Power of Implementation

Annual Report 2003

For the Year Ended March 31, 2003

Profile

S.T. Chemical Co., Ltd. was founded in 1948 as a producer of mothproofing agents. Today, the Company principally manufactures household products, including deodorizers and air fresheners as well as mothproofing agents. As a firm that contributes to improved lifestyles, S.T. Chemical seeks to become the world's leading company in this niche market. Based on principles established by president Takashi Suzuki, who assumed office in September 1998, S.T. Chemical has sought to foster "power brands," create better lifestyles through stronger global alliances, and enhance corporate value. Management reform has allowed the Company to convert itself to a leaner business structure.

Contents

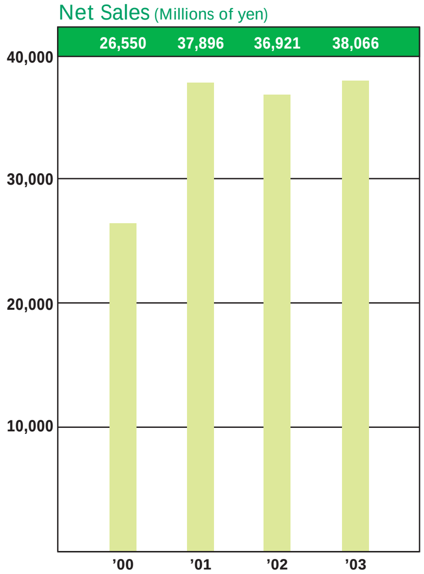
Consolidated Financial Highlights

S.T. CHEMICAL CO., LTD. and Subsidiaries
Years ended March 31, 2001, 2002, 2003 and the nine months ended March 31, 2000

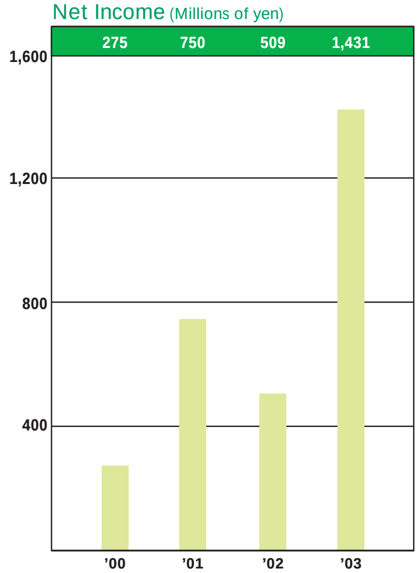
	Millions of yen				Thousands of U.S. dollars
	2000	2001	2002	2003	2003
Net Sales	¥26,550	¥37,896	¥36,921	¥38,066	$316,685
Operating Income	2,048	2,399	1,983	3,798	31,597
Net Income	275	750	509	1,431	11,908
R&D Expenses	281	343	408	490	5,890
Capital Expenditures	1,160	1,600	1,137	733	6,101
Total Assets	34,538	34,382	32,921	34,732	288,955
Shareholders' Equity	26,165	25,782	25,606	26,048	216,708
Equity Ratio (%)	75.8	75.0	77.8	75.0	
ROE (Note 3)	1.00	2.90	1.99	5.50	
ROA (%) (Note 4)	6.59	7.98	6.89	11.61	
	Yen				U.S. dollars
Per Share					
Net Income	¥ 8.45	¥ 23.60	¥ 16.37	¥46.53	$0.39
Shareholders' Equity	816.29	822.21	833.01	874.85	7.28
Cash Dividends	6.00	8.00	8.00	10.00	0.08

Notes: 1. During the period under review, S.T. Chemical changed its fiscal year from the 12-month period from July 1 though June 30 of the following year to the 12-month period from April 1 through March 31 of the following year. To adjust to this change, the period under the review was a nine-month period from July 1, 1999 through March 1, 2000.
2. All dollar figures herein refer to U.S. currency. Yen amounts have been translated, for convenience only, at ¥120.2= $1, the approximate exchange rate as at March 31, 2003. Billion is used in the American sense of a thousand million.
3. ROE = Net Income / Shareholders' Equity
4. ROA = (Operating Income + Interest and Dividends Received + Purchase Discount) / Total Assets.

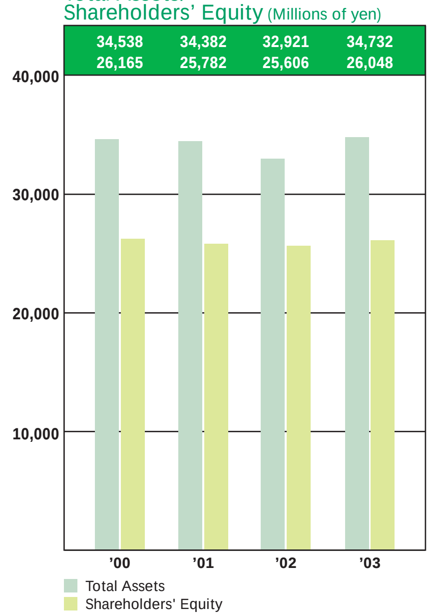
Net Sales (Millions of yen)



Net Income (Millions of yen)



Total Assets/
Shareholders' Equity (Millions of yen)



Projections

Future-oriented information in this annual report is provided only as a reference for investors. Our projections are based on the Company's plans and expectations, and may differ from actual results owing to changes in the economic and business climate.

A Message from Management

Performance

The business environment is extremely adverse, forcing manufacturers of consumer products the world over into reorganization. Guided by a customer-oriented focus, the Company is working to expand its market share and increase net sales through measures including the slimming of its product line and concentrating marketing resources in the vital Air Care Group (deodorizers and air fresheners).

To increase our cost competitiveness, four years ago we began decreasing the number of products in our lineup, reducing inventories, cutting back on new products, and working to reduce costs Companywide. As a result of these efforts, major sales growth in the Air Care Group and expansion of the All Care Group fueled a 3.1% increase in net sales, to ¥38,066 million. Operating income jumped 91.5% to ¥3,798 million, as cost-cutting measures brought improvement in the gross profit ratio. Under other expenses, the Company posted a write-down of securities of ¥239 million, and a special additional charge of early retirement and plant reconfiguration of ¥171 million. Despite these factors, net income soared 181.2% to ¥1,431 million.

In the mothproofing and hygiene-related products segment, which handles mothproofing agents and gloves, net sales declined 3.5%, but operating income rose 44.8%. In the household environment related products segment, which handles deodorizers and air fresheners, dehumidifiers, and other products, net sales rose 7.7%, while operating income shot up 134.3%.

Management Reform

Manufacturers of consumer products worldwide are reorganizing their operations. Among the factors pushing manufacturers toward reorganization are the emergence of an oligopoly in the European retail industry, and the growing trend in the United States toward large retailers dealing directly with manufacturers.

In contrast to Europe and the U.S., in Japan it is the wholesale industry that is consolidating rather than the retail industry. In addition, manufacturers are engaging in brand-specific, category centered M&A activities. Unlike in the past, we no longer see a company that is indifferent to its product lineup.

Operating within the context of an extremely adverse environment for consumer-product manufacturers, immediately after assuming my duties as president, I set out to implement management reforms, including a comprehensive rationalization, to develop S.T. Chemical into a "powerful and compact company." Below I will briefly discuss our management-reform action plan. (See also the more detailed treatment elsewhere in this report.)

(1) The health and transparency of the Company's balance sheet (Write-down of unrealized losses on marketable

I set out to implement management reforms, including a comprehensive rationalization, to develop S.T. Chemical into a "sinewy and compact company."

securities, selling idle assets, etc.)
(2) Reducing the number of products (from 862 to 282), and concentrating management resources in designated brands.
(3) Executing organizational reforms (Abolishing the old manager-assistant manager system, adopting a performance-based compensation system, and introducing an operating officer system.)
(4) Reducing procurement expenses, reorganizing domestic manufacturing facilities, and deploying human resources more effectively.
(5) Promoting cooperation among all divisions.

The success achieved in these efforts over the past year has been remarkable, particularly in terms of reductions in operating expenses. Particularly during this fiscal year, bold reforms were undertaken from a standpoint that placed the rationalization of business above all else. As a result, costs were cut by a total of ¥1,600 million during fiscal 2003 the year ended March 31, 2003. To build a powerful and lean company, I will first consolidate and secure our existing foundation.

Next, emphasizing aggressive management, I stressed innovation—the innovative development of new products. The Company's performance in the air care market, in which we began to concentrate management resources immediately after I took office, speaks to the success of this approach.

In the air care market, customer tastes and preferences play a large role in a product's sales, which is to say that this is a market in which products can easily be differentiated and cost competition avoided. In the case of ordinary cleaning products, however, development possibilities are virtually exhausted, and innovation is difficult. Therefore, differentiation is problematic and products in that market compete on the basis of cost.

The development of innovative new mothproofing and dehumidifier products is also difficult, and price competition has put unit prices on a downward course, causing market contraction. The Company's primary innovative products are in the air care segment, and the growth in this area covered the falloff in traditional products, allowing us to realize growth in net sales this fiscal year. The weight of new products in net sales has already climbed to 40%, supplementing the declining sales of existing products.

Truly innovative products are those which were previously unknown and which allow the creation of new markets. S.T. Chemical must develop such products but, given the frenetic pace of business today, the Company cannot take the time for test marketing for fear of a rush of competing imitations. This means that the development of creative new products is a type of gamble, and one that carries substantial risk.

To raise the rate of success in this sort of gamble, a certain type of olfactory sensibility and intuition are required.

S.T.Chemical is energetically pursuing a strategy of forming alliances with firms that show strong growth trends. Our core competencies include marketing functions centered on product sales, and the ability to understand customers.

For this reason, we ensure that product development personnel have sales experience and training overseas, and participate in personnel exchanges with allied firms. Through these and other measures we have revitalized our R&D Center, and have made it an organization capable of crystallizing product development from ideas originating within and outside the Company.

To reduce development risks, new products are thoroughly scrutinized while still in the conceptual stage, and decisions to terminate or suspend a project are made quickly in the early stages of the development process. Further, we have built a structure that boldly concentrates management resources in a given area once a final decision is made to bring a product to market.

The president makes final decisions on product development personally, and bears responsibility for the attendant risks. Developers, on the other hand, must disregard risks if they are to conceive innovative new ideas. Everyone associated with development, myself included, must engage in the vigorous exchange of ideas, and must be concerned with the proper application of the Company's knowledge to product development.

Strategy for Alliances with Strong Firms

S.T. Chemical is energetically pursuing a strategy of forming alliances with firms that show strong growth trends. Our core competencies include marketing functions centered on product sales, and the ability to understand customers. Where an allied company has technological and product-development capabilities but is weak in marketing, S.T. Chemical can employ its core competencies to assist in the development of product plans, and can move the ally's products along its own sales routes.

In Japan, we will begin handling disposable warmers made by Mycoal in July 2003. In the future, Mycoal will specialize in manufacturing, and S.T. Chemical, without taking a capital position in Mycoal, will handle all sales and marketing activities for their products. This is not an M&A relationship or an ordinary sales agency situation, but a new type of alliance based on a new business model created by S.T. Chemical.

Under the terms of an overseas alliance with Reckitt Benckiser of the United Kingdom, which commands more than a 40% share of the world market for dishwashing powder for automatic dishwashers, since 2000 we have been marketing their products in Japan under the “Finish” brand name. Since 2001 we have been marketing Ambi-Pur LiquiFresh two-in-one liquid air freshener and bowl cleaner through an alliance with Sara Lee of the U.S.

To move forward with this alliance strategy, it is necessary that the Company be trusted by allied firms as a truly public, transparent, and ethical enterprise. This will also have a positive effect on the Company in both qualitative and quantitative terms.

S.T. Chemical is not a family-managed firm, and at the next general meeting of shareholders we plan to elect outside directors. This chaotic period, in which so many in management are troubled by a loss of self confidence, represents a great opportunity for the Company to advance its alliance strategy.

Our overseas strategy focuses mainly on Europe, a region in which we believe there is broad scope for innovation. We are the only firm in our industry pursuing an alliance strategy, and we plan to energetically implement this and other strategies in the European markets. Unlike America, where price-consciousness is extremely strong, in Europe there is an attitude of considering price within the context of quality. Test marketing shows consumer preferences similar to those in Japan. S.T. Chemical is confident of its ability to succeed in this market.

Outlook

S.T. Chemical plans to strengthen its position in the non-manufacturing businesses. While strengthening our core competencies, we plan to gradually shift manufacturing to allied firms, reducing our need for manufacturing facilities. The Company aims to build a reputation based on its deep understanding of consumers, and for its ability to create new markets. We want to evolve into a company that elicits the full expression of the capabilities of our allied firms, and develops the function of linking their products with consumers into an existence value.

In the future as in the past, we request your understanding of our management strategies and continued support.

July 2003

Takashi Suzuki

Takashi Suzuki
President and Chief Executive Officer,
Representative Director

S.T. Chemical at a Glance

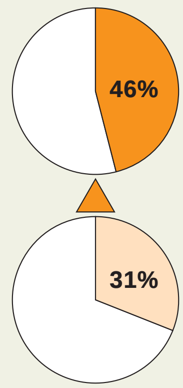
Pie graphs show the change in each segment's share of the Company's net sales between the years ended March 31, 2000 and March 31,2003.

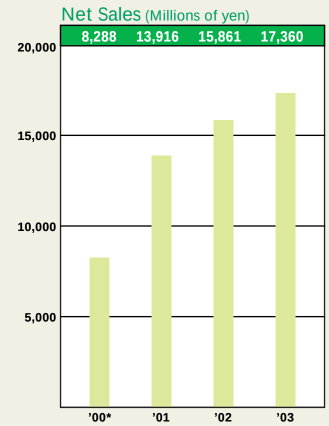
Air Care (deodorizers and air fresheners)

The Air Care Group is the Company's core business. When the latent market is considered, high expectations for future growth are justified. This business is a primary focus of the Company's technological and R&D capabilities, and the chief marketing priority.

Market-leading products such as Shoshu Pot, Shoshu Riki, and Dasshutan have achieved a high level of consumer acceptance, and Shoshu Plug, a plug-type electric room deodorizer, has created a new market. In recent years, we have expanded and energized the market through the launch of major new products, including Toilet no Shoshu Riki Spray and Shaldan Crystal Air.

During the period of this report, power brands Shoshu Riki and Dasshutan (which uses binchoutan, a special charcoal made from the quercus phyllyraeoides oak), showed steadily expanding market share. This contributed to 9.5% growth in the Air Care Group's net sales, to ¥17,360 million (US$144 million).

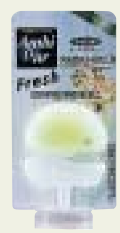




*For the nine-month period ended March 31 2000



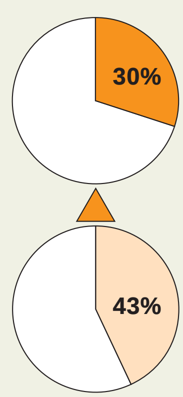


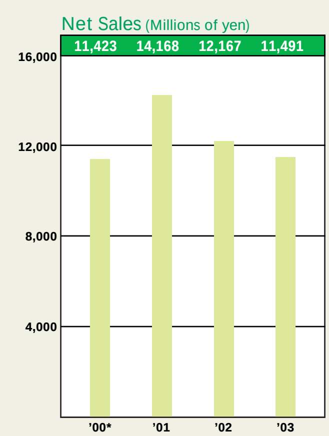


Cloth Care (mothproofing agents)

The Cloth Care Group is second only to the Air Care Group as a marketing priority. Changing residential architecture in Japan has given rise to new types of storage space and diverse needs in relation to living environments. We have responded to this with a varied lineup of Mushuda brand odorless mothproofing agents. The Mushuda line is accepted as the most reliable brand on the market. The Neopara line, in its trusted orange packaging of traditional Japanese paper, has for many years been a familiar sight to consumers.

Price competition and the shift to products with a one-year lifespan invited contraction in the scope of the market, and made inevitable a decline in net sales. For the period of this report, the Cloth Care Group recorded a 5.6% decline in net sales to ¥11,491 million (US$96 million).





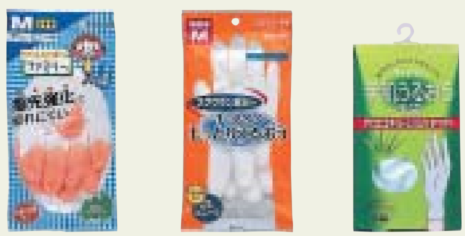
*For the nine-month period ended March 31 2000

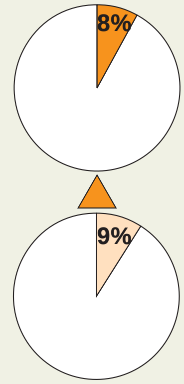


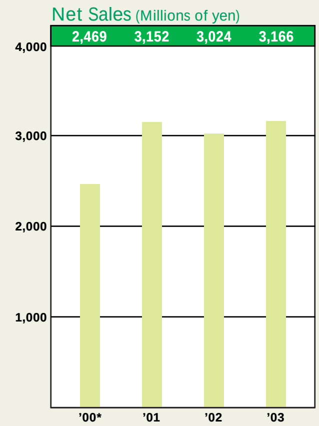
Hand Care (gloves)

The Family series of household gloves responds to consumer aspirations for pretty hands and a pleasant lifestyle with variations in thickness, size, and material based on market trend and consumer preference data. Our distinctive Family Sponge Chuatu gloves offer unprecedented fit and ease of donning and removing.

During this fiscal year, new household glove products designed to answer changes in consumer demand showed sales growth, and we steadily increased sales outlets for work gloves. As a result, net sales in the Hand Care Group rose 4.7% to ¥3,166 million (US$26 million).





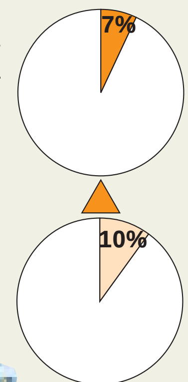


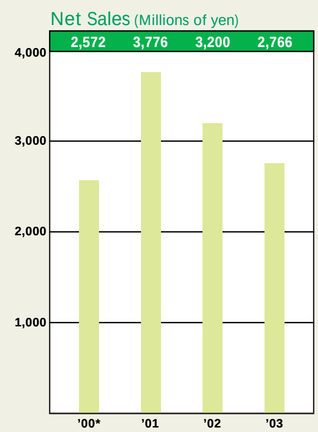
*For the nine-month period ended March 31 2000

Humidity Care (dehumidifiers)

DryPet dehumidifiers have been a market leader continuously since their launch. The series includes an optimal lineup of dehumidifiers for closets, drawers, and for clothes, all of which remove excess humidity from storage areas. In addition, our new, environmentally conscious Compact line is energizing the market.

As in the previous fiscal year, both tank-type and sheet-type DryPet products were affected by intensifying price competition. Net sales in this group, as a result, fell 13.6% to ¥2,766 million (US$23 million).



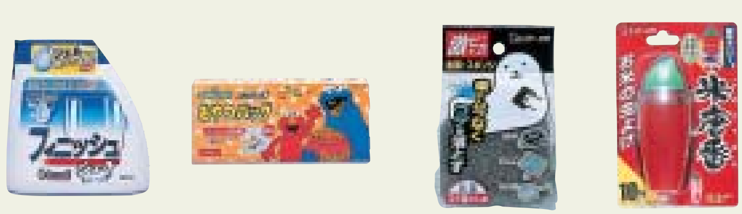


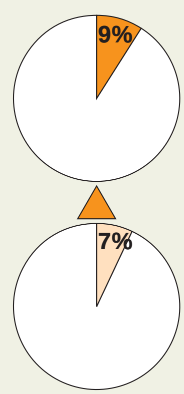
*For the nine-month period ended March 31 2000

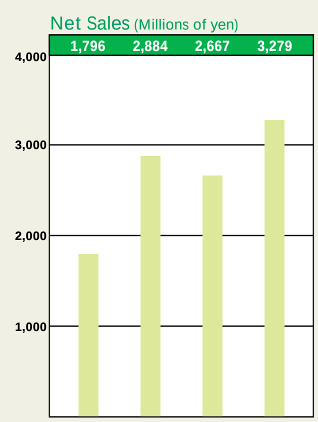
All Care (other products)

The All Care Group handles various products that have special characteristics. Hit products include Finish, a dishwashing powder for automatic dishwashers that we market through an alliance with Reckitt Benckiser of the United Kingdom, the Zippers line of food-storage bags, and Gekipika, a line of cleaning sponges with attached scraper.

Sales of Finish dishwashing liquid rose steadily this fiscal year, as a result both of the expansion of the market and a growing market share. Supported also by the healthy performance of Gekipika cleaning sponges, which were launched last spring, net sales in this group jumped 22.9% to ¥3,279 million (US$27 million).







*For the nine-month period ended March 31 2000

Power of Implementation

Under the leadership of President Suzuki, S.T. Chemical is engaged in dynamic management reform, improving its organization and strengthening its financial structure in the belief that the Company must change in order to survive. The goals of this reform are to alter the business structure and create manufacturing operations that are able to withstand price competition. We seek to become the top company in our category through value-chain management that puts the customer first. The first step in this effort is "becoming a lean and agile company."

As a first step in consolidating our foothold in preparation for the advances to come, we are improving the health of our balance sheet and enhancing the transparency of our management. In addition to writing off the Company's latent losses on securities investments, we will be selling idle assets and accelerating the revaluation of real-estate holdings.

Our shift to a "selection and concentration" strategy, under which we are scaling back our product lineup and concentrating management resources in core brands, is proceeding steadily. Through elimination of unprofitable products and restraint in launching new products, our lineup has been reduced from 862 items when President Suzuki took office to 282 items at March 31, 2003. The old S.T. Chemical, guided by the philosophy that "development is life," used to introduce around 60 new products every year. However, through a take-no-prisoners, top-down effort, we cut our lineup a hundred products at a time to its current level. At present, the conventional wisdom in this industry is to increase product lineups, on the assumption that a company should maintain many unprofitable but familiar products to boost sales of hot sellers. S.T. Chemical, however, does not accept that approach, and had the confidence to revolutionize its management by changing its approach.

The organizational reforms we executed in 2001 eliminated several layers of management and gave the Company a flat organization. We also recruited women executives. The Company was quick to recognize the importance of corporate governance, in 1999 introducing an operating officer system, as well as reducing the size of the board of directors and reducing their term of office to one year. We also implemented a stock-option system and strove to decrease the delay between the end of the fiscal year and the announcement of the year's results.

As one measure in the structural reforms we have undertaken, we began a review of procurement expenses in fiscal 2002. An in-house opportunity announcement was published, and a shakeup of the staff in the Procurement Division was conducted. A cost-reduction project reporting directly to the president was established. All existing procedures were completely reviewed, and all segments that could be integrated were integrated, as we took another look at vendors. We shook off all the restrictions of the past. As a result of these efforts, we succeeded in reducing costs by ¥1.0 billion in six months. We reduced our domestic manufacturing facilities from five to three and adjusted human resource postings, which strengthened our competitiveness by increasing our production efficiency.

Until recently, the various divisions—marketing, development, manufacturing—have had their own vertical hierarchies. The introduction of horizontal checks and balances on the management side brought striking improvements in the use and application of operating funds in the Marketing Department, which in turn allowed significant improvement in selling, general, and administrative expenses.

	Performance	Achievements
	·September 1998 current president takes office and proposes "A sinewy and compact company"	
1999	·Balance-sheet improvement proposal & Focus strategy adopted	
	Shift of primary emphasis from cloth care to air care	
	March Shoshu Pot launched	
2000	·Medium-term management plan adopted (2000—2005)	·Investment securities reduced by ¥1,300 million
	Alliance strategy adopted	Annual sales of Shoshu Pot reach 10 million units, making it a power brand
	February Shoshu Riki and May Dasshutan launched	
	September Alliance product Finish launched (Over 40% share of the world market)	
	Advertising budget increased by ¥1,000 million	
		Amortization of retirement benefit obligations completed
	Automotive Dept., Gift Dept., and Commercial Goods Dept. spun off into separate company (S.T. Trading Co.)	
2001	·Personnel systems reformed/Performance-based compensation system introduced	Annual sales of Shoshu Riki reach 20 million units
	Streamlining of organization commenced (into 4 Groups/4 Levels)	
	March Shoshu Plug launched	Announcement of financial statements prepared within 30 days of the fiscal year-end
	June R&D Center established	
	Cost Reduction Team reinforced	
	September Ambi-pur (jointly developed with business ally) launched	Stock repurchase conducted
2002	·Idle assets sold	Share of automatic dishwasher powder market exceeds 20%
	Stock option program introduced	Sales of Ultra Powers washing-machine cleaner double year on year
	October Maximum number of directors reduced to 6 from 10	Dasshutan market share surges to 45%
	Five manufacturing facilities consolidated into 3	Over the 36 months ending in September, deodorizer and air cleaner market share rises from 25.4% to 35.7%.
2003	·Emphasis placed on cloth care product strategy	
	Five years of reductions in our product lineup brings it to 282 products from a high of 862.	Annual sales of Shoshu Riki approach 30 million units Consolidated net income rises 181.2% year on year
	January Mushuda Fan Closet and Mushuda Matomete Covers launched	Consolidated cost reduction effect totals ¥1,600 million
	February Kometouban as repellents of rice insect launched	
	April S.T. Trading Co. spun off into separate company (S.T. Auto Co.) dealing with auto care product	
	July S.T. Mycoal Co. as marketing and sales support of disposal warmer established	

New vigor in the warmer market!

With the alliance of S.T. Chemical and Mycoal, a new wind is blowing in the warmer market.

On July 1, 2003, S.T. Chemical became the sole domestic sales agent for Mycoal Co., Ltd., and commenced the marketing of Mycoal's warmers and other products.

Mycoal's disposable warmer products

Product Development Capabilities

Products that are Both Exciting and Beneficial

S.T. Chemical's "Exciting and Beneficial" product development concept emphasizes products that can be easily identified "by the name, by the package design, and by the performance."

To the present, the development of products has begun at the initiative of manufacturers. However, lower selling prices caused by price competition and longer product lifespan in response to consumer needs have produced contraction in the markets for such products.

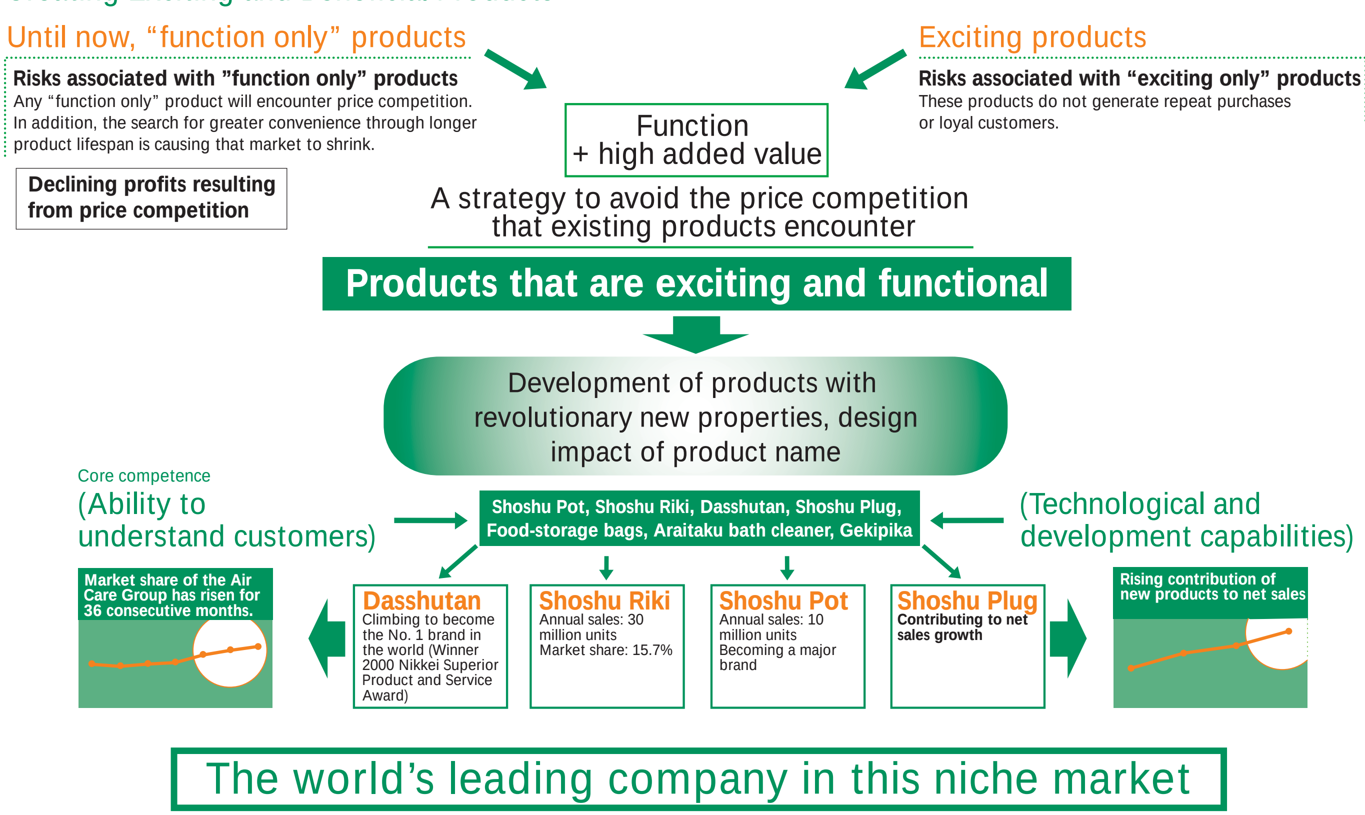
The corresponding approach to product lineups, that companies should increase their lineups, maintaining many unprofitable but familiar products to boost sales of hot sellers, is the conventional wisdom in the industry. However, this approach is a substantial bar to management efficiency, as it decentralizes development, manufacturing, and management costs, as well as organizational and advertising expenses.

S.T. Chemical has rejected this traditional, manufacturer-centered product development, which proceeds from a decision to manufacture a utilitarian product under what one might call the Ptolemaic approach. Instead, the Company has switched to an approach that centers around consumer needs and preferences, what one might call a Copernican approach.

The first premise, of course, is that the Company must get consumers to use its products. The attractiveness of a product sets it apart and is linked to purchasing behavior, but this is a different realm from price competition and market contraction. In addition, a product's attractiveness is not linked to repeat purchases: the products that enjoy a long run of popularity are those that are useful. For these reasons, the central concept of the Company's product development is "Exciting and Beneficial."

The process of attracting a consumer to make a purchase through eye-catching product names and package designs begins with television commercials. However, when a consumer tries a product and recognizes its true value, a cycle of repeat purchases is created. It is this that has enabled S.T. Chemical to greatly raise the percentage of hits in its product development output. For its new products, the Company has striven to choose names that are interesting and yet easily understood and expressive of the product's nature. In the deodorizers and air fresheners segment, for instance, our Shoshu Riki (which could be translated as "deodorizing force") brings to mind the image of the famous Japanese professional wrestler Choshu Riki. More than just playing on the image of the wrestler, though, the name expresses the strength of the product. While remaining absolutely faithful to the nature of the product, the name reflects our serious stance as a development-oriented firm dedicated to creating products never before seen anywhere in the world. The name Shoshu Riki was awarded second place in the Nikkan Kogyo Shimbun's top ten product names of 2000.

Creating Exciting and Beneficial Products

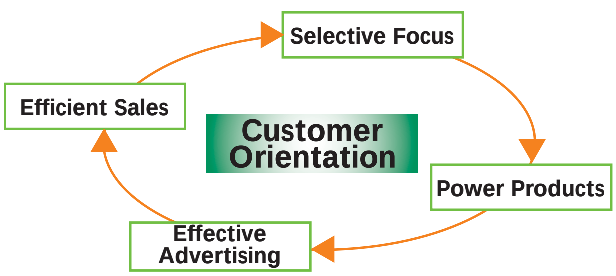


Understanding Consumers

Manufacturers have to the present made technology and quality the central focus of their operations, but it is self-evident that the ability to understand consumers also is important. At S.T. Chemical, we uncover revolutionary concepts on the basis of market-trend studies that reveal the thinking and needs of consumers, integrate these concepts with the Company's unique competencies, and draft new product outlines on this basis.

We then build a "Value Chain" based on concepts originating at retail outlets, and not at factory production lines, which allows development of an efficient and strong business. "Customer Orientation" can be thought of as the heart of the engine that drives this process, while around the periphery are grouped "Selective Focus," "Power Products," "Effective Advertising," and "Efficient Sales."

"Selective Focus" refers to a strategy under which we adhere to the same stance with regard to all new products. To create "Power Products," we strengthen the brand power of products that can be easily identified "by the name, by the package design, and by the performance." "Effective Advertising" is strategically important both to persuading the



consumer to take our products from store shelves, and to motivating retailers to stock our products. "Efficient Sales" derives from the ability to secure prominent locations for the display of products in retail stores.

Value Chain
Selective Focus
Power Products
Effective Advertising
Efficient Sales
Customer Orientation

S.T. Chemical considers a technician in a white lab coat who has never seen a customer as unqualified to serve on its development staff. Every spring and fall, therefore, we send 60 developers to retail stores, where they explain and sell new products face-to-face with customers. The president of the Company himself visits these stores, where he sets an example of salesmanship using body language and a confident voice. In giving developers sales experience, we seek to instill concepts arising from the market, and to encourage researchers to reflect on the past tendency to wander too far from the consumer needs that should have been at the center of their efforts, for instance, by incorporating more functions than consumers wanted in simple products such as deodorizers, air fresheners, and mothproofing agents. As a result of this program, researchers are able to get inside the consumers' heads and identify with them, which means our researchers are able to look at trends, at competitors, costs, and design from a different perspective.

Every year we send about 10 employees, including researchers, around the world on a two-week study and training mission. They make the rounds of European stores listening to the comments of shoppers and learning which products are selling. They are not required to write a report of their findings, but President Suzuki notes that if developers' ideas are not grounded in reality, there's no need for them to be in that line of work. Everyone is given a chance, but if results are not forthcoming, the Company is strict in deciding that development is not a suitable occupation. Reflecting President Suzuki's policies, the attitudes of developers have changed.

Becoming the World's Top Company in our Category

S.T. Chemical's business domain is primarily the sale of household products. In the future, we want to develop the strength of our brands in this domain. Our policy for business expansion is based on growth in peripheral businesses, and is in no way a conglomerate-oriented concept.

The household products industry is said to be a mature market, but it is comparatively immune to the effects of changing business conditions. As it is directly linked to the consuming public, the market can be expected to grow if wise policies are followed. S.T. Chemical strives to be an attractive, useful, and vigorous company. To this end, making maximum use of its ability to understand consumers, the Company will endeavor to offer unique new products in a timely manner. Under the slogan, "Doing things no one else has ever done," while striving to become the world's top company in our category, we will endeavor to create brands suitable for world markets. S.T. Chemical has transformed itself from a manufacturing-oriented company to a marketing-oriented company, and in the future will seek through the creation of trusted brands to become a branding company that enjoys the confidence of consumers the world over.

S.T. Chemical will further strengthen its core businesses, mothproofing products (Cloth Care) and deodorizers and air fresheners (Air Care), while at the same time working to create new markets and increase the Company's corporate value as a springboard to further profitable expansion.

S.T. Chemical R&D Center

Operating Results

Guided by its corporate slogan, "A sinewy and compact company," S.T. Chemical continued to reduce the number of new products in its lineup. Primary marketing emphasis remained on the Air Care line of deodorizers and air fresheners, and on the Cloth Care line of mothproofing products. Management resources were concentrated in these areas for the purpose of increasing our share of these markets and our sales. Four years ago we set out to increase our cost competitiveness by decreasing the number of products in our lineup, reducing inventories, and cutting back on new products. Those efforts continued companywide during the period of this report.

Sales in the Air Care Group rose substantially, chiefly on the popularity of the Shoshu Riki line and the Dasshutan line. In the All Care Group, sales of new products introduced since last spring grew steadily. The Cloth Care group, however, was affected by falling prices in Japan's deflationary economy and contracting markets resulting from the growing preference for products that last an entire year, and the Humidity Care Group faced intense cost-competition. Although these two groups suffered declines in sales, the growth in the Air Care and All Care groups was sufficient to offset this.

Net Sales by Segment

Mothproofing and Hygiene-Related Products Segment

The mothproofing and hygiene-related products segment includes the Cloth Care and Hand Care Groups.

Net sales in the Cloth Care Group dropped 5.6% to ¥11,491 million, as a result of cost competition, the shift to products that last an entire year, and market contraction.

In the Hand Care Group, introduction of new products responsive to changes in customer preferences brought growth in sales of household gloves, and the expansion of sales outlets allowed sales of industrial gloves to rise steadily. Net sales in this group, accordingly, increased 4.7% to ¥3,166 million.

As a result of the foregoing, operating revenues in this segment slipped 3.5% to ¥14,658 million, but the success of cost-cutting efforts allowed operating income to rise 44.8% to ¥2,163 million.

Household Environment Related Products segment The household environment related products segment includes the Air Care, Humidity Care, and All Care Groups.

Net sales in the Air Care Group increased 9.5% to ¥17,360, largely as a result of the strong performance of the Shoshu Riki and Dasshutan lines. This group has been identified as the one with the highest potential for growth, and the Company is focusing its technological and R&D resources here.

Net sales in the Humidity Care Group dropped 13.6% to ¥2,766 million. Cost competition in the markets for both tank-type and sheet-type disposable DryPet dehumidifiers continued to affect performance in that business.

In the All Care Group, net sales jumped 23.0% to ¥3,279 million. However, an expanding market and growing market share resulted in steady increases in sales of Finish, a dishwashing powder for automatic dishwashers that we market through an alliance with Reckitt Benckiser of the United Kingdom. In addition, Zippers, a food-storage bag launched last spring, and Gekipika, a line of cleaning sponges with attached scraper, both turned in strong sales results.

Operating revenues in the household environment related products segment increased 7.7% to ¥23,407 million. Although operating expenses in this segment were slightly higher this fiscal year, growth in sales brought a 234.3% jump in operating income, to ¥1,635 million.

Total operating revenues grew 3.1% to ¥38,066 million. A loss on write-down of securities of ¥239 million was posted, as was a special additional charge of early retirement and plant reconfiguration of ¥154 million. However, total operating expenses were cut 1.9% to ¥34,268 million, principally due to a reduction in cost of sales of 3.7%, to ¥19,707 million. Income before income taxes and minority interests rose 157.3% to ¥2,619 million, and net income shot up 181.1% to ¥1,431 million.

Net income per share was ¥46.53. The cash dividend per share was ¥10, including both interim and year-end dividends, for a payout ratio of 26.4%.

Financial Position

Total current assets increased 7.4% to ¥22,036 million, primarily as a result of a 52.5% increase in cash and time deposits, to ¥9,431 million. Marketable securities were reduced a further 16.6% to ¥3,863 million. Inventories edged up 2.7% to ¥3,661 million. Investments and other assets rose 16.1% to ¥3,799 million. This was mainly due to a 31.1% increase in investment securities, which rose to ¥2,654 million. Property, plant, and equipment declined 2.8% to ¥8,684 million. The chief factor in this was a 5.0% increase in accumulated depreciation, to ¥11,421 million. Total assets at the end of the year, therefore, were ¥34,732 million, up 5.5% from a year earlier.

Current liabilities grew 34.6% to ¥6,928 million, principally due to a 20.6% increase in trade payables, to ¥3,142 million, and a 653.4% jump in income taxes payable, to ¥1,002 million. Long-term liabilities declined 24.1% to ¥1,250 million, as long-term debt (less current portion) dropped 58.9% to ¥101 million, and directors' retirement and severance benefits fell 63.8% to ¥88 million. The Company's total liabilities thus climbed 20.4% to ¥8,178 million.

Total shareholders' equity was ¥26,048 million, an increase of 1.7% from the end of the previous fiscal year, after an unrealized revaluation loss on land of ¥107 million, foreign currency translation adjustments of ¥314 million, and the repurchase of treasury stock at an investment of ¥442 million.

The shareholders' equity ratio was 75.0%, down slightly from 77.8% at the end of the previous fiscal year. Return on assets (ROA) improved from 6.9% to 11.6%, and return on equity (ROE) rose from 2.0% to 5.5%. Shareholders' equity per share rose from ¥833.01 to ¥874.85.

Cash Flows

Net cash provided by operating activities totaled ¥5,189 million, up from ¥1,522 million in the previous fiscal year. This reflected primarily the increase in net income, in addition to which trade notes and accounts receivable were reduced by cutting the number of products handled by the Company, which improved capital efficiency.

Net cash provided by investing activities was ¥265 million, in contrast to net cash used in investing activities of ¥38 million for the last fiscal year. Principal factors in this were deposit of time deposits of ¥1,000 million, refund of time deposits of ¥2,000 million, purchase of marketable securities of ¥1,013 million, proceeds from the sale of marketable securities of ¥2,217 million, and purchases of investment securities of ¥1,130 million.

Net cash used in financing activities was ¥1,196 million, compared with net cash used in financing activities of ¥603 million last fiscal year. The main components of this were repayments of long-term debt of ¥164 million, repurchase of treasury stock of ¥811 million, and payment of dividends of ¥246 million.

The Company continued to maintain cash flows at a high level this fiscal year, and has no major capital-investment plans at present. Capital expenditures are projected at approximately ¥1,000 million for the fiscal year ending March 31, 2004.

Earnings before interest, taxes, depreciation, and amortization (EBITDA) totaled ¥3,586 million.

The Company requires no extensive investments in production lines, because it produces many products of comparatively small size. Management pursues a "low-risk, medium-return" strategy, refraining from large capital investments in the early stages of introducing new products, relying instead on human resources to the maximum degree possible. Only after it is clear that a product has potential does the Company invest substantial sums in systematizing and automating production lines.

As a result, the profit margins of most of the Company's products are low at the outset, but rise significantly as the volume of production rises.

Using the Company's high cash levels for the benefit of shareholders is a top priority for management. To take one example, the repurchase of treasury stock has already reduced the number of shares issued and outstanding by 9.5% from the level as of June 30, 1998. Management is committed to the continued reduction of this number through the repurchase of its stock.

Consolidated Balance Sheets

S.T. CHEMICAL CO., LTD and Subsidiaries
March 31, 2003 and 2002

ASSETS	Millions of yen		Thousands of U.S.dollars (Note2)
	2002	2003	2003
Current assets:			
Cash and time deposits (note 11)	¥ 6,186	¥ 9,431	$ 78,464
Marketable securities (note 4)	4,633	3,863	32,140
Trade notes and accounts receivables	5,695	4,520	37,608
Less-allowance for doubtful receivables	(54)	(37)	(312)
Inventories	3,566	3,661	30,460
Deferred tax assets (note 7)	248	355	2,954
Other current assets	246	242	2,014
Total current assets	20,519	22,036	183,328
Investments and other assets:			
Investments in non-consolidated subsidiaries and affiliates	137	132	1,096
Investment securities (note 4)	2,025	2,654	22,076
Long-term loans	226	194	1,615
Deferred tax assets other than on unrealized revaluation loss on land (note 7)	531	449	3,738
Deferred tax assets on unrealized revaluation loss on land (note 5)	75	71	593
Other assets	353	378	3,147
Less allowance for doubtful accounts	(73)	(79)	(661)
Total investments and other assets	3,273	3,799	31,604
Property, plant and equipment, at cost (notes 5 and 6)**:**			
Land	3,541	3,507	29,174
Buildings and structures	6,046	6,161	51,260
Machinery, equipment and vehicles	7,838	7,856	65,359
Tools, furniture and fixtures	2,372	2,551	21,221
Construction in progress	18	30	248
Less accumulated depreciation	(10,879)	(11,421)	(95,019)
Property, plant and equipment, net	8,937	8,684	72,243
Intangible assets, net of accumulated amortization	192	214	1,780
	¥32,921	¥34,732	$288,955

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S.dollars (Note2)
	2002	2003	2003
Current liabilities:			
Short-term bank loans (note 6)	¥ 116	¥ 103	$ 861
Current portion of long-term debt (note 6)	74	30	252
Trade payables	2,605	3,142	26,136
Other payables	1,562	1,825	15,187
Income taxes payable (note 7)	133	1,002	8,334
Consumption taxes payable	5	174	1,445
Accrued expenses	486	482	4,012
Allowance for sales returns	121	128	1,068
Other current liabilities	44	41	340
Total current liabilities	5,147	6,928	57,635
Long-term liabilities:			
Long-term debt, less current portion (note 6)	246	101	841
Employees' retirement and severance benefits (note 8)	1,157	1,061	8,829
Directors' retirement and severance benefits	243	88	733
Total long-term liabilities	1,646	1,250	10,403
Minority interests in consolidated subsidiaries	521	506	4,208
Contingent liabilities (note 13)			
Shareholders' equity (note 9)**:**			
Common stock			
Authorized-97,635,000 shares in 2003 and 98,075,000 shares in 2002			
Issued and outstanding-30,346,851 shares in 2003 and 31,604,851 shares in 2002	7,066	7,066	58,781
Capital surplus	7,068	7,068	58,800
Unrealized revaluation loss on land, net of tax (note 5)	(103)	(107)	(890)
Retained earnings	12,400	12,694	105,605
Unrealized holding profit (loss) on securities, net of tax	(21)	84	697
Foreign currency translation adjustments	(245)	(314)	(2,609)
Treasury stock, at cost (note3)	(558)	(442)	(3,677)
Total shareholders' equity	25,606	26,048	216,708
	¥32,921	¥34,732	$288,955

See notes to consolidated financial statements.

Consolidated Statements of Income and Retained Earnings

S.T. CHEMICAL CO., LTD and Subsidiaries
For the year ended March 31,2003 and 2002

	Millions of yen		Thousands of U.S.dollars (Note)
	2002	2003	2003
Net sales	¥36,921	¥38,066	$316,685
Cost of sales	20,469	19,707	163,953
Gross profit before reversal of allowance for sales return	16,453	18,358	152,732
Reversal of allowance for sales returns	27	(7)	(58)
Gross profit	16,479	18,351	152,673
Selling, general and administrative expenses (note 10)	14,497	14,553	121,076
Operating income	1,983	3,798	31,597
Other income (expenses):			
Interest and dividends received	76	56	466
Interest expenses	(17)	(11)	88
Cash purchase discount	225	198	1,645
Cash sales discount	(922)	(881)	7,332
Profit on sale of securities, net	16	8	69
Equity in income of affiliates	7	10	80
Write-down of securities	(243)	(239)	(1,989)
Special additional payment of early retirement	—	(154)	(1,283)
Other, net	(107)	(165)	(1,376)
	(965)	(1,179)	(9,808)
Income before income taxes and minority interests	1,018	2,619	21,790
Income taxes (note 7)			
Current	504	1,248	10,379
Deferred	(29)	(98)	(816)
	475	1,149	9,562
Minority interests	34	38	320
Net income	509	1,431	11,908
Retained earning at beginning of year	12,227	12,400	103,159
Decreases:			
Cash dividends paid	251	246	2,044
Bonuses to directors	0	1	4
Redemption of treasury stock	85	891	7,413
Retained earnings at end of year (note 9)	¥12,400	¥12,694	$105,605

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

S.T. CHEMICAL CO., LTD. and Subsidiaries
For the years ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S.dollars (Note2)
	2002	2003	2003
Cash flows from operating activities:			
Income before income taxes and minority interests	¥1,018	¥2,619	$21,790
Adjustments to reconcile to net cash			
provided by operating activities:			
Depreciation and amortization	1,020	956	7,956
Loss (profit) on sale of property, plant and equipment	23	27	223
Loss on sale and write-down of marketable securities	10	(10)	(81)
Loss on sale and write-down of investment securities	217	241	2,001
Allowance for doubtful receivables	70	(9)	(76)
Provision for employees' retirement and severance benefits	(116)	(93)	(775)
Provision for directors' retirement and severance benefits	(20)	(155)	(1,290)
Provision for employees' bonuses	(361)	—	—
Provision for sales returns	(27)	7	58
Interest and dividends received	(76)	(56)	(466)
Interest expenses	17	11	88
Foreign exchange loss (gain)	(14)	31	256
Equity in income of affiliates	(7)	(10)	(80)
Change in operating assets and liabilities:			0
Receivables	316	1,146	9,533
Inventories	357	(137)	(1,136)
Payables and accurued expenses	(289)	571	4,748
Others, net	(79)	383	3,187
Sub total	2,060	5,521	45,936
Interest and dividend received by cash	78	55	461
Interest paid by cash	(18)	(10)	(84)
Income taxes paid by cash	(599)	(378)	(3,145)
Net cash provided by operating activities	1,522	5,189	43,168
Cash flows from investing activities:			
Deposit of time deposits (more than 3 months)	(3,500)	(1,000)	(8,320)
Refund of time deposits (more than 3 months)	5,000	2,000	16,639
Purchase of marketable securities	(3,936)	(1,013)	(8,426)
Proceeds from sale of marketable securities	3,853	2,217	18,441
Purchase of property, plant and equipment	(1,450)	(792)	(6,588)
Proceeds from sale of property, plant and equipment	257	1	12
Purchases of investment securities	(440)	(1,130)	(9,403)
Proceeds from sale of investment securities	163	0	0
Other investments, net	15	(18)	(146)
Net cash provided (used in) investing activities	(38)	265	2,208
Cash flows from financing activities:			
Increase in bank loans and current portion of long-term debt	12	33	277
Repayments of bank loans and current portion of long-term debt	(117)	(37)	(306)
Increase in long-term debt	213	—	—
Repayments of long-term debt	—	(164)	(1,365)
Repurchase of tresury common stock	(451)	(811)	(6,744)
Proceeds from sale of treasury common stock	51	36	296
Payments of dividend	(254)	(246)	(2,044)
Payments of dividend to minority shareholders	(56)	(8)	(65)
Net cash used by financing activities	(603)	(1,196)	(9,951)
Effect of exchange rate change on cash and cash equivalents	3	(12)	(103)
Net increase (decrease) in cash and cash equvalents	883	4,246	35,322
Cash and cash equivalents at beginning of year	4,302	5,185	43,137
Cash and cash equivalents at end of year (note 11)	¥5,185	¥9,431	$78,459

See notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

(a) Basis of presentation

S.T.Chemical Co., Ltd. (the "Company") and its domestic subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles and practices generally accepted in Japan, and its foreign subsidiaries maintain their books of account in conformity with those of the countries of their domicile.

The accompanying consolidated financial statements have been prepared from the consolidated financial statements filed with the Ministry of Finance as required by the Securities and Exchange Law of Japan. Accordingly, accounting principles and practices adopted by the Company may differ, in some material respects, from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made to the consolidated financial statements issued domestically for readers outside Japan. Furthermore, the notes to the consolidated financial statements include information, which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

(b) Principles of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

The consolidated financial statements include the accounts of the Company and its three significant subsidiaries for the years ended March 31, 2003 and 2002. All significant intercompany balances and transactions have been eliminated in consolidation.

The equity method is applied to investments in significant affiliates in accordance with the provisions of the Regulations.

(c) Accounting period

The accounting period of the Company begins on April 1 and ends March 31 of the following year. The accounts of two overseas subsidiaries have fiscal years ending on December 31. The necessary adjustments for significant transactions, if any, are made on consolidation.

(d) Translation of foreign currency transactions and financial statements

Monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates in effect at the balance sheet date and the accounts of foreign consolidated subsidiaries etc., except for the components of shareholders equity, are translated into yen at the rate of exchange in effect at the balance sheet date. Foreign exchange gains and losses are credited or charged to operations and foreign currency translation adjustments are included in shareholders' equity and minority interests.

(e) Marketable securities and investment securities

Trading securities are carried at market value and held-to-maturity securities are carried at amortized cost.

Other securities with a market value are carried at market value with changes in unrealized holding gain or loss, net of related deferred income tax assets, in shareholders' equity. Other securities without a market value are stated at cost determined principally by the moving average method and the cost of other securities sold is principally computed based on the moving average method. During the year ended March 31, 2003 and 2002, the Company and consolidated subsidiaries did not have any trading securities.

(f) Inventories

Inventories of the Company and domestic subsidiaries are stated at cost determined by the average cost method and those of overseas subsidiaries are stated at the lower of cost or market, cost being determined by the average cost method.

(g) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost. Depreciation of property plant and equipment of the Company and domestic subsidiaries except for buildings, excluding structures, acquired on and after April 1, 1998, is computed by the declining-balance method in conformity with the Corporation Tax Law of Japan. Depreciation of property and equipment of overseas subsidiaries and buildings, excluding structures, acquired on and after April 1, 1998 of the Company and domestic subsidiaries is computed by the straight-line method.

The estimated useful lives of major depreciable assets are as follows:

Buildings and structures	3 to 50 years
Machinery, equipment and vehicles	2 to 17 years
Tools, furniture and fixtures	2 to 20 years

(h) Intangible assets and long-term prepaid expenses

Intangible assets and long-term prepaid expenses are amortized by the straight-line method. Cost of software purchased for internal use is amortized by the straight-line method over 5 years, the useful life of purchased software.

(i) Allowance for doubtful receivables

The Company and domestic subsidiaries provide allowances for estimated bad debt losses at the amounts calculated based on past experience for receivables other than doubtful receivables and amounts estimated specifically for each doubtful receivable. Overseas subsidiaries provide allowances for doubtful receivables principally based on estimated uncollectable amounts.

(j) Allowance for sales returns

Allowance for sales returns are provided for losses on sales returns subsequent to the balance sheet date at the amount equivalent to that calculated based on sales in conformity with the Corporation Tax Law of Japan.

(k) Employees' retirement and severance benefits

Accrued retirement and severance benefits are provided based on the estimated retirement and severance benefit obligations and available pension assets.

Actuarial gains and losses, and past service obligations are amortized using the straight-line method over 5 years, which is within the estimated average remaining service years of employees.

In addition, one overseas subsidiary provides an allowance for payment of employees' retirement and severance benefits at 100% of the voluntary termination payment.

(l) Directors' retirement and severance benefits

The Company has accrued directors' retirement and severance benefits at the amount which would be required to be paid in accordance with internal regulations if all directors left the Company as of the balance sheet date.

(m) Leases

Finance leases, except for those which transfer ownership of the property to the lessee, are accounted for as operating leases.

(n) Consumption taxes

Consumption tax is calculated by the tax-segregated method.

(o) Valuation of assets and liabilities of consolidated subsidiaries

Assets and liabilities of consolidated subsidiaries acquired before April 1, 1999 were valued at cost. It is the Company's policy to value assets and liabilities of subsidiaries acquired on and after April 1, 1999 at their fair values when the Company obtains control of such subsidiaries. The Company has not acquired any subsidiaries since April 1, 1999.

(p) Cash and cash equivalents

Cash and cash equivalents in the cash flow statements consist of cash on hand, demand deposits and liquid short-term investments with maturity of three months or less from acquisition date.

2. Basis of Translating Financial Statements

The consolidated financial statements presented herein are expressed in yen and, solely for the convenience of the reader, have been translated into U.S. dollar amounts at the rate of ¥120.20 =U.S.$1, the approximate exchange rate on the Tokyo Foreign Exchange Market on March 31, 2003. This translation should not be construed as a representation that the amounts shown could be converted into U.S. dollars at such date.

3. New Accounting Standards

The Company and its subsidiaries adopted the following new accounting standards from the year ended March 31, 2003:
- Treasury stock and reduction of legal reserve
Effective from April 1, 2002, the Company adopted the new accounting standard for treasury stock and reduction of legal reserve. The effect of the adoption of this new standard was immaterial.

- Net Income per Share
In accordance with a new accounting standard for earnings per share which became effective April 1, 2002, basic net income per share is computed based on the net income available for distribution to shareholders of common stock and the weighted average number of shares of common stock outstanding during each year. Diluted net income per share is computed based on the net income available for distribution to the shareholders and the weighted average number of shares of common stock outstanding during each year considering common stock equivalents.

The effect of the adoption of this new standard was immaterial.

4. Marketable Securities

The cost and related aggregate market values of other securities with a market value as of March 31, 2003 and 2002 are summarized as follows:

	Millions of Yen		Thousand of U.S. dollars
	2002	2003	2003
Cost	¥2,064	¥2,863	$23,816
Market value	2,028	3,002	24,977
Gross unrealized gain	109	176	1,461
Gross unrealized loss	145	36	300

The Company recognized impairment loss on securities of difference between market value and book value when those market values declined by 30% and more of book value. Impairment losses on securities for the years ended March 31, 2003 and 2002 were ¥200 million (U.S.$1,665 thousand) and ¥243 million, respectively.

Securities as of March 31, 2003 and 2002 which are excluded from the above table are summarized at their book values as follows:

	Millions of Yen		Thousands of U.S. dollars
	2002	2003	2003
Current assets:			
Unlisted investment trust certificates within the closed period	¥2,305	¥1,475	$12,267
MMF	1,595	1,370	11,398
Commercial paper	500	500	4,159
Foreign securities	90	93	775
Unlisted stocks other than those on the over-the-counter market	140	77	640

During the year ended March 31,2003, the Company recognized impairment losses on non-marketable securities of ¥39 million (U.S.$324 thousand) when those net book values had declined by 50% and more of book value or when companies issuing non-marketable securities went bankrupt or substantially bankrupt.

Other securities which were sold during the years ended March 31, 2003 and 2002 are summarized as follows:

	Millions of Yen		Thousands of U.S. dollars
	2002	2003	2003
Proceeds received	¥4,016	¥2,208	$18,372
Total profit	16	10	82
Total loss	3	2	13

The aggregate maturity of other securities with maturity dates as of March 31, 2003 and 2002 are summarized as follows:

	Millions of Yen		Thousands of U.S. dollars
	2002	2003	2003
One year and less	¥643	¥ 926	$ 7,700
More than 1 year and within 5 years	794	1,537	12,788
More than 5 years and within 10 years	57	54	448
More than 10 years	—	—	—

5. Land Revaluation

In accordance with the Land Revaluation Laws (Proclamation No. 34 dated March 31, 1998), land used for business activities was revalued at March 31, 2002. The book value before revaluation was ¥3,332 million and the book value after revaluation was ¥3,153 million and the difference, net of tax, is stated as unrealized valuation loss on land in shareholders' equity. The deferred tax assets arising from this revaluation is presented separately from deferred tax assets for other reasons in the accompanying balance sheets. The difference between the market value and the book value after revaluation was ¥62 million (U.S.$518 thousand) at March 31, 2003.

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

Short-term loans from banks at an average interest rate of 2.6% amounted to ¥103 million (U.S.$861 thousand) at March 31, 2003.

Long-term debt at March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. dollars
	2002	2003	2003
Loans, principally from banks, maturing in installments through 2006: bearing interest from 4.9% to 5.6%	¥320	¥131	$1,092
Less current portion	(74)	(30)	(252)
	¥246	¥101	$ 841

The aggregate annual maturity of long-term debt subsequent to March 31, 2003 is summarized as follows:

	Millions of Yen	Thousands of U.S. dollars
Year ending March 31, 2004	¥ 30	$ 252
2005	29	240
2006	47	393
2007	25	207
2008	—	—
Total	¥131	$1,092

A summary of assets pledged as collateral for long-term debt at March 31, 2003 is presented below:

	Millions of Yen	Thousands of U.S. dollars
Buildings and structures	¥111	$ 921
Machinery and equipment and vehicles	53	441
Tools, furniture and fixtures	1	5
Land	315	2,619
Total	¥479	$3,985

7. Income Taxes

The tax effect of temporary differences that give rise to a significant portion of the deferred tax assets (excluding deferred tax on the unrealized revaluation loss on land) at March 31, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. dollars
	2002	2003	2003
Current assets:			
Accrued employees' bonuses	¥ 90	¥144	$1,194
Allowance for sales returns	48	51	423
Write-down of securities	31	4	34
Accrued business taxes	20	97	805
Other	59	60	501
Total current deferred tax assets	249	356	2,958
Current liabilities	(1)	(0)	(4)
Net current deferred tax assets	248	355	2,954
Non-current assets:			
Allowance for employees' retirement and severance benefits	406	370	3,077
Allowance for directors' retirement and severance benefits	102	35	293
Unrealized holding loss on securities	15	86	712
Other	35	36	296
Total non-current deferred tax assets	559	526	4,379
Non-current liabilities:			
Deferred gain on sale of property	(23)	(21)	(177)
Other	(5)	(56)	(465)
Total non-current deferred tax liabilities	(28)	(77)	(641)
Net non-current deferred tax assets	¥531	¥449	$3,738

A reconciliation from the Japanese statutory tax rate to the Company's actual tax rate for the year ended March 31, 2003 was abbreviated because the difference was less than 5% and 2002 were as follows:

	2002
Japanese statutory tax rate	42.00%
Rate difference for foreign taxes	(2.10)
Permanent differences such as entertainment etc.	4.01
Permanent difference such as dividend income	(0.57)
Inhabitant per capita taxes etc.	2.12
Adjustment of taxes for prior years	—
Other	1.22
Actual tax rate	46.68%

A new local business tax system will be introduced after a fiscal year beginning at April 1, 2004. As a result of this introduction, the statutory income tax rate would be changed from 42% to 40%.

As a result, net deferred tax assets decreased by ¥25 million (U.S.$181 thousand) , deferred income taxes increased by ¥25 million (U.S.$204 thousand) and unrealized holding profit on securities, net of tax increased ¥3 million (U.S.$21 thousand).

8. Employees' Retirement and Severance Benefits

The Company and its domestic subsidiaries have defined benefits plans covering substantially all of its employees, partially funded through a qualified funded pension plan as described in Note 1 (k). Under the plan, employees are entitled to lump sum or pension retirement or severance benefits, determined by points accumulated monthly based on employees' contributions, length of service and the conditions under which the termination occurs. In addition, the Company and its domestic subsidiaries pay meritorious service awards to employees in excess of the prescribed formula which are charged to income as paid as it is not practicable to compute the liability for future payments since amounts vary with circumstances.

The following table summarizes the funding status and amounts recognized in the consolidated balance sheet as of March 31, 2003 and 2002.

	Millions of Yen		Thousands of U.S. dollars
	2002	2003	2003
Retirement and severance benefit obligation	¥(2,659)	¥(2,558)	$(21,283)
Plan assets	1,180	1,115	9,274
Unfunded benefit obligation	(1,479)	(1,444)	(12,009)
Unrecognized actuarial loss	415	452	3,762
Unrecognized past service obligations	(94)	(70)	(582)
Accrued benefit obligation	¥(1,157)	¥(1,061)	$ (8,829)

The following table summarizes the components of net benefit expense for the years ended March 31, 2003 and 2002.

	Millions of Yen		Thousands of U.S. dollars
	2002	2003	2003
Service cost	¥144	¥165	$1,369
Interest cost on benefit obligation	70	51	425
Expected return on plan assets	(32)	(35)	(295)
Amortization of actuarial loss	22	87	728
Amortization of past service obligations	(25)	(24)	(198)
Extraordinary additional retirement pay	29	9	73
Net benefit expense	¥207	¥253	$2,102

The assumptions used in determining the pension benefit obligation are shown below:

	2002	2003
Method of period allocation of estimated benefits	Straight-line	Straight-line
Discount rate	2.0%	2.0%
Expected rate of return on assets	3.0%	3.0%

9. Shareholders' Equity

Under the Commercial Code, the Company sets aside as a legal reserve at least 10 percent of appropriations paid in cash until the aggregate amount of capital surplus and such regal reserve equal 25% of stated capital.

Capital surplus and legal reserve are not available for dividends but may be used to reduce a deficit or may be transferred to stated capital. As of March 31, 2003, the legal reserve of the Company included in retained earnings amounted to ¥550 million (U.S.$4,574 thousand).

The accompanying consolidated financial statements do not include any provision for cash dividends of ¥4.00 (U.S.$0.03) per share aggregating ¥179 million (U.S.$1,485 thousand) declared in June 2003 by the Company.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company and in accordance with the Commercial Code of Japan.

As of March 31, 2003, the Company has stock option plans, which were approved at the general shareholders meetings and the board of directors, as follows:

Date of approval	Number of shares granted	For	Exercisable period
June 27, 2000	350,000 shares	6 directors and 4 employees (all executive officers)	July 1, 2002 - June 30, 2007
June 15, 2001	140,000 shares	1 director and 23 employees (including 1 executive officer)	July 1, 2003 - June 30, 2008
June 14,2002	225,000 shares	1 director and 43 employees	July 1,2004 - June 30,2009

The option price per share was determined at the date of grant based on the established formula for determining option prices. The options are exercisable for the above periods provided that recipients are still directors, statutory auditors or employees of the Company or its subsidiaries.

Net assets per share as of March 31, 2003 and 2002 were ¥874.85 (U.S.$7.28) and ¥833.01, respectively. Net income per share for the years ended March 31, 2003 and 2002 were ¥46.53 (U.S.$0.39) and ¥16.37, respectively.

Diluted net income per share for the potential stocks for the year ended March 31, 2003 was ¥46.50 (U.S.$0.39).

Basis for calculation of basic net income per share and diluted net income per share for the year ended March 31, 2003 is as follows:

	Millions of Yen	Thousands of U.S. dollars
(Basic net income per share)		
Net income	¥1,431	$11,908
Amounts not attributable to shareholders of common stock:		
Directors' bonuses by appropriation of retained earnings	(16)	(133)
Amounts attributable to shareholders of common stock	1,415	11,775
Weighted average number of shares outstanding (millions of shares)	30	—
(Diluted net income per share)		
Adjustments arising from dilution	—	—
Increase in number of shares outstanding	—	—
Diluted shares resulting in an anti-dilutive effect	—	—

10. Major Expenses

Major expenses included in selling, general and administrative expenses for the years ended March 31, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. dollars
	2002	2003	2003
Sales promotion expenses	¥2,891	¥3,343	$27,808
Advertising cost	3,076	2,853	23,731
Salaries	1,857	1,774	14,763
Shipment and storage expenses	1,498	1,428	11,883
Provision for employees' retirement and severance benefits	160	191	1,588
Provision for directors' retirement and severance benefits	15	11	99
Provision for doubtful accounts	102	—	—

Research and development expenses included in general and administrative expenses and cost of sales for the years ended March 31, 2003 and 2002 amounted to ¥490 million (U.S.$ 4,076 thousand) and ¥408 million.

11. Cash and Cash Equivalents

A reconciliation of cash and cash equivalents as of March 31, 2003 and 2002 to accounts and amounts in the accompanying balance sheet is as follows:

	Millions of Yen		Thousands of U.S. dollars
	2002	2003	2003
Cash and time deposits	¥6,186	¥9,431	$78,464
Time deposits with maturity in excess of three months	(1,001)	(1)	(5)
Cash and cash equivalents	5,185	9,431	78,459

12. Leases

Finance leases, except for those which transfer ownership of the property to the lessee, are accounted for as operating leases, under which the asset and related liability are not included in the balance sheets.

(1) A summary of pro-forma amounts (inclusive of interest) of acquisition cost, accumulated depreciation and net book value at March 31, 2003 and 2002 of mainly tools, furniture and fixtures used under finance lease was as follows:

	Millions of Yen		Thousands of U.S. dollars
	2002	2003	2003
Acquisition cost	¥404	¥392	$3,264
Accumulated depreciation	173	200	1,663
Net book value	¥231	¥192	$1,601

(2) Future minimum lease payments, inclusive of interest, at March 31, 2003 and 2002 were analyzed as follows:

	Millions of Yen		Thousands of U.S. dollars
	2002	2003	2003
Payable in one year or less	¥ 82	¥ 76	$ 635
Payable after one year	149	116	965
Total	¥231	¥192	$1,601

(3) Lease payments and pro-forma depreciation charges for the years ended March 31, 2003 and 2002 were ¥89 million (U.S.$743 thousand) and ¥75 million, respectively.

(4) Depreciation charges are computed using the straight-line method over lease terms assuming no residual value.

13. Commitments and Contingent Liabilities

As of March 31, 2003, trade notes discounted with banks, in the ordinary course of business, amounted to ¥83 million (U.S.$691 thousand). There were no trade notes discounted with banks as of March 31, 2002.

Notes which matured on March 31, 2002 (Sunday) of ¥111 million was accounted for as collected on the maturity date.

14. Derivatives

The Company has entered into forward exchange contracts to reduce its exposure to future adverse fluctuations in foreign exchange rates related to its trade receivables and payables and loans denominated in foreign currencies. It is the Company's policy not to enter into speculative derivative transactions and subsidiaries and associated companies do not enter into any forward exchange contracts.

Unrealized gain or loss on a hedge instrument is deferred until the Company recognizes gain or loss on the hedged item. An asset or liability hedged by a forward exchange contract is translated at the forward exchange contract rate.

As the Company enters into contracts with domestic banks with high credit ratings, the Company does not anticipate any risk of non-performance by these counter-parties.

In addition, the execution and control of derivative transactions are carried out by the administrative division in accordance with internal control regulations which limit the nature of transactions and staff in charge of such transactions.

As of March 31, 2003 and 2002, the Company had no outstanding derivative instruments.

15. Segment Information

The Company and its subsidiaries have two business segments and business segment information for the years ended March 31, 2003 and 2002 is analyzed as follows:

Year ended March 31, 2003

	Millions of Yen				
	Mothproofing and hygiene-related products	Household environment related products	Total	Elimination or corporate assets	Consolidated
1.Revenues					
(1) Operating revenues	¥14,658	¥23,407	¥38,066	—	¥38,066
(2) Intra-group sales and transfers	—	—	—	—	—
Total revenues	14,658	23,407	38,066	—	38,066
2.Operating expenses	12,495	21,773	34,268	—	34,268
Operating income	2,163	1,635	3,798	—	3,798
3.Assets, depreciation and capital expenditure;					
(1) Total assets	8,111	10,963	19,075	15,658	34,732
(2) Depreciation	351	605	956	—	956
(3) Capital expenditure	120	613	733	—	733

Year ended March 31, 2002

	Millions of Yen				
	Mothproofing and hygiene-related products	Household environment related products	Total	Elimination or corporate assets	Consolidated
1.Revenues					
(1) Operating revenues	¥15,192	¥21,729	¥36,921	—	¥36,921
(2) Intra-group sales and transfers	—	—	—	—	—
Total revenues	15,192	21,729	36,921	—	36,921
2.Operating expenses	13,698	21,240	34,939	—	34,939
Operating income	1,494	489	1,983	—	1,983
3.Assets, depreciation and capital expenditure;					
(1) Total assets	9,314	11,071	20,385	12,536	32,921
(2) Depreciation	294	726	1,020	—	1,020
(3) Capital expenditure	645	492	1,137	—	1,137

Year ended March 31, 2003

	Thousands of U.S. dollars				
	Mothproofing and hygiene-related products	Household environment related products	Total	Elimination or corporate assets	Consolidated
1.Revenues					
(1) Operating revenues	$121,950	$194,735	$316,685	—	$316,685
(2) Intra-group sales and transfers	—	—	—	—	—
Total revenues	121,950	194,735	316,685	—	316,685
2.Operating expenses	103,952	181,136	285,087	—	285,087
Operating income	17,999	13,599	285,087	—	31,597
3.Assets, depreciation and capital expenditure;					
(1) Total assets	67,482	91,208	158,691	130,264	288,955
(2) Depreciation	2,924	5,032	7,955	—	7,955
(3) Capital expenditure	999	5,101	6,101	—	6,101

The business segments are classified according to the nature of products and their markets.

Major products of the mothproofing and hygiene related business are Cloth Care and Hand Care and those of the household environment related business are Air Care, Humidity Care, and All Care.

Geographical segment information and overseas sales are not presented as revenues and total assets in Japan exceeds 90% of all segment total and overseas sales were less than 10% of consolidated sales for the years ended March 31, 2003 and 2002.

16. Other

On April 16, 2003, the Company entered into an alliance agreement of sales operation with Mycoal Co., Ltd. and Mycoal Products Co., Ltd. in order to expand market share of heat tools such as disposable warmers which are main products of Mycoal Co., Ltd.

Report of Independent Auditors

The Board of Directors
S.T. Chemical Co., Ltd.

We have audited the accompanying consolidated balance sheets of S.T. Chemical Co., Ltd. Corporation and consolidated subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards, procedures and practices require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of S.T. Chemical Co., Ltd. and consolidated subsidiaries at March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2003 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the consolidated financial statements.

Shin Nihon & Co.
Shin Nihon & Co.

June 13, 2003

See Note 1(a) to the consolidated financial statements which explains the basis of preparation of the consolidated financial statements of S.T. Chemical Co., Ltd. and consolidated subsidiaries under Japanese accounting principles and practices.

Corporate Information
(August 1, 2003)

Board of Directors and Auditors (August 1, 2003)

Takashi Suzuki
President and Chief Executive Officer, Representative Director

Akira Iwai
Director & Senior Executive Officer For Corporate Strategy
& New Business Development

Nobuhiro Mine
Director & Senior Executive Officer,
Sales Division General Manager

Toshiharu Nagasawa
Director & Executive Officer,
R&D Division

Mitsuo Tsuchihashi
Director & Executive Officer,
Corporate staff Div. & Manufacturing Div.

Hideaki Okuda
Senior Auditor

Tsunehachi Tagaya
Auditor

Motohiko Kogo
Auditor

Corporate Data

Company name:	S.T.Chemical Co., Ltd.
Headquarters:	4-10, Shimo-Ochiai, 1-Chome, Shinjuku-ku, Tokyo 161-8540, Japan
Establishment:	August 31, 1948
Paid-in capital:	¥7,065,500,000
Employees:	685 (Consolidated)
	425 (Non-consolidated)
Contact:	Kanzo Kobayashi, Accounting & Corporate Planning Group
E-mail:	ir@st-c.co.jp
Tel:	+81-3-5906-0734
Fax:	+81-3-5906-0741

Group Companies

S.T. Trading Co., Ltd.
Sales of hand glove, industrial paper wipe, lubricant spray and gift products

S.T. Auto Co., Ltd.
Sales of car Chemical care products

S.T. Mycoal Co., Ltd.
Sales support and marketing of Mycoal disposable warmers

Family Glove (Thailand) Co., Ltd.
Manufacturer and sales of hand gloves

Family Glove (Taiwan) Co., Ltd.
Manufacturer and sales of hand gloves

Investor Information
(August 1, 2003)

Fiscal year-end: March 31

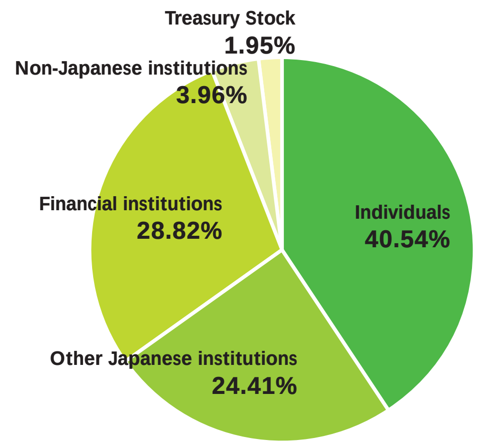
Shares issued and outstanding: 30,346,851

Listed exchange: Tokyo Stock Exchange, First Section

Shareholders: 4,755

Primary shareholders:

	Shares held (Thousands)	(% of total)
Shaldan Co., Ltd.	4,937	16.3
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,778	5.9
Seiichi Suzuki	1,737	5.7
Nippon Life Insurance Company	1,689	5.6
Akio Suzuki	1,547	5.1
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	942	3.1
The Mizuho Bank, Limited	885	2.9
Hiromu Fujii	760	2.5
The Bank of Tokyo-Mitsubishi, Ltd.	681	2.2
Takashi Suzuki	498	1.6

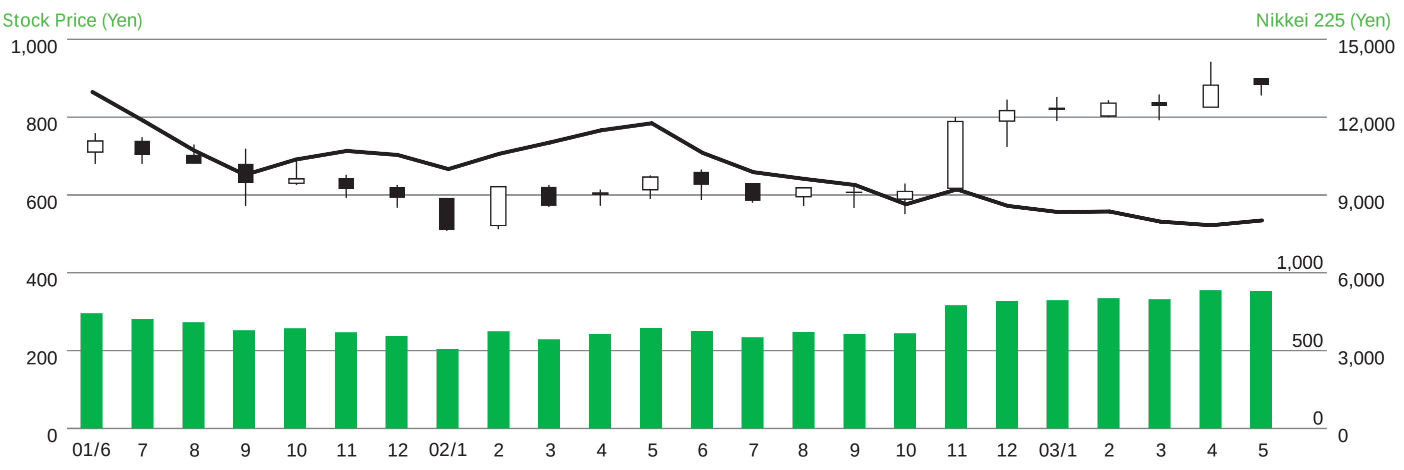


Registered transfer agent: Japan Securities Agents, Ltd.

Auditor: Shin Nihon & Co.

Annual shareholders' meeting: Middle June of each year (June 14, 2003)

Stock chart:



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