

Reference Material

Shareholder Proposal to SK Kaken

No.1 Proposed Subject Matters

- (1) Amendment to the Articles of Incorporation (1)
- (2) Stock split
- (3) Amendment to the Articles of Incorporation (2)
- (4) Amendment to the Articles of Incorporation (3)
- (5) Cancellation of treasury shares
- (6) Appropriation of surplus funds

No.2 Summary and Reasons for the Proposals

- (1) Amendment to the Articles of Incorporation (1)
 - (i) Summary of the proposal

In the "Chapter 3: Ordinary General Meeting of Shareholders (OGM)" of the Articles of Incorporation, the following article is newly established as Article 12 and the articles after Article 12 of the present Articles of Incorporation are each moved down by one article. If any formal adjustments (including, but not limited to, the correction of misplaced article numbers) are required to the articles listed as this proposal due to the passage of other proposals (including those proposed by the Company) at this OGM, the article pertaining to this proposal shall be read as the articles after the necessary adjustments have been made.

(Resolutions)

Article 12.

The Company may resolve at the OGM on matters relating to stock splits in addition to the matters provided for in the Companies Act.

- (ii) Reasons for the proposal.

The minimum purchase lot of SKK's shares is high at JPY4,330,000 (calculated from the closing price on 28 March, 2023) resulting in low trading liquidity and discouraging individual investors from owning shares. Not only does this contribute to SKK's low valuation, but it has led to SKK only having 410 shareholders (as at March 2022), marginally above the 400 shareholder threshold for listing on the standard section of the Tokyo Stock Exchange ("TSE").

Furthermore, the TSE have indicated that an investment unit should be under JPY 500,000. In October 2022 the TSE disclosed 38 companies that had Y1,000,000 or more investment unit, and

SK Kaken's trading unit was the 5th highest. Since then two companies with investment units higher than SKK, Fast Retailing and Tokyo Electron, announced stock splits.

To improve SKK's liquidity, valuation and ensure that it can remain listed on the TSE, SKK should undertake a stock split by which one common share is split into 10 shares.

We, therefore, make the proposal to change the Articles of Incorporation as described in "Summary of the proposals" so that the general meeting of shareholders may resolve the matters concerning the share split.

(2) Stock split

(i) Summary of the proposal.

Subject to the approval of the proposal "(1) Amendment to the Articles of Incorporation (1)" and the proposal "(3) Amendment to the Articles of Incorporation (2)", the following stock split shall be carried out in respect of the Company's ordinary shares.

(a) Split ratio

10 shares for each share

(b) Record date for split

Three weeks after the business day following the date of this Annual General Meeting of Shareholders

(c) The date of which the stock split becomes effective

Four weeks after the business day following the date of the Ordinary General Meeting of Shareholders

(ii) Reasons for the proposal

A stock split is proposed for the reasons stated in the agenda item "(1) Amendment to the Articles of Incorporation (1)".

(3) Amendment to the Articles of Incorporation (2)

(i) Summary of the proposal

Subject to the approval of the proposals "(1) Amendment to the Articles of Incorporation (1)" and "(2) Stock split", Article 5 of the Articles of Incorporation shall be amended as follows on the date on which the stock split in the proposal "(2) Stock split" takes effect.

(Total number of shares authorized to be issued)

Article 5.

The total number of shares authorized to be issued by the Company shall be 96 million.

(ii) Reasons for the proposal.

To increase the total number of shares authorized for issue as stipulated in Article 5 (Total number of shares authorized for issue) of the current Articles of Incorporation in connection with the stock split described in the agenda item "(1) Amendment to the Articles of Incorporation".

(4) Amendment to the Articles of Incorporation (3)

(i) Summary of the proposal.

In the chapter "Chapter 3: Ordinary General Meeting of Shareholders" of the Articles of Incorporation, the following article is newly established as Article 12 and the articles after Article 12 of the present Articles of Incorporation are each moved down by one article. In addition, if any formal adjustments (including, but not limited to, the correction of misplaced article numbers) are required to the articles listed as this proposal due to the passage of other proposals (including those proposed by the Company) at this OGM, the article pertaining to this proposal shall be read as the articles after the necessary adjustments have been made.

(Resolutions)

Article 12.

The Company may resolve at the OGM on matters relating to the cancellation of treasury shares, in addition to the matters provided for in the Companies Act.

(ii) Reasons for the proposal.

SKK held 438,400 treasury shares (as of 31 December 2022) which equates to approximately 14.0% of the total outstanding shares. Among the c.3,900 companies on the Tokyo Stock Exchange, only 207 companies have more treasury shares as a % of total shares, and the average company has only 3.9%.

The Company has put forward no reason for holding so many treasury shares, and shareholders are exposed to the risk of these treasury shares being reissued and the value of their shares being diluted.

To eliminate such risk and for investors to recognize the true value of SKK's shares, SKK should cancel 394,620 treasury shares which equate to approximately 90% of the total treasury shares. The cancellation of treasury shares will contribute to enhancing the corporate value of SKK with no adverse effect.

Therefore, we propose to amend the Articles of Incorporation as described in "Summary of the proposal" above so that the matters related to the cancellation of treasury shares can be resolved at the general meeting of shareholders.

(5) Cancellation of treasury shares

(i) Summary of the Proposal.

Subject to the proposal "(4) Partial amendment to the Articles of Incorporation (3)" being approved, 394,620 treasury shares held by the Company will be cancelled. In addition, if any adjustment (including, but not limited to, an adjustment based on a share split) to the number of shares stated in this proposal is necessary as a result of the passage of any other proposal (including a proposal based on a company proposal) at this Ordinary General Meeting of Shareholders, the number of shares stated in this proposal shall be read after the necessary adjustment.

(ii) Reasons for the proposal

For the reasons stated in the proposal item (4) Amendment to the Articles of Incorporation (3), the Proposer proposes the cancellation of treasury shares.

(6) Appropriation of surplus funds

(i) Summary of the proposal.

The surplus shall be appropriated as follows.

(a) Type of dividend property

Cash

(b) Dividend per share

800 per share of the Company's common stock, less the amount of surplus dividend per share of the Company's common stock proposed by the Board of Directors to this OGM and approved by the same meeting (or 800 per share of the Company's common stock if the Board of Directors does not propose an appropriation of surplus at the same meeting).

(c) Matters relating to the allocation of dividend assets and the total amount of such assets

The dividend amount per ordinary share as the Company's year-end dividend for the year ending 31 March 2023, as per (a) above (the total dividend amount is calculated by multiplying the dividend amount per share by the total number of ordinary shares issued by the Company (excluding treasury shares) as of 31 March 2023).

(d) the date on which the distribution of surplus becomes effective.

The date on which this OGM is held

(e) Commencement date of dividend payments

Three weeks after this OGM

(ii) Reasons for the proposal.

SKK's cash and cash equivalents have increased every year for the past 21 years. Even in times of economic difficulty, SKK has not needed to rely on its cash pile. Between 31-Mar-2020 and 31-Dec-2022, amidst a global pandemic, SKK's cash and corporate bond investments increased by 25%. While we are supportive of SKK having a secure financial base, stockpiling over 71% of balance sheet assets in cash and corporate bonds defies reason.

SKK's high cash balance has been caused by a low priority on shareholder returns. Over the past five years, SKK has paid out only 13% of its profits through dividends, compared to Nippon Paint's and Kansai Paint's 34% and 39% respectively.

Holding so much cash is artificially lowering ROE, destroying shareholder value, with the return on cash below SKK's cost of capital. SKK has not disclosed a capital policy, nor has it put forward a reason for allocating 70% of assets to cash.

To help rectify SKK's inefficient balance sheet, we propose that SKK adopts a policy to payout 30% of net income in dividends and for the year ending 31 March 2023 revise the dividend from 400 yen to 800 yen.