May 16, 2023

Company name: MIYAJI ENGINEERING GROUP, INC.
Representative: Shigetoshi Aota, President and Representative Director
(Securities code: 3431, Prime Market, Tokyo Stock Exchange)
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Notice of Receipt of a Letter Pertaining to the Exercising of Shareholders' Right to Make Proposals and the Opinion of the Board of Directors of the Company Regarding the Proposals

MIYAJI ENGINEERING GROUP, INC. (the "Company") hereby announces that we received a letter pertaining to the exercising of shareholders' right to make proposals (the "Shareholder Proposal") dated April 26, 2023 from ESG Investment Partnership (the "Proposing Shareholder"), a shareholder of the Company, regarding agenda items for the 20th Annual General Meeting of Shareholders scheduled for June 29, 2023, and as its response, the Board of Directors of the Company, at a meeting held today, resolved the following opinions regarding the Shareholder Proposal.

1. Proposing Shareholder
   ESG Investment Partnership

2. Description of Shareholder Proposal
   (1) Appropriation of surplus
   (2) Partial amendment to the Articles of Incorporation (disclosure of individual director remuneration)
   A description of the Shareholder Proposal is stated in the attached "Outline of Agenda Items and Reasons for Proposal." The attachment contains the relevant portion of the letter pertaining to the Shareholder Proposal received from the Proposing Shareholder in its original text.

3. Opinion of the Board of Directors
   (1) Appropriation of surplus
   1) Opinion of the Board of Directors
   The Board of Directors opposes this Shareholder Proposal.
   2) Reason for opposition
   The Shareholder Proposal requests an additional dividend of ¥244.33 per share calculated based on the attached "II. Outline of Agenda Items and Reasons for Proposal" and the Company's

financial results for the 20th fiscal year which, when combined with the interim dividend already paid and the year-end dividend proposed by the Company, would require distribution of a dividend of ¥384.33 per share (total dividends amounting to ¥2,615,404,566), which is equivalent to 84.9% of the profit attributable to owners of parent in the fiscal year ended March 31, 2023.

From a medium- to long-term perspective, the Company and its subsidiaries (the "Group") considers the establishment of a highly sustainable corporate structure, the enhancement of corporate value, and the return of profits to shareholders as important management policies, while at the same time we have a basic policy of implementing a well-balanced capital policy, including investments for sustainable growth, a concept shared by all shareholders and stakeholders.

Regarding shareholder returns, as an important management measure, we have decided to distribute an annual dividend of ¥140 per share for the fiscal year ended March 31, 2023, and the projected annual dividend for the fiscal year ending March 31, 2024, announced on May 15, 2023, is ¥180 (ordinary dividend of ¥160, commemorative dividend of ¥20, consolidated dividend payout ratio of 35%). The Group aims to achieve the Medium-Term Business Plan and further increase dividends while maintaining a target total return ratio of 30%, and plans to continue to flexibly implement shareholder returns when performance is favorable.

In order for the Group to continue to grow sustainably to achieve the final year targets in the Medium-Term Business Plan (FY2022 to FY2026) of ¥75.0 billion in net sales, ¥7.5 billion in operating profit, and ¥4.0 billion in profit attributable to owners of parent on a consolidated basis, we believe that it is necessary to aggressively allocate funds to investments for growth, having ensured shareholder returns while paying close attention to our cash flow and the risk of damaging our equity capital.

Regarding equity capital, we need approximately ¥10.0 to 20.0 billion (equivalent to two to four months of monthly sales) as working capital for construction progress and about ¥20.0 billion (equivalent to four months of monthly sales) to cover expenses in the event of a construction-related accident or major natural disaster (we are covered by third-party liability insurance, but there is a limit to how much loss can be compensated, and it is essential that we have the management resources to be able to restore production in the event of a temporary loss of income in such situations), which combined, means that we need approximately 60% of annual net sales as equity capital. Accordingly, we believe that equity capital of approximately ¥40.0 billion of the annual consolidated net sales of ¥65.0 billion from our current businesses and approximately ¥45.0 billion of the target consolidated net sales in the final year of the Medium-Term Business Plan of ¥75.0 billion are necessary to ensure the sustainable growth of the Group and we have set the equity ratio in the Medium-Term Business Plan at 55% or more.

Regarding business investment, over the five years under the Medium-Term Business Plan, we plan to invest a total of ¥18.0 to 20.0 billion, including ¥15.0 billion in plants and equipment centers to improve efficiency and optimize plant production and on-site construction capacity, and ¥3.0 to 5.0 billion to develop new businesses and strengthen general engineering functions.

However, our target operating profit margin is 10% and we anticipate a five-year EBITDA of approximately ¥40.0 billion. We will appropriately control the level of equity capital, paying careful attention to maintaining capital efficiency by allocating funds to investments for growth and accumulating retained earnings for future preparation in a balanced manner, as well as by flexibly implementing shareholder returns when performance is strong.

With regard to cross-shareholdings, we will promote their reduction to lower the ratio held to less than 10% of net assets as soon as possible, and a portion of the cash flow from this reduction (proceeds from sales) will be allocated as funds to implement shareholder returns.

As stated above, we believe that a well-balanced capital policy is important for the return of profits to shareholders and for sustainable growth, which is a concept shared by the Company and our stakeholders. The Shareholder Proposal requires excessive shareholder returns as described above, and we believe this will be detrimental to the appropriate balance of our capital policy.

Therefore, the Board of Directors opposes the Shareholder Proposal for the reasons stated above.

If this Shareholder Proposal were to be approved and resolved, a portion of the dividend to be paid would need to be funded from other capital surplus since the amount of the dividend would exceed the amount of our non-consolidated other retained earnings.

The Proposing Shareholder also states that our PBR is well below 1 and that “the amount of BPS (book-value per share) at the end of the third quarter of fiscal year ended March 31, 2023 is ¥5,979.” However, this figure is the amount of net assets recorded on the consolidated balance sheet as of December 31, 2022 divided by the number of shares, and the correct amount of BPS, which is the amount of equity capital less non-controlling interests included in net assets as of the same date divided by the number of shares, is actually ¥5,140.

The Shareholder Proposal also states that “Since 2021 the proposer has been requesting interviews with the Company’s management by letter, e-mail, and telephone, but in each case our requests have been ignored, and in February 2023, after sending letters requesting interviews to all directors, including Independent Outside Directors, finally in March of the same year, we were able to meet with Tadashi Uehara, Representative Director in charge of IR, and Yutaka Setoi, Operating Officer and General Manager of the IR Office.” However, the Company has held seven interviews since December 2021, led by the IR Office, the department in charge of investor relations.

(2) Partial amendment to the Articles of Incorporation (disclosure of individual director remuneration)

1) Opinion of the Board of Directors

The Board of Directors opposes this Shareholder Proposal.

2) Reason for opposition

The Shareholder Proposal states that “the number of directors at the end of the fiscal year is two” and goes on to state that “the breakdown of executive remuneration for the Company’s current management was found to be ¥12,012,000 from the Company and ¥138,546,000 from subsidiaries, bringing the total remuneration for directors to ¥150,558,000, which is ¥75,279,000 of executive remuneration per director (two directors at the end of the fiscal year, excluding Outside Directors)." However, as of March 31, 2022, there were six directors (excluding Outside Directors) and executive remuneration was ¥25,093,000 per director.

Note that no directors are paid a salary as an employee.

The Shareholder Proposal also states that the "¥12.0 million, which was the upper limit of director remuneration per year approved by the General Meeting of Shareholders in June 2015 has been greatly exceeded." However, the total amount of remuneration, etc. on a non-consolidated basis is ¥12.0 million, as stated in the Securities Report for the fiscal year ended March 31, 2022, and it is not true that the upper limit of annual remuneration for directors, which was resolved at the General Meeting of Shareholders, has been exceeded.

The Company's policy for determining the amount of remuneration, etc. for directors and the method of calculation thereof is discussed at the meeting of the Board of Directors held after the Annual General Meeting of Shareholders each year, within the scope of the total amount of remuneration resolved at the Annual General Meeting of Shareholders, taking into consideration comprehensively general examples of companies at the same level, the balance with the level of employees' salaries, the general state of management, and other factors. The Company has also established a voluntary Nomination and Compensation Committee for the purpose of strengthening the independence, objectivity, and accountability of the Board of Directors' functions with respect to director nominations and remuneration, etc. We consult with the Nomination and Compensation Committee when determining the amount of remuneration, etc. for directors (excluding directors who are Audit and Supervisory Committee Members).

With regard to the disclosure of executive remuneration, the total amount of remuneration, etc. and the number of persons paid by each director category are properly disclosed in the Business Report provided with the Notice of Convocation of the Annual General Meeting of Shareholders and in the Securities Report in accordance with laws and regulations. Since FY2021, the total amount of remuneration, including director remuneration at subsidiaries in cases where a director concurrently serves as an officer of a subsidiary, is indicated in the Business Report and Securities Report.

As such, we believe that both the determination of the amount of remuneration, etc. for directors and the method of disclosure thereof are appropriate.

Therefore, the Board of Directors opposes the Shareholder Proposal for the reasons stated above.

Attachment: Outline of Agenda Items and Reasons for Proposal

*The relevant portion of the letter pertaining to the Shareholder Proposal received from the Proposing Shareholder is provided here in its original text.

I. Matters which are the purpose of the General Meeting of Shareholders (proposed agenda items)

(1) Appropriation of surplus

(2) Partial amendment to the Articles of Incorporation (disclosure of individual director remuneration)

II. Outline of Agenda Items and Reasons for Proposal

(1) Appropriation of surplus

a. Outline of agenda item

The appropriation of surplus shall be as follows. If the Board of Directors proposes appropriation of surplus at this Annual General Meeting of Shareholders, this agenda item is proposed as an independent and additional proposal.

(i) Type of dividend assets

Cash

(ii) Dividend per share

The greater of (a) or (b) below.

(a) The amount obtained by deducting the interim dividend of ¥60 for the 20th fiscal year and the amount of surplus per share of stock in the Company proposed by the Board of Directors at this Annual General Meeting of Shareholders and approved at this Annual General Meeting of Shareholders from an amount equal to 70% of the Company's basic earnings per share for the 20th fiscal year rounded down to the nearest yen ("Actual EPS") (or the amount obtained by deducting the interim dividend of ¥60 for the 20th fiscal year from 70% of the Actual EPS if the Board of Directors does not propose appropriation of surplus at this Annual General Meeting of Shareholders).

(b) The amount obtained by dividing an amount equal to 4% of the Company's consolidated net assets for the 20th fiscal year by the number of issued shares (total number of shares issued as of March 31, 2023, excluding treasury stock).

(iii) Allotment of dividend assets and the total amount thereof

The amount of dividend per share in (ii) above per share of stock in the Company (the total amount of dividend is calculated by multiplying the dividend per share by the total number of shares issued as of March 31, 2023 (excluding treasury stock))

(iv) Effective date of dividend of surplus

Date of this Annual General Meeting of Shareholders

(v) Start date of dividend payment

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

b. Reasons for the proposal

The Tokyo Stock Exchange (“TSE”) issued a notice to approximately 3,300 companies listed on the Prime and Standard Markets asking for management that is more conscious of their cost of capital and stock price. After issuing this notice, on March 31, 2023, the TSE requested listed companies with a PBR (price book-value ratio) below 1 to disclose and take specific measures to raise their stock price levels. The major trend in the Japanese securities market as a whole has been to improve PBR due to capital blistering in order to improve the attractiveness of Japanese equities, which are inferior to US and other equities.

In this regard, the Company’s stock price has remained well below a PBR of 1 for 16 years (from the fiscal year ended March 31, 2007 to fiscal year ended March 31, 2023, with the exception of the fiscal year ended March 31, 2014). The amount of BPS of the Company at the end of the third quarter of fiscal year ended March 31, 2023 is ¥5,979, whereas the Company’s actual share price is ¥3,740 (closing price on March 31, 2023).

This is due to the Company cutting shareholder returns more than necessary and accumulating retained earnings by not paying dividends to shareholders for eight consecutive fiscal years (fiscal year ended March 31, 2006 to fiscal year ended March 31, 2013) and then continuing to pay extremely low shareholder returns once dividend payments resumed (fiscal year ended March 31, 2014). President Shigetoshi Aota was appointed as a director in June 2005. He was appointed President and Representative Director in April 2013, a position he has remained in to this day, and was one of the directors who decided not to pay dividends for eight consecutive years, as previously mentioned. He is the very person who has been managing the company by neglecting shareholder returns and with disregard to shareholders for many years, while receiving executive remuneration from subsidiaries. For a long time he has given top priority to retained earnings and his own remuneration, and his style of management that has neglected capital efficiency and disregarded shareholders has significantly damaged the Company’s corporate value.

The Company’s stock price should be at least a PBR of 1 of ¥5,979, and the current management team should change its management stance as soon as possible. The proposer’s claims are described below.

The fact that the PBR is below 1 means that the Company’s ROE (return on equity) has not reached the minimum return (cost of capital) required by shareholders. The Company has damaged the value of the capital entrusted to it by shareholders, and the market has evaluated the Company as “disqualified for listing.” Growth potential is required to increase PER (price earnings ratio). However, the Company’s business performance and the materials released by the current management team to date do not indicate a growth story at the Company, and the Company’s current management team is not expected to increase PER. Therefore, the only way to achieve a PBR of 1 is to increase the ROE. However, the Company’s ROE has been declining since reaching 15.0% (fiscal year ended March 31, 2016) and is currently at 6.6% (third quarter of the fiscal year ended March 31, 2023). This decline is due to funds that should have been directed to shareholder returns in order to increase shareholder value, being saved as retained earnings.

In other words, the Company's dividend per share fell from ¥5 (fiscal year ended March 31, 2005) to no dividend (from the fiscal year ended March 31, 2006 to the fiscal year ended March 31, 2013) for eight consecutive fiscal years. The Company resumed dividend payments in the year ended March 31, 2014 by paying ¥2 per share after eight consecutive years of no dividend and since then the dividend payout ratio had been hovering in the lower part of 10% each year (until the fiscal year ended March 31, 2021), and thus had been in the low in the eight consecutive years following the eight consecutive years of no dividend. On the other hand, in the fiscal year ended March 31, 2022 the Company recorded free cash flow of ¥10,730 million, cash equivalents of ¥15,679 million, cross-shareholdings of ¥4,889 million, and interest-bearing debt of just ¥300 million after repaying ¥2,500 million. However, such ample cash flows were mainly stored in retained earnings, and the Company accumulated ¥9,963 million in retained earnings, while total dividends paid amounted to only ¥952 million. Although the dividend per share was ¥140, the dividend payout ratio remained low compared to the previous year, at 27.95%.

The Company has a ¥5.0 billion commitment line with a bank and has secured a ¥20.0 billion line of credit, including current account overdrafts, and so it is clear that even if more substantial shareholder return measures are taken, it will still have sufficient cash on hand and business operations will not be impeded. There is absolutely no need to accumulate more retained earnings. It is clear that if the Company accumulates more retained earnings, its capital efficiency will deteriorate further and its PBR will remain below 1 for the foreseeable future.

In addition to the above, the Company currently owns ¥5,343 million of cross-shareholdings (which includes cross-held shares of ¥4,391.84 million as of December 31, 2022), which means that 82.19% of cross-shareholdings are cross-held shares. It is clear that these cross-held shares are contributing to the lack of governance function at the Company and a fall in capital efficiency, and the Company should immediately cease its excessive cross-shareholdings.

Incidentally, since 2021 the proposer has been requesting interviews with the Company's management by letter, e-mail, and telephone, but in each case our requests have been ignored, and in February 2023, after sending letters requesting interviews to all directors, including independent outside directors, finally in March of the same year, we were able to meet with Tadashi Uehara, Representative Director in charge of IR, and Yutaka Setoi, Operating Officer and General Manager of the IR Office. At that time, the proposer questioned Representative Director Tadashi Uehara about the Company's PER (price earnings ratio) and BPS (book-value per share), and was told that he did not know either. The proposer was astonished to hear that he did not know the relative equation for determining PER, PBR (price book-value ratio) and ROE (return on equity). It is clear from these facts that the current management of the Company does not have the basic knowledge or the inclination to improve the Company's capital efficiency.

Therefore, the proposer proposes that all of the "approximately ¥6.0 billion increase in working capital" (including retained earnings) in the Company's five-year Medium-Term Business Plan be allocated to shareholder returns to bring the total allocated to shareholder returns to ¥12.0 billion. In this case, the dividend per share would be ¥360 and the dividend payout ratio would be 60% (fiscal year ending March 31, 2027). Furthermore, adding the proceeds from the sale of cross-shareholdings amounting to ¥5,343 million (which includes cross-held shares of ¥4,391.84 million in the third quarter of the fiscal year ended March 31, 2022) to the above shareholder return amount would enable a dividend payout ratio of 70%. A dividend payout ratio of 70% over the five-year period of the Medium-Term Business Plan would bring the Company's PBR close to 1.

Taking the above into consideration, the proposer proposes to set the dividend per share as described in (ii) above. For the record, it goes without saying that this proposal is not an attempt to demand excessive dividends from the Company and to pursue only short-term profits. This is because the proposal proposes a return to shareholders within a scope that does not exceed the earnings per share attributable to owners of the parent in the consolidated financial results for the fiscal year ended March 31, 2023, attempts to return consolidated profit to shareholders, and does not request any return to shareholders from the capital required for the Company's operations. Furthermore, the Company will still have sufficient cash flow after making various growth investments of ¥18.0 billion over the five years of the Medium-Term Business Plan.

(2) Partial amendment to the Articles of Incorporation (disclosure of director remuneration)

a. Outline of agenda item

The following provision shall be newly established as Article 31, Paragraph 2 of the current Articles of Incorporation.

"2. Regardless of the amount of remuneration for Directors with representation rights in the Company and its specified subsidiaries, the amount (including any employee portion of salary) and details of remuneration shall be disclosed for each Director in the Business Report and Securities Report each year, together with specific indications of the method of determining the remuneration."

b. Reasons for the proposal

Individual disclosure of directors' remuneration at public companies is already widely practiced in developed countries such as the U.S. and the U.K. In light of the internationalization of investment activities, we believe that the Company, a leading Japanese company which is listed on the Tokyo Stock Exchange's Prime Market, should show investors in Japan and overseas that it maintains the same internal standards as leading companies in developed countries. Therefore, the individual disclosure of directors' remuneration should be adopted from the perspective of stimulating corporate activity.

Regarding previous disclosures of remuneration for directors in the Company, since the fiscal year ended March 31, 2007, the lowest amount of remuneration for each director was ¥1,845,000 and the highest amount was ¥5,950,000. Given that the average annual salary of the Company's employees during the same period was in the range of ¥6 to 9 million, it would appear that the Company's directors were working diligently for less remuneration than their employees. However, although executive remuneration appears to be low, the amount disclosed in the disclosure materials does not include executive remuneration from subsidiaries. Furthermore, the employee portion of salary for directors who concurrently serve as employees has not been disclosed. Therefore, there was a suspicion that the seemingly low executive remuneration paid by the Company was being supplemented by executive remuneration from subsidiaries.

When the proposer repeatedly requested more detailed disclosure of executive remuneration from the current management through interviews, the Company disclosed executive remuneration for the fiscal year ended March 31, 2022, and the results showed that the breakdown of executive remuneration for the Company's current management was found to be ¥12,012,000 from the Company and ¥138,546,000 from subsidiaries, bringing the total remuneration for directors to ¥150,558,000, which is ¥75,279,000 of executive remuneration per director (two directors at the end of the fiscal year, excluding Outside Directors). Remuneration for the Company's directors from the Company's subsidiaries was 11.53 times greater than the multiplier compared to remuneration from the Company, the parent company, and ¥120 million, which was the upper limit of director remuneration per year approved at the General Meeting of Shareholders in June 2015, has been greatly exceeded. This raises the suspicion that the upper limit of executive remuneration has been exceeded not only in the fiscal year ended March 31, 2022, but possibly also every year since 2015. If the Company's management also had received high levels of remuneration from subsidiaries during the eight consecutive years when the Company did not pay dividends, then this is an alarming problem.

Based on the above, the proposer proposes that the Articles of Incorporation be amended as described in the "Outline of agenda item" so that the remuneration (including the employee portion of salary) of directors with the right to represent the Company and its specified subsidiaries (three eligible directors as of March 31, 2023) is disclosed individually.

The proposer also requests that the Company retroactively disclose remuneration (including the employee portion of salary) paid to directors from subsidiaries of the Company for the fiscal year ended March 31, 2007 and thereafter. Clarifying how much the Company's representative directors, including the Company's President Shigetoshi Aota, as well as the representative directors of specific subsidiaries, were paid in executive remuneration by the Company, specific subsidiaries, and subsidiaries in the 17 years when the Company has rewarded shareholders by not paying dividends for eight consecutive fiscal years and low shareholder returns for nine consecutive fiscal years, will link to improving the Company's attitude to disclosure, and disclosure transparency, and the state of shareholder returns in the future. The proposer is seeking a highly transparent disclosure stance from the Company's directors. We demand that the Company free itself from this cover-up culture as soon as possible.