

IRCJ approves application for assistance for Matsuya Denki K.K.

Tokyo, September 26, 2003 – The Industrial Revitalization Corporation of Japan (“the IRCJ”) today approved an application for assistance by Matsuya Denki K.K. (“Matsuya Denki”) under Article 22, Clause 3 of the Industrial Revitalization Corporation Act of 2003.

1. Outline of business approved for assistance

Company name	Matsuya Denki K.K.
Date of establishment	October 1951
Capital	¥14.661 billion (as of July 31, 2003)
Head office	3-7-2 Nihonbashi, Naniwa-ku, Osaka-shi, Osaka
Representative	Masao Hirai
Number of employees	975 (as of the end of July 2003)
Outline of business	The company’s main business is supplying products to general retailers of electrical goods, to consolidated subsidiary Matsuya Denki Hokkaido, and to franchisee stores.

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

Resona Bank, Limited

3. Outline of revitalization plan and rationale for IRCJ involvement

1. Structure

(1) Transfer of operations following civil rehabilitation proceedings.

The company will start civil rehabilitation proceedings, and an agreement regarding the management transfer of its operations will be reached with sponsors shortly after a public tender to value the business. Under the authority of Article 42 of the Civil Rehabilitation Law or alternate Article 43, operations will then be transferred to a new company that will be capitalized by sponsors, and relaunched as New Matsuya Denki.

■ Rationale for adopting the above-mentioned plan

The above-mentioned plan will limit the damage to Matsuya Denki’s corporate value that would arise if customer counts dropped or franchisee stores defected. To enable the business to recover quickly, this plan will separate off Matsuya Denki’s large interest-bearing debt burden, which will be disposed of through the liquidation of the original company. Matsuya Denki’s best stores will be transferred to the new company, which will be capitalized by sponsors. We believe that relaunching the company under well-funded, respected new management is the most effective and practical revitalization method available, and that other approaches would make it very difficult for the company to continue operating.

At the same time, Matsuya Denki has limited cash reserves, and under the terms of the Commercial Code a special resolution is required at a shareholders’ meeting to authorize the transfer of Matsuya Denki’s operations. Matsuya Denki, however, is a publicly traded company, and in reality it would not be possible to obtain this kind of resolution. We therefore believe that the best and quickest way to a) revitalize Matsuya Denki’s core business, b) make optimal use of resources from the liquidated company, and c) maximize corporate value, is to commence civil rehabilitation proceedings and, under with alternate permission under Article 43 of the Civil Rehabilitation Law, transfer management to a new company capitalized by sponsors.

■ Importance and mutual benefits of IRCJ assistance

Because the business operations will be transferred in their existing form, the IRCJ’s participation will increase the likelihood of implementing the revitalization plan and help ensure the cooperation of suppliers. Under civil rehabilitation proceedings it is possible

for trade accounts payable to be settled in full, and by purchasing debt from financial institutions (parties with the right of exclusion) a smooth transfer of operations will be enabled.

Note: Matsuya Denki decided to apply for and start civil rehabilitation proceedings on September 25, 2003, prior to applying for assistance from the IRCJ.

(2) Liquidation of excessive debts through civil rehabilitation proceedings

The assets and liabilities remaining after the transfer of Matsuya Denki's operations will be liquidated during civil rehabilitation proceedings. The tender offer by sponsors for the above-mentioned operations will ensure the transfer will occur at the correct value. To maximize the price of the operational transfer, we aim to make best use of the available assets in the company to be liquidated.

(3) Debt-equity swap

As mentioned above, the former Matsuya Denki will be liquidated after the transfer of its operations, and because of this there are no plans to swap the company's debt for equity. The new company, however, while boosting its capital reserves and paying for management rights to the former operations by seeking a significant capital injection from sponsors, may undertake debt equity swaps with main banks and other financial institutions, and on the debt purchased by the IRCJ.

2. Outline of financial assistance

Financial institutions are expected to write off ¥41.8 billion.

However, this figure is only the currently estimated amount, and because it is subsequent to confirmation during civil rehabilitation proceedings, it may increase. On the other hand it may also decrease, depending on the outcome of the public offering by the above-mentioned sponsors.

3. Implications for management

To take responsibility for previous management problems, all current directors, apart from the president, will resign. It is believed that without the current president it would be very difficult to successfully shift the business to the new company, which is the basis of the revitalization plan. Therefore the current president will remain with the company until a new management team takes control. Furthermore, the former president, who is currently an advisor to the company, will resign and cut all connections with the company.

4. Implications for shareholders

With the commencement of civil rehabilitation proceedings, existing shares will be delisted at some point in the future and, after transferring operations, the company will be dissolved. No payouts to shareholders are expected from proceeds from the remaining assets. As a result, the main implication for shareholders is that the value of their holdings in the company will drop to zero.

5. The IRCJ's rationale for providing assistance

The IRCJ's rationale for providing assistance in this case is as follows:

Matsuya Denki operates electrical goods discount stores mainly in the Kansai region, and has a unique business model. If the company can apply this model to all its stores it should be able to produce good cash flow and thrive in the highly competitive operating environment. However, because the company previously made excessive investments and provided financial support to franchisees, the company is suffering under excess debt. This has become practically impossible to repay, and is stifling its core business.

To remove these negative legacies and to improve its core business, the company applied to start proceedings under the Civil Rehabilitation Law and to restart its business after transferring management of its operations. We believe that if Matsuya Denki can return to its original and effective business model—accumulating small retail areas in urban districts—and retain its best assets in the new company without destroying their value, it will be able to successfully revitalize its business.

Furthermore, we believe that by engaging in this project we will be able to demonstrate a new model for business revitalization in which IRCJ assistance is incorporated into judicial

rehabilitation proceedings.

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

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

September 26, 2003 to December 1, 2003 (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 Matsuya Denki 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 130 employees and is based in Tokyo. For more information please visit www.ircj.jp