S.T.CHEMICAL CO.,LTD.

Shifting emphasis from value to growth!

ANNUAL REPORT 2005

For the Year Ended March 31, 2005

Guided by our corporate motto, "Doing things no other company in the world does," S.T. Chemical aims to become the world's No.1 company in the global niche market represented by mothproofing and moisture absorbing agents, chemical warmers, home care products, and especially deodorizers and air fresheners. In recent years, based on a "focus and concentrate" strategy, S.T. Chemical has been reborn as an air care company with deodorizers and air fresheners as its mainstay. The Company will maintain a posture focused on profitable growth, while expanding its operations in the niche field of home care and aiming to increase corporate value. The new slogan adopted last year, "Refreshing the Air," reflects our commitment to further enhancing the comfort of life for all.

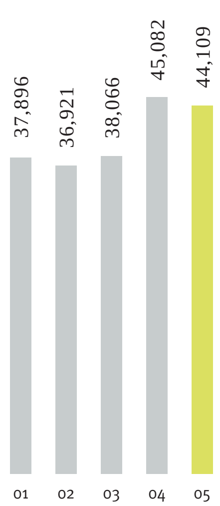
Our Value

CONSOLIDATED FINANCIAL HIGHLIGHTS

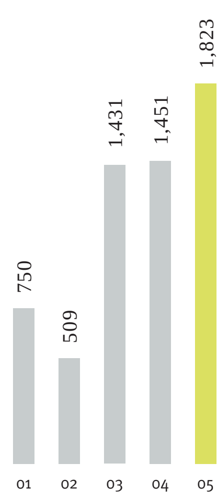
Years ended March 31,	Millions of yen 2001	2002	2003	2004	2005	Thousands of U.S. dollars (Note 1) 2005
Net Sales	¥37,896	36,921	38,066	45,082	44,109	$410,737
Operating Income	2,399	1,983	3,798	3,419	3,748	34,902
Net Income	750	509	1,431	1,451	1,823	16,978
R&D Expenses	343	408	490	413	423	3,938
Capital Expenditures	1,600	1,137	733	404	880	8,194
Total Assets	34,382	32,921	34,732	36,269	36,959	344,158
Shareholders' Equity	25,782	25,606	26,048	26,693	27,449	255,603
Equity Ratio (%)	75.0	77.8	75.0	73.6	74.3	—
ROE (Note 2)	2.90	1.99	5.50	5.50	6.74	—
ROA (Note 3)	7.98	6.94	11.67	10.07	10.85	—
Per Share	Yen					U.S. dollars
Net Income	¥23.60	16.37	46.53	48.87	63.43	$0.59
Shareholder's Equity	822.21	833.01	874.85	924.33	957.45	8.92
Cash Dividends	8.00	8.00	10.00	17.00	22.00	0.20

Notes: 1. All dollar figures herein refer to U.S. currency. Yen amounts have been translated, for convenience only, at ¥107.39= $1, the approximate exchange rate on March 31, 2005.
2. ROE = Net Income / Shareholders' Equity
3. ROA = (Operating Income + Interest and Dividends Received + Purchase Discount) / Total Assets

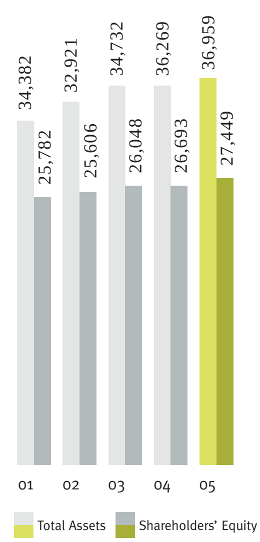
Net Sales
(Millions of yen)



Net Income
(Millions of yen)



Total Assets/ Shareholder's Equity
(Millions of yen)



The management reforms we have instituted over the past seven years or so have produced satisfactory results in the areas of management structure, product development, marketing, and brand power enhancement. We will boldly undertake additional reforms, and build a corporate structure that will allow higher management efficiency while increasing corporate value.

Grasping the Market and Operating Environments

Last year's drastic changes in Japan's capital markets have created an environment in which strong firms have become stronger. We believe this represents a significant opportunity for S.T. Chemical. Grasping the nature and direction of changes in the economic environment will allow us to become a stronger company, and to practice management that will raise our corporate value.

Downward pressure on consumer prices shows no sign of abating. With the exception of competing on the basis of price, we know of only one way to gain consumer demand for our products, and that is to create distinctive, high-value-added products in accordance with our guiding principle and motto, "Doing things no other company in the world does."

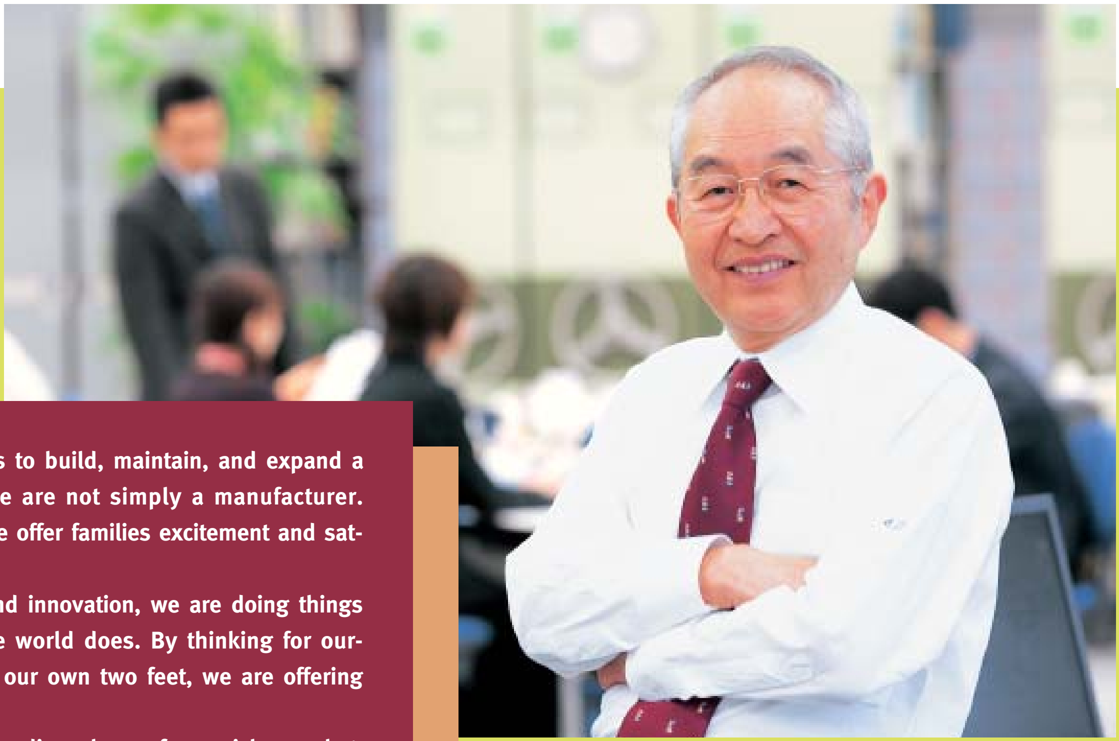
Performance

During fiscal 2005, ended March 31, 2005, net sales edged down 2.2% to ¥44.1 billion. This was primarily the result of declines in retail prices, the effects of the new requirement that products display prices inclusive of consumption tax, and the unusual weather during the past year. Although soaring crude oil prices drove up the cost of materials, operating income grew 9.6% to ¥3.7 billion, while net income jumped 25.6% to a record high of ¥1.8 billion. Taking market share as one axis and profits as the other, we were able to substantially increase our profit margins through the energetic implementation of management reforms focused on our core brands. We are moving toward our goal of becoming a sturdy and compact company.

The Aims of Management Reform

1. Becoming the top firm in the air care field

Sales of the Air Care Group accounted for 44% of total net sales for the fiscal year under review, making it the most significant of the Company's core businesses, and its primary focus. Our share of the market for air care products has grown steadily since I acceded to the presidency, and we are now in the number-two slot. Core brands such as Shoshu Riki, Shoshu Pot, and Shoshu Plug are performing well. We will continue to heighten our focus on the air care business in a drive to move into the number-one position.



- Our business objective is to build, maintain, and expand a solid customer base. We are not simply a manufacturer. Through our products, we offer families excitement and satisfaction.
- Emphasizing creativity and innovation, we are doing things no other company in the world does. By thinking for ourselves, and standing on our own two feet, we are offering distinguishing products.
- We aim to hold a commanding share of our niche market, and look to take full advantage of our strengths so that we can succeed.

2. Further strengthening brand power

During fiscal 2005 we concentrated management resources in core brand operations, and thoroughly enhanced our brand power. We improved leading air care products and linked those improvements to in-store campaigns and television commercials, thereby achieving a significant jump in sales. This clear strategy of focusing our efforts had solid effects. Our advertising capabilities received recognition when a study by the CM Research Center ranked us 34th out of about 2,000 Japanese companies for "Most Appealing Commercials." This was a dramatic jump from the previous year when we were placed 145th. This leap was the second largest of all Japanese companies.

We will continue to strengthen our brand power out of our conviction that "the strong become stronger."

3. Strategic alliances

Forging alliances is one of the most important strategies leading to growth. Up until the present, our central thrust has been increasing our corporate value by means of a product lineup that matches consumer needs, and we have sought alliances with selected domestic and overseas firms. Two such alliances are those with Sumitomo 3M and Fumakilla Indonesia (PT), which continue to function smoothly. Acting on the basis of this concept, we will in the future seek strategic alliances that employ the complementary strengths of S.T. Chemical and its alliance partners.

4. Shareholder returns and the investment environment

We take pride in the fact that our shareholder return policies are among the best of any Japanese company. This is the third consecutive fiscal year in which we have substantially increased dividends, increasing them from last term's ¥17 per share to ¥22, for a payout ratio of 42%. Together with this, we acquired 400,000 shares of treasury stock during fiscal 2005. With this purchase, we have acquired more than 15% of S.T. Chemical's issued and outstanding shares. To further benefit our shareholders, we have improved the investment environment for individual investors by reducing the number of shares that constitute a trading unit of our stock.

5. Shifting to a "company-with-committees structure"

In accordance with our emphasis on corporate governance in management, in June 2004 we shifted to a company-with-committees structure, which has allowed me as an executive to create a sense of urgency. To further increase management transparency and fairness, we have increased the proportion of outside directors on our board this year from 50% to a majority.

Current Management Issues

To avoid the risks associated with seasonal variations, we will expand our operations in the home care category to specialize in niche markets. If S.T. Chemical grows to the level of ¥100 billion in net sales, we will be able to carve out a considerable position in the home products industry.

Our human resources policies are characterized by a significant delegation of authority and responsibility in a participatory management structure. As a result of the recruiting of more women and hiring from outside the Company, we are steadily developing an increased depth of talent. Reform initiatives in the human resources area have made a considerable impact on the development of corporate culture and have played a large role in overall management reforms. We will continue with further changes.

Strategies in Fiscal 2006

Our management reforms have only just begun. Firstly, we are making progress with our strategy regarding the price of our stock, which is the most important management indicator. This is to say that we are striving to increase shareholder value.

Again this fiscal year we are emphasizing profits as a key factor in management decision making. It is essential that we discontinue general products that compete on the basis of low price and focus on unique products that enjoy both high value and high pricing. In this way we will cement a solid position for ourselves within the industry.

The innovations we have implemented to the present, in the areas of product development, marketing, and advertising, which were aimed at winning the top market shares for our core brands and achieving major enhancement in brand value, have shown major effects. Future innovation will target manufacturing operations, where further productivity gains are expected to bring significant increases in profit ratios resulting from the contraction of the cost of sales ratio.

Long-Term Vision

S.T. Chemical has succeeded in shifting its focus from the cloth care business, which had been one of the Company's most important operations since its establishment, to the air care business, which boasts a line of value-added products. I think it is critical to our future growth and development that we expand our presence in other home care markets. We can achieve major growth within a short period by uncovering promising niche markets and developing them.

We have adopted the slogan, "Refreshing the Air," for the entire Company. We want to refresh the air indoors and out. We want to refresh the air in homes, offices, and stores. By introducing more innovative products to the market under this new theme, I am hoping to eventually affect lifestyle changes in Japan as well as providing a strategic vision for S.T. Chemical.

I ask for your continued support and understanding of the Company's management strategy.

July, 2005

Takashi Suzuki

Takashi Suzuki
President and Chief Executive Officer
Chairman of the Board

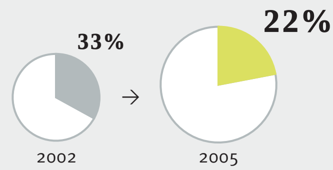
S.T. Chemical products bring a touch of excitement to everyday life. Product development emphasizes the value of understanding through listening, seeing, and using, delivering unique products that are both exciting and beneficial. We have adopted the slogan of “Refreshing the Air” pursuing innovative product development as we strive to create a powerful brand.

CATEGORY | CATEGORY SHARE | MAJOR BRANDS

MOTHPROOFING AND HYGIENE-RELATED PRODUCTS

Cloth care (mothproofing agents)

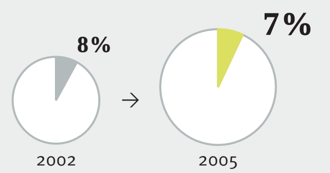
Composition of Net Sales



- Mushuda
- Neopara

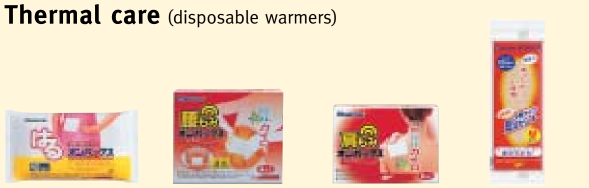
Hand care (gloves)

Composition of Net Sales

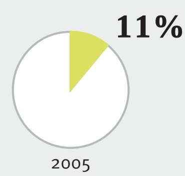


- Family

Thermal care (disposable warmers)



Composition of Net Sales

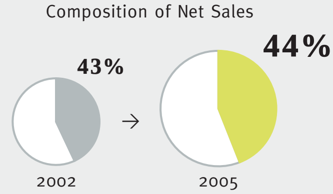


- Onpacks

HOUSEHOLD ENVIRONMENT-RELATED PRODUCTS

Air care (deodorizers and air fresheners)

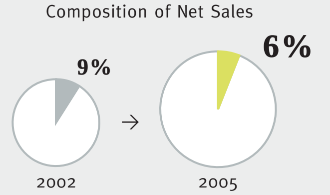
Composition of Net Sales



- Air Wash
- Shoshu Riki
- Shoshu Pot
- Shoshu Plug
- Dasshutan

Humidity care (dehumidifiers)

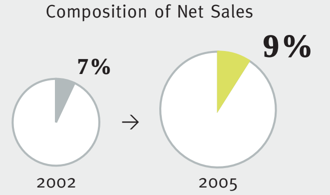
Composition of Net Sales



- DryPet

Home care (other products)

Composition of Net Sales



- Finish
- Powers
- Kome-Touban
- Scotchgard
- Nexcare

HIGHLIGHTS OF FISCAL 2005

Net sales in the Cloth Care Group declined 7.5% to ¥9,861 million, affected by a shrinking market scale caused by a shift in product-use cycles—previously, six months, now 12 months—and by low temperatures from February to March of this year. While the cost of some raw materials increased due to rises in crude oil prices, S.T. Chemical made vigorous efforts to decrease other raw material costs, improve cost of sales through more efficient production, and slash selling, general and administrative costs. As a result, income in the Cloth Care Group rose and supported other business segments.

Net sales in the Hand Care Group decreased 8.5% to ¥3,166 million. Though industrial gloves led a slight increase in sales volume, overall sales results dropped due to the influence of price reductions for glove shipments to a joint-venture sales subsidiary, established in August 2004.

The Thermal Care Group commenced operations in July 2003, and product returns that did not occur in April to June of the previous year were concentrated in April to June of the fiscal year ended March 31, 2005. This caused negative net sales figures for the first quarter of the fiscal year under review. In addition, an unseasonably warm winter and other adverse weather conditions contributed to the drop in net sales of the Thermal Care Group, finishing at ¥4,871 million, down 14.7% from a year earlier.

Sales volume of core brands Shoshu Riki and Shoshu Pot rose significantly and contributed to income growth, supported by product upgrades and by concentrated advertising investment. Moreover, core brands in the Air Care Group increased their market share, including for refrigerator deodorizer Dasshutan. As a result, sales in the Air Care Group rose 5.1% compared with the previous fiscal year to ¥19,457 million.

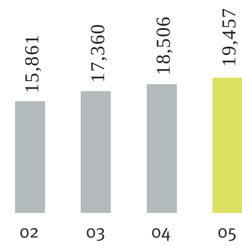
Net sales in the Humidity Care Group fell 15.8% from the previous fiscal year to ¥2,592 million. Primary causes of the decrease were stiff pricing competition from other makers and the unavoidable drop in volume caused by the dry rainy season. Operating income rose in this group, however, on the back of marketing policies formulated for the securing of profits.

Net sales in the Home Care Group climbed 13.4% to ¥4,159 million. Products that recorded sales growth included Finish, a dishwashing powder for automatic dishwashers that saw market expansion, and Kome-touban, used to repel insects from uncooked rice. Sales of a new bathtub cleaner released in September 2004 were also strong.
In addition, products that we market in an agreement with Sumitomo 3M continued to contribute to sales growth, including the Scotchgard brand of products that we began marketing in August 2004.

AIR CARE (Deodorizers and Air Fresheners)

Air Wash | Shoshu Riki | Shoshu Pot | Shoshu Plug | Dasshutan

Net Sales
(Millions of yen)



Air Care is one of S.T. Chemical's core businesses, and the Company is increasing sales in this area as its market share steadily expands. Last year the Company concentrated management resources in core brands, while coordinating product development, advertising, and in-store promotions. As a result, sales of our three major air care products, Shoshu Riki, Shoshu Pot, and Shoshu Plug jumped 120% in comparison to the previous fiscal year. Acting on the basis of our "Refreshing the Air" concept, we have introduced several new products and have created new markets for them. Among these are the new Air Wash products, which have antibacterial and deodorizing capabilities, and the battery-powered Shoshu Plug, which requires no electrical outlet. These products are selling well.

CLOTH CARE (Mothproofing Agents)

Mushuda (for wardrobes) | Mushuda (for closets) | Mushuda (for drawers) | Mushuda Matomete Cover | Neopara Ace

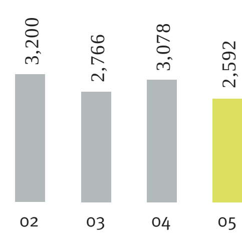
Net Sales
(Millions of yen)

The Cloth Care Group is second only to the Air Care Group as a marketing priority. Our Mushuda brand is trusted to protect clothing from insects, and enjoys a formidable level of customer loyalty. Again in fiscal 2005, this brand displayed strong market presence and held the top share of its market. We expanded our product lineup in response to the diversification of clothing-storage methods, introducing Mushuda Fan for walk-in closets, a battery-operated unit with an integral fan designed for large storage spaces, and Mushuda Matomete Cover, a covering for clothing storage that contains mothproofing agents. This, together with strong marketing efforts, gave us the lead in the mothproofing agent market. The Neopara line, with its traditional Japanese paper and trusted orange packaging, has for many years been a familiar sight to consumers.

HUMIDITY CARE (Dehumidifiers)

DryPet (for wardrobes) | DryPet Futon Kaiteki Sheets | Binchotan DryPet | DryPet Compact

Net Sales
(Millions of yen)



Since DryPet dehumidifiers went on sale in 1981, they have continuously led the market. Our broad lineup includes products for different locations and applications, including DryPet Compact, with its environmentally conscious design, dehumidifier sheets for drawers and casings for clothes, and Futon Kaiteki Sheets for placing underneath bedding. Last fiscal year we introduced Binchotan DryPet, which has increased absorbency and contains binchotan, a high-quality charcoal, which gives it deodorizing effects. Together with unpleasant odors, this high-value-added product also adsorbs formaldehyde and other chemicals.


R&D

HAND CARE (Gloves)

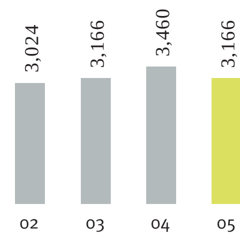

Family Chamomile


Family Squalene


Family Thin
PVC Gloves


Family Middle
Thick PVC Gloves

Net Sales
(Millions of yen)



The Family series of household gloves are high-value-added products that not only protect the hands, but soothe the skin. S.T. Chemical is meeting customer needs and heightening its brand value through the development of unique products, such as its series of fingertip-reinforced regular household gloves, gloves with squalene additives that are gentle on the hands, and high-value-added gloves with chamomile extract in a special foam layer that is gentle on the skin and prevents hands from becoming hot and sticky.

HOME CARE (Cleaners and other products)


Finish

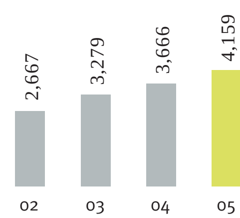

Ultra Powers


Kome-Touban


Scotchgard


Nexcare

Net Sales
(Millions of yen)



The Home Care Group handles various products that have special characteristics. Among these are Finish, a dishwashing powder for automatic dishwashers; Ultra Powers, which cleans washing machine tubs; Senjotan for cleaning household drain pipes; Kome-touban, to protect uncooked rice from insects; and Sarayu Fukkatsu, which keeps the water in a Japanese bath clean. S.T. Chemical is also taking concrete steps to expand its product lineup through an alliance with Sumitomo 3M, including Scotchgard water and oil repellent and Nexcare brand bandages.

THERMAL CARE (Disposable warmers)

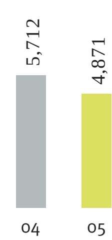

Haru-Onpacks


Koshimomi-Onpacks


Katamomi-Onpacks


Ashipoka-Sheet
(for feet)

Net Sales
(Millions of yen)



In July 2003, S.T. Chemical began marketing Onpacks brand disposable warmers manufactured by Mycoal Corporation. Today the product line includes Katamomi-Onpacks (for the back) and Koshimomi-Onpacks (for shoulders) with gel containing aloe supplements that can be placed directly on the skin.

THE PATH OF INNOVATION TO "REFRESHING THE AIR"

In January 2004, S.T. Chemical adopted a new slogan, "Refreshing the Air." The new slogan represents our desire to bring a greater level of comfort into our customers' lives, improving not only the air and atmosphere of stores, homes, and workplaces, but of the entire Japanese society. Working in unity under this slogan for the benefit of our customers, we will continue with our assorted projects, embellishing them and pursuing innovation in all of our business activities.

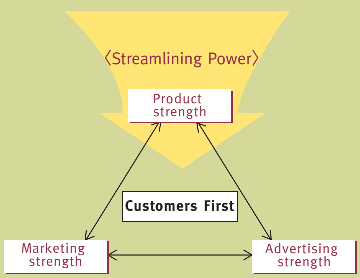
Air Care Group

● Looking at the composition of our net sales in fiscal 2000, the Air Care Group at 31% of total net sales was second to the Cloth Care Group, which held 43%. In order to turn the air care business into the backbone of the Company's operations, we carried out in-store promotions linked with product development and advertising efforts. As a result, air care products grew to hold the number-one position in the composition of net sales in fiscal 2002. In the fiscal year under review, we purposefully concentrated management resources on our three core brands, Shoshu Riki, Shoshu Pot, and Shoshu Plug. At the same time that we enhanced the brand value, we also succeeded in expanding sales and market share.

A Refreshing Approach to Corp

Marketing Innovations

● As a result of our focused efforts during the fiscal year under review to link product development, television commercials, and in-store promotional activities, we achieved significant sales increases in our three core brands, Shoshu Riki, Shoshu Pot, and Shoshu Plug.



● A study by the CM Research Center ranked us 34th out of about 2,000 Japanese companies for "Most Appealing Commercials, 2004" for our television commercials promoting our Shoshu Pot, Shoshu Riki, and Mushuda products. This was a dramatic jump from the previous year, marking the second largest jump of all Japanese companies covered in the study.


Shoshu Pot commercial


Shoshu Riki commercial


Mushuda commercial

Management Innovation

● In June 2004, we shifted to a company-with-committees structure with the aim of enhancing the speed of decision-making and flexibility of operations, and increasing management transparency and fairness. We established a Nominating Committee, an Auditing Committee, and a Compensation Committee, each of which are over half composed of outside directors in order to create a more effective management oversight structure.

Reducing the Number of Shares in a Trading Unit

● S.T. Chemical recognizes that reducing the number of shares in trading units of stocks is an effective means of increasing the liquidity of stocks in the market, in that it creates an environment in which it is easier to invest in stocks. For this reason and to make our stock attractive to individual investors, following a comprehensive analysis of our stock price, number of shareholders, and financial position, on October 1, 2004 a trading unit of stock was reduced from 1,000 shares to 100 shares.

Alliances

● S.T. Chemical is actively forming alliances with firms that can make effective use of its marketing capabilities. With the cooperation of foreign companies, S.T. Chemical is domestically marketing “Finish” brand dishwashing powder for automatic dishwashers made by Reckitt Benckiser plc. and “Ambi-Pur Fresh,” an on-tank aromatic toilet cleanser produced by Sara Lee. Furthermore, the Company has an agreement with Mycoal Corporation, a Japanese company, covering the marketing of their Onpacks disposable chemical warmers.

In 2004, S.T. Chemical tied up marketing operations with Sumitomo 3M to sell popular home-use products such as Scotchgard, a water and oil repellent, and Nexcare brand bandages. In July 2004, the two companies established a joint-venture sales subsidiary to market Sumitomo 3M’s Scotch-Brite sponges, and S.T. Chemical’s Family Gloves, Zippers, Gekipika and other attractive products. Then, in January 2005, we commenced the manufacturing and sales of aromatic deodorizers through a tie-up with Fumakilla Indonesia (PT). The rapid expansion of Indonesia’s middle-income stratum is forecast to elicit growth in demand.

orate Strategy

Research and Development

● The Company released Air Wash in February 2005, and this product is quickly creating a new market for itself. With ingredients primarily composed of water and air, the addition of Shoshu Riki’s deodorizing technology gives this breakthrough product the ability to “Wash the Air.” Its ultrafine mist contains antibacterial and deodorizing properties that cleanse the air of foul odors and airborne bacteria, and work to eliminate adhesive bacteria from floors and other surfaces.

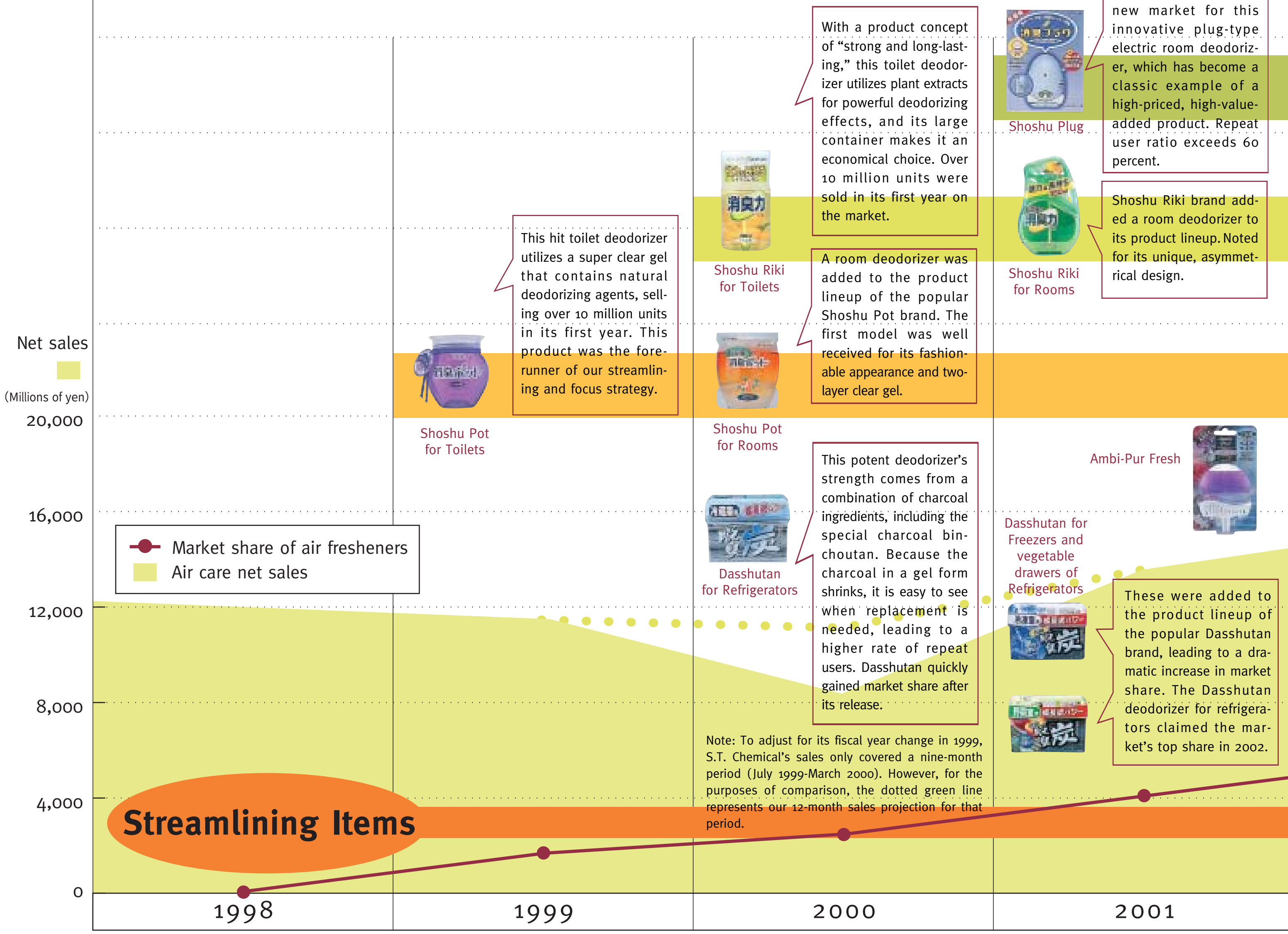
● In 2004, to strengthen the three existing core brands, Shoshu Pot, Shoshu Riki, and Shoshu Plug were upgraded with new fragrances added to the lineup. By closely linking marketing and advertising activities, sales and market share were significantly increased.

Japan Aroma Laboratory Co., Ltd.

● Japan Aroma Laboratory Co., Ltd. was established in January 2004 to meet a need for more sophisticated product development in the air care business. This institution is engaged in specialized research, which is focused on the scientific study of air quality from a variety of perspectives. S.T. Chemical will leverage business synergies and promote research and development that focus on products that not only deodorize the air, but also gently stimulate and relax the mind and body. Moreover, research successes attained through ties with research institutions not affiliated with S.T. Chemical are widely publicized, and are used as a basis for making sweeping proposals.

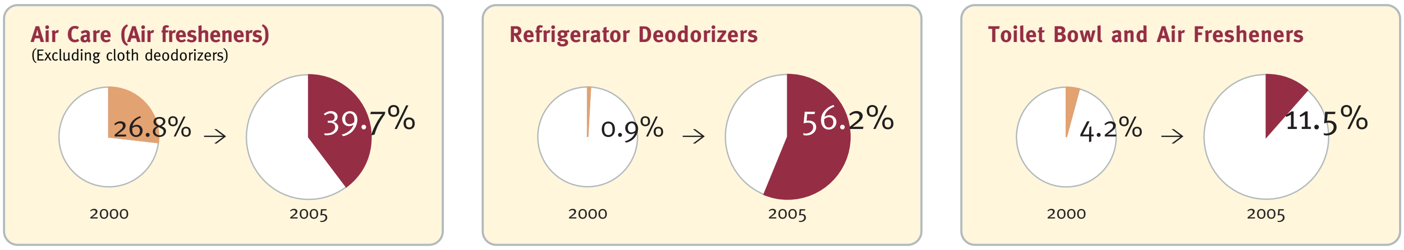
AIR CARE PROJECT: CREATING AND NURTURING A POWER BRAND

S.T. Chemical has carried out vigorous efforts to build and implement a comprehensive strategy for the expansion of its air care business, and it is through these efforts that the Company has attained the market share that it enjoys in the industry today. Since 1998, The Company has fostered the creation of power brands by significant streamlining of its product lineup and focusing on management resources to strengthen core businesses. Under the slogan of “Refreshing the Air” since 2004, S.T. Chemical has been striving to further strengthen its business platform centered on the air care business, and is actively promoting the growth and strength of Company brands.



Market Data

SRI Monthly Data
Period: 2000: April 1999 - March 2000 / 2005: April 2004 - March 2005
Area: Japan, by market category



"Refreshing the Air"

2002


Shoshu Plug for Pets

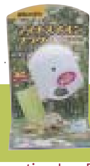

Shoshu Plug for Cars


Shoshu Riki Toilet Spray

The Shoshu Riki brand was complemented with a newly developed wide-angle jet spray deodorizer for the toilet. Unpleasant odors are rapidly extinguished with a spray field covering triple the area of conventional products. Sanitizing agents are also included.

Japan's first liquid, on-tank aromatic toilet cleanser, released in alliance with Sara Lee Corporation. S.T. Chemical and Sara Lee also jointly developed a holder to fit on the tank of Japanese toilets.

2003


Negative Ion Plug

Our second plug-type electric room deodorizer, this product is equipped with a negative ion generator—the world's smallest at the time. Though this is a higher-priced product, it is also a unique, high-value-added item, and its market is expanding.


Shoshu Riki for Rooms

The Company began selling seasonal fragrance items in 2002, leading to a significant increase in consumer interest in deodorizers and contributing to the expansion of the market. (Photo: 2002 sunflower scented deodorizer)

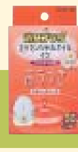

Shoshu Pot for Rooms

Shoshu Pot Room was upgraded with a new design and fragrance, based upon principles of aromatherapy. A mild fragrance creates a healing, relaxing mood.

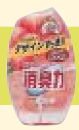

Ambi-Pur Fresh, Perfume Selection

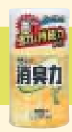
2004

Renewal of Three Core Brands


Shoshu Plug Essential Oilln

Refreshing oil essences are included in the fragrance blend, and refill packs are attached. Pure oils extracted from herbs and plants make for a room refreshing both in body and in mind. The lemon grass fragrance enhances refreshment and the chamomile fragrance relaxes.


Shoshu Riki for Rooms


Shoshu Riki for Toilets


Shoshu Pot for Toilets


Shoshu Pot for Rooms

The three core brands of Shoshu Pot, Shoshu Riki, and Shoshu Plug were upgraded with new fragrances added to the lineup. Under the concept of "Refreshing the Air," product development, advertising, and sales promotion were closely linked, and sales and market share were significantly increased.

This luxurious European fragrance comes in a fine pearl design and pastel color, drawing a clear distinction between existing products. This product creates a more comforting toilet environment.

2005


Air Wash

The Company created a new market under the product concept of "Wash the Air," unveiling this unique product that eliminates foul odors and bacteria with an ultra-fine mist.


Battery-Powered Shoshu Plug

A battery powered Shoshu Plug was added to the lineup for use anywhere. It is effective in wide spaces due to the utilization of a newly developed 360-degree rotating fan based on microcomputer control technology. This product is contributing to the rapid market share increase of the Shoshu Plug series.


Blue Enzyme Power Bleaching Plus

This two-in-one type power cleaner contains both enzyme and bleaching ingredients. Annual sales of this product series exceed 10 million units per year.

Share (%)

40

35

30

25

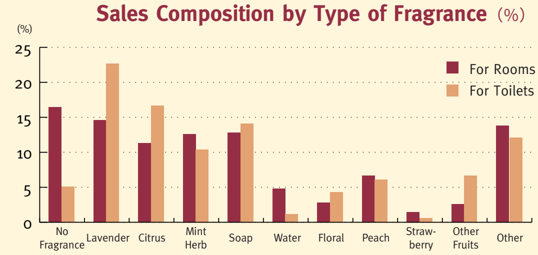
2002 2003 2004 2005

Shifts in the Fragrance Business

—Increasing popularity of sweet fruit-based scents—

Consumer preferences are undergoing significant changes from "fresh" fragrances such as "green" and "citrus" to sweeter floral and fruity fragrances. In recent years the market for grapefruit and orange scented deodorizers has been growing. The market in the years to come is expected to continue seeing growth in the areas of juicy fruit scents and mixed fruit scents.

Sales Composition by Type of Fragrance (%)



Net sales

In the fiscal year ended March 31, 2005, consolidated net sales fell ¥973 million, compared with the previous fiscal year, to ¥44,109 million. Results are attributed to continued intense competition, a drop in product prices, and inclement weather, culminating in overall difficult operating conditions. In the Air Care Group (deodorizers and air fresheners), sales of mainstay brands including Shoshu Riki, Shoshu Pot, and Shoshu Plug were strong, underpinning a significant increase in sales. Performance was also buoyed by robust sales of new products by the Home Care Group. Results of the Cloth Care Group (mothproofing agents), however, were depressed as the market continued to shrink due to the shift in consumer demands from six-month to 12-month products and the unusually low temperatures in spring. Sales of this segment fell below the previous fiscal year's level. Sales of the Thermal Care Group (disposable warmers) were also weak impacted by the warm winter. Having commenced operations in July 2003, conditions were further exacerbated by the return of merchandise from the April through June quarter, which the Company did not experience in the previous fiscal year. Sales in the Humidity Care Group (dehumidifiers) were poor again affected by the unusual weather conditions, particularly the absence of the customary *baiu* (rainy season).

Cost of sales

The cost of sales declined ¥483 million, or 1.9% year on year, from ¥24,973 million to ¥24,490 million. Despite the sharp increase in crude oil prices and the general trend toward rising material costs, the drop in the cost of sales is attributed to Company-wide efforts to reduce costs. During the six-year period, which commenced in 1999, the Company worked diligently to streamline its new product lineup and reduce inventories. At the same time, efforts were made to standardize production reducing the adverse impact of material costs due to changes in seasonal demand. As a result of these initiatives, the cost of sales has improved significantly, particularly in the mainstay categories of Cloth Care and Air Care.

Operating income

Notwithstanding the drop in total net sales, strong performances in the Air Care and Home Care Groups contributed to an increase in earnings. Income also benefited from improvements in the cost of sales, while an overall reduction in operating costs offset the increase in advertising and promotion expenses. For the fiscal year under review, selling, general and administrative (SG&A) expenses declined 4.7% year on year.

As a result of these factors, operating income rose 9.6%, compared with the previous fiscal year, to ¥3,748 million. Research and development expenses, one element of SG&A, edged up 2.4% to ¥423 million.

Other income (expenses)

Other expenses fell 19.8% to ¥540 million. Major components were interest received, which surged ¥11 million, or 41.1%, cash purchase discounts, which rose ¥16 million, or 8.5%, and cash sales discounts, which climbed ¥15 million or 1.9%. In the fiscal year under review, the Company also recorded a loss on sales of fixed assets totaling ¥56 million.

Net income

Net income increased ¥372 million, or 25.6%, compared with the previous fiscal year, to ¥1,823 million. Income before income taxes and minority interests was ¥3,209 million, up ¥463 million from last fiscal year's ¥2,746 million. Net income per share was ¥63.43, a significant rise from ¥48.87 in the previous fiscal year.

Financial position

Total assets rose ¥690 million to ¥36,959 million as of the end of the fiscal year. Current assets also expanded ¥1,244 million, or 5.8%, to ¥22,784 million. Major components were cash and time deposits, which jumped 18.9% to ¥10,456 million, and inventories, which edged up ¥100 million to ¥3,769 million.

Total fixed assets declined ¥554 million, or 3.8%, to ¥14,175 million. Investments and other assets also declined

¥435 million, or 6.8%, to ¥5,933 million. This is mainly attributed to a drop in investment securities.

Current liabilities edged up ¥23 million, or 0.3%, compared with the previous fiscal year-end. The increase in trade payables was offset by a drop in other payables.

During the fiscal year under review, the Company acquired 400,000 shares of treasury stock for a cumulative total as of the end of the fiscal year of 5,180,000 shares with a value of ¥4,100 million. Of this total, the Company has retired 3,180,000 shares of treasury stock for a balance as of March 31, 2005 of 1,670,000 shares.

Capital expenditures

Capital expenditures more than doubled from ¥404 million in the previous fiscal year to ¥880 million. Investment in the Household Environment-Related Products segment made up more than 90% of capital expenditure while the residual was directed toward the Mothproofing and Hygiene-Related Products segment.

Cash flows

During the fiscal year ended March 31, 2005, net cash provided by operating activities increased ¥307 million to ¥2,970 million. Sources of cash included income before income taxes and minority interests to ¥3,209 million, an increase of ¥463 million. The net balance between receivables and payables and accrued expenses was a cash inflow of ¥537 million. This was an improvement of ¥161 million compared with the previous fiscal year.

Net cash used in investing activities was ¥923 million, down from net cash used of ¥1,964 million in the previous fiscal year. This was mainly attributable to the reduction of investment in corporate bonds totaling ¥720 million.

Net cash used in financing activities improved ¥164 million to ¥1,185 million. The principal component was payments of dividends, which totaled ¥576 million an increase of ¥191 million from ¥385 million in the previous fiscal year. Acquisition of treasury stock amounted to ¥572 million, down ¥380 million year on year.

Accounting for all these factors, cash and cash equivalents increased ¥861 million at the end of the fiscal year totaling ¥9,633 million.

Financial indicators

Despite ongoing efforts to reduce the number of products in its lineup, the Company has continued to allocate management resources in selected areas. As a result ROE improved from 5.5% to 6.7% and ROA increased from 10.07% to 10.85%. Shareholders' equity per share of common stock rose from ¥924.33 to ¥957.45. The shareholders' equity ratio climbed to 74.3%, while the interest coverage ratio was 2,623.4 times.

Dividends

Management has raised the year-end dividend by ¥2 to ¥12 per share. The annual dividend, including the interim dividend of ¥10 per share, will therefore be ¥22 per share, up ¥5 from ¥17 per share for the previous fiscal year. On a non-consolidated basis, the dividend payout ratio was 42%.

I have long believed in such wisdom as, "even in harmony there are always differences" and "store up virtues in heaven." With those thoughts, as moral support, I will express my opinions frankly, in order to fulfill my duties.

Yasushi Kajiwara (Born on March 13, 1935)

April 1958 Joined The Industrial Bank of Japan, Ltd.
June 1989 Assumed position of Managing Director of the Bank
June 1997 Joined TOSOH Corporation as Senior Managing Director
June 1999 Assumed position of Deputy President of the Company
June 2001 Joined Center for Global Communications (GLOCOM), International University of Japan as a fellow (Current position)
June 2004 Joined S.T. Chemical as an outside director (Current position)

Q. What were your feelings when appointed an outside director of the Company?

A. Amid ongoing discussions surrounding corporate governance, I was most interested in the background behind the Company's early adoption of a company-with-committees structure and of course the expectations that I would face in accepting this appointment. Management transparency and its fundamental philosophy are critical to further development as an open and fair corporation. I was naturally keen to assess the philosophy of S.T. Chemical. In contrast to the U.S. model, which focuses on shareholder returns, President Suzuki clearly favors the European model, which emphasizes stakeholder benefits, comprising shareholders, customers, trading partners and employees. In this regard, I am in complete agreement and confident I can contribute to the Company, making the most use of my experiences in various fields.

Q. There are concerns that outside directors will be of limited benefit to the Company, because of their limited knowledge of the Company. How would you respond to this thought?

A. The position of outside director is occasionally referred to as "independent director." Certain critics argue that this independence is inversely proportional to the knowledge one has of the company and its industry. This premise is continually debated in the United States, too. Others argue, however, that too much knowledge about the company can create hesitation and difficulties when determining issues of a complex nature. Take the business practice of rebates as one example. A simple question may arise, such as "Rebates are counter-productive, so shouldn't we stop them?" Comparison with other industries, in Japan and overseas, provides us a chance to question the status quo and wrestle with the issues, which can then lead to reforms. Consequently, if I have a query, I believe it is my role and responsibility to introduce the issue for discussion and later to offer my thoughts and recommendations.

Q. As an outside director, what issues do you see as critical to the Company?

A. S.T. Chemical is in the business of improving living environments, an industry, which I believe, offers boundless opportunity for the Company to grow. From management's perspective, it is imperative we reevaluate our product development priorities and focus on securing concrete results. At those times, we should formulate strategies from a global perspective. Survival is an ongoing concern that will inevitably become increasingly important as competition intensifies both in Japan and overseas. To combat the threat of overseas competitors, we must focus on employee education and training, and on enhancing the moral of our staff. In order to earn the trust of stakeholders, we must clearly disclose the Company's future direction, maintain transparency in employee evaluation, and ensure the highest ethical behavior in management. In the field of R&D, I have high expectations for the outcome of the Japan Aroma Laboratory Co., Ltd.

Q. How would you evaluate the company-with-committees structure?

A. The company-with-committees structure, adopted from the U.S. system, remains open to conjecture. However, from the perspective of clearly separating the executive and supervisory functions and promoting procedures to ensure management transparency, I believe without argument, that progress has been made. Put simply, we should incorporate the underlying principles of this structure within the Company and establish a structure best suited to S.T. Chemical. Some would argue that any system starts getting out of dated, on the moment of its establishment. It is therefore prudent that we continuously assess the merits and demerits of each structure in order to maximize practical benefits.

FINANCIAL SECTION

Contents

CONSOLIDATED BALANCE SHEETS

S.T. CHEMICAL CO., LTD. and consolidated subsidiaries
March 31, 2005 and 2004

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 2)
	2005	2004	2005
Current assets:			
Cash and time deposits (Note 10)	¥ 10,456	¥ 8,795	$ 97,362
Marketable securities (Note 3)	3,000	3,236	27,932
Trade notes and accounts receivables	4,889	5,079	45,525
Less - allowance for doubtful receivables	(18)	(39)	(167)
Inventories	3,769	3,668	35,096
Deferred tax assets (Note 6)	353	366	3,287
Other current assets	336	434	3,128
Total current assets	22,784	21,540	212,164
Investments and other assets:			
Investments in non-consolidated subsidiaries and affiliates	204	174	1,903
Investment securities (Note 3)	3,513	3,957	32,710
Long-term loans	137	155	1,277
Deferred tax assets other than unrealized revaluation loss on land (Note 6)	160	132	1,493
Deferred tax asset - unrealized revaluation loss on land (Note 4)	72	71	668
Other assets	1,871	1,944	17,424
Less-allowance for doubtful accounts	(24)	(66)	(228)
Total investments and other assets	5,933	6,368	55,247
Property, plant and equipment, at cost (Notes 4 and 5):			
Land	3,404	3,477	31,694
Buildings and structures	6,102	6,138	56,819
Machinery, equipment and vehicles	7,760	7,883	72,260
Tools, furniture and fixtures	2,941	2,683	27,383
Construction in progress	10	10	92
Less accumulated depreciation	(12,198)	(12,037)	(113,589)
Property, plant and equipment, net	8,018	8,154	74,658
Intangible assets, net of accumulated amortization	224	207	2,089
Total assets	¥ 36,959	¥ 36,269	$ 344,158

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2005	2004	2005
Current liabilities:			
Short-term bank loans (Note 5)	¥ 3	¥ 51	$ 28
Current portion of long-term debt (Note 5)	—	31	—
Trade payables	4,417	4,075	41,133
Other payables	1,920	2,248	17,882
Income taxes payable (Note 6)	786	633	7,320
Consumption taxes payable	19	79	176
Accrued expenses	563	556	5,239
Allowance for sales returns	150	159	1,401
Other current liabilities	51	55	477
Total current liabilities	7,910	7,887	73,657
Long-term liabilities:			
Long-term debt, less current portion (Note 5)	—	35	—
Employees' retirement and severance benefits (Note 7)	1,002	1,038	9,330
Directors' retirement and severance benefits	77	102	720
Total long-term liabilities	1,079	1,175	10,050
Minority interests in consolidated subsidiaries	521	514	4,848
Contingent liabilities (Note 12)			
Shareholders' equity (Note 8):			
Common stock			
Authorized - 96,817,000 shares in 2005 and in 2004			
Issued and outstanding - 30,346,851 shares in 2005 and 2004	7,066	7,066	65,793
Capital surplus	7,068	7,068	65,814
Retained earnings	14,891	13,722	138,662
Unrealized revaluation loss on land, net of taxes (Note 4)	(108)	(107)	(1,002)
Unrealized holding profit on securities, net of taxes	519	582	4,832
Translation adjustments	(359)	(363)	(3,342)
Treasury stock, at cost	(1,627)	(1,275)	(15,153)
Total shareholders' equity	27,449	26,693	255,603
Total liabilities and shareholders' equity	¥ 36,959	¥ 36,269	$ 344,158

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

S.T. CHEMICAL CO., LTD. and consolidated subsidiaries
For the years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2005	2004	2005
Net sales	¥ 44,109	¥ 45,082	$ 410,737
Cost of sales	24,490	24,973	228,049
Gross profit before reversal of allowance for sales returns	19,619	20,109	182,687
Reversal of allowance for sales returns	8	(30)	76
Gross profit	19,627	20,079	182,764
Selling, general and administrative expenses (Note 9)	15,879	16,660	147,862
Operating income	3,748	3,419	34,902
Other income (expenses):			
Interest and dividends received	56	45	519
Interest expenses	(1)	(4)	(11)
Cash purchase discount	205	189	1,912
Cash sales discount	(825)	(810)	(7,681)
Profit on sales of securities, net	1	17	13
Equity in income (loss) of affiliates	19	(9)	180
Write-down of securities	(9)	(3)	(88)
Other, net	14	(96)	131
	(540)	(673)	(5,024)
Income before income taxes and minority interests	3,209	2,746	29,878
Income taxes (Note 6)			
Current	1,283	1,273	11,946
Deferred	28	(29)	258
	1,311	1,244	12,204
Minority interests	75	51	695
Net income	1,823	1,451	16,978
Retained earnings at beginning of year	13,722	12,694	127,781
Increases:			
Reversal of unrealized revaluation loss on land, net taxes	0	0	6
Decreases:			
Cash dividends paid	576	385	5,363
Bonuses to directors	16	17	145
Redemption or disposition of treasury stock	64	21	595
Retained earnings at end of year (Note 8)	¥ 14,891	¥ 13,722	$ 138,662

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

S.T. CHEMICAL CO., LTD. and consolidated subsidiaries
For the years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2005	2004	2005
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 3,209	¥ 2,746	$ 29,878
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	845	867	7,871
Loss on sale of property, plant and equipment	51	5	471
Gain on sale and valuation of marketable securities	(1)	(4)	(13)
Loss (profit) on sale and valuation of investment securities	9	(9)	88
Decrease of allowance for doubtful receivables	(62)	(12)	(578)
Decrease of employees' retirement and severance benefits	(37)	(21)	(343)
(Decrease) increase of directors' retirement and severance benefits	(24)	14	(228)
(Decrease) increase of allowance for sales returns	(8)	30	(76)
Interest and dividends received	(56)	(45)	(519)
Interest expense	1	4	11
Foreign exchange loss	(3)	38	(30)
Equity in (income) loss of affiliates	(19)	9	(180)
Change in operating assets and liabilities:			
Receivables	235	(539)	2,191
Inventories	(97)	(29)	(900)
Payables and accrued expenses	302	915	2,809
Others, net	(296)	297	(2,760)
Sub total	4,048	4,266	37,692
Interest and dividends received	54	42	500
Interest paid	(1)	(4)	(11)
Income taxes paid	(1,130)	(1,641)	(10,524)
Net cash provided by operating activities	2,970	2,663	27,658
Cash flows from investing activities:			
Deposit of time deposits (more than 3 months)	(800)	(22)	(7,450)
Purchase of marketable securities	(979)	(376)	(9,116)
Proceeds from sale of marketable securities	2,350	2,555	21,879
Purchase of property, plant and equipment	(705)	(382)	(6,565)
Proceeds from sale of property, plant and equipment	114	52	1,059
Purchases of investment securities	(841)	(2,165)	(7,831)
Proceeds from sale of investment securities	—	67	—
Other investments, net	(62)	(1,694)	(574)
Net cash provided by (used in) investing activities	(923)	(1,964)	(8,598)
Cash flows from financing activities:			
Increase in bank loans	22	—	207
Repayments of bank loans and current portion of long-term debt	(70)	(48)	(654)
Increase in long-term debt	—	22	—
Repayment of long-term debt	(69)	(76)	(638)
Purchase of treasury stock	(572)	(952)	(5,327)
Proceeds from sale of treasury stock	156	97	1,453
Payments of dividend	(576)	(385)	(5,363)
Payments of dividend to minority shareholders	(77)	(8)	(716)
Net cash used in financing activities	(1,185)	(1,349)	(11,039)
Effect of exchanges rate change on cash and cash equivalents	(0)	(9)	(5)
Net increase (decrease) in cash and cash equivalents	861	(659)	8,016
Cash and cash equivalents at beginning of year	8,772	9,431	81,684
Cash and cash equivalents at end of year (Note 10)	¥ 9,633	¥ 8,772	$ 89,701

See notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

(a) Basis of presentation

The accompanying consolidated financial statements of S.T. Chemical Co., Ltd. (the "Company") and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are complied from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of 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 for the year ended March 31, 2005 and 2004 include the accounts of the Company and its five significant subsidiaries. All significant inter-company 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 two overseas subsidiaries have fiscal years ending on December 31. The necessary adjustments for significant transactions, if any, during the intervening period 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 the overseas consolidated subsidiaries, etc., except for the components of shareholders' equity, are translated into yen at the rates of exchange in effect at the balance sheet date. Foreign exchange gains and losses are credited or charged to operations and 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 determinable market value are carried at market value with any changes in unrealized holding gain or loss, net of the related deferred income tax assets, in shareholders' equity. Other securities without determinable 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 years ended March 31, 2005 and 2004, the Company and its consolidated subsidiaries did not have any trading securities.

(f) Inventories

Inventories of the Company and its 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 its domestic subsidiaries except for buildings (excluding structures attached to the buildings) 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 the 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 applicable to commercially available software.

(i) Allowance for doubtful receivables

The Company and its domestic subsidiaries provide allowances for estimated 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 uncollectible amounts.

(j) Allowance for sales returns

The allowance for sales returns is generally provided for losses on sales returns subsequent to the balance sheet date at an amount equivalent to that calculated based on sales in conformity with the Corporation Tax Law of Japan.

The allowance for certain products is estimated based on the actual percentage of returns in prior years.

(k) Employees' retirement and severance benefits

Accrued retirement and severance benefits are provided based on the estimated retirement and severance benefit obligation and the pension fund 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 if all directors resigned from their positions at left the Company as of the balance sheet date in accordance with internal regulations.

(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 taxes imposed on the Company's and its subsidiaries' sales to customers are withheld by the Company and its subsidiaries at the time of sale and subsequently paid to the government. Consumption taxes withheld upon sale are not included in net sales in the accompanying statements of income, but are recorded as a liability, "consumption taxes payable." Consumption taxes which are paid by the Company and its subsidiaries on the purchases of goods and services from outside the group are also not included in costs or expenses in the accompanying statements of income, but are offset against consumption taxes payable. The net balance is reflected as consumption taxes payable in the accompanying consolidated balance sheets at March 31, 2005 and 2004.

(o) Valuation of assets and liabilities of consolidated subsidiaries

Assets and liabilities of the consolidated subsidiaries acquired before April 1, 1999 have been valued at cost. It is the Company's policy to value assets and liabilities of subsidiaries acquired on and after April 1, 1999 at fair value when the Company obtains control over such subsidiaries, however, 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 a maturity of three months or less from their date of acquisition.

2. Basis of Translation

The consolidated financial statements presented herein are expressed in yen and, solely for the convenience of the reader, have been translated into U.S. dollars at ¥107.39 =U.S.$1.00, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market on March 31, 2005. This translation should not be construed as a representation that the amounts shown could have been , or could in the future be, converted into U.S. dollars at that or any other rate.

3. Marketable Securities

The cost and related aggregate market value of other securities with a determinable market value at March 31, 2005 and 2004 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Cost	¥ 3,935	¥ 4,361	$36,645
Market value	4,800	5,331	44,698
Total unrealized gain	883	978	8,227
Total unrealized loss	19	7	174

The Company recognized impairment losses on securities at the difference between the market value and book value if the market value had declined by 30% or more from the book value. Impairment losses on securities for the years ended March 31, 2005 and 2004 were ¥9 million (U.S.$88 thousand) and ¥3 million, respectively.

Securities at March 31, 2005 and 2004 excluded from the above table are summarized at their respective book value as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Current assets:			
Unlisted investment trust certificates within the closed period	¥ 461	¥ 560	$ 4,294
MMF	1,170	1,170	10,896
Foreign securities	23	73	212
Unlisted stocks other than those traded on the over-the-counter market	58	58	541

In the years ended March 31, 2004, the Company recognized impairment losses on non-marketable securities of ¥0 million if the net book value had declined by 50% or more from the book value or if the issuers of the non-marketable securities went bankrupt or were substantially bankrupt.

Other securities sold during the years ended March 31, 2005 and 2004 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Proceeds received	¥ 2,350	¥ 2,622	$21,879
Total profit	1	17	13
Total loss	—	—	—

The redemption schedule of other securities with maturity dates at March 31, 2005 and 2004 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
One year and less	¥ 1,246	¥ 1,433	$11,598
More than 1 year and within 5 years	1,754	2,120	16,337
More than 5 years and within 10 years	—	—	—
More than 10 years	—	—	—

4. 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 taxes, is stated as unrealized valuation loss on land in shareholders' equity. Deferred tax assets arising from this revaluation are presented separately from deferred tax assets for other temporary differences in the accompanying balance sheets. The differences between the market value and the book value after revaluation were ¥278 million (U.S.$2,585 thousand) and ¥153 million at March 31, 2005 and 2004, respectively.

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

Short-term loans from banks at an average interest rate of 1.015% amounted to ¥3 million (U.S.$28 thousand) at March 31, 2005.

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

	Millions of yen
	2004
Loans, principally from banks, maturing in installments through 2008, at interests rate ranging from 2.7% to 3.0%	¥ 66
Less current portion	(31)
	¥ 35

Assets pledged as collateral at March 31, 2005 are presented below:

	Millions of yen	Thousands of U.S. dollars
Buildings and structures	¥ 77	$ 713
Machinery and equipment and vehicles	24	221
Land	35	329
Total	¥ 136	$ 1,263

6. Income Taxes

At March 31, 2005 and 2004, the tax effect of the temporary differences which gave rise to a significant portion of the deferred tax assets (excluding deferred tax on the unrealized revaluation loss on land) were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Current assets:			
Accrued employees' bonuses	¥ 159	¥ 174	$ 1,477
Allowance for sales returns	60	64	562
Write-down of securities	—	4	—
Accrued business taxes	45	53	420
Other	90	87	837
Total current deferred tax assets	354	382	3,296
Valuation allowance	—	(12)	—
Current liabilities:			
Deferred gain on sale of property	(0)	(0)	(4)
Unrealized holding profit on securities, net of taxes	(1)	(3)	(5)
Total current deferred tax liabilities	(1)	(3)	(9)
Net current deferred tax assets	353	366	3,287
Non-current assets:			
Allowance for employees' retirement and severance benefits	381	382	3,549
Allowance for directors' retirement and severance benefits	31	41	288
Write-down of securities	96	87	895
Other	33	29	305
Total non-current deferred tax assets	541	539	5,037
Non-current liabilities:			
Deferred gain on sale of property	(20)	(21)	(189)
Unrealized holding profit on securities, net of taxes	(345)	(385)	(3,216)
Other	(15)	—	(138)
Total non-current deferred tax liabilities	(381)	(406)	(3,544)
Net non-current deferred tax assets	¥ 160	¥ 132	$ 1,493

A reconciliation of the statutory tax rate to the Company's effective tax rate for the year ended March 31, 2004 is as follows :

	2004
Japanese statutory tax rate	42.00%
Permanent differences such as entertainment expenses, etc.	1.21
Permanent differences such as dividend income	(0.12)
Inhabitants' per capita taxes, etc.	0.82
Other	1.38
Effective tax rate	45.29%

No reconciliation has been presented for the year ended March 31, 2005 as the difference between the statutory tax rate and the effective tax rate was less than 5%.

7. Employees' Retirement and Severance Benefits

The Company and its domestic subsidiaries have defined benefits plans covering substantially all of its employees which are partially funded through a qualified funded pension plan as described in Note 1(k). Under these plans, employees are entitled to lump-sum or pension retirement or severance benefits, determined by points accumulated monthly based on the 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 such future payments since the amounts vary depending on the circumstances.

The following table summarizes the funding status and amounts recognized in the consolidated balance sheets at March 31, 2005 and 2004.

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Retirement and severance benefit obligation	¥ (2,695)	¥ (2,563)	$(25,091)
Plan assets	1,377	1,280	12,825
Unfunded benefit obligation	(1,317)	(1,284)	(12,266)
Unrecognized actuarial loss	332	292	3,088
Unrecognized past service obligation	(16)	(46)	(152)
Accrued benefit obligation	¥ (1,002)	¥ (1,038)	$ (9,330)

The following table summarizes the components of the net retirement benefit expenses for the years ended March 31, 2005 and 2004.

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Service cost	¥ 154	¥ 153	$ 1,432
Interest cost on benefit obligation	50	50	466
Expected return on plan assets	(26)	(33)	(238)
Amortization of actuarial loss	103	112	957
Amortization of past service obligations	(23)	(24)	(212)
Extraordinary additional retirement payments	0	35	4
Net retirement benefit expenses	¥ 259	¥ 294	$ 2,409

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

	2005	2004
Method of periodic allocation of estimated retirement benefits	Straight-line method	Straight-line method
Discount rate	2.0%	2.0%
Expected rate of return on assets	2.0%	3.0%

8. Shareholders' Equity

In accordance with the Commercial Code of Japan (the "Code"), the Company has provided a legal reserve which is included in retained earnings. The Code provides that an amount equal to at least 10% of the amount to be disbursed as a distribution of earnings be appropriated to the legal reserve until the total of such reserve and the additional paid-in capital account equals 25% of the common stock account.

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. At March 31, 2005, the legal reserve of the Company included in retained earnings amounted to ¥550 million (U.S.$5,120 thousand).

The accompanying consolidated financial statements do not include any provision for cash dividends of ¥10.00 (U.S.$0.09) per share totaling ¥344 million (U.S.$3,204 thousand) which were declared by the Company in June 2005.

The maximum amount which 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.

At March 31, 2005, the Company had stock option plans, which were approved at the annual general meetings of the shareholders and the Board of Directors as follows:

Date of approval	Number of shares granted	Eligible participants	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
June 13, 2003	155,000 shares	1 director and 25 employees	July 1, 2005 - June 30, 2010
June 15, 2004	130,000 shares	4 officers and 9 employees	July 1, 2006 - June 30, 2011
June 14, 2005	160,000 shares	Officers and employees (the Board of Directors will approve resolutions designating eligible officers and employees)	July 1, 2007– June 30, 2012

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

Net assets per share as of March 31, 2005 and 2004 were ¥957.45 (U.S.$ 8.92) and ¥924.33, respectively. Net income per share for the years ended March 31, 2005 and 2004 were ¥63.43 (U.S.$ 0.59) and ¥48.87, respectively.

Diluted net income per share for the years ended March 31, 2005 and 2004 was ¥63.00 (U.S.$0.59) and ¥48.62.

Basis for calculation of basic net income per share and diluted net income per share for the years ended March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Basic net income per share:			
Net income	¥ 1,823	¥ 1,451	$16,978
Amounts not attributable to shareholders of common stock:			
Directors' bonuses by appropriation of retained earnings	—	15	—
Amounts attributable to shareholders of common stock	1,823	1,436	16,978
Weighted-average number of shares outstanding (millions of shares)	29	29	—
Diluted net income per share:			
Increase in number of shares outstanding	0	0	0
Shares resulting in an anti-dilutive effect	—	0	—

9. Major Expenses

Major expenses included in selling, general and administrative expenses for the years ended March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Sales promotion expenses	¥ 3,683	¥ 4,601	$34,298
Advertising costs	3,306	3,052	30,790
Salaries	1,669	1,777	15,541
Shipment and storage expenses	1,596	1,678	14,859
Provision for employees' retirement and severance benefits	204	237	1,904
Provision for directors' retirement and severance benefits	16	14	153
Provision for doubtful accounts	—	22	—

Research and development expenses included in general and administrative expenses and cost of sales for the years ended March 31, 2005 and 2004 amounted to ¥423 million (U.S.$3,938 thousand) and ¥413 million, respectively.

In accordance with the introduction of the Business Scale Taxation by revision of the local tax law from the fiscal year beginning on or after April 1, 2004, the business tax on added value and capital was accounted for selling , general and administrative expenses.

As a result, selling, general and administrative expenses increased by ¥53 million (U.S.$496 thousand) and operating income and income before income taxes and minority interests decreased by ¥53 million (U.S.$496 thousand).

10. Cash and Cash Equivalents

A reconciliation of cash and cash equivalents at March 31, 2005 and 2004 to the accounts and amounts in the accompanying consolidated balance sheets is as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Cash and time deposits	¥10,456	¥ 8,795	$97,362
Time deposits with a maturity in excess of three months	(823)	(23)	(7,662)
Cash and cash equivalents	9,633	8,772	89,701

Deposits pledged as collateral mainly for leasing office space at March, 31 2005 and 2004 amounted ¥23 million (U.S.$211 thousand) and ¥24 million, respectively.

11. Leases

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

(1) A summary of the pro-forma amounts (inclusive of the related interest) of acquisition cost, accumulated depreciation and net book value at March 31, 2005 and 2004 primarily relating to tools, furniture and fixtures held under finance lease is as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Acquisition cost	¥ 318	¥ 310	$ 2,966
Accumulated depreciation	229	176	2,134
Net book value	¥ 89	¥ 134	$ 831

(2) Future minimum lease payments, inclusive of the related interest, at March 31, 2005 and 2004 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Payable in one year or less	¥ 53	¥ 68	$ 498
Payable after one year	36	66	334
Total	¥ 89	¥ 134	$ 831

(3) Lease payments and pro-forma depreciation charges for the years ended March 31, 2005 and 2004 were ¥69 million (U.S.$638 thousand) and ¥78 million, respectively.

(4) Depreciation is computed by the straight-line method over the respective lease terms assuming a nil residual value.

Operating leases

Future minimum lease payments at March 31, 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Payable in one year or less	¥ 1	¥ 1	$ 10
Payable after one year	2	3	23
Total	¥ 3	¥ 5	$ 33

12. Commitments and Contingent Liabilities

At March 31, 2005 and 2004, trade notes discounted with banks in the ordinary course of business amounted to ¥68 million (U.S.$632 thousand) and ¥93 million, respectively.

13. Derivatives

The Company has entered into forward foreign exchange contracts to reduce its exposure to the risk of future adverse fluctuation 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 any speculative derivatives transactions and its subsidiaries and associated companies do not enter into any forward foreign exchange contracts.

Unrealized gain or loss on a hedging instrument is deferred until the Company recognizes gain or loss on the underlying hedged item. Assets or liabilities hedged by forward foreign exchange contracts are translated at the forward exchange contract rates.

As the Company enters into such contracts only 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 of and control over derivatives transactions are carried out by the Administrative Division in accordance with internal control regulations which limit the nature of the transactions and individuals authorized to be in charge of such transactions.

At March 31, 2005 and 2004, the Company had no outstanding derivatives positions.

14. Segment Information

The Company and its consolidated subsidiaries operate in two business segments and the business segment information for the years ended March 31, 2005 and 2004 is analyzed as follows:

Year ended March 31, 2005

	Millions of yen				
	Mothproofing and hygiene-related products	Household environment-related products	Total	Eliminations or corporate assets	Consolidated
1. Revenues					
(1) Operating revenues	¥ 17,899	¥ 26,210	¥44,109	—	¥ 44,109
(2) Intra-group sales and transfers	—	—	—	—	—
Total revenues	17,899	26,210	44,109	—	44,109
2. Operating expenses	15,750	24,610	40,361	—	40,361
Operating income	2,149	1,599	3,748	—	3,748
3. Assets, depreciation and capital expenditure:					
(1) Total assets	9,212	11,689	20,901	16,058	36,959
(2) Depreciation	222	623	845	—	845
(3) Capital expenditures	73	807	880	—	880

Year ended March 31, 2004

	Millions of yen				
	Mothproofing and hygiene-related products	Household environment-related products	Total	Eliminations or corporate assets	Consolidated
1. Revenues					
(1) Operating revenues	¥ 19,830	¥ 25,252	¥45,082	—	¥ 45,082
(2) Intra-group sales and transfers	—	—	—	—	—
Total revenues	19,830	25,252	45,082	—	45,082
2. Operating expenses	17,904	23,759	41,663	—	41,663
Operating income	1,926	1,493	3,419	—	3,419
3. Assets, depreciation and capital expenditure:					
(1) Total assets	10,038	11,050	21,088	15,181	36,269
(2) Depreciation	292	575	867	—	867
(3) Capital expenditures	74	329	404	—	404

Year ended March 31, 2005

	Thousands of U.S. dollars				
	Mothproofing and hygiene-related products	Household environment-related products	Total	Eliminations or corporate assets	Consolidated
1. Revenues					
(1) Operating revenues	$ 166,675	$ 244,062	$ 410,737	—	$ 410,737
(2) Intra-group sales and transfers	—	—	—	—	—
Total revenues	166,675	244,062	410,737	—	410,737
2. Operating expenses	146,666	229,169	375,834	—	375,834
Operating income	20,009	14,893	34,902	—	34,902
3. Assets, depreciation and capital expenditure:					
(1) Total assets	85,783	108,843	194,627	149,531	344,158
(2) Depreciation	2,067	5,804	7,871	—	7,871
(3) Capital expenditures	682	7,514	8,195	—	8,195

The business segments are classified according to the nature of the Company's products and their markets. Major products in the mothproofing and hygiene-related segment are Cloth Care, Hand Care and Thermal Care and those in the household environment-related segment are Air Care, Humidity Care, and Home Care.

Based on the agreement between the Company and its consolidated subsidiary of S.T. Mycoal., Ltd. for the year ended March 31, 2005, the sales promotion expenses of the Company was born by S.T. Mycoal.

As a result , operating expenses in mothproofing and hygiene-related segment decreased by ¥73 million (U.S.$682 thousand) and household environment-related segment increased by ¥73 million (U.S.$682 thousand).

Geographical segment information and overseas sales are not presented as the revenues and total assets in Japan exceeded 90% of the totals both segments and as overseas sales were less than 10% of consolidated sales for the years ended March 31, 2005 and 2004.

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. and consolidated subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of income and retained earnings, 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 express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards 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, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2005 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.

Ernst & Young ShinNihon

June 14, 2005

CORPORATE INFORMATION

(June 14, 2005)

Board of Directors and Corporate Executive Officers (June 14, 2005)

Takashi Suzuki
The chairman of the board, member of nomination committee

Yasushi Kajiwara
Outside director, member of nomination, audit and compensation committees

Tunehachi Tagaya
Outside director, member of nomination and audit committees

Masanori Noro
Outside director, member of nomination and compensation committees

Motohiko Kogo
Outside director, member of audit committee

Toshiharu Nagasawa
Director, member of nomination committee

Mitsuo Tsuchihashi
Director, member of compensation committee

Executive Officers

Takashi Suzuki
Representative Executive Officer
President, Chief Executive Officer

Nobuhiro Mine
Senior Managing Executive Officer
In charge of general management

Toshiharu Nagasawa
Managing Executive Officer
In charge of R&D and human resources

Mitsuo Tsuchihashi
Managing Executive Officer
In charge of corporate staff and affiliated companies

Noriaki Kageura
Managing Executive Officer
General manager of Corporate Sales headquarters

Kanzo Kobayashi
Executive Officer
In charge of manufacturing and international business
Deputy general manager of Corporate Sales headquarters

Michihiro Ishikawa
Executive Officer
Tokyo branch general manager

Masakazu Kinoto
Executive Officer
Osaka branch general manager

Hirohide Shimada
Executive Officer
In charge of Corporate Planning Group

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	647 (Consolidated)
	466 (Non-consolidated)
Contact	Hirohide Shimada, Corporate Planning Group
E-mail	ir@st-c.co.jp
Tel	+81-3-5906-0734
Fax	+81-3-5906-0742

Group Companies

Consolidated Subsidiaries

S.T. Trading Co., Ltd.
Sales of hand gloves, industrial paper wipes, lubricant spray and 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.
Manufacture and sale of hand gloves

Family Glove (Taiwan) Co., Ltd.
Manufacture and sale of hand gloves

INVESTOR INFORMATION

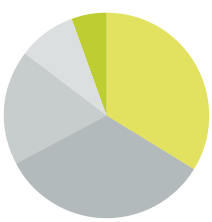
(August 1, 2005)

Fiscal year-end	March 31
Shares issued and outstanding	30,346,851
Listed exchange	Tokyo Stock Exchange, First Section
Shareholders	4,853

Primary shareholders

	(Thousands of shares)	(% of total)
Shaldan Co., Ltd.	4,707	15.5
T-ZONE Capital Corporation	2,880	9.5
Bear, Stearns & Co. Inc.	1,912	6.3
Nippon Life Insurance Company	1,671	5.5
Seiichi Suzuki	1,182	3.9
Akio Suzuki	1,115	3.7
Mizuho Bank, Ltd.	884	2.9
Takashi Suzuki	742	2.4
Hiroshi Fujii	740	2.4
The Bank of Tokyo-Mitsubishi, Ltd.	681	2.2

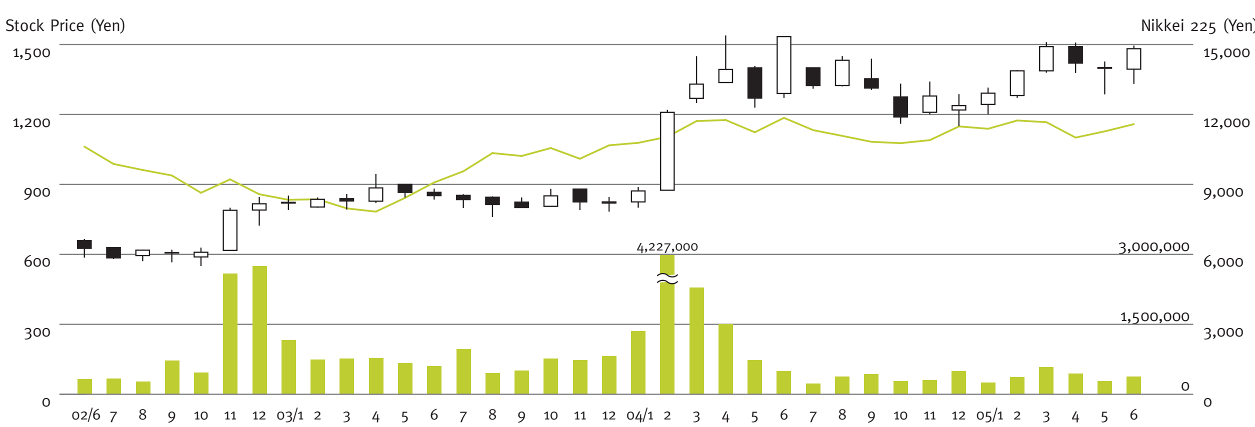
Note: The Company has 1,677 thousand shares of treasury stock (5.5% of total shares).



Individuals	33.75%
Other Japanese institutions	33.49%
Financial institutions	18.06%
Non-Japanese institutions	9.17%
Treasury stock	5.53%

Registered transfer agent	Mizuho Trust & Banking Co., Ltd.
Auditor	Ernst & Young Shin Nihon
Annual shareholder's meeting	Middle of June each year (June 14, 2005)

Stock chart



S.T.CHEMICAL CO.,LTD.

Japan's Leading Home Products Manufacturer

4-10, Shimo-Ochiai 1-chome, Shinjuku-ku, Tokyo 161-8540 Japan

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