

April 20, 2016

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 holds 5.34% of the outstanding share of SHIN NIPPON AIR TECHNOLOGIES CO., LTD. (hereinafter referred to as "SNK"). Strategic Capital also holds one unit of share in SNK.

The Fund and Strategic Capital are pleased to announce that, on April 15, 2016, 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 18, 2016, 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

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, during 48<sup>th</sup> fiscal period, immediately sell all the listed shares which it holds for reasons other than pure investment purposes as of the effective date of the revision of the provision of articles.

② Increase of the dividend

We require that the dividend per share for this fiscal year is increased to the excess amount of the consolidated net profit per share to 10 yen (round down to the nearest integer). According to the forecast of SNK, it would be 58 yen per share.

## 2. The background of the proposal

### ① The disposition of Cross-Shareholdings:

SNK holds listed shares of 65 companies as "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), which reach 20.8 billion yen in total on its non-consolidated balance sheet as of the end of March 2015.

Consolidated net assets of SNK as of the end of December 2015 was about 36.1 billion yen (about 1,460 yen per share) and the current stock price of SNK is far lower than 1,460 yen. Based on the forecast of consolidated net profit of this fiscal year by SNK, ROE (net profit on equity) would be about 4.7%, which is also far lower than general standard. Therefore, it is desirable that SNK shall decrease its investment securities and accordingly its equity capital on its balance sheet in order to improve such low ROE.

Japan's Corporate Governance Code (hereinafter referred to as the "Code") has entered into effect since June 2015, and SNK submitted its report regarding corporate governance to Tokyo Stock Exchange on December 15, 2015. In the report, with regard to the "Principle 1.4 Cross-Shareholdings", SNK states that it keeps its Cross-Shareholdings in consideration of the maintenance of middle and long term relationship with the portfolio companies, the business development, synergy effect and the dividend. As a result, SNK concludes, those Cross-Shareholdings lead to the enhancement of its corporate value and middle and long term benefits of shareholders.

However, when Strategic Capital had a meeting with the management of SNK on April 8<sup>th</sup>, 2016 and ask how Cross-Shareholdings lead to the enhancement of SNK's corporate value, none of rational answer could be acquired from the management of SNK. Furthermore, SNK does not disclose standards with respect to the voting rights as to its Cross-Shareholdings although the Code requires the listed companies to establish and disclose them.

SNK shall immediately dispose all the listed shares which it holds as Cross-Shareholdings as long as it cannot give rational explanations on them.

After disposition of such "Cross-Shareholdings", SNK can utilize the fund effectively for new business developments, mergers and acquisitions (limited to those equities SNK can give rational explanation). Also, SNK can utilize the proceeds as return to shareholders.

② Dividend of the fiscal year end :

According to its annual Consolidated Financial Statements as of the end of March 2015, SNK owes only about 3.9 billion yen of interest-bearing debts although it keeps about 7.7 billion yen of cash and deposits. Moreover, SNK keeps about 24.6 billion yen of investment securities as of the same day above. Since most of them are intended as Cross-Shareholdings as mentioned above, those securities should be disposed and cashed as soon as possible

According to the announcement of SNK on 25<sup>th</sup> March, 2016, the annual dividend of this fiscal year is 25 yen per share. Considering SNK's large capital on its balance sheet, huge investment securities it holds and the forecast of net profit of this fiscal year, the abovementioned dividend is far from satisfactory for shareholders.

SNK does not need huge reserve on its balance sheet and should return surplus funds to shareholders. These returns lead to increase shareholders' value. Under the current circumstances of negative interest rate, such surplus reserve held as cash and its equivalent may virtually decrease its value.

Besides, since the amount of increased dividend is supposed to be within the current net profit, it will not damage the state of cash and deposits on its balance sheet.

Contact Information

Dan Kato

81-3-5459-0380