>1,082</u>	<u>1,262</u>	<u>13,193</u>
Valuation allowance	(56)	-	(688)
Total deferred tax assets	<u>1,026</u>	<u>1,262</u>	<u>12,505</u>
Deferred tax liabilities:			
Net unrealized holding profits on securities	(274)	(228)	(3,347)
Reserve for special depreciation	(2)	(4)	(22)
Total deferred tax liabilities	<u>(276)</u>	<u>(232)</u>	<u>(3,369)</u>
Net deferred tax assets	<u>749</u>	<u>1,030</u>	<u>9,137</u>

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

Our Group consists of two geographic segments, namely, Japan and Indonesia, each comprising manufacturing and selling functions. Each reported segment majors in the anionic surfactant, together with other sundry items.

Matsumoto Yushi-Seiyaku Co., Ltd. For Japan segment, and P.T. Matsumoto Yushi Indonesia for Indonesian segment, respectively, functions as an independent business entity developing comprehensive strategies and promoting business operations.

The reported segments are individually accounted for, with separate financial data available, and are subject to periodical scrutiny by the Board of Directors for performance evaluation and resources assignment.

(1) Segment information

Segment information for the years ended March 31, 2012 and 2011 consisted of the following respectively:

	Millions of yen		
	2012		
	Japan	Indonesia	Total segments
Sales			
External customers	¥ 26,446	¥ 592	¥ 27,038
Inter-segment	254	51	305
Total sales	¥ 26,700	¥ 643	¥ 27,343
Segment profit	1,298	47	1,345
Operating assets	45,707	481	46,188
Operating liabilities	8,033	180	8,213
Other			
Depreciation	¥ 780	¥ 10	¥ 790
Capital expenditure	299	4	303

	Millions of yen		
	2011		
	Japan	Indonesia	Total segments
Sales			
External customers	¥ 25,969	¥ 588	¥ 26,557
Inter-segment	234	46	280
Total sales	¥ 26,202	¥ 634	¥ 26,836
Segment profit	1,133	54	1,187
Operating assets	46,064	503	46,567
Operating liabilities	8,703	176	8,880
Other			
Depreciation	¥ 822	¥ 8	¥ 830
Capital expenditure	398	8	406

	Thousands of U.S.dollars		
	2012		
	Japan	Indonesia	Total segments
Sales			
External customers	\$ 322,514	\$ 7,220	\$ 329,734
Inter-segment	3,097	617	3,714
Total sales	\$ 325,611	\$ 7,837	\$ 333,448
Segment profit	15,825	573	16,398
Operating assets	557,400	5,870	563,270
Operating liabilities	97,963	2,196	100,159
Other			
Depreciation	\$ 9,520	\$ 117	\$ 9,637
Capital expenditure	3,649	48	3,697

(2) Adjustments and eliminations

Reconciliation of sales	Millions of yen		Thousands of U.S. dollars(Note 1)
	2012	2011	2012
Segment sales	¥ 27,343	¥ 26,836	\$ 333,448
Inter-segment transactions (elimination)	(305)	(280)	(3,714)
Group sales	<u>¥ 27,038</u>	<u>¥ 26,557</u>	<u>\$ 329,734</u>

Reconciliation of profit	Millions of yen		Thousands of U.S. dollars(Note 1)
	2012	2011	2012
Segment profit	¥ 1,345	¥ 1,187	\$ 16,398
Inter-segment transactions (elimination)	(23)	(9)	(276)
Adjustment of inventory	(1)	(8)	(18)
Group profit	<u>¥ 1,321</u>	<u>¥ 1,170</u>	<u>\$ 16,105</u>

Reconciliation of assets	Millions of yen		Thousands of U.S. dollars(Note 1)
	2012	2011	2012
Segment operating assets	¥ 46,188	¥ 46,567	\$ 563,270
Inter-segment transactions (elimination)	(128)	(104)	(1,555)
Adjustment of inventory	(29)	(5)	(355)
Other adjustments	109	44	1,326
Group operating assets	<u>¥ 46,140</u>	<u>¥ 46,501</u>	<u>\$ 562,685</u>

Reconciliation of liabilities	Millions of yen		Thousands of U.S. dollars(Note 1)
	2012	2011	2012
Segment operating liabilities	¥ 8,213	¥ 8,880	\$ 100,159
Inter-segment transactions (elimination)	(128)	(104)	(1,555)
Group operating liabilities	<u>¥ 8,086</u>	<u>¥ 8,775</u>	<u>\$ 98,604</u>

(3) Related information

Products and Services information	Millions of yen	Millions of yen	Thousands of U.S. dollars(Note 1)
	2012	2011	2012
Sales to external customers			
Surfactant	¥ 19,608	¥ 19,380	\$ 239,122
Other	7,430	7,177	90,612
Total	<u>¥ 27,038</u>	<u>¥ 26,557</u>	<u>\$ 329,734</u>

Geographic information	Millions of yen	Millions of yen	Thousands of U.S. dollars(Note 1)
	2012	2011	2012
Sales to external customers			
Japan	¥ 14,719	¥ 14,174	\$ 179,503
Asia	11,267	11,185	137,397
Other	1,052	1,197	12,834
Total	<u>¥ 27,038</u>	<u>¥ 26,557</u>	<u>\$ 329,734</u>

Main customers information	Millions of yen	Millions of yen	Thousands of U.S. dollars(Note 1)
	2012	2011	2012
Sales			
Nippon Quaker Chemical, Ltd.	¥ 4,552	¥ 4,274	\$ 55,510
Marubeni Chemix Corporation	3,570	3,335	43,531

12. Related Party Transactions

Principal transactions between the Company and its affiliate for the years ended March 31, 2012 and 2011 are summarized as follows:

	Millions of yen		Thousands of U.S.dollars
	2012	2011	2012
Sales(Nippon Quaker Chemical,Ltd.)	¥ 4,552	¥ 4,274	\$ 55,510
Purchase(Nippon Quaker Chemical,Ltd.)	1,791	2,236	21,841

13. Subsidiaries

The Company's subsidiaries are as follows:

Name	Ownership Interest	Country of Incorporation
P.T.Matsumoto-Yushi Indonesia	49%	Indonesia

14. Subsequent Event

The following appropriations of the Company's retained earnings in respect of the year ended March 31, 2012 were proposed by the Board of Directors and approved by the shareholders at the annual general meeting held on June 28, 2012:

Appropriations	Millions of yen	Thousands of U.S.dollars
Cash dividends (¥50.0per share)	¥ 509	\$ 6,206
Total appropriations	¥ 509	\$ 6,206

15. Net income Per Share

	Millions of yen		Thousands of U.S.dollars
	2012	2011	2012
Net income	¥ 626	¥ 714	\$ 7,636
Net income available to common shareholders	626	714	7,636

	Thousand Shares	
	2012	2011
The weighted average number of shares of common stock outstanding	10,178	10,179

	yen		U.S.dollars
	2012	2011	2012
Net income per share	¥ 61.52	¥ 70.17	\$ 0.750

16. Asset Retirement Obligations

Asset retirement obligations for the year ended March 31, 2012 and 2011 consisted of the following respectively:

	Millions of yen	Millions of yen	Thousands of U.S.dollars(Note 1)
	2012	2011	2012
Balance at beginning of year	¥ 92	¥ 91	\$ 1,123
Payments for purchase of property, plant and equipment	1	-	10
Interest cost	2	1	20
Balance at end of year	¥ 95	¥ 92	\$ 1,153