

[Translation]

June 15, 2020

To shareholders, the press, and whom it may concern,

Shareholders' Committee for the Better Corporate Governance of TENMA

**Q&A Regarding the Opinion of the Shareholders' Committee on Proposal Nos. 2, 3, and 5**

As we informed you in "Exercise of Shareholders' Proposal Right over Tenma Corporation" dated May 20, 2020, the "Shareholders' Committee for the Better Corporate Governance of TENMA" (the "Shareholders' Committee") made a shareholders' proposal to Tenma Corporation ("Tenma" or the "Company"; listed on the First Section of Tokyo Stock Exchange, Inc. under securities code 7958) to appoint Tenma's current executive officers as directors (the "Executive Officers") in order to change the current directors completely and establish a new lineup of directors to be appointed at the annual shareholders' meeting (the "Shareholder Meeting") scheduled to be held in June 26, 2020 (the "Shareholder Proposal") (**The Shareholder Proposal will be discussed as proposal No. 5, and the details are stated on pages 22 to 26 of the convocation notice related to the Shareholder Meeting**). We would like to inform you again of the opinion of the Shareholders' Committee, focusing on the questions regarding the Shareholder Proposal by many of the shareholders, the press, and other concerned parties, as follows.

Contact for inquiries for news media <i>Shareholders' Committee for the Better Corporate Governance of TENMA</i> Administrative Office: Tel. 81-3-6721-5099 (Business trustee for media support: Pathfind Co., Ltd.) Homepage: <a href="http://tsukasanews.com">http://tsukasanews.com</a>
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End

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## 1 The Shareholder Proposal

### Q1-1 Why was the Shareholder Proposal made?

#### A1-1

The Shareholder Proposal was made because the Executive Officers came to Ex-Chairman *Emeritus* Osamu Tsukasa on April 18, 2020 and asked him to exercise the shareholder proposal right over Tenma in order to save Tenma from the current unprecedented crisis, and the shareholder proposal right was finally exercised. In other words, **the Shareholder Proposal was not led by Ex-Chairman *Emeritus* Osamu Tsukasa, but was suggested by the Executive Officers.**

Regarding the details, please refer to “1. Circumstances and Reasons Leading to this Proposal” of the “Notice” to the shareholders as of May 20, 2020 (the “Notice as of May 20”) (<http://www.tsukanews.com/en/upload/pdf/release20200526Eng.pdf>).

### Q1-2 What kind of change will the Shareholder Proposal bring to Tenma?

#### A1-2

**The purpose of the shareholders’ proposal is (i) to remove all the directors who are members of the founding families of Tenma (including Ex-Chairman *Emeritus* Osamu Tsukasa’s son, Executive Director Hisashi Tsukasa) from office, (ii) to eliminate the influence of the founding families on Tenma’s management, and to prevent them from exerting such influence in the future, (iii) to change Tenma’s corporate culture, and (iv) to enhance Tenma’s mid/long-term enterprise value.**

There are deep-rooted problems with the Tenma’s current governance system, problems that are ingrained to the point that they have become a part of the corporate culture. It is considered that at this time these problems were revealed in the forms of the overseas bribery case and the suspicious capital injection into Spinshell, Inc. (“Spinshell”). These underlying problems involve members of the founding family, which currently has absolute influence over Tenma; when they become directors, the employees speculate excessively about their intentions. Unless the underlying problems are eliminated, it is inevitable that they will appear again, in a different form.

Approval and passage of the Shareholder Proposal at the Shareholder Meeting will achieve the elimination of the influence of the founding family over Tenma’s management. As a result, it will improve Tenma’s corporate governance system and contribute to continuing enhancement of Tenma’s mid/long-term enterprise value.

Regarding the details of the points above, please refer to “1. Circumstances and Reasons Leading to this Proposal” of the Notice as of May 20, 2020 (<http://www.tsukanews.com/en/upload/pdf/release20200526Eng.pdf>).

### Q1-3 Why can you say that the eight director candidates in the Shareholder Proposal are appropriate for Tenma’s directors?

#### A1-3

All the candidates in the Shareholder Proposal for “directors who are not Audit and Supervisory Committee members” are **executive officers of Tenma with no relation to the founding family. They range in age from 45 to 63 years old, with an average age of 52 years and are at the peak of their careers and full of energy.** In addition, the candidates in

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the Shareholder Proposal are executive officers in each main business unit, and **the composition is well-balanced, because half of the candidates are executive officers responsible for overseas operations, which contribute to Tenma’s current profits.**

Regarding the details, please refer to the skill set table below regarding the candidates for “directors who are not Audit and Supervisory Committee members” related to the Shareholder Proposal and the candidates for “directors who are Audit and Supervisory Committee members” at the request by the Audit and Supervisory Committee, as follows.

Title	Name of Candidates	Current Title, etc.	Involvement in Overseas Bribery	Skill						
				Management	Manufacturing/Technology	Sales	Finance/Accounting	HR/Labor	Overseas Operations	Compliance/Legal
Director (newly-appointed)	Yukio Haruyama	Executive Officer Former Manager of Corporate Planning Department, President of the Indonesia subsidiary	No	○			◎	○	○ (Indonesia)	
Director (newly-appointed)	Kazuharu Tateno	Managing Executive Officer Former Manager of Shiga Factory President of Thailand subsidiary President of Tenma(HCM)Vietnam CO., LTD.	No	○	○	○		○	◎ (Thailand, Vietnam)	
Director (newly-appointed)	Yoshiyuki Yanagisawa	Executive Officer Manager of Industrial Products Sales Department	No	○		◎ (Corporate Sales)				
Director (newly-appointed)	Ichiro Sakai	Executive Officer Former Manager of General Affairs Department, belonging to Technology Department	No	◎			○	◎		◎
Director (newly-appointed)	Shuji Kawamura	Managing Executive Officer CEO of the Chinese subsidiary (ZHONGSHAN)	No	○	○				◎ (China)	
Director (newly-appointed)	Nobunoshin Tsutsuno	Executive Officer Manager of Technology Department	No		◎					
Director (newly-appointed)	Tomohisa Egawa	Executive Officer Chairman of the Chinese subsidiary (SHENZHEN)	No	○		○		○	◎ (China)	
Director (newly-appointed)	Keisuke Fuchigami	Executive Officer Manager of Houseware Sales Supervisory Department	No			◎ (Retail Store)				

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## Candidates for directors who are Audit and Supervisory Committee members at the request of the Audit and Supervisory Committee

Director (newly- appointed/Out side/Audit and Supervisory Committee member)	Koichi Kan	Attorney-at-law Professor of Keio University Law School	No	○	◎
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Regarding the skill set table of the candidates for “directors who are not Audit and Supervisory Committee members” related to the company’s proposal, please refer to **A2-1** stated below. Regarding the details, please refer to page 2 of the “Exercise of Shareholder Proposal Right over Tenma Corporation [Supplementary material]” published by the Shareholders’ Committee on May 27, 2020 (the “Supplementary Material as of May 27”) (<http://www.tsukanews.com/en/upload/pdf/date20200530Eng.pdf>).

We heard that in the report of Institutional Shareholder Services Inc. (“ISS”) that is a prominent proxy-advisory firm issued as of June 15, 2020, since Mr. Tateno and Mr. Haruyama might have been involved in the bribery case in Vietnam among the candidates for “directors who are not Audit and Supervisory Committee members” in the Shareholder Proposal, ISS recommends voting against the proposal for their appointment as directors. However, this is a clear mistake of fact.

First, regarding Mr. Tateno, ISS recommends voting against the proposal for his appointment as director, because he was the president of TENMA Vietnam and he might have been involved in the bribery case in Vietnam. However, this is a clear mistake of fact and Mr. Tateno was never involved in the bribery case in Vietnam. In Vietnam, there are two Tenma subsidiaries: TENMA Vietnam Co., Ltd. (Bac-ninh Province: located near Hanoi); and TENMA (HCM) Vietnam Co., Ltd. (Dong Nai Province: located near Ho Chi Minh) (please refer to page 35 of the convocation notice of the Shareholder Meeting), and each of them is independently operated. Mr. Tateno was the president of the latter TENMA (HCM) Vietnam Co., Ltd. and was not the president of the former TENMA Vietnam Co., Ltd. that caused the bribery case at this time, and Mr. Tateno has no authority nor obligation to administer the former company. Regarding which the company that caused the bribery case is TENMA Vietnam Co., Ltd. in Bac-ninh Province, the northern part of Vietnam, not TENMA (HCM) Vietnam Co., Ltd. in Dong Nai Province, the southern part of Vietnam, please refer to page 27 of the morning edition of the Yomiuri Shimbun as of May 11, 2020 and page 26 of the morning edition of the Asahi Shimbun as of May 12, 2020. Since in the third party committee’s investigation report both the companies are not distinguished and it is stated that “Tenma’s subsidiary in Country X” (which is the Company’s overseas subsidiary located in “Country X”) caused the bribery case, it is considered that the ISS report misidentified Mr. Tateno as the president of TENMA Vietnam Co., Ltd. that caused the bribery case, and reached the wrong conclusion above.

Second, regarding Mr. Haruyama, in the ISS report ISS recommends voting against the proposal for his appointment as director, because he might have been involved in the bribery case in Vietnam on the assumption that he approved the payment of bribes to a revenue officer in Vietnam. However, this is a clear mistake of fact and Mr. Haruyama was never involved in the bribery case in Vietnam. The bribery case in Vietnam, which is pointed out in the third party committee’s report, occurred in June 2017 and August 2019, but Mr. Haruyama left Japan for Indonesia in February 2015 and became the president of

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**the subsidiary in Indonesia.** Accordingly, **there is no possibility that Mr. Haruyama was involved in the bribery case in Vietnam in June 2017 and August 2019.**

Considering the above, **the eight candidates for “directors who are not Audit and Supervisory Committee members” in the Shareholder Proposal including Mr. Tateno and Mr. Haruyama include no persons who were involved in the bribery case in Vietnam.**

Therefore, we are certain that all the eight candidates are appropriate as Tenma’s directors. We would like to ask you to fully take note of that point.

**Q1-4 Is there any problem in the Shareholder Proposal due to the fact there are no outside directors in the director candidates who are not Audit and Supervisory Committee members?**

**A1-4**

The reason why there are no outside directors in the director candidates who are not Audit and Supervisory Committee members in the Shareholder Proposal is that the Executive Officers finally considered making the Shareholder Proposal in April 2020 and could not ensure sufficient time to search for appropriate outside director candidates. However, in the case where Mr. Koichi Kan, who is a candidate for “directors who are Audit and Supervisory Committee members at the request of the Audit and Supervisory Committee” is appointed and the Shareholders’ Committee also agrees to that, the number of Tenma’s outside directors (all of whom are Audit and Supervisory Committee members) combined with the current outside directors will be four, and in the case where the appointment of the eight candidates for “directors who are not Audit and Supervisory Committee members” related to the Shareholder Proposal is passed, **one-third of the total of twelve directors will consist of outside directors.** Therefore, we consider that the standard required for governance will be sufficiently met.

Moreover, according to the Executive Officers, in the case where the Shareholder Proposal is passed, in order to reform and improve the corporate governance based on an external perspective, **“the Management Advisory Committee,” consisting of outside directors and outside experts, and the “Nomination and Compensation Committee” whose majority consists of outside directors, will be newly established.** Since the increase in the number of the outside directors in and after the next term is considered based on discussions in these committees and other matters, it can be expected that the proportion of outside directors in the board of directors will increase in and after the next term.

**Q1-5 Although Mr. Fuchigami and Mr. Kawamura stated that they would not accept the appointment even if they are appointed, will you withdraw the proposal to request their appointment?**

**A1-5**

**Mr. Fuchigami** is in the Houseware Business Department and **works directly under President Fujino** who is the center of the current leadership in the company. In addition, TENMA Precision (Zhongshan) Co., Ltd. to which **Mr. Kawamura** belongs produces housewares and is under the control of President Fujino. In such a situation, **since President Fujino places strong pressure on Mr. Fuchigami and Mr. Kawamura, both cannot help but state that they will not accept the appointment.** However, in the case where the Shareholder Proposal is passed, we believe that both will respect the result and become directors and contribute to improving Tenma’s enterprise value in cooperation with the other Executive Officers. Therefore, we do not withdraw the proposal for their appointment.

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<b>Q1-6 What will the Executive Officers specifically do in order to improve Tenma's corporate governance?</b>
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**A1-6**

According to the Executive Officers, the following measures will be taken in order to drastically reform Tenma's corporate governance.

- Reformation of the Board of Directors for separation of supervision and execution (elimination of the effect of the shareholders of the founding family)
  - Enhancing enterprise value without being affected by directors from the founding family
  - Establishment of the "Nomination and Compensation Committee" whose majority consists of outside directors
  - Abolishment of honorable Chairman, Chairman, Vice Chairman, consultant, and advisor positions, and establishment of the position of Chairperson of the Board of Directors (Separation of Representative Director and Chairperson of the Board of Directors)
  - Rebuilding of the management supervisory system using Audit and Supervisory Committee members, outside directors, and other members
  - Establishment of the "Management Advisory Committee", consisting of outside directors and outside experts, and reformation and improvement of corporate governance based on an external perspective
  - Carrying out of a 360 degree evaluation towards officers
  - As a result of the founding family resigning from officer positions, profits will be agreed between the shareholders of the founding family and general shareholders.
  - For directors' compensation, reducing their fixed compensation part and replacing it with performance-based compensation
- ⇒ Reformation of the ratio of fixed compensation to performance-based compensation to stock-based compensation to approximately 5:3:2, and introduction of ROE and operating profit margins to the KPI of the performance-based compensation

Due to these measures, it can be expected that the elimination of the influence of the founding family (including Ex-Chairman *Emeritus* Osamu Tsukasa) over Tenma's management can be institutionally secured and Tenma's corporate governance will be dramatically improved.

<b>Q1-7 How will the Executive Officers improve Tenma's enterprise value?</b>
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**A1-7**

According to the Executive Officers, the following measures will be taken in order to improve Tenma's enterprise value.

- (i) Establishment of a mid-term management plan
- Clarification of the direction of development of house business on a global scale and allocation necessary management capital

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- Seeking addition of higher value in the contracted business and pursuing a rise in the company's position as an EMS company
- Strengthening of a new business division, and expansion of the possibilities of corporate development by understanding dynamic social needs
- (ii) Returning to the company's roots as a manufacturing company
  - Handing down basic technology and know-how cultivated up to the present while promoting Industry 4.0, etc. via automation, IOT, and AI, and aiming to be a competitive manufacturing company.
- (iii) Shareholder returns through ROE 6.0% and stock buy-back with approximate 10 billion yen
  - Measures for shareholder returns planning for sustained ROE improvement and carrying out a stock buy-back, while maintaining the current stable dividend targeting of 2.5% or more of dividends on equity (DOE) of consolidated net assets

<b>Q1-8 What will Tenma's performance be in the case where the Executive Officers are appointed?</b>
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**A1-8**

According to the Executive Officers, the following management targets in the mid-term management plan in the case where the Shareholder Proposal is passed and they are appointed have been established.

Management targets when the mid-term management plan ends (three years later) (millions for non-specified units)

Consolidated Basis	March 2020		March 2023	
Net income	2,504		4,000	There are concerns about the impact of the COVID-19 pandemic, but over 3,826 million yen for the term of March 2017 is entirely feasible.
Total dividend	1,936		2,428	
Net assets	74,156		66,160	Shareholders returns by stock buy-back (12 billion scale is assumed.)
DOE	2.6%		2.5% or more	Maintaining dividend policy of DOE 2.5% or more

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ROE

3.4%



6.0%

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**Q1-9 Do you think that a ROE of 6.0% is low for a three year medium-term management target?**

**A1-9**

Certainly, a ROE of 6.0% is anything but high. However, while Tenma’s current management is satisfied with a low ROE of 3.4%, the Executive Officers have set a target to surely achieve a ROE of 6.0% over the medium-term of three years, and will endeavor to continue to improve the ROE thereafter.

**Q1-10 The Shareholder Proposal is based on the intentions of Ex-Chairman Emeritus Osamu Tsukasa, and if the Shareholder Proposal is successfully passed, it may lead to unfair management intervention by Ex-Chairman Emeritus Osamu Tsukasa.**

**A1-10**

There are no such concerns.

In the letter “Re: My Intention to Exercise the Shareholders’ Proposal Right” by Ex-Chairman Emeritus Osamu Tsukasa, dated June 12, 2020 (<http://www.tsukanews.com/en/upload/pdf/letter20200612.pdf>), it was promised to shareholders that in the first place, (i) if the Shareholder Proposal is successfully passed, **Ex-Chairman Emeritus Osamu Tsukasa will become a passive, long-term investor in Tenma, no different from any other investor**, and (ii) **even if the Shareholder Proposal is successfully passed, Ex-Chairman Emeritus Osamu Tsukasa will not, and his children will not, assume any position at Tenma or its affiliates or have any office(s) at the headquarters of Tenma’s or its affiliates’ facilities.**

As stated in **A1-6** above, if the Executive Officers are appointed as directors, the following measures will **establish an institutional guarantee that Ex-Chairman Emeritus Osamu Tsukasa cannot be involved in Tenma’s management:** (i) **establishment of the “Management Advisory Committee,” consisting of outside directors and outside experts**, and reformation and improvement of corporate governance based on an external perspective, (ii) **establishment of the “Nomination and Compensation Committee” whose majority consists of outside directors**, and (iii) **abolishment of the positions of honorable Chairman, Chairman, Vice Chairman, consultant, and advisor, establishment of the position of Chairperson of the Board of Directors, and requirement that the positions of Representative Director and Chairperson of the Board of Directors are separated.**

**Q1-11 Why does Dalton Investments LLC oppose the Shareholder Proposal?**

**A1-11**

We have been repeatedly requesting to have the opportunity for direct dialogue with Dalton Investments LLC (“Dalton”) even after submitting the Shareholder Proposal. However, Dalton consistently did not respond to that request. Furthermore, now, **Dalton supports “the company’s nominations because they provide continuity of the management through the reappointment of both Mr. Kaneda and Mr. Sudo, who are essential for business execution,” overlooked the fact that both directors were involved in overseas**

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**bribery cases in Vietnam and other countries, has agreed to include Mr. Hayashi, Representative Director and CEO of Dalton Advisory KK, in the candidates for “Directors who are not Audit and Supervisory Committee members” regarding the company proposal, and appears to have fully integrated itself with Tenma’s current executives, centered on Chairman Kaneda, President Fujino, Executive Director Kaneda, and CFO Sudo.**

We think that although Dalton opposes the Shareholder Proposal for those reasons, those reasons are also unpersuasive. In other words, while Dalton recognizes that Executive Director Kaneda and CFO Sudo engaged in inappropriate behavior regarding the overseas bribery issue, and the third party committee’s investigation report regarding the overseas bribery issue and other issues, stated that there was unfair management intervention by Ex-Chairman Emeritus Osamu Tsukasa, Dalton opposes the Shareholder Proposal because the concern of unjust management intervention by Ex-Chairman Emeritus cannot be dispelled. As stated in **A1-10** above, there is no possibility that Ex-Chairman Emeritus will engage in unfair management intervention; however, Dalton is not even going to have a meeting with the Executive Officers to discuss whether there are such concerns. In addition, the third party committee’s investigation report puts aside the responsibility of CFO Sudo and Executive Director Kaneda, who were involved in the scandal, for the overseas bribery scandal and asserts that the underlying cause was Ex-Chairman Emeritus Osamu Tsukasa’s management intervention. It is objectively clear that there is a gap in the logic of the report. In any case, we believe that the truth of this point will be clarified by future investigations and examinations by the Director Liability Investigation Committee established by the Audit and Supervisory Committee independent of Tenma’s executive (please refer to **A3-3** below).

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## 2 The Company's Proposal

### Q2-1 Why are you opposed to the candidates for “directors who are not Audit and Supervisory Committee members” proposed by the Company?

#### A2-1

#### (1) Lack of Skills Required for Tenma and the Board of Directors

In the Company's proposal, three of the director candidates (including two current directors) are persons who were involved in the overseas bribery case. In addition, because a director from the founding family remains as director, the lack of corporate governance in Tenma will not improve, and a style of management which prioritizes shareholders will not be achieved. Also, as is clear from the following table describing the skillsets of each director candidate, their skills lean toward finance/accounting, and the company's proposal lacks personnel who have skills in management, manufacturing/technology, and human resources/labor, and there is an insufficient number of individuals who have experience with corporate sales and management of overseas operations.

Title	Name of Candidate	Current Title	Involvement in Overseas Bribery	Skill						
				Management	Manufacturing/Technology	Sales	Finance/Accounting	HR/Labor	Overseas Operations	Compliance/Legal
Director (reappointed)	Hiroshi Kaneda (founding family)	Executive Director	Yes	▲				▲		×
Director (reappointed)	Takashi Sudo	Director	Yes				◎			×
Director (newly-appointed)	Hirohiko Hirono	Executive Officer Manager of Development Department Former Manager of Houseware Sales Department	No			○ (Retail Store)				
Director (newly-appointed)	Akira Yosano	General Contract TENMA PRECISION(SUZHOU)CO.,LTD. Chairman of Shanghai Tenma	Yes	○		○ (Japanese Corporate Sales in China)			○ (China)	×
Director (newly-appointed)	Yuichi Nagai	Executive Officer Manager of Sales Promotion Department	No			○ (Retail Store)				
Director (newly-appointed)	Shiro Hayashi	Representative Director Dalton Advisory K.K.	No				◎			
Director (newly-appointed/Outside)	Hirofumi Kurahashi	Outside Auditor Rakuten Life Insurance Co., Ltd.	No				○			◎
Director	Shoji Matsuyama	Certified Public Accountant	No				◎			○

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For details, please refer to page 3 of the Supplementary Material as of May 27  
(<http://www.tsukasanews.com/en/upload/pdf/date20200530Eng.pdf>).

(2) **Issues Regarding Each of the Director Candidates**

(i) **Issues Regarding Mr. Hiroshi Kaneda, Mr. Takashi Sudo, and Mr. Akira Yosano**

Pursuant to Article 342-2, paragraph (4) of the Companies Act, **the Audit and Supervisory Committee has stated its opinion that**, among five of the inside director candidates proposed by the Company, **Mr. Hiroshi Kaneda, Mr. Takashi Sudo, Mr. Akira Yosano are not suitable as director candidates since they were involved in the scandals such as overseas bribery cases**(Please also refer to A2-2 below). The Shareholders' Committee also considers that these directors who were involved in the overseas bribery and have caused corporate governance problems in Tenma should resign, and that they are not suitable as directors of Tenma at all.

**In the convocation notice of the Shareholder Meeting, it is stated that, “although we have a business relationship for marketing and public relations agency services with Spinshell, Inc. (“Spinshell”), of which Mr. Hiroshi Kaneda is the representative director, . . . as the transaction amount from us accounts for less than 7% of Spinshell’s annual sales revenue, we consider that neither Mr. Hiroshi Kaneda nor us is a specially interested party”**(page 14). However, we would like to add that, **in the circumstances where between 6% to less than 7% of Spinshell’s annual sales revenue is derived from transactions with Tenma while Mr. Hiroshi Kaneda owns the majority of the voting rights and has been the representative director of Spinshell since its incorporation in February 2006, we have significant doubts about the Company considering that Mr. Hiroshi Kaneda is not “a specially interested party”** (Article 74, paragraph (2), item (iii) of the Regulation for Enforcement of the Companies Act) **of Tenma**.

(ii) **Issues Regarding Mr. Hirohiko Hirono and Mr. Yuichi Nagai**

Mr. Hirohiko Hirono and Mr. Yuichi Nagai are two of the few candidates (among the five inside director candidates proposed by the Company) who were not involved in the scandals such as overseas bribery cases; however, both of them have engaged in the synthetic resin houseware products related business, which merely accounts for approximately 20% of Tenma’s consolidated revenue, for a long time. On the other hand, **the five inside director candidates in the Company’s proposal do not include any person who has been engaged in the industrial synthetic resin products related business which accounts for approximately 77% of Tenma’s consolidated sales revenue. Such a composition of the board of directors lacks balance**, and the board of directors may not be able to **carry out appropriate discussion and decision making with regards to the business policy, strategies, etc., for the industrial synthetic resin products business, which is the main business of Tenma Group**.

In addition, both **Mr. Hirohiko Hirono and Mr. Yuichi Nagai** have been working solely in the synthetic resin housewares business (which is where Mr. Kaneto Fujino, the President who will resign upon conclusion of the Shareholder Meeting to take responsibility for the Overseas Bribery Case, is from), and **President Fujino has supervised them since the early stage of**

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their careers. Therefore, **if both of them assume positions as Tenma’s directors, the influence of President Fujino, who was responsible for the overseas bribery case, may remain even after the Shareholder Meeting.** Consequently, we consider that the two of them are not suitable as director candidates.

(iii) **Issues Regarding Mr. Shoji Matsuyama**

**Mr. Shoji Matsuyama currently serves as an officer in 10 companies, including 4 listed companies; as such, he may not be able to set aside sufficient time required as an outside director of Tenma, which has major issues such as streamlining and restructuring of the governance system and internal control system of the entire group, and as a result, he may not be able to fulfill the duties required as an outside director.**

For example, an article titled “In Depth Report - The Empty State of Outside Director Positions” (<https://premium.toyokeizai.net/articles/-/18282>) included in Weekly Toyo Keizai published on June 23, 2018, points out that there are only five people who concurrently hold positions of outside directors in six or more listed companies, and following these five people, Mr. Matsuyama’s name was listed as one of the persons who then concurrently held the position of outside director in five or more listed companies (he resigned from one of the companies thereafter). **If Mr. Matsuyama is appointed as director of Tenma, it would result in him concurrently holding positions as officer of 11 companies (including five listed companies), in addition to his main job at an audit firm and certified public accountant office.** After all, it is rare for listed companies to install a person who concurrently holds positions as officers in this many companies as an outside director, and **we consider that such a person is not suitable as an outside director of Tenma, which has a lot of issues concerning governance and internal control.**

Moreover, Mr. Matsuyama is from KPMG AZSA LLC, which is the current financial auditor of Tenma and will resign upon the Shareholder Meeting since the trust relationship with Tenma has been damaged. **Taking into account the possibility that a dispute between Tenma and KPMG AZSA LLC occurs, it is desirable that the outside directors consist of persons who are highly independent in terms of the relationship with KPMG AZSA LLC. Regarding this point, there are issues with Mr. Matsuyama, who used to work at KPMG AZSA LLC.**

Based on the above, we consider that Mr. Matsuyama is not suitable as a “director who is not an Audit and Supervisory Committee member”.

(iv) **Issues Concerning Mr. Shiro Hayashi**

**Mr. Shiro Hayashi is a business executive of Dalton’s group company,** which is a major shareholder of Tenma. If Mr. Hayashi is appointed as director, we cannot deny that there may be **conflicts of interest issues between him and Tenma’s general shareholders.** Moreover, Mr. Hayashi is not designated as a candidate for outside director in the Company’s proposal. Furthermore, regarding this point, Dalton explained in its press release as of June 5, 2020, that it agrees that Mr. Hayashi is not an independent outside director because Tenma “is still inexperienced in IR, management and capital policy matters, and its in-house resource seems to be insufficient; as such, (Mr. )Hayashi might make proposals and be engaged in planning more proactively, by capitalizing on his experience in the financial industry” Namely, **Mr. Hayashi might “make proposals and be engaged in proactive planning” as an executive director for an essential part of Tenma’s operations such as management and capital policy;** accordingly, **in cases where there are conflicts of interest**

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**between the major shareholder(Dalton)’s interest and those of general shareholders, we cannot deny that the general shareholders’ interest might be affected.**

Even if Tenma were to invite a person with profound knowledge of IR, management, and capital policy from outside, there is no need to go so far as to risk causing conflicts of interest issues by inviting a business executive of a group company of Tenma’s major shareholder, while allowing him to concurrently hold both positions.

Therefore, it would be rather understandable if he were appointed as an independent outside director, which is a position to supervise the business executives as a representative of the shareholders. However, we consider it inappropriate to appoint him as a part-time executive director in light of the interests of Tenma’s general shareholders.

**(v) Issues Concerning Mr. Hirofumi Kurahashi**

Regarding Mr. Hirofumi Kurahashi, in addition to the fact that it is questionable whether he is the personnel who can address himself to drastic strengthening of Tenma’s compliance system and internal control system, in light of the circumstances where President Fujino, CFO Sudo, and Executive Director Kaneda, who were involved in the overseas bribery case, originally initiated the proposal for Mr. Kurahashi to become a director who is an Audit and Supervisory Committee member, in view of another proposal raised for a resolution to appoint Attorney Koichi Kan as a candidate for director who is an Audit and Supervisory member in relation to the Company’s proposal, we cannot help but think that **the appointment of one more attorney as an outside director in addition to Mr. Koichi Kan is really ill-balanced.**

Therefore, we have to say that we cannot agree to appoint Mr. Kurahashi as Tenma’s outside director.

For further details regarding the above, please refer to the “Opinion on Director Candidates Proposed by the Company” as of June 5, 2020 (<http://www.tsukanews.com/en/upload/pdf/cover20200605Eng.pdf>).

<b>Q2-2 Why is the Audit and Supervisory Committee opposed to candidates for “directors who are not Audit and Supervisory Committee members” proposed by the Company?</b>
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**A2-2**

Among the candidates for “directors who are not Audit and Supervisory Committee members,” **the Audit and Supervisory Committee stated its opinion pursuant to Article 342-2, paragraph (4) of the Companies Act that Mr. Hiroshi Kaneda, Mr. Takashi Sudo, and Mr. Akira Yosano are not suitable as director candidates.** The reasons listed for each of them were: (1) Mr. Hiroshi Kaneda falsified expense processing concerning the overseas bribery case, and he has been involved in inappropriate capital contribution to Spinshell; (2) Mr. Takashi Sudo was involved in the preparation of the annual securities report and internal control report, etc. that were later revised, and he was the primary perpetrator in the falsified expense processing concerning the overseas bribery case and did not report the case to the Audit and Supervisory Committee or take actions for effective control to prevent bribery, resulting in the resignation of KPMG AZSA LLC that was in charge of Tenma’s financial audit; (3) Mr. Akira Yosano approved the cash delivery concerning the overseas bribery case, and it has not been confirmed that he made appropriate reports thereafter.

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For further details regarding the above, please refer to pages 3-4 of the “Notice regarding the Press Release from the Audit and Supervisory Committee of TENMA” as of June 4, 2020 (<http://www.tsukasaneews.com/en/upload/pdf/cover20200604Eng.pdf>).

**Q2-3 Please tell us the reason why the proposal to appoint Mr. Koichi Kan is included in the proposal of the Shareholder Meeting? Also, what do the proposing shareholders think of this proposal?**

**A2-3**

The proposal to appoint Mr. Koichi Kan as one of the “directors who are not Audit and Supervisory Committee members” is **included in the proposal of the Shareholder Meeting by a request from the Audit and Supervisory Committee pursuant to Article 344-2, paragraph (2) of the Companies Act(\*)**.

Mr. Koichi Kan is **completely independent from the founding family and the current management**; also, **through his business experience as a public prosecutor and attorney for many years, he has abundant experience in the handling of overseas bribery cases as well as broad experience and knowledge in the corporate governance field**. As such, it can be sufficiently expected that he will contribute to the strengthening of Tenma’s corporate governance system. Therefore, **the Shareholders’ Committee welcomes and is in favor of his appointment**.

(\*) A provision stating that the Audit and Supervisory Committee may request to submit proposals to the shareholders meeting on the election of directors who are Audit and Supervisory Committee members.

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### 3 Audit and Supervisory Committee

**Q3-1 There seems to be an indication that the Audit and Supervisory Committee is controlled by Mr. Osamu Tsukasa, the Ex-Chairman Emeritus and that the neutrality and fairness are doubtful. Is that a fact?**

A3-1

Tenma's Board of Directors stated such opinions, but it is contrary to the truth. In "the Audit and Supervisory Committee's opinion on the 'Media Reports Regarding the Company's Audit and Supervisory Committee' disclosed by Tenma (the Board of Directors) on June 4, 2020" (<http://www.tsukasanews.com/en/upload/pdf/cover20200608Eng.pdf>) which was sent by the Audit and Supervisory Committee to the press club of Tokyo Stock Exchange, Inc. on June 8 of this year, it is clearly stated that it is contrary to the truth. In addition, as stated by the Audit and Supervisory Committee in that document, **the responsibilities of the Audit and Supervisory Committee are to monitor the execution of operations by directors in a manner that does not violate laws and regulations and the Articles of Incorporation as well as the duty of due care, "independently from executives," and to take necessary measures such as filing lawsuits to pursue liability for the shareholders' common benefit, if necessary,** and it is very disappointing that the majority of Tenma's Board of Directors including Chairman Kaneda, President Fujino, Executive Director Kaneda, and CFO Sudo who were involved in the overseas bribery case do not understand at all the fundamentals of corporate governance in which the neutrality and fairness required of the Audit and Supervisory Committee does not mean those principles are required from the side of the company's proposals and of the proposing shareholders, rather, it means that they are required on the part of the executives, including the company's directors.

In this way, the situation where a majority of the Board of Directors criticize the acts conducted by the Audit and Supervisory Committee to perform its responsibilities for the reason that "there is a doubt in terms of the neutrality and fairness" truly shows that the corporate governance has become dysfunctional in Tenma's current state.

**Mr. Kitano, Member of the Audit and Supervisory Committee, was introduced to Tenma from a recruitment agency for outside officers in 2019, and became a member of the Audit and Supervisory Committee at the shareholders' meeting in June 2019, through an interview with President Fujino and CFO Sudo. Prior to his assumption of the office, he had no relations with either Mr. Osamu Tsukasa, the Ex-Chairman Emeritus, or people related to the Tsukasa Family at all, so he is an independent outside director in the true sense.**

In addition, **Mr. Kataoka, a member of the Audit and Supervisory Committee,** is a licensed tax accountant and has been an outside officer of Tenma from 1997 until now (an outside auditor from 1997 until June 2015 and an outside director who is a member of the Audit and Supervisory Committee since June 2015). **He became a candidate for outside auditor in relation to the company's proposal and a candidate for outside director who is a member of the Audit and Supervisory Committee, based on the resolution of Tenma's Board of Directors which includes Chairman Kaneda and President Fujino over the years, including the annual shareholders' meeting in June 2019, and was appointed to the positions. It is not the case at all that he is controlled by the intentions of Mr. Osamu Tsukasa, the Ex-Chairman Emeritus.**

On the other hand, Mr. Fujimoto, a member of the Audit and Supervisory Committee, has also been an outside director who is a member of the Tenma's Audit and Supervisory Committee

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since June 2015, and it is not the case at all that he is controlled by the intentions of Mr. Osamu Tsukasa, the Ex-Chairman Emeritus. However, please note that **Mr. Fujimoto, a member of the Audit and Supervisory Committee, holds 6.3% (10% before the Spinsell's capital increase in May 2019 as below) of the shares of Spinsell** (please see A4-2 below for the details) **of which he has been Representative Director since the establishment by Mr. Hiroshi Kaneda, Executive Director, in February 2006 until now and owns a majority of the shares, and that he has a common interest with Executive Director Kaneda at least.**

**Q3-2 Please advise as to what opinion the Audit and Supervisory Committee expresses regarding the proposal to appoint the “directors who are not members of the Audit and Supervisory Committee” in relation to the company’s proposal.**

**A3-2**

Among the candidates for “directors who are not members of the Audit and Supervisory Committee” in relation to the company’s proposal, **the Audit and Supervisory Committee state their opinion that Mr. Hiroshi Kaneda, Mr. Takashi Sudo, and Mr. Akira Yosano are inappropriate as candidates for directors, by exercising the right to state opinions under Article 342-2, paragraph (4) of the Companies Act.** Please see above A2-2 for the details.

**Q3-3 It is said that the Audit and Supervisory Committee established the Director Liability Investigation Committee. Why did they do so? Is it necessary to establish this committee at this time when the Meeting is approaching?**

**A3-3**

According to the press release material issued by the Audit and Supervisory Committee, in addition to the problem of overseas bribery (please see A4-1 below), the past investment by Tenma in a company connected to the director of the Company (seemingly referring to Spinsell) which is suspected to be inappropriate (please see A4-2 below), and other fraud or violation of laws and regulations regarding the performance of duties of a director who is not a member of the Audit and Supervisory Committee (the “Target Director”), such as compliance violations and invalidation of internal controls by the directors of the Company, and the suspicious behavior were found out; therefore, so that the Company can make a decision appropriately and fairly from a legal perspective as to whether the Target Director has responsibility for failing to perform his/her duties and whether the Company should pursue the Target Director’s liability and other matters, based on the receipt on March 13, 2020 of the investigation report by the third party committee in relation to the problems including the overseas bribery incident, the Audit and Supervisory Committee made a resolution **on May 19 of this year to establish the Director Liability Investigation Committee consisting of outside attorneys who are in a neutral and fair position and who ensure independence and have no interests with the company.**

**In the listed companies where a scandal or the like occurred, the establishment of a Director Liability Investigation Committee promptly after the company’s receipt of the investigation report by the third party committee in relation to whether the directors involved in the scandal have responsibility for failing to perform their duties has generally been carried out in the case of Olympus, Toshiba, Suruga Bank, Kansai Electric Power and other company.**

The Shareholders’ Committee thinks it is very natural that the Director Liability Investigation Committee as above was established in this case about one and half months after the publication of the investigation report by the third party committee. In any case, the Director Liability Investigation Committee in this case was established by the Audit and Supervisory Committee which is independent from the Shareholders’ Committee for above reason, and the Shareholders’ Committee is not in a position to say anything about the appropriateness of the establishment or its timing.

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For details of the above, please see the press release material issued by the Audit and Supervisory Committee (<http://www.tsukasanews.com/en/upload/pdf/cover20200604Eng.pdf>).

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## 4 Others

### Q4-1 What kind of cases are the overseas bribery cases?

#### A4-1

The following is a summary of the overseas bribery cases reported in the newspaper, etc.

In August 2019, one of Tenma's overseas subsidiaries received a demand from a tax inspector in that country to make an immediate cash payment if it wanted the subsidiary's penalty tax amount reduced. A head office employee who was contacted by a local employee attempted to consult with President Fujino about such matter, as President Fujino permitted a cash payment when a similar demand was made in the same country in 2017. At that time, however, President Fujino was out of the office and the head office employee could not get in contact with him. As such, he/she permitted the local employee to make the cash payment to the tax inspector.

After that, because the head office employee consulted with Ex-Chairman Emeritus Osamu Tsukasa, who stated that "President Fujino will place the blame only on me," Ex-Chairman Emeritus suggested to Chairman Kaneda that he "should not place the blame for everything on employees."

In order to cover up the bribery detailed above, Mr. Hiroshi Kaneda, the director in charge of legal affairs and IR (and the current general manager of risk management) instructed the overseas subsidiary to execute a consulting agreement in order to conceal the accounting treatment of the bribery. Furthermore, Mr. Takashi Sudo, the director responsible for finance and accounting (CFO), also made efforts to conceal the accounting treatment of the bribery and announced the financial results for the second quarter of the fiscal year ending in March 2020 as if nothing wrong had occurred, and submitted a written representation from management to KPMG AZSA LLC ("KPMG Japan"), Tenma's certified public accountant, etc. under the Financial Instruments and Exchange Act. Please refer to pages 25 to 41 and pages 44 to 46 of the third party committee's investigation report published by Tenma on April 4, 2020 for more information on these inappropriate responses.

### Q4-2 What kind of cases are the inappropriate investment cases to Spinshell?

#### A4-2

Spinshell is an Internet-related company primarily run by executive director Hiroshi Kaneda, who has held the position of representative director since establishing Spinshell in February 2006, and who holds the majority of voting rights of all shareholders. In May 2019, Tenma invested 60 million yen in Spinshell, when executive director Kaneda was Tenma's executive officer, at the time when executive director Kaneda privately held 85% of Spinshell's shares. There were the following material issues with this investment:

- (i) Spinshell was insolvent at that time, having mostly been in the red in its past fiscal terms, and all of its past capital increases were made at the issue price of fifty thousand yen per share. Nevertheless, when underwriting such company's third party allotment (the "Capital Increase"), Tenma paid 60 million yen in total at three hundred thousand yen per share (the "Underwriting of Capital Increase" or the "Investment").
- (ii) **Before the Capital Increase, executive director Kaneda held 85% of Spinshell's shares, and after the Capital Increase, the majority of Spinshell's shares continued to be held by executive director Kaneda. While Tenma invested 60 million yen, it only acquired**

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**Spinshell's shares equaling a 20.8% shareholding ratio.** The Audit and Supervisory Committee member Fujimoto also holds 6.3% of Spinshell's shares (10% before the Capital Increase).

- (iii) In the Underwriting of the Capital Increase, Tenma acquired the trial balance related to the share value of Spinshell from a third party. However, **such trial balance** was merely calculated Spinshell's share value via the DCF method **based on Spinshell's business plan, which Tenma provided.** In other words, **the third party who conducted the calculation was not obliged to verify the accuracy, validity, or integrity of the business plan.** Therefore, it is necessary to objectively verify the rationality of the business plan which Tenma provided and which formed the basis of the third party's evaluation. However, **in the business plan which Spinshell provided,** it is stated that (a) due to **the 130-fold increase of the number of inquiries for marketing in Spinshell from the period ending May 2019 to the period ending May 2023,** (b) **the sales revenue of Spinshell will grow sixfold from the period ending May 2019 to the period ending May 2023.** **It is obvious to everyone who has reviewed it that the business plan's feasibility is dubious.** Moreover, **the business plan's feasibility has not been reasonably explained at all.**
- (iv) The Underwriting of the Capital Increase was resolved by Tenma's board of directors. However, **Chairman Kaneda (the father of executive director Kaneda) and the Audit and Supervisory Committee member Fujimoto, who held 10% of Spinshell's shares at that time, were in attendance at the board of directors meeting where such resolution was made (the full-time Audit and Supervisory Committee member Kitano was not in attendance because he had not yet been appointed as a director).**
- (v) **On the day Tenma paid 60 million yen to Spinshell, executive director Kaneda collected more than 40 million yen of his loan to Spinshell** (i.e., it is suspected that the money was flowing from Tenma via Spinshell to Mr. Kaneda (individual)). While there are several other stakeholders, it is natural to think that Spinshell needed at least a 60 million yen cash investment from Tenma in order for Spinshell (which has been in the red and lacks liquidity) to repay the amount exceeding 40 million yen, borrowed from Mr. Hiroshi Kaneda (individual), since the money cannot be distinguished from other funds.
- (vi) **Many businesses which one would not expect to have synergy with Tenma's business were included in Spinshell's registered business purposes prior to the change of Spinshell's registered business purposes on the occasion of the Capital Increase,** such as (a) discovery, development, and management of artists, (b) operation of music studios, rehearsal studios, and video editing studios, (c) publication and sale of printed materials such as musical scores and books, (d) planning, producing, underwriting, and copyrighting of radio programs, TV broadcast programs, commercial films, and commercial songs, (e) management of nail and makeup salons and beauty salons, and (f) alcohol retail business and mail-order alcohol retail business.
- (vii) Although stock companies must provide public notice of their balance sheets (or summaries thereof) without delay after the conclusion of the annual shareholders meeting (the "obligation for public notice of settlement of accounts") under Article 440, paragraphs (1) and (2) of the Companies Act, the Shareholders' Committee confirmed again that **there seems to be no indication that Spinshell has ever given public notice of the settlement of its accounts since its incorporation.** While this fact itself is subject to sanction by civil fine, even setting aside that fact, we cannot help but consider that the reliability of the figures in the settlement of accounts which formed the basis of the business plan provided by Spinshell is dubious, considering that Spinshell has not performed its obligation for public notice of settlement of its accounts.

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These inappropriate investments in Spinshell may be understood as typical examples of the loss of self-discipline by directors from the founding families and inappropriate decision making by directors who seek to prioritize the founding families over the company itself.

The Company explained that the Investment was made as part of a capital alliance for the purpose of accumulating know-how through strengthening its Web strategy and its partial self-manufacture of products via its cooperation with Spinshell, and applying it in Tenma's future business development. However, no reasonable explanations were provided regarding the reasoning for this purpose, such as (a) **why it was necessary to cooperate with Spinshell, instead of another Internet-related company which has a proven record**, (b) **why underwriting of the capital increase was necessary, instead of a business alliance, and** (c) **why the investment ratio was maintained at more than 20%, instead of more than 50% based on the management rights which could be obtained**.

The Shareholders' Committee requested that the Company specifically explain how Tenma's capital alliance with Spinshell was contributing to Tenma's future business development, in a way where all shareholders can be convinced.

**Q4-3 We have heard that all directors, including the Audit and Supervisory Committee members, assented to the investment in Spinshell; if that is the case, why have the proposing shareholders alleged that such investment was inappropriate?**

**A4-3**

It is true that all directors of Tenma at that time, including the Audit and Supervisory Committee members, assented to the investment in Spinshell; however, **the full-time Audit and Supervisory Committee member Kitano, who alleged that the Investment was inappropriate, did not attend the resolution because it was before he was appointed as a director at that time.**

Moreover, **in the Investment, there was no statement that Spinshell was scheduled to repay 40 million yen of the loan from Mr. Hiroshi Kaneda (individual) immediately after the Investment at Tenma's board of directors meeting, and the resolution of the board of directors approving the Investment was made without the disclosure of such material fact.** In fact, as a result of the audit by the Audit and Supervisory Committee, after the fact that the loan of more than 40 million yen from Mr. Hiroshi Kaneda (individual) was repaid and was revealed, multiple directors including Hisashi Tsukasa, the current senior managing director who attended the resolution of board of directors at that time (he submitted a written resignation on May 15, 2020, to the effect that he will resign as Tenma's director immediately before the annual shareholders' meeting scheduled to be held in June 2020 in order to take management responsibility of this case), claim in writing that they would have opposed the Investment if such fact was explained.

**Q4-4 We have heard that some people thought that the purchase of its own shares (305,200 shares) using ToSTNeT-3 conducted by Tenma on May 28, 2020 was a problem; however, how was this evaluated by the proposing shareholders?**

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A4-4

Within the Shareholders' Committee, we could not grasp the details of the transaction, however, we think that such transaction is suspected of being a so-called infringement of insider trading regulations under the Financial Instruments and Exchange Act.

If a company's acquisition of its own shares is conducted without disclosing material facts it is considered insider trading, and **at the point where Tenma conducted the purchase of its own shares using ToSTNeT-3 as of May 28, 2020, there remained unpublished material regarding the opinion by the Audit and Supervisory Committee under Article 342-2, paragraph (4) of the Companies Act that some of the candidates for director pertaining to the Company's proposal were inappropriate, as well as the fact that the Director Liability Investigation Committee concerning the overseas bribery cases was established** (even in the cases of Olympus, Toshiba, Suruga Bank, and Kansai Electric Power, the facts of establishment of the Director Liability Investigation Committee were timely disclosed by such companies). Accordingly, **the acquisition of its own shares by Tenma is suspected of being an infringement of insider trading regulations.**

Moreover, it is rare that the purchase of a company's own shares is conducted using methods emphasizing on margin transactions such as ToSTNeT-3 and ToSTNeT-2 during the period from the record date of the exercise of voting rights at the annual shareholders' meeting until the date of the annual shareholders' meeting; however, we think it is rare because **if a shareholder at the point of the record date, where it is confirmed to be able to exercise voting right at the annual shareholders' meeting, transfers a company's shares held by itself to the company in exchange for assenting to the company's proposal at the meeting, it is considered to be giving benefits for the exercise of shareholders' right, which is prohibited with punishment under the Companies Act (Articles 120 and 970 of the Companies Act).** At least, despite already selling its shares, a shareholder who sold Tenma's shares using ToSTNeT-3 conducted by Tenma on May 28, 2020 and exercised voting rights at the Shareholder Meeting holding on June 26 would not escape the charge of injustice.

Since the above problems exist, the Shareholders' Committee would like to request the Company to specifically explain the intent of the purchase of its own shares using ToSTNeT-3, including the shareholders who sold Tenma's shares accordingly, and why they chose this period for such purchase, etc., in a way where all shareholders can be convinced.

End

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