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YUHO REPORT

Annual

Fiscal Year Ended **December 31, 2009**

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 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	2005	2006	2007	2008	2009	Change 2009/2005
Net sales	7,123,035	7,785,851	7,644,859	7,845,556	8,102,194	114%
Ordinary profit	737,929	694,232	665,875	594,546	448,168	61%
Net income	389,454	348,430	337,950	332,058	268,361	69%
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	7,173,742	7,329,569	7,478,239	7,618,476	7,737,594	108%
Total assets	14,720,104	15,155,100	15,198,789	16,357,462	16,330,742	111%
Net assets per share (Yen)	1,431.14	1,451.79	1,477.79	1,499.63	1,522.27	106%
Dividends per share (Yen)	25.00	25.00	25.00	25.00	25.00	100%
Net income per share (Yen)	70.03	69.39	66.92	65.71	53.06	76%
Net income per share, fully diluted (Yen)	69.57	68.91	66.75	65.62	-	
Dividend payout ratio (%)	32.0	36.2	37.4	38.0	47.1	
Net cash provided by operating activities	405,532	473,220	945,337	762,274	1,109,749	
Net cash used in investing activities	(557,080)	(1,255,581)	(325,742)	(1,900,182)	(397,396)	
Net cash used in financing activities	(215,522)	404,106	(116,993)	847,578	(663,976)	
Cash and cash equivalents at end of term	1,783,636	1,405,382	1,907,983	1,617,654	1,666,031	
Employees	201	206	209	218	219	109%

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	2005	2006	2007	2008	2009
Net income / net sales (%)	5.5	4.5	4.4	4.2	3.3
Peers	2.1	2.0	0.3	(0.4)	(8.8)
Ordinary profit / net sales (%)	10.4	8.9	8.7	7.6	5.5
Peers	5.6	5.8	3.8	2.3	(2.6)
Net income / equity (%)	5.4	4.8	4.5	4.4	3.5
Peers	5.0	5.8	0.6	0.8	(22.6)
Net income / assets (%)	2.6	2.3	2.2	2.0	1.6
Peers	2.3	2.5	0.9	(0.2)	(5.5)
Ordinary profit / assets (%)	5.0	4.6	4.4	3.6	2.7
Peers	5.8	6.5	4.2	2.7	(0.9)
Equity / assets (%)	48.7	48.4	49.1	46.4	47.1
Peers	47.5	49.8	49.6	48.9	46.5

Peers include 31 companies in the other products sector on the Jasdaq Securities Exchange.

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 in Hannou, Saitama Prefecture.
1967	April	Hannou Laboratories established in Hannou, Saitama Prefecture.
1968	December	Hoya plant established in Hoya, Tokyo.
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, Saitama Prefecture 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, Saitama Prefecture, 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 Nakai-machi, 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, 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 JASDAQ Securities Exchange.
2005	May	ISO 14001 certification obtained by Tokorozawa Techno-Yard (registered on inspection).
2009	September	Saitama Logistics Center established in Ranzan-machi, Saitama Prefecture. (Nakai Logistics Center integrated into newly established facilities of Saitama Logistics Center.)

Risk factors

The Company recognizes the following risks or potential risk factors as existing as of December 31, 2009:

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 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 of the Company's manufacturing and technical facilities 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 control, the costs incurred in recalling and repairing non-compliant equipment could have a negative impact on the Company's financial performance.
 - The Company undertook a product recall for the BL-700H breath-response PAPR after issuing a recall announcement on December 29, 2009.
 - The Company remains committed to upgrading QA and QC systems based on assessments of risks from multiple perspectives.

Natural Disasters and Epidemics

- Cessation of production activities or other interruptions of operations due to earthquakes or other natural disasters, accidents or other such events, or influenza epidemics or other infectious outbreaks could have a negative impact on the Company's financial performance. Each of the Company's production facilities has undergone a seismic risk assessment and formulated appropriate business continuity plans. To prepare for epidemics, the Company has also distributed masks to all employees and stored emergency stocks at all its operating sites.

Environmental Issues

- Soil and groundwater decontamination procedures are continuing at two of the Company's research and manufacturing sites where trichloroethylene pollution was discovered. Although clean-up operations are proceeding according to plan, there could be a material impact on the Company's performance if the decontamination procedures prove lengthier or costlier than anticipated.

Information Security

- The Company's business involves a wealth of confidential information related to technology, sales and other operations. While the Company takes every precaution to manage such information securely, any unauthorized disclosure of such data due to unforeseen circumstances could have a negative impact on the Company's financial performance.

Internal Controls

- The Company has created an effective system of internal controls to promote effective and efficient business administration, reliable financial reporting, full legal and regulatory compliance, and asset security. Given the limitations inherent in internal controls, however, any related failure resulting from unforeseen circumstances could have a negative impact on the Company's financial performance..

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 73 staff are responsible for research and development, and related expenditures during the year under review totaled 492 million yen.

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

- Open-airflow clean bench "KOACH"

The "KOACH" system uses opposing air currents to prevent contamination by surrounding air inside a room, enabling an ISO Class 5 clean zone to be created within an open area.

The Company has developed the KOACH 900-H model as the standard product and the KOACH 645-H as a variant for small rooms. The first clean room technology of its kind in the world, this product has attracted interest at trade fairs and elsewhere due to its potential for CO₂ emissions reduction

- BL-700U model: Breath-response powered air-purifying respirator (PAPR) for protection from exposure to nano-materials; push-pull local ventilation system "LAMIKOACH"

Research into nano-materials has proliferated in recent years in response to reports on the possible effects of such substances on the human body. The Company has contributed by developing the BL-700U and BL-100U breath-response PAPR

models to protect users from exposure to nano-materials; the 1721U and 7191DKU particulate respirators; and the “LAMIKOACH” push-pull local ventilation system.

In March 2009, the Ministry of Health, Labour and Welfare issued a notice on preventative measures to stop exposure to nano-materials.

- “Hi-Luck Utsusanzo” and “Hi-Luck Kakaranzo” disposable respirators specially designed for patients and medical workers

Adapting the technology employed in the widely adopted Hi-Luck 350 series of NIOSH N95-approved disposable respirators, the Company has launched two new editions of this mask to prevent patients from infecting others (the “Hi-Luck Utsusanzo”) and to protect healthy people from infection (the “Hi-Luck Kakaranzo”).

Analysis of financial condition and results of operations

(1) Significant accounting policies and estimates

The financial statements of the Company are prepared in conformity with Japanese GAAP. Reasonable estimates required in the presentation of these statements are based on the relevant accounting standards.

(2) Financial analysis

Total assets stood at 16,330 million yen as of December 31, 2009, a decrease of 26 million yen from the previous year-end.

Current assets: 6,630 million yen (a decrease of 64 million yen)

This mainly reflected increases in accounts receivable—trade (of 124 million yen). These more than offset the declines in notes receivable—trade (of 108 million yen) and merchandise and finished goods (of 113 million yen).

Fixed assets: 9,700 million yen (an increase of 37 million yen)

This result mainly reflected increases in directors’ retirement benefit insurance premiums (of 59 million yen) and deferred tax assets (of 132 million yen), as well as declines in tangible fixed assets (of 103 million yen) and investments in securities (of 52 million yen).

Current liabilities: 5,449 million yen (an increase of 2,041 million yen)

This primarily reflected an increase in the current portion of bonds (of 2,200 million yen) and a decrease in the current portion of long-term debt (of 251 million yen).

Long-term liabilities: 3,143 million yen (a decrease of 2,187 million yen)

This primarily reflected a decrease in corporate bonds (of 2,200 million yen) and long-term debt (of 270 million yen) and an increase in employees' retirement benefits (of 227 million yen).

Net assets: 7,737 million yen (an increase of 119 million yen)

This mainly reflected an increase of 141 million yen in retained earnings due to higher special reserves in fiscal 2009 and other factors. This was offset by a decline of 27 million yen in unrealized gains on other securities.

The equity capital ratio declined to 47.1% from 46.4%.

(3) Results of operations

Sales:	8,102 million yen	(up 3.3%)
Operating income:	593 million yen	(down 16.5%)
Ordinary profit:	448 million yen	(down 24.6%)
Net income:	268 million yen	(down 19.2%)

Sales:

The growth in sales mainly reflected successful sales promotional efforts for ventilation systems to protect medical workers from formaldehyde.

Cost of goods sold:

Reflecting the increase in sales, the cost of goods sold increased by 256 million yen compared with the previous year to 4,576 million yen. The gross profit margin fell by 1.4 percentage points, declining from 44.9% to 43.5%. This mainly reflected an increase in the ratio of the cost of goods sold due to higher new products manufacturing costs and an accompanying reduction in the estimated useful lives of assets for depreciation purposes.

Selling, general and administrative expenses:

Higher personnel and other expenses offset savings from cost-reduction efforts. Selling, general and administrative expenses increased by 117 million yen compared with the previous year, to 2,931 million yen.

Operating income:

The operating profit margin fell by 1.8 percentage points to 7.3% from 9.1% in the previous year.

Nonoperating income and expenses:

Nonoperating income decreased by 9 million yen to 24 million yen, primarily because of a decrease in refunds from the cancellation of 8 million yen in insurance premiums.

Nonoperating expenses increased by 19 million yen to 169 million yen. This mainly reflected 35 million yen in commission fees.

Extraordinary income and losses:

Extraordinary income increased by 55 million yen to 64 million yen. This mainly reflected a 31 million yen refund on cancellation of insurance premiums, 31 million yen in compensation for transfers and an 8 million yen decrease in reversals of allowances for doubtful accounts.

Extraordinary losses increased by 21 million yen to 53 million yen. This mainly reflected 43 million yen in product recall expenses, losses on valuations of investments in securities of 6 million yen and losses on retirements of fixed assets totaling 3 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.

The following information related to corporate governance is as of March 19, 2010 (the publication date of the original Japanese report).

1) Overview of corporate governance structures and the development status of internal control systems

a. Basic explanation 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 present 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.

b. Overview of corporate governance structures and the development status of internal control systems

- The Company operates its business through four divisions: the Management Division, the Marketing Division, the Technology Division and the Manufacturing Division. Each division is headed by a general manager, and responsibilities are allocated in a manner that 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 continually upgrades its systems to ensure full compliance with laws, regulations and internal rules through various checking procedures. The Company has instituted compliance-related educational and training courses for directors and employees. In addition, the Company has set up the Koken Compliance Help Line as an internal reporting system designed to control and correct any compliance violations at the earliest possible time.
 - As a responsible corporate citizen, the Company maintains no relations with antisocial forces or other organizations that threaten the social order, and it remains resolutely opposed to such forces.
- c. 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 any necessary measures to resolve 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 results of their follow-up measures are checked.
 - In line with the initiation of production and sales activities concerned with 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 the audited production, technical or 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.
- d. 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. 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: 3

Other staff: 7

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

e. Statement regarding the relationships between the Company and its outside directors and corporate auditors (personal, share ownership-based, commercial or other)

- The Company has no outside directors.
- None of the above relationships apply with respect to the corporate auditors.

2) Risk management system development status

- The Management Division, Marketing Division, Technology Division and Manufacturing 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 auditing 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 corporate level. While promoting the adoption of any required regulations, this division also continues to construct risk management systems with the aim of mitigating projected risks and developing contingency measures against any foreseeable emergency situations.

3) Directors' compensation

- Directors' compensation
 Compensation paid to directors: 178,989,000 yen
 Compensation paid to corporate auditors: 32,004,000 yen

Notes:

- a. Total compensation amounts for corporate auditors include figures for one corporate auditor who retired at the 46th Annual General Meeting of Shareholders held on March 26, 2009.
- b. Compensation amounts for directors do not include any remuneration with respect to employment in non-executive positions.
- c. Total compensation amounts also include the following:
 Bonuses approved at the 47th General Meeting of Shareholders that was held on March 26, 2010 in the amount of 23,300,000 yen (18,800,000 yen to seven directors and

4,500,000 yen to four corporate auditors (including 1,300,000 yen to two outside auditors)).

Reserve for directors' and corporate auditors' retirement benefits: 51,300,000 yen (48,400,000 yen for directors and 2,900,000 yen for corporate auditors)

Compensation in form of stock options: 1,150,000 yen (809,000 yen to directors and 341,000 yen to corporate auditors)

4) Limited liability agreements

In accordance with the provisions of Article 427-1 of the Companies Act, 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.

5) Number of directors

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

6) 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.

7) Determination of interim dividends

The Company's articles of incorporation stipulate that an interim dividend may be paid from retained earnings in accordance with Article 454-5 of the Companies Act 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 manner.

8) 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.

9) 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 Companies Act 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 general meetings of shareholders in Japan.

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

- The Board of Directors convened 13 times in the year ended December 2009 to make important management decisions and oversee their execution.
- The Company determined basic policies for financial reporting in accordance with its basic policy concerning the creation of internal controls. The Company regards compliance with internal control reporting requirements as stipulated in the Financial Instruments and Exchange Law as a crucial function for strengthening governance infrastructure, based on its corporate philosophy and code of ethics.
- In accordance with its basic policies concerning internal controls and financial reporting, as part of its ongoing efforts to develop, institute and assess internal control systems, the Company established internal regulations pertaining to the construction and evaluation of internal controls for financial reporting.
- As concerns disclosure, the Company released explanatory information about its financial results for the year ended December 2008 and its financial results for the interim period of the year ended December 2009 on the Company's website.

(2) Auditors' compensation

1) Compensation paid to CPAs and the Company's auditing firm was as follows:

Thousands of yen	2008	2009
Financial audit services	-	24,000
Non-audit services	-	-

2) Compensation policy for financial audit services

The Company has not established a set policy for determining compensation paid to CPAs and its auditing firm for financial audit services. Fees are set with the scale and characteristics of the auditing work and the number of days involved taken into consideration.

Directors

(as of March 26, 2010)

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 26, 2010	890
Hiroyuki Sakai	Representative Director, President	Apr-67		23-May-43	2 years from GMS held on March 26, 2010	858
Yosuke Yamasato	Representative Director, Executive Vice President	Sep-02	Ground Self-Defense Force	22-Jun-45	2 years from GMS held on March 26, 2010	6
Mitsuji Muramatsu	Managing Director	Feb-06	Mizuho Bank	21-Feb-56	2 years from GMS held on March 26, 2010	1
Toshio Akiyama	Managing Director	Apr-73		2-Apr-49	2 years from GMS held on March 26, 2010	7
Nobuya Horiguchi	Managing Director	Apr-82		28-Aug-58	2 years from GMS held on March 26, 2010	-
Tsutomu Murakawa	Managing Director	Apr-89		8-Jan-66	2 years from GMS held on March 26, 2010	1
Etsuo Koyama	Standing Corporate Auditor	Jul-81	Nikkei Aluminium (now Nippon Light Metal)	21-Sep-42	4 years from GMS held on March 26, 2009	3
Tadashi Shimosaka	Standing Corporate Auditor	Oct-88	Dayton Progress Corp.	3-Jan-43	1 year from GMS held on March 26, 2010	2
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	-
						1,772

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

Tadashi Shimosaka replaces Standing Corporate Auditor Kiminobu Nakamura, who retired from this position at the conclusion of the 47th General Meeting of Shareholders held on March 26, 2010.

The Company's articles of incorporation require that replacement corporate auditors only serve out the existing term of the retiring auditor. As a result, the term of office in this case is one year.

Employees

	Total or average
Number	219 [181]
Average age	37.8
Average years of service	13.4
Average annual salary (yen)	6,551,874

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
- 2) Share subscription rights based on Articles 236, 238 and 239 of the Companies Act (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.*

Adjusted number of shares = Pre-adjusted number of shares × 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.

2) Share subscription rights based on Articles 236, 238 and 239 of the Companies Act Resolution passed on March 26, 2010

Date of resolution	March 26, 2010
Categories and numbers of persons to be granted rights	7 directors, 4 corporate auditors and employees
Type of shares subject to rights	Common stock
Number of shares	Maximum of 110,000 shares
Amount paid in at time of execution of rights	(Note)
Period for execution of rights	April 1, 2012 - March 31, 2015
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. The amount of funds received in payment by the Company with respect to the exercise of stock options shall equal the amount paid per share (hereinafter, "exercise price") multiplied by the number of shares granted.

The exercise price shall be taken as the average value of the closing market price of the Company's common stock on the JASDAQ exchange (hereinafter, "closing price") on each day (excluding any days on which trading in the stock did not occur) in the month preceding that of the assignment date of the stock subscription rights, with all fractional yen amounts rounded up to the nearest yen. However, the exercise price shall not be less than the closing price of the stock option on the date of issuance (or the most recent trading day if there was no trading of the stock on that day).

If the Company issues common stock or disposes of treasury stock at below market price (excluding instances in which this is due to the exercise of stock options), moreover, the exercise price shall be adjusted in line with the following formula, with fractional yen amounts resulting from such adjustment rounded up to the nearest yen.

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

The "number of shares previously outstanding" in the above formula shall be equal to the number of shares of Company stock on issue, less any amounts of treasury stock owned by the Company. In the application of this formula, "treasury stock disposal" can be read in place of "new stock issuance" and "disposal price per share" in place of "pay-in amount per share" to adjust for any disposals of treasury stock. Note that the exercise price shall be adjusted according to the following formula in the event of any stock split or merger that involves the Company's stock, with fractional yen amounts resulting from such adjustment rounded up to the nearest yen.

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

In addition, if any adjustment of the exercise price should be necessitated by the Company acquiring and merging with another firm or else establishing a new company, or by the Company undertaking a related exchange of shares, the Company shall be permitted to make any adjustment deemed necessary.

3. *In the event of any takeover (limited to any merger in which the Company is not a surviving entity), absorptive split, demerger, establishment of a new firm, or exchange or transfer of shares (collectively hereinafter, "organizational rearrangements"), the Company shall grant stock subscription rights in the Company subject to rearrangement (hereinafter, "rearranged entity") in line with the various provisions 8a–8e of Section 1 of Article 236 of the Companies Act to all holders of rights that had not expired (hereinafter, "outstanding stock options") at the time the organizational rearrangements acquired legal force. In such eventuality, any outstanding stock options shall be cancelled and new stock subscription rights in the rearranged entity shall be issued. However, any such issuance based on the provisions set out below shall be limited to cases in which the issuance of new rights is stipulated in the agreement or plan covering the takeover, absorptive split, demerger, establishment of a new firm or share exchange/transfer.*

- 1) *Number of rights in rearranged entity to be issued*

Based on number of rights owned by outstanding stock option holders, taking into account any adjustments required pursuant to the terms and conditions of the specific organizational rearrangements

- 2) *Type of shares in rearranged entity subject to rights*

Common stock in the rearranged entity

- 3) *Number of shares in rearranged entity subject to rights*

Determined in line with Note 1 above, taking into account the conditions of the specific organizational rearrangements

- 4) *Amount of funds invested to exercise rights*

The exercise price as determined in line with Note 2 above (adjusted in line with the conditions of the specific organizational rearrangements) multiplied by the number of shares in the rearranged entity subject to rights as determined based on item 3) above

- 5) *All other terms and conditions shall be as stipulated in the agreements covering the granting of stock options between the Company and rights holders, based on resolutions approved at the 47th General Meeting of Shareholders and by the Board of Directors.*

Cash Flows

Nonconsolidated statement of cash flows

Years ended December 31; Thousands of yen	2007	2008	2009
Net cash provided by operating activities			
Net income before taxes and other adjustments	596,369	570,924	458,530
Depreciation	544,106	502,448	529,004
Losses on disposal of fixed assets	44,796	23,393	3,627
Increase (decrease) in allowance for doubtful accounts	12,000	(54,000)	-
Losses (gains) on sales of tangible fixed assets	-	-	(341)
Compensation for removals	-	-	(31,854)
Losses on valuation of investments in securities	-	5,876	6,546
Increase (decrease) in retirement benefits	(64,625)	22,578	227,884
Increase (decrease) in directors' and corporate auditors' retirement allowances	23,400	(1,800)	45,600
Increase (decrease) in reserve for bonuses	(25,000)	(4,000)	(12,000)
Increase (decrease) in reserve for directors' and corporate auditors' bonuses	(6,000)	(5,000)	(3,700)
Increase (decrease) in reserve for product recall expenses	-	-	37,247
Interest and dividend income	(7,146)	(8,644)	(4,810)
Interest expenses	57,774	72,894	77,330
Interest expenses on bonds	25,252	23,190	23,190
Decrease (increase) in notes and accounts receivable	52,963	(126,448)	(15,911)
Decrease (increase) in inventory	23,086	(707)	136,994
Increase (decrease) in notes and accounts payable	18,270	17,684	7,657
Increase (decrease) in consumption tax payable	47,055	(31,911)	8,612
Others	18,904	45,883	(28,656)
	1,361,207	1,052,362	1,464,951
Interest and dividend income	7,081	8,748	4,811
Interest expenses	(91,702)	(96,583)	(108,041)
Income tax and others	(331,249)	(202,253)	(251,970)
	945,337	762,274	1,109,749

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Years ended December 31; Thousands of yen	2007	2008	2009
Net cash used in investing activities			
Increase in time deposits	(415,084)	(47,000)	-
Proceeds from decrease in time deposits	360,014	300,069	-
Payments for acquisition of tangible fixed assets	(288,068)	(2,237,784)	(424,983)
Proceeds from sale of tangible fixed assets	29,795	90,270	32,655
Purchases of long-term prepaid expenses	-	-	(268)
Payments for acquisition of intangible fixed assets	(4,324)	(5,979)	(6,199)
Payments for loans and advances	(6,000)	-	-
Proceeds from collection of loans and advances	1,398	1,200	1,400
Others	(3,473)	(958)	(1)
	(325,742)	(1,900,182)	(397,396)
Net cash used in financing activities			
Proceeds from increase in short-term borrowings	110,000	1,100,000	2,100,000
Payments of short-term borrowings	(110,000)	(1,100,000)	(2,100,000)
Proceeds from increase in long-term debt	1,200,000	2,300,000	1,000,000
Payments of long-term debt	(892,992)	(1,332,532)	(1,521,700)
Payments for redemption of bonds	(300,000)	-	-
Proceeds from sale of treasury stock	1,798	6,413	-
Repayments of lease obligations	-	-	(16,158)
Payments for purchase of treasury stock	-	-	(138)
Dividends	(125,799)	(126,302)	(125,979)
	(116,993)	847,578	(663,976)
Effect of exchange rate fluctuations on cash and cash equivalents	-	-	-
Increase (decrease) in cash and cash equivalents	502,601	(290,329)	48,376
Cash and cash equivalents at beginning of term	1,405,382	1,907,983	1,617,654
Cash and cash equivalents at end of term	1,907,983	1,617,654	1,666,031

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

Years ended December 31; Thousands of yen	2007	2008	2009
Cash and deposit accounts	2,051,053	1,617,654	1,666,031
Time deposits, etc., of 3 months or longer	(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	1,907,983	1,617,654	1,666,031

Capital expenditures

Capital expenditures during the term totaled 442 million yen. Investments targeted the development of highly competitive new products in response to market needs and the establishment of efficient mass-production capabilities.

The bulk of the funds were used to purchase production facilities and metal molds at 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 Companies Act." 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 2009 results, future business trends and the Company's financial condition, a final dividend for the year ended December 31, 2009 of 25 yen per share was approved by resolution of the General Meeting of Shareholders held on March 26, 2010. The dividend payout ratio for the year was 47.1%, 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.

Dividend payments out of retained earnings for the fiscal year under review are outlined below.

Date of decision	Dividend payout (Millions of yen)	Dividend per share (Yen)
March 26, 2010 Resolution by General Meeting of Shareholders	126	25

Operations

Nonconsolidated statement of income

Years ended December 31; Thousands of yen	2007	2008	2009
Sales			
Net sales	7,610,006	7,812,325	8,041,602
Construction	34,852	33,230	60,592
	7,644,859	7,845,556	8,102,194
Cost of goods sold			
Finished goods and merchandise inventory, beginning of term	909,726	799,781	808,774
Production costs for the term	4,023,944	4,306,192	4,405,631
Purchase of merchandise for the term	63,118	58,615	82,131
Construction costs	22,210	20,687	34,768
	5,019,000	5,185,277	5,331,305
Transfers to other accounts	51,854	55,782	59,536
Finished goods and merchandise inventory, end of term	799,781	808,774	694,807
	4,167,364	4,320,721	4,576,961
Gross profit on sales	3,477,494	3,524,835	3,525,232
Selling, general and administrative expenses			
Packing and shipping expenses	116,087	122,207	120,652
Advertising expenses	136,559	137,779	123,743
Directors' and corporate auditors' salaries	128,245	128,790	135,243
Employees' salaries and allowances	713,712	729,036	747,707
Bonuses	95,635	113,975	107,753
Provision for bonuses	126,644	120,117	115,663
Provision for directors' and corporate auditors' bonuses	32,000	27,000	23,300
Provision for directors' and corporate auditors' retirement benefits	23,400	29,700	51,300
Retirement benefit expenses	11,605	68,352	176,148
Employee benefit expenses	128,464	135,259	135,885
Travel and transportation expenses	120,705	108,679	103,810
Other office expenses	89,469	86,355	86,198
Rental expenses	207,994	205,566	202,060
Research expenses	461,039	465,409	492,078
Taxes and public dues	33,179	34,051	41,559
Depreciation expenses	72,513	70,966	60,737
Provision for doubtful accounts	600	-	-
Others	213,547	230,669	207,731
	2,711,404	2,813,917	2,931,574
Operating income	766,090	710,918	593,657

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Years ended December 31; Thousands of yen	2007	2008	2009
Nonoperating income			
Interest income	3,281	3,755	1,307
Dividend income	3,864	4,889	3,503
Commissions received	8,135	8,316	9,696
Rental income	2,721	2,721	2,185
Refund on cancellation of insurance premiums	-	8,828	199
Others	4,930	5,205	7,432
	22,933	33,716	24,324
Nonoperating expenses			
Interest expenses	57,774	72,894	77,330
Interest expenses on bonds	25,252	23,190	23,190
Commission fees	-	-	35,000
Issuing expenses for bonds	11,533	-	-
Others	28,588	54,004	34,292
	123,149	150,088	169,813
Ordinary profit	665,875	594,546	448,168
Extraordinary income			
Reversal of allowance for doubtful accounts	-	8,900	-
Refund on cancellation of insurance premiums	-	-	31,947
Compensation for removals	-	-	31,854
Gains on sales of fixed assets	-	-	341
	-	8,900	64,143
Extraordinary losses			
Losses on retirement of fixed assets	44,796	23,393	3,627
Losses on abandonment of fixed assets	12,640	2,948	-
Losses on valuation of investments in securities	-	5,876	6,546
Product recall expenses	669	303	43,606
Provision for doubtful accounts	11,400	-	-
	69,505	32,521	53,781
Net income before taxes and special reserves for the term	596,369	570,924	458,530
Corporate, inhabitant and enterprise taxes	261,000	247,000	341,000
Deferred taxes	(2,580)	(8,133)	(150,830)
	258,419	238,866	190,169
Net income	337,950	332,058	268,361

Nonconsolidated statement of changes in net assets

Years ended March 31; Thousands of yen	2007	2008	2009
Shareholders' equity			
Common stock			
Balance at end of previous term	674,265	674,265	674,265
Changes in items during the term			
Total changes in items during the term	-	-	-
Balance at end of current term	674,265	674,265	674,265
Capital surplus			
Additional paid in-capital			
Balance at end of previous term	527,936	527,936	527,936
Changes in items during the term			
Total changes in items during the term	-	-	-
Balance at end of current term	527,936	527,936	527,936
Other capital surplus			
Balance at end of previous term	639	664	756
Changes in items during the term			
Disposal of treasury stock	24	92	-
Total changes in items during the term	24	92	-
Balance at end of current term	664	756	756
Retained earnings			
Legal income reserves			
Balance at end of previous term	168,566	168,566	168,566
Changes in items during the term			
Total changes in items during the term	-	-	-
Balance at end of current term	166,566	168,566	168,566
Other retained earnings			
Special reserve			
Balance at end of previous term	5,186,000	5,386,000	5,586,000
Changes in items during the term			
Provision for special reserves	200,000	200,000	200,000
Total changes in items during the term	200,000	200,000	200,000
Balance at end of current term	5,386,000	5,586,000	5,786,000
Reserve for special depreciation			
Balance at end of previous term	33,928	32,209	30,591
Changes in items during the term			
Reversal of reserve for asset reduction entries	(1,718)	(1,618)	(1,524)
Total changes in items during the term	(1,718)	(1,618)	(1,524)
Balance at end of current term	32,209	30,591	29,067

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Years ended March 31; Thousands of yen	2007	2008	2009
Retained earnings carried forward			
Balance at end of previous term	585,041	598,494	605,905
Changes in items during the term			
Provision for special reserves	(200,000)	(200,000)	(200,000)
Reversal of reserve for asset reduction entries	1,718	1,618	1,524
Dividends from retained earnings	(126,215)	(126,265)	(126,443)
Net income (loss)	337,950	332,058	268,361
Total changes in items during the term	13,452	7,410	(56,558)
Balance at end of current term	598,494	605,905	549,347
Treasury stock			
Balance at end of previous term	(49,734)	(47,961)	(41,640)
Changes in items during the term			
Disposal of treasury stock	1,773	6,320	-
Purchase of treasury stock	-	-	(138)
Total changes in items during the term	1,773	6,320	(138)
Balance at end of current term	(47,961)	(41,640)	(41,779)
Total shareholders' equity			
Balance at end of previous term	7,126,643	7,340,175	7,552,381
Changes in items during the term			
Dividends from retained earnings	-	(126,265)	(126,443)
Net income (loss)	(126,215)	332,058	268,361
Disposal of treasury stock	337,950	6,413	-
Purchase of treasury stock	1,798	-	(138)
Total changes in items during the term	213,532	212,205	141,778
Balance at end of current term	7,340,175	7,552,381	7,694,160
Valuation/translation gains (losses)			
Unrealized gains or losses on other on securities			
Balance at end of previous term	202,925	123,614	32,378
Changes in items during the term			
Other changes in non-shareholders' equity items during the term (net)	(79,311)	(91,235)	(27,477)
Total changes in items during the term	(79,311)	(91,235)	(27,477)
Balance at end of current term	123,614	32,378	4,900

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Years ended March 31; Thousands of yen	2007	2008	2009
Share subscription rights			
Balance at end of previous term	-	14,449	33,716
Changes in items during the term			
Other changes in non-shareholders' equity items during the term (net)	14,449	19,266	4,816
Total changes in items during the term	14,449	19,266	4,816
Balance at end of current term	14,449	33,716	38,533
Net assets			
Balance at end of previous term	7,329,569	7,478,239	7,618,476
Changes in items during the term			
Dividends from retained earnings	(126,215)	(126,265)	(126,443)
Net income (loss)	337,950	332,058	268,361
Disposal of treasury stock	1,798	6,413	-
Purchase of treasury stock	-	-	(138)
Other changes in non-shareholders' equity items during the term (net)	(64,861)	(71,969)	(22,661)
Total changes in items during the term	148,670	140,236	119,117
Balance at end of current term	7,478,239	7,618,476	7,737,594

Cost of goods sold

Years ended December 31; Thousands of yen	2007	%	2008	%	2009	%
Raw materials costs	2,273,326	55.9	2,374,447	55.4	2,486,261	56.2
Labor costs	499,812	12.3	609,169	14.2	683,584	15.4
Other expenses	1,293,754	31.8	1,300,327	30.4	1,257,424	28.4
Total manufacturing overhead	4,066,893	100.0	4,283,944	100.0	4,427,270	100.0
Work-in-process inventory, beginning of term	278,580		321,528		299,280	
	4,345,473		4,605,473		4,726,550	
Work-in-process inventory, end of term	321,528		299,280		320,919	
Production costs for the term	4,023,944		4,306,192		4,405,631	
Major items in other expenses above						
Subcontracted processing expenses	310,198		281,822		309,504	
Depreciation expenses	454,491		406,160		437,417	
Cost of completed construction						
Raw materials costs	7,870	35.4	1,683	8.1	12,131	34.8
Labor costs	1,966	8.9	1,904	9.2	4,655	13.4
Subcontracted processing expenses	10,495	47.3	15,638	75.6	15,876	45.7
Other expenses	1,878	8.4	1,463	7.1	2,104	6.1
	22,210	100.0	20,687	100.0	34,768	100.0

Results of operations

Year ended December 31, 2009

Although fiscal stabilization and economic stimulus measures implemented by governments worldwide produced some signs of recovery, employment levels and corporate profits continued to slide in Japan. The prospects for recovery remained uncertain.

Amid these harsh operating conditions, demand from the manufacturing sector for gas masks and particulate respirators used in production and other operations failed to recover fully. New rules mandating that workers in asbestos operations use protective masks boosted demand for powered air-purifying respirators, however. Sales of masks to medical institutions for protecting users from new influenza virus strains also rose. Overall, sales in the mask segment declined 2.9% compared with the previous year to 7,076 million yen.

In the environmental equipment segment, a concerted sales drive resulted in a large increase in sales of ventilation systems used in medical facilities to protect workers from formaldehyde. Total segment sales surged 84.2% in year-on-year terms to 1,025 million yen.

Total sales rose 3.3% compared with the previous year to 8,102 million yen.

Operating income fell 16.5% to 593 million yen. This reflected lower sales of high-margin product lines due to reining of spending by customers as well as a higher ratio of cost of goods sold due to increased new product manufacturing costs accompanied by a reduction in the estimated useful lives of assets for depreciation purposes. SG&A expenses were elevated by a charge of 176 million yen for retirement benefit expenses. Net income declined 19.2% to 268 million yen.

Year ended December 31, 2008

Business conditions deteriorated sharply later in the year as the subprime mortgage loan problem originating in the United States triggered a global financial crisis, impacting the real economy. Japanese corporate profits slumped as the economy slid into recession.

Demand for industrial masks used in health and safety applications grew in the first half of the year, but orders from the public sector fell in the second half amid rising budgetary pressures. Demand from the Company's corporate clients began to decline as firms sought to reduce costs. Sales of breath-synchronized blower masks held up well, however, supported by the introduction of new models with original

functionality. Overall, sales in the mask segment rose 2.5% compared with the previous year to 7,289 million yen.

In the environmental equipment segment, the introduction in March 2008 of stricter occupational health and safety (OH&S) controls related to certain chemicals boosted demand for push-pull ventilation systems used in medical facilities (due to the extensive use of formaldehyde). The Company launched new products and focused sales efforts on this sector. Total segment sales increased 3.8% compared with the previous year to 556 million yen.

Total sales rose 2.6% compared with the previous year to 7,845 million yen.

Operating income fell 7.2% to 710 million yen. This reflected sharply higher raw material costs and increased retirement benefit expenses, which in turn contributed to a situation in which the cost of goods sold and SG&A expenses grew faster than sales. Net income slipped by 1.7% to 332 million yen.

Issues requiring action

The global financial crisis has led many companies to put cost control ahead of the “culture of safety” that had been gaining ground prior to the collapse of Lehman Brothers. Despite this trend, the Company remains committed to the development and sale of high-quality, reliable products that can help firms to mitigate serious risks affecting employees’ occupational health and safety.

Mask segment

- In breath-synchronized blower masks, the Company is trying to increase the value of its products while promoting masks for use in various industrial settings such as tunneling, welding or asbestos-related operations. Building on its dominant position in Japan, the Company is also looking to market these core products overseas.
- Protective breathing equipment such as gas masks and particulate respirators must be used properly to ensure full protection. Checking that the mask fits the face snugly is particularly critical. The Company is developing technology to enhance ease-of-use, in conjunction with activities aimed at communicating correct usage techniques to customers.
- Public disaster readiness awareness is rising in Japan, with people more conscious of the need to prepare for new threats such as terrorism or a global influenza pandemic. The Company is responding by developing products that not only meet industrial, fire-fighting and rescue requirements but that also serve civilian

purposes, including masks for preventing infection or for emergency use in evacuations from fires or natural disasters.

- The international outbreak of a major new strain of influenza in 2009 turned the wearing of protective masks and emergency stockpiling of such products into a social phenomenon worldwide. Koken's Hi-Luck 350 series of NIOSH N95-approved disposable particulate respirators, which offer a comfortable fit, were adopted widely by medical institutions to protect staff from contracting airborne infections. The Company also developed two specialized editions of this mask to prevent patients from infecting other people (the "Hi-Luck Utsusanzo") and to protect healthy workers from infection (the "Hi-Luck Kakaranzo").

Environmental equipment segment

- Medical facilities in Japan are upgrading their 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. Going forward, the Company aims to develop products and systems for the medical facilities market while working to educate customers about infection and other OH&S-related risks. The objective of these activities is to cultivate the medical sector as a second core market for the Company's products.

New business development

- In the environmental equipment segment, the Company has developed the "Laminar Table," a table-top push-pull ventilation system for installation at medical facilities. The product's unique technology is driving growth of a new market for equipment to protect medical workers from formaldehyde. It exemplifies the Company's philosophy of stressing R&D to stay ahead of the competition.
- Since 2008, the Company has been working on the technical development of "Ferena" nano-fiber filters and "KOACH" open-airflow clean bench technology. The "KOACH" system enables creation of a clean zone within an open area. The technology has attracted interest at trade fairs among other venues due to its potential for cutting CO₂ emissions. The Company aims to commercialize these products as early as possible through full-scale entry into the market for clean

room equipment. The Company's efforts to expand its earnings base through product development targeting other new market segments also continue.

Environmental issues

- Environmental issues are a serious concern for many Japanese enterprises. Koken products are designed to contribute to efforts to address these issues.
- Koken products that make a substantial environmental contribution in terms of lower CO₂ emissions include "KOACH" open-airflow clean benches, Koken Laminar push-pull ventilation systems, breath-response powered air-purifying respirators (PAPRs), and "EcoBeam" systems for removing rust and scale.
- The Company is also working to make the most efficient use of energy and material resources at its manufacturing facilities, based on eco-friendly designs and initiatives to improve its manufacturing processes. Development of products that use recycled "Micron Filter" components is ongoing. The Company is also actively promoting a commercial recycling system for the filters and chemical cartridges used in particulate respirators and gas masks. All these initiatives are helping to lower the environmental impact of the Company's business activities, partly by contributing to customers' efforts to reduce waste generation.

Reinforcement of production capabilities

- As part of its efforts to stimulate demand and to develop new markets, the Company plans to reinforce its production capabilities in the Manufacturing Division and related technical operations.

Production and sales

Production

Thousands of yen	2009	
	Amount	Year-on-year comparison (%)
Particulate respirators	3,551,218	86.4
Gas masks	1,867,049	96.7
Other products related to dust-protection masks and gas masks	1,390,451	99.6
	6,808,718	91.5
Environmental-improvement construction and facilities	1,005,582	199.2
	1,005,582	199.2
	7,814,300	98.4

Sales

Thousands of yen	2009	
	Amount	Year-on-year comparison (%)
Particulate respirators	3,692,039	91.3
Gas masks	1,919,926	100.4
Other products related to dust-protection masks and gas masks	1,464,860	110.0
	7,076,825	97.1
Environmental-improvement construction and facilities	1,025,369	184.2
	1,025,369	184.2
	8,102,194	103.3

Principal customers

Thousands of yen	2008		2009	
	Amount	% of net sales	Amount	% of net sales
Midori Anzen Yohin	1,406,216	17.9%	1,266,372	15.6%
Ministry of Defense	678,913	8.7%	860,074	10.6%

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	Future payments
			(Thousands of yen)	
Vehicles	85	12-60	27,702	45,325
OA equipment	1	12-72	42,710	88,061
Metal molds	117	12-36	63,550	63,336

December 2009 term

Finance leases that do not transfer ownership (lessee)

1) Nature of lease assets

a. Tangible fixed assets

The primary tangible fixed assets are production facilities.

2) Depreciation method applied to lease assets

Lease terms for years of useful life are employed, assuming a residual value of zero; depreciation is assumed to be on a straight-line basis.

All lease transactions entered into on/before March 31, 2008 related to finance leases that do not transfer ownership continue to be treated as ordinary rental transactions. The details of these transactions are as follows.

Pro forma information on leased property is as follows:

Thousands of yen	2009
Machinery and equipment	
Acquisition cost	83,592
Accumulated depreciation	74,304
Net leased property	9,288
Vehicles and delivery equipment	
Acquisition cost	8,917
Accumulated depreciation	5,926
Net leased property	2,991
Tools, furniture and fixtures	
Acquisition cost	387,066
Accumulated depreciation	298,284
Net leased property	88,782
Total	
Acquisition cost	479,576
Accumulated depreciation	378,515
Net leased property	101,061
Future minimum lease payments, including interest portion	
Due within one year	59,520
Due after one year	41,541
	101,061
Lease payments and pro forma depreciation expenses	
Lease payments	89,002
Pro forma depreciation expenses (assuming straight-line method)	89,002

December 2008 term

Thousands of yen	2008
Machinery and equipment	
Acquisition cost	83,592
Accumulated depreciation	65,016
Net leased property	18,576
Vehicles and delivery equipment	
Acquisition cost	8,917
Accumulated depreciation	4,081
Net leased property	4,836
Tools, furniture and fixtures	
Acquisition cost	504,158
Accumulated depreciation	339,635
Net leased property	164,523
Total	
Acquisition cost	596,667
Accumulated depreciation	408,732
Net leased property	187,935
Future minimum lease payments, including interest portion	
Due within one year	90,341
Due after one year	97,593
	187,935
Lease payments and pro forma depreciation expenses	
Lease payments	110,809
Pro forma depreciation expenses (assuming straight-line method)	110,809

Capital Structure

Nonconsolidated balance sheet: assets

December 31; Thousands of yen	2007	2008	2009
Current assets			
Cash and deposits	2,051,053	1,617,654	1,666,031
Notes receivable - trade	1,329,393	1,342,678	1,233,712
Accounts receivable - trade	1,884,885	1,998,049	2,122,927
Marketable securities	110,000	-	-
Merchandise and finished goods	799,781	808,774	694,807
Raw materials and supplies	403,796	417,674	371,399
Work in process	322,350	300,186	323,434
Prepaid expenses	67,170	65,583	47,331
Deferred tax assets	129,877	134,264	171,167
Others	6,474	13,925	3,534
Allowance for doubtful accounts	(4,000)	(4,000)	(4,000)
	7,100,783	6,694,791	6,630,345
Fixed assets			
Tangible fixed assets			
Buildings	3,218,575	3,352,066	3,424,027
Accumulated depreciation	(1,734,759)	(1,846,484)	(1,956,632)
Buildings, net	1,483,816	1,505,581	1,467,395
Structures	179,078	179,078	208,563
Accumulated depreciation	(160,712)	(163,843)	(169,068)
Structures, net	18,366	15,235	39,495
Machinery and equipment	3,491,050	3,539,898	3,719,785
Accumulated depreciation	(2,059,966)	(2,285,392)	(2,591,105)
Machinery and equipment, net	1,431,084	1,254,506	1,128,679
Vehicles and delivery equipment	1,500	1,500	1,500
Accumulated depreciation	(1,425)	(1,440)	(1,455)
Vehicles and delivery equipment, net	75	60	45
Tools, furniture and fixtures	2,335,678	2,330,804	2,329,460
Accumulated depreciation	(2,071,953)	(2,121,784)	(2,139,623)
Tools, furniture and fixtures, net	263,725	209,019	189,837
Land	3,471,505	5,337,522	5,377,462
Lease assets	-	-	16,158
Accumulated depreciation	-	-	(4,788)
Lease assets, net	-	-	11,369
Construction in progress	88,884	63,430	67,517
	6,757,455	8,385,356	8,281,802

K O K E N

December 31; Thousands of yen	2007	2008	2009
Intangible fixed assets			
Patents	11,401	11,228	15,215
Telephone subscription rights	9,423	9,423	9,423
Leaseholds	1,057	1,057	1,057
Software	1,004	900	557
Others	702	573	444
	23,589	23,183	26,698
Investments and other assets			
Investments in securities	393,018	233,312	180,437
Long-term loans to employees	8,750	7,550	6,150
Claims provable in bankruptcy, claims provable in rehabilitation and others	-	-	26
Long-term prepaid expenses	6,179	1,235	516
Deferred tax assets	172,009	238,348	371,126
Leasing and guarantee deposits	121,518	74,489	74,490
Directors' retirement benefit insurance premiums	670,486	700,196	760,149
Allowance for doubtful accounts	(55,000)	(1,000)	(1,000)
	1,316,962	1,254,131	1,391,896
Total fixed assets	8,098,006	9,662,671	9,700,397
Total assets	15,198,789	16,357,462	16,330,742

Nonconsolidated balance sheet: liabilities and net assets

December 31; Thousands of yen	2007	2008	2009
Current liabilities			
Accounts payable - trade	157,324	175,009	182,666
Short-term borrowings	1,100,000	1,100,000	1,100,000
Current portion of long-term debt	1,123,532	1,399,500	1,148,300
Current portion of bonds	-	-	2,200,000
Accounts payable - other	121,447	123,498	131,014
Accrued expenses	132,425	139,858	134,841
Income taxes payable	90,679	134,383	220,076
Consumption taxes payable	70,340	38,428	47,041
Advances received	-	-	3,107
Deposits received	68,502	72,021	35,298
Provision for bonuses	203,000	199,000	187,000
Provision for directors' and corporate auditors' bonuses	32,000	27,000	23,300
Provision for product recall expenses	-	-	37,247
Others	365	3	-
	3,099,616	3,408,702	5,449,893
Long-term liabilities			
Corporate bonds	2,200,000	2,200,000	-
Long-term debt	1,838,800	2,530,300	2,259,800
Lease obligations	-	-	11,938
Employees' retirement benefits	177,854	200,432	428,316
Directors' and corporate auditors' retirement benefits	396,900	395,100	440,700
Others	7,379	4,451	2,500
	4,620,933	5,330,283	3,143,254
Total liabilities	7,720,550	8,738,986	8,593,148
Net assets			
Shareholders' equity			
Common stock	674,265	674,265	674,265
Capital surplus			
Additional paid-in capital	527,936	527,936	527,936
Other capital reserves	664	756	756
	528,600	528,693	528,693

December 31; Thousands of yen	2007	2008	2009
Retained earnings			
Legal income reserves	168,566	168,566	168,566
Other legal income reserves			
Special reserves	5,386,000	5,586,000	5,786,000
Reserve for reduction of asset costs due to contributions or subsidies	32,209	30,591	29,067
Retained earnings carried forward	598,494	605,905	549,347
	6,185,270	6,391,063	6,532,981
Treasury stock	(47,961)	(41,640)	(41,779)
	7,340,175	7,552,381	7,694,160
Valuation/translation gains (losses)			
Unrealized gains (losses) on other securities	123,614	32,378	4,900
	123,614	32,378	4,900
Share subscription rights	14,449	33,716	38,533
Total net assets	7,478,239	7,618,476	7,737,594
Total liabilities and net assets	15,198,789	16,357,462	16,330,742

Trade credits

Notes receivable

Thousands of yen	2009
Simon	56,443
Ohtsuka Brush Manufacturing	52,586
Shimatsu	46,308
Tanizawa Seisakusho	41,892
Riken Optech	34,974
Others	1,001,506
	1,233,712

Accounts receivable — trade

Thousands of yen	2009
Ministry of Defense	767,832
Midori Anzen Yohin	691,927
Komatsu Seisakusho	49,744
AS ONE Corporation	35,988
Simon	28,592
Others	548,842
	2,122,927

Turnover of accounts receivable

Thousands of yen	2009
Beginning balance	1,998,049
Increase	8,491,344
Collected	8,366,497
Ending balance	2,122,927
Turnover	79.8%
Average days for collection	88.6

Accounts payable — trade

Thousands of yen	2009
Takaoka Shoji	34,899
Meiwa Engineering Company	15,105
SATO VAC INC.	15,078
Sanwa Sangyo	13,730
Tsukuba Chemical	7,715
Others	96,137
	182,666

Marketable and investment securities

Thousands of yen	2009	
Stocks		
Investment securities	Number of shares	Book value
Other securities		
Resona Holdings, Inc. (8308)	76,835	74,068
Mizuho Financial Group, Inc. 11 th series preferred stock (class 11)	50,000	50,000
Mizuho Financial Group, Inc. (8411)	163,750	27,673
Hitachi (6501)	60,500	15,246
Citigroup Inc. (8710)	7,826	2,582
Ace Securities	10,000	2,550
Mitsubishi UFJ Financial Group, Inc. (8306)	4,240	2,001
Mizuho Investors Securities (8607)	26,349	2,397
Nippon Kanryu Industry (1771)	15,000	1,755
Nomura Holdings, Inc. (8604)	1,750	1,184
Sumitomo Mitsui Financial Group (8316)	100	280
Others (2 shares)	21	696
	416,371	180,437

Market value of securities

Other quoted securities

Thousands of yen	2008			2009		
	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	80,370	143,977	63,606	82,014	104,605	22,591
	80,370	143,977	63,606	82,014	104,605	22,591
Securities valued on the consolidated balance sheet at amounts not greater than the purchase cost						
Shares	45,103	36,088	(9,014)	36,913	22,584	(14,328)
	45,103	36,088	(9,014)	36,913	22,584	(14,328)
	125,474	180,065	54,591	118,927	127,190	8,262

December 2008 term: During the year ended December 2008, the Company wrote down the value of other quoted securities by 5,373 thousand yen to the level of historic cost.

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.

Major investment securities for which market prices are not available

December 31; Thousands of yen	2008	2009
Other securities		
Unlisted stocks	53,246	53,246

December 2008 term: During the year ended December 2008, the Company wrote down the value of other investment securities for which market prices are not available by 503 thousand yen to the level of historic cost.

Unlisted securities with carrying values at the fiscal year-end of less than half the historic cost are written off entirely.

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 Saitama 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	Lease assets	Total book value	Number of employees
			Book value	Square meters				
Company administration								
Head office	229,560	3,203	1,636,000	283.91	31,078	-	1,899,843	88
Manufacture of dust and gas masks								
Sayama Techno-Yard	526,859	635,537	792,433	11,430.44	31,220	4,141	1,990,192	20
Gunma Techno-Yard	322,096	158,996	405,140	9,256.83	37,942	5,129	929,306	12
Tokorozawa Techno-Yard	65,952	4,413	177,214	1,915.55	13,048	2,098	262,728	9
Nakai Techno-Yard	130,757	273,150	325,449	1,434.94	9,906	-	739,264	6
Research activities								
Hannou Laboratories	38,911	21,139	4,451	3,171.49	35,610	-	100,113	10
Distribution of dust and gas masks								
Saitama Logistics Center	108,921	12,062	1,242,116	21,336.07	7,575	-	1,370,676	6
Others								
Land	-	-	663,841	13,226.39	-	-	663,841	-

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	3,352,066	77,572	5,611	3,424,027	1,956,632	115,349	1,467,395
Structures	179,078	29,484	-	208,563	169,068	5,225	39,495
Machinery and equipment	3,539,898	185,284	5,398	3,719,785	2,591,105	310,850	1,128,679
Vehicles and delivery equipment	1,500	-	-	1,500	1,455	15	45
Tools and fixtures	2,330,804	106,180	107,523	2,329,460	2,139,623	90,091	189,837
Land	5,337,522	39,939	-	5,377,462	-	-	5,377,462
Lease assets	-	16,158	-	16,158	4,788	4,788	11,369
Construction in progress	63,430	466,703	462,616	67,517	-	-	67,517
	14,804,300	921,323	581,149	15,144,474	6,862,672	526,319	8,281,802
Intangible fixed assets							
Patents	-	-	-	23,824	8,608	2,212	15,215
Telephone subscription rights	-	-	-	9,423	-	-	9,423
Leaseholds	-	-	-	1,057	-	-	1,057
Software	-	-	-	12,673	12,115	343	557
Usage rights for equipment and facilities	-	-	-	12,320	11,875	128	444
	-	-	-	56,298	32,600	2,684	26,698
Long-term prepaid expenses	35,513	268	30,812	4,969	4,453	4,311	516

Debt

Bonds

Thousands of yen	Date issued	Beginning of term	End of term	Interest rate	Maturity
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
	-	2,200,000	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	1.36%	-
Current portion of long-term debt	1,399,500	1,148,300	1.57%	-
Current portion of leasing-related liabilities	-	5,655	-	-
Long-term debt (except current portion of long-term debt)	2,530,300	2,259,800	1.56%	2011 to 2012
Leasing-related liabilities (except current portion of leasing-related liabilities)	-	6,282	-	2012 to 2012
Other interest-bearing liabilities	-	-	-	-
	5,029,800	4,520,038	-	-

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	968,000	754,200	445,400	92,200
Leasing-related liabilities	5,655	627	-	-

Assets provided as collateral

Thousands of yen	2008	2009
Assets provided as collateral		
Buildings	882,151	850,807
Land	2,996,037	2,996,037
	<u>3,878,189</u>	<u>3,846,844</u>
Liabilities for which collateral is provided		
Long-term debt	3,831,000	3,310,800
	<u>3,831,000</u>	<u>3,310,800</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	2008	2009
Retirement benefit liabilities	(1,116,268)	(1,182,889)
Pension plan assets	701,288	795,385
Unaccrued pension benefit liabilities	(414,980)	(387,503)
Unrecognized actuarial gains (losses)	214,548	(40,813)
Net amount shown on the balance sheet	(200,432)	(428,316)
Allowance for retirement benefits	(200,432)	(428,316)

Matters related to retirement benefit expenses

Thousands of yen	2008	2009
Retirement benefit expenses	107,791	289,422
Current service costs	65,018	66,575
Interest expenses	21,388	22,325
Expected earnings on pension fund assets	17,062	14,026
Expensing of differences based on actuarial calculations	38,447	214,548

Assumptions underlying the calculation of retirement benefit liabilities

	2008	2009
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	5,000	5,000	5,000	5,000
Provision for bonuses	199,000	187,000	199,000	187,000
Provision for directors' and corporate auditors' bonuses	27,000	23,300	27,000	23,300
Provision for product recall expenses	-	37,247	-	37,247
Directors' and corporate auditors' retirement benefits	395,100	51,300	5,700	440,700

Related Parties

Transactions with related parties: Directors and major independent shareholders

December 2009 term

Directors and major individual shareholders

December 31; Thousands of yen	Address	Capital	Type of business or occupation	% of voting rights held (held by others)	Relationship with related party	Type of transaction	Value of transactions	Accounting classification	Balance at term-end
2009									
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	Building leasing Interlocking directors	Payment of rental expenses	39,239	Accounts payable - other	1,474

December 2008 term

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				
2008										
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	39,246	Accounts payable - other	1,555

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 style="padding-left: 40px;">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 style="padding-left: 40px;">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 (method by which the book value is reduced based on declines in the profitability of inventories shown on the balance sheet)</p> <p>Merchandise, raw materials: cost method using the moving-average method (method by which the book value is reduced based on declines in the profitability of inventories shown on the balance sheet)</p> <p>Supplies: cost method using the final-purchase-cost method (method by which the book value is reduced based on declines in the profitability of inventories shown on the balance sheet)</p>
Depreciation	<p>Tangible fixed assets (excluding lease 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> <p>Lease assets: lease terms for years of useful life are employed, assuming a residual value of zero; depreciation is assumed to be on a straight-line basis.</p>
Allowance for 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.
Provision for bonuses	An amount is reserved based on an estimated payment to employees.
Provision 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 fiscal year to December 2009.
Directors' and corporate auditors' retirement benefits	An amount that must be paid at term-end is reserved in accordance with the Company rules.
Provision for directors' and corporate auditors' bonuses	An amount is reserved based on an estimated payment to directors and corporate auditors.
Provision for product recall expenses	An amount is reserved to provide for potential losses incurred due to voluntary recalls of products previously sold, based on reasonable estimates of the costs involved.

Significant hedge accounting methods

Method of accounting for hedges:

Hedging is limited to interest-rate swaps, which are undertaken only in exceptional circumstances.

Hedging instruments and risks being hedged:

Hedging instruments: interest rate swaps

Risks being hedged: loans payable

Hedging policy:

Interest-rate swaps linked to borrowings may be used to hedge the risk due to interest rate fluctuations. The target of such hedging transactions varies according to the individual contract.

Method of evaluating the effectiveness of hedging:

The effectiveness of hedging is not evaluated, since interest-rate swaps are used only in exceptional circumstances and, when utilized, these swaps are virtually standardized with respect to the notional principal, contract term and conditions related to receipt or payment of interest (including rates of interest and related dates).

Opinion of independent auditors

Auditors: A&A Partners

Opinion: unqualified

Share-related Information

Shares in issue

Class of shares	Common
Number of shares authorized	20,000,000
Issued	
As of December 31, 2009	5,104,003
As of March 19, 2010	5,104,003
Stock exchange listings	Jasdaq Securities Exchange
Comments	Trading unit 100-share min.

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	6,405	12.55
Securities companies	16	652	1.28
Business and other corporations	21	1,960	3.84
Non-residents - institutions and corporations	1	10	0.02
Non-residents - individuals	1	2	0.00
Individuals and others	1,645	41,990	82.31
	1,692	51,019	100.00
Shares less than one unit	-	2,103	-

Largest shareholders

Name	Thousands of shares owned	% of shares outstanding
Masakazu Sakai	890	17.44
Hiroyuki Sakai	858	16.82
Resona Bank	244	4.79
Kaori Sakai	229	4.50
Rie Sakai	229	4.50
Mizuho Bank	227	4.47
Miho Kuboi	226	4.43
Haruna Sakai	226	4.43
Sakai Tatemono Ltd.	166	3.26
Mitsubishi UFJ Trust & Banking	72	1.41
	3,369	66.03

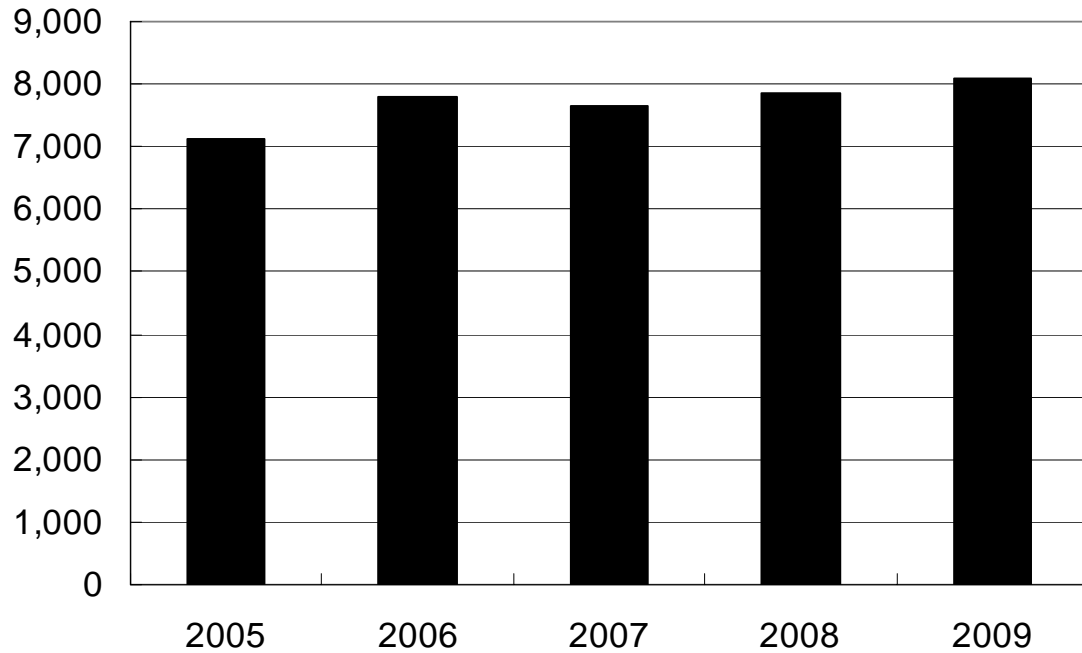
Share information

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	March
Trading unit	100 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: http://www.koken-ltd.co.jp/

Performance in Graphs

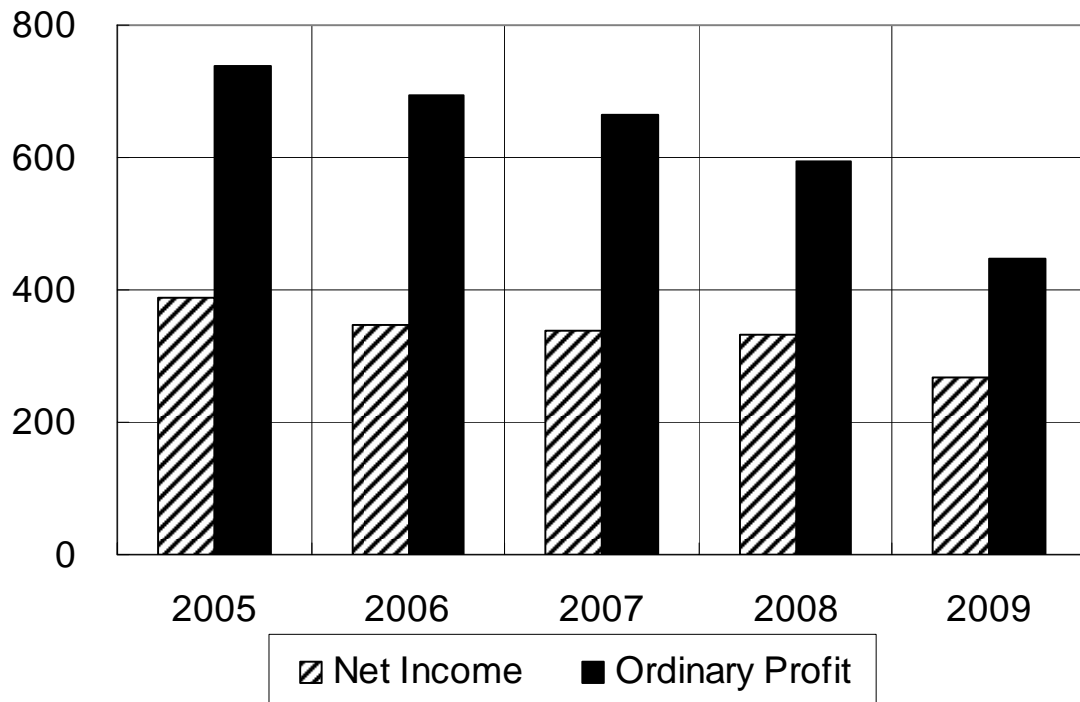
Net Sales

Millions of Yen

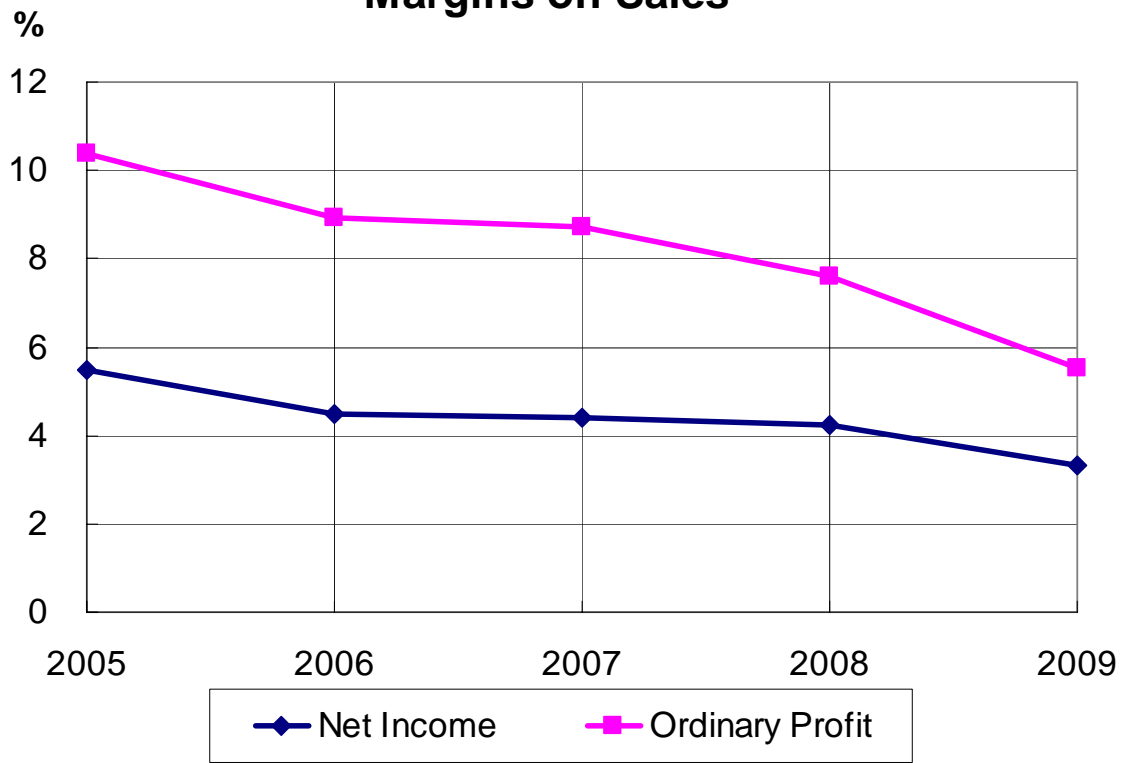


Net Income and Ordinary Profit

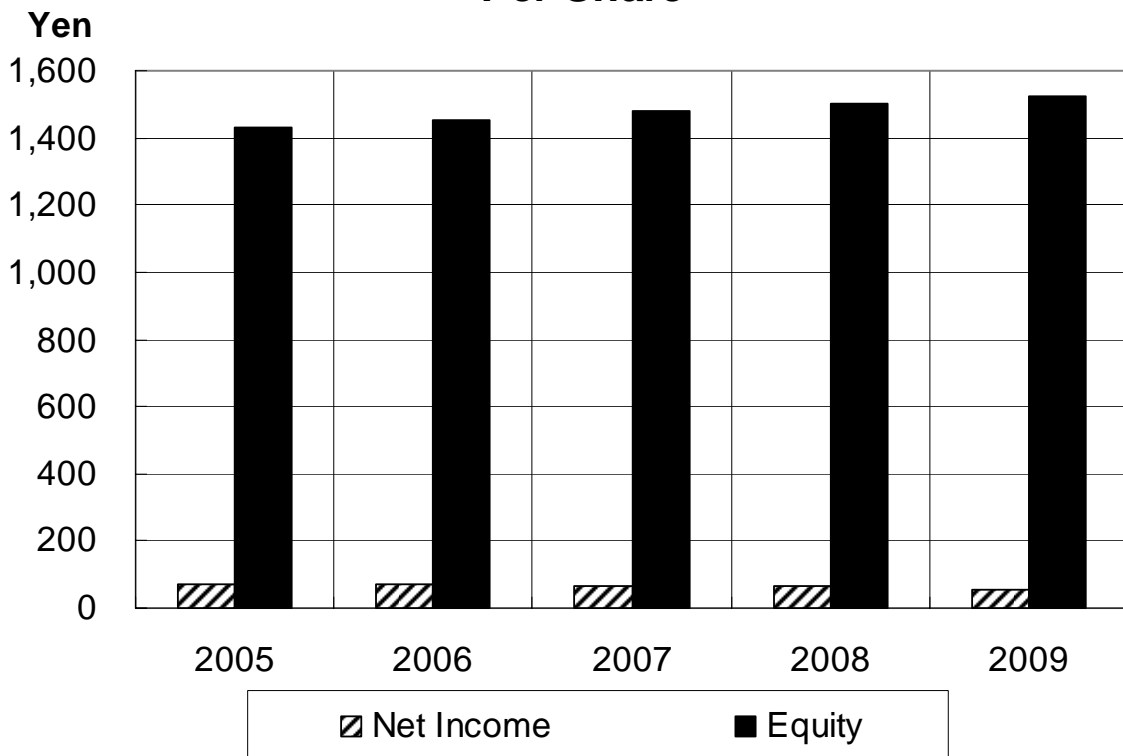
Millions of Yen



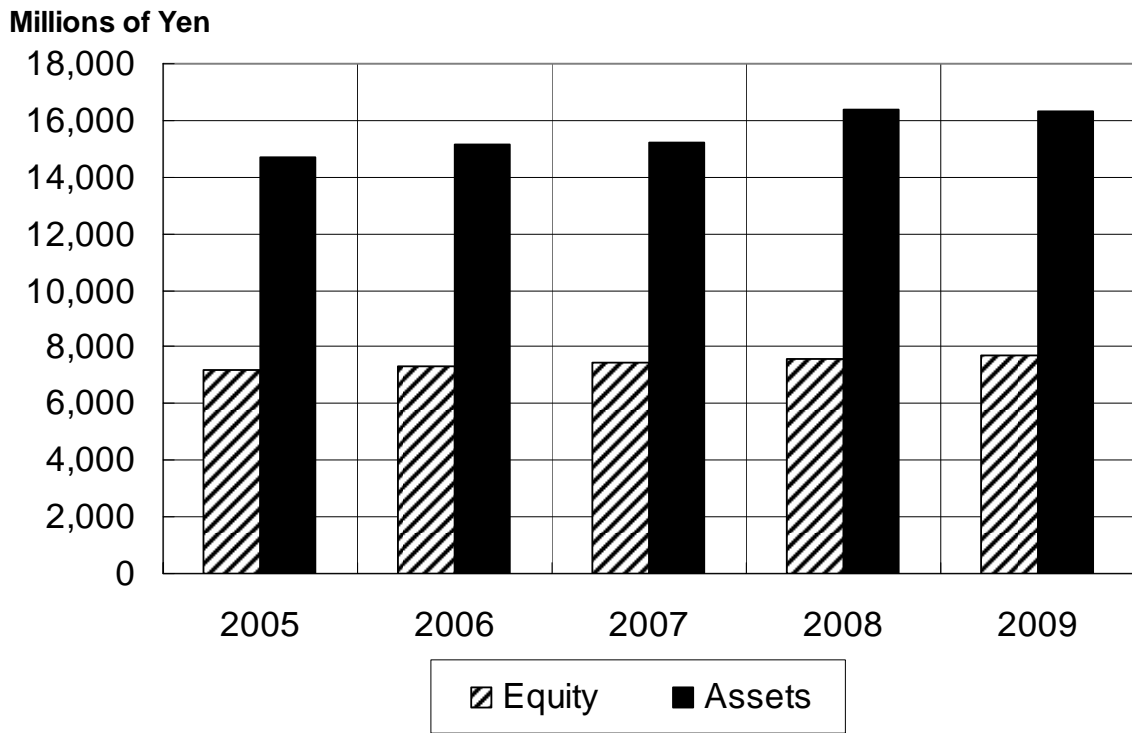
Margins on Sales



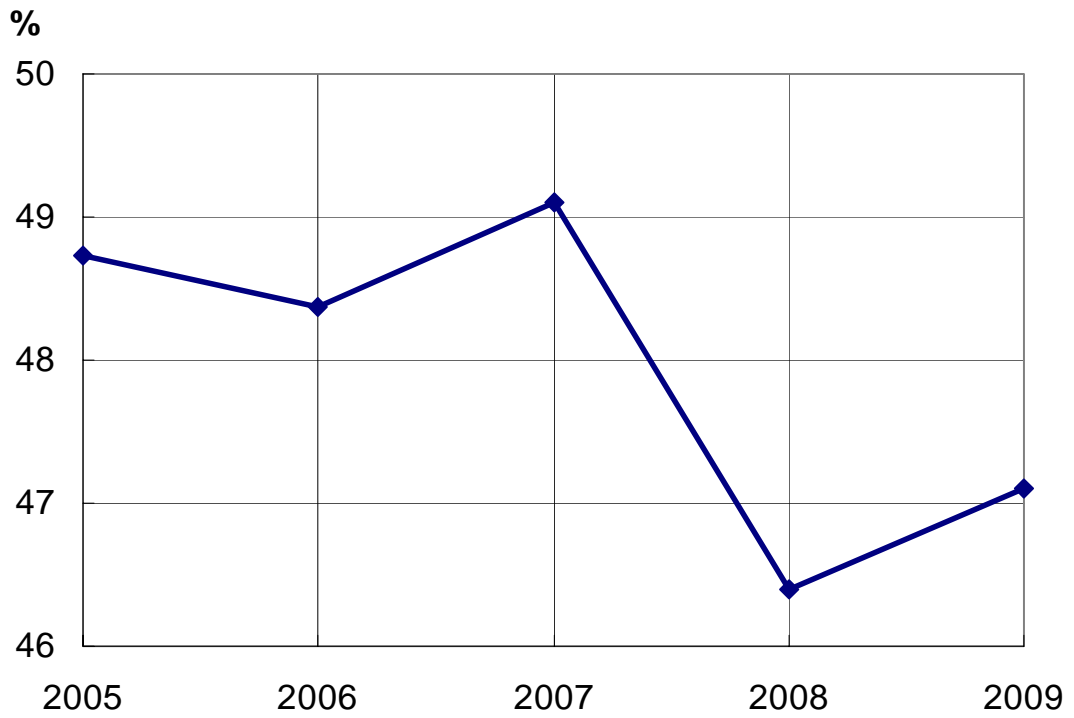
Per Share



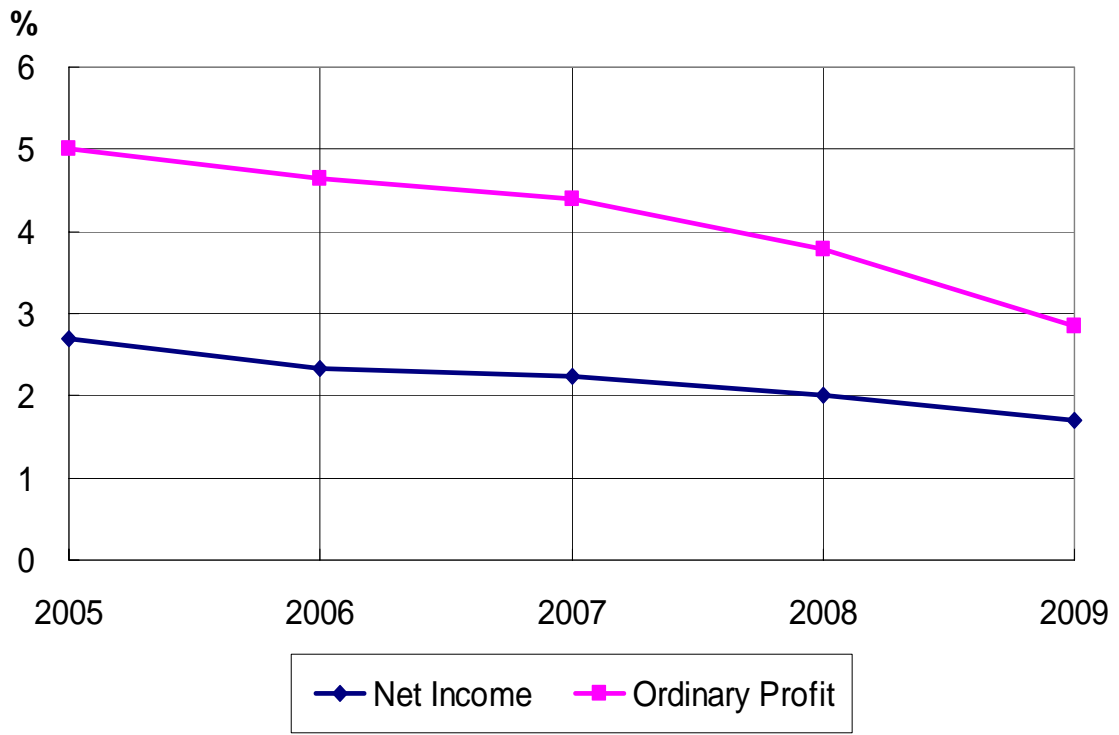
Equity and Assets



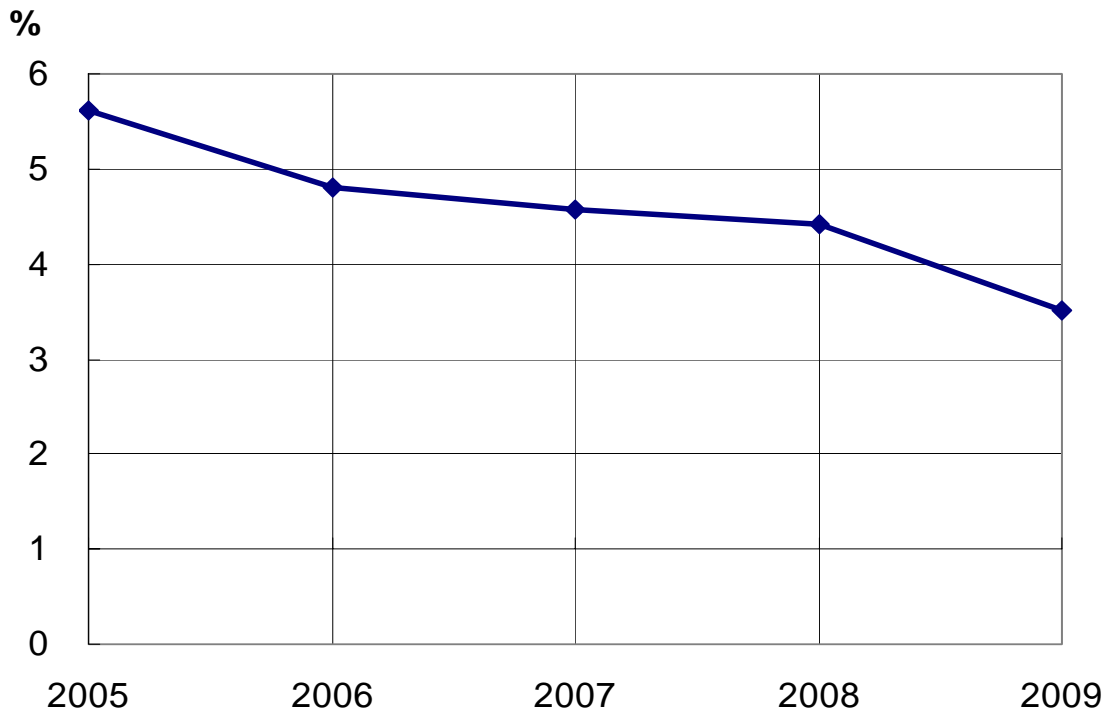
Equity / Assets



Return on Assets



Return on Equity



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