

[Translation]

June 5, 2020
(Partially revised version)

To the shareholders of Tenma Corporation,
the press and whom it may concern,

Shareholders' Committee for the Better Corporate Governance of TENMA

Opinion on Director Candidates Proposed by the Company

The "Shareholders' Committee for the Better Corporate Governance of TENMA" (the "Shareholders' Committee") informed you in "Exercise of Shareholders' Proposal Right over Tenma Corporation" as of May 20 this year, that we 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 change the current directors completely and establish a new lineup of directors to be appointed at the annual shareholders' meeting (the "Meeting") scheduled to be held on June 26, 2020 (this "Proposal"). On June 4, Tenma announced the details of the convocation notice of the Meeting (the "Convocation Notice"); we would like to take this opportunity to once again state our opinion as the Shareholders' Committee on the candidates for "directors who are not Audit and Supervisory Committee members" proposed by the Company, in the following.

Description

1 Inside Director Candidates Proposed by the Company

Among the five inside director candidates proposed by the Company, Mr. Hiroshi Kaneda, Mr. Takashi Sudo, Mr. Akira Yosano were involved in the scandals such as overseas bribery cases (the "Overseas Bribery Case"), as disclosed by the Audit and Supervisory Committee on June 2 in "Notice (regarding opinions on the candidates for appointment of directors by the Audit and Supervisory Committee and establishment of the Director Liability Investigation Committee)."

For this reason, the Audit and Supervisory Committee expressed its opinion that the three candidates are not suitable as director candidates. Further, in page 9 of the Convocation Notice, 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." However, in the circumstances where between 6% to less than 7%¹ 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.

¹ Interpreting from the whole context, "less than 7%" is construed to mean 6% or more.

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The other two inside director candidates (Mr. Hirohiko Hirono and Mr. Yuichi Nagai) have engaged in the synthetic resin houseware products related business for a long time.² The Tenma Group consists of the synthetic resin houseware products related business and industrial synthetic resin products related business, and the synthetic resin houseware products related business accounts for only 17,815 million yen (20%) of the consolidated sales revenue, while the industrial synthetic resin products related business accounts for 66,558 million yen (77%).

Nevertheless, 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. This may result in the board of the directors' meeting not being 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, because two of the director candidates are engaged in the synthetic resin houseware products related business, which merely accounts for approximately 20% of the consolidated sales revenue of Tenma, there is a lack of balance. Moreover, both Mr. Hirohiko Hirono and Mr. Yuichi Nagai have been working in the synthetic resin housewares business (which is where Mr. Kaneto Fujino, the President who will resign upon conclusion of the Meeting to take responsibility for the Overseas Bribery Case, is from) since the early stage of their careers. If both of them assume positions as Tenma's directors, President Fujino's influence may remain even after the Meeting. Consequently, we consider that the two of them are not suitable as director candidates.

2 Other Director Candidates Proposed by the Company

- (1) Mr. Shoji Matsuyama holds the position of the representative partner at Matsuyama Certified Public Accountant and Certified Public Tax Accountant Office ("Matsuyama CPA & CPTA") and an audit firm, Asunaro & Co. In addition, according to the website of Matsuyama CPA & CPTA (<http://matsuyamacpa.com/profile.html>) and other relevant websites, he also serves as an officer in 10 companies³, including 4 listed companies, such as as auditor of Plat'Home Co., Ltd. (listed on the Second Section of Tokyo Stock Exchange, Inc.), director of G Three Holdings Corporation⁴ (listed on the Second Section of Tokyo Stock Exchange, Inc.), director of Good Com Asset Co., Ltd. (listed on the First Section of Tokyo Stock Exchange, Inc.), and director of FRACTALE Corporation⁵ (listed on the Second Section of Tokyo Stock Exchange, Inc.). If he assumes the position of an outside director of Tenma, he would concurrently hold positions as director and auditor of 11 companies (5 of which are listed companies) in total.

In Tenma, directors have been involved in scandals concerning bribery at overseas subsidiaries in three countries, and Tenma had to amend its annual securities reports and internal control reports of the past 5 years; further, in the audit report by the Audit and Supervisory Committee for the year ended March 31, 2020, the Audit and Supervisory Committee members unanimously stated that "We found internal control issues under which it was discovered that directors were involved in illegal acts, and the Company had to amend its financial results for

² The Sales Promotion Department and Development Department stated in the career summary of Mr. Hirohiko Hirono and Mr. Yuichi Nagai in the Convocation Notice is with regards to sales and development of synthetic resin houseware products, and not industrial synthetic resin products.

³ Including director of Clean Energy Factory Co., Ltd., auditor of Goshoku Co., Ltd., auditor of SPinno Co., Ltd., and auditor of Tsubasa Entertainment Co. Ltd. (see websites of each company).

⁴ Former company name: Connect Holdings Corp.

⁵ Former company name: Seven Seas Holdings Co., Ltd.

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prior years. Therefore, we cannot approve the internal control for the group's financial report as being appropriate as of the end of the current fiscal period" (see page 58 of the Convocation Notice). As such, currently, streamlining and restructuring of the compliance system and internal control system is an urgent task for the entire group.

If Mr. Matsuyama is appointed as outside director of Tenma, this would result in him concurrently holding positions as director and auditor of 11 companies (5 of which are listed companies) in total. He may not be able to set aside sufficient time required as an outside director of Tenma, which has major issues as mentioned in the above, and as a result, he may not be able to fulfill the duties required as an outside director.

The Corporate Governance Code provides that directors should devote the time and effort required to appropriately fulfill their respective roles and responsibilities and that where directors also serve as directors at other listed companies, such positions should be limited to a reasonable number (Supplementary Principles 4-11-2). Serving as an outside director at five listed companies is very unusual, and from that perspective, we do not believe that Mr. Matsuyama is appropriate as an outside director of the Company.

In addition, while Mr. Matsuyama is from KPMG AZSA LLC, which is the current accounting auditor of Tenma, considering (i) the point that, for example, ISS JAPAN PROXY VOTING GUIDELINES 2020 (page 7) provides that independence will be denied in the situation where a director "worked at the company's audit firm" in many cases and (ii) a dispute may occur between Tenma and KPMG AZSA LLC in the future because Tenma was forced to correct the annual securities reports and internal control reports for the past five fiscal years in March of this year despite KPMG AZSA LLC being scheduled to resign from its position as accounting auditor of Tenma at the end of the Meeting, therefore a person who is highly independent in terms of the relationship with KPMG AZSA LLC is considered desirable as an outside director.

From the above, the Shareholders' Committee is of the opinion that Mr. Matsuyama is not suitable as an outside director of Tenma.

- (2) Mr. Shiro Hayashi is not a candidate for outside director in the Company's proposal; therefore, of course he cannot be registered as an independent director even if he is appointed as a director of Tenma. Based on the fact that Mr. Hayashi has no work history at Tenma, it is natural to think that if he is appointed as Tenma's director, he will participate in the execution of Tenma's business. However, page 8 of the Convocation Notice gives the reason for the appointment of Mr. Hayashi as that his appointment "enables the recovery and transparency of the governance function of the Company's Board of Directors." From the perspective of separation of execution and supervision, it has to be said that there is a discrepancy between the fact that Mr. Hayashi is not a candidate for outside director and the above reason for his appointment.

Furthermore, as of the end of March 2020, Dalton Investment Group ("Dalton"), to which Dalton Advisory K.K. whose representative director is Mr. Hayashi belongs, holds over about 13% of Tenma's shares, and falls under the category of "major shareholders" prescribed in Article 163, paragraph (1) of the Financial Instruments and Exchange Act. Therefore, if Mr. Hayashi is appointed as Tenma's director, the possibility of conflicts of interest between general shareholders cannot be denied. In particular, on the assumption that, as in the Company's current proposal, Mr. Hayashi is not a candidate for outside director and may be involved in execution of Tenma's business, the likelihood that business will be executed giving priority not to the interests of general shareholders but to those of Dalton which is a major shareholder cannot be denied. On June 5 of this year, Dalton responded on its homepage to the questionnaire from the Shareholder's Committee, answering that because

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“the IR, management, and capital policy (of Tenma) are still undeveloped, the Company’s resources seem to be insufficient, and Mr. Hayashi is likely to propose and participate in planning more independently using his experience in the financial industry until now,” “Dalton agreed to Mr. Hayashi having a position as a director who is not an independent or outside director.” However, if Mr. Hayashi does “propose and participate in planning more independently” in relation to management and capital policy, aside from IR, there is a concern that the above possible conflicts of interest between Dalton and Tenma’s general shareholders are more likely to occur.

From the above perspective, the Shareholders’ Committee is of the opinion Mr. Hayashi is not suitable as Tenma’s director.

- (3) 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.

Accordingly, the Shareholders’ Committee cannot agree to the appointment of Mr. Kurahashi as an outside director of Tenma.

End

Contact for inquiries for news media

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