

For the Fiscal Year Ended December 31, 2020

Annual Select[®] 2020

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.

The Advanced Technology Center, completed in 2018, is a facility where technological development personnel gather, exchange knowledge, and make large contributions to increasing the Group's ability to develop technology. Going forward, focusing on enhancing its presence as our R&D hub to work with various external organizations and companies, we aim to develop sustainably and to increase our corporate value.

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, 2021

The next consolidated fiscal year ending December 31, 2021 is expected to remain increasingly uncertain due to concerns over the prolonged spread of COVID-19 further depressing the global and Japanese economies and rekindled trade issues between the U.S. and China. Given such severe business environment, the Group will incessantly promote development of our "one-of-a-kind" and "number one" technologies and products, and will strive to develop new markets in each domain of "cleanliness, health and safety" while evolving the existing sales and marketing activities.

In the mask-related business segment, in addition to continuing to ensure the stable supply of anti-infection masks for general use, the Group will try to generate new demand in the industrial mask market 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. However, we expect declining demand from medical facilities, as the availability of vaccines and other factors should slow the spread of infections to a certain extent.

In the other business segment (including environment-related businesses), working together with our distributors, we will focus on the promotion and expansion of sales of "KOACH," an open clean zone creator, anti-infection products using filters and airflow technology, and the "KAGAMINAISHI II G" automatic endoscope washer-disinfector.

II. Summary of Selected Financial Data (Consolidated)

	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	58th term Fiscal year ended December 31, 2020
Net sales (Thousands of yen)	7,936,710	8,459,868	8,326,657	8,605,330	10,152,040
Ordinary profit (Thousands of yen)	554,878	662,262	420,502	528,689	1,097,870
Net income attributable to owners of parent (Thousands of yen)	388,099	492,485	358,873	371,610	837,662
Comprehensive income (Thousands of yen)	333,671	549,583	370,620	347,796	795,514
Net assets (Thousands of yen)	9,004,311	9,428,496	9,587,187	9,796,310	10,465,670
Total assets (Thousands of yen)	16,504,547	17,354,879	18,915,638	18,338,348	19,004,153
Net assets per share (Yen)	1,783.40	1,867.80	1,911.51	1,956.95	2,090.67
Net income per share (Yen)	77.23	98.19	71.55	74.21	167.34
Net income per share, fully diluted (Yen)	—	—	—	—	—
Equity / Assets (%)	54.2	54.0	50.7	53.4	55.1
ROE (%)	4.34	5.38	3.79	3.83	8.27
Price earnings ratio (Times)	20.33	22.66	16.39	18.25	14.01
Net cash provided by operating activities (Thousands of yen)	830,228	919,664	490,150	1,749,796	1,373,326
Net cash used in investing activities (Thousands of yen)	(245,647)	(1,123,419)	(2,207,994)	24,901	(606,278)
Net cash provided by (used in) financing activities (Thousands of yen)	(353,433)	(1,951)	1,084,156	(1,464,964)	(680,147)
Cash and cash equivalents at end of term (Thousands of yen)	1,999,009	1,808,206	1,180,916	1,492,229	1,564,925
Employees	268	289	286	282	320
[Separately, average number of temporary employees] (Persons)	[165]	[159]	[166]	[162]	[166]

- Notes:
1. Consumption taxes, etc. are not included in net sales.
 2. Net income per share, fully diluted is not presented for 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, the 57th term and the 58th term because there are no potential shares.
 4. 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 COVID-19 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 selling 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, in recent years, there has been a social situation that requires preparation for 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 for different purposes, such as rescue teams heading to save lives, medical personnel treating victims, and local residents evacuating 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 COVID-19 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 been selling 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. Management Policy, Management Environment, Issues to be Addressed, Etc.

(1) Basic policy of corporate management

Management principles

- 1) Nurture people
- 2) Nurture technology
- 3) Nurture new markets in the fields of cleanliness, health, and safety

With “cleanliness, health and safety” as our business domains, the Group’s basic policy of corporate management is to supply products based on highly original technology and to contribute to society.

Based on this policy, with research and development aimed at developing “first-of-their-kind” and “truly useful” products as the starting point, our goal is not to be a “large company” but instead to be a “strong company,” in other words a “technology-driven company,” with “the only one, and the number one” technologies and products unique to the world that only the Company can create, even if we expand our scale slowly. Rather than capturing the “needs” of the market and our customers quickly, we will identify and commercialize “wants” of which our customers are not yet aware ahead of competitors, constantly aiming to create new markets.

To realize this goal, we call on all our employees to engage in “imagination” and “creation,” forms of human dignity. As a result, in our efforts to “never follow other companies” and “conduct thorough research,” we will continuously pursue new technological innovation and creative product development.

(2) Corporate strategy

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 designed our original HR policy called “HOPES (High-ideal, Open-minded Personal affairs by various Evaluation System),” which we have operated for over 20 years to develop our human resources.

“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. Furthermore, the Group has been promoting systematic, effective skills development by implementing internal training programs to improve employee’s professional knowledge and skills.

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 continued to operate mechanisms that are original to the Group. Such mechanisms include adopting a Meister system to evaluate technical expertise, holding monthly research presentations, which are attended by all technical developers and directors.

Our technical developers are assigned to fundamental research laboratories, development divisions, other divisions, and Techno-Yards, where they each pursue free, independent technological development and focus on research and development with useful developmental applications for society. A matrix-based R&D structure has also been established that includes project teams to pursue development by development theme. Through these initiatives, we have created successive products that are the only one, and the number one, and we own numerous intellectual property rights. Going forward, our most important theme is improving the quantity and quality and making better use of our intellectual property.

The Advanced Technology Center, completed in 2018, is a place for technical developers to gather and exchange knowledge to make large contributions to improving the Group’s ability to “nurture technology.” Going forward, we will focus on enhancing the Center’s presence as a hub to promote joint research and development with external organizations and companies.

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

<Cleanliness>

The open clean zone creator KOACH, born from two of the world's first technologies, air flow control mechanism based on open clean technology and nanofiber filter manufacturing, 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 will work to disseminate KOACH as a critical device to support the development of advanced technologies for a wide range of customers from the world's most advanced laboratories and facilities to medium- and small-sized enterprises with sophisticated technological capabilities, and contribute to rapid evolution of the technology and manufacturing.

<Health>

With the spread of COVID-19, we are experiencing explosive, real demand growth from the healthcare field. We have built a system to ensure the stable, maximum supply of the Hi-Luck series of disposable masks that offer the highest level of protection to healthcare workers. We aim to spread and expand them to healthcare settings nationwide and establish "Hi-Luck" as a safe, "high-tech" brand.

The automatic endoscope washer-disinfector, Kagami-Naishi II G is equipped with an automatic brushing function and uses electrolyzed water, boasting the industry's shortest cleaning and disinfection time. It is an epoch-making product that anyone can use to wash and disinfect the endoscope easily, can reduce the burden and risk of those staffs who perform washing and disinfection and create more flexibility for inspection work. We are working to expand sales and spread Kagami-Naishi II G.

<Safety>

The Ministry of Health, Labour, and Welfare is continuing to examine countermeasures to prevent health hazards to workers caused by particulates and chemical substances and how to manage these substances and stronger regulations will be implemented in metal-arc welding, asbestos work, and tunnel construction. In response to stronger regulations and management, in addition to product development that pursues safety and usability, we will strive to provide appropriate, timely information to protect the workers who support the industry and promote the use of the appropriate respiratory protective equipment.

Furthermore, the Group will fulfil its role as the top industrial mask manufacturer by developing and promoting 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.

(3) Target performance benchmarks

The Group values both solidity and growth, aiming for stable corporate earnings growth. To ensure sustainable, stable growth even amid a challenging economic environment, the Group works to respond flexibly to change, to increase our market share, and as a result, to expand our operating income and operating margin.

(4) Management environment and priority issues to be addressed

1) Mask production and supply system

We are working to further increase production capacity and maintain stable supply to respond to demand for anti-infection masks that has exploded due to COVID-19. In the industrial field, the manufacturing industry, one of our main clients, experienced shutdowns and reduced operating rates due to the COVID-19 outbreak, and mask orders received fell below the previous year.

With the end of the COVID-19 pandemic nowhere in sight and the possibility of it becoming prolonged, the Group is called on to implement a series of agile, flexible policies from production to supply to respond to conditions that change every day.

Our production subsidiary in Thailand began full production in February 2020 with a system to ship its full volume to Japan. However, risks emerged in overseas production and shipping as the Thai government halted export authorizations and called for some of our supply to go to Thailand. In response to this change, we immediately built new production facilities at our Gunma Techno-Yard in Japan as we worked to expand our total production volume and strengthen our stable supply structure. As we could see various restrictions imposed in the future, we will fulfill our utmost supply responsibilities to meet our social mission as a mask manufacturer.

2) Sales activities

Regarding sales of KOACH, an open clean zone creator, and endoscope washer/disinfector with an automatic brushing function “Kagami-Naishi II G,” restrictions on client visits and face-to-face sales continue, and we are receiving less information on potential customers than last year. In response, we have already established and are operating new sales activities using systems such as online meetings. Going forward, we will further develop and evolve them in the future into effective activities to reach our customers and distributors by remote working.

3) Employee infection countermeasures

After the outbreak of a new type of influenza in Japan in 2009, the Group built an emergency system, increased production and created a code of conduct for pandemics, succeeding in increasing production in a short period. Since the outbreak of COVID-19 in Japan, in addition to requiring all employees to wear “Hi-Luck 350” N95 masks at all times, we have built and maintained a business system that can support peak performance by working from home, working at satellite offices in different locations, and actively utilizing video conferencing. We will continue to strive to strengthen and maintain a series of business management from ordering to production and shipping while taking thorough prevention measures against COVID-19 to keep our employees safe.

VI. Business and Other Risk

Of the items related to the business conditions, accounting conditions, and other conditions listed in the securities report, the main risk recognized by the management that could materially affect the financial condition, results of operation, and cash flow of the company submitting the securities report are described.

Based on a thorough recognition of the possibility of these risks occurring, the Group is working to avoid and limit their occurrence and to respond immediately if they occur.

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.

At the Group, technical developers assigned to each of 1) fundamental research laboratories (R&D hubs pursuing technological innovation, 2) development divisions (design hubs to realize wants), 3) divisions (hubs to discovery customers' wants), and 4) Techno-Yards (manufacturing hubs that produce high-value-added products) engage in free, creative technological development and R&D aiming at its application to various fields in their assigned division or department. By establishing a matrix-type R&D system that organizes a project team that spans multiple divisions and departments for each development theme, we will continue to take measures to identify and minimize development risks in order to develop new products that combine novelty, marketability and profitability.

(2) Intellectual property

The Group has already taken necessary intellectual property protection procedures for product development based on its highly original technology, and holds a large number of intellectual property rights such as patents. There is, however, a limit to protecting our unique technology only by legal restrictions. If a third party manufactures or sells imitations or similar products using our intellectual property, we may not be able to make the expected profits. Furthermore, regardless of the Group's intentions, if the Group's products violate third parties' intellectual property rights, the Group could receive claims for compensation for damages. If such an event were to occur, it could affect the Group's business performance.

To prevent the occurrence of these risks, the Group will continue to manage our intellectual property rights carefully.

(3) Legal restrictions

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.”

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.

In addition to collecting information on the amendment and abolition of these laws and regulations, the Group is working to strengthen its compliance system and internal controls to comply with laws and regulations.

(4) Quality assurance and quality control

In addition to the assumption that they will be used in harsh environments, because 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 is maintaining and strengthening a thorough quality assurance and management system. However, 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.

In response to these risks, in the development phase, the Group uses validations sites at its Advanced Technology Center to perform reliability testing that replicates the actual environment in which the product will be used. To ensure the quality of the products developed through this reliability testing, the Group has established the Quality Assurance Office, which acts as an independent department focused on quality under the direct supervision of the president. The Group has also 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 assigns product inspectors to each Techno-Yard (manufacturing base) to monitor the manufacturing and inspection processes at these Techno-Yards. These Techno-Yards manufacture products according to the Japanese Industrial Standards, the national examination standards set by the Ministry of Health, Labour and Welfare, and the Group's own strict quality assurance and quality control standards.

(5) Disasters and infectious diseases such as COVID-19

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 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 could affect the Group's business performance. As measures against infectious diseases, in addition to distributing our own anti-infection masks to all employees as we have done in the past, we have stockpiled masks at each workplace. However, since the outbreak of COVID-19, we have continuously requested that all employees maintain the highest level of caution against infection. Specifically, we encourage daily body temperature checks, the constant wearing of our own anti-infection "Hi-Luck 350" N95 masks, thorough handwashing, as well as the proactive use of telework, distributed work in satellite offices and online meetings, thus continuously implementing measures against infectious diseases among all employees.

(6) Environmental issues

The Group is implementing 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. While ascertaining the decontamination standards established by laws and regulations and ordinances, we will continue our decontamination measures.

(7) 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. As measures to prevent this information from being leaked, based on our basic rules for information systems management, the ICT management section, a dedicated division responsible for overall information and communication systems operation within the Administration Headquarters, plays a central role. The ICT management section implements measures on a facility and organizational level including concentrated network management (integrated threat management), security education and training such as targeted email training for all employees, and monitoring of the handling of information. We also implement third-party security checks (vulnerability diagnoses using simulated, external attacks). Regarding the appropriate protection of personal information, the Group has built and properly operates a management system based on the Act on the Protection of Personal Information, personal information management regulations, and My Number information management regulations.

(8) 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 have their limits, to some degree 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.

To prevent these risks from occurring, we will continue our constant evaluations and reviews to strengthen our internal control systems.

(9) Overseas subsidiaries

SIAM KOKEN LTD. (hereinafter referred to as "SIAM KOKEN"), 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.

SIAM KOKEN had exported all the disposable dust masks (including N95 masks) produced by SIAM KOKEN to Japan, but with the outbreak of COVID-19, the Thai government took measures to stop those exports (the measures were later lifted). If similar export restrictions are again enacted due to the outbreak of an infectious disease, it could have an impact on the Group's business performance.

Furthermore, in response to increased demand for anti-infection masks and these risks in overseas production, in the current fiscal year, the Group worked to increase our domestic production facilities for disposable dust masks and to expand our total production volume.

(10) Risks related to the spread of COVID-19

The spread of COVID-19 affected the Group's business performance in the current fiscal year. In the mask-related business segment, while demand for anti-infection N95 masks for medical facilities exploded, we saw a reduced volume of orders for industrial masks from some industries as operating ratios declined in the manufacturing sector, our main customers. If infections do not subside and continue over the long term, it could affect the Group's business performance from the next fiscal year onward.

As countermeasures against these risks, the Group will continue to take measures to respond to future trends in COVID-19 in the mask-related business segment, and to pursue further business development to make both "KOACH" an open clean zone creator and "Kagaminaishi II G" an endoscope washer-disinfector with an automatic brushing function in other business segment, our second and third business pillars respectively.

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

(1) Significant accounting estimates and assumptions used in these estimates

The consolidated financial statements of the Group have been prepared in accordance with accounting standards generally accepted in Japan. In preparing these consolidated financial statements, we use estimates and assumptions that affect the reported value of assets, liabilities, earnings, and costs, and the figures based on these estimates and assumptions may differ from actual results.

The significant accounting estimates and assumptions used in preparing the consolidated financial statements are as follows.

a. Inventory asset valuations

To minimize waste in products, materials, and goods-in-process, the Group exercises purchasing and production controls at the Manufacturing Headquarters. However, as manufacturing is based on sales forecasts, there can be differences in actual sales numbers and production numbers. The Group has established rules for the valuation of inventory assets. Every quarter, we perform reversal processing, and inventory assets that have been held for multiple years are recorded as valuation losses at their base cost. Furthermore, based on our shipping history and the available information at the time, after considering various reasonable factors, an amount corresponding to the base cost of products, materials, and goods-in-process for which there is no expectation for production or shipping are recorded as valuation losses in the current fiscal year based on an estimate of their base cost. In estimating the valuation losses, we make decisions based on our shipping history and after considering various reasonable factors, but there can be differences in the estimated values and the actual results.

b. Recoverability of deferred tax assets

Differences between tax accounting and corporate accounting are gradually expanding. For temporary differences between assets and liabilities recorded as taxable income and the recorded value of assets and liabilities in our balances sheet, the Company records deferred tax assets and deferred tax liabilities using the legal effective tax rate. When evaluating the recoverability of deferred tax assets, we thoroughly evaluate future taxable income and make decisions after considering various reasonable factors. However, actual results can differ from the contents of our estimates due to changes in the assumptions and conditions that form the basis of our estimates. Furthermore, if future taxable income falls below forecasts, deferred tax assets may need to be revised.

(2) Overview of financial condition

(Assets)

Total assets as of December 31, 2020 amounted to 19,004 million yen, an increase of 665 million yen (compared with 18,338 million yen as of December 31, 2019). The major factor contributing to the result was an increase of 478 million yen in current assets due to increases in work in process, and, raw materials and supplies and was an increase of 98 million yen in fixed assets due to an increase in construction in progress.

(Liabilities)

Total liabilities as of December 31, 2020 amounted to 8,538 million yen, a decrease of 3 million yen (compared with 8,542 million yen as of December 31, 2019). The major factor contributing to the result was a decrease of 195 million yen in current liabilities due to a decrease in current portion of long-term debt and an increase in provision for bonuses and was an increase of 191 million yen in long-term liabilities due to an increase in long-term debt.

(Net Assets)

Total net assets as of December 31, 2020 amounted to 10,465 million yen (compared with 9,796 million yen as of December 31, 2019) and shareholders' equity ratio was 55.1% as of December 31, 2020 (compared with 53.4% as of December 31, 2019).

(3) Cash flow position

The balance of cash and cash equivalents (hereinafter referred to as "funds") as of December 31, 2020 was 1,564 million yen, an increase of 72 million yen compared with December 31, 2019.

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

(Cash flow from operating activities)

Funds provided by operating activities were 1,373 million yen (1,749 million yen provided during the previous fiscal year). This was due mainly to net income before taxes and other adjustments of 1,049 million yen, depreciation of 596 million yen, an increase in provision for bonuses of 169 million yen, and an increase in inventory of 405 million yen.

(Cash flow from investing activities)

Funds used in investing activities were 606 million yen (24 million yen provided during the previous fiscal year). This was due mainly to payments for acquisition of tangible fixed assets of 663 million yen.

(Cash flow from financing activities)

Funds used in financing activities were 680 million yen (1,464 million yen used during the previous fiscal year). This was due mainly to proceeds from long-term debt of 1,300 million yen, payments of long-term debt of 1,797 million yen, and dividends of 125 million yen.

VIII. 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 76, and our research and development expenses during the fiscal year under review amounted to 808 million yen.

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

(1) Anti-virus Free Access Super Clean Booth “Stand KOACH Mz”

Healthcare workers must interact with patients at a close distance during in-person examinations, and are constantly at a high risk of infection. As many COVID-19 patients show no symptoms, it is necessary to assume that all the patients to be treated are infected.

To minimize the risk of these infections, the Group has developed a clean booth that protects healthcare workers by providing clean air with 99.999998% of virus-size microparticles removed and an extremely clean space produced through advanced rectification technology.

< Key features >

- Protects healthcare workers through proprietary filter technology that removes 99.999998% of virus-size microparticles and an extremely clean space produced through advanced rectification technology
- Open clean space allows touchless entry
- Reduced infection risk for staff working in the booth
- Can be used anywhere simply and quickly
- Quiet enough for stethoscopes to be used
- Can be used comfortably as no temperature increases

(2) Negative Pressure BOX for Pathogen Testing “DANTECT for Pt (Pathogen testing) / Pt Plus”

If pathogen testing for the COVID-19 virus and other pathogen testing can be performed within hospitals, the cost of outsourcing tests and time loss while waiting for results can be reduced. However, there are many medical institutions with healthcare workers considering implementing testing who face issues such as “because we do not have the proper equipment such as the safety cabinets recommended for handling pathogens, we do not have a safe testing system” and “even if we wish to buy the proper equipment, it is extremely expensive and there is nowhere to place it.” To resolve these issues, we developed a negative pressure BOX entirely new to the market that is safe, space-saving, low-cost, and easy to introduce. (patent and design application pending)

< Key features >

- Uses a blower to create negative pressure so micro-droplets do not leak
- Equipped with a miniature, high-performance filter (made in Japan)
- Disposable body (BOX) and filter
- Can be installed and stored with minimal space requirement
- Equipped with replaceable tray with storage cells for testing cassettes ~~Replaceable tray with testing cassettes equipped with storage cells~~
- Low cost

(3) Negative Pressure Hood for Tracheal Intubation/extubation “DANTECT for Ti (Tracheal intubation)”

It is well known that in tracheal intubation and extubation conducted in proximity to the patient, there is a high risk of exposure to droplets caused by the patient’s cough and at the same time, viruses scattered in the air. Therefore, in the medical practice, measures are taken to isolate the patient’s breathing area with an acrylic box or the like. However, the United States Food and Drug Administration announced that “protective boxes without negative pressure may increase the risk of infection for both patients and healthcare workers.” Other issues with current acrylic boxes were mentioned in the announcement, such as increased intubation time and damage and tearing of PPE.

Because of these issues, we developed an easy-to-use, disposable negative pressure hood entirely new to the market that provides high levels of safety through negative pressure and a miniature,

high-performance filter.

< Key features >

- Uses a blower to create negative pressure so micro-droplets do not leak
- Equipped with a high-performance filter (made in Japan)
- Disposable body and filter
- Easy-to-use design
- Superior stockpiling capability

(4) Negative Pressure Booth for Sample Collection “LAMIKOACH Np (Negative pressure)”

Healthcare workers face a high risk of infection from coughing and sneezing when collecting samples for PCR tests. To prevent micro-droplets from patients from spreading externally, negative pressure booths are used in healthcare settings. However, if the ventilation efficiency is poor, micro-droplets may remain inside and pose an infection risk to the surrounding area by leaking when people enter and exit the booth. As healthcare settings are called on to handle increased testing with the simultaneous spread of COVID-19 and influenza, we developed a negative pressure booth equipped with a high-performance filter that cleans and quickly ventilates the air inside the booth and allows samples to be collected efficiently with a minimum number of people.

< Key features >

- Quickly removes micro-droplets with push-pull ventilation
- Removes 99.99999% of microparticles 0.15 micrometers in size
- Negative pressure indicated with a lamp
- Can be operated quickly without an assistant

Products (2), (3), and (4) were jointly developed by Toho University and the Company.

IX. 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 seven times during the fiscal year under review. The overall rate of attendance in meetings of the Board of Directors was 100%.

In addition to holding meetings of the Board of Directors, based on Article 370 of the Companies Act and Article 30 of the Company's Articles of Incorporation, there were nine written resolutions that are considered resolutions by the Board of Directors.

Chairmanship	Masakazu Sakai	Representative Director, Chairman
Members	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. Thorough infection prevention measures were undertaken at the Senior Management Meeting, including the use of anti-infection N95 masks and online meetings.

(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 six times during the fiscal year under review. The overall attendance rate of Corporate Auditors was 100%.

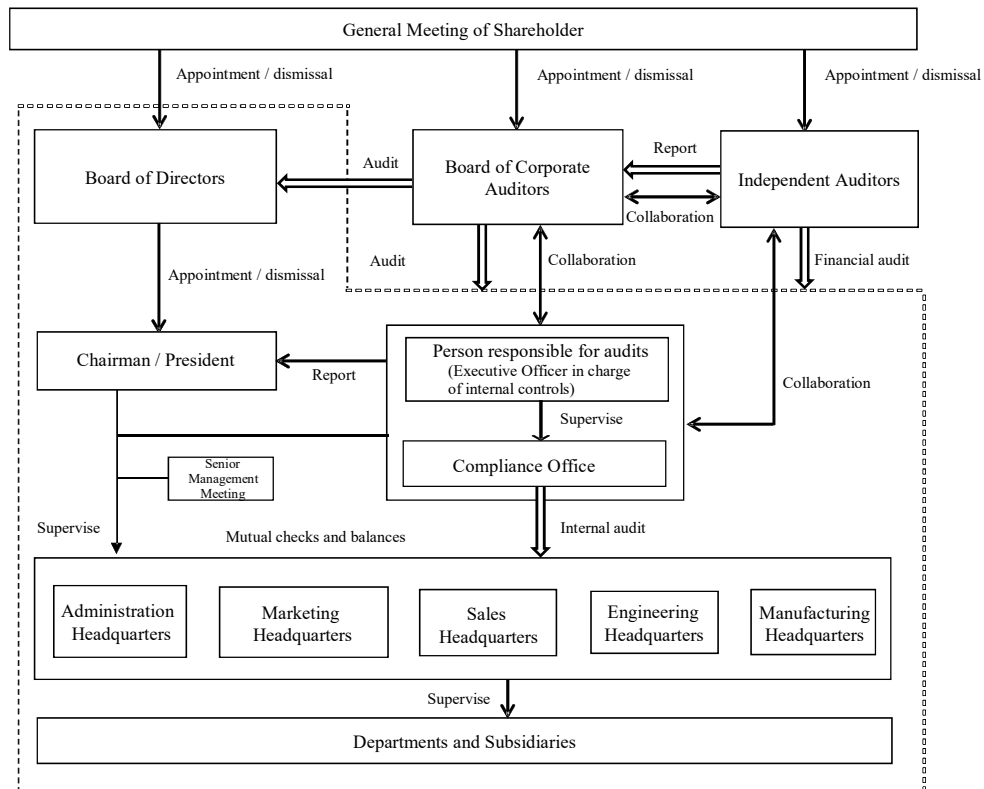
Chairmanship	Toshio Akiyama	Standing Corporate Auditor
Members	Yoshihiro Ito	Standing Corporate Auditor
	Teruo Shinato	Outside Corporate Auditor
	Nikko Haku	Outside Corporate Auditor

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 seven times and sessions of the Senior Management Meeting were held eight times. Also attended by corporate auditors, these meetings provided a forum for making decisions on important management issues and supervising business execution. Furthermore, in addition to holding meetings of the Board of Directors, based on Article 370 of the Companies Act and Article 30 of the Company’s Articles of Incorporation, there were nine written resolutions that are considered resolutions by the Board of Directors.

The corporate auditors held audit report meetings for the directors to facilitate exchange of opinions.

(ii) Compliance systems and risk management

In the current fiscal year, considering the spread of COVID-19, we postponed the implementation of business audits, quality assurance audits, safety and health audits, and environmental audits. However, for the main business processes and audit items, through the submission of reports and records by the relevant divisions and visitations to our business offices, the Company performs checks with respect to compliance with corresponding laws, regulations, and various internal regulations. 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

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	<p>Apr. 1982 Joined KOKEN LTD.</p> <p>Mar. 1998 Safety and Health Division Manager</p> <p>Mar. 2008 Executive Officer, Safety and Health Division Manager</p> <p>Mar. 2010 Appointed as Managing Director, in charge of the Manufacturing Headquarters</p> <p>Nov. 2012 Appointed as Representative Director, President, SIAM KOKEN LTD. (current position)</p> <p>Jul. 2013 Appointed as Senior Managing Director, in charge of the Manufacturing Headquarters</p> <p>Mar. 2014 Appointed as Representative Director, Executive Vice President, in charge of the Manufacturing Headquarters (current position)</p>	2 years from the Annual General Meeting of Shareholder held on March 26, 2020	18
Senior Managing Director In charge of the Marketing Headquarters	Mitsuji Muramatsu	February 21, 1956	<p>Apr. 1978 Joined the Fuji Bank, Ltd. (currently Mizuho Bank, Ltd.)</p> <p>Apr. 2002 Branch Manager of the Hongo Dori Branch, Mizuho Bank, Ltd.</p> <p>Feb. 2004 General Manager of the Osaka Public Affairs Department, Mizuho Bank, Ltd.</p> <p>Feb. 2006 Seconded to KOKEN LTD.</p> <p>Mar. 2006 Administration Headquarters Manager</p> <p>Mar. 2007 Joined KOKEN LTD.</p> <p>Mar. 2007 Appointed as Managing Director, Administration Headquarters Manager</p> <p>Mar. 2008 Managing Director, in charge of the Administration Headquarters</p> <p>Mar. 2014 Appointed as Senior Managing Director, in charge of the Administration Headquarters and in charge of the Marketing Headquarters</p> <p>Mar. 2015 Senior Managing Director, in charge of the Marketing Headquarters (current position)</p>	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	<p>Apr. 1981 Joined KOKEN LTD.</p> <p>Oct. 1996 Life Safety Division Manager</p> <p>Oct. 2003 General Manager of the Western Japan Block</p> <p>Mar. 2008 Executive Officer, General Manager of the Western Japan Block</p> <p>Apr. 2008 Executive Officer, General Manager of the Sales Management Department and General Manager of the Eastern Japan 2nd Block</p> <p>Apr. 2011 Executive Officer, Deputy Sales Headquarters Manager and General Manager of the Sales Management Department</p> <p>Mar. 2012 Appointed as Managing Director, in charge of the Sales Headquarters</p> <p>Mar. 2014 Appointed as Senior Managing Director, in charge of the Sales Headquarters (current position)</p>	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 26, 2021	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	<p>Apr. 1978 Joined the Fuji Bank, Ltd. (currently Mizuho Bank, Ltd.)</p> <p>Jan. 1990 Seconded to the Tokyo International Financial Futures Exchange (currently Tokyo Financial Exchange Inc.), Manager of the Planning Section</p> <p>Apr. 1994 Deputy Branch Manager of the Paris Branch, The Fuji Bank, Ltd.</p> <p>Jul. 2000 General Manager of the Sales Department, Mizuho Trust & Banking Co., Ltd.</p> <p>Apr. 2002 General Manager in charge of the General Planning Department, Mizuho Trust & Banking Co., Ltd.</p> <p>Apr. 2003 Professor, Asahi University Faculty of Business Administration</p> <p>Apr. 2006 Professor, Nihon University Graduate School of Social and Cultural Studies</p> <p>Apr. 2012 Professor and Dean, Nihon University Graduate School of Social and Cultural Studies</p> <p>Mar. 2015 Appointed as Corporate Auditor (current position)</p> <p>Apr. 2020 Professor, Nihon University Graduate School of Social and Cultural Studies (current position)</p>	4 years from the Annual General Meeting of Shareholder held on March 26, 2019	0
Corporate Auditor	Nikko Haku	March 7, 1977	<p>Nov. 2002 Passed the Bar Examination</p> <p>Oct. 2004 Registered at the Daini Tokyo Bar Association;</p> <p>Jan. 2011 Joined Sakura Kyodo Law Offices Partner, Sakura Kyodo Law Offices (current position)</p> <p>Mar. 2015 Appointed as Corporate Auditor (current position)</p>	4 years from the Annual General Meeting of Shareholder held on March 26, 2019	—
Total					1,235

(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, speak actively mainly 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]

- 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.

Name	Position in the Company	Attendance at Board of Corporate Auditors meetings
Toshio Akiyama	Standing Corporate Auditor	6 of 6 (100%)
Yoshihiro Ito	Standing Corporate Auditor	6 of 6 (100%)
Teruo Shinato	Corporate Auditor	6 of 6 (100%)
Nikko Haku	Corporate Auditor	6 of 6 (100%)

The main evaluation items at the Board of Corporate Auditors are the auditing policy, the auditing plan, the creation of an internal control system and oversight of its operations, the validity of the execution of duties by the directors, the auditing methodology of the corporate auditors, and the appropriateness of auditing

results. Furthermore, the corporate auditors receive reports from the independent auditor on auditing plans, the implementation and results of audits, and other important auditing-related items, discuss those details, and evaluate the details of audits, working to strengthen cooperation.

Outside corporate auditor Teruo Shinato through his abundant knowledge and insight as a university professor and outside corporate auditor Nikko Haku through his expertise as an attorney provide necessary comments and valuable advice at both meetings of the Board of Directors and meetings of the Board of Corporate Auditors, exercising their auditing functions from independent standpoints and appropriately executing their duties.

2) Status of internal audits

In the past, the Company has conducted internal audits to confirm the state of compliance with laws and regulations and the various internal regulations, but in the current fiscal year, considering the spread of COVID-19, we postponed the implementation of business audits, quality assurance audits, safety and health audits, and environmental audits. However, for the main business processes and audit items, through the submission of reports and records by the relevant divisions and visitations to our business offices, the Company performs checks with respect to compliance with corresponding laws, regulations, and various internal regulations.

The former process for internal audits is described below.

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) Continuous service period

14 years

(iii) Certified public accountants who executed audit work

Designated partner, engagement partner: Kenji Oka, Certified Public Accountant

Designated partner, engagement partner: Mayu Machida, Certified Public Accountant

(iv) Number of assistants engaged in auditing work

Certified public accountants: 10

Others: 6

(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.

There was no non-audit work provided to the Company and consolidated subsidiaries.

(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 other important compensation based on audit certification work

(Previous fiscal year)

No items to report.

(Current fiscal year)

No items to report.

(iv) 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.

(v) 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

As a compensation system linked to shareholder returns to ensure that incentives to increase corporate value sustainably function, the Company has a basic policy to ensure appropriate compensation levels in determining individual director compensation based on the director's professional responsibilities.

Compensation for directors consists of "base compensation (fixed compensation)," a fixed amount serving as the basic compensation, "performance-based compensation (bonus)" calculated based on each business period's results, "stock compensation," and "retirement benefits." Regarding the compensation amounts for individual directors, a representative director is delegated authority for the specific details per resolution of the Board of Directors, and within the scope of that authority, the representative director assesses and distributes bonuses based on the amount of the individual director's base compensation and the individual director's level of contribution in their work responsibilities. Furthermore, regarding stock compensation, the number of allotted shares is determined for each director at meetings of the Board of Directors. Moreover, each type of compensation is distributed within the scope of resolutions at the

General Meeting of Shareholders.

Base compensation serves as monthly monetary compensation (fixed compensation) and is determined based on a comprehensive consideration of position, work responsibilities, the Company's business performance, levels of employee compensation, and levels at other companies, within the scope of the compensation limits determined at the General Meeting of Shareholders.

Performance-based compensation, a form of monetary compensation (bonus) that reflects our key performance indicators (KPI) to increase awareness of enhancing business performance each fiscal year, is 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, in addition to the individual director's contribution levels to management, and is paid during a set period. The Company opted to use consolidated operating income as a benchmark pertaining to performance-based compensation 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 amounted to 1,133 million yen, which was 543 million yen higher than the initial target of 590 million yen and 565 million yen higher than consolidated operating income generated in the previous fiscal year.

Although the Company does not stipulate policy on the ratios of payment with respect to the mix of performance-based compensation and non-performance-based compensation, in the fiscal year ended December 31, 2020, the average percentage for all directors of performance-based compensation making up total compensation was 20.9%.

Stock compensation further clarifies the link between director compensation and the Company's share price, and accordingly constitutes the Company's system of compensation provided to raise 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. Within the scope decided at the 53rd Annual General Meeting of Shareholders held on March 29, 2016, points are awarded each fiscal year based on our officer stock benefit regulations. Moreover, upon the director's retirement, each one point is exchanged for one share of the Company's common stock, and the shares are awarded to the director.

Retirement benefits are paid during a set period based on standards stipulated in the officer retirement benefit internal regulations after the amounts are approved by a resolution at the General meeting of Shareholders.

From the standpoint of ensuring independence, compensation for corporate auditors is composed only of fixed compensation and retirement benefits. The Board of Corporate Auditors determines amounts of corporate auditor compensation, 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.

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)
		Base compensation (Fixed compensation)	Performance-based compensation (Bonus)	Stock compensation	Retirement benefits	
Director (excluding outside director)	246,628	154,800	52,000	7,328	32,500	8
Corporate auditor (excluding outside corporate auditor)	24,200	21,600	—	—	2,600	2
Outside officer	21,700	18,000	1,500	—	2,200	3
Total	292,528	194,400	53,500	7,328	37,300	13

- (Notes) 1. Performance-based compensation (bonus) is treated as expenses processed as provision for directors' and corporate auditors' bonuses in the fiscal year under review. The bonuses were approved at the 58th Annual General Meeting of Shareholders held on March 26, 2021.
2. Stock compensation is treated as an expense processed as provision for directors' stock benefits for six directors in the fiscal year under review.
3. Retirement benefits are treated as expenses processed as provision for directors' and corporate auditors' retirement benefits 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 | 64,911 |
- (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.*4	19,149	191,495	(Holding purpose) Held with the aim of maintaining and strengthening business relationships. (Quantitative effect of holdings)*1	Yes*2
	25,296	32,554		
Resona Holdings, Inc.	76,835	76,835	(Holding purpose) Held with the aim of maintaining and strengthening business relationships. (Quantitative effect of holdings)*1	Yes*3
	28,275	36,957		
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)*1	No
	8,475	7,020		

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.

(4) On October 1, 2020, Mizuho Financial Group, Inc. conducted a reverse stock split in which ten common shares became one common share.

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.

X. 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.

XI. Status of Employees

(1) Status of consolidated companies

As of December 31, 2020, the Group (the Company and its consolidated subsidiaries) had 320 (166) employees.

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

(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 number of employees increased by 38 compared to the previous fiscal year. The main reason for this increase was an increase of 34 employees to expand production volume at our consolidated subsidiary SIAM KOKEN LTD. as an emergency response for anti-infection masks for COVID-19.

(2) Status of submitting companies

As of December 31, 2020

Number of employees (persons)	Average age (age)	Average years of service (years)	Average annual salary (yen)
236 (166)	41.3	16.4	7,226,244

(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.

XII. Stock Option System

No items to report.

XIII. 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

12,230 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.

33,970 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.

XIV. Capital Expenditures

[Overview of capital expenditures, etc.]

A total of 694 million yen of capital expenditures (including intangible fixed assets) were made in the Group (the Company and its consolidated subsidiaries) in the fiscal year under review in order to develop highly competitive new products that meet market requirements, and to prepare an efficient mass production system for these new products.

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

Techno-Yard manufacturing equipment	389 million yen
Dies for occupational safety and health protection equipment, etc.	141 million yen
Techno-Yard buildings	68 million yen
Techno-Yard devices and equipment	37 million yen

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

XV. Dividend Policy

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

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

As a result of a comprehensive consideration of business performance in the fiscal year under review, future business development trends, and changes in earnings and the financial condition based on the policy described above, with regard to dividends for the fiscal year under review, the Company has decided to pay a year-end dividend of 45 yen per share (an ordinary dividend of 25 yen, a special dividend of 20 yen) at the Annual General Meeting of Shareholders held on March 26, 2021.

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, 2021 Resolution at the Annual General Meeting of Shareholders	227	45

XVI. Status of Business

[Overview of business performance, etc.]

Business performance

In the fiscal year under review (January to December 2020), COVID-19 caused stagnation in economic activities and large-scale economic decline. Through a series of government policies, economic activities in Japan showed some level of recovery. However, toward the end of the fiscal year, infections again spread, and social and economic activities in Japan and overseas were restricted. This led the economy to trend downward amid instability and confusion.

Amid this environment, the Group required all employees to wear our “Hi-Luck” N95 masks at all times, promoted active use of teleworking and teleconferencing, and thoroughly implemented infection control measures for all employees to ensure a stable supply of our main products.

In the mask-related business segment, while continuing to increase production of “Hi-Luck 350” respirators, which started in January 2020, the entire company, while ensuring a stable supply to our existing customers in the industrial field, has a united effort together with our distributors to expand small-lot partial shipments to healthcare institutions all over the country depending on the degree of urgency to meet the shipping requests from the government and in particular to protect healthcare workers.

In the other business segment (including environment-related businesses), it became difficult to secure opportunities for sales visits. However, for our strategic products, “KOACH” an open clean zone creator and endoscope washer/disinfector with an automatic brushing function “Kagami-Naishi II G,” due to cooperative sales with our distributors including proper follow-up of existing property information, “KOACH” fell slightly below its performance in the previous year, and “Kagami-Naishi II G” exceeded results from the previous year.

As a result, in business performance for the fiscal year under review, net sales were 10,152 million yen (an increase of 18.0% over the previous fiscal year), operating income was 1,133 million yen (an increase of 99.6% over the previous fiscal year), ordinary profit was 1,097 million yen (an increase of 107.7% over the previous fiscal year), and net income attributable to owners of parent was 837 million yen (an increase of 125.4% over the previous fiscal year). We succeeded in producing the highest levels of net sales and income in our history. Business performance by segment is as follows.

(Mask-related business segment)

As demand spiked and then remained high for anti-infection masks in the medical field, in the second half of the year, we also received increased orders for stockpiling from the Japanese government and local governments. In response to this increased demand, in addition to continuing full production both in Japan and overseas, the Group increased manufacturing facilities at our Gunma Techno-Yard, working to expand supply quantities.

There was anticipatory demand for dust masks and gas masks for industrial use due to concerns over mask shortages in the first half of the year. This anticipatory demand dropped off from the third quarter, and sales declined by around 10% from the same quarter in the previous fiscal year. As a result, net sales for the overall business segment amounted to 9,149 million yen (an increase of 21.8% from the previous fiscal year).

(Other businesses segments, including environment-related businesses)

For the open clean zone creator KOACH, the dramatic decline in face-to-face sales led the sales transactions and sales units to fall below the previous fiscal year. However, as shipments continued for large cleanroom-type system Floor KOACH for orders received last year, we were able to maintain net sales at a level that fell just below the previous fiscal year.

For endoscope washer/disinfector with an automatic brushing function “Kagami-Naishi II G” also, we experienced a challenging business environment due to a voluntary pause in sales visits and deteriorating business at medical facilities. However, renewal demand from existing customers led to orders, and sales increased.

As a result, net sales for the entire other business segment amounted to 1,002 million yen (a decrease of 8.2% over the previous fiscal year).

XVII. Segment Information

a. Production performance

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

Segment name	Current fiscal year (January 1, 2020 through December 31, 2020)	Compared to the previous fiscal year (%)
Mask-related business (Thousands of yen)	9,059,263	119.0
Other businesses (Thousands of yen)	1,007,278	94.0
Total (Thousands of yen)	10,066,541	115.9

(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, 2020 through December 31, 2020)	Compared to the previous fiscal year (%)
Mask-related business (Thousands of yen)	9,149,079	121.8
Other businesses (Thousands of yen)	1,002,960	91.8
Total (Thousands of yen)	10,152,040	118.0

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

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

Transaction partner	Previous fiscal year		Current fiscal year	
	Amount (Thousands of yen)	Ratio (%)	Amount (Thousands of yen)	Ratio (%)
MIDORI ANZEN YOUHIN CO., LTD.	1,331,742	15.5	1,217,895	12.0

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

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, 2019)	Current fiscal year (December 31, 2020)
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, 2020

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 ²)	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	166,246	9,371	1,636,000 (283.91 m ²)	62,314	19,534	1,893,466	84
Sayama Techno-Yard (Sayama City, Saitama Prefecture)		Production facility	214,539	81,292	792,433 (11,430.44 m ²)	15,507	5,910	1,109,683	17
Gunma Techno-Yard (Midori City, Gunma Prefecture)		Production facility	330,962	313,027	405,140 (9,256.83 m ²)	54,877	47,483	1,151,492	16
Tokorozawa Techno-Yard (Tokorozawa City, Saitama Prefecture)		Production facility	44,593	3,629	177,214 (1,915.55 m ²)	8,989	1,570	235,998	12
Nakai Techno-Yard (Nakai-machi, Kanagawa Prefecture)		Production facility	60,889	123,086	325,449 (1,434.94 m ²)	23,538	725	533,689	10
Ranzan Techno-Yard (Ranzan-machi, Saitama Prefecture)		Production facility	34,123	22,400	–	–	6,122	62,645	6
Advanced Technology Center (Hanno City, Saitama Prefecture)		Research facility	2,239,817	1,291	1,170,335 (46,778.06 m ²)	169,696	27,842	3,608,984	32
Saitama Logistics Center (Ranzan-machi, Saitama Prefecture)		Logistics facility	62,499	0	1,242,116 (21,336.07 m ²)	–	1,171	1,305,786	3

(Notes) 1. "Others" in the book values includes tools, instruments, and equipment, and does not include construction in process accounts.

The amounts shown above do not include consumption taxes, etc.

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 building 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, 2020

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 ²)	Lease assets (Thousands of yen)	Others (Thousands of yen)	Total (Thousands of yen)	
SIAM KOKEN LTD.	Chonburi Province, Thailand	Mask-related business	Production facility	173,067	44,868	72,893 (13,430.40 m ²)	—	2,207	293,036	84

(Note) “Others” in the book values includes tools, instruments, and equipment, and does not include construction in process accounts.

The amounts shown above do not include consumption taxes, etc.

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	1,485,000	0.50	—
Current portion of long-term debt	1,632,000	962,000	0.66	—
Current portion of lease obligations	123,139	138,111	—	—
Long-term debt (excluding those to be repaid within one year)	2,984,500	3,157,500	0.78	2022 through 2028
Lease obligations (excluding those to be repaid within one year)	255,556	208,711	—	2022 through 2025
Total	6,395,195	5,951,322	—	—

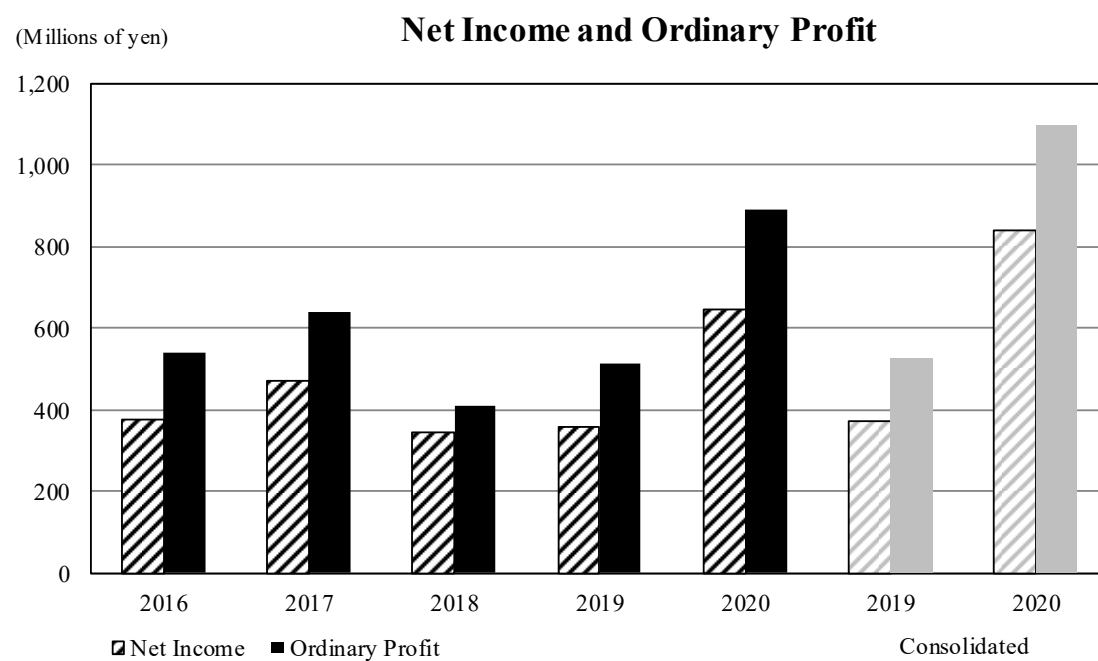
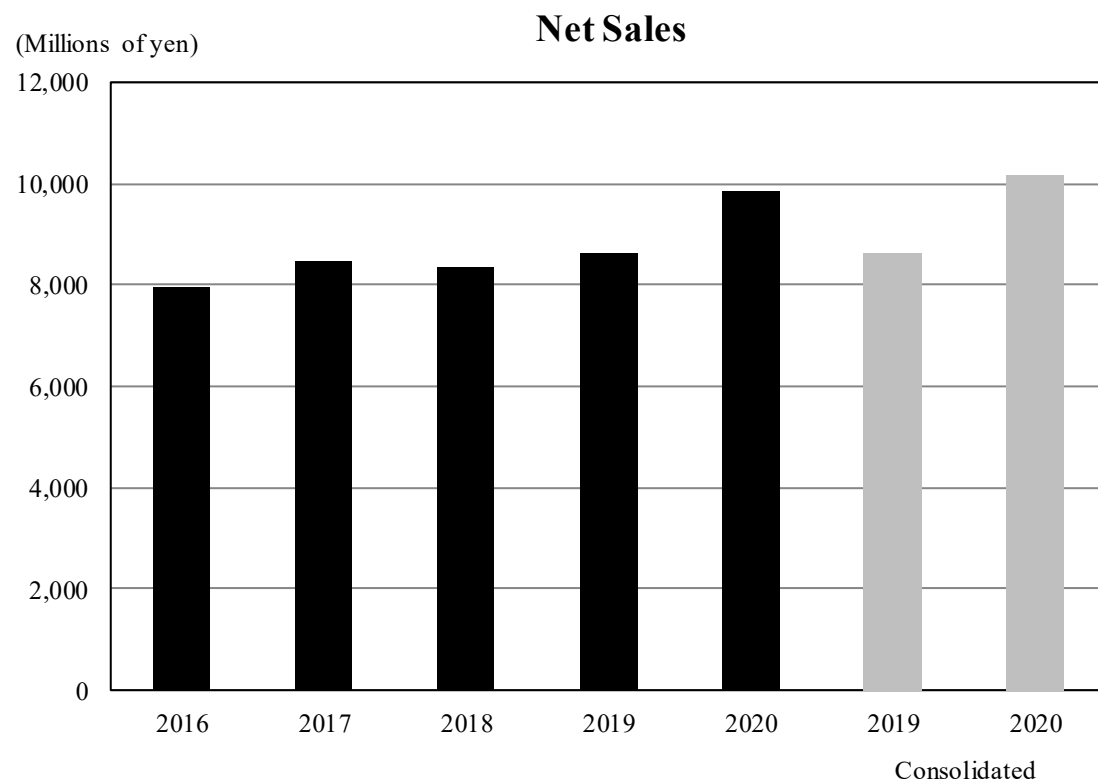
- (Notes) 1. The weighted average interest rate on the year-end balance of loans is stated for the average interest rate.
2. The average interest rate is omitted for lease obligations because the lease obligations recorded in the consolidated balance sheet is the amount before deducting the interest 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.

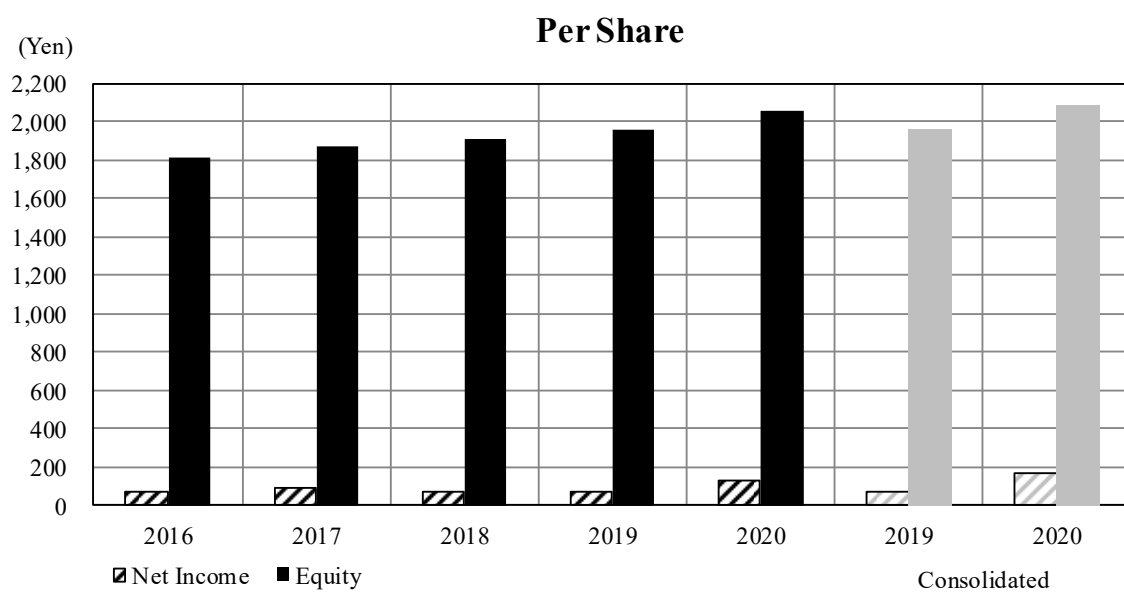
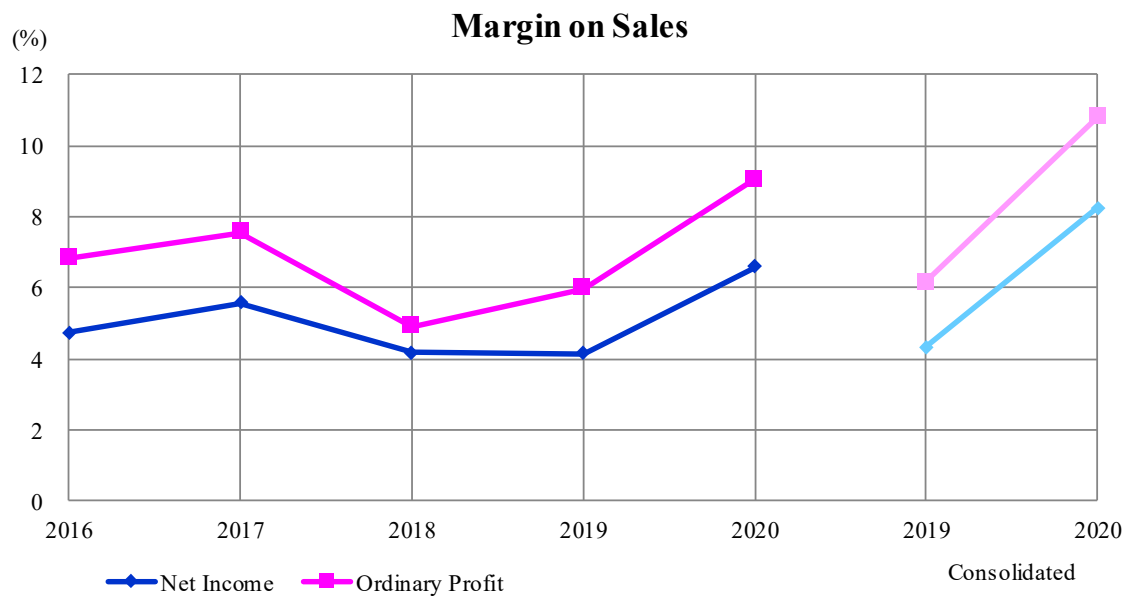
	More than one year to two years (Thousands of yen)	More than two years to three years (Thousands of yen)	More than three years to four years (Thousands of yen)	More than four years to five years (Thousands of yen)	More than five years (Thousands of yen)
Long-term debt	743,500	580,000	554,000	554,000	726,000
Lease obligations	106,591	71,678	27,925	2,516	—

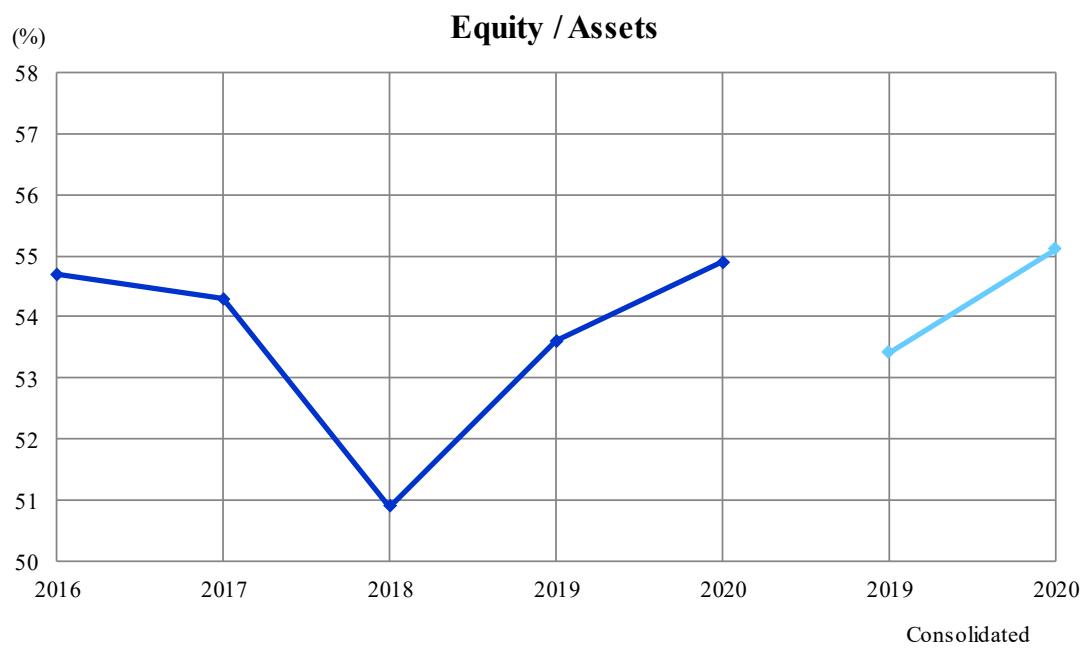
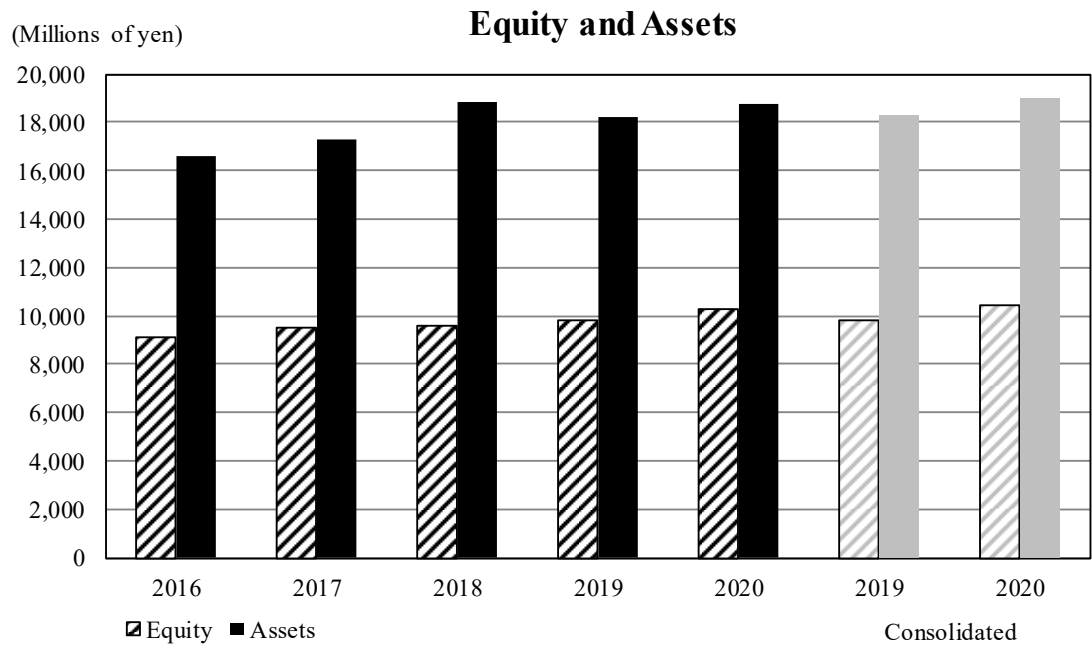
[Schedule of asset retirement obligations]

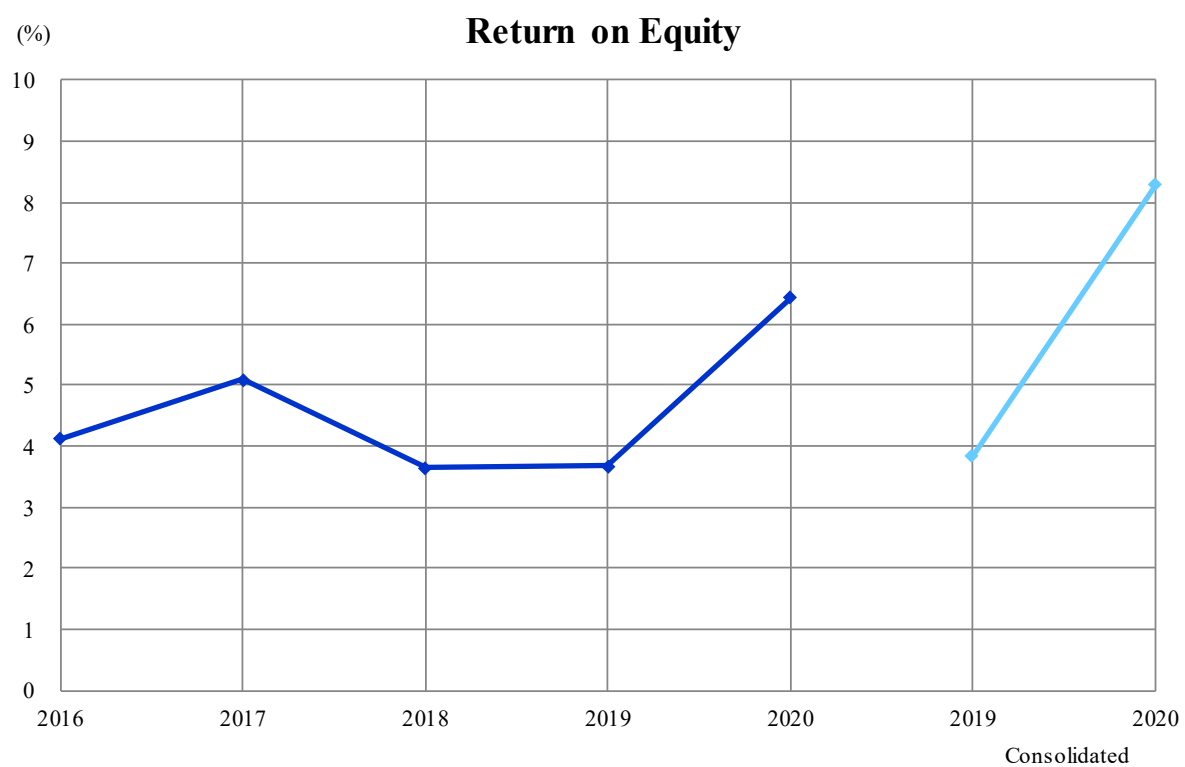
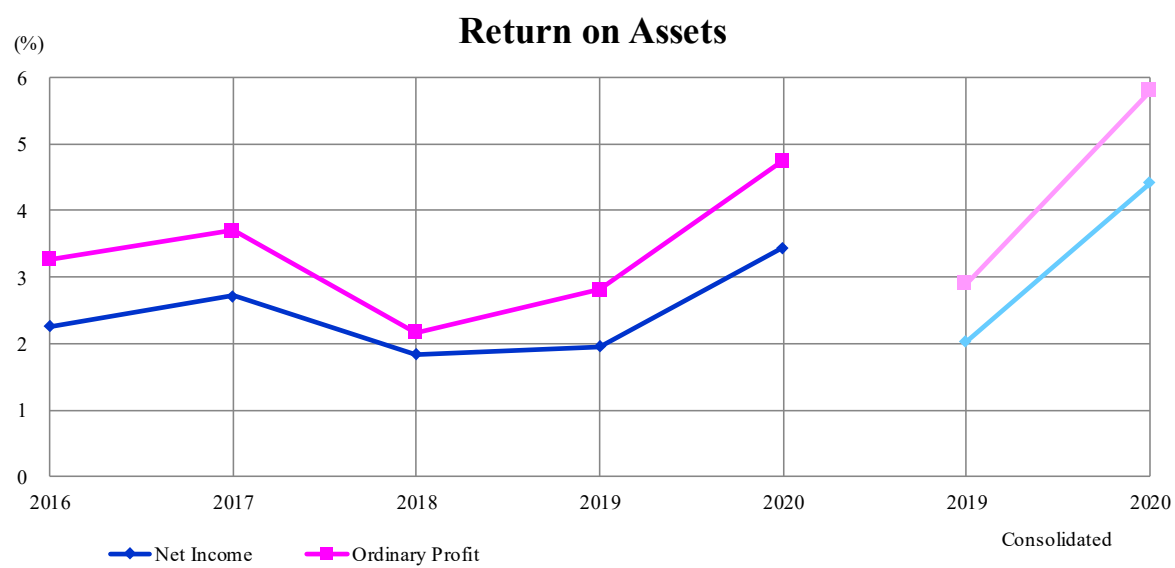
Since the amount of asset retirement obligations at the beginning and the end of the fiscal year under review was 1/100 or less of the total of liabilities and net assets at the beginning and the end of the fiscal year under review, said obligations are omitted in accordance with the provisions of Article 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, 2019	As of December 31, 2020
Assets		
Current assets		
Cash and deposits	1,492,229	1,564,925
Notes and accounts receivable - trade	2,753,076	2,699,724
Electronically recorded monetary claims - operating	415,008	456,424
Merchandise and finished goods	686,201	712,979
Work in process	343,527	545,876
Raw materials and supplies	569,719	736,934
Others	125,880	143,608
Allowance for doubtful accounts	(4,000)	—
Total current assets	6,381,644	6,860,474
Fixed assets		
Tangible fixed assets		
Buildings and structures	6,743,095	6,736,871
Accumulated depreciation	(3,277,938)	(3,394,768)
Buildings and structures, net	3,465,156	3,342,102
Machinery, equipment and vehicles	4,701,614	4,927,894
Accumulated depreciation	(4,209,254)	(4,328,926)
Machinery, equipment and vehicles, net	492,360	598,967
Land	5,956,545	5,947,611
Lease assets	567,138	537,009
Accumulated depreciation	(205,888)	(206,474)
Lease assets, net	361,249	330,535
Construction in progress	56,440	193,066
Others	2,252,315	2,201,689
Accumulated depreciation	(2,129,677)	(2,061,185)
Others, net	122,638	140,504
Total tangible fixed assets	10,454,390	10,552,788
Intangible fixed assets		
Lease assets	64	8,784
Others	44,602	45,588
Total intangible fixed assets	44,666	54,372
Investments and other assets		
Investments in securities	83,266	68,157
Deferred tax assets	427,618	519,936
Directors' retirement benefit insurance premiums	860,882	862,767
Others	91,879	89,656
Allowance for doubtful accounts	(6,000)	(4,000)
Total investments and other assets	1,457,646	1,536,518
Total fixed assets	11,956,704	12,143,679
Total assets	18,338,348	19,004,153

(Thousands of yen)

	As of December 31, 2019	As of December 31, 2020
Liabilities		
Current liabilities		
Accounts payable - trade	218,197	300,316
Short-term loans payable	1,400,000	1,485,000
Current portion of long-term debt	1,632,000	962,000
Lease obligations	123,139	138,111
Accounts payable - other	132,876	222,086
Accrued expenses	187,686	227,576
Income taxes payable	154,012	242,025
Provision for bonuses	235,000	404,000
Provision for directors' and corporate auditors' bonuses	27,650	53,500
Others	409,979	290,462
Total current liabilities	4,520,543	4,325,079
Long-term liabilities		
Long-term debt	2,984,500	3,157,500
Provision for directors' and corporate auditors' retirement benefits	646,200	683,500
Provision for stock benefits	46,199	68,732
Provision for directors' stock benefits	16,782	24,111
Asset retirement obligations	14,758	14,970
Lease obligations	255,556	208,711
Others	57,497	55,877
Total long-term liabilities	4,021,494	4,213,404
Total liabilities	8,542,038	8,538,483
Net assets		
Shareholders' equity		
Common stock	674,265	674,265
Capital surplus	527,963	534,375
Retained earnings	8,707,097	9,418,605
Treasury stock	(146,557)	(152,970)
Total shareholders' equity	9,762,768	10,474,275
Other comprehensive income		
Valuation difference on available-for-sale securities	18,227	5,577
Deferred gains or losses on hedges	(37,626)	(36,489)
Foreign currency translation adjustment	52,941	22,307
Total other comprehensive income	33,542	(8,605)
Total net assets	9,796,310	10,465,670
Total liabilities and net assets	18,338,348	19,004,153

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

(Thousands of yen)

	Fiscal year ended December 31, 2019	Fiscal year ended December 31, 2020
Net sales	8,605,330	10,152,040
Cost of goods sold	4,562,022	5,261,228
Gross profit on sales	4,043,308	4,890,811
Selling, general and administrative expenses	3,475,433	3,757,548
Operating income	567,874	1,133,263
Nonoperating income		
Interest income	152	187
Dividend income	3,335	3,394
Commissions received	9,897	6,572
Temporary assigned personnel payments received	3,868	5,392
Foreign exchange gains	4,389	—
Insurance income	7,825	—
Insurance return	19,374	—
Subsidy income	—	21,163
Others	6,039	6,459
Total nonoperating income	54,883	43,169
Nonoperating expenses		
Interest expenses	48,138	42,683
Sales discounts	8,710	9,699
Others	37,220	26,180
Total nonoperating expenses	94,068	78,563
Ordinary profit	528,689	1,097,870
Extraordinary income		
Gain on sale of fixed assets	—	22
Total extraordinary income	—	22
Extraordinary losses		
Loss on retirement of fixed assets	806	599
Impairment loss	12,218	47,991
Total extraordinary losses	13,024	48,590
Net income before taxes and other adjustments	515,665	1,049,302
Corporate, inhabitant and enterprise taxes	184,002	302,002
Deferred taxes	(39,947)	(90,362)
Total income taxes	144,054	211,639
Net income	371,610	837,662
Net income attributable to owners of parent	371,610	837,662

Consolidated statement of comprehensive income

(Thousands of yen)

	Fiscal year ended December 31, 2019	Fiscal year ended December 31, 2020
Net income	371,610	837,662
Other comprehensive income		
Valuation difference on available-for-sale securities	(4,982)	(12,650)
Deferred gains or losses on hedges	(12,843)	1,137
Foreign currency translation adjustment	(5,988)	(30,634)
Total other comprehensive income	(23,814)	(42,147)
Comprehensive income	347,796	795,514
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	347,796	795,514
Comprehensive income attributable to non-controlling interests	—	—

3) Consolidated statement of changes in net assets

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					—
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					—
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

Fiscal year ended December 31, 2020 (January 1, 2020 through December 31, 2020)

(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	8,707,097	(146,557)	9,762,768
Changes in items during the term					
Dividends from retained earnings			(126,154)		(126,154)
Net income attributable to owners of parent			837,662		837,662
Purchase of treasury stock					—
Purchase of treasury stock for stock benefit trust				(15,345)	(15,345)
Disposal of treasury stock		6,412		8,933	15,345
Disposal of treasury stock for stock benefit trust					—
Other changes in non-shareholders' equity items during the term (net)					—
Total changes during the term	—	6,412	711,507	(6,412)	711,507
Balance at end of current term	674,265	534,375	9,418,605	(152,970)	10,474,275

	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	18,227	(37,626)	52,941	33,542	9,796,310
Changes in items during the term					
Dividends from retained earnings					(126,154)
Net income attributable to owners of parent					837,662
Purchase of treasury stock					—
Purchase of treasury stock for stock benefit trust					(15,345)
Disposal of treasury stock					15,345
Disposal of treasury stock for stock benefit trust					—
Other changes in non-shareholders' equity items during the term (net)	(12,650)	1,137	(30,634)	(42,147)	(42,147)
Total changes during the term	(12,650)	1,137	(30,634)	(42,147)	669,359
Balance at end of current term	5,577	(36,489)	22,307	(8,605)	10,465,670

4) Consolidated statement of cash flows

(Thousands of yen)

	Fiscal year ended December 31, 2019	Fiscal year ended December 31, 2020
Cash flows from operating activities		
Net income before taxes and other adjustments	515,665	1,049,302
Depreciation	588,046	596,100
Increase (decrease) in allowance for doubtful accounts	—	(6,000)
Increase (decrease) in provision for directors' and corporate auditors' retirement benefits	36,200	37,300
Increase (decrease) in provision for bonuses	30,000	169,000
Increase (decrease) in provision for directors' and corporate auditors' bonuses	4,900	25,850
Increase (decrease) in provision for stock benefits	6,595	22,532
Increase (decrease) in provision for directors' stock benefits	2,920	7,328
Interest income	(152)	(187)
Dividend income	(3,335)	(3,394)
Interest expenses	48,138	42,683
Impairment loss	12,218	47,991
Decrease (increase) in notes and accounts receivable	350,550	11,936
Decrease (increase) in inventory	(94,596)	(405,302)
Increase (decrease) in notes and accounts payable	20,190	85,491
Others	396,531	(49,956)
Subtotal	1,913,869	1,630,676
Interest and dividend income	3,488	3,582
Interest expenses	(48,447)	(42,932)
Income taxes and others	(119,114)	(217,999)
Net cash provided by operating activities	1,749,796	1,373,326
Cash flows from investing activities		
Payments for acquisition of tangible fixed assets	(246,851)	(663,736)
Proceeds from sale of tangible fixed assets	269,703	76,049
Others	2,049	(18,591)
Net cash provided by (used in) investing activities	24,901	(606,278)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	—	85,000
Proceeds from long-term debt	—	1,300,000
Payments of long-term debt	(1,192,000)	(1,797,000)
Purchase of treasury stock	(14,748)	(15,345)
Proceeds from sale of treasury stock	—	15,345
Dividends	(126,478)	(125,337)
Others	(131,737)	(142,810)
Net cash provided by (used in) financing activities	(1,464,964)	(680,147)
Effect of exchange rate fluctuations on cash and cash equivalents	1,579	(14,204)
Increase (decrease) in cash and cash equivalents	311,313	72,696
Cash and cash equivalents at beginning of term	1,180,916	1,492,229
Cash and cash equivalents at end of term	1,492,229	1,564,925

XXIII. Corporate Data

Basic Information (As of December 31, 2020)

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:	320 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 29, 2021)

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, 2020)

Total number of authorized shares:	20,000,000 shares
Total number of issued shares:	5,104,003 shares
Number of shareholders:	3,533

Major shareholders (Top 10)

Name	Number of shares held (Thousands)	Shareholding ratio (%)
Sakai CHS Foundation	600	11.88
Masakazu Sakai	591	11.70
Hiroyuki Sakai	559	11.07
Resona Bank, Limited	244	4.84
Kaori Sakai	229	4.54
Rie Sakai	229	4.54
Mizuho Bank, Ltd. (Standing proxy: Custody Bank of Japan, Ltd.)	227	4.51
Miho Kuboi	226	4.47
Haruna Yamanaka	226	4.47
JPMorgan Securities Japan Co., Ltd.	95	1.88