

April 26, 2022

To Whom It May Concern

Strategic Capital, Inc.
Tsuyoshi Maruki, President & CEO
Attention: Dan Kato, Director
TEL: 03-6433-5277

Re: Shareholder Proposal to KYOKUTO BOEKI KAISHA, LTD. (8093)

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 22nd, 2022, 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 25th, 2022, the Company certainly received the documents of the proposal.

We would like to explain the context of our proposal as follows.

1. The Company's Issues and Our Solutions
2. Abstract of the Proposal

1. The Company's Issues and Our Solutions

ISSUE – Board of directors (BOD) who remain ignorant of capital market theory and continue to damage shareholder value

SOLUTION – Appoint Tsuyoshi Maruki as a director

Through our dialogue with the BOD, we conclude that they do not understand capital markets nor have the awareness to reflect the viewpoint of shareholders.

Therefore, we propose Mr. Maruki, the representative director of Strategic Capital who has a track record of increasing the shareholder value of many listed companies by making various proposals and approaches from a shareholder's perspective, be appointed as a director.

We are making the Proposal again this year, as the Board of Directors expressed an untrue dissenting opinion at the AGM last year for the same Proposal.

(Click [here](#) for Maruki's profile.)

ISSUE – Low stock valuation

SOLUTION – Disclose the weighted average cost of capital (WACC)

Kyokuto's capital efficiency is well below the WACC, resulting in extremely low stock price valuations.

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.

ISSUE – Cross-shareholdings that loosen management discipline and reduce capital efficiency

SOLUTION – Take action to reduce cross-shareholdings

The Company states that it holds cross-shareholdings to “build business relationships” and “facilitate and strengthen the business.” However, in addition to some issuing companies being compliant with the Corporate Governance Code Supplemental Principle 1.4.1 and based on the principle of shareholder equality, it is unethical to take advantage of the position as a cross-shareholder and expect business partners to facilitate favorable transactions. Therefore, it is inappropriate to associate stock ownership with business relationships, and there is no rationale for holding cross-shareholdings.

Hence, we propose, that Management sell its cross-shareholdings based on clear criteria that takes into account the policies of the companies issuing the share of cross-shareholdings.

ISSUE – Disregards the Articles of Incorporation and invests in JPY 3.4B in stock

SOLUTION – Sell shares held for pure investment purposes

Even though the Company does not stipulate management of stock for pure investment purposes in the Articles of Incorporation, it holds JPY 3.46 B as of the FY ending March 31, 2021. During the same period, the Company had an investment income of JPY 189 million, which was equivalent to or greater than its business segment.

To reflect the Company's actual situation in the Articles of Incorporation, we propose, on behalf of the Board of Directors, to add “holding and management of shares held for pure investment purposes” to the business purposes of the Articles of Incorporation. If the proposal is rejected, it means that the shareholders do not want the Company to invest and manage shares, and the Company should promptly sell all of its shareholdings.

The proposing shareholder opposes this proposal because it believes that the Company

should not invest its shares.

ISSUE – Neglecting potential dilution risk from holding treasury stock

SOLUTION – Authorize the AGM to cancel treasury stock. Cancel treasury stock

As of December 31, 2021, the Company held treasury stock equal to approx. 5.3% of the total shares outstanding. Despite the potential dilution risk to shareholders from holding such stock, the use of treasury stocks remains undisclosed.

If the Company is not going to cancel the treasury stock by its own volition, we propose to empower shareholders to decide at the General Meeting and speedily retire the stock.

2. Abstract of the Proposal

- (1) Election of one director not serving as an Audit and Supervisory Committee Member
Appoint Tsuyoshi Maruki, Representative Director of Strategic Capital, as a member of the Board of Directors. Note Strategic Capital is a PRI signatory and Maruki is an ICGN Member.
- (2) Revision of the provisions of articles with regard to disclosure of cost of capital
Revise the Articles of incorporation and disclose the cost of capital, that is, WACC in the Corporate Governance Report (CG Report)
- (3) Revision of the provisions of articles with regard to cross-shareholdings
Once a year, sound the Company's intention to sell its cross-shareholdings with the issuer of the shares and disclose the issuer's response in the CG Report
- (4) Partial revision to the purpose of the Articles of Incorporation to add holding and management of stocks for pure investment purposes
The proposal is to ask shareholders whether the Company should invest in equity stock, based on the reality that the Company derives the same or more income from the investment management of stock than from each business segment.

The proposing shareholder is opposed to the investment management of stocks by the Company, and therefore opposes this proposal.
- (5) Revision of the provisions of articles with regard to cancellation of treasury stock
Give authorization to cancel treasury stock to the General Meeting of Shareholders.
- (6) Cancellation of treasury stock.
Subject to approval of Proposal (5), cancel all treasury stock

Disclaimer

This press release is an abbreviated reference translation of the original announcement in Japanese ([here](#)). In the event of any differences between the original Japanese version and the English translation, the original Japanese version shall prevail.

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