

IRCJ approves assistance for Taiho Industries Co., Ltd.

Tokyo, May 20, 2004 – The Industrial Revitalization Corporation of Japan (“the IRCJ”) today approved an application for assistance by Taiho Industries Co., Ltd. under Article 22, Clause 3 of the Industrial Revitalization Corporation Act of 2003.

1. Outline of businesses approved for assistance

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| Company name | Taiho Industries Co., Ltd. (hereafter, “Taiho”) |
| Dates of establishment | 1953 |
| Capital | 3.582 billion yen (as of March 31, 2004) |
| Head offices | Minato-ku, Tokyo |
| Representative | Mr. Hiromi Osakada |
| Number of employees | 268 (as of September 30, 2003) |
| Outline of businesses | Taiho is involved in a range of businesses. Major businesses include: <u>First Division</u> Manufacture and sale of fuel additives, chemical powder disposal agents, defoaming agents and other industrial chemicals <u>Second Division</u> Manufacture and sale of chemicals for the automotive industry <u>Third Division</u> Manufacture and sale of chemical products for office equipment, etc. <u>Chemical Engineering Division</u> Design, manufacture and sale of industrial furnaces, oil tank cleaning operations, sale of oil tank cleaning equipment |

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

UFJ Bank Limited

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

1. Outline of business plan

1. Selection and concentration of businesses

Business foundations will be strengthened by concentrating management resources in the chemical agents division, which has strong technical and product development capabilities and a superior competitive position. Specifically, the First, Second, and CE divisions will be positioned as the continuing operations.

Businesses with only limited relevance to the chemical agents division, such as the Third Division and golf resort operations, will be reduced in scale or withdrawn from.

2. Strategy for continuing businesses

1. First Division (Manufacture and sale of industrial chemicals, primarily fuel additives for boilers)
First Division businesses have a competitive advantage supported by a strong customer base and market share. This will be further developed through such initiatives as cross selling, developing new markets with independent power producers, and selling coal additives nationally and internationally. The forward-looking capital expenditure necessary to strengthen operations will be carried out based on seeking funding from a sponsor. The sales force will also be rejuvenated in order to maintain and build on the current customer base.
2. Second Division (Manufacture and sale of car care products such as Klinview, Ion Coat)
This division will be comprehensively overhauled, through initiatives such as strengthening the balance sheet by reducing costs and controlling excessive inventory levels, and introducing a marketing-focused organizational structure that invests appropriately in strategic product marketing support.
3. Chemical Engineering Division (Manufacture and sale of office equipment cleaner, optical wave guides for LCD backlights, etc)
This division generates revenue with low numbers of personnel, and manufacturing of optical wave guides for LCD backlights will be continued with the aim of maintaining a stable revenues.

3. Downsizing or withdrawal from businesses

1. Third Division (Oil tank cleaning operations, pipe operations, sale of tank cleaning equipment)
By March 31, 2004 the majority of operations had already been transferred to subsidiary System Kikou Co., Ltd. Overseas operations only will continue, but a plan will be developed for complete withdrawal from the business.
2. Taiho Commercial Co. (Golf club operations)
Group consolidated subsidiary Taiho Commercial Co., which manages the Taiho Country Club in Ibaragi Prefecture, will file for civil rehabilitation and withdraw completely from golf club operations.

2. Structure

The following structure is planned for Taiho.

1. Capital will be reduced by around 95% and the entire capital surplus reserve will be eliminated.
2. New preferred shares will be issued through a debt equity swap undertaken by financial institutions and the IRCJ, to a value of ¥1.3 billion. Because it is possible that the preferred shares underwritten by the IRCJ could be classified as having a “particularly favorable issue price” under article 280, clause 2, section 2 of the Commercial Code, an extraordinary resolution will sought at a Taiho shareholders’ meeting.
3. ¥1.0 billion in ordinary shares will be issued in respect of funds to be received from Synergy Fund, a sponsor of this revitalization plan.
The issue price of each ordinary share issued to Synergy Fund will be decided in due course, and because it is possible that these shares could be classified as having a “particularly favorable issue price” under article 280, clause 2, section 2 of the Commercial Code, it is planned to seek an extraordinary resolution at a Taiho

shareholders' meeting. It is planned that following the share issued outlined above Synergy Fund will become the main shareholder, with in excess of 33.4% voting rights.

4. An application will be made under the special measure law on industrial revitalization.

3. Outline of financial support

Financial support from financial institutions is being sought through a ¥1.3 billion debt equity swap. (Other than late payment charges, debt forgiveness will not be sought.)

4. Implications for management

Current President and Representative Director Hiromi Osakada will resign his position and become a non-representative Chairman. Future management structure will be decided in consultation with Synergy Fund, a sponsor.

5. Implications for shareholders

It is planned to reduce the relative shareholding of existing shareholders through the uncompensated capital reduction of around 95%, the capital increase through a third party allocation of shares, and the issue of preferred shares with attached conversion privilege to ordinary shares.

6. IRCJ rationale for providing assistance

The Taiho group of companies includes chemical agents-related businesses, machinery-related businesses and golf club management. Of these, industrial chemical businesses, such as those supplying fuel additives for industrial boilers, have high market shares in a number of sectors, and these provide a stable revenue base.

Businesses with only limited relevance to the chemical agents division, however, have been unable to obtain a competitive advantage, and have also been negatively impacted by weak management, failed investments, excessive inventory and bad debts, which in combination have led to the current insolvency.

The IRCJ believes that, by concentrating management resources on selected core businesses in the chemical agents division and instituting appropriate governance under the guidance of sponsor Synergy Fund, there is a strong possibility that Taiho can be successfully revitalized.

As a result of appraising the enterprise value of Taiho in the context of the business revitalization plan outlined above, debt equity swaps are planned. Debt forgiveness is not being requested

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

The application period for debt repurchase is from May 20, 2004 to July 5, 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 Taiho 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.

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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