

Revised IRCJ assistance approved for Kanebo, Ltd.

Tokyo, May 31, 2004 – The Industrial Revitalization Corporation of Japan (“the IRCJ”) today withdrew the approval it had granted on March 10, 2004 to Kanebo, Ltd. and related companies under Article 22, Clause 3 of the Industrial Revitalization Corporation Act of 2003, and at the same time approved a new request for assistance under the same Act.

1. Outline of businesses approved for assistance

Company names	Kanebo, Ltd. (hereafter, “Kanebo”) and 34 group companies (see separate sheets)
Dates of establishment	1887
Capital	31.34 billion yen (As of March 31, 2004)
Head offices	3-20-20 Kaigan, Minato-ku, Tokyo 108-8080
Representatives	Mr. Akiyoshi Nakajima
Number of employees	Non-consolidated: 2,435 (of which, 1,025 in cosmetics) as of March 31, 2004 Consolidated: 13,580 (of which, 8,714 in cosmetics)
Outline of businesses	The Kanebo Group is involved in a range of businesses, including 1, Home products 2, Pharmaceuticals 3, Food 4, Fashion 5 Textiles 6 New materials. Main businesses are outlined as below.

Home products

Manufacture and sale of toiletry products. Main products include hair care, skin care, bath soaps, etc

Pharmaceuticals

Eastern medicines for consumer and medical professional use. Market leader in eastern medicine market for consumers; market number two for medical professionals

Foods

Manufacture and sale of cakes, beverages, frozen desserts, Market leader in tablet sweet mints.

Fashion

Manufacture and sale of foreign brands under license

Textiles

Manufacture and sale of synthetic fabrics including polyester, nylon filament, PET resins, etc.

Manufacture and sale of natural fibers including cotton, wool, silk, etc.

New materials

Bellace operations: sale and manufacture of synthetic leather

Textured Glass operations: processing and sale of glass fibers, aramid fibers, etc.

Vision system operations: design, manufacture and sale of automatic video inspection systems

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. Restructuring of operational portfolio

Each business in the Kanebo Group will be assessed and placed into one of four categories, and managed accordingly.

Category 1.

Businesses with sound fundamentals and strong potential to continue as core operations.

Category 2.

Businesses with sound fundamentals but requiring decision on suitability as core operations.

Category 3.

Businesses requiring rapid investigation and decision on whether to retain, sell, or liquidate operations

Category 4

Businesses that require immediate sale or liquidation if no buyer can be found.

Category 1 businesses

Home product operations; Pharmaceuticals; Foods (Frisk, snacks, and flour divisions); Fashion (specific lines such as Fila, Lanvin, etc.)

Category 2 businesses

Specific synthetic fiber operations (four types of nylon, polyester, polymers) concentrated at the Hokuriku plant; Stocking operations; Vision Systems division of new materials business; LB, Ltd. Nagoya/Saitama (carton drinks); Kanebo Agritech (Shiitake mushrooms); Kanebo Commemorative Hospital.

Category 3 businesses

Frozen desserts division of Foods business and Rainbow Hat frozen desserts retail division; Intimate apparel division and retail division of Fashion business; Kanebo Distribution.

Category 4 businesses

Noodle and beverages division of Foods business; Natural fiber operations, including overseas; all divisions related to the Bofu Synthetic Fiber plant and overseas operations of the Synthetic Fibers business; all New Materials businesses other than Vision Systems; other non-core businesses.

2. Reform of management structure

The general approach will be to centralize and speed up decision making related to fundamental management policy and strategy, with the aim of pursuing synergies and optimizing policy across the Group. While restructuring Group businesses, personnel will be reduced at head office indirect functions and the organizational structure as a whole will be simplified.

Transparency and governance will also be improved by transitioning to a Committee System. Half of the board of directors will be outside directors, and particular consideration will be given to the appointment of a Chief Restructuring Office (CRO) from outside. Additionally, the remuneration system will change from service-based seniority to a performance-based system.

3. Financial restructuring

The financial position of Kanebo Group will be fundamentally improved through a

combination of debt forgiveness, capital reduction, and recapitalization.

1. Outline of debt forgiveness

Kanebo Group will seek debt forgiveness of ¥99.5 billion.

2. Capital reduction and reverse stock split

Capital will be reduced by ¥31.2 billion, or approximately 99.7%

A 10:1 reverse stock split will also be carried out, and the share trading unit will be reduced from 1,000 shares to 100 shares.

3. New share issue

Sumitomo Mitsui Banking Corporation and the IRCJ will underwrite a capital increase of ¥50 billion (SMBC: ¥30 billion, IRCJ: ¥20 billion). Through this it is planned that the IRCJ will effectively assume control of Kanebo with voting rights of more than 50%. An extraordinary shareholders' meeting is planned under section 280 of the Commercial Code.

4. Implications for management

In order to clarify responsibility for the performance of Kanebo Group, the entire board resigned at the end of March 2004. All the former directors declined to receive any retirement payments

5. Implications for shareholders

The relative shareholding of existing shareholders will be reduced, in accordance with the approximately 99.7% reduction in capital, the 10:1 reverse stock split, and the third party allocation of new shares.

6. Reason for withdrawal of previous support and rationale for supporting new application

The Kanebo group of companies targeted for assistance ("Kanebo Group"), centered on Kanebo Ltd. ("Kanebo"), is heavily over-indebted due to factors such as extensive business expansion carried out in the name of diversification and delays in withdrawing from unprofitable businesses. In the fiscal year ended March 31, 2004, the Company was insolvent to the tune of ¥355.3 billion, due to extraordinary costs relating to matters such as business withdrawal, capital write-downs and appraisal losses expenses resulting from business withdrawal.

Kanebo Group, however, has amassed considerable product development and technical capabilities in its 117-year history, and the Kanebo brand value is supported by numerous transaction partners and consumers. For this reason, there is a high possibility of being able to revitalize operations through selection and concentration of the widely scattered portfolio of businesses in Kanebo Group. Moreover, the actions of the IRCJ in restructuring one of the many business groups in Japan that have fallen victim to unstrategic diversification will serve as a valid model to the business community.

Specific plans call for a shift from the former main businesses of manufactured materials, such as textiles, to a business portfolio that built around consumer-oriented products such as home products and pharmaceuticals. At the same time the balance sheet will be reduced, with the aim of improving capital efficiency.

Note:

On March 10, 2004 the IRCJ accepted an application for assistance by the Kanebo Group based on a revitalization plan (hereinafter "the former revitalization plan") that centered on the sale of Kanebo's cosmetics division. Because the business revitalization plan in the new application for assistance is substantially different from that of the former revitalization plan, approval for the former application has been withdrawn and replaced by today's decision to support the new business

revitalization plan.

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

Prime Minister: None expressed.

Minister of Finance: None expressed

Minister of Health, Labour & Welfare: None expressed

Minister of Agriculture, Forestry and Fisheries: None expressed

Minister of Economy, Trade and Industry:

1. "I trust that the IRCJ can implement the revitalization plan for Kanebo in a way that minimizes disruption, and that in order to carry out the plan in an appropriate manner, due consideration is given to possible impact on domestic and international employees, on related downstream companies, and on regional economies."
2. "I trust that, in order to carry out the revitalization plan in an appropriate manner, the IRCJ effectively manages the debt held by Kanebo and its related businesses."
3. "Because a considerable impact on Japan's textile industry is possible, I trust that the IRCJ will communicate closely with the MINISTRY when undertaking sale of synthetic fiber operations or other such measures."
4. "I trust that, with due consideration to the above points, the IRCJ moves as quickly as possible to bring about an autonomous, private sector rehabilitation of Kanebo, including the cosmetics business that has already been transferred."

*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

The application period for the repurchase of debt from Kanebo is from May 31, 2004 to July 30, 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

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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.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