



YUHO REPORT
Annual

Fiscal Year Ended	December 31, 2010
Traded	JASDAQ
Stock Code	7963



KOKEN LTD.

YUHOREPORT

Koken Ltd.

Fiscal Year Ended	December 31, 2010
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Stock Code	7963

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

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Company Profile

Financial highlights

Years ended December 31; Thousands of yen	2006	2007	2008	2009	2010	Change 2010/2006
Net sales	7,785,851	7,644,859	7,845,556	8,102,194	7,358,872	95%
Ordinary profit	694,232	665,875	594,546	448,168	532,880	77%
Net income	348,430	337,950	332,058	268,361	421,366	121%
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	7,329,569	7,478,239	7,618,476	7,737,594	8,019,514	109%
Total assets	15,155,100	15,198,789	16,357,462	16,330,742	15,563,206	103%
Net assets per share (Yen)	1,451.79	1,477.79	1,499.63	1,522.27	1,576.93	109%
Dividends per share (Yen)	25.00	25.00	25.00	25.00	25.00	100%
Net income per share (Yen)	69.39	66.92	65.71	53.06	83.31	120%
Net income per share, fully diluted (Yen)	68.91	66.75	65.62	-	-	
Dividend payout ratio (%)	36.2	37.4	38.0	47.1	30.0	
Net cash provided by operating activities	473,220	945,337	762,274	1,109,749	1,092,832	
Net cash used in investing activities	(1,255,581)	(325,742)	(1,900,182)	(397,396)	(170,094)	
Net cash used in financing activities	404,106	(116,993)	847,578	(663,976)	(779,762)	
Cash and cash equivalents at end of term	1,405,382	1,907,983	1,617,654	1,666,031	1,809,006	
Employees	206	209	218	219	211	102%

Peer comparisons

Percent	2006	2007	2008	2009	2010
Net income / net sales (%)	4.5	4.4	4.2	3.3	5.7
Peers	3.1	1.0	(0.1)	(8.4)	0.6
Ordinary profit / net sales (%)	8.9	8.7	7.6	5.5	7.2
Peers	6.7	4.4	2.8	(2.5)	2.3
Net income / equity (%)	4.8	4.5	4.4	3.5	5.3
Peers	7.3	1.6	1.2	(10.5)	2.9
Net income / assets (%)	2.3	2.2	2.0	1.6	2.7
Peers	3.4	1.4	0.0	(5.1)	1.2
Ordinary profit / assets (%)	4.6	4.4	3.6	2.7	3.4
Peers	7.1	4.9	2.9	(0.9)	2.9
Equity / assets (%)	48.4	49.1	46.4	47.1	51.2
Peers	52.7	49.7	49.4	45.9	47.8

Peers include 31 companies in the other products sector on the JASDAQ market of the Osaka 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.)
2010	April	Company's shares listed on JASDAQ-OSE integrated market after merger of JASDAQ Securities Exchange into Osaka Securities Exchange.

Risk factors

The Company recognizes the following risks or potential risk factors as existing as of December 31, 2010:

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 assurance 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.

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 70 staff are responsible for research and development, and related expenditures during the year under review totaled 459 million yen.

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

- Angled-airflow clean zone creator "Diagonal KOACH"

This improved "KOACH" system uses opposing air currents blown at an angle to create a clean zone within an open area, even in rooms where vertical columns prevent two KOACH units from being installed opposite each other. Cleanliness levels can be kept stable while people are moving about in the area.

- Horizontally expandable clean zone creator "Expandable KOACH"

This system solves the problem of the reduction in cleanliness that occurs in the intervening space if two KOACH units are placed side by side. The technology enables multiple KOACH systems to be installed in a manner that expands the aperture plane continuously as needed.

- Ultimate open clean zone creator “Floor KOACH”

Based on expandable clean zone system technology, this product employs an additional air blower in the rear to extend the clean zone all the way to the floor. Combining multiple units facilitates clean zones of varying heights.

- Automatic endoscope washer “KAGAMI-NAISHI F1”

“KAGAMI-NAISHI”, the automated cleaning system for endoscopes conforms to the guidelines issued by a number of Japanese gastric endoscopy medical associations. It combines superior safety and effectiveness with such convenient features as automatic brushing for quick washes. The use of strongly acidic or alkaline electrolyzed water reduces sterilization costs. To meet the increasing demand from many medical institutions, the improvement has been made on popular “KAGAMI-NAISHI O1” which was developed exclusively for endoscopes of Olympus Corporation. The new KAGAMI-NAISHI F1 is now applicable to Fujifilm Corporation’s endoscopes. With a lineup of two models, sales of KAGAMI-NAISHI are expected to increase in 2012.

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 15,563 million yen as of December 31, 2010, a decrease of 767 million yen from the previous year-end.

Current assets: 6,337 million yen (a decrease of 292 million yen)

This mainly reflected increases in cash and deposits (of 142 million yen), although these were more than offset by the declines in notes receivable—trade (of 117 million yen) and merchandise and finished goods (of 203 million yen).

Fixed assets: 9,225 million yen (a decrease of 474 million yen)

This result mainly reflected increases in directors’ retirement benefit insurance premiums (of 22 million yen), as well as declines in tangible fixed assets (of 282 million yen) and investments in securities (of 108 million yen).

Current liabilities: 5,009 million yen (a decrease of 440 million yen)

This primarily reflected an increase in short-term borrowings (of 2,000 million yen) and a decrease in the current portion of bonds (of 2,200 million yen) and income taxes payable (of 160 million yen).

Long-term liabilities: 2,534 million yen (a decrease of 609 million yen)

This primarily reflected an increase in long-term accounts payable—other (of 189 million yen) and a decrease in long-term loans payable (of 368 million yen) and employees' retirement benefits (of 428 million yen).

Net assets: 8,019 million yen (an increase of 281 million yen)

This mainly reflected an increase of 294 million yen in retained earnings due to higher net income in fiscal 2010 and other factors. This was offset by a decline of 18 million yen in unrealized gains on other securities.

The equity capital ratio increased to 51.2% from 47.1%.

(3) Results of operations

Sales:	7,358 million yen	(down 9.2%)
Operating income:	635 million yen	(up 7.1%)
Ordinary profit:	532 million yen	(up 18.9%)
Net income:	421 million yen	(up 57.0%)

Sales:

The decline in sales mainly reflected a reactionary fall in demand for ventilation systems from medical institutions, which had bought products to protect workers from formaldehyde fumes in the previous year to ensure compliance with new legislation.

Cost of goods sold:

Reflecting the decrease in sales, the cost of goods sold decreased by 490 million yen compared with the previous year to 4,086 million yen. The gross profit margin improved by 0.9 percentage points from 43.5% to 44.5%. This mainly reflected a lower cost-of-goods ratio and Company-wide cost savings realized through a program implemented to improve operating efficiency.

Selling, general and administrative expenses:

Selling, general and administrative expenses declined by 295 million yen compared with the previous year to 2,636 million yen as a result of cost savings generated by Company-wide efforts to raise efficiency.

Operating income:

The operating profit margin rose by 1.3 percentage points to 8.6% from 7.3% in the previous year.

Nonoperating income and expenses:

Nonoperating income of 23 million yen mainly reflected income of 9 million yen from commissions received.

Nonoperating expenses of 126 million yen were 43 million yen lower than in the previous year. This mainly reflected a year-on-year decrease in commission fees of 35 million yen.

Extraordinary income and losses:

Extraordinary income increased by 183 million yen to 247 million yen. This mainly reflected an extraordinary gain of 223 million yen associated with the adoption of a defined-contribution pension system. Refunds on cancellation of insurance premiums and compensation for transfers, each of which generated gains of 31 million yen in the previous year, made no contribution to the increase.

Extraordinary losses decreased by 8 million yen to 45 million yen. This mainly reflected losses on valuations of investments in securities of 27 million yen, losses on disposal of investment securities of 10 million yen and a decrease in product recall expenses of 43 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 18, 2011 (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. 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.

2) 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. Guided by 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 all Company facilities. The results of these audits are reported to the president. If the audits identify any areas of non-compliance, the head of the Safety & Environment Management Office can require the general managers of the relevant audited facilities to implement any requisite 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. When necessary, moreover, the corporate auditors seek to improve audit effectiveness based on information exchanged with the independent auditors.
- Standing Corporate Auditor Etsuo Koyama, who was formerly the general manager of the accounting division, is highly knowledgeable about financial and accounting matters pertaining to the Company's operations.

3) 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: Yuko Sakamoto, CPA

Engagement partner: Kenji Oka, CPA

Engagement partner: Satoshi Terada, CPA

Number of assistants involved in audits:

CPAs: 2

Other staff: 7

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

4) Outside directors and outside corporate auditors

Although the Company has not appointed any outside directors, two outside corporate auditors have been appointed to provide an independent, external auditing perspective on the actions of the directors. The Company has also introduced an executive officer system to enhance the separation between decision-making functions and the execution of operations and to clarify the delegation of management authority.

The Company believes its corporate governance systems provide sufficient management oversight and auditing capabilities without the appointment of outside directors.

In accordance with policies determined by the Board of Corporate Auditors, the outside auditors attend meetings of the Board of Directors to provide specialist input as well as participating in auditing of the actions taken by the directors. The corporate auditors work closely with the outside auditors and exchange information with them to achieve continual upgrading of audit functions. The Company believes that its internal audit systems are adequate for corporate governance purposes.

The outside corporate auditors are Hitoshi Emi (an honorary university professor) and Hiroyuki Kawai (a lawyer specializing in corporate law). Both bring high levels of specialist knowledge and expertise to their auditing roles.

In accordance with the provisions of Article 427-1 of the Companies Act, the Company has concluded agreements limiting the liability of the outside auditors, Hitoshi Emi and Hiroyuki Kawai, with respect to legal compensation claims under Article 423-1 of the Companies Act to the minimum amounts specified in Article 425-1 of said legislation.

The outside corporate auditors also receive reports from the directors concerned with respect to any financial or accounting matters that the independent auditors highlight, as well as evaluations of internal audit systems based on discussions of reports on the Company's internal controls.

5) Relationships between the Company and its outside auditors (personal, share ownership-based, commercial or other)

Outside corporate auditor Hitoshi Emi owns 3,100 shares of the Company's stock. Aside from this, the Company has no personal, financial or commercial relationship with either of the two outside auditors, or any related conflict of interest.

6) Directors' compensation

a. Compensation of board members by category; breakdown by type of compensation; and number of board members in each category

Thousands of yen	Total amounts paid out to board members by type of compensation					Number of board members in each category
	Amount paid	Compensation	Bonuses	Stock options	Directors' and corporate auditors' retirement allowances	
Directors	157,430	112,380	19,600	1,050	24,400	9
Corporate auditors	22,890	16,980	3,400	210	2,300	3
Outside corporate auditors	9,610	7,200	1,400	210	800	2
	189,930	136,560	24,400	1,470	27,500	14

1. The above figures include amounts for two directors and one corporate auditor who retired at the 47th Annual General Meeting of Shareholders held on March 26, 2010.
2. Bonuses include any provisions made during the fiscal year under review in the reserve for directors' and corporate auditors' bonuses. These bonuses were approved at the 48th Annual General Meeting of Shareholders held on March 25, 2011.
3. Directors' and corporate auditors' retirement allowances represent the provisions made in the fiscal year under review in the reserve for directors' and corporate auditors' retirement benefits.

b. Policy regarding amounts paid to board members and the methods of calculating these amounts

Remuneration for directors is set in accordance with their assigned duties and responsibilities. Remuneration for corporate auditors is set in accordance with the relevant duties and responsibilities, which differ between the standing corporate auditors and the outside auditors. Total amounts of remuneration are subject to limits approved by the General Meeting of Shareholders.

Note: Total annual remuneration limit for directors: 130 million yen (approved at the 32nd Annual General Meeting of Shareholders held on March 30, 1995)

Total annual remuneration limit for corporate auditors: 30 million yen (approved at the 29th Annual General Meeting of Shareholders held on March 27, 1992)

7) Shareholdings in other companies

a. Investment securities held for purposes other than pure investment

Number of issues: 9

Total value on balance sheet: 72,209,000 yen

- b. Equity investment securities held for purposes other than pure investment whose fiscal year-end balance-sheet carrying value exceeds 1% of capital (excluding unlisted stocks)

Millions of yen	Number of shares	Book value	Reason for purchase
Resona Holdings, Inc. (8308)	76,835	39,185	To maintain and strengthen business relationships
Mizuho Financial Group, Inc. 11th series preferred stock (class 11)	175,500	22,815	To maintain and strengthen business relationships
Mizuho Investors Securities (8607)	26,349	2,266	To maintain and strengthen business relationships
Nippon Kanryu Industry (1771)	15,000	1,995	To maintain and strengthen business relationships
Mitsubishi UFJ Financial Group, Inc. (8306)	4,240	1,806	To maintain and strengthen business relationships
Nomura Holdings, Inc. (8604)	1,750	894	To maintain and strengthen business relationships

8) 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.

9) Number of directors

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

10) 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.

11) 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.

12) 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.

13) 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.

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

- The Board of Directors convened 16 times in the year ended December 2010 to make important management decisions and oversee their execution.
- As concerns disclosure, the Company released explanatory information about its financial results for the year ended December 2009 and its financial results for the interim period of the year ended December 2010 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	2009	2010
Financial audit services	24,000	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 25, 2011)

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 the first meeting of the Board of Directors 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 the first meeting of the Board of Directors held on March 26, 2010	6
Mitsuji Muramatsu	Managing Director	Feb-06	Mizuho Bank	21-Feb-56	2 years from the first meeting of the Board of Directors held on March 26, 2010	5
Toshio Akiyama	Managing Director	Apr-73		2-Apr-49	2 years from the first meeting of the Board of Directors held on March 26, 2010	7
Nobuya Horiguchi	Managing Director	Apr-82		28-Aug-58	2 years from the first meeting of the Board of Directors held on March 26, 2010	5
Tsutomu Murakawa	Managing Director	Apr-89		8-Jan-66	2 years from the first meeting of the Board of Directors 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 the first meeting of the Board of Directors held on March 26, 2009	3
Tadashi Shimosaka	Standing Corporate Auditor	Oct-88	Dayton Progress Corp.	3-Jan-43	4 years from the first meeting of the Board of Directors held on March 25, 2011	2
Hitoshi Emi	Corporate Auditor	Apr-03	Kanazawa University	12-Nov-37	4 years from the first meeting of the Board of Directors held on March 25, 2011	3
Hiroyuki Kawai	Corporate Auditor	Mar-07	Attorney at law	18-Apr-44	4 years from the first meeting of the Board of Directors held on March 25, 2011	-
						1,782

Employees

	Total or average
Number	211 [168]
Average age	38.2
Average years of service	13.7
Average annual salary (yen)	6,605,141

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.*

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

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

2. *All obligations pertaining to stock options shall be inherited by the wholly owning parent company in the event of any exchange or transfer of shares that results in the Company becoming a wholly owned subsidiary. Rules applying to the nature of the inherited stock options are specified below.*

- 1) *Type of wholly owning parent company shares subject to rights*
Shares in the wholly owning parent company of identical class

- 2) Number of wholly owning parent company shares subject to rights
Adjusted in accordance with the share exchange or transfer ratio, with any fractional shares arising from such adjustment to be rounded down
- 3) Amount to be paid to exercise rights
Adjusted in accordance with the share exchange or transfer ratio, with any fractional yen resulting from such adjustment to be rounded up to the nearest yen
- 4) Exercise period and other conditions pertaining to exercise of rights or acquisition-related status
To be determined by resolution of the Board of Directors of the Company pursuant to the share exchange or transfer
- 5) Board approval of stock option transfers
Transfers of stock options shall require the approval of the Board of Directors of the wholly owning parent company.

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	5 directors, 4 corporate auditors and 51 employees
Type of shares subject to rights	Common stock
Number of shares	109,000 shares (Note)
Amount paid in at time of execution of rights	704 yen
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.*

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. *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 (adjusted in line with the conditions of the specific organizational rearrangements) multiplied by the number of shares in 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	2008	2009	2010
Net cash provided by operating activities			
Net income before taxes and other adjustments	570,924	458,530	735,548
Depreciation	502,448	529,004	535,613
Losses on disposal of fixed assets	23,393	3,627	7,178
Increase (decrease) in allowance for doubtful accounts	(54,000)	-	-
Gains on sales of tangible fixed assets	-	(341)	-
Compensation for removals	-	(31,854)	-
Losses on valuation of investments in securities	5,876	6,546	27,185
Increase (decrease) in retirement benefits	22,578	227,884	(428,316)
Increase (decrease) in directors' and corporate auditors' retirement allowances	(1,800)	45,600	(48,800)
Increase (decrease) in reserve for bonuses	(4,000)	(12,000)	14,000
Increase (decrease) in reserve for directors' and corporate auditors' bonuses	(5,000)	(3,700)	1,100
Increase (decrease) in reserve for product recall expenses	-	37,247	(37,247)
Interest and dividend income	(8,644)	(4,810)	(2,452)
Interest expenses	72,894	77,330	81,372
Interest expenses on bonds	23,190	23,190	5,158
Decrease (increase) in notes and accounts receivable	(126,448)	(15,911)	137,273
Decrease (increase) in inventory	(707)	136,994	320,764
Increase (decrease) in notes and accounts payable	17,684	7,657	(38,157)
Increase (decrease) in consumption tax payable	(31,911)	8,612	(16,360)
Increase (decrease) in long-term accounts payable - other	-	-	189,349
Others	45,883	(28,656)	82,037
	1,052,362	1,464,951	1,565,247
Interest and dividend income	8,748	4,811	2,452
Interest expenses	(96,583)	(108,041)	(92,051)
Income tax and others	(202,253)	(251,970)	(382,815)
	762,274	1,109,749	1,092,832

Years ended December 31; Thousands of yen	2008	2009	2010
Net cash used in investing activities			
Increase in time deposits	(47,000)	-	-
Proceeds from decrease in time deposits	300,069	-	-
Payments for acquisition of tangible fixed assets	(2,237,784)	(424,983)	(254,246)
Proceeds from sale of tangible fixed assets	90,270	32,655	32,676
Purchases of long-term prepaid expenses	-	(268)	(340)
Payments for acquisition of intangible fixed assets	(5,979)	(6,199)	(6,473)
Proceeds from sales of investment securities	-	-	51,144
Payments for loans receivable	-	-	(1,050)
Proceeds from collection of loans and advances	1,200	1,400	3,082
Others	(958)	(1)	5,113
	(1,900,182)	(397,396)	(170,094)
Net cash used in financing activities			
Proceeds from increase in short-term borrowings	1,100,000	2,100,000	3,100,000
Payments of short-term borrowings	(1,100,000)	(2,100,000)	(1,100,000)
Proceeds from increase in long-term debt	2,300,000	1,000,000	800,000
Payments of long-term debt	(1,332,532)	(1,521,700)	(1,188,300)
Proceeds from sale of treasury stock	6,413	-	-
Repayments of lease obligations	-	(16,158)	(65,461)
Payments for redemption of bonds	-	-	(2,200,000)
Payments for purchase of treasury stock	-	(138)	(107)
Dividends	(126,302)	(125,979)	(125,893)
	847,578	(663,976)	(779,762)
Effect of exchange rate fluctuations on cash and cash equivalents	-	-	-
Increase (decrease) in cash and cash equivalents	(290,329)	48,376	142,975
Cash and cash equivalents at beginning of term	1,907,983	1,617,654	1,666,031
Cash and cash equivalents at end of term	1,617,654	1,666,031	1,809,006

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

Years ended December 31; Thousands of yen	2008	2009	2010
Cash and deposit accounts	1,617,654	1,666,031	1,809,006
Time deposits, etc., of 3 months or longer	-	-	-
Cash and cash equivalents at end of term	1,617,654	1,666,031	1,809,006

Capital expenditures

Capital expenditures during the term totaled 223 million yen. Investments targeted the development of highly competitive new products in response to market needs and the establishment of efficient mass-production capabilities.

Demonstration models for sales promotion purposes, along with production facilities and metal molds for use at Nakai Techno-Yard, represented the bulk of expenditures.

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 2010 results, future business trends and the Company's financial condition, a final dividend for the year ended December 31, 2010 of 25 yen per share was approved by resolution of the General Meeting of Shareholders held on March 25, 2011. The dividend payout ratio for the year was 30.0%, and the ratio of dividends to net assets was 1.6%.

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	Dividend per share
	(Millions of yen)	(Yen)
March 25, 2011	126	25
Resolution by General Meeting of Shareholders		

Operations

Nonconsolidated statement of income

Years ended December 31; Thousands of yen	2008	2009	2010
Sales			
Net sales	7,812,325	8,041,602	7,358,872
Construction	33,230	60,592	-
	7,845,556	8,102,194	7,358,872
Cost of goods sold			
Finished goods and merchandise inventory, beginning of term	799,781	808,774	694,807
Production costs for the term	4,306,192	4,405,631	3,961,702
Purchase of merchandise for the term	58,615	82,131	26,673
Construction costs	20,687	34,768	-
	5,185,277	5,331,305	4,683,182
Transfers to other accounts	55,782	59,536	104,828
Finished goods and merchandise inventory, end of term	808,774	694,807	491,677
	4,320,721	4,576,961	4,086,677
Gross profit on sales	3,524,835	3,525,232	3,272,195
Selling, general and administrative expenses			
Packing and shipping expenses	122,207	120,652	101,712
Advertising expenses	137,779	123,743	130,896
Directors' and corporate auditors' salaries	128,790	135,243	136,560
Employees' salaries and allowances	729,036	747,707	714,099
Bonuses	113,975	107,753	104,463
Provision for bonuses	120,117	115,663	119,657
Provision for directors' and corporate auditors' bonuses	27,000	23,300	24,400
Provision for directors' and corporate auditors' retirement benefits	29,700	51,300	27,500
Retirement benefit expenses	68,352	176,148	23,372
Employee benefit expenses	135,259	135,885	135,333
Travel and transportation expenses	108,679	103,810	88,178
Other office expenses	86,355	86,198	83,869
Rental expenses	205,566	202,060	186,835
Research expenses	465,409	492,078	459,274
Taxes and public dues	34,051	41,559	43,068
Depreciation expenses	70,966	60,737	69,313
Others	230,669	207,731	187,861
	2,813,917	2,931,574	2,636,395
Operating income	710,918	593,657	635,800

Years ended December 31; Thousands of yen	2008	2009	2010
Nonoperating income			
Interest income	3,755	1,307	579
Dividend income	4,889	3,503	1,873
Commissions received	8,316	9,696	9,101
Rental income	2,721	2,185	1,801
Refund on cancellation of insurance premiums	8,828	199	1,728
Others	5,205	7,432	8,668
	33,716	24,324	23,752
Nonoperating expenses			
Interest expenses	72,894	77,330	81,372
Interest expenses on bonds	23,190	23,190	5,158
Commission fees	-	35,000	-
Others	54,004	34,292	40,142
	150,088	169,813	126,672
Ordinary profit	594,546	448,168	532,880
Extraordinary income			
Reversal of allowance for doubtful accounts	8,900	-	-
Gain on abolishment of retirement benefit plan	-	-	223,108
Reversal of provision for product recall expenses	-	-	12,425
Refund on cancellation of insurance premiums	-	31,947	-
Compensation for removals	-	31,854	-
Gains on sales of fixed assets	-	341	-
Gain on sales of investment securities	-	-	12,422
	8,900	64,143	247,957
Extraordinary losses			
Losses on retirement of fixed assets	23,393	3,627	7,178
Loss on sales of investment securities	-	-	10,925
Losses on abandonment of fixed assets	2,948	-	-
Losses on valuation of investments in securities	5,876	6,546	27,185
Product recall expenses	303	43,606	-
	32,521	53,781	45,288
Net income before taxes and special reserves for the term	570,924	458,530	735,548
Corporate, inhabitant and enterprise taxes	247,000	341,000	225,000
Deferred taxes	(8,133)	(150,830)	89,181
	238,866	190,169	314,181
Net income	332,058	268,361	421,366

Nonconsolidated statement of changes in net assets

Years ended December 31; Thousands of yen	2008	2009	2010
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	664	756	756
Changes in items during the term			
Disposal of treasury stock	92	-	-
Total changes in items during the term	92	-	-
Balance at end of current term	756	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	168,566	168,566	168,566
Other retained earnings			
Special reserve			
Balance at end of previous term	5,386,000	5,586,000	5,786,000
Changes in items during the term			
Provision for special reserves	200,000	200,000	100,000
Total changes in items during the term	200,000	200,000	100,000
Balance at end of current term	5,586,000	5,786,000	5,886,000
Reserve for special depreciation			
Balance at end of previous term	32,209	30,591	29,067
Changes in items during the term			
Reversal of reserve for asset reduction entries	(1,618)	(1,524)	(1,437)
Total changes in items during the term	(1,618)	(1,524)	(1,437)
Balance at end of current term	30,591	29,067	27,629

Years ended December 31; Thousands of yen	2008	2009	2010
Retained earnings carried forward			
Balance at end of previous term	598,494	605,905	549,347
Changes in items during the term			
Provision for special reserves	(200,000)	(200,000)	(100,000)
Reversal of reserve for asset reduction entries	1,618	1,524	1,437
Dividends from retained earnings	(126,265)	(126,443)	(126,440)
Net income (loss)	332,058	268,361	421,366
Total changes in items during the term	7,410	(56,558)	196,364
Balance at end of current term	605,905	549,347	745,711
Treasury stock			
Balance at end of previous term	(47,961)	(41,640)	(41,779)
Changes in items during the term			
Disposal of treasury stock	6,320	-	-
Purchase of treasury stock	-	(138)	(107)
Total changes in items during the term	6,320	(138)	(107)
Balance at end of current term	(41,640)	(41,779)	(41,887)
Total shareholders' equity			
Balance at end of previous term	7,340,175	7,552,381	7,694,160
Changes in items during the term			
Dividends from retained earnings	(126,265)	(126,443)	(126,440)
Net income (loss)	332,058	268,361	421,366
Disposal of treasury stock	6,413	-	-
Purchase of treasury stock	-	(138)	(107)
Total changes in items during the term	212,205	141,778	294,818
Balance at end of current term	7,552,381	7,694,160	7,988,979
Valuation/translation gains (losses)			
Unrealized gains or losses on other on securities			
Balance at end of previous term	123,614	32,378	4,900
Changes in items during the term			
Other changes in non-shareholders' equity items during the term (net)	(91,235)	(27,477)	(18,621)
Total changes in items during the term	(91,235)	(27,477)	(18,621)
Balance at end of current term	32,378	4,900	(13,720)

Years ended December 31; Thousands of yen	2008	2009	2010
Share subscription rights			
Balance at end of previous term	14,449	33,716	38,533
Changes in items during the term			
Other changes in non-shareholders' equity items during the term (net)	19,266	4,816	5,722
Total changes in items during the term	19,266	4,816	5,722
Balance at end of current term	33,716	38,533	44,255
Net assets			
Balance at end of previous term	7,478,239	7,618,476	7,737,594
Changes in items during the term			
Dividends from retained earnings	(126,265)	(126,443)	(126,440)
Net income (loss)	332,058	268,361	421,366
Disposal of treasury stock	6,413	-	-
Purchase of treasury stock	-	(138)	(107)
Other changes in non-shareholders' equity items during the term (net)	(71,969)	(22,661)	(12,898)
Total changes in items during the term	140,236	119,117	281,919
Balance at end of current term	7,618,476	7,737,594	8,019,514

Cost of goods sold

Years ended December 31; Thousands of yen	2008	%	2009	%	2010	%
Raw materials costs	2,374,447	55.4	2,486,261	56.2	2,079,379	53.4
Labor costs	609,169	14.2	683,584	15.4	601,767	15.5
Other expenses	1,300,327	30.4	1,257,424	28.4	1,210,474	31.1
Total manufacturing overhead	4,283,944	100.0	4,427,270	100.0	3,891,622	100.0
Work-in-process inventory, beginning of term	321,528		299,280		320,919	
Transfers from other accounts	-		-		2,404	
	4,605,473		4,726,550		4,214,945	
Work-in-process inventory, end of term	299,280		320,919		253,243	
Production costs for the term	4,306,192		4,405,631		3,961,702	
Major items in other expenses above						
Subcontracted processing expenses	281,822		309,504		331,927	
Depreciation expenses	406,160		437,417		421,906	
Cost of completed construction						
Raw materials costs	1,683	8.1	12,131	34.8	-	-
Labor costs	1,904	9.2	4,655	13.4	-	-
Subcontracted processing expenses	15,638	75.6	15,876	45.7	-	-
Other expenses	1,463	7.1	2,104	6.1	-	-
	20,687	100.0	34,768	100.0	-	-

Results of operations

Year ended December 31, 2010

The Japanese economy recovered gradually during the term under review, but firms remained cautious about investing in capital equipment in an environment of sharp appreciation of the yen, stricter labor regulations and continued shifting of production facilities offshore. The prospects for a sustained 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 remained lackluster. Unit sales of powered air-purifying respirators for workers in asbestos operations dipped following the strong results in the previous year. Overall, sales in the mask segment declined by 3.5% compared with the previous year to 6,828 million yen.

In the environmental equipment segment, sales of ventilation systems used in medical facilities to protect workers from formaldehyde fumes declined, because many customers had ordered equipment during the previous year to ensure compliance with new legislation. Sales in the segment fell by 48.3% in year-on-year terms to 530 million yen.

Total sales declined by 9.2% compared with the previous year to 7,358 million yen.

Despite the downturn in sales, operating income rose by 7.1% to 635 million yen due to a lower cost-of-goods ratio and Company-wide cost savings achieved through improved operating efficiency. Lower nonoperating expenses resulting from the absence of commission fees boosted the bottom line, along with an extraordinary gain of 223 million yen associated with the adoption of a defined-contribution pension system. Net income increased by 57.0% to 421 million yen.

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.

Issues requiring action

In the occupational health and safety field, some companies are putting cost control ahead of the “culture of safety.” The Company is committed to offering products of high quality and reliability, however, while striving to persuade customers that it is worth paying higher prices for quality to mitigate serious OH&S risks. Koken continues to expand its business based on the slogan “Committed to Cleanliness, Health and Safety,” in particular by targeting growth sectors.

Mask segment

- In the area of breath-synchronized blower masks, the Company is seeking to increase the value of its products and building its dominant position in Japan while promoting masks for use in varied industrial settings, such as tunneling, welding or asbestos-related operations.
- 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.

- Since the outbreak of swine flu in 2009, it has become more commonplace for people to wear protective masks or stockpile such products for emergencies. 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.
- Koken has developed "Ferená" nano-fiber filters and "KOACH" open-airflow clean bench technology. Now that it has launched these technologies, the Company is developing new commercial applications and seeking to broaden the range of potential uses through further technical development. 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 bench technology, 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	2010	
	Amount	Year-on-year comparison (%)
Particulate respirators	3,528,410	99.4
Gas masks	2,109,856	113.0
Other products related to dust-protection masks and gas masks	1,099,133	79.0
	6,737,399	99.0
Environmental-improvement construction and facilities	379,777	37.8
	379,777	37.8
	7,117,176	91.1

Sales

Thousands of yen	2010	
	Amount	Year-on-year comparison (%)
Particulate respirators	3,584,377	97.1
Gas masks	2,107,810	109.8
Other products related to dust-protection masks and gas masks	1,136,276	77.6
	6,828,463	96.5
Environmental-improvement construction and facilities	530,409	51.7
	530,409	51.7
	7,358,872	90.8

Principal customers

Thousands of yen	2009		2010	
	Amount	% of net sales	Amount	% of net sales
Midori Anzen Yohin	1,266,372	15.6%	1,254,848	17.1%
Ministry of Defense	860,074	10.6%	918,545	12.5%

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	83	12-60	27,166	42,279
OA equipment	1	12-72	37,962	63,208
Metal molds	106	12-36	43,782	35,784

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	2010
Machinery and equipment		
Acquisition cost	83,592	83,592
Accumulated depreciation	74,304	83,592
Net leased property	9,288	-
Vehicles and delivery equipment		
Acquisition cost	8,917	8,917
Accumulated depreciation	5,926	7,717
Net leased property	2,991	1,200
Tools, furniture and fixtures		
Acquisition cost	387,066	213,007
Accumulated depreciation	298,284	175,742
Net leased property	88,782	37,265
Total		
Acquisition cost	479,576	305,517
Accumulated depreciation	378,515	267,052
Net leased property	101,061	38,465
Future minimum lease payments, including interest portion		
Due within one year	59,520	25,379
Due after one year	41,541	13,085
	101,061	38,465
Lease payments and pro forma depreciation expenses		
Lease payments	89,002	57,856
Pro forma depreciation expenses (assuming straight-line method)	89,002	57,856

Capital Structure

Nonconsolidated balance sheet: assets

December 31; Thousands of yen	2008	2009	2010
Current assets			
Cash and deposits	1,617,654	1,666,031	1,809,006
Notes receivable - trade	1,342,678	1,233,712	1,116,542
Accounts receivable – trade	1,998,049	2,122,927	2,102,823
Merchandise and finished goods	808,774	694,807	491,677
Raw materials and supplies	417,674	371,399	323,955
Work in process	300,186	323,434	253,243
Prepaid expenses	65,583	47,331	44,630
Deferred tax assets	134,264	171,167	196,185
Others	13,925	3,534	3,646
Allowance for doubtful accounts	(4,000)	(4,000)	(4,000)
	6,694,791	6,630,345	6,337,710
Fixed assets			
Tangible fixed assets			
Buildings	3,352,066	3,424,027	3,457,464
Accumulated depreciation	(1,846,484)	(1,956,632)	(2,075,500)
Buildings, net	1,505,581	1,467,395	1,381,964
Structures	179,078	208,563	217,132
Accumulated depreciation	(163,843)	(169,068)	(180,512)
Structures, net	15,235	39,495	36,620
Machinery and equipment	3,539,898	3,719,785	3,750,405
Accumulated depreciation	(2,285,392)	(2,591,105)	(2,843,665)
Machinery and equipment, net	1,254,506	1,128,679	906,739
Vehicles and delivery equipment	1,500	1,500	1,500
Accumulated depreciation	(1,440)	(1,455)	(1,470)
Vehicles and delivery equipment, net	60	45	30
Tools, furniture and fixtures	2,330,804	2,329,460	2,342,981
Accumulated depreciation	(2,121,784)	(2,139,623)	(2,180,712)
Tools, furniture and fixtures, net	209,019	189,837	162,269
Land	5,337,522	5,377,462	5,377,462
Lease assets	-	16,158	75,722
Accumulated depreciation	-	(4,788)	(20,338)
Lease assets, net	-	11,369	55,383
Construction in progress	63,430	67,517	78,352
	8,385,356	8,281,802	7,998,822

December 31; Thousands of yen	2008	2009	2010
Intangible fixed assets			
Patents	11,228	15,215	16,755
Telephone subscription rights	9,423	9,423	9,423
Leaseholds	1,057	1,057	1,057
Software	900	557	1,924
Others	573	444	315
	23,183	26,698	29,476
Investments and other assets			
Investments in securities	233,312	180,437	72,209
Long-term loans to employees	7,550	6,150	4,118
Claims provable in bankruptcy, claims provable in rehabilitation and others	-	26	-
Long-term prepaid expenses	1,235	516	479
Deferred tax assets	238,348	371,126	269,702
Leasing and guarantee deposits	74,489	74,490	69,377
Directors' retirement benefit insurance premiums	700,196	760,149	782,310
Allowance for doubtful accounts	(1,000)	(1,000)	(1,000)
	1,254,131	1,391,896	1,197,197
Total fixed assets	9,662,671	9,700,397	9,225,495
Total assets	16,357,462	16,330,742	15,563,206

Nonconsolidated balance sheet: liabilities and net assets

December 31; Thousands of yen	2008	2009	2010
Current liabilities			
Accounts payable – trade	175,009	182,666	144,508
Short-term borrowings	1,100,000	1,100,000	3,100,000
Current portion of long-term debt	1,399,500	1,148,300	1,128,000
Current portion of bonds	-	2,200,000	-
Accounts payable - other	123,498	131,014	159,516
Accrued expenses	139,858	134,841	132,035
Income taxes payable	134,383	220,076	59,580
Consumption taxes payable	38,428	47,041	30,681
Advances received	-	3,107	3,169
Deposits received	72,021	35,298	26,597
Provision for bonuses	199,000	187,000	201,000
Provision for directors' and corporate auditors' bonuses	27,000	23,300	24,400
Provision for product recall expenses	-	37,247	-
Others	3	-	-
	3,408,702	5,449,893	5,009,489
Long-term liabilities			
Corporate bonds	2,200,000	-	-
Long-term debt	2,530,300	2,259,800	1,891,800
Lease obligations	-	11,938	58,152
Long-term accounts payable - other	-	-	189,349
Employees' retirement benefits	200,432	428,316	-
Directors' and corporate auditors' retirement benefits	395,100	440,700	391,900
Others	4,451	2,500	3,000
	5,330,283	3,143,254	2,534,202
Total liabilities	8,738,986	8,593,148	7,543,692
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	756	756	756
	528,693	528,693	528,693

December 31; Thousands of yen	2008	2009	2010
Retained earnings			
Legal income reserves	168,566	168,566	168,566
Other legal income reserves			
Special reserves	5,586,000	5,786,000	5,886,000
Reserve for reduction of asset costs due to contributions or subsidies	30,591	29,067	27,629
Retained earnings carried forward	605,905	549,347	745,711
	6,391,063	6,532,981	6,827,907
Treasury stock	(41,640)	(41,779)	(41,887)
	7,552,381	7,694,160	7,988,979
Valuation/translation gains (losses)			
Unrealized gains (losses) on other securities	32,378	4,900	(13,720)
	32,378	4,900	(13,720)
Share subscription rights	33,716	38,533	44,255
Total net assets	7,618,476	7,737,594	8,019,514
Total liabilities and net assets	16,357,462	16,330,742	15,563,206

Trade credits

Notes receivable

Thousands of yen	2010
Shimatsu	97,456
Ohtsuka Brush Manufacturing	79,286
Simon	76,471
Tanizawa Seisakusho	42,765
Riken Optech	37,023
Others	783,538
	1,116,542

Accounts receivable — trade

Thousands of yen	2010
Midori Anzen Yohin	722,241
Ministry of Defense	708,992
AS ONE Corporation	30,694
Riken Kagaku	27,547
KOIKE SANSEI KOGYO	26,172
Others	587,174
	2,102,823

Turnover of accounts receivable

Thousands of yen	2010
Beginning balance	2,122,927
Increase	7,710,645
Collected	7,730,750
Ending balance	2,102,823
Turnover	78.6%
Average days for collection	100.0

Accounts payable — trade

Thousands of yen	2010
Takaoka Shoji	9,035
Mitsui Bussan Plastics Trade	8,051
Tsukuba Chemical	7,421
Wamoto	7,380
Nakayama	7,262
Others	105,356
	144,508

Securities**Marketable and investment securities**

Thousands of yen	2010	
Stocks		
Investment securities	Number of shares	Book value
Other securities		
Resona Holdings, Inc. (8308)	76,835	39,185
Mizuho Financial Group, Inc. 11 th series preferred stock (class 11)	175,500	22,815
Ace Securities	10,000	2,550
Mizuho Investors Securities (8607)	26,349	2,266
Nippon Kanryu Industry (1771)	15,000	1,995
Mitsubishi UFJ Financial Group, Inc. (8306)	4,240	1,806
Nomura Holdings, Inc. (8604)	1,750	894
Others (2 shares)	21	696
	309,695	72,209

Financial instruments

December 2010 term

Policies related to financial instruments

The Company seeks to conduct financing based on market conditions and by maintaining a balance between short-term and long-term instruments. The Company uses safe short-term deposits for operating funds and does not engage in speculative trading.

Nature of financial instruments and management of related risks

The Company manages its exposure to price fluctuation risk on its portfolio of investment securities by assessing market prices on a quarterly basis. With unlisted stocks, the financial situation of the issuing firms is reviewed periodically.

The Company manages its exposure to credit risk from notes and accounts receivable by monitoring the amounts outstanding and due dates for each counterparty.

Trade payables and other operating liabilities are typically due within 60 days. The Company uses primarily short-term borrowings and long-term debt to finance business operations and capital investments. Any related liquidity risk is managed by maintaining certain levels of cash and liquidity at all times.

The Company also uses interest-rate swaps to hedge the risk of interest rate movements on its debt. The Company only enters into derivative transactions with top-rated financial institutions as a means of effectively eliminating related counterparty credit risk. Details of hedging techniques, policies and methods of evaluating the effectiveness of using such derivatives are provided in the section on significant accounting policies.

Additional information on pricing of financial instruments

The values of some financial instruments that do not have market prices are computed using mathematical formulae. The values of these instruments can fluctuate due to changes in the variables, initial conditions or underlying assumptions contained in such formulae.

Items related to current value

	2010		
	Book value	Current value	Unrealized gain (loss)
Cash and deposits	1,809,006	1,809,006	-
Notes receivable - trade	1,116,542	1,116,542	-
Accounts receivable - trade	2,102,823	2,102,823	-
Investment securities	46,147	46,147	-
Total assets	5,074,519	5,074,519	-
Accounts payable - trade	144,508	144,508	-
Accounts payable - other	159,516	159,516	-
Short-term borrowings	3,100,000	3,100,000	-
Current portion of long-term debt	1,128,000	1,130,051	2,051
Long-term accounts payable - other	189,349	191,623	2,273
Long-term debt	1,891,800	1,898,483	6,683
Total liabilities	6,613,175	6,624,182	11,007
Derivative transactions	-	-	-

Methods of calculating current value

Cash and deposits; notes receivable - trade; accounts receivable - trade: book value

Investment securities: market value

Accounts payable - trade; accounts payable - other; short-term borrowings: book value

Current portion of long-term debt; long-term debt: discounting at the interest rate that would apply if the Company were to newly borrow the same amount of principal and interest. Interest rate swaps subject to special treatment procedures are accounted for as an inseparable part of the long-term debt that is being hedged; hence, its market value is included as a part of the market value of said long-term debt.

Long-term accounts payable - other: discounting at the interest rate that would apply if the Company were to newly borrow the same amount of principal and interest

Financial instruments with no easily ascertainable current value

Thousands of yen	2010
Unlisted stocks	26,061

Repayment schedule for receivables after accounting date

Thousands of yen	Up to 1 year	Greater than 1 and up to 5 years	Greater than 5 and up to 10 years	Greater than 10 years
Cash and deposits	1,809,006	-	-	-
Notes receivable - trade	1,116,542	-	-	-
Accounts receivable - trade	2,102,823	-	-	-
	5,028,372	-	-	-

Market value of securities

Other quoted securities

Thousands of yen	2009			2010		
	Book value	Cost of acquisition	Unrealized gain (loss)	Book value	Cost of acquisition	Unrealized gain (loss)
Securities valued on the consolidated balance sheet at amounts greater than the purchase cost						
Shares	104,605	82,014	22,591	1,995	1,785	210
	104,605	82,014	22,591	1,995	1,785	210
Securities valued on the consolidated balance sheet at amounts not greater than the purchase cost						
Shares	22,584	36,913	(14,328)	44,152	67,496	(23,343)
	22,584	36,913	(14,328)	44,152	67,496	(23,343)
	127,190	118,927	8,262	46,147	69,281	(23,133)

December 2009 term: 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.

December 2010 term: Because unlisted stocks (with a balance sheet value of 26,061 thousand yen) have no market value and are generally considered to be extremely difficult to value at any given time, they are not included in "other securities" above.

Other marketable securities sold during the year ended December 31, 2010

Thousands of yen		
2010		
Amount sold	Total gain on sales	Total loss on sales
51,144	12,422	10,925

Major investment securities for which market prices are not available

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

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

Marketable securities subject to writedowns

Writedowns in the value of unlisted stocks held by the Company amounted to 27,185 thousand yen in the fiscal year under review.

Any such unlisted stocks whose year-end market value was more than 50% below their historical cost were fully written off. Stocks whose year-end market value was 30–50% below their historical cost were written down to suitable levels, depending on the materiality of the amount and probability of recovery. Any stocks for which market prices were unavailable were written down in cases where it was deemed that their real value had fallen substantially as a result of deterioration in the financial situation of the issuing firm.

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	226,317	2,549	1,636,000	283.91	34,658	31,861	1,931,387	94
Manufacture of dust and gas masks								
Sayama Techno-Yard	485,484	503,788	792,433	11,430.44	23,253	7,130	1,812,090	18
Gunma Techno-Yard	302,302	129,019	405,140	9,256.83	25,016	9,872	871,351	14
Tokorozawa Techno-Yard	81,205	3,477	177,214	1,915.55	9,169	6,520	277,587	8
Nakai Techno-Yard	120,645	220,358	325,449	1,434.94	2,383	-	668,836	6
Research activities								
Hannou Laboratories	36,570	17,468	4,451	3,171.49	25,152	-	83,643	9
Distribution of dust and gas masks								
Saitama Logistics Center	108,210	8,709	1,242,116	21,336.07	5,761	-	1,364,798	5
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	3,424,027	34,206	770	3,457,464	2,075,500	119,600	1,381,964
Structures	208,563	8,569	-	217,132	180,512	11,443	36,620
Machinery and equipment	3,719,785	62,144	31,524	3,750,405	2,843,665	278,534	906,739
Vehicles and delivery equipment	1,500	-	-	1,500	1,470	15	30
Tools and fixtures	2,329,460	107,575	94,055	2,342,981	2,180,712	100,876	162,269
Land	5,377,462	-	-	5,377,462	-	-	5,377,462
Lease assets	16,158	59,564	-	75,722	20,338	14,938	55,383
Construction in progress	67,517	242,569	231,734	78,352	-	-	78,352
	15,144,474	514,629	358,083	15,301,021	7,302,198	525,408	7,998,822
Intangible fixed assets							
Patents	-	-	-	24,437	7,681	2,957	16,755
Telephone subscription rights	-	-	-	9,423	-	-	9,423
Leaseholds	-	-	-	1,057	-	-	1,057
Software	-	-	-	3,521	1,597	609	1,924
Usage rights for equipment and facilities	-	-	-	1,765	1,449	128	315
	-	-	-	40,204	10,728	3,695	29,476
Long-term prepaid expenses	4,969	340	3,308	2,000	1,520	957	479

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	-	1.02%	2010/3/10
Fourth unsecured corporate bond issue	2005/3/15	100,000	-	0.89%	2010/3/15
Fifth unsecured corporate bond issue	2005/3/25	800,000	-	1.19%	2010/3/25
Sixth unsecured corporate bond issue	2005/3/30	600,000	-	0.94%	2010/3/30
	-	2,200,000	-	-	-

Borrowings

Thousands of yen	Previous period	Outstanding	Average rate	Maturity
Short-term borrowings	1,100,000	3,100,000	1.19%	-
Current portion of long-term debt	1,148,300	1,128,000	1.51%	-
Current portion of leasing-related liabilities	5,655	20,765	-	-
Long-term debt (except current portion of long-term debt)	2,259,800	1,891,800	1.41%	2012 to 2015
Leasing-related liabilities (except current portion of leasing-related liabilities)	6,282	37,386	-	2012 to 2015
Other interest-bearing liabilities	-	-	-	-
	4,520,038	6,177,952	-	-

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	914,200	605,400	252,200	120,000
Leasing-related liabilities	15,738	10,824	7,962	2,861

Assets provided as collateral

Thousands of yen	2009	2010
Assets provided as collateral		
Buildings	850,807	803,175
Land	2,996,037	2,996,037
	3,846,844	3,799,212
Liabilities for which collateral is provided		
Long-term debt	3,310,800	2,981,400
	3,310,800	2,981,400

Retirement benefits**Outline of retirement benefit system****December 2009 term**

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

December 2010 term

The Company previously operated a tax-qualified defined-benefit pension plan. This plan was terminated on November 30, 2010, and the assets held in the plan were all transferred to a defined-contribution pension plan on December 1, 2010.

Matters related to retirement benefit liabilities**December 2009 term**

Thousands of yen	2009
Retirement benefit liabilities	(1,182,889)
Pension plan assets	795,385
Unaccrued pension benefit liabilities	(387,503)
Unrecognized actuarial gains (losses)	(40,813)
Net amount shown on the balance sheet	(428,316)
Reserve for retirement benefits	(428,316)

December 2010 term

The effects of this transfer of pension assets were as outlined below.

Thousands of yen	2010
Decrease in retirement benefit liabilities	1,095,162
Decrease in pension plan assets	635,367
Decrease in reserve for retirement benefits	459,795

Assets transferred to the defined-contribution pension plan totaled 635,367 thousand yen.

Matters related to retirement benefit expenses

Thousands of yen	2009	2010
Retirement benefit expenses	289,422	38,212
Current service costs	66,575	61,780
Interest expenses	22,325	21,681
Expected earnings on pension fund assets	(14,026)	(14,579)
Expensing of differences based on actuarial calculations	214,548	(37,403)
Expensed contributions		
Tax-qualified defined-benefit pension plan	-	-
Defined-contribution pension plan	-	6,733

Aside from the above retirement benefit expenses, the Company recognized an extraordinary gain of 223,108 thousand yen in the fiscal year under review in relation to the transfer of assets to the defined-contribution pension plan.

Assumptions underlying the calculation of retirement benefit liabilities

December 2009 term

	2009
Discount rate	2.0%
Expected rate of return	2.0%
Method of allocating prospective retirement benefits to each period	Equal payments basis
Amortization period for actuarial gains or losses	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	187,000	201,000	187,000	201,000
Provision for directors' and corporate auditors' bonuses	23,300	24,400	23,300	24,400
Provision for product recall expenses	37,247	-	37,247	-
Directors' and corporate auditors' retirement benefits	440,700	27,500	76,300	391,900

Related Parties

Transactions with related parties: Directors and major independent shareholders

December 2010 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
2010									
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	39,234	Accounts payable - other	1,474

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

Accounting Policies

Summary of accounting policies – nonconsolidated

Basis of presentation	Japanese GAAP; nonconsolidated
Marketable securities and investments in securities	<p>Bonds held to maturity: cost amortization method (straight-line)</p> <p>Shares in subsidiaries: valued at cost using the moving-average method</p> <p>Other securities:</p> <p>Quoted securities: current value method based on average market prices in the month prior to the end of the fiscal year (by which all valuation differences are credited directly to net assets, and the cost of securities sold is calculated in accordance with the moving-average method)</p> <p>Unquoted securities: valued at cost using the moving-average method</p>
Inventories	<p>Finished goods, work in process: cost method computed on a periodic-average basis (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.
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.

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, 2010	5,104,003
As of March 18, 2011	5,104,003
Stock exchange listings	JASDAQ-OSE (Standard)
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	6,302	12.35
Securities companies	18	620	1.22
Business and other corporations	21	1,979	3.88
Non-residents - institutions and corporations	4	150	0.29
Non-residents - individuals	-	-	-
Individuals and others	1,530	41,969	82.26
	1,581	51,020	100.00
Shares less than one unit	-	2,003	-

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

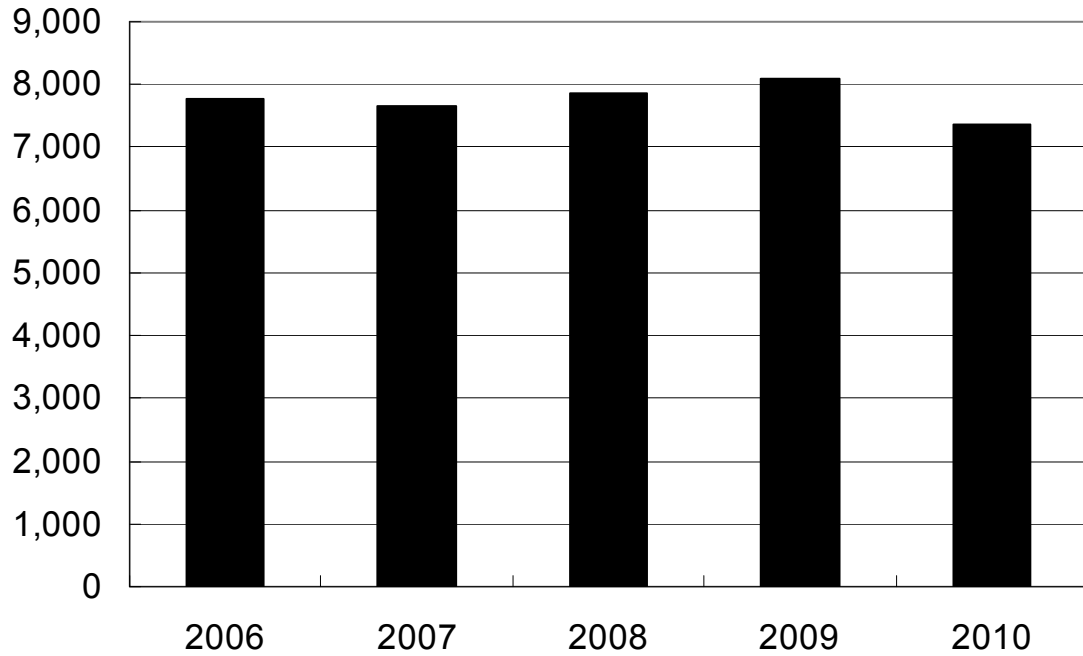
Share information

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

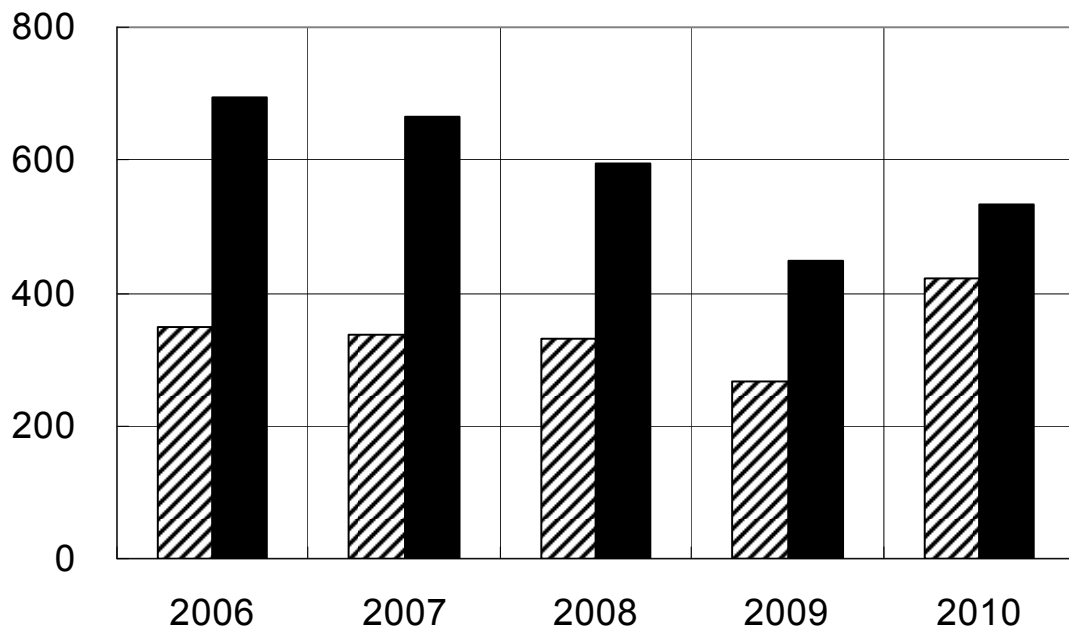
Net Sales

Millions of Yen



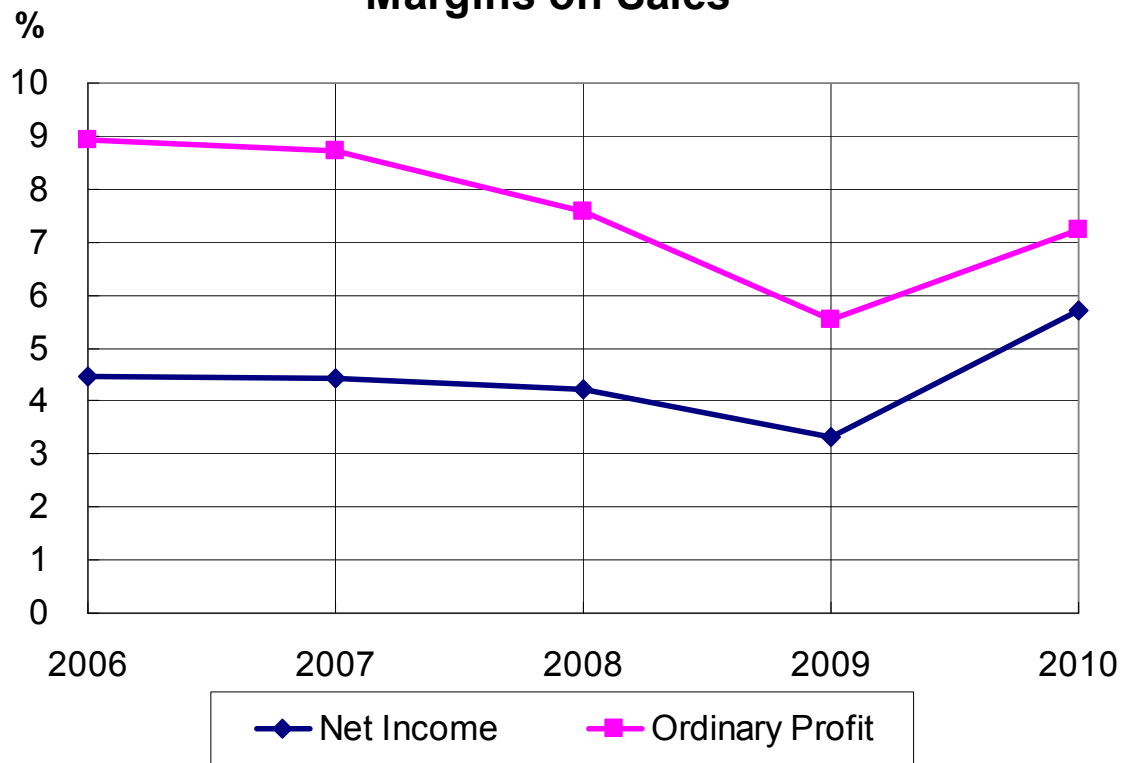
Net Income and Ordinary Profit

Millions of Yen

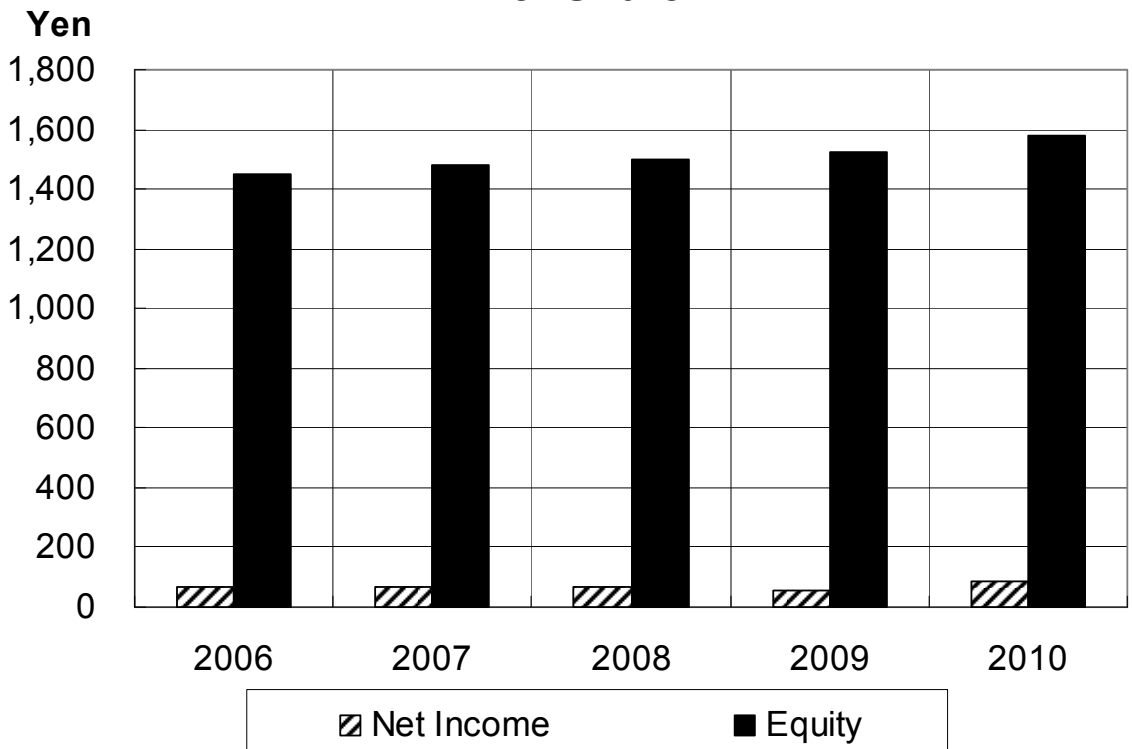


▨ Net Income ■ Ordinary Profit

Margins on Sales

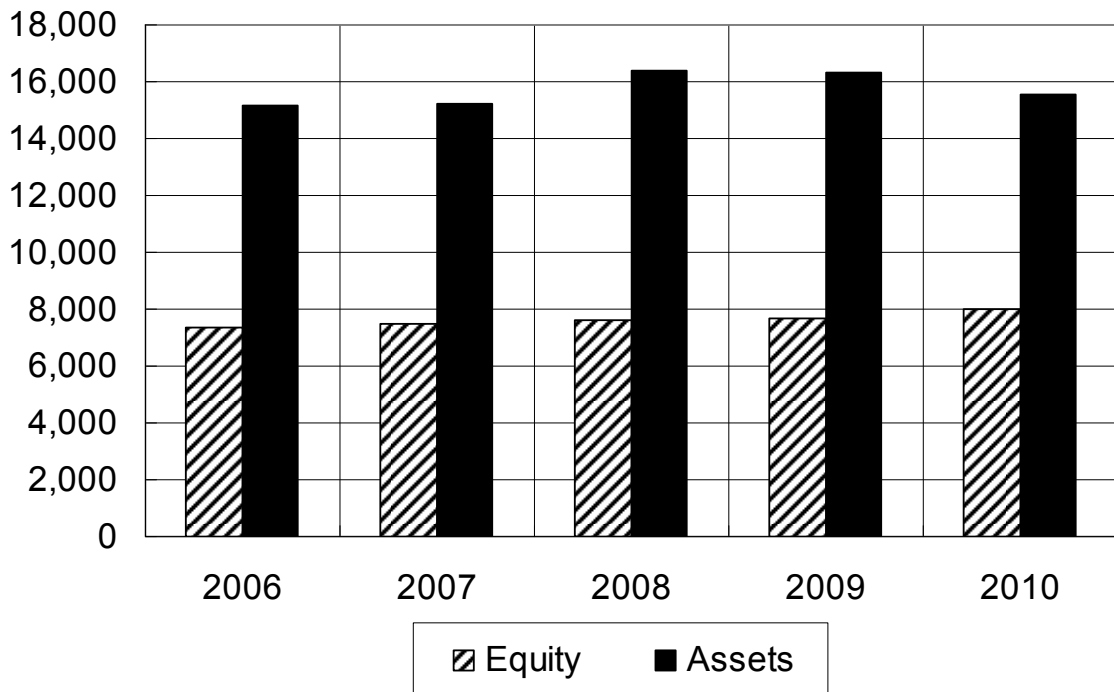


Per Share

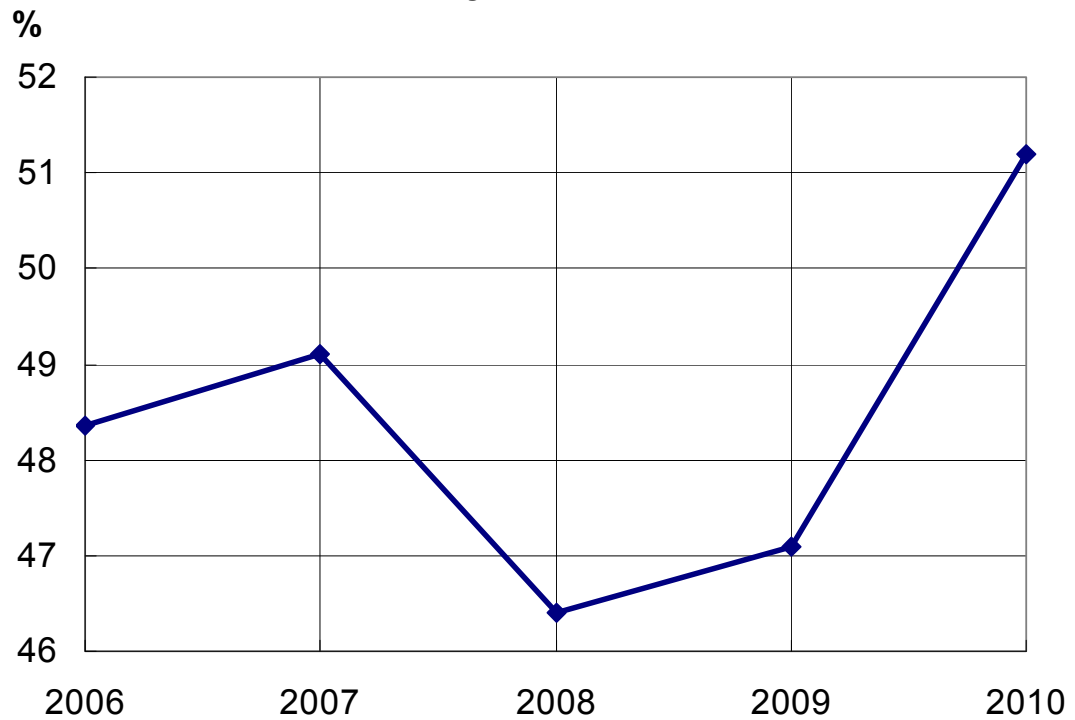


Equity and Assets

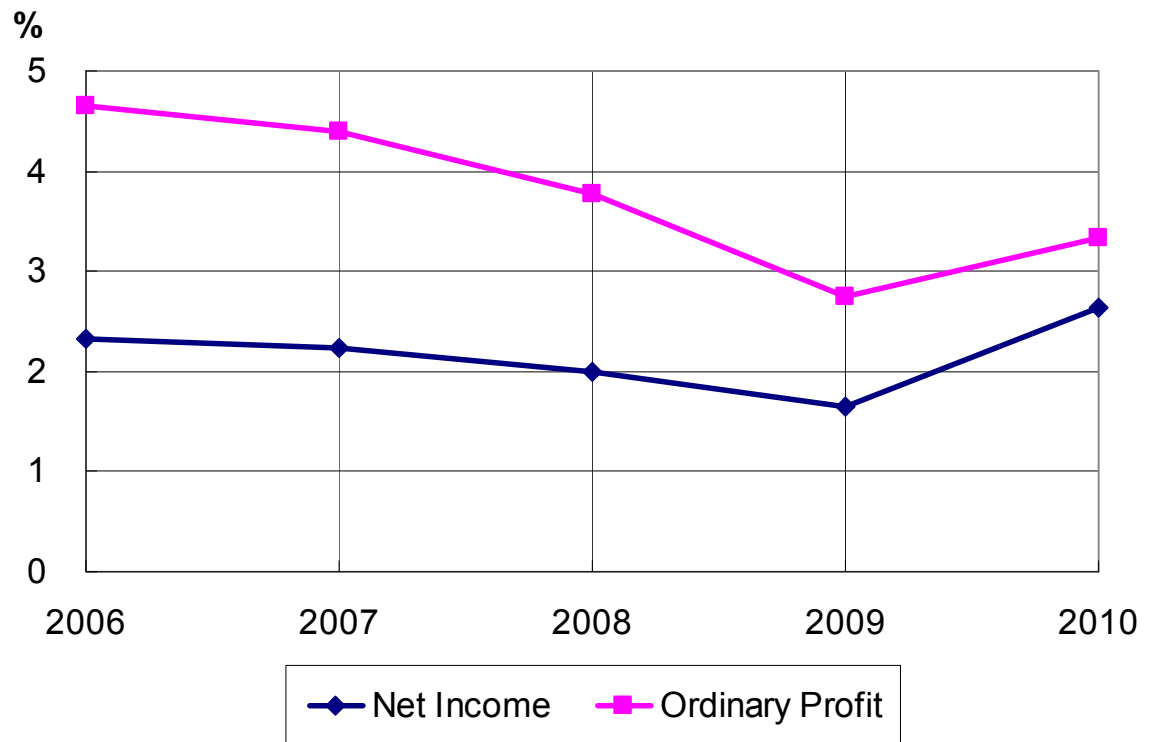
Millions of Yen



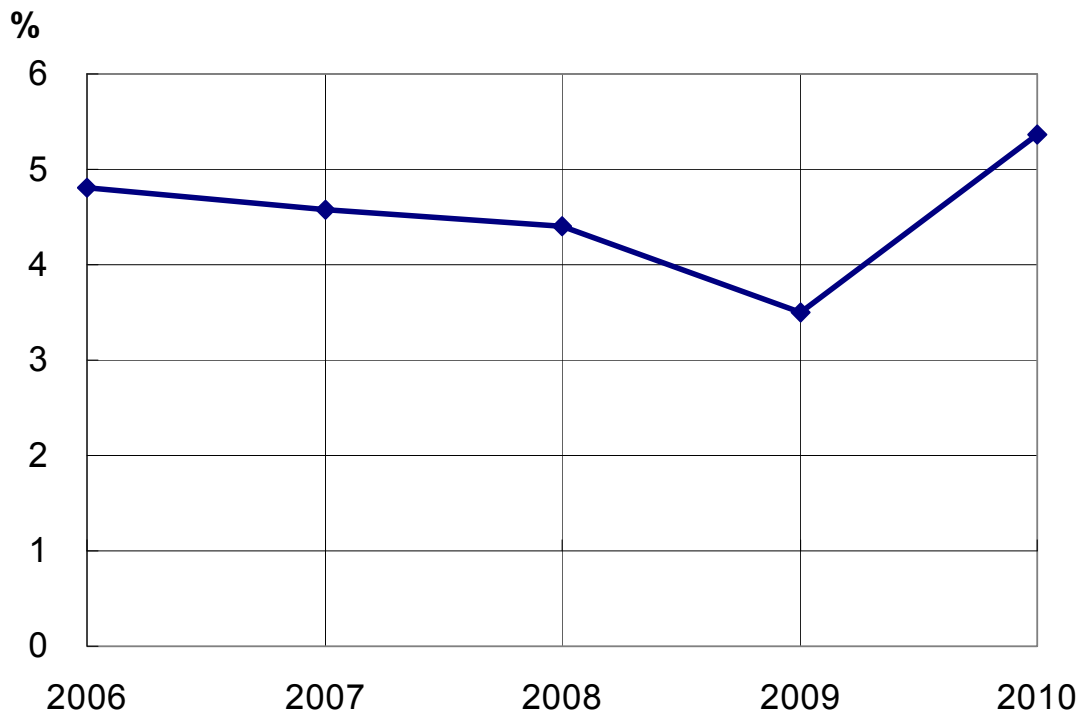
Equity / Assets



Return on Assets



Return on Equity



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