

## IRCJ approves application for assistance for Kanebo, Ltd.

**Tokyo, March 10, 2004** – The Industrial Revitalization Corporation of Japan (“the IRCJ”) today approved an application by Kanebo, Ltd. and related companies under Article 22, Clause 3 of the Industrial Revitalization Corporation Act of 2003.

Note: The abovementioned decision to provide assistance incorporates two applications for assistance. The first concerns Kanebo, Ltd. and its 34 group companies (see separate sheet); the second concerns Kanebo Boutique Co., Ltd.

### 1. Outline of businesses approved for assistance

Company names	(1)	Kanebo, Ltd. (hereafter, “Kanebo”)
	(2)	Kanebo Boutique Co., Ltd. (hereafter “Kanebo Boutique”)
Dates of establishment	(1)	1887
	(2)	1975
Capital	(1)	31.34 billion yen (As of the end of September 2003)
	(2)	450 million yen (As of the end of March 2003)
Head offices	(1)	3-20-20 Kaigan, Minato-ku, Tokyo 108-8080
	(2)	3-20-20 Kaigan, Minato-ku, Tokyo 108-8080
Representatives	(1)	Mr. Takashi Hoashi
	(2)	Mr. Masahiro Fujita
Number of employees	(1)	Consolidated basis – 14,027
		Non-consolidated basis – 2,618 (As of the end of September 2003)
	(2)	28 (As of October 2003)
Outline of businesses	(1)	Cosmetics, Home Products, Textiles, Food, Pharmaceuticals, and other businesses including new materials and electronics.
	(2)	Manufacture and sale of textiles and accessories. Sale of cosmetics, pharmaceuticals, and food.

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

Sumitomo Mitsui Banking Corporation

### 3. Outline of business revitalization plan and rationale for IRCJ involvement

#### Outline of business plan

##### 1. Overall direction of business revitalization plan

Each Kanebo business that is deemed to be struggling will, as soon as possible, undergo drastic ‘selection and concentration’. In businesses targeted for restructuring, there will be a complete review of their strategy and a thorough reform of their management, business organization, and human resources. Whenever necessary, strategic alliances with third parties will be rapidly considered and implemented as appropriate.

##### 2. Reorganization of company and businesses

The management structure of the whole Kanebo Group will, as quickly and as thoroughly as possible, be divided up by business unit in order to crystallize management responsibilities.

The first step in this plan will be for Kanebo to spin off quickly its cosmetics division through a transfer of its operations. This is Kanebo’s healthiest business and the one that risks being damaged the most over time. Kanebo’s other divisions will remain listed and, under the IRCJ’s support, will each be thoroughly considered for potential selection, concentration or spinning off as appropriate.

### 3. Fundamental reforms to financial structure

Funds obtained from the transfer of the cosmetics division will be used by Kanebo to offset capital losses from asset appraisal losses and restructuring costs. The value of the business and assets of the other divisions will then be thoroughly audited.

Asset appraisal losses and restructuring costs from reducing and closing unprofitable businesses following this audit will be assessed, and additional losses sustained through asset-impairment accounting will be determined.

Should these additional losses exceed the funds generated from the transfer of the cosmetics division and lead to Kanebo's excessive debt burden not being resolved, or, should Kanebo's debts be deemed to be excessive in the light of the real value and profitability of Kanebo's other divisions, financial support and a reduction and subsequent increase in capital will be necessary to restore Kanebo's financial soundness. In that respect it may therefore be necessary to seek financial support.

### **Business plan**

#### 1. Strengthen cosmetics division

After spinning off Kanebo's cosmetics division, the risk of this business being damaged will greatly diminish. The new structure will also facilitate independent and flexible management. Raising new capital will loosen existing constraints on the company's investment and other programs, and will allow competitiveness to be improved.

Specific measures the company will take are as follows:

- Rebuild brand portfolio (concentrate existing brands, create new brands)
- Spend strategically on marketing and advertising
- Revise channel distribution policies
- Lift operational efficiency (distribution, logistics, etc.)
- Improve management infrastructure (invest in IT systems, etc.)

#### 2. Review unprofitable businesses

There will be a thorough and rapid selection and concentration of Kanebo's other divisions. As part of this, a comprehensive financial plan will be created that can be introduced as promptly and as broadly as possible. The creation of this plan will involve giving advance consideration to the necessity, rationality, and appropriateness of any capital that is assessed as likely to be required for restructuring and other measures.

A comprehensive restructuring plan will also be created and implemented for those businesses earmarked for concentration. This overall plan will include strategies for individual businesses that take into account their operational arenas and management structures.

#### 3. Improve organization structure to improve profitability

Implementation of this business revitalization plan is aimed at creating a new business organization that will enable revitalization of the entire Kanebo Group.

Specific structural measures in the plan include the following:

- Reforming the management structure (including external hiring)
- Considering shifting to a committee system
- Examining options for reorganizing and integrating Group businesses
- Reviewing the internal company structure
- Reducing surplus employee numbers
- Strengthening corporate governance

### **3 Business restructuring**

Kanebo will separate its core cosmetics division and, to maintain its value and make the most of future growth opportunities, will transfer the business to Kanebo Boutique, a

wholly owned subsidiary. Ahead of this transfer Kanebo Boutique will receive investment from the IRCJ, and Kanebo's investment ratio in Kanebo will then drop to 14%.

The transfer of the cosmetics division will clarify that division's value, and generate funds for Kanebo that will significantly improve its financial position. After the transfer, Kanebo will still hold some of the shares of Kanebo Boutique and so will continue to own some of the value of the business. Kanebo will also retain the right to purchase at market value some of the shares the IRCJ owns in Kanebo Boutique.

## **2. Outline of financial support**

The IRCJ will at a later date carry out a thorough audit of the value of the businesses and assets of Kanebo's other divisions to determine the amount and terms and conditions of any financial support. The IRCJ will also coordinate any debt resolution required to implement the transfer of the cosmetic operations from Kanebo.

## **3. Implications for management**

All eight directors of Kanebo, including the current President and Chairman Takashi Hotari, will resign. The management of Kanebo Boutique will also resign.

## **4. Implications for shareholders**

The audit of the assets of Kanebo's other divisions has not yet been completed, so the necessity and nature of any financial support required therefore remains to be determined. Once the audit by the IRCJ has been completed, any implications for shareholders will also be decided.

Kanebo Boutique is currently an indirect wholly owned subsidiary of Kanebo, and so any implications for shareholders of Kanebo Boutique will be borne by Kanebo. As mentioned above, implications for holders of Kanebo shares will be determined after completion of the audit.

Kanebo Boutique effectively has only one shareholder, Kanebo. Following the capital injection from the IRCJ and the transfer of the cosmetics business from Kanebo, this capital relationship will be completely revised and the existing shares that Kanebo holds in Kanebo Boutique will be cancelled without compensation.

## **6. IRCJ rationale for providing assistance**

Kanebo operates mainly cosmetics, home products, textiles, food and pharmaceuticals businesses. The core cosmetics business has 9,000 employees, customers in Japan and 47 other countries, and a top-level market share in its industry in Japan. Financially, however, the company's debt burden has become excessive because of business diversification. In the six months to September 30, 2003, Kanebo posted debts of 62.9 billion yen because of losses from closing businesses and costs from reducing staff.

Kanebo's core cosmetics business however has a strong business base. Separating the business from Kanebo quickly will avert the risk of damaging the business's value (its brand), while developing and implementing an appropriate business revitalization plan will, the IRCJ believes, make it possible to increase its corporate value.

Furthermore, the IRCJ believes that Kanebo can use the profit from the sale of the cosmetics business to improve the finances of its other divisions, cut the number of unprofitable operations, and reduce personnel.

## **4. Comments from the State Minister In Charge Of Industrial Revitalization And Administrative Reforms and the minister relevant to the company seeking assistance.**

### **1. With regard to the application from Kanebo:**

Comments from the Minister in Charge of Industrial Revitalization and Administrative reforms and from the minister relevant to the company seeking assistance, and a

convening of the Industrial Revitalization Committee will be made after the audit of Kanebo's other divisions has been completed and following the process to decide the details for the business revitalization."

2. With regard to the application from Kanebo Boutique\*  
None expressed.

\*Note on comments from ministers:

The IRCJ is a quasi-governmental organization. As such it is IRCJ policy to obtain comments about decisions to assist private-sector companies from the government ministries that regulate the industries in which these companies operate.

#### **5. Debt repurchase application period**

1. The application period for the repurchase of debt from Kanebo is from March 10, 2004 to June 9, 2004.
2. The application period for the repurchase of debt from Kanebo Boutique is from March 10, 2004 to March 31, 2004.

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 Kanebo 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 130 employees and is based in Tokyo. For more information please visit [www.ircj.jp](http://www.ircj.jp)

# **Kanebo, Ltd. and its 34 group companies**

**Kanebo, Ltd.**

**Kanebo Cosmetics Sales Co., Ltd. (Hokkaido)**

**Kanebo Cosmetics Sales Co., Ltd. (Tohoku)**

**Kanebo Cosmetics Sales Co., Ltd. (Kanetsu)**

**Kanebo Cosmetics Sales Co., Ltd. (Higashi Kanto)**

**Kanebo Cosmetics Sales Co., Ltd. (Tokyo)**

**Kanebo Cosmetics Sales Co., Ltd. (Minami Kanto)**

**Kanebo Cosmetics Sales Co., Ltd. (Central Japan)**

**Kanebo Cosmetics Sales Co., Ltd. (Kansai)**

**Kanebo Cosmetics Sales Co., Ltd. (Central Shikoku)**

**Kanebo Cosmetics Sales Co., Ltd. (Kyushu)**

**Kanebo Cestmoi Co., Ltd.**

**Kanebo Pharmaceuticals (Pharmaceutical Division)**

**Kanebo Spinning Corporation**

**Kanebo Stocking Co., Ltd.**

**Kanebo Fashion Laboratory (KFL) Co., Ltd.**

**Kanebo Foods Limited**

**Kanebo Food Sales Co., Ltd. (Hokkaido)**

**Kanebo Food Sales Co., Ltd. (Tohoku)**

**Kanebo Food Sales Co., Ltd.**

**Kanebo Food Sales Co., Ltd. (Nagoya)**

**Kanebo Food Sales Co., Ltd. (Osaka)**

**Kanebo Food Sales Co., Ltd. (Hiroshima)**

**Kanebo Food Sales Co., Ltd. (Kyushu)**

**Kanebo RainbowHat Co., Ltd.**

**LB Co., Ltd. (Saitama)**

**LB Co., Ltd. (Nagoya)**

**Kanebo Logistics, Limited**

**Shop & Shops Co., Ltd.**

**Kanebo Chemical Industries, Ltd.**

**Kanebo Bell-touch, Ltd.**

**Kanebo Real Estate, Co., Ltd.**

**Kanebo Holiday Co., Ltd?**

**Kanebo Kosan Co., Ltd.**

**Bell Finance Co., Ltd**

# Schematic Outline of Transfer of Cosmetics Division: Capital Flows

