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To Our Shareholders:

Separate Volume: Explanatory Materials

The 68th Ordinary General Meeting of Shareholders

Opinion of the Board of Directors of the Company regarding Shareholder Proposals

Tokyo Cosmos Electric Co., Ltd.

Opinion of the board of directors' meeting about Agenda Item 3

The Board of Directors of the Company opposes this proposal.

1. Summary of our opinion

The Company is of the opinion that, among the Shareholder Proposals made by GES, Propositions 1 to 5 (hereinafter referred to as the "Proposals for Election of Directors") concerning Agenda Item 3 (Election of Five (5) Directors (excluding Directors who are members of the Audit Committee)) are all proposals that do not take into consideration the actual situation of the Company's business, the structure of manufacturers and the realistic situation of the automobile-related parts industry where the Company is located. , and will hinder our medium- to long-term growth and enhancement of corporate value and stable supply of value-added products that solve customer issues such as ensuring the safety of automobiles.

The reasons for our opinion are described in detail in the next section, "2. Reasons for our opinion," and are summarized as follows.

(1) Criticisms by the proposer are not on target.

The proposer arbitrarily excerpts from the Company's management indicators as if the Company's growth and profitability have deteriorated, but this is not a targeted criticism.

Over the last 10 years, we have achieved significant growth in net sales and operating income margin, and have achieved a stable profit structure. In particular, the operating income margin has been above 8% for the last three fiscal years (65th to 67th fiscal years) and for the fiscal year ending March 31, 2025. In order to achieve further growth and expansion in this turbulent business environment, the Company has positioned the three-year period from 2024 to 2026 as a "growth investment" phase, and is developing and investing for a period of "growth and expansion" in 2027 and beyond. The proposer criticizes this period of growth investment as a slowdown in growth, but we must say that this opinion lacks a viewpoint of strategic allocation of management resources from a medium- to long-term perspective.

(2) Lack of understanding of our business

The proposer denies the period of growth investment as a period of slowing growth, but we must say that this itself is a proposal that lacks an understanding of our company's business.

The proposer has requested an IR meeting with us in the past, but the proposer's interest at that time was exclusively in our net cash and other financial matters, and we could not see any interest in our business as a manufacturing company.

The proposer's proposal is based on a complete lack of understanding of the fact that the Company's business environment is in a period of drastic change and requires a high level of management judgment.

In our opinion, the proposer's proposal lacks an understanding of our business and is not a proposal for medium- to long-term growth, but rather a proposal aimed at short-term profit.

(3) The candidate is not qualified to serve as a director of the Company.

The proposer, GES, is an investment fund, and given the investment tendencies and investment funds of Swiss-Asia Financial Services Pte. Ltd. In the first place, it is impossible to hope for management improvement from a medium- to long-term perspective for a director candidate proposed by a shareholder who aims to earn short-term profits.

In addition, as already mentioned, none of the proposed candidates can be said to have a sufficient understanding of the management of a manufacturing company to respond to changes in the business environment surrounding the Company.

In addition, Mr. Yasuto Monden, one of the candidates, is considered to be in a position to be in charge of the management of GES, an investment fund, which is the shareholder of the proposal, and is therefore highly unsuitable from the viewpoint of conflict of interest.

In other words, there is a strong concern that Mr. Monden's participation in the management of the Company will result in a management strategy that strongly relies on short-term share price appreciation (details of the reasons for this are described in 2(3)(b) below). At the same time, confidential information of the Company will naturally be leaked to investor shareholders, and we believe that Mr. Monden's nomination as a candidate for director of the Company is highly inappropriate from the perspective of conflict of interest, including insider trading prevention.

For the reasons stated above, we oppose the proposal for the election of directors.

The more details are described below.

2. Reasons for Our Opinion

(1) Criticisms of the current system by the proposer are not on target

(a) Proposer's points

The proposer's proposal for the election of directors is based on the premise that the Company's growth potential and profitability are deteriorating and that the three-year plan based on the second medium-term management plan announced by the Company is only conservative. However, none of these points made by the proposer can be said to be on target.

(b) Criticism of management based on arbitrary interpretations

In proposing the election of directors, the proposer states as if the Company's growth potential and profitability have deteriorated and no concrete measures to improve them have been presented.

However, the proposer has only arbitrarily selected figures from among the Company's management indices.

The Company's sales and operating income trends for the most recent 10 years are shown below.

million JPY

FY Term	58th	59th	60th	61th	62th	63th	64th	65th	66th	67th	68th
PL	3/2015	3/2016	3/2017	3/2018	3/2019	3/2020	3/2021	3/2022	3/2023	3/2024	3/2025
Sales	7,670	7,159	8,340	10,239	10,237	8,933	7,865	9,511	10,712	10,434	10,506
Operational Profit	100	-100	431	373	417	187	48	795	1,349	1,261	1,044
(Operational Profit Rate)	1.30%	-1.40%	5.17%	3.64%	4.07%	2.09%	0.61%	8.36%	12.59%	12.09%	9.94%

In the 58th fiscal year (ended March 31, 2015), the Company had net sales of 7,670 million yen and operating income of 100 million yen (profit margin of 1.3%), but in the 67th fiscal year (ended March 31, 2024), net sales were 10,434 million yen and operating income was 1,261 million yen (operating income margin of 12.09%). The operating income margin, in particular, has grown significantly over the past three fiscal years (the most recent three fiscal years). In particular, the operating income margin has been above 8% for the last three fiscal years (65th to 67th fiscal years) and is projected to be above 8% for the fiscal year ending March 31, 2025, maintaining a stable profit structure.

The proposer has made a “shrinking equilibrium” based on the fact that sales in March 2024 were 10.4 billion yen and the projected sales in March 2025 are 10.0 billion yen, and has expressed that “both growth and profitability are worsening”. However, it is clear that such criticisms are not accurate when one looks at the Company's substantial growth over the past 10 years and the maintenance of a stable profit structure in recent years.

The proposer short-circuits the operating income margin by considering our forecast of 850 million yen for March 2025 compared to the actual figure of 1.26 billion yen for March 2024, and calls it a deterioration of profitability, etc. However, the forecast is a conservative figure, and to focus only on the change in one period is to arbitrarily interpret our management indicators and give the impression that profitability and growth are deteriorating.

In addition, the forecast is a conservative estimate, and to focus only on the change in one period is to arbitrarily interpret the Company's management indicators and give the impression that profitability and growth are deteriorating.

(c) Criticism of management plans that lack a medium- to long-term perspective

The proposer criticizes the company's second medium-term management plan disclosed in April 2024 as a “three-year plan with no growth from the current status quo” because the plan targets sales of 10.5 billion yen and operating income of 1.05 billion yen for FY2026. This is an extremely shortsighted criticism based on an arbitrary interpretation and lacking a medium- to long-term perspective.

As stated in the Second Medium-Term Management Plan, based on the improvement in operating margin achieved in the First Medium-Term Management Plan from 2021 to 2023, the Company has divided the following six years into two phases: the three-year period from 2024 to 2026 is the phase with the theme of “investment for growth” and the three-year period from 2027 to 2029 is the phase of “growth and expansion. The three-year period from 2024 to 2026 is positioned as the “growth investment” phase, and the three-year period from 2027 to 2029 as the “growth and expansion” phase. The Second Medium-Term Management Plan was formulated as a period of “growth investment” to lead to the “growth and expansion” phase starting in 2027. And the Company's goal is to achieve sales of 13.5 billion yen, operating margin of 12%, ROA of 11%, and DOE of 4.5% in FY2029.

The proposer, without understanding the Company's step-by-step growth strategy, assigns a period for investment in growth as a slowdown in growth, which we must say is an extremely short-sighted opinion that lacks a medium- to long-term perspective.

As a company, there is no management that does not consider growth. For growth, it is essential to operate the current business while at the same time considering future strategies and making investments accordingly.

We have also shifted our focus to the more promising business of automotive electronic components while maintaining our traditional variable resistor business with high profit margins.

For reference, the sales and segment profit margin by segment for the past 10 years shows that in the variable resistor business, the segment profit was 579 million yen (segment profit margin of 15.3%) on sales of 3,783 million yen in the 58th term (fiscal year ended March 31, 2015), while in the 67th fiscal year (ending March 31, 2024), segment income was 1,133 million yen (segment profit margin of 28%) on net sales of 4,085 million yen.

On the other hand, in the 58th fiscal year (ended March 31, 2015), sales of automotive electronic components were 3,403 million yen and segment profit was minus 50 million yen, but in the 67th fiscal year (ended March 31, 2024), sales were 6,120 million yen and segment profit was 857 million yen (14% segment profit margin).

Million JPY

FY Term	58th	59th	60th	61th	62th	63th	64th	65th	66th	67th
【Segment】	3/2015	3/2016	3/2017	3/2018	3/2019	3/2020	3/2021	3/2022	3/2023	3/2024
Potentiometer	**Variable resistors and trimmer resistors for industrial and consumer equipment**									
Sales	3,783	3,630	3,901	3,894	4,108	3,244	3,425	4,431	4,794	4,085
Segment Profit	579	365	748	563	572	442	518	1,026	1,440	1,133
Deprocoation	126		137	132	177	148	145	220	192	134
Automotive	**Automotive position sensors, angle sensors and film heaters**									
Sales	3,403	3,105	3,919	5,968	5,832	5,487	4,211	4,777	5,520	6,120
Segment Profit	-50	-15	181	326	347	250	48	357	508	857
Deprocoation	166	187	248	361	603	401	484	433	425	315

Thus far, we have secured high profit margins in the variable resistor field, where the market is mature, because our strategy to increase profit margins has been successful, and on the other hand, we have steadily increased sales and operating income in the automotive electrical components field.

However, looking ahead to the next 10 to 20 years, we believe it is essential for us to change our growth strategy and establish a period of time for investment and development.

As you know, the automotive electrical components business is in the midst of a major structural change that is said to occur only once every 100 years in the automotive industry, and is exposed to a harsh environment in which not only is competition for existing products and metabolism intense, but also when a new base emerges one day, the existing business will rapidly decline at once.

In this environment, we, as a manufacturer, need time for investment and development in order to keep up with and incorporate new basics. However, a company of our size cannot focus on all aspects of the business, so it is necessary to allocate management resources from a strategic perspective. The period of the second medium-term management plan is the period for “growth investment,” which is indispensable to withstand rapid changes in the business environment and achieve significant growth and expansion, and “growth investment” naturally requires a certain period and cost.

The proposer does not attempt to understand such intentions and criticizes the management for not having a sense of crisis by assuming that the period for growth investment is a period of slowing growth.

In other words, the proposer's opinion is based on the viewpoint of neglecting investment in growth for the sake of short-term profit, and is unacceptable.

(c) Contribution of the current management structure to the Company's growth

The fact that we have achieved significant growth over the past 10 years and maintained a stable profit structure at this point in time is the result of the management reforms that have been tirelessly implemented by the current board of directors since FY2017.

In particular, from FY2020, we have implemented management system reforms and structural reforms, and have shifted our management policy from a “sales-oriented” stance to one that emphasizes profitability. Specifically, we have been pursuing a basic policy of business expansion accompanied by profit improvement through withdrawal from loss-making businesses and products and productivity improvement, including a review of the design of existing products.

As a result of such management based on “selection and concentration” consistent with our company's size, we achieved an operating margin of over 8% in the fiscal year ended March 31, 2022, and an operating margin of 9.94% in the most recent fiscal year ended March 31, 2025. We recognize that these figures are comparable to profit margins for a domestic parts manufacturer that is primarily a second- and third-tier subcontractor, and a manufacturer that undertakes some OEM (contract manufacturing).

(2) The proposal lacks an understanding of the business

(a) Nature of Proposal

In the Proposal for the Election of Directors, the proposer states that the current management team is not qualified to serve as directors due to the stagnation of the most recent business indicators.

However, the content of the proposer's proposal is not aimed at achieving sustainable growth for the Company in a business environment that fluctuates widely, but rather is exclusively a proposal to obtain short-term profits. In this regard, the proposer, in its shareholder proposal made at last year's annual general meeting of shareholders, adopted a dividend policy that the dividend payout ratio shall be 100% or the dividend on equity ratio (DOE) shall be 10% for the period from FY2024 to FY2026, whichever is higher, and made an excessive demand for dividends in accordance with such dividend policy to the extent permissible under the law. As the proposer has made an excessive demand for dividends, it can be said that the proposer is pursuing its own short-term profit rather than improving the medium- to long-term corporate value of the Company. This is also evident from the proposer's lack of understanding of our business and the specific proposed candidate's biography, as shown below.

(b) Poor understanding of the proposer for the business

Since June 2023, when the proposer states that it began holding the Company's shares, the proposer has made multiple attempts to contact the Company, purportedly in the form of IR meetings.

In an effort to communicate with our shareholders, we have held a considerable number of meetings with the proposer almost in conjunction with the disclosure of our quarterly financial results.

During the IR meetings, the proposer's interest was focused exclusively on the Company's net cash position, and the questions and answers were exclusively financial in nature. On the other hand, there were almost consistently no questions and answers concerning the structure of our business, our business based on our knowledge of the industry in which we operate, or our business strategy.

In recent news reports, we have seen some proposals made by so-called “activist shareholders” to portfolio companies, such as proposals for divestitures of unprofitable businesses and proposals regarding business portfolios, which may contribute to improving corporate value, but the proposer never made any such proposals to improve the management structure of the Company based on an understanding of its business. However, the proposer never made any such proposal to improve the management structure based on its understanding of our business.

Given these facts, it is difficult for us to find a stance of understanding our business in the proposer, and we believe that the current proposal is a true reflection of such attitude of the proposer.

In fact, this shareholder proposal is for the election of director candidates designated by the proposer and is not a specific proposal for management strategy. In addition, as before, the proposer has not disclosed any specific business plan or strategy.

(c) The proposal is not based on our business, even in terms of candidates.

None of the five candidates for the board of directors in this shareholder proposal has actual experience in manufacturing or research and development in the manufacturing industry, and four of them appear to be inexperienced in corporate management.

The industry in which we operate is undergoing a major transformation in the automotive industry, as mentioned above, and in addition to the recent tariff issue from the U.S., we are under pressure to make prompt and high-level business decisions in our daily management, such as price revisions of commercial products and rethinking of supply chains and logistics in response to this situation.

Under these circumstances, it is impossible for the Company to withstand the drastic changes in the business environment if the existing management team is removed and replaced with directors who have no experience in the manufacturing industry or corporate management itself, let alone in the automobile industry. This shareholder proposal essentially asks that the Company’s management be fully entrusted to candidates designated by the proposer, who has shown little prior interest in the Company’s management.

If such a candidate were to actually take charge of the management of the Company, he or she would be unable to make appropriate decisions in a situation that requires prompt and high-level judgment, as described above. It is clear that such a proposal is not based on an understanding of our company's business.

(d) The proposal is nothing more than a proposal for short-term profit gain.

As described above, it must be said that the proposer's proposal lacks a strategic perspective for the Company's sustainable growth in a drastically fluctuating business environment.

If the Company were to abandon the growth strategy it has implemented based on the Second Medium-Term Management Plan and replace it with the director candidates named by the proposer, it would be impossible for the Company to achieve sustainable growth in corporate value.

This proposal is a request for a change in management by inciting a sense of crisis among shareholders through the aforementioned arbitrary interpretation of the Company's management indices. If such a proposal is realized, even if a short-term increase in the share price is expected, we believe that it will be impossible for the Company to grow in the future.

(3) The candidate for the proposal is not qualified to serve as a director of the Company

(a) None of them have experience in manufacturing or automotive related industries.

In order to achieve sustainable growth in the current business environment, which is undergoing significant changes, it is necessary for the Company to respond flexibly, quickly, and appropriately to the situation. To this end, it is essential for the Company to have advanced knowledge and experience in various areas such as technology, research and development, manufacturing, sales, and distribution in the automotive-related industry.

However, none of the candidates for the proposed appointment of directors has any experience in the manufacturing industry, let alone in the automotive industry.

Of these, Mr. Ryuji Nishitateno, Mr. Yasuto Monden, Mr. Naoki Isetani, and Mr. Makoto Ohki are all from consulting firms, investment institutions, or financial institutions, and have no experience in the automobile-related industry or manufacturing industry to which the Company belongs. In addition, although these candidates have experience as directors of consulting firms and financial institutions, they have no experience as directors of business companies, and we believe that they have no experience in the management of business companies such as ours. As for Mr. Hayato Wakabayashi, although he has experience working in the manufacturing industry, he is exclusively engaged in operations related to funds and finance. In addition, J. FRONT RETAILING K.K., for which he currently serves as a director, is in the department store, goods retailing, and restaurant industries, which are very different from the automobile-related industry to which the Company belongs.

Therefore, we cannot expect any of the candidates for the proposed appointment to the Board of Directors to have the flexibility, speed, and precision in responding to situations that are necessary for the Company's sustainable growth, or the knowledge and experience required for such a flexible, speedy, and precise response.

(b) About Mr. Yasuto Monden

(i) Potential for strong conflicts of interest

The proposer recommends Mr. Yasuto Monden (hereafter “Mr. Monden”) as a candidate for director (excluding directors who are members of the Audit Committee) in the shareholder proposal. Mr. Monden is also listed as a full-time director.

However, Mr. Monden is the Chief Investment Officer of Swiss-Asia Financial Services Pte. Ltd. (“SAFS”), which manages investments on behalf of the proposer, GES.

In other words, the person who makes the actual decision to buy or sell shares in the GES, the proposer involved in the purchase and sale of our company's shares, will be a member of our board of directors.

This will increase concerns that the Company's management strategy will be based solely on short-term share price appreciation rather than sustainable growth, and at the same time, it means that confidential information important to the management of the Company will naturally be leaked to our shareholders, who are investors. We believe that Mr. Monden's nomination as a candidate for director of the Company is highly inappropriate from the viewpoint of conflict of interest, including the prevention of insider trading.

The proposer states, “In order to avoid substantial conflicts of interest between shareholders and directors, the proposer will decline any director's remuneration even if he is elected as a director of the Company (excluding directors who are members of the Audit and Supervisory Committee). However, it goes without saying that even if he declines remuneration in this manner, it will not dispel the concerns about the above-mentioned conflict of interest by any means.

(ii) Speculative behavior at fund companies in which he has been employed in the past

In addition, Mr. Monden has a history of conducting the following transactions, etc. at an investment fund company he was previously employed at.

On April 28, 2021, Fuji Kosan Corporation (“Fuji Kosan”), a company listed on the Tokyo Stock Exchange Standard Market whose main business is the supply of petroleum products, received a tender offer (“TOB”) without the company's consent.

The tender offerors in the tender offer were Aslead Strategic Value Fund and Aslead Growth Impact Fund(“AS et al”). The representative of ASLEAD CAPITAL PTE. LTD.(“Aslead”), which had entered into a discretionary investment agreement with these funds and was entrusted with the management of their assets, was Mr. Yasuto Monden.

In November 2020, Aslead made a proposal to ENEOS Holdings Corporation to transfer its Fuji Kosan shares to Aslead, and also made a proposal to Fuji Kosan to go private through an MBO, but both proposals were rejected in December 2020. After that, while purchasing more and more shares of the Target Company in intra-market transactions, AS initiated a TOB on April 28, 2021 for the shares of Fuji Kosan, as no satisfactory measures were presented to Aslead in the meetings with the management of Fuji Kosan held in March and April 2021. The tender offer notification also pointed out the lack of growth in Fuji Kosan's profits, but referred to the privatization as a countermeasure and did not provide any details regarding Fuji Kosan's future business development and corporate management.

In response to this tender offer by Aslead, Fuji Kosan resolved to introduce takeover defense measures (contingency introduction type) at a meeting of its Board of Directors on May

24, 2021, and based on the recommendation of the Independent Committee, on the 28th of the same month, the Company expressed its opposition to the tender offer and, in order to confirm the shareholders' intentions regarding the introduction of such takeover defense measures and the implementation of countermeasures based thereon, the Company resolved to submit a proposal for approval of the introduction of takeover defense measures and implementation of countermeasures to the ordinary general shareholders meeting and requested AS, et al. to extend the tender offer period. However, "AS et al" others refused the request, and on June 11 of the same year, Fuji Kosan's Board of Directors resolved to implement countermeasures (gratuitous allotment of stock acquisition rights), and "AS et al" filed a petition for a provisional disposition order pertaining to a request for an injunction against the gratuitous allotment of stock acquisition rights.

In response, on June 23 of the same year, the Tokyo District Court (original trial court) issued a decision to reject the countermeasures (the implementation of the countermeasures was approved at the annual shareholders' meeting of Fuji Kosan held on June 24 of the same year). However, the Tokyo High Court dismissed the appeal on the grounds that the countermeasures were lawful, and Aslead withdrew the tender offer.

One of the reasons for the decisions of the original trial court and the Appeal Court was that “AS et al". provided inadequate explanations regarding the purpose of the takeover and refused requests for an extension of the tender offer period. This finding means that AS et al. did not provide sufficient information and time necessary for general shareholders to decide whether or not to accept the tender offer. It can be said that the fund was pursuing its own short-term profit without regard to the common interest of shareholders, i.e., the improvement of corporate value. Mr. Monden was the one who led the series of transactions.

(iii) Possibility of inaccurate disclosure

In addition, Mr. Monden may have made inaccurate disclosures in connection with the above matters, contrary to legal requirements.

According to the tender offer notification filed by AS et al. on April 28, 2021, Aslead, which manages both of these funds, on November 26, 2020, through a management buyout (MBO) sponsored by a fund managed by Aslead Capital, to Fuji Kosan Co. Ltd. on November 26, 2020 through a management buyout (MBO) sponsored by a fund managed by Aslead Capital (see 3 [Purpose of the Tender Offer] (1) in Section 1 [Tender Offer Procedure] of the same Tender Offer Registration Statement).

Mr. Monden held the position of Managing Director of Aslead at the time.

The above proposal to go private through an MBO involves delisting of securities and the proposal is highly likely to fall under the category of an act of making a material proposal, etc. Therefore, at the time of the purpose of conducting such an act of material proposal, etc., the purpose of such holding must be stated in the prescribed column of the report on large volume holdings under the applicable laws and regulations. However, Aslead Capital, while stating that it proposed to go private through an MBO on November 26, 2020, is found in the history of the report of change of large volume holdings to simply state the purpose of its holdings as “net investment” until it changed it in the report of change of large volume holdings dated May 10, 2021. Based on the history of the report, it can be inferred that Mr. Monden has consistently been in a position to assume responsibility for compliance with laws and regulations, as he has remained in the position of Managing Director of Aslead from the time of the above proposal to go private through MBO until the submission of the report dated May 10, 2021. As described above, based on various public documents, Mr. Monden may have made inaccurate disclosures in the past, in violation of legal requirements.

In addition to the conflict of interest arising from Mr. Monden's role as Chief Investment Officer of SAFS and his appointment as a director of our company, Mr. Monden's past role as representative of an investment fund, where he may have engaged in speculative actions that disregard the interests of general shareholders (enhancement of corporate value), and the fact that GES is our largest shareholder, among other factors, we cannot rule out the possibility that, if Mr. Monden were to be appointed as a director, he might pursue short-term gains for the fund (shareholder) in which he is involved. Therefore, we have determined that Mr. Monden is significantly unqualified to serve as a director of our company.

(4) The proposing shareholders cannot be considered stable shareholders

(a) Margin transactions related to the acquisition of shares

The proposer, GES, is an investment fund believed to be managed by SAFS, and it is considered that the proposal for the appointment of directors in this matter is based on SAFS' investment policy. Additionally, SAFS itself is actively increasing its holdings of our company's shares. According to the Large Shareholding Report dated April 17, 2025, SAFS holds a total of 355,800 shares of our company's stock, representing 22.5% of the total issued shares of our company. On the other hand, SAFS's purchase of our company's shares is being conducted through unstable margin trading, and it strongly appears that the purpose of holding these shares is for short-term investment. Furthermore, GES, the investment fund managed by SAFS, cannot be considered a shareholder that can be expected to hold shares in a stable manner. Therefore, we cannot expect the director candidates proposed by such shareholders to engage in management from a medium- to long-term perspective. According to Item (6) of the Large Shareholding Report dated April 17, 2023, submitted by SAFS, SAFS has acquired a total of 119,900 shares of the Company's stock through margin trading from two domestic securities companies, classified as “acquisition through margin trading” (Note 1). Additionally, according to the same item, it is disclosed that SAFS has pledged a total of 224,000 shares as collateral to the two securities companies with which it is conducting margin trading, as “collateral securities for margin trading margin” (Note 2). In other words, SAFS

(1) acquired 119,900 shares (approximately 33.7%) of the 355,800 shares through margin trading.

(2) 224,000 shares (approximately 63%) of the 355,800 shares are being used as collateral (margin).

(It is unclear whether there is any overlap between (1) and (2).)

According to Item (7) of the Large Shareholding Report, “Funds Used for the Acquisition of Shares and Other Securities,” the funds used by SAFS for the acquisition are stated as customer funds (1,595,867 thousand yen), and further, under the description of these customer funds, “of which acquired through margin trading” amounts to a total of 680,644 thousand yen. In other words, approximately 6.8 billion yen of the approximately 15 billion yen in customer funds used by SAFS to acquire our company's shares was obtained through margin trading. Our company sent a written inquiry to Mr. Monden, Chief Investment Officer of SAFS, on February 26, 2025, on behalf of our board of directors, regarding the background of SAFS's funds, but we have not received a response as of the present time. Upon confirming with financial industry professionals and experts knowledgeable about fund operations, we received the following opinions, which are general in nature.

– Typically, PE funds and institutional investors rarely use margin trading because they use stable funds. On the other hand, hedge funds and other investors may use margin trading for short-term market transactions with an emphasis on capital efficiency. However, when a fund uses margin trading for the purpose of “buying on margin” and also uses securities as collateral for margin trading, this is generally considered a relatively high-risk investment strategy and may raise questions about its compatibility with long-term stable holdings.
– In addition to interest charges, margin trading requires the deposit of securities as collateral with a securities company. If market turmoil or other factors cause stock prices to fall below a certain level, the securities company may request additional collateral (margin call). If the investor is unable to provide additional collateral, the securities company may sell the collateralized shares on the market to recover the funds (forced liquidation).
– One reason why funds may use margin trading is that they may have low asset balances.
– In addition, while investors are emphasizing medium-term holdings and management involvement, there appears to be a lack of consistency in maintaining their positions through margin trading and substitute securities.

In addition, SAFS holds shares in the following companies, which are investment targets other than our company, through credit transactions as described below: Nippon Sangyo Co., Ltd. (9913) and With us Corporation (9696).

・With us Corporation

(Based on the Large Shareholding Report with a reporting obligation arising on March 13, 2025, and submitted on March 21, 2025.)

Securities substituted for margin deposits in margin trading (total of two securities companies)	1,806,500 shares
Number of shares held by SAFS	1,806,500 shares

・Nippo Sangyo Co., Ltd.

(Reporting obligation effective date: April 9, 2025; submission date: April 16, 2025, as per the Large Shareholding Report.)

Collateral securities for margin trading (total of two securities companies)	1,241,500 shares
Acquired through margin trading (one securities company)	120,000 shares
Number of shares held by SAFS	1,361,500 shares

SAFS has not disclosed the source of funds for its share acquisition and has been increasing its holdings through margin trading. As a result, we have significant doubts about SAFS's intention to serve as a mid-term and stable investor in our company.

The shareholder in question has proposed five director candidates through a fund it manages as part of its shareholder proposal to our company. This exceeds the majority of the eight director positions stipulated in our articles of incorporation and is aimed at gaining actual control of management. While this shareholder claims to aim for the management of our company in accordance with the shareholder proposal, not only is the source of funds unclear, but given the extensive use of margin trading, it cannot be considered a shareholder committed to the long-term management of our company. Furthermore, considering that a significant portion of the shares are pledged as collateral, we cannot help but view this shareholder as highly unstable from the perspective of the issuing company.

(Note 1) Margin Trading

Margin trading is a system where you deposit a certain amount of margin (margin deposit) as collateral with a securities company and can trade up to approximately three times the margin amount. Margin trading incurs interest. Due to leverage, profits can be significant when stock prices rise, but losses can be substantial when prices fall.

(Note 2) Margin Trading Collateral Substitute Securities

Using securities instead of cash as margin deposit for margin trading.These securities are referred to as “substitute securities.” Substitute securities typically have a discount rate, such as 80% of the current stock price. If the stock price declines, additional margin (margin call) may be required.

(Note 3) MBO

Management Buyout (MBO) refers to the act of a company's management team acquiring the company itself to take it private. This may be funded using the management team's own funds, borrowed funds, or funds from a third-party investment fund.

(b) SAFS's money laundering regulation violations and order to pay additional taxes from the Monetary Authority of Singapore

The following is regarding the Monetary Authority of Singapore (MAS) ordering SAFS to pay a penalty for violating its anti-money laundering and counter-terrorist financing (AML/CFT) requirements, and imposing a reprimand on Olivier Pascal Mivelas, CEO of SAFS, and Steve Knaber, COO of SAFS,The following is a reference translation of the article published on the MAS website on May 7, 2024 (“MAS Imposes Composition Penalty of S$2.5 million on Swiss-Asia Financial Services Pte. Ltd. for AML/CFT Breaches, Reprimands its CEO and COO”). This is solely for reference purposes, and the official text should be confirmed in the original article.

[Reference Translation]

> On May 7, 2024, SAFS was ordered by the Monetary Authority of Singapore (MAS) to pay a penalty of S$2.5 million for violating the MAS's anti-money laundering and counter-terrorist financing (AML/CFT) requirements.SAFS's Chief Executive Officer (CEO), Olivier Pascal Mivelas, and Chief Operating Officer (COO), Steve Knaber, have been issued a reprimand for failing to fulfill their obligations and functions to ensure that SAFS complies with MAS's AML/CFT requirements. MAS has disclosed that its inspection revealed the following violations by SAFS:
>
> (a) Failure to consider specific risk factors related to the company's customers and business activities in the enterprise-wide risk assessment (EWRA).
>
> (b) Failure to consider specific risk factors related to the company's customers and business activities in the enterprise-wide risk assessment (EWRA).
>
> (c) Establishing business relationships without implementing customer due diligence (CDD) measures. Under SAFS practices, business relationships were established with customers prior to the completion of CDD measures.
>
> (d) Failing to review transactions involving multiple third parties in a customer's account, despite such transactions being inconsistent with SAFS' knowledge of the customer.
>
> (e) Failure to identify a significant number of customers with a high risk of money laundering or terrorist financing (e.g., corporate customers holding bearer shares [1] despite suspicious indicators). As a result, enhanced CDD measures could not be implemented for these customers. Additionally, SAFS failed to sufficiently verify the sources of funds or assets of customers and their beneficiaries identified as having a high risk of money laundering or terrorist financing. Furthermore, SAFS did not obtain approval from senior management to establish or continue business relationships with these high-risk customers.
>
> (f) Failing to submit suspicious transaction reports for multiple customers despite having sufficient grounds to do so (e.g., SAFS was aware of news reports alleging that a customer was involved in financial crimes).
>
> (g) Failing to conduct internal audits to monitor the effectiveness of the company's anti-

> money laundering and counter-terrorist financing measures and compliance with regulatory requirements.

【End of reference translation】

Based on the above, the funds provided by GES and SAFS, which are believed to be the source of GES's investment, are themselves suspected of being opaque funds related to money laundering. Furthermore, the investment in a listed company in Japan using part of such funds not only raises doubts about the suitability of GES as a shareholder of a listed company like ours but also has a negative impact on the soundness of the stock market.

3. Conclusion

As stated above, we oppose all of the director nomination proposals submitted by the proposer, as they would hinder our sustainable growth.

Opinion of the board of directors' meeting about Agenda Item 4

The Board of Directors of the Company is against this proposal.

The Board of Directors of the Company opposes this proposal for the same reasons stated in Agenda Item 3.

Opinion of the board of directors' meeting about Agenda Item 5

The Board of Directors of the Company opposes this proposal.

1. Summary of our opinion

The shareholder proposal submitted by Seisei Co., Ltd. (regarding the appointment of directors) is presumed to be aimed at enabling China Dalian Housei Enterprise Group (hereinafter referred to as "Housei Group") to interfere in the management of our company, based on the background of the proposed director candidates and other factors described below.

However, as explained below, our company believes that there is no synergy between our company and the Housei Group, and that the proposal made by the proposer does not contribute to our company's mid- to long-term growth or enhancement of corporate value but rather harms our corporate value. Therefore, we oppose this proposal.

The reasons for our opinion are detailed in the following section "2. Reasons for the Opinion," but the summary is as follows.

(1) The substantive purpose and intent of the proposer's proposal are unclear.

The three director candidates listed in this shareholder proposal are all executives of subsidiaries under the umbrella of a corporate group based in Dalian, China (Housei Group, details to follow), and it is inferred that the substantive purpose of this shareholder proposal is to enable the Dalian Housei Group to exert significant influence over the management of the Company. However, important points that the proposer should have explained to our shareholders, such as the business policies of the Dalian Housei Group, have not been disclosed to our company at all to date. Furthermore, the reasons cited for this shareholder proposal are highly abstract, stating that the company's management is inefficient and that appointing the proposed board members is necessary to address this situation. The company has doubts about the true intentions of the actual proponents behind this proposal and the specific objectives that the three proposed board members aim to achieve.

(2) Synergies with the proposer or the Housei Group are low

We have determined that there are few synergies between our future growth strategy and the Housei Group. Furthermore, the knowledge and experience of the proposed candidates are not compatible with our business, and, in particular, we cannot expect Mr. Li Xiu Peng to be substantially involved in our management.

⑶ **No specific business discussions have taken place**

Our company and the proposer have held several discussions to explore business cooperation, but based on the course of these discussions, it does not appear that the proposer has seriously considered a business alliance with our company, and we do not believe that this shareholder proposal is intended to establish a serious business alliance or similar relationship.

⑷ **The ineligibility of the candidate for director**

During the discussions mentioned in ③ above, Mr. Li Xiu Peng, who is the representative and chairman of the Housei Group and also a candidate for this proposal, stated that he had little knowledge of our company's business operations, specifically production and manufacturing, and that he had a lack of familiarity with the management of Japanese companies, which led him to step down from the management of a listed Japanese company. We believe that Mr. Li Xiu Peng (currently based in Dalian) would find it difficult to substantively participate in the management of our company as a director and make appropriate management decisions.

For the reasons outlined above, our company opposes the proposal for the appointment of the above officers.

2. Reasons for Our Opinion (Specific Points)

(1) Nature of the Shareholder Proposal Based on the Attributes of the Proposer and Candidate Directors

The representative director of Seisei Co., Ltd., which submitted this shareholder proposal, Mr. Huang Sheng Bo , has a personal relationship with Mr. Li Xiu Peng, who is the representative and chairman of China Dalian Housei Enterprise Group (Housei Group) (engaged in food services, food processing, real estate, plastic molding, etc.), and is also a candidate for director in this shareholder proposal serves as the representative director of Housei Japan Co., Ltd. d(located in Kawasaki City, Kanagawa Prefecture, hereinafter referred to as “Housei Japan”), a related company of the Housei Group in Japan, and is believed to be responsible for investment and acquisition strategies targeting Japanese companies in accordance with the intentions of the Housei Group (Mr. Li Xiu Peng). Additionally, the proposer itself is also suspected to be a related company of the Housei Group.

As one of the domestic group companies of Housei Japan, there was formerly a listed company called Shinmei Electric Co., Ltd. (located in Kawasaki City, Kanagawa Prefecture; currently delisted). The director candidates proposed by the shareholders in this proposal, Mr. Li Xiu Peng, Mr. Hisashi Okochi, and Mr. Huang Sheng Liao, have all served as representatives or directors of the same company. Additionally, Mr. Huang Sheng Bo and Mr. Li Xiu Peng have previously served concurrently as advisors and (representative) directors, respectively, at Ikuyo Co., Ltd. (7273 / Standard Market).

As outlined above, given the personal relationships between Mr. Huang Sheng Liao, the representative director of the proposer (Seisei Co., Ltd.), and Mr. Li Xiu Peng, the chairman of the Housei Group, as well as the fact that individuals serving as representative directors or directors of Housei Group's affiliated companies in Japan are candidates for directors in this shareholder proposal, this shareholder proposal is likely to reflect the management policies and intentions of the Housei Group. If the aforementioned candidates are elected as directors, involvement in decision-making is aligned with the Housei Group's management policies and the execution of business operations are anticipated. However, important points that the proposer should explain to our shareholders, such as the capital relationship between Dalian Housei Group, which is closely related to the proposer, and the proposer, as well as the Housei Group's management policies, have not been disclosed to us to date.

⑵ Lack of specificity in the proposer's arguments

The proposer has explained that the current management team is conservative and lacks initiative, and that it is necessary to appoint new directors with specialized knowledge and a pioneering spirit. In support of this, the proposer cites the absence of specific action plans in the second mid-term business plan announced by the company in April 2024, the failure to fully leverage the strengths of the consolidated subsidiary established in China, insufficient efforts in M&A, and the current management team's inadequate understanding of capital efficiency and financial efficiency. However, we first note that the proposer's criticisms are highly abstract and do not include specific issues or proposals for improvement.

(3) There is no synergy between the proposer and the Housei Group.

The proposer states as if the appointment of the candidate for the shareholder proposal as a director will resolve the management issues pointed out by the proposer. Furthermore, as mentioned above, this shareholder proposal appears to be an attempt to interfere with or influence the management of our company based on the management policies and intentions of the Housei Group. However, for the reasons stated below, we have determined that there is no synergy between our company and the Housei Group. Additionally, as will be explained later, we would like to note that we have not received any specific proposals for business alliances based on concrete plans from the proposer or the Housei Group.

(a) Differences in business strategy and direction

Since fiscal 2020, we have been shifting our management focus from sales-oriented to profit-margin-oriented and have taken decisive steps to set appropriate prices and restructure distribution channels based on our brand, thereby shifting from a price-competitive market to one focused on value-added products. As a result, we have achieved an operating profit margin of around 10% for the past three fiscal years, transforming ourselves into a lean and efficient company. Building on this sustained high profit margin, we have designated the three-year period from the 2024 fiscal year to the 2026 fiscal year as the “Growth Investment Period” in our Second Mid-Term Business Plan disclosed in April 2024. This period will be followed by the “Growth and Expansion” phase from the 2027 fiscal year to the 2029 fiscal year (planned period for the Third Mid-Term Business Plan), during which we will implement initiatives such as “enhancing technological development capabilities”, “creation and acquisition of new technologies,” and “expansion of core technologies” to explore new business areas. Given the scale of our operations, such growth investment initiatives are only feasible under the premise of maintaining high profit margins.

In contrast, the main strengths of the Housei Group are considered to lie in “production that prioritizes price competitiveness through cost reductions in China” and “utilization of networks in China.” This is understood as a business model that focuses on repeated investments in the scaling of production itself, such as production technology and production methods. However, as mentioned earlier, our company is currently prioritizing investments in the development of new technologies and is shifting toward a business model that places greater emphasis on profit margins rather than mass production. As a result, the business directions of the two companies are significantly different. If a candidate for director who is expected to strongly reflect the business philosophy and approach of the Housei Group is appointed and becomes involved in decision-making, there is a strong concern that this could hinder the profit-oriented business model that the company has previously promoted, as well as the Second Mid-Term Business Plan based on this model, which includes growth investments.

(b) Differences in Target Sales Channels

Our variable resistors and automotive electrical components are specialized products that we have been selling to specific customers based on our long history and proven track record. As mentioned above, we maintain high profit margins by supplying high value-added products. Sales and profit margins for automotive electrical components are mainly derived from transactions with Japanese automobile manufacturers and their parts suppliers.

In the sale of automotive-related products, it is essential to conduct meticulous timing adjustments that take into account both the four- to five-year production cycle and the product development schedules of automobile manufacturers and their parts suppliers. Timely collaboration with these companies is indispensable for maintaining ongoing transactions, developing new products, and ultimately securing sales and high profit margins that support our business operations. In contrast, the Chinese market features numerous local automobile manufacturers, and the parts suppliers serving this market are not only required to provide added value but also face intense price competition, making China one of the most fiercely competitive markets in the world.

Furthermore, considering the current international situation, economic conditions, and security concerns centered on the United States and China, as well as their potential impact on product prices and supply chains across various industries, the Company has decided to shift its focus from expanding sales channels in the Chinese market to markets seeking high-value-added, high-quality products that leverage our brand. This includes not only the Japanese market, which has been our primary supply destination, but also the European and American markets, where we will allocate more management resources. As part of the "growth investment" outlined in our second medium-term management plan, we are considering specific measures to acquire the human resources and form partnerships with overseas companies necessary to realize the above overseas strategy.

(c) Development Capabilities

As mentioned above, in our second medium-term management plan, we have designated the three-year period from fiscal 2024 to fiscal 2026 as a "growth investment period" and are working to strengthen our technological development capabilities, create and acquire new technologies, and discover new areas through the expansion of elemental technologies. In contrast, the main strengths of the Housei Group are considered to be "low-cost production in China" and "its network in China." In terms of development capabilities, we do not expect to be able to leverage the development capabilities and technical human resources necessary to support the creation of new businesses and the development of new products, which we have identified as one of the top priorities for growth investment in our future growth and expansion, through partnerships with the Housei Group.

Based on the above three reasons, we have determined that there is no synergy to be expected between our business and the Housei Group as suggested in the shareholder proposal of Seisei Co., Ltd.

Furthermore, if our company were to receive management support from the Housei Group and shift its business strategy to focus on production technology, production methods, and price competitiveness, this would necessitate abandoning the profit-margin-focused management policy that our company has diligently built up over the years. This could also result in a 180-degree reversal of the growth investment strategy we are currently advancing under our Second Mid-Term Business Plan, potentially reverting our company to its previous vulnerable state. In such a scenario, the value of our company would be significantly impaired.

(4) Based on past discussions with the proposer, it is considered that this shareholder proposal is not intended to achieve synergistic effects in business operations.

This shareholder proposal appears to be intended to promote synergies in the business, as evidenced by references to the experience of the proposed director candidates in the electronic components industry. However, based on the course of discussions between the proposer and our company to date, it appears that this shareholder proposal is not intended to promote a sound business alliance, but rather has some other purpose.

On November 4, 2021, we received a visit from Mr. Huang Sheng Bo, Representative Director of the proposer (Seisei Co., Ltd.), and Mr. Junichi Hashiguchi, then President and CEO of Housei Japan Co., Ltd. During the meeting, we were informed that Mr. Li Xiu Peng, Chairman of the Housei Group, expressed interest in Japan's electronic components business and holds approximately 4% of our shares; however, no specific proposals for business collaboration were made.

Subsequently, in September 2023, we received an inquiry from the proposer and held a meeting with Mr. Li Xiu Peng, representative of the Housei Group. During the meeting, Mr. Li Xiu Peng stated that he himself was not well-versed in production and manufacturing, and that he had reservations about managing Japanese companies, which was why he had stepped down from his previous role at a listed Japanese company. Based on such statements, we believe that Mr. Li Xiu Peng (currently based in Dalian), who lacks expertise in production and manufacturing—the core of our business—and has expressed reservations about managing Japanese companies, would find it difficult to substantively participate in our company's management as a board member and make appropriate management decisions.

In September 2024, we held another meeting with Mr. Li Xiu Peng and Mr. Huang Shengbo, the representative director of the proposer. During the meeting, while Mr. Li Xiu Peng and Mr. Huang Shengbo made some mentions of a business alliance between our company and the Housei Group, no further specific proposals or discussions regarding the details of such a business alliance were made. Additionally, the proposer did not ask any questions about our production facilities, production materials, or specific production processes. On the other hand, during the same meeting, Mr. Huang Shengbo mentioned that he had been approached by other shareholders of our company regarding the sale of the shares held by the proposer but had declined the offer. He also stated that the proposer was considering acting as a white knight and, in such a case, would like to send a representative to serve as the CEO of our company.

Following that, at the request of the proposer, we met with Mr. Huang in February 2025; however, at that time, no specific proposals regarding business alliances or similar arrangements were made.

The shareholder proposal submitted to our company on April 22, 2025, was made abruptly under such circumstances.

As for our company, we have doubts about whether the proposer has genuine interest in our business itself, given that the proposer has repeatedly mentioned business alliances without proposing any concrete measures, while simultaneously suggesting since September 2024 that other shareholders are showing interest in acquiring our company and proposing to send a representative director from the proposer or the Housei Group.

We believe that the shareholder proposal made by the proposer is not at all a proposal considering business synergies from a business company, but rather an act aimed at threatening the management of our company, which is listed on the Tokyo Stock Exchange Standard Market, under some other purpose or intention. It goes without saying that such behavior could hinder the enhancement of our corporate value.

(5) The candidates for the shareholder proposal are unqualified.

All of the director candidates for the shareholder proposal are directors of companies affiliated with the Housei Group, a corporate group based in the People's Republic of China. Mr. Li Xiu Peng is listed in his resume as the chairman of a major company within the Housei Group, and the proposer has stated that he is a representative of the Housei Group. Additionally, Shinmei Electric Co., Ltd., where Mr. Hisashi Okochi serves as representative director and Mr. Huang Sheng Liao serves as a director of the Japanese subsidiary and chairman of the Chinese subsidiary, has been a subsidiary of the Housei Group since 2012.

Furthermore, given that Mr. Li Xiu Peng holds a position overseeing the Housei Group within China, we believe it is unlikely that he will be able to conduct management that is closely aligned with the local operations in Japan.

Furthermore, as mentioned earlier, during our previous meetings with the company, it was acknowledged that the individual in question lacks detailed knowledge of production and manufacturing, is not skilled in managing Japanese companies, and therefore voluntarily stepped down from the management of a listed Japanese company. Based on this, it is inferred that the individual is effectively unable to substantively participate in the management of our company.

For the reasons outlined above, we believe that the candidate proposed for the board of directors in this shareholder proposal does not possess sufficient knowledge or experience related to our company's business and is therefore not suitable for the position.

3. Conclusion

For the reasons stated above, the Board of Directors of the Company opposes the shareholder proposal submitted by Seisei Co., Ltd.

End