



May 30, 2025

To Whom It May Concern:

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**Supplementary Explanation of the Opinion of the Company's Board of Directors**  
**Concerning the Shareholder Proposal in Light of Dialogues with Shareholders**

As Eiken Chemical Co., Ltd. (the "Company") disclosed in its May 13, 2025 press release, "Notice regarding Receipt of Shareholder Proposal Document relating to the Company's Annual General Shareholders Meeting and the Opinion of the Company's Board of Directors" (the "May 13 Expression of Opinion Press Release"), the Company has received from Company Shareholder AVI JAPAN OPPORTUNITY TRUST PLC ("AVI") a shareholder proposal, to be made at the Company's 87<sup>th</sup> Annual General Shareholders Meeting scheduled for June 24, 2025 ("Shareholders Meeting"), consisting of two proposals, namely, partial amendment of the articles of incorporation and buyback of own shares (the "AVI Shareholder Proposal"); the Company's Board of Directors has resolved to oppose both of these agenda items, from the perspective of enhancement of medium-to-long-term corporate value and shareholder value (for details regarding the opinion of the Company's board of directors on the AVI Shareholder Proposal, please see the May 13 Expression of Opinion Press Release).

During shareholder relations interviews that took place after disclosure of the May 13 Expression of Opinion Press Release, some institutional investors, regarding the Company's board of directors expression of an opinion opposing "The Matter of Partial Amendment of the Articles of Incorporation", a component of the AVI Shareholder Proposal, for the purpose of enabling decisions regarding dividends of surplus to be made not just by the board of directors, but also by a resolution of the general shareholders meeting (the "AVI Articles of Incorporation Amendment Proposal"), expressed the opinion that this was a proposal that aimed to expand shareholder rights and thus was something that the Company should support; in response to this, the Company explains its opinion below, which includes some of the matters discussed in the May 13 Expression of Opinion Press Release.

The Company asks our shareholders to take into account the Company's opinion in this press release and to make their determination of how to exercise their voting rights from a pragmatic point of view.

## **The Company's Opinion regarding the AVI Articles of Incorporation Amendment Proposal**

In 2005, when the appointment of outside directors was not yet a common practice among Japanese corporations, the Company moved quickly to transition to a "company with committees" system (renamed to the current "company with a nominating committee, etc." system in 2014), and as a company having a so-called "monitoring board", where a board of directors composed mainly of independent outside directors monitors the management team, the Company has moved to strengthen the monitoring function of the board of directors.

In fact, with the current composition of the Company's board of directors, prior to the General Shareholders Meeting, five of the eight directors are independent outside directors (including one woman director), and if the proposal for election of directors proposed by the Company is approved, seven of the 10 directors will be independent outside directors (including two women directors), meaning that further strengthening of the monitoring function will be realized. In this and other ways, the Company has constantly been moving forward with leading-edge initiatives directed towards strengthening a governance structure based on a monitoring board.

Regarding the company with committees system, with the 2002 amendment of the Commercial Code, because the monitoring function of the board of directors would be heightened through the activities of the nominating committee and compensation committee, a "strict review" that reflected the interests of shareholders could be anticipated regarding appropriation of earnings; for this reason, it was stipulated that in principle, only the board of directors was authorized to make decisions regarding buyback of own shares and other appropriation of earnings, and this meant that companies with monitoring boards would be oriented towards a framework where the board of directors, with its monitoring function secured, would make flexible managerial determinations and distribution of managerial resources.

The purport of these stipulations has also been reflected in the Companies Act, so that at companies with a nominating committee, etc., where the board of directors has a robust monitoring authority, subject to the satisfaction of certain requirements and the requisite provisions in the articles of incorporation, it is not the general shareholders meeting but only the board of directors that is authorized to make decisions regarding buyback of own shares and other appropriation of earnings; and thus the purport is maintained of orientation towards a framework where the board of directors, with its monitoring function secured, makes flexible managerial determinations and distribution of managerial resources.

To be sure, as some institutional investor shareholders assert, if the opposition to the AVI Articles of Incorporation Amendment Proposal, which would expand shareholder rights, is looked entirely on its own, separate from any surrounding factors, then it would be difficult to deny the

criticism that such opposition would lead to restrictions on shareholder rights.

However, if the above-described purport of the Companies Act is taken into account, uniformly rejecting the grant to the board of directors of the exclusive authority to make decisions on dividends of surplus etc. on the grounds that this constitutes a restriction on shareholder rights, without taking into account the percentage of independent outside directors and organizational design, seems likely to work against the spread of monitoring boards where monitoring is delegated to independent outside directors, and thus would act counter to the above-described purport of the Companies Act.

In fact, the Company's awareness is that from this perspective, among institutional investors, the thinking has become clarified that in order to promote the spread and utilization of monitoring boards, voting rights exercise policies, such as the application of performance standards pertaining to execution of business and the adoption of opposition stances on proposals relating to distribution of capital etc. should not be applied with respect to corporations having monitoring boards composed primarily of outside directors, and that the monitoring of management should be delegated to monitoring boards.

As a company with a nominating committee, etc. that has a monitoring board, not only does the Company ensure a monitoring function through organizational design and by having a high percentage of outside directors, but it is also considering, after the Shareholders Meeting, the appointment of an outside director as chair of the board of directors and having the audit & supervisory board, nominating committee, and compensation be composed only of outside directors, and is otherwise planning to move forward with further strengthening of the governance structure. From these viewpoints, too, the current provisions of the articles of incorporation, under which the Company's board of directors, where an advanced monitoring function has been secured, can make flexible managerial determinations and distribution of managerial resources upon ample consideration of managerial policy and managerial strategy, are appropriate; if, under these provisions, decisions of dividends of surplus and other appropriation of earnings are delegated to the Company's board of directors, the Company believes that it will be possible to achieve enhancement of the Company's medium-to-long-term corporate value and shareholder value through the implementation of flexible managerial determinations and distribution of managerial resources.

Having given repeated consideration to this matter from the above perspective, the Company's board of directors resolved on May 13 of this year to express an opinion opposing the AVI Shareholder Proposal.

Going forward, as the Shareholders Meeting approaches, the Company will continue to make effort to gaining the understanding of institutional investors and voting rights advisory firms.

We ask our institutional investor shareholders not to take the perspective of rote application of the voting rights exercise guidelines, but to make the determination to exercise their voting rights from the pragmatic perspective of placing trust in a monitoring board where the monitoring function has been secured under a board of directors composed primarily of independent outside directors and to support the realization of “flexible” managerial determinations and capital distribution.

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