

[Translation]

# Exercise of Shareholders' Proposal Right over Tenma Corporation [Supplementary material]

May 27,2020

Shareholders' Committee for the Better  
Corporate Governance of TENMA

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This material is not to solicit the exercise of voting rights by persons who constitute the Shareholders' Committee for the Better Corporate Governance of TENMA or third parties for both the proposal by the company and the proposal by the shareholders at the annual shareholders' meeting of Tenma Corporation scheduled to be held in June 2020.

# The problem regarding Tenma's management – lack of corporate governance

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## 1. Overseas bribery cases

Bribery of an overseas civil servant occurred in one of Tenma's local subsidiaries

- Part of the bribery was approved in advance by President Fujino.
- A cash delivery was covered up under the CFO's initiative of false accounting, and the ensuing financial results were announced.
- The director in charge of legal affairs and IR proceeded with the execution of a consultant agreement for the false accounting.
- The bribery was concealed from an Audit and Supervisory Committee member - "If we report it to an Audit and Supervisory Committee member, it will be conveyed to KPMG AZSA LLC, and the matter will become serious." (CFO's statement)

## 2. Excessive speculation about the intentions of the officers from the founding family

Tenma has grown under the founders' strong leadership, and the founding family holds 40% of its shares.

⇒ Officers and employees excessively speculate about the intentions of the directors of the founding family.

# Comparison between the shareholders' proposal and company's proposal [Candidates for directors in the shareholders' proposal]

All of the officers from the founding family resigned from their positions, and management will be entrusted to employees who have worked for Tenma from the start and are familiar with Tenma's practices.

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)				

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

Director (newly-appointed/Outside/Audit and Supervisory Committee member)	Koichi Kan	Attorney-at-law Professor of Keio University Law School	No				○			◎
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- The candidates in the shareholders' proposal are executive officers in each main business unit, and the composition is well-balanced.
- In this structure, half of the candidates consist of executive officers responsible for overseas operations, which contribute to Tenma's current profits.

## Comparison between the shareholders' proposal and company's proposal [Issues of the company's proposal]

If the directors who were involved in the overseas bribery and the directors from the founding family remain, the lack of corporate governance will not improve, and a style of management which prioritizes shareholders will not be achieved.

Title	Name of Candidates	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 (newly-appointed/Outside)	Shoji Matsuyama	Certified Public Accountant	No				◎			○

- Governance reform cannot be achieved because the influence of directors from the founding family or who were involved in the overseas bribery remain.
- Their skills lean toward finance/accounting, and the company's proposal lacks personnel who have skills in management, manufacturing/technology, and human resources/labor.
- There is an insufficient number of individuals who have experience with corporate sales-and management of overseas operations.

## Third party committee's investigation report

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- The third party committee recognized that President Fujino, CFO Sudo, and Executive Director Kaneda (responsible for Legal and Risk Management) had been directly involved in the overseas bribery case, both before and after the fact.

However,

- Reference to directors' legal liabilities is unclear.
- There is a gap in the logic regarding the cause of the overseas bribery case, as if it was caused by management intervention by the former honorable Chairman.
- Regarding this, the truth will be revealed in the investigation and examination by the Director Liability Investigation Committee established by the Audit and Supervisory Committee.

# Composition of the Board of Directors

- The directors who have responsibility for the overseas bribery case should not be re-appointed.
- It is necessary not to speculate about the intentions of officers from the founding family and to reform the management system and corporate culture to consider only the enhancement of Tenma's enterprise value.
- In the near future, it will be appropriate to invite outside directors whom new management considers necessary for Tenma.
- The appointment of Mr. Koichi Kan, who has a lot of experience with handling overseas bribery cases, as a director who is an Audit and Supervisory Committee member has been agreed upon and is welcomed because it contributes to the improvement of governance.

The number of directors that are biased toward the founding family is not appropriate for a board of directors that supervises the founding family.

■ Past number of directors (excluding Audit and Supervisory Committee members)

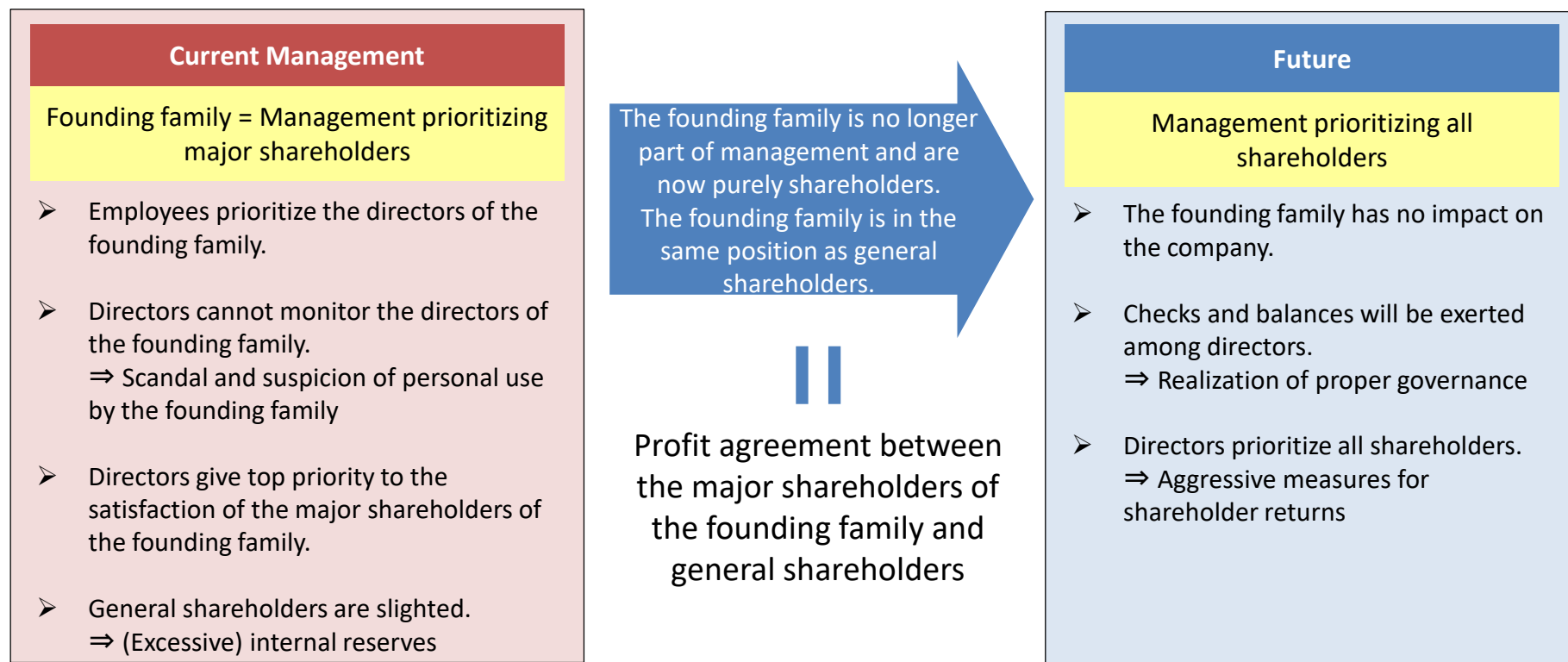
	~16/6	~17/6	~18/6	~19/6
Directors from the founding family	2 People	2 People	2 People	3 People
Other directors	4 People	2 People	2 People	3 People
Total	6 People	4 People	4 People	6 People



All of the directors from the founding family have resigned from their positions, and the company's governance structure will be changed so that its management is entrusted to employees who have worked for Tenma from the start and are familiar with its practices.

	20/6
Directors of the founding family	0 person
Other directors	8 People
Total	8 People

# Moving from management which prioritizes the founding family to management which prioritizes all shareholders



- ✓ Even if all current directors resign from their positions, that will not affect Tenma's management at all.
- ✓ All of the proposed candidates are executive officers who have substantially assumed the management of Tenma.

## Realization of proper corporate governance

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- 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*



## Measures for enhancement of enterprise value considered by the shareholders' proposed candidates for directors

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### 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
- 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

### 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.

### 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

# Management Targets in the Mid-Term Management Plan

Management prioritizing shareholders

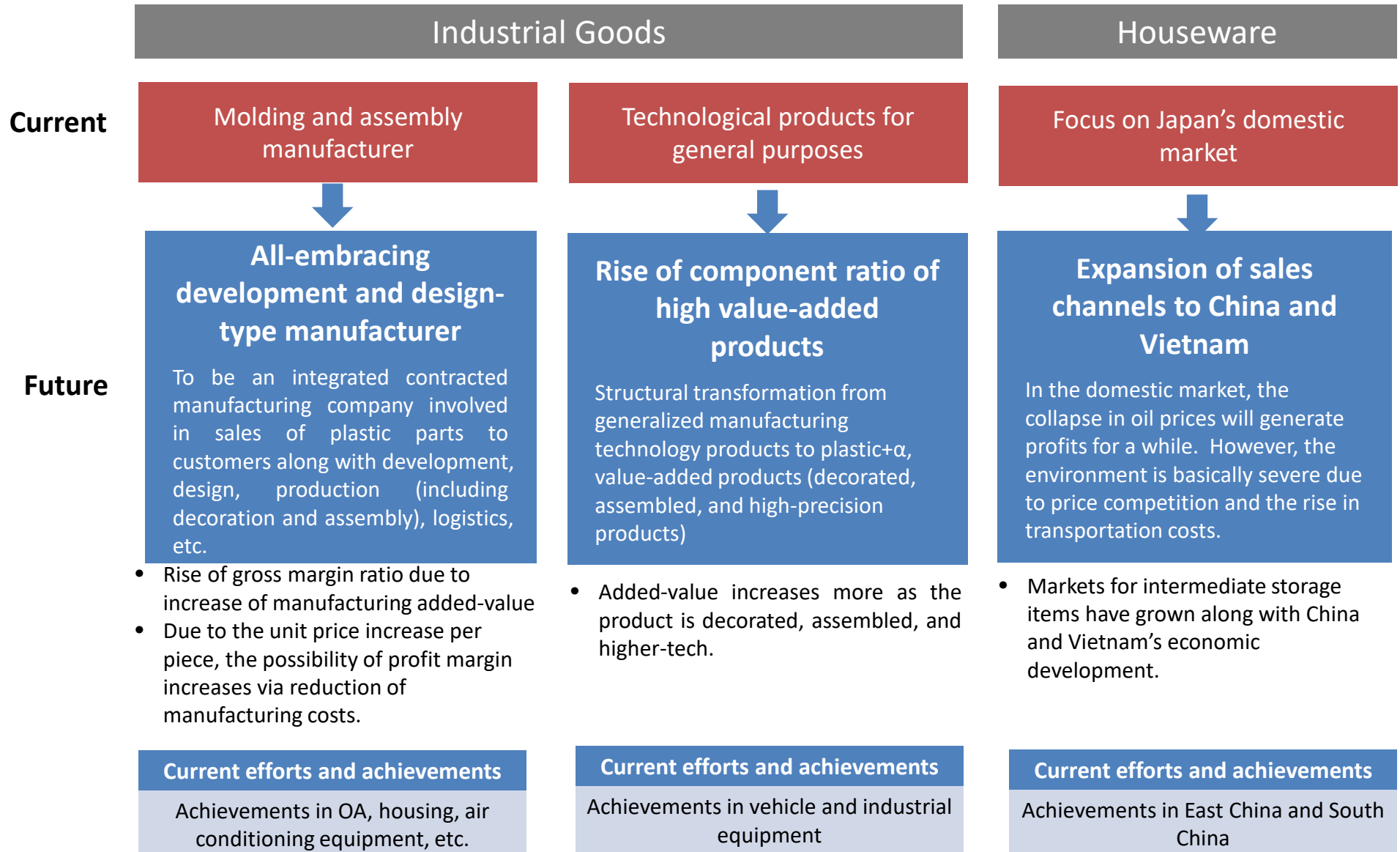
Setting ROE and operating profit ratio as a performance indicator

Shareholder returns by carrying out an aggressive stock buy-back

■ Mid-term management targets for three years (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 for the term of March 2017 is feasible.
Total dividend	1,936	➔	2,600	
Net assets	74,156	➔	66,667	Shareholders returns by stock buy-back (10 billion scale is assumed.)
DOE	2.6%	➔	2.5% or more	Maintaining dividend policy of DOE 2.5% or more
ROE	3.4%	➔	6.0%	

# Basic policy for profit margin improvement



# Strategic investment focus areas

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## Expansion of contracted manufacturing

Building and expansion of continuous streaming service of contracted manufacturing in development, design, production (including decoration and assembly), logistics, etc.

- Enhancement of planning, design and development ability, production technology, etc.
- Acquisition of processing technologies, etc. via entry into new fields

- ✓ Capital and business alliance with other companies
- ✓ M & A

## Shift to differentiated profitable products

Business expansion to new fields other than main business (such as OA and vehicles)  
Change to plastic of a different material

- Development of new raw materials and research and development of production processing technology

- ✓ Joint research
- ✓ M & A

## Procurement of recyclable plastic materials

Establishment of mass production technology which takes advantage of processing technology and attribute of recyclable plastic materials and becoming the top processor of post-plastic materials

- Keeping up with new raw materials and new materials, and applied research and research of mass production technology

- ✓ Joint research
- ✓ M & A

## Future position of each production base

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### Japan

Development of production technology of high value-added products  
Overseas expansion of technology successful and utilized in Japan

- Design and development, trial, and demonstration
- Establishment of system for automation and latest production technologies
- Research and development

### China

Development and sales promotion of in-house, local production for local consumption, taking advantage of the attributes of local markets

- Focus on in-house products to mitigate reduction of contracted manufacturing due to Chinese risk

### Southeast Asia

Use and expansion of production technology developed in Japan

Development and sales promotion of in-house, local production for local consumption, taking advantage of the attributes of local markets

- Establishment and expansion of integrated manufacturing system
- Expansion of EMS
- Sales expansion of in-house products

[Reference Material]

## Supplementary Explanation Regarding Compliance Skill of the Three Candidates in the Company's Proposal

## Direct involvement in the scandals by the three candidates in the company's proposal

	Scandals in Which They Were Directly Involved	Position at the Time When the Relevant Case Occurred	Major Comments in the Third Party Committee's Investigation Report
Mr. Hiroshi Kaneda	The bribery case in country X in 2019	Executive Director in Charge of Legal Affairs and IR	<p>Director Sudo led and promoted the execution of this consulting agreement with company R, and President Fujino and Executive Director Kaneda also approved it.</p> <p>He executed the consulting agreement, which differed from the details of the answer from the corporate attorney, with company R and promoted the attempt to conceal false accounting, at his own discretion.</p> <p>Considering that he made an employee in an overseas subsidiary get involved in the delivery of money to a foreign public employee and significantly damaged the company's corporate value, the mismanagement by the directors who were ignorant should be understood to be as serious as that if he recognized the illegality of the bribery case.</p>
Mr. Takashi Sudo	The bribery case in country X in 2019 The correction of annual securities reports and internal control reports for the year ending March 2017 and thereafter	Manager of the Finance & Accounting Department (CFO)	As CFO, he led and promoted false accounting, submitted the written representation from management to KPMG AZUSA LLC and announced the financial results for the second quarter, as if nothing happened.
Mr. Akira Yosano	The bribery case in country Y in 2015	President of Tenma's Subsidiary in Country Y	He took the easy way by proposing to a customs officer payment of adjustment money and falsifying the books. This is more malicious than if he had received a monetary demand from the authorities."

## Mr. Hiroshi Kaneda's involvement in the scandals - from the third party committee's investigation report

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Mr. Kaneda committed the following compliance violations as Executive Director in Charge of Legal Affairs and IR:

- (i) Mr. Hiroshi Kaneda “executed the consulting agreement, which differed from the details of the answer from the corporate attorney with company R, and promoted the attempt to camouflage false accounting, at his own discretion.”
- (ii) “Even though it is essential that directors collect enough information and analyze and consider that information carefully when making material decisions, the directors of the company could not do so because of their ‘ignorance’.”
- (iii) “Since the directors, who are responsible for making material decisions, were ‘ignorant,’ an employee in an overseas subsidiary was forced to get involved in the delivery of money to a foreign public employee, and he/she was forced into the difficult situation where he/she could be taken into custody as a criminal and suffer criminal punishment; furthermore, the company’s corporate value could have been significantly damaged. Considering the above, the mismanagement by the directors who were ‘ignorant’ should be understood to be as serious as that if they recognized the illegality of the bribery case.



## Mr. Takashi Sudo's involvement in the scandals - from the third party committee's investigation report

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Mr. Sudo committed the following compliance violation as Manager of the Finance & Accounting Department (CFO):

- (i) He created a situation where annual securities reports, internal control reports, and financial results whose preparation Mr. Sudo was involved in as CFO were corrected.
- (ii) While Mr. Sudo was CFO, a bribery case occurred in country X in 2017 and another in 2019.
- (iii) "In 2019 case at Tenma's subsidiary in country X, the situation was that the director responsible for finance and accounting (so-called CFO), who governs the internal controls in relation to financial reporting, pushed forward false accounting concerning the consulting agreement under his initiative. The performance of duties with high professional ethics by the CFO, who is the head of finance, is the minimum requirement for ensuring proper account processing in every corner of the organization."
- (iv) "Problematic behavior where the director responsible for finance and accounting (so-called CFO) initiated and encouraged false accounting and submitted a written representation from management jointly signed with President Fujino as if nothing had happened and announced the financial results for the second quarter can be recognized."
- (v) "KPMG AZSA LLC frowned on the continuation of the audit contract for reason that they did not receive explanations and reports about the case in a timely and appropriate manner and the fiduciary relationship had been damaged" and resigned from their position as Tenma's auditing firm at the time of expiration of their term of office at the end of the fiscal year ending in March 2020 (Tenma's disclosure as of May 15, 2020).
- (vi) "In relation to the reason for concealment from an Audit and Supervisory Committee member, Director Sudo stated that 'if we report it to an Audit and Supervisory Committee member, it will be conveyed to KPMG AZSA LLC, and the matter will become serious.'"
- (vii) In the general approval document concerning the consulting agreement with company R, "President Fujino's approval seal and Director Sudo's seal for examination as Manager of the Finance & Accounting Department were affixed," and "there is no mention of the material element of the consulting agreement that the same amount as transferred to company R will be refunded in cash in secret."
- (viii) Mr. Sudo did "indicate that close attention to the accounting of consumables should be paid and that a consulting firm which issues receipts in the name of a consulting fee should be found" to Mr. E.

## Mr. Yosano's involvement in the scandals - from the third party committee's investigation report

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\* *Mr. Yosano is described as "Mr. M" in the third party committee's investigation report (published version).*

While Mr. Yosano was the president of a subsidiary in country Y, the following compliance violation, improper accounting, and inadequate and invalid internal control occurred.

- (i) "Mr. M took the easy way out with respect to the problems caused by the inadequacy of his own management system by proposing to a customs officer payment of adjustment money and to falsify the books in order to avoid a shutdown without taking proper measures to improve the management system. This is more malicious in comparison with the case where he received a monetary demand from the authorities."
- (ii) "Former President Q, New President M, Mr. N, and Mr. O belonging to the Management Department of Tenma's subsidiary in country Y had meetings in relation to the book management problem. In those meetings, information was shared in relation to the fact that problems occurred in the third and fourth bookkeeping process, additional tax would be levied, and adjustment money would be paid to customs officers in order to reduce the additional tax."
- (iii) "As described in (1) above, Mr. M and Mr. N recognized the first, second, and third payments of adjustment money at the time of the meetings from August 18, 2015 through early September of the same year, but they did not report them to headquarters."
- (iv) "Mr. M and Mr. N prepared a document which listed the amounts of the first to fourth adjustment money and additional tax, but the fact that the document had been submitted to headquarters could not be confirmed."
- (v) "It is also a big problem that because receipts are not issued for cash delivery to customs officers, the organization collected different receipts and proceeded with accounting by using them. Such lax act has been performed for another accounting process. Through the sample test of transaction records of Tenma's subsidiary in country Y carried out by the Committee, multiple unexplained entertainment fees were found. It cannot be determined whether the receipts used in the accounting of these entertainment fees were legal or not, and it is unclear whether they justify proper entertainment fees. This type of improper accounting poses not only a risk of bribery of foreign officials but also a risk of embezzlement."

## Mr. Hiroshi Kaneda - Underwriting of Spinshell's capital increase

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In May 2019, when Mr. Hiroshi Kaneda was Managing Executive Officer and head of the New Business Promotion Office, Tenma underwrote the capital increase of Spinshell, Inc. and paid in 60 million yen (at a price of three hundred thousand yen per share). The company, of which he was a representative director and owned 85% of its shares, was insolvent (-28 million yen for the fiscal year ended May 2018), and the company's operating profit was 5,128 thousand yen for the fiscal year ended May 2018 and -16 million yen for the fiscal year ended May 2017.

He loaned over 40 million yen to Spinshell but collected about 40 million yen on the date of Tenma's capital increase. As a result of the audit by the Audit and Supervisory Committee members in May 2020, three directors became aware of such collection for the first time.

- (i) The three hundred thousand yen per share price in the underwriting of the capital increase was an estimated value calculated using the DCF method based on the projections in the business plan of sales reaching 325 million yen for the fiscal year ending May 2023 (the sales for the fiscal year ended May 2018 were 65 million yen) and operating profit reaching 56 million yen.
- (ii) He did not explain to directors about the material fact that he would collect 40 million yen, so he lacks integrity and ethics as a manager.
- (iii) Head of the New Business Promotion Office carried out a capital increase for a company in which he owned 85% of its shares.

**There are concerns that the interests of Tenma's minority shareholders are being ignored and that self-interest will be prioritized again.**