[Translation]

To Shareholders,

(Securities Code: 6736)
March 18, 2020

Representative Director and President: Yoshimi Kimura
SUNCORPORATION
250 Asahi, Kochino-cho, Konan-shi, Aichi

# Notice of Convening Extraordinary General Meeting of Shareholders

We express our deep appreciation to each shareholder for your extraordinary support.

We would like to invite you to attend the Extraordinary General Meeting of Shareholders to be held as outlined below.

This Extraordinary General Meeting of Shareholders will be held at the request of a shareholder. The proposed agenda includes a proposal from the Company (Proposal No. 1), a proposal from the Company and a shareholder (Proposal No. 2), and proposals from a shareholder (Proposal No. 3 and Proposal No. 4). A summary of the proposals is as stated in the reference documents concerning the general meeting of shareholders below; however, the board of directors of the Company opposes Proposals No. 3 and No. 4 made by a shareholder. For the opinion of the Company's board of directors regarding the shareholder proposals, please see page 13 through page 25.

In order to prevent infections of the novel coronavirus and to prevent its spread, we would like to ask each of the shareholders to exercise their voting rights by mail as much as possible. You are requested to review the reference documents concerning the general meeting of shareholders described below, to agree to the opinion of the Company's board of directors (the proposal from the Company), and to send a voting rights exercise form to arrive by 5:00 pm, Tuesday, April 7, 2020.

Yours sincerely,

1. Time and Date: Wednesday, April 8, 2020 at 10:00 a.m.
2. Venue: Conference room on the 3rd floor of the Konan Office of the Company
   250 Asahi, Kochino-cho, Konan-shi, Aichi
   (The venue is different from that of the previous general meeting of shareholders. Please see the venue guide map at the end and be careful not to make any mistakes.)
3. Subject matter of the General Meeting of Shareholders
   Matters to be resolved
   [Proposed by the Company]
   Proposal No. 1: Election of one director (excluding directors who are the Audit and Supervisory Committee Members, etc.)
   [Proposed by the Company and a shareholder]
   Proposal No. 2: Election of two directors (excluding directors who are the Audit and Supervisory Committee Members, etc.)
   [Proposed by a shareholder]
   Proposal No. 3: Dismissal of four directors (excluding directors who are the Audit and Supervisory Committee Members, etc.)
   Proposal No. 4: Election of three directors (excluding directors who are the Audit and Supervisory Committee Members, etc.)

End

◎ When attending the meeting, please submit an enclosed voting rights exercise form to reception.

◎ Novel coronavirus infections are spreading. When you attend the meeting, please check the status of infections and your physical condition as of the date of the General Meeting of

Shareholders and take measures to prevent infections such as wearing a mask.

◎ Please note that any amendments to the matters stated in the “reference documents concerning the general meeting of shareholders” will be posted on our website (https://sun-denshi.co.jp).

◎ If there is no indication of approval or rejection of each proposal when you exercise your voting rights in a voting rights exercise form, you will be treated as expressing your opinion to approve Proposals No. 1 and No. 2 and to oppose Proposals No. 3 and No. 4.

Reference Documents Concerning the General Meeting of Shareholders

Agenda and relevant information
<Proposal from the Company>
Proposal No. 1: Election of one director (excluding directors who are the Audit and Supervisory Committee Members, etc.)
Director candidate: Koichiro Tsujino

[Outline of the proposal]
To request to elect one director (excluding directors who are the Audit and Supervisory Committee Members, etc.; director candidate: Koichiro Tsujino).

| Name (Date of birth) | Career history, positions, duties, and important concurrent responsibilities | | Shares of the Company owned |
|---|---|---|---|
| Koichiro Tsujino (July 10, 1957) | Apr.1984 | Joined Sony Corporation. | 0 shares |
| | Sep.1997 | General Manager of Desktop Computer Division of IT Company of Sony Corporation | |
| | Apr. 2001 | President of Network Terminal Solutions Company of Sony Corporation | |
| | Apr. 2003 | President of Home Storage Company of Sony Corporation | |
| | Nov. 2004 | Joint President of Connect Company of Sony Corporation | |
| | Apr. 2007 | Head of Division of Product Management of Google Japan Inc. | |
| | Jan. 2009 | Representative Director and President of Google Japan Inc. | |
| | Oct. 2010 | CEO of ALEX Corporation | |
| | Jun. 2011 | Outside Director of KLab Inc. | |
| | Apr. 2012 | Visiting Professor of Faculty of Commerce, Waseda University | |
| | Jun. 2012 | External Board Director of AOI Pro. Inc. | |
| | Aug. 2017 | Outside Director of Weathernews Inc. | |

(Note)
1. There is no special interest relationship between the candidate for Director and the Company.
2. Mr. Koichiro Tsujino is a candidate for outside director.
3. Regarding this proposal, the Company has received an opinion from the Audit and Supervisory Committee expressing that there were no particular issues to be pointed out.
4. In order to enable the Company to invite a competent person as an outside director, the Articles of Incorporation provide that the Company may execute an agreement with a director (excluding directors who are executive directors, etc.) to limit his or her liability to pay damages to the Company to a certain scope. If this proposal is approved by a resolution and Mr. Koichiro Tsujino is elected as an outside director, the Company will execute such agreement for limiting his liability for damages with him.
5. “Shares of the Company owned” indicates the number of shares as of February 18, 2020.

[Reason for electing the outside director candidate]

Mr. Koichiro Tsujino worked for Sony Corporation as a business person responsible for various areas and turned money-losing divisions into profitable ones within a short period. He is competent in making excellent managerial decisions and managing business in response to changing markets, based on abundant experience and achievements not limited to any particular business. Later, as Representative Director and President of Google Japan Inc., he conducted corporate management while being in contact with different cultures. Since he founded ALEX Corporation, he has also been developing an IT-based global business. The Company now faces two big group management issues: rebuilding of the domestic business and growth of overseas subsidiaries. With the aim to make it possible for the Company's Board of Directors to appropriately make decisions and oversee management for continuous corporate growth and mid and long-term increase in corporate value by resolving these issues, we have chosen Mr. Tsujino as a candidate for outside director, as we expect him to contribute to the Company's management by giving us useful opinions and guidance.

[Reason for the proposal]

For implementing the strategy to recover the Company's performance as described in detail on page 13 through page 25, the Nomination Advisory Committee of the Company has analyzed the skills of current officers of the Company and has concluded that the Company particularly lacks a person who has experience in performing business development in the IT-related business, including the mobile data solution business and reforming unprofitable divisions. For this reason, the Nomination Advisory Committee recommended Mr. Koichiro Tsujino, who has abundant experience in business development in the global IT field and making unprofitable divisions profitable, as a candidate for outside director. The Board of Directors of the Company then determined to elect Mr. Koichiro Tsujino as a candidate for outside director based on the recommendation. Mr. Tsujino will not only bring a new perspective to the Board of Directors of the Company but also will be able to supervise the Company's management from an efficient and independent viewpoint as an outside director of the Company.

<Proposal from the Company and a shareholder>
Proposal No. 2
Election of two directors (excluding directors who are the Audit and Supervisory Committee Members, etc.)

Director candidate: Ryusuke Utsumi
Director candidate: Akira Iwata

[Outline of the proposal]

To request to elect two directors (excluding directors who are the Audit and Supervisory Committee Members, etc.; director candidates: Ryusuke Utsumi and Akira Iwata).

| Candidate No. | Name (Date of birth) | Career history, positions, duties of the Company, and important concurrent responsibilities | Shares of the Company owned |
|---|---|---|---|
| 1 | Ryusuke Utsumi (October 8, 1965) | Mar. 2008 Incubation Manager of Aichi Venture House, Chubu Office Management Association<br>Jun. 2009 General Manager of Industrial Support Division, Chubu Aerospace Industrial Technology Center<br>Jun. 2012 Joined the Company<br>Oct. 2018 Head of Internal Control Office of the Company<br>Apr. 2019 Head of Internal Audit Office of the Company | 0 shares |
| 2 | Akira Iwata (November 30, 1950) | Apr. 1985 Assistant Professor of the Department of Computer Science, Faculty of Engineering, Nagoya Institute of Technology<br>Apr. 1993 Professor of the Department of Electrical and Computer Science, Faculty of Engineering, Nagoya Institute of Technology<br>Apr. 1997 Head of the Department of Electrical and Computer Science, Faculty of Engineering, Nagoya Institute of Technology<br>Nov. 2002 Vice President of Nagoya Institute of Technology<br>Jan. 2004 Professor of the Graduate School of Engineering, Nagoya Institute of Technology<br>Apr. 2004 Professor of the Graduate School of Engineering, National University Corporation Nagoya Institute of Technology<br>Apr. 2004 General Manager of Intellectual Property Management Division, Techno-Innovation Center, National University Corporation Nagoya Institute of Technology (concurrent position)<br>Apr. 2016 Professor Emeritus of National University Corporation Nagoya Institute of Technology (current position)<br>Apr. 2016 Representative Director of Encephalon Co., Ltd., which is a venture company originating in National University | 0 shares |

| | | | |
|---|---|---|---|
| | | Corporation Nagoya Institute of Technology (current position) | |

(Note)

1. There is no special interest relationship between each candidate for Director and the Company.
2. Mr. Akira Iwata is a candidate for outside director.
3. Regarding this proposal, the Company has received an opinion from the Audit and Supervisory Committee expressing that there were no particular issues to be pointed out.
4. For enabling the Company to invite a competent person as an outside director, the Articles of Incorporation provide that the Company may execute an agreement with an outside director to limit his or her liability to pay damages to the Company to a certain scope. If this proposal is approved by a resolution and Mr. Akira Iwata is elected as a director (excluding directors who are executive directors, etc.), the Company will execute such agreement for limiting his liability for damages with him.
5. "Shares of the Company owned" indicates the number of shares as of February 18, 2020.

[Reason for electing each director candidate]

(Company's reason for election)

Mr. Ryusuke Utsumi has been working for the Company since 2012, mainly has experience in working in the Company's manufacturing division, had been serving as the head of the Internal Audit Office from April 2019 to September 2019, and has been dedicated to activities to improve the Company's specific corporate governance. From October 2019, he has also endeavored to sell the Company's IT-related products in the ITS project. The Company recognizes the importance of further strengthening corporate governance in the future growth processes. While considering tackling this challenge by appointing a full-time director, the Company determined that Mr. Utsumi's experience is appropriate. In addition, based on the recommendation of the Nomination Advisory Committee of the Company, the Company considers that he will not only complement the skills that the directors of the Company lack but also will be able to bring a new perspective to the Board of Directors of the Company. For this reason, the Board of Directors judged that he should be elected as a director of the Company. In addition, Mr. Utsumi is a member of the Company's founding family and understands the management philosophy of the Company both from the perspectives of an employee and a founding family member. From these circumstances, we expect that, based on the perspectives of a wide range of stakeholders, he will be able to perform operations from a perspective that the current directors lack, for the purpose of improving the Company's corporate value for a medium- to long-term period.

Mr. Akira Iwata has advanced expertise in AI, neural networks, deep learning, information security, and IoT, and also has abundant knowledge on consulting in these fields. In selecting and focusing on business portfolios to recover the Company's performance, the Company intends to strengthen the new IT-related business in particular, and we expect that in the new IT-related business he will be able to make a great contribution based on his technical expertise and experience in providing business advice.

(Proposing Shareholder's reason for election)

Mr. Ryusuke Utsumi is the head of Internal Audit Office and has endeavored to identify issues to strengthen the Company's internal control and perform risk assessment. Mr. Utsumi is the sole person from the family of the Company's founder who holds a title in the Company, and has sincerely worked to understand and improve problems about the Company's corporate governance. Mr. Utsumi is familiar with the Company's situation and has advanced professional knowledge on the establishment and improvement of internal control systems. For the reform and reorganization of the Company, it is essential to include, in senior management, a director who is familiar with problems about the Company's internal control and is able to plan corrective measures to establish an effective corporate governance system, and Mr. Utsumi is the most appropriate person to perform such duty. In addition, Mr. Utsumi will dedicate himself to the recovery and development of the Company's business in and outside Japan as a member of the family of the Company's founder and establish a strong business that leads the industry.

Mr. Akira Iwata is a world authority on artificial intelligence (AI), neural networks, deep learning, and information security. Throughout the 45 years of his career to date, he has been very highly evaluated for academic research and performance in private sector industries and has abundant experience in consulting on the planning, development, and manufacture of IOT sensor systems. For the Company to end its current business slump, reconstruct the business in and outside Japan, and achieve growth, it is essential to have a director who has such technical expertise and experience. Professor Iwata is able to bring necessary strategies and vision to the Company through his advanced technical expertise and experience, examine and develop the Company's technical potential, and improve the Company's competitiveness in profitable businesses.

(Company's note)
Mr. Ryusuke Utsumi served as the head of Internal Audit Office of the Company from April 2019 to September 2019 , and he is not the current head of Internal Audit Office.

[Outline of the reasons for the proposal]
(Company's reason for the proposal)
The Nomination Advisory Committee of the Company reviewed the career history and other records of Mr. Ryusuke Utsumi and Mr. Akira Iwata among other director candidates. As a result, The Nomination Advisory Committee of the Company believes that Mr. Utsumi's expertise in corporate governance and Mr. Iwata's technical and professional knowledge and experience related to AI and IoT will complement the skills of the directors of the Company in order to implement the strategy to recover the Company's performance as described in detail on page 13 through page 25 and be able to bring a new perspective to the Board of Directors of the Company. For this reason, the Nomination Advisory Committee recommended these two persons as candidates for directors and the Board of Directors judged that they should be elected as directors of the Company based on the recommendation.

As of March 9, 2020, the Company has not obtained the approval of appointment as a director candidate proposed by the Company from Mr. Utsumi and Mr. Iwata. The Company will make sustained efforts to obtain their approval through consultation with the Company and the Company's Nomination Advisory Committee until the date of holding the Extraordinary General Meeting of Shareholders.

(Proposing Shareholder's reason for the proposal)
The Proposing Shareholder thinks that the Company has a problem as described in the summary of the reason for Proposal No. 3 and it is urgently required to employ and assign necessary officers and employees under the leadership of CEO Yoshimi Kimura and five director candidates including three director candidates specified in Proposal No. 4 and prepare a medium- to long-term plan for recovering the Company's performance and securely implement reforms in accordance with the plan. For this reason, the Proposing Shareholder demands the election of the five director candidates, including three director candidates specified in Proposal No. 4.

<Shareholder proposals>

Proposal No. 3

Dismissal of four directors (excluding directors who are the Audit and Supervisory Committee Members, etc.)

| | |
|---|---|
| Director demanded to be dismissed: | Masanori Yamaguchi |
| Director demanded to be dismissed: | Sakae Yamagishi |
| Director demanded to be dismissed: | Yasushi Yamamoto |
| Director demanded to be dismissed: | Naoyuki Iribe |

[Outline of the proposal]

To dismiss four directors (excluding directors who are the Audit and Supervisory Committee Members; directors demanded to be dismissed: Masanori Yamaguchi, Sakae Yamagishi, Yasushi Yamamoto, and Naoyuki Iribe).

[Outline of the reasons for the proposal]

(1) Regarding the Company's continued poor business performance

The Company has already posted operating losses for the two consecutive fiscal years ended March 2018 and 2019, and is expected to post another operating loss in the fiscal year ending March 2020. In addition, its operating cash flows for the cumulative second quarter of the fiscal year ending March 2020 were also negative, and if the Company continues to report operating losses and negative operating cash flows under the current management and the Board of Directors, it will be exposed to the serious risk of being delisted from the JASDAQ due to failure to meet the business performance criteria. In order to renew the current management who are responsible for causing this situation, the dismissal of four directors is demanded.

(2) About the four directors demanded to be dismissed

Mr. Masanori Yamaguchi was the Representative Director and President (CEO) of the Company from June 2013 to June 2019, having previously served as the Representative Director from June 2008 to June 2013. During his tenure, net income of the Company decreased from approximately 1.4 billion yen in the fiscal year ended March 2013 to a net-loss of approximately 1 billion yen in the fiscal year ended March 2019. In addition, the domestic business net sales and operating profit[1] declined from approximately 12.6 billion yen and approximately 0.4 billion yen, respectively, in the year prior to his becoming CEO, to approximately 6.8 billion yen and an operating loss of approximately 2 billion yen, respectively, in his last fiscal year as CEO. Further losses are expected in the year ending March 2020. It is clear that Mr. Yamaguchi's management as CEO has been inappropriate for the Company, not just in terms of the losses generated, but also in the failure to develop new growth areas for the domestic business.

Further, when Cellebrite Mobile Synchronization Ltd. (hereinafter referred to as "Cellebrite"), a subsidiary of the Company, made a third-party allotment of shares to IGP SAFERWORLD, LIMITED PARTNERSHIP, an investment vehicle of Israel Growth Partners Capital (hereinafter referred to as "IGP") in July 2019, the Company did not consider selecting or negotiating any entity other than IGP for such third-party allotment of shares, and therefore the issue price of shares in the capital increase was underestimated, resulting in unduly damaging the Company's corporate value. As the chairman of Cellebrite, Mr. Yamaguchi must take a large proportion of the blame for this poor management decision.

Mr. Yamaguchi, as a director who determined the following, is also responsible for the unnecessary issuance of convertible bonds with warrants (hereinafter referred to as "Convertible Bonds") and warrants at undervalued prices from the end of 2019 to the

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[1] To calculate net sales and operating profit for the domestic business, net sales and operating profit from the mobile data solutions business are deducted from net sales and operating profit in the consolidated income statements.

beginning of 2020, which caused damage to the Company's corporate value and seriously infringed on the interests of minority shareholders due to the potential dilution of shares.

Although Mr. Yamaguchi has already retired from the position of CEO, his long history as a former CEO means that he still has a strong influence on the Board of Directors and management of the Company. There has been substantial destruction of corporate value of the Company in the last four years with his presence on the board and this situation should be ended immediately before it is too late to turn the Company around.

Mr. Sakae Yamagishi has been a director of the Company and the head of the entertainment business since June 2017. The net sales and operating profit of the entertainment business decreased from approximately 8.3 billion yen and approximately 0.7 billion yen, respectively, in the fiscal year ended March 2017 to approximately 5.3 billion yen and approximately 0.02 billion yen in the fiscal year ended March 2019, respectively. The entertainment business has continued to decline under his leadership without any expectation for growth in the future or even recovery.

In addition, Mr. Yamagishi, as a director who determined the following, is also responsible for the poor management decision to unnecessarily issue the Convertible Bonds and warrants at undervalued prices from the end of 2019 to the beginning of 2020, which caused damage to the Company's corporate value and seriously infringed on the interests of minority shareholders due to the potential dilution of shares.

Mr. Yasushi Yamamoto has been a director and Chief Financial Officer (CFO) of the Company since June 2013 and is also a director of Cellebrite. Similar to Mr. Yamaguchi, during Mr. Yamamoto's tenure, net income decreased from approximately 1.4 billion yen in the fiscal year ended March 2013 to a net loss of approximately 1 billion yen in the fiscal year ended March 2019. The domestic business net sales and operating profit declined from approximately 12.6 billion yen and approximately 0.4 billion yen, respectively, in the year prior to his assumption of the position of director to approximately 6.8 billion yen and an operating loss of approximately 2 billion yen in the last fiscal year, respectively.

As a director of Cellebrite, Mr. Yamamoto is also responsible for the decision regarding the inappropriate third-party allotment of Cellebrite shares. In addition, as a director of the Company, he is also responsible for the issuance of the Convertible Bonds and warrants, which caused damage to the Company's corporate value and seriously infringed on the interests of minority shareholders due to the potential dilution of shares.

In Mr. Yamamoto's capacity as CFO and with his experience and role in the accounting department, he had a very important responsibility to make the Board of Directors understand the impact of the above actions; destroying corporate value. It is clear that he has neglected his responsibilities and as such is unsuitable as a director.

Mr. Naoyuki Iribe has been an outside director of the Company since June 2018. According to the notice of convocation of the 48th ordinary shareholders' meeting for the fiscal year ended March 2019, Mr. Iribe is said to have "Insight into the Company's businesses and expertise and experience as a management consultant, engaged in the planning of products and new businesses as well as business improvement." However, since Mr. Iribe's assumption of office as a director, the Company's corporate value has continued to decline without creating any new value. There has also been little change in business strategies and no new businesses that can be expected to have material growth. Additionally, the third-party allotment of shares by Cellebrite and the issuance of the Convertible Bonds and warrants all occurred during Mr. Iribe's tenure as a director. It is clear that Mr. Iribe has neglected his responsibilities to increase corporate value and oversee management and as such is unsuitable as a director.

<Shareholder proposals>

Proposal No. 4: Election of three directors (excluding directors who are the Audit and Supervisory Committee Members, etc.)

Director candidate: Yonatan Domnitz
Director candidate: Yakov Zlicha
Director candidate: Yaniv Vardi

[Outline of the proposal]

To elect three directors (excluding directors who are the Audit and Supervisory Committee Members; Director candidates: Yonatan Domnitz, Yakov Zlicha, and Yaniv Vardi).

| Candidate No. | Name (Date of birth) | Career history, positions, duties of the Company, and important concurrent responsibilities | Shares of the Company owned |
|---|---|---|---|
| 1 | Yonatan Domnitz (April 21, 1981) | Aug. 2009 Certified as an Associate Chartered Accountant (ACA) by ICAEW (The Institute of Chartered Accountants in England and Wales)<br>Aug. 2006 Forensic Accountant, RGL Forensics Accountants and Consultants (London)<br>Jan. 2010 Forensic Accountant, C. Lewis & Company LLP (London and Hong Kong)<br>Aug. 2012 Director and Strategic Analyst, Oasis Management Company Ltd. (Hong Kong) (current position) | 0 shares |
| 2 | Yakov Zlicha (October 4, 1966) | Sep. 1994 Clerkship, Hamburger Evron & Co. (Israel)<br>Jan. 1996 Attorney, Sadot & Co. (Israel) (Member of the Israel Bar Association since November 1995)<br>Jul. 1999 Tokyo correspondent, Maariv Daily Newspaper (Israel)<br>Nov. 2002 Manager, Business Development, Japan Israel Investment Corporation, Ltd.<br>Jul. 2004 Business Development Consultant, Zlicha Consulting Ltd. (current position)<br>Jun. 2007 OEM Sales Manager, Mentor Graphics Japan Co. Ltd.*<br>Jun. 2012 Business Development Director, Screenovate Technologies Ltd. (Israel)<br>Nov. 2015 Representative Director and Country Manager, IncrediBuild Japan Ltd.<br>*The company acquired Valor Computerized Systems Japan in March 2010. | 0 shares |
| 3 | Yaniv Vardi (August 31, 1973) | May 1989 Intelligence Squadron, Israeli Air Force | 0 shares |

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|---|---|---|---|---|
| | | Sep. 1996 | Manager, Air-Force Armament Procurement, Israel Ministry of Defense (New York) | |
| | | Aug. 1999 | Director, Systems Integration Department, DM Incorporated | |
| | | Jul. 2001 | Co-Founder and Managing Director, Senior Global Project Manager, Sparta Systems Europe Ltd. | |
| | | Apr. 2004 | Vice President, Operations, Sparta Systems Europe Ltd. | |
| | | Jun. 2008 | Managing Director, Sparta Systems Europe Ltd. | |
| | | Nov. 2012 | Chief Executive Officer (CEO), Panoramic Power Ltd. | |
| | | Oct. 2015 | Managing Director, International Business, Centrica Business Solutions Ltd. (current position) | |

(Note)

1. There is no special interest between each candidate for Director and the Company.
2. Mr. Yakov Zlicha and Mr. Yaniv Vardi are candidates for outside director.
3. The Company plans to enter into a limited liability agreement with Mr. Yakov Zlicha and Mr. Yaniv Vardi if they are elected as outside directors. The maximum amount of liability under such agreement shall be the minimum liability amount stipulated by laws and regulations.

[Reasons for nomination of each candidate for Director]

Mr. Yonatan Domnitz is a qualified chartered accountant certified in the United Kingdom. In his work at leading forensic accounting firms, Mr. Domnitz has conducted comprehensive financial analysis, including financial modelling and forecasting, as well as research and analysis of various industries to attain full understanding of a business's market environment, potential external, financial and operational risks, etc. With strong expertise in accounting, he will also ably assist in the oversight of the Company's financial and accounting departments. At Oasis Management Company Ltd., Mr. Domnitz has worked with and led management teams at investee companies to develop and implement strategies across a variety of businesses and industries to drive growth and profitability, improve operations and competitiveness, implement corporate governance reform and increase corporate value. He has conducted extensive, in-depth research and due diligence on investee companies and has helped management establish key performance indicators to monitor risk and performance on an ongoing basis. Through his expertise in corporate valuation and finance, Mr. Domnitz also possesses the ability to identify and evaluate potential M&A opportunities. Mr. Domnitz is also expected to play an important role to assist the Company in its efforts to design strategies to enhance its corporate value in the medium- to long-term.

Mr. Yakov Zlicha is an Israeli-qualified lawyer with 22 years' experience in both Japan and Israel. He has a wealth of experience in business development, and established Zlicha Consulting Ltd., a business development consulting firm, in 2004. Mr. Zlicha has conducted business development work, such as technological exchange, for many Japanese and Israeli firms, in the fields of medical devices, software, patents, and others. In his tenure as the Representative Director of IncrediBuild Japan Ltd. of approximately three years, he assisted the company in more than doubling its customer base and more than tripling its sales while maintaining high profitability. It is essential for the Company to promote technological exchange and organic alignment between its domestic and international businesses, and Mr. Zlicha is the most suitable person to advise the Company on business development to help it to turn around, restructure its domestic business, and improve profitability. As a non-executive director, he will supervise and provide advice to full-time directors and other management. Mr. Zlicha has an LLM from Hosei University and is fluent in Japanese, English, and Hebrew.

Mr. Yaniv Vardi is a technology pioneer, renowned for building an energy-based solutions business employing unique wireless and self-powered circuit-level technology with cloud-based analytics. He was most recently operating said business as the CEO of Panoramic Power, which was acquired by Centrica Business Solutions (hereinafter referred to as “Centrica”) in 2015. As CEO, he managed the company’s day-to-day operations and made strategic decisions as well as being involved in management of all other aspects of the business. Prior to joining Panoramic Power, Mr. Vardi was the co-founder and Managing Director of Sparta Systems EMEA, where he successfully led the company’s sales, marketing, operations, and professional services. Mr. Vardi is currently the Managing Director of eight countries at Centrica, where he is working to improve the company’s position mainly in Europe, South America, and the Asia Pacific. Mr. Vardi is a highly skilled entrepreneur with over 20 years of executive leadership experience in the enterprise solution industry. He has a long and distinguished track record of developing global business strategies and international growth, which has resulted in generating significant revenue for Centrica of almost 200 million USD each year.

It is essential for the Company to properly control Bacsoft, Ltd. (hereinafter referred to as “Bacsoft”), a subsidiary of the Company, and the M2M business of the Company in order to successfully restructure the domestic business. With his wealth of experience, Mr. Vardi can contribute to improving the business operations of Bacsoft and the M2M business. Further, as an Israel-based non-executive director, he is expected to appropriately oversee the business of Cellebrite and Bacsoft and provide appropriate advice to executive directors.

[Reason for the proposal]

The Proposing Shareholder believes that the Company has problems as described in the “Outline of the reasons for the proposal” for Proposal No. 3 and that, to resolve the problems, the Company, under the leadership of five directors, including two directors as proposed in Proposal No. 2, and Yoshimi Kimura, CEO urgently, needs to employ and allocate the necessary officers and employees, formulate a medium- to long-term plan to recover its business performance and implement reforms in line with the plan without fail. Based on this belief, the Proposing Shareholder requests the election of five candidates for directors, including two candidates for directors proposed under Proposal No. 2.

Opinion of the Company's Board of Directors on the Shareholder Proposals

The Company's Board of Directors is opposed to the Shareholder Proposals due to the following reasons.

1. The Company implements specific management strategies toward business performance recovery and the directors demanded to be dismissed are appropriate persons to address corporate issues.

As reasons for requesting the dismissal of the four directors demanded to be dismissed, the Proposing Shareholder points out the following: (1) the Company's poor business performance; (2) damage to our corporate value due to a third-party allotment of shares by Cellebrite; and (3) damage to our corporate value due to issuance of Convertible Bonds and warrants by the Company. However, the Company is opposed to the Shareholder Proposals because none of the reasons mentioned in (1) to (3) is a reasonable one for dismissal as written below and because the directors demanded to be dismissed are considered to be appropriate persons to address corporate management issues, including the Company's business performance recovery and a management strategy for Cellebrite's growth.

(1) The Company implements various specific strategies toward business performance recovery.

The Company's main business consists of development, manufacturing, and sale in the areas of mobile data solution business, entertainment business, and new IT business, but the Company posted an operating loss of approximately 1 billion yen for the fiscal year ended March 31, 2018, due to the following reasons: increase in SGA, personnel expense, and R&D expense for the mobile data solution business, increase in expenses for the new IT business because of full-fledged promotion, marketing and R&D activities in the areas of AceReal and O2O, increase in corporate expenses due to difference caused by reversal of allowance for doubtful accounts, transfer of head-office functions, etc.

The Company still posted an operating loss of approximately 0.2 billion yen for the fiscal year ended March 31, 2019, although the loss decreased compared with the previous year, because revenue from the entertainment business drastically decreased due to sluggish sale of amusement machine components, affected by response to the Rules to Partially Revise the Enforcement Regulation of the Act on Control and Improvement of Amusement Business, etc. and Rules on Certification of Amusement Machines and Official Approval of Models, which went into force on February 1, 2018, and because loss from the new IT business increased due to increase in expenditure for strengthening promotion and R&D although net sales increased in the area of O2O.

In addition, the growth rate of the entertainment business remains on a plateau due to shrinking Pachinko and Pachislot market; such an environment is one of the reasons for the Company's operating losses for the fiscal years ended March 31, 2018 and 2019.

Under such circumstances, the Company is now deeply committed to implementing various strategies toward business performance recovery. We are accelerating the selection and concentration of business portfolios, strengthening the mobile data solution business, improving productivity in the entertainment business, and making more investment in the new IT business as well as developing domestic business within a reasonable risk scope.

Specifically, the Company continues to strengthen the area of digital intelligence in the mobile data solution business and makes concentrated investment in that area as well as accelerates activities for other cyber intelligence; by increasing total order amount in a growing market from 127 million USD (approximately 14.5 billion yen) for the third cumulative quarter of the fiscal year ended March 31, 2019 to 146 million USD (approximately 17.2 billion yen) for the third cumulative quarter of the fiscal year ending March 31, 2020, which is an increase of 15.1% in USD, the Company secures its share as a leading company in that market and continues to grow. The amount is partially recorded in the balance sheet as an increase of 1.948 billion yen in unearned revenue and we consider that it is an advance net sales outcome indicator. The Company posted a drastic segment loss of 1.825 billion yen for the third cumulative quarter of the fiscal year ending March 31, 2020, but such segment loss was influenced by transient expenditure of 2.2 billion yen for the issuance of preferred shares by means of a third-party allotment of shares by Cellebrite, and the loss does not continue.

In the new IT business, the Company strengthens the area of M2M[2] and accelerates activities for IoT security; sales from the new IT business increased by 29.8% from 0.79 billion yen for the third cumulative quarter of the fiscal year ended March 31, 2019 to 1.025 billion yen for the third cumulative quarter of the fiscal year ending March 31, 2020 and a loss from that segment significantly improved from 0.624 billion yen to 0.36 billion yen.

In the M2M business, the provision of "SunDMS," a life-and-death monitoring service, facilitates efficient central management of the devices that will become issues in introducing M2M and IoT. Since this measure contributes to cutting down on management costs after introducing them, especially in large-scale projects, business opportunities are developed by evaluating this advantage in the M2M business.

In the AceReal business, while several demonstration tests such as utilization of air conditioning facility service and maintenance service have been promoted since the formal release in February 2019, it was found that there is a certain demand for remote support solutions. As a result, the business direction is shifting to business development focusing on remote support solutions.

In the O2O business, although the number of shops using the business has steadily increased, particularly in the business of sushi restaurants which is in a high price range, since the formal release, the number of shops making profit for the Company has not been achieved yet in the severe market environment. Under these circumstances, the Company has started reviewing its business strategy and business model based on the results of its marketing. As a result, a loss on business restructuring under extraordinary loss for 0.593 billion yen was posted as restructuring expenses. This review is expected to result in an annual reduction of fixed expenses of approximately 0.1 billion yen or more after the next term by refining the target business area.

With regard to the entertainment business with challenges caused by the shrinking market as mentioned above, the Company also endeavors to further increase productivity and to provide products and services in response to changes in the external environment by strengthening expressive power, increasing efficiency, streamlining products and taking other measures, and the Company succeeded in improving profit ratio by actually increasing development efficiency; an operating profit of 0.019 billion yen for the third cumulative quarter of the fiscal year ended March 31, 2019 increased to 0.283 billion yen for the third cumulative quarter of the fiscal year ending March 31, 2020. In the amusement machine components business, the Company has accumulated its own know-how for an individual customer by limiting customers. As a result, the Company ensures a considerably high market share and maintains stable sales/profit. On the other hand, in the hall system business, the performance remains low due to a severe competitive environment with a backdrop of sluggish demand for capital investment in halls. The Company is now scaling down product sales and expanding service sales. In addition, the Company is developing and preparing for new products in response to arising changes in demand for capital investment in controlled amusement machines etc., in the industry.

In the other business, while the Company's business frame etc., is under review, sales

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2 An abbreviation of Machine to Machine, which means communications between devices.

of 0.28 billion yen for the third cumulative quarter of the fiscal year ended March 31, 2019 decreased to 0.224 billion yen for the third cumulative quarter of the fiscal year ending March 31, 2020. The segment loss of 0.22 billion yen for the third cumulative quarter of the fiscal year ended March 31, 2019 decreased to 0.079 billion yen for the third cumulative quarter of the fiscal year ending March 31, 2020, resulting in the range of the losses decreasing. An improving profit ratio despite decreasing sales is expected to attribute to the ongoing measure for restructuring the business frame focusing on management of the existing game titles with regard to the game contents. This is a measure for strengthening the existing game title and ensuring a revenue base for the business at the outset in view of the condition that the cost for obtaining new customers is extremely increasing in the smartphone game market. In addition, since the engineers in charge of the other businesses are employees whose ability has affinity with the entertainment-related business and the new IT-related business, such as contents developers, application developers, and cloud server management engineers, the Company endeavors to allocate these engineers and developers to the other business.

In addition to the above-mentioned efforts, the Company improves management in cooperation with external partners; as written below in detail in (2), for the purpose of accelerating the implementation of the growth strategy of Cellebrite, we decided in June 2019 to have IGP as our partner, which has know-how in the area of digital intelligence and fund resources and shares business vision with us. And as written below in detail in (3), for the purpose of increasing our corporate value, we chose in December 2019 to have Advantage Advisers Co., Ltd. (hereinafter referred to as “Advantage Advisers”) as our business partner, which has provided strategic advice to multiple listed companies. The Company proactively promotes the examination and steady implementation of all kinds of measures to improve business performance, by making use of know-how provided by Advantage Advisers.

(2) Our corporate value has not been damaged by a third-party allotment of shares by Cellebrite.

The Proposing Shareholder alleges that the third-party allotment carried out by Cellebrite, our subsidiary, in July 2019 (hereinafter referred to as the “Third-party Allotment”) has damaged our corporate value because the Company increased its capital by underestimating the issue price, without negotiating to choose a partner other than IGP, but that is not true.

As is announced in the “Notice on Issuance of Preferred Shares through the Third-party Allotment by a Consolidated Subsidiary” dated June 17, 2019, for the purpose of accelerating a strategy to make Cellebrite a leading company and an integrated platformer in the area of digital intelligence, the Company decided that it would be best to have a partner that had know-how in the area of digital intelligence and fund resources and shared business vision with us, and chose IGP as a partner after negotiating with multiple candidate companies. The Proposing Shareholder alleges that the Company did not look for partners other than IGP. In this regard, we sent a questionnaire to the Proposing Shareholder and requested that the Proposing Shareholder reply with the grounds related to the assertion. However, to date, we have not received any replies with specific grounds. We chose IGP as our strategic partner for the following three reasons: (1) IGP proposed the largest appraisal amount among all the candidate companies; (2) IGP is a close-following investor that helps business growth together with us; and (3) IGP evaluates Israeli technology and has helped growth in the IT area as an investor. IGP boasts M&A know-how, fund resources, and rare and excellent human resources that have contributed to promoting the globalization of high-tech companies in Israel, including main developers of Windows 95 and a member who increased corporate value of a NASDAQ-listed company several times by shifting its revenue model from hardware sale to solution sale after serving as the top of the Ministry of Finance in Israel. The Company believes that we have established an effective system for strengthening solutions in the mobile data solution business.

M&A was indispensable to acquire business and technology needed for Cellebrite to implement the above-mentioned strategy, but Cellebrite did not have enough funds for M&A, which exceeded cash and deposits to cover R&D expenses continuously incurred in advance of revenue. The Proposing Shareholder alleges on its website that Cellebrite has substantial cash holdings of over 13 billion yen and that it could have raised funds at low interest rates through interest-bearing liabilities if it had needed to raise funds quickly. However, the monetary amount for the completely risk-free cash and deposits of Cellebrite amounts to 5.066 billion yen, excluding unearned revenue during the end of the previous term, and the capital ratio for Cellebrite is 31.1%. Taking into consideration the aforementioned financial condition and the fact that Cellebrite operates its business using a business model with high fixed costs based on 80% or more of the gross profit margin, it can be thought to be necessary to maintain a certain capital ratio and ensure financial stability. Furthermore, when interest-bearing debts are to be incurred, it will be necessary to repay the same in the future. In this regard, we deem it inappropriate for Cellebrite, which operates its business using a business model with high fixed costs to incur interest-bearing debts based on business growth. This is because considering the future uncertainty (i.e., a market environment under which technological progress is drastic), necessary growth investment, etc., may be limited for monetary repayment depending upon whether plans are achieved or not. Thus, we decided to implement the Third-party Allotment in consideration of a great advantage that can be obtained through the Third-party Allotment: M&A fund raising and acquisition of a partner with deep insight on the area of digital intelligence.

We determined the issue price of preferred shares to IGP in comprehensive consideration of price calculation results, etc. by a third-party institution independent from the Company and we did not unjustly underestimate the issue price and damage our corporate value. That is clear from the fact that the Company's share value did not drastically drop after the implementation of the Third-party Allotment. The Proposing Shareholder alleges on its website that considering that Cellebrite has substantial cash reserves based on the public disclosure, the cost for IGP to acquire Cellebrite, net of their ownership of Cellebrite's cash, is just 58 million dollars. However, such figure is calculated on the following assumptions and is not calculated based on the Company's business strategies or financial structure: (i) costs accompanying the issuing of preferred shares in question were not considered in part; (ii) the amount equal to the profits of the unearned revenue that has not been released from risk is held by the Company; and (iii) the cash and deposits would not be used for M&A at all.

The Proposing Shareholder alleges on its website that, according to its survey, shares of Cellebrite owned by the Company are worth more than 1.37 billion dollars, and that experts with whom the Proposing Shareholder exchanged opinions estimated the value of Cellebrite was 2 billion dollars or more. However, no basis for the calculation is shown at all and we consider it difficult to admit it as a reasonably estimated value. In this regard, we sent a questionnaire to the Proposing Shareholder and requested that the Proposing Shareholder reply with the grounds related to the aforementioned calculation related to the corporate value of Cellebrite. However, to date, no specific grounds have been shown to us.

Additionally, the Proposing Shareholder also alleges that our use of the DCF model was a mistake in calculating the corporate value of Cellebrite. However, we confirmed the appropriateness of the corporate value of Cellebrite via the discounted cash flow method calculated by a third-party institution as well as via the comparable peer company multiple method and the comparable transaction multiple method of the competitors in a composite manner. In the process of implementing the discounted cash flow method, the numeric value that is the closest to the upper limit among the width of numeric values that we have asserted has been used. Moreover, in order to take into account the growth of Cellebrite, a scenario with an extended evaluation period has been reviewed and, even in the case of such scenario, an evaluation value that falls within the acceptable range has been obtained. Furthermore, according to the comparable peer company multiple method, a comparison with the competitors has been reviewed and the market appropriateness for the evaluation value via the comparable transaction multiple method regarding analyzed high-profit corporations has been verified. As described above, monetary appropriateness has been verified in a multifaceted manner. The computed result was generated based on a level which profitability and growth of the mobile data solution business have been incorporated. The result was an appropriate amount for evaluating corporate value in which the profit contribution from the field of highly uncertain analytics through the business startup were also incorporated to some extent. Regarding the evaluation value asserted by the Proposing Shareholder, no grounds for computation have been indicated, and the amount of Cellebrite’s evaluated corporate value asserted by the Proposing Shareholder has greatly fluctuated whenever asserted. Therefore, it can be considered that this is because the understanding of circumstances which becomes the assumption of computation is not sufficient and such value has been judged superficially. In relation to evaluation by the Proposing Shareholder, we wonder if an estimation period at the digital forensics market whose environment fluctuates drastically, such as in terms of devices used and security trends, has been established to be reasonably unpredictable long period which is at least ten years or more or if the future risk incorporation is not appropriate and thus, if the discount rate is excessively low.

As mentioned above, the Directors of the Company decided the Third-party Allotment through an appropriate process of measures, evaluation, and examination. As is announced in the “Notice on Acquisition of Shares of BlackBag (Subsidiarization)” dated January 14, 2020, the Company succeeded in promoting a business strategy for Cellebrite by making use of funds obtained through the Third-party Allotment to conduct M&A of BlackBag Technologies Inc. (hereinafter referred to as “BlackBag”) with actual strength in computer forensics, and the order amount in the analysis area on which the Company now focuses is estimated to be approximately 12 million USD (approximately 1.3 billion yen) for the fiscal year ending March 31, 2020, which is about twice compared with the previous fiscal year. Based on that, we can say the management decision on the implementation of the Third-party Allotment was appropriate and what the Proposing Shareholder alleges is not true.

(3) There is no fact that the issuance of our Convertible Bonds and warrants resulted in damage of our corporate value.

The Proposing Shareholder asserted that the issuance of our Convertible Bonds with warrants and warrants during the period from the end of 2019 to the beginning of 2020 (hereinafter referred to as the “Warrants, etc.”) damaged our corporate value due to unnecessary issuance and an undervalued issuing price and seriously infringed on minor shareholders’ rights due to potential dilution of shares. However, there is no such fact.

As informed in the “Notice on Business Alliance” dated December 20, 2019, the Company selected Advantage Advisers, which has provided strategic advice for multiple listed companies, as a partner that seems to be capable of providing funds as well as management support and improving our corporate value in order to realize our medium- to long-term management strategy as follows: (1) creation of new customer value in the information communication-related field (security, contents, and communication); (2) expansion of our market share in the entertainment-related field (game machines); and (3) construction and expansion of our business in global markets.

Considering that the loan to value ratio is considerably high compared to the size of business under the situations of a deterioration in our non-consolidated financial condition, an excessive dependence on loans involves the risk of damaging the financial stability. Also, public offerings of new shares and third-party allotment of shares will have an immediate influence on our stock price due to dilution. Considering the above, the Company has decided to raise funds by issuing the Warrants, etc. to Advantage Advisers, as informed in the "Notice on Subscription for 8th Warrants and 1st Unsecured Convertible Bonds with Warrants Issued in Third-Party Allotment" dated December 20, 2019.

Under a situation in which the Company and the environment surrounding the Company experience a reform period, the previous successful experiences are not sufficient. The alliance with Advantage Advisers in terms of both business and capital will bring us business portfolio rebuilding support, M&A/PMI support, major customers/alliance partners introduction, medium-term management plan preparation support, and personnel employment cooperation. Under the situation in which the Company is in a phase of change, past success alone is not sufficient. These business alliances will be of great advantage to us in terms of strategy for business recovery.

The issuing price of the Warrants, etc. is determined in total consideration of prices calculated by an independent third-party institution. For this reason, there is no such fact that our corporate value has been damaged by an unreasonably undervalued issuing price. It is also revealed by the fact that the issuance of the Warrants, etc. has not resulted in a big drop in our stock price. In addition, the third-party institution that was entrusted the price calculation by the Company used the Monte Carlo Simulation, which is one of the general price calculation models, as a price calculation model appropriately reflecting the prospectus of the Warrants, etc. and the terms and conditions of the underwriting contract thereof, after comparing and examining other price calculation models when determining a price calculation model.

The Proposing Shareholder asserts on its website that the Company did not need to raise more funds by issuing the Warrants, etc. because of not using the funds raised by the Third-Party Allotment at the time of issuing the Warrants, etc. However, as described in (2) above, the Company implemented M&A in January 2020 using the funds raised by the Third-Party Allotment. The Proposing Shareholder also asserts that the total amount of the funds for 1.8 billion yen raised by the issuance and execution of the Warrants, etc. is very small compared to the outstanding balance of cash and deposits of the Company and thus the issuance is unnecessary. However, considering that the outstanding balance of cash and deposits on a non-consolidated basis as of the end of March 2019 is approximately 2.4 billion yen, the amount of the funds raised by the issuance and execution of the Warrants, etc. is greatly large for the Company. Therefore, it should be stated that what the Proposing Shareholder pointed out above is unreasonable.

Moreover, the Proposing Shareholder has posted that "the timing of the deal is highly suspect" on its website. Our issuance of the Warrants, etc. is made in compliance with the procedures required by the Companies Act and the Financial Instruments and Exchange Act. Therefore, we believe that the protection of the shareholders and investors has been sufficiently attempted. The time of the announcement was the evening of December 20, 2019, as a result of the shortest schedule, including fund needs, considering the schedule for clerical procedures from the specific project progressing until closing of the same, as well as the schedule for the concerned parties. The Proposing Shareholder’s concern is not correct.

In this way, the Company’s directors have decided on the issuance of the Warrants, etc. after going through appropriate procedures, evaluation, and examination. Since there is no problem in the management’s judgement regarding the issuance of the Warrants, etc., the Proposing Shareholder’s assertion is different from the fact.

(4) We have planned and promoted a specific management strategy for the growth of Cellebrite.

At present, Cellebrite has confronted an important turning point at which Cellebrite is about to change from a mobile forensics corporation into a digital intelligence corporation. Against a backdrop of technological strength, Cellebrite has proactively invested in the previous data extraction field and the data analysis field, using data. In order to become a leading company in a larger digital intelligence market, which includes the conventional mobile forensics market, to a greater extent than before, Cellebrite has proactively improved and expanded a wide range of product and service line-ups, such as those including data analysis systems and technical services. At the same time, Cellebrite has endeavored to attain a share of the growing market while implementing M&A.

Specifically, the M&A of BlackBag was implemented in January 2020. In order to make the analytics field develop, it is necessary to acquire various know-how related to forensics for computers, which are important information sources. In recent years, BlackBag has realized sharp growth regarding PC forensics for Apple. Incorporating BlackBag into the group via M&A has made it possible to develop the analytics field and enhance forensics for Apple, which constitute the characteristics of our group. In the growing market, Cellebrite has invested in research and development that cannot be implemented by competitors, while continuing to maintain business bases from the past. In this way, Cellebrite has expanded technological differentiation continuously and has endeavored to attain a share of the growing market. In relation to forensics for Apple, which is highly difficult, and in the context of OS integration of mobile devices and PCs, it is considered that this M&A of BlackBag will enable Cellebrite to enhance its competitiveness by establishing a system to realize differentiation and utilizing know how of the research and development departments of Cellebrite and BlackBag. Moreover, in order to pursue group synergy more than ever and enhance governance of subsidiaries, we will newly hire Mr. Doron Eidelman as a board advisor for the following reasons: (i) he is familiar with businesses for public institutions; (ii) he understands the business culture of interactions between Japan and Israel; (iii) he has had experience in the mobile data solution business and business development for the cybersecurity field, which we will move into in the future; and (iv) he can serve as a perfect supervising personnel member because he has had enriched experiences with business development in the global cybersecurity field. In addition, a department specialized in group management with a central focus on Israel will be established in April 2020.

(5) The directors demanded to be dismissed are playing an important role in implementation of the strategy for the Company’s business recovery.

Each of the directors demanded to be dismissed is playing the following important roles in implementation of the Company's strategy described in (1) to (4) above.

(i) Mr. Masanori Yamaguchi

Mr. Masanori Yamaguchi (hereinafter referred to as "Mr. Yamaguchi"), during his term as a representative director of the Company, decided to make an aggressive investment in new IT business in anticipation of shrinking of the pachinko market to which the Company's entertainment business belongs, as well as aggressive investments in new business such as an investment in Bacsoft providing a platform for M2M remote monitoring control in 2015 and an investment in Infinity Augmented Reality, Inc. developing AR engines in 2015. Indeed, the Company recorded a net loss of approximately 1 billion yen in the fiscal year ended March 31, 2019. However, this is attributed mainly to the influence of increasing future uncertainty in the Pachinko market to which the entertainment business, our traditional core business, belongs because of a decrease in the exchange of game machines at Pachinko halls and postponing equipment investments such as new shop openings and shop refurbishment, in response to the Rules to Partially Revise the Enforcement Regulation of the Act on Control and Improvement of Amusement Business, etc. and Rules on Certification of Amusement Machines and Official Approval of Models, which went into force on February 1, 2018. With respect to the new IT business in which the Company invested while Mr. Yamaguchi was in the position of a representative director, the Company sold a sensor device titled "Okudake Sensor," a key factor in creating data, and an operation support system for industries titled "AceReal One" in order to totally support IoT of corporations, in response to the development of the latest technology such as IoT, AR, and AI and the expanding markets of M2M, IoT, and O2O. As a result, for the third cumulative quarter of the fiscal year ending March 31, 2020, consolidated net sales increased by 29.8% year-on-year to 1.025 billion yen, while gross profit increased by 19.3% year-on-year to 0.401 billion yen.

Mr. Yamaguchi has engaged in management of Cellebrite acquired by the Company as Chairman for many years since July 2007. For this reason, he is playing an important role in management of Cellebrite in the Company in terms of managing Cellebrite while understanding the Company's situation, and has successfully achieved growth for Cellebrite.

Despite resigning as a representative director of the Company last year, Mr. Yamaguchi is still playing a central role in enforcement of mobile data solution business, a core business of the Company. With respect to the mobile data solution business, consolidated net sales and gross profit for the third cumulative quarter of the fiscal year ending March 31, 2020 decreased year-on-year due to a decrease in sales of MLC business transferred in the previous fiscal year. However, with respect to digital intelligence business, the total amount of orders received for the third cumulative quarter of the same fiscal year increased by 15.1% year-on-year to 146 million USD (approximately 17.2 billion yen). This is because sales of "UFFD 4PC" demonstrated a favorable trend and sales of training and technical services for inspectors increased steadily due to grade-up of scientific investigation. As a result, the business continues to ensure the most important share in the growing market.

In this way, Mr. Yamaguchi is playing an important role in enforcement of mobile data solution business, a core business of the Company, based on his accumulated wealth of knowledge obtained from the engagement in the technical development unit and overseas business unit of the Company for many years and also based on his past results such as proposals and promotions of strategic alliances and thus is a person essential to the Company's business recovery. In addition, he will play an important role in our group's development by making the most of Israeli technology, etc., considering that he has business management know-how obtained from experiencing the management of the Israeli company from 2007 and is one of the few people in Japan who have such an experience.

The Company sent a questionnaire to the Proposing Shareholder and requested that the Proposing Shareholder provide the Company with a response for reasons for comparing the net income and the net loss for the fiscal year ended March 31, 2013 and those for the fiscal year ended March 31, 2019 regarding the management achievements of Mr. Yamaguchi. However, to date, we have not received any specific replies.

The Proposing Shareholder asserts that Mr. Yamaguchi served as a representative director in the Company from June 2008 to June 2013. However, in fact, he was a director without representation authority from June 2012 to June 2013. It should be pointed out that what the Proposing Shareholder asserts is contrary to the fact.

(ii) Mr. Yasushi Yamamoto

Mr. Yasushi Yamamoto (hereinafter referred to as "Mr. Yamamoto") has, as Chief Financial Officer, led operations for selection and concentration of our business portfolios and business alliance with Advantage Advisers for implementing our strategy, based on his experience/achievements obtained from the engagement in operations in the accounting unit of the Company for many years. In addition, he has engaged in management of Cellebrite as its director since June 2012, while he assumed a director of Bacsoft, which is our subsidiary in charge of development/sales of IoT solutions, in September 2015 and has engaged in its management.

In this way, Mr. Yamamoto is playing a central role, from the financial side, in promotion of mobile data solution business including our alliance with Cellebrite, promotion of new IT business including our alliance with Bacsoft, and operations for selection and concentration of these business portfolios, and maintains a good relationship with financial institutions, etc. He is a person essential to our business recovery.

The Company sent a questionnaire to the Proposing Shareholder and requested that the Proposing Shareholder provide the Company with a response for reasons for comparing the net income for the fiscal year ended March 31, 2013 and those for the fiscal year ended March 31, 2019 regarding the management achievements of Mr. Yamamoto. However, to date, we have not received any specific replies.

(iii) Sakae Yamagishi

Mr. Sakae Yamagishi (hereinafter referred to as "Mr. Yamagishi") has engaged in our entertainment business for many years and now is taking measures for a profit decline resulting from a revenue decline by improving development efficiency in response to shrinking of the Pachinko market to which our entertainment business belongs. As a result, the segment profit of the entertainment related business for the third cumulative quarter of the fiscal year ending March 31, 2020 increased to 283 million yen from 19 million yen for the third cumulative quarter of the fiscal year ended March 31, 2019 amounted to 19 million yen. In addition, he has been reviewing the operations of the business, and if he continues to be in charge of the business, a favorable relationship with our main customers will be maintained. His leading of relevant measures in response to changes in Pachinko-related special markets will also improve our corporate value. Considering the above, he is a person essential to our business recovery.

The Company sent a questionnaire to the Proposing Shareholder and requested that the Proposing Shareholder provide the Company with a response for how our entertainment business should be made to grow. However, to date, we have not received any specific replies.

(iv) Mr. Naoyuki Iribe

Mr. Naoyuki Iribe (hereinafter referred to as "Mr. Iribe") has engaged in commodity/new business planning and improvement of operations for many years and has given advice to us about our business as a management consultant. Under a situation in which the Company is making an investment in new IT business as described above, he has given accurate advice about the area of AR and O2O of the Company in keeping with the current situation. In fact, he contributed, in our AR business, to obtaining demonstration tests of an operation support system for industries titled "AceReal One" from several companies. He also has a track record in an area of customer focus for restaurants using O2O. Considering the above, he is a person essential to our business recovery and should not be dismissed.

The Company sent a questionnaire to the Proposing Shareholder and requested that the Proposing Shareholder provide the Company with a response for reasons for asserting that our corporate value had been continuously damaged and there had existed no new business for which special growth could be expected after Mr. Iribe had assumed the position of director. However, to date, we have not received any specific replies.

2. All director candidates nominated in the Shareholder Proposals are unqualified for resolving the Company's current management issues.

(1) The Proposing Shareholder does not aim for continuous improvement of the Company's corporate value.

As stated in 1. above, the Company analyzes that the current management issues lie in selection and focus of a business portfolio, as well as enforcing each of major businesses, and in the aim of realizing them, we are in the stage of formulating specific measures and carrying them out. On the other hand, the Proposing Shareholder only describes a vague objective, "the restructuring of domestic and overseas businesses," as the reason for the proposal, and indicates no specific measures for resolving the Company's management issues. Even on the Proposing Shareholder's website for campaigns for the Shareholder Proposals, the Proposing Shareholder suggests an abstract plan to review strategies and indicates no specific solutions, while describing the Company's domestic business issues at great length. The Company sent a questionnaire to the Proposing Shareholder and requested that the Proposing Shareholder provide the Company with a response on the nature of a medium to long-term plan to be formulated by the Proposing Shareholder after the management shakeup. However, to date, we have not received any specific replies. Further, the Proposing Shareholder has no experience of dispatching directors and managing a business company like the Company in Japan, which makes us dubious that the three candidates nominated only by the Proposing Shareholder are qualified as the Company's directors.

In addition, the Proposing Shareholder mentions the Company's corporate governance issues on its website, which are (i) to introduce a performance-linked company officer compensation system that matches interests between the company officers and shareholders, and (ii) to make the company officers and officers focus on businesses with high growth and set a key performance indicator (KPI) for each business field in order to shift from businesses with weak competitiveness. In relation to (i) above, we have adopted a compensation system that would match interests between the company officers and shareholders through stock compensation type share options issued on February 5, 2015 based on a resolution at the ordinary general meeting of shareholders held on June 25, 2014. Moreover, in relation to (ii) above, we have established and managed KPI for business growth. For example, in relation to the mobile data solution business, which is our main business, we have set KPI from profit aspect with a central focus on EBIT, from aspect of receipt of orders and sales, and from a financial aspect with a central focus on working capital, for balancing growth and profitability. Furthermore, in relation to the new IT-related business, we set a milestone regarding initiatives and increase of the number of visits and other factors or developments to obtain projects for growth. In relation to the business for parts of amusement machines among the entertainment-related businesses, we have set KPI with a central focus on the number of cost-down proposal adoptions considering the rate of operation and promotion of efficiency for brand maintenance of titles.

Also, the Proposing Shareholder is a fund that aims for short-term and high returns through investment, and because of its nature, we are doubtful if it earnestly considers improving the Company's corporate value continuously from a medium to long-term perspective. KPI is a mere indicator for generating business outcomes. We believe that conversion from a low-competitive business should be chosen as a result of having judged business progress in an objective manner after considering various elements, such as the growth and possibility for corresponding businesses, in addition to KPI achievement status. We must say that setting KPI for business conversion as asserted by the Proposing Shareholder differs from a management attitude of pursuing business growth. Aiming for short-term profits like the Proposing Shareholder does is totally incompatible with the fact that we are conducting the above measures for the current management issues, and is unacceptable for us.

(2) Not only are all director candidates nominated in the Shareholder Proposals unqualified but also unrecoverable losses will be incurred if these candidates manage the Company.

Further, the director candidates nominated in the Shareholder Proposals are not familiar with the Company's individual businesses as described below and have insufficient knowledge in order to recover the Company's business performance. It is apparent that appointing such directors will cause a serious hindrance for the strategies we are currently proceeding and will harm the common interests of shareholders.

Regarding Mr. Yonatan Domnitz (hereinafter referred to as "Mr. Domnitz"), Mr. Yakov Zlicha (hereinafter referred to as "Mr. Zlicha") and Mr. Yaniv Vardi (hereinafter referred to as "Mr. Vardi"), it is difficult to acknowledge that they have knowledge about the Company's business in the light of their careers and the reason for being appointed. If such directors who cannot understand management issues based on our business characteristics are appointed, it is obvious that significant confusion will occur in the formulation of the Company's management policies and that our corporate value will be damaged.

In addition, Mr. Domnitz works for the Proposing Shareholder's group company and is a director candidate who is related to a specific major shareholder. Not only that, considering the facts that no concrete management policies are indicated by the Proposing Shareholder and others as stated above and that Mr. Domnitz has no management experience in a business company, if he is appointed as a director, the

Company may be managed in the aim of generating profits only for the Proposing Shareholder and others, which will harm profits of other shareholders.

The Company sent a questionnaire to the Proposing Shareholder and requested that the Proposing Shareholder provide the Company with a response on the following points: (i) whether or not Mr. Domnitz has experience supervising the accounting department of a Japanese corporation; (ii) whether or not Mr. Domnitz has had specific investment achievements for Japanese corporations and collaborative achievements with managers of investee companies; and (iii) whether or not Mr. Domnitz has had achievements demonstrating that he has specialized knowledge of corporate finance. However, to date, we have not received any specific replies.

Furthermore, Mr. Zlicha and Mr. Vardi have close ties with Israel, and it is assumed from the reason for their appointment that the Proposing Shareholder places particular importance on Cellebrite and Bacsoft, the Company's subsidiaries located in Israel. It is true that the Company's subsidiaries located in Israel, such as Cellebrite, are of certain importance in the Company's efforts for recovery of business performance. However, without considering the balance between the growth of other forms of the mobile data solution business field targeting public institutions and the recovery of non-consolidated business performance, which are urgent management issues at the Company, the Proposing Shareholder proposes the dismissal of the four Directors was proposed. At the same time, the Proposing Shareholders nominate candidates, Mr. Zlicha and Mr. Vardi, who have management experience in fields other than mobile date solution business. Also, the Proposing Shareholder nominates Mr. Vardi to supervise the above two companies as a part-time director based in Israel even though Mr. Vardi is a person who has handled an industry different from the mobile data solution business, which is the main business of the Company, with different products, services, and targeted customers. Such attitude of the Proposing Shareholder does not show an intention to understand the status of our group. Such stances represent the Proposing Shareholders' intention to only pursue their own short-term profits without understanding the Company's situation. On the Proposing Shareholder's website, the Proposing Shareholder states that the Proposing Shareholder will make a reinvestment leading to development of internal business with "capital that can be obtained by finally having Cellebrite listed or selling the business upon identifying strategic investors," and so seems to be considering selling Cellebrite. It is considered that the Proposing Shareholder's attitude of implying that it will obtain capital by selling Cellebrite while insisting that Cellebrite is important in the Company's business strategy is strong evidence that the Proposing Shareholder is trying to pursue only its own short term profits.

The Company sent a questionnaire to the Proposing Shareholder and requested that the Proposing Shareholder provide the Company with a response on the following points about Mr. Zlicha: (i) apparently, Mr. Zlicha has knowledge in the fields of medical equipment, software, patent, etc. and what synergies with our business could be expected through him; and (ii) Mr. Zlicha seemed to be a part-time director candidate; how would he participate in the management, specifically? However, to date, we have not received any specific replies. Moreover, in order to confirm the personality of Mr. Zlicha and his purpose for the management, the Company requested that the Proposing Shareholder interview with our Nomination Advisory Committee or submit a letter. However, to date, we have not received any replies to the effect that the Proposing Shareholder would do so.

The Company transmitted a questionnaire to the Proposing Shareholder and requested that the Proposing Shareholder provide the Company with a response on the following points about Mr. Vardi: (i) how much knowledge Mr. Vardi has about the router sensor market in Japan, which is our domestic business; (ii) what would the appropriate controlling of the M2M business of Bacsoft and the Company be like; and (iii) Mr. Vardi seemed to be a part-time director candidate; how would he participate in the management, specifically? However, to date, we have not received any specific replies. Moreover, in order to confirm the personality of Mr. Vardi and his purpose for the management, the Company requested that the Proposing Shareholder interview with our Nomination Advisory Committee or submit a letter. However, to date, we have not received any replies to the effect that the Proposing Shareholder would do so.

In addition to the above, regarding the Shareholder Proposals, large counterparties and financial institutions have advised us that they may review the existing business relationship if the candidates nominated in the Shareholder Proposals are appointed and are in the position of managing the Company, which may lead us to lose the relationship of mutual trust we have built with the existing counterparties and financial institutions.

Also, the Company has gained trust from Cellebrite's employees with a sense of security because it is owned by a stable Japanese company that respects business. In fact, as informed in the "Notice on Preferred Shares through the Third-party Allotment by a Consolidated Subsidiary" dated June 17, 2019, when the preferred shares were issued in June 2019, we were aware of the demerit that competitiveness would decline as a result of losing the employees' trust and employees themselves, and took care in order not to lose employees by carrying out a retention plan in which new shares were also issued and allocated to stock compensation for Cellebrite's management and employees. If candidates from the Proposing Shareholder side intervene in the Company's management, we may have to shift our policies with a medium- to long-term perspective where we aim to become a leading company by respecting Cellebrite's business and providing an integrated platform in the digital intelligence field. In such a case, it is undeniable that the Company may face unrecoverable damage like losing competitiveness from lower research and development capabilities resulting from a loss of core employees in Cellebrite, which has a medium- to long-term goal of becoming No. 1 in the digital intelligence field.

For the reasons described above, the Company is against the appointment of director candidates nominated in the Shareholder Proposals.

3. There is no evidence that the Company is facing the risk of being delisted.

As the reason for the Shareholder Proposals, the Proposing Shareholder mentions that the Company "is exposed to the serious risk of being delisted from the JASDAQ due to failure to meet the business performance criteria."

According to JASDAQ's delisting criteria related to the business performance of listed companies (the Tokyo Stock Exchange's Securities Listing Regulations Article 604-2 (1), item 2), which is applicable to the Company, companies listed on JASDAQ will be delisted "when operating profit and cash flow from operating activities in the last four consolidated fiscal years were negative, and operating profit and cash flow from operating activities will not turn positive within a year." However, the Company recorded positive cash flow from operating activities in both fiscal years ended March 31, 2018 and 2019, and the above description that the Proposing Shareholder stated the reason for the Shareholder Proposals is false.

End of text

Venue Guide Map of Extraordinary General Meeting of Shareholders

Venue: Third floor meeting room of the Company's headquarters
250 Asahi, Kochino-cho, Konan-shi, Aichi
Transportation: Approximately a six-minute walk from Konan station of the Meitetsu Inuyama Line

- Parking spaces for 30 cars are available, but please understand that they may be fully occupied. You are encouraged to use public transportation as much as possible.
- Please kindly note that we do not plan to hold a social gathering for shareholders, so we would appreciate your understanding in advance.
- Please kindly note that gifts for shareholders attending the meeting will not be offered. We would appreciate your understanding in advance.
- Novel coronavirus infections are spreading. We may take measures to prevent infections at the General Meeting of Shareholders, so we would appreciate your cooperation.
  We plan to have members operating the general meeting of shareholders wear masks.