

April 20, 2022

To Whom It May Concern

Strategic Capital, Inc.
Tsuyoshi Maruki, President &CEO
Attention: Dan Kato, Director
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**Re: Shareholder Proposal to KYOKUTO KAIHATSU KOGYO CO., LTD (7226) and the
Launch of the Campaign Website on the proposal**

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 Kaihatsu Kogyo Co., 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 19th, 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 20th, 2022, the Company certainly received the documents of the proposal.

For additional details please visit https://stracap.jp/english/proposal-for-kyokutokaihatsu-from-sc-2022_eng.pdf or by referring to the link "Campaign Websites" found on the upper right corner of our [website](#).

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 – Long-term share price weakness and excessive accumulation of equity capital

SOLUTION – Set the dividend payout ratio to 100%

Since 2010, the Company's stock price has rarely exceeded dissolution value. We believe one of the reasons for the prolonged slump is the excessive level of equity capital and the corresponding low capital efficiency.

The Company's equity capital ratio is already high at around 70% and if the Company continues the current level of shareholder returns, equity capital will continue to build up

and capital efficiency will further decline.

We propose a 100% dividend payout ratio to prevent further build-up of equity capital.

ISSUE – Contingent reserve held for unclear purposes

SOLUTION – Eliminate Contingent reserve

Every year, the Company reduces Earned surplus carried forward which are the source of shareholders' returns and accumulate the amount to Contingent reserve. We cannot ignore the fact that Kyokuto is increasing the cost of shareholders' equity by continuing to accumulate Contingent reserve whose purpose is unclear.

We propose withdrawing all assets from Contingent reserve and using the proceeds as a source of funds for share buybacks or payout as dividends to increase shareholder value.

ISSUE – Ineffective leadership that ignores the cost of capital

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

Senior managements lack of awareness regarding the cost of capital may be one reason they make ineffective decisions that result in capital efficiency being at such a low level.

We propose the Company disclose WACC and the basis for calculation to encourage decisions to be made with the cost of capital in mind and unlock the stocks valuation.

ISSUE – Rental real estate with low capital efficiency

SOLUTION – Authorize the AGM to dispose of rental real estate. Sell rental real estate

As of March 31, 2021, the Company owns approx. 19.9B JPY at market price in rental real estate. However, we believe Management has neither the knowledge nor strategy in rental real estate, and hence it is extremely risky to leave the disposal of such assets as an exclusive decision of the Board.

Also, we estimate the ROIC of rental real estate to be only 2.7%, and clearly difficult to generate a return that will exceed the cost of capital.

We propose that the Company sell its rental real estate and use the proceeds to increase shareholder value.

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. 7% of the total

shares outstanding. Despite the potential dilution risk to shareholders from holding such stock, senior management has neglected to dispose of its treasury stock holdings for over a decade.

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.

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 “increase profits by strengthening business relationships”. However, the business counterparties have denied this, and Management has not been able to make an appropriate judgement as to whether or not to hold cross-shareholdings.

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.

2. Abstract of the proposal

(1) Appropriation of surplus

Set the dividend payout ratio to 100%

(2) Reversal of Contingent reserve

Decrease the full amount of Contingent reserve and increase Earned surplus carried forward by the same amount.

(3) 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)

(4) Revision of the provisions of articles with regard to disposition of rental real estate

Give authorization to dispose of rental real estate to the General Meeting of Shareholders.

(5) Disposition of rental real estate.

Subject to approval of Proposal (4), all rental real estate held to be disposed of by the fiscal year end of 2023

(6) 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.

(7) Cancellation of treasury stock.

Subject to approval of Proposal (6), cancel all treasury stock

(8) 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

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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