

6th July 2023

YAIZU SUISANKAGAKU INDUSTRY CO.,LTD.

President

Mr Jun Yamada

**Subject: Request for amendments to the Annual Report and publication of the results of the analysis of the causes for the large number of votes against (in favour of) the resolutions**

To Mr Yamada,

Firstly, in the Notes to the Non-Consolidated Financial Statements in “5. Status of Accounting” of the 64<sup>th</sup> Annual Report dated 23<sup>rd</sup> June 2023 submitted by YSK, there is no “Significant Subsequent Event” note regarding the complete reversal of the separate reserve fund on 19<sup>th</sup> May 2023. In addition, YSK only referred to the complete reversal of the separate reserve fund in part of the “Notice of the Opinion of the Board of Directors of the Company on the Shareholder Proposal”, and YSK has not issued a press release with a title such as “Notice on the Reversal of the Separate Reserve Fund” as many companies do. Perhaps because of this, at YSK’s recent annual general meeting on 23<sup>rd</sup> June 2023, one shareholder pointed out (without realising that it had already been reversed) that the separate reserve amounted to ¥8.4 billion. Thus, as shareholders and other users of financial statements have a strong interest in reserves and retained earnings brought forward, it is vital to include that the entire amount of YSK’s separate reserve has been transferred to retained earnings brought forward in the notes to significant subsequent events. In particular, the ¥ 8.4 billion separate reserve is an item that accounts for approximately 45% of the amount of net assets in the non-consolidated financial statements, and its reversal must be said to be an accounting event of extremely high monetary importance in the balance sheet.

In addition, increasing retained earnings brought forward by reversing the separate reserve represents a vital decision-making factor for users of financial statements regarding YSK’s dividend policy and YSK’s dividend potential. Therefore, this accounting event has sufficient qualitative importance and should influence the economic decisions of the users of the financial statements. The 174<sup>th</sup> Annual Report of the Dentsu Group Inc. dated 30<sup>th</sup> March 2023, p. 163 et seq. states as a subsequent material event that the Board of Directors decided by resolution to withdraw the separate reserve fund for purposes other than

compensating losses, the same as YSK, from the date of the financial statements to the date of filing the Annual Report. Again, it is clear that the reversal of the separate reserve of 8.4 billion yen in full on 19<sup>th</sup> May 2023 is such an accounting event that occurred after the closing date and will affect the financial statements for the following financial year and beyond. Therefore, YSK is requested to amend the annual report as soon as possible to add a note on significant subsequent events.

Next, we would like to convey our request that the percentage of votes in favour of the proposal for your election was even lower than in the previous year and that a considerable number of votes were cast in favour of our shareholder's proposals. At your recent Annual General Meeting of Shareholders, the percentage of votes in favour of the proposal for your election fell to less than 70%. In comparison, the percentage of votes against our five shareholder proposals ranged only from 66.6% to only 79% (our voting rights are less ca. 0.5%). The Board of Directors is requested to take seriously the low approval ratio to your election and the opposition ratios to our shareholder proposals. In addition, the Corporate Governance Code ('CG Code') Supplementary Principle 1.1.1 states that "When the board recognises that a considerable number of votes have been cast against a proposal by the company and the proposal was approved, it should analyze the reasons behind opposing votes and why many shareholders opposed, and should consider the need for shareholder dialogue and other measures."

The duration of YSK's annual general meeting exceeded two hours due to the many severe/positive statements made by shareholders who felt a sense of urgency about the state of YSK's shareholders' value. Given that, among these statements, there was one from a shareholder who, referring to a P/B ratio of 0.5 times, described the management as incompetent, it is clear that not only Nanahoshi Management but also many other shareholders have a strong interest in the way the Board of Directors carries out the analysis required by the CG Code and how the results of the analysis are interpreted and used for management purposes. It is clear that many shareholders and, indeed, Nanahoshi Management have a strong interest in how the board of directors interprets and uses the analysis results for management purposes after conducting the analysis required by the CG Code. We, therefore, request that, in addition to publishing the results of the analysis, YSK also publish the action plan for increasing shareholders' value as soon as possible.

Kind regards,

Satoru Matsuhashi

Founder CEO at Nanahoshi Management Ltd.