Nanahoshi Management Ltd.
Founder / CEO
Satoru Matsuhashi
11th April 2023

YAIZU SUISANKAGAKU INDUSTRY CO.,LTD.
President
Mr Jun Yamada

Shareholder proposals at the Annual General Meeting

I. Proposed agenda.

1. Appropriation of surplus funds
~~2. Reversal of separate reserves~~[1]
3. Director (excluding director who is a member of the Audit and Supervisory Committee) Election of one (1) director
4. Partial amendment to the Articles of Association for the appropriation of surplus funds
5. Partial amendment to the Articles of Association on climate change risk response
6. Request the abolition of the policy on large-scale purchases of the Company's shares (takeover defence measures)

II. Description of the proposal and reasons for the proposal

1. Appropriation of surplus funds

[Content]

(1) Type of dividend property

Money

(2) Matters relating to the allocation of dividend property and the total amount of such property

The DPS shall range from JPY 154 to the amount deducted by the amount proposed by the Company's Board of Directors for the appropriation of surplus approved at the 64th Annual General Meeting of Shareholders (hereinafter referred to as the "Company's Proposed Appropriation of Profit") or the amount determined by the Company's Board of Directors as the appropriation (including planned appropriation) of surplus at the end of the financial year ending 31st March 2023 by Article 33 of the Company's Articles of Association.

If the amount obtained by deducting JPY 10 from the amount of the 10% of BPS for the

[1] We withdrew the proposal due to YSK's voluntary reverse of its Separate Reserves (this note was added on 23.5.2023).

year ending 31st March 2023 differs from JPY 154 (if the amount includes a fraction of less than one yen, it shall be discarded), the amount shall be proxied to the 154 yen at the beginning.

The total dividend amount is multiplied by the number of shares subject to the dividend as at the record date for voting at the Company's 64th Annual General Meeting of Shareholders.

(3) The Date on which the distribution of surplus becomes effective

The day after the Date of the Company's 64th Annual General Meeting of Shareholders

This proposal is additionally proposed as independent of and compatible with the Company's Proposed Appropriation of Profit, if it is proposed to the 64th Annual General Meeting of Shareholders.

[Reasons for the proposal].

The proposal contemplates an annual dividend equal to one-tenth of BPS, i.e. Dividend on Equity ratio ("DOE")[2]. The reason for deducting JPY 10 is to deduct an amount equal to the Company's interim dividend for the year ending 31st March 2023.

The Company has a distorted capital structure, adopting a capital application policy of storing profits as cash. Even though the Company's actual ROE is significantly lower than the cost of equity("COE"), the Company has announced its ROE target below the COE. The proposing shareholder has calculated the Company's COE to be ca. 10%.

If this situation continues, the valuation of the Company's share price will likely remain at an abnormally low level. Therefore, a DOE of 10% for the Company would improve the valuation of the Company's share price. According to our calculations, even if the DOE of 10% were to continue for ten years, the Company's equity-to-assets ratio would still be more than 50%, which is still a high level.

- Capital allocation policies to accumulate cash

  As of end-December 2022, the Company had cash reserves amounting to JPY 8 billion[3]. In addition, the Company's equity-to-assets ratio is unusually high at 89% as of end-December 2022.

- Actual results and mid-term management plan target ROE

  Actual ROEs were 3.1%, 2.6%, 1.6%, 1.3% and 3.9% for the five years from FY 2017 to FY 2021, respectively. And the target for the final year of the medium-term management plan is also significantly lower at 5%.

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[2] a shareholder return index calculated by dividing the annual DPS by the DPS

[3] The interest-bearing debt was only around JPY 100 million as of end-December 2022. The market capitalisation was 9.5 billion as of 10 April 2023.

Although the Company executed a share buy-back programme in the year ended 31st March 2023, the share buy-back had an extremely significant impact on supply and demand for the Company's shares. Due to the low trading volume, the share price fell sharply after the announcement of the end of the share buy-back programme. Therefore, we have analysed that the share buy-back's only effect was an increase in share price volatility. Consequently, we expect the Company to refrain from share buy-backs until the valuation of the Company's share price improves and to continue to provide shareholder returns of at least 10% DOE.

~~2. Reversal of separate reserves~~[4]

~~[Content].~~

~~(1) Item and amount of surplus to be reduced~~

~~Item: Separate reserve fund~~

~~Amount: 8.4 billion yen~~

~~Suppose the proposal for reversing the separate reserve fund proposed by the Company is approved at the 64th Ordinary General Meeting of Shareholders. In that case, the amount shall be read as 8.4 billion yen less the amount of the separate reserve fund.~~

~~(2) Items and amounts of surplus to be increased~~

~~Item: retained earnings brought forward~~

~~Amount: same as a decrease in separate reserves~~

~~Suppose a proposal for the appropriation of surplus relating to the reversal of the Company's separate reserve fund is proposed to the 64th Annual General Meeting of Shareholders. In that case, this proposal is additionally proposed as independent of and compatible with that proposal.~~

~~[Reasons for the proposal].~~

~~The separate reserve of up to 8.4 billion yen recorded in the Company's non-consolidated balance sheet has no apparent use. It requires a resolution of the AGM to be reversed. Therefore, the Company can expect to adopt a flexible managerial decision by transferring the separate reserve to retained earnings brought forward in advance.~~

[4] We withdrew the proposal due to YSK's voluntary reverse of its Separate Reserves (this note was added on 23.5.2023).

3. Director (excluding director who is a member of the Audit and Supervisory Committee) Election of one (1) director

[Content]

Appointment of one director (the Candidate: Satoru Matsuhashi, CFA, CESGA).

- Name (Date of birth)

Satoru, MATSUHASHI (27th July 1986)

- Biography

Apr 2009 Equity research analyst (Japanese equity)

Nippon Life Insurance Company

Apr 2014 Concentrated European equity fund manager/analyst

NIPPON LIFE SCHRODERS ASSET MANAGEMENT EUROPE LIMITED (Seconded)

Apr 2018 Chief analyst (Japanese shareholder activist investment)

Strategic Capital Inc.

Sep 2022 Founder / CEO (Japanese activist investment)

Nanahoshi Management Ltd.[5]

- Significant concurrent positions

Jan 2023 Director (Shareholder Activism in Japan ON YOUR BEHALF service)

Nanahoshi Management UK Ltd. [6]

（Note)

There are no special interests between the Candidate and the Company.

The Candidate is a candidate for external director.

If the Candidate is elected as proposed, the Company intends to notify the Tokyo Stock Exchange of the Candidate as an independent director (outside director) by its regulations.

Nanahoshi Management,Ltd. held 57,800 shares in the Company as of 31st March 2023.

[Reasons for appointing the candidates as external directors and their expected roles]

Mr Satoru Matsuhashi ("the Candidate") is a representative director of the Proposing Shareholder ("we") and has extensive experience as a Japanese & European equity analyst and fund manager as well as a shareholder activist in the increase in shareholders' value campaigns, management dialogue, a tender offer, and has a wealth of experience and broad insight gained through such works. The Candidate is also internationally-minded and entrepreneurial, having started his

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[5] https://nanahoshimgmt.com/

[6] https://nanahoshimgmt.co.uk/

own business in London, passed several overseas ESG qualification exams, and had a strong interest in environmental and social issues.
We have nominated the Candidate as a non-executive director because we are convinced that the Candidate will play a sufficient role in promoting decisive decision-making for the Company's further growth and improving the Company's reputation in the stock market, as well as strengthening the ESG aspects of the Company from a global perspective.
The Candidate will be reported to the TSE as an independent director.

- The background to the proposal

On 11th January 2023, we recommended that the Candidate be nominated for the Company's proposed directorship. Then, on 16th February, the Company informed us that the Nomination and Remuneration Committee would discuss the Candidate. However, by 10th April, the Candidate received no response, such as an interview or to submit documents relating to the Candidate for deliberation.
We have determined that the Company has no intention to put the Candidate on the agenda and has come up with the idea of making the appointment of the Candidate a shareholder proposal. Suppose the Candidate is appointed as a director in addition to the role mentioned at the beginning of this section. In that case, he can be expected to serve as a member of the Nomination and Remuneration Committee to improve the effectiveness of this committee, which has become a formidable body.

4. Partial amendment to the Articles of Association for the appropriation of surplus funds

[Content]
Article 33 (Decision-making body for dividends of surplus, etc.) of the current Articles of Association: 'The Company may determine the matters provided for in each item of Article 459(1) of the Companies Act, including dividends of surplus, by resolution of the Board of Directors, except as otherwise provided by law.' Delete the following.

[Reasons for the proposal]
Although it is possible to submit a resolution on year-end dividends at the AGM even under the current Articles of Association[7]. No surplus appropriation proposals were put forward for seven years from the 57th to the 63rd Annual General Meeting of Shareholders. Only the Board of Directors made decisions on the appropriation of surplus Given that during this period, the

[7] Article 33 of the recent Articles of Association was newly established at the 56th Annual General Meeting of Shareholders

Company's current management has further increased the equity ratio, which was already high[8]. Therefore, The proposing Shareholder believes that the involvement of the shareholders' will in the Company's capital policy will lead to an increase in shareholder value.

5. Partial amendment to the Articles of Association on climate change risk response.

[Content]

The following new chapters and articles are added to the present Articles of Association.

Regarding the number of articles, if the proposal "Partial amendment to the Articles of Association for the appropriation of surplus funds" is not approved, Article 37 will be used instead of Article 36.

Chapter 8: Response to climate change risks

(Transition to Net Zero).

Article 36.

The Company will join the UN Race To Zero Campaign, define a transition plan to net zero and implement the transition to net zero.

[Reasons for the proposal].

On 20th March 2023, the UN Intergovernmental Panel on Climate Change published its Sixth Assessment Report - Synthesis Report. The report emphasised, "the urgency of taking more ambitious action and shows that, if we act now, we can still secure a liveable sustainable future for all".

A situation where greenhouse gases emitted into the atmosphere and greenhouse gases removed from the atmosphere are balanced at the same amount ("net-zero"). The early transition to net-zero is an urgent global challenge. Currently, 135 countries (equivalent to 88% of greenhouse gases and 92% of GDP), including Japan, are said to be aiming for net-zero emissions.

On the other hand, as stated in the Company's 63rd Annual Report as a business risk, "the main raw materials of natural origin used in our products may be affected by climate change, including the effects of global warming, which may cause fluctuations in the stability of their purchase prices and procurement quantities". The Company is subject to the effects of climate change, including rising sea temperatures. However, the Company's efforts to address climate change risks are limited to disclosing short-term targets (e.g., reducing CO_2 emissions intensity by 1% year-on-year) in the annual environmental report.

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8 The equity-to-assets ratio increased from 76.9% to 88% in the period ending FY21. The Total Shareholders Returns of the Company were at least -40 percentage points in the period ending FY21 and -50 percentage points in the period ending FY22, respectively, compared to the TOPIX Total Return.

As noted above, despite being self-admittedly affected by greenhouse gases, the Company does not have a plan on when and by what means the Company will move to net-zero ('net-zero transition plan'), which must be addressed globally. The Company is concerned that it will keep its climate change risk response poorly. The Company has not identified an in addition, as the Company has chosen to list on the Standard Market in the Tokyo Stock Exchange, there is a concern that the Company will not continue to disclose its climate change risk response in the future, as it is not obliged to reveal a framework by the TCFD, which Corporate Governance Code Supplementary Principle 3-1 (iii) requires prime market listed companies to do.
And the proposing shareholder analyses that this reluctance to address the Company's climate change risks is partly responsible for the increase in the Cost of Equity ("COE")[9].

Therefore, the Company's participation in the UN Race To Zero Campaign, which requires regular reporting, and the development and implementation of a net zero transition plan based on global standards is an effective first step towards reducing the COE from the perspective of climate change risk response. We expect the Company not only to develop and implement the plan but also to voluntarily disclose the results of its analysis of transition risks and physical risks within the framework of the TCFD.

For example, you can participate in the UN Race to Zero Campaign by pledging to join the Race to Zero Circle, which consists of members of the Japan Climate Initiative.

6. Request the abolition of the policy on large-scale purchases of the Company's shares (takeover defence measures)

[Content]

The Policy on Large-Scale Purchases of the Company's Shares (Takeover Defence Measures) was approved for partial amendment and maintenance at the Company's 62nd Annual General Meeting of Shareholders held on 24th June 2021 is abolished.

[Reasons for the proposal].

It is inevitable to assume that takeover defences for companies with low share price valuations are introduced to preserve their position by the management team that is turning a blind eye to their management's low stock market valuation. Otherwise, there would be no need to introduce takeover defences that rely on the concept of 'Corporate Value', which is different from the idea of 'Enterprise Value' studied in general finance theory in the first place[10]. The management would position the high valuation in the stock market as an alternative to takeover defences and seriously work on management to increase 'Shareholder Value'.

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[9] An increase in the cost of equity will reduce the share price valuation

[10] In Japanese, both are described the same word as “企業価値”.

As the valuation of the share price shows, the stock market's assessment of the management is poor. The Company's management should maintain its directors' responsibility to increase shareholder value. It should adopt a policy of expanding its shareholder value and substituting the high share price valuation for the current takeover defence measures. To this end, we first request that the takeover defence measures introduced by the Company be abolished.

Please find more detailed thoughts behind our proposal on the below campaign website.
https://www.optimizeyaizu.com/english/

Best wishes,
Satoru Matsuhashi