May 13, 2021

Dear all

Company Name: Arisawa Manufacturing Co., Ltd.

Representative Name: Yuta Arisawa, Representative Director and CEO

(Tokyo Stock Exchange First Section, Code: 5208)

Contact information: Takeshi Masuda, Senior Executive Officer responsible for Corporate Planning Department

(TEL: 025 – 524 – 7101)

Notice regarding receipt of documents relating to the exercise of shareholder proposal rights and opinions of the Company's Board of Directors

Arisawa Manufacturing Co., Ltd. (the "**Company**") received a document concerning the exercise of shareholder proposal rights regarding the agenda at the 73rd annual general meeting of shareholders scheduled to be held on June 25, 2021. The Board of Directors' opinion in respect of the shareholder proposals was decided at the Board of Directors meeting held on May 13, 2021, so we notify you of such opinion as follows.

1. Proposing Shareholder

Shareholder name: INTERTRUST TRUSTEES (CAYMAN) LIMITED SOLELY IN ITS CAPACITY AS TRUSTEE OF JAPAN－UP and STRATEGIC CAPITAL, INC.

2. Content of Shareholder Proposals

1）Agenda Item

(1) Deletion of "holding and managing securities" from the Company's purpose set out in the Articles of Incorporation

(2) Amendments to the Articles of Incorporation related to the sale of Strategic Shareholdings

(3) Appropriation of Surplus

(4) Reversal of General Reserve

2) Contents of Agenda Items and Reasons for the Proposals

As described in the attached Annexure titled "Shareholder proposal agenda items content and reasons for the proposals". The relevant parts of the shareholder proposals that were set out in the documents received from the proposing shareholders have been set out as they appeared in their original text.

3. Opinion of the Company's Board of Directors

1) **Agenda item 1**: Deletion of "holding and managing securities" from the Company's purpose set out in the Articles of Incorporation

(1) The Board of Directors' Opinion

The Board of Directors opposes this proposal.

(2) Reasons

The Board of Directors believes that amending the Articles of Incorporation based on this proposal will hinder the Company's attempts to increase corporate value by acting as a restraint on the Company's business strategy, financial strategy and investment strategy.

The securities held by the Company are held as strategic investment funds to be invested in new businesses with high return on investment while maximizing synergies with existing businesses, as noted in the medium-term management plan announced on 29 October 2020. The Company's direction is to utilize these securities to expand the earnings base of the existing businesses and develop new use cases for existing businesses. The implementation of the public tender offer to make ThinFlex Corporation of Taiwan ("**ThinFlex**") a wholly-owned subsidiary, as announced on January 27, 2021, is a part of this kind of direction.

The Company holds JPY 11,908,000,000 of securities on its balance sheet as of 31 March 2021, including bonds with a trading price of JPY 7,881,000,000, listed shares of JPY 2,562,000,000, exchange traded funds of JPY 1,054,000,000, and shares of non-consolidated subsidiaries/affiliated companies of JPY 318,000,000. This represents a decrease of JPY 3,857,000,000 when compared to the Company's balance sheet holdings of JPY 15,765,000,000 as of 31 March 2020. In particular, the value of bonds with a trading price decreased by JPY 3,808,000,000. This decrease was due to the proceeds from the sale of the bonds being used for the ThinFlex tender offer mentioned above.

To restrict the means of capital management from one investment to another in the articles of incorporation is not, we have determined, an appropriate corporate activity. We have further determined that we should preserve the ability of the Company to rely on various capital management methods, including to hold securities, as we pursue achievement of the goals in our medium-term management plan going forward.

Therefore, the Board of Directors opposes this proposal.

2) **Agenda item 2**: Amendments to the Articles of Incorporation related to the sale of Strategic Shareholdings

(1) The Board of Directors' Opinion

The Board of Directors opposes this proposal.

(2) Reasons

The Board of Directors considers this proposal to be unfitting in nature for the type of fundamental rules and regulations of the Company to be set out in the Articles of Incorporation. The Board of Directors further believes that to include this type of proposal in the Articles of Incorporation may hinder the Company's development.

The Company decides whether or not to acquire and hold shares in a particular business partner based on whether it will contribute to the medium-to-long-term corporate value of the Company. This determination takes into account the stable and long term business relationships with our business partners, business collaboration and/or the facilitation and strengthening of collaborative business development. These strategic shareholdings are holistically evaluated by the Board of Directors at the end of each fiscal year, taking into account the medium-to-long-term financial benefit and the strengthening and maintenance of relationships with business partners. We sell off those stocks that we view as not having adequate benefits of ownership or having a reduced need to be held in order to maintain business relations. Specifically, of the 12 listed stocks held as at the end of March 2020, we sold three in the 73rd fiscal year (fiscal year ended March 2021), and at the end of March 2021, we continued to hold nine stock positions. Going forward, we will continue to aim to reduce our holdings in such securities following evaluation of the effects of holding them, in order to contribute to shareholder value and corporate value.

To require the sale of all stocks during the 74th fiscal year (fiscal year ending March 2022) as proposed in this proposal would require that we sell strategically held shareholdings that contribute to the Company's corporate value and have a significant, positive impact in terms of maintaining and building the Company's stable and long-term business relationships, and facilitating and strengthening business cooperation and collaborative business development. Such a forced sale would unavoidably have an adverse impact on the Company's relationships with its business partners, collaborating businesses and other business partners. The Board of Directors believes that such amendments to the Articles of Incorporation may hinder the Company's potential for medium-to-long-term growth, and accordingly, may damage the Company's corporate value.

Therefore, the Board of Directors opposes this proposal.

3） **Agenda item 3**: Appropriation of Surplus

(1) The Board of Directors' Opinion

The Board of Directors opposes this proposal.

(2) Reasons

The Company has set a policy to invest its earnings during the period in the development of new use cases and the maintenance and expansion of its earnings base, which are essential for the sustained growth of the Company, in the medium-term management plan, as well as to proactively allocate funds to shareholder returns. Under this policy, the Company targets allocating more than 60% of the Company's consolidated net profit to be returned to shareholders in light of the Company's mid-term performance goals during the period ending March 2025.

The Board of Directors believes that to set the Company's dividend payout ratio to 100%, as recommended by this proposal, risks damaging the Company's investment for maintaining and expanding its earnings base and developing new use cases, which are necessary and indispensable for the Company's sustainable growth and improvement of its corporate value over the medium-to-long-term.

Therefore, the Board of Directors opposes this proposal.

4) **Agenda item 4**: Reversal of General Reserve

(1) The Board of Directors' Opinion

The Board of Directors opposes this proposal.

(2) Reasons

We set out in the medium-term management our aim to provide stable and proactive shareholder returns, and to return more than 60% of consolidated net profit to shareholders.

In this shareholder proposal, the total amount of the general reserve fund, which is JPY 24,020,000,000, is to be reversed. The Board of Directors believes that transferring the entire amount of the general reserve to retained earnings and making it available for distribution by board resolution is in tension with improving corporate value over the medium-to-long-term through sound and sustainable growth and securing sustainable profits for shareholders.

Since its founding in 1909, the Company has endeavored to increase corporate value by consistently working on technical innovation and product development while also responding to user needs based on its own "Weaving, Coating and Molding" technology, all while maintaining good labor relations. The Board of Directors believes that it has an obligation to aim for sound and sustainable growth and improved corporate value over the medium-to-long-term, by continuing to foster the Company's history and accumulated technology.

Based on this philosophy, the Company has had distributions be determined after obtaining the approval of the shareholders at the shareholders' meeting. We have determined that it is necessary to accumulate a reasonable amount of general reserve in order to continue to provide stable shareholder returns and to secure sound and sustainable growth.

Therefore, the Board of Directors opposes this proposal.

Annexure "Shareholder proposal agenda item content and reasons for the proposals"

The relevant parts of the shareholder proposals that were set out in the documents received from the proposing shareholders have been set out as they appeared in the original text.

1. Proposed Agenda Items

(1) Deletion of "holding and managing securities" from the Company's purpose set out in the Articles of Incorporation

(2) Amendments to the Articles of Incorporation related to the sale of Strategic Shareholdings

(3) Appropriation of Surplus

(4) Reversal of General Reserve

2. Contents of Proposal

(1) Deletion of "holding and managing securities" from the Company's purpose set out in the Articles of Incorporation

Delete the current Article 2(6) from the Articles of Incorporation and renumber the items following the current Article 2(6) accordingly. Add a new supplementary provision on the implementation date of this amendment to the Articles of Incorporation.

Supplementary Provision
(*Implementation date*)
Article 1: The amendment to Article 2(6) of the Articles of Incorporation shall come into effect at the end of March 2022.

(2) Amendments to the Articles of Incorporation related to the sale of Strategic Shareholdings

The following chapter and article will be newly inserted in the current Articles of Incorporation:

Chapter 7: Strategic Shareholdings
(Sale of Strategic Shareholdings)
Article 41: The Company shall, as at the date of this new Article coming into force, promptly sell of all of its strategically held listed shares during the 74th fiscal year.

(3) Appropriation of Surplus

1) Types of Dividend Assets

Cash

2) Matters concerning the allocation of dividend assets and their total amount

In addition to the dividend proposed by the Board of Directors and passed at the 73rd general meeting of shareholders (the "**Company's Profits Appropriation Proposal")** which dividend amount per common share shall be referred to herein as the "**Company Proposed Dividend Amount**", the Company shall also make a dividend distribution of an amount per common share equal to JPY 48 minus the Company Proposed Dividend Amount.

The 73rd net profit per share is rounded down to the nearest yen (the "**Real EPS**"). If the relevant amount is an amount other than JPY 48 then the first JPY 48 will be the Real EPS.

Furthermore, the total amount of dividends will be the amount obtained by multiplying the above dividend per common share by the number of shares subject to dividends as of the recorded date of the voting rights in respect of the 73rd annual general meeting of shareholders.

3) The date when the surplus dividend becomes effective

The day after the date of the 73rd annual general meeting of shareholders.

In addition, if the Company's Profits Appropriation Proposal is proposed at the 73rd annual general meeting of shareholders, then this proposal will be additionally proposed as being both independent of, and compatible with, the Company's Profits Appropriation Proposal.

(4) Reversal of General Reserve

1) **Item of Surplus to be increased and amount of increase**
Item: Retained Earnings Carried Forward
Amount: JPY 24,020,000,000

2) **Item of Surplus to be reduced and amount of decrease**
Item: General Reserve
Amount: JPY 24,020,000,000

3. Reason for the proposal

(1) Deletion of "holding and managing securities" from the Company's purpose set out in the Articles of Incorporation

The Company is advised to sell off all of the securities it holds for investment purposes within one year.

The Company has disclosed that it holds no securities for purely investment purposes, however as at the end of March 2020, the Company holds non-stock securities exceeding JPY 15,400,000,000 (including securities recorded as current assets), including bonds with a balance sheet amount of just under JPY 11,500,000,000. The Company's Articles of Incorporation provides for "holding and managing securities" as a business purpose, and these securities are held and managed for investment purposes.

In the first place, the Company's shareholders do not expect the Company to profit from holding securities such as bonds. Instead, the shareholders expect the Company to increase its profits through its core business, and they hold shares in the Company on the basis of that expectation. The shareholders should not permit the Company to place upon them the risks associated with its holding of securities for investment purposes.

A shareholder proposed to delete "holding and managing securities" from the purposes of the Articles of Incorporation last year, but the Board of Directors opposed the proposal on the basis that the holding of securities is essential for managing strategic funds and that the Company has generated cumulative operating profits of JPY 3,087,000,000 in the approximately 9 years of holding and managing securities since May 2011.

However, the self-proclaimed "operating profit of JPY 3,087,000,000 in 9 years" is, according to the calculations of the proposing shareholders, equivalent to an internal rate of return ("**IRR**") of no more than 1.7%. This IRR is significantly below the Company's cost of capital, which has caused continued damage to shareholder value. In addition, the capital adequacy ratio of the Company is about 70% as at the end of December 2020, and factoring in the cost of capital of the Company, raising funds for M&A with interest bearing debt would improve shareholder value. Using securities to fund M&A is another factor that has continued to damage the shareholder value of the Company.

It is highly probable that the Company allocated a part of the above securities in cash as funds for the acquisition of ThinFlex Corporation of Taiwan as a wholly owned subsidiary, which was announced in December 2020. However, even after acquiring ThinFlex Corporation of Taiwan as a wholly owned subsidiary, the Company's valuation remained low. It is clear that the Board of Directors' policy that "holding securities is essential for managing strategic funds to be allocated to new businesses" does not contribute to the improvement of shareholder value.

For the above reasons, "holding and managing securities" should be removed from the Company's Articles of Incorporation and it should be made clear that the objectives of the Company do not include holding or managing securities for investment purposes. Further, as outlined in the supplemental provision, all securities should be sold within one year and used together with the sale price in (2) below to improve the shareholder value of the Company.

(2) Amendments to the Articles of Incorporation related to the sale of Strategic Shareholdings

The Company holds 23 issues of strategic shareholdings with a balance sheet amount (non-consolidated) of JPY 1,890,000,000. The proposing shareholders proposed the sale of strategic shareholdings last year. The Board of Directors opposed this proposal on the basis that the Company should be able to hold shares that contribute to increasing corporate value and impact on the Company's stability, formation/maintenance of long-term business relationships, business cooperation, and facilitation of collaborative business development.

In the first place, it is not understood nor explained how holding these strategic shares will contribute to creating business relationships or to strengthening existing connections.

Further, the balance sheet amount (non-consolidated) of strategically held shares of the Company as of the end of March 2020 has decreased by about JPY 840,000,000 from the end of March 2019. Even after deducting the decrease of approximately JPY 70,000,000 due to the decrease in the number of shares during the fiscal year ended March 2020, the impact of fluctuations in market value of approximately JPY 770,000,000 can still be seen. Considering this kind of impact that the holding of strategic shares can cause, the Company should sell off its strategic shareholdings in order to protect its financial soundness.

(3) Appropriation of Surplus

The 48 yen referred to in "2. Contents of the Proposal, (3) Appropriation of Surplus" is the latest forecast of net profit per share as of April 23, 2021. This proposal plans to distribute all net profit, that is, a dividend payout ratio of 100%, regardless of the Company's proposal for dividends per share.

As mentioned above, the Company has a high capital adequacy ratio of approximately 70%. We have repeatedly requested the Company to take measures to increase ROE and shareholder value by increasing interest-bearing debt, i.e., by increasing leverage. Despite this, under the Company's shareholder return policy, if a total return to shareholders of 60% continues, capital will to build up and leverage will drop, which will mean that further increases in capital only reduce ROE. Returning surplus funds to shareholders will increase shareholder value and will eventually lead to an increase in stock prices. Therefore, dividends from the surplus should be increased.

Further, we would like to make it clear that our proposed policy of adopting a dividend payout ratio of 100% from the fiscal year ending March 2022 onwards will not involve the Company accumulating capital in the medium-to-long term.

In addition, even if the proposed disposal of surplus is implemented, the total dividend will be within the range of net profit, so it will not significantly change the level of capital, and the Company's financial condition will remain strong.

(4) Reversal of General Reserve

Since the 69th annual general meeting for shareholders, the Company has reduced retained earnings carried forward, which has been the key source of shareholder returns. Further, the Company has accumulated a general reserve fund every year, but has not provided any specific reason for doing so. Despite the Company's high capital adequacy ratio of about 70%, we would like the Company to stop adding additional reserve funds with an unknown purpose. We would like the Company to use the increasing retained earnings carried forward as a source of dividends to shareholders or as a source of share buybacks that are "appropriately considered" in the medium-term management plan to improve shareholder value.