

**For the Fiscal Year Ended December 31, 2016**

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**Annual Select<sup>®</sup> 2016**

**KOKEN LTD.**

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**Corporate Profile**

Since our founding in 1943, we have consistently stood by our two company policies of “never follow other companies” and “conduct thorough research.” Furthermore, the concepts of “promote research, create business, and refine business” are incorporated into our company name. In other words, we have set a goal to become a manufacturer that is second to none in research and development. Since we started from scratch and have grown and progressed gradually through the years, we are a pioneer for venture companies.

As a result, we have established ourselves, in both name and deed, as a top manufacturer of protective breathing equipment, which is the result of our aim to be “the only one, not number one.” Therefore, our research and development has no goal. To remain the only one in any era, we will continue to achieve breakthrough after breakthrough in the fields of “cleanliness, health, and safety” through basic research and original ideas based on the themes of safety, health, and the environment.

Additionally, we will clarify the Koken’s DNA we have promoted all along to the next new era, will newly set our three management philosophies of “(1) nurture people, (2) nurture technology, and (3) nurture new markets in the fields of cleanliness, health, and safety (contributing to society in terms of cleanliness, health, and safety),” and will inherit the DNA. We would like to solve the many problems society faces today, and will face increasingly in the future, based on these management philosophies. We have already started taking the next steps. Please give further support to our upcoming activities.

## Table of Contents

I. President's Message .....	3
II. Summary of Selected Financial Data (Consolidated).....	5
III. History.....	6
IV. Business Overview .....	8
V. Analysis of Financial Condition, Results of Operations and Cash Flows .....	11
VI. Business and Other Risk .....	12
VII. Research and Development .....	14
VIII. Corporate Governance.....	15
IX. Status of Affiliates.....	22
X. Status of Employees .....	22
XI. Stock Option System.....	23
XII. Employee Stock Ownership System.....	25
XIII. Status of Officers.....	26
XIV. Capital Expenditures.....	30
XV. Dividend Policy.....	31
XVI. Status of Business .....	32
XVII. Segment Information .....	33
XVIII. Issues to be Addressed.....	34
XIX. Financial Instruments .....	36
XX. Fixed Assets.....	38
XXI. Loans .....	40
XXII. Summary of Selected Financial Data (Graphs) .....	41
XXIII. Consolidated Financial Statements.....	45
(1) Consolidated financial statements .....	45
1) Consolidated balance sheet.....	45
2) Consolidated statement of income and consolidated statement of comprehensive income	47
Consolidated statement of income .....	47
Consolidated statement of comprehensive income .....	48
3) Consolidated statement of changes in net assets.....	49
Fiscal year ended December 31, 2015 (January 1, 2015 through December 31, 2015) .....	49
Fiscal year ended December 31, 2016 (January 1, 2016 through December 31, 2016) .....	50
4) Consolidated statement of cash flows.....	51
XXIV. Corporate Data.....	52

## I. President's Message

### Greeting

This is President Murakawa. I am deeply grateful for your continued support. Since its founding, Koken has grown as a safety business centered on industrial masks, but we are looking to enter a new stage through the recent establishment of a clean business centered on an open clean zone creator “KOACH.”



To realize new growth, we have adopted the management philosophies of “nurture people,” “nurture technology,” and “nurture new markets in the fields of cleanliness, health, and safety,” which can also be called Koken’s DNA.

In the next era, we will nurture the health business as a third pillar, and the management team and all of our employees are making the efforts needed to become a stable and strongly growing company by making each of three pillars of businesses stand on its own two feet.

I ask for your on-going understanding and support.

### Outlook for the current term (Fiscal Year ending December 2017)

Japan’s economy during the current term is expected to remain unstable due to global economic environment changes.

Under this economic environment, the Group will work toward uncovering demand for industrial masks and toward capturing a steadily increasing share of the market for medical and general purpose masks.

Furthermore, in addition to the fact that “KOACH” are reliably increasing order volumes, we can expect a full-scale launch through synergistic action with the sale of the clean gloves we jointly developed with Okamoto Industries, Inc., and thus we will engage in business development aimed at significantly increasing net sales.

Forecasts by segment are as given below.

### (Mask-related business segment)

In addition to developing masks with great fit properties, the Group will disseminate these masks through on-going efforts to raise awareness of the importance of fit properties in the industrial, medical and general purpose fields.

In the industrial field, we will try to make improvements in the product mix through increased sales of high-value-added product line by further strengthening our sales efforts to sell Breath Response Powered Air-Purifying Respirators (PAPR) for which demand is increasing.

In the medical field, we will continue to focus on sales of the “Hi-Luck” series masks for infection control. We will work to expand our market shares at Japan’s public health centers and medical institutions

designated to handle infectious outbreaks by conveying this series' superior infection prevention capabilities.

We will promote a sales strategy utilizing new domestic and foreign sales routes, including on-line sales, for "Hi-Luck Neo" series masks for general consumers.

(Other businesses segments, including environment-related businesses)

For "KOACH", we will focus on expanding sales as a system that can achieve "Actual Cleanliness (cleanliness during actual work)."

Finally, we plan to begin sales of the clean gloves we developed jointly with Okamoto Industries, Inc. in March 2017. This product is a cleanroom gloves born from the clean environment at the world's highest level, which will not only help enhance one-stop solutions in our clean business, but will also play a big role in the public awareness activities for "Actual Cleanliness" currently being promoted by the Group.

Please stay tuned for future development and expansion of this business.

## II. Summary of Selected Financial Data (Consolidated)

	50th term Fiscal year ended December 31, 2012	51st term Fiscal year ended December 31, 2013	52nd term Fiscal year ended December 31, 2014	53rd term Fiscal year ended December 31, 2015	54th term Fiscal year ended December 31, 2016
Net sales (Thousands of yen)	—	—	7,500,731	7,785,973	7,936,710
Ordinary profit (Thousands of yen)	—	—	315,342	449,270	554,878
Net income attributable to owners of parent (Thousands of yen)	—	—	147,816	237,677	388,099
Comprehensive income (Thousands of yen)	—	—	185,331	232,224	333,671
Net assets (Thousands of yen)	—	—	8,775,028	8,891,395	9,004,311
Total assets (Thousands of yen)	—	—	15,552,696	16,294,705	16,504,547
Net assets per share (Yen)	—	—	1,720.40	1,739.64	1,783.40
Net income per share (Yen)	—	—	29.22	46.84	77.23
Net income per share, fully diluted (Yen)	—	—	29.06	—	—
Equity / Assets (%)	—	—	56.1	54.2	54.2
ROE (%)	—	—	1.70	2.69	4.34
Price earnings ratio (Times)	—	—	58.62	36.29	20.33
Net cash provided by operating activities (Thousands of yen)	—	—	687,046	707,584	830,228
Net cash used in investing activities (Thousands of yen)	—	—	(597,411)	(1,217,915)	(245,647)
Net cash provided by (used in) financing activities (Thousands of yen)	—	—	(238,639)	382,864	(353,433)
Cash and cash equivalents at end of term (Thousands of yen)	—	—	1,911,584	1,777,329	1,999,009
Employees	—	—	225	265	268
[Separately, average number of temporary employees] (Persons)	[—]	[—]	[168]	[176]	[165]

- Notes:
1. As the consolidated financial statements have been prepared since the 52nd term, there are none to be presented for the earlier terms.
  2. Consumption taxes, etc. are not included in net sales.
  3. Net income per share, fully diluted is not presented for the 53rd term and the 54th term because there are no potential shares with dilutive effect.
  4. Effective from the fiscal year under review, the Company introduced “Stock Benefit Trust (BBT)” and “Stock Benefit Trust (J-ESOP).” The shares of the Company remaining in “Stock Benefit Trust (BBT)” and “Stock Benefit Trust (J-ESOP),” which are recorded as treasury stock in shareholders’ equity are included in the treasury stock not included in the calculation of the total number of issued and outstanding shares at the end of the term and the average number of shares during the term when calculating net assets per share and net income per share.
  5. Effective from the fiscal year under review, the “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, September 13, 2013) and other standards have been applied, and “net income” has been changed to “net income attributable to owners of parent.”

### III. History

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

December, 2004	Registration for OTC trading with Japan Securities Dealers Association canceled; and shares were listed on the JASDAQ Securities Exchange.
May, 2005	ISO 14001 certification was obtained by Tokorozawa Techno-Yard (registered on inspection).
	Saitama Logistics Center was established in Ranzan-machi, Saitama Prefecture.
September, 2009	Nakai Logistics Center was integrated into newly established facilities of Saitama Logistics Center.
April, 2010	Company's shares were listed on JASDAQ-OSE integrated market after merger of JASDAQ Securities Exchange into Osaka Securities Exchange.
March, 2011	KOACH showroom was opened.
November, 2011	KOKEN Super Clean Technical Center was opened.
November, 2012	Overseas subsidiary SIAM KOKEN LTD. was established in Chonburi Province, Thailand.
January, 2013	Ranzan Techno-Yard was established in Ranzan-machi, Saitama Prefecture.
July, 2013	Company's shares were listed on the JASDAQ Standard market following merger of the Osaka Securities Exchange with the Tokyo Stock Exchange.
June, 2015	Business operations were commenced at SIAM KOKEN LTD.
April, 2016	Shinichiro Sakai, chairman & CEO. was awarded the Order of the Rising Sun, Gold Rays with Rosette in a 2016 Spring conferment ceremony.

## IV. Business Overview

### Clean Air Solutions

We manufacture and sell three types of clean zone creators as clean solutions.

#### Super Clean Zone Creator “KOACH”

Born from a completely new idea, **the super clean zone creator “KOACH”** helps realize quality improvement, yield improvement and cost reduction via high cleanliness and low power consumption.



#### Push-Pull Ventilation System “KOKENLAMINAR”

There are environments in factories and medical facilities where dust and gases that are harmful to humans are present.

We provide **the push-pull ventilation system “KOKENLAMINAR,”** which removes these harmful substances from the environment, to protect the health of workers and to create environments where workers can work comfortably.



#### Air Ventilation System as Contamination Source Control “LAMIKOACH”

An air ventilation system as contamination source control **“LAMIKOACH,”** which is a combination of “KOACH” and “KOKENLAMINAR,” is used when there is a dust generating factor inside a clean room that is intended to maintain a high level of cleanliness.

This system reliably captures contaminants generated inside a clean room to prevent them from spreading out in the whole clean room.





## Health Solutions

We are planning to expand business for the following products and devices as health solutions.

### Copper-Based Antibacterial Agent “IMADEZE®”

This is an antibacterial agent we developed using a proprietary method for causing “copper” and “lactic acid” to react with one another.

We are planning business development as we seek fields that can make good use of its characteristics such as its superior antibacterial, mildew-resistant, and antiviral properties, as well as its high bio-safety and processability properties.



### Masks for Medical Facilities

In addition to pathogens (bacteria, viruses) that cause infectious diseases, there are chemical substances that are harmful to humans, such as disinfectants and sterilizing gases, in medical facilities.

We provide masks for medical facilities that protect the respiratory system from such pathogens and chemical substances.



### Masks for General Consumers

In recent years, events such as the avian influenza and PM 2.5, for which even the general public requires high performance masks, have been occurring frequently.

As a mask manufacturer who has been manufacturing and selling industrial masks for many years, we have developed and released masks for general consumers that can be used safely and securely by the general public.



### Functional Water Production System

Functional water comes in various types, such as electrolyzed water, ozone water, hydrogen water, and magnetically treated water. We deal with electrolyzed water and magnetically treated water.

We sell electrolyzed water generators, automatic endoscope washer, blood stain washer kit and portable shower system for disinfection and decontamination that use electrolyzed water for washing and disinfecting, and magnetic water treatment system that uses magnetically treated water for removing scaling, rust, etc. from the insides of water distribution pipes.



# Safety Solutions

We manufacture and sell the following masks and protective gear as safety solutions.

## Industrial Masks

Improvement in working environment, and the use of protective breathing equipment (masks) as a measure to protect individual workers against exposure to hazardous substances are required to prevent the health hazards caused by toxic substances generated at factories and construction sites.

We manufacture and sell industrial masks such as dust masks and gas masks for a range of working environments with different types and concentrations of hazardous substances.



## Equipment for Accident and Disaster Countermeasures

In addition to fires and natural disasters, which can occur at any time, the state of social affairs has, in recent years, made it such that it is now also necessary to prepare against large-scale chemical disasters, NBC (Nuclear, Biological or Chemical) terrorism incidents, etc. In such accidents and disasters, it is necessary to have equipment for accident and disaster countermeasures that is suited for different purposes, such as for rescue teams that save lives, medical personnel who treat victims, and for local people who evacuate to safe places nearby.



## Masks for Medical Facilities

In addition to pathogens (bacteria, viruses) that cause infectious diseases, there are chemical substances that are harmful to humans, such as disinfectants and sterilizing gases, in medical facilities.

We provide masks for medical facilities that protect the respiratory system from such pathogens and chemical substances.



## Masks for General Consumers

In recent years, events such as the avian influenza and PM 2.5, for which even the general public requires high performance masks, have been occurring frequently.

As a mask manufacturer who has been manufacturing and selling industrial masks for many years, we have developed and released masks for general consumers that can be used safely and securely by the general public.



## Protective Clothes, Ear Plugs, Face Shields, etc.

In addition to protective breathing equipment (masks), we also supply protective clothes to prevent skin disorders during chemical handling activities, ear plugs to prevent noise related disorders, and face shields to protect eyes and faces from flying objects and radiated heat.

## V. Analysis of Financial Condition, Results of Operations and Cash Flows

### (1) Significant accounting policies and estimates

The consolidated financial statements of the Group have been prepared in accordance with accounting standards generally accepted in Japan. Estimates deemed necessary for the preparation of the consolidated financial statements were based on reasonable standards.

### (2) Analysis of financial condition

#### (Assets)

Total assets as of December 31, 2016 amounted to 16,504 million yen, an increase of 209 million yen compared with the previous year-end figure of 16,294 million yen. The major factors contributing to this result were an increase in current assets of 357 million yen resulting from decreases in notes and accounts receivable - trade and increases in cash and deposits, merchandise and finished goods, and a decrease in fixed assets of 147 million yen due to implementation of depreciation, etc.

#### (Liabilities)

Total liabilities as of December 31, 2016 amounted to 7,500 million yen, an increase of 96 million yen compared with the previous year-end figure of 7,403 million yen. The major factor contributing to this result was an increase in current liabilities of 95 million yen due to an increase in provision for bonuses, etc.

#### (Net Assets)

Total net assets as of December 31, 2016 amounted to 9,004 million yen, an increase of 112 million yen compared with the previous year-end figure of the 8,891 million yen. The major factor contributing to this result was an increase in retained earnings of 261 million yen. As a result, shareholders' equity ratio was 54.2% as of December 31, 2016 (compared with 54.2% as of December 31, 2015).

### (3) Analysis of cash flows

The balance of cash and cash equivalents (hereinafter referred to as "funds") as of December 31, 2016 was 1,999 million yen, an increase of 221 million yen compared with December 31, 2015.

The status of each cash flow and major factors thereof are as follows.

#### (Cash flow from operating activities)

Funds provided by operating activities were 830 million yen (707 million yen provided during the previous fiscal year). This was due mainly to net income before taxes and other adjustments of 554 million yen, depreciation of 435 million yen, and increase in inventory of 274 million yen.

#### (Cash flow from investing activities)

Funds used in investing activities were 245 million yen (1,217 million yen used during the previous fiscal year). This was due mainly to payments for acquisition of tangible fixed assets of 298 million yen.

#### (Cash flow from financing activities)

Funds used in financing activities were 353 million yen (382 million yen provided during the previous fiscal year). This was due mainly to proceeds from long-term debt of 1,300 million yen, payments of long-term debt of 1,389 million yen, and dividends of 126 million yen.

## VI. Business and Other Risk

The risks that may affect the Group's business, results of operation, financial condition, etc. are as follows. Note that matters relating to the future contained in the text below were determined by the Group as of this document's submission date.

### (1) Research and development

As a research and development oriented company, the Group has invested management resources with the objective of supplying highly innovative products related to "cleanliness, health, safety" to the market, but all research and development do not necessarily lead to the development of new products or to growth in earnings, and thus the Group's business performance may be affected if it is forced to stop research and development due to any of a variety of circumstances.

While the Group has taken measures to protect the intellectual property it requires as a base for developing highly original technologies and already holds a large number of patents to that end, there are limits to which this proprietary technology can be perfectly protected under the law, and thus there is a chance that the Group will be unable to prevent third parties from manufacturing and selling counterfeit or similar goods using its intellectual property. If such an event were to occur, it could affect the Group's business performance.

### (2) Legal restrictions

Since the Group's business is related to various laws and regulations, such as the "Industrial Safety and Health Act," the "Pharmaceuticals and Medical Devices Act" and the "Product Liability Act," we are working to strengthen compliance systems and internal controls to ensure we comply with these laws and regulations.

Should an event occur where we were found not in compliance with these laws and regulations, this could place limits on the businesses the Group pursues, and lead to recalls of its products. Furthermore, if new laws and regulations are established or revised, this will give rise to new costs, like new capital expenditures, which could have an impact on the Group's business performance.

### (3) Quality assurance and quality control

In addition to the assumption that they will be used in harsh environments, the Group's products are required to be highly durable and reliable for the purpose of protecting the safety and health of their users. The Group has established the Quality Assurance Office, which acts as an independent department focused on quality under the direct supervision of the president, and has established a thorough quality assurance system by creating and maintaining a quality management system that is based on ISO 9001. Furthermore, the Quality Assurance Office posts product inspectors at each Techno-Yard (manufacturing base) to monitor the manufacturing processes and inspection processes at these Techno-Yards. It goes without saying that each of these Techno-Yards manufactures products according to the Japanese Industrial Standards, the national examination standards set by the Ministry of Health, Labour and Welfare, and our own strict quality assurance and quality control standards.

Although we thoroughly maintain and reinforce our quality assurance and quality control system, in the unlikely event that we receive indications of nonconformity via the Ministry of Health, Labour and Welfare's protective breathing equipment test purchases for an unexpected reason or if product defect or failure occurs, the Group's business performance could be affected by recall and repair expenses, and other such burdens.

### (4) Disasters and infectious diseases

The Techno-Yards, which represent the Group's manufacturing base, have undergone surveys for earthquake risks, implemented business continuity plans based on the results of those surveys, and have set up systems that enable production to resume without disruption even in the event of an earthquake. However, the occurrence of an event that interferes with the continuation of business activities, that, for example, suppresses production activities, etc. such as a direct-type, large-scale earthquake with an epicenter in the vicinity of a base of operation, a natural disaster, other unexpected accident, or the spread

of an infectious disease, such as a new type of influenza, could affect the Group's business performance. Please note that, as a measure against infectious diseases, we distribute our own anti-infection masks to all employees, encourage the employees to wear the masks, and also stockpile the masks in each workplace.

(5) Environmental issues

The Group is implementing on-going measures to clean up the soil and groundwater contamination caused by trichloroethylene, which has occurred to date at a total of two of the Group's laboratories and Techno-Yards. However, it is difficult at present to predict when the cleanup process will be complete, and thus, if the decontamination measures take a long time, the costs related to the measures could have an impact on the Group's business performance.

(6) Information security

The Group possesses a large amount of confidential information relating to business execution, such as information related to technology, sales and other business. Although we are making every effort to manage this information, if it were to leak for some unforeseen reason, such leak could have an impact on the Group's business performance.

(7) Internal controls

The Group strives to enhance its internal control systems with respect to business effectiveness and efficiency, reliable financial reporting, compliance with laws and regulations, etc. related to business activities, and asset conservation. However, these internal control systems are, to some degree, limited, and thus if events should occur that are outside the scope presumed by the created internal control systems, such events could have an impact on the Group's business performance.

(8) Overseas subsidiaries

SIAM KOKEN LTD., which was established in Thailand as a production subsidiary, continues to steadily manufacture masks, and has even begun to contribute to the Group's profits. However, should unpredicted events occur due to political and social circumstances or legal restrictions relating to Thailand or due to trends in foreign exchange rates, etc., such events could have an impact on the Group's business performance.

## VII. Research and Development

The Group is committed to research and development in its business domain, “cleanliness, health, and safety.” It aims to develop, with freedom, original technologies and employ these technologies for a multifaceted range of uses. A matrix-based R&D structure has been established that includes project teams for basic research on future technologies and project teams for application development. We have a research and development staff of 74, and our research and development expenses during the fiscal year under review amounted to 556 million yen.

The main development products for the fiscal year under review are as follows.

- ◇ Nuclear disaster countermeasures safety mask “Model 1521HGN” (MHLW Approval No. TN522)  
Radioactive material countermeasures dust mask “Model 1521HN” (MHLW Approval No. TM669)  
Persons who work in nuclear power plants, etc., use high-performance full face type masks at many locations to prevent internal exposure. We have developed a mask that reduces the strain of wearing a full face type mask.

< Key features >

- Protects breathing by attaching a chemical cartridge for nuclear disasters (for absorbing methyl iodide) “Model RDG-2HP” or a high performance dust filter “Model RD-6.”
- We used a net harness to reduce the pressure applied to the head, and made it easy to remove the mask without touching the tightening string.
- Face touching parts are made of silicon rubber, which has a good touch feeling, and which lies softly on the face and chin, making the mask more comfortable to wear.
- Sweat removal ports are positioned in the face touching parts, to thus effectively remove sweat from the mask.
- A holder rotation structure that makes it easy to maintain protective clothing and masks in a hygienic manner.

- ◇ “Hi-Luck Neo Kids” series masks for general consumers

The “Hi-Luck Neo Kids” series applies the well-received “FF Lip-u (face touching cushion inside the mask)” of the “Hi-Luck Neo” series to the “Hi-Luck Neo Kids” series to achieve a more stable fit and soft touch feeling than conventional products. With the commercialization of “Hi-Luck Neo Kids” series masks for children, we can now offer a full lineup of “Hi-Luck Neo” series to everyone from children to adults.

< Key features >

- Hi-Luck Neo Kids

By applying a length-adjustable ear strap and the FF Lip-u face touching cushion having a three-dimensional structure that conforms well to the face, this product is both easy to put on and comfortable to wear. This product uses a filter that matches the high performance of the “Hi-Luck 350,” which is widely used in industrial and medical masks, thus preventing the intrusion of viruses, bacteria, PM2.5, etc. The following two types of products are also equipped with Hi-Luck Neo Kids features.

- Hi-Luck Neo Kids Kakaranzo

The attached exhalation valve reduces stuffiness inside the mask, making it easier to breathe.

- Hi-Luck Neo Kids Utsusanzo

This is a mask specifically for infectious disease patients. This product filters out viruses and bacteria from exhaled breath so that they do not diffuse outside the mask. Breathing is easy because the structure is such that you inhale through the air intake.

## VIII. Corporate Governance

### (1) Status of corporate governance

#### Basic approach to corporate governance

In order to raise corporate value and increase shareholder and investor value, the Company will strengthen our corporate governance system to ensure transparency and soundness, and clarify our system for taking responsibility, and is working on building a business management organization that can make management more efficient and that can respond quickly to management environment changes.

The Company also believes that information disclosure is an important management issue and so we will continue to strive to increase opportunities to disseminate information, improve communication methods and enhance disclosed contents in order to make information disclosure timely, fair, and transparent.

Note that the status of the corporate governance topics listed below was as described herein as of this document's submission date.

### 1) Description of the Company's organization, the status of maintenance of internal control systems, etc.

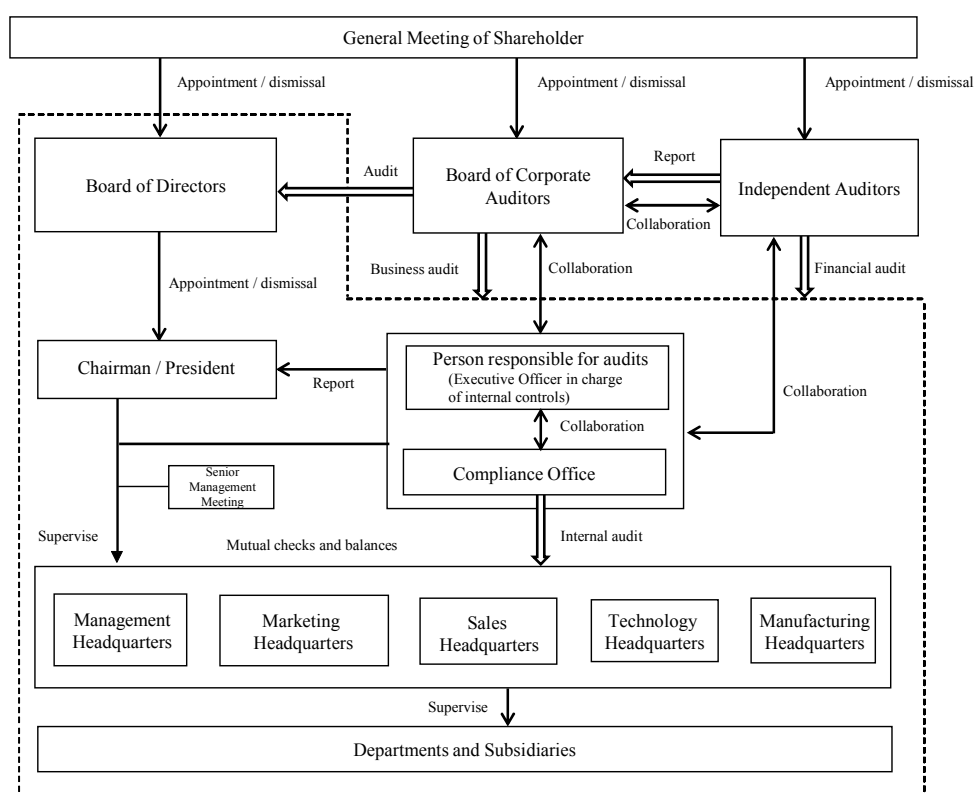
#### a. Basic description of the Company's organization

In principle, the Board of Directors, which is the primary decision-making body of the Group, meets once a month in accordance with the regulations of the Board of Directors to decide important matters in terms of managing business execution, and to oversee the execution of business. Furthermore, the system allows for meetings on an ad hoc basis to enable the Board to respond to issues quickly.

Moreover, Senior Management Meetings, whose members consist of the officers, chief of the headquarters and department heads, are held once a month where the intentions of management are communicated, and sales reports are given by each division and each sales office to gain an understanding of the status of work in each department and any problems therewith, and to discuss and decide on countermeasures.

The Company has adopted a corporate auditor system. It appoints four corporate auditors (of which, two are outside corporate auditors) who participate in Board of Directors meetings and, in so doing, monitor the performance of the directors and the Board of Directors.

#### b. A schematic diagram for describing the Company's corporate governance structures is as follows.



c. Reasons for adopting the structures

As a company with a Board of Corporate Auditors, the Company has appointed two of the four corporate auditors as outside corporate auditors who supervise the execution of duties by directors from an objective point of view outside the Company. In addition, the Company has introduced an executive officer system with the aim of strengthening functions and clarifying executive responsibilities by separating the Company's decision-making and business execution functions.

Through these corporate governance structures, we have determined that a system is in place that functions adequately in terms of management supervision functions.

d. Description of the Company's organization and the status of maintenance of internal control systems

The Company performs business management via a five headquarter system, which includes the Management Division, Marketing Division, Sales Division, Technology Division, and Manufacturing Division. Each division has an organizational structure where a chief of the headquarters apportions and enforces work responsibilities, and where check functions are in place for each of these responsibilities.

The Company is performing management and control by establishing various internal regulations for the purpose of improving management efficiency and optimizing and rationalizing business management. Each department head performs the important duties of holding regular reviews of whether the various regulations conform to the actual circumstances of management, establishing, revising, and abolishing various regulations, controlling their enforcement and implementation, and monitoring business execution and thorough implementation within the department, in compliance with laws and regulations as well as the various regulations.

Furthermore, to execute business in accordance with the compliance regulations, the Company performs checks with respect to compliance with corresponding laws and regulations and various internal regulations, implements relevant education and training of officers and employees, and maintains the "KOKEN Compliance Help Line" as an internal reporting system for quickly grasping and quickly correcting compliance infractions.

As a member of society, the Company has no relationships with antisocial forces or organizations that pose a threat to the order and safety of civil society, and all members of the Company will respond with a resolute and consistent attitude.

e. Status of maintenance of risk management system

The Company adopts a system whereby the Management Division, Marketing Division, Sales Division, Technology Division, and Manufacturing Division control the risks of each of their own departments while they simultaneously check each other, perform business audits in accordance with internal auditing regulations with regard to the status of business execution at the divisions, and, in particular, perform product checks in accordance with quality assurance audits. Via the system, results are reported to the president, and remedial measures are taken as necessary.

Risk management for the Group as a whole falls under the supervision of executive officer in charge of internal controls, who promotes the maintenance of necessary regulations and works to maintain a risk management system that is able to reduce assumed risks and respond to emergency situations.

f. Status of system maintenance for ensuring the appropriate operations of subsidiaries

The Company and its subsidiaries share the "philosophy of the Company" as the philosophy of the Group as a whole, and efforts are made to maintain and operate a compliance system and a risk management system for the Group as a whole that are geared toward realizing this philosophy. The Company requests reports from subsidiaries regarding matters specified in the overseas subsidiary management regulations to ensure the appropriateness and efficiency of decision making and business execution by subsidiaries.

2) Status of internal audits and auditing by corporate auditors

Internal audits are the responsibility of the executive officer in charge of internal controls, and the officer directs individuals appointed by the president to audit, and audits the status of business execution. As a system is used whereby the audit results are approved by the person responsible for audits and then



reported to the president, improvement measures are taken as needed, and follow-up audits are implemented for these improvements.

For internal audits related to quality (equivalent to Quality Management System ISO 9001 and JIS Q9001 internal audits), a quality assurance auditor (the head of the Quality Management Office is responsible for audits) performs audits based on the quality assurance audit regulations and reports results to the president. Note that, when nonconformity is discovered via audit, the person responsible for audits makes a request to the head of the audited department that all nonconformities be corrected, and confirms the effectiveness of measures taken.

Furthermore, the Company has built a quality and safety management system based on QMS Ordinance (Ministerial Ordinance on Standards for Manufacturing Control and Quality Control for Medical Devices and In-Vitro Diagnostics), System Ordinance (Ministerial Ordinances on Standards for Systems for Performing Business Relating to Manufacturing Control and Quality Control for Medical Devices and In-Vitro Diagnostics), and GVP Ordinance (Ministerial Ordinance on Good Vigilance Practice for Drugs, Quasi-Drugs, Cosmetics, Medical Devices, and Regenerative Medicine Products) in conjunction with the commencement of the manufacture and sale of medical equipment (automatic endoscope washer) for which it received a medical equipment manufacture and sales approval in accordance with the “Act on Securing Quality, Efficacy and Safety of Products including Pharmaceuticals and Medical Devices.” The overall manufacturing and sales manager, who is the chief executive for manufacturing and sales, supervises and instructs the person responsible for domestic quality operations and the person responsible for safety management to perform quality and safety management. The person responsible for domestic quality operations and the person responsible for safety management, and related departments are in close cooperation and collaboration with one another. We will further strengthen this quality and safety management system and we will continue to manufacture and sell high quality and highly safe medical equipment.

The Company has established safety and health management regulations for the purpose of ensuring the safety and health of our employees and forming a comfortable work environment based on the Industrial Safety and Health Act. These regulations apply to the management of work environment, operations, and health of all employees. The staff and head of the Safety & Environment Management Office perform regular and ad hoc safety and health audits of all business offices based on these regulations, and report audit results to the president. Note that, when nonconformity is discovered via audit, the head of the Safety & Environment Management Office makes a request to the audited business office supervisor that all nonconformities be corrected, and confirms the effectiveness of measures taken.

As mentioned above, the four corporate auditors (of which, two are outside corporate auditors) audit the execution of duties by the directors and the Board of Directors via their attendance at the Board of Directors meetings, and they carry out internal audits based on the audit plan of the corporate auditors. They also strive to improve the effectiveness of audits by exchanging information with independent auditors.

Note that Mr. Etsuo Koyama, our corporate auditor, has had experience as the General Manager of the Accounting Department of the Company, and thus has considerable knowledge about finance and accounting.

### 3) Status of financial audit

The Company has signed an audit agreement with the A&A Partners as the independent auditor in charge of the financial audit, and receives the audit. Note that the certified public accountants who execute the audit work for the Company are as shown below.

Engagement Partner: Mayu Machida, Certified Public Accountant

Engagement Partner: Satoshi Terada, Certified Public Accountant

Number of assistants involved in auditing work

Certified Public Accountants: 7

Others: 4

(Note) The number of years of continuous auditing experience has been omitted since all members have no more than seven years.

#### 4) Outside Directors and Outside Corporate Auditors

The Company has not appointed any outside directors, but it is a company with a Board of Corporate Auditors, and has appointed two of the four corporate auditors as outside corporate auditors (independent officers) who supervise the execution of duties by directors from an objective point of view from outside the Company. In addition, the Company has introduced an executive officer system with the aim of strengthening functions and clarifying executive responsibilities by separating the Company's decision-making and business execution functions.

As a result of these efforts, we have provided a governance structure that functions appropriately in terms of management monitoring functions. Furthermore, as a result of actively endeavoring to select appropriate outside directors in order to further strengthen the organization, we have found appropriate people to serve in that capacity, and thus plan to propose their election as outside directors at the 54th Annual General Meeting of Shareholders.

Outside corporate auditors will share duties and will attend important meetings, such as those of the Board of Directors, in accordance with the auditing policies set forth by the Board of Corporate Auditors, will mainly speak out actively from the standpoint of their field of expertise, and will conduct audits of the execution of duties by the directors. Furthermore, corporate auditors, including standing corporate auditors, closely exchange information at the Board of Corporate Auditors meetings with the aim of enhancing management auditing functions. Therefore, we judge that the management auditing functions and governance functions are working adequately.

Mr. Teruo Shinato was appointed as an outside corporate auditor because, in view of his expertise as a graduate school professor, we are hopeful that his specialized knowledge and rich experience will be reflected in the Company's audits. There are no personal, capital relationships, or any conflict of interest, between the Company and Mr. Shinato. Furthermore, Mr. Shinato has been reported to Tokyo Stock Exchange, Inc. as an independent officer.

Mr. Nikko Haku was appointed as an outside corporate auditor because he is familiar with corporate legal affairs as a lawyer, and thus we are hopeful that his high level of specialized knowledge and rich experience will be reflected in the Company's audits. Mr. Haku is a partner at Sakura Kyodo Law Offices, and while the Company has business relationships, such as the outsourcing of legal services, with other partners at this firm, it has never signed an advisory contract with the firm, and has had no business relationships with the firm in the fiscal year under review. Furthermore, Mr. Haku has been reported to Tokyo Stock Exchange, Inc. as an independent officer.

We have not established criteria or policies with regard to how independent candidates must be in order to be appointed as outside corporate auditors. However, we do make reference to determining factors, etc. relating to the independence of independent officers as set forth in the "Handling Procedures Relating to Securities Listing Regulations" of Tokyo Stock Exchange, Inc. when making appointments.

Note that the Company has entered into agreements with Mr. Teruo Shinato and Mr. Nikko Haku that limit liability for damages described in Article 423, paragraph 1 of the Companies Act, based on the provisions of Article 427, paragraph 1 of said act. Under these agreements, the maximum amount of liability for damages is the minimum liability amount set forth in Article 425, paragraph 1 of said act.

In addition, outside corporate auditors receive reports from the directors in charge on matters pointed out by the independent auditor, and also receive reports on the evaluation status of internal audits through deliberations on internal control reports, etc. at the Board of Directors meetings.

5) Description of officers' compensation

- a. Total amount of compensation, etc. by each officer classification, total amount of compensation, etc. by type, and the number of officers to be paid

Officer classification	Total amount of compensation, etc. (Thousands of yen)	Total amount of compensation, etc. by type (Thousands of yen)					Number of officers to be paid (persons)
		Base compensation	Bonuses	Stock options	Retirement benefits	Provision for directors' stock benefits	
Director	203,750	140,700	27,400	–	29,900	5,750	8
Internal corporate auditor	24,100	20,400	–	–	3,700	–	2
Outside corporate auditor	12,200	10,800	–	–	1,400	–	2
Total	240,050	171,900	27,400	–	35,000	5,750	12

- (Notes) 1. Bonuses are amounts treated as expenses processed as provision for directors' and corporate auditors' bonuses in the fiscal year under review. Note that the payment of directors' and corporate auditors' bonuses is to be approved at the Annual General Meeting of Shareholders to be held on March 28, 2017.
2. Retirement benefits are treated as expenses processed as provision for directors' and corporate auditors' retirement benefits.
3. Provision for directors' stock benefits is a provision for directors' stock benefits for six directors in the fiscal year under review.

- b. Total amount of compensation, etc. for each officer of the submitting company, etc.

None is listed because no officer received compensation totaling 100 million yen or more.

- c. Important matters among employee salaries for officers serving concurrently as employees

No items to report.

- d. Descriptions of and methods for determining policies relating to determining the amount of compensation, etc. for officers, and the methods for calculating said amounts

The Company determines compensation for directors based on the duties and responsibilities of said directors within the limits of the total compensation according to the base compensation determined at the General Meeting of Shareholders. Compensation for corporate auditors is determined based on the duties and responsibilities of said auditors and on whether they are full-time or part-time.

(Note) Compensation limit for directors: 180,000 thousand yen annually (based on a resolution at the 49th Annual General Meeting of Shareholders held on March 27, 2012)

Compensation limit for corporate auditors: 40,000 thousand yen annually (based on a resolution at the 53rd Annual General Meeting of Shareholders held on March 29, 2016)

The Company's compensation system for its officers consists of a basic fixed compensation, which is the base compensation, a bonus, which is performance-based compensation based on the results of each term, and a stock compensation system "Stock Benefit Trust (BBT)," which is a medium and long term incentive. The Stock Benefit Trust (BBT) was introduced as the officer compensation system at the 53rd Annual General Meeting of Shareholders held on March 29, 2016, in place of the previous stock option compensation system.

6) Status of shareholding

- a. Investment shares for holding purposes other than for the purpose of net investment

Number of issues: 8

Total amount shown on the balance sheet: 101,449 thousand yen

- b. Of the investment shares held for holding purposes other than net investment, issues where the amount shown on the balance sheet in the current fiscal year exceeds 1/100 of the capital amount (excluding unlisted stocks)

Previous fiscal year

Issues	Number of shares (shares)	Amount shown on the balance sheet (Thousands of yen)	Holding purpose
Resona Holdings, Inc.	76,835	45,639	For maintaining relationships for trading, etc.
Mizuho Financial Group, Inc. 11th series preferred stock (class 11)	50,000	22,815	For maintaining relationships for trading, etc.

Current fiscal year

Issues	Number of shares (shares)	Amount shown on the balance sheet (Thousands of yen)	Holding purpose
Resona Holdings, Inc.	76,835	47,023	For maintaining relationships for trading, etc.
Mizuho Financial Group, Inc.	191,495	41,554	For maintaining relationships for trading, etc.

- c. Investment shares held for the purpose of net investment

No items to report.

- d. Investment shares held for purposes that have changed

No items to report.

7) Outline of the content of limited liability agreements

The Company has entered into agreements with the outside corporate auditors that limit the liability for damages described in Article 423, paragraph 1 of the Companies Act, based on the provisions of Article 427, paragraph 1 of said act. Under these agreements, the maximum amount of liability for damages is the minimum liability amount set forth in the law and regulations.

8) Number of directors

It is set forth in the articles of incorporation that “the Company shall have no more than 15 directors.”

9) Requirements for resolving the election of directors

The Company has stipulated in its articles of incorporation that resolutions for electing directors shall be attended by at least 1/3 of the shareholders who can exercise their voting rights, and shall be resolved by a majority of said voting rights. The Company has also stipulated in its articles of incorporation that directors shall not be elected based on cumulative voting.

10) Institutions for determining interim dividends

The Company has stipulated in its articles of incorporation that interim dividends from retained earnings set forth in Article 454, paragraph 5 of the Companies Act may be executed by resolution of the Board of Directors without resolutions by the General Meeting of Shareholders, unless otherwise stipulated in laws and regulations. This is for the purpose of providing a flexible return of profits to shareholders by setting interim dividends from retained earnings under the authority of the Board of Directors.

#### 11) Acquisition of treasury stock

The articles of incorporation stipulate that “the Company may acquire treasury stock through market transactions, etc. by resolution of the Board of Directors.” This is aimed at acquiring treasury stock through market transaction, etc. in order to carry out agile capital policies that respond to changes in the business environment.

#### 12) Requirements for special resolutions at General Meetings of Shareholders

The articles of incorporation stipulate that “resolutions set forth in Article 309, paragraph 2 of the Companies Act shall be attended by at least 1/3 of the shareholders who can exercise their voting rights, and shall be resolved by at least 2/3 of said voting rights.” This is for the purpose of conducting General Meetings of Shareholders smoothly by relaxing quorums needed for special resolutions at General Meetings of Shareholders.

#### 13) Status of efforts to implement the Company’s corporate governance of the past year

- During the fiscal year under review, 14 Board of Directors meetings were held to decide important management issues and supervise the status of business execution.
- As a disclosure of corporate information, explanatory information about financial results for the fiscal year ended December 31, 2015 and for the second quarter of the fiscal year ended December 31, 2016, etc. have been posted on the Company’s website.

#### (2) Description of audit compensation, etc.

##### 1) Description of compensation for the certified public accountants, etc. conducting the audit

Classification	Previous fiscal year		Current fiscal year	
	Compensation based on audit certification work (Thousands of yen)	Compensation based on non-audit work (Thousands of yen)	Compensation based on audit certification work (Thousands of yen)	Compensation based on non-audit work (Thousands of yen)
Submitting company	22,500	—	24,000	—
Consolidated subsidiaries	—	—	—	—
Total	22,500	—	24,000	—

##### 2) Description of other important compensation

No items to report.

##### 3) Description of non-audit work for submitting companies of the certified public accountants, etc. conducting the audit

No items to report.

##### 4) Methods for determining audit compensation

With regard to the Company’s method for determining audit compensation for the certified public accountants, etc. conducting the audit, the Company does not stipulate any specific matters. Such compensation amounts are determined based on the size of the Company, the nature of the work, and the number of auditing days, etc.

## IX. Status of Affiliates

Name	Address	Capital stock	Main business	Percentage of voting rights held (held by others) (%)	Relationship
(Consolidated subsidiary)  SIAM KOKEN LTD.	Chonburi Province, Thailand	THB 150,000,000	Mask-related business	100.0	Manufacture of the Company's products Interlocking officers

(Notes) 1. Segment name is noted in the "Main business" column.

2. Falls under specified subsidiaries.

## X. Status of Employees

### (1) Status of consolidated companies

As of December 31, 2016, the Group (the Company and its consolidated subsidiaries) had 268 (165) employees.

Since employees are engaged in more than one business, the number of employees is not described in conjunction with segments.

(Note) The number of employees indicates the number of working employees, and the annual average number of temporary employees is noted in parentheses.

### (2) Status of submitting companies

As of December 31, 2016			
Number of employees (persons)	Average age (age)	Average years of service (years)	Average annual salary (yen)
222 (156)	40.4	15.6	6,718,329

(Notes) 1. The number of employees indicates the number of working employees, and the annual average number of temporary employees is noted in parentheses.

2. The average annual salary is gross with tax, and includes surplus wages and bonuses.

3. Since employees are engaged in more than one business, the number of employees is not described in conjunction with segments.

### (3) Status of labor unions

There are no labor unions.

## XI. Stock Option System

### 1. Amount of expenses and account titles associated with stock options

(Thousands of yen)

	Previous fiscal year (January 1, 2015 through December 31, 2015)	Current fiscal year (January 1, 2016 through December 31, 2016)
Stock compensation expenses for cost of goods sold	1,359	—
Stock compensation expenses for selling, general and administrative expenses	6,208	—

### 2. Description and scale of stock options and the status of changes thereto

#### (1) Description of stock options

	2013 Stock options
Classifications and number of grantees	Directors: 6 Corporate auditors: 4 Employees: 62
Number of stock options granted (Note)	128,000 shares of common stock
Grant date	April 1, 2013
Vesting conditions	Must have been employed continuously from the grant date (April 1, 2013) until the vesting date (March 31, 2015)
Requisite service period	April 1, 2013 through March 31, 2015
Exercise period	April 1, 2015 through March 31, 2018

(Note) This is shown converted into the number of shares.

#### (2) Scale of and status of changes to stock options

The number of stock options is converted into the number of shares for the stock options that existed in the current fiscal year (fiscal year ended December 31, 2016).

##### 1) Number of stock options

	2013 Stock options
Before vesting (Shares)	
Previous fiscal year-end	—
Granted	—
Forfeited	—
Vested	—
Unvested balance	—
After vesting (Shares)	
Previous fiscal year-end	128,000
Vested	—
Exercised	—
Forfeited	—
Unexercised balance	128,000

## 2) Unit price information

	2013 Stock options
Exercise price (Yen)	2,192
Average price when exercised (Yen)	—
Fair value unit price (grant date) (Yen)	473

## 3. Method for estimating the number of vested stock options

As it is difficult, in principle, to reasonably estimate the number of stock options that will be forfeited in the future, the number here reflects only stock options that have actually been forfeited.



## **XII. Employee Stock Ownership System**

### **1. Introduction of Stock Benefit Trust (BBT) for directors**

On June 1, 2016, the Company introduced “Stock Benefit Trust (BBT)” (hereinafter referred to as the “BBT system”) as a stock compensation system for directors based on a resolution at the General Meeting of Shareholders held on March 29, 2016.

#### **1) Overview of the BBT system**

“Officer stock benefit regulations” were newly established upon the introduction of the BBT system. The Company entrusted money to a trust bank for the pre-acquisition of shares to be provided in the future based on the established officer stock benefit regulations, and the trust bank used the entrusted money to acquire the Company’s stock.

The BBT system awards points to directors targeted for benefits, and shares are granted to directors based on the points they have been awarded.

#### **2) The total number of shares to be granted to directors**

7,830 shares

#### **3) Scope of persons eligible to receive beneficiary and other rights under the BBT system**

Persons who have retired as directors and satisfy the beneficiary requirements set forth in the officer stock benefit regulations.

### **2. Introduction of Stock Benefit Trust (J-ESOP) for employees**

On June 1, 2016, in an effort to raise employee motivation and morale with respect to stock price and performance improvements, the Company introduced the “Stock Benefit Trust (J-ESOP)” incentive plan (hereinafter referred to as the “J-ESOP system”) whereby shares of its own stock are granted to the Company’s executive officers and to the Company’s employees who meet certain requirements (hereinafter referred to as the “Employees, etc.”).

#### **1) Overview of the J-ESOP system**

“Stock benefit regulations” were newly established upon the introduction of the J-ESOP system. The Company entrusted money to a trust bank for the pre-acquisition of shares to be provided in the future based on the established stock benefit regulations, and the trust bank used the entrusted money to acquire the Company’s stock.

The J-ESOP system awards points to Employees, etc., and shares are granted to Employees, etc. based on the points they have been awarded.

#### **2) The total number of shares to be granted to Employees, etc.**

23,370 shares

#### **3) Scope of persons eligible to receive beneficiary and other rights under the J-ESOP system**

Persons who are retired Employees, etc. and satisfy the beneficiary requirement set forth in the stock benefit regulations.

### XIII. Status of Officers

The status of officers as of March 28, 2017 is as follows.

Men: 12, Women: 1 (Percentage of women among officers: 7.7%)

Title	Job title	Name	Date of birth	Career summary	Term of office	Number of shares owned (Thousands of shares)
Representative Director, Chairman		Masakazu Sakai	August 22, 1941	<p>Apr. 1964 Joined Renown Commerce Co., Ltd.</p> <p>Aug. 1967 Joined KOKEN LTD.</p> <p>Sept. 1967 Appointed as Director, General Manager of the Technology Department</p> <p>Jan. 1981 Appointed as Representative Director, President</p> <p>Mar. 2003 Appointed as Representative Director, President, Sakai Kosan Co., Ltd.</p> <p>Mar. 2003 Appointed as Representative Director, President, Sakai Tatemono Ltd. (current position)</p> <p>Mar. 2003 Appointed as Representative Director, Chairman (current position)</p> <p>May 2006 Chairman, Japan Safety Appliances Association</p> <p>Apr. 2015 Appointed as Councilor, Sakai CHS Foundation (current position)</p>	2 years from the Annual General Meeting of Shareholder held on March 29, 2016	641
Representative Director, President	In charge of the Technology Division	Tsutomu Murakawa	January 8, 1966	<p>Apr. 1989 Joined KOKEN LTD.</p> <p>Sept. 1999 Head of the Quality Assurance Office</p> <p>Mar. 2002 Head of the Tokorozawa Techno-Yard</p> <p>Feb. 2007 Head of the Tokorozawa Techno-Yard and Overseas Division Manager</p> <p>Mar. 2008 Executive Officer, Head of the Tokorozawa Techno-Yard and Overseas Division Manager</p> <p>Jan. 2009 Executive Officer, Overseas Division Manager</p> <p>Mar. 2010 Appointed as Managing Director, in charge of the Technology Division, Overseas Division Manager</p> <p>Jul. 2013 Appointed as Senior Managing Director, in charge of the Technology Division, Overseas Division Manager</p> <p>Jan. 2014 Senior Managing Director, in charge of the Technology Division</p> <p>Mar. 2014 Appointed as Representative Director, President, in charge of the Technology Division (current position)</p> <p>Apr. 2015 Appointed as Director, Sakai CHS Foundation (current position)</p>	2 years from the Annual General Meeting of Shareholder held on March 29, 2016	8
Representative Director, Executive Vice President	In charge of the Manufacturing Division	Nobuya Horiguchi	August 28, 1958	<p>Apr. 1982 Joined KOKEN LTD.</p> <p>Mar. 1998 Safety and Health Division Manager</p> <p>Mar. 2008 Executive Officer, Safety and Health Division Manager</p> <p>Mar. 2010 Appointed as Managing Director, in charge of the Manufacturing Division</p> <p>Nov. 2012 Appointed as Representative Director, President, SIAM KOKEN LTD. (current position)</p> <p>Jul. 2013 Appointed as Senior Managing Director, in charge of the Manufacturing Division</p> <p>Mar. 2014 Appointed as Representative Director, Executive Vice President, in charge of the Manufacturing Division (current position)</p>	2 years from the Annual General Meeting of Shareholder held on March 29, 2016	15

Title	Job title	Name	Date of birth	Career summary		Term of office	Number of shares owned (Thousands of shares)
Senior Managing Director	In charge of the Marketing Division	Mitsuji Muramatsu	February 21, 1956	Apr. 1978 Apr. 2002 Feb. 2004 Feb. 2006 Mar. 2006 Mar. 2007 Mar. 2007 Mar. 2008 Mar. 2014 Mar. 2015	Joined the Fuji Bank, Ltd. (currently Mizuho Bank, Ltd.) Branch Manager of the Hongo Dori Branch, Mizuho Bank, Ltd. General Manager of the Osaka Public Affairs Department, Mizuho Bank, Ltd. Seconded to KOKEN LTD. Management Division Manager Joined KOKEN LTD. Appointed as Managing Director, Management Division Manager Managing Director, in charge of the Management Division Appointed as Senior Managing Director, in charge of the Management Division and in charge of the Marketing Division Senior Managing Director, in charge of the Marketing Division (current position)	2 years from the Annual General Meeting of Shareholder held on March 29, 2016	14
Senior Managing Director	In charge of the Sales Division	Fumikazu Tanaka	February 22, 1957	Apr. 1981 Oct. 1996 Oct. 2003 Mar. 2008 Apr. 2008 Apr. 2011 Mar. 2012 Mar. 2014	Joined KOKEN LTD. Life Safety Division Manager General Manager of the Western Japan Block Executive Officer, General Manager of the Western Japan Block Executive Officer, General Manager of the Sales Management Department and General Manager of the Eastern Japan 2nd Block Executive Officer, Deputy Sales Division Manager and General Manager of the Sales Management Department Appointed as Managing Director, in charge of the Sales Division Appointed as Senior Managing Director, in charge of the Sales Division (current position)	2 years from the Annual General Meeting of Shareholder held on March 29, 2016	7
Managing Director	In charge of the Management Division	Hideaki Ibata	December 7, 1962	Apr. 1986 May 2006 Mar. 2010 Jun. 2011 Jun. 2014 Mar. 2015	Joined the Fuji Bank, Ltd. (currently Mizuho Bank, Ltd.) Branch Manager of the Ageo Branch, Mizuho Bank, Ltd. General Manager of the Branch Business Department No. 7, Mizuho Bank, Ltd. Branch Manager of the Tokyo-chuo Branch, Mizuho Bank, Ltd. Seconded to KOKEN LTD., Deputy Management Division Manager Appointed as Managing Director, in charge of the Management Division (current position)	2 years from the Annual General Meeting of Shareholder held on March 29, 2016	0
Director	Director, Accounting Department	Toshiaki Nagasaka	October 16, 1959	Apr. 1982 Mar. 2000 Mar. 2002 Feb. 2007 Mar. 2008 Nov. 2008 Aug. 2009 Mar. 2014	Joined KOKEN LTD. Head of the Tokorozawa Techno-Yard Head of the Sayama Techno-Yard Head of the Compliance Office Executive Officer, Head of the Compliance Office Executive Officer, Head of the Compliance Office and Head of the Safety & Environment Management Office Executive Officer, General Manager of the Accounting Department Appointed as Director, General Manager of the Accounting Department (current position)	2 years from the Annual General Meeting of Shareholder held on March 29, 2016	7

Title	Job title	Name	Date of birth	Career summary	Term of office	Number of shares owned (Thousands of shares)
Director, Advisor		Hiroyuki Sakai	May 23, 1943	<p>Apr. 1967 Joined KOKEN LTD.</p> <p>Aug. 1970 Assistant Manager of the Sales Department</p> <p>Nov. 1974 Appointed as Director, General Manager of the Systems Department</p> <p>Nov. 1984 Appointment as Representative Director, President, Sakai Tatemono Ltd.</p> <p>Mar. 1986 Appointed as Managing Director</p> <p>Apr. 1990 Managing Director, Sales Division Manager</p> <p>Mar. 1992 Representative Director, Senior Managing Director, Sales Division Manager</p> <p>Mar. 1998 Representative Director, Executive Vice President, Sales Division Manager</p> <p>Mar. 2003 Appointed as Representative Director, President</p> <p>Mar. 2014 Appointed as Director, Advisor (current position)</p> <p>Apr. 2015 Appointment as Director, Sakai CHS Foundation (current position)</p>	2 years from the Annual General Meeting of Shareholder held on March 29, 2016	609
Director		Shinobu Sakurai	May 10, 1961	<p>Apr. 2004 Professor, Course of Nursing, Mie University Faculty of Medicine;</p> <p>Sept. 2011 Professor, Course of Nursing Graduate Major, Mie University Graduate School of Medicine</p> <p>Professor Emeritus, Mie University (current position);</p> <p>Professor, Department of Nursing, Juntendo University Faculty of Health Care and Nursing (current position);</p> <p>Professor, Doctor's Course of Nursing, Juntendo University Graduate School of Health Care and Nursing (current position)</p> <p>Apr. 2014 Professor, Department of Health, Juntendo University Faculty of Health and Sports Science (current position)</p> <p>Mar. 2017 Appointed as Director (current position)</p>	1 year from the Annual General Meeting of Shareholder held on March 28, 2017	—
Standing Corporate Auditor		Toshio Akiyama	April 2, 1949	<p>Apr. 1973 Joined KOKEN LTD.</p> <p>Aug. 1986 Special Procurement Division Manager</p> <p>Mar. 2000 Appointed as Director, Special Procurement Division Manager and Hygienic Equipment Division Manager</p> <p>Apr. 2001 Director, Hygienic Equipment Division Manager</p> <p>Mar. 2003 Director, Sales Division Manager and General Manager of the Sales Management Department</p> <p>Feb. 2006 Director, Sales Division Manager, General Manager of the Sales Management Department and Overseas Division Manager</p> <p>Feb. 2007 Director, Sales Division Manager and General Manager of the Sales Management Department</p> <p>Mar. 2008 Appointed as Managing Director, in charge of the Sales Division</p> <p>Mar. 2012 Managing Director, in charge of internal controls</p> <p>Mar. 2015 Appointed as Standing Corporate Auditor (current position)</p>	4 years from the Annual General Meeting of Shareholder held on March 25, 2015	14
Standing Corporate Auditor		Yoshihiro Ito	July 12, 1949	<p>Jun. 1980 Joined KOKEN LTD.</p> <p>Sept. 1998 General Manager of the Central Japan Block</p> <p>Mar. 2001 Appointed as Director, General Manager of the Central Japan Block</p> <p>Mar. 2008 Executive Officer, General Manager of the Central Japan Block</p> <p>Apr. 2015 Executive Officer, in charge of internal controls</p> <p>Mar. 2017 Appointed as Standing Corporate Auditor (current position)</p>	4 years from the Annual General Meeting of Shareholder held on March 28, 2017	8

Title	Job title	Name	Date of birth	Career summary	Term of office	Number of shares owned (Thousands of shares)
Corporate Auditor		Teruo Shinato	February 24, 1955	<p>Apr. 1978    Joined the Fuji Bank, Ltd. (currently Mizuho Bank, Ltd.)</p> <p>Jan. 1990    Seconded to the Tokyo International Financial Futures Exchange (currently Tokyo Financial Exchange Inc.), Manager of the Planning Section</p> <p>Apr. 1994    Deputy Branch Manager of the Paris Branch, The Fuji Bank, Ltd.</p> <p>Jul. 2000    General Manager of the Sales Department, Mizuho Trust &amp; Banking Co., Ltd.</p> <p>Apr. 2002    General Manager in charge of the General Planning Department, Mizuho Trust &amp; Banking Co., Ltd.</p> <p>Apr. 2003    Professor, Asahi University Faculty of Business Administration</p> <p>Apr. 2006    Professor, Nihon University Graduate School of Social and Cultural Studies</p> <p>Apr. 2012    Professor and Dean, Nihon University Graduate School of Social and Cultural Studies (current position)</p> <p>Mar. 2015    Appointed as Corporate Auditor (current position)</p>	4 years from the Annual General Meeting of Shareholder held on March 25, 2015	0
Corporate Auditor		Nikko Haku	March 7, 1977	<p>Nov. 2002    Passed the Bar Examination</p> <p>Oct. 2004    Registered at the Daini Tokyo Bar Association; Joined Sakura Kyodo Law Offices</p> <p>Jan. 2011    Partner, Sakura Kyodo Law Offices (current position)</p> <p>Mar. 2015    Appointed as Corporate Auditor (current position)</p>	4 years from the Annual General Meeting of Shareholder held on March 25, 2015	—
Total						1,325

(Notes) 1. Director Shinobu Sakurai is an outside director.

2. Corporate Auditor Teruo Shinato and Corporate Auditor Nikko Haku are outside corporate auditors.

3. Director, Advisor Hiroyuki Sakai is the younger brother of Representative Director, Chairman Masakazu Sakai.

## XIV. Capital Expenditures

[Overview of capital expenditures, etc.]

A total of 378 million yen of capital expenditures (including intangible fixed assets) were made in the Group (the Company and its consolidated subsidiaries) in the fiscal year under review in order to develop highly competitive new products that meet market requirements, and to prepare an efficient mass production system for these new products.

Moreover, the main capital expenditures made in the fiscal year under review are as follows.

Techno-Yard manufacturing equipment and vehicles	77 million yen
Dies for occupational safety and health protection equipment, etc.	69 million yen
Techno-Yard buildings	39 million yen
Laboratory devices and equipment	38 million yen
Techno-Yard devices and equipment	13 million yen

Disposal of important facilities, etc.

Except for disposal in conjunction with regular updates to existing facilities, the Group did not dispose of important facilities, etc.

## XV. Dividend Policy

The Company has consistently viewed the return of profits to shareholders as one of the important management issues, and thus follows a basic policy of maintaining and improving stable dividends.

The Company has stipulated in its articles of incorporation that “interim dividends may be executed as set forth in Article 454, paragraph 5 of the Companies Act.” Year-end dividends are determined by the Annual General Meeting of Shareholders, and interim dividends are determined by the Board of Directors’ meeting.

As a result of a comprehensive consideration of business performance in the fiscal year under review, future business development trends, and changes in earnings and the financial condition based on the policy described above, with regard to dividends for the fiscal year under review, a year-end dividend of 25 yen per share is to be approved at the Annual General Meeting of Shareholders to be held on March 28, 2017.

Aiming to further strengthening our management base, we will effectively utilize retained earnings for research and development and capital expenditures in new technology and products with an eye to ensuring the Group’s on-going development in the future.

Dividends from retained earnings in the fiscal year under review are as follows.

Resolution date	Total dividends (Millions of yen)	Dividends per share (Yen)
March 28, 2017 Resolution at the Annual General Meeting of Shareholders	126	25

## XVI. Status of Business

[Overview of business performance, etc.]

### Business performance

Japanese economy in the fiscal year under review (January to December 2016) saw lower growth rates due to the impact of overseas economic slowdowns, and fluctuations in currency exchange rates. Though a gradual recovery trend was underpinned by an increase in public demand and a bottoming out of private consumption, there was increased uncertainty about the future due to impacts seen coming from the Chinese economy, the EU Brexit issue, and decisions by the Trump administration in the US.

Amid this business environment, the Group continued to promote strategic products for the three markets of “cleanliness, health, and safety” and to accept new orders for new properties. As a result, revenue and earnings were better than during the previous fiscal year.

Net sales were 7,936 million yen (an increase of 1.9% over the previous fiscal year). Full-scale operation of overseas production subsidiaries and improvements in operating efficiency by entire company contributed to income, resulting in operating income of 634 million yen (an increase of 20.5% over the previous fiscal year) and ordinary profit of 554 million yen (an increase of 23.5% over the previous fiscal year). Net income attributable to owners of parent was 388 million yen (an increase of 63.3% over the previous fiscal year).

Note that the Company has adopted “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, September 13, 2013) and other standards, from the fiscal year under review, and thus “net income” has been changed to “net income attributable to owners of parent.”

Business performance by segment is as follows.

#### (Mask-related Business Segment)

Sales of industrial masks such as dust and gas masks intended mainly for the manufacturing industry remained stronger than expected. Moreover, there has been a boost in sales since the end of the previous fiscal year due to rapidly increasing demand for “BL-Series” of breath-response PAPR which is used as a countermeasure against refractory ceramic fibers. Moreover, sales of disposable masks have increased in response to greater demand for medical and general purpose disposable masks (including in China). As a result, total sales for this business were 7,112 million yen (an increase of 2.2% over the previous fiscal year).

#### (Other businesses segments, including environment-related businesses)

Concerning sales of the clean zone equipment and systems “KOACH,” unit sales increased compared with the previous fiscal year due to an increase in new and repeat use of the bench type “Stand KOACH” by private-sector companies as a result of collaborating with agencies and dealers in sales activities to promote “Actual Clean (cleanliness during actual work),” but net sales were 824 million yen (a decrease of 0.4% over the previous fiscal year) because we were not able to compensate for the absence of the large building room type system (KAGRA, telescope facility employing gravitational wave technology) we delivered in the previous fiscal year.



## XVII. Segment Information

### (1) Production performance

Production performance by segment for the current fiscal year is as follows.

Segment name	Current fiscal year (January 1, 2016 through December 31, 2016)	Compared to the previous fiscal year (%)
Mask-related business (Thousands of yen)	8,517,565	119.8
Other businesses (Thousands of yen)	862,558	103.7
Total (Thousands of yen)	9,380,123	118.1

(Notes) 1. Amounts are based on sales price.

2. Consumption taxes, etc. are not included in the amounts shown above.

### (2) Status of orders received

The Group engages in make-to-stock production and so there are no items to report.

### (3) Sales performance

Sales performance by segment for the current fiscal year is as follows.

Segment name	Current fiscal year (January 1, 2016 through December 31, 2016)	Compared to the previous fiscal year (%)
Mask-related business (Thousands of yen)	7,112,701	102.2
Other businesses (Thousands of yen)	824,008	99.6
Total (Thousands of yen)	7,936,710	101.9

(Notes) 1. Consumption taxes, etc. are not included in the amounts shown above.

2. The sales performance by major transaction partners and the ratio of sales performance to total sales performance for the last two fiscal years are as follows.

Transaction partner	Previous fiscal year		Current fiscal year	
	Amount (Thousands of yen)	Ratio (%)	Amount (Thousands of yen)	Ratio (%)
MIDORI ANZEN YOUHIN CO., LTD.	1,408,949	18.1	1,451,942	18.3

(Note) Consumption taxes, etc. are not included in the amounts shown above.

## XVIII. Issues to be Addressed

To further improve its corporate value and realize sustainable development and growth, the Group sets the three management philosophies of “(1) nurture people, (2) nurture technology, and (3) nurture new markets in the fields of cleanliness, health, and safety,” and these philosophies are the long-range issues that guide its efforts.

### (1) Nurture people

The Group has operated for over 20 years according to its human resource management system (Koken total human resource system) called “HOPES” (High-ideal Open-minded Personnel Affairs by various Evaluation System), which was established based on the concepts that “companies exist to both help their employees to thrive and to stay in business,” and that “it is critical that a company’s activities enhance the happiness and dignity of the employees they hire.”

This is a human resource system that accepts diversity, and evaluates and manages each and every employee independently from three perspectives; professional skill, ability to attain business performance, and management ability, respectively. With this system as the foundation, employees have taken it upon themselves to gain experience, to become key players in supporting various fields of business, to realize the original achievements of the Company, and to contribute to society.

It is the Group’s intention to use “HOPES” as an unwavering pillar for growing and utilizing diverse human resources.

### (2) Nurture technology

To thoroughly infuse a philosophy of research and development based on the concepts of “never follow other companies” and “conduct thorough research”, which has been carried down since the founding of the Group into each and every one of our technical developers, and thus, we have established a matrix-based R&D structure and have created and have been operating mechanisms for personnel evaluations such as adopting a Meister system for enhancing technical expertise, and holding monthly research presentations, which are given by all technical developers and attended by all directors. As a result, we have gone on to produce many products that were the only ones or the best ones of their type, and thus, at the end of 2016, we hold a combined total of 166 domestic and 80 foreign intellectual properties including patents, designs, trademarks, and prior use rights.

The Group has decided to construct the “Hanno Advanced Technology Center” as a research and development base for creating advanced technologies designed to contribute to business expansion and development in the fields of “cleanliness, health, and safety.” The center is scheduled for completion in 2018, and new technical innovations will begin to emerge from the center after that.

### (3) Nurture new markets in the fields of cleanliness, health, and safety

The Group creates and cultivates new markets and aims to solve issues in various fields by offering various solutions based on proprietary technologies.

<Cleanliness> Become the standard for technology in the field of cleanliness

The super clean zone creator “KOACH” are revolutionary products for creating super clean zones that employ new-paradigm concepts. The Group is turning common sense in the cleanliness environment on its ear and contributing to technical innovation via Super Cleanliness (the world’s highest level of cleanliness) and Actual Cleanliness (cleanliness during actual work) created by “KOACH.”

Moreover, we are set to begin sales of the new “Pureness Zero One” cleanroom gloves that we developed jointly with Okamoto Industries, Inc., which will be a new business in this field. This product is a glove born from the clean environment at the world’s highest level, which will not only enhance one-stop solutions in the Group’s clean business, but will also play a big role in the public awareness activities for “Actual Cleanliness” currently being promoted.

<Health> Resolve issues and develop new business

The disposable mask “Hi-Luck” series has been acknowledged for its superior fit properties and continues to expand market shares as a countermeasure against infection, but, in order to create an even firmer position for the product, we will work toward stable share expansion by conducting activities to raise awareness of

the importance of fit properties through the use of fitting measurement services.

We will continue to sell and take orders for the automatic endoscope washer “Kagami-Naishi” that reliably wash and disinfect at a low running cost based on the strength of good feedback from existing customers.

While having high antibacterial, mildew-resistant, and antiviral properties, “IMADESE<sup>®</sup>,” a copper-based antibacterial agent, also has high bio-safety and eco-friendly properties. Working hard to nurture Imadeze as a major pillar of our business, we are continually finding solutions to the challenges posed by market expansion.

<Safety> Continue to pursue activities that are truly useful

We will continue activities that help people understand that “masks confer no benefit unless they fit properly,” and we will thus continue to disseminate products, both domestically and overseas, that have added functions for enhancing fit and protective properties, such as masks with silicon facepieces, disposable masks with free-fit lips, and masks with built-in fit checkers.

We will further disseminate “BL-Series” of breath-response PAPR which are called as “ideal mask” and “ultimate masks” from the perspective of safety and comfort, for use in working environments with harsh conditions or with large numbers of elderly people to help reduce the strain of such work.

We will make appeals to relevant agencies regarding the necessity of masks as countermeasures against pandemics and emergencies caused by avian influenza, Ebola hemorrhagic fever, volcanic eruptions, earthquakes, etc., and will make recommendations for the stockpiling of masks, and for the implementation of training on how to wear masks.

## **XIX. Financial Instruments**

### **1. Matters concerning the status of financial instruments**

#### **(1) Policy with regard to financial instruments**

The Group is procuring funds needed, taking into consideration the market environment and long-term and short-term balances. Furthermore, the Group's policy is to operate funds using highly safe short-term deposits, etc., and not to conduct speculative transactions. The Group also has a policy of using derivative transactions to avoid interest rate fluctuation risk and foreign exchange fluctuation risk, and not for conducting speculative transactions.

#### **(2) Description and risks of financial instruments, and the risk management system for said financial instruments**

Notes and accounts receivable - trade, which are operating receivables, are exposed to customer credit risk. However, we manage such risk by managing due dates and balances for each customer.

Investments in securities are exposed to the risk of fluctuations in market prices. However, we manage such risk by keeping track of the fair value of listed stocks, etc. on a quarterly basis, and by regularly monitoring our financial situation and other factors with respect to unlisted stocks, etc.

Most accounts payable - trade and accounts payable - other, which are operating obligations, are due within two months, and thus are exposed to liquidity risk. However, we manage liquidity risk by maintaining on hand liquidity at a certain level.

Short-term loans payable, current portion of long-term debt, long-term debt, and lease obligations related to finance lease transactions are mainly for the purpose of financing working capital and capital expenditures, and thus are exposed to liquidity risk. However, we manage liquidity risk by maintaining on hand liquidity at a certain level. Furthermore, since loans are exposed to interest rate fluctuation risk, we consider the use of derivative transactions (interest rate swaps), and implement them when necessary, as hedging instruments.

For foreign currency-denominated receivables and obligations and forecasted transactions denominated in foreign currencies, which are based on transactions with subsidiaries and are also exposed to foreign exchange fluctuation risk, we consider the use of derivative transactions (foreign exchange contracts), and implement them when necessary, as hedging instruments of such transactions.

The Accounting Department obtains approval to execute and manage derivative transactions from responsible authorities in accordance with accounting regulations, etc. In addition, we limit derivative transaction contract holders to major financial institutions with high credit ratings only, and thus we believe that there is almost no so-called credit risk that arises from contractual default by counterparties. Please note that, in accordance with internal regulations, etc., our policy is to not engage in derivative transactions other than those for the purpose of hedging risk.

#### **(3) Supplementary explanation about matters concerning the fair value, etc. of financial instruments**

The fair value of financial instruments includes the value based on the market price, and the value reasonably calculated when there is no market price. Since a fluctuation factor is also included in the calculation of the above value, the value may vary by adopting different assumptions, etc.

### **2. Matters relating to the fair value, etc. of financial instruments**

The amount recorded in the consolidated balance sheet, fair value, and the difference between the two, are as follows. Note that items for which fair value is deemed to be extremely difficult to determine are not included (refer to (Note) below).

(Note) Financial instruments for which fair value is deemed to be extremely difficult to determine

(Thousands of yen)

Classification	Previous fiscal year (December 31, 2015)	Current fiscal year (December 31, 2016)
Unlisted stocks	26,061	3,246

\*There are no market prices for unlisted stocks and so it is impossible to estimate future cash flows, which, in turn, makes it extremely difficult to determine fair value, and thus these stocks are not subject to fair value disclosure.

## XX. Fixed Assets

### 1. Status of major facilities

#### (1) Submitting company

The Company has Techno-Yards (manufacturing bases) in five locations in Japan.

The Hanno Laboratory serves as the Company's research facility.

The Company also possesses sales offices in 16 locations, the Saitama Logistics Center, and the Ninomiya Training Center, all located in Japan.

The main facilities among the facilities described above are as follows.

As of December 31, 2016

Business office name (location)	Segment name	Description of facility	Book value						Number of employees (persons)
			Buildings and structures (Thousands of yen)	Machinery, equipment and vehicles (Thousands of yen)	Land (Thousands of yen) (Area m <sup>2</sup> )	Lease assets (Thousands of yen)	Others (Thousands of yen)	Total (Thousands of yen)	
Head office (Chiyoda-ku, Tokyo)	Mask-related business and other businesses	Company management work	170,137	184	1,636,000 (283.91 m <sup>2</sup> )	49,386	8,477	1,864,186	102
Sayama Techno-Yard (Sayama City, Saitama Prefecture)		Production facility	273,800	155,111	792,433 (11,430.44 m <sup>2</sup> )	1,585	4,863	1,227,795	16
Gunma Techno-Yard (Midori City, Gunma Prefecture)		Production facility	355,090	85,731	405,140 (9,256.83 m <sup>2</sup> )	38,788	14,599	899,349	15
Tokorozawa Techno-Yard (Tokorozawa City, Saitama Prefecture)		Production facility	55,760	3,683	177,214 (1,915.55 m <sup>2</sup> )	8,022	4,030	248,711	11
Nakai Techno-Yard (Nakai-machi, Kanagawa Prefecture)		Production facility	91,950	230,813	325,449 (1,434.94 m <sup>2</sup> )	668	5,552	654,435	8
Ranzan Techno-Yard (Ranzan-machi, Saitama Prefecture)		Production facility	37,309	29,306	–	–	3,330	69,946	4
Hanno Laboratory (Hanno City, Saitama Prefecture)		Research facility	20,632	4,738	31,217 (3,637.49 m <sup>2</sup> )	478	33,696	90,764	10
Saitama Logistics Center (Ranzan-machi, Saitama Prefecture)		Logistics facility	96,566	1,428	1,242,116 (21,336.07 m <sup>2</sup> )	241	3,146	1,343,498	4

(Notes) 1. Consumption taxes, etc. are not included in the amounts shown above.

2. Since the Ranzan Techno-Yard is located on the same site as the Saitama Logistics Center, all the land of that site is shown under the Saitama Logistics Center, while monetary amounts are classified in accordance with the area used by each facility and are shown for each facility separately.

## (2) Overseas subsidiaries

As of December 31, 2016

Company name	Business office name (location)	Segment name	Description of facility	Book value						Number of employees (persons)
				Buildings and structures (Thousands of yen)	Machinery, equipment and vehicles (Thousands of yen)	Land (Thousands of yen) (Area m <sup>2</sup> )	Lease assets (Thousands of yen)	Others (Thousands of yen)	Total (Thousands of yen)	
SIAM KOKEN LTD.	Chonburi Province, Thailand	Mask-related business	Production facility	187,642	144,901	63,509 (13,430.40 m <sup>2</sup> )	—	21,902	417,955	46

(Note) Consumption taxes, etc. are not included in the amounts shown above.

### 2. Plans for the new establishment and disposal of facilities

The Group's capital expenditures are formulated after comprehensively considering economic trends, investment efficiency, etc.

At the end of the fiscal year under review, there are no plans to newly establish or dispose any important facilities.

As of this document's submission date, the plans for newly establishing and disposing important facilities after the end of the fiscal year under review were as follows.

#### (1) New establishment of important facilities

Company name and business office name	Location	Segment name	Description of facility	Planned investment amount		Financing method	Scheduled start and completion dates		Increased capacity after completion
				Total (Millions of yen)	Amount already paid (Millions of yen)		Start	Completion	
Hanno Advanced Technology Center	Hanno City, Saitama Prefecture	Mask-related business and other businesses	Research facility	2,700	17	Company resources and loans	May 2017	March 2018	—

(Note) Consumption taxes, etc. are not included in the amounts shown above.

#### (2) Disposal of important facilities, etc.

No items to report.

## XXI. Loans

[Schedule of loans, etc.]

Classification	Balance at beginning of current term (Thousands of yen)	Balance at end of current term (Thousands of yen)	Average interest rate (%)	Repayment deadline
Short-term loans payable	1,400,000	1,400,000	0.53	—
Current portion of long-term debt	1,259,000	1,219,500	0.89	—
Current portion of lease obligations	38,202	46,099	—	—
Long-term debt (Excluding those to be repaid within one year)	3,156,500	3,107,000	0.82	2018 through 2025
Lease obligations (Excluding those to be repaid within one year)	67,616	60,599	—	2018 through 2020
Other interest-bearing liabilities	—	—	—	—
Total	5,921,319	5,833,199	—	—

- (Notes) 1. The weighted average interest rate on the year-end balance of loans is stated for the average interest rate.
2. The average interest rate is omitted for lease obligations because the lease obligations recorded in the consolidated balance is the amount before deducting the interest equivalent amount included in the lease payments.
3. The scheduled repayment amounts for long-term debt and lease obligations (excluding those to be repaid within one year) for the five years following the date of consolidated balance sheet are as follows.

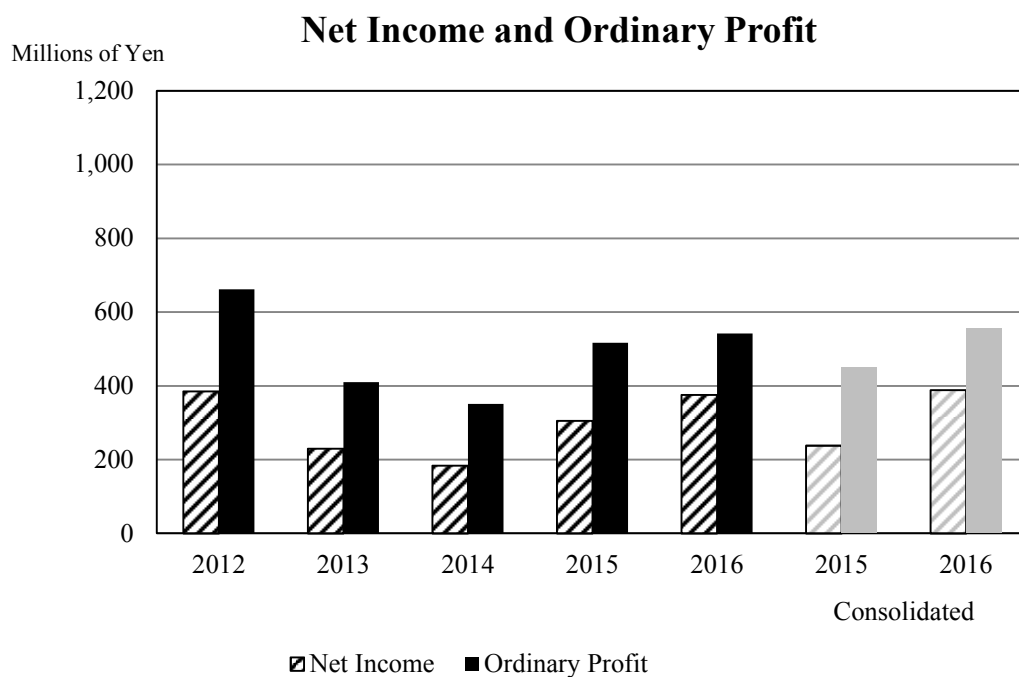
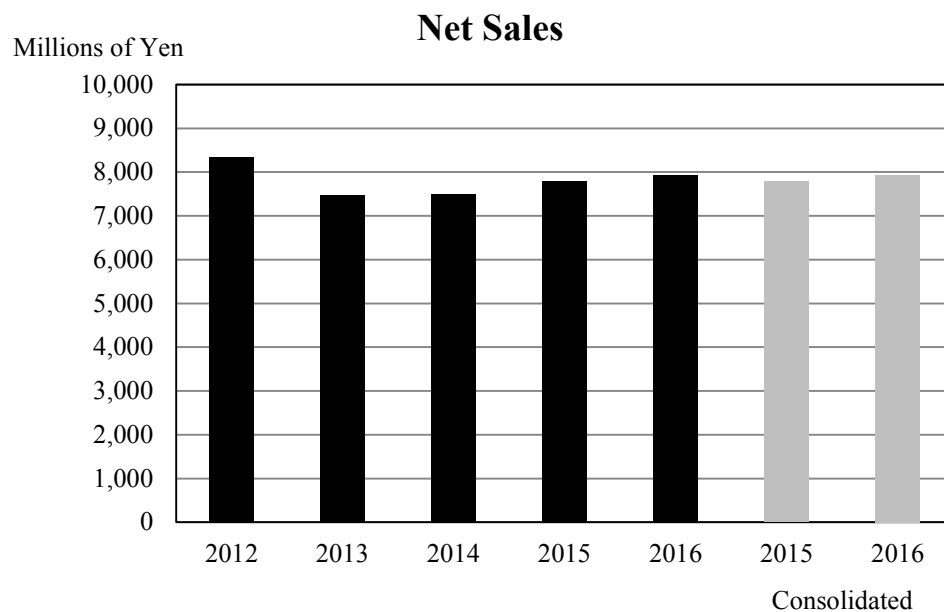
	More than one year to two years (Thousands of yen)	More than two years to three years (Thousands of yen)	More than three years to four years (Thousands of yen)	More than four years to five years (Thousands of yen)
Long-term debt	922,000	650,000	1,090,000	200,000
Lease obligations	38,486	21,978	134	—

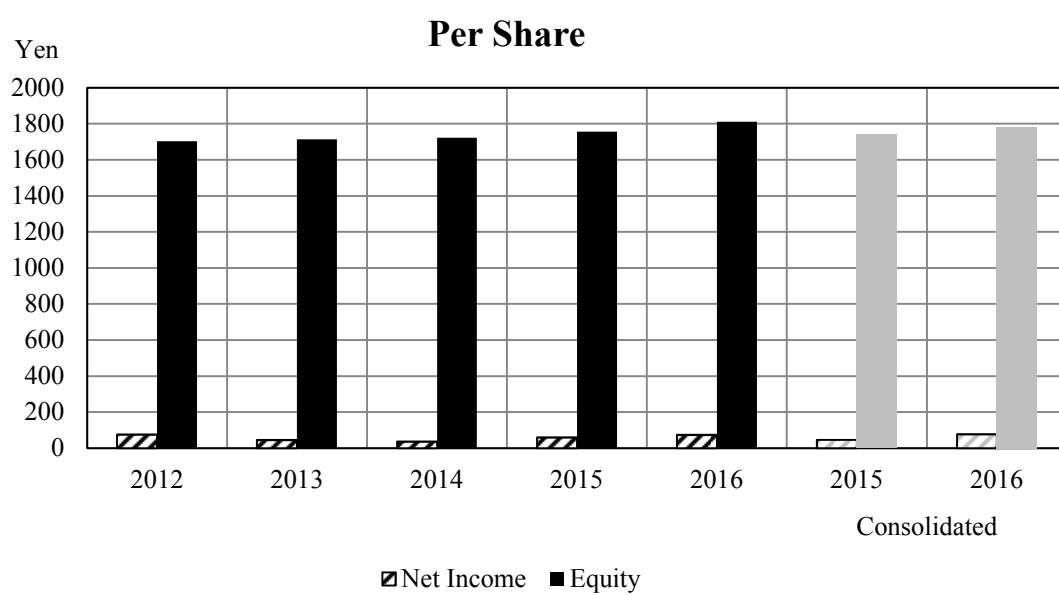
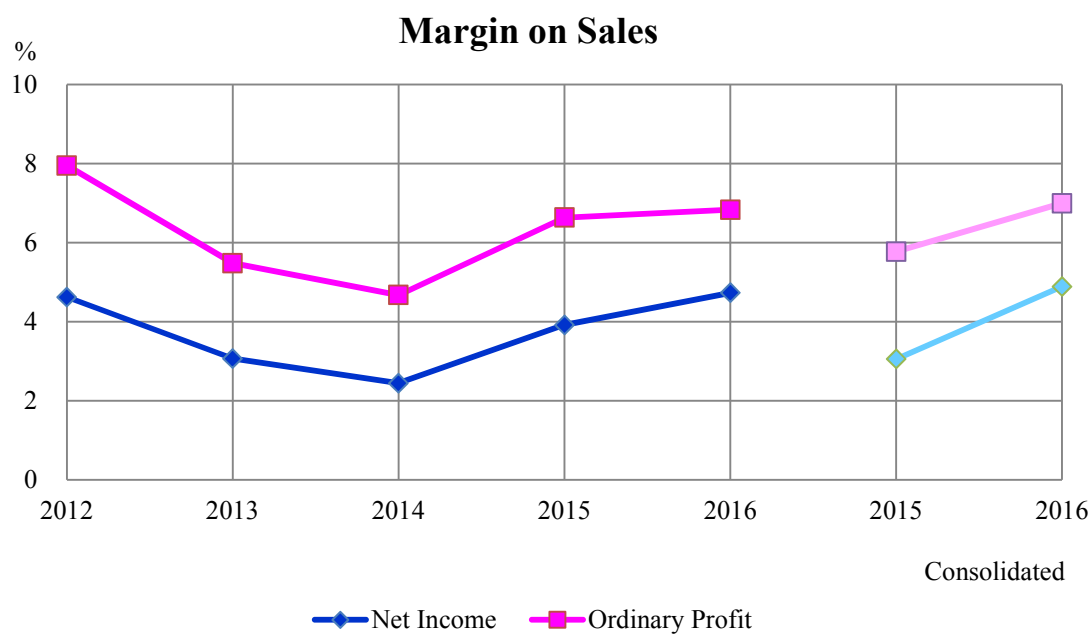
[Schedule of asset retirement obligations]

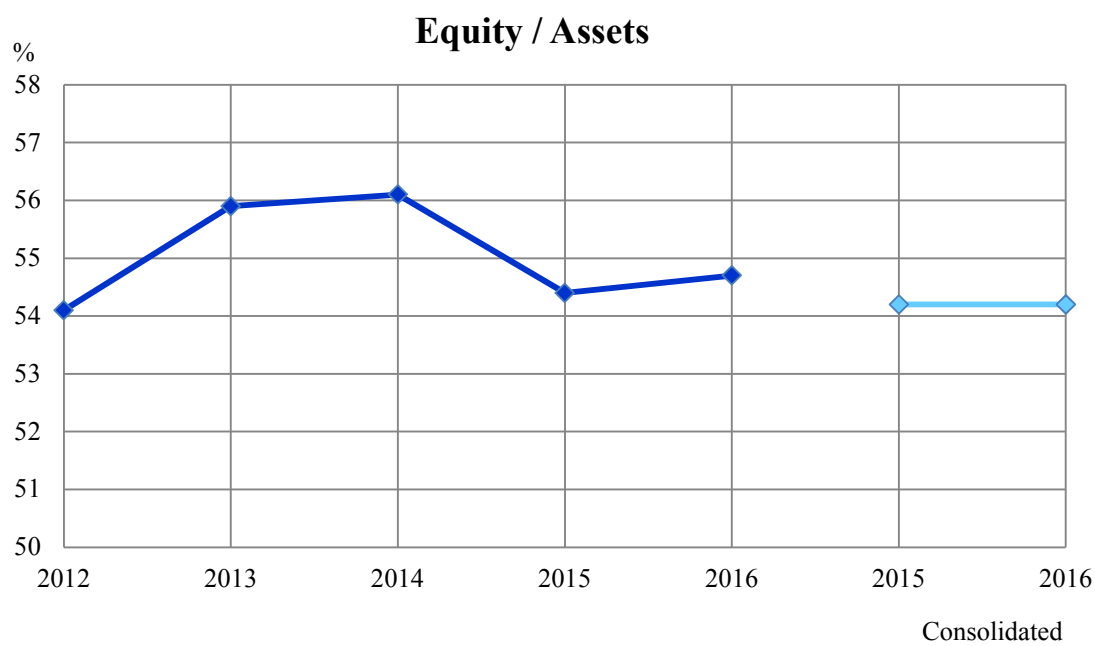
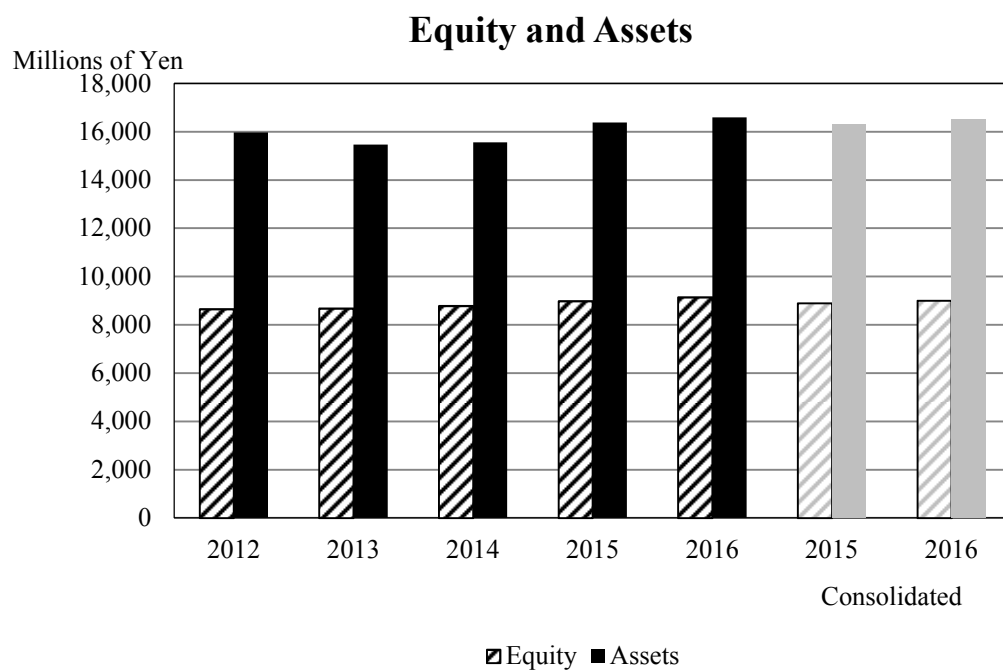
Since the amount of asset retirement obligations at the beginning and the end of the fiscal year under review was 1/100 or less of the total of liabilities and net assets at the beginning and the end of the fiscal year under review, said obligations are omitted in accordance with the provisions of Article 92-2 of the Ordinance on Consolidated Financial Statements.

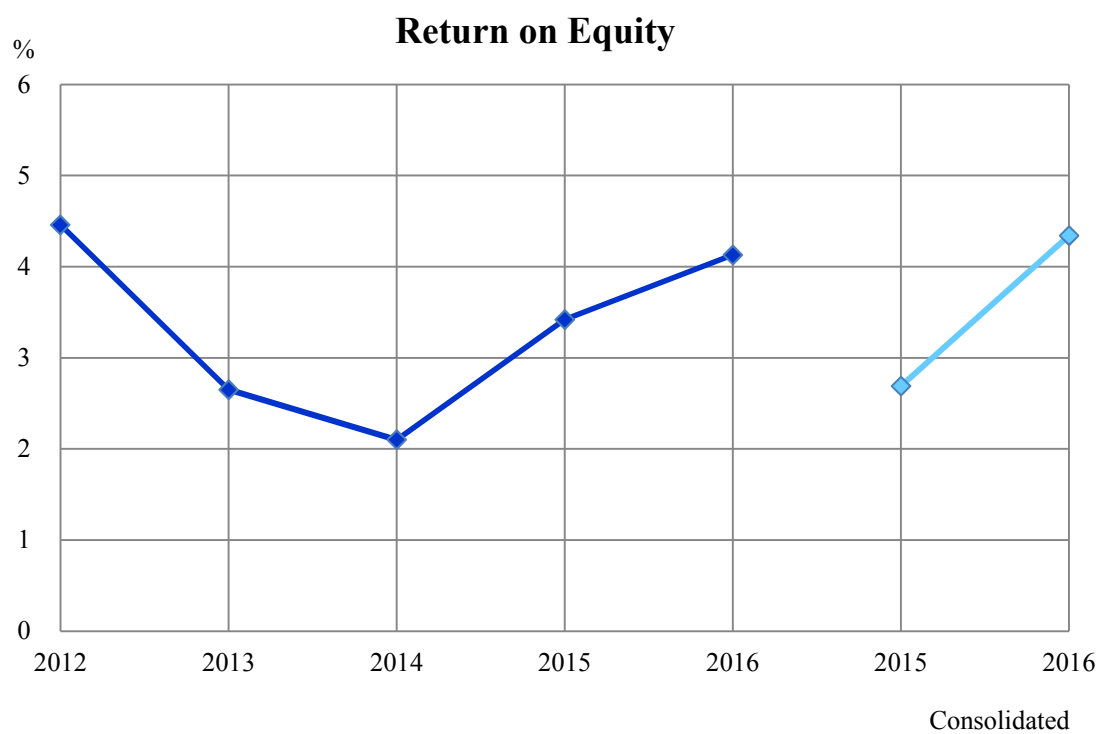
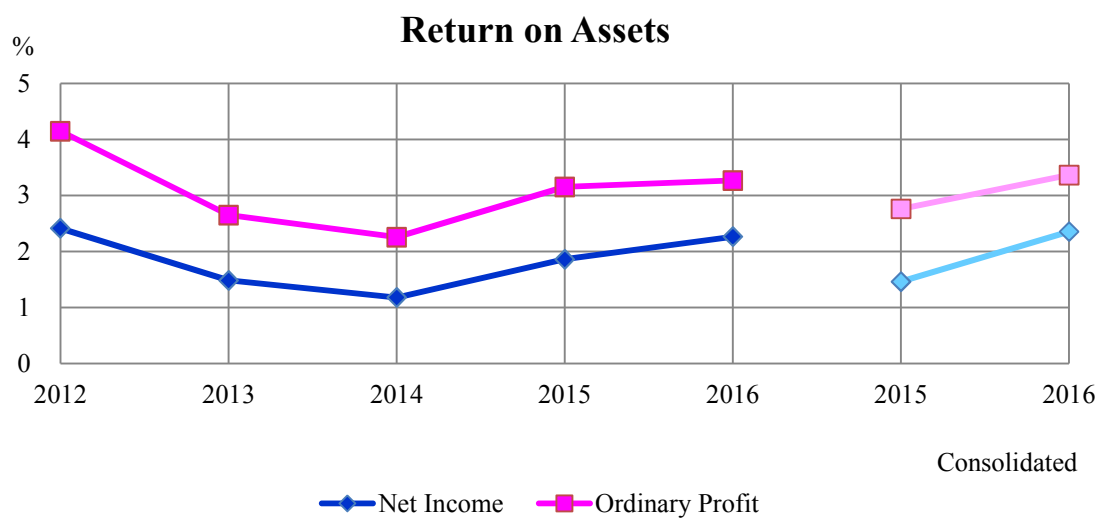


## XXII. Summary of Selected Financial Data (Graphs)









## XXIII. Consolidated Financial Statements

### (1) Consolidated financial statements

#### 1) Consolidated balance sheet

(Thousands of yen)

	As of December 31, 2015	As of December 31, 2016
<b>Assets</b>		
Current assets		
Cash and deposits	1,777,329	1,999,009
Notes and accounts receivable - trade	3,554,255	3,392,798
Merchandise and finished goods	461,943	680,173
Work in process	302,936	313,168
Raw materials and supplies	399,356	436,870
Deferred tax assets	186,760	220,744
Others	93,480	91,055
Allowance for doubtful accounts	(4,000)	(4,000)
Total current assets	6,772,062	7,129,820
Fixed assets		
Tangible fixed assets		
Buildings and structures	4,193,662	4,174,273
Accumulated depreciation	(2,776,848)	(2,851,713)
Buildings and structures, net	1,416,813	1,322,559
Machinery, equipment and vehicles	4,205,057	4,297,785
Accumulated depreciation	(3,488,012)	(3,637,498)
Machinery, equipment and vehicles, net	717,044	660,286
Land	5,837,802	5,829,290
Lease assets	210,960	133,171
Accumulated depreciation	(156,020)	(63,718)
Lease assets, net	54,940	69,453
Construction in progress	123,864	117,566
Others	2,302,583	2,296,862
Accumulated depreciation	(2,171,854)	(2,175,382)
Others, net	130,729	121,479
Total tangible fixed assets	8,281,195	8,120,636
Intangible fixed assets		
Lease assets	43,487	29,718
Others	43,422	41,187
Total intangible fixed assets	86,910	70,906
Investments and other assets		
Investments in securities	85,477	101,449
Deferred tax assets	153,597	159,021
Directors' retirement benefit insurance premiums	833,823	835,707
Others	85,639	91,006
Allowance for doubtful accounts	(4,000)	(4,000)
Total investments and other assets	1,154,537	1,183,184
Total fixed assets	9,522,642	9,374,726
Total assets	16,294,705	16,504,547

(Thousands of yen)

	As of December 31, 2015	As of December 31, 2016
<b>Liabilities</b>		
Current liabilities		
Accounts payable - trade	222,612	202,129
Short-term loans payable	1,400,000	1,400,000
Current portion of long-term debt	1,259,000	1,219,500
Accounts payable - other	123,846	142,547
Accrued expenses	164,718	174,817
Lease obligations	38,202	46,099
Income taxes payable	130,816	138,632
Provision for bonuses	174,000	235,000
Provision for directors' and corporate auditors' bonuses	20,250	27,400
Others	123,031	165,855
Total current liabilities	3,656,479	3,751,982
Long-term liabilities		
Long-term debt	3,156,500	3,107,000
Provision for directors' and corporate auditors' retirement benefits	504,000	539,000
Provision for stock benefits	—	16,954
Provision for directors' stock benefits	—	5,750
Asset retirement obligations	15,522	15,739
Lease obligations	67,616	60,599
Others	3,191	3,209
Total long-term liabilities	3,746,830	3,748,253
Total liabilities	7,403,310	7,500,236
<b>Net assets</b>		
Shareholders' equity		
Common stock	674,265	674,265
Capital surplus	527,936	527,963
Retained earnings	7,626,629	7,887,822
Treasury stock	(40,920)	(134,796)
Total shareholders' equity	8,787,910	8,955,254
Other comprehensive income		
Valuation difference on available-for-sale securities	16,671	28,156
Deferred gains or losses on hedges	1,031	—
Foreign currency translation adjustment	25,238	(39,643)
Total other comprehensive income	42,940	(11,487)
Share subscription rights	60,544	60,544
Total net assets	8,891,395	9,004,311
Total liabilities and net assets	16,294,705	16,504,547

2) Consolidated statement of income and consolidated statement of comprehensive income  
Consolidated statement of income

(Thousands of yen)

	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2016
Net sales	7,785,973	7,936,710
Cost of goods sold	4,241,028	4,172,496
Gross profit on sales	3,544,945	3,764,213
Selling, general and administrative expenses	3,018,544	3,129,833
Operating income	526,400	634,380
Nonoperating income		
Interest income	321	196
Dividend income	3,365	2,863
Commissions received	8,605	8,676
Temporary assigned personnel payments received	4,102	4,087
Others	10,352	3,895
Total nonoperating income	26,747	19,720
Nonoperating expenses		
Interest expenses	54,606	48,844
Sales discounts	9,750	10,234
Foreign exchange losses	18,120	22,126
Others	21,399	18,016
Total nonoperating expenses	103,877	99,221
Ordinary profit	449,270	554,878
Extraordinary losses		
Loss on retirement of fixed assets	15	164
Total extraordinary losses	15	164
Net income before taxes and other adjustments	449,255	554,714
Corporate, inhabitant and enterprise taxes	183,000	210,000
Deferred taxes	28,577	(43,385)
Total income taxes	211,577	166,614
Net income	237,677	388,099
Net income attributable to owners of parent	237,677	388,099

# Consolidated statement of comprehensive income

(Thousands of yen)

	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2016
Net income	237,677	388,099
Other comprehensive income		
Valuation difference on available-for-sale securities	420	11,484
Deferred gains or losses on hedges	1,031	(1,031)
Foreign currency translation adjustment	(6,905)	(64,882)
Total other comprehensive income	(5,453)	(54,428)
Comprehensive income	232,224	333,671
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	232,224	333,671
Comprehensive income attributable to non-controlling interests	—	—



### 3) Consolidated statement of changes in net assets

Fiscal year ended December 31, 2015 (January 1, 2015 through December 31, 2015)

(Thousands of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at beginning of current term	674,265	527,936	7,525,364	(58,247)	8,669,318
Changes in items during the term					
Dividends from retained earnings			(126,681)		(126,681)
Net income attributable to owners of parent			237,677		237,677
Exercise of stock option			(9,730)	17,326	7,596
Other changes in non-shareholders' equity items during the term (net)					—
Total changes during the term	—	—	101,265	17,326	118,592
Balance at end of current term	674,265	527,936	7,626,629	(40,920)	8,787,910

	Other comprehensive income				Share subscription rights	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Total other comprehensive income		
Balance at beginning of current term	16,250	—	32,143	48,394	57,316	8,775,028
Changes in items during the term						
Dividends from retained earnings						(126,681)
Net income attributable to owners of parent						237,677
Exercise of stock option						7,596
Other changes in non-shareholders' equity items during the term (net)	420	1,031	(6,905)	(5,453)	3,228	(2,225)
Total changes during the term	420	1,031	(6,905)	(5,453)	3,228	116,366
Balance at end of current term	16,671	1,031	25,238	42,940	60,544	8,891,395

Fiscal year ended December 31, 2016 (January 1, 2016 through December 31, 2016)

(Thousands of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at beginning of current term	674,265	527,936	7,626,629	(40,920)	8,787,910
Changes in items during the term					
Dividends from retained earnings			(126,906)		(126,906)
Net income attributable to owners of parent			388,099		388,099
Purchase of treasury stock				(93,849)	(93,849)
Disposal of treasury stock		26		47,241	47,268
Purchase of treasury stock for stock benefit trust				(47,268)	(47,268)
Other changes in non-shareholders' equity items during the term (net)					—
Total changes during the term	—	26	261,193	(93,875)	167,343
Balance at end of current term	674,265	527,963	7,887,822	(134,796)	8,955,254

	Other comprehensive income				Share subscription rights	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Total other comprehensive income		
Balance at beginning of current term	16,671	1,031	25,238	42,940	60,544	8,891,395
Changes in items during the term						
Dividends from retained earnings						(126,906)
Net income attributable to owners of parent						388,099
Purchase of treasury stock						(93,849)
Disposal of treasury stock						47,268
Purchase of treasury stock for stock benefit trust						(47,268)
Other changes in non-shareholders' equity items during the term (net)	11,484	(1,031)	(64,882)	(54,428)	—	(54,428)
Total changes during the term	11,484	(1,031)	(64,882)	(54,428)	—	112,915
Balance at end of current term	28,156	—	(39,643)	(11,487)	60,544	9,004,311

## 4) Consolidated statement of cash flows

(Thousands of yen)

	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2016
Cash flows from operating activities		
Net income before taxes and other adjustments	449,255	554,714
Depreciation	469,417	435,510
Increase (decrease) in provision for directors' and corporate auditors' retirement benefits	(6,100)	35,000
Increase (decrease) in provision for bonuses	28,000	61,000
Increase (decrease) in provision for directors' and corporate auditors' bonuses	5,800	7,150
Increase (decrease) in provision for stock benefits	—	16,954
Increase (decrease) in provision for directors' stock benefits	—	5,750
Interest income	(321)	(196)
Dividend income	(3,365)	(2,863)
Interest expenses	54,606	48,844
Decrease (increase) in notes and accounts receivable	(69,962)	161,457
Decrease (increase) in inventory	(102,032)	(274,017)
Increase (decrease) in notes and accounts payable	64,327	(18,374)
Others	(20,490)	57,290
Subtotal	869,135	1,088,219
Interest and dividend income	3,687	3,060
Interest expenses	(54,039)	(49,388)
Income taxes and others	(111,198)	(211,663)
Net cash provided by operating activities	707,584	830,228
Cash flows from investing activities		
Payments for acquisition of tangible fixed assets	(1,276,790)	(298,080)
Proceeds from sale of tangible fixed assets	69,456	61,465
Others	(10,580)	(9,032)
Net cash used in investing activities	(1,217,915)	(245,647)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(100,000)	—
Proceeds from long-term debt	2,000,000	1,300,000
Payments of long-term debt	(1,333,000)	(1,389,000)
Purchase of treasury stock	—	(141,117)
Proceeds from sale of treasury stock	—	47,268
Dividends	(126,444)	(126,639)
Others	(57,690)	(43,944)
Net cash provided by (used in) financing activities	382,864	(353,433)
Effect of exchange rate fluctuations on cash and cash equivalents	(6,789)	(9,466)
Increase (decrease) in cash and cash equivalents	(134,255)	221,680
Cash and cash equivalents at beginning of term	1,911,584	1,777,329
Cash and cash equivalents at end of term	1,777,329	1,999,009

## XXIV. Corporate Data

### Basic Information (As of December 31, 2016)

Trade name:	KOKEN LTD.
Established:	May 1943
Listed market:	JASDAQ Standard market of Tokyo Stock Exchange (Securities Code: 7963)
Listed:	December 2004
Fiscal year:	From January 1 to December 31
Capital stock:	674 million yen
Number of employees:	268 persons (Consolidated)
Head office:	7, Yonbancho, Chiyoda-ku, Tokyo
Telephone:	+81-3-5276-1911
Consolidated subsidiaries:	SIAM KOKEN LTD.

### Directors and Corporate Auditors (As of March 28, 2017)

Representative Director, Chairman	Masakazu Sakai
Representative Director, President	Tsutomu Murakawa
Representative Director, Executive Vice President	Nobuya Horiguchi
Senior Managing Director	Mitsuji Muramatsu
Senior Managing Director	Fumikazu Tanaka
Managing Director	Hideaki Ibata
Director	Toshiaki Nagasaka
Director, Advisor	Hiroyuki Sakai
Director*	Shinobu Sakurai
Standing Corporate Auditor	Toshio Akiyama
Standing Corporate Auditor	Yoshihiro Ito
Corporate Auditor**	Teruo Shinato
Corporate Auditor**	Nikko Haku

\* Outside Director    \*\* Outside Corporate Auditor

### Stock Status (As of December 31, 2016)

Total number of authorized shares:	20,000,000 shares
Total number of issued shares:	5,104,003 shares
Number of shareholders:	2,391

## Major shareholders (Top 10)

Name	Number of shares held (Thousands)	Shareholding ratio (%)
Masakazu Sakai	641	12.56
Hiroyuki Sakai	609	11.94
Sakai CHS Foundation	400	7.84
Resona Bank, Limited	244	4.79
Kaori Sakai	229	4.50
Rie Sakai	229	4.50
Mizuho Bank, Ltd. (Standing proxy: Trust & Custody Services Bank, Ltd.)	227	4.47
Miho Kuboi	226	4.43
Haruna Sakai	226	4.43
Sakai Tatemono Ltd.	166	3.26