

April 24th, 2018

Dear Sirs

Strategic Capital, Inc.
Tsuyoshi Maruki, President & CEO

Re: Shareholder Proposal to SHIN NIPPON AIR TECHNOLOGIES CO., LTD.

Strategic Capital, Inc. (hereinafter referred to as "Strategic Capital") is under a discretionary investment contract with INTERTRUST TRUSTEES (CAYMAN) LIMITED SOLELY IN ITS CAPACITY AS TRUSTEE OF JAPAN-UP (hereinafter referred to as the "Fund") and the Fund and Strategic Capital hold over 300 units of voting right of SHIN NIPPON AIR TECHNOLOGIES CO., LTD. (hereinafter referred to as "SNK") over 6 months.

The Fund and Strategic Capital are pleased to announce that, on April 23rd, 2018, we notified SNK of our execution of the shareholders' right to make a proposal at the annual shareholder meeting held in the coming June and confirmed that, on April 24th, 2018, SNK certainly received the documents of the proposal .

A brief detail of our proposal is as followings.

1. The Description of the proposal

- ① Revision of the provisions of articles with regard to the dissolution of Cross-Shareholdings

We require to add new Chapter and Article in the current provisions of articles as set forth below.

Chapter 8 Cross-Shareholdings

(the disposition of Cross-Shareholdings)

Article 45: The company shall sell all the listed shares which it holds, as of the effective date of the revision of the provision of articles, for reasons other than pure investment purposes immediately during 50th to 52nd fiscal period.

- ② Revision of the provisions of articles with regard to the return to shareholders
We require to add new Chapter and Article in the current provisions of articles as set forth below.

Chapter 9 the Return to Shareholders
(the return to shareholders)

Article 46: The company shall keep the sum of the total amount of annual dividend and total cost for acquisition of its own share during each fiscal period, to be equal to or more than the net profit of each fiscal period during 50th to 52nd fiscal period.

If the first proposal regarding Chapter 8 Article 45 will not be approved, this proposal regarding Chapter 9 Article 46 shall be replaced with Chapter 8 Article 45.

2. The background of the proposal

① The disposition of Cross-Shareholdings:

Corporate Governance Code (hereinafter referred to as the "Code"), which is one of the regulations at Tokyo Stock Exchange, will be revised in a couple of months. The revised Code stipulates that the policy with regard to the decrease of cross-shareholdings (cases where listed companies hold the share of other listed companies for reasons other than pure investment purposes, for example, to strengthen business relationships) should be disclosed in Rule 1-4, and wording "the decrease of cross-shareholdings" will be clearly stated. The revision of the provision of article above is to dissolve cross-shareholdings within three years to meet the newly revised Code.

SNK holds listed shares of 63 companies as "Cross-Shareholdings", which reach 19.0 billion yen in total on its non-consolidated balance sheet as of the end of March 2017.

Therefore, SNK shall dispose of all the listed shares which it holds as Cross-Shareholding as quick as possible and shall utilize the proceeds to increase its shareholder value.

② Revision of the provisions of articles with regard to the return to shareholders:

According to its Consolidated Financial Statements for the Nine Months Ended December 31st, 2017, SNK owes only about 9.8 billion yen of interest-bearing debts although it keeps about 7.3 billion yen of cash and deposits (including short-term investment securities). Moreover, SNK keeps about 21.1 billion yen of investment securities as of the same day above, most of which are intended

as Cross-Shareholdings. If SNK disposes of all Cross-Shareholdings according to the “Revision of the provisions of articles with regard to the dissolution of Cross-Shareholdings” above and disposes of all other investment securities in addition, SNK shall obtain about 18.8 billion yen of the proceeds after tax from such dissolution.

According to the announcement of SNK, the annual dividend of this fiscal year is 40 yen per share. In February 2018, SNK also announced acquisition of its own share in which total acquisition cost was 1 billion yen for one year. If the acquisition of its own share in such amount were executed within this fiscal year, ended in March 2018, the sum of the total amount of annual dividend and the total cost for acquisition of its own share would reach to around 2 billion yen, which would equal to about 66% of the forecast of net profit in this fiscal year, ended in March 2018.

As stated above, the proceeds from the dissolution of investment securities, including Cross-shareholdings, are expected to exceed 18.8 billion yen after fiscal period ended in March 2018, and SNK shall have plenty of cash and cash equivalent in its balance sheet. Considering these circumstances, SNK shall make a principle that the sum of the total amount of annual dividend and the total cost for acquisition for its own share shall be equal to or more than the net profit of each fiscal year (over 100% of total pay-out ratio to shareholder) commencing from April 1st, 2018 to at least March 31st, 2020 .

Even if SNK pay over 100% of total pay-out ratio to shareholder, which means such pay-out is almost equal to its net profit each fiscal year, SNK can keep plenty of cash in its balance sheet and invest its capital expenditure for the future growth as well.

Contact Information

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