

Industrial Revitalization Corporation of Japan approves application for assistance for Usui Department Store companies

Tokyo, August 28, 2003 – The Industrial Revitalization Corporation of Japan (“the IRCJ”) today approved an application by Usui Department Store companies (collectively “Usui Department Store”) under Article 22, Clause 3 of the Industrial Revitalization Corporation Act of 2003.

1. Outline of business approved for assistance

Company name	Usui Honsha K.K. Usui Department Store K.K.
Date of establishment	1662
Capital	Usui Honsha K.K.: ¥115 million Usui Department Store K.K. ¥400 million
Head office	Koriyama City, Fukushima Prefecture
Representative	Yasushi Usui
Number of employees	355
Outline of business	The company is the second largest retail store in the Tohoku region of Japan in terms of single-store retail sales space, and third largest large-scale retail store in the region overall.

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

The Akita Bank, Ltd.

3. Outline of revitalization plan for Usui Department Store and rationale for IRCJ involvement

1. Structure

Since business resources need to be concentrated in Usui Department Store and effectively managed for this revitalization plan to proceed, all the resources related to the operation of the department store (redeveloped buildings, car parks, etc.) will be transferred from Usui Honsha (which is currently responsible for the overall management of the Group's assets) to Usui Department Store. Moreover, to help get the revitalization on track, management will be separated off from the old administrative body.

I. Usui Honsha's real estate, along with the guarantee money deposited by ordinary land use rights holders, will be sold to Usui Department Store. At the same time, Usui Department Store will accept responsibility for Usui Honsha's debts.

II. Usui Department Store and Usui Honsha will eliminate their excessive debt through debt forgiveness by financial institutions and others.

III. After the IRCJ approves the purchase of debt the capital of Usui Department Store will be reduced by 100%.

IV. The main bank will implement a debt equity swap with Usui Department Store for non-voting stock.

V. Capital at Usui Department Store will be increased by ¥100 million through a third part allotment expected to involve the IRCJ, Akita Bank, Mitsukoshi, local businesses, main customers and others.

2. Outline of financial assistance

A request for around ¥12 billion of financial assistance (debt forgiveness) will be made.

3. Implications for management

The current representative director, Yasushi Usui, will become a non-representative director and chairman.

4. Implications for shareholders

A 100% reduction in the capital of Usui Department Store means that the value of Usui Department Store stock owned by Usui Honsha will effectively become zero; and the Usui family will therefore indirectly bear this responsibility as the stockholders of Usui Honsha.

5. IRCJ rationale for providing assistance

There are three main points behind the IRCJ decision.

Firstly, the department store retailing function has an essential role to play in the commercial sphere centered on Koriyama City where Usui has its store. Almost all the main cities in the Tohoku region that have populations exceeding 300 thousand people have several department stores, and the demand by consumers for department store services is strong. In Koriyama City, with a population of over 300 thousand, we surmise that there is still considerable latent demand for department stores. There are compelling arguments in favor of giving assistance to Usui Department Store Koriyama City's only department store from the perspectives of the promotion of the local economy and the supply of high-quality goods to consumers.

Secondly, Usui's existing department store is excellent department store infrastructure. IRCJ believes that an improvement in store operations has a very good chance of enhancing profitability. The existing store, with its retail floor area of over 31,000 m² (a total of 11 stories, from the basement through to the 10 above-ground floors), is a large one; moreover, considering the newness of the building, its exterior appearance and interior facilities, it is an excellent store for the presentation of higher-priced products.

Changes to the way the store is run will emphasize the effective utilization of store tenants. Usui embraced the conventional department store business model of operating its own selling areas within the store, but this was fraught with problems such as high personnel costs and unnecessary shops offering difficult-to-sell products, which led to deterioration in business performance. This losing trend must be brought to an end, and efforts made to bring in customer-attracting tenants and arrest the fall in sales. At the same time, a review of the high cost structure will be conducted, pruning back own-tenancies to reduce the number of Usui employees. Similar efforts will also be made to reduce rental charges.

Thirdly, there is a good possibility that this revitalization will become a model for the recovery of local department stores in regions throughout Japan. At present, many local department stores are experiencing poor business performance. It cannot be denied that long-term deflation has indirectly contributed to the difficulties facing local department stores; however, in many cases their poor business performance is due not only to macroeconomic factors such as sluggish personal consumption, but also to excessive fixed costs (rent and personnel expenses) and excessive debt (for example, deterioration of the balance sheet as a result of investment in the construction of large department stores). The IRCJ is aware that the same factors are responsible for Usui's poor performance, and considers that an improvement in business results will create a beachhead for the revitalization of local department stores

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

August 29, 2003 to September 30, 2003 (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 Usui Department Stores 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 130 employees and is based in Tokyo. For more information please visit www.ircj.jp