

**For the Fiscal Year Ended December 31, 2021**

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**Annual Select<sup>®</sup> 2021**

**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 Group's research and development base, the Advanced Technology Center, 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 a forum for promoting collaboration and joint research with various external organizations and companies, we aim to develop sustainably and to increase our corporate value.

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, 2022

The economic environment in Japan and overseas is expected to remain unforeseeable for the next fiscal year ending December 31, 2022, due to concerns over the emergence of a new variant of COVID-19 and the resurgence and prolonged spread of the COVID-19, while the domestic economy is expected to recover further since the COVID-19-related restraints on social and economic activities are relaxed.

Given such business environment, in each domain of “cleanliness, health and safety,” 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 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 from various aspects in the industrial mask market, in expectation of a decrease in demand for the antiviral masks following the convergence of COVID-19. Moreover, it will focus on the promotion and expansion of sales of “KOACH,” an open clean zone creator, and the “Kagami-Naishi II G,” endoscope washer/disinfector with an automatic brushing function.

In addition, with the prices of raw materials and others remaining on an uptrend, the management environment will become more severe, but the Group will seek optimized results as it strives to streamline its R&D and management activities.

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

	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	59th term Fiscal year ended December 31, 2021
Net sales (Thousands of yen)	8,459,868	8,326,657	8,605,330	10,152,040	10,203,319
Ordinary profit (Thousands of yen)	662,262	420,502	528,689	1,097,870	922,359
Net income attributable to owners of parent (Thousands of yen)	492,485	358,873	371,610	837,662	862,372
Comprehensive income (Thousands of yen)	549,583	370,620	347,796	795,514	874,788
Net assets (Thousands of yen)	9,428,496	9,587,187	9,796,310	10,465,670	11,113,114
Total assets (Thousands of yen)	17,354,879	18,915,638	18,338,348	19,004,153	19,600,131
Net assets per share (Yen)	1,867.80	1,911.51	1,956.95	2,090.67	2,220.01
Net income per share (Yen)	98.19	71.55	74.21	167.34	172.27
Net income per share, fully diluted (Yen)	—	—	—	—	—
Equity / Assets (%)	54.0	50.7	53.4	55.1	56.7
ROE (%)	5.38	3.79	3.83	8.27	7.99
Price earnings ratio (Times)	22.66	16.39	18.25	14.01	10.53
Net cash provided by operating activities (Thousands of yen)	919,664	490,150	1,749,796	1,373,326	655,476
Net cash used in investing activities (Thousands of yen)	(1,123,419)	(2,207,994)	24,901	(606,278)	147,583
Net cash provided by (used in) financing activities (Thousands of yen)	(1,951)	1,084,156	(1,464,964)	(680,147)	(176,251)
Cash and cash equivalents at end of term (Thousands of yen)	1,808,206	1,180,916	1,492,229	1,564,925	2,187,870
Employees	289	286	282	320	297
[Separately, average number of temporary employees] (Persons)	[159]	[166]	[162]	[166]	[172]

- Notes:
1. Consumption taxes, etc. are not included in net sales.
  2. Net income per share, fully diluted is not presented for 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, the 58th term and the 59th 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 (currently Midori City), 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 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: professional skill, ability to attain business performance, 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 according to job classification.

#### 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 technological development personnel, 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 technological development personnel and directors.

Our technological development personnel are assigned to Basic Research Laboratory, 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.

The Group has established a matrix-based R&D structure that includes project teams to pursue development by development theme. Each of technological development personnel is focusing on free and original technological development and research and development aiming for progressive applications that are useful for society.

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 technological development base, the Advanced Technology Center, is a place for technological development personnel 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, and that is able to keep a high level of cleanliness during actual activities. 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>

While continuing quick and flexible supply of anti-infection masks in response to demand for them, the Group will make efforts to get anti-infection "Hi-Luck 350" N95 masks entrenched at medical institutions that have newly adopted the product and expand the market share in the medical field and try to establish "Hi-Luck" as a safe, "high-tech" brand.

The 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 diffuse Kagami-Naishi II G.

#### <Safety>

The Group will strive to develop and diffuse masks and other products that can be used safely and joyfully, such as the BL series of Breath Response Powered Air-Purifying Respirators and the Hi-Luck series disposable dust masks, which have sharply been adopted by an increasing number of medical institutions.

To cope with the Ministry of Health, Labour and Welfare's strengthened regulations and management, the Group will stimulate actual demand by developing products filled with the highest possible grade of safety and most possible ideas and expertise within the framework of the regulations. It will stimulate demand by also visiting workers who support the industry from major companies to private enterprises, disseminating information through our monthly Clean Health Safety NEWS and a dedicated website, and conducting training for the effective use of masks.

### (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 system

Demand for anti-infection masks fluctuated in the year depending on the number of people newly infected with COVID-19. After the demand entered a downtrend in line with the progress of vaccinations, it expanded again on the emergence of the new variants.

Amid the sharply changing order status, the Group has responded to the change in demand in the market by decreasing and increasing output flexibly in Japan (at Nakai Techno-Yard and Gunma Techno-Yard) and at a production subsidiary in Thailand (SIAM KOKEN LTD.).

#### 2) Sales activities

While the restrictions on behavior were prolonged along with the spread of infections and it was difficult to conduct scheduled client visits and face-to-face sales, the Group has promoted new sales activities using systems such as online meetings at its sales offices nationwide.

Regarding sales of KOACH, we had to launch remote sales activities (online demonstrations through live

streaming) because it was difficult to provide experience-based sales by demonstrating how to handle the actual machine. However, these practices had a good reputation as prospective clients could avoid the infection risk, they did not have to move from their sites, and a large number of people could participate in the activities. Moreover, at some demonstrations attended by decision-makers, there were cases that led to a change in models from small to large-scale model and a reduction in the payment terms, which means greater achievements than in the conventional face-to-face sales activities.

We expect that these online meetings, which were devised and nurtured by our sales personnel for the year, will considerably boost sales of KOACH in the future.

### 3) Employee infection countermeasures

All employees always wore anti-infection “Hi-Luck 350” N95 masks and flexibly and effectively used telework and TV conferences.

We will strive to conduct the anti-infection measures for the employees thoroughly and maintain our operational system from orders received to production and shipments until the COVID-19 pandemic is contained.

## 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, technological development personnel 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 avoid 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, if product defect or failure occurs, etc., 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 validation 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) Impact on production by disasters, infectious diseases, etc.

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., 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 in 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 LTD. 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) in 2020. 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 previous and current fiscal years, the Group worked to increase our domestic production facilities for disposable dust masks and to expand our total production volume.

(10) Effect of COVID-19 on business performance

The spread of COVID-19 affected the Group's business performance in the previous and current fiscal years. 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 "Kagami-Naishi II G" an endoscope washer-disinfector with an automatic brushing function in other business segment, our second and third business pillars respectively.

(11) On the impact of the Ukrainian situation

Since Russia has begun invading Ukraine, oil prices have been increasing further. If this military conflict is intensified and prolonged, there will be not only the risk of the prices of raw materials staying high due to the surge in the oil prices, but also a rise in geopolitical risks and the acceleration of global inflation and these risks may have an impact on the Group's earnings.



## VII. Analysis and Discussion Regarding Status of Operations, etc. from Management's Perspective

The recognition, and analysis and discussion of the status of the Group's results of operations and others from a management's perspective are as follows: Forward-looking items in the statement were based on judgments as of December 31, 2021.

### 1) Recognition, and analysis and discussion regarding status of financial condition, results of operations, and others

#### (Analysis of results of operations)

In the fiscal year under review, net sales were 10,203 million yen (an increase of 0.5% over the previous fiscal year), operating income was 945 million yen (a decrease of 16.5% over the previous fiscal year), ordinary profit was 922 million yen (a decrease of 16.0% over the previous fiscal year), and net income attributable to owners of parent was 862 million yen (an increase of 2.9% over the previous fiscal year).

#### a. Net sales

Net sales were 10,203 million yen (an increase of 0.5% over the previous fiscal year). In the mask-related business segment, sales decreased from the previous fiscal year. However, in the other business segment, sales of "KOACH," an open clean zone creator, remained strong, leading to the increase in total net sales over the previous fiscal year.

#### b. Cost of goods sold

Cost of goods sold was 5,556 million yen, an increase of 5.6% over the previous fiscal year, due mainly to an increase in the cost-to-sales ratio stemming from the rise in raw material prices. The cost-to-sales ratio was 54.5%, up 2.7 percentage points from 51.8% in the previous fiscal year.

#### c. Selling, general and administrative expenses

Selling, general and administrative expenses were 3,701 million yen, a decrease of 1.5% from the previous fiscal year, due to a decrease in provision for bonuses in line with a decline in operating income. The ratio of selling, general and administrative expenses to net sales was 36.3%, down 0.7 percentage point from 37.0% in the previous fiscal year.

#### d. Operating income

Operating income was 945 million yen, a decrease of 187 million yen from the previous fiscal year. The operating income margin was 9.3%, down 1.9 percentage points from 11.2% in the previous fiscal year.

#### e. Nonoperating income and expenses

Nonoperating income was 48 million yen, an increase of 5 million yen over the previous fiscal year.

Nonoperating expenses were 72 million yen, a decrease of 6 million yen from the previous fiscal year.

#### f. Ordinary profit

Ordinary profit was 922 million yen, a decrease of 175 million yen from the previous fiscal year.

#### g. Extraordinary income and losses

Extraordinary income was 261 million yen, an increase of 261 million over the previous fiscal year, due mainly to government subsidy income for new production facilities for masks of 260 million yen.

Extraordinary losses were 7 million yen, a decrease of 41 million yen from the previous fiscal year, due mainly to loss on sale of land of 7 million yen.

As a result, net income attributable to owners of parent was 862 million yen, an increase of 24 million yen over the previous fiscal year.

(Analysis of financial condition)

a. Total assets

Total assets amounted to 19,600 million yen, an increase of 595 million yen compared to December 31, 2020.

b. Current assets

Current assets amounted to 7,988 million yen, an increase of 1,128 million yen compared to December 31, 2020. The major factor contributing to the result was an increase of 622 million yen in cash and deposits, an increase of 412 million yen in electronically recorded monetary claims – operating, and an increase of 287 million yen in notes and accounts receivable – trade.

c. Fixed assets

Fixed assets amounted to 11,611 million yen, a decrease of 532 million yen compared to December 31, 2020. The major factor contributing to the result was a decrease of 178 million yen in buildings and structures and a decrease of 134 million yen in construction in progress as the production facilities started operation.

d. Liabilities

Current liabilities amounted to 4,108 million yen, a decrease of 217 million yen compared to December 31, 2020. The major factor contributing to the result was a decrease of 86 million yen in income taxes payable, a decrease of 60 million yen in accounts payable – trade, and a decrease of 56 million yen in accounts payable – other.

Long-term liabilities amounted to 4,378 million yen, an increase of 165 million yen compared to December 31, 2020. The major factor contributing to the result was an increase of 166 million yen in long-term debt.

e. Net assets

Net assets amounted to 11,113 million yen, an increase of 647 million yen compared to December 31, 2020. The major factor contributing to the result was an increase of 635 million yen in retained earnings.

As a result, shareholders' equity ratio was 56.7% compared to 55.1% as of December 31, 2020.

2) Analysis and considerations of status of cash flows and information on capital sources and liquidity of funds

a. Cash flow position

Cash flow from operating activities: Funds provided by operating activities were 655 million yen, a decrease of 717 million yen over the previous fiscal year. This was due mainly to an increase of 712 million yen in notes and accounts receivable due to a decrease in the liquidation of receivables, a decrease of 605 million yen in inventory, and a decrease of 218 million yen in provision for bonuses.

Cash flow from investing activities: Funds provided by investing activities were 147 million yen, an increase of 753 million yen over the previous fiscal year. This was due mainly to a decrease of 425 million yen in payments for acquisition of tangible fixed assets and proceeds from subsidy income capital expenditures of 260 million yen.

Cash flow from financing activities: Funds used in financing activities were 176 million yen, a decrease of 503 million yen over the previous fiscal year. This was due mainly to an increase of 100 million yen in proceeds from long-term debt and payments of long-term debt of 625 million yen.

b. Demand for funds

Main items of demand for working capital included purchases of raw materials and supplies, manufacturing and operating expenses, and payment of income taxes. Main items of fund demand for investment were capital expenditures in mechanical equipment, and tools, instruments and fixtures, etc.

c. Financial policy

The Group follows a basic policy of stably procuring the sources of funds that can respond to capital requirements to conduct flexible capital expenditures while securing the liquidity needed for regular business operations.

As for working capital and funds for capital expenditures, the Group uses its own funds and, as needed, raise funds by loans from financial institutions.

As of December 31, 2021, the balance of outstanding interest-bearing debt, including loans and lease obligations, was 6,129 million yen, and that of cash and cash equivalents was 2,187 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 80, and our research and development expenses during the fiscal year under review amounted to 799 million yen.

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

### (1) Powered Air Purifying Respirators “Model BL-7005”

Powered Air-Purifying Respirators (PAPR); Classification: PL2/Class A/Standard air flow type; National Assay Approval Number TP122. The “Model BL-7005” takes over the advantages of the PAPR “Model BL-1005,” which was adopted by many customers for welding work, with even higher protection performance than the Model BL-1005.

The product uses the newly developed, dedicated Mighty Micron Filter with higher filtering efficiency while maintaining low inhalation resistance, one of the filter’s features. It has filtering efficiency of 99.0% or more (PL2) and a designated protection factor of 33. It can cope with a wider range of weld fume concentration\*<sup>1</sup> than that dealt with by conventional PAPR for welding work.

\*<sup>1</sup> The product can be used in an environment with weld fume concentration (as manganese) of less than 1.65mg/m<sup>3</sup> (a required protection factor of less than 33).

#### < Key features >

- The product, which weighs about 290g, is the lightest among the cordless PAPR (PL2) sold in Japan, data as of July 2021, according to the Company’s research
- Adoption of a newly developed Mighty Micron Filter enhances filtering efficiency without enlarging the facepiece significantly, and it enables a design that does not interfere with a face shield.
- A built-in speaking diaphragm facilitates conversations at work
- A built-in fit checker allows you to perform a seal check anytime without a fit tester. When the remaining battery capacity falls below a certain level, the breath response air flow turns into rhythm mode, alerting you to a drop in voltage
- When you put on the mask, the product will automatically detect the respiration and begin to move the fan. When you put off the mask, the fan will stop automatically in three seconds
- If you cannot tolerate the odor of ozone, you can use the KBC filter, which is sold separately, only in an environment where ozone concentrations are within the allowable concentration range
- Replacement parts are available so that you can replace the cover for the filtering medium when it is damaged by an unexpected impact, and you can use the product for a long time while maintaining it

### (2) Dust Mask for Asbestos Removal Work “Model 1180H”

Replaceable dust mask; Classification: RL3; National Assay Approval Number TM788. The “Model 1180H” is a mask which can be used for removal of asbestos-containing molded plates and other work. The light-weighted, compact product with a built-in fit checker allows you to check the state of adhesion easily while wearing it. It can also be used as a gas mask when it is equipped with a chemical cartridge, so you can use it for organic solvent work, on top of asbestos-related work.

#### < Key features >

- The product, which weighs about 115g, is the lightest among the Company’s RL3 dust masks, applying a lighter burden to the wearer than other dust masks for asbestos removal work
- A built-in fit checker allows you to check the state of adhesion of your face to the mask easily only by lifting the checker’s lever up
- You can use the product as a “Gas Mask Model G-7” by equipping it with the Chemical Cartridge KGC-10 series. You can also use it as a “Replaceable Dust Mask Model 1180,” classified as RL2, by switching to the filtering medium LAS-51. It can be used as either a gas mask or a dust mask, both with the relevant National Assay Approvals

### (3) Hood Type Airline Respirators for Blasting Applications: “Model SB-1HZ/Model SB-1HY”

The “Model SB-1HZ/Model SB-1HY” are hood type airline respirators for blasting applications designed

for work at bridges. As they comply with the JIS T 8153 Supplied-air Respirator and have a designated protection factor of 1000\*2, you can use them at ease for sand-blasting applications, where the dust concentration level tends to be higher.

\*2 Though the designated protection factor for a hood type airline respirator is 25, the products had a designated protection factor of over 1000 as a result of the Company's measurement of the Simulated Workplace Protection Factor (SWPF).

< Key features >

- The rubber-coated fabric is highly resistant to the rebound of abrasive materials in blasting applications
- It is easy to replace the eye glass with a new one while keeping wearing the hood on site, when the glass is damaged and visibility is impaired
- As the hood can be fixed to the helmet and it moves together as you move your head up and down and left and right, you will not lose your visibility in a narrow place and will be able to look around to avoid danger when you move from one place to another
- Half face respirators such as dust mask and powered air-purifying respirator can be used together inside of the hood

(4) “Hi-Shield,” a Face Shield Specialized for Hi-Luck

The “Hi-Shield” is a face shield specialized for the Hi-Luck series disposable masks. Attached to a Hi-Luck mask, it prevents particulate or liquid droplets from touching your eyes or face.

< Key features >

- Keeping space between the shield and the mask prevents the shield from being foggy
- There is no head band that presses the head because the shield can be attached to the Hi-Luck mask directly
- The light weight of about 16 g shield reduces the burden of wearing

## IX. Corporate Governance

### (1) Overview of corporate governance

#### 1) Basic approach to corporate governance

In order to achieve sustainable growth and increase its medium to long-term corporate value, the Company has established a corporate governance system with clarified responsibility and is working on maintaining a sound corporate entity that can respond quickly to management environment changes while keeping transparency and fairness.

#### 2) Description of the corporate governance system and reasons for adopting the system

##### 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 nine times during the fiscal year under review. The overall rate of attendance in meetings of the Board of Directors was 98.8%. 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 four written resolutions that are considered resolutions by the Board of Directors.

<b>Chairmanship</b>	Masakazu Sakai	Representative Director, Chairman
<b>Members</b>	Tsutomu Murakawa	Representative Director, President
	Nobuya Horiguchi	Representative Director, Executive Vice President
	Mitsuji Muramatsu	Senior Managing Director
	Fumikazu Tanaka	Senior Managing Director
	Hideaki Ibata	Managing Director
	Toshiaki Nagasaka	Director
	Hiroyuki Sakai	Director, Advisor
	Shinobu Sakurai	Outside 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 (4) people, a chairman and three (3) other members, and makes decisions on matters such as audit policy, audit plans, audit methodology, and assignment of audit work. It met seven times during the fiscal year under review. The overall attendance rate of corporate auditors was 100%.

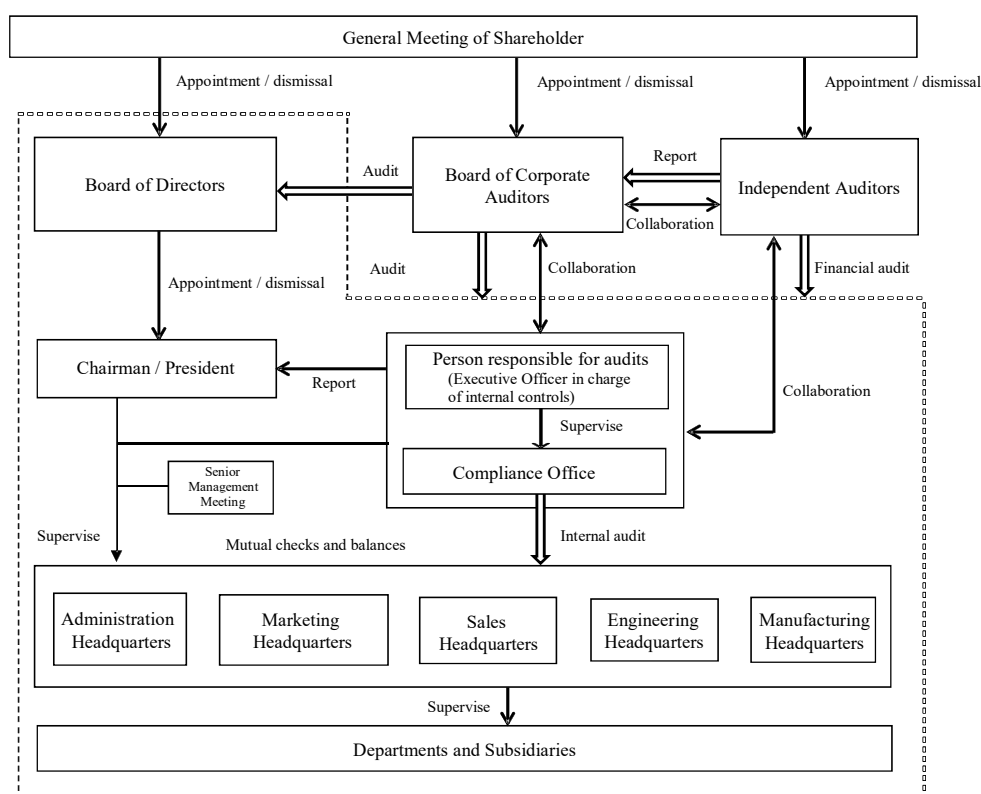
<b>Chairmanship</b>	Toshio Akiyama	Standing Corporate Auditor
<b>Members</b>	Yoshihiro Ito	Standing Corporate Auditor
	Teruo Shinato	Outside Corporate Auditor
	Nikko Haku	Outside Corporate Auditor

#### b. Reasons for adopting the structures

The Company has appointed one outside director and two outside corporate auditors who supervise the execution of duties by directors from an objective point of view outside the Company. The outside director 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 director 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 nine times and sessions of the Senior Management Meeting were held 11 times. Also attended by corporate auditors, these meetings provided a forum for making decisions on important management issues and supervising business execution. 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 four 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, in the second half of the year, the Company partially resumed those audits and performed checks with respect to compliance with corresponding laws, regulations, and various internal regulations.

Under systems for managing risk of loss, the chiefs of each of the five headquarters essentially conduct a meeting every morning 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 29, 2022	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 29, 2022	10

Job title	Name	Date of birth	Career summary		Term of office	Number of shares owned (Thousands of shares)
Representative Director, Executive Vice President In charge of the Manufacturing Headquarters	Nobuya Horiguchi	August 28, 1958	Apr. 1982 Mar. 1998 Mar. 2008  Mar. 2010  Nov. 2012  Jul. 2013  Mar. 2014	Joined KOKEN LTD. Safety and Health Division Manager Executive Officer, Safety and Health Division Manager Appointed as Managing Director, in charge of the Manufacturing Headquarters Appointed as Representative Director, President, SIAM KOKEN LTD. (current position) Appointed as Senior Managing Director, in charge of the Manufacturing Headquarters Appointed as Representative Director, Executive Vice President, in charge of the Manufacturing Headquarters (current position)	2 years from the Annual General Meeting of Shareholder held on March 29, 2022	19
Senior Managing Director In charge of the Marketing Headquarters	Mitsuji Muramatsu	February 21, 1956	Apr. 1978  Apr. 2002  Feb. 2004  Feb. 2006 Mar. 2006 Mar. 2007 Mar. 2007 Mar. 2008  Mar. 2014  Mar. 2015	Joined the Fuji Bank, Ltd. (currently Mizuho Bank, Ltd.) Branch Manager of the Hongo Dori Branch, Mizuho Bank, Ltd. General Manager of the Osaka Public Affairs Department, Mizuho Bank, Ltd. Seconded to KOKEN LTD. Administration Headquarters Manager Joined KOKEN LTD. Appointed as Managing Director, Administration Headquarters Manager Managing Director, in charge of the Administration Headquarters Appointed as Senior Managing Director, in charge of the Administration Headquarters and in charge of the Marketing Headquarters Senior Managing Director, in charge of the Marketing Headquarters (current position)	2 years from the Annual General Meeting of Shareholder held on March 29, 2022	17
Senior Managing Director In charge of the Sales Headquarters	Fumikazu Tanaka	February 22, 1957	Apr. 1981 Oct. 1996 Oct. 2003  Mar. 2008  Apr. 2008  Apr. 2011  Mar. 2012  Mar. 2014	Joined KOKEN LTD. Life Safety Division Manager General Manager of the Western Japan Block Executive Officer, General Manager of the Western Japan Block Executive Officer, General Manager of the Sales Management Department and General Manager of the Eastern Japan 2nd Block Executive Officer, Deputy Sales Headquarters Manager and General Manager of the Sales Management Department Appointed as Managing Director, in charge of the Sales Headquarters Appointed as Senior Managing Director, in charge of the Sales Headquarters (current position)	2 years from the Annual General Meeting of Shareholder held on March 29, 2022	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 29, 2022	2
			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 29, 2022	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 29, 2022	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 29, 2022	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 29, 2022	-
			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 &amp; Banking Co., Ltd.</p> <p>Apr. 2002    General Manager in charge of the General Planning Department, Mizuho Trust &amp; Banking Co., Ltd.</p> <p>Apr. 2003    Professor, Asahi University Faculty of Business Administration</p> <p>Apr. 2006    Professor, Nihon University Graduate School of Social and Cultural Studies</p> <p>Apr. 2012    Professor and Dean, Nihon University Graduate School of Social and Cultural Studies</p> <p>Mar. 2015    Appointed as Corporate Auditor (current position)</p> <p>Apr. 2020    Professor, Nihon University Graduate School of Social and Cultural Studies</p> <p>Apr. 2021    Specially Appointed 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					1,237

(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 an outside director 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 director supervises 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 director 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 director 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	7 of 7 (100%)
Yoshihiro Ito	Standing Corporate Auditor	7 of 7 (100%)
Teruo Shinato	Corporate Auditor	7 of 7 (100%)
Nikko Haku	Corporate Auditor	7 of 7 (100%)

The main evaluation items at the Board of Corporate Auditors are the auditing policy, the auditing plan, the response to KAM (Key Audit Matters), 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. 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, in the second half of the year, the Company partially resumed those audits and performed checks with respect to compliance with corresponding laws, regulations, and various internal regulations.

The 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

15 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: 5

Others: 10

(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) 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, Representative Director, Chairman Masakazu Sakai, Representative Director, President Tsutomu Murakawa, and Representative Director, Executive Vice President Nobuya Horiguchi are delegated authority for the specific details per resolution of the Board of Directors, and within the scope of that authority, they assess and distribute bonuses based on the amount of the individual director's base compensation and the individual director's level of contribution in their work responsibilities. The Company has delegated the authority to the representative directors because they are fitted for making assessment of the performance of each independent director's division in charge while considering the Company's overall performance, etc. 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 945 million yen, which was 265 million yen higher than the initial target of 680 million yen, but 187 million yen lower than 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, 2021, the average percentage for all directors of performance-based compensation making up total compensation was 18.3%.

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	Of the left items, non-monetary compensation, etc.	
Director (excluding outside director)	235,385	154,800	43,300	4,985	32,300	4,985	8
Corporate auditor (excluding outside corporate auditor)	24,200	21,600	—	—	2,600	—	2
Outside officer	21,200	18,000	1,200	—	2,000	—	3
Total	280,785	194,400	44,500	4,985	36,900	4,985	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 59th Annual General Meeting of Shareholders held on March 29, 2022.

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.
4. The total amount of non-monetary compensation, etc. to directors (excluding an outside director) was 4,985 thousand yen.

- 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	2	696
Other than unlisted stocks	5	73,707

(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)

	Number of issues (stock listings)	Total selling amount related to the decrease in the number of shares (Thousands of yen)
Unlisted stocks	1	3,220
Other than unlisted stocks	—	—

(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)		
Resona Holdings, Inc.	76,835	76,835	(Holding purpose) Held with the aim of maintaining and strengthening business relationships. (Quantitative effect of holdings)* <sup>1</sup>	Yes* <sup>2</sup>
	33,884	28,275		
Mizuho Financial Group, Inc.	19,149	19,149	(Holding purpose) Held with the aim of maintaining and strengthening business relationships. (Quantitative effect of holdings)* <sup>1</sup>	Yes* <sup>3</sup>
	27,842	25,296		
NIPPON KANRYU INDUSTRY CO., LTD.	15,000	15,000	(Holding purpose) Held with the aim of strengthening business relationships in the mask-related business. (Quantitative effect of holdings)* <sup>1</sup>	No
	8,445	8,475		
Mitsubishi UFJ Financial Group, Inc.	4,240	4,240	(Holding purpose) Held with the aim of maintaining and strengthening business relationships. (Quantitative effect of holdings)* <sup>1</sup>	Yes* <sup>4</sup>
	2,658	1,912		
Nomura Holdings, Inc.	1,750	1,750	(Holding purpose) Held with the aim of maintaining and strengthening business relationships. (Quantitative effect of holdings)* <sup>1</sup>	Yes* <sup>5</sup>
	876	952		

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) Resona Bank, Limited holds shares of the Company.

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

(4) Mitsubishi UFJ Trust and Banking Corporation holds shares of the Company.

(5) Nomura Securities Co., Ltd. holds shares of the Company.

3) Investment shares held for the purpose of net investment

No items to report.

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

No items to report.

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

No items to report.



## 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, 2021, the Group (the Company and its consolidated subsidiaries) had 297 (172) employees.

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

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

### (2) Status of submitting companies

As of December 31, 2021			
Number of employees (persons)	Average age (age)	Average years of service (years)	Average annual salary (yen)
233 (172)	41.6	16.7	7,771,322

(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**

15,530 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.**

41,470 shares

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

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

## XIV. Capital Expenditures

[Overview of capital expenditures, etc.]

A total of 206 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	73 million yen
Dies for occupational safety and health protection equipment, etc.	57 million yen
Equipment and fixtures for the fundamental research laboratories	16 million yen
Demonstration machines for sales promotions	14 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 35 yen per share (an ordinary dividend of 25 yen, a special dividend of 10 yen) at the Annual General Meeting of Shareholders held on March 29, 2022.

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 29, 2022 Resolution at the Annual General Meeting of Shareholders	177	35

## XVI. Status of Business

[Overview of business performance, etc.]

### Business performance

In the fiscal year under review (January to December 2021), the Japanese economy continued to face a challenging business environment as social and economic activities were substantially restrained due to the prolonged COVID-19 pandemic.

Under these circumstances, in the mask-related business segment, a delay of recovery in demand was seen in industrial masks. However, orders received for anti-infection masks for medical institutions surpassed the initial forecast as the number of people infected with COVID-19 increased. In the other business segment, individual online sales activities for “KOACH,” an open clean zone creator, made a big success, contributing to an increase in sales.

As a result, net sales were 10,203 million yen (an increase of 0.5% over the previous fiscal year), marking a record high for the second consecutive year.

Meanwhile, operating income and ordinary profit decreased from the previous fiscal year due mainly to an increase in the cost-to-sales ratio stemming from the rise in raw material prices. Operating income was 945 million yen (a decrease of 16.5% from the previous fiscal year) and ordinary profit was 922 million yen (a decrease of 16.0% from the previous fiscal year). However, net income attributable to owners of parent was 862 million yen (an increase of 2.9% over the previous fiscal year) due to recording extraordinary income from government subsidy income for new production facilities for masks.

Business performance by segment is as follows.

#### (Mask-related business segment)

We manufactured and shipped a larger quantity of “Hi-Luck 350” N95 masks than in the previous fiscal year by fully utilizing the new production facilities amid continued high demand as medical institutions kept designating them for purchases and using them during the fourth and fifth waves of COVID-19.

Meanwhile, orders for industrial masks sagged substantially in the first half of the fiscal year under review though they surpassed the year-before result in the second half, leading to a decrease from the previous fiscal year for the full year.

As a result, net sales for the overall business segment amounted to 8,980 million yen (a decrease of 1.8% from the previous fiscal year).

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

For the open clean zone creator “KOACH,” both the number and the rate of successful contracts increased as the product was highly evaluated by customers due to active sales efforts at all sales offices, which conducted online meetings for live streaming of demonstrations using demo machines by linking the KOACH showroom, our Environment Technical Site, to the sites of customers who wanted to confirm the quality of the product. Particularly, the adoption of our large cleanroom-type system Floor KOACH spread in a broad range of business areas and segments, with sales growing for the full year. As a result, both the sales volume and net sales marked record highs despite the continued COVID-19-related restrictions.

As for endoscope washer/disinfector with an automatic brushing function “Kagami-Naishi II G,” sales held level from the previous fiscal year as securing opportunities for face-to-face sales activities continued to be difficult in the fiscal year under review. However, overall net sales of the segment were 1,223 million yen (an increase of 21.9% over the previous fiscal year), marking a record high for the first time in three fiscal years, due to the increased sales of “KOACH.”

## 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, 2021 through December 31, 2021)	Compared to the previous fiscal year (%)
Mask-related business (Thousands of yen)	8,898,108	98.2
Other businesses (Thousands of yen)	1,187,415	117.9
Total (Thousands of yen)	10,085,523	100.2

(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, 2021 through December 31, 2021)	Compared to the previous fiscal year (%)
Mask-related business (Thousands of yen)	8,980,293	98.2
Other businesses (Thousands of yen)	1,223,026	121.9
Total (Thousands of yen)	10,203,319	100.5

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

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

Transaction partner	Previous fiscal year		Current fiscal year	
	Amount (Thousands of yen)	Ratio (%)	Amount (Thousands of yen)	Ratio (%)
MIDORI ANZEN YUHHIN CO., LTD.	1,217,895	12.0	1,121,163	11.0

(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, 2020)	Current fiscal year (December 31, 2021)
Unlisted stocks	3,246	696

\*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, 2021

Business office name (location)	Segment name	Description of facility	Book value						Number of employees (persons)
			Buildings and structures (Thousands of yen)	Machinery, equipment and vehicles (Thousands of yen)	Land (Thousands of yen) (Area m <sup>2</sup> )	Lease assets (Thousands of yen)	Others (Thousands of yen)	Total (Thousands of yen)	
Head office (Chiyoda-ku, Tokyo)	Mask-related business and other businesses	Company management work	160,915	7,281	1,636,000 (283.91 m <sup>2</sup> )	54,090	14,703	1,872,990	82
Sayama Techno- Yard (Sayama City, Saitama Prefecture)		Production facility	196,394	74,765	792,433 (11,430.44 m <sup>2</sup> )	13,555	4,032	1,081,182	17
Gunma Techno-Yard (Midori City, Gunma Prefecture)		Production facility	312,817	342,108	405,140 (9,256.83 m <sup>2</sup> )	24,465	27,064	1,111,596	16
Tokorozawa Techno-Yard (Tokorozawa City, Saitama Prefecture)		Production facility	41,153	2,976	177,214 (1,915.55 m <sup>2</sup> )	39,523	675	261,543	12
Nakai Techno-Yard (Nakai-machi, Kanagawa Prefecture)		Production facility	54,409	84,275	325,449 (1,434.94 m <sup>2</sup> )	5,708	356	470,198	10
Ranzan Techno- Yard (Ranzan-machi, Saitama Prefecture)		Production facility	30,521	15,194	–	–	3,776	49,492	7
Advanced Technology Center (Hanno City, Saitama Prefecture)		Research facility	2,138,364	418	1,170,335 (46,778.06 m <sup>2</sup> )	130,531	29,344	3,468,994	31
Saitama Logistics Center (Ranzan-machi, Saitama Prefecture)		Logistics facility	56,294	0	1,242,116 (21,336.07 m <sup>2</sup> )	–	769	1,299,180	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, 2021

Company name	Business office name (location)	Segment name	Description of facility	Book value						Number of employees (persons)
				Buildings and structures (Thousands of yen)	Machinery, equipment and vehicles (Thousands of yen)	Land (Thousands of yen) (Area m <sup>2</sup> )	Lease assets (Thousands of yen)	Others (Thousands of yen)	Total (Thousands of yen)	
SIAM KOKEN LTD.	Chonburi Province, Thailand	Mask-related business	Production facility	158,652	27,427	72,020 (13,430.40 m <sup>2</sup> )	—	1,760	259,861	64

(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	1,485,000	1,465,000	0.48	—
Current portion of long-term debt	962,000	1,023,500	0.66	—
Current portion of lease obligations	138,111	147,410	—	—
Long-term debt (excluding those to be repaid within one year)	3,157,500	3,324,000	0.74	2023 through 2028
Lease obligations (excluding those to be repaid within one year)	208,711	169,404	—	2023 through 2026
Total	5,951,322	6,129,315	—	—

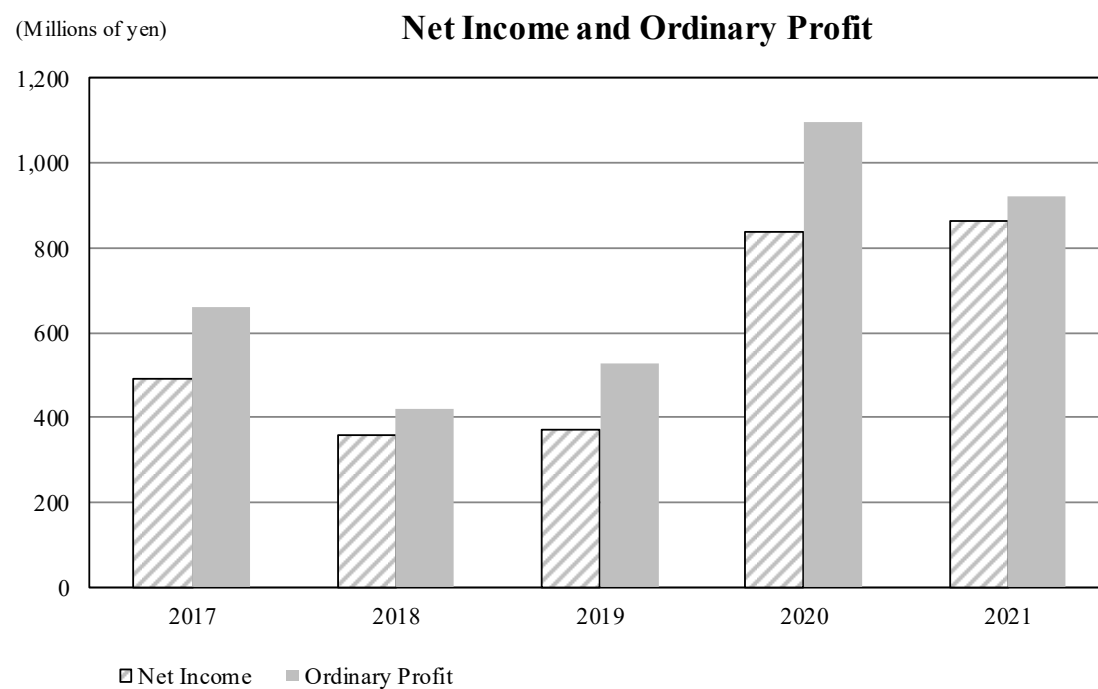
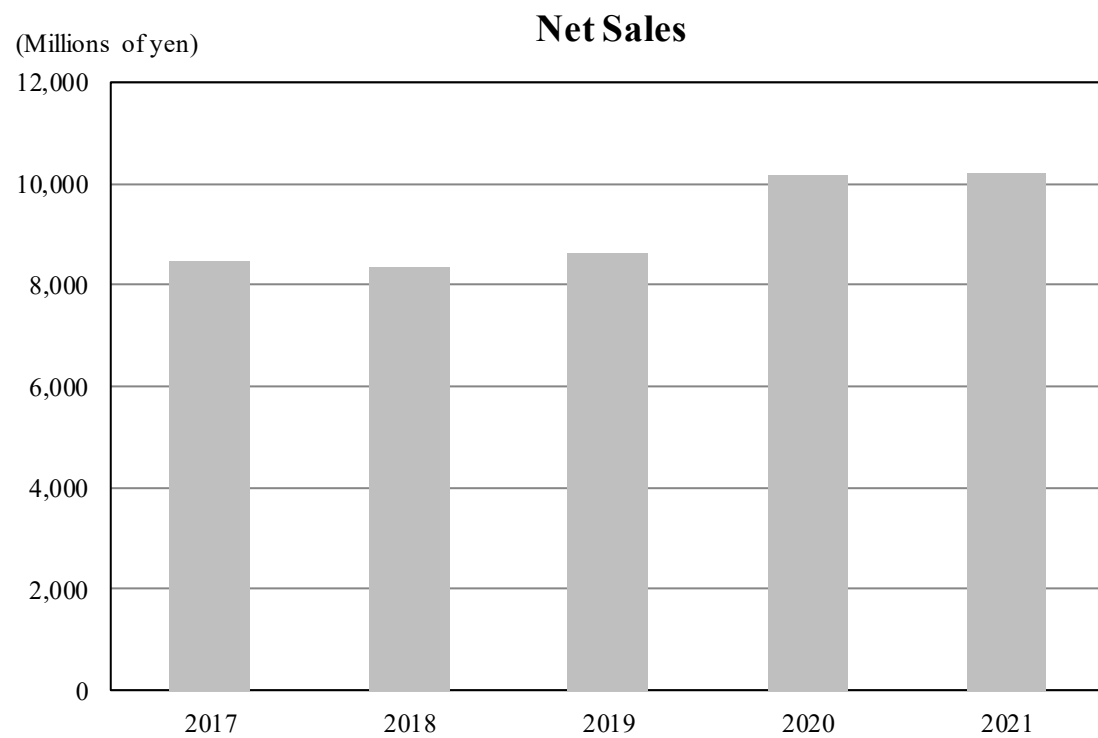
- (Notes) 1. The weighted average interest rate on the year-end balance of loans is stated for the average interest rate.  
 2. The average interest rate is omitted for lease obligations because the lease obligations recorded in the consolidated balance sheet is the amount before deducting the interest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

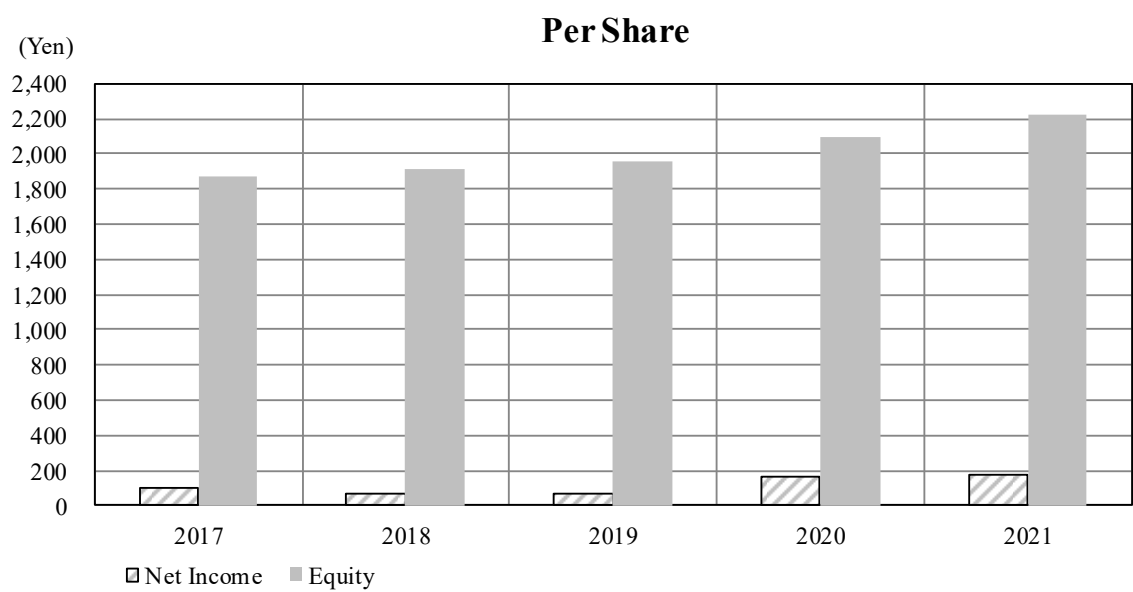
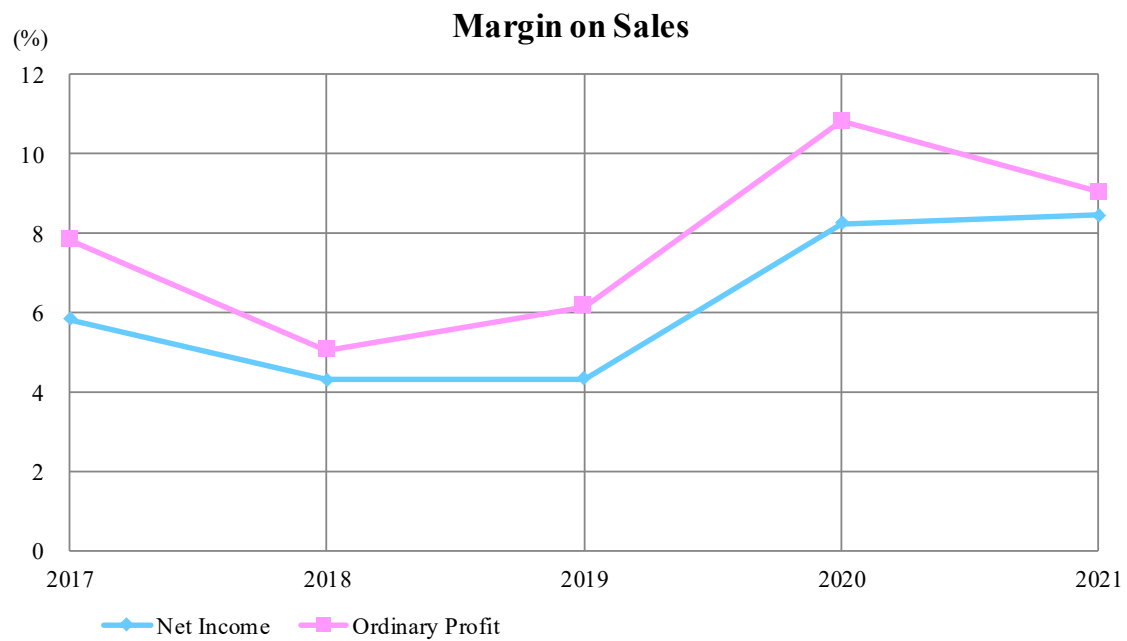
	More than one year to two years (Thousands of yen)	More than two years to three years (Thousands of yen)	More than three years to four years (Thousands of yen)	More than four years to five years (Thousands of yen)	More than five years (Thousands of yen)
Long-term debt	860,000	834,000	834,000	334,000	462,000
Lease obligations	112,196	51,407	5,255	545	—

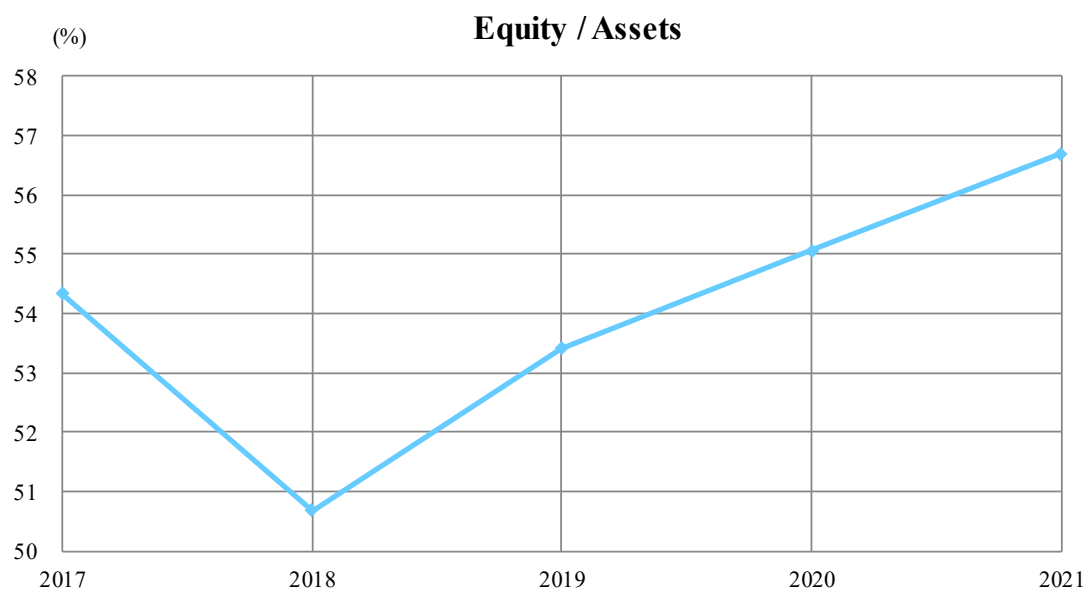
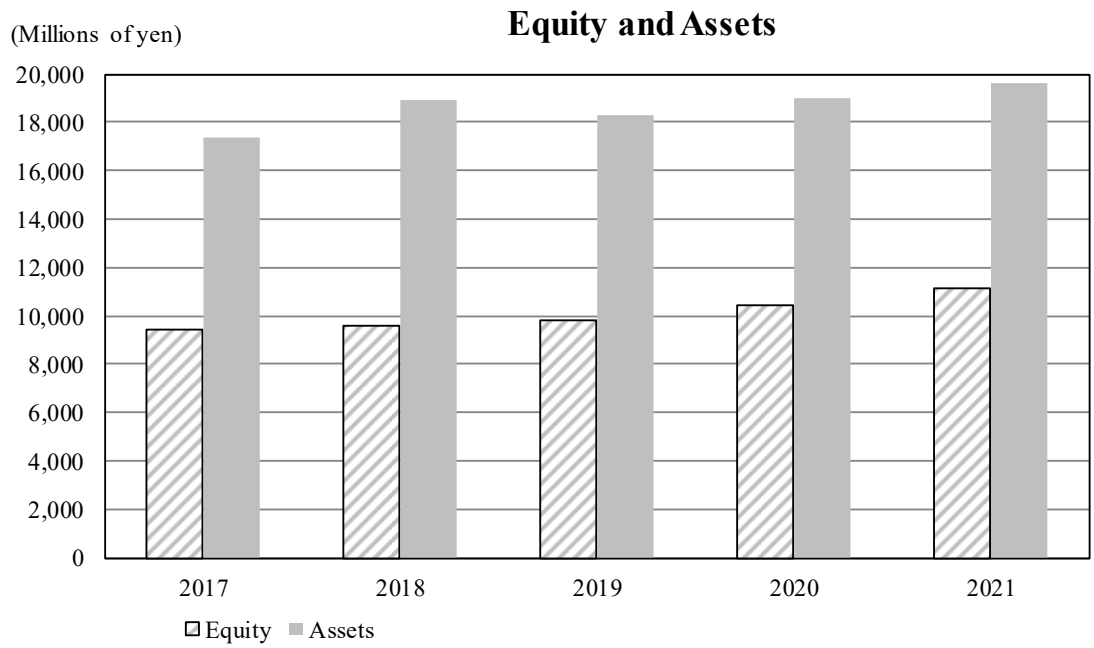
[Schedule of asset retirement obligations]

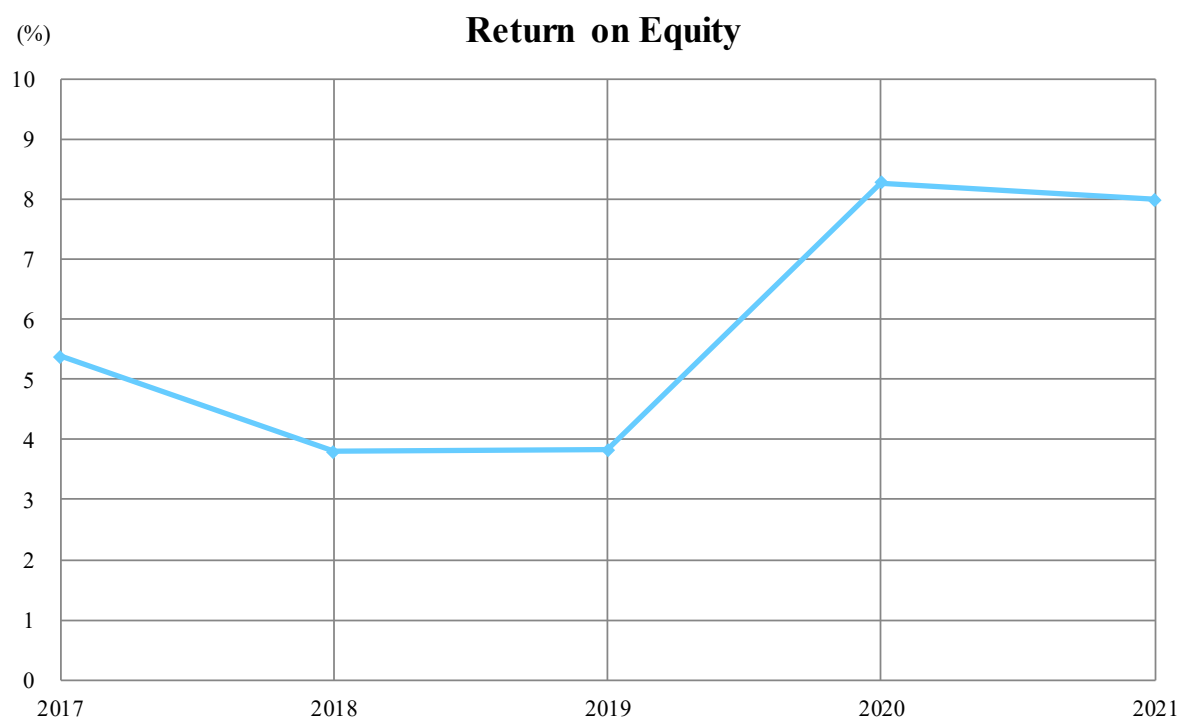
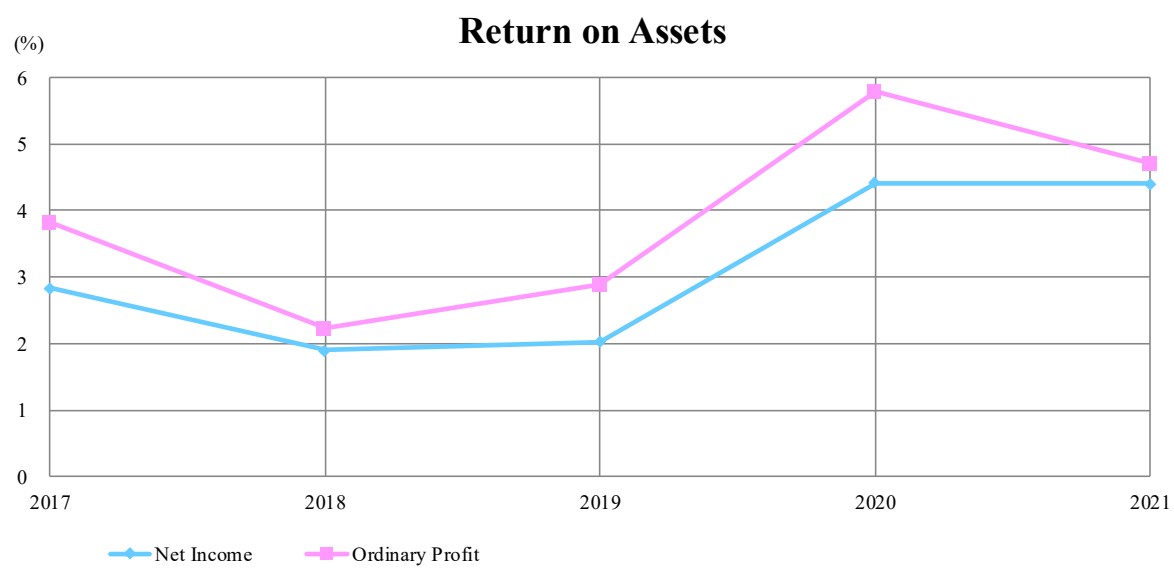
Since the amount of asset retirement obligations at the beginning and the end of the fiscal year under review was 1/100 or less of the total of liabilities and net assets at the beginning and the end of the fiscal year under review, said obligations are omitted in accordance with the provisions of Article 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, 2020	As of December 31, 2021
<b>Assets</b>		
Current assets		
Cash and deposits	1,564,925	2,187,870
Notes and accounts receivable - trade	2,699,724	2,987,611
Electronically recorded monetary claims - operating	456,424	869,383
Merchandise and finished goods	712,979	618,056
Work in process	545,876	432,889
Raw materials and supplies	736,934	745,363
Others	143,608	147,397
Total current assets	6,860,474	7,988,572
Fixed assets		
Tangible fixed assets		
Buildings and structures	6,736,871	6,747,377
Accumulated depreciation	(3,394,768)	(3,584,256)
Buildings and structures, net	3,342,102	3,163,120
Machinery, equipment and vehicles	4,927,894	5,074,821
Accumulated depreciation	(4,328,926)	(4,520,374)
Machinery, equipment and vehicles, net	598,967	554,446
Land	5,947,611	5,909,578
Lease assets	537,009	621,833
Accumulated depreciation	(206,474)	(354,965)
Lease assets, net	330,535	266,868
Construction in progress	193,066	58,902
Others	2,201,689	2,180,737
Accumulated depreciation	(2,061,185)	(2,081,113)
Others, net	140,504	99,624
Total tangible fixed assets	10,552,788	10,052,541
Intangible fixed assets		
Lease assets	8,784	6,901
Others	45,588	49,003
Total intangible fixed assets	54,372	55,905
Investments and other assets		
Investments in securities	68,157	74,403
Deferred tax assets	519,936	477,878
Directors' retirement benefit insurance premiums	862,767	864,713
Others	89,656	90,116
Allowance for doubtful accounts	(4,000)	(4,000)
Total investments and other assets	1,536,518	1,503,111
Total fixed assets	12,143,679	11,611,558
Total assets	19,004,153	19,600,131

(Thousands of yen)

	As of December 31, 2020	As of December 31, 2021
<b>Liabilities</b>		
Current liabilities		
Accounts payable - trade	300,316	239,530
Short-term loans payable	1,485,000	1,465,000
Current portion of long-term debt	962,000	1,023,500
Lease obligations	138,111	147,410
Accounts payable - other	222,086	165,481
Accrued expenses	227,576	215,306
Income taxes payable	242,025	155,717
Provision for bonuses	404,000	355,000
Provision for directors' and corporate auditors' bonuses	53,500	44,500
Others	290,462	296,584
Total current liabilities	4,325,079	4,108,031
Long-term liabilities		
Long-term debt	3,157,500	3,324,000
Provision for directors' and corporate auditors' retirement benefits	683,500	720,400
Provision for stock benefits	68,732	84,457
Provision for directors' stock benefits	24,111	29,096
Asset retirement obligations	14,970	15,186
Lease obligations	208,711	169,404
Others	55,877	36,438
Total long-term liabilities	4,213,404	4,378,985
Total liabilities	8,538,483	8,487,016
<b>Net assets</b>		
Shareholders' equity		
Common stock	674,265	674,265
Capital surplus	534,375	542,646
Retained earnings	9,418,605	10,053,632
Treasury stock	(152,970)	(161,241)
Total shareholders' equity	10,474,275	11,109,303
Other comprehensive income		
Valuation difference on available-for-sale securities	5,577	12,374
Deferred gains or losses on hedges	(36,489)	(22,989)
Foreign currency translation adjustment	22,307	14,426
Total other comprehensive income	(8,605)	3,811
Total net assets	10,465,670	11,113,114
Total liabilities and net assets	19,004,153	19,600,131

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

(Thousands of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Net sales	10,152,040	10,203,319
Cost of goods sold	5,261,228	5,556,103
Gross profit on sales	4,890,811	4,647,216
Selling, general and administrative expenses	3,757,548	3,701,491
Operating income	1,133,263	945,725
Nonoperating income		
Interest income	187	173
Dividend income	3,394	3,578
Commissions received	6,572	10,717
Temporary assigned personnel payments received	5,392	3,168
Subsidy income	21,163	20,939
Others	6,459	10,386
Total nonoperating income	43,169	48,963
Nonoperating expenses		
Interest expenses	42,683	41,197
Sales discounts	9,699	8,292
Others	26,180	22,838
Total nonoperating expenses	78,563	72,329
Ordinary profit	1,097,870	922,359
Extraordinary income		
Gain on sale of fixed assets	22	—
Subsidy income for capital expenditures	—	260,755
Others	—	670
Total extraordinary income	22	261,425
Extraordinary losses		
Loss on retirement of fixed assets	599	7,160
Impairment loss	47,991	—
Total extraordinary losses	48,590	7,160
Net income before taxes and other adjustments	1,049,302	1,176,625
Corporate, inhabitant and enterprise taxes	302,002	280,152
Deferred taxes	(90,362)	34,100
Total income taxes	211,639	314,253
Net income	837,662	862,372
Net income attributable to owners of parent	837,662	862,372

# Consolidated statement of comprehensive income

(Thousands of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Net income	837,662	862,372
Other comprehensive income		
Valuation difference on available-for-sale securities	(12,650)	6,796
Deferred gains or losses on hedges	1,137	13,500
Foreign currency translation adjustment	(30,634)	(7,880)
Total other comprehensive income	(42,147)	12,416
Comprehensive income	795,514	874,788
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	795,514	874,788
Comprehensive income attributable to non-controlling interests	—	—

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

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 for stock benefit trust				(15,345)	(15,345)
Disposal of treasury stock		6,412		8,933	15,345
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 for stock benefit trust					(15,345)
Disposal of treasury stock					15,345
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

Fiscal year ended December 31, 2021 (January 1, 2021 through December 31, 2021)

(Thousands of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at beginning of current term	674,265	534,375	9,418,605	(152,970)	10,474,275
Changes in items during the term					
Dividends from retained earnings			(227,344)		(227,344)
Net income attributable to owners of parent			862,372		862,372
Purchase of treasury stock for stock benefit trust				(24,624)	(24,624)
Disposal of treasury stock		8,271		16,352	24,624
Other changes in non-shareholders' equity items during the term (net)					—
Total changes during the term	—	8,271	635,027	(8,271)	635,027
Balance at end of current term	674,265	542,646	10,053,632	(161,241)	11,109,303

	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	5,577	(36,489)	22,307	(8,605)	10,465,670
Changes in items during the term					
Dividends from retained earnings					(227,344)
Net income attributable to owners of parent					862,372
Purchase of treasury stock for stock benefit trust					(24,624)
Disposal of treasury stock					24,624
Other changes in non-shareholders' equity items during the term (net)	6,796	13,500	(7,880)	12,416	12,416
Total changes during the term	6,796	13,500	(7,880)	12,416	647,444
Balance at end of current term	12,374	(22,989)	14,426	3,811	11,113,114

#### 4) Consolidated statement of cash flows

(Thousands of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Cash flows from operating activities		
Net income before taxes and other adjustments	1,049,302	1,176,625
Depreciation	596,100	666,368
Increase (decrease) in allowance for doubtful accounts	(6,000)	—
Increase (decrease) in provision for directors' and corporate auditors' retirement benefits	37,300	36,900
Increase (decrease) in provision for bonuses	169,000	(49,000)
Increase (decrease) in provision for directors' and corporate auditors' bonuses	25,850	(9,000)
Increase (decrease) in provision for stock benefits	22,532	15,725
Increase (decrease) in provision for directors' stock benefits	7,328	4,985
Interest income	(187)	(173)
Dividend income	(3,394)	(3,578)
Interest expenses	42,683	41,197
Impairment loss	47,991	—
Subsidy income for capital expenditures	—	(260,755)
Decrease (increase) in notes and accounts receivable	11,936	(700,846)
Decrease (increase) in inventory	(405,302)	199,718
Increase (decrease) in notes and accounts payable	85,491	(60,848)
Others	(49,956)	407
Subtotal	1,630,676	1,057,726
Interest and dividend income	3,582	3,751
Interest expenses	(42,932)	(41,748)
Income taxes and others	(217,999)	(364,252)
Net cash provided by operating activities	1,373,326	655,476
Cash flows from investing activities		
Payments for acquisition of tangible fixed assets	(663,736)	(238,171)
Proceeds from sale of tangible fixed assets	76,049	139,859
Proceeds from subsidy income for capital expenditures	—	260,755
Others	(18,591)	(14,859)
Net cash provided by (used in) investing activities	(606,278)	147,583
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	85,000	(20,000)
Proceeds from long-term debt	1,300,000	1,400,000
Payments of long-term debt	(1,797,000)	(1,172,000)
Purchase of treasury stock	(15,345)	(24,624)
Proceeds from sale of treasury stock	15,345	24,624
Dividends	(125,337)	(226,467)
Others	(142,810)	(157,783)
Net cash provided by (used in) financing activities	(680,147)	(176,251)
Effect of exchange rate fluctuations on cash and cash equivalents	(14,204)	(3,864)
Increase (decrease) in cash and cash equivalents	72,696	622,944
Cash and cash equivalents at beginning of term	1,492,229	1,564,925
Cash and cash equivalents at end of term	1,564,925	2,187,870

## XXIII. Corporate Data

### Basic Information (As of December 31, 2021)

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:	297 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 30, 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, 2021)

Total number of authorized shares:	20,000,000 shares
Total number of issued shares:	5,104,003 shares
Number of shareholders:	2,459



## Major shareholders (Top 10)

Name	Number of shares held (Thousands)	Shareholding ratio (%)
Sakai CHS Foundation	600	11.85
Masakazu Sakai	591	11.67
Hiroyuki Sakai	559	11.05
Resona Bank, Limited	244	4.83
Kaori Sakai	229	4.53
Rie Sakai	229	4.53
Mizuho Bank, Ltd. (Standing proxy: Custody Bank of Japan, Ltd.)	227	4.50
Miho Kuboi	226	4.46
Haruna Yamanaka	226	4.46
JPMorgan Securities Japan Co., Ltd.	105	2.09