

April 26, 2016

Dear Sirs

Strategic Capital, Inc.  
Tsuyoshi Maruki, President & CEO

Re: Shareholder Proposal to TOSHO Printing CO., LTD.

Strategic Capital, Inc. (hereinafter referred to as "Strategic Capital") is under a discretionary investment contract with INTERTRUST TRUSTEES (CAYMAN) LIMITED SOLELY IN ITS CAPACITY AS TRUSTEE OF JAPAN-UP (hereinafter referred to as the "Fund") and the Fund holds 4.46% of the outstanding shares of TOHSO Printing CO., LTD. (hereinafter referred to as "TOSHO"). Strategic Capital also holds one unit share of TOSHO.

The Fund and Strategic Capital are pleased to announce that, on April 21, 2016, we notified TOSHO of our execution of the shareholders' right to make a proposal at the annual shareholder meeting held in the coming June and confirmed that, on April 22, 2016, TOSHO received the documents of the proposal.

A brief detail of our proposal is as followings.

1. Description of the proposal

① Revision of the provisions of articles

We require the addition of a new Chapter and Article in the current provisions of articles as set forth below.

Chapter 8 Cross-Shareholdings

(the disposition of Cross-Shareholdings)

Article 51: The company shall, during the 105<sup>th</sup> fiscal period, immediately sell all listed shares which it holds for reasons other than pure investment purposes as of the effective date of the revision of the provision of articles.

## 2. The background of the proposal

### ① The dissolution of Cross-Shareholdings:

TOSHO holds listed shares of 27 companies as "Cross-Shareholdings" (cases where listed companies hold the share of other listed companies for reasons other than pure investment purposes, for example, to strengthen business relationships), which reached 36.4 billion yen in total on its non-consolidated balance sheet as of the end of March 2015.

Consolidated net assets of TOSHO as of the end of December 2015 was about 60.2 billion yen (about 703 yen per share) and the current stock price of TOSHO is far lower than 703 yen. Based on the forecast of consolidated net profit of this fiscal year by TOSHO, ROE (net profit on equity) would be about 0.9%, which is also far lower than the general standard. Therefore, it is desirable that TOSHO shall decrease its investment securities and accordingly the equity capital on its balance sheet in order to improve ROE.

Japan's Corporate Governance Code (hereinafter referred to as the "Code") has entered into effect since June 2015 and TOSHO submitted its report regarding corporate governance to Tokyo Stock Exchange on November 30<sup>th</sup>, 2015. In the report, with regards to the "Principle 1.4 Cross-Shareholdings", TOSHO states that it keeps its Cross-Shareholdings for 'the improvement of profitability via the maintenance of relationships with the portfolio companies'. It is not at all clear that the Cross-Shareholdings of TOSHO are effective for the improvement of profitability when, for example, it is considered that the revenue to TOSHO from Recruit was only about 4.4 billion yen (estimate based on an answer given at last Annual Shareholder Meeting where it was disclosed that revenue from Recruit represented 8% of total revenue) in spite of TOSHO holding about 34.9 billion yen of Recruit shares at book value on its balance sheet.

Furthermore, TOSHO does not disclose standards with respect to exercising voting rights regarding its Cross-Shareholdings, despite Principle 1.4 of the Code requiring all listed companies to establish and disclose such information.

Strategic Capital had a meeting with the management of TOSHO on April 15<sup>th</sup>, 2016. Although TOSHO seems to be considering how to deal with the equity of

Recruit, the management was not able to provide a clear plan, strategy or rational for the holdings of Recruit shares.

As such, we request that TOSHO shall immediately dispose all the listed shares which it holds as Cross-Shareholdings as long as it cannot give rational explanations for the holdings. After the dissolution of such "Cross-Shareholdings", TOSHO should utilize the proceeds to effectively to restructure its business, particularly considering the revenue of TOSHO is decreasing over the long-term and the profit of TOSHO is persistently at a low level. Also, as the proceeds from the dissolution of Recruit shares would be significant, subsequent to using the proceeds to restructure its business it is also requested that TOSHO utilize the proceeds to return capital to shareholders via an increase of the dividend and share buy-backs.

Contact Information

Dan Kato

81-3-5459-0380