

April 20, 2017

Dear Sirs

Strategic Capital, Inc.  
Tsuyoshi Maruki, President & CEO

Re: Shareholder Proposal to SHIN NIPPON AIR TECHNOLOGIES CO., 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 holds 5.47% of the outstanding share of SHIN NIPPON AIR TECHNOLOGIES CO., LTD. (hereinafter referred to as "SNK"). Strategic Capital also holds one unit of share in SNK.

The Fund and Strategic Capital are pleased to announce that, on April 19, 2017, we notified SNK 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 20, 2017, SNK certainly received the documents of the proposal .

A brief detail of our proposal is as followings.

1. The Description of the proposal

① Revision of the provisions of articles

We require to add new Chapter and Article in the current provisions of articles as set forth below.

Chapter 8 Cross-Shareholdings

(the disposition of Cross-Shareholdings)

Article 45: The company shall, during 49<sup>h</sup> fiscal period, immediately sell all the listed shares which it holds for reasons other than pure investment purposes as of the effective date of the revision of the provision of articles.

② Increase of the dividend

We require that the dividend per share for this fiscal year is increased to the excess amount of the consolidated net profit per share to 10 yen (round down to the nearest integer). According to the forecast of SNK, it would be 79 yen per share.

## 2. The background of the proposal

### ① The disposition of Cross-Shareholdings:

SNK holds listed shares of 63 companies as "Cross-Shareholdings" (cases where listed companies hold the share of other listed companies for reasons other than pure investment purposes, for example, to strengthen business relationships), which reach 18.4 billion yen in total on its non-consolidated balance sheet as of the end of March 2016.

Consolidated net assets of SNK as of the end of December 2016 was about 38.3 billion yen (about 1,562 yen per share) and the current stock price of SNK is far lower than 1,562 yen. Based on the forecast of consolidated net profit of this fiscal year by SNK, ROE (net profit on equity) would be about 5.7%, which is also far lower than general standard. Therefore, it is desirable that SNK shall decrease its investment securities and accordingly its equity capital on its balance sheet in order to improve such low ROE.

Japan's Corporate Governance Code (hereinafter referred to as the "Code") has entered into effect since June 2015, and SNK submitted its latest report regarding corporate governance (hereinafter referred to as "CG Report") to Tokyo Stock Exchange on July 15, 2016. In the report, with regard to the "Principle 1.4 Cross-Shareholdings" of the Code, SNK states that it keeps its Cross-Shareholdings in consideration of the maintenance of middle and long term relationship with the portfolio companies, the business development, synergy effect and the dividend. As a result, SNK concludes, those Cross-Shareholdings lead to the enhancement of its corporate value and middle and long term benefits of shareholders.

Even if the purpose of Cross-shareholdings is the maintenance and the expansion of its business relationship, it is not apparent how the holding of shares of client companies leads to the maintenance and the expansion of its business relationship. It is suspected that client companies built business relationship with SNK as a benefit from the company to its shareholder. The business relationship should be developed based not on holding shares, but on the sustainable improvement of the quality of products and services which SNK provides.

Moreover, when Strategic Capital had a meeting with the management of SNK, the management of SNK told us that SNK holds a certain of its Cross-shareholdings so as to become stable shareholder of such other listed company, SNK is expected to vote on behalf of the other listed company in the shareholders meeting. Such voting is utterly unacceptable as “standards with respect to the voting rights” which the Principle 1.4 (Cross-Shareholdings) of the Code requires to establish and disclose in case a company holds Cross-Shareholdings. This is the supposed reason why SNK cannot describe its voting “standards” in its CG Report.

As mentioned above, SNK cannot give rational explanation on its existing Cross-Shareholdings. Therefore, SNK shall immediately dispose all the listed shares which it holds as Cross-Shareholdings. After disposition of such "Cross-Shareholdings", SNK can utilize the fund effectively for new business developments, mergers and acquisitions (limited to those equities SNK can give rational explanation). Also, SNK can utilize the proceeds as return to shareholders.

② Dividend of the fiscal year end :

According to its Consolidated Financial Statements for the Nine Months Ended December 31, 2016, SNK owes only about 12 billion yen of interest-bearing debts although it keeps about 8.3 billion yen of cash and deposits. Moreover, SNK keeps about 20 billion yen of investment securities as of the same day above. Since most of them are intended as Cross-Shareholdings as mentioned above, those securities should be disposed and cashed as soon as possible

According to the announcement of SNK, the annual dividend of this fiscal year is 20 yen per share. Considering SNK's large capital on its balance sheet, huge investment securities it holds and the forecast of net profit of this fiscal year, the abovementioned dividend is far from satisfactory for shareholders.

SNK does not need huge reserve on its balance sheet and should return surplus funds to shareholders. These returns lead to increase shareholders' value. Under the current circumstances of virtual zero interest rate, such surplus reserve held as cash and its equivalent may virtually decrease its value.

Besides, since the amount of increased dividend is supposed to be within the current net profit, it will not damage the state of cash and deposits on its balance sheet.

Contact Information

Dan Kato

81-3-5459-0380