

April 30, 2024

To Whom It May Concern

Strategic Capital, Inc.  
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**Re: Shareholder Proposal to KYOKUTO KAIHATSU KOGYO CO., LTD (7226)**

Strategic Capital, Inc. (hereinafter referred to as “Strategic Capital” or “SC”) and funds managed by Strategic Capital hold approximately 7% of Kyokuto Kaihatsu Kogyo Co., Ltd. (hereinafter referred to as "Kyokuto Kaihatsu" or the “Company” as the context requires).

The Fund and Strategic Capital are pleased to announce that, on April 22<sup>nd</sup>, 2024, we notified Kyokuto Kaihatsu of our execution of the shareholders’ right to make a proposal at the annual shareholder meeting held in the coming June.

**Details**

**Abstract of the proposal**

**Appropriation of surplus**

Set dividend payout ratio to be 100% or DOE to be 6% whichever is greater.

**Rational of the proposal**

The shareholder equity ratio of Kyokuto Kaihatsu is approx. 70% as of March 31, 2023, which is extremely high compared to industry peer, ShinMaywa Industries Ltd.’s 43% equity ratio. As a result of the extremely high ratio, the Company’s ROE has been low, and its stock price has routinely been less than 1x P/B Ratio for nearly 20 years.

While it can be said that the Company has implemented some measures to correct this excess and improve capital efficiency with shareholder return policy of a 100% total return, the stock price remains under 1x P/B Ratio as of March 29, 2024.

SC believes the introduction of this new capital policy will quickly restore the Company's P/B Ratio to above 1x and lead to an improvement in corporate value over the medium- to long-term. We have repeatedly explained to the Company’s management that this policy will contribute more to improving corporate value than their current policy from various perspectives including cost-of-capital, liquidity, potential subsidies and stock valuation, and they should already understand this.

Also, the Company's projects a 2.6% ROE for FY2023, 6% for FY2024, and 10% for FY2030. With a capital policy to pay a dividend of either all net income or 6% of shareholders' equity, whichever is greater, the Company will pay a dividend equivalent to 6% of shareholders' equity instead of a 100% payout ratio only in FY2023, when the projected ROE is only 2.6%. While the Company will pay a dividend equal to 6% of shareholders' equity for FY2023, as they expect to have a 6% or higher ROE, the dividend will be equal to 100% of net income for FY2024 and thereafter. In effect, the Company's shareholder return policy is simply replacing the current "100% total return ratio" with "100% dividend payout ratio". Therefore, the introduction of this capital policy will not affect the Company's financials in any way.

Nevertheless, the fact that the Company's management maintains the current shareholder return policy and continues to leave the P/B Ratio below 1x indicates that it has become the norm for them, and thus lacks awareness of the problem.

We urge the Company's management to have a sense of crisis with the low P/B Ratio and take immediate action.

The background to the proposal and a detailed explanation will be posted on a special campaign website to be opened in May. Please visit [website](#) for up-to-date information.

FIN

**Disclaimer**

This press release is a reference translation of the original announcement in Japanese. In the event of any differences between the original Japanese version and the English translation, the original Japanese version shall prevail.