

## **IRCJ approves application for assistance for Tochigi Hikaku K.K.**

**Tokyo, July 21, 2004** – The Industrial Revitalization Corporation of Japan (“the IRCJ”) today approved an application by Tochigi Hikaku K.K. for assistance under Article 22, Clause 3 of the Industrial Revitalization Corporation Act of 2003.

### **1. Outline of businesses approved for assistance**

Company name      Tochigi Hikaku K.K. (hereafter, “Tochigi Hikaku”)

Date of  
establishment      1937

Paid-in capital      80 million yen

Head office      Tochigi City, Tochigi Prefecture

Representative      Hirohide Murakami, President

Number of  
employees      71

Outline of  
business      Tochigi Hikaku operates in the leather industry, manufacturing and selling leather for processing into products such as bags (accounting for approximately 30% of secondary processing), shoes (30%), and belts (40%). The Company imports raw cowhides from North America, and processes these using a tannin tanning method. The full tannin pit process used by Tochigi Hikaku is said to be used by only around 50 companies worldwide, and is attracting considerable consumer interest due to the lower environmentally impact of this process compared to standard chrome tanning methods.

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

The Ashikaga Bank, Ltd.

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

#### **1. Outline of business plan**

The foundation of the revitalization plan is to separate Tochigi Hikaku from the Murakami Group and, while maximizing the Company’s technical advantages, improve gross margins by strengthening production and marketing processes. The Company will also endeavor to increase business volumes at the higher end of the market by deepening its business alliances with downstream product manufacturers, with the aim of sustainably increasing productivity and profitability.

#### 1. Sales division.

1. Pricing: Unprofitable transactions will be reviewed, and pricing levels revised by adopting pricing standards
2. Product planning: By participating in client manufacturers’ planning processes, the Company will aim to supply products that more closely meet clients’ needs.

3. Ordering: While working to ensure a strong customer understanding of revised pricing levels, the Company will seek to increase yields by improving ordering precision.
4. Customer management and development: The Company will seek to strengthen its relationships with existing customers by examining their sales situations in depth, and develop new accounts in cooperation with business alliance partners.

## 2. Production division.

1. Production control and inspection: A new department of customer relationships and goods inspection will be established with the aim of minimizing the production of faulty goods and maximizing yield.
2. Inventory control: Manufacturing costs will be minimized through measures such as adjusting purchasing, and careful and timely inventory control will be used to assist the strategy of the sales division.
3. Process management: Production processes will be rigorously reviewed to contribute to profitability by preventing production losses, improving yields, and maintaining product quality.
4. Equipment renewal: Aging equipment will be replaced with machinery designed to minimize process steps.

## 3. Management and administration division.

1. Budgeting and financial control: The establishment of pricing standards is aimed at maintaining prices at appropriate levels through the implementation of the sales strategy. These prices will be carefully compared to actual costs and used in the formulation of management policy.
2. Centralized information management: The ordering and delivery system under which information was managed by individuals will be revised, to ensure the timely sharing of information between all divisions.

## **2. Outline of Business Restructuring**

The entire operations of Tochigi Hikaku will be transferred into a new company, and the necessary procedures for dissolving the former company will take place after seeking approval at an extraordinary shareholders' meeting. The new company will be organized by Daiwa Securities MMBC Principal Investments K.K., which is allied with the Tochigi Regional Business Revitalization Fund.

In order to meet the capital requirements for this plan, the Tochigi Regional Business Revitalization Fund and the IRCJ are carrying out the necessary preparations for measures such as joint direct investment into the new company and underwriting an issue by the new company of convertible bonds with attached warrants.

The Tochigi Regional Business Revitalization Fund is currently being structured by Tochigi Investment Partners K.K., a company jointly established by the local business roundtable and Daiwa Securities MMBC Principle Investments K.K.

## **3. Outline of financial support**

A total of approximately ¥6.4 billion in financial support will be requested from related

financial institutions.

#### **4. Implications for management**

Of the current directors, president Hirohide Murakami and director Mitsuya Murakami will resign immediately after the decision by the IRCJ to approve support. All other directors, other than senior director Masakuni Yamamoto, will also resign after the aforementioned resignations. All resigning directors will forego any directors' retirement benefits.

In addition, in order to balance the high level of financial support being sought from financial institutions, president Hirohide Murakami and the group company will write down their loans to the company by 97%.

Senior director Masakuni Yamamoto's responsibility with regard to the current insolvency of the company is minimal, and he will have an indispensable role as president of the new company.

#### **5. Implications for shareholders**

As outlined above, it is planned to dissolve Tochigi Hikaku immediately after transferring its operations to a new company. There are not expected to be any assets remaining for distribution to shareholders. The value of Tochigi Hikaku shares will accordingly become zero, reflecting shareholder responsibility.

#### **6. IRCJ rationale for providing assistance**

##### **1. Cause of current situation.**

Tochigi Hikaku is a core company in the 20-company Murakami Group, and has strong technical capabilities developed through the use of a tannin tanning process to produce leather for processing into bags, shoes and belts. The Company has a very high share of the domestic market, and is recognized for the high quality of its products.

The primary cause of the current difficulties relates to the purchase in 1985 of an affiliated company in order to expand chrome tanning operations. This business had to be closed in 1997 after it could not be made profitable, and Tochigi Hikaku was unable to receive a return on related borrowings of ¥1.9 billion. Factors such as this kind of business expansion failure, along with poor management in the Murakami Group, have lead to excessive indebtedness, and in combination with aging machinery and inefficiency manufacturing processes have resulted in the current unsustainable position.

##### **2. Possibility of revitalization**

The basis of the revitalization plan is to separate Tochigi Hikaku from the Murakami Group and, while maximizing the Company's technical advantages and quality of products, improve management by strengthening production, marketing and other processes. At the same time, the Company will endeavor to deepen its business alliances with downstream product manufacturers, and change from a subcontractor/order manufacturer to a proposal-based materials manufacturer producing goods with high added value. The IRCJ believes that if these measures are implemented the potential to revitalize the company is high

##### **3. Resolution and Collection Corporation**

Companies in the Murakami Group other than Tochigi Hikaku and related companies are currently making use of the Resolution and Collection Corporation's business revitalization capabilities, and this support case, in which a Group containing a range of

businesses is being jointly assisted by the IRCJ and the Resolution and Collection Corporation, can be considered as a useful new revitalization model for regional business groups.

**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 the repurchase of debt from Tochigi Hikaku is from July 21, 2004 to August 31, 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 Tochigi Hikaku 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.co.jp](http://www.ircj.co.jp)