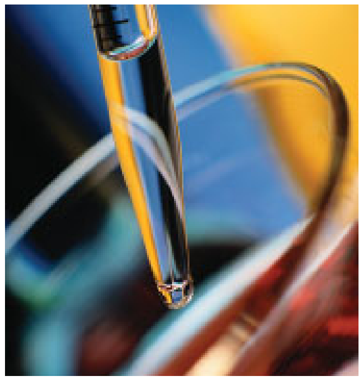
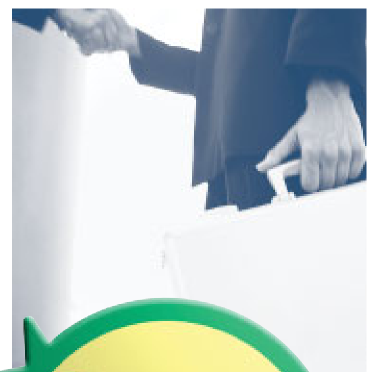













Shifting emphasis from

value to growth!

ANNUAL REPORT 2004

For the Year Ended March 31, 2004

S.T.CHEMICAL CO.,LTD.

Our Value

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.

Our "refreshing the air" management reforms have enabled us to transform the Company by bestowing it with a leaner business structure.

Contents

Consolidated Financial Highlights

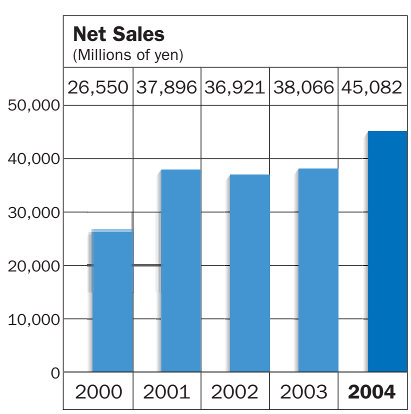
	Millions of yen					Thousands of U.S. dollars (Note 2)
	2000 (Note 1)	2001	2002	2003	2004	2004
Net Sales	¥26,550	37,896	36,921	38,066	45,082	$426,549
Operating Income	2,048	2,399	1,983	3,798	3,419	32,348
Net Income	275	750	509	1,431	1,451	13,731
R&D Expenses	281	343	408	490	413	3,908
Capital Expenditures	1,160	1,600	1,137	733	404	3,819
Total Assets	34,538	34,382	32,921	34,732	36,269	343,161
Shareholders' Equity	26,165	25,782	25,606	26,048	26,693	252,555
Equity Ratio (%)	75.8	75.0	77.8	75.0	73.6	73.6
ROE (Note 3)	1.00	2.90	1.99	5.50	5.50	5.50
ROA (Note4)	6.59	7.98	6.94	11.67	10.07	10.07
Per Share	Yen					U.S. dollars
Net Income	¥ 8.45	23.60	16.37	46.53	48.87	$0.46
Shareholder's Equity	816.29	822.21	833.01	874.85	924.33	8.75
Cash Dividends	6.00	8.00	8.00	10.00	17.00	0.16

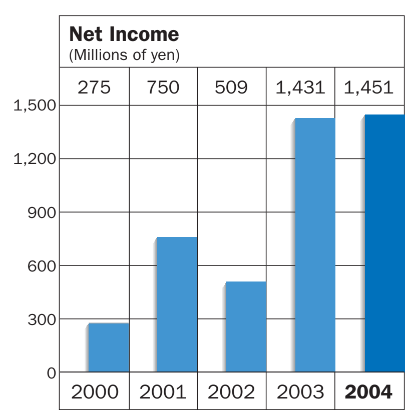
Notes: 1. During this period, S.T. Chemical changed its fiscal year from the 12-month period from July 1 though June 30 of the following year to the 12-month from April 1 through March 31 of the following year. To adjust to this change, this period covered the nine months from July 1, 1999 through March 1, 2000.

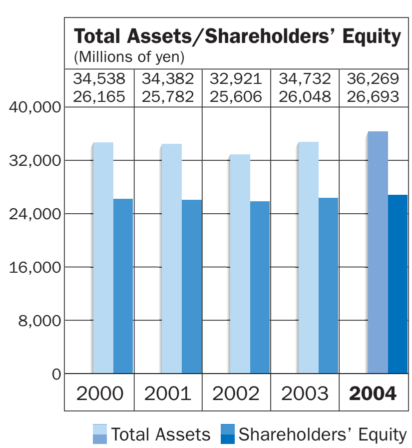
2. All dollar figures herein refer to U.S. currency. Yen amounts have been translated, for convenience only, at ¥105.69= $1, the approximate exchange rate as at March 31, 2004. Billion is used in the American sense of a thousand million.

3. ROE = Net Income / Shareholders' Equity

4. ROA = (Operating Income + Interest and Dividends Received + Purchase Discount) / Total Assets.







The management reforms we have pursued under the slogan, "Refreshing the air," are steadily showing results as our medium-term management plan enters its final stages.

We have had a great deal of favorable customer response to our Shoshu Plug series, which was born of our concept, "Doing things nobody else is doing."

Pursuing our alliance strategy, we have forged ties with Sumitomo 3M. This will not only strengthen the capabilities of the Group, but will also further our efforts to become the world's leading company in this niche market.

Putting Innovative Management into Practice

We are at long last beginning to see some results from the management revolution pursued continuously throughout the five and a half years of my tenure as president. We have standardized values throughout the Company, put ourselves on a vector for renewed growth, and successfully implemented our management strategies.

In the fiscal year ended March 31, 2004, consolidated net sales increased by 18.4%, to ¥45,082 million, as all areas except the cloth care business achieved sales growth. Operating income declined by 10.0%, to ¥3,419 million, but net income rose 1.4%, to ¥1,451 million.

Riding the wave of our growth strategy, the alliance we concluded with Mycoal Co., Ltd. in July 2003 has afforded us access into the disposable warmer business, net sales from which were ¥5,712 million, lower than forecast at the beginning of the fiscal year as the result of a mild winter. However, the Company's market share in this business area broke through the 20% level, moving us from 3rd largest to 2nd largest in the industry. At the same time, though, intense competition in the disposable warmer business and with existing products has forced an increase in marketing expenses, and operating profit declined as a result. The disposable warmer business is an opening gambit in the expansion of a new business model for S.T. Chemical. Issues facing S.T. Chemical during this fiscal year included a sweeping re-examination of the Company's marketing strategy, in response to an unprecedented market environment. In addition, the air care business is replacing cloth care as the Company's mainstay, so we were able to shift our main business from utility goods to high-value-added products.

The fiscal year ended March 31, 2004 was the final stage of our medium-term management plan, which established a goal of ¥50.0 billion in consolidated net sales. However, consolidated net sales were a satisfactory ¥45.0 billion, which serves to highlight an important issue facing the Company. S.T. Chemical has pursued management strategies and rationalization with the goal of becoming "A sinewy and compact company," and has implemented sweeping structural reforms. This fiscal year we are changing to a strategy of "covering our flanks while attacking," with the objective of taking operational reform to a higher level and putting aggressive management into practice.

(1) During the past five and a half years, the Company has reduced the number of products in its lineup by approximately one-third, and inventories have contracted accordingly. The concentration of management resources on new products has increased their contribution to total net sales to over 40%, approximately double their previous level.

(2) The various divisions are concentrating resources in the seven power brands, typified by Shoshu Riki, Shoshu Pot, and Dasshutan, and have persevered in bolstering their brand power so that they now command the top shares of their respective markets. As a result of these efforts, these products account for 60% of total net sales.

(3) S. T. Chemical is aiming to become the world's leading company in this niche market by doing things no other company in the world does. Although the Company has relatively high-priced products such as the Negative Ion Plug, it places a high priority on the development of other high-value-added products that sell regardless of the fierce competition. The Company's product development efforts are backed by a quick grasp of emerging trends, which allows us to offer our customers new products and services while the concepts are still fresh. I firmly believe that all employees share my sense of focus on the customer.

(4) Out of the conviction that the Company must change in order to survive, S.T. Chemical has changed its business structure. Inescapable and worsening price competition has cast a pall of risk over the market for cloth care products and other utility goods. Therefore, the Company has placed the greatest emphasis on the air care business, pursuing those customers for whom fragrance is a priority, who form the market for high-value-added fragrance products, and this has become the Company's largest operation. In January 2004, S.T. Chemical established the Japan Aroma Laboratory Co., Ltd., an independent research institution dedicated to the study of fragrance and air, which have strong effects on the human body and spirit. Japan Aroma Laboratory will make a major contribution to the development of S.T. Chemical's air care business.

Among our growth strategies is the forging of alliances to build a new business model. New business opportunities are born through the fusion of each company's strengths in win-win scenarios.

(5) Through partnerships with firms that have high shares of international markets and strong technology development capabilities, such as Reckitt Benckiser, Mycoal, and Sumitomo 3M, with whom we concluded a marketing tie-up in May 2004, S.T. Chemical is using its significant marketing capabilities to strengthen its position as a marketing firm.

Corporate Governance

In pursuit of the most important objective of corporate governance–fair and stable operations that realize growth in shareholder value S.T. Chemical adopted a "company-with-committees structure" in June 2004. To heighten management transparency and strengthen oversight functions, S.T. Chemical established auditing, nominating, and compensation committees, and outside directors will make up a majority of each committee.

Shareholder Returns

The Company's fundamental policy is to maintain a stable and satisfactory dividend payout, and we will move forward to a dividend policy based on performance. To improve investment efficiency over the long term, and therefore shareholder returns, we will continue to acquire treasury stock. With the growth of internal reserves, S.T. Chemical will also make strategic investments in product development and promotion, as well as systems implementation and expansion. This will contribute to the future growth of the Company's earnings and shareholder value.

The concept of "selling an emotion" is more important to the long-term growth of a manufacturer than the concept of "selling a product." Therefore, our approach is to further strengthen "power brands" through communications activities and interaction with the marketplace.

This Fiscal Year

The theme of fiscal 2004 through 2005 is "Refreshing the Air." This means injecting fresh air into the workplace, into family life, and even into Japan, pursuing innovation in all spheres and making this a year of excitement. The Company's business objectives are to build a solid customer base, which will require fostering brands, making the "baby chick" trademark a trusted one, and building a good system for interaction with our customer base.

The Company's management strategy is to strive for earnings growth through streamlining its product lineup, strengthening core businesses, and increasing cost competitiveness. With regard to its growth strategy, the Company needs to foster its power brands. This will mean restructuring and accelerating R&D activities and conducting new product development from the perspective of the customer, while centralizing some marketing activities. Efforts to reduce costs need to be further strengthened, and, to give the Company that lean and sinewy structure, the number of products in its lineup needs to be further reduced and the Focus strategy implemented. In addition, the Company must pursue business rationalization and work to strengthen cost competitiveness. Finally, the increased cash flows generated by these measures must be shifted to growth fields.

Most of the Company's product categories hold the largest or second-largest shares of their markets, which means that S.T. Chemical commands an overwhelming share of its markets. We believe that this is because we have shifted from "making things" to "making customers," employing our ability to understand our customer base, which is one of the Company's greatest strengths. We continue to evolve into an enterprise that routinely creates innovative products and new markets.

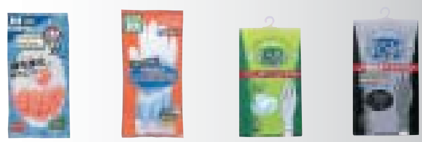
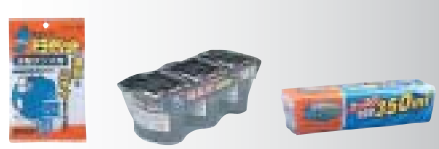
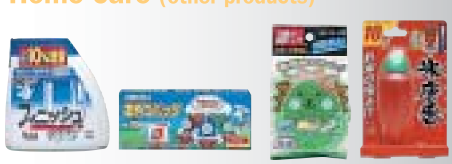
We are grateful for your enduring support as the Company faces new challenges, maintains its evolving management strategies and corporate culture, and endeavors to increase corporate value.

S.T. Chemical requests your continued understanding of the Company's management strategies, and your support for our efforts.

July, 2004

Takashi Suzuki
President and Chief Executive Officer,
Representative Director

ST 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. For the current fiscal year we have adopted the theme 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: 2001 37% → 2004 23%	• Mushuda • Neopara
	Hand care (gloves) 	Composition of Net Sales: 2001 8% → 2004 8%	• Family
	Thermal care (disposable warmers) 	Composition of Net Sales: 2004 13%	• Onpacks
Household environment-related products	**Air care** (deodorizers and air fresheners) 	Composition of Net Sales: 2001 37% → 2004 41%	• Shoshu Pot • Shoshu Riki • Dasshutan • Negative Ion Plug • Shaldan • Ambipur Fresh
	Humidity care (dehumidifiers) 	Composition of Net Sales: 2001 10% → 2004 7%	• DryPet • Sheet-type DryPet
	Home care (other products) 	Composition of Net Sales: 2001 8% → 2004 8%	• Gekipika • Finish • Powers • Kome–touban

HIGHLIGHTS OF FISCAL 2004

Cloth Care stands alongside Air Care as a marketing priority. The Mushuda brand of odorless moth-proofing agents offers a variety of products in its lineup, such as a walk-in closet type with a small electric fan, in response to diversification in storage space. The Mushuda line is the leading brand of products to protect clothing from insects. The Neopara line, with its traditional Japanese paper and trusted orange packaging, has for many years been a familiar sight to consumers.

This group is involved with gloves for household and commercial use. The Family series of household gloves not only helps protect against rough, dry skin, but they also contain squalene and aloe extract to help keep hands supple, which has established them in a new position as a skin care concept. Sales of commercial gloves are also growing steadily as marketing channels expand.

This Group was created in the summer of 2003 to handle disposable warmers as a domestic sales agent for Mycoal Co., Ltd. By utilizing Mycoal's technological expertise and ST Chemical's marketing capabilities, we are seeking to establish the Onpacks brand in the disposable warmer market.

Air Care is one of ST Chemical's core businesses, and like Cloth Care, is a marketing priority. Market-leading products such as Dasshutan, which holds a share of over 50%, along with Shoshu Pot and Shoshu Riki, have achieved a high level of consumer acceptance. Shoshu Plug, a plug-type electric room deodorizer born of our "Doing things nobody else is doing" concept, has created a new market. In recent years, we have expanded the market through the launch of major new products, such as Negative Ion Plug and Essential OilIn refills.

Humidity Care includes a rich lineup of products, such as Dry Pet, which as been a market leader since its launch, and Dry Pet Compact, designed to reduce waste. It also includes dehumidifying sheets that can be placed in closets, drawers, and under bedding, as well as products for shoes and boots. These products keep storage spaces free of humidity, odor and mildew. During the fiscal year under review, the market for dehumidifying agents expanded considerably due to the cool summer and prolonged rainy season, significantly boosting sales, particularly of the Dry Pet Skit disposable tank-type dehumidifier.

The Home Care Group handles various products that have special characteristics. Popular 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, the Gekipika line of cleaning sponges with attached scouring pad, and Kome–touban, to keep rice free of insects. During the fiscal year under review, sales of these products grew steadily due to expanding markets and rising market shares.

In the fiscal year ended March 31, 2004, consolidated net sales increased by 18.4%, to ¥45,082 million, as all areas except the cloth care business achieved sales growth. Operating income declined by 10.0%, to ¥3,419 million, but net income rose 1.4%, to ¥1,451 million.

Air Care (deodorizers and air fresheners)

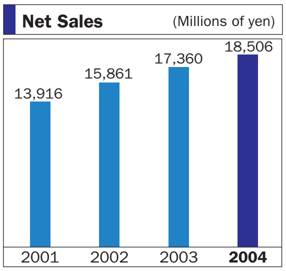

Shoshu Pot


Shoshu Riki


Negative Ion Plug


Shoshu Plug


Dasshutan



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 the Company's chief marketing priority, and we are working to expand its sales through the concentration of management resources in this area. Products such as Dasshutan, which commands more than 50% of its market, Shoshu Pot, and Shoshu Riki are iconic brands in their markets and have achieved a high level of market acceptance. This was made possible by the application of the Company's technological and R&D capabilities. Shoshu Plug created an entirely new market for plug-type electric room deodorizers. In recent years the Company has worked to expand and invigorate the market through the introduction of innovative new products such as the Negative Ion Plug and Essential OilIn refills.

The expansion of sales of the Air Care Group's core brands, Shoshu Riki, Shoshu Plug, and Dasshutan, brought about a 6.6% growth in net sales, to ¥18,506 million.

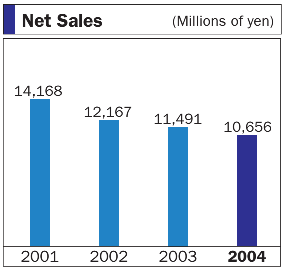
Cloth Care (mothproofing agents)


Mushuda
(for closets)


Mushuda
(for drawers)


Mushuda Fan
(for walk-in closets)


Neopara Ace



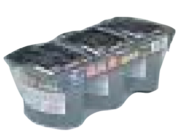
The Cloth Care Group is second only to the Air Care Group as a marketing priority. Mushuda brand odorless mothproofing agents are for walk-in closets with small ventilation fans, and we have deployed a varied product lineup in response to the diversification of storage spaces. Mushuda products are accepted as the most reliable brand for the protection of clothing from insects. Neopara Ace, in its orange package of Japanese paper, has long been a familiar sight to consumers.

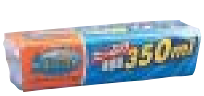
Due primarily to the effects of price competition, net sales in the Cloth Care Group declined 7.3%, to ¥10,656 million.

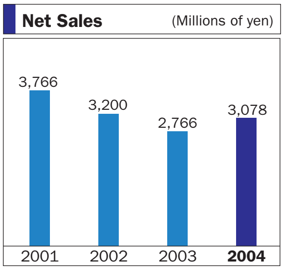
Humidity Care (dehumidifiers)


DryPet


DryPet Sheet


Binchotan DryPet


DryPet Compact



S.T. Chemical has led this market since launching DryPet. In addition to our DryPet Compact, with its environmentally conscious design, our broad lineup includes products for drawers and clothes closets, dehumidifier sheets for placing underneath bedding, and products for shoes and boots.

To be released this fall, Dry Pet is an air care product that removes humidity and odors.

A cool summer and a long rainy season lent significant impetus to the dehumidifier market. Primarily on the strength of the tank-type DryPet Skit, net sales grew 11.3%, to ¥3,078 million.

Hand Care (gloves)

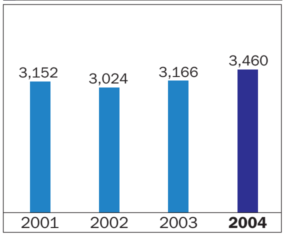
Family Thin

Family Moisturizing Thin Vinyl Gloves

Family Moisturizing Latex Dispo-Gloves

Family Moisturizing Knit Gloves

Net Sales (Millions of yen)



The Family series of household gloves makes daily washing chores a pleasure. More than just protecting the hands, these gloves help keep hands beautiful by preventing dry skin.

The Company introduced premium gloves impregnated with squalene oil or aloe extract, which is a new application for skin care products.

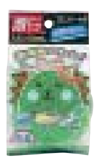
In response to the changes in demand described above, new household glove products were promoted from a new standpoint, while marketing channels for industrial gloves expanded steadily. As a result, net sales in the Hand Care Group increased 9.3%, to ¥3,460 million.

Home Care (other products)

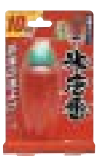
Finish

Ultra Powers

Zippers

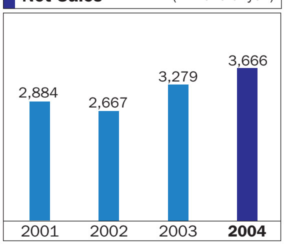


Gekipika Sponge



Kome–touban

Net Sales (Millions of yen)



This Group handles various special-purpose products. Hit products include Finish, a dishwashing powder for automatic dishwashers that we market through an agreement with Reckitt Benckiser of the United Kingdom, Ultra Powers that removes mildew from washing machine tubs, the Zippers line of food-storage bags, Gekipika, a line of high-performance cleaning sponges with attached scouring pad, and Kome–touban, which protects uncooked rice from insects.

This fiscal year, sales of Finish dishwashing powder increased as S.T. Chemical won a larger share of an expanding market. Sales of Gekipika scourer sponges and Kome–touban insect repellant were also healthy, and net sales in the Home Care Group rose 11.8%, to ¥3,666 million.

Thermal Care (disposable warmers)

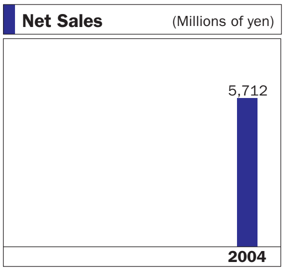
Haru-Onpacks

Super-Onpacks with charcoal powder

Onpacks for medical use (scentless)

Ashipoka-Sheet

Net Sales (Millions of yen)



In the summer of 2003, S.T. Chemical became the exclusive domestic distributor for disposable warmers produced by Mycoal Co., Ltd. Employing the marketing capabilities of S.T. Chemical, the Company is seeking to establish the Onpacks brand in the disposable warmer market.

Katamomi Onpacks and Koshimomi Onpacks, which use a newly developed gel with aloe supplements, are health care products that are directly applied to the skin.

Adversely affected by a market slump produced by a mild winter, the disposable warmer business did not meet its net sales target for the fiscal year. Net sales were ¥5,712 million. This Group commenced operations in July 2003, so the previous year's figure is not available for comparison.

Management reform

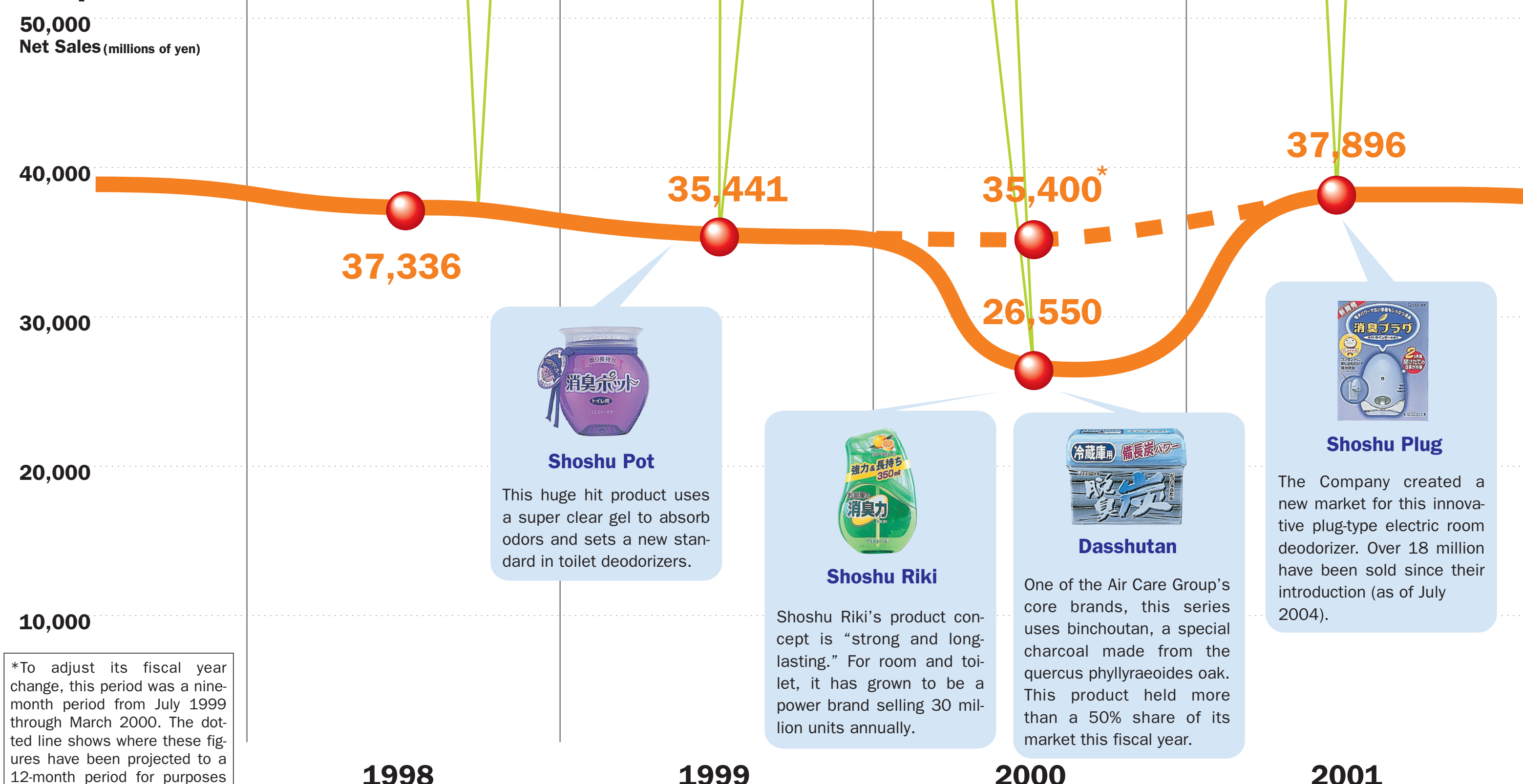
- Advocated the concept of "A sinewy and compact company"

- Commenced balance-sheet restoration and Focus strategy
- Primary emphasis shifted to air care field
- Executive officer system implemented
- Term of office for directors reduced from two years to one

- Medium-term management plan (2000–2005) announced
- Announced alliance strategy
- Marketing agreement reached for Reckitt Benckiser's dishwashing powder for automatic dishwashers
- Auto care product, gift product and industrial product operations spun off (S.T. Trading Co., Ltd.)

- Personnel systems reformed/ Performance-based compensation system introduced
- Streamlining of organization commenced (into four Groups/four Levels)
- Marketing alliance concluded with Sara Lee (two-in-one liquid air freshener and bowl cleaner)
- Cost Reduction Team reinforced
- R&D Center established

Hit products and sales



*To adjust its fiscal year change, this period was a nine-month period from July 1999 through March 2000. The dotted line shows where these figures have been projected to a 12-month period for purposes of comparison.

Shoshu Pot

This huge hit product uses a super clear gel to absorb odors and sets a new standard in toilet deodorizers.

Shoshu Riki

Shoshu Riki's product concept is "strong and long-lasting." For room and toilet, it has grown to be a power brand selling 30 million units annually.

Dasshutan

One of the Air Care Group's core brands, this series uses binchoutan, a special charcoal made from the quercus phyllyraeoides oak. This product held more than a 50% share of its market this fiscal year.

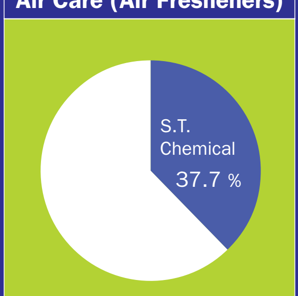
Shoshu Plug

The Company created a new market for this innovative plug-type electric room deodorizer. Over 18 million have been sold since their introduction (as of July 2004).

Market data

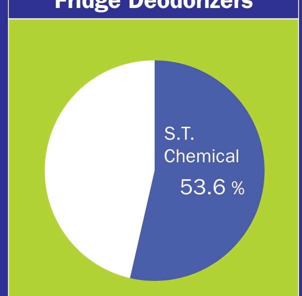
SRI Monthly data
Period : April 2003~March 2004
Area : The whole country, by market category

Air Care (Air Fresheners)



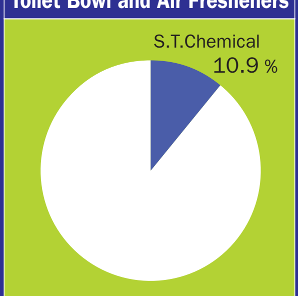
(Excluding cloth deodorizers)

Fridge Deodorizers



(Use : refrigerators)

Toilet Bowl and Air Fresheners

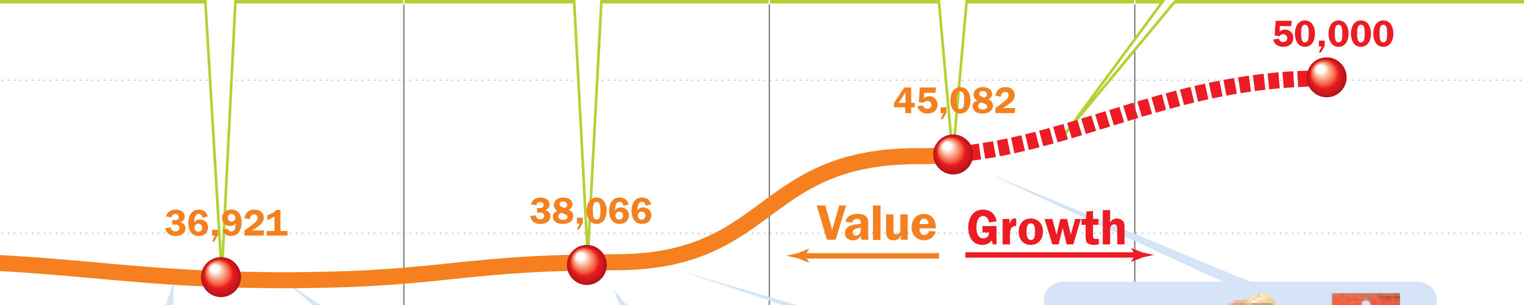


- Idle assets sold
- Stock option program introduced
- Five manufacturing facilities consolidated into three

- Emphasis placed on cloth care and air care product strategy
- S.T. Mycoal Co. established to provide disposable warmer marketing and sales support
- Car Chemical care product operations spun off into subsidiary. (S.T. Auto Co.,Ltd)

- Product lineup reduced from high of 862 to 297
- “Refreshing the air” management reforms
- Japan Aroma Laboratory Co., Ltd. established
- Shifting from a value-oriented management strategy to an expansion-centered, growth oriented management strategy in connection with reform of the business structure.

- Sales agreement to be concluded with Sumitomo 3M
- Converted to a "company-with-committees" structure (June)

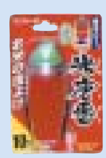


Gekipika Metal and Sponge
Gekipika Sponge with Scourer

This unique product series meets consumer demands for metal scourers, sponges, and scrubbers, and net sales have risen strongly.

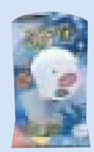
Squalene Gloves

The lining of these gloves is impregnated with squalene oil, taking them a step above ordinary gloves. This is a new perspective on a necessary item, and net sales are growing.



Kome–touban

This insect repellant for rice uses red-pepper extract, and has cumulative sales of 3.4 million units (as of February 2004). The product won the “Best Name Award” from the Nikkan Kogyo newspaper, and has already become a household name.



Negative Ion Plug

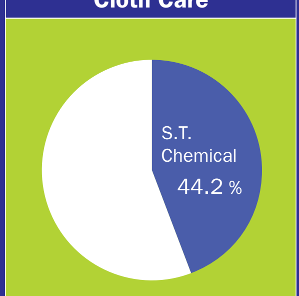
Our second plug-type electric room deodorizer, this product is also a negative ion generator. This is a higher-priced product, but also has high added value, and we are working to boost sales.

Hit Products in 2004

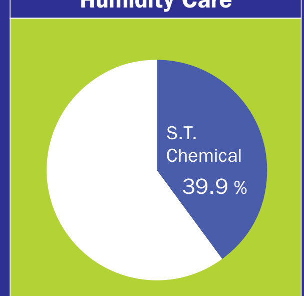
We renewed and expanded our product lineup for Shoshu Pot, Shoshu Riki and Shoshu Plug. Our market share for these products grew as advertising led to higher sales.

2002 **2003** **2004** **2005**

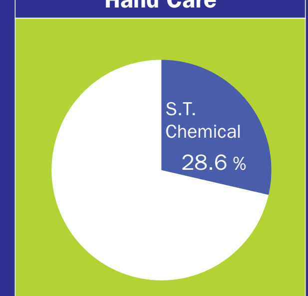
Cloth Care



Humidity Care



Hand Care



(Excluding industrial gloves)

A Strategy of Growth Through Alliances

S.T. Chemical is employing its marketing capabilities to develop strategic alliances. Domestically, the Company has established an alliance with Mycoal Co., Ltd., a manufacturer of disposable warmers; internationally, S.T. Chemical has forged ties with Reckitt Benckiser, a maker of dishwashing powder for automatic dishwashers, and with Sara Lee, producer of Ambi-Pur LiquiFresh. A new agreement with Sumitomo 3M in 2004 has made S.T. Chemical the domestic agent for Scotchgard and Nexcare products. Within the year, S.T. Chemical will establish a joint venture company with Sumitomo 3M to sell both companies' household products.

Allied Firms	Type of Alliance	Profile
Reckitt Benckiser	**Marketing Alliance, ①Domestic Agent**	In autumn 2000, concluded a business alliance covering Japanese domestic sales with the world's number one maker of household cleaners, Reckitt Benckiser. The Company is marketing Finish dishwashing detergent for dishwashers, which has a 40% share of the world market. This was the first salvo in our global alliance strategy, and with it the Company gained entry into this rapidly growing new market.
Sara Lee Corporation	**Marketing Alliance, ①Domestic Agent**	Commenced sales of Sara Lee's Ambi-Pur LiquiFresh in 2001. This product holds the top share of its markets in the principal economies of Europe and North America. The Company has also participated in joint development of a peripheral device for compatibility with Japanese tank-type toilets.
Mycoal Co., Ltd.	**Marketing Alliance, ①Domestic Agent, ②Sales Subsidiary Established**	Established S.T. Mycoal Co., Ltd. in July 2003 with 100% capitalization by S.T. Chemical to conduct planning and marketing of Mycoal's core products–disposable warmers and other heating devices. With this, we have entered a new field of business.
Sumitomo 3M	**Marketing Alliance, ①Domestic Agent, ②Joint Venture Sales Company Established**	From August 2004, S.T. Chemical will commence exclusive domestic sales of Sumitomo 3M's water- and oil-repellent household spray, Scotchgard, and Nexcare first aid products for the home. Also, by the end of 2004, S.T. Chemical and Sumitomo 3M will jointly establish a sales company that will handle S.T. Chemical's Gekipika (household sponges), Zippers (food storage bags), and Family (household gloves) brands, together with Sumitomo 3M's Scotch-Brite brand products. This will strengthen the Company's total merchandising capability in the household products category, and will expand the household products businesses of both and S.T. Chemical and Sumitomo 3M through the synergies arising from brand power and marketing power.

Alliance with Reckitt Benckiser

Reckitt Benckiser, headquartered in London, manufactures and sells unique household cleaners and laundry detergents. They pioneered the premium-cleaner niche market, and made themselves the world's top household cleaner firm. Having built up a marketing network that now extends to 45 countries, Reckitt Benckiser has a 40% share of the world market for dishwashing detergent for dishwashers, making it far and away the top firm in that field. In the fall of 2000, S.T. Chemical concluded an agreement with Reckitt Benckiser to market that company's products in Japan, and is actively engaged in the new market for specialty detergents for dishwashers, which is expected to grow rapidly.

Exclusive Marketing Agreement for Sara Lee Products

Ambi-Pur LiquiFresh is a two-in-one toilet bowl cleaner and air freshener manufactured and sold by worldwide consumer product manufacturer Sara Lee, headquartered in Chicago. It commands the largest share of its market, which is centered in the countries of Europe and North America.

This agreement coincides with the wide proliferation of tank-type flush toilets in Japan. S.T. Chemical and Sara Lee jointly developed a holder to fit in the tank for the Japan-market version called Ambi-Pur Fresh.

In addition to this joint development, S.T. Chemical has an exclusive agreement to market the products of Sara Lee Japan Ltd.

Marketing Alliance with Mycoal Co., Ltd. and Mycoal Products Co., Ltd.

S.T. Chemical became the exclusive domestic marketer of Mycoal products on July 1, 2003. Mycoal's core products are disposable warmers and other heating devices. S.T. Chemical has established a wholly owned subsidiary for the purpose of conducting the planning and marketing for designated products. S.T. Chemical's product lineup was heavily biased toward summer, but this alliance has strengthened the Company's array of winter products. Mycoal has an operational foundation in eastern Japan, but S.T. Chemical's nationwide marketing network is boosting distribution of Mycoal's products. In addition, Mycoal's technology development capabilities and S.T. Chemical's marketing strength are being employed to develop new products for the disposable warmer market.

Marketing Alliance with Sumitomo 3M

Under the terms of S.T. Chemical's marketing agreement with Sumitomo 3M, on August 1, 2004 S.T. Chemical will commence exclusive domestic sales of the water- and oil-repellent spray, Scotchgard, and Nexcare first aid products for the home.

S.T. Chemical and Sumitomo 3M will by this autumn establish a new joint venture company to market household consumables and sundries, such as Gekipika, Zippers, and Family brand gloves, as well as household sponges and other Scotch-Brite products. This is expanding the household products businesses of both and S.T. Chemical and Sumitomo 3M.

Net sales

Bolstered by the performance of the Thermal Care Group (disposable warmers), which commenced operations this fiscal year, net sales rose 18.4%, or ¥7,016 million, to ¥45,082 million (US$426,549 thousand). Excluding this group and the Cloth Care Group (mothproofing agents), where more intense competition shrank sales and forced price reductions, a 5% gain in net sales was achieved. The Humidity Care Group (dehumidifiers) and Home Care Group (other products) made notable contributions.

Cost of sales

The increase in net sales brought a corresponding 26.7%, ¥5,266 million increase to ¥24,973 million (US$236,282 thousand) in cost of sales, and the cost of sales ratio increased 3.6 percentage points to 55.5%. This was principally due to the Cloth Care Group's price revisions to match those of the current market, and an increase in the percentage of products with comparatively low profit margins in total sales.

Operating income

Selling, general and administrative expenses (SG&A) rose 14.5%, or ¥2,107 million, to ¥16,660 million (US$157,633 thousand). As a percentage of net sales, SG&A declined 1.3 percentage points to 37.0%, but this was insufficient to cover the rise in the cost of sales. The principal factor in the increase was marketing expenses in connection with competition and core brand equity investment.

Research and development expenses, one element of SG&A, were reduced 15.8% to ¥413 million (US$3,905 thousand), and their ratio to net sales was 9.2%.

Operating income declined 10.0% to ¥3,419 million. This was chiefly due to lower-than-predicted net sales in the new Thermal Care Group, resulting from adverse effects of the mild winter on the market, and a forced increase in marketing expenses to combat competition.

Other income (expenses)

Other expenses declined by 42.9% to ¥673 million (US$6,363 thousand), chiefly because there were no payments in connection with early retirement in the period under review. Also, thanks to the rise in stock prices, the Company posted virtually no loss on sale and write-down of marketable securities for the first time in several years.

Net income

Net income increased from last fiscal year's ¥1,431 million to ¥1,451 million (US$13,731 thousand).

Income before income taxes and minority interests were ¥2,746 million, an increase of ¥127 million over last fiscal year's ¥2,619 million. Income taxes increased from last term's ¥1,248 million to ¥1,273 million (US$12,043 thousand). Net income per share was ¥48.87 (US$0.46), in comparison with last fiscal year's ¥46.53.

Financial position

Total assets rose by ¥1,536 million to ¥36,269 million (US$343,161 thousand). Current assets contracted 2.3%, or ¥4,960 million, to ¥21,540 million (US$203,801 thousand). Principal factors in this included a 12.4%, ¥558 million increase to ¥5,079 million (US$48,053 thousand) in notes and accounts receivable, resulting from the growth in net sales. This was mainly the result of an increase in notes receivable in the Thermal Care Group, resulting from strong sales near the end of the fiscal year. Inventories rose 0.2%, or ¥7 million, to ¥3,668 million (US$34,709 thousand). However, if the inventories of the Thermal Care Group are excluded from that calculation, an actual reduction of 6% from the previous fiscal year emerges.

As a result of the scarcity of MMF and other short-term investment securities, marketable securities declined by ¥6,027 million.

Total fixed assets grew 16.0%, or ¥2,033 million, to ¥14,729 million. Property, plant and equipment contracted by 6.1%, or ¥530 million, to ¥8,154 million. Investments and other assets grew 67.6%, or ¥2,569 million, to ¥6,368 million (US$60,251 thousand), principally as a result of a ¥1,303 million increase in investment securities stemming from purchases of government and corporate bonds.

Current liabilities increased 13.9%, or ¥960 million, to ¥7,887 million (US$74,628 thousand). Notes and accounts payable, as a result of disposable warmer procurement, grew 29.7%, or ¥933 million, to ¥4,075 million. Borrowed money is connected with overseas subsidiaries, long- and short-term bank borrowing combined totaled ¥116 million, down ¥117 million from the previous fiscal year.

The book value of the publicly held stock among the Company's investment securities holdings has declined markedly. However, rising stock prices at the end of the fiscal year resulted in an increase on revaluation of other marketable securities posted under shareholders' equity of ¥582 million. Treasury stock held by the Company at the end of the fiscal year, acquired either to benefit shareholders or in preparation for the exercise of stock options, totaled 1,485,531 shares with a value of ¥1,275 million. As a result of the foregoing, total shareholders' equity was ¥26,693 million.

Capital expenditures

Capital expenditures were reduced 45.0% in comparison with the previous fiscal year, to ¥404 million (US$381 thousand). The Household Environment Related Products Segment was the object of 80% of total capital expenditures, with the Mothproofing and Hygiene-Related Products Segment next.

Cash flows

During the fiscal year ended March 31, 2004, net cash provided by operating activities declined to ¥2,662 million. Sources of cash included the increased of income before income taxes and minority interests to ¥2,746 million; an increase in trade payables that was ¥377 million more than the rise in accounts receivable; and depreciation expenses of ¥867 million. The most significant use of cash was payment of income taxes in the amount of ¥1,641 million, up ¥1,263 million from the previous fiscal year as a result of the recovery in the Company's profitability.

Net cash used in investing activities was ¥1,964 million (US$18,584 thousand). As a result, the free cash flow rose to declined to ¥698 million (US$660 thousand).

Net cash used in financing activities was ¥1,348 million. The primary uses of cash were payment of dividends to shareholders in the amount of ¥384 million and the purchase of treasury stock at a cost of ¥951 million.

As a result of the foregoing, cash and cash equivalents declined by ¥659 million (US$6,232 thousand), at the end of the fiscal year totaling ¥8,772 million (US$82,998 thousand). This fiscal year, S.T. Chemical sought to pursue a cash-flow-centered management style.

Financial indicators

The Company reduced the number of new products it launched this fiscal year, while at the same time concentrating management resources in selected areas. As a result, ROE was steady at 5.5%, and ROA declined to 10.07%. Shareholders' equity per share of common stock rose from ¥874.85 to ¥924.33 (US$8.75). The shareholders' equity ratio declined to 73.6%, and the interest coverage ratio was 712 times.

Dividends

Management has raised the year-end dividend by ¥4 to ¥10 per share. The annual dividend, including the interim dividend of ¥7 per share, will be ¥17 (US$0.16) per share.

Converting to a "company-with-committees" structure

At the annual general meeting of shareholders convened in June 2004, the decision was taken to convert ST Chemical to a "company-with-committees" structure, as described in the revised Commercial Code of Japan, for the purpose of strengthening corporate governance systems. The Company will appoint four directors from within, and four outside directors. A majority of each committee will be composed of outside directors who will be objective judges of the Company's management measures and policies. The committees will serve as feedback mechanisms, while the Company strives to increase the speed of decision-making.

(1) Improving management
The Board of Directors concentrates on important decisions on fundamental management issues and on management oversight functions, seeking to improve management.

(2) Rapid decision-making and agile execution of operations
Executive officers have been given expanded authority regarding the execution of operations in pursuit of rapid decision-making and agile execution of operations.

(3) Enhanced management transparency and fairness
The Company is working to increase management transparency and fairness with regard to the nomination, compensation, and auditing of directors by appointing outside directors.

"Refreshing the Air" Management Structure Reforms

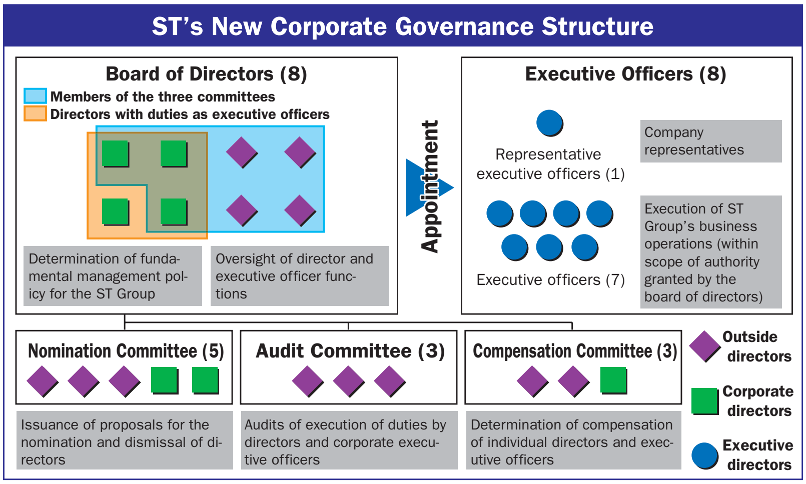
(1) Board of Directors
To achieve increased management transparency and fairness, the Board of Directors has selected the Company's first outside directors.

(2) Separating the functions of executive officers and directors
To clearly separate the operational functions of executive officers from the supervision and oversight functions of the Board of Directors, and to achieve speed of decision-making and agility in the execution of operations, some authority over the execution of operations was transferred from the Board of Directors to the executive officers.

(3) Three committees established
In compliance with the law, the Board of Directors has established three internal organizations that have outside-director majorities:the Audit, Nominating, and Compensation Committees. These committees will form an effective management oversight system.

Future management systems

In converting to this new system, the Company seeks to further strengthen corporate governance, and to establish effective, transparent, and fair management.



Financial Section

Contents

Consolidated Balance Sheets

S.T. CHEMICAL CO., LTD. and consolidated subsidiaries
March 31, 2004 and 2003

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 2)
	2004	2003	2004
Current assets:			
Cash and time deposits (Note 10)	¥ 8,795	¥ 9,431	$ 83,214
Marketable securities (Note 3)	3,236	3,863	30,616
Trade notes and accounts receivables	5,079	4,520	48,053
Less - allowance for doubtful receivables	(39)	(37)	(366)
Inventories	3,668	3,661	34,709
Deferred tax assets (Note 6)	366	355	3,468
Other current assets	434	242	4,107
Total current assets	21,540	22,036	203,801
Investments and other assets:			
Investments in non-consolidated subsidiaries and affiliates	174	132	1,651
Investment securities (Note 3)	3,957	2,654	37,437
Long-term loans	155	194	1,470
Deferred tax assets other than unrealized revaluation loss on land (Note 6)	132	449	1,253
Deferred tax asset - unrealized revaluation loss on land (Note 4)	71	71	675
Other assets	1,944	378	18,389
Less - allowance for doubtful accounts	(66)	(79)	(622)
Total investments and other assets	6,368	3,799	60,251
Property, plant and equipment, at cost (Notes 4 and 5)**:**			
Land	3,477	3,507	32,902
Buildings and structures	6,138	6,161	58,072
Machinery, equipment and vehicles	7,883	7,856	74,590
Tools, furniture and fixtures	2,683	2,551	25,387
Construction in progress	10	30	91
Less accumulated depreciation	(12,037)	(11,421)	(113,892)
Property, plant and equipment, net	8,154	8,684	77,150
Intangible assets, net of accumulated amortization	207	214	1,959
Total assets	¥ 36,269	¥ 34,732	$ 343,161

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 2)
	2004	2003	2004
Current liabilities:			
Short-term bank loans (Note 5)	¥ 51	¥ 103	$ 478
Current portion of long-term debt (Note 5)	31	30	292
Trade payables	4,075	3,142	38,555
Other payables	2,248	1,825	21,274
Income taxes payable (Note 6)	633	1,002	5,988
Consumption taxes payable	79	174	752
Accrued expenses	556	482	5,263
Allowance for sales returns	159	128	1,501
Other current liabilities	55	41	525
Total current liabilities	7,887	6,928	74,628
Long-term liabilities:			
Long-term debt, less current portion (Note 5)	35	101	336
Employees' retirement and severance benefits (Note 7)	1,038	1,061	9,818
Directors' retirement and severance benefits	102	88	963
Total long-term liabilities	1,175	1,250	11,117
Minority interests in consolidated subsidiaries	514	506	4,862
Contingent liabilities (Note 12)			
Shareholders' equity (Note 8)**:**			
Common stock			
Authorized - 96,817,000 shares in 2004 and 97,635,000 shares in 2003			
Issued and outstanding - 30,346,851 shares in 2004 and 2003	7,066	7,066	66,851
Capital surplus	7,068	7,068	66,873
Unrealized revaluation loss on land, net of tax (Note 4)	(107)	(107)	(1,012)
Retained earnings	13,722	12,694	129,836
Unrealized holding profit on securities, net of tax	582	84	5,510
Translation adjustments	(363)	(314)	(3,438)
Treasury stock, at cost	(1,275)	(442)	(12,066)
Total shareholders' equity	26,693	26,048	252,555
Total liabilities and shareholders' equity	¥36,269	¥34,732	$343,161

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, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2004	2003	2004
Net sales	¥45,082	¥38,066	$426,549
Cost of sales	24,973	19,707	236,282
Gross profit before reversal of allowance for sales returns	20,109	18,358	190,266
Reversal of allowance for sales returns	(30)	(7)	(286)
Gross profit	20,079	18,351	189,981
Selling, general and administrative expenses (Note 9)	16,660	14,553	157,633
Operating income	3,419	3,798	32,348
Other income (expenses):			
Interest and dividends received	45	56	423
Interest expenses	(4)	(11)	(35)
Cash purchase discount	189	198	1,784
Cash sales discount	(810)	(881)	(7,664)
Profit on sales of securities, net	17	8	159
Equity in income (loss) of affiliates	(9)	10	(88)
Write-down of securities	(3)	(239)	(32)
Special payment of early retirement benefits	—	(154)	—
Other, net	(96)	(165)	(910)
	(673)	(1,179)	(6,363)
Income before income taxes and minority interests	2,746	2,619	25,984
Income taxes (Note 6)			
Current	1,273	1,248	12,043
Deferred	(29)	(98)	(276)
	1,244	1,149	11,767
Minority interests	51	38	486
Net income	1,451	1,431	13,731
Retained earnings at beginning of year	12,694	12,400	120,103
Decreases:			
Cash dividends paid	385	246	3,642
Bonuses to directors	17	1	157
Redemption or disposition of treasury stock	21	891	200
Retained earnings at end of year (Note 8)	¥13,722	¥12,694	$129,836

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

S.T. CHEMICAL CO., LTD. and consolidated subsidiaries
For the years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2004	2003	2004
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 2,746	¥ 2,619	$ 25,984
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	867	956	8,204
Loss on sale of property, plant and equipment	5	27	44
Loss on sale and write-down of marketable securities	(4)	(10)	(38)
Loss (profit) on sale and write-down of investment securities	(9)	241	(89)
Allowance for doubtful receivables	(12)	(9)	(116)
Provision for employees' retirement and severance benefits	(21)	(93)	(197)
Provision (reversal) for directors' retirement and severance benefits	14	(155)	129
Provision for sales returns	30	7	286
Interest and dividends received	(45)	(56)	(423)
Interest expense	4	11	35
Foreign exchange loss	38	31	358
Equity in loss (income) of affiliates	9	(10)	88
Change in operating assets and liabilities:			
Receivables	(539)	1,146	(5,098)
Inventories	(29)	(137)	(277)
Payables and accrued expenses	915	571	8,660
Others, net	297	383	2,810
Sub total	4,266	5,521	40,361
Interest and dividends received	42	55	397
Interest paid	(4)	(10)	(35)
Income taxes paid	(1,641)	(378)	(15,528)
Net cash provided by operating activities	2,663	5,189	25,194
Cash flows from investing activities:			
Deposit of time deposits (more than 3 months)	(22)	(1,000)	(210)
Refund of time deposits (more than 3 months)	—	2,000	—
Purchase of marketable securities	(376)	(1,013)	(3,554)
Proceeds from sale of marketable securities	2,555	2,217	24,178
Purchase of property, plant and equipment	(382)	(792)	(3,619)
Proceeds from sale of property, plant and equipment	52	1	496
Purchases of investment securities	(2,165)	(1,130)	(20,483)
Proceeds from sale of investment securities	67	0	633
Other investments, net	(1,694)	(18)	(16,025)
Net cash provided (used in) investing activities	(1,964)	265	(18,584)
Cash flows from financing activities:			
Increase in bank loans and current portion of long-term debt	—	33	—
Repayments of bank loans and current portion of long-term debt	(48)	(37)	(453)
Increase in long-term debt	22	—	209
Repayment of long-term debt	(76)	(164)	(720)
Purchase of treasury common stock	(952)	(811)	(9,004)
Proceeds from sale of treasury common stock	97	36	921
Payments of dividend	(385)	(246)	(3,642)
Payments of dividend to minority shareholders	(8)	(8)	(72)
Net cash used by financing activities	(1,349)	(1,196)	(12,762)
Effect of exchange rate changes on cash and cash equivalents	(9)	(12)	(81)
Net increase (decrease) in cash and cash equivalents	(659)	4,246	(6,232)
Cash and cash equivalents at beginning of year	9,431	5,185	89,230
Cash and cash equivalents at end of year (Note 10)	¥ 8,772	¥ 9,431	$ 82,998

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, the accounting principles and practices adopted by the Company may differ in certain 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 for the year ended March 31, 2004 include the accounts of the Company and its five significant subsidiaries with new consolidated subsidiaries of S.T. Mycoal Co., Ltd. and S.T. Auto Co., Ltd. and the consolidated financial statements for the year ended March 31, 2003 include the accounts of the Company and its three significant subsidiaries. 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 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, 2004 and 2003, 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 on bad debts 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

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 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, 2004 and 2003.

(o) Valuation of assets and liabilities of the 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 ¥105.69 =U.S.$1.00, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market on March 31, 2004. 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, 2004 and 2003 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Cost	¥4,361	¥2,863	$41,260
Market value	5,331	3,002	50,444
Total unrealized gain	978	176	9,250
Total unrealized loss	7	36	66

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, 2004 and 2003 were ¥3 million (U.S.$29 thousand) and ¥200 million, respectively.

Securities at March 31, 2004 and 2003 excluded from the above table are summarized at their respective book value as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Current assets:			
Unlisted investment trust certificates within the closed period	¥ 560	¥1,475	$ 5,303
MMF	1,170	1,370	11,069
Commercial paper	—	500	—
Foreign securities	73	93	686
Unlisted stocks other than those traded on the over-the-counter market	58	77	550

In the years ended March 31, 2004 and 2003, the Company recognized impairment losses on nonmarketable securities of ¥0 million (U.S.$3 thousand) and ¥39 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, 2004 and 2003 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Proceeds received	¥2,622	¥2,208	$24,811
Total profit	17	10	159
Total loss	—	2	—

The redemption schedule of other securities with maturity dates at March 31, 2004 and 2003 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
One year or less	¥1,433	¥ 926	$13,557
More than 1 year and within 5 years	2,120	1,537	20,057
More than 5 years and within 10 years	—	54	—
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 ¥153 million (U.S.$1,450 thousand) and ¥62 million at March 31, 2004 and 2003, respectively.

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

Short-term loans from banks at an average interest rate of 1.2% amounted to ¥51 million (U.S.$478 thousand) at March 31, 2004.

Long-term debt at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Loans, principally from banks, maturing in installments through 2008, at interest rates ranging from 2.7% to 3.0%	¥ 66	¥131	$ 628
Less current portion	(31)	(30)	(292)
	¥ 35	¥101	$ 336

The aggregate annual maturities of long-term debt subsequent to March 31, 2004 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Years ending March 31, 2005	¥31	$292
2006	17	161
2007	11	101
2008	4	42
2009	3	31
Total	¥66	$628

Assets pledged as collateral for long-term debt at March 31, 2004 are presented below:

	Millions of yen	Thousands of U.S. dollars
Buildings and structures	¥ 95	$ 900
Machinery and equipment and vehicles	35	335
Land	109	1,031
Total	¥239	$2,266

6. Income Taxes

At March 31, 2004 and 2003, 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
	2004	2003	2004
Current assets:			
Accrued employees' bonuses	¥ 174	¥144	$ 1,647
Allowance for sales returns	64	51	602
Write-down of securities	4	4	37
Accrued business taxes	53	97	502
Other	87	60	828
Total current deferred tax assets	382	356	3,614
Valuation allowance	(12)	—	(116)
Current liabilities:			
Deferred gain on sale of property	(0)	(0)	(4)
Unrealized holding profit on securities, net of taxes	(3)	—	(27)
Total current deferred tax liabilities	(3)	(0)	(31)
Net current deferred tax assets	366	355	3,468
Non-current assets:			
Allowance for employees' retirement and severance benefits	382	370	3,612
Allowance for directors' retirement and severance benefits	41	35	385
Write-down of securities	87	86	822
Other	29	36	277
Total non-current deferred tax assets	539	526	5,096
Non-current liabilities:			
Deferred gain on sale of property	(21)	(21)	(197)
Unrealized holding profit on securities, net of taxes	(385)	(56)	(3,647)
Total non-current deferred tax liabilities	(406)	(77)	(3,843)
Net non-current deferred tax assets	¥ 132	¥449	$ 1,253

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, 2003 as the difference 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 sheet at March 31, 2004 and 2003.

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Retirement and severance benefit obligation	¥(2,563)	¥(2,558)	$(24,253)
Plan assets	1,280	1,114	12,108
Unfunded benefit obligation	(1,284)	(1,444)	(12,145)
Unrecognized actuarial loss	292	452	2,764
Unrecognized past service obligations	(46)	(70)	(436)
Accrued benefit obligation	¥(1,038)	¥(1,061)	$ (9,818)

The following table summarizes the components of the net benefit retirement expenses for the years ended March 31, 2004 and 2003.

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Service cost	¥153	¥165	$1,451
Interest cost on benefit obligation	50	51	471
Expected return on plan assets	(33)	(35)	(316)
Amortization of actuarial loss	112	87	1,063
Amortization of past service obligation	(24)	(24)	(225)
Extraordinary additional retirement payments	35	9	335
Net retirement benefit expense	¥294	¥253	$2,778

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

	2004	2003
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	3.0%	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, 2004, the legal reserve of the Company included in retained earnings amounted to ¥550 million (U.S.$5,202 thousand).

The accompanying consolidated financial statements do not include any provision for cash dividends of ¥10.00 (U.S.$0.09) per share totaling ¥289 million (U.S.$2,731 thousand) which were declared by the Company in June 2004.

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, 2004, 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	Officers and employees (The Board of Directors will approve resolutions designating eligible officers and employees)	July 1, 2006–June 30, 2011

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 recipients are still directors, statutory auditors or employees of the Company or its subsidiaries.

Net assets per share as of March 31, 2004 and 2003 were ¥924.33 (U.S.$8.75) and ¥874.85, respectively. Net income per share for the years ended March 31, 2004 and 2003 were ¥48.87 (U.S.$0.46) and ¥46.53, respectively.

Diluted net income per share for the years ended March 31, 2004 and 2003 was ¥48.62 (U.S.$0.46) and ¥46.50.

Basis for calculation of basic net income per share and diluted net income per share for the years ended March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Basic net income per share:			
Net income	¥1,451	¥1,431	$13,731
Amounts not attributable to shareholders of common stock:			
Directors' bonuses by appropriation of retained earnings	15	16	142
Amounts attributable to shareholders of common stock	1,436	1,415	13,589
Weighted-average number of shares outstanding (millions of shares)	29	30	—
Diluted net income per share:			
Adjustments arising from dilution	—	—	—
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, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Sales promotion expenses	¥4,601	¥3,343	$43,530
Advertising costs	3,052	2,853	28,881
Salaries	1,777	1,774	16,811
Shipment and storage expenses	1,678	1,428	15,880
Provision for employees' retirement and severance benefits	237	191	2,241
Provision for directors' retirement and severance benefits	14	11	131
Provision for doubtful accounts	22	—	209

Research and development expenses included in general and administrative expenses and cost of sales for the years ended March 31, 2004 and 2003 amounted to ¥413 million (U.S.$3,905 thousand) and ¥490 million.

10. Cash and Cash Equivalents

A reconciliation of cash and cash equivalents at March 31, 2004 and 2003 to the accounts and amounts in the accompanying consolidated balance sheets is as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Cash and time deposits	¥8,795	¥9,431	$83,214
Time deposits with a maturity in excess of three months	(23)	(1)	(216)
Cash and cash equivalents	8,772	9,431	82,998

Deposits pledged as collateral mainly for leasing office space at March, 31 2004 and 2003 amounted to ¥24 million (U.S.$230 thousand) and ¥1 million.

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, 2004 and 2003 primarily relating to tools, furniture and fixtures held under finance lease is as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Acquisition cost	¥310	¥392	$2,937
Accumulated depreciation	176	200	1,669
Net book value	¥134	¥192	$1,267

(2) Future minimum lease payments, inclusive of the related interest, at March 31, 2004 and 2003 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Payable in one year or less	¥ 68	¥ 76	$ 641
Payable after one year	66	116	627
Total	¥134	¥192	$1,267

(3) Lease payments and pro-forma depreciation charges for the years ended March 31, 2004 and 2003 were ¥78 million (U.S.$734 thousand) and ¥89 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, 2004 was as follows:

	Millions of yen	Thousands of U.S. dollars
	2004	2004
Payable in one year or less	¥1	$10
Payable after one year	3	33
Total	¥5	$43

12. Commitments and Contingent Liabilities

At March 31, 2004 and 2003, trade notes discounted with banks in the ordinary course of business amounted to ¥93 million (U.S.$875 thousand) and ¥83 million.

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 hedge instrument is deferred until the Company recognizes gain or loss on the hedged item. Assets or liabilities hedged by forward foreign exchange contracts are translated at the forward foreign 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 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 the individuals authorized to be in charge of such transactions.

At March 31, 2004 and 2003, 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, 2004 and 2003 is analyzed as follows:

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	22,252	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, 2003

	Millions of yen				
	Mothproofing and hygiene-related products	Household environment-related products	Total	Eliminations 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 expenditures	120	613	733	—	733

Year ended March 31, 2004

	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	$187,625	$238,924	$426,549	—	$426,549
(2) Intra-group sales and transfers	—	—	—	—	—
Total revenues	187,625	238,924	426,549	—	426,549
2. Operating expenses	169,402	224,799	394,201	—	394,201
Operating income	18,223	14,125	32,348	—	32,348
3. Assets, depreciation and capital expenditure;					
(1) Total assets	94,979	104,548	199,527	143,634	343,161
(2) Depreciation	2,761	5,443	8,204	—	8,204
(3) Capital expenditures	704	3,115	3,819	—	3,819

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 disposable warmers and those in the household environment-related segment are Air Care, Humidity Care, and All Care.

Disposable warmers have been added as major products in the mothproofing and hygiene-related segment effective the year ended March 31, 2004.

Geographical segment information and overseas sales are not presented as the revenues and total assets in Japan exceeded 90% of the totals for both segments and as overseas sales were less than 10% of consolidated sales for the years ended March 31, 2004 and 2003.

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, 2004 and 2003, 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, 2004 and 2003, 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, 2004 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 15, 2004

Corporate Information

(June 15, 2004)

Board of Directors and Corporate Executive Officers (June 15, 2004)

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

Yasushi Kajiwara
Outside director, the member of nomination, audit & compensation committee

Tunehachi Tagaya
Outside director, the member of nomination & audit committee

Masanori Noro
Outside director, the member of nomination & compensation committee

Motohiko Kogo
Outside director, the member of audit committee

Nobuhiro Mine
Director

Mitsuo Tsuchihashi
Director & the member of nomination committee

Kanzo Kobayashi
Director & the member of compensation committee

Executive Officers

Takashi Suzuki
Representative Executive Officer
President, Chief Executive Officer

Nobuhiro Mine
Senior Managing Executive Officer
General manager of Corporate Sales headquarters

Toshiharu Nagasawa
Managing Executive Officer
In charge of R&D and consumables and sundries

Mitsuo Tsuchihashi
Managing Executive Officer
In charge of manufacturing and human resources

Noriaki Kageura
Executive Officer
Deputy general manager of Corporate Sales headquarters

Michihiro Ishikawa
Executive Officer
Tokyo branch general manager

Masakazu Kinoto
Executive Officer,
Osaka branch general manager

Kanzo Kobayashi
Executive Officer,
In charge of corporate staff and international business

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:	687 (Consolidated)
	529 (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 gloves, 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.
Manufacture and sale of hand gloves

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

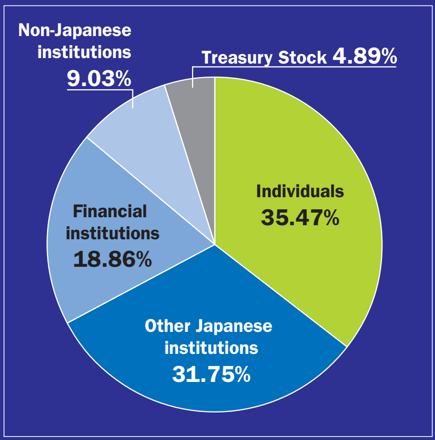
Investor Information

(August 1, 2004)

Fiscal year-end:	March 31
Shares issued and outstanding:	30,346,851
Listed exchange:	Tokyo Stock Exchange, First Section
Shareholders:	4,436

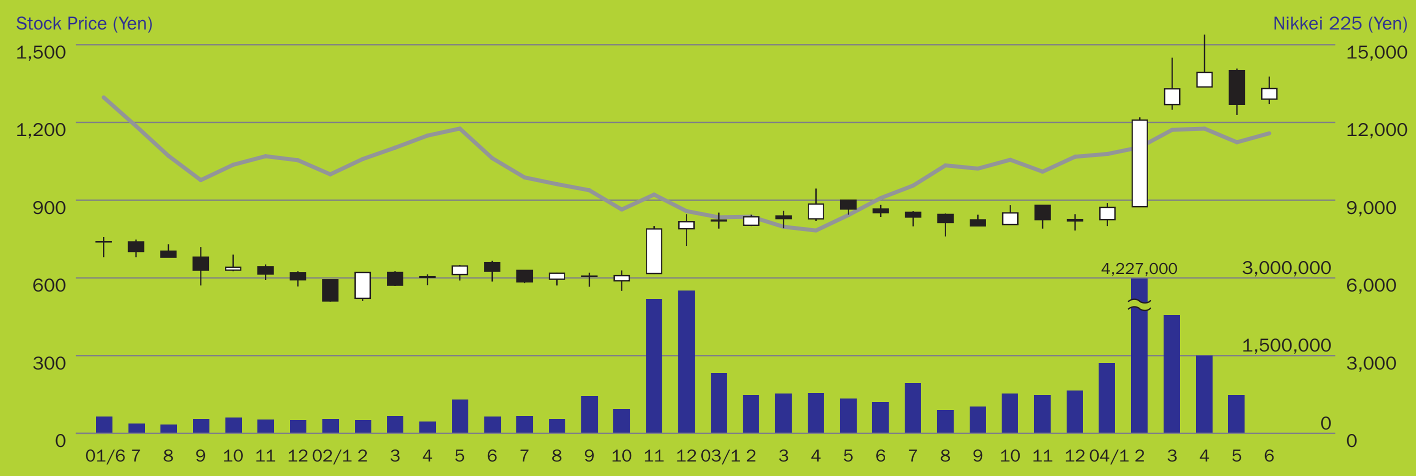
Primary shareholders:

	Sharehold (Thousands)	(% of total)
Shaldan Co.,Ltd.	4,707	15.5
Messiah Investment	2,306	7.6
Nippon Life Insurance Company	1,689	5.6
Bear Sterns and Company	1,502	4.9
Seiichi Suzuki	1,387	4.6
Akio Suzuki	1,115	3.7
The Mizuho Bank, Limited.	884	2.9
Hiroshi Fujii	740	2.4
The Bank of Tokyo Mitsubishi	681	2.2
The Master Trust Bank of Japan, Ltd. (Securities Investment Trust Account)	530	1.7



Registered transfer agent:	Mizuho Trust & Banking Co., Ltd.
Auditor:	Shin Nihon & Co.
Annual shareholders' meeting:	Middle June of each year (June 15, 2004)

Stock chart:



S.T.CHEMICAL CO.,LTD.

Japan's Leading Home Products Manufacturer

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