

April 22nd, 2019

Dear Sirs and Madams,

Strategic Capital, Inc.
Tsuyoshi Maruki, President & CEO

Re: Shareholder Proposal to KYOKUTO BOEKI KAISHA, LTD. and

Announcement of the New Website Open for 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 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 18th, 2019, 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 19th, 2019, 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.

For further information, please click the link to a special website regarding our proposal.

[\(https://proposal-for-kyokuto-from-sc.com/english/\)](https://proposal-for-kyokuto-from-sc.com/english/)

1. Overview of our proposal

- ① Disclosure of WACC and its basis of calculation it for more effective dialogues.
KYOKUTO's ROIC / ROE is far lower than its WACC / cost of equity capital respectively. This resulted in its extreme low valuation. The managements should be more aware of the gap between capital efficiencies and funding costs. Through the effective dialogue with shareholders, KYOKUTO can increase its shareholders' value. Therefore, we would like KYOKUTO to improve its valuation by disclosing WACC and its basis of calculation.

- ② Dissolution of shares it holds without rational purposes.

A listed company is required to disclose its cross-shareholdings and the purpose behind them. Nevertheless, there is doubt that KYOKUTO categorises its majority of listed shares as held for pure investment in order to avoid the disclosure above. Also from the viewpoint of shareholders' value, we cannot accept for an investee company holding any other companies' shares. We would like KYOKUTO to dispose the shares it holds and utilize the proceeds as dividend to increase shareholders' value.

- ③ Increase of dividend increase to achieve 100% payout ratio.

KYOKUTO does not disclose its dividend policy. However, its payout ratio has been <30% and if this trend continues, equity capital will be accumulated more and it leads to decline of ROE. To prevent this, we would like KYOKUTO to achieve 100% payout ratio.

2. The detailed translation of our proposal

- ① Revision of the provisions of articles with regard to disclosure of cost of capital

The following Chapter and Article shall be newly added 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 "Report") which it submits to the Financial Instruments 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 Report.

- ② Revision of the provisions of articles with regard to the Dissolution of Holding-Shares

The following Chapter and Article shall be newly added to the current Articles of Incorporation. When 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 Holding-Shares

(Dissolution of Holding-Shares)

Article 38

1. The Company shall sell all the listed shares which it holds, as of the effective date of the revision of the Articles of Incorporation, for pure investment purposes immediately during 100th fiscal period.
2. The Company shall sell all the cross shareholdings which it holds, as of the effective date of the revision of the Articles of Incorporation, immediately during 100th to 102nd fiscal periods.

③ Appropriation of Surplus

(1) Type of dividend

Cash

(2) Allocation and the total amount of dividends

The amount obtained by deducting the amount of dividend payment from surplus per common share of the Company which will be proposed by the Board of Directors of the Company at the 99th Annual General Meeting of Shareholders and approved thereat, from JPY188.

In case Earnings Per Share rounded down to the nearest integer in 99th fiscal period (hereinafter referred to as “actual EPS”) is different from JPY188, JPY188 in the previous paragraph shall be replaced with actual EPS.

The total amount of dividends is calculated by multiplying the dividend amount per the one common stock described above by the number of shares subject to dividend payment as of March 31st, 2019.

(3) Effective date of dividend payment from surplus

The day after the date of the Annual General Meeting of Shareholders to be held in June 2019.

If the Board of Directors of the Company submits the proposal on appropriation of surplus at the 99th Annual General Meeting of Shareholders, this proposal will be submitted to make an additional proposal separately from such proposal.

Contact Information
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