

**For the Fiscal Year Ended December 31, 2019**

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**Annual Select<sup>®</sup> 2019**

**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.” With the goal of becoming a manufacturer that is second to none in research and development, Koken has pursued research and development with the aim of developing “first-of-their-kind” and “truly useful” products. As a result, we have succeeded in developing a lot of original products in the field of respiratory protective equipment to contribute to improving the health of workers.

Koken started business with dust masks as its core product and has established its position as the top manufacturer in the field of respiratory protective equipment. However, our mission is not to sell masks, but rather to help protect the safety and health of people. Based on this idea, we have developed innovative technologies in the fields of cleanliness, health, and safety, which has allowed us to develop a wide range of products besides masks, such as environment-related equipment and facilities designed to improve work environments and products that apply the technology of strongly acidic electrolyzed water and are totally different from conventional disinfectants. Our mission is to contribute to society based on our own technological innovation.

With the aim of transitioning to a new growth stage, we have adopted the management principles 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, and will continually strive to realize our management principles. Please stay tuned for future development of Koken’s new technologies and products in these fields.

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## I. President's Message

### Greeting

Allow me to introduce myself. My name is Tsutomu Murakawa, and I am honored and grateful to have the opportunity to serve as President for KOKEN LTD.

Firstly, I would like to express my heartfelt gratitude for your continued support and patronage to the Company.

Since its foundation, KOKEN LTD. has grown in the safety business domain with a focus on the development of respirators for industrial use. Having launched the cleanliness business domain with a focus on the recently developed KOACH, an open clean zone creator, we are now ready to step up to a new growth stage.

To realize this new growth, we have set forth three management principles, which could also be described as the Company's DNA: "Nurture people," "Nurture technology" and "Nurture new markets in cleanliness, health and safety business domains."

For the next generation, we will establish the health business domain as the third main pillar of operations and make each of three main pillars of business stand on its own. Everybody from the management down to each employee in the Company is now striving to implement these initiatives to achieve a stable and strongly growing company in the future.

We look forward to your continued understanding and support in the future.



### Announcement of Our Management Stance - Our Goal: Long-Term Sustainable Growth

At the KOKEN Group, we aim to achieve long-term sustainable growth based on our Management Principles through which we will contribute to society: (1) Nurture people, (2) Nurture technology and (3) Nurture new markets in cleanliness, health and safety business domains.

The current business environment surrounding our Group remains uncertain at home and abroad due to its fast and drastic change.

In these circumstances, while maintaining the unchanging long-term goal to nurture new markets in cleanliness, health, and safety business domains based on our own original technological innovations, we consider that (1) establishing specific targets and an action plan to achieve them every year and implementing them steadily and (2) achieving each year's targets by modifying the action plan quickly and flexibly to respond to ever-changing business environment are the best and surest ways to achieve long-term sustainable growth of our Group.

As mentioned above, to expand beyond the "safety" business and establish the "cleanliness" and the "health" business domains as the second and third pillars of operations, respectively, we are now striving to develop our own original products such as an open clean zone creator, an endoscope washer/disinfector with an automatic brushing function, an antivirus mask and a copper-based lactate antibacterial agent, which have never before existed, and cultivate and expand new markets for them.

By taking such a management stance, our immediate highest priority is not achieving rapid profit growth and capital efficiency, but rather nurturing new businesses in the domains of "cleanliness" and "health" businesses, which may eventually result in an improved operating margin as well as increased net sales and operating income.

In September 2018, the Advanced Technology Center was completed. We established it with the main objectives of not only increasing management efficiency by combining the research and development divisions that were located separately in each business office into one division in one location, but also promoting collaboration and joint research activities with external institutes and corporations, strengthening research and development, and promoting human resource development. I am sure that this new facility will help further increase the customer's trust and expectation for our Group's technologies and products and

enable us as an R&D hub to further expand the number and scale of cooperation and joint research with various external organizations and corporations that we have been involved in.

The Advanced Technology Center is expected to serve as a source of our Group's growth. We aim to achieve sustainable growth and enhance our corporate value by strengthening our capabilities to nurture technology while utilizing the Center as the research and development base.

We sincerely ask that our shareholders also look forward to our Group's continued growth from a longer-term perspective.

#### Operating Forecasts for the Next Fiscal Year Ending December 31, 2020

The economic environment in Japan and overseas is expected to remain increasingly uncertain for the next consolidated fiscal year ending December 31, 2020 against the background of the deteriorating geopolitical risks in the Middle-East as well as the expansion of the infectious disease caused by a new type of coronavirus. Given such severe business environment, the Group will try to promote research and development and product development led by the Advanced Technology Center as a central core, strengthen sales and develop new markets in each of the "cleanliness, health and safety" business domains.

In the mask-related business segment, by strengthening efforts to sell high-quality and high-value added product lines including "BL" series of Powered Air-Purifying Respirators (PAPR) and "Hi-Luck" series of disposable masks, the Group will try to generate new demand in the industrial mask market and increase market share in the mask market for healthcare settings and general consumers in a stable manner.

In the other business segment, working together with our distributors, we will focus on the promotion and expansion of sale of "KOACH" clean zone creator and "KAGAMINAISHI II G," the latest addition to our product line of automatic endoscope washer-disinfector.

There was a steep rise in the number of pneumonia patients caused by a new type of coronavirus that originated in Wuhan, China, and consequently, new coronavirus infection cases were reported in Japan, too. This coronavirus outbreak has led to a steep increase in the demand for surgical masks in healthcare settings and anti-virus masks for general use in Japan as well as in China.

Since the latter half of January 2020, an unusually large volume of orders and requests for new transactions have been placed at our group companies and the demand has reached the level where the quantity demanded cannot be satisfied in a short period of time despite our efforts of production increase. To help prevent the collapse of Japan's health services, the Group is prepared for the worst-case scenario by supplying surgical masks to the healthcare industry on a priority basis. If the outbreak ends sooner than expected, however, the reactionary decline in sales may follow as the purchased masks will be stockpiled for future use. Thus, the current situation creates a lot of uncertainty about the economic conditions over a long term.

Because of the current uncertainties mentioned above, we do not add the impact of the coronavirus outbreak to the Company's operating forecasts for the current period disclosed in our website. By closely monitoring the market conditions, an announcement will be made promptly in case a revision of the business forecasts becomes necessary.

The followings are forecasts by business segment:

#### (Mask-related business segment)

In addition to the development of tight-fitting masks, the Group will be continuously engaged in an enlightenment activity to promote the importance of mask fit in each of the industrial, the healthcare and the general consumer fields.

In the industrial field, as the Ministry of Health, Labour and Welfare of Japan has been studying measures for the prevention of health impairment for workers by chemical substances and chemical substance management in addition to the 9th Comprehensive Measures to Prevent Hazards Due to Dust, the Group is

striving not only to develop new products which are compliant to the strengthening of regulations and management regarding the particulates and chemical substances but also to exploit a new demand for our products by providing our customers with the appropriate information on such regulations.

In the healthcare settings and the general consumer field, by emphasizing our “Hi-Luck” series of anti-virus mask’s superior capability to prevent infection, the Group will try to increase market share of these disposable masks in public health centers and designated medical institutions for infectious diseases across the country. Also, the Group will try to raise general awareness about “Hi-Luck” series of disposable masks by offering relevant information effectively to the general public.

(Other businesses segments including environment-related businesses)

In March, 2019, the Japanese Industrial Standards (JIS) was revised to address the improvement in performance and stricter maintenance of cleanroom. This revision is expected to further increase the general awareness of the superior performance and functionality of the “KOACH,” an open clean zone creator that can materialize an “actual cleanliness” (meaning that cleanliness is maintained during actual operation) as well as provide “super-clean” air cleanliness, the world’s highest level of cleanliness.

In the food-related industry, as the “KOACH” was proved to be effective for reducing the risk of food contamination by microbes such as floating bacteria and fungi, there has been an increasing number of inquiries from people in the industry. Under the circumstances in which concrete countermeasures are sought after due to the rise in general awareness of environmental concerns including food loss, the “KOACH” is receiving attention as an ultimate device to solve such environmental problems fundamentally thanks to its unique functional features. Against this background, we are currently pursuing sales activities in cooperation with a firm which is engaged in food sanitation consulting and education.

The Group’s second generation endoscope washer-disinfector, KAGAMINAISHI II G, is equipped with the industry’s only automatic brushing function. It is a revolutionary new product that can significantly reduce the burden of nurses performing endoscopy with its user-friendly functions and the industry’s shortest cleaning and disinfection time due to the use of electrolyzed water. Since its launch in the market, it has been receiving a high evaluation from the doctors who saw it for the first time and hospital staff performing endoscope washing and disinfection. In the next fiscal year, by taking advantage of this high reputation, the Group is striving not only to capture the replacement demand of the existing customers but also to cultivate and expand new customer base.

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

	53rd term Fiscal year ended December 31, 2015	54th term Fiscal year ended December 31, 2016	55th term Fiscal year ended December 31, 2017	56th term Fiscal year ended December 31, 2018	57th term Fiscal year ended December 31, 2019
Net sales (Thousands of yen)	7,785,973	7,936,710	8,459,868	8,326,657	8,605,330
Ordinary profit (Thousands of yen)	449,270	554,878	662,262	420,502	528,689
Net income attributable to owners of parent (Thousands of yen)	237,677	388,099	492,485	358,873	371,610
Comprehensive income (Thousands of yen)	232,224	333,671	549,583	370,620	347,796
Net assets (Thousands of yen)	8,891,395	9,004,311	9,428,496	9,587,187	9,796,310
Total assets (Thousands of yen)	16,294,705	16,504,547	17,354,879	18,915,638	18,338,348
Net assets per share (Yen)	1,739.64	1,783.40	1,867.80	1,911.51	1,956.95
Net income per share (Yen)	46.84	77.23	98.19	71.55	74.21
Net income per share, fully diluted (Yen)	—	—	—	—	—
Equity / Assets (%)	54.2	54.2	54.0	50.7	53.4
ROE (%)	2.69	4.34	5.38	3.79	3.83
Price earnings ratio (Times)	36.29	20.33	22.66	16.39	18.25
Net cash provided by operating activities (Thousands of yen)	707,584	830,228	919,664	490,150	1,749,796
Net cash used in investing activities (Thousands of yen)	(1,217,915)	(245,647)	(1,123,419)	(2,207,994)	24,901
Net cash provided by (used in) financing activities (Thousands of yen)	382,864	(353,433)	(1,951)	1,084,156	(1,464,964)
Cash and cash equivalents at end of term (Thousands of yen)	1,777,329	1,999,009	1,808,206	1,180,916	1,492,229
Employees	265	268	289	286	282
[Separately, average number of temporary employees] (Persons)	[176]	[165]	[159]	[166]	[162]

- Notes:
1. Consumption taxes, etc. are not included in net sales.
  2. Net income per share, fully diluted is not presented for the 53rd term, the 54th term and the 55th term because there are no potential shares with dilutive effect.
  3. Net income per share, fully diluted is not presented for the 56th term and the 57th term because there are no potential shares.
  4. Effective from the 54th term, 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.

### 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 and sales of occupational safety and health-protection equipment and design and construction of fire-prevention equipment and workplace environment improvement equipment were transferred to this company.
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).
September, 2009	Saitama Logistics Center was established in Ranzan-machi, Saitama Prefecture. 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. (currently consolidated subsidiary) 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.
September, 2018	Advanced Technology Center was established in Hanno City, Saitama Prefecture.



## 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.

The development engineers of KOACH received the Prime Minister's Award (top honor) in the 6th Monodzukuri Nippon Grand Awards in recognition of its unique features and substantial benefits.



#### Push-Pull Ventilation System KOKENLAMINAR

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

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.

### Antibacterial Agent IMADEZE®

This is a copper-based lactate 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 a new type of coronavirus and PM 2.5, for which even the general public requires high performance masks, have been occurring frequently.

As a mask manufacturer that has been manufacturing and selling industrial masks for many years, we have been developing 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, endoscope washer/disinfector, 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 respiratory protective 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 a new type of coronavirus and PM 2.5, for which even the general public requires high performance masks, have been occurring frequently. As a mask manufacturer that 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 respiratory protective 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, etc.



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

### (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) Overview of financial condition

#### (Assets)

Total assets as of December 31, 2019 amounted to 18,338 million yen, a decrease of 577 million yen (compared with 18,915 million yen as of December 31, 2018). The major factor contributing to the result was a decrease in tangible fixed assets of 517 million yen due partly to the recording of depreciation.

#### (Liabilities)

Total liabilities as of December 31, 2019 amounted to 8,542 million yen, a decrease of 786 million yen (compared with 9,328 million yen as of December 31, 2018). The major factor contributing to the result was repayments of long-term debt.

#### (Net Assets)

Total net assets as of December 31, 2019 amounted to 9,796 million yen (compared with 9,587 million yen as of December 31, 2018) and shareholders' equity ratio was 53.4% as of December 31, 2019 (compared with 50.7% as of December 31, 2018).

### (3) Cash flow position

The balance of cash and cash equivalents (hereinafter referred to as "funds") as of December 31, 2019 was 1,492 million yen, an increase of 311 million yen compared with December 31, 2018.

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

#### (Cash flow from operating activities)

Funds provided by operating activities were 1,749 million yen (490 million yen provided during the previous fiscal year). This was due mainly to net income before taxes and other adjustments of 515 million yen, depreciation of 588 million yen, and a decrease in trade receivables of 350 million yen.

#### (Cash flow from investing activities)

Funds provided by investing activities were 24 million yen (2,207 million yen used during the previous fiscal year). This was due mainly to payments for acquisition of tangible fixed assets of 246 million yen and proceeds from sale of tangible fixed assets of 269 million yen.

#### (Cash flow from financing activities)

Funds used in financing activities were 1,464 million yen (1,084 million yen provided during the previous fiscal year). This was due mainly to payments of long-term debt of 1,192 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, and 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 intellectual properties such as 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 respiratory protective 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, undergo surveys for earthquake risks, based on which they endeavor to build 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, which, 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 typhoon or other natural disaster, other unexpected accident, or the spread of an infectious disease, such as a new type of coronavirus, 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 as well as 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 contributes to the Group's profit growth. 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., or otherwise if a natural disaster strikes or an infectious disease spreads, such events could have an impact on the Group's business performance.

## VII. Research and Development

The Company is committed to research and development in its business domains of, “cleanliness, health, and safety.” It pursues development of original, creative technologies as well as versatile applications that employ them. A matrix-based R&D structure has been established that includes project teams for basic research on future technologies and project teams for application development. We have a research and development staff of 77, and our research and development expenses during the fiscal year under review amounted to 830 million yen.

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

◇ The Type 18 Personal Protective Mask for Japan’s Self-Defense Forces

The Group has been supplying Japan’s Self-Defense Forces (SDF) with protective masks that include the Type 4 protective mask adopted for military use in 1985 and the Type 00 protective mask adopted for military use in 2000. Meanwhile during the current fiscal year, we began supplying our next-generation protective masks named Type 18 Personal Protective Equipment which were equipped with the latest technologies such as our “Breath Synchronized Air Flow System” to the SDF as they were officially adopted.

< Key features >

- i. Equipped with the Breath Synchronized Air Flow System that ensures SDF members greater protection and safety, while helping to reduce physiological stress
- ii. Dual cartridge model with a single eyepiece to enable a wide field of view

◇ Endoscope washer/disinfector with an automatic brushing function “Kagami-Naishi II G”

We have released the Kagami-Naishi II G endoscope washer/disinfector which features improvements in terms of greater ease of use while having a more innovative and sophisticated design in comparison with the Kagami-Naishi endoscope washer/disinfector. Equipped with the world’s first automatic brushing function and electrolyzed water generators, the Kagami-Naishi endoscope washer/disinfector has been very well-received given its various features. For instance, the Kagami-Naishi makes it possible to reliably wash and disinfect endoscopes while offering outstanding safety performance: it makes it possible to wash and disinfect endoscopes in a short amount of time, and; it helps reduce washing and disinfecting costs.

< Key features >

- i. Equipped with new functions that reduce workload and provide greater flexibility
  - Revamped the way to set up the endoscope so that even uninitiated users can easily set it up
  - Compatible with endoscopes manufactured by both Olympus and Fujifilm
  - Employs an interactive operations panel that is easy for uninitiated users to operate
  - Automated opening-closing of cleaning tank cover, automatic generation of electrolyzed water, real-time display of effective chlorine concentrations
  - Additional functions include washing and disinfection pre-set, endoscope registration, tracking of historic data, water leakage detection, alcohol supply functions
- ii. Innovative and sophisticated new design offering flexibility in terms of installation space
  - Its vertical slim body takes less than half the installation space used by conventional models
  - More than one device can be installed in parallel or against the wall
- iii. The new model inherits the following advantages of the conventional device that enables quick and reliable washing and disinfection and offers greater flexibility with regard to inspection.
  - The industry’s only “automatic brushing function” enables the fastest washing and disinfection time in the industry (according to the Group’s research).
  - Enables reliable washing and disinfection using strongly alkaline and strongly acidic “DENKAISUT” electrolyzed water
  - Electrolyzed water is less toxic than regular disinfectants. Since two types of electrolyzed water are neutralized in the drain tank, it can be drained without any additional treatment.

## VIII. Corporate Governance

### (1) Overview of corporate governance

#### 1) 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.

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

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

- As a company with a Board of Corporate Auditors, the Company has appointed nine directors (of which, one is an outside director) and four corporate auditors (of which, two are outside corporate auditors). The Company has also 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. Actual business execution is performed via a five headquarter system consisting of the Administration Headquarters, Marketing Headquarters, Sales Headquarters, Engineering Headquarters, and Manufacturing Headquarters. Each headquarters 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.

#### (Board of Directors)

- As the primary decision-making body of the Group, the Board of Directors consists of the chairman and eight (8) other members, nine (9) in total, as follows, and meets once a month, in principle, in accordance with the regulations of the Board of Directors. It deliberates on important matters relevant to managing business execution, makes decisions in that regard, and oversees the execution of business. Furthermore, the system allows for meetings on an ad hoc basis to enable the Board to respond to issues quickly. The Company believes that attendance of corporate auditors including outside corporate auditors at every meeting of the Board of Directors helps ensure that, from the perspective of a highly independent third party, oversight and audit of decision making and business execution is carried out properly. Meetings of the Board of Directors were held eight times during the fiscal year under review. The overall rate of attendance in meetings of the Board of Directors was 97.2%.

<b>Chairmanship</b>	Masakazu Sakai	Representative Director, Chairman
<b>Members</b>	Tsutomu Murakawa	Representative Director, President
	Nobuya Horiguchi	Representative Director, Executive Vice President
	Mitsuji Muramatsu	Senior Managing Director
	Fumikazu Tanaka	Senior Managing Director
	Hideaki Ibata	Managing Director
	Toshiaki Nagasaka	Director
	Hiroyuki Sakai	Director, Advisor
	Shinobu Sakurai	Director

#### (Senior Management Meeting)

- Held once a month, Senior Management Meeting is chaired by the Representative Director, President and its membership consists of the officers, chief of the headquarters and department heads. The



meetings are held with the aims of communicating intentions of management as deliberated and decided by the Board of Directors, having each division and each sales office give reports to gain an understanding of the status of work in each department and any problems therewith, and discussing and deciding on countermeasures.

(Board of Corporate Auditors)

- The Board of Corporate Auditors consists of four people, a chairman and three other members, and makes decisions on matters such as audit policy, audit plans, audit methodology, and assignment of audit work. It met eight times during the fiscal year under review. The overall rate of attendance in meetings of the Board of Corporate Auditors was 93.8%.

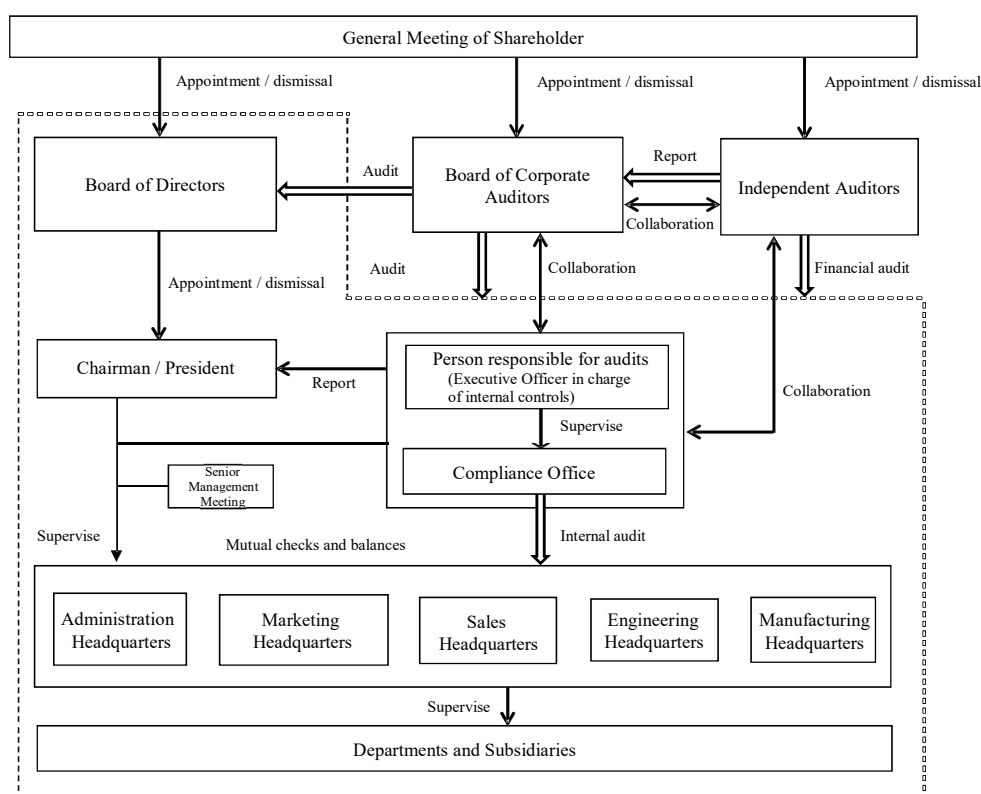
<b>Chairmanship</b>	Toshio Akiyama	Standing Corporate Auditor
<b>Members</b>	Yoshihiro Ito	Standing Corporate Auditor
	Teruo Shinato	Outside Corporate Auditor
	Nikko Haku	Outside Corporate Auditor

#### b. Reasons for adopting the structures

The Company has appointed one outside director and two outside corporate auditors who supervise the execution of duties by directors from an objective point of view outside the Company. The outside directors and outside corporate auditors each have high levels of expertise and precisely carry out managerial oversight from the perspective of such expertise. Neither the outside directors nor outside corporate auditors pose cause for concern with respect to potential conflict of interest with general shareholders of the Company in terms of relationships with the Company, neither personal, capital, transactional nor interests otherwise. As such, the Company designates them as independent officers pursuant to rules of the Tokyo Stock Exchange, and has accordingly furnished notification thereof to the Tokyo Stock Exchange.

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

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



### 3) Other matters relevant to corporate governance

#### a. Status of maintaining internal control systems

The Company builds systems for ensuring effectiveness and appropriateness of business affairs, premised on the following Basic Policy for Building Internal Control Systems, as approved by the Company's Board of Directors.

##### i) Systems for ensuring that directors and employees perform their professional duties in compliance with laws, regulations and the articles of incorporation

The Company and its subsidiaries deem that important professional duties of the respective department heads of each department and subsidiaries are to involve reviewing various regulations upon holding regular reviews to determine whether the various regulations conform to the actual circumstances of management, and are also to involve monitoring business execution and thorough implementation in compliance with laws, regulations and the various regulations. Furthermore, to execute business in accordance with the compliance regulations, the Company performs checks with respect to compliance with corresponding laws, regulations and various internal regulations, and also implements relevant education and training of officers and employees.

The Company and its subsidiaries adopt systems for promptly assessing and swiftly taking corrective action in addressing compliance infractions. Accordingly, the Company maintains and operates the KOKEN Compliance Help Line which acts as an in-house system for internal reporting.

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

##### ii) Systems for retaining and managing information pertaining to directors' performance of their professional duties

The Company and its subsidiaries retain and manage information in accordance with document management regulations and confidential information management regulations, and accordingly adopt systems for appropriately disclosing such information to parties who need it to perform professional duties.

The Company and its subsidiaries also strive to maintain and strengthen information management systems that are focused also on education and audit systems with respect to the aim of properly addressing risks of leaking confidential information, personal information, insider information and other such information.

##### iii) Regulations and systems for managing risk of loss

The Company and its subsidiaries adopt systems whereby the Administration Headquarters, Marketing Headquarters, Sales Headquarters, Engineering Headquarters, Manufacturing Headquarters, and subsidiaries control the risks of each of their own departments while they simultaneously check each other. In regard to the status of business execution in that regard, the Company and its subsidiaries perform business audits in accordance with internal auditing regulations, and in particular perform product checks in accordance with quality assurance audits. Through these systems, such results are reported to the president, and remedial measures are taken as necessary.

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

##### iv) Systems for ensuring that directors perform their professional duties effectively

The Company and its subsidiaries hold meetings of the Board of Directors once per month, in principle, to make decisions on important management issues and supervise execution of them.

The Company holds sessions of the Senior Management Meeting, which consists of directors, senior managers, and corporate auditors, once per month for purposes of communicating intentions of management, gaining an understanding of the status of work in each department and subsidiary and

problems therewith, and discussing countermeasures.

In addition, continuous improvement in the execution of directors' duties is ensured under the annual budget system. This involves executing budgets in accordance with implementation plans that are based on business targets and quality targets formulated by each department and subsidiary; regularly reporting progress made in achieving targets and status thereof to the president; and, as necessary checking the effectiveness of plans, various internal regulations, and other such systems.

The Company has also 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.

- v) Systems for ensuring appropriateness of business affairs of the Group which consists of the Company and its 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 build, and as necessary manage, compliance systems and risk management systems 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.

- vi) Systems involving employees who assist corporate auditors with their professional duties upon request made by a corporate auditor

The Company endeavors to assign employees to act as assistants to the Board of Corporate Auditors upon request made by a corporate auditor seeking assistance with audit affairs. Appointments of employees assigned such tasks are to be decided upon consultation between directors and corporate auditors.

- vii) Matters involving independence of employees described in the preceding item from directors, and matters that involve ensuring effectiveness of instruction furnished to such employees

The authority to supervise and instruct any such employee resides with the corporate auditors upon such employee having been assigned to act as an assistant to the Board of Corporate Auditors. In addition, the corporate auditors carry out personnel evaluations with respect to such employees and decisions on staff reassignments are made upon consultation between directors and corporate auditors.

- viii) Systems for enabling reporting to corporate auditors, and systems for ensuring that parties who have reported are not subject to disadvantageous treatment as a consequence of having furnished such report

At meetings of the Company's Board of directors and sessions of its Senior Management Meeting, directors and employees of the Company and its subsidiaries report to the corporate auditors with respect to status of business execution, issues constituting risk, and countermeasures in that regard. In addition to the aforementioned, the Company has also adopted a system that enables reporting to the corporate auditors upon having established a point of contact for reporting to and consultation with standing corporate auditors under its KOKEN Compliance Help Line internal reporting framework. The Company's compliance regulations prohibit acts that subject a party who has furnished such reports to disadvantageous treatment as a consequence of having furnished such report.

- ix) Procedures for arranging upfront payment or reimbursement of expenses incurred by corporate auditors with respect to performance of their professional duties, and matters regarding policy that pertains to handling expenses and financial obligations otherwise incurred with respect to such performance of professional duties

When a corporate auditor makes a request seeking, for instance, upfront payment for expenses incurred by the corporate auditor to perform his or her professional duties, the Company is to promptly address the request unless it has been deemed that the upfront payment or expense is unnecessary with respect enabling the corporate auditor to perform his or her professional duties.

- x) Other systems for ensuring that corporate auditors perform audits effectively

The Board of Corporate Auditors regularly holds meetings to facilitate exchange of opinion between the representative directors and corporate auditors with the aim of ensuring that the corporate auditors perform audits effectively.

b. General situation of the content of limited liability agreements

The Company has entered into agreements with Outside Director Shinobu Sakurai, Outside Corporate Auditor Teruo Shinato, and Outside Corporate Auditor Nikko Haku that limit their liability for damages as stipulated under Article 423, paragraph 1 of the Companies Act, pursuant to provisions of Article 427, paragraph 1 of said act. Under these agreements, the maximum amount of liability for damages is the minimum liability amount stipulated in laws and regulations. Such limitations of liability are applicable only under circumstances whereby the professional duties which caused the liability were performed by the outside director or outside corporate auditor in good faith and without gross negligence.

c. Number of directors and term of office

The Articles of Incorporation stipulate that the Company may have no more than 15 directors, and that their terms of office are to extend up until the close of the ordinary general meeting of shareholders held with respect to the last fiscal year ending within two years subsequent to a director's appointment; and that the term of office of a director who is appointed to fill a vacancy or due to an increase in the number of directors is to extend for the remainder of the term of office of the other incumbent Directors.

d. 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 the shareholders holding at least 1/3 of the voting rights 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.

e. 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.

f. 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.

g. Requirements for special resolutions at General Meetings of Shareholders

The Company has stipulated in its Articles of Incorporation 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.

h. Status of efforts to implement the Company's corporate governance of the past year

(i) Performance of professional duties by the directors and corporate auditors

During the fiscal year under review, meetings of the Board of Directors were held eight times and sessions of the Senior Management Meeting were held 11 times. Also attended by corporate auditors, these meetings provided a forum for making decisions on important management issues and supervising business execution. The corporate auditors held audit report meetings for the directors to facilitate exchange of opinions.

(ii) Compliance systems and risk management

During the fiscal year under review, the Company aimed to ensure compliance with laws, regulations and various internal regulations in the course of performing four business audits as internal audits, 21 quality assurance audits, and safety and health audits, and environmental audits, performed on an ad hoc basis. The Company has also been striving to achieve compliance with respect to education and training through in-house training sessions.

Under systems for managing risk of loss, the chiefs of each of the five headquarters essentially conduct daily meetings where they share information on risk.

The Company ensures that it is possible to adequately apply its various internal regulations by continually subjecting such regulations to revision and reviewing all the regulations once a year.

The Company strives to prevent leakage of confidential, personal, and insider information by maintaining and applying its document management regulations, confidential information management regulations, personal information management regulations, regulations on preventing insider trading, and My Number information management regulations.

The Company addresses risks of information leakage by regularly checking all personal computers that are used for business.

The Company maintains and operates its KOKEN Compliance Help Line which serves as its internal reporting framework.

(2) Status of Officers

1) List of Officers

(i) The status of officers as of March 27, 2020 (the submission date of the Company's annual securities report) is as follows.

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

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 26, 2020	591
Representative Director, President In charge of the Engineering Headquarters	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 Engineering Headquarters, Overseas Division Manager</p> <p>Jul. 2013    Appointed as Senior Managing Director, in charge of the Engineering Headquarters, Overseas Division Manager</p> <p>Jan. 2014    Senior Managing Director, in charge of the Engineering Headquarters</p> <p>Mar. 2014    Appointed as Representative Director, President, in charge of the Engineering Headquarters (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 26, 2020	9

Job title	Name	Date of birth	Career summary		Term of office	Number of shares owned (Thousands of shares)
Representative Director, Executive Vice President In charge of the Manufacturing Headquarters	Nobuya Horiguchi	August 28, 1958	Apr. 1982 Mar. 1998 Mar. 2008  Mar. 2010  Nov. 2012  Jul. 2013  Mar. 2014	Joined KOKEN LTD. Safety and Health Division Manager Executive Officer, Safety and Health Division Manager Appointed as Managing Director, in charge of the Manufacturing Headquarters Appointed as Representative Director, President, SIAM KOKEN LTD. (current position) Appointed as Senior Managing Director, in charge of the Manufacturing Headquarters Appointed as Representative Director, Executive Vice President, in charge of the Manufacturing Headquarters (current position)	2 years from the Annual General Meeting of Shareholder held on March 26, 2020	17
Senior Managing Director In charge of the Marketing Headquarters	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. Administration Headquarters Manager Joined KOKEN LTD. Appointed as Managing Director, Administration Headquarters Manager Managing Director, in charge of the Administration Headquarters Appointed as Senior Managing Director, in charge of the Administration Headquarters and in charge of the Marketing Headquarters Senior Managing Director, in charge of the Marketing Headquarters (current position)	2 years from the Annual General Meeting of Shareholder held on March 26, 2020	16
Senior Managing Director In charge of the Sales Headquarters	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 Headquarters Manager and General Manager of the Sales Management Department Appointed as Managing Director, in charge of the Sales Headquarters Appointed as Senior Managing Director, in charge of the Sales Headquarters (current position)	2 years from the Annual General Meeting of Shareholder held on March 26, 2020	7

Job title	Name	Date of birth	Career summary		Term of office	Number of shares owned (Thousands of shares)
Managing Director In charge of the Administration Headquarters	Hideaki Ibata	December 7, 1962	Apr. 1986	Joined the Fuji Bank, Ltd. (currently Mizuho Bank, Ltd.)	2 years from the Annual General Meeting of Shareholder held on March 26, 2020	1
			May 2006	Branch Manager of the Ageo Branch, Mizuho Bank, Ltd.		
			Mar. 2010	General Manager of the Branch Business Department No. 7, Mizuho Bank, Ltd.		
			Jun. 2011	Branch Manager of the Tokyo-chuo Branch, Mizuho Bank, Ltd.		
			Jun. 2014	Seconded to KOKEN LTD., Deputy Administration Headquarters Manager		
			Mar. 2015	Appointed as Managing Director, in charge of the Administration Headquarters (current position)		
Director Director, Accounting Department	Toshiaki Nagasaka	October 16, 1959	Apr. 1982	Joined KOKEN LTD.	2 years from the Annual General Meeting of Shareholder held on March 26, 2020	8
			Mar. 2000	Head of the Tokorozawa Techno-Yard		
			Mar. 2002	Head of the Sayama Techno-Yard		
			Feb. 2007	Head of the Compliance Office		
			Mar. 2008	Executive Officer, Head of the Compliance Office		
			Nov. 2008	Executive Officer, Head of the Compliance Office and Head of the Safety & Environment Management Office		
			Aug. 2009	Executive Officer, General Manager of the Accounting Department	2 years from the Annual General Meeting of Shareholder held on March 26, 2020	559
			Mar. 2014	Appointed as Director, General Manager of the Accounting Department (current position)		
Director, Advisor	Hiroyuki Sakai	May 23, 1943	Apr. 1967	Joined KOKEN LTD.		
			Aug. 1970	Assistant Manager of the Sales Department		
			Nov. 1974	Appointed as Director, General Manager of the Systems Department		
			Nov. 1984	Appointment as Representative Director, President, Sakai Tatemono Ltd.		
			Mar. 1986	Appointed as Managing Director	2 years from the Annual General Meeting of Shareholder held on March 26, 2020	559
			Apr. 1990	Managing Director, Sales Headquarters Manager		
			Mar. 1992	Representative Director, Senior Managing Director, Sales Headquarters Manager		
			Mar. 1998	Representative Director, Executive Vice President, Sales Headquarters Manager		
			Mar. 2003	Appointed as Representative Director, President		
			Mar. 2014	Appointed as Director, Advisor (current position)		
			Apr. 2015	Appointment as Director, Sakai CHS Foundation (current position)		



Job title	Name	Date of birth	Career summary		Term of office	Number of shares owned (Thousands of shares)
Director	Shinobu Sakurai	May 10, 1961	Apr. 2004	Professor, Course of Nursing, Mie University Faculty of Medicine; Professor, Course of Nursing Graduate Major, Mie University Graduate School of Medicine	2 years from the Annual General Meeting of Shareholder held on March 26, 2020	-
			Sept. 2011	Professor Emeritus, Mie University (current position); Professor, Department of Nursing, Juntendo University Faculty of Health Care and Nursing ; Professor, Doctor's Course of Nursing, Juntendo University Graduate School of Health Care and Nursing (current position)		
			Apr. 2014	Professor, Department of Health, Juntendo University Faculty of Health and Sports Science		
			Mar. 2017	Appointed as Director (current position)		
Standing Corporate Auditor	Toshio Akiyama	April 2, 1949	Apr. 1973	Joined KOKEN LTD.	4 years from the Annual General Meeting of Shareholder held on March 26, 2019	14
			Aug. 1986	Special Procurement Division Manager		
			Mar. 2000	Appointed as Director, Special Procurement Division Manager and Hygienic Equipment Division Manager		
			Apr. 2001	Director, Hygienic Equipment Division Manager		
			Mar. 2003	Director, Sales Headquarters Manager and General Manager of the Sales Management Department		
			Feb. 2006	Director, Sales Headquarters Manager, General Manager of the Sales Management Department and Overseas Division Manager		
			Feb. 2007	Director, Sales Headquarters Manager and General Manager of the Sales Management Department		
			Mar. 2008	Appointed as Managing Director, in charge of the Sales Headquarters		
			Mar. 2012	Managing Director, in charge of internal controls		
			Mar. 2015	Appointed as Standing Corporate Auditor (current position)		
Standing Corporate Auditor	Yoshihiro Ito	July 12, 1949	Jun. 1980	Joined KOKEN LTD.	4 years from the Annual General Meeting of Shareholder held on March 28, 2017	8
			Sept. 1998	General Manager of the Central Japan Block		
			Mar. 2001	Appointed as Director, General Manager of the Central Japan Block		
			Mar. 2008	Executive Officer, General Manager of the Central Japan Block		
			Apr. 2015	Executive Officer, in charge of internal controls		
			Mar. 2017	Appointed as Standing Corporate Auditor (current position)		

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	Apr. 1978 Joined the Fuji Bank, Ltd. (currently Mizuho Bank, Ltd.) Jan. 1990 Seconded to the Tokyo International Financial Futures Exchange (currently Tokyo Financial Exchange Inc.), Manager of the Planning Section Apr. 1994 Deputy Branch Manager of the Paris Branch, The Fuji Bank, Ltd. Jul. 2000 General Manager of the Sales Department, Mizuho Trust & Banking Co., Ltd. Apr. 2002 General Manager in charge of the General Planning Department, Mizuho Trust & Banking Co., Ltd. Apr. 2003 Professor, Asahi University Faculty of Business Administration Apr. 2006 Professor, Nihon University Graduate School of Social and Cultural Studies Apr. 2012 Professor and Dean, Nihon University Graduate School of Social and Cultural Studies (current position) Mar. 2015 Appointed as Corporate Auditor (current position)	4 years from the Annual General Meeting of Shareholder held on March 26, 2019	0
Corporate Auditor	Nikko Haku	March 7, 1977	Nov. 2002 Passed the Bar Examination Oct. 2004 Registered at the Daini Tokyo Bar Association; Jan. 2011 Joined Sakura Kyodo Law Offices Partner, Sakura Kyodo Law Offices (current position) Mar. 2015 Appointed as Corporate Auditor (current position)	4 years from the Annual General Meeting of Shareholder held on March 26, 2019	—
Total					1,234

(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.

## 2) Status of outside officers

The Company has appointed one outside director (independent officer) and two outside corporate auditors (independent officers) who supervise the execution of duties from an objective point of view outside the Company.

The outside director and outside corporate auditors attend required meetings, such as those of the Board of Directors, mainly speak actively from the standpoint of their field of expertise, and conduct supervision and audits of the execution of duties by the directors.

Ms. Shinobu Sakurai was appointed as an outside director because she has abundant insight and experience as a professor at graduate schools and universities which engage in studies on public health nursing and community health nursing, and thus we are hopeful that her specialized insight will be leveraged in the enhancement of the Company's management structure. There are no personal, capital relationships, or any conflict of interest, between the Company and Ms. Sakurai. Furthermore, Ms. Sakurai has been reported to Tokyo Stock Exchange, Inc. as an independent officer.

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 director and 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.

3) Mutual cooperation between the activities of supervision or auditing performed by outside directors and outside corporate auditors and the operations of internal auditing, corporate-auditor auditing and financial auditing; and nature of relationship with internal control departments

The outside directors supervise overall management, which at meetings of the Board of Directors involves furnishing their opinions from an objective and neutral viewpoints as outsiders, with respect to reporting on the status of each director's business execution.

The outside corporate auditors engage in discussions in meetings of the Board of Corporate Auditors upon having received reports on important matters regarding audits. They also attend the meetings of the Board of Directors and other necessary meetings, and perform audits with respect to the status of directors' business execution, as well as the appropriateness and legality of each task.

The outside directors and outside corporate auditors request reports from internal audit departments and management departments as necessary, and otherwise strive to enhance cooperation by seeking opinions of the independent auditor. Results of internal audits, auditing by corporate auditors, and financial audits are reported to the outside directors and outside corporate auditors through either the Board of Directors or the Board of Corporate Auditors.

(3) [Status of audits]

Beginning with its securities report for the fiscal year under review, the Company has adopted provisions of "note (56) d (a) ii" as stated in Form No. 2 of the "Cabinet Office Ordinance on Disclosure of Corporate Affairs, etc." as revised under the "Cabinet Office Ordinance for Partial Revision of the Cabinet Office Ordinance on Disclosure of Corporate Affairs, etc." (Cabinet Office Ordinance No. 3 of January 31, 2019).

1) Status of auditing by corporate auditors

The Company has adopted a Board of Corporate Auditors system. The Board of Corporate Auditors consists of two standing corporate auditors and two outside corporate auditors. Each corporate auditor appointed has a personality and insights suitable to the position of corporate auditor, and maintains an ethical viewpoint.

The corporate auditors attend the meetings of the Board of Directors and other necessary meetings in accordance with matters stipulated by the Board of Corporate Auditors such as standards for auditing by corporate auditors, audit policy, audit plans, audit methodology, and assignment of audit work. They also perform audits of directors and their performance of professional duties, and also perform audits of each department in the Company. In addition, the corporate auditors hold audit report meetings for the directors to facilitate exchange of opinions. At regular meetings of the Board of Corporate Auditors, the corporate auditors check the status of audit work and share information through mutual reporting on the status of professional duties.

2) Status of internal audits

The corporate auditors perform internal audits based on audit plans of the corporate auditors.

The Company's internal audits are the responsibility of the executive officer in charge of internal controls, and that 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. In addition, the corporate auditors closely coordinate their exchange of information with the Board of Corporate Auditors and the independent auditor.

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 (endoscope washer/disinfector) 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.

### 3) Status of financial audits

#### (i) Name of audit firm

A&A Partners

#### (ii) Years of continuous service

13 years

#### (iii) Certified public accountants who executed audit work

Designated partner, engagement partner: Kenji Oka, Certified Public Accountant (3-years continuous service)

Designated partner, engagement partner: Mayu Machida, Certified Public Accountant (4-years continuous service)

#### (iv) Number of assistants engaged in auditing work

Certified public accountants: 9

Others: 4

#### (v) Independent auditor selection policy and reasons for such selection

The Company has deemed A&A Partners to be qualified to serve as its independent auditor, having made the decision to select the independent auditor upon performing a review which was conducted on

the basis of independent auditor assessment conducted by the Board of Corporate Auditors. That assessment considered factors such as the independent auditor's system for performing audits and quality control system based on independent auditor assessment conducted by the Board of Corporate Auditors encompassing factors such as the audit firm's profile and audit performance. The assessment also considered factors such as the independent auditor's expertise and independence, its comprehension of the Company's business affairs, suitability of audit efficiency, and auditing costs. In the event that the independent auditor has been impeded from performing its professional duties, or if otherwise deemed necessary, the board of Corporate Auditors will determine the content of a proposal regarding the prospect of the independent auditor's dismissal or non-reappointment, for submission to the general meeting of shareholders. In addition, the Board of Corporate Auditors will dismiss the independent auditor, per unanimous consent of the corporate auditors, if it determines that any of the provisions stipulated in the items of paragraph 1, Article 340 of the Companies Act apply to the independent auditor. In such cases, a corporate auditor selected by the Board of Corporate Auditors will report on the dismissal of the independent auditor and reasons thereof at the first meeting of the general meeting of shareholders convened subsequent to the dismissal.

- (vi) Independent auditor assessment conducted by the corporate auditors and Board of Corporate Auditors  
The corporate auditors and Board of Corporate Auditors perform their assessment based on the aforementioned independent auditor selection policy. In addition, the Board of Corporate Auditors engages in discussion to determine the adequacy of audits. It is accordingly subject to debriefings regarding activities of the independent auditor by departments responsible for internal controls pertaining to financial reporting. It is also subject to debriefings regarding financial audits performed on a quarterly basis based on audit plans of the independent auditor, and performs on-site observation of financial audits on an ad hoc basis. As a result of such activities, the Board of Corporate Auditors deems that A&A Partners is qualified as an audit firm.

4) Description of audit compensation, etc.

(i) 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	24,000	—	24,000	—
Consolidated subsidiaries	—	—	—	—
Total	24,000	—	24,000	—

(Note) The Company's subsidiary SIAM KOKEN LTD. is subject to audit by an audit firm other than the Company's independent auditor.

(ii) Compensation for organizations belonging to the same network as the certified public accountants, etc. conducting the audit (excluding compensation described under (i), above)

(Previous fiscal year)

No items to report.

(Current fiscal year)

No items to report.

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

(Previous fiscal year)

No items to report.

(Current fiscal year)

No items to report.

(iv) Description of other important compensation

(Previous fiscal year)

No items to report.

(Current fiscal year)

No items to report.

(v) Methods for determining audit compensation

Whereas the company doesn't stipulate specific details in its policy for determining audit compensation for the certified public accountants, etc. conducting the audit, the Company's representative directors make such decisions upon gaining consent of the Board of Corporate Auditors, taking into account factors such as the size of the Company, the nature of the work, and the number of auditing days.

(vi) Reasons for the Board of Corporate Auditors consenting to the independent auditor compensation, etc.

The Board of Corporate Auditors furnished its consent with respect to the independent auditor compensation, etc., upon having performed requisite verification as to the suitability of factors such as specifics of the independent auditor's audit plan, its performance of professional duties regarding financial audit, and the basis for calculation of compensation quotations.

(4) [Officer compensation, etc.]

1) Matters pertaining to policies on determining amounts of officer compensation, etc. and methods for calculating said amounts

The Company's compensation system for officers consists of "fixed compensation," a fixed amount serving as the basic compensation, "bonuses" and "stock compensation," performance-based compensation calculated based on each business period's results, and "retirement benefits."

The Company does not stipulate policy on determining ratios of payment with respect to the mix of performance-based compensation for officers in relation to compensation, etc. other than performance-based compensation, however the Company follows the stipulations per resolution of the Annual General Meeting of Shareholders as described below.

The maximum amount of compensation, etc. for directors is 180 million yen annually (however, this does not include employee-portions of salaries paid to employees concurrently serving as directors), per resolution of the 49th Annual General Meeting of Shareholders held on March 27, 2012. Meanwhile, the maximum amount of compensation, etc. for corporate auditors is 40 million yen annually per resolution of the 53rd Annual General Meeting of Shareholders held on March 29, 2016. As of this document's submission date, nine directors and four corporate auditors are eligible to receive payment of compensation, etc. based on this payment framework.

Details regarding the Company's approach to determining amounts of compensation, etc. by officer classification and methods for calculating such compensation, etc. are as follows.

(Board of Directors)

Compensation, etc. for directors consists of: "fixed compensation" which is paid in accordance with a director's professional responsibilities and position; "performance-based compensation" (bonus and stock compensation), which is paid in accordance with corporate performance and the extent to which a director has contributed to management, and; "retirement benefits." The Company places emphasis on the "fixed compensation" which essentially serves as consistent compensation that enables the Company to execute business from a medium- to long-term perspective. Meanwhile, the Company does not stipulate a policy on ratios of payment with respect to the mix of "fixed compensation" relative to "performance-based compensation." Moreover, the Company does not stipulate policy on the basis of executive position.

As for the "bonus" component of the "performance-based compensation," bonus amounts paid to individual officers are determined based on the percentage of total compensation paid as fixed compensation, and calculated by multiplying consolidated operating income, which serves as the Group's target performance benchmark, by a certain percentage. The Company opted to use consolidated operating income as a benchmark pertaining to bonuses upon having comprehensively considered factors including the notion that consolidated operating income accurately reflects corporate performance and the notion that consolidated operating income serves as an objective benchmark with respect to gauging success in achieving management goals. During the fiscal year under review, consolidated operating income used as a benchmark for bonuses amounted to 567 million yen, which was 117 million higher than the initial target

of 450 million yen and 101 million yen higher than consolidated operating income generated in the previous fiscal year.

As for the “stock compensation” component of “performance-based compensation,” stock compensation further clarifying the link between director compensation and the Company’s share price, and accordingly constitutes the Company’s system of compensation provided with aim of raising awareness regarding contributions in the form of continually improving financial results and achieving greater corporate value, by emphasizing the shared interests of directors and shareholders in terms of the notion that both parties not only benefit from a rising share price but also incur risks of a falling share price. The Company has established a shareholding association for officers as a means of purchasing Company’s shares, separately from its “stock compensation.”

Under the Company’s basic policy on determining amounts of compensation for directors and methods for calculating said amounts, a representative director who has been delegated authority per resolution of the Board of Directors determines such amounts within the scope of compensation limits resolved at meetings of the general meeting of shareholders, upon having considered factors that include corporate performance and professional duties.

(Corporate auditors)

The Board of Corporate Auditors determines amounts of corporate auditor compensation, etc., through consultation with the corporate auditors, in accordance with a corporate auditor’s professional duties and responsibilities, and depending on whether the corporate auditor serves on a full-time or part-time basis. The Company furnishes compensation, etc. to corporate auditors exclusively in the form of “fixed compensation” and “retirement benefits” in order to ensure their independence.

2) 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)
		Fixed compensation	Performance-based compensation		Retirement benefits	
			Bonus	Stock compensation		
Director (excluding outside director)	206,635	145,215	26,900	2,920	31,600	8
Corporate auditor (excluding outside corporate auditor)	24,200	21,600	-	-	2,600	2
Outside officer	20,750	18,000	750	-	2,000	3
Total	251,585	184,815	27,650	2,920	36,200	13

(Notes) 1. Bonuses are treated as expenses processed as provision for directors’ and corporate auditors’ bonuses in the fiscal year under review. The bonuses were approved at the 57th Annual General Meeting of Shareholders held on March 26, 2020.

2. Retirement benefits are treated as expenses processed as provision for directors’ and corporate auditors’ retirement benefits in the fiscal year under review.

3. Stock compensation is treated as an expense processed as provision for directors’ stock benefits for six directors in the fiscal year under review.

3) 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.

4) Important matters among employee salaries for officers serving concurrently as employees

No items to report.

(5) Status of shareholding

1) Standards and approach for classification of investment shares

The Company classifies shares that it holds for the purpose of generating profit from share price volatility and stock dividends as investment shares held for the purpose of net investment, and otherwise classifies shares that it holds for other purposes as investment shares held for purposes other than net investment.

2) Investment shares held for purposes other than net investment

(i) Policy for holding, method for verifying the rationale of holdings, and verification by the Board of Directors, etc. to determine whether to keep holding individual issues

The Company maintains cross-shareholdings only when it deems that doing so will increase its medium-to long-term corporate value from the perspective of enabling the company to uphold and strengthen consistent and long-term business relationships with its business partners and other parties. Moreover, the Company scrutinizes and verifies purposes and rationale of individual cross-shareholdings, and accordingly maintains a policy of selling shares, in principle, with respect to which the Board of Directors has deemed there to be insufficient significance in holding for such purposes.

(ii) Number of issues and their balance sheet values

	Number of issues (stock listings)	Total amount shown on the balance sheet (Thousands of yen)
Unlisted stocks	3	3,246
Other than unlisted stocks	5	80,019

(Issues for which the number of shareholdings increased during the fiscal year under review)

No items to report.

(Issues for which the number of shareholdings decreased during the fiscal year under review)

No items to report.

(iii) Information regarding the number of shares and their balance sheet values, etc. by individual issue with respect to specified investment shares and deemed shareholdings

Specified investment shares



Issues	Current fiscal year	Previous fiscal year	Holding purpose, quantitative effect of holdings, and reasons for increasing number of shareholdings	Holdings of the Company's shares
	Number of shares (shares)	Number of shares (shares)		
	Amount shown on the balance sheet (Thousands of yen)	Amount shown on the balance sheet (Thousands of yen)		
Mizuho Financial Group, Inc.	191,495	191,495	(Holding purpose) Held with the aim of maintaining and strengthening business relationships. (Quantitative effect of holdings)* <sup>1</sup>	Yes* <sup>2</sup>
	32,554	34,086		
Resona Holdings, Inc.	76,835	76,835	(Holding purpose) Held with the aim of maintaining and strengthening business relationships. (Quantitative effect of holdings)* <sup>1</sup>	Yes* <sup>3</sup>
	36,957	42,489		
NIPPON KANRYU INDUSTRY CO., LTD.	15,000	15,000	(Holding purpose) Held with the aim of strengthening business relationships in the mask-related business. (Quantitative effect of holdings)* <sup>1</sup>	No
	7,020	6,795		

Notes (1) The quantitative holding effect is not stated given the relationship with the counterparty. However, as stated in “2) (i)” above, the Company scrutinizes the rationale of individual cross-shareholdings, and verifies the purpose of all currently held cross-shareholdings is in line with the Company’s holding policy.

(2) Mizuho Bank, Ltd. holds shares of the Company.

(3) Resona Bank, Limited holds shares of the Company.

3) Investment shares held for the purpose of net investment

No items to report.

4) Investment shares with respect to which the holding purpose has changed during the current fiscal year from that of holdings for the purpose of net investment to that of holdings for purposes other than net investment

No items to report.

5) Investment shares with respect to which the holding purpose has changed during the current fiscal year from that of holdings for purposes other than net investment to that of holdings for the purpose of net investment

No items to report.

## 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, 2019, the Group (the Company and its consolidated subsidiaries) had 282 (162) 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, 2019

Number of employees (persons)	Average age (age)	Average years of service (years)	Average annual salary (yen)
232 (162)	40.6	15.8	6,826,225

(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**

No items to report.

## **XII. Stock Ownership System for Officers and Employees**

### **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 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 based on the officer stock benefit regulations, 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**

10,830 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 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. based on the stock benefit regulations, 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.**

29,470 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. Capital Expenditures**

[Overview of capital expenditures, etc.]

A total of 177 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.

Dies for occupational safety and health protection equipment, etc.	56 million yen
Techno-Yard manufacturing equipment	45 million yen
Demonstration devices for sales promotion	18 million yen

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

## XIV. 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, the Company has decided to pay a year-end dividend of 25 yen per share at the Annual General Meeting of Shareholders held on March 26, 2020.

Aiming for 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 26, 2020 Resolution at the Annual General Meeting of Shareholders	126	25

## XV. Status of Business

[Overview of business performance, etc.]

### Business performance

Amid downward pressure on the Chinese economy from the intensification of the U.S.-China trade war and high-tech friction as well as a global economic slowdown due to turmoil over the U.K.'s departure from the E.U., the Japanese economy in the fiscal year under review (January to December 2019) trended weakly particularly in the second half due to main factors including a slowdown in production and exports, as the domestic economy was severely affected by these trends.

Amid this extremely volatile business environment, the Group implemented priority measures set out for each of the “cleanliness, health, and safety” markets. As a result of these initiatives, sales of masks for industrial use grew steadily, and sales got off to a strong start for “Kagami-Naishi II G,” the second generation of our automatic endoscope washer-disinfectors introduced to the market in the second half. As a result, in business performance for the fiscal year under review, net sales were 8,605 million yen (an increase of 3.3% over the previous fiscal year), operating income was 567 million yen (an increase of 21.7% over the previous fiscal year), ordinary profit was 528 million yen (an increase of 25.7% over the previous fiscal year), and net income attributable to owners of parent was 371 million yen (an increase of 3.5% over the previous fiscal year). Both net sales and income achieved initial plan targets, and both revenue and income increased over the previous fiscal year.

Business performance by segment is as follows.

#### (Mask-related business segment)

In addition to stable sales throughout the fiscal year of dust masks and gas masks for industrial use and Powered Air-Purifying Respirators (PAPR), deliveries were completed according to plan for the Type 18 Protective Mask, the next-generation protective mask for use as military equipment with various innovative technologies, such as the “Breath Synchronized Air Flow System.” As a result, total net sales for this business segment were 7,512 million yen (an increase of 4.9% over the previous fiscal year).

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

For the open clean zone creator KOACH, we collaborated with our distributors across the nation in sales activities to promote “actual cleanliness (cleanliness during actual work)” and the reduction in management and cost burdens by introducing KOACH. While sales steadily increased in the first half of the fiscal year, in the second half, companies slammed the brakes on capital investment. In line with this move, we experienced multiple instances of cancellations or postponements for our large cleanroom-type system Floor KOACH. As a result, while the number of customers, sales units, and net sales all secured results that exceeded the previous fiscal year, we were unable to maintain the growth rates till the previous years.

Kagami-Naishi II G, our automatic endoscope washer-disinfector which launched in July, enjoyed high customer reputation for its new functions designed to reduce workload and improve efficiency of examination in healthcare settings and offer saving of installation space due to its slim body in addition to its existing “automatic brushing function” and sales increased steadily, but sales of purifying equipment for government offices, which increased largely two years ago, fell off. As a result, sales for the entire other businesses segment were 1,092 million yen (a decrease of 6.0% over the previous fiscal year).

## XVI. Segment Information

### a. Production performance

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

Segment name	Current fiscal year (January 1, 2019 through December 31, 2019)	Compared to the previous fiscal year (%)
Mask-related business (Thousands of yen)	9,178,917	104.3
Other businesses (Thousands of yen)	1,075,304	93.7
Total (Thousands of yen)	10,254,221	103.1

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

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

### b. Orders received

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

### c. Sales performance

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

Segment name	Current fiscal year (January 1, 2019 through December 31, 2019)	Compared to the previous fiscal year (%)
Mask-related business (Thousands of yen)	7,512,544	104.9
Other businesses (Thousands of yen)	1,092,786	94.0
Total (Thousands of yen)	8,605,330	103.3

(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 YUHHIN CO., LTD.	1,373,870	16.5	1,331,742	15.5

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



## XVII. Issues to be Addressed

To further improve its corporate value and realize sustainable development and growth, the Group has been making efforts on the following continuing issues in line with its three management principles of “(1) nurture people,” “(2) nurture technology,” and “(3) nurture new markets in the fields of cleanliness, health, and safety.”

### (1) Nurture people

We believe that a business has a corporate value only when it can strike a balance between the sense of purpose of employees and the existence of a business. In other words, when the dignity of hired employees is recognized in the company’s business activities, they feel a sense of happiness and fulfillment. Based on this belief the Group established our original HR policy called “HOPES (High-ideal, Open-minded Personal affairs by various Evaluation System)” in 1995 and has operated HOPES for over 20 years.

“HOPES” is a human resource system that accepts diversity and evaluates and manages each and every employee independently from three perspectives: ability to attain business performance, professional skill, and management ability. The system provides opportunities for advancement for employees regardless of age, gender, or the number of years of services, constantly putting motivated employees in positions suitable for them.

For business development and expansion, the Group has been promoting human resource development systematically by implementing internal training programs to improve employees’ professional knowledge and skills.

We are aware that the Group currently has fewer female employees who are willing to play a managerial role, and we have been working to remedy the situation by operating a human resource system that evaluates employees from the three perspectives. As a result, the ratio of female employees whose titles are senior staff member or higher is greater than that of male employees. Furthermore, while we previously only had one female employee in our managerial personnel, we now have five. Going forward, we aim for a company where all employees, including women, can exercise their unique abilities and be able to play active roles to the fullest.

### (2) Nurture technology

Our philosophy of research and development, which has been carried down since the founding of the Group, is based on the concepts of “never follow other companies” and “conduct thorough research.” With the aim of thoroughly infusing this philosophy into each and every one of our technical developers, we have created and have been operating mechanisms that are original to the Group. Such mechanisms include establishing a matrix-based R&D structure, adopting a Meister system to evaluate technical expertise, and holding monthly research presentations, which are attended by all technical developers and 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 December 2019, we hold a combined total of 175 domestic and 152 foreign intellectual properties including patents, designs, trademarks, and prior use rights.

We will continue to work to enhance the quality and quantity of the intellectual property that we acquire as a top priority.

As a corporate group that pursues growth as technology-driven companies, we always give top priority to intellectual properties from business and corporate strategic points of view.

Accordingly, we have set up the IP strategy Meetings and the Invention Review Committee in the company and developed and established regulations regarding decisions on the patent application policy, as well as evaluation of employees’ inventions and intellectual properties. In addition, we constantly explore the utilization of patented technologies held from their development stage.

KOKEN LTD’s Advanced Technology Center was constructed with the main objectives of integrating the research and development divisions, deepening networking and collaboration among researchers, strengthening research and development, and promoting human resource development. In addition to technological development and product development in the fields of “cleanliness, health, and safety,” the Advanced Technology Center will serve as the center for the promotion of collaboration and joint research activities with external institutes and corporations.

The Group will utilize the facility as the research and development base to enhance its capabilities to nurture technology toward achieving sustainable growth and improvement of corporate value.

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

The Group continuously contributes to the development and advancement of new markets by offering our proprietary technologies to the fields of “cleanliness, health, and safety.”

#### <Cleanliness> Contribute to a dramatic evolution of technology and production

The open clean zone creator KOACH is an innovative clean air system that creates the world’s highest level of cleanliness without walls that encircle the working space, in a short time with low power consumption. The Group strives to implement the mission to disseminate KOACH as a critical device to support the development of advanced technologies to a wide range of customers from the world’s most advanced laboratories and facilities to medium- and small-sized enterprises that believe clean rooms to be unaffordable.

In March 2019, the JIS related to clean rooms was revised. As the revisions call for higher clean room performance and stricter management, we predict a further increase in awareness of the superiority and practicality of our open clean zone creator KOACH, which realized the Group’s long-pursued goals of “Super Cleanliness (the world’s highest level of cleanliness)” and “Actual Cleanliness (cleanliness during actual work).”

In the food-related market, countermeasures against contamination by microorganisms such as floating fungus and mold, which is one of the causes of food loss, are being promoted, and KOACH is gaining attention as a type of device and equipment that contributes to those countermeasures. Going forward, we will pursue sales activities in collaboration with companies conducting food sanitation consulting and education.

The Group will continue to raise awareness of “Actual Cleanliness.” We believe we can contribute significantly to dramatic progress of science and technology and the manufacturing industry in Japan by drawing attention to innovativeness of a variety of new technologies applied to KOACH, for example, by means of conducting proposal-based sales, which are presented in a way to highlight the heavy facility maintenance burden of “strict clean management” that operators of conventional clean devices are required to implement and to show these operators how introducing KOACH will reduce their burden and therefore significantly benefit them.

#### <Health> Accelerate product development and develop new business

Sales of the disposable mask Hi-Luck series for medical institutions have been steadily expanding owing to the acknowledgement of its superior fit. We will aim to further promote the series to children, pregnant women, and patients suffering nasal and cough allergies who need masks with high fitting properties.

The Group’s second-generation endoscope washer-disinfector, Kagami-Naishi II G, is equipped the industry’s only automatic brushing function, and by using electrolyzed water, boasts the fastest washing and disinfecting time in the industry. Anyone can wash and disinfect the device easily, making the Kagami-Naishi II G the only device with the ability to largely reduce the burden placed on workers performing washing and disinfection. Since Kagami-Naishi II G first launched, it has received high praise from doctors, nurses, and hospital staff performing endoscope washing and disinfecting who saw it for the first time. Going forward, taking advantage of this high praise, the Group is striving not only to capture the replacement demand of the existing customers but also to cultivate and expand new customer base.

#### <Safety> Promote further dissemination of masks

While the manufacturing industry is the major consumer of masks, which are the core products of this segment, employment in the industry has been on a gradual decline in recent years. In addition to the 9th Comprehensive Measures to Prevent Hazards Due to Dust issued by The Ministry of Health, Labour and Welfare, the Japanese government is continuing to examine countermeasures to prevent health hazards to workers caused by chemical substances and how to manage chemical substances. Going forward, the Group is striving not only to develop new products which are compliant with stronger regulations and management regarding the particulates and chemical substances, but also to exploit a new demand for our products by providing our customers with the appropriate information on such regulations.

As more women are entering the workforce, there has been an increasing number of female workers in manufacturing, construction and civil engineering work sites where masks for industrial use are required. Amid this trend, the Group saw the necessity for masks for working women in these sites that can be used safely and comfortably, created products, and launched the “Hi-Luck Model 330 and 335.”

The Group will make efforts to develop and promote the penetration of high-performance and high-value-added products, such as the BL series of Breath Response Powered Air-Purifying Respirators and the Hi-Luck

series disposable masks, for which demand growth is expected, to fulfill safe and comfortable work environments for workers including female workers. Through these efforts, the Group will strive for further improvement of the safe and secure images of Koken brand that we have nurtured.

## **XVIII. 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 and electronically recorded monetary claims - operating, 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 liquidity on hand 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 liquidity on hand 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, 2018)	Current fiscal year (December 31, 2019)
Unlisted stocks	3,246	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.

## XIX. Fixed Assets

### 1. Status of major facilities

#### (1) Submitting company

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

The Advanced Technology Center serves as the Company's research facility.

The Company also possesses sales offices in 15 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, 2019

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	162,469	39	1,636,000 (283.91 m <sup>2</sup> )	28,635	2,088	1,829,233	84
Sayama Techno- Yard (Sayama City, Saitama Prefecture)		Production facility	228,479	78,712	792,433 (11,430.44 m <sup>2</sup> )	27,748	7,353	1,134,728	17
Gunma Techno-Yard (Midori City, Gunma Prefecture)		Production facility	290,215	119,215	405,140 (9,256.83 m <sup>2</sup> )	85,537	26,170	926,279	15
Tokorozawa Techno-Yard (Tokorozawa City, Saitama Prefecture)		Production facility	47,028	4,522	177,214 (1,915.55 m <sup>2</sup> )	5,307	3,522	237,596	11
Nakai Techno-Yard (Nakai-machi, Kanagawa Prefecture)		Production facility	67,900	171,438	325,449 (1,434.94 m <sup>2</sup> )	2,614	897	568,299	8
Ranzan Techno- Yard (Ranzan-machi, Saitama Prefecture)		Production facility	27,221	32,448	–	–	4,587	64,256	4
Advanced Technology Center (Hanno City, Saitama Prefecture)		Research facility	2,340,154	1,305	1,170,335 (46,778.06 m <sup>2</sup> )	208,893	35,122	3,755,811	33
Saitama Logistics Center (Ranzan-machi, Saitama Prefecture)		Logistics facility	77,623	58	1,242,116 (21,336.07 m <sup>2</sup> )	–	819	1,320,617	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.

3. Since the Ranzan Techno-Yard is located on the same site as the Saitama Logistics Center, 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, 2019

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	194,158	83,919	77,040 (13,430.40 m <sup>2</sup> )	—	2,819	357,938	50

(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.

As of the end of the fiscal year under review, there are no plans for newly establishing or disposing of important facilities.

## XX. 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	0.48	—
Current portion of long-term debt	1,192,000	1,632,000	0.84	—
Current portion of lease obligations	97,448	123,139	—	—
Long-term debt (excluding those to be repaid within one year)	4,616,500	2,984,500	0.82	2021 through 2028
Lease obligations (excluding those to be repaid within one year)	227,061	255,556	—	2021 through 2024
Total	7,533,010	6,395,195	—	—

- (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) are as follows.

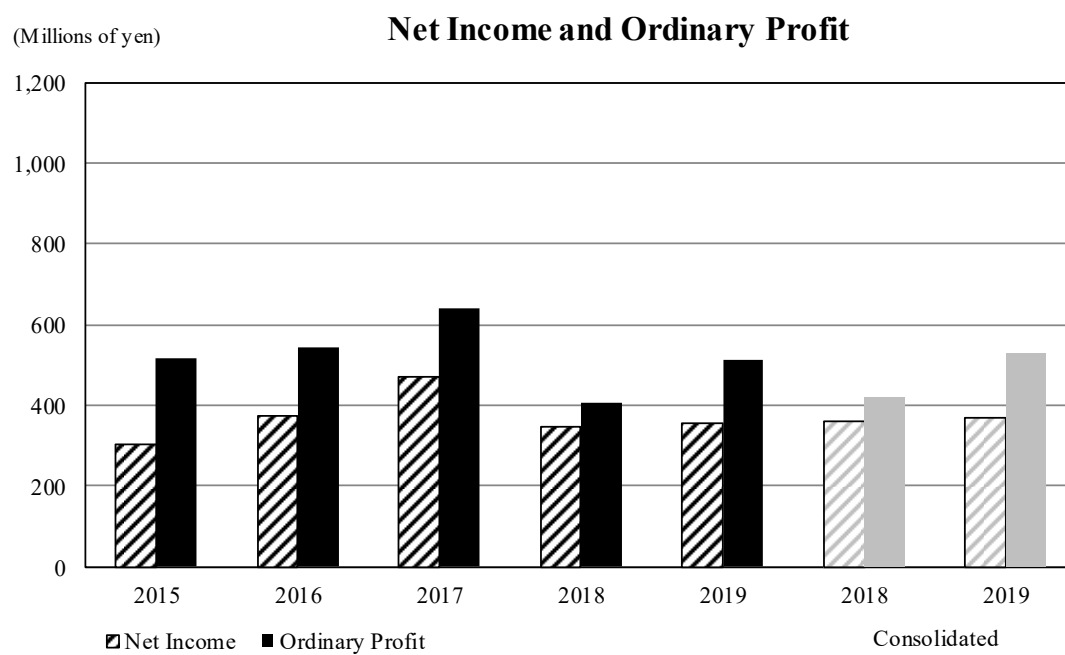
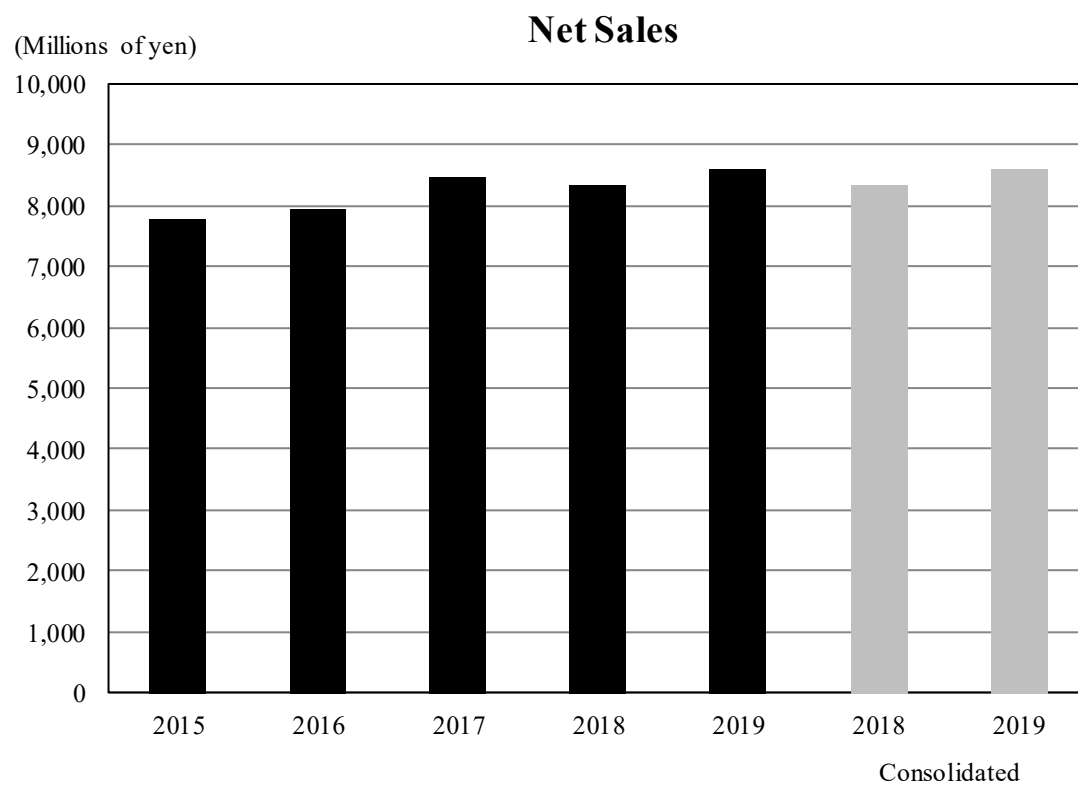
	More than one year to two years (Thousands of yen)	More than two years to three years (Thousands of yen)	More than three years to four years (Thousands of yen)	More than four years to five years (Thousands of yen)	More than five years (Thousands of yen)
Long-term debt	742,000	523,500	360,000	334,000	1,025,000
Lease obligations	108,817	77,297	50,094	19,346	—

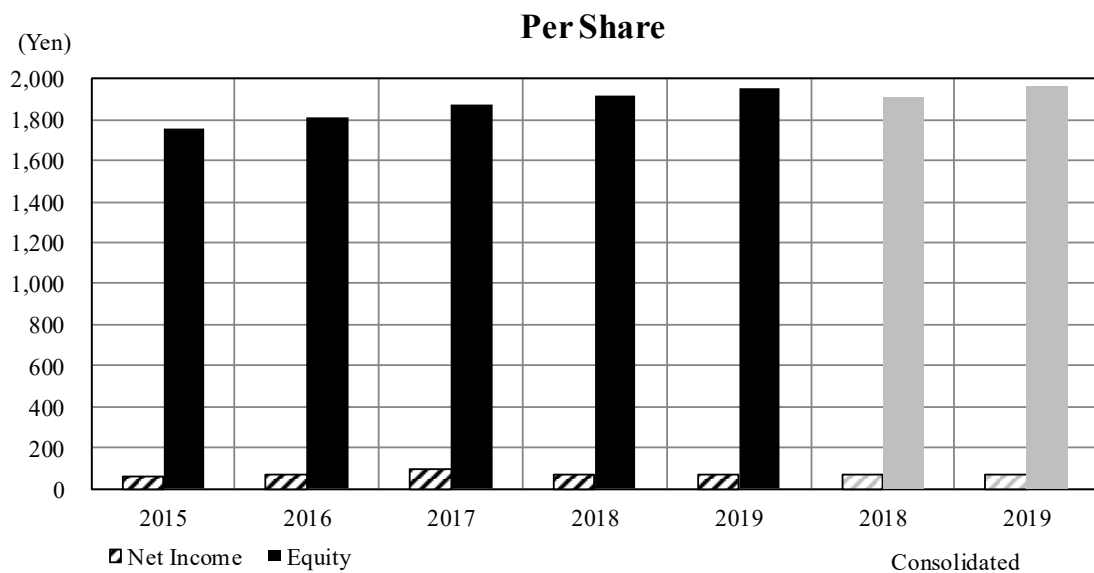
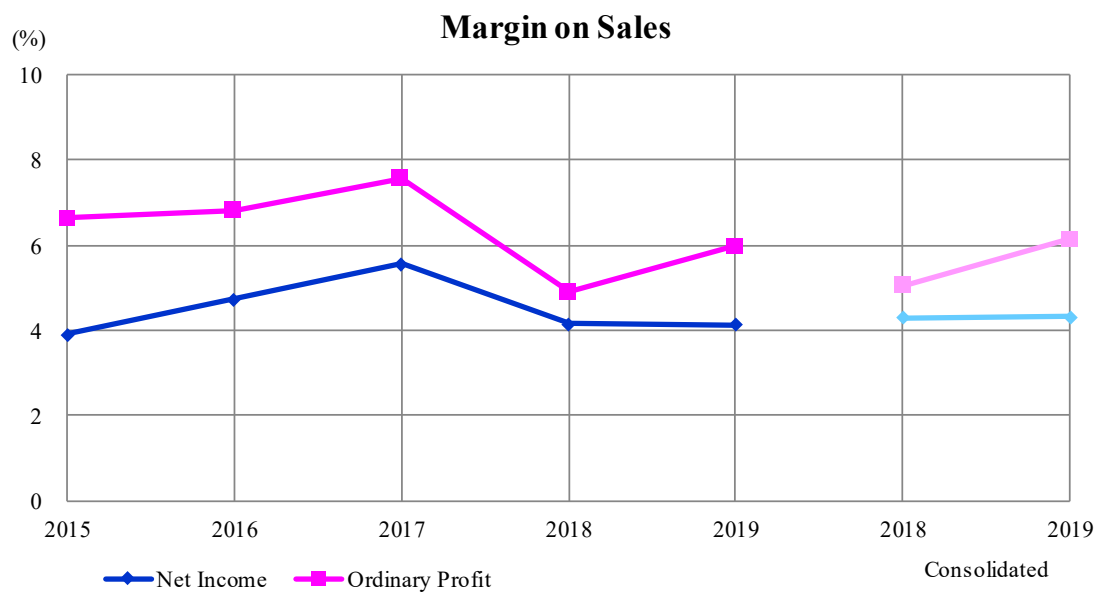
[Schedule of asset retirement obligations]

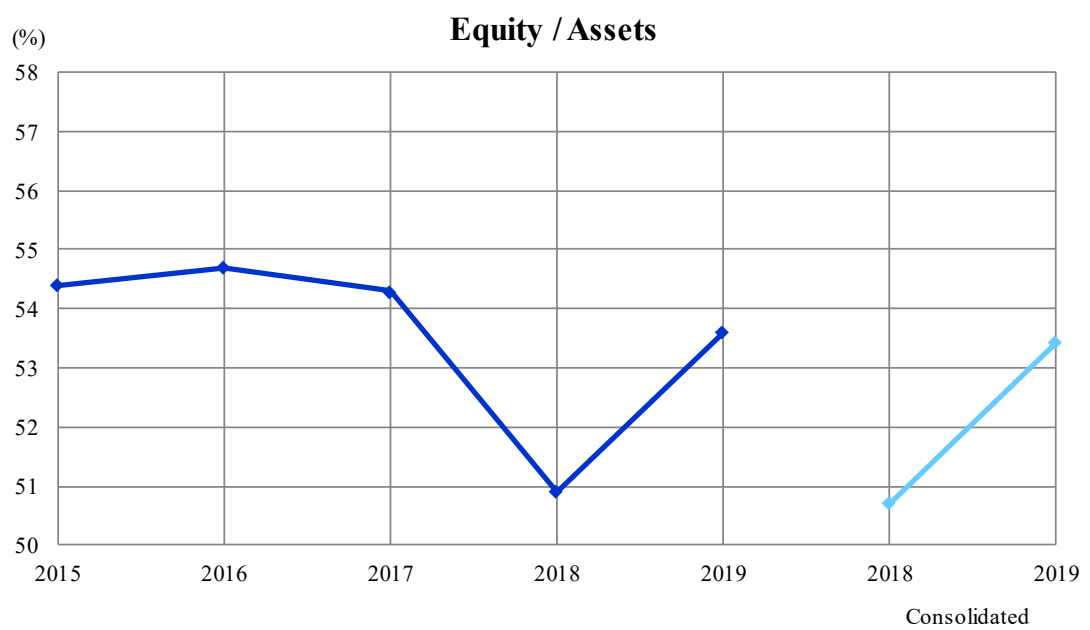
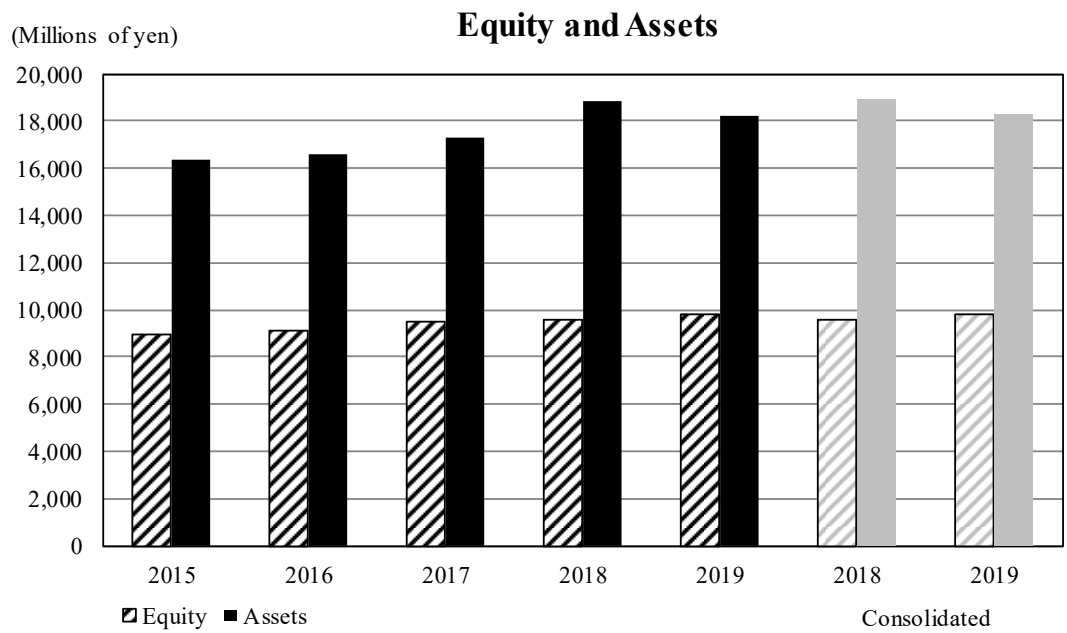
Since the amount of asset retirement obligations at the beginning and the end of the fiscal year under review was 1/100 or less of the total of liabilities and net assets at the beginning and the end of the fiscal year under review, said obligations are omitted in accordance with the provisions of Article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

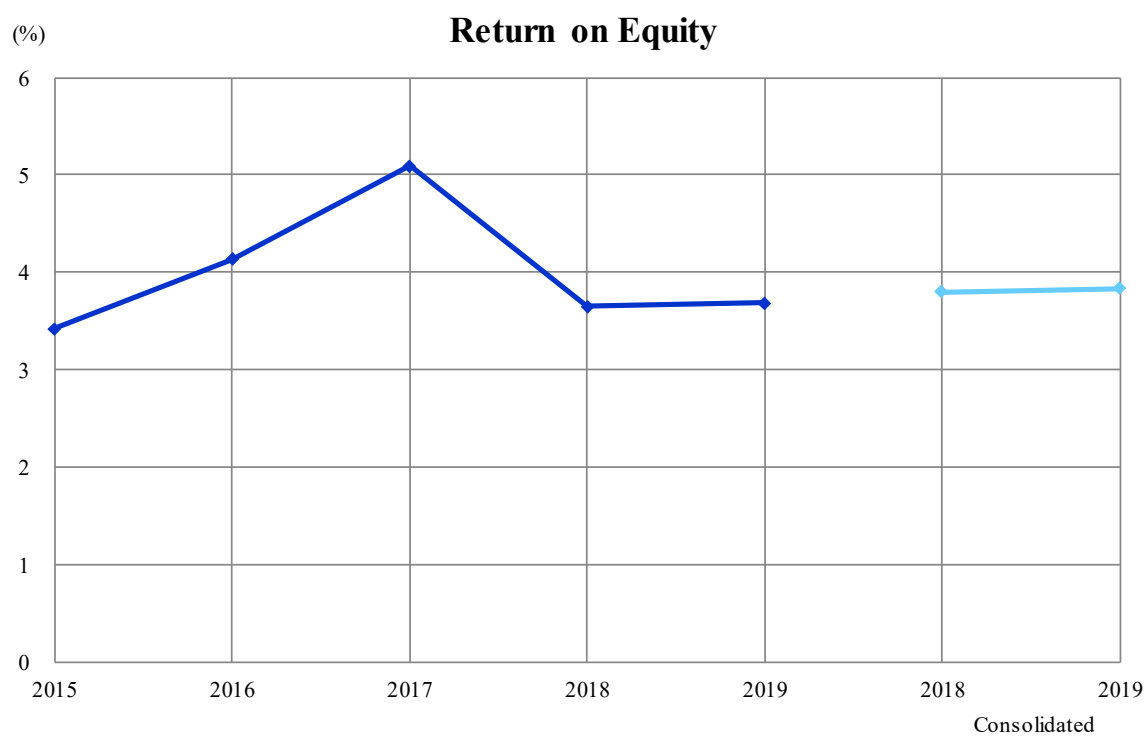
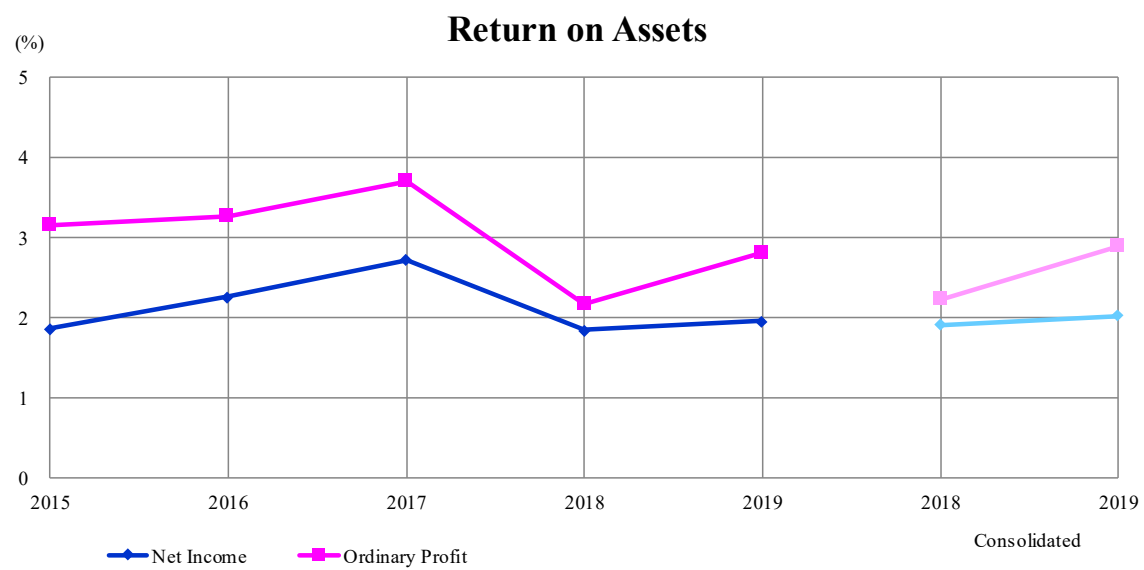


## XXI. Summary of Selected Financial Data (Graphs)









## XXII. Consolidated Financial Statements

### (1) Consolidated financial statements

#### 1) Consolidated balance sheet

(Thousands of yen)

	As of December 31, 2018	As of December 31, 2019
<b>Assets</b>		
Current assets		
Cash and deposits	1,180,916	1,492,229
Notes and accounts receivable - trade	2,594,657	2,753,076
Electronically recorded monetary claims - operating	923,978	415,008
Merchandise and finished goods	660,350	686,201
Work in process	304,822	343,527
Raw materials and supplies	538,583	569,719
Others	292,399	125,880
Allowance for doubtful accounts	(4,000)	(4,000)
Total current assets	6,491,708	6,381,644
Fixed assets		
Tangible fixed assets		
Buildings and structures	6,717,954	6,743,095
Accumulated depreciation	(3,088,862)	(3,277,938)
Buildings and structures, net	3,629,092	3,465,156
Machinery, equipment and vehicles	4,601,063	4,701,614
Accumulated depreciation	(4,012,615)	(4,209,254)
Machinery, equipment and vehicles, net	588,448	492,360
Land	5,955,890	5,956,545
Lease assets	419,377	567,138
Accumulated depreciation	(125,209)	(205,888)
Lease assets, net	294,168	361,249
Construction in progress	384,408	56,440
Others	2,241,717	2,252,315
Accumulated depreciation	(2,121,584)	(2,129,677)
Others, net	120,133	122,638
Total tangible fixed assets	10,972,141	10,454,390
Intangible fixed assets		
Lease assets	6,512	64
Others	52,701	44,602
Total intangible fixed assets	59,214	44,666
Investments and other assets		
Investments in securities	89,855	83,266
Deferred tax assets	380,396	427,618
Directors' retirement benefit insurance premiums	839,623	860,882
Others	88,699	91,879
Allowance for doubtful accounts	(6,000)	(6,000)
Total investments and other assets	1,392,574	1,457,646
Total fixed assets	12,423,929	11,956,704
Total assets	18,915,638	18,338,348

(Thousands of yen)

	As of December 31, 2018	As of December 31, 2019
<b>Liabilities</b>		
Current liabilities		
Accounts payable - trade	196,301	218,197
Short-term loans payable	1,400,000	1,400,000
Current portion of long-term debt	1,192,000	1,632,000
Lease obligations	97,448	123,139
Accounts payable - other	216,605	132,876
Accrued expenses	182,841	187,686
Income taxes payable	82,397	154,012
Provision for bonuses	205,000	235,000
Provision for directors' and corporate auditors' bonuses	22,750	27,650
Others	172,560	409,979
Total current liabilities	3,767,905	4,520,543
Long-term liabilities		
Long-term debt	4,616,500	2,984,500
Provision for directors' and corporate auditors' retirement benefits	610,000	646,200
Provision for stock benefits	39,604	46,199
Provision for directors' stock benefits	13,862	16,782
Asset retirement obligations	14,549	14,758
Lease obligations	227,061	255,556
Others	38,967	57,497
Total long-term liabilities	5,560,544	4,021,494
Total liabilities	9,328,450	8,542,038
<b>Net assets</b>		
Shareholders' equity		
Common stock	674,265	674,265
Capital surplus	527,963	527,963
Retained earnings	8,461,641	8,707,097
Treasury stock	(134,039)	(146,557)
Total shareholders' equity	9,529,831	9,762,768
Other comprehensive income		
Valuation difference on available-for-sale securities	23,209	18,227
Deferred gains or losses on hedges	(24,783)	(37,626)
Foreign currency translation adjustment	58,929	52,941
Total other comprehensive income	57,356	33,542
Total net assets	9,587,187	9,796,310
Total liabilities and net assets	18,915,638	18,338,348

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

(Thousands of yen)

	Fiscal year ended December 31, 2018	Fiscal year ended December 31, 2019
Net sales	8,326,657	8,605,330
Cost of goods sold	4,441,824	4,562,022
Gross profit on sales	3,884,832	4,043,308
Selling, general and administrative expenses	3,418,075	3,475,433
Operating income	466,756	567,874
Nonoperating income		
Interest income	154	152
Dividend income	3,269	3,335
Commissions received	9,606	9,897
Temporary assigned personnel payments received	4,098	3,868
Foreign exchange gains	618	4,389
Insurance income	3,506	7,825
Insurance return	—	19,374
Others	4,866	6,039
Total nonoperating income	26,119	54,883
Nonoperating expenses		
Interest expenses	42,376	48,138
Sales discounts	8,412	8,710
Others	21,584	37,220
Total nonoperating expenses	72,374	94,068
Ordinary profit	420,502	528,689
Extraordinary income		
Gain on reversal of share acquisition rights	60,544	—
Total extraordinary income	60,544	—
Extraordinary losses		
Loss on retirement of fixed assets	3,927	806
Impairment loss	—	12,218
Total extraordinary losses	3,927	13,024
Net income before taxes and other adjustments	477,118	515,665
Corporate, inhabitant and enterprise taxes	95,000	184,002
Deferred taxes	23,244	(39,947)
Total income taxes	118,244	144,054
Net income	358,873	371,610
Net income attributable to owners of parent	358,873	371,610

# Consolidated statement of comprehensive income

(Thousands of yen)

	Fiscal year ended December 31, 2018	Fiscal year ended December 31, 2019
Net income	358,873	371,610
Other comprehensive income		
Valuation difference on available-for-sale securities	(11,388)	(4,982)
Deferred gains or losses on hedges	(2,036)	(12,843)
Foreign currency translation adjustment	25,171	(5,988)
Total other comprehensive income	11,746	(23,814)
Comprehensive income	370,620	347,796
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	370,620	347,796
Comprehensive income attributable to non-controlling interests	—	—



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

Fiscal year ended December 31, 2018 (January 1, 2018 through December 31, 2018)

(Thousands of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at beginning of current term	674,265	527,963	8,254,153	(134,039)	9,322,343
Changes in items during the term					
Dividends from retained earnings			(151,385)		(151,385)
Net income attributable to owners of parent			358,873		358,873
Other changes in non-shareholders' equity items during the term (net)					—
Total changes during the term	—	—	207,488	—	207,488
Balance at end of current term	674,265	527,963	8,461,641	(134,039)	9,529,831

	Other comprehensive income				Share acquisition 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	34,598	(22,746)	33,757	45,609	60,544	9,428,496
Changes in items during the term						
Dividends from retained earnings						(151,385)
Net income attributable to owners of parent						358,873
Other changes in non-shareholders' equity items during the term (net)	(11,388)	(2,036)	25,171	11,746	(60,544)	(48,797)
Total changes during the term	(11,388)	(2,036)	25,171	11,746	(60,544)	158,690
Balance at end of current term	23,209	(24,783)	58,929	57,356	—	9,587,187

Fiscal year ended December 31, 2019 (January 1, 2019 through December 31, 2019)

(Thousands of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at beginning of current term	674,265	527,963	8,461,641	(134,039)	9,529,831
Changes in items during the term					
Dividends from retained earnings			(126,154)		(126,154)
Net income attributable to owners of parent			371,610		371,610
Purchase of treasury stock				(1)	(1)
Purchase of treasury stock for stock benefit trust				(14,746)	(14,746)
Disposal of treasury stock for stock benefit trust				2,229	2,229
Other changes in non-shareholders' equity items during the term (net)					—
Total changes during the term	—	—	245,455	(12,518)	232,937
Balance at end of current term	674,265	527,963	8,707,097	(146,557)	9,762,768

	Other comprehensive income				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	23,209	(24,783)	58,929	57,356	9,587,187
Changes in items during the term					
Dividends from retained earnings					(126,154)
Net income attributable to owners of parent					371,610
Purchase of treasury stock					(1)
Purchase of treasury stock for stock benefit trust					(14,746)
Disposal of treasury stock for stock benefit trust					2,229
Other changes in non-shareholders' equity items during the term (net)	(4,982)	(12,843)	(5,988)	(23,814)	(23,814)
Total changes during the term	(4,982)	(12,843)	(5,988)	(23,814)	209,122
Balance at end of current term	18,227	(37,626)	52,941	33,542	9,796,310

#### 4) Consolidated statement of cash flows

(Thousands of yen)

	Fiscal year ended December 31, 2018	Fiscal year ended December 31, 2019
Cash flows from operating activities		
Net income before taxes and other adjustments	477,118	515,665
Depreciation	460,813	588,046
Increase (decrease) in provision for directors' and corporate auditors' retirement benefits	45,700	36,200
Increase (decrease) in provision for bonuses	(82,000)	30,000
Increase (decrease) in provision for directors' and corporate auditors' bonuses	(10,450)	4,900
Increase (decrease) in provision for stock benefits	10,708	6,595
Increase (decrease) in provision for directors' stock benefits	3,696	2,920
Interest income	(154)	(152)
Dividend income	(3,269)	(3,335)
Interest expenses	42,376	48,138
Impairment loss	—	12,218
Gain on reversal of share acquisition rights	(60,544)	—
Decrease (increase) in notes and accounts receivable	(93,482)	350,550
Decrease (increase) in inventory	93,074	(94,596)
Increase (decrease) in notes and accounts payable	(47,794)	20,190
Others	(203,097)	396,531
Subtotal	632,697	1,913,869
Interest and dividend income	3,423	3,488
Interest expenses	(42,157)	(48,447)
Income taxes and others	(103,813)	(119,114)
Net cash provided by operating activities	490,150	1,749,796
Cash flows from investing activities		
Payments for acquisition of tangible fixed assets	(2,478,659)	(246,851)
Proceeds from sale of tangible fixed assets	283,405	269,703
Others	(12,740)	2,049
Net cash provided by (used in) investing activities	(2,207,994)	24,901
Cash flows from financing activities		
Proceeds from long-term debt	2,523,000	—
Payments of long-term debt	(1,217,500)	(1,192,000)
Purchase of treasury stock	—	(14,748)
Dividends	(150,850)	(126,478)
Others	(70,492)	(131,737)
Net cash provided by (used in) financing activities	1,084,156	(1,464,964)
Effect of exchange rate fluctuations on cash and cash equivalents	6,397	1,579
Increase (decrease) in cash and cash equivalents	(627,290)	311,313
Cash and cash equivalents at beginning of term	1,808,206	1,180,916
Cash and cash equivalents at end of term	1,180,916	1,492,229

## XXIII. Corporate Data

### Basic Information (As of December 31, 2019)

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:	282 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 27, 2020)

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, 2019)

Total number of authorized shares:	20,000,000 shares
Total number of issued shares:	5,104,003 shares
Number of shareholders:	2,503

## Major shareholders (Top 10)

Name	Number of shares held (Thousands)	Shareholding ratio (%)
Masakazu Sakai	591	11.71
Hiroyuki Sakai	559	11.09
Sakai CHS Foundation	500	9.91
Resona Bank, Limited	244	4.84
Kaori Sakai	229	4.55
Rie Sakai	229	4.55
Mizuho Bank, Ltd. (Standing proxy: Trust & Custody Services Bank, Ltd.)	227	4.52
Miho Kuboi	226	4.48
Haruna Yamanaka	226	4.48
Sakai Tatemono Ltd.	166	3.29