

IRCJ Approves Application for Assistance for K.K. Asaya Hotel

Tokyo, December 8, 2004 – The Industrial Revitalization Corporation of Japan (“the IRCJ”) today approved an application by K.K. Asaya Hotel (“Asaya Hotel”) under Article 22, Clause 3 of the Industrial Revitalization Corporation Act of 2003.

1. Outline of business approved for assistance

Company name	K.K. Asaya Hotel
Date of establishment	1888
Capital	¥95 million (as of October 31, 2003)
Head office	Fujihara-machi, Shiotani, Tochigi Prefecture
Representative	Tetsuo YAGISAWA
Number of employees	370 (as of October 31, 2004)
Outline of business	(1) <i>Onsen</i> (hot spring) resort hotel operations Asaya Hotel manages three accommodation facilities (one other is currently being closed down in the interest of efficiency) in the Kinugawa onsen area in the Nikko National Park, with 301 rooms and capacity for 1,374 guests. (2) Service area restaurant management The company manages a restaurant selling light food and various goods at the Kamikawachi service area on the Tohoku expressway that runs north out of Tokyo.

2. Name of financial institution or other party jointly submitting application

The Ashikaga Bank, Ltd.

3. Outline of revitalization plan for Asaya Hotel

1. Business plan

1. Clarify concept and key market

Under the key concepts of “*friendly and healing service*” and “*it always feels good to stay here*” the hotel will be marketed to a range of customer groups as a comprehensive onsen hotel.

2. Create a two-building structure

The aging Keifu building will be closed and demolished, as its condition means it can only be marketed at discount rates, and the Kanzan building will be converted into staff accommodation.

3. Increase unit prices

Prices will be set for the various target customer groups according to respective

room and food plans, and a separated food/accommodation plan will be offered with the aim of increasing average unit prices.

4. Boost associated sales through strategic tenant selection

The mix of food & beverage and other tenants within the hotel will be strategically adjusted with the aim of creating a more appealing atmosphere.

5. Organizational management structure

In addition to making use of an outside operations support company, authorities and responsibilities will be made consistent for each function, including sales, front desk, customer service, catering, cleaning, administration and so on, with the aim of increasing staff motivation and creating a clear organizational structure.

It is planned to form a board of directors comprising three members: a chief representative recruited from outside the company, and two part-time directors.

6. Capital expenditure plan

For the financial year to October 2006 the following capital expenditure is planned.

Onsen hotel operations

- Guest rooms will be refurbished with the aim of increasing occupancy rates and unit prices
- The food & beverage and retail facilities on floors 3-6 of the Shuho building will be refurbished to increase their appeal. The tenant mix will be adjusted to increase utilization and maximize sales opportunities.
- Electrical equipment and other infrastructure will be repaired and replaced

Service area restaurant operations

- Kitchen and restaurant space will be refurbished

2. Business restructuring

1. Asaya Hotel will be wound up after separating its continuing assets and liabilities into a new company.
2. Existing shareholders of Asaya Hotel are not expected to receive any distribution of assets when the company is wound up.
3. After corporate separation of the continuing assets into the new company, private investors and the IRCJ will inject ¥400 million into the new company, and will also underwrite a ¥800 million convertible bond issue.

3. Outline of financial assistance sought

A total of ¥20.7 billion in financial support will be sought from financial institutions.

4. Quantitative targets under the revitalization plan

Millions of yen	FY ended November 2004 (est.)	FY ending November 2007 (target)
Net sales	4,530	3,760
Operating income (loss)	(260)	150

5. Implications for management

In order to clarify responsibility, all current directors will resign.

6. Implications for shareholders

Winding up proceedings will take place immediately after the separation of ongoing operations into the new company, and it is not expected that any assets will be distributed to existing shareholders.

7. IRCJ rationale for providing assistance

Cause of current financial situation

The primary cause of Asaya Hotel's current situation is over-investment in a new building. Sales fell after this investment due to a poor economic environment. The company was unable to overcome its high debt structure, and has been unable to necessary capital funding.

Potential for revitalization

Hotel Asaya is the leading hotel in the Kinugawa onsen area, and with a considerable customer base has a stable business foundation and steady revenues. Under the concept of "friendly and healing service", the hotel will be reduced from four buildings to two, with the closure and demolition of the Keifu building and the conversion of the Kanzan building into staff accommodation. The IRCJ believes that there is ample potential for business revitalization through the above measures and through other initiatives such as clarifying target customer groups, creating a higher unit price structure, making necessary capital investment, and improving operational management. The process can also be positioned as a representative resort/hotel revitalization scheme based on the use of an outside operational support company.

4. Comments from the state ministers in charge of the Industrial Revitalization Corporation of Japan, and from ministers in charge of the target company's industry.

Minister of Land, Infrastructure & Transport: *I find nothing unreasonable about the decision of the IRCJ to provide support.*

Minister of Health, Labour and Welfare: No opinion expressed.

Note on comments from ministers: The IRCJ is a quasi-governmental organization. As such, the IRCJ is required to obtain comments about decisions to assist private-sector companies from the three government ministers in charge of the IRCJ, and from the minister of the industrial sector in which the target company operates.

5. Debt repurchase application period

From December 8, 2004 until January 26, 2005 (applications must arrive at the IRCJ on or before this date).

Note: The debt repurchase application period is a period established for the purpose of consensus building between the financial institutions concerned and the IRCJ in regard to debt repurchase and the revitalization plan. This period is so named because, where agreement is achieved in legal terms, the financial institutions concerned apply to the IRCJ for debt repurchase etc.

6. Request for temporary cessation of demands for credit repayment

Under Article 24, Clause 1 of the Industrial Revitalization Corporation Act, financial institutions and other creditors of Asaya Hotel have been requested not to recover loans or exercise any other rights they may have as creditors before the end of the debt repurchase application period as per item 5 above.

7. Treatment of trade and other creditors

The decision to provide assistance concerns only the request for financial support made to financial institutions in regard to amounts lent to the assisted business and has no effect on the claims of trade and other creditors.

For more information, please contact

Corporate Planning Department
The Industrial Revitalization Corporation of Japan
Tel: 03-6212-6437

#

About the IRCJ

The IRCJ was established jointly by the public and private sector on April 16, 2003, with the aim of providing revitalization assistance beneficial to both the industrial and the financial sectors in Japan. It targets assistance at companies that have sound business fundamentals but are unable to thrive because of excessive debt levels or other factors. The IRCJ has approximately 200 employees and is based in Tokyo. For more information please visit www.ircj.co.jp