

IRCJ Approves Application for Assistance for Daikyo Group companies

Tokyo, September 28, 2004 – The Industrial Revitalization Corporation of Japan (“the IRCJ”) today approved an application by Daikyo Incorporated and related Daikyo Group companies (“Daikyo Group”) under Article 22, Clause 3 of the Industrial Revitalization Corporation Act of 2003.

1. Outline of business approved for assistance

Company name	Daikyo Group and group companies: Daikyo Incorporated, Daikyo Kanri, Inc., Daikyo Jutaku Ryutsu Incorporated, Okinawa Daikyo Incorporated, Daikyo Rental K.K., Lionsfamily Inc.
Date of establishment	1964
Capital	¥65.046 billion (Daikyo Incorporated)
Head office	Shibuya-ku, Tokyo (Daikyo Incorporated)
Representative	Jihei Yamazaki (Daikyo Incorporated)
Number of employees	1,455 (Daikyo Incorporated)
Outline of business	Daikyo Incorporated and other companies develop and sell residential apartment buildings. Their core brand Lions Mansion is the market leader in the Tokyo Metropolis and throughout Japan. Daikyo Kanri, with other companies, provides apartment building management services, and is the industry leader in its field. Daikyo Jutaku Ryutsu and other companies provide real estate brokerage services, ranking as a mid-sized operation next to the major brokers.

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

UFJ Bank Limited

3. Outline of revitalization plan for Daikyo Group

1. Business plan

1. Concentrate and select operations

Based on its main business of developing residential apartment buildings, Daikyo Group’s operations will be reorganized with apartment building management services, real estate brokerage (including lease management operations) and services for new residents positioned as the core continuing businesses, and competitiveness in these areas will be strengthened.

Businesses with weak relationships to these core operations—including real estate leasing, golf resort management, and overseas, hotel and resort operations—will be reduced in scale or withdrawn from.

2. Adopt high turnover/low funding model (apartment building development business)

By pre-selling apartments, closely matching product supply with demand and other market circumstances while rigorously reviewing purchasing and product portfolios, the business will be shifted to a high turnover, low funding model that emphasizes cash flow, with the aim of increasing profitability.

3. Strengthen marketing capabilities (apartment building management business)

Stronger competitive advantage will be created through the provision of new services, with the aim of deepening relationships with existing customers and attracting additional clients. Customer and property information management will also be improved, with the aim of ensuring that business opportunities arising from relationships with existing customers can be leveraged by Group companies.

4. Expand operations to maximize Group earnings (real estate brokerage business)

The scale of real estate brokerage business operations will be increased through investment in measures such as hiring more sales representatives and opening new sales offices, with the aim of strengthening the competitive position of the business. Improvements made to real estate brokerage capabilities will be directed at contributing to higher resale value of Lions Mansion apartments, supporting higher demand for properties with one or two previous owners, and improving sales efficiency in apartment building development and sales operations.

5. Quantitative targets

	FY ending March 31, 2008 est.	
	Net sales	Operating income
Apartment building development business	¥200.0	¥16.0
Apartment building management business	¥45.0	¥3.5
Real estate brokerage business	¥19.0	¥2.5

6. Structural reorganization

Capital relationships between Daikyo Group and its subsidiaries and affiliated companies will be reviewed and adjusted, based on the twin policies of concentrating management resources in core businesses and withdrawing from or scaling back operations in non-core businesses.

In addition, early efforts will be made to secure and construct a capital relationship framework with a sponsor.

2. Outline of financial assistance sought (debt repayment plan)

1. Debt held by financial institutions

A total of ¥176.5 billion in financial support in the form of either debt forgiveness or Debt—equity swap (DES) will be requested from financial institutions holding debt owed by Daikyo Incorporated, Daikyo Rental, Lionsfamily, and Okinawa Daikyo.

2. Preferred shares

A 50% write-off of preferred shares issued by Daikyo Incorporated will be requested, in line with the capital reduction.

3. Implications for management

The primary cause of the Daikyo Group's present situation is irresponsible management of the business during Japan's bubble period. The directors of the business during that period have already left the company. Management of Daikyo Group under the business revitalization plan will be decided in cooperation with the sponsor.

4. Implications for shareholders

A capital reduction of approximately 99.2% will be implemented, and 50% of preferred shares outstanding will be cancelled without compensation. A capital increase through a third party share issue is planned, which will reduce the relative position of existing shareholders.

5. IRCJ rationale for providing assistance

The Daikyo Group has strong market positions and very high brand recognition. Daikyo Incorporated, with its strong Lions Mansion brand, was the leading supplier of apartment building residences for 26 consecutive years through 2003, and related businesses such as the apartment building management services provided by Daikyo Kanri and the real estate brokerage services provided by Daikyo Jutaku Ryutsu have substantial market positions.

However, although Daikyo Group has been attempting for some time to eliminate unrealized losses from the bubble period, the economic environment has been unfavorable, and the Group now faces an immediate need to speed up this process and restructure its operations.

The IRCJ believes that there is a strong prospect that Daikyo Group can be returned to financial health if a revitalization plan is implemented that retains the respective management resources supporting the leading market positions described above, while eliminating excessive debt and creating a synergistic business structure under which the apartment development, apartment management, and real estate operations leverage off each other to take maximum advantage of the resulting business opportunities.

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.

State ministers in charge of the IRCJ: None expressed

Minister of Land, Infrastructure & Transport: *Given that the real estate operations of Daikyo Group are understood to be fundamentally sound, I find nothing unreasonable about the decision of the IRCJ to provide support.*

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 September 28, 2004 until November 9, 2004 (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 Daikyo Group 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

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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 160 employees and is based in Tokyo. For more information please visit www.ircj.co.jp