

April 28th, 2021

To Whom It May Concern,

Strategic Capital, Inc.
Tsuyoshi Maruki, President & CEO

Re: Shareholder Proposal to KYOKUTO BOEKI KAISHA, 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 KYOKUTO BOEKI KAISHA, LTD. (hereinafter referred to as "Kyokuto" or the "Company" as the context requires) over 6 months.

The Fund and Strategic Capital are pleased to announce that, on April 26th, 2021, we notified Kyokuto 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 27th, 2021, Kyokuto certainly received the documents of the proposal.

We would like to explain the context of our proposal as following;

1. Overview of our proposal and
2. The detailed translation of our proposal.

1. Overview of our proposal

- ① Board of directors who remain ignorant of capital market theory and continue to damage shareholder value

Kyokuto's board of directors is composed of former employees of Kyokuto, a person from IHI (a business partner and major shareholder), a lawyer and an accountant, etc. Through our dialogue with them, we conclude that they do not understand capital markets (even the basic concepts such as cost of capital) nor have the awareness to reflect the viewpoint of shareholders.

We propose Tsuyoshi Maruki, Strategic Capital's representative, join the board of directors to convey a better understanding of capital market principles and promote measures to improve shareholder value. Since we hold approximately 17% of the Company's shares and are the largest shareholder, we propose that

he become a part-time outside director rather than an independent outside director whom the Company needs to register with the Tokyo Stock Exchange.

② Low stock valuation

Kyokuto's capital efficiency is well below the weighted average cost of capital (WACC), resulting in extremely low stock price valuations. Two years ago, and again last year, we have made a shareholder proposal to disclose the WACC, which gained 33 and 37% of favor votes respectively, yet the Company has failed to respond.

We propose the Company disclose the WACC and its basis of calculation to raise management awareness of the cost of capital and promote more effective dialogue with shareholders to improve the stock valuation.

③ Sell cross-shareholdings and shares held without reason.

There is a suspicion that although Kyokuto holds some listed shares that should be reported as a cross-shareholding, the Company is misstating the purpose as "pure investment" to avoid disclosure under the Corporate Governance Code. The shares held as "pure investments" at the end of FY2019 accounted for 27% of its market capitalization as of April 19, 2021, even though "investment in securities" is not stipulated as one of the Company's "Purposes" in the Articles of Incorporation.

We propose the prompt sale of all the securities Kyokuto holds, whether it is reported as cross-shareholdings or pure investment, to improve capital efficiency and eliminate the unnecessary impact from the stocks' price movements on the Company's financial results. We further hope that the proceeds will be used to enhance shareholder value.

2. The detailed translation of our proposal

① Election of one director not serving as an Audit and Supervisory Committee Member

Appoint the candidate below as a director of the Board.

[Name (date of birth)]

Maruki Tsuyoshi

(July 23, 1959)

[Brief personal history]

April 1982

Joined Nomura Securities Co., Ltd.

August 1999

Executive vice-president, M & A Consulting Inc.

May 2006

CEO, MAC Asset Management Co., Ltd.

February 2010

Representative Director, TNP Strategic Capital Co., Ltd.

September 2012

Representative Director (current position), Strategic Capital

[Significant concurrent positions]

Representative Director, Strategic Capital Co., Ltd.

[Number of Company Shares Owned]

0 shares

[Reason for nomination for candidate as a director]

As a major shareholder of the Company, we strongly wish that the shareholder value of the Company will improve through management based on the cost of capital, and to also prevent damage to shareholder value by satisfying listing standards for the “Prime Market” even after the Tokyo Stock Exchange revises its market classification.

Also, Strategic Capital, whose representative is the candidate, manages the Fund holding 17.18% of the total outstanding shares of the Company as of March 31, 2021. As the amount is greater than 10% of the total number of voting rights, the candidate is not expected to be registered as an independent director with the Tokyo Stock Exchange and will instead act as a part-time outside director.

(notes)

1. There is no particular interest between the candidate and the Company.
2. Strategic Capital, whose representative is the candidate, holds 200 shares of the Company's shares as of the end of March 31, 2020. Also, Strategic Capital is under a discretionary investment contract with INTERTRUST TRUSTEES (CAYMAN) LIMITED SOLELY IN ITS CAPACITY AS TRUSTEE OF JAPAN-UP (the Fund) and the Fund holds 1,116,000 shares of the Company's shares as of the same day.

- ② Revision of the provisions of articles with regard to disclosure of cost of capital
Add the following Chapter and Article to the current Articles of Incorporation.

CHAPTER VII. COST OF CAPITAL

(Disclosure of Cost of Capital)

Article 37.

The Company shall disclose, in the Corporate Governance Report (hereinafter referred to as “CG Report”) which it submits to the Tokyo Stock Exchange, its Weighted Average Cost of Capital and its basis of calculation which it comprehends at the point of within 1 month before the submittal of the CG Report.

- ③ Revision of the provisions of articles with regard to the Dissolution of Shares held by the Company

Add the following Chapter and Article to the current Articles of Incorporation.

In the event the first proposal regarding Chapter VII, Article 37 above is not approved, this proposal regarding CHAPTER VIII, Article 38 shall be replaced with CHAPTER VII, Article 38.

CHAPTER VIII. Dissolution of Shares held by the Company

(Dissolution of Shares held by the Company)

Article 38.

The Company shall sell all the listed shares which it holds for either pure investment purpose or cross-shareholdings, as of the effective date of the revision of the Articles of Incorporation, immediately during 102nd fiscal period.

Contact Information
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