HIBIKI PATH ADVISORS

9 Raffles Place, #26-01, Singapore048619
Reg.201541140R
Tel: +65 6931 3914
www.hibiki-path-advisors.com

4-6-2 Kachidoki, Chuo-ku, Tokyo-to
Tomoe Corporation
Board of Directors
CC：Audit and Supervisory Committee

# Request for a Fundamental Revision of the Medium-Term Management Plan and Establishment of a Special Committee

Hibiki Path Advisors ("we") respectfully request that your Board of Directors promptly and sincerely consider the matters set forth below, with the goal of maximizing the common interests of all shareholders:

- **A complete overhaul of the Medium-Term Management Plan**
- **Establishment of a Special Committee composed of external directors and independent third parties to evaluate alternatives, including considerations on remaining publicly listed versus pursuing privatization**
- **If the Company chooses to remain publicly listed, decisive action on non-core assets and excess capital (specifically, the early sale of real estate assets and cross-shareholdings, coupled with a large-scale share repurchase and dividend payout)**

We recognize that your company possesses a highly competitive steel construction business, underpinned by both a strong industry presence, known widely in the construction sector as the "Diamond Truss of Tomoe", and superior technical capabilities. At the same time, as we have repeatedly emphasized through shareholder proposals and dialogues, we are concerned that management lacks sufficient incentives to enhance corporate value. As a result, critical capital policy problems have been left unaddressed, which we consider unacceptable from the standpoint of the common interests of shareholders. (For details, please refer to our disclosures dated May 29, 2025, "Shareholder Proposal for Tomoe Corporation" and June 5, 2025, "Comments on the Revision of the Medium-Term Management Plan")

In the November 2024 disclosure entitled "Initiatives Toward Realizing a Management Conscious of Capital Cost and Stock Price (Japanese Only)" your company identified the following challenges:

① *"Under the first five-year Medium-Term Plan, ROE averaged 9.3%. In the second three-year plan, it dropped to 6.9%. Both fell short of the 8.0% target. (redacted) At the same time, shareholders' equity—the denominator of ROE—kept climbing, from an average of JPY 28.2 bn in the first plan to JPY 38.3 bn in the second. In other words, capital has been building up year after year."*

9 Raffles Place, #26-01, Singapore048619
Reg.201541140R
Tel: +65 6931 3914
www.hibiki-path-advisors.com

② *"Net assets (i.e., shareholders' equity) —the denominator of P/B—have been increasing faster than the share price, making it a significant challenge to implement measures that effectively boost the stock price."*

However, in the revised medium-term management plan (Japanese Only) disclosed in May of this year, your Company sharply cut the ROE target from 10% down to 5%, effectively slashing it in half. From our perspective, despite your own acknowledgment of the challenges outlined above, you have failed to take concrete steps to meaningfully enhance corporate value. Instead, you chose to lower an ROE target that we consider one of the most critical KPIs for shareholders, without proper justification. We are deeply disappointed by this approach and strongly urge you to promptly reconsider what appears to us as a management stance that neglects the interests of ordinary shareholders.

We infer that the primary driver behind the sharp downward revision of your ROE target is the recognition of substantial unrealized gains on real estate portfolio held by subsidiaries—which were incorporated through group restructuring and subsequent appraisal valuations—effectively inflating your net assets. That said, your Company itself also holds significant unrealized gains on its own real estate. According to your FY3/25 Securities Report, these unrealized gains total approximately JPY 56.9 bn (JPY 39.9 bn after assuming a 30% tax rate). When reflected at fair value in net assets, these gains account for the portions highlighted in green in Figure 1 of ROE by business segment[1].

When comparing segment ROE on a fair-value basis (i.e. including unrealized gains), your Company's core operation, the steel construction business, achieves a stellar ROE level of 17.9% using only 9% of your net equity. By contrast, of the remaining 91% of net equity, 61% is allocated to the real estate business, generating a ROE of merely 1.3% with only around 10 employees involved, and then 30% to "Other" assets, which produce no operating profit and consist primarily of cross-shareholdings. Furthermore, we note that the JPY 56.9 bn in unrealized real estate gains (JPY 39.9 bn after tax) is based on the official appraisal values disclosed by your Company; in the event of actual divestiture, such properties could very likely realize even higher transaction prices in current market conditions. This would further increase the proportion of real estate in net assets, implying that segmental ROE is actually even lower than currently indicated.

As a consequence of the foregoing, the underperformance of non-core assets is significantly dragging down overall corporate performance, resulting in persistently low levels of consolidated ROE and, in turn, the depressed valuation of your Company's P/B on a market basis. Specifically, while your book-value-based P/B stands at 0.9x[2], the adjusted "true" P/B after accounting for the unrealized gains on real estate falls to as low as 0.6x[3], **representing a significantly undervalued level compared to intrinsic value.**

[1] Based on a simplified calculation including only profits generated purely from operations (calculated as segment profit × (1 − 30% tax rate))
[2] Based on the closing price of JPY 1,513 on 5 Sep 2025
[3] FY3/25 Annual Securities Report (Yuho)

9 Raffles Place, #26-01, Singapore048619
Reg.201541140R
Tel: +65 6931 3914
www.hibiki-path-advisors.com

Figure 1: ROE by Segment（Our estimate）

| (bn yen) | Total | Steel structure construction | Real estate | Others |
|---|---|---|---|---|
| ROE | 3.8% | 17.9% | 3.0% | 0.0% |
| **ROE (Considering unrealized gains)** | **2.4%** | **17.9%** | **1.3%** | **0.0%** |
| Operating profit | 3.9 | 2.7 | 1.2 | – |
| NOPAT | 2.8 | 1.9 | 0.9 | – |
| Net Assets | 73.0 | 10.6 | 28.6 | 33.8 |
| *Composition Ratio* | *100%* | *14%* | *39%* | *46%* |
| **Net Assets (Considering unrealized gains)** | **112.8** | **10.6** | **68.5** | **33.8** |
| *Composition Ratio* | *100%* | *9%* | *61%* | *30%* |

（Source：FY 3/25 Annual Securities Report (Yuho)）

（Note）
ROE：NOPAT used as numerator, calculated as（Segment Profit×(1- tax rate 30%)）
Profit：FY3/25 actuals
Net assets by segment： Of total consolidated net assets of JPY 73.0 bn, (a) JPY 10.6 bn of non-controlling interests is allocated to Real Estate, and (b) JPY 12.9 bn of net unrealized gains on securities is allocated to Other. The remaining JPY 49.5 bn is allocated to each segment based on the ratio of total assets.
Unrealized gains: JPY 39.9 bn (derived from JPY 56.9 bn of unrealized pre-tax gains on real estate disclosed in the FY3/25 Annual Securities Report, less 30% tax rate) allocated to Real Estate

In light of the current situation, we strongly urge the management team, with the objective of maximizing the common interests of shareholders, to undertake a complete overhaul of the medium-term management plan and to reassess the Company's long-term strategic direction. Specifically, we call for a zero-based review of the following options: (i) remain an independent listed company and pursue corporate value-focused management, (ii) go private to allow freer management alongside a limited group of shareholders, or (iii) join a larger corporate group and implement a thorough reorganization of both operations and capital structure.

- ■ Revision of the Medium-Term Management Plan
  - ➢ Focus on the core, steel structure construction business
  - ➢ Disposal of real estate assets, which is the primary cause of persistently low fair-value ROE
  - ➢ Introduce fundamental measures to tackle cross-shareholdings
  - ➢ Based on the above measures, further steps to resolve excess capital following the realization of latent gains on real estate
- ■ Establishment of a Special Committee to evaluate Long-Term Strategic Direction
  - ➢ Review and disclosure of strategic alternatives for enhancing corporate value, including potential privatization or integration into another corporate group

9 Raffles Place, #26-01, Singapore048619
Reg.201541140R
Tel: +65 6931 3914
www.hibiki-path-advisors.com

As we noted in our 2024 published letter to portfolio companies ("Merits and Challenges of Being Publicly Listed"), we believe the most important value of being listed is that it represents a "powerful tool to win in a competitive landscape." By securing a higher market valuation and strengthening comparative advantage, a company can get the market on its side and execute dynamic growth strategies through M&A and growth financing. From an investor perspective, however, your company's current stance is to have made the mere fact of staying publicly listed the priority, with management protecting its own position by continuously accumulating non-core assets such as policy shareholdings and real estate assets, while persistently bearing the excessive costs of being listed.

A review of the FY3/25 Securities Report further shows that shares of Nishikawa Keisoku Co., Ltd. and Kawada Technologies, Inc. were newly acquired as policy shareholdings, indicating no change in this trajectory. As a result, net cash and marketable securities (after deducting deferred tax liabilities) now account for 37% of market capitalization, while the after-tax appraised value of real estate stands at 135% of market capitalization. Combined, these assets represent 172% of market capitalization—a situation that, from the standpoint of protecting the common interests of shareholders, cannot be overlooked.

Accordingly, through this letter, we hereby request the establishment of a Special Committee [4] composed of independent external directors and third parties with expertise in the capital markets, and independent from the internal directors, with the purpose of evaluating, without any influence of managerial self-preservation, whether alternative options such as privatization or integration into another corporate group would enhance corporate value and serve the common interests of all shareholders. Such a committee would reassess the potential benefits of these alternatives, as outlined below:

- Merits of Privatization
  - Managing business with a long-term view, Freedom from short-term pressures, Preservation of independence, Utilization of fund professionals' expertise and networks (if backed by private equity)
- Merits of Integrating into Another Corporate Group
  - Access to a more robust management infrastructure, Ability to focus on more important management issues within their own business, Opportunity for fundamental restructuring of business operations and assets, Business Operation Synergies, Synergies in investment and R&D

If, following deliberations by the Special Committee or otherwise, your company ultimately chooses to continue as an independent listed company, then from the standpoint of protecting the common interests of all shareholders, it is imperative that management implement decisive measures to resolve the problem of

[4] Equivalent to Special Committee as defined in the Fair M&A Guidelines and Guidelines for Corporate Takeovers by the Ministry of Economy, Trade and Industry (METI)

9 Raffles Place, #26-01, Singapore048619
Reg.201541140R
Tel: +65 6931 3914
www.hibiki-path-advisors.com

excess capital—specifically by addressing non-core assets and the substantial latent gains on real estate. This request incorporates the issues we raised in the shareholder proposal submitted at the 93rd Annual General Meeting of Shareholders held this year.

In materials published on August 30, 2024 by the Tokyo Stock Exchange, it was noted that: " This may result in more companies choosing to go private as the cost of maintaining a public listing increases. TSE, however, will respect these decisions." Furthermore, in the interim report issued on Value-Creation-Oriented Management in May 2025 by the Ministry of Economy, Trade and Industry's Subcommittee, it was explicitly stated that: "Taking into account the costs of remaining listed, strategic delisting may also be an option in order to restructure growth strategies from a long-term perspective and to execute bold growth investments."

In light of your current situation and the broader market environment, if management has no real intention of taking decisive steps to improve ROE and P/B, then the responsibility to maximize the common interests of shareholders demands that you consider alternative paths without bias or preconception. These include scenarios such as pursuing a management buyout and delisting, or entering into a larger corporate group—including those with whom you currently maintain cross-shareholdings under so-called policy investments. We understand that the construction industry, where your company's core business lies, is undergoing consolidation due to labor shortages causing project delays and rising raw material costs. Separating your core business from your real estate business and integrating the former into another construction group would also represent a rational growth strategy in our view.

As a shareholder of your company, we remain committed to the realization of your intrinsic value and the securing of shareholders' common interests. However, if the requests set forth in this letter are not given sincere consideration, we are prepared to contemplate further actions in pursuit of shareholder value, including the exercise of a broad range of shareholder rights.

Going forward, from the standpoint of fair disclosure to all shareholders, we respectfully request that you refrain from providing us with non-public written responses to this letter. Instead, we ask that you either issue a public press release to all shareholders or continue our exchanges through meetings that do not involve insider information. We strongly urge you to express, at the time of your interim results announcement this fiscal year, your position regarding the status of your review of our proposals, by means of a press release or other appropriate form of public disclosure.

Please note that we intend to publish this letter on our corporate website and other channels. We hope for your continued constructive dialogue with shareholders.

9 Raffles Place, #26-01, Singapore048619
Reg.201541140R
Tel: +65 6931 3914
www.hibiki-path-advisors.com

12 September 2025

Hibiki Path Advisors Pte. Ltd.

HIBIKI PATH ADVISORS PTE LTD