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YUHO REPORT **Annual**

Fiscal Year Ended	December 31, 2005
Traded	JASDAQ
Stock Code	7963



KOKEN LTD.

YUHOREPORT

Koken Ltd.

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This report is based on the Company's Japanese-language annual filing with the Financial Services Agency and supplemented with materials that facilitate comparison with the Company's peers. The materials from the annual filing with the Financial Services Agency have been edited and reorganized in a format more familiar to the international investment community. All information contained in this report has been obtained from sources believed to be reliable, but the accuracy of the data and the translation and the completeness and timeliness of the information are not warranted by the Company, Pacific Associates, or Asia Securities Printing. None of the above parties shall be responsible for any error or omission or for results obtained from the use of this information.

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Company Profile

Financial highlights

Years ended December 31; Thousands of yen	2001	2002	2003	2004	2005	Change 2005/2001
Net sales	6,551,067	6,744,836	6,534,403	6,621,020	7,123,035	109%
Ordinary profit	520,315	453,041	338,162	386,081	737,929	142%
Net income	(162,185)	140,263	138,575	201,498	389,454	
Common stock	674,265	674,265	674,265	674,265	674,265	100%
Shares outstanding	5,104,003	5,104,003	5,104,003	5,104,003	5,104,003	100%
Shareholders' equity	6,374,781	6,388,925	6,534,804	6,687,635	7,173,742	113%
Total assets	13,355,985	13,571,554	13,826,459	14,080,952	14,720,104	110%
Shareholders' equity per share (Yen)	1,286.67	1,296.55	1,312.36	1,340.06	1,431.14	111%
Dividends per share (Yen)	15.00	15.00	15.00	15.00	25.00	167%
Net income per share (Yen)	(32.62)	28.42	24.93	36.35	70.03	
Net income per share, fully diluted (Yen)	-	28.35	24.81	36.26	69.57	
Dividend payout ratio (%)	-	52.7	53.8	37.0	32.0	
Net cash provided by operating activities	(92,056)	675,259	431,161	344,418	405,532	
Net cash used in investing activities	(336,625)	(316,618)	(697,222)	(220,600)	(557,080)	
Net cash used in financing activities	1,481,157	(55,102)	(182,406)	(86,181)	(215,522)	
Cash and cash equivalents at end of term	2,290,134	2,561,536	2,113,069	2,150,706	1,783,636	
Employees	197	188	194	197	201	102%

Since the year to 2002, the Company has been treating treasury stock as a reduction of capital stock, and it now calculates figures for net assets, net income, and fully diluted net income per share on the basis of total shares outstanding less treasury stock.

Peer comparisons

Percent	2001	2002	2003	2004	2005
Net income / net sales (%)	(2.5)	2.1	2.1	3.0	5.5
Peers	(0.4)	0.8	(1.7)	(0.9)	1.7
Ordinary profit / net sales (%)	7.9	6.7	5.2	5.8	10.4
Peers	5.3	4.7	3.6	2.7	4.0
Net income / equity (%)	(2.5)	2.2	2.1	3.0	5.4
Peers	(2.1)	0.4	(5.1)	(6.6)	2.5
Net income / assets (%)	(1.2)	1.0	1.0	1.4	2.6
Peers	(0.5)	0.9	(1.3)	(0.9)	1.5
Ordinary profit / assets (%)	3.9	3.3	2.4	2.7	5.0
Peers	5.0	4.6	3.6	2.6	3.8
Equity / assets (%)	47.7	47.1	47.3	47.5	48.7
Peers	48.5	49.9	49.4	49.1	49.0

Peers include 27 miscellaneous manufacturers listed on JASDAQ with a market value from 2 to 20 billion yen.

Common size statements

Years ended December 31; Percent			
	2003	2004	2005
Balance sheet			
Assets	100.0	100.0	100.0
Current assets	45.4	46.7	45.3
Tangible fixed assets	45.3	44.0	44.4
Intangible fixed assets	0.1	0.1	0.1
Investments and other assets	9.2	9.2	10.0
Total fixed assets	54.6	53.3	54.5
Total deferred assets	-	0.0	0.2
Liabilities	100.0	100.0	100.0
Current liabilities	18.9	36.7	18.1
Long-term liabilities	33.8	15.8	33.2
Total liabilities	52.7	52.5	51.3
Common stock	4.9	4.8	4.6
Capital reserves	3.8	3.7	3.6
Retained earnings	39.0	39.1	39.3
Unrealized gains or losses on other securities	0.4	0.7	1.9
Treasury stock	(0.8)	(0.8)	(0.7)
Total shareholders' equity	47.3	47.5	48.7
Statement of income			
Net sales	100.0	100.0	100.0
Cost of goods sold	54.0	53.8	51.6
Gross profit on sales	46.0	46.2	48.4
Selling, general and administrative expenses	39.4	38.8	36.5
Operating income	6.6	7.4	11.9
Nonoperating income	0.5	0.3	0.3
Nonoperating expenses	1.9	1.8	1.8
Ordinary profit	5.2	5.9	10.4
Extraordinary income	0.1	0.6	0.2
Extraordinary losses	1.3	1.0	1.5
Net income before taxes and special reserves for the term	4.0	5.5	9.1
Corporate, inhabitant and enterprise taxes	1.9	2.5	3.6
Net income	2.1	3.0	5.5

Business Overview

Description of business

The corporate group (the Company and its affiliates) consists of KOKEN LTD. (the Company) and two subsidiaries. The Company manufactures and sells products that contribute to occupational health and safety, primarily providing dust respirators, gas masks, and instruments and equipment for improving workplace environments, such as push-pull local ventilation system, acid electrolyzed water generation devices, and magnetic rust/scale removers.

The Company rents its corporate headquarters from a subsidiary, Sakai Tatemono Ltd. The Company currently conducts no transactions with its subsidiary Air-sys Ltd.

Group companies

As permitted under Article 5-2 of the Rules on Terminology, Forms and Methods of Preparing Consolidated Financial Statements (Ministry of Finance, Ordinance No. 28, October 1976), the Company does not prepare consolidated financial statements, because neither the assets nor the revenues of its affiliates are sufficiently material to distort rational judgments concerning the financial status and operating results of the corporate group.

Subsidiaries account for the following percentages in terms of asset, revenue, profit, and retained earnings standards.

Asset standard: 1.32%

Revenue standard: 0.21%

Profit standard: 0.06%

Retained earnings standard: 0.03%

History

Year	Month	Event
1943	May	Koshinkai Kenkyujo established.
1952	February	Koshinkai Kenkyujo converted to joint stock company.
1963	December	Company's production and sales divisions spun off as independent operations; KOKEN LTD. established and Hannou plant constructed.
1967	April	Hannou laboratories established.
1968	December	Hoya plant established.
1976	October	Ashio plant established in Ashio, Tochigi Prefecture.
1977	January	Logistics center constructed in Ninomiya, Kanagawa Prefecture.
1981	January	Koken Bosai System established to sell occupational safety and health-protection equipment and to design and construct fire-prevention equipment and workplace environment improvement equipment.
1984	December	Hoya plant relocated to Tokorozawa and reestablished as Tokorozawa plant.
1985	June	Koshinkai Kenkyujo and Ninomiya Seisakusho acquired.
1986	December	Company's shares registered with Japan Securities Dealers Association as OTC-traded stock issue.
1987	July	Koken Bosai System acquired and Sayama Techno-Yard established in Sayama, with one portion of Hannou Techno-Yard relocated to Sayama Techno-Yard. (Names of plants and factories all changed to Techno-Yard.)
1988	July	Second phase of Sayama Techno-Yard construction completed, concluding relocation of Hannou Techno-Yard.
1989	August	New head office building constructed.
1992	March	New research wing completed for Tokorozawa laboratories.
1997	December	Nakai Techno-Yard and Nakai Logistics Center established in Ashigarakami-gun, Kanagawa Prefecture. (Ninomiya Techno-Yard and Ninomiya Logistics Center integrated into newly established facilities of Nakai Techno-Yard and Nakai Logistics Center.)
1999	January	ISO 9001 certification obtained for entire company (registered on inspection).
	June	Gunma Techno-Yard constructed in Kasagake-cho, Nitta-gun, Gunma Prefecture.
2002	January	ISO 14001 certification obtained by Gunma Techno-Yard (registered on inspection).
2003	June	ISO 14001 certification obtained by Nakai Techno-Yard and Nakai Logistics Center (registered on inspection).
2004	December	Registration for OTC trading with Japan Securities Dealers Association canceled; shares listed on the Jasdaq Securities Exchange.
2005	May	ISO 14001 certification obtained by Tokorozawa Techno-Yard (registered on inspection).

Risk factors

The Company recognizes the following risks or potential risk factors as existing as of December 31, 2005:

Research and Development:

- As an R&D-driven comprehensive environmental company, the Company invests management resources to bring highly innovative products to the market. Not all R&D will necessarily lead to the development of new products, however, or to growth in earnings. In addition, the Company's performance could be affected by circumstances which leave the Company no choice but to discontinue its R&D activities.
- The Company's product development is based on highly innovative technology, and it has consequently implemented the necessary procedures to protect its intellectual property, properties and large number of patents. There is, however, only so much laws can do to protect proprietary technology, and the possibility exists that the Company will not be able to prevent a third party from using its intellectual property to manufacture and sell products similar to the Company's. This could have an impact on the Company's results.

Legal and Regulatory

- The Company's businesses are governed by a number of legal restrictions, as set forth in statutes such as the Industrial Safety and Health Law, the Pharmaceutical Affairs Law, and the Product Liability Act; and it continues to strengthen its compliance capabilities and internal controls to ensure its ability to meet the requirements of these laws.
- Despite its best efforts, however, the Company may fail to meet one or more of these regulations, resulting in a recall of its products or other limitations being placed on its businesses. In addition, the enactment of new laws or revisions to existing ones could impact the Company's financial performance by requiring it to incur expenses for capital investment or other needs.

Quality Assurance and Quality Management

- In addition to being designed for use in harsh environments, the Company's products must be extremely durable and trustworthy to fulfill their role in protecting human safety and health. To assure the highest levels of quality control, the Company has established quality management systems based on ISO9001 standards and has adopted the following measures:

- a) It maintains an independent quality verification office, which reports directly to the president; and
- b) It assigns personnel from this office to each techno-yard (plant) to monitor production and inspection procedures
- The Company may for unforeseen reasons, however, be cited for noncompliance, product defects or malfunctions by the Ministry of Health, Labour and Welfare, which has been purchasing and testing respiratory protective devices since fiscal 2000. In such event, the Company could be forced to incur expenses for recalling and repairing such products, which could have an impact on its financial performance.

Natural Disasters, etc.

- The Company has four manufacturing sites in the Kanto region (in Saitama, Gunma, and Kanagawa prefectures). Each facility is reinforcing its crisis management structure in order to minimize losses or damage from earthquakes, fires, etc. If a major, larger-than-expected, natural disaster were to occur, however, there is a possibility that manufacturing and/or shipping could be severely curtailed, and this could have an impact on the Company's results.

Environmental Issues

- Following the discovery at two locations of pollution from trichloroethylene in soil and water tests carried out voluntarily by the Company at its research laboratories and techno-yards, the pollution was publicly disclosed and measures were implemented to restore the two sites in question to pollution-free conditions. Steady progress is being made in restoring these sites, but it is difficult to estimate at what time the process will be complete. In the event that the purification process requires an extended period of time, there is a possibility that the related expenses could exert an impact on the Company's results.

Research and development

The Company is committed to research and development in its business domain, "Cleanliness, Health and Safety." It pursues development of original, creative technologies as well as versatile applications employing them.

With its accumulated knowledge and experience, the Company has acquired a stable market position, especially in the fields of "occupational health and safety implements" and "workplace environment engineering." Never satisfied with its current position, however, it continues challenging to achieve further technological

innovation. The Company has established a matrix R&D structure including project teams for fundamental research on near-future technologies and applications.

Adoption of environmentally friendly designs and materials is one of the important criteria for development of new products. A total of 64 staff are responsible for research and development, and related expenditures during the year under review totaled 423 million yen.

The Company pursued the following activities during the year under review:

In the Mask Segment, the Company introduced the following two major new products to the market:

- The BL-100H model higher performance breath-synchronized blower mask, based on the highly successful and widely used BL-50 model. With the new model, the Company improved the mask's protective capabilities by adding a higher performance filter to prevent dust infiltration and significantly increased the amount of air supplied by the blower. It began selling the BL-100H to customers requiring protection against asbestos hazards.
- The "Maskey-MD" for use by medical care institutions, in protecting against odors from sterilizers (glutaraldehyde, etc.) and organic solvents (xylene, etc.) and protecting against formaldehyde (formalin) fumes.

In the Environment Segment, the Company also introduced the following two major new products to the market:

- The "Chiobuster" blood stain washer kit for use by emergency medical teams. In developing this product, the Company sought to exploit the ability of strongly alkaline electrolyzed water (which is produced along with the strongly acidic electrolyzed water in its electrolyzed water generators) to clean protein stains.
- On February 21, 2006, the Company received manufacturing approval for its new "Kagami Naishi" automatic endoscope washer.

The other major achievements of the Company's research and development activity during the year were as follows:

- Major product developments
 - Canister and canister with filter for direct attachment to masks
 - Models MFN-15 "Life Master" masks and MFJ-15 for use in evacuation during fires and terrorist-related emergencies
 - "Koken Laminar WH-02" open hood, push-pull ventilation system

- DS-51 ventilation and air-purification system for clinical training in autopsies
- “EcoBeam Solo” magnetic water-conditioning and treatment system
- Major product launches:
 - “BL-100H Sakai-type” and “Sakai-type Breath Link-10A” breath-synchronized blower masks
 - “Maskey-MD” anti-odor mask
 - “Chiobuster” blood stain washer kit for emergency rescue teams
 - “Laminar Table HD-51,” a table-top push-pull local ventilation system (open-draft filter type)
 - “Sakai-type Hi-Luck” disposable dust mask (types 310-04, 315-03, 610-02 and 615-02)

Analysis of financial condition and results of operations

(1) Financial analysis

Total assets stood at 14,720 million yen as of December 31, 2005, an increase of 639 million yen from the previous year-end.

Current assets: 6,674 million yen (increase of 100 million yen)

Primarily as a result of increased sales, notes and accounts receivable grew by 287 million yen.

Fixed assets: 8,022 million yen (increase of 517 million yen)

This primarily reflected new purchases of fixed assets totaling 351 million yen, an increase in investment securities of 308 million yen, and a decrease in deferred tax assets of 163 million yen.

Current liabilities: 2,663 million yen (decrease of 2,512 million yen)

This improvement was primarily the result of decreases of 1,950 million yen in bonds redeemable within one year and 864 million yen in long-term debt scheduled for repayment within one year.

Long-term liabilities: 4,883 million yen (increase of 2,665 million yen)

The increase was primarily the result of a 2,200 million yen expansion in bonds outstanding and a 506 million yen increase in long-term debt.

Shareholders' equity: 7,174 million yen (increase of 486 million yen)

The primary items were a 188 million yen increase in net income from the previous year and a 188 million yen increase in unrealized gains or losses on other securities.

The equity ratio rose slightly to 48.7% from 47.5%.

(2) Results of operations

Sales:	7,123 million yen	(up 7.6%)
Operating income:	846 million yen	(up 72.7%)
Ordinary profit:	738 million yen	(up 91.1%)
Net income for the term:	389 million yen	(up 93.3%)

Sales:

The improvement resulted from increased demand for masks from large manufacturers and from significant gains in breath-synchronized blower masks. The higher sales of the latter reflected new uses for these masks by workers engaged in tunnel construction, increasing applications in general industrial settings, and growing demand for use in asbestos-hazard prevention.

Cost of goods sold:

Along with the increase in sales, the cost of goods sold grew by 117 million yen to 3,680 million yen. The gross profit margin improved by 2.2 percentage points to 48.4% from 46.2% in the previous year.

Selling, general and administrative expenses:

Despite efforts to reduce SG&A expenses, those expenses increased by 29 million yen to 2,598 million yen, primarily because of higher personnel expenses.

Operating income:

The operating profit margin improved by 4.5 percentage points to 11.9% from 7.4% in the previous year.

Nonoperating income and expenses:

Nonoperating income increased by 4 million yen to 21 million yen, primarily because of a 5 million yen increase in commissions received.

Nonoperating expenses increased by 8 million yen to 129 million yen, reflecting an increase in miscellaneous expenses.

Extraordinary income and losses:

Extraordinary income decreased by 26 million yen to 13 million yen, because of a decline in gains on sales of investment securities, which were 39 million yen in the previous year.

Extraordinary losses increased by 43 million yen to 103 million yen. This primarily reflected a 45 million yen loss on disposal of fixed assets and the recognition of 44 million yen in product recall expenses.

Corporate governance

(1) Basic philosophy on corporate governance

The Company aims to increase enterprise value and shareholder and investor value. Toward these ends, it is endeavoring to strengthen corporate governance to ensure the transparency and health of management. It is also taking steps to build a management organization that increases efficiency through clarified lines of responsibility and that responds rapidly to changes in the operating environment.

The Company also believes that disclosure is an important issue for management. Accordingly, its aim is to continue to disclose information in a timely, prompt, fair and transparent manner hereafter. Toward this end, it is endeavoring to increase opportunities for disclosure, to improve its methods of conveying information, and to add greater value to the information disclosed.

(2) Execution of policies related to corporate governance

- 1) Management organizations and other corporate governance structures related to managerial decision-making, execution and oversight
 - (a) Board of Directors: The premier decision-making body of the Company, the Board of Directors meets, as a rule, once a month, as provided for under the bylaws of the Board of Directors. In addition to deciding important matters concerning operational execution, the Board also oversees those operations. The Board is also prepared to meet on an as-needed basis to deal with issues that require prompt action.
 - (b) Senior Management Meetings: Senior Management Meetings, whose members consist of the directors, division managers, and heads of the respective departments, are convened once a month. Decisions of the Board of Directors are conveyed to the senior management at these meetings, which also provide occasions for divisional managers and heads of sales offices to make sales reports, and for senior management to be updated on operations in the various departments. Problem areas and policy responses are also discussed.
 - (c) Board of Corporate Auditors: The Company has adopted a system of corporate auditors. It elects four auditors (of which two are outside

auditors), who participate in Board of Directors meetings and, in doing so, monitor the performance of the directors and the Board of Directors.

- (d) The Company has entered into a financial auditing agreement with ChuoAoyama Audit Corporation. Under this agreement, ChuoAoyama Audit Corporation provides the Company with appropriate information and precise and strict financial auditing services. It also evaluates the Company's systems of internal controls throughout the year, and generates an opinion on the Company's financial statements based on procedures that test the Company's accounts.
- (e) Names of the certified public accountants and assistants who participated in audit operations:
- Certified public accountants who conducted audits
Engagement partners: Yoshimi Nakai, CPA; Yoji Ohashi, CPA
 - Assistants who participated in audits
CPAs: 6 Assistant accountants: 3

To strengthen controls from outside the Company, the Company has also entered into an advisory agreement with Sakura Kyodo Law Offices, which provide expert legal advice on a timely basis.

- 2) Statement regarding relationships between the Company and its outside directors and corporate auditors (personal, share ownership-based, commercial or other)
- The Company does not have an outside director.
 - None of the above relationships apply with respect to the corporate auditors.
- 3) Directors' and corporate auditors' compensation
- Directors' compensation
Compensation paid to directors: 104,424,000 yen
Compensation paid to corporate auditors: 21,980,000 yen
 - Fees paid to financial auditor
Fees in accordance with Article 2-1 of the Certified Public Accountants Law: 16,000,000 yen (excluding taxes)

4) Internal management structure

(a) Internal management structure, organization of departments, internal regulations and other facets of internal management structure

- The Company operates its business through three divisions: the Management Division, the Marketing Division and the Technology Division. Each division is headed by a division manager; responsibilities are arranged so that each division acts as a check on the others.
- To enhance efficiency and promote appropriate and rational management, the Company has established a number of internal regulations, which are continuously reviewed by the department heads to assure their compatibility with realities on the ground. The department heads perform the important role of ensuring that operations in their departments are carried out strictly in accordance with the applicable laws and ordinances.
- Internal audits are the responsibility of the general manager of the Management Division, who directs an individual who has been appointed by the president to audit the company's operation. The results of this individual's audits are reported to the president and, if necessary, measures to resolve any problems are adopted and follow-up audits carried out.
- Quality management audits, another facet of the Company's internal audit structure (equivalent to internal audits based on ISO9001 and JIS Q9001), are the responsibility of the head of the quality management office, who also reports the audit results to the president. If the audits uncover any nonconformity with quality standards, the heads of the relevant inspection departments are requested to correct the problems, and the impact of their follow-up measures is checked.

(b) Steps taken within the past year to improve internal controls

- Adoption of, or revisions to, 48 sets of internal regulations
- On April 1, 2005, the Personal Information Protection Act took effect. In response, the Company reviewed its internal rules related to the handling of personal information. The Company took the view that management of all types of information was an important aspect of compliance and risk management and, accordingly, conducted reviews

of its controls over technical, manufacturing and other confidential information, as well as its controls over insider information. It is continuing to work on establishing a system of information security through a focus on education and improved auditing.

5) Steps taken within the past year to improve corporate governance

- (a) The Company holds Board of Directors meetings once a month, at which important management decisions are made and their execution overseen
- (b) In relation to disclosure, the Company released explanatory information on its financial results for the year ended December 2004 and on financial results for the interim period of the year ended December 2005.

Directors

Name	Title	Joined company	Previous employment	Date of birth	Shares owned Thousand shares
Masakazu Sakai	Representative Director, Chairman	Aug-67	Renown Shoji	22-Aug-41	730
Hiroyuki Sakai	Representative Director, President	Apr-67		23-May-43	701
Yosuke Yamasato	Senior Managing Director	Sep-02	Ground Self-Defense Force	22-Jun-45	1
Tadashi Shimosaka	Managing Director	Oct-88	Dayton Progress Corp.	3-Jan-43	2
Tadashi Miyata	Managing Director	Nov-89	Toray Industries	14-Sep-39	2
Toshio Akiyama	Director	Apr-73		2-Apr-49	1
Eitaro Tanaka	Director	May-84	Mitsubishi Petro-Chemical	3-Oct-49	7
Yoshihiro Ito	Director	Jun-80	Sanshin Seisakusho	12-Jul-49	3
Yuji Saito	Director	Jan-78	Skylark	22-Nov-54	1
Kazushi Kimura	Director	Mar-76		26-Jul-53	3
Kosuke Nozaki	Director	Apr-94	Japan Industrial Safety and Health Association	22-Jul-33	1
Toshiyuki Tanaka	Standing Corporate Auditor	Apr-91	Kyowa Bank	11-Apr-38	7
Kiminobu Nakamura	Standing Corporate Auditor	Jul-67	Koa Fire & Marine Insurance	15-Jan-38	1
Masaru Kurihara	Corporate Auditor	Mar-03	Tokyo Regional Taxation Bureau	25-Nov-43	-
Jun Emi	Corporate Auditor	Apr-03	Kanazawa University	12-Nov-37	1
					1,462

Current assignments and previous positions in the Company have been omitted.

Employees

	Total or average
Number	201 [88]
Average age	36.8
Average years of service	11.7
Average annual salary (yen)	6,177,478

The number of employees refers to persons working on a regular basis; temporary employees are shown separately in parentheses.

The average annual salary includes bonuses.

Union

The Company has no labor union.

Stock option plans

The Company has adopted a stock option plan. This plan is based on the issuance of subscription rights for new stock, as stipulated by the provisions of Articles 280-20 and 21 of the Commercial Code, and on the purchase of treasury stock, as stipulated by the provisions of Article 210-2 of the old Commercial Code.

The Company has adopted a stock option system, the principal features of which are as follows:

(1) Resolution passed on March 29, 2001

Date of resolution	March 29, 2001
Categories and numbers of persons to be granted rights	10 directors and 45 employees
Type of shares	Common stock
Number of shares	Maximum of 84,000 shares
Amount paid in at time of execution of rights	579 yen (Note)
Period for execution of rights	March 30, 2003 - March 29, 2006
Item concerning the assignment of rights	Approval of Board of Directors required.

Furthermore, in the event of a stock split or a reverse stock split, the value of the assigned shares shall be adjusted according to the following formula, with any fractional shares resulting from the adjustment rounded up to the next yen:

$$\begin{aligned} & \text{Adjusted value of assigned shares} \\ & = \text{Value of assigned shares} \times \frac{1}{\text{Ratio of split or reverse split}} \end{aligned}$$

In the event that the Company is taken over by another company or merged into a new company, moreover, adjustments of assigned value that are deemed necessary and appropriate shall be carried out on the basis of a resolution of the Board of Directors.

(2) Resolution passed on March 30, 2004

Date of resolution	March 30, 2004
Categories and numbers of persons to be granted rights	9 directors, 4 corporate auditors and 46 employees
Type of shares subject to rights	Common stock
Number of shares	97,000
Amount paid in at time of execution of rights	(Note)
Period for execution of rights	March 31, 2006 - March 30, 2009
Item concerning the assignment of rights	Approval of Board of Directors required.

If the Company issues common stock or disposes of treasury stock at less than the market price (excluding instances in which it does so on the basis of execution of stock options), moreover, the exercise price shall be adjusted in accordance with the following formula, with all fractional yen resulting from such adjustment rounded up to the next yen.

$$\begin{aligned} \text{Adjusted pay-in amount} \\ = \text{Pre-adjusted pay-in amount} \times \frac{\frac{\text{Number of shares previously outstanding}}{\text{Number of new shares issued}} \times \frac{\text{Pay-in amount per share}}{\text{Market price per share}}}{\frac{\text{Number of shares previously outstanding}}{\text{Number of new shares issued}} + 1} \end{aligned}$$

The amount paid per stock option shall be the amount paid per share as determined below (hereinafter, "exercise price"), multiplied by the number of shares granted.

$$\begin{aligned} \text{Adjusted pay-in amount} \\ = \text{Pre-adjusted pay-in amount} \times \frac{1}{\text{Ratio of split or of reduction in number of shares outstanding}} \end{aligned}$$

Cash Flows

Nonconsolidated statement of cash flows

Years ended December 31; Thousands of yen	2003	2004	2005
Net cash provided by operating activities			
Net income before taxes and other adjustments	261,606	364,403	647,178
Depreciation	345,115	342,399	345,500
Losses on disposal of fixed assets	19,619	2,837	44,895
Increase (decrease) in allowance for doubtful accounts	14,200	7,470	5,896
Gains on sale of investment securities	-	(38,870)	-
Losses on sale of investment securities	-	7,609	-
Losses on valuation of investment securities	1,384	-	-
Gains on redemption of golf memberships	-	-	(12,600)
Increase (decrease) in retirement benefits	45,150	54,848	(61,678)
Increase in directors' retirement allowances	75,934	63,832	23,600
Increase (decrease) in reserve for bonuses	(20,000)	15,000	61,000
Interest and dividend income	(3,037)	(3,508)	(3,491)
Interest expenses	57,101	52,046	50,610
Interest expenses on bonds	46,890	46,673	38,671
Decrease (increase) in notes and accounts receivable	(99,509)	(460,116)	(286,716)
Decrease (increase) in inventory	(51,313)	191,911	(145,106)
Increase (decrease) in notes and accounts payable	21,279	(45,164)	87,439
Increase (decrease) in consumption tax payable	(25,275)	24,546	(27,358)
Directors' bonuses	(17,300)	(15,000)	(20,800)
Others	15,893	21,490	5,660
	687,737	632,406	752,700
Interest and dividend income	3,033	3,510	3,492
Interest expenses	(102,555)	(99,812)	(95,173)
Income tax and others	(157,054)	(191,686)	(255,487)
	431,161	344,418	405,532

K O K E N

Years ended December 31; Thousands of yen	2003	2004	2005
Net cash used in investing activities			
Increase in time deposits	(230,500)	(420,000)	(390,002)
Proceeds from decrease in time deposits	-	420,000	422,500
Payments for purchase of investment securities	(50,019)	-	-
Proceeds from sale of investment securities	-	112,046	9,000
Payments for acquisition of tangible fixed assets	(452,783)	(420,769)	(655,670)
Proceeds from sale of tangible fixed assets	43,517	97,887	46,920
Payments for loans and advances	(4,000)	(6,500)	-
Proceeds from collection of loans and advances	5,130	964	1,500
Others	(8,567)	(4,228)	8,672
	(697,222)	(220,600)	(557,080)
Net cash used in financing activities			
Proceeds from increase in short-term borrowings	2,035,000	1,240,000	1,550,000
Payments of short-term borrowings	(2,120,000)	(1,240,000)	(1,552,000)
Proceeds from increase in long-term debt	800,000	700,000	1,300,000
Payments of long-term debt	(845,964)	(712,164)	(1,658,214)
Proceeds from issuance of bonds	-	296,450	2,165,400
Payments for redemption of convertible bonds	-	(300,000)	(1,950,000)
Proceeds from sale of treasury stock	24,897	4,053	6,752
Payments for purchase of treasury stock	(2,425)	-	(2,835)
Dividends	(73,914)	(74,520)	(74,625)
	(182,406)	(86,181)	(215,522)
Effect of exchange rate fluctuations on cash and cash equivalents	-	-	-
Increase (decrease) in cash and cash equivalents	(448,467)	37,637	(367,070)
Cash and cash equivalents at beginning of term	2,561,536	2,113,069	2,150,706
Cash and cash equivalents at end of term	2,113,069	2,150,706	1,783,636

Relationship between balance of cash and cash equivalents as of term-end and balance sheet items

Years ended December 31; Thousands of yen	2003	2004	2005
Cash and deposit accounts	2,343,569	2,381,206	1,981,639
Time deposits, etc., of 3 months or longer	(230,500)	(230,500)	(198,003)
Cash and cash equivalents at end of term	2,113,069	2,150,706	1,783,636

Capital expenditures

Capital expenditures amounted to 787 million yen during the term. The investments were made to develop highly competitive new products in response to market needs and to establish efficient mass-production capabilities.

The bulk of the investments were for manufacturing equipment and metal molds for the Sayama Techno-Yard.

There were no sales or removals of equipment during the year that exerted a material impact on operations.

Capital expenditure plan

Millions of yen	Budgeted amount	Expenditures to date	Date commenced	Date completed
Sayama Techno-Yard				
Manufacturing equipment for mask filters	1,000	-	2006/1	2006/6

Dividend policy

The Company has consistently viewed rewarding shareholders as an important issue for management. In line with this view, it has adhered to a basic policy of maintaining and increasing its dividend payout.

Based on the foregoing policy, and in light of the Company's financial performance during the year under review, the Company has declared a special dividend of 10 yen per share. Together with its regular dividend of 15 yen per share, this brings total dividends for the year to 25 yen per share. The Company will apply retained earnings to R&D of new technologies and products and to capital investment as a means of sustaining future growth.

Operations

Nonconsolidated statement of income

Years ended December 31; Thousands of yen	2003	2004	2005
Sales			
Net sales	6,397,476	6,462,232	7,043,893
Construction	136,927	158,788	79,142
	6,534,403	6,621,020	7,123,035
Cost of goods sold			
Finished goods and merchandise inventory, beginning of term	892,150	851,953	747,513
Production costs for the term	3,412,002	3,369,773	3,597,789
Purchase of finished goods for the term	550	-	-
Purchase of merchandise for the term	97,166	45,618	51,854
Construction costs	96,143	87,971	49,125
	4,498,011	4,355,315	4,446,281
Transfers to other accounts	116,064	44,840	34,789
Finished goods and merchandise inventory, end of term	851,953	747,513	731,907
	3,529,994	3,562,962	3,679,585
Gross profit on sales	3,004,409	3,058,058	3,443,450
Selling, general and administrative expenses			
Packing and shipping expenses	102,330	97,830	106,866
Advertising expenses	141,703	137,559	152,803
Directors' salaries	117,182	116,964	126,744
Employees' salaries	661,205	660,677	678,525
Bonuses	106,137	98,859	113,581
Reserve provision for bonuses	74,387	91,833	120,721
Reserve provision for directors' retirement allowances	39,900	20,900	23,600
Directors' retirement allowances	600	-	-
Retirement benefit expenses	68,585	80,875	10,477
Employee benefit expenses	118,074	114,502	119,948
Travel and transportation expenses	111,706	109,469	117,798
Other office expenses	91,046	92,783	87,725
Rental expenses	186,137	187,701	184,941
Research expenses	447,343	447,735	422,979
Taxes and public dues	19,789	19,112	30,857
Depreciation expenses	80,811	82,075	65,956
Provision for doubtful accounts	-	-	1,118
Others	205,444	209,284	232,966
	2,572,379	2,568,158	2,597,605
Operating income	432,030	489,900	845,845

K O K E N

Years ended December 31; Thousands of yen	2003	2004	2005
Nonoperating income			
Interest income	2,027	679	711
Dividend income	1,010	2,829	2,780
Commissions received	4,891	4,250	8,976
Foreign exchange gain	13,009	-	-
Rental income	3,278	3,278	3,626
Others	8,474	5,891	5,145
	<u>32,689</u>	<u>16,927</u>	<u>21,238</u>
Nonoperating expenses			
Interest expenses	57,101	52,046	50,610
Interest expenses on bonds	46,890	46,673	38,671
Losses on sale of promissory notes	5,395	3,939	3,287
Issuing expenses for bonds	1,650	1,183	12,717
Others	15,521	16,905	23,869
	<u>126,557</u>	<u>120,746</u>	<u>129,154</u>
Ordinary profit	338,162	386,081	737,929
Extraordinary income			
Reversal of allowance for doubtful accounts	4,223	-	-
Gains on sale of investment securities	-	38,870	-
Gains on redemption of golf memberships	-	-	12,600
	<u>4,223</u>	<u>38,870</u>	<u>12,600</u>
Extraordinary losses			
Losses on disposal of fixed assets	17,861	2,837	44,895
Valuation losses on investment securities	1,384	-	-
Losses on sale of investment securities	-	7,609	-
Provision for directors' retirement allowances for prior years	42,934	42,932	-
Provision for doubtful accounts	18,600	7,170	-
Expenses on disposal of fixed assets	-	-	14,800
Product recall expenses	-	-	43,656
	<u>80,779</u>	<u>60,548</u>	<u>103,351</u>
Net income before taxes and special reserves for the term	261,606	364,403	647,178
Corporate, inhabitant and enterprise taxes	185,100	231,000	260,000
Deferred taxes	(62,069)	(68,095)	(2,276)
	<u>123,031</u>	<u>162,905</u>	<u>257,724</u>
Net income for the term	138,575	201,498	389,454
Retained earnings brought forward from previous term	150,511	200,844	208,986
Unappropriated retained earnings, end of term	289,086	402,342	598,440

Nonconsolidated appropriation of retained earnings

Thousands of yen	March 30, 2004	March 30, 2005	March 30, 2006
Unappropriated retained earnings, fiscal year-end	289,086	402,342	598,440
Disposition of voluntary reserves - total			
Disposition of reserve for reduction of asset costs due to contributions or subsidies	1,278	2,069	1,944
	290,364	404,411	600,384
Appropriation of retained earnings	89,520	195,425	365,599
Dividends - total	74,520	74,625	124,599
Directors' bonuses	15,000	20,800	41,000
[Corporate auditors' bonuses]	[3,300]	[4,000]	[7,000]
Voluntary reserves - total			
Special reserves	-	100,000	200,000
Retained earnings carried forward to following term	200,844	208,986	234,785

Cost of goods sold

Years ended December 31; Thousands of yen	2003	%	2004	%	2005	%
Raw materials costs	1,961,282	56.5	1,878,614	56.4	2,043,992	56.1
Labor costs	505,141	14.6	499,242	15.0	528,024	14.5
Expenses	1,002,596	28.9	954,951	28.6	1,072,833	29.4
Total manufacturing overhead	3,469,019	100.0	3,332,807	100.0	3,644,849	100.0
Work-in-process inventory, beginning of term	188,408		245,425		208,459	
	3,657,427		3,578,232		3,853,308	
Work-in-process inventory, end of term	245,425		208,459		255,519	
Production costs for the term	3,412,002		3,369,773		3,597,789	
Expenses						
Subcontracted processing expenses	316,180		284,861		313,828	
Depreciation expenses	243,618		247,061		266,150	
Construction costs						
Raw materials costs	20,003	20.8	37,535	42.7	13,446	27.4
Labor costs	3,030	3.2	2,547	2.9	2,194	4.5
Subcontracted processing expenses	70,537	73.3	46,075	52.4	32,079	65.3
Expenses	2,574	2.7	1,814	2.0	1,406	2.8
	96,144	100.0	87,971	100.0	49,125	100.0

Results of operations

Year ended December 31, 2005

Economic factors affecting operations

The tone in the Japanese economy was one of steady recovery, but with some lingering concerns.

- Increasing private capital investment against a background of expanding corporate profits
- Improving employment environment

The uncertainties clouding the outlook were largely external:

- Sharply higher oil prices
- Trends in the Chinese economy

Discussion by product segment (percentage changes, year-on-year)

The Mask Segment recorded a 10.5% increase in sales, reflecting the following developments:

- An increase in demand for masks, principally from large manufacturers, reflecting the recovering economy
- A steady expansion in demand for new breath-synchronized blower masks, which the Company believes will develop into a major product line in the future; growth in blower masks during the year benefited from:
 - Adoption of masks for workers engaged in tunnel construction
 - Increasing use in general industrial settings
 - Growing demand for asbestos-hazard prevention
- Government enforcement of “Regulations for the Prevention of Asbestos Hazards” in July 2005
 - A long-festering issue, health problems associated with asbestos exploded into a society-wide concern when asbestos hazards regulations took effect in July 2005.
 - Regulations and society-wide attention generated much higher-than-expected orders, which the Company met by operating at full capacity.
- Demand in these sectors overshadowed a sharp decrease in orders from the public sector.

Sales in the Environment Segment declined by 25.1%.

- Continued strong sales of Laminar Tables (an open-draft, table-top push-pull local ventilation system) to medical facilities where formaldehyde is used
- Offset by the voluntary recall of the Company's "Kagami Naishi" automatic endoscope washer

Financial analysis (percentage changes, year-on-year)

Net sales rose by 7.6% to a record-high level of 7,123 million yen.

Operating income and ordinary profit increased by 72.7% and 91.1%, respectively, reflecting the following:

- A significant decline in costs of sales, resulting from a combination of:
 - Reductions of raw materials costs and improved efficiencies in manufacturing
 - Transfer of installation work for environmental instruments and equipment to local contractors
 - A large inflow of orders for equipment to protect against asbestos hazards
- Efforts to reduce SG&A expenses

Net income increased by 93.3%.

- A 44 million yen extraordinary loss related to the recall of "Kagami Naishi," involving a recall of 24 of the 100 units sold
- The remaining 76 units remain in use by customer choice, despite the Company's explanations of the reasons for the recall and its requests to remedy the problem.

Year ended December 31, 2004

Economic factors affecting operations

A mood of Japanese economy's bounce back gradually took hold during the year under review. Corporate earnings were improved as a result of rationalization, capital investments were increased and stock prices rebounded. However, overall economy did not show consistent and full-fledged recovery. This is due to recovery disparities among local businesses, slowdown of public investment, slow recovery of smaller companies and sluggish consumption caused by harsh employment situation.

Discussion by product segment (percentage changes, year-on-year)

The Mask Segment recorded 6.1% growth in sales to 6,078 million yen, reflecting the following developments:

- Demand for infection-preventive masks dipped after the previous period's surge stimulated by the SARS epidemic.
- Overall demand for masks grew by economic recovery mainly among major manufacturers.
- A recovery was seen at the export sales.
- Orders for the BL-50 breath-synchronized blower mask, which was launched in the second half of the year, exceeded initial forecasts.

The Environment Segment saw sales decline by 32.6% to 543 million yen due to following reasons:

- Installation work of environmental improvement equipment was transferred to local constructors in order to improve cost competitiveness and raise operating efficiency.
- Sales of the "Kagami Naishi" fully automated endoscope cleaning system fell short of initial estimates.

Issues requiring action

Analysis of the business environment for the occupational safety and health equipment industry

- Positive medium- and long-term outlook, based on:
 - More widespread awareness of the importance of occupational safety and health
 - Groundswell of public opinion regarding environmental issues
- In the short-term, however, despite the ongoing recovery among large manufacturers, pressures remain for the manufacturing sector to reform, suggesting the continuation of a difficult operating environment:
 - Continuing trends toward mergers, consolidations, plant integration, transfers of manufacturing to overseas locations
 - Demands vis-à-vis suppliers for more cost cutting
- At the same time, the emergence of new opportunities based on:
 - Public demand for improved work environments
 - Strengthening of legal and regulatory environments

- (a) Demands for advanced product performance to comply with international standards
- (b) The need to meet more stringent rules on the handling of industrial waste, asbestos, etc.
- The need to respond to natural disasters, viral infections (SARS, avian flu) and other emergencies
- New opportunities evidenced by:
 - (a) The formation of a market to deal with dioxins
 - (b) The expansion and outlook for sustained long-term growth in demand for products to reduce asbestos hazards

Issues for the Mask Segment

- The need to sustain and expand its position in the market for dust and gas masks by continuing to introduce products that meet the evolving standards set by the Ministry of Health, Labour and Welfare
- The need to expand market share by providing products that offer superior cost-performance benefits
 - Expanding the model line for breath-synchronized blower masks, based on a totally new concept devised by the Company that results in the world's first Breath-Synchronized Air Flow System
 - Developing these masks into a mainstay of the mask segment through intensive marketing, including marketing in overseas markets
- The need to respond to the public's sudden heightened awareness of the importance of disaster preparedness, an awareness prompted by major earthquakes, accidents at nuclear power plants, large fires, etc., in Japan and by terrorist incidents in the U.S. and UK, SARS, avian flu, etc.
 - By providing products that meet not only industrial, fire-fighting and rescue requirements but also needs in civilian markets (products for use in evacuations during fires and terrorist-related disasters)
 - By developing production technologies that enable the Company to respond to large, unexpected spikes in demand caused by such disasters

- Dealing with a mature industrial market for masks in Japan and increasing competition from foreign manufacturers entering the Japanese market by improving quality and by lowering manufacturing costs and further enhancing manufacturing efficiencies

Issues for the Environment Segment

- The need to continue to provide new markets in the industrial sector with highly innovative products that meet demands for “Cleanliness, Health and Safety,” such as:
 - “Koken Laminar” push-pull ventilating devices
 - Oxylyzer devices for the production of highly acidic electrolyzed water
 - “EcoBeam” magnetic water-conditioning and treatment systems
 - “Aqua Flash” purification systems for polluted soil and subterranean water
- The need to meet demands from medical care facilities
 - Where there is an urgent need to develop ways of containing the spread of infection, an issue receiving increasing attention today following the SARS epidemic in Southeast Asia and because of present fears of avian flu and other new flu viruses
 - Where there is a need to protect the health and safety of medical care workers, who use a variety of potentially harmful chemicals, such as disinfectants and sterilizing gases
 - Where there are potentially significant markets not only for masks but also for oxylyzers and other comprehensive proposals using the Company’s environmentaled products

Production and sales

Production

Thousands of yen	2005	
	Amount	Year-on-year comparison (%)
Dust respirators	4,069,702	127.5
Gas masks	1,600,340	92.2
Other products related to dust-protection masks and gas masks	1,083,372	96.6
	6,753,414	111.6
Environmental-improvement construction and facilities	291,459	73.2
	291,459	73.2
	7,044,873	109.3

Sales

Thousands of yen	2005	
	Amount	Year-on-year comparison (%)
Dust respirators	4,029,026	125.3
Gas masks	1,624,294	94.1
Other products related to dust-protection masks and gas masks	1,063,265	93.4
	6,716,585	110.5
Environmental-improvement construction and facilities	406,450	74.9
	406,450	74.9
	7,123,035	107.6

Principal customers

Thousands of yen	2004		2005	
	Amount	% of net sales	Amount	% of net sales
Midori Anzen Yohin	969,071	14.6%	1,270,565	17.8%

Leases

Under generally accepted accounting principles in Japan, finance leases that do not involve transfer of ownership are accounted for in the same manner as operating leases when “as if capitalized” information is disclosed. The Company’s principal finance lease contracts are as follows:

Item	Number	Term (Months)	Current payments (Thousands of yen)	Future payments
Vehicles	58	12-60	30,950	50,435
OA equipment	1	12-72	39,226	93,456
Metal molds	196	12-36	78,192	92,074

Pro forma information on leased property is as follows:

Thousands of yen	2004	2005
Machinery and equipment		
Acquisition cost	100,872	100,872
Accumulated depreciation	38,184	50,352
Net leased property	62,688	50,520
Vehicles and delivery equipment		
Acquisition cost	36,211	22,088
Accumulated depreciation	17,341	17,407
Net leased property	18,870	4,681
Tools, furniture and fixtures		
Acquisition cost	561,744	473,330
Accumulated depreciation	330,358	285,778
Net leased property	231,386	187,552
Total		
Acquisition cost	698,827	596,290
Accumulated depreciation	385,883	353,537
Net leased property	312,944	242,753
Future minimum lease payments, including interest portion		
Due within one year	115,993	98,043
Due after one year	196,951	144,710
	312,944	242,753
Lease payments	136,759	116,348
Pro forma depreciation expenses (assuming straight-line method)	136,759	116,348

Capital Structure

Nonconsolidated balance sheet: assets

December 31; Thousands of yen	2003	2004	2005
Current assets			
Cash	2,343,569	2,381,206	1,981,639
Notes receivable - trade	557,031	911,047	962,125
Accounts receivable - trade	1,771,667	1,877,767	2,113,404
Merchandise	232,811	201,512	174,258
Finished products	619,142	546,000	557,649
Raw materials	343,706	296,756	402,212
Work in process	245,507	209,285	255,708
Supplies	43,721	39,423	48,255
Prepaid expenses	29,071	29,239	63,032
Deferred tax assets	63,001	78,957	115,448
Others	28,865	5,753	4,294
Allowance for doubtful accounts	(2,900)	(3,100)	(4,000)
	6,275,191	6,573,845	6,674,024
Fixed assets			
Tangible fixed assets			
Buildings	2,671,707	2,682,166	2,782,731
Accumulated depreciation	1,348,829	1,430,298	1,513,260
	1,322,878	1,251,868	1,269,471
Structures	177,115	177,998	178,898
Accumulated depreciation	149,817	152,777	156,238
	27,298	25,221	22,660
Machinery and equipment	2,739,603	2,992,270	2,982,276
Accumulated depreciation	1,657,943	1,823,521	1,639,415
	1,081,660	1,168,749	1,342,861
Vehicles and delivery equipment	1,500	1,500	1,500
Accumulated depreciation	1,425	1,425	1,425
	75	75	75
Tools, furniture and fixtures	2,130,834	2,191,083	2,270,152
Accumulated depreciation	1,880,420	1,941,994	1,954,369
	250,414	249,089	315,783
Land	3,444,361	3,444,361	3,444,361
Construction in progress	143,379	51,259	146,090
	6,270,065	6,190,622	6,541,301

K O K E N

December 31; Thousands of yen	2003	2004	2005
Intangible fixed assets			
Patents	42	-	-
Telephone subscription rights	9,424	9,424	9,424
Leaseholds	1,057	1,057	1,057
Software	3,039	2,688	1,669
Others	1,217	1,089	960
	<u>14,779</u>	<u>14,258</u>	<u>13,110</u>
Investments and other assets			
Investments in securities	387,389	368,654	676,904
Capital stock of affiliated companies	5,000	5,000	5,000
Long-term loans to employees	1,589	7,124	5,624
Long-term prepaid expenses	26,455	20,127	11,419
Deferred tax assets	219,407	246,298	82,994
Leasing and guarantee deposits	155,566	155,507	121,939
Retirement benefit insurance premiums	540,399	573,675	606,539
Bankruptcy claims	419	545	-
Allowance for doubtful accounts	(69,800)	(77,070)	(43,000)
	<u>1,266,424</u>	<u>1,299,860</u>	<u>1,467,419</u>
Total fixed assets	7,551,268	7,504,740	8,021,830
Deferred assets			
Issuing expenses on bonds	-	2,367	24,250
	<u>-</u>	<u>2,367</u>	<u>24,250</u>
Total assets	13,826,459	14,080,952	14,720,104

Nonconsolidated balance sheet: liabilities and shareholders' equity

December 31; Thousands of yen	2003	2004	2005
Current liabilities			
Accounts payable - trade	175,546	130,383	217,822
Short-term borrowings	920,000	920,000	918,000
Current portion of long-term debt	637,164	1,542,214	678,064
Bonds redeemable within 1 year	300,000	1,950,000	-
Accounts payable - other	180,007	141,590	291,951
Accrued expenses	106,784	111,894	126,346
Income taxes payable	99,066	138,381	154,288
Consumption taxes payable	19,265	43,812	16,454
Deposits received	59,836	60,366	62,969
Reserve for bonuses	121,000	136,000	197,000
Others	1,501	153	13
	2,620,169	5,174,793	2,662,907
Long-term liabilities			
Corporate bonds	1,950,000	300,000	2,500,000
Long-term debt	2,094,902	1,177,688	1,683,624
Employees' retirement benefits	331,976	386,824	325,147
Reserve for directors' retirement allowances	273,668	337,500	361,100
Others	20,940	16,512	13,584
	4,671,486	2,218,524	4,883,455
Total liabilities	7,291,655	7,393,317	7,546,362
Shareholders' equity			
Common stock	674,265	674,265	674,265
Capital reserves	527,937	527,937	527,937
Additional paid-in capital	527,937	527,937	527,937
Retained earnings			
Legal income reserves	168,566	168,566	168,566
Voluntary reserves - total			
Special reserves	4,886,000	4,886,000	4,986,000
Reserve for reduction of asset costs due to contributions or subsidies	41,046	39,767	37,698
Unappropriated retained earnings, fiscal year-end	289,086	402,342	598,440
	5,384,698	5,496,675	5,790,704
Unrealized gains or losses on other securities	58,065	94,866	283,027
Treasury stock	(110,161)	(106,108)	(102,191)
Total shareholders' equity	6,534,804	6,687,635	7,173,742
Total liabilities and shareholders' equity	13,826,459	14,080,952	14,720,104

Trade credits**Notes receivable**

Thousands of yen	2005
Ohtsuka Brush Manufacturing	109,343
Simon	68,775
Tanizawa Seisakusho	64,819
Shimatsu	59,254
Riken Optech	30,000
Others	629,934
	962,125

Accounts receivable — trade

Thousands of yen	2005
Midori Anzen Yohin	831,889
Defense Agency	501,077
Tanizawa Seisakusho	55,478
Ohtsuka Brush Manufacturing	43,870
Simon	32,269
Others	648,821
	2,113,404

Turnover of accounts receivable

Thousands of yen	2005
Beginning balance	1,877,767
Increase	7,485,807
Collected	7,250,170
Ending balance	2,113,404
Turnover	77.4%
Average days for collection	97.3

Accounts payable — trade

Thousands of yen	2005
Nakayama	16,327
Wamoto	13,758
Aruda Kogyo	11,229
Takaoka Shoji	10,647
TOCAD ENERGY	9,030
Others	156,831
	<u>217,822</u>

Marketable and investment securities

Thousands of yen	2005	
Stocks		
Investment securities	Number of shares	Book value
Other securities		
Resona Holdings, Inc. (8308)	768.35	358,491
Mizuho Financial Group, Inc. (8411)	163.75	151,882
Mizuho Financial Group, Inc. 11th series preferred stock (class 11)	50.00	50,000
Hitachi (6501)	60,500.00	48,582
Nikko Cordial Securities, Inc.	13,000.00	23,517
Mizuho Investors Securities (8607)	26,349.00	10,724
Mitsubishi UFJ Financial Group, Inc. (8306)	4.24	6,903
Ace Securities	10,000.00	2,550
Nomura Holdings, Inc. (8604)	1,750.00	3,811
Nippon Kanryu Industry (1771)	15,000.00	2,685
SMBC Friend Securities (8623)	1,860.00	1,559
Others (2 shares)	21.00	1,200
	<u>129,466.34</u>	<u>661,904</u>
Bonds	Total face value	Book value
Investment securities		
Bonds being held to maturity	15,000	15,000
	<u>15,000</u>	<u>15,000</u>

Market value of securities

Quoted bonds being held to maturity

December 31; Thousands of yen	2004			2005		Unrealized gain (loss)
	Cost of acquisition	Cost of acquisition	Cost of acquisition	Cost of acquisition	Book value	
Bonds for which market values exceed amounts recognized on the consolidated balance sheet						
JGB, local government bonds, etc.	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Others	5,000	5,015	15	5,000	5,001	1
	5,000	5,015	15	5,000	5,001	1
Bonds for which market values do not exceed amounts shown on the consolidated balance sheet						
JGB, local government bonds, etc.	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Others	10,000	9,998	(2)	10,000	9,994	(6)
	10,000	9,998	(2)	10,000	9,994	(6)
	15,000	15,013	13	15,000	14,995	(5)

Other quoted securities

Thousands of yen	2004			2005		
	Cost of acquisition	Book value	Unrealized gain (loss)	Cost of acquisition	Book value	Unrealized gain (loss)
Securities valued on the consolidated balance sheet at amounts greater than the purchase cost						
Shares	120,455	282,439	161,984	127,909	605,469	477,560
Bonds						
JGB, local government bonds, etc.	-	-	-	-	-	-
Corporate bonds	9,000	9,022	22	-	-	-
Others	-	-	-	-	-	-
Others	-	-	-	-	-	-
	129,455	291,461	162,006	127,909	605,469	477,560
Securities whose valuations on the consolidated balance sheet do not exceed the purchase cost						
Shares	10,499	8,443	(2,056)	3,045	2,685	(360)
Bonds						
JGB, local government bonds, etc.	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Others	-	-	-	-	-	-
Others	-	-	-	-	-	-
	10,499	8,443	(2,056)	3,045	2,685	(360)
	139,954	299,904	159,950	130,954	608,154	477,200

In recognizing provisions for permanent declines in value, the Company applied the following standards: provisions were recognized for all securities whose market values had declined by more than 50 percent of the purchase cost as of the end of the term; for securities whose market values had declined by between 30 and 50 percent, the Company wrote down the amounts deemed necessary in light of the materiality of such amounts, the possibility of recovery of value, etc.

Other marketable securities sold during the year ended December 31, 2004

Thousands of yen		
2004		
Amount sold	Total gain on sales	Total loss on sales
112,046	38,870	7,609

Major investment securities for which market prices are not available

December 31; Thousands of yen	2004	2005
Other securities		
Unlisted stocks (excluding OTC stocks)	53,750	53,750

Scheduled redemptions of bonds with maturity dates and bonds being held to maturity (among holdings in the "other securities" account)

Thousands of yen	Up to 1 year	Greater than 1 and up to 5 years	Greater than 5 and up to 10 years	Greater than 10 years
2005				
Bonds				
JGB, local government bonds, etc.	-	-	-	-
Corporate bonds	-	-	-	-
Others	15,000	-	-	-
Others	-	-	-	-
	15,000	-	-	-
2004				
Bonds				
JGB, local government bonds, etc.	-	-	-	-
Corporate bonds	9,022	-	-	-
Others	-	15,000	-	-
Others	-	-	-	-
	9,022	15,000	-	-

Fixed assets

Facilities

The Company has plants (techno-yards) in four locations in Japan. It also operates 14 domestic sales offices as well as the Nakai Logistics Center and the Ninomiya Training Center. It conducts research at its Hannou laboratories.

The Company's principal facilities are as follows:

Thousands of yen	Buildings and structures	Machinery, vehicles and delivery equipment	Land		Tools, furniture and fixtures	Total book value	Number of employees
			Book value	Square meters			
Company administration							
Head office	273,544	5,266	1,636,000	283.91	27,696	1,942,506	87
Manufacture of dust and anti-toxin masks							
Sayama Techno-Yard	288,848	967,966	735,734	11,984.88	109,231	2,101,779	25
Gunma Techno-Yard	361,686	252,919	405,141	9,256.83	85,899	1,105,645	11
Tokorozawa Techno-Yard	84,979	3,474	177,215	1,904.09	16,840	282,508	7
Manufacture and distribution of dust and anti-toxin masks							
Nakai Techno-Yard, Nakai Logistics Center	153,980	74,695	325,449	1,434.94	18,332	572,456	11
Research activities							
Hannou laboratories	38,793	37,105	4,452	3,224.35	40,781	121,131	9

Fixed assets and depreciation

Thousands of yen	Beginning of term	Increase	Decrease	End of term	Depreciation		End of term, net
					Accumulated	Current	
Tangible fixed assets							
Buildings	2,682,166	101,825	1,260	2,782,731	1,513,260	84,037	1,269,471
Structures	177,998	900	-	178,898	156,238	3,461	22,660
Machinery and equipment	2,992,270	393,762	403,756	2,982,276	1,639,415	178,444	1,342,861
Vehicles and delivery equipment	1,500	-	-	1,500	1,425	-	75
Tools and fixtures	2,191,083	195,527	116,458	2,270,152	1,954,369	78,409	315,783
Land	3,444,361	-	-	3,444,361	-	-	3,444,361
Construction in progress	51,259	803,874	709,043	146,090	-	-	146,090
	11,540,637	1,495,888	1,230,517	11,806,008	5,264,707	344,351	6,541,301
Intangible fixed assets							
Telephone subscription rights	-	-	-	9,424	-	-	9,424
Leaseholds	-	-	-	1,057	-	-	1,057
Software	-	-	-	11,128	9,459	1,020	1,669
Usage rights for equipment and facilities	-	-	-	12,320	11,360	129	960
	-	-	-	33,929	20,819	1,149	13,110
Long-term prepaid expenses	41,738	2,682	14,966	29,454	18,035	6,417	11,419
Deferred assets							
Issuing expenses for bonds	2,367	34,600	-	36,967	12,717	12,717	24,250
	2,367	34,600	-	36,967	12,717	12,717	24,250

Debt

Bonds

Thousands of yen	Date issued	Beginning of term	End of term	Interest rate	Maturity
Second mortgage bond (corporate bond)	1998/4/28	1,000,000	-	2.40%	-
Third mortgage bond (corporate bond)	1998/7/15	950,000	-	2.10%	-
Second unsecured corporate bond	2004/9/24	300,000	300,000	0.69%	2007/9/21
Third unsecured corporate bond	2005/3/10	-	700,000	1.02%	2010/3/10
Fourth unsecured corporate bond	2005/3/15	-	100,000	0.89%	2010/3/15
Fifth unsecured corporate bond	2005/3/25	-	800,000	1.19%	2010/3/25
Sixth unsecured corporate bond	2005/3/30	-	600,000	0.94%	2010/3/30
	-	2,250,000	2,500,000	-	-

Amounts scheduled to be redeemed over the 5-year period subsequent to the date of closing of accounts are as follows:

Thousands of yen	Greater than 1 and up to 2 years	Greater than 2 and up to 3 years	Greater than 3 and up to 4 years	Greater than 4 and up to 5 years
Up to 1 year				
-	300,000	-	-	2,200,000

Borrowings

Thousands of yen	Previous period	Outstanding	Average rate	Maturity
Short-term borrowings	920,000	918,000	1.29%	-
Current portion of long-term debt	1,542,214	678,064	1.33%	-
Long-term debt (except current portion of long-term debt)	1,177,688	1,683,624	1.32%	2007 to 2010
Other interest-bearing liabilities	-	-	-	-
	3,639,902	3,279,688	-	-

1. Average rates of borrowing shown in the table above are weighted averages of rates paid on loans outstanding as of term-end.

2. Amounts of long-term debt and other debt (excluding debt due in less than one year) scheduled to be repaid over the 5-year period subsequent to the balance sheet date are as follows:

Thousands of yen	Greater than 1 and up to 2 years	Greater than 2 and up to 3 years	Greater than 3 and up to 4 years	Greater than 4 and up to 5 years
Long-term debt	546,492	637,132	465,000	35,000

Assets provided as collateral

Thousands of yen	2004	2005
Assets provided as collateral		
Buildings	1,044,583	897,234
Land	3,325,939	2,996,038
Investment securities	18,267	-
	4,388,789	3,893,272
Liabilities for which collateral is provided		
Bonds redeemable within 1 year	1,950,000	-
Long-term debt	2,209,902	2,062,688
Short-term borrowings	570,000	568,000
	4,729,902	2,630,688

Retirement benefits**Outline of retirement benefit system**

The Company offers employees defined benefit pension plans in the form of tax-qualified pensions or lump-sum payments at retirement.

Matters related to retirement benefit liabilities

Thousands of yen	2004	2005
Retirement benefit liabilities	(917,844)	(992,988)
Pension plan assets	581,577	737,267
Unaccrued pension benefit liabilities	(336,267)	(255,721)
Unrecognized actuarial gains or losses	(50,557)	(69,426)
Net amount shown on the balance sheet	(386,824)	(325,147)
Allowance for retirement benefits	(386,824)	(325,147)

Matters related to retirement benefit expenses

Thousands of yen	2004	2005
Retirement benefit expenses	131,002	17,111
Current service costs	57,760	59,107
Interest expenses	19,909	20,193
Expected earnings on pension fund assets	10,189	11,632
Expensing of differences based on actuarial calculations	63,522	(50,557)

Assumptions underlying the calculation of retirement benefit liabilities

	2004	2005
Discount rate	2.2%	2.0%
Expected rate of return	2.0%	2.0%
Method of allocating prospective retirement benefits to each period	Equal payments basis	Equal payments basis
Amortization period for actuarial gains or losses	1 year Expensed in full in the year following the year of recognition	1 year Expensed in full in the year following the year of recognition

Reserves

Thousands of yen	Beginning of term	Increase	Decrease	End of term
Allowance for doubtful accounts	80,170	7,176	40,346	47,000
Reserve for bonuses	136,000	197,000	136,000	197,000
Reserve for directors' retirement allowances	337,500	23,600	-	361,100

Related Parties

Transactions with related parties: Directors and major independent shareholders

Directors and individual shareholders

December 31; Thousands of yen	Address	Capital	Type of business or occupation	% of voting rights held (held by Shareholder others) and director	Relationship Business relationship	Type of transaction	Value of transactions	Accounting classification	Balance at term-end	
2005										
Companies in which a major shareholder or close relative has unshared decision-making authority over more than half the voting rights										
Sakai Tatemono Ltd.	Chiyoda-ku, Tokyo	228,000	Real estate leasing, Insurance agency business	3.35	2	Building leasing	Payment of rental expenses	39,349	Accounts payable - other	1,525
2004										
Companies in which a major shareholder or close relative has unshared decision-making authority over more than half the voting rights										
Sakai Tatemono Ltd.	Chiyoda-ku, Tokyo	228,000	Real estate leasing, Insurance agency business	3.36	2	Building leasing	Payment of rental expenses	39,466	Accounts payable - other	1,490

Accounting Policies

Summary of accounting policies – nonconsolidated

Basis of presentation	Japanese GAAP; nonconsolidated
Marketable securities and investments in securities	<p>Bonds held to maturity: cost amortization method (straight-line)</p> <p>Shares in subsidiaries: valued at cost using the moving-average method</p> <p>Other securities:</p> <p>Quoted securities: current value method based on average market prices in the month prior to the end of the fiscal year (Any differences resulting from valuations at market price are credited directly to the capital account; the cost basis of securities sold is calculated using the moving-average method.)</p> <p>Unquoted securities: valued at cost using the moving-average method</p>
Inventories	<p>Finished goods, work in process: cost method computed on a periodic-average basis</p> <p>Merchandise, raw materials: cost method using the moving-average method</p> <p>Supplies: cost method using the final-purchase-cost method</p> <p>Expenses on unfinished projects: cost method using the specific-identification method</p>
Depreciation	<p>Tangible fixed assets: declining-balance method</p> <p>Intangible fixed assets: straight-line method</p> <p>Software for internal use is amortized on a straight-line basis (based on the length of useful in-house life)</p> <p>Long-term prepaid expenses: straight-line method</p>
Deferred assets	Bond-issuing expenses: amortized over 3 years
Allowance for doubtful accounts	To provide for potential losses from doubtful accounts, the Company recognizes an amount calculated on the basis of a historical bad debt ratio for general accounts receivable, plus an amount for specific accounts for which collection appears doubtful.
Reserve for bonuses	Accrual of 100% of the amount deductible for income tax purposes
Reserve for retirement benefits	To provide for employees' retirement benefits, the Company recognizes an amount based on retirement benefit liabilities and estimated pension assets as of the end of the nonconsolidated fiscal year to December 2005.
Reserve for directors' retirement allowances	To provide for retirement payments to directors, the Company recognizes amounts that must be paid at term-end in accordance with the Company rules.
Opinion of independent auditors	<p>Auditors: ChuoAoyama Audit Corporation</p> <p>Opinion: unqualified</p>

Share-related Information

Shares in issue

Class of shares	Common
Number of shares authorized	20,000,000
Issued	
As of December 31, 2005	5,104,003
As of March 30, 2006	5,104,003
Stock exchange listings	Jasdaq Securities Exchange
Comments	-

Changes in common stock and number of shares outstanding

	Shares outstanding		Common stock		Additional paid-in capital		Remarks
	Increase or decrease	Balance	Increase or decrease	Balance	Increase or decrease	Balance	
	(Shares)	(Shares)	(Thousands of yen)	(Thousands of yen)	(Thousands of yen)	(Thousands of yen)	
December 31, 1999	4,611	5,104,003	2,254	674,265	2,246	527,937	Conversion of convertible bonds

Shareholders by type of investor

Type of investor	Number of shareholders	Units owned (1,000 shares)	% owned
National and local government agencies	-	-	-
Financial institutions	8	649	12.78
Securities companies	10	76	1.50
Business and other corporations	23	1,340	26.40
Non-residents - institutions and corporations	8	248	4.89
Non-residents - individuals	-	-	-
Individuals and others	566	2,762	54.43
	615	5,075	100.0
Shares less than one unit	-	29,003	-

Largest shareholders

Name	Thousands of shares owned	% of shares outstanding
Sakai Kosan Ltd.	1,130	22.15
Masakazu Sakai	730	14.30
Hiroyuki Sakai	701	13.73
Resona Bank	244	4.79
Mizuho Bank	227	4.47
Morgan Stanley and Company International Limited	211	4.13
Sakai Tatemono Ltd.	166	3.26
KOKEN LTD.	120	2.35
Mitsubishi UFJ Trust & Banking	72	1.41
Employees' stockholding association	58	1.15
	3,661	71.74

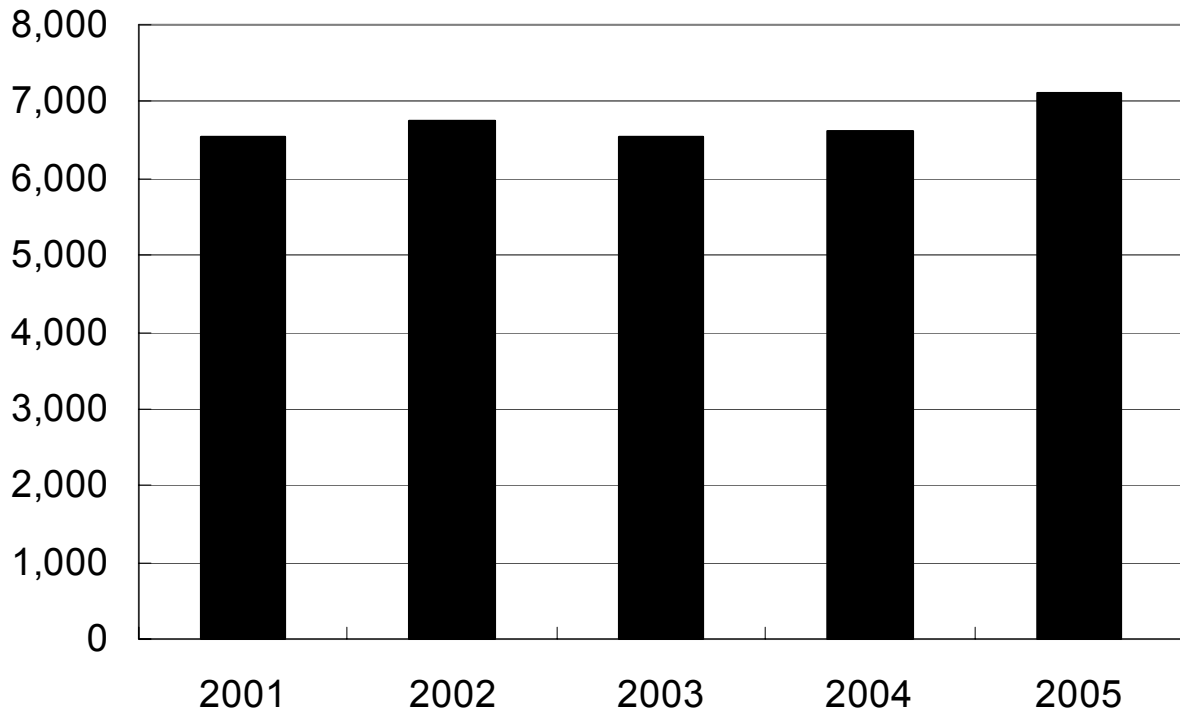
Share information

Fiscal year-end	December 31
Ex-rights date	December 31
Ex-rights date for interim dividend	June 30
Annual general meeting of shareholders	Within 3 months of fiscal year-end
Trading unit	1,000 shares
Types of share certificates	1,000 and 10,000 shares
Transfer agent	Mitsubishi UFJ Trust & Banking, 1-4-5, Marunouchi, Chiyoda-ku, Tokyo
Publication of record	<i>Nihon Keizai Shimbun</i>

Performance in Graphs

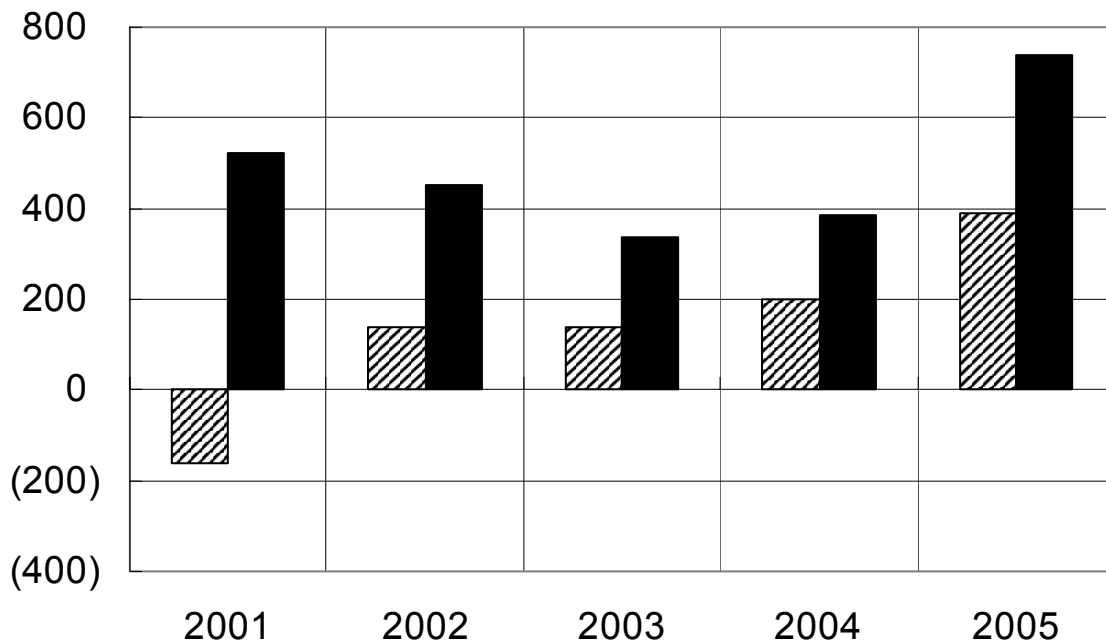
Net Sales

Millions of Yen



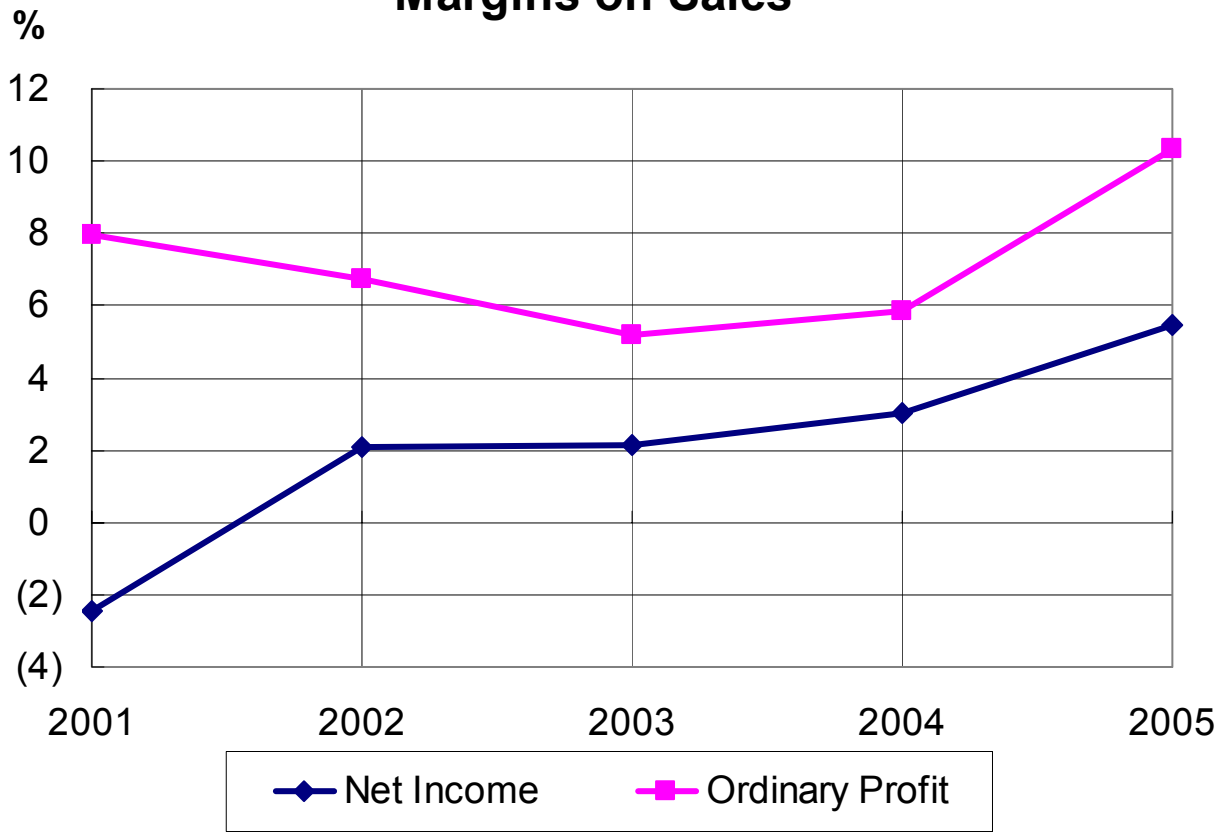
Ordinary and Net Profits

Millions of Yen

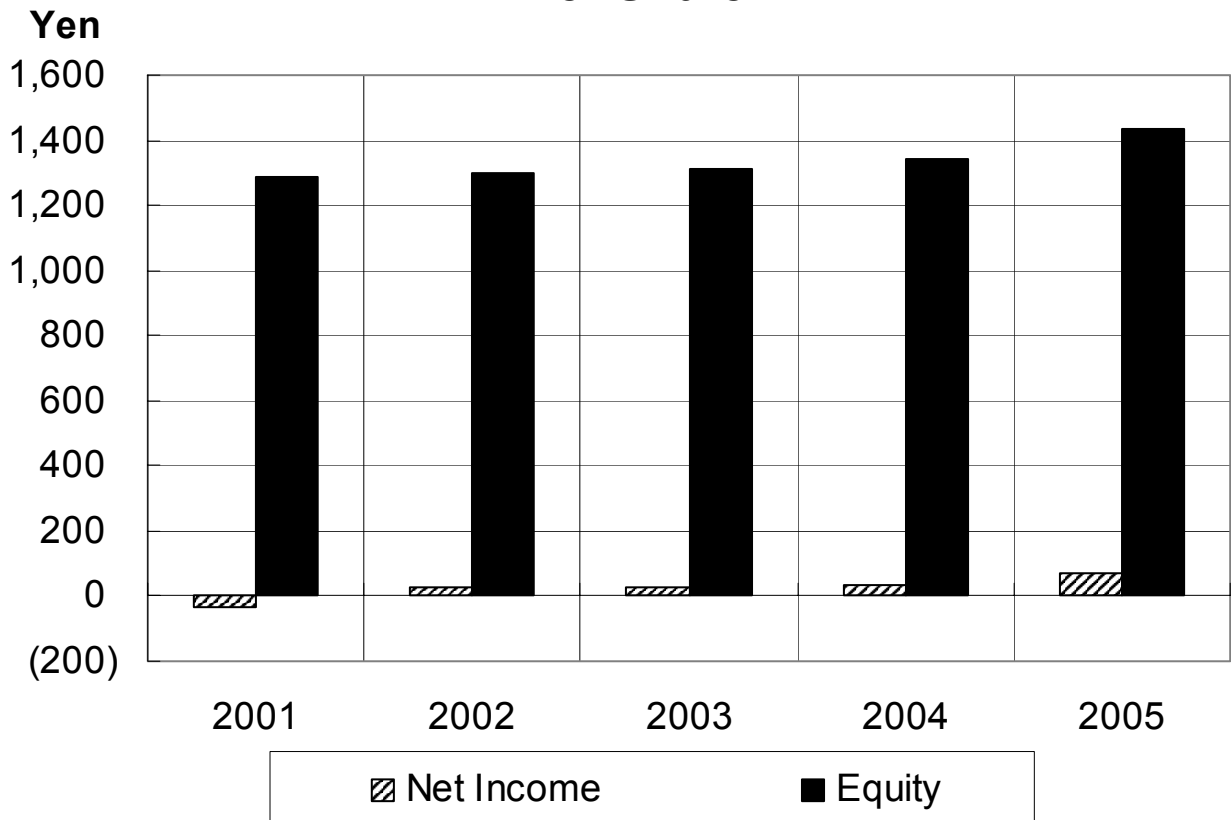


▨ Net Income ■ Ordinary Profit

Margins on Sales

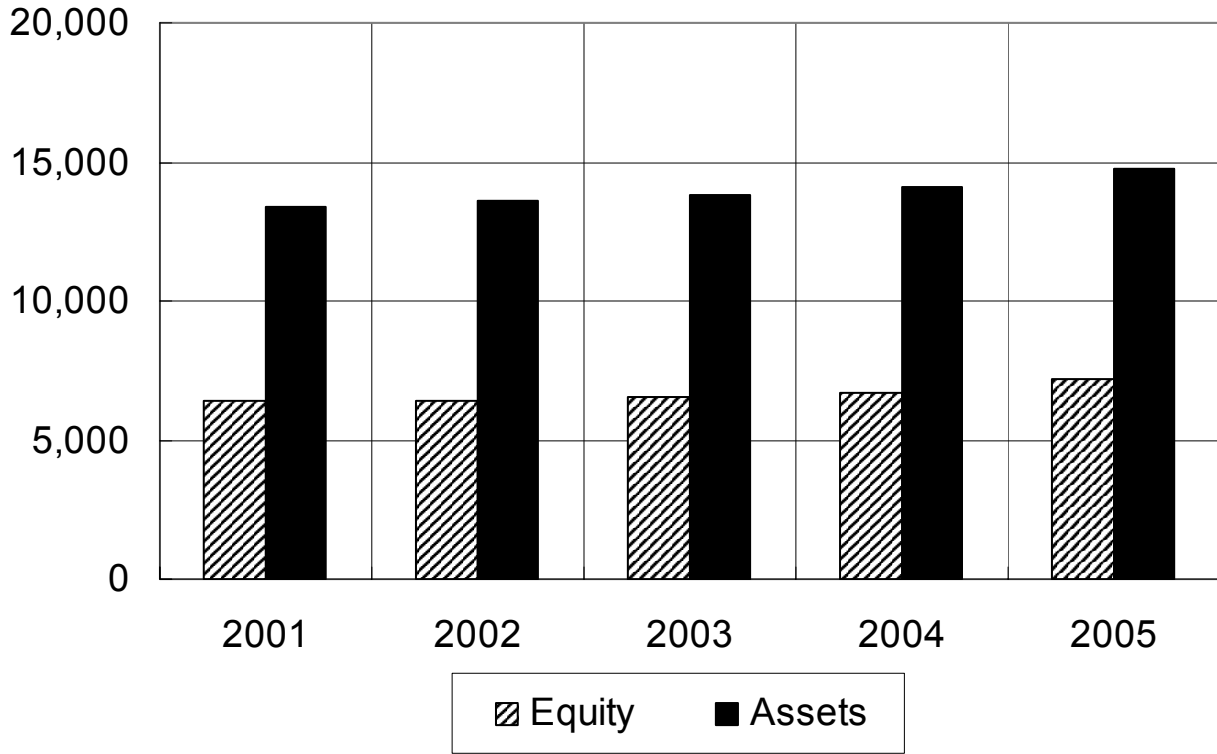


Per Share

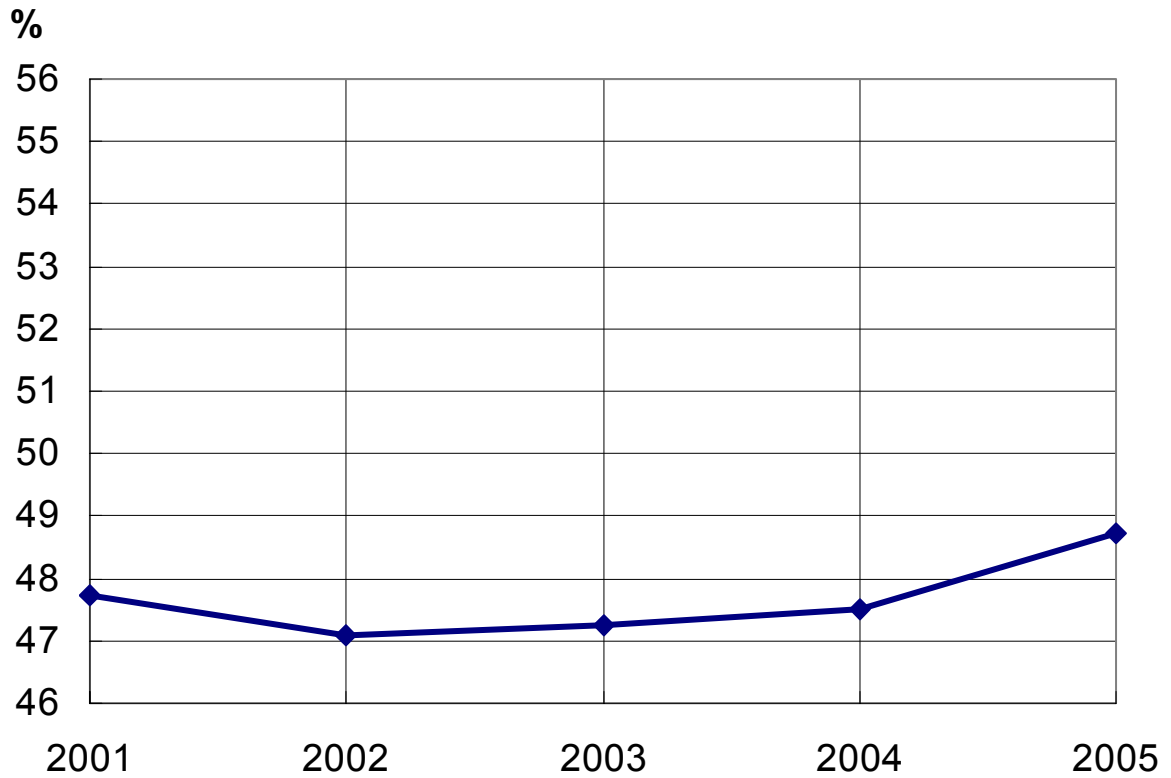


Equity and Assets

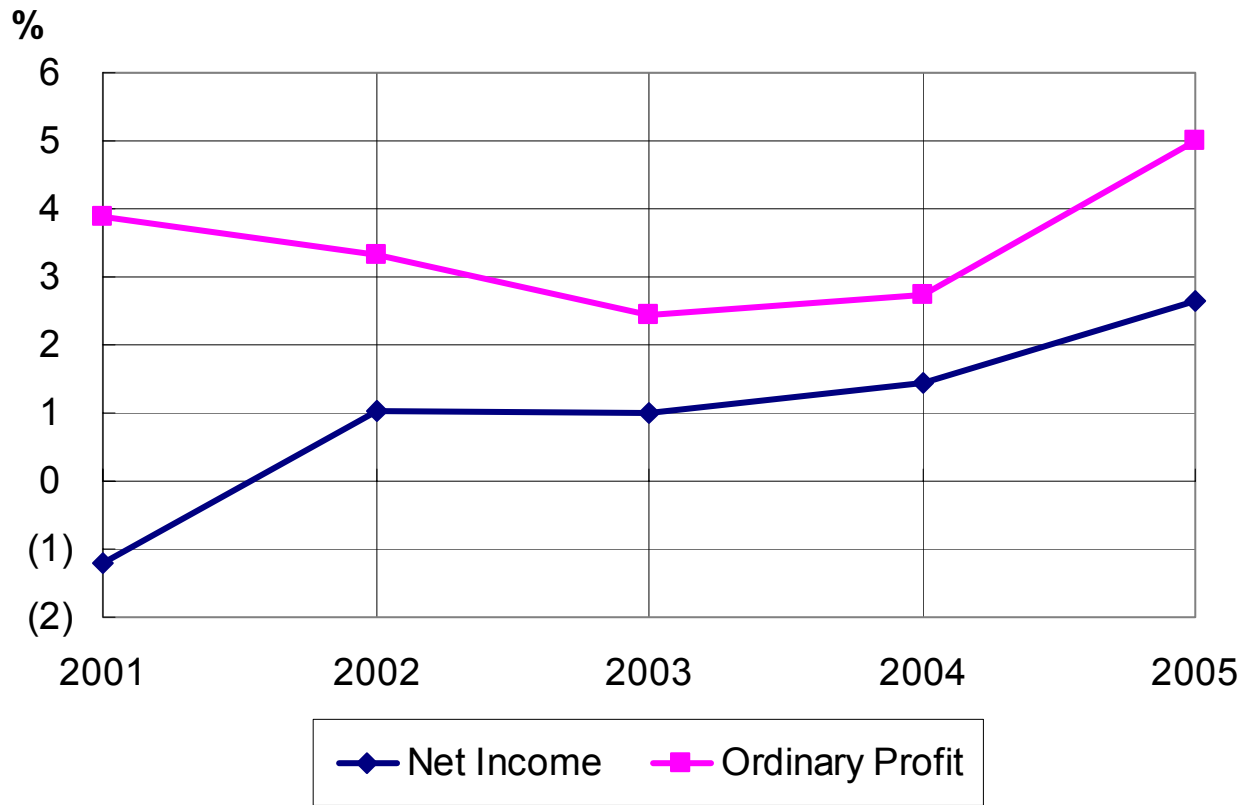
Millions of Yen



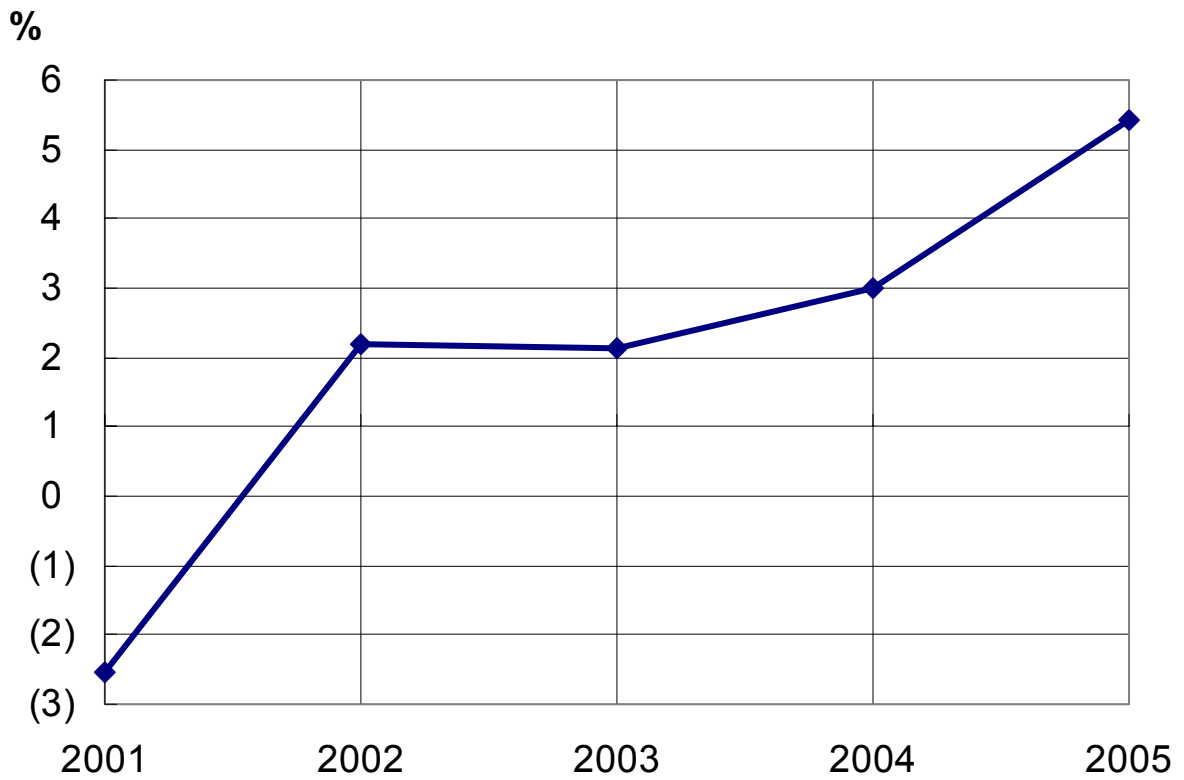
Equity / Assets



Return on Assets



Return on Equity



K O K E N

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