

IRCJ approves application for assistance for Okawaso Co., Ltd.

Tokyo, May 17, 2004 – The Industrial Revitalization Corporation of Japan (“the IRCJ”) today approved an application by Okawaso Co., Ltd. under Article 22, Clause 3 of the Industrial Revitalization Corporation Act of 2003.

1. Outline of business approved for assistance

Company name	Okawaso Co., Ltd.
Date of establishment	1954
Capital	¥31,420,000 (as of March 31, 2004)
Head office	Ashinomaki Onsen, 984 Ashinomaki Shimohira, Oaza, Oto-cho, Aizu Wakamatsu, Fukushima Prefecture
Representative	Tokihiro Wakabayashi
Number of employees	191 (as of April 2004)
Outline of business	Hot spring resort hotel operations The company manages a hot spring resort hotel in Ashinomaki Onsen on the outskirts of Aizu Wakamatsu. The company’s services take advantage of the location and size of the Ashinomaki area, which is blessed with beautiful scenery. Okawaso has established itself as one of the foremost large-sized hotels in this hot spring resort town.

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

Toho Bank, Ltd.

3. Outline of revitalization plan for Okawaso and rationale for IRCJ involvement

Business plan

1) Improve management and administration of hotel

Although an earlier replacement of management at Okawaso achieved a certain

level of cost cutting and other positive outcomes, there was no dramatic improvement in the company's operations. Okawaso will therefore form a business partnership with Yawataya from Bobata Onsen, a first class hot spring resort hotel operator, with the aim of significantly improving its operations. The main improvements will be as follows:

A) Renovate concept

Okawaso will continue to pursue its own high-level renovation focusing on three areas: cleaning standards, food quality, and the onsen experience. It will create services that satisfy both individual customers and group customers by renovating the front lobby area and devising new and improved services and customer experience. The company will also make regular capital investments seeking to secure the satisfaction of high value customers.

B) Sound sales strategy

- Strengthen marketing in the Tokyo metropolitan area where the company's customer appeal is weak.
- Develop good relationships with travel agencies, especially small- to medium-sized travel agencies.
- Take advantage of promotions such as the 'Visit Japan Campaign' to appeal to customers from overseas.

C) Rigorous cost controls and comprehensive review of yield management

- Review purchasing and personnel costs
- Manage costs for individual or group transactions
- Introduce reservation system to raise the maximum occupancy ratio, without reducing transaction numbers

More information on these issues will become available following further discussions with Yawataya.

2) Capital spending plans

The minimum investment required for renovation work will begin forthwith.

Investment needed to attract more customers (such as expanding the outdoor bathing facilities) will start following discussions between the IRCJ, the relevant financial institutions and business partners.

2 Business reorganization

As pertaining to shareholders, the company's capital will be reduced by 100%.

Following a debt equity swap, financial institutions will hold shares in the company until the takeover by the sponsor.

An application will be made under the Law on Special Measures for Industrial Revitalization.

2. Outline of financial assistance

Okawaso will ask the relevant financial institutions for financial assistance (debt forgiveness and DES) of 5.2 billion yen.

3. Forecasts from the business revitalization

	<i>Millions of yen</i>	
	Year ended March 31, 2004	Year ending March 31, 2007
Net sales	1,771	1,899
Operating income	(536)	103
Recurring income	(647)	65
Net income	(647)	38
Interest-bearing liabilities	6,429	1,067

4. Implications for management

- Mr. Wakabayashi will resign his position as President immediately. He will, for the foreseeable future, continue as a director without voting rights. He will maintain a role in sales and the hot spring committee.
- Founding family member Takashi Suzuki will also resign his position as a director.

5. Implications for shareholders

To clarify the implications for the existing shareholders, all shares will be cancelled without compensation.

6. IRCJ rationale for providing assistance

1) Reason for the company's current situation

The main reasons that Okawaso is in this untenable situation are that a) the company overinvested in the construction of a new hotel building, and b) the original management did not manage costs effectively. When an economic

recession led to a drop in net sales, the current management was unable to remove the excessive liabilities and was unable to raise sufficient capital to make necessary investments.

2) Possibility of revitalization

The fact remains, however, that some 30 percent of visitors to Ashinomaki Onsen stay at Okawaso. The Company therefore has a proven ability to attract customers, and as a result its core business is solid and remains profitable. The IRCJ believes that by reducing the excessive liabilities, which are the main reason for the company's current problems, making necessary capital investments, and improving operations it is likely that the company can be successfully revitalized.

Furthermore, the IRCJ believes that by revitalizing a hotel that has been a symbol of the Ashinomaki Onsen area, we are making an investment in maintaining and strengthening the appeal of the area to customers. At the same time, rebuilding an effective management structure can serve as an example for how to revitalize other hot spring hotels.

4. Comments from the State Minister In Charge Of Industrial Revitalization And Administrative Reforms and 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

May 17, 2004 to July 13, 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 Okawaso 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.jp