

# Argyle Street Management Limited

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September 11, 2017

The Board of Directors  
TTK Co. Ltd.  
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Dear Members of the Board of TTK Co., Ltd. ("TTK"),

We thank \_\_\_\_\_ (Director, General Manager of General Affairs Department & Head of Compliance Office), \_\_\_\_\_ (Manager of General Affairs Department) and \_\_\_\_\_ for meeting us in Sendai on 6 September 2017. We appreciate the opportunity to openly communicate our views to TTK. We trust that \_\_\_\_\_ will effectively relay the importance of our proposals to the board of directors of TTK. It is important to note that directors of TTK have fiduciary duties to act in the best interests of TTK.

As the largest shareholder of TTK, Argyle Street Management Limited ("ASM") is committed to help TTK unlock its potential and will continuously press TTK for positive transformation. We urge TTK to view us as a resource that TTK can use to achieve its objectives. We aspire excellence for TTK in both its strategy and operations.

We set out below our observations and proposals on how TTK can further improve its governance.

## Well-defined business plan and goals

TTK's current business plan is vague with no clear milestones or defined goals. TTK's retained earnings have been increasing for over ten years but there is still no clear plan from the senior management or the board of directors of TTK on how such retained earnings will be utilized to grow or benefit TTK.

We do not need to look far to observe how setting well-defined goals can give direction and purpose to an organization. The Nippon Telegraph and Telephone Corporation ("NTT"), from which a majority of senior management and directors of TTK hail from, has well-defined goals in its business plan. For example, NTT made improving its earnings per share by 60%, a definite goal in 2012 which NTT achieved in 2016 through the pursuit of overseas sales growth and improved domestic competitiveness. NTT has also recently set the new goal of increasing its earnings per share from 391 yen to 400 yen by March 2018.

We encourage the board of directors and senior management of TTK to be accountable to its stakeholders by setting definite goals upon which progress can be measured. We have previously

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proposed viable growth strategies for TTK to consider and have indicated our unwavering commitment to help TTK should you decide to pursue such growth in the emerging markets of Asia.

### **Capital Efficiency**

TTK's current capital structure is highly inefficient. TTK's excessive internal reserves have resulted in the stock price to stay at a persistently undervalued level where its price to book ratio is significantly less than 1, despite the consistently robust performance of TTK's core business. The current stock price does not reflect the intrinsic value of TTK after taking into consideration TTK's cash reserves.

If the retained earnings are not utilized for the benefit of TTK, then TTK should consider returning this capital to investors through share buyback so that the funds might be re-invested by investors into more productive areas of the Japanese economy. \ mentioned that TTK is currently balancing the amount of retained earning being accumulated and the amount to be returned to shareholders. We respectfully seek clarification on this vague statement as it is important for investors to understand what this balance is and what plans TTK has for its retained earnings. To highlight another good management practice of NTT, the management of NTT has stated as one of its management goals to carry out share buybacks in order to return NTT's unutilized capital to investors.

### **Diversity**

TTK should also consider appointing to its board of directors more women and non-Japanese members for more effective decision making. Japan's Corporate Governance Code clearly states that the "*board should endeavor to select independent director candidates who are expected to contribute to frank, active and constructive discussions at board meetings*".

Being the largest shareholder in TTK, we would like to recommend that the board directors of TTK appoints Mr. Kin Chan as an independent director. Mr. Kin Chan has sat on the board of directors of various listed companies in many countries and is deeply familiar with the best practices in corporate governance. Being an outsider, Mr. Kin Chan will also bring a degree of independence to the deliberations of the board of directors of TTK. In addition, at the risk of being presumptuous, Mr. Kin Chan also has extensive experience in corporate finance and in helping companies expand internationally. We feel that TTK can benefit greatly from his appointment as a director. Being the largest shareholder in TTK, our interests are aligned.

Kindly contact me at \_\_\_\_\_ or via email at \_\_\_\_\_ should you have any questions. We look forward to further discussions with you.

Yours sincerely,



Kin Chan  
Argyle Street Management Limited