

June 9, 2016

To our shareholders:

Masaaki Yabe

President

**Sakai Chemical Industry Co., Ltd.**

5-2, Ebisujima-cho, Sakai-ku, Sakai-shi, Osaka

## SUPPLEMENTAL EXPLANATION ON PROPOSAL 2 OF THE 121ST ORDINARY GENERAL MEETING OF SHAREHOLDERS

At the 121<sup>st</sup> Ordinary General Meeting of Shareholders scheduled for June 28, 2016, the proposal for election of three (3) Corporate Auditors is scheduled to be brought up for resolution as Proposal 2. Sakai Chemical Industry Co., Ltd. (the "Company") would like to provide the supplemental explanation for this proposal.

### 1. Proposal 2

In Proposal 2 (Election of Three (3) Corporate Auditors), the Company proposes the election of three (3) Corporate Auditors, Messrs. Toyonobu Kimura, Tadayuki Zushi, and Toshiaki Matsuda.

### 2. Supplemental explanation on Messrs. Toyonobu Kimura and Tadayuki Zushi

Mr. Kimura has previously served at The Mitsubishi Trust and Banking Corporation (Currently, Mitsubishi UFJ Trust and Banking Corporation).

The Company does business with multiple financial institutions. The ratio of loan it owes to Mitsubishi UFJ Trust and Banking Corporation to its total assets is about 3.5% (as of the end of March 2016) and is not high. The ratio of shares of the Company held by the bank is also 3.5% (as of the end of March 2016). Accordingly, it does not significantly affect the Company.

Based on the above facts, the Company determined that there is no issue regarding his independence and conflict of interests is unlikely to occur with the general shareholders.

There are no special interests between Mr. Kimura and the Company.

The Company designated him as an independent officer specified by the Tokyo Stock Exchange and registered him with the stock exchange.

Mr. Zushi has previously served at The Bank of Tokyo-Mitsubishi UFJ, Ltd.

The Company does business with multiple financial institutions. The ratio of loan it owes to The Bank of Tokyo-Mitsubishi UFJ, Ltd. to its total assets is about 3.0% (as of the end of March 2016) and is not high. The ratio of shares of the Company held by the bank is also 3.5% (as of the end of March 2016). Accordingly, it does not significantly affect the Company.

In addition, although he works as a person who carries out business affairs of Mitsubishi UFJ Research and Consulting Co., Ltd., an amount of money or any other asset paid by the Company to it is less than one million (1,000,000) yen on average in the past three (3) years. Accordingly, it does not significantly affect the Company.

Based on the above facts, the Company determined that there is no issue regarding his independence and conflict of interests is unlikely to occur with the general shareholders.

There are no special interests between Mr. Zushi and the Company.

The Company will designate him as an independent officer specified by Tokyo Stock Exchange and will register him with the stock exchange.

As described above, the Company believes Messrs. Kimura and Zushi are appropriate as Outside Corporate Auditors, and would like to sincerely ask for the shareholders' understanding.