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YUHO REPORT

Annual

Fiscal Year Ended	**December 31, 2011**
Traded	**JASDAQ**
Stock Code	**7963**

KOKEN LTD.

YUHOREPORT

Koken Ltd.

Fiscal Year Ended	**December 31, 2011**
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Company Profile

Financial highlights

Years ended December 31; Thousands of yen	2007	2008	2009	2010	2011	Change 2011/2007
Net sales	7,644,859	7,845,556	8,102,194	7,358,872	8,879,229	116%
Ordinary profit	665,875	594,546	448,168	532,880	1,112,847	167%
Net income	337,950	332,058	268,361	421,366	553,565	164%
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	7,478,239	7,618,476	7,737,594	8,019,514	8,466,354	113%
Total assets	15,198,789	16,357,462	16,330,742	15,563,206	16,262,836	107%
Net assets per share (Yen)	1,477.79	1,499.63	1,522.27	1,576.93	1,663.78	113%
Dividends per share (Yen)	25.00	25.00	25.00	25.00	35.00	140%
Net income per share (Yen)	66.92	65.71	53.06	83.31	109.46	164%
Net income per share, fully diluted (Yen)	66.75	65.62	-	-	108.79	
Dividend payout ratio (%)	37.4	38.0	47.1	30.0	32.0	
Net cash provided by operating activities	945,337	762,274	1,109,749	1,092,832	630,328	
Net cash used in investing activities	(325,742)	(1,900,182)	(397,396)	(170,094)	(530,507)	
Net cash used in financing activities	(116,993)	847,578	(663,976)	(779,762)	(860,827)	
Cash and cash equivalents at end of term	1,907,983	1,617,654	1,666,031	1,809,006	1,048,000	
Employees	209	218	219	211	215	103%

Peer comparisons

Percent	2007	2008	2009	2010	2011
Net income / net sales (%)	4.4	4.2	3.3	5.7	6.2
Peers	0.9	(0.0)	(8.7)	0.4	1.8
Ordinary profit / net sales (%)	8.7	7.6	5.5	7.2	12.5
Peers	4.3	2.7	(2.7)	2.2	3.5
Net income / equity (%)	4.5	4.4	3.5	5.3	6.6
Peers	1.1	1.5	(10.0)	2.2	5.4
Net income / assets (%)	2.2	2.0	1.6	2.7	3.5
Peers	1.2	0.1	(5.2)	1.0	2.1
Ordinary profit / assets (%)	4.4	3.6	2.7	3.4	7.0
Peers	4.7	2.8	(1.1)	2.2	3.9
Equity / assets (%)	49.1	46.4	47.1	51.2	51.7
Peers	50.3	49.9	46.1	48.0	49.8

Peers include 30 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 particulate respirators, gas masks and other types of protective equipment for occupational health and safety use, as well as equipment and facilities for workplace environments.

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 Prtefecture.
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.
2011	March	KOACH showroom opened.
	November	KOKEN Super Clean Technical Center opened.

Risk factors

The Company recognizes the following risks or potential risk factors as existing as of December 31, 2011:

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

- Since the Company's production facilities had previously undergone a seismic risk assessment and formulated appropriate business continuity plans in advance, the Company's production did not suffer any significant disruption due to the Great East Japan Earthquake. Yet, there remains the potential risk that can affect the Company's financial performance: A natural disaster (such as a large, shallow earthquake with a nearby epicenter), accident or other unforeseen event, or an influenza epidemic or other infectious outbreak could stop production or interrupt operations. In preparation for epidemics, the Company has distributed masks to all employees and "stockpiles emergency supplies of masks" 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 that employ them. A matrix-based R&D structure has been established that includes project teams for basic research on near-future technologies as well as applications.

A total of 68 staff are responsible for research and development, and related expenditures during the year under review totaled 503 million yen.

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

Mask segment

In the field of breath-synchronized blower masks, Koken has developed the BL series to achieve greater sensitivity in breath synchronization. More efficient blowing of air across the face translates to greater filter longevity and lower consumption of battery power.

The BL-701E model was developed for use at the Fukushima Daiichi nuclear power station to protect workers at the site from radioactive dust particles and methyl iodide gas. Supplies have been delivered to Tokyo Electric Power Company.

BL-200 series models, which are equipped with voice transmitters, are suited to a wide range of industrial applications, including the handling of nano-materials or asbestos, or welding work.

The BL-1005 is the world's first blower mask fitted with an electrostatic filter. It succeeds the popular 1005-series of particulate respirators for use in welding.

Other businesses

KOACH systems equipped with Ferena nano-fiber filters create super-clean environments that conform to ISO Class 1 to ISO Class 3 international standards. Koken has developed a full range of products, from highly portable bench-top systems to the “Floor KOACH Ex-Ez” system, an ultimate open clean zone creator with a tunnel-shaped guide screen that can turn an entire room into a clean environment within a short period of time.

Analysis of financial condition and results of operations

(1) Significant accounting policies and estimates

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

(2) Financial analysis

Total assets stood at 16,262 million yen as of December 31, 2011, an increase of 699 million yen from the previous year-end.

Current assets: 6,854 million yen (an increase of 516 million yen)

This mainly reflected increases in accounts receivable - trade (of 684 million yen), work in process (of 250 million yen) and raw materials and supplies (of 189 million yen), although these increases were somewhat offset by declines in cash and deposits (of 761 million yen).

Fixed assets: 9,408 million yen (an increase of 182 million yen)

This result mainly reflected increases in construction in progress (of 270 million yen) and lease assets (of 56 million yen), combined with a decline in machinery and equipment (of 122 million yen).

Current liabilities: 5,042 million yen (an increase of 32 million yen)

This primarily reflected increases in income taxes payable (of 429 million yen), accounts payable - facilities (of 179 million yen) and provision for bonuses (of 131 million yen) as well as a decrease in short-term borrowings (of 1,000 million yen).

Long-term liabilities: 2,754 million yen (an increase of 219 million yen)

This primarily reflected increases in long-term debt (of 178 million yen) and lease obligations (of 58 million yen).

Net assets: 8,466 million yen (an increase of 446 million yen)

This mainly reflected an increase of 427 million yen in retained earnings due to higher net income in fiscal 2011 and other factors.

The equity capital ratio increased to 51.7% from 51.2%.

(3) Results of operations

Sales:	8,879 million yen	(up 20.7%)
Operating income:	1,166 million yen	(up 83.5%)
Ordinary profit:	1,112 million yen	(up 108.8%)
Net income:	553 million yen	(up 31.4%)

Sales:

Sales increased by 1,520 million yen compared with the previous year to 8,879 million yen. This growth mainly reflected higher sales of protective masks in the wake of the March 2011 earthquake and tsunami disaster and nuclear accident, as well as increased sales of fully automated endoscope cleaning and sterilization systems.

Cost of goods sold:

Reflecting the increase in sales, the cost of goods sold increased by 586 million yen compared with the previous year to 4,672 million yen. The gross profit margin improved by 2.9 percentage points from 44.5% to 47.4%. 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 increased by 403 million yen compared with the previous year to 3,039 million yen.

Operating income:

Operating income increased by 530 million yen compared with the previous year to 1,166 million yen. The operating profit margin rose by 4.5 percentage points to 13.1% from 8.6% in the previous year.

Nonoperating income and expenses:

Nonoperating income increased by 12 million yen compared with the previous year to 36 million yen. This mainly reflected income of 11 million yen from refund on cancellation of insurance premiums.

Nonoperating expenses of 90 million yen were 36 million yen lower than in the previous year. This mainly reflected a year-on-year decrease in interest expenses of 11 million yen.

Extraordinary losses:

Extraordinary losses increased by 55 million yen to 100 million yen. This mainly reflected losses on retirement of fixed assets of 57 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 16, 2012 (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 relevant 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 university professor emeritus) 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 auditors Hitoshi Emi and Hiroyuki Kawai own 3,300 shares and 100 shares of the Company's stock, respectively. 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

		Total amounts paid out to board members by type of compensation				
Thousands of yen	**Amount paid**	**Compensation**	**Bonuses**	**Stock options**	**Directors' and corporate auditors' retirement allowances**	**Number of board members in each category**
Directors	175,760	112,960	39,200	1,400	22,200	7
Corporate auditors	25,960	16,880	6,800	280	2,000	2
Outside corporate auditors	10,960	7,280	2,800	280	600	2
	212,680	137,120	48,800	1,960	24,800	11

1. *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 49th Annual General Meeting of Shareholders held on March 27, 2012.*
2. *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)

A resolution to raise the total annual remuneration limit for directors to 180 million yen was submitted to and approved by the 49th Annual General Meeting of Shareholders held on March 27, 2012.

7) Shareholdings in other companies

a. Investment securities held for purposes other than pure investment

Number of issues: 9

Total value on balance sheet: 58,342,000 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)

Thousands of yen	Number of shares	Book value	Reason for purchase
Resona Holdings, Inc. (8308)	76,835	26,431	To maintain and strengthen business relationships
Mizuho Financial Group, Inc. 11th series preferred stock (class 11)	50,000	22,815	To maintain and strengthen business relationships
Nippon Kanryu Industry (1771)	15,000	2,460	To maintain and strengthen business relationships
Mizuho Financial Group, Inc. (8411)	14,755	1,534	To maintain and strengthen business relationships
Mitsubishi UFJ Financial Group, Inc. (8306)	4,240	1,416	To maintain and strengthen business relationships
Nomura Holdings, Inc. (8604)	1,750	439	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 14 times in the year ended December 2011 to make important management decisions and oversee their execution.
- As its disclosure policy, the Company released explanatory information about its financial results for the year ended December 2010 and its financial results for the interim period of the year ended December 2011 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	2010	2011
Financial audit services	24,000	22,875
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 27, 2012)

Name	Title	Joined company	Previous employment	Date of birth	Term	Shares owned (Thousand shares)
Masakazu Sakai	Representative Director, Chairman	Aug-67	Renown Shoji	22-Aug-41	2 years from the General Meeting of Shareholders (GMS) held on March 27, 2012	890
Hiroyuki Sakai	Representative Director, President	Apr-67		23-May-43	2 years from GMS held on March 27, 2012	858
Yosuke Yamasato	Representative Director, Executive Vice President	Sep-02	Ground Self-Defense Force	22-Jun-45	2 years from GMS held on March 27, 2012	6
Mitsuji Muramatsu	Managing Director	Feb-06	Mizuho Bank	21-Feb-56	2 years from GMS held on March 27, 2012	6
Toshio Akiyama	Managing Director	Apr-73		2-Apr-49	2 years from GMS held on March 27, 2012	8
Nobuya Horiguchi	Managing Director	Apr-82		28-Aug-58	2 years from GMS held on March 27, 2012	6
Tsutomu Murakawa	Managing Director	Apr-89		8-Jan-66	2 years from GMS held on March 27, 2012	1
Fumikazu Tanaka	Managing Director	Apr-81		22-Feb-57	2 years from GMS held on March 27, 2012	-
Etsuo Koyama	Standing Corporate Auditor	Jul-81	Nikkei Aluminium (now Nippon Light Metal)	21-Sep-42	4 years from GMS held on March 26, 2009	3
Tadashi Shimosaka	Standing Corporate Auditor	Oct-88	Dayton Progress Corp.	3-Jan-43	4 years from GMS held on March 25, 2011	2
Hitoshi Emi	Corporate Auditor	Apr-03	Kanazawa University	12-Nov-37	4 years from GMS held on March 25, 2011	3
Hiroyuki Kawai	Corporate Auditor	Mar-07	Attorney at law	18-Apr-44	4 years from GMS held on March 25, 2011	0
						1,783

Employees

	Total or average
Number	215 [179]
Average age	38.7
Average years of service	14.1
Average annual salary (yen)	6,944,726

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.

No business segment breakdown of employee numbers is provided, since some employees work in more than one segment.

Union

The Company has no labor union.

Stock option plans

The Company has adopted a stock option system, the principal features of which are based on Articles 236, 238 and 239 of the Companies Act.

(Resolution passed on March 29, 2007)

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

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

   Adjusted number of shares = Pre-adjusted number of shares × Ratio of split or of reduction in number of shares outstanding

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

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

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

   2) *Number of wholly owning parent company shares subject to rights*
      Adjusted in accordance with the share exchange or transfer ratio, with any fractional shares arising from such adjustment to be rounded down

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

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

Resolution passed on March 26, 2010

Date of resolution	March 26, 2010
Categories and numbers of persons to be granted rights	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	2009	2010	2011
Net cash provided by operating activities			
Net income before taxes and other adjustments	458,530	735,548	1,012,520
Depreciation	529,004	535,613	526,693
Increase (decrease) in retirement benefits	227,884	(428,316)	-
Increase (decrease) in directors' and corporate auditors' retirement allowances	45,600	(48,800)	24,800
Increase (decrease) in reserve for bonuses	(12,000)	14,000	131,000
Increase (decrease) in reserve for directors' and corporate auditors' bonuses	(3,700)	1,100	24,400
Increase (decrease) in reserve for product recall expenses	37,247	(37,247)	-
Increase (decrease) in allowance for doubtful accounts	-	-	3,000
Interest and dividend income	(4,810)	-	-
Interest income	-	(579)	(207)
Dividends income	-	(1,873)	(2,655)
Interest expenses	77,330	81,372	70,347
Interest expenses on bonds	23,190	5,158	-
Loss on adjustment for changes of accounting standard for asset retirement obligations	-	-	5,231
Losses on disposal of fixed assets	3,627	7,178	57,419
Gains on sales of tangible fixed assets	(341)	-	-
Compensation for removals	(31,854)	-	-
Losses (gains) on valuation of investments in securities	6,546	27,185	34,475
Decrease (increase) in notes and accounts receivable	(15,911)	137,273	(739,693)
Decrease (increase) in inventory	136,994	320,764	(347,685)
Increase (decrease) in notes and accounts payable	7,657	(38,157)	66,394
Increase (decrease) in consumption tax payable	8,612	(16,360)	3,778
Increase (decrease) in long-term accounts payable - other	-	189,349	(49,725)
Others	(28,656)	82,037	29,618
	1,464,951	1,565,247	849,712
Interest and dividend income	4,811	2,452	2,614
Interest expenses	(108,041)	(92,051)	(67,272)
Income tax and others	(251,970)	(382,815)	(154,726)
	1,109,749	1,092,832	630,328

Years ended December 31; Thousands of yen	2009	2010	2011
Net cash used in investing activities			
Payments for acquisition of tangible fixed assets	(424,983)	(254,246)	(618,999)
Proceeds from sale of tangible fixed assets	32,655	32,676	109,968
Purchases of long-term prepaid expenses	(268)	(340)	(300)
Payments for acquisition of intangible fixed assets	(6,199)	(6,473)	(8,734)
Proceeds from sales of investment securities	-	51,144	0
Payments for loans receivable	-	(1,050)	-
Proceeds from collection of loans and advances	1,400	3,082	1,536
Others	(1)	5,113	(13,977)
	(397,396)	(170,094)	(530,507)
Net cash used in financing activities			
Proceeds from increase in short-term borrowings	2,100,000	3,100,000	4,100,000
Payments of short-term borrowings	(2,100,000)	(1,100,000)	(5,100,000)
Proceeds from increase in long-term debt	1,000,000	800,000	1,500,000
Payments of long-term debt	(1,521,700)	(1,188,300)	(1,205,000)
Repayments of lease obligations	(16,158)	(65,461)	(29,459)
Payments for redemption of bonds	-	(2,200,000)	-
Payments for purchase of treasury stock	(138)	(107)	(14)
Dividends	(125,979)	(125,893)	(126,353)
	(663,976)	(779,762)	(860,827)
Effect of exchange rate fluctuations on cash and cash equivalents	-	-	-
Increase (decrease) in cash and cash equivalents	48,376	142,975	(761,005)
Cash and cash equivalents at beginning of term	1,617,654	1,666,031	1,809,006
Cash and cash equivalents at end of term	1,666,031	1,809,006	1,048,000

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

Years ended December 31; Thousands of yen	2009	2010	2011
Cash and deposit accounts	1,666,031	1,809,006	1,048,000
Time deposits, etc., of 3 months or longer	-	-	-
Cash and cash equivalents at end of term	1,666,031	1,809,006	1,048,000

Capital expenditures

Capital expenditures during the term totaled 782 million yen. Investments targeted the development of highly competitive new products in response to market needs and the establishment of efficient mass-production capabilities.

Major capital expenditures included manufacturing facilities at Sayama Techno-Yard and buildings and metal molds at Gunma Techno-Yard.

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

Dividend policy

The Company has consistently viewed rewarding shareholders as an important issue for management. In accordance with this view, it has adhered to a basic policy of maintaining a stable and increasing 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 2011 results, future business trends and the Company’s financial condition, a final dividend for the year ended December 31, 2011 of 35 yen per share, including a special dividend of 10 yen per share, was approved by resolution of the General Meeting of Shareholders held on March 27, 2012. The dividend payout ratio for the year was 32.0%, and the ratio of dividends to net assets was 2.2%.

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 27, 2012 Resolution by General Meeting of Shareholders	177	35

Operations

Nonconsolidated statement of income

Years ended December 31; Thousands of yen	2009	2010	2011
Sales			
Net sales	8,041,602	7,358,872	8,879,229
Construction	60,592	-	-
	8,102,194	7,358,872	8,879,229
Cost of goods sold			
Finished goods and merchandise inventory, beginning of term	808,774	694,807	491,677
Production costs for the term	4,405,631	3,961,702	4,658,741
Purchase of merchandise for the term	82,131	26,673	16,707
Construction costs	34,768	-	-
	5,331,305	4,683,182	5,167,126
Transfers to other accounts	59,536	104,828	95,101
Finished goods and merchandise inventory, end of term	694,807	491,677	399.216
	4,576,961	4,086,677	4,672,809
Gross profit on sales	3,525,232	3,272,195	4,206,420
Selling, general and administrative expenses			
Packing and shipping expenses	120,652	101,712	94,750
Advertising expenses	123,743	130,896	211,954
Directors' and corporate auditors' salaries	135,243	136,560	137,120
Employees' salaries and allowances	747,707	714,099	718,532
Bonuses	107,753	104,463	142,091
Provision for bonuses	115,663	119,657	170,328
Provision for directors' and corporate auditors' bonuses	23,300	24,400	48,800
Provision for directors' and corporate auditors' retirement benefits	51,300	27,500	24,800
Retirement benefit expenses	176,148	23,372	49,095
Employee benefit expenses	135,885	135,333	153,871
Travel and transportation expenses	103,810	88,178	99,023
Other office expenses	86,198	83,869	80,593
Rental expenses	202,060	186,835	198,894
Research expenses	492,078	459,274	503,984
Taxes and public dues	41,559	43,068	50,650
Depreciation expenses	60,737	69,313	84,644
Others	207,731	187,861	270,623
	2,931,574	2,636,395	3,039,755
Operating income	593,657	635,800	1,166,664

Years ended December 31; Thousands of yen	2009	2010	2011
Nonoperating income			
Interest income	1,307	579	207
Dividend income	3,503	1,873	2,655
Commissions received	9,696	9,101	9,462
Rental income	2,185	1,801	1,801
Refund on cancellation of insurance premiums	199	1,728	11,183
Others	7,432	8,668	10,977
	24,324	23,752	36,288
Nonoperating expenses			
Interest expenses	77,330	81,372	70,347
Interest expenses on bonds	23,190	5,158	-
Commission fees	35,000	-	-
Others	34,292	40,142	19,757
	169,813	126,672	90,105
Ordinary profit	448,168	532,880	1,112,847
Extraordinary income			
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	-	-
Gain on sales of fixed assets	341	-	-
Gain on sales of investment securities	-	12,422	-
	64,143	247,957	-
Extraordinary losses			
Loss on retirement of fixed assets	3,627	7,178	57,419
Loss on sales of investment securities	-	10,925	-
Loss on valuation of investments in securities	6,546	27,185	34,475
Product recall expenses	43,606	-	-
Provision of allowance for doubtful accounts	-	-	3,200
Loss on adjustment for changes of accounting standard for asset retirement obligations	-	-	5,231
	53,781	45,288	100,326
Net income before taxes and special reserves for the term	458,530	735,548	1,012,520
Corporate, inhabitant and enterprise taxes	341,000	225,000	589,000
Deferred taxes	(150,830)	89,181	(130,044)
	190,169	314,181	458,955
Net income	268,361	421,366	553,565

Nonconsolidated statement of changes in net assets

Years ended December 31; Thousands of yen	2009	2010	2011
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	756	756	756
Changes in items during the term			
Total changes in items during the term	-	-	-
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	5,586,000	5,786,000	5,886,000
Changes in items during the term			
Provision for special reserves	200,000	100,000	200,000
Total changes in items during the term	200,000	100,000	200,000
Balance at end of current term	5,786,000	5,886,000	6,086,000
Reserve for special depreciation			
Balance at end of previous term	30,591	29,067	27,629
Changes in items during the term			
Reversal of reserve for asset reduction entries	(1,524)	(1,437)	(1,356)
Increase in reserves due to change in effective tax rate	-	-	1,990
Total changes in items during the term	(1,524)	(1,437)	634
Balance at end of current term	29,067	27,629	28,264

Years ended December 31; Thousands of yen	2009	2010	2011
Retained earnings carried forward			
Balance at end of previous term	605,905	549,347	745,711
Changes in items during the term			
Provision for special reserves	(200,000)	(100,000)	(200,000)
Reversal of reserve for asset reduction entries	1,524	1,437	1,356
Increase in reserves due to change in effective tax rate	-	-	(1,990)
Dividends from retained earnings	(126,443)	(126,440)	(126,436)
Net income (loss)	268,361	421,366	553,565
Total changes in items during the term	(56,558)	196,364	226,494
Balance at end of current term	549,347	745,711	972,206
Treasury stock			
Balance at end of previous term	(41,640)	(41,779)	(41,887)
Changes in items during the term			
Purchase of treasury stock	(138)	(107)	(14)
Total changes in items during the term	(138)	(107)	(14)
Balance at end of current term	(41,779)	(41,887)	(41,901)
Total shareholders' equity			
Balance at end of previous term	7,552,381	7,694,160	7,988,979
Changes in items during the term			
Dividends from retained earnings	(126,443)	(126,440)	(126,436)
Net income (loss)	268,361	421,366	553,565
Purchase of treasury stock	(138)	(107)	(14)
Total changes in items during the term	141,778	294,818	427,114
Balance at end of current term	7,694,160	7,988,979	8,416,093
Valuation/translation gains (losses)			
Unrealized gains or losses on other on securities			
Balance at end of previous term	32,378	4,900	(13,720)
Changes in items during the term			
Other changes in non-shareholders' equity items during the term (net)	(27,477)	(18,621)	12,096
Total changes in items during the term	(27,477)	(18,621)	12,096
Balance at end of current term	4,900	(13,720)	(1,624)

Years ended December 31; Thousands of yen	2009	2010	2011
Share subscription rights			
Balance at end of previous term	33,716	38,533	44,255
Changes in items during the term			
Other changes in non-shareholders' equity items during the term (net)	4,816	5,722	7,630
Total changes in items during the term	4,816	5,722	7,630
Balance at end of current term	38,533	44,255	51,885
Net assets			
Balance at end of previous term	7,618,476	7,737,594	8,019,514
Changes in items during the term			
Dividends from retained earnings	(126,443)	(126,440)	(126,436)
Net income (loss)	268,361	421,366	553,565
Purchase of treasury stock	(138)	(107)	(14)
Other changes in non-shareholders' equity items during the term (net)	(22,661)	(12,898)	19,726
Total changes in items during the term	119,117	281,919	446,840
Balance at end of current term	7,737,594	8,019,514	8,466,354

Cost of goods sold

Years ended December 31; Thousands of yen	2009	%	2010	%	2011	%
Raw materials costs	2,486,261	56.2	2,079,379	53.4	2,716,274	55.3
Labor costs	683,584	15.4	601,767	15.5	792,790	16.2
Other expenses	1,257,424	28.4	1,210,474	31.1	1,400,290	28.5
Total manufacturing overhead	4,427,270	100.0	3,891,622	100.0	4,909,355	100.0
Work-in-process inventory, beginning of term	299,280		320,919		253,243	
Transfers from other accounts	-		2,404		-	
	4,726,550		4,214,945		5,162,599	
Work-in-process inventory, end of term	320,919		253,243		503,857	
Production costs for the term	4,405,631		3,961,702		4,658,741	
Major items in other expenses above						
Subcontracted processing expenses	309,504		331,927		396,867	
Depreciation expenses	437,417		421,906		406,085	
Cost of completed construction						
Raw materials costs	12,131	34.8	-	-	-	-
Labor costs	4,655	13.4	-	-	-	-
Subcontracted processing expenses	15,876	45.7	-	-	-	-
Other expenses	2,104	6.1	-	-	-	-
	34,768	100.0	-	-	-	-

Results of operations

Year ended December 31, 2011

The Great East Japan Earthquake that occurred in March 2011 had a major impact on corporate activities during the year under review. Prospects for recovery of the Japanese economy remained uncertain, despite some signs of higher production and exports as supply chains were restored. Other drags on economic growth included fears of a global economic slowdown resulting from the sovereign debt crisis in Europe and the persistent strength of the yen.

The earthquake disaster led to a sudden rise in demand for masks for use in emergency situations and to protect workers from radiation. The Company strove to satisfy this demand. Total sales rose by 20.7% compared with the previous year to 8,879 million yen. Operating income rose by 83.5% to 1,166 million yen, and net income increased by 31.4% to 553 million yen. These figures all marked new record highs for the Company.

By segment, the core mask business recorded 18.2% growth in sales to 8,070 million yen. Although the disaster and resultant electricity supply disruptions restricted output from the Company's factories and orders for industrial masks declined, the sharp rise in demand for masks for emergency use and protection against radiation boosted sales by some 1,500 million yen.

Sales in the other businesses segment surged by 52.4% to 808 million yen. This reflected higher sales of fully automated endoscope cleaning and sterilization systems, which offset a decline in sales of ventilation systems for use in medical facilities to protect workers from formaldehyde fumes.

During the year under review, the Company adopted the ASBJ accounting standard on reporting of segment information (Statement No. 17, published March 27, 2009) and related guidelines (Guidance No. 20, published March 21, 2008). For purposes of comparison, the figures for the previous year have been restated based on the new accounting standard.

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.

Segment information

December 2011 term

1. Segment reporting

   Segment reporting is based on financial information gathered for the various separate parts of the Company’s business. The Board of Directors reviews the reports regularly for purposes of improving decisions on resources allocation and evaluating performance.

   The main business of the Company is the manufacture and sale of particulate respirators and gas masks. The mask segment includes the manufacture and sale of industrial masks and other protective equipment for use in a range of OH&S applications.

2. Method of calculating segment net sales, profits and losses, assets, liabilities, etc.

   The accounting methods used in segment reporting are identical to those cited under “Fundamental and Important Matters for the Preparation of Nonconsolidated Financial Statements.”

   Reported segment earnings are based on operating income.

3. Figures for segment net sales, profits and losses, assets, liabilities, etc.

Thousands of yen	Segment reporting Mask segment	Other businesses segment	Total	Adjustments	Book value
2011					
Net sales					
External customers	8,070,640	808,588	8,879,229	-	8,879,229
Inter-area	-	-	-	-	-
	8,070,640	808,588	8,879,229	-	8,879,229
Segment profits	3,869,483	336,936	4,206,420	(3,039,755)	1,166,664
Segment assets	-	-	-	-	-
Other items Depreciation expenses	378,375	27,710	406,085	120,608	526,693
2010					
Net sales					
External customers	6,828,463	530,409	7,358,872	-	7,358,872
Inter-area	-	-	-	-	-
	6,828,463	530,409	7,358,872	-	7,358,872
Segment profits	3,074,341	197,854	3,272,195	(2,636,395)	635,800
Segment assets	-	-	-	-	-
Other items Depreciation expenses	409,235	12,671	421,906	113,707	535,613

(Notes)

1. The "other businesses" segment includes the environment-related business and other operations not reported for the mask segment.

2. The table above contains the following adjustments.

(1) The deductions of 2,636,395 thousand yen (December 2010 term) and 3,039,755 thousand yen (December 2011term) from segment earnings reflect costs incurred across the Company that were not reported for the business segments, principally selling, general and administrative expenses.

(2) Depreciation and amortization costs of 113,707 thousand yen (December 2010 term) and 120,608 thousand yen (December 2011 term) apply to Company assets, but are not reported for any business segment.

3. Segment earnings are adjusted figures based on operating income as reported in the statement of income.

Related information

December 2011 term

Information provided by principal customers

Thousands of yen	Sales	Segment
Midori Anzen Youhin	1,331,149	Mask and other businesses segment
Ministry of Defense	1,001,531	Mask and other businesses segment

Issues requiring action

In the mask segment, the Company aims to strengthen its position as Japan's leading manufacturer of industrial masks while seeking to expand its market share in the medical field for sales of masks to prevent the spread of infection.

In the other businesses segment, the Company is seeking to leverage original technologies to develop the medical field as a second pillar of earnings. In the growing field of clean working environments, Koken has led the world in developing such technologies as nano-fiber filters and its revolutionary “open space” airflow technology.

Mask segment

Demand for powered air-purifying respirators (PAPR) in sectors such as welding is expected to grow due to plans for national OH&S regulations and inspections. Koken’s breath-synchronized blower masks offer a combination of safety, utility and economy, making them ideal for industrial settings ranging from tunneling and welding to asbestos-related operations. The Company is in the best position to respond to the increasing demand as the world’s first company who has developed “breath-synchronized airflow” system for a blower mask.

In the medical field, although the use of masks to protect medical staff and to prevent the spread of infection is now more widespread, people’s awareness of the importance of a good fit on the face in addition to filter performance is still quite low. The Company continues to undertake training activities for the benefit of hospitals and other local health care centers to provide information on correct mask usage, with a view to promoting sales of masks designed to prevent patients from infecting other people (the “Hi-Luck Utsusanzo”) or to protect healthy workers from infection (the “Hi-Luck Kakaranzo”).

Based on our belief that these training activities can provide people a necessary preparation for future stronger type of influenza, Koken will endeavor to continue our efforts as a mask manufacturer’s important mission.

Reconstruction work in disaster-affected areas still involves clearing away the debris and decontaminating the land. Koken is supplying masks to protect the safety of the workers concerned, while also seeking to provide guidance and training in selecting and fitting appropriate masks for the job, depending on the type and concentration of pollutants and the precise nature of the clean-up operation.

On March 7, 2012, the Company concluded an alliance with DuPont Japan and AZEARTH Corp. to employ Koken’s mask technologies in the development of protective clothing for use in emergency situations and disaster relief work. These products will be marketed under DuPont’s global Tyvek® brand.

Other businesses segment

In 2011, Koken completed developing a full line-up of KOACH products and systems based on “open space” airflow technology. When combined with “Ferena” nano-fiber filters, the KOACH series can help to create super-clean environments that conform to international ISO Class 1 to ISO Class 3 standards. Ferena-equipped KOACH systems realize super-clean spaces in a convenient and highly economical way, paving the way to the “commoditization” of super-clean space for every industry and every R&D activity. Koken continues to develop commercial clean room applications based on this revolutionary technology.

In systems for improving workplace environments, Koken is receiving steady orders from clients across the industrial and medical sectors. Development work is continuing with the aim of cultivating the medical field as a second key pillar of future earnings.

Elsewhere in the medical field, Koken has developed products such as the “KAGAMI-NAISHI” automatic endoscope cleaner/sterilizer and Laminar Table (a ventilation system to protect medical personnel from formaldehyde fumes). These help to protect medical workers from wide-ranging health risks posed by bacteria, viruses, disinfectants and sterilizing agents.

Production and sales

Production

Thousands of yen	2011	
	Amount	Year-on-year comparison (%)
Mask segment	8,275,575	-
Others businesses segment	723,435	-
	8,999,010	-

Year-on-year changes were omitted, because the segment classification was revised effective the year ended December 2011, and sufficient production value data to restate the prior year’s figures could not be obtained.

Sales

Thousands of yen	2011	
	Amount	Year-on-year comparison (%)
Mask segment	8,070,640	118.2
Other businesses segment	808,588	152.4
	8,879,229	120.7

Principal customers

Thousands of yen	2010		2011	
	Amount	% of net sales	Amount	% of net sales
Midori Anzen Youhin	1,254,848	17.1%	1,331,149	15.0%
Ministry of Defense	918,545	12.5%	1,001,531	11.3%

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	Current payments	Future payments
		(Months)	(Thousands of yen)	
Vehicles	89	12-60	24,601	40,982
OA equipment	1	12-72	30,751	54,832
Metal molds	108	12-36	30,180	46,961

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	2010	2011
Machinery and equipment		
Acquisition cost	83,592	-
Accumulated depreciation	83,592	-
Net leased property	-	-
Vehicles and delivery equipment		
Acquisition cost	8,917	5,800
Accumulated depreciation	7,717	5,800
Net leased property	1,200	-
Tools, furniture and fixtures		
Acquisition cost	213,007	158,069
Accumulated depreciation	175,742	144,984
Net leased property	37,265	13,085
Total		
Acquisition cost	305,517	163,869
Accumulated depreciation	267,052	150,784
Net leased property	38,465	13,085
Future minimum lease payments, including interest portion		
Due within one year	25,379	10,095
Due after one year	13,085	2,989
	38,465	13,085
Lease payments and pro forma depreciation expenses		
Lease payments	57,856	25,379
Pro forma depreciation expenses (assuming straight-line method)	57,856	25,379

Capital Structure

Nonconsolidated balance sheet: assets

December 31; Thousands of yen	2009	2010	2011
Current assets			
Cash and deposits	1,666,031	1,809,006	1,048,000
Notes receivable - trade	1,233,712	1,116,542	1,171,287
Accounts receivable – trade	2,122,927	2,102,823	2,787,771
Merchandise and finished goods	694,807	491,677	399,216
Raw materials and supplies	371,399	323,955	513,487
Work in process	323,434	253,243	503,857
Prepaid expenses	47,331	44,630	43,943
Deferred tax assets	171,167	196,185	383,246
Others	3,534	3,646	7,790
Allowance for doubtful accounts	(4,000)	(4,000)	(4,000)
	6,630,345	6,337,710	6,854,602
Fixed assets			
Tangible fixed assets			
Buildings	3,424,027	3,457,464	3,498,982
Accumulated depreciation	(1,956,632)	(2,075,500)	(2,154,930)
Buildings, net	1,467,395	1,381,964	1,344,052
Structures	208,563	217,132	212,945
Accumulated depreciation	(169,068)	(180,512)	(185,400)
Structures, net	39,495	36,620	27,544
Machinery and equipment	3,719,785	3,750,405	3,572,307
Accumulated depreciation	(2,591,105)	(2,843,665)	(2,787,942)
Machinery and equipment, net	1,128,679	906,739	784,364
Vehicles and delivery equipment	1,500	1,500	1,500
Accumulated depreciation	(1,455)	(1,470)	(1,485)
Vehicles and delivery equipment, net	45	30	15
Tools, furniture and fixtures	2,329,460	2,342,981	2,353,315
Accumulated depreciation	(2,139,623)	(2,180,712)	(2,168,293)
Tools, furniture and fixtures, net	189,837	162,269	185,021
Land	5,377,462	5,377,462	5,407,133
Lease assets	16,158	75,722	159,829
Accumulated depreciation	(4,788)	(20,338)	(48,395)
Lease assets, net	11,369	55,383	111,434
Construction in progress	67,517	78,352	349,181
	8,281,802	7,998,822	8,208,747

December 31; Thousands of yen	2009	2010	2011
Intangible fixed assets			
Patents	15,215	16,755	21,440
Telephone subscription rights	9,423	9,423	9,423
Leaseholds	1,057	1,057	1,057
Software	557	1,924	1,363
Others	444	315	204
	26,698	29,476	33,488
Investments and other assets			
Investments in securities	180,437	72,209	58,342
Long-term loans to employees	6,150	4,118	2,582
Claims provable in bankruptcy, claims provable in rehabilitation and others	26	-	-
Long-term prepaid expenses	516	479	477
Deferred tax assets	371,126	269,702	204,172
Leasing and guarantee deposits	74,490	69,377	83,354
Directors' retirement benefit insurance premiums	760,149	782,310	821,070
Allowance for doubtful accounts	(1,000)	(1,000)	(4,000)
	1,391,896	1,197,197	1,165,998
Total fixed assets	9,700,397	9,225,495	9,408,234
Total assets	**16,330,742**	**15,563,206**	**16,262,836**

Nonconsolidated balance sheet: liabilities and net assets

December 31; Thousands of yen	2009	2010	2011
Current liabilities			
Accounts payable - trade	182,666	144,508	210,903
Short-term borrowings	1,100,000	3,100,000	2,100,000
Current portion of long-term debt	1,148,300	1,128,000	1,244,200
Current portion of bonds	2,200,000	-	-
Accounts payable - other	131,014	159,516	211,793
Accounts payable - facilities	-	-	179,606
Accrued expenses	134,841	132,035	161,491
Income taxes payable	220,076	59,580	489,250
Consumption taxes payable	47,041	30,681	34,459
Advances received	3,107	3,169	3
Deposits received	35,298	26,597	29,919
Provision for bonuses	187,000	201,000	332,000
Provision for directors' and corporate auditors' bonuses	23,300	24,400	48,800
Provision for product recall expenses	37,247	-	-
	5,449,893	5,009,489	5,042,427
Long-term liabilities			
Long-term debt	2,259,800	1,891,800	2,070,600
Lease obligations	11,938	58,152	117,005
Long-term accounts payable - other	-	189,349	139,624
Employees' retirement benefits	428,316	-	-
Directors' and corporate auditors' retirement benefits	440,700	391,900	416,700
Asset retirement obligations	-	-	7,124
Others	2,500	3,000	3,000
	3,143,254	2,534,202	2,754,054
Total liabilities	8,593,148	7,543,692	7,796,481
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	2009	2010	2011
Retained earnings			
Legal income reserves	168,566	168,566	168,566
Other legal income reserves			
Special reserves	5,786,000	5,886,000	6,086,000
Reserve for reduction of asset costs due to contributions or subsidies	29,067	27,629	28,264
Retained earnings carried forward	549,347	745,711	972,206
	6,532,981	6,827,907	7,255,036
Treasury stock	(41,779)	(41,887)	(41,901)
	7,694,160	7,988,979	8,416,093
Valuation/translation gains (losses)			
Unrealized gains (losses) on other securities	4,900	(13,720)	(1,624)
	4,900	(13,720)	(1,624)
Share subscription rights	38,533	44,255	51,885
Total net assets	7,737,594	8,019,514	8,466,354
Total liabilities and net assets	**16,330,742**	**15,563,206**	**16,262,836**

Trade credits

Notes receivable

Thousands of yen	2011
Shimatsu	104,939
Sumitomo Heavy Industries, Ltd.	77,920
Ohtsuka Brush Manufacturing	67,837
Simon	67,315
Tanizawa Seisakusho	44,900
Others	808,372
	1,171,287

Accounts receivable — trade

Thousands of yen	2011
Midori Anzen Youhin	732,384
Ministry of Defense	605,396
Teisho	559,251
Komatsu Ltd.	154,442
Mitsubishi Heavy Industries, Ltd.	41,931
Others	694,366
	2,787,771

Turnover of accounts receivable

Thousands of yen	2011
Beginning balance	2,102,823
Increase	9,310,743
Collected	8,625,794
Ending balance	2,787,771
Turnover	75.6%
Average days for collection	95.9

Accounts payable — trade

Thousands of yen	2011
Takaoka Shoji	42,182
Tsukuba Chemical	9,171
Kyokuto Shokai Co., Ltd.	8,347
Sanwa Sangyo	8,150
Meiwa Engineering	8,091
Others	134,960
	210,903

Securities

Marketable and investment securities

Thousands of yen	2011	
Stocks		
Investment securities	**Number of shares**	**Book value**
Other securities		
Resona Holdings, Inc. (8308)	76,835	26,431
Mizuho Financial Group, Inc. 11th series preferred stock (class 11)	50,000	22,815
Ace Securities	10,000	2,550
Nippon Kanryu Industry (1771)	15,000	2,460
Mizuho Financial Group, Inc. (8411)	14,755	1,534
Mitsubishi UFJ Financial Group, Inc. (8306)	4,240	1,416
Nomura Holdings, Inc. (8604)	1,750	439
Others (2 shares)	21	696
	298,101	58,342

Financial instruments

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

Thousands of yen	2010 Book value	2010 Current value	2010 Unrealized gain (loss)	2011 Book value	2011 Current value	2011 Unrealized gain (loss)
Cash and deposits	1,809,006	1,809,006	-	1,048,000	1,048,000	-
Notes receivable - trade	1,116,542	1,116,542	-	1,171,287	1,171,287	-
Accounts receivable - trade	2,102,823	2,102,823	-	2,787,771	2,787,771	-
Investment securities	46,147	46,147	-	32,281	32,281	-
Total assets	5,074,519	5,074,519	-	5,039,340	5,039,340	-
Accounts payable - trade	144,508	144,508	-	210,903	210,903	-
Accounts payable - other	159,516	159,516	-	211,793	211,793	-
Accounts payable - facilities	-	-	-	179,606	179,606	-
Short-term borrowings	3,100,000	3,100,000	-	2,100,000	2,100,000	-
Current portion of long-term debt	1,128,000	1,130,051	2,051	1,244,200	1,247,841	3,641
Income taxes payable	-	-	-	489,250	489,250	-
Long-term accounts payable - other	189,349	191,623	2,273	139,624	138,550	(1,073)
Long-term debt	1,891,800	1,898,483	6,683	2,070,600	2,077,367	6,767
Total liabilities	6,613,175	6,624,182	11,007	6,645,977	6,655,314	9,336
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; accounts payable - facilities; short-term borrowings; income taxes payable: 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: the current value for these liabilities is based on discounting at the risk-free rate for Japanese government bonds with maturities matching the anticipated future payment schedule.

Financial instruments with no easily ascertainable current value

Thousands of yen	2010	2011
Unlisted stocks	26,061	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
2011				
Cash and deposits	1,048,000	-	-	-
Notes receivable - trade	1,171,287	-	-	-
Accounts receivable - trade	2,787,771	-	-	-
	5,007,059	-	-	-
2010				
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	2010 Book value	2010 Cost of acquisition	2010 Unrealized gain (loss)	2011 Book value	2011 Cost of acquisition	2011 Unrealized gain (loss)
Securities valued on the consolidated balance sheet at amounts greater than the purchase cost						
Shares	1,995	1,785	210	2,460	1,785	675
	1,995	1,785	210	2,460	1,785	675
Securities valued on the consolidated balance sheet at amounts not greater than the purchase cost						
Shares	44,152	67,496	(23,343)	29,821	33,020	(3,198)
	44,152	67,496	(23,343)	29,821	33,020	(3,198)
	46,147	69,281	(23,133)	32,281	34,805	(2,523)

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

Marketable securities subject to writedowns

The Company recognized impairment losses of 27,185 thousand yen on unlisted stocks held by the Company in the December 2010 term and of 34,475 thousand yen on other quoted securities in the December 2011 term.

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 in which it was deemed that their real value had fallen substantially as a result of deterioration of 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	226,553	2,401	1,636,000	283.91	13,916	27,099	1,905,971	88
Manufacture of dust and gas masks								
Sayama Techno-Yard	431,597	382,656	792,433	11,430.44	18,026	11,851	1,636,566	23
Gunma Techno-Yard	282,687	119,141	405,140	9,256.83	37,724	43,876	888,570	18
Tokorozawa Techno-Yard	76,195	3,157	177,214	1,915.55	7,110	28,606	292,284	10
Nakai Techno-Yard	119,188	184,246	325,449	1,434.94	1,267	-	630,151	7
Research activities								
Hannou Laboratories	36,167	12,425	34,122	3,637.49	17,699	-	70,744	9
Distribution of dust and gas masks								
Saitama Logistics Center	116,707	8,709	1,242,116	21,336.07	5,761	-	1,373,294	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	3,457,464	92,391	50,872	3,498,982	2,154,930	127,208	1,344,052
Structures	217,132	-	4,186	212,945	185,400	9,032	27,544
Machinery and equipment	3,750,405	165,232	343,330	3,572,307	2,787,942	264,799	784,364
Vehicles and delivery equipment	1,500	-	-	1,500	1,485	15	15
Tools and fixtures	2,342,981	230,333	219,999	2,353,315	2,168,293	96,393	185,021
Land	5,377,462	29,670	-	5,407,133	-	-	5,407,133
Lease assets	75,722	84,107	-	159,829	48,395	28,056	111,434
Construction in progress	78,352	796,667	525,838	349,181	-	-	349,181
	15,301,021	1,398,402	1,144,227	15,555,195	7,346,447	525,505	8,208,747
Intangible fixed assets							
Patents	-	-	-	33,171	11,731	4,049	21,440
Telephone subscription rights	-	-	-	9,423	-	-	9,423
Leaseholds	-	-	-	1,057	-	-	1,057
Software	-	-	-	3,521	2,158	561	1,363
Usage rights for equipment and facilities	-	-	-	1,423	1,218	111	204
	-	-	-	48,596	15,108	4,722	33,488
Long-term prepaid expenses	2,000	300	829	1,470	993	312	477

Debt

Borrowings

Thousands of yen	Previous period	Outstanding	Average rate	Maturity
Short-term borrowings	3,100,000	2,100,000	1.19%	-
Current portion of long-term debt	1,128,000	1,244,200	1.41%	-
Current portion of leasing-related liabilities	20,765	43,289	-	-
Long-term debt (except current portion of long-term debt)	1,891,800	2,070,600	1.25%	2013 to 2016
Leasing-related liabilities (except current portion of leasing-related liabilities)	37,386	73,716	-	2013 to 2018
Other interest-bearing liabilities	-	-	-	-
	6,177,952	5,531,805	-	-

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	935,400	584,200	374,000	177,000
Leasing-related liabilities	38,376	27,879	5,228	1,731

Assets provided as collateral

Thousands of yen	2010	2011
Assets provided as collateral		
Buildings	803,175	754,967
Land	2,996,037	2,996,037
	3,799,212	3,751,005
Liabilities for which collateral is provided		
Long-term debt	2,981,400	3,120,000
	2,981,400	3,120,000

Retirement benefits

Outline of retirement benefit system

December 2011 term

The Company operates a defined-contribution pension plan for employees.

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 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

December 2010 term

Thousands of yen	2010
Retirement benefit expenses	38,212
Current service costs	61,780
Interest expenses	21,681
Expected earnings on pension fund assets	(14,579)
Expensing of differences based on actuarial calculations	(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 ended December 31, 2010 in relation to the transfer of assets to the defined-contribution pension plan.

December 2011 term

Expenses linked to defined-contribution pension plan: 82,884,000 yen

Reserves

Thousands of yen	Beginning of term	Increase	Decrease	End of term
Allowance for doubtful accounts	5,000	8,000	5,000	8,000
Provision for bonuses	201,000	332,000	201,000	332,000
Provision for directors' and corporate auditors' bonuses	24,400	48,800	24,400	48,800
Directors' and corporate auditors' retirement benefits	391,900	24,800	-	416,700

Related Parties

Transactions with related parties: Directors and major independent shareholders

December 2011 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
2011									
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	39,185	Accounts payable - other	1,433

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

Accounting Policies

Summary of accounting policies – nonconsolidated

Basis of presentation	Japanese GAAP; nonconsolidated
Marketable securities and investments in securities	Bonds held to maturity: cost amortization method (straight-line) Shares in subsidiaries: valued at cost using the moving-average method Other securities: 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, with the cost of securities sold calculated in accordance with the moving-average method) Unquoted securities: valued at cost using the moving-average method
Inventories	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) 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) 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)
Depreciation	Tangible fixed assets (excluding lease assets): declining-balance method Intangible fixed assets: straight-line method Software for internal use is amortized on a straight-line basis (based on the length of useful in-house life). Long-term prepaid expenses: straight-line method 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.
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 estimated payments 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, 2011	5,104,003
As of March 16, 2012	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		
	Increase or decrease	Balance	Increase or decrease	Balance	Increase or decrease	Balance	Remarks
	(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	6,609	12.95
Securities companies	17	654	1.28
Business and other corporations	20	1,916	3.76
Non-residents - institutions and corporations	2	18	0.04
Non-residents - individuals	-	-	-
Individuals and others	1,284	41,824	81.97
	1,331	51,021	100.00
Shares less than one unit	-	1,903	-

Largest shareholders

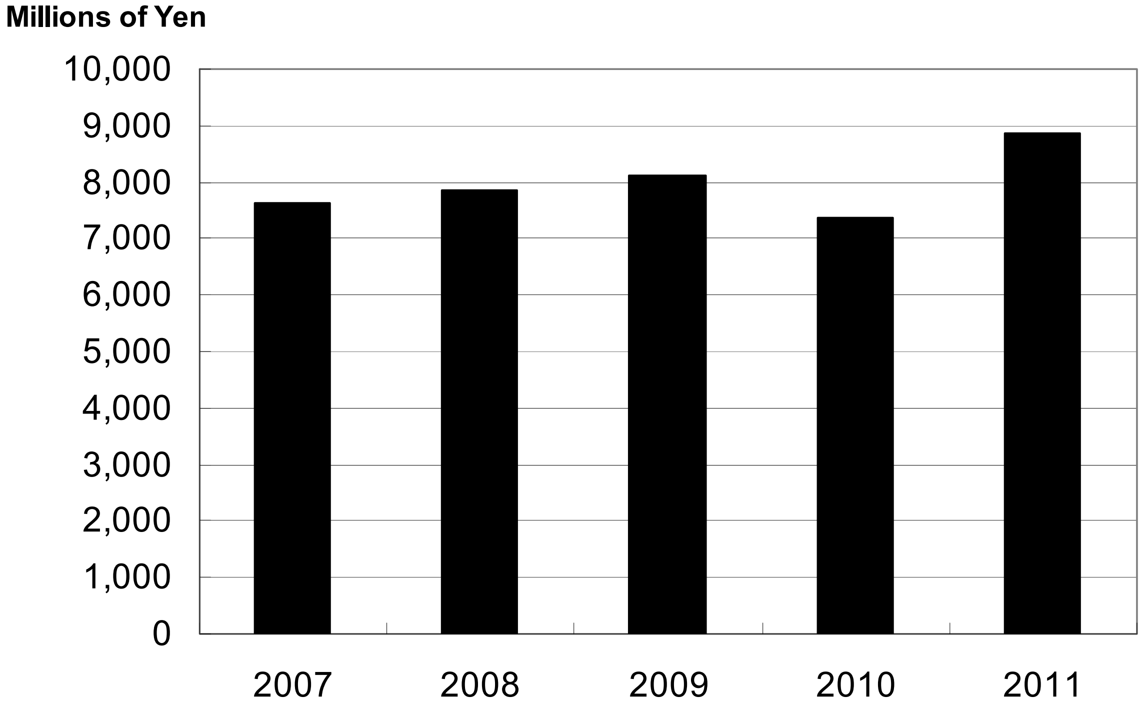
Name	Thousands of shares owned	% of shares outstanding
Masakazu Sakai	890	17.44
Hiroyuki Sakai	858	16.82
Resona Bank	244	4.79
Kaori Sakai	229	4.50
Rie Sakai	229	4.50
Mizuho Bank	227	4.47
Miho Kuboi	226	4.43
Haruna Sakai	226	4.43
Sakai Tatemono Ltd.	166	3.26
Mitsubishi UFJ Trust & Banking	72	1.41
	3,369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

Share information

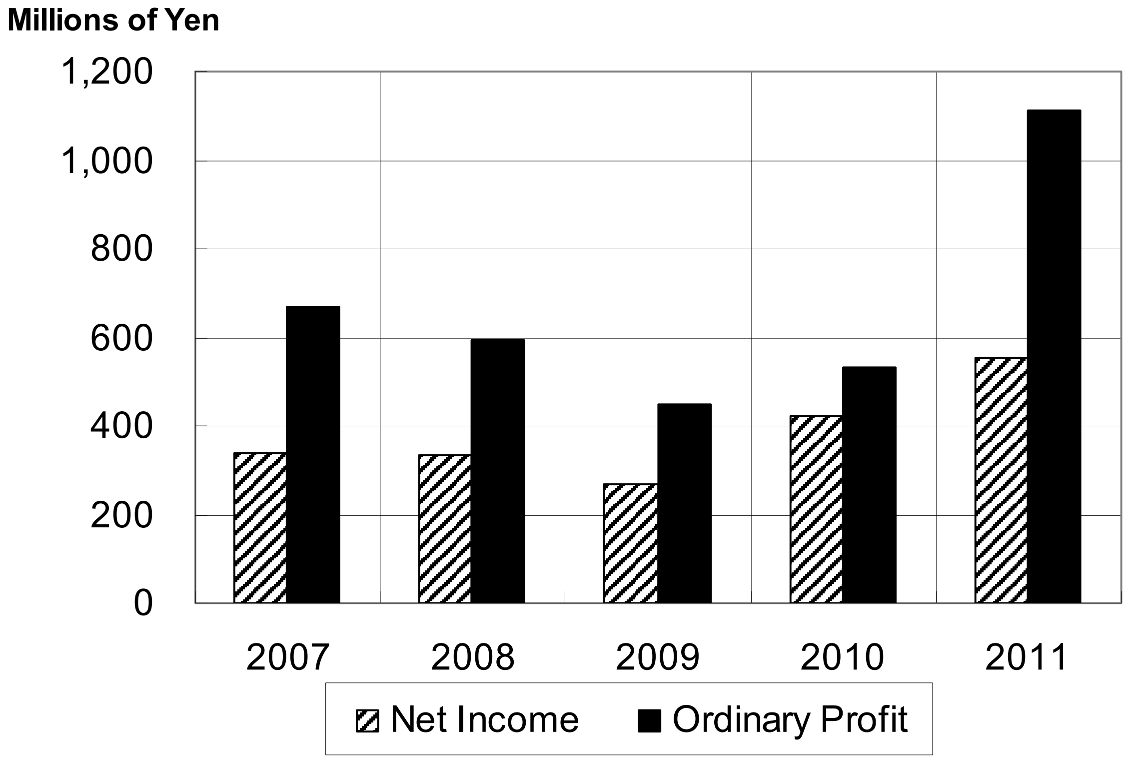
Business year	January 1 to December 31
Ex-rights date	December 31
Date of record for dividends	June 30 and December 31
Annual General Meeting of Shareholders	March
Trading unit	100 shares
Transfer agent	Mitsubishi UFJ Trust & Banking, 1-4-5, Marunouchi, Chiyoda-ku, Tokyo
Publication of record	The Company's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

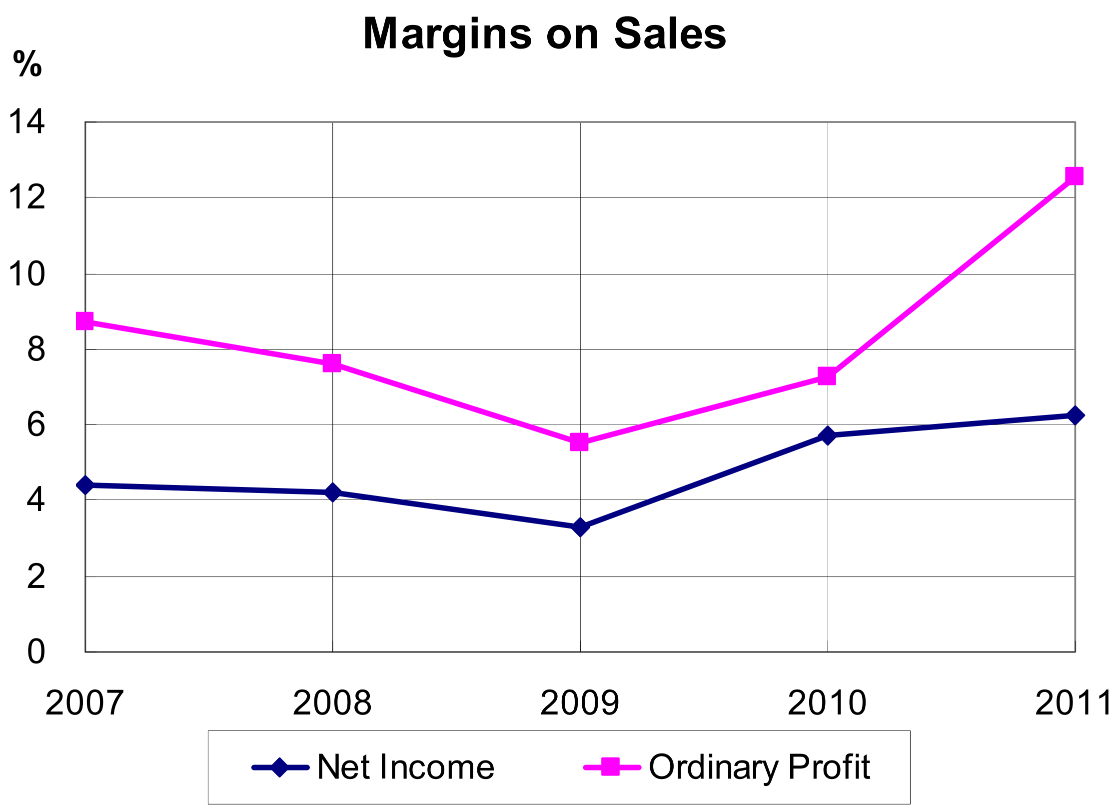
Performance in Graphs

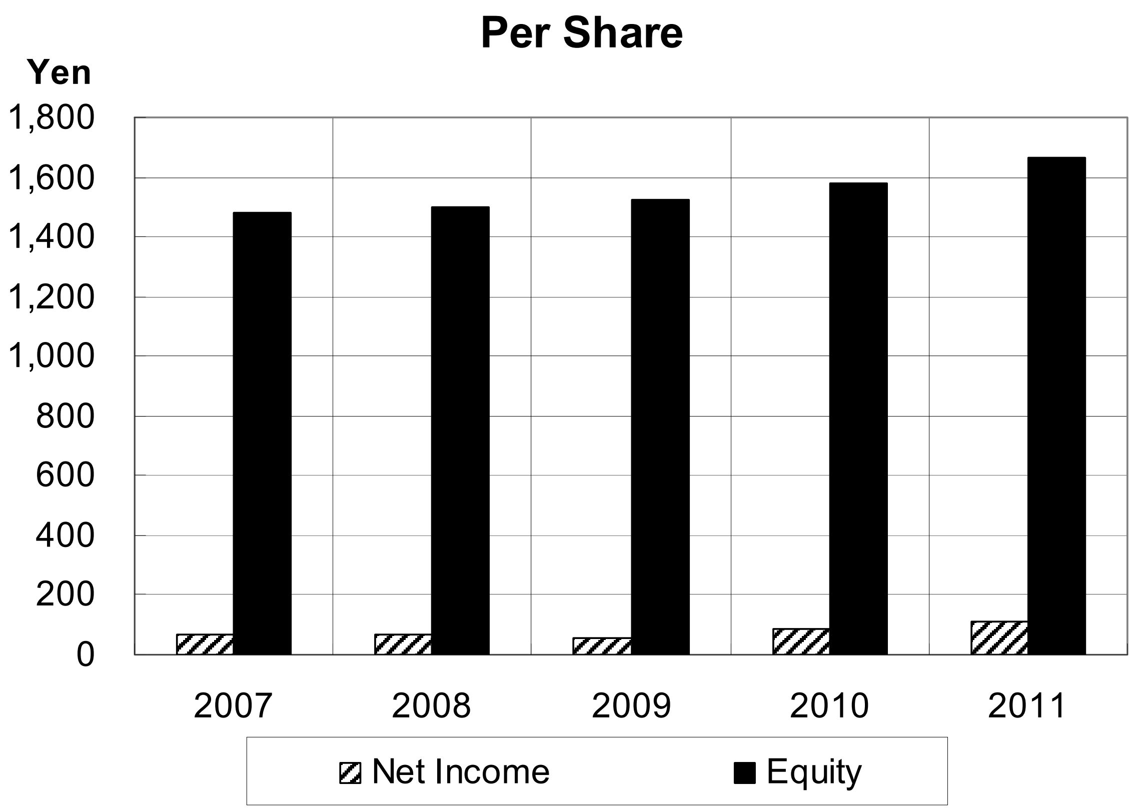
Net Sales



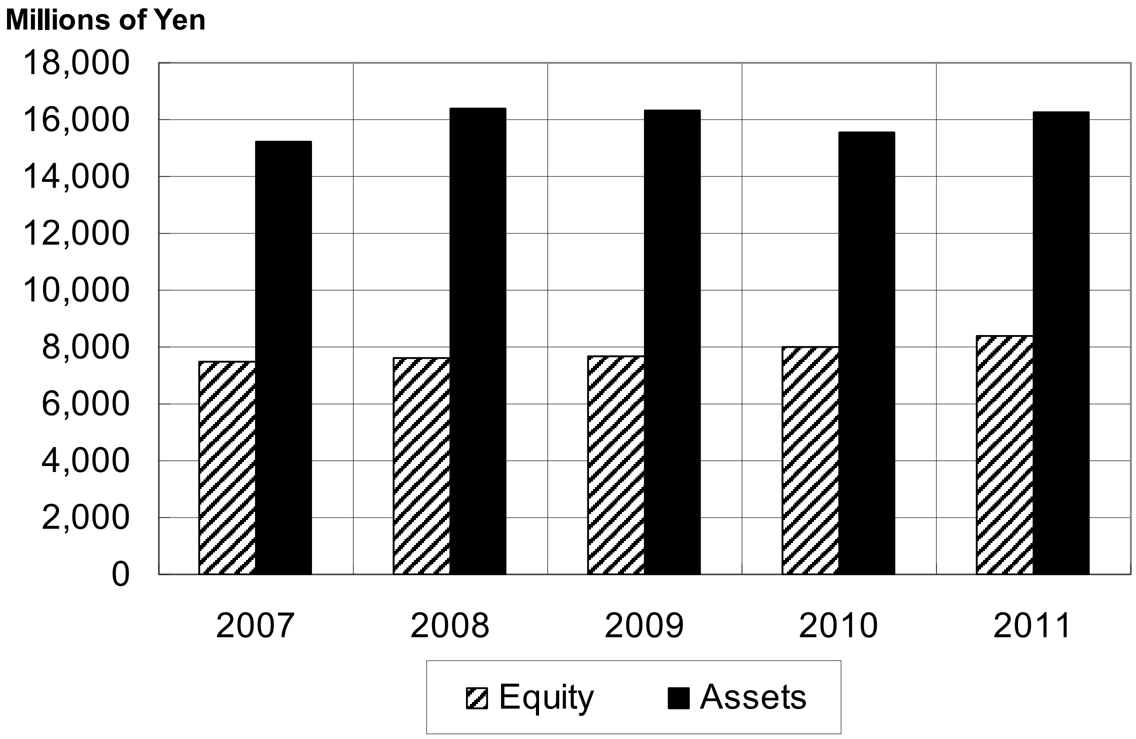
Net Income and Ordinary Profit



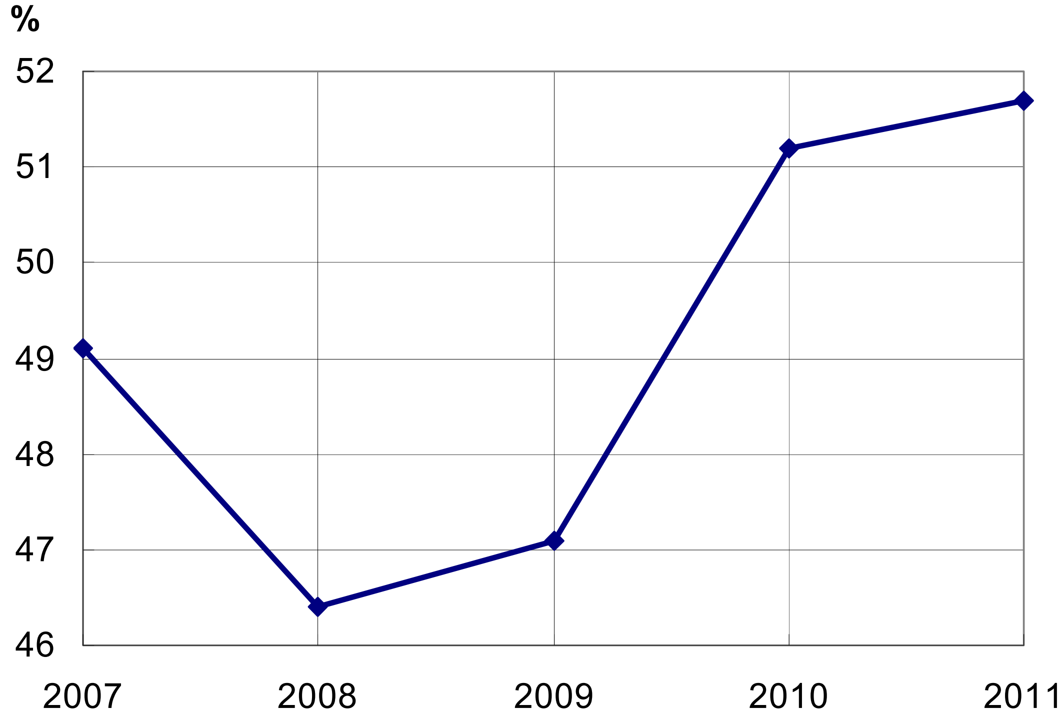

Margins on Sales
%
14
12
10
8
6
4
2
0
2007
2008
2009
2010
2011
Net Income
Ordinary Profit

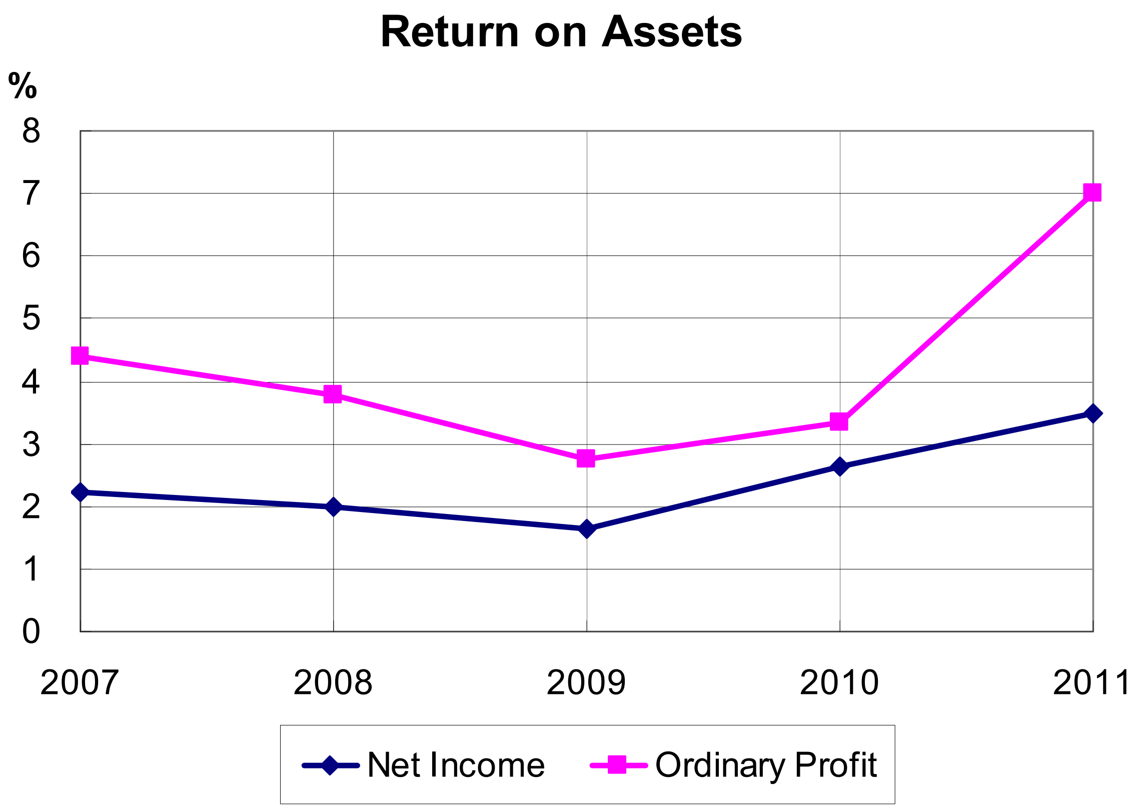

Per Share
Yen
1,800
1,600
1,400
1,200
1,000
800
600
400
200
0
2007
2008
2009
2010
2011
Net Income
Equity

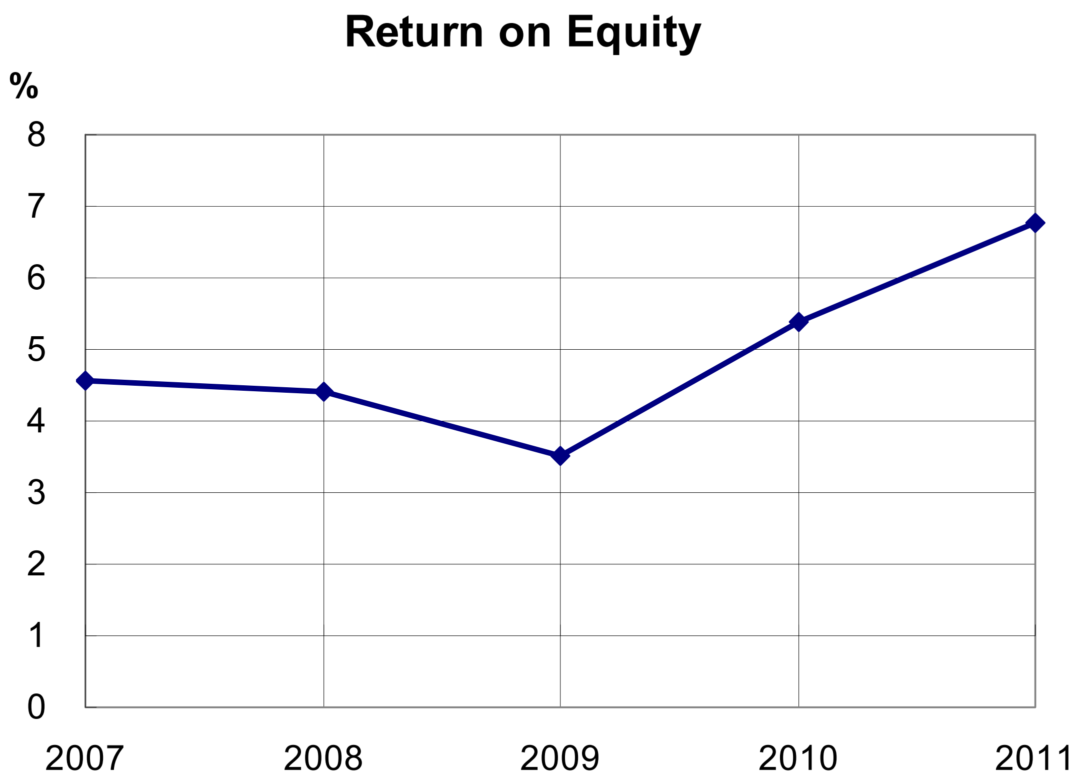
Equity and Assets



Equity / Assets




Return on Assets
%
8
7
6
5
4
3
2
1
0
2007
2008
2009
2010
2011
Net Income
Ordinary Profit


Return on Equity
%
8
7
6
5
4
3
2
1
0
2007
2008
2009
2010
2011

Contact

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