

April 28, 2020

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 24th, 2020, 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, 2020, 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 Low stock valuation

Kyokuto's capital efficiency is lower than the weighted average cost of capital (WACC), resulting in extremely low stock price valuations. Last year we made a proposal to disclose the WACC, which gained 33% of favor votes, but Kyokuto has not responded to it yet. We are again proposing the disclosure of the WACC and its basis of calculation, thus raising management's awareness of the cost of capital and promoting effective dialogue with shareholders to improve the stock valuation.

② Sell cross-shareholdings and shares held without reason.

There is a suspicion of misstatement that although Kyokuto holds certain listed

shares that should be reported as a cross-shareholding, the purpose of holding them is listed as pure investment in order to avoid the disclosure under the Corporate Governance Code. In addition, total shares held for the purpose of pure investment account for 37% of total assets of Kyokuto, but investment in securities is not stipulated as one of Kyokuto's "Purposes" in the Articles of Incorporation. Therefore, from the perspective of improving capital efficiency and eliminating the unnecessary impact by the stock's price movements on the Company's financial results as is the case in FY2019, we propose the prompt sale of all such securities, whether it is reported as cross-shareholdings or pure investment. We further hope that the proceeds will be used to enhance shareholder value.

③ Capital accumulation that lowers shareholder return.

Kyokuto has announced its goal of total return ratio as 35%. If Kyokuto continues its current capital policy, equity capital will build up further and ROE will decrease as a result. We propose to increase the dividend payout ratio to 100% and maintain that ratio in order to prevent the accumulation of capital and a further drop in ROE.

2. The detailed translation of our proposal

- ① 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 "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 Report.

- ② 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

1. The Company shall sell all the listed shares which it holds for pure investment purposes, as of the effective date of the revision of the Articles of Incorporation, immediately during 101st 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 101st to 103rd 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 100th Annual General Meeting of Shareholders and approved thereat, from JPY54.

In case Earnings Per Share rounded down to the nearest integer in 100th fiscal period (hereinafter referred to as “actual EPS”) is different from JPY54, JPY54 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 the record date of voting rights at the 100th Annual General Meeting of Shareholders..

(3) Effective date of dividend payment from surplus

The day after the 100th Annual General Meeting of Shareholders is held.

If the Board of Directors of the Company submits the proposal on appropriation of surplus at the 100th 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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