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YUHO REPORT Annual

Fiscal Year Ended December 31, 2007

Traded JASDAQ

Stock Code 7963



KOKEN LTD.

YUHOREPORT

Koken Ltd.

Fiscal Year Ended	December 31, 2007
Traded	JASDAQ
Stock Code	7963

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 PRONEXUS. 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	2003	2004	2005	2006	2007	Change 2007/2003
Net sales	6,534,403	6,621,020	7,123,035	7,785,851	7,644,859	117%
Ordinary profit	338,162	386,081	737,929	694,232	665,875	197%
Net income	138,575	201,498	389,454	348,430	337,950	244%
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%
Net assets	6,534,804	6,687,635	7,173,742	7,329,569	7,478,239	114%
Total assets	13,826,459	14,080,952	14,720,104	15,155,100	15,198,789	110%
Net assets per share (Yen)	1,312.36	1,340.06	1,431.14	1,451.79	1,477.79	113%
Dividends per share (Yen)	15.00	15.00	25.00	25.00	25.00	167%
Net income per share (Yen)	24.93	36.35	70.03	69.39	66.92	268%
Net income per share, fully diluted (Yen)	24.81	36.26	69.57	68.91	66.75	269%
Dividend payout ratio (%)	53.8	37.0	32.0	36.2	37.4	
Net cash provided by operating activities	431,161	344,418	405,532	473,220	945,337	
Net cash used in investing activities	(697,222)	(220,600)	(557,080)	(1,255,581)	(325,742)	
Net cash used in financing activities	(182,406)	(86,181)	(215,522)	404,106	(116,993)	
Cash and cash equivalents at end of term	2,113,069	2,150,706	1,783,636	1,405,382	1,907,983	
Employees	194	197	201	206	209	108%

Figures are rounded to the nearest thousand yen for fiscal years up to and including the year ended December 31, 2005, but rounded down thereafter.

Peer comparisons

Percent	2003	2004	2005	2006	2007
Net income / net sales (%)	2.1	3.0	5.5	4.5	4.4
Peers	1.7	0.9	2.4	2.3	0.8
Ordinary profit / net sales (%)	5.2	5.8	10.4	8.9	8.7
Peers	5.2	3.8	5.8	6.9	4.4
Net income / equity (%)	2.1	3.0	5.4	4.8	4.5
Peers	4.2	0.6	6.9	6.1	0.7
Net income / assets (%)	1.0	1.4	2.6	2.3	2.2
Peers	2.0	0.6	3.0	2.8	0.8
Ordinary profit / assets (%)	2.4	2.7	5.0	4.6	4.4
Peers	5.7	3.8	6.4	7.7	4.3
Equity / assets (%)	47.3	47.5	48.7	48.4	49.1
Peers	48.8	48.4	48.6	51.2	51.0

Peers include 24 companies in the other products sector on the Jasdaq Securities Exchange with a market value from 2 to 20 billion yen.

Common size statements

Years ended December 31; Percent	2005	2006	2007
Balance sheet			
Assets	100.0	100.0	100.0
Current assets	45.3	43.7	46.7
Tangible fixed assets	44.4	47.1	44.4
Intangible fixed assets	0.1	0.1	0.2
Investments and other assets	10.0	9.0	8.7
Total fixed assets	54.5	56.2	53.3
Total deferred assets	0.2	0.1	-
Liabilities	100.0	100.0	100.0
Current liabilities	18.1	20.6	20.4
Long-term liabilities	33.2	31.0	30.4
Total liabilities	51.3	51.6	50.8
Shareholders' equity			
Common stock	4.6	-	-
Capital surplus	3.6	-	-
Retained earnings	39.3	-	-
Unrealized gains (losses) on other securities	1.9	-	-
Treasury stock	(0.7)	-	-
Total shareholders' equity	48.7	-	-
Net assets			
Common stock	-	4.4	4.4
Capital surplus	-	3.5	3.4
Retained earnings	-	39.4	40.6
Treasury stock	-	(0.3)	(0.3)
Total shareholders' equity	-	47.0	48.2
Valuation/translation gains (losses)	-	1.3	0.8
Share subscription rights	-	-	0.0
Total net assets	-	48.4	49.2
Statement of income			
Net sales	100.0	100.0	100.0
Cost of goods sold	51.6	53.7	54.5
Gross profit on sales	48.4	46.3	45.5
Selling, general and administrative expenses	36.5	35.6	35.5
Operating income	11.9	10.7	10.0
Nonoperating income	0.3	0.4	0.3
Nonoperating expenses	1.8	2.2	1.6
Ordinary profit	10.4	8.9	8.7
Extraordinary income	0.2	0.0	-
Extraordinary losses	1.5	0.7	0.9
Net income before taxes and special reserves for the term	9.1	8.2	7.8
Corporate, inhabitant and enterprise taxes	3.6	3.7	3.4
Net income	5.5	4.5	4.4

Business Overview

Description of business

The corporate group consists of KOKEN LTD. (the Company) and one subsidiary. The Company manufactures and sells products that contribute to occupational health and safety, primarily providing particulate respirators, gas masks, and instruments and equipment for improving workplace environments, such as push-pull local ventilation systems, highly acidic electrolyzed water generators and magnetic rust/scale removers.

The Company rents its corporate headquarters from Sakai Tatemono Ltd., a company with which it has a close relationship.

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 (current Midori-shi), 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; and shares listed on the Jasadq 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, 2007:

Research and Development

- As an R&D-driven, comprehensive environmental product manufacturing 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 properties 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 control 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, with a resulting recall of its products or other limitations on its businesses. In addition, the enactment of new laws or revision of 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

- Besides 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 Ministry of Health, Labour and Welfare conducts tests on protective breathing equipment. In the unlikely event that such tests should reveal defects in the Company's products despite its stringent quality management, the costs incurred in recalling and repairing non-compliant equipment could have a negative impact on the Company's financial performance.

Natural Disasters, etc.

- The Company maintains production and technical facilities at four sites in the Kanto region (in Saitama, Gunma, and Kanagawa prefectures).
- Cessation of production activities or other interruptions of operations due to natural disasters such as earthquakes or to accidents or other incidents could have a negative impact on the Company's financial performance. Following a seismic risk assessment conducted in fiscal 2006, each of the Company's production facilities is developing a business continuity plan.

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 the time required to complete the process. 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 “working environment improvement.” Never satisfied with its current position, however, it continues to strive to achieve further technological innovation. The Company has established a matrix R&D structure that includes project teams for basic research on near-future technologies and applications.

A total of 70 staff are responsible for research and development, and related expenditures during the year under review totaled 461 million yen.

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

- Full face-piece gas mask (1821 HG model)
The tapes and chemicals used to prevent dispersion of asbestos fibers can emit harmful organic gases. Equipped with a canister to absorb such gases, the 1821 HG gas mask is designed to provide full protection for workers involved in asbestos removal operations.
- Chemical cartridge respirator (R-5-06 model)
This is the latest version of the acclaimed R-5, a chemical cartridge respirator that combines a snug fit due to flexible strap positioning under the chin with a chemical cartridge capable of absorbing various harmful gases. This upgraded model features colored rings to aid chemical cartridge identification and a modified structure to facilitate easy chemical cartridge replacement.
- Chemical cartridge respirator (G-7-05 model)
A new “S” size was developed for this range for users with smaller faces.
- Gas-absorption chemical cartridge (KGC-10L type for organic vapor)
This chemical cartridge is used with the G-7 series of chemical cartridge respirators. The large chemical cartridge size enables these masks to be used for much longer periods.

Analysis of financial condition and results of operations**(1) Financial analysis**

Total assets stood at 15,198 million yen as of December 31, 2007, an increase of 43 million yen from the previous year-end.

Current assets: 7,100 million yen (an increase of 472 million yen)

This mainly reflected increases in cash (of 447 million yen) and marketable securities (of 110 million yen). These more than offset the declines in accounts receivable–trade (of 59 million yen) and inventories (of 23 million yen).

Fixed assets: 8,098 million yen (a decrease of 417 million yen)

This result primarily reflected declines in fixed assets (of 369 million yen) and in investment securities (of 133 million yen).

Current liabilities: 3,099 million yen (a decrease of 23 million yen)

The major factors in this result were a decrease of 300 million yen in bonds redeemable within one year and an increase of 343 million yen in the current portion of long-term debt.

Long-term liabilities: 4,620 million yen (a decrease of 80 million yen)

This primarily reflected declines in employees' retirement benefits (of 64 million yen) and in long-term debt (of 36 million yen).

Net assets: 7,478 million yen (an increase of 148 million yen)

This mainly reflected an increase of 211 million yen in retained earnings due to higher net income in fiscal 2007 and other factors. This was offset by a decline of 79 million yen in unrealized gains on other securities.

The equity ratio rose to 49.1% from 48.4%.

(2) Results of operations

Sales:	7,644 million yen	(down 1.8%)
Operating income:	766 million yen	(down 8.1%)
Ordinary profit:	665 million yen	(down 4.1%)
Net income:	337 million yen	(down 3.0%)

Sales:

The major factor in this result was lower sales of masks used in asbestos hazard prevention. Led by breath-synchronized blower masks, sales of industrial masks and other health and safety equipment posted good results.

Cost of goods sold:

Reflecting the decline in sales, the cost of goods sold decreased by 10 million yen compared with the previous year to 4,167 million yen. The gross profit margin worsened by 0.8 percentage points, declining from 46.3% to 45.5%. This was the result of a sharp increase in raw material costs along with an increase in the manufacturing cost ratio due to a production correction affecting asbestos masks.

Selling, general and administrative expenses:

Reflecting successful cost-cutting efforts, selling, general and administrative expenses declined by 63 million yen compared with the previous year to 2,711 million yen.

Operating income:

The operating profit margin fell by 0.7 percentage points to 10.0% from 10.7% in the previous year.

Nonoperating income and expenses:

Nonoperating income decreased by 5 million yen to 22 million yen, primarily because of a decrease in commissions received.

Nonoperating expenses decreased by 43 million yen to 123 million yen, primarily because of a 40 million yen decrease in arrangement fees.

Extraordinary income and losses:

Extraordinary losses were 69 million yen. This mainly reflected a 44 million yen loss on disposal of fixed assets, expenses for disposal of fixed assets totaling 12 million yen and a provision for doubtful accounts of 11 million yen.

Corporate governance

(1) Basic philosophy concerning corporate governance

The Company aims to increase its enterprise value and shareholder and investor value. Toward these ends, it is endeavoring to strengthen its corporate governance to ensure the transparency and health of its management. It is also taking steps to build a management organization that achieves increased 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) Overview of corporate governance structures

- Board of Directors: The primary decision-making body of the Company, the Board of Directors meets once a month, as a rule, as provided for under the bylaws of the Board of Directors. In addition to deciding important matters concerning the execution of operations, 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.
- 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.
- Board of Corporate Auditors: The Company has adopted a system of corporate auditors. It elects four auditors (two of whom are outside auditors), who participate in Board of Directors meetings and, in so doing, monitor the performance of the directors and the Board of Directors.

(3) Development status of internal control system

- The Company operates its business through three divisions: the Management Division, the Marketing Division and the Technology Division. Each

division is headed by a general manager, and responsibilities are allocated such as to enable each division to act as a check on the others.

- To enhance efficiency and promote appropriate, rational management, the Company has established a number of internal regulations, which are reviewed regularly 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.
- The Company continues to upgrade its systems to ensure full compliance with laws, regulations and internal rules. Established in 2007, the Compliance Committee oversees and coordinates compliance checks on operations by the Compliance Office along with compliance-related education and training for directors and employees. The committee also serves as a forum for deliberating internal matters related to legal and regulatory compliance.

(4) Risk management system development status

- The Management Division, Marketing Division and Technology Division all have their own systems to manage intra-divisional risks. At the same time, this arrangement is bolstered by a system of mutual checks and balances. Operational audits are conducted to assess the execution status of business processes according to internal audit regulations. In particular, quality assurance audits are conducted to perform quality checks on product-related processes. The results of internal audits are reported to the president, and systems are in place to facilitate the institution of improvement measures where necessary.
- The Management Division assumes overall responsibility for managing risk at the company level. While promoting the adoption of any required regulations, this division also continues to build risk management systems with the aim of mitigating projected risks and developing contingency measures against any foreseeable emergency situations.

(5) Directors' compensation

- Directors' compensation
 Compensation paid to directors: 170,117,000 yen
 Compensation paid to corporate auditors: 28,598,000 yen

Notes:

1. *Compensation amounts for directors do not include any remuneration with respect to employment in non-executive positions.*
2. *Compensation amounts also include bonuses totaling 33,800,000 yen (28,200,000 yen to directors and 5,600,000 yen to corporate auditors) awarded by resolution of the 45th Annual General Meeting of Shareholders, along with retirement benefits totaling 31,300,000 yen that were granted to five directors by a resolution approved at the same meeting.*

(6) Auditors' compensation

Fees paid to contracted financial auditors in accordance with Article 2-1 of the Certified Public Accountants Law (Law No. 103, 1948) were as outlined below.

- A&A Partners: 13,570,000 yen (tax inclusive)
- Misuzu Audit Corporation: 2,430,000 yen (tax inclusive)

(7) Limited liability agreements

In accordance with the provisions of Article 427-1 of the Corporation Law, the Company has concluded agreements limiting the liability of outside auditors with respect to legal compensation claims under Article 423-1 of the same law to the minimum amounts specified in the legislation.

(8) Number of directors

The Company's articles of incorporation stipulate 15 as the maximum number of directors.

(9) Election of directors

The Company's articles of incorporation stipulate that approval of resolutions to elect directors requires a majority of the votes cast at meetings attended by shareholders representing at least one-third of the total voting rights. Cumulative voting cannot be employed to elect directors.

(10) Determination of interim dividends

The Company's articles of incorporation stipulate that an interim dividend may be paid from retained earnings in line with Article 454-5 of the Corporation Law without shareholder approval by resolution of the Board of Directors. This rule provides the Board with the requisite authority to return profits to shareholders in a proactive and dynamic fashion.

(11) Acquisitions of treasury stock

The Company's articles of incorporation contain a provision that allows the Company to acquire shares of treasury stock in open market transactions by resolution of the Board of Directors. This enables the Company to undertake share buybacks as a dynamic response to changing business conditions.

(12) Special resolutions of the General Meeting of Shareholders

The Company's articles of incorporation stipulate that the approval of special resolutions under Article 309-2 of the Corporation Law requires a two-thirds majority of the votes cast at meetings attended by shareholders representing at least one-third of the total voting rights. The quorum rule for approval of special resolutions is less strict than these normally applicable to shareholder AGMs in Japan.

(13) Status of internal audits and auditing by corporate auditors

- Internal audits are the responsibility of the general manager of the Management Division, who directs an individual appointed by the president to audit the company's operations. 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 an audit uncovers any failure to conform with quality standards, the heads of the inspection departments concerned are requested to correct the problems and the impact of their follow-up measures is checked.
- In line with the initiation of production and sales activities for medical devices whose manufacturing and sale require approval under the Pharmaceutical Affairs Law (notably fully automated systems for washing and sterilizing endoscopes), the Company has constructed quality and safety management systems based on Japanese ministerial ordinances concerning the relevant standards applicable to medical equipment, such as QMS (Quality Management System; manufacturing and quality control), GQP (Good Quality Practice; production-related quality control) and GVP (Good Vigilance Practice; post-marketing safety control). Under this structure, the Company has appointed one person who undertakes management oversight of all quality and safety issues related to the manufacture and sale of medical

equipment. Two managers responsible for QC/QA issues and for safety management report to this person. The system involves close cooperation between these managers and the relevant departments. The Company continues to work to strengthen its quality and safety management systems to ensure the production and sale of medical equipment of the highest quality and safety.

- Based on Japanese occupational health and safety legislation, the Company has formulated internal OH&S regulations to ensure the health and safety of employees and to foster the creation of a safe and comfortable working environment. These regulations apply to management of the work, operating environment and health of all employees. Based on these rules and assisted by a dedicated team of staff, the head of the Safety & Environment Management Office conducts regular and ad hoc OH&S audits of the production, technical and research facilities. The results of these audits are reported to the president. If such audits identify any areas of non-compliance, the head of the Safety & Environment Management Office can demand that the general managers of all the audited production, technical and research facilities implement any required corrective measures. Further checks are then carried out to confirm the effectiveness of such measures.
- As stated above, the Company has four corporate auditors, including two outside auditors. Besides attending meetings of the Board of Directors to audit the execution of directorial duties and Board operations, the corporate auditors also undertake internal audits based on auditing plans formulated by the Board of Corporate Auditors.

(14) Statement regarding the 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.

(15) Names of certified public accountants participating in audit operations and composition of assistant teams

The Company receives financial auditing services under a contract signed with A&A Partners in a temporary capacity. Details of the personnel involved in the financial audits conducted under this contract are provided below.

Engagement partner: Yoshimi Nakai, CPA

Engagement partner: Kenji Oka, CPA

Number of assistants involved in audits:

CPAs: 6

Assistant accountants: 2

Other staff: 3

Note:

No team member has more than seven years of continuous experience with the financial audits of the Company.

Misuzu Audit Corporation resigned as the Company's independent auditors effective July 2, 2007.

To ensure continuity in terms of the provision of independent financial audits, the Board of Corporate Auditors appointed A&A Partners to provide financial auditing services in a temporary capacity at a meeting held on July 3, 2007. This firm currently remains the Company's independent auditors.

In addition, to strengthen its external management controls, the Company has entered into an advisory agreement with Sakura Kyodo Law Offices to provide specialized legal advice.

(16) Steps taken within the past year to improve corporate governance

- Meetings of the Company's Board of Directors, at which important management decisions are made and their execution overseen, are convened once a month.
- The Company established the Compliance Office on February 1, 2007. Reporting directly to the President, this office (currently with two staff) is responsible for reinforcing systems to ensure compliance with laws, regulations, internal rules and business ethics.
- As concerns disclosure, the Company released explanatory information about its financial results for the year ended December 2006 and its financial results for the interim period of the year ended December 2007.

Directors

Name	Title	Joined company	Previous employment	Date of birth	Term	Shares owned (Thousand shares)
Masakazu Sakai	Representative Director, Chairman	Aug-67	Renown Shoji	22-Aug-41	2 years from the General Meeting of Shareholders (GMS) held on March 27, 2008	730
Hiroyuki Sakai	Representative Director, President	Apr-67		23-May-43	2 years from GMS held on March 27, 2008	696
Yosuke Yamasato	Representative Director, Executive Vice President	Sep-02	Ground Self-Defense Force	22-Jun-45	2 years from GMS held on March 27, 2008	4
Tadashi Shimosaka	Managing Director	Oct-88	Dayton Progress Corp.	3-Jan-43	2 years from GMS held on March 27, 2008	2
Tadashi Miyata	Managing Director	Nov-89	Toray Industries	14-Sep-39	2 years from GMS held on March 27, 2008	2
Mitsuji Muramatsu	Managing Director	Feb-06	Mizuho Bank	21-Feb-56	2 years from GMS held on March 27, 2008	1
Toshio Akiyama	Managing Director	Apr-73		2-Apr-49	2 years from GMS held on March 27, 2008	4
Toshiyuki Tanaka	Standing Corporate Auditor	Apr-91	Kyowa Bank	11-Apr-38	4 years from GMS held on March 30, 2005	9
Kiminobu Nakamura	Standing Corporate Auditor	Jul-67	Koa Fire & Marine Insurance	15-Jan-38	4 years from GMS held on March 29, 2007	3
Hitoshi Emi	Corporate Auditor	Apr-03	Kanazawa University	12-Nov-37	4 years from GMS held on March 29, 2007	3
Hiroyuki Kawai	Corporate Auditor	Mar-07	Attorney at law	18-Apr-44	4 years from GMS held on March 29, 2007	-
						1,454

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

Employees

	Total or average
Number	209 [108]
Average age	37.1
Average years of service	12.3
Average annual salary (yen)	6,445,228

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 system, the principal features of which are as follows:

- 1) Share subscription rights based on Article 280-20 and Article 280-21 of the old Commercial Code

(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	41,000
Amount paid in at time of exercise of rights	899 yen (Note)
Period for exercise 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 exercise 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.

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

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.

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

2) Share subscription rights based on Articles 236, 238 and 239 of the Corporation Law

(Resolution passed on March 29, 2007)

Date of resolution	March 29, 2007
Categories and numbers of persons to be granted rights	10 directors, 4 corporate auditors and 49 employees
Type of shares subject to rights	Common stock
Number of shares	113,000 shares (Note)
Amount paid in at time of exercise of rights	1,363 yen
Period for exercise of rights	April 3, 2009 - March 31, 2012
Item concerning the assignment of rights	Approval of Board of Directors required.
Item concerning the assignment of rights associated with organizational rearrangements	(Note)

1. *The number of shares subject to rights shall be adjusted in accordance with the following formula in the event of a stock split or reverse stock split by the Company. The adjustment shall be made to the number of shares subject to rights corresponding to stock options that are unexercised at said time. Any fractional shares arising from such adjustment shall be rounded down.*

$$\text{Adjusted number of shares} = \text{Pre-adjusted number of shares} \times \text{Ratio of split or of reduction in number of shares outstanding}$$

Moreover, if any adjustment of the number of shares subject to rights should be necessitated by the Company acquiring and merging with another firm or else establishing a new company, or by the Company undertaking any related exchange of shares, the Company shall be permitted to undertake any such adjustment as is deemed necessary.

2. *All obligations pertaining to stock options shall be inherited by the wholly owning parent company in the event of any exchange or transfer of shares that results in the Company becoming a wholly owned subsidiary. Rules applying to the nature of the inherited stock options are specified below.*
- 1) *Type of wholly owning parent company shares subject to rights*
Shares in the wholly owning parent company of identical class
 - 2) *Number of wholly owning parent company shares subject to rights*
Adjusted in accordance with the share exchange or transfer ratio, with any fractional shares arising from such adjustment to be rounded down
 - 3) *Amount to be paid to exercise rights*
Adjusted in accordance with the share exchange or transfer ratio, with any fractional yen resulting from such adjustment to be rounded up to the nearest yen
 - 4) *Exercise period and other conditions pertaining to exercise of rights or acquisition-related status*
To be determined by resolution of the Board of Directors of the Company pursuant to the share exchange or transfer
 - 5) *Board approval of stock option transfers*
Transfers of stock options shall require the approval of the Board of Directors of the wholly owning parent company.

Cash Flows

Nonconsolidated statement of cash flows

Years ended December 31; Thousands of yen	2005	2006	2007
Net cash provided by operating activities			
Net income before taxes and other adjustments	647,178	640,933	596,369
Depreciation	345,500	536,940	544,106
Impairment losses	-	29,555	-
Losses on disposal of fixed assets	44,895	21,182	44,796
Increase (decrease) in allowance for doubtful accounts	5,896	-	12,000
Gains on sale of investment securities	-	(454)	-
Gains from liquidation of subsidiaries	-	(1,613)	-
Gains on redemption of golf memberships	(12,600)	-	-
Increase (decrease) in retirement benefits	(61,678)	(82,666)	(64,625)
Increase in directors' and corporate auditors' retirement allowances	23,600	12,400	23,400
Increase (decrease) in reserve for bonuses	61,000	31,000	(25,000)
Increase (decrease) in reserve for directors' and corporate auditors' bonuses	-	38,000	(6,000)
Interest and dividend income	(3,491)	(4,382)	(7,146)
Interest expenses	50,610	50,650	57,774
Interest expenses on bonds	38,671	25,260	25,252
Decrease (increase) in notes and accounts receivable	(286,716)	(191,712)	52,963
Decrease (increase) in inventory	(145,106)	(110,932)	23,086
Increase (decrease) in notes and accounts payable	87,439	(78,767)	18,270
Increase (decrease) in consumption tax payable	(27,358)	6,831	47,055
Directors' and corporate auditors' bonuses	(20,800)	(41,000)	-
Others	5,660	(63,674)	18,904
	752,700	817,548	1,361,207
Interest and dividend income	3,492	4,366	7,081
Interest expenses	(95,173)	(69,368)	(91,702)
Income tax and others	(255,487)	(279,326)	(331,249)
	405,532	473,220	945,337

K O K E N

Years ended December 31; Thousands of yen	2005	2006	2007
Net cash used in investing activities			
Increase in time deposits	(390,002)	(360,022)	(415,084)
Proceeds from decrease in time deposits	422,500	360,024	360,014
Proceeds from sale of investment securities	9,000	15,561	-
Payments for acquisition of tangible fixed assets	(655,670)	(1,372,178)	(288,068)
Proceeds from sale of tangible fixed assets	46,920	108,424	29,795
Payments for acquisition of intangible fixed assets	-	(9,840)	(4,324)
Payments for loans and advances	-	-	(6,000)
Proceeds from collection of loans and advances	1,500	1,476	1,398
Others	8,672	973	(3,473)
	(557,080)	(1,255,581)	(325,742)
Net cash used in financing activities			
Proceeds from increase in short-term borrowings	1,550,000	1,260,000	110,000
Payments of short-term borrowings	(1,552,000)	(1,078,000)	(110,000)
Proceeds from increase in long-term debt	1,300,000	1,100,000	1,200,000
Payments of long-term debt	(1,658,214)	(806,364)	(892,992)
Payments for redemption of bonds	-	-	(300,000)
Proceeds from issuance of bonds	2,165,400	-	-
Payments for redemption of convertible bonds	(1,950,000)	-	-
Proceeds from sale of treasury stock	6,752	53,704	1,798
Payments for purchase of treasury stock	(2,835)	(608)	-
Dividends	(74,625)	(124,625)	(125,799)
	(215,522)	404,106	(116,993)
Effect of exchange rate fluctuations on cash and cash equivalents	-	-	-
Increase (decrease) in cash and cash equivalents	(367,070)	(378,254)	502,601
Cash and cash equivalents at beginning of term	2,150,706	1,783,636	1,405,382
Cash and cash equivalents at end of term	1,783,636	1,405,382	1,907,983

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

Years ended December 31; Thousands of yen	2005	2006	2007
Cash and deposit accounts	1,981,639	1,603,382	2,051,053
Time deposits, etc., of 3 months or longer	(198,003)	(198,000)	(253,069)
Marketable securities with less than 3 months to maturity at time of acquisition (NCDs)	-	-	110,000
Cash and cash equivalents at end of term	1,783,636	1,405,382	1,907,983

Capital expenditures

Capital expenditures during the term amounted to 247 million yen. The investments concerned 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 Nakai Techno-Yard.

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

Dividend policy

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

The Company's articles of incorporation contain the following provision: "An interim dividend may be declared in accordance with the provisions of Article 454-5 of the Corporation Law." The level of the final dividend shall be subject to the approval of the General Meeting of Shareholders, while the Board of Directors shall determine the interim dividend.

In accordance with the above policy and based on an overall consideration of the fiscal 2007 results, future business trends and financial condition of the Company, dividends for the year ended December 31, 2007 were set at 25 yen per share. The dividend payout ratio for the year was 37.4%, and the ratio of dividends to net assets was 1.7%.

With the aim of sustaining future growth, the Company plans to appropriate retained earnings to strengthen the business base by investing in research and development of new technologies and products and by applying funds to capital investment projects.

Dividends paid out of retained earnings for the year ended December 31, 2007 were as follows:

Date of decision	Dividend payout (Millions of yen)	Dividend per share (Yen)
March 27, 2008 Resolution by General Meeting of Shareholders	126	25

Operations

Nonconsolidated statement of income

Years ended December 31; Thousands of yen	2005	2006	2007
Sales			
Net sales	7,043,893	7,724,698	7,610,006
Construction	79,142	61,152	34,852
	<u>7,123,035</u>	<u>7,785,851</u>	<u>7,644,859</u>
Cost of goods sold			
Finished goods and merchandise inventory, beginning of term	747,513	731,906	909,726
Production costs for the term	3,597,789	4,342,876	4,023,944
Purchase of merchandise for the term	51,854	18,073	63,118
Construction costs	49,125	37,661	22,210
	<u>4,446,281</u>	<u>5,130,517</u>	<u>5,019,000</u>
Transfers to other accounts	34,789	42,895	51,854
Finished goods and merchandise inventory, end of term	731,907	909,726	799,781
	<u>3,679,585</u>	<u>4,177,895</u>	<u>4,167,364</u>
Gross profit on sales	3,443,450	3,607,956	3,477,494
Selling, general and administrative expenses			
Packing and shipping expenses	106,866	111,701	116,087
Advertising expenses	152,803	140,404	136,559
Directors' and corporate auditors' salaries	126,744	120,396	128,245
Employees' salaries	678,525	688,958	713,712
Bonuses	113,581	123,940	95,635
Reserve provision for bonuses	120,721	139,206	126,644
Reserve provision for directors' and corporate auditors' bonuses	-	38,000	32,000
Reserve provision for directors' and corporate auditors' retirement allowances	23,600	22,100	23,400
Retirement benefit expenses	10,477	-	11,605
Employee benefit expenses	119,948	127,652	128,464
Travel and transportation expenses	117,798	110,033	120,705
Other office expenses	87,725	92,323	89,469
Rental expenses	184,941	197,660	207,994
Research expenses	422,979	489,366	461,039
Taxes and public dues	30,857	35,772	33,179
Depreciation expenses	65,956	59,883	72,513
Provision for doubtful accounts	1,118	4,867	600
Others	232,966	272,501	213,547
	<u>2,597,605</u>	<u>2,774,769</u>	<u>2,711,404</u>
Operating income	845,845	833,186	766,090

K O K E N

Years ended December 31; Thousands of yen	2005	2006	2007
Nonoperating income			
Interest income	711	533	3,281
Dividend income	2,780	3,849	3,864
Commissions received	8,976	10,998	8,135
Rental income	3,626	3,425	2,721
Land-related compensation	-	2,804	-
Others	5,145	6,356	4,930
	21,238	27,967	22,933
Nonoperating expenses			
Interest expenses	50,610	50,650	57,774
Interest expenses on bonds	38,671	25,260	25,252
Losses on sale of promissory notes	3,287	1,155	-
Issuing expenses for bonds	12,717	12,716	11,533
Arrangement fees	-	40,000	-
Others	23,869	37,139	28,588
	129,154	166,922	123,149
Ordinary profit	737,929	694,232	665,875
Extraordinary income			
Gains on sale of investment securities	-	454	-
Gains on redemption of golf memberships	12,600	-	-
Gains from liquidation of subsidiaries	-	1,613	-
	12,600	2,067	-
Extraordinary losses			
Losses on disposal of fixed assets	44,895	21,182	44,796
Expenses for disposal of fixed assets	14,800	2,670	12,640
Product recall expenses	43,656	1,959	669
Provision for doubtful accounts	-	-	11,400
Impairment losses	-	29,555	-
	103,351	55,366	69,505
Net income before taxes and special reserves for the term	647,178	640,933	596,369
Corporate, inhabitant and enterprise taxes	260,000	284,000	261,000
Deferred taxes	(2,276)	8,503	(2,580)
	257,724	292,503	258,419
Net income	389,454	348,430	337,950
Retained earnings brought forward from previous term	208,986	-	-
Unappropriated retained earnings, end of term	598,440	-	-

Nonconsolidated statement of changes in net assets

December 2007 term

Thousands of yen; December 31, 2007	Shareholders' equity										
	Capital surplus			Retained earnings						Treasury shareholders' stock	Total shareholders' equity
	Common stock	Additional paid-in capital	Other capital surplus	Legal income reserves	Other retained earnings			Retained earnings carried forward			
					Special reserve	Reserve for special depreciation					
Balance as of Dec. 31, 2006	674,265	527,936	639	168,566	5,186,000	33,928	585,041	(49,734)	7,126,643		
Changes during the term											
Provision for special reserves					200,000		(200,000)		-		
Reversal of reserve for asset reduction entries						(1,718)	1,718		-		
Dividends from retained earnings							(126,215)		(126,215)		
Net income							337,950		337,950		
Disposal of treasury stock			24					1,773	1,798		
Other changes in non-shareholders' equity items during the term (net)											
Total changes during the term	-	-	24	-	200,000	(1,718)	13,452	1,773	213,532		
Balance as of Dec. 31, 2007	674,265	527,936	664	168,566	5,386,000	32,209	598,494	(47,961)	7,340,175		

Thousands of yen; December 31, 2007	Valuation/translation gains (losses)		Share subscription rights	Net assets
	Unrealized gains (losses) on other securities			
Balance as of Dec. 31, 2006	202,925	-		7,329,569
Changes during the term				
Provision for special reserves				-
Reversal of reserve for asset reduction entries				-
Dividends from retained earnings				(126,215)
Net income				337,950
Disposal of treasury stock				1,798
Other changes in non-shareholders' equity items during the term (net)	(79,311)	14,449		(64,861)
Total changes during the term	(79,311)	14,449		148,670
Balance as of Dec. 31, 2007	123,614	14,449		7,478,239

December 2006 term

Thousands of yen; December 31, 2006	Shareholders' equity									
	Capital surplus			Retained earnings					Treasury shareholders' stock	Total shareholders' equity
	Common stock	Additional paid-in capital	Other capital surplus	Legal income reserves	Special reserve	Reserve for special depreciation	Retained earnings carried forward			
Balance as of Dec. 31, 2005	674,265	527,937	-	168,566	4,986,000	37,698	598,440	(102,191)	6,890,715	
Fractional number adjusted		(1)								
Changes during the term										
Provision for special reserves					200,000		(200,000)		-	
Reversal of reserve for asset reduction entries							(3,770)	3,770	-	
Dividends from retained earnings							(124,598)		(124,598)	
Directors' bonuses paid by appropriation of earnings							(41,000)		(41,000)	
Net income							348,430		348,430	
Acquisition of treasury stock								(608)	(608)	
Disposal of treasury stock				639				53,065	53,704	
Other changes in non-shareholders' equity items during the term (net)										
Total changes during the term	-	-	639	-	200,000	(3,770)	(13,398)	52,456	235,928	
Balance as of Dec. 31, 2006	674,265	527,936	639	168,566	5,186,000	33,928	585,041	(49,734)	7,126,643	

Thousands of yen; December 31, 2006	Valuation/translation gains (losses)		Net assets
	Unrealized gains	(losses) on other securities	
Balance as of Dec. 31, 2005		283,027	7,173,742
Fractional number adjusted			
Changes during the term			
Provision for special reserves			-
Reversal of reserve for asset reduction entries			-
Dividends from retained earnings			(124,598)
Directors' bonuses paid by appropriation of earnings			(41,000)
Net income			348,430
Acquisition of treasury stock			(608)
Disposal of treasury stock			53,704
Other changes in non-shareholders' equity items during the term (net)		(80,101)	(80,101)
Total changes during the term		(80,101)	155,826
Balance as of Dec. 31, 2006		202,925	7,329,569

Cost of goods sold

Years ended December 31; Thousands of yen	2005	%	2006	%	2007	%
Raw materials costs	2,043,992	56.1	2,367,040	54.2	2,273,326	55.9
Labor costs	528,024	14.5	558,970	12.8	499,812	12.3
Other expenses	1,072,833	29.4	1,439,926	33.0	1,293,754	31.8
Total manufacturing overhead	3,644,849	100.0	4,365,937	100.0	4,066,893	100.0
Work-in-process inventory, beginning of term	208,459		255,519		278,580	
	3,853,308		4,621,456		4,345,473	
Work-in-process inventory, end of term	255,519		278,580		321,528	
Production costs for the term	3,597,789		4,342,876		4,023,944	
Major items in other expenses above						
Subcontracted processing expenses	313,828		342,411		310,198	
Depreciation expenses	266,150		457,962		454,491	
Costs of completed construction						
Raw materials costs	13,446	27.4	15,209	40.3	7,870	35.4
Labor costs	2,194	4.5	2,892	7.8	1,966	8.9
Subcontracted processing expenses	32,079	65.3	17,634	46.8	10,495	47.3
Other expenses	1,406	2.8	1,924	5.1	1,878	8.4
	49,125	100.0	37,661	100.0	22,210	100.0

Results of operations

Year ended December 31, 2007

The Japanese economy expanded steadily in the year ended December 2007, with robust corporate profits supporting private-sector capital investment and an improved employment situation. Uncertainty about future economic prospects mounted late in the year due to the U.S. subprime loan crisis and another surge in the prices of oil and other raw materials.

Sales of industrial masks for health and safety applications, particularly of breath-synchronized blower masks, continued to grow. Sales of masks used in asbestos hazard prevention were 650 million yen lower than in fiscal 2006. Overall, mask segment sales fell 3.3% compared with the previous year.

In the environmental equipment segment, demand was strong for ventilation and air-purification systems for use in medical facilities. In its first year on the market, the fully automated “Kagami Naishi” endoscope cleaning system made a solid contribution to sales. Total segment sales were 22.4% above the previous-year level.

Total sales fell by 1.8% compared with the previous year to 7,644 million yen.

Operating income declined by 8.1% to 766 million yen, ordinary profit by 4.1% to 665 million yen and net income by 3.0% to 337 million yen.

Year ended December 31, 2006

Buoyed up by strong private-sector capital investment and a pick-up in consumer spending, and despite another surge in commodity prices, the Japanese economy posted steady growth in the year ended December 2006.

Demand for industrial masks received a sustained boost from the extensive coverage of asbestos-related problems in the Japanese media in the second half of 2005. Although demand for specific related applications peaked in the first half of 2006, the market has been permanently enlarged by the creation of this new segment. In particular, the Company’s range of breath-synchronized blower masks has gained substantial recognition within the asbestos removal industry as a safe and convenient protection aid for those workers involved in Level 1 tasks (defined as operations producing the greatest quantities of asbestos dust). Demand for asbestos hazard protection and other types of industrial masks also increased amid a manufacturing-led recovery. Mask segment sales increased by 9.4% from the year before.

In the environmental equipment segment, the Company posted strong sales of a desktop-sized, open-draft, push-pull local ventilation system for installation in areas of

medical facilities where formaldehyde is used. The Company also introduced the newly developed “Laminar DS-51” ventilation and air-purification system for use in autopsy rooms. This product proved popular with teaching hospitals, since it helps to protect students and teachers from formaldehyde vapors emitted by cadavers during clinical training sessions.

Approval for manufacture and sale was received under the Pharmaceutical Affairs Law for “Kagami Naishi,” a fully automated endoscope cleaning system, in February 2006. The product was formally launched in October 2006. With this product’s relatively small contribution included, sales by the environmental equipment segment rose by 7.7% compared with the previous year.

Total sales increased by 9.3% from the previous year to 7,785 million yen.

Operating income declined by 1.5% to 833 million yen, reflecting higher raw materials costs and an increase in the manufacturing cost ratio associated with a production correction affecting asbestos-related masks. Net income fell by 10.5% to 348 million yen.

The Company secured a 2,000 million yen syndicated loan facility during 2006. This boosted nonoperating expenses in the form of arrangement fees. Outstanding borrowings under this facility as of the end of 2006 equaled 1,000 million yen.

Issues requiring action

General interest in occupational health and safety (OH&S) issues has risen sharply among Japanese companies due to a growing awareness that good corporate citizens must institute a “culture of safety.” Ignoring safety issues is no longer a realistic option. The Japanese government is actively introducing a stricter legal and regulatory framework governing OH&S issues.

The Company is responding to the demands of industry and government to raise safety levels by supplying equipment to meet these needs. Development of products and distribution channels is an important ongoing challenge.

Mask segment

- The Company is focused on building on its dominant market position in Japan by enhancing the value provided by its breath-synchronized blower masks and by developing masks for new applications such as tunneling or welding operations. The Company plans to begin marketing its core products in markets outside Japan.
- Public awareness of the need for disaster readiness continues to rise in Japan. New threats such as terrorism and avian influenza have heightened the perceived need

to be prepared. The Company is responding by developing products that not only meet industrial, fire-fighting and rescue requirements but that also serve various civilian purposes, such as use in evacuations during fires or other emergency situations, or in preventing transmission of infectious diseases.

Environmental equipment segment

- Medical facilities in Japan are upgrading ventilation systems and providing workers with safety equipment to satisfy stricter OH&S regulations governing issues such as the prevention of infectious outbreaks and controls applied to chemicals such as formaldehyde. The Company has established a reputation as a supplier of innovative risk-reduction technology for medical applications, including fully automated endoscope cleaning systems and air-purification systems for use in autopsy rooms. The Company plans to develop more products in this segment to create a second major earnings stream.

Environmental issues

- Environmental issues are a serious concern for many Japanese enterprises. Many Koken products can make a significant contribution to companies' efforts to restrict CO₂ emissions. Examples include the "Koken Laminar" push-pull ventilation equipment, "BreathLink" blower masks and "EcoBeam" water-conditioning and treatment systems.
- The Company seeks to develop eco-friendly product designs by employing materials with low environmental impact wherever possible. Development of products that use filters with recycled components is ongoing. In addition, the Company pioneered the introduction of a commercial recycling system for the "Micron Filter" used in particulate respirators and gas masks. Through such initiatives, the Company aims to reduce the environmental impact of both its products and its business activities, in part by contributing to its customers' own efforts to cut waste generation.

Organizational reforms

- Plans to reinforce production capabilities involve spinning off manufacturing operations within the Technology Division into a separate enterprise.

Production and sales

Production

Thousands of yen	2007	
	Amount	Year-on-year comparison (%)
Particulate respirators	3,749,705	82.8
Gas masks	1,990,420	113.2
Other products related to dust-protection masks and gas masks	1,185,246	83.7
	6,925,371	89.9
Environmental-improvement construction and facilities	439,984	117.3
	439,984	117.3
	7,365,355	91.2

Sales

Thousands of yen	2007	
	Amount	Year-on-year comparison (%)
Particulate respirators	3,930,914	92.5
Gas masks	1,975,964	115.0
Other products related to dust-protection masks and gas masks	1,201,930	87.1
	7,108,809	96.7
Environmental-improvement construction and facilities	536,049	122.4
	536,049	122.4
	7,644,859	98.2

Principal customers

Thousands of yen	2006		2007	
	Amount	% of net sales	Amount	% of net sales
Midori Anzen Yohin	1,302,183	16.7%	1,318,236	17.2%

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	60	12-60	28,687	58,701
OA equipment	1	12-72	47,431	92,921
Metal molds	146	12-36	64,124	82,669

Pro forma information on leased property is as follows:

Thousands of yen	2006	2007
Machinery and equipment		
Acquisition cost	100,872	100,872
Accumulated depreciation	62,520	73,008
Net leased property	38,352	27,864
Vehicles and delivery equipment		
Acquisition cost	25,913	18,803
Accumulated depreciation	18,960	12,121
Net leased property	6,954	6,681
Tools, furniture and fixtures		
Acquisition cost	487,937	495,390
Accumulated depreciation	263,923	350,266
Net leased property	224,013	145,123
Total		
Acquisition cost	614,723	615,065
Accumulated depreciation	345,404	435,396
Net leased property	269,319	179,668
Future minimum lease payments, including interest portion		
Due within one year	112,024	93,848
Due after one year	157,295	85,820
	269,319	179,668
Lease payments and pro forma depreciation expenses		
Lease payments	119,824	113,681
Pro forma depreciation expenses (assuming straight-line method)	119,824	113,681

Capital Structure

Nonconsolidated balance sheet: assets

December 31; Thousands of yen	2005	2006	2007
Current assets			
Cash	1,981,639	1,603,382	2,051,053
Notes receivable - trade	962,125	1,322,528	1,329,393
Accounts receivable - trade	2,113,404	1,944,714	1,884,885
Marketable securities	-	-	110,000
Merchandise	174,258	150,705	172,065
Finished products	557,649	759,021	627,716
Raw materials	402,212	315,268	356,153
Work in process	255,708	278,786	322,350
Supplies	48,255	45,232	47,642
Prepaid expenses	63,032	70,552	67,170
Deferred tax assets	115,448	133,482	129,877
Others	4,294	8,112	6,474
Allowance for doubtful accounts	(4,000)	(4,000)	(4,000)
	6,674,024	6,627,786	7,100,783
Fixed assets			
Tangible fixed assets			
Buildings	2,782,731	3,181,812	3,218,575
Accumulated depreciation	1,513,260	1,618,397	1,734,759
	1,269,471	1,563,415	1,483,816
Structures	178,898	178,828	179,078
Accumulated depreciation	156,238	158,264	160,712
	22,660	20,563	18,366
Machinery and equipment	2,982,276	3,520,391	3,491,050
Accumulated depreciation	1,639,415	1,891,922	2,059,966
	1,342,861	1,628,468	1,431,084
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	2,270,152	2,305,680	2,335,678
Accumulated depreciation	1,954,369	1,978,370	2,071,953
	315,783	327,309	263,725
Land	3,444,361	3,471,505	3,471,505
Construction in progress	146,090	115,280	88,884
	6,541,301	7,126,617	6,757,455

K O K E N

December 31; Thousands of yen	2005	2006	2007
Intangible fixed assets			
Patents	-	8,342	11,401
Telephone subscription rights	9,424	9,423	9,423
Leaseholds	1,057	1,057	1,057
Software	1,669	1,724	1,004
Others	960	831	702
	13,110	21,378	23,589
Investments and other assets			
Investments in securities	676,904	526,741	393,018
Capital stock of affiliated companies	5,000	-	-
Long-term loans to employees	5,624	4,148	8,750
Long-term prepaid expenses	11,419	9,873	6,179
Deferred tax assets	82,994	111,410	172,009
Leasing and guarantee deposits	121,939	122,067	121,518
Retirement benefit insurance premiums	606,539	636,543	670,486
Allowance for doubtful accounts	(43,000)	(43,000)	(55,000)
	1,467,419	1,367,783	1,316,962
Total fixed assets	8,021,830	8,515,780	8,098,006
Deferred assets			
Issuing expenses on bonds	24,250	11,533	-
	24,250	11,533	-
Total assets	14,720,104	15,155,100	15,198,789

Nonconsolidated balance sheet: liabilities and net assets

December 31; Thousands of yen	2005	2006	2007
Current liabilities			
Accounts payable - trade	217,822	139,054	157,324
Short-term borrowings	918,000	1,100,000	1,100,000
Current portion of long-term debt	678,064	779,692	1,123,532
Bonds redeemable within 1 year	-	300,000	-
Accounts payable - other	291,951	160,979	121,447
Accrued expenses	126,346	129,482	132,425
Income taxes payable	154,288	161,768	90,679
Consumption taxes payable	16,454	23,284	70,340
Deposits received	62,969	63,244	68,502
Reserve for bonuses	197,000	228,000	203,000
Reserve for directors' and corporate auditors' bonuses	-	38,000	32,000
Others	13	105	365
	<u>2,662,907</u>	<u>3,123,612</u>	<u>3,099,616</u>
Long-term liabilities			
Corporate bonds	2,500,000	2,200,000	2,200,000
Long-term debt	1,683,624	1,875,632	1,838,800
Employees' retirement benefits	325,147	242,479	177,854
Reserve for directors' and corporate auditors' retirement allowances	361,100	373,500	396,900
Others	13,584	10,306	7,379
	<u>4,883,455</u>	<u>4,701,918</u>	<u>4,620,933</u>
Total liabilities	<u>7,546,362</u>	<u>7,825,531</u>	<u>7,720,550</u>
Shareholders' equity			
Common stock	674,265	-	-
Capital surplus	527,937	-	-
Additional paid-in capital	527,937	-	-
Retained earnings			
Legal income reserves	168,566	-	-
Voluntary reserves - total			
Special reserves	4,986,000	-	-
Reserve for reduction of asset costs due to contributions or subsidiaries	37,698	-	-
Unappropriated retained earnings, fiscal year-end	598,440	-	-
	<u>5,790,704</u>	<u>-</u>	<u>-</u>
Unrealized gains (losses) on other securities	283,027	-	-
Treasury stock	(102,191)	-	-
Total shareholders' equity	<u>7,173,742</u>	<u>-</u>	<u>-</u>
Total liabilities and shareholders' equity	<u>14,720,104</u>	<u>-</u>	<u>-</u>

K O K E N

December 31; Thousands of yen	2005	2006	2007
Net assets			
Shareholders' equity			
Common stock	-	674,265	674,265
Capital surplus			
Additional paid-in capital	-	527,936	527,936
Other capital reserves	-	639	664
	-	528,576	528,600
Retained earnings			
Legal income reserves	-	168,566	168,566
Other legal income reserves			
Special reserves	-	5,186,000	5,386,000
Reserve for reduction of asset costs due to contributions or subsidies	-	33,928	32,209
Retained earnings carried forward	-	585,041	598,494
	-	5,973,536	6,185,270
Treasury stock	-	(49,734)	(47,961)
	-	7,126,643	7,340,175
Valuation/translation gains (losses)			
Unrealized gains (losses) on other securities	-	202,925	123,614
	-	202,925	123,614
Share subscription rights	-	-	14,449
Total net assets	-	7,329,569	7,478,239
Total liabilities and net assets	-	15,155,100	15,198,789

Trade credits**Notes receivable**

Thousands of yen	2007
Shimatsu	116,150
Simon	87,452
Ohtsuka Brush Manufacturing	71,309
Riken Optech	57,376
Tanizawa Seisakusho	51,508
Others	945,596
	<u>1,329,393</u>

Accounts receivable — trade

Thousands of yen	2007
Midori Anzen Yohin	739,330
Defense Agency	469,011
Komatsu Seisakusho	33,117
Simon	32,728
AS ONE Corporation	30,991
Others	579,705
	<u>1,884,885</u>

Turnover of accounts receivable

Thousands of yen	2007
Beginning balance	1,944,714
Increase	8,101,232
Collected	8,161,060
Ending balance	1,884,885
Turnover	81.2%
Average days for collection	86.3

Accounts payable — trade

Thousands of yen	2007
Sanwa Sangyo	11,471
Nakayama	9,241
Takaoka Shoji	8,500
Wamoto	7,724
FUJIKOH COMPANY., LIMITED	6,764
Others	113,622
	157,324

Marketable and investment securities

Thousands of yen	2007	
Stocks		
Investment securities	Number of shares	Book value
Other securities		
Resona Holdings, Inc. (8308)	768.35	158,320
Mizuho Financial Group, Inc. (8411)	163.75	95,052
Mizuho Financial Group, Inc. 11th series preferred stock (class 11)	50.00	50,000
Hitachi (6501)	60,500.00	48,702
Nikko Cordial Securities, Inc.	13,000.00	21,593
Mizuho Investors Securities (8607)	26,349.00	4,637
Mitsubishi UFJ Financial Group, Inc. (8306)	4,240.00	4,731
Ace Securities	10,000.00	2,550
Nomura Holdings, Inc. (8604)	1,750.00	3,403
Nippon Kanryu Industry (1771)	15,000.00	1,935
Sumitomo Mitsui Financial Group (8316)	1.00	891
Others (2 shares)	21.00	1,200
	131,843.10	393,018
Others		
Marketable securities		
Other securities	110,000	110,000

Market value of securities**Other quoted securities**

Thousands of yen	2006			2007		
	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	127,802	470,876	343,074	127,802	337,333	209,530
Bonds						
JGB, local government bonds, etc.	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Others	-	-	-	-	-	-
Others	-	-	-	-	-	-
	127,802	470,876	343,074	127,802	337,333	209,530
Securities valued on the consolidated balance sheet at amounts not greater than the purchase cost						
Shares	3,045	2,115	(930)	3,045	1,935	(1,110)
Bonds						
JGB, local government bonds, etc.	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Others	-	-	-	-	-	-
Others	-	-	-	-	-	-
	3,045	2,115	(930)	3,045	1,935	(1,110)
	130,847	472,991	342,144	130,847	339,268	208,420

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, 2006

Thousands of yen		
2006		
Amount sold	Total gain on sales	Total loss on sales
561	454	-

Major investment securities for which market prices are not available

December 31; Thousands of yen	2006	2007
Other securities		
Unlisted stocks	53,750	53,750
NCDs	-	110,000

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	Longer than 1 and up to 5 years	Longer than 5 and up to 10 years	Longer than 10 years
2007				
Bonds				
JGB, local government bonds, etc.	-	-	-	-
Corporate bonds	-	-	-	-
Others	-	-	-	-
Others				
NCDs	110,000	-	-	-
	110,000	-	-	-

Fixed assets

Facilities

The Company maintains 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	246,750	3,876	1,636,000	283.91	15,568	1,902,194	91
Manufacture of dust and gas masks							
Sayama Techno-Yard	550,243	962,244	792,433	12,826.12	61,289	2,366,211	22
Gunma Techno-Yard	363,245	209,132	405,140	9,256.83	70,532	1,048,050	9
Tokorozawa Techno-Yard	74,530	6,511	177,214	1,904.09	16,006	274,263	8
Manufacture and distribution of dust and gas masks							
Nakai Techno-Yard, Nakai Logistics Center	150,651	220,028	325,449	1,434.94	15,284	711,413	12
Research activities							
Hannou Laboratories	45,526	29,157	4,451	3,224.35	41,301	120,437	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	3,181,812	44,840	8,078	3,218,575	1,734,759	119,663	1,483,816
Structures	178,828	250	-	179,078	160,712	2,447	18,366
Machinery and equipment	3,520,391	150,494	179,835	3,491,050	2,059,966	308,818	1,431,084
Vehicles and delivery equipment	1,500	-	-	1,500	1,425	-	75
Tools and fixtures	2,305,680	78,232	48,234	2,335,678	2,071,953	111,062	263,725
Land	3,471,505	-	-	3,471,505	-	-	3,471,505
Construction in progress	115,280	278,906	305,302	88,884	-	-	88,884
	12,774,997	552,724	541,449	12,786,272	6,028,816	541,992	6,757,455
Intangible fixed assets							
Patents	-	-	-	12,666	1,265	1,265	11,401
Telephone subscription rights	-	-	-	9,423	-	-	9,423
Leaseholds	-	-	-	1,057	-	-	1,057
Software	-	-	-	12,263	11,258	719	1,004
Usage rights for equipment and facilities	-	-	-	12,320	11,617	128	702
	-	-	-	47,730	24,141	2,113	23,589
Long-term prepaid expenses	31,553	4,022	450	35,125	28,945	7,607	6,179
Deferred assets							
Issuing expenses for bonds	34,600	-	34,600	-	11,533	11,533	-
	34,600	-	34,600	-	11,533	11,533	-

Debt

Bonds

Thousands of yen	Date issued	Beginning of term	End of term	Interest rate	Maturity
Second unsecured corporate bond issue	2004/9/24	300,000	-	0.69%	2007/9/21
Third unsecured corporate bond issue	2005/3/10	700,000	700,000	1.02%	2010/3/10
Fourth unsecured corporate bond issue	2005/3/15	100,000	100,000	0.89%	2010/3/15
Fifth unsecured corporate bond issue	2005/3/25	800,000	800,000	1.19%	2010/3/25
Sixth unsecured corporate bond issue	2005/3/30	600,000	600,000	0.94%	2010/3/30
	-	2,500,000	2,200,000	-	-

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

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

Borrowings

Thousands of yen	Previous period	Outstanding	Average rate	Maturity
Short-term borrowings	1,100,000	1,100,000	1.61%	-
Current portion of long-term debt	779,692	1,123,532	1.47%	-
Long-term debt (except current portion of long-term debt)	1,875,632	1,838,800	1.53%	2008 to 2012
Other interest-bearing liabilities	-	-	-	-
	3,755,324	4,062,332	-	-

1. Average rates for 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	Longer than 1 and up to 2 years	Longer than 2 and up to 3 years	Longer than 3 and up to 4 years	Longer than 4 and up to 5 years
Long-term debt	943,500	480,300	300,000	115,000

Assets provided as collateral

Thousands of yen	2006	2007
Assets provided as collateral		
Buildings	949,613	933,732
Land	2,996,037	2,996,037
	<u>3,945,651</u>	<u>3,929,769</u>
Liabilities for which collateral is provided		
Long-term debt	2,392,624	2,759,132
	<u>2,392,624</u>	<u>2,759,132</u>

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	2006	2007
Retirement benefit liabilities	(999,567)	(1,069,383)
Pension plan assets	805,232	853,082
Unaccrued pension benefit liabilities	(194,334)	(216,301)
Unrecognized actuarial gains (losses)	(48,145)	38,447
Net amount shown on the balance sheet	(242,479)	(177,854)
Allowance for retirement benefits	(242,479)	(177,854)

Matters related to retirement benefit expenses

Thousands of yen	2006	2007
Retirement benefit expenses	(1,910)	18,308
Current service costs	62,401	62,567
Interest expenses	19,860	19,991
Expected earnings on pension fund assets	14,745	16,105
Expensing of differences based on actuarial calculations	(69,426)	(48,145)

Assumptions underlying the calculation of retirement benefit liabilities

	2006	2007
Discount rate	2.0%	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 Recognized in full in the year following the year of accrual	1 year Recognized in full in the year following the year of accrual

Reserves

Thousands of yen	Beginning of term	Increase	Decrease	End of term
Allowance for doubtful accounts	47,000	16,400	4,400	59,000
Reserve for bonuses	228,000	203,000	228,000	203,000
Reserve for directors' and corporate auditors' bonuses	38,000	32,000	38,000	32,000
Reserve for directors' and corporate auditors' retirement allowances	373,500	24,400	1,000	396,900

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 others)	Relationship		Type of transaction	Value of transactions	Accounting classification	Balance at term-end
					Shareholder and director	Business relationship				
2007										
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	3.29	2	Building leasing	Payment of rental expenses	39,178	Accounts payable - other	1,508
2006										
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	3.29	2	Building leasing	Payment of rental expenses	39,192	Accounts payable - other	1,500

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 (by which all valuation differences are credited directly to net assets, and the cost of securities sold is calculated in accordance with 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 in-house useful 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 2007.
Reserve for directors' and corporate auditors' 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.
Reserve for directors' and corporate auditors' bonuses	An amount has been reserved for payment of bonuses to directors and corporate auditors of consolidated subsidiaries.
Opinion of independent auditors	<p>Auditors: A&A Partners</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, 2007	5,104,003
As of March 27, 2008	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)		(Thousands of yen)		(Thousands of yen)		
December 31, 1999	4,611	5,104,003	2,254	674,265	2,246	527,936	Conversion of convertible bonds

Shareholders by type of investor

Type of investor	Number of shareholders	Units owned (100 shares)	% owned
National and local government agencies	-	-	-
Financial institutions	8	6,329	12.40
Securities companies	6	121	0.24
Business and other corporations	20	13,387	26.23
Non-residents - institutions and corporations	4	5,326	10.43
Non-residents - individuals	-	-	-
Individuals and others	604	25,857	50.70
	642	51,020	100.0
Shares less than one unit	-	2,003	-

Largest shareholders

Name	Thousands of shares owned	% of shares outstanding
Sakai Kosan Ltd.	1,130	22.15
Masakazu Sakai	730	14.30
Hiroyuki Sakai	696	13.64
Morgan Stanley and Company International PLC	519	10.19
Resona Bank	244	4.79
Mizuho Bank	227	4.47
Sakai Tatemono Ltd.	166	3.26
Mitsubishi UFJ Trust & Banking	72	1.41
Keiko Sakai	58	1.15
Employees' stockholding association	58	1.14
	3,903	76.48

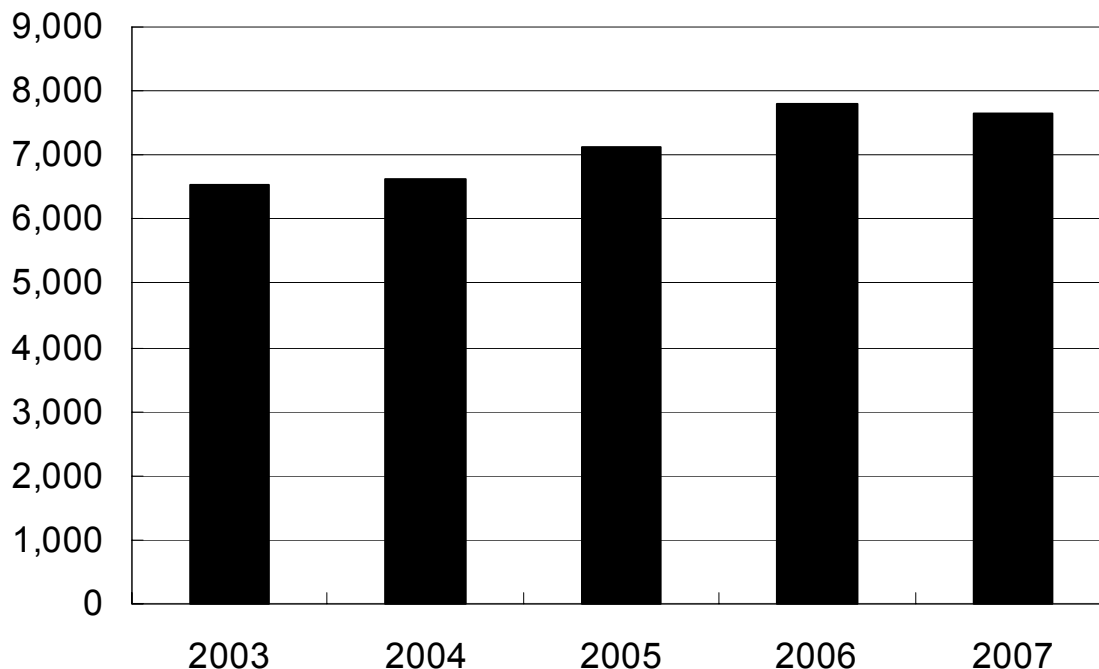
Share information

Business year	January 1 to December 31
Ex-rights date	December 31
Date of record for dividends	June 30 and December 31
Annual General Meeting of Shareholders	Within 3 months of fiscal year-end
Trading unit	100 shares
Types of share certificates	100, 1,000 and 10,000 shares
Transfer agent	Mitsubishi UFJ Trust & Banking, 1-4-5, Marunouchi, Chiyoda-ku, Tokyo
Publication of record	The Company's method of public notice shall be by electronic means. In the event of an accident or other unavoidable circumstance, notices shall be published in <i>the Nihon Keizai Shimbun</i> . The address of the Company's website is as follows: (URL http://www.koken-ltd.co.jp/)

Performance in Graphs

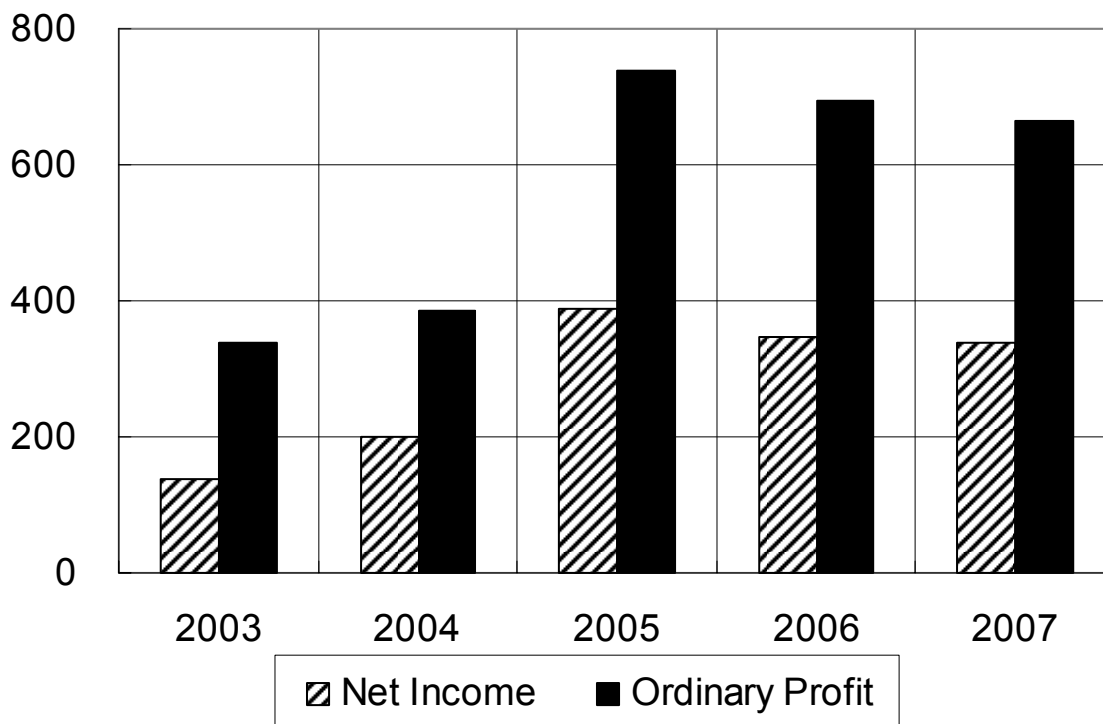
Net Sales

Millions of Yen

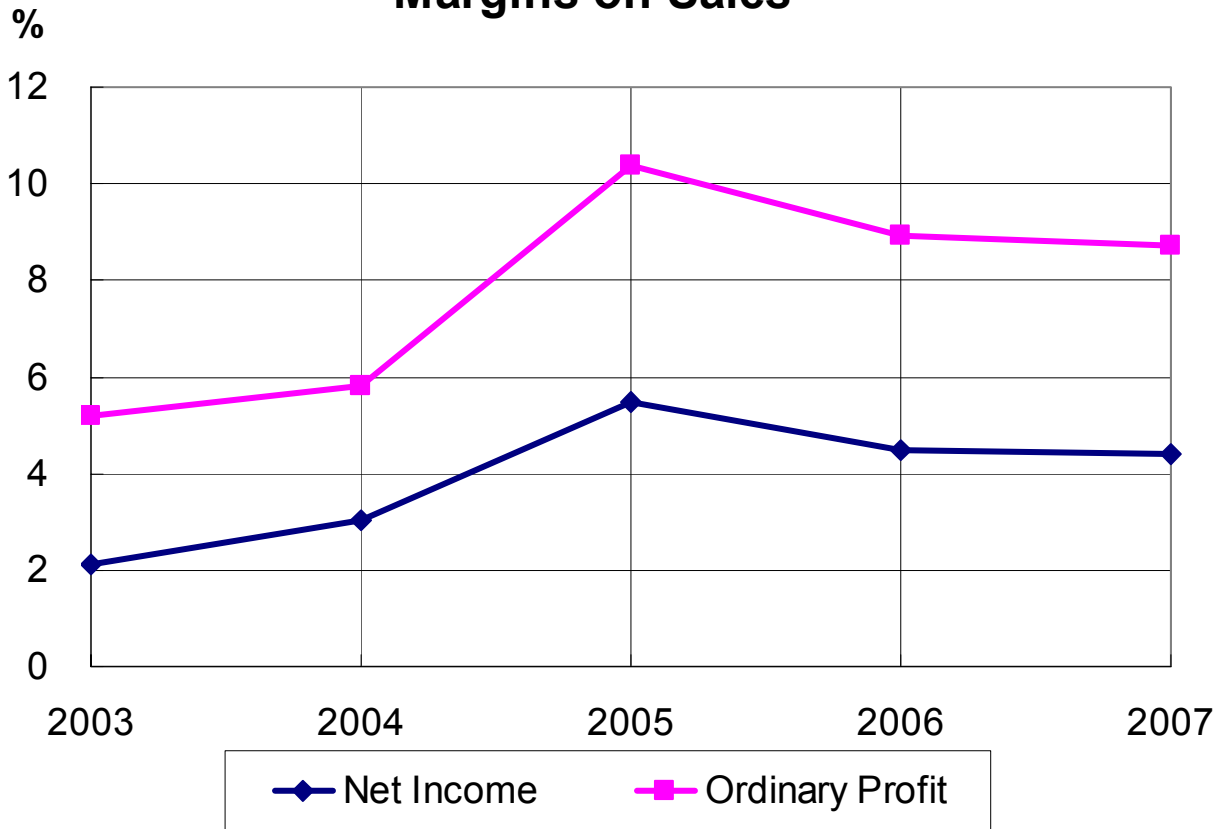


Net Income and Ordinary Profit

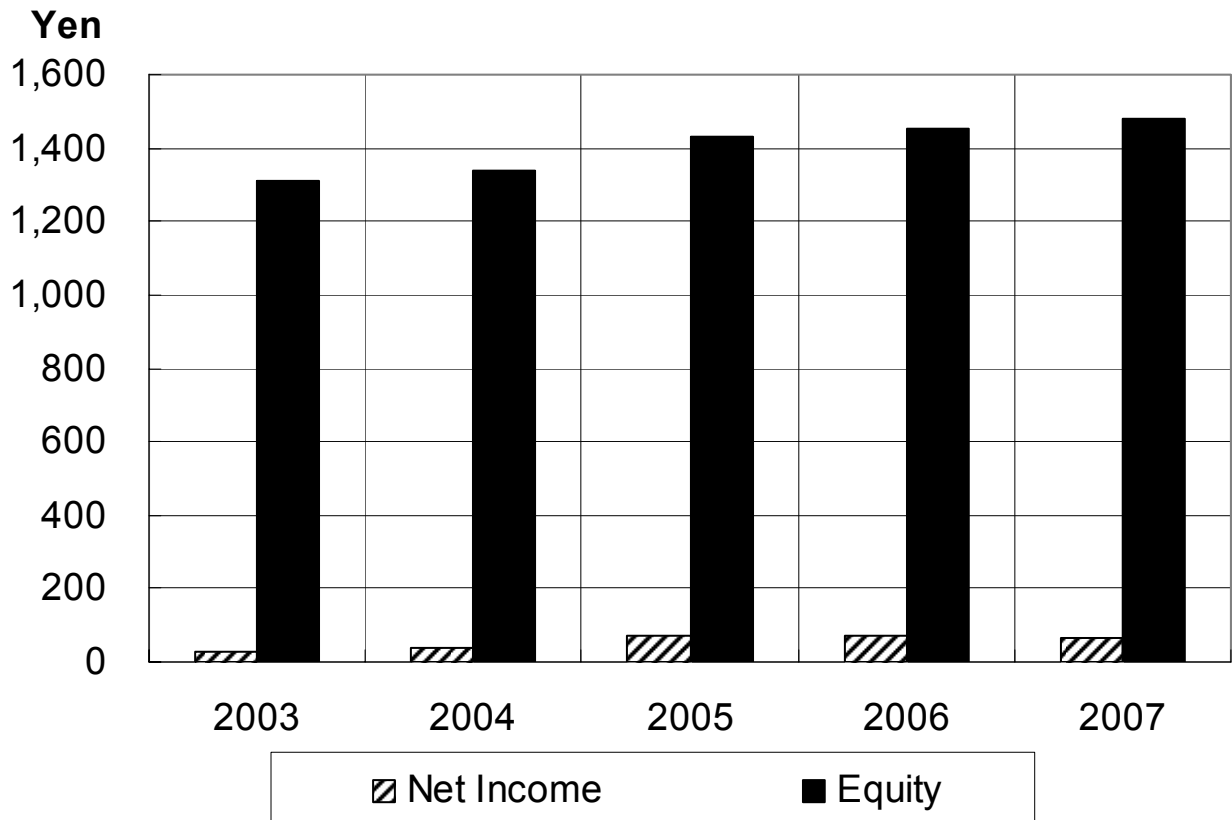
Millions of Yen



Margins on Sales

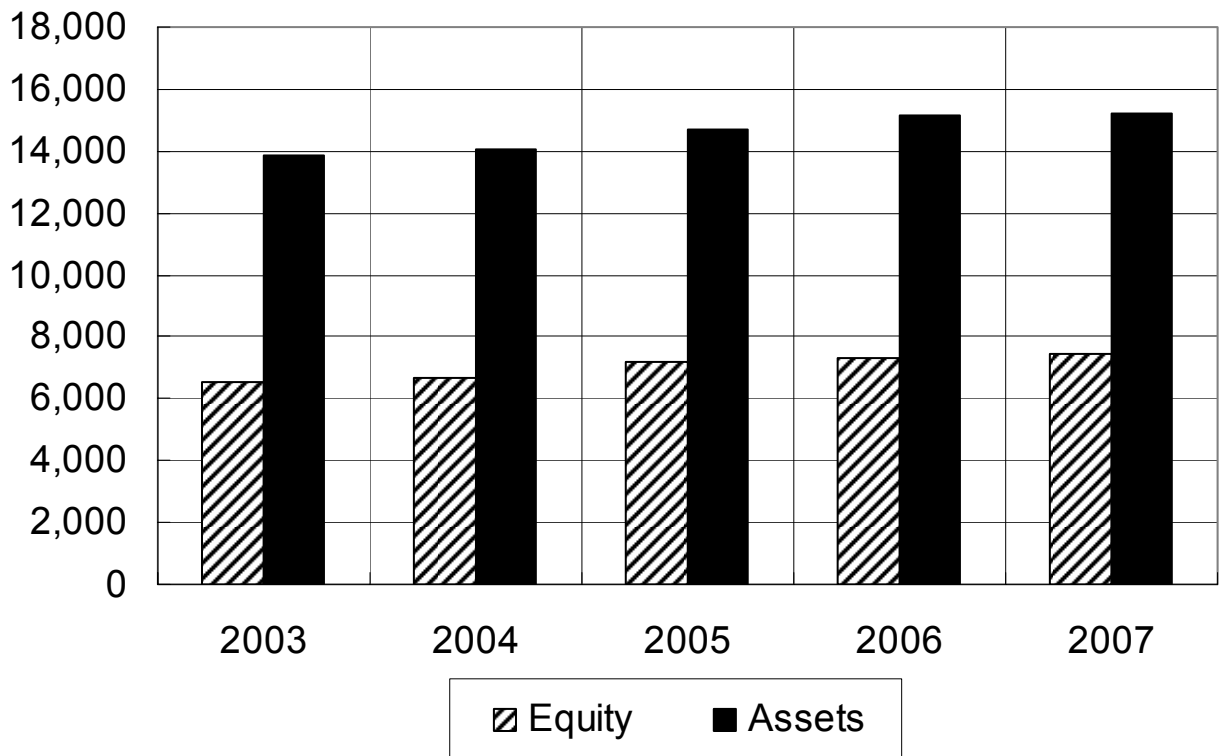


Per Share

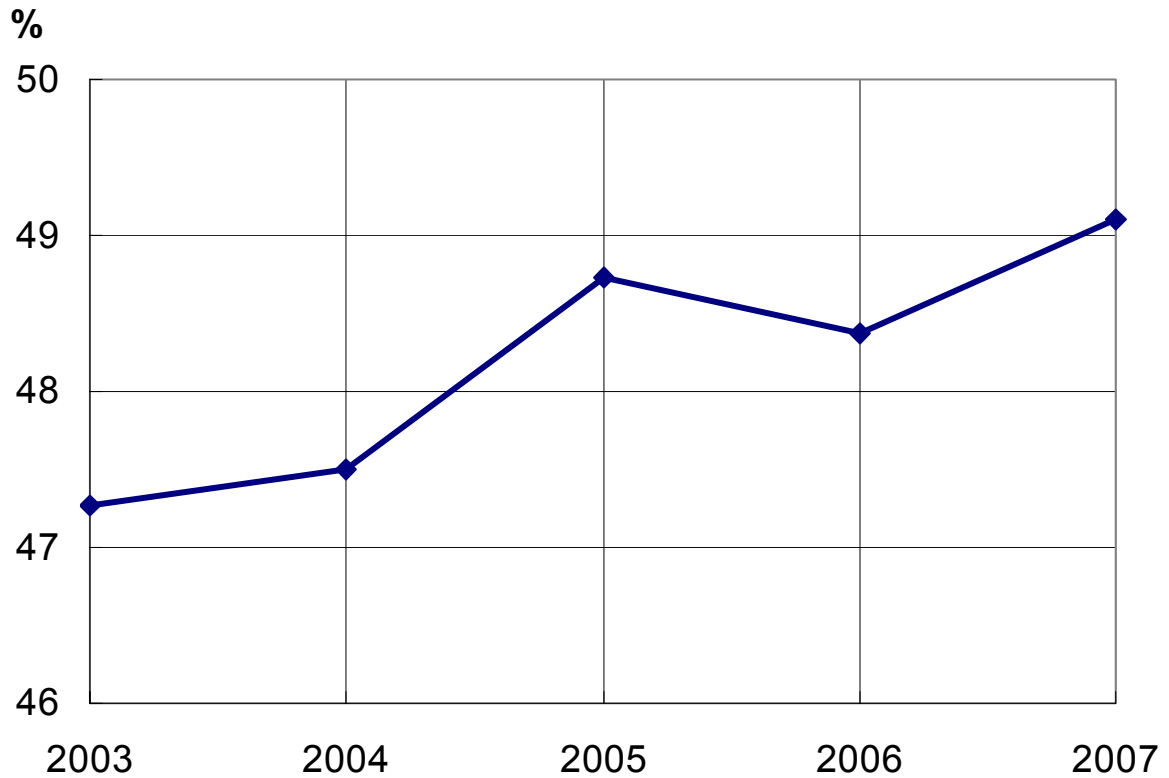


Equity and Assets

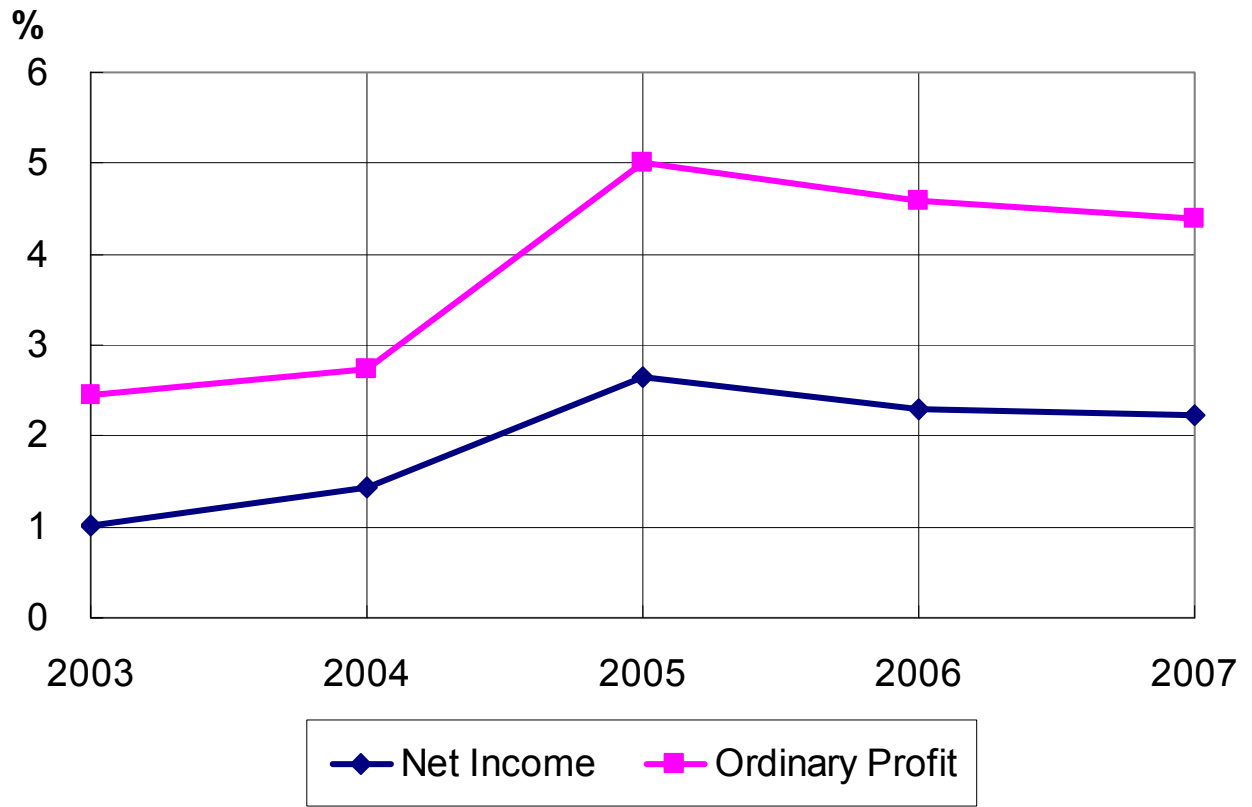
Millions of Yen



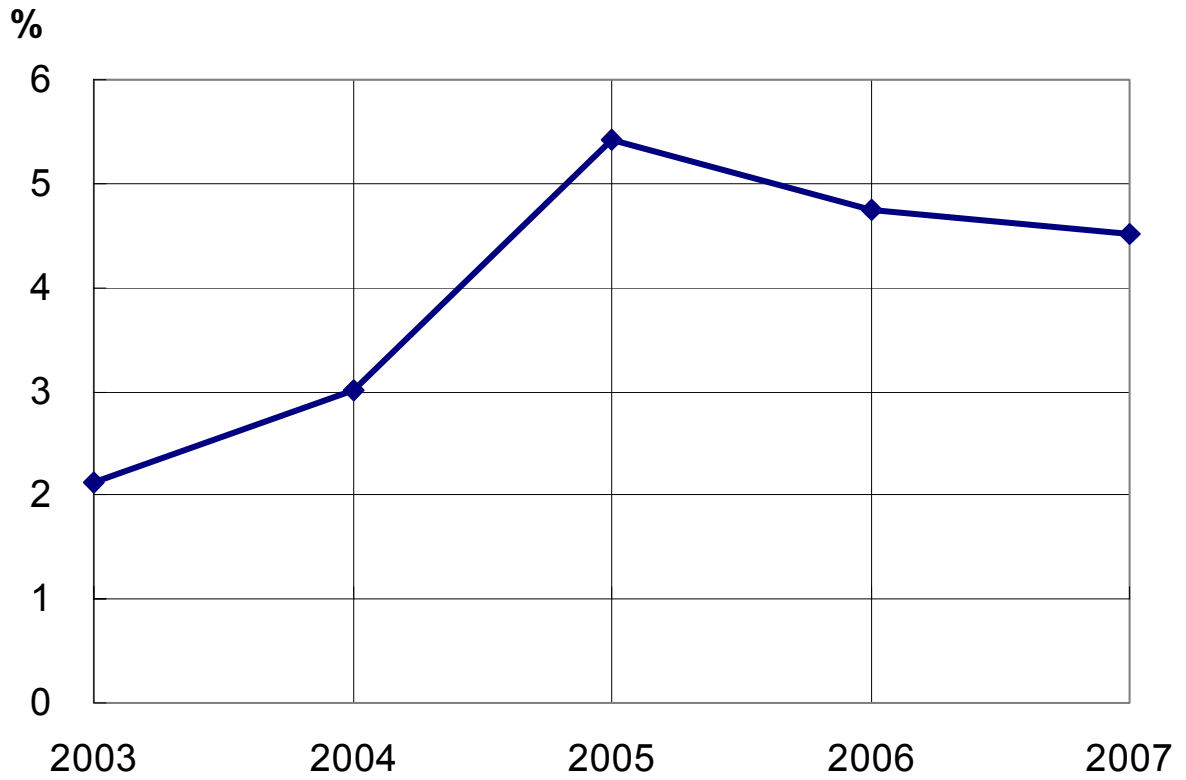
Equity / Assets



Return on Assets



Return on Equity



K O K E N

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