

IRCJ approves application for assistance for Shoren Corporation

Tokyo, September 28, 2004 – The Industrial Revitalization Corporation of Japan (“the IRCJ”) today approved an application by Shoren Corporation for assistance under Article 22, Clause 3 of the Industrial Revitalization Corporation Act of 2003.

1. Outline of businesses approved for assistance

Company name Shoren Corporation (hereafter, “Shoren”)

Date of
establishment 1969

Paid-in capital ¥300 million yen (as of August 31, 2004)

Head office Kitahiroshima City, Hokkaido

Representative Noboru Misaki, President

Number of
employees 95 (as of June 31, 2004)

Outline of
business Shoren is a wholesaler of cosmetics and daily consumer products in Hokkaido and controls the second largest share in the region. The Company stocks products mainly from national manufacturers and possesses a broad customer base selling mainly to drugstores, supermarkets, and other major retailers in Hokkaido. Shoren’s logistics and inventory management functions serve an important role from the perspective of retailers in responding to on-demand needs with small-lot delivery while providing a broad range of products.

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

The Hokkaido Bank, Ltd.

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

1. Outline of business plan

1. Review of sales and marketing

(1) Steps will be taken to improve Shoren’s product procurement capabilities, expand its sales base, and reduce its cost ratios, making maximum use of the creditworthiness and customer base of sponsor Paltac Co., Ltd. (“Paltac”).

(2) Shoren will aim to increase operational efficiency by leveraging Paltac’s operational expertise and adopting information systems used by Paltac.

2. Restructuring of logistics system and organizational framework

Logistics bases will be merged with the head office and costs will be reduced. Roles within the Company will be clarified by improving the organizational framework.

3. Review of facilities and disposal of idle assets

Equipment within the main distribution center will be converted to Paltac’s specifications with the aim of improving efficiency and reducing costs.

4. Reduction of funding procurement costs

Becoming part of Paltac's operations through management transfer will create opportunities to leverage Paltac's creditworthiness for the procurement of funds.

2. Business restructuring

The following structuring has been planned.

- (1) Implementation of financial assistance (debt forgiveness) through relevant financial institutions.
- (2) Transfer of all operations to Paltac.
- (3) Subsequent liquidation of Shoren.

3. Outline of financial assistance

Financial assistance (debt forgiveness) of about ¥2.1 billion will be sought from financial institutions.

4. Implications for management

The directors responsible for Shoren's current predicament have already resigned, and have forfeited any right to directors' retirement benefits.

5. Implications for shareholders

After the transfer of operations to Paltac, Shoren will swiftly be wound up. No distribution of surplus assets to shareholders is expected.

6. IRCJ rationale for providing assistance

Shoren has wholesale operations in cosmetics and daily consumer products in Hokkaido and controls the second largest share in the region. The Company mainly stocks products from national manufacturers and possesses a broad customer base selling mainly to drugstores, supermarkets, and other major retailers in Hokkaido. Furthermore, Shoren's logistic and inventory management functions serve an indispensable role from the perspective of retailers in responding to on-demand needs for small-lot delivery while providing a broad range of products.

Shoren, however, currently has an excessive level of debt, primarily due to the failure of overseas operations in the 1990s. This failure occurred in an environment in which the needs of domestic retailers were becoming increasingly sophisticated, and rapid restructuring of the wholesale industry was accentuating differences between companies in terms of their information networks, marketing ability, distribution and logistics systems. Business revitalization without outside assistance was determined to be unlikely.

The chief provisions in the revitalization plan for Shoren are: (1) elimination of excessive debt through financial assistance and (2) operational restructuring through transfer of the business to Paltac as sponsor.

Under the plan Shoren will (1) pursue economies of scale by leveraging Paltac's customer base to both the quantity and quality of client transactions, and (2) improve efficiency by leveraging Paltac's experience as a major wholesaler of nationwide cosmetics and daily consumer products and adopting Paltac's operational systems.

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.

None expressed.

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 September 28, 2004 until November 17, 2004 (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 Shoren 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

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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.co.jp