

IRCJ Approves Application for Assistance for Misawa Homes Holdings, Inc. and group companies

Tokyo, December 28, 2004 – The Industrial Revitalization Corporation of Japan (“the IRCJ”) today approved an application by Misawa Homes Holdings, Inc. and related group companies (“Misawa Group”) under Article 22, Clause 3 of the Industrial Revitalization Corporation Act of 2003.

1. Outline of business approved for assistance

Company name	Misawa Homes Holdings, Inc. and 30 related companies (see attached)
Date of establishment	1967 (Misawa Homes, Co., Ltd.)
Capital	¥45.2492 billion (Misawa Homes Holdings, Inc., as of September 30, 2004; information below also relates to Misawa Homes Holdings, Inc.)
Head office	Nishi-Shinjuku, Shinjuku-ku, Tokyo
Representative	Kazuo Mizutani
Number of employees	8,201 (Consolidated base, as of September 30, 2004)
Group outline	The holding company oversees 62 consolidated subsidiaries, including Misawa Homes, Co., Ltd., and three equity method affiliated companies
Outline of business	Misawa Group’s operations cover three business areas: Housing (detached houses, apartments, and other housing-related operations); Renovation; and Other (golf resort operations, large scale land development operations, finance, resort management, etc.). Misawa Group’s housing business is one of Japan’s top three residential housing operations. Centered on wood-framed prefabricated construction, the operation has developed a strong brand over many years. It has strong brand, strong technical and design capabilities, and strong design proposal capabilities through its nationwide dealer network.

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

UFJ Bank Limited

3. Outline of revitalization plan for Misawa Group

1. Business plan

Concerns over the company’s creditworthiness will be eliminated by the participation of a sponsor, and revitalization of Misawa Group’s core Housing and Renovation businesses will be based on the Group’s product development strengths and nationwide dealer

network.

Key elements of the revitalization plan are as follows.

1. Housing business

- a) In detached housing operations, the business will be brought more closely in line with diverse customer needs by reviewing the product and pricing structure, focusing on mid-range products
- b) Brand image will be strengthened and recognition of the Group's operations will be boosted by increasing promotional activities
- c) Marketing power and marketing management skills will be enhanced by strengthening the sales support system for dealers and increasing the number of sales representatives
- d) In the apartment business, efforts will first be directed at strengthening the sales base in the Tokyo metropolitan area, through measures such as developing an appropriate product range and constructing an owner support system.

2. Renovation business

- a) Measures will be implemented with the aim of increasing sales, improving customer recognition, and improving the corporate image, by developing products and strengthening promotional activities using concepts from the housing business
- b) A low-cost marketing system will be strengthened through the engagement of part-time home advisors.

Non-core operations such as golf resorts, finance, and large-scale land development projects will at an early stage be either disposed of or withdrawn from, and management resources will be concentrated on core operations.

A new governance system covering organization management, personnel systems and related matters will be developed in cooperation with the sponsor to be selected.

2. Business restructuring

In order to concentrate management resources in the core areas of residential housing operations, tender offers or other procedures will be used to rapidly dispose of non-core operations and non-performing assets, and the business structure will be comprehensively reformed.

A sponsor selection process will be commenced promptly, in order to strengthen the Group's creditworthiness and allow strengthening of the core businesses. Selection of a sponsor will result in a change to the capital structure of the Group, due to accompanying measures such as a capital reduction affecting ordinary shares and the cancellation without compensation of preferred shares.

3. Outline of financial assistance sought

1. Debt held by financial institutions

A total of ¥140.0 billion in financial support (including a ¥20.0 billion debt—equity swap by UFJ Bank) will be requested to financial institutions holding debt owed by Misawa Group.

2. Preferred shares

Preferred shares issued by the Misawa Group holding company will be cancelled in line with the capital reduction (equivalent to ¥108.0 billion in the case of an 80% reduction).

4. Quantitative targets under the revitalization plan

Millions of yen	FY ended March 31, 2004 (actual)	FY ending March 31, 2005 (est.)	FY ending March 31, 2008 (target)
Net sales	403,495	392,300	414,900
Operating income	30,688	18,700	25,300

5. Implications for management

The primary cause of Misawa Group's present situation is investment in real estate in the mid-to late-1980s. Although current management is not judged to be responsible for this situation, the course of action regarding the board will be decided by the sponsor to be appointed.

6. Implications for shareholders

The holdings of existing owners of ordinary shares will be diluted due to a capital reduction of approximately 99%, a 10:1 reverse share split, and recapitalization by a sponsor to a controlling level.

7. IRCJ rationale for providing assistance

The Misawa Group has a substantial competitive presence. It has developed its brand strength over a considerable number of years, it has strong technical and design capabilities characterized by the panel construction method used in its wood-framed houses, and provides customers with strong design proposals through its dealer network. These factors have allowed Misawa to remain in the top three major companies in the industry, even in the harsh operating environment in recent years.

From the mid-1980s, however, Misawa Group has become burdened with large amounts of non-performing assets and excessive debt, because of attempts to diversify operations by venturing into golf resort development, real estate collateral loans and other types of finance, and large-scale land development projects.

Since 1993 the Group has pursued various restructuring measures, such as reviewing or withdrawing from golf development and large-scale land development projects, and

disposing of non-performing real-estate and other assets, but worsening external factors—including continued falls in land prices—and reduced profitability resulting from worsened perceptions of creditworthiness have reduced the group's ability to revitalize operations under its own power.

The IRCJ believes that the Group's creditworthiness and marketing power can be strengthened if excessive indebtedness is reduced through the receipt of financial support and rapidly bringing a sponsor on board. The IRCJ also believes that profitability can be improved by comprehensively dealing with non-performing assets and withdrawing from non-core businesses, while concentrating management resources on the core areas of detached housing sales, reviewing product and pricing strategies, and strengthening dealer support. The IRCJ has therefore judged there to be a strong prospect for revitalization of this business.

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 Economy, Trade and Industry: None expressed

Minister of Land, Infrastructure & Transport: *In the light of the current state of the residential housing industry, I find nothing unreasonable about the decision of the IRCJ to provide support to Misawa Homes Holdings Inc. and its 30 related companies.*

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 28, 2004 until March 25, 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 Misawa 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

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

List of 31 companies included in application for support

Misawa Homes Holdings, Inc.
Misawa Homes Co., Ltd.
Misawa Homes Hokkaido Co., Ltd.
Misawa Homes Kitanihon Co., Ltd.
Tohoku Misawa Homes Co, Ltd.
Misawa Homes Fukushima Co., Ltd.
Misawa Homes Shin-Etsu Co., Ltd.
Misawa Homes Higashi-kanto Co., Ltd.
Misawa Homes Nishi-Kanto Co., Ltd.
Homing Saitama Co., Ltd.
Misawa MG Kensetsu Co., Ltd.
Misawa Homes Tokyo Co., Ltd.
Misawa Homes Shizuoka Co., Ltd.
Misawa Homes Toukai Co., Ltd.
Mie Misawa Kensetsu Co., Ltd.
Misawa Homes Kinki Co., Ltd.
Awaji Misawa Homes Co., Ltd.
Misawa Homes Chugoku Co., Ltd.
Misawa Homes San-in Co., Ltd.
Misawa Homes Kyushu Co., Ltd.
K.K. Misawa Techno
Toyama Jyutaku Kogyo K.K.
Shikoku Jyutaku Kogyo K.K.
Mother Earth K.K.
Techbuild K.K.
Misawa Real Estate Co, Ltd.
K.K. Biruzugaden Sapporo
K.K. Kokusai Koutou Kenkyujyo
Kyushu Land Kaihatsu Co., Ltd.
Setouchi Resort K.K.
Misawa Finance K.K.