

ETIC to Provide Support to Zenjinkai Medical Corporation

August 24th 2010

Enterprise Turnaround Initiative Corporation of Japan

The Enterprise Turnaround Initiative Corporation of Japan (“ETIC”), has decided to provide support to Zenjinkai Medical Corporation under Article 25, Clause 4 of the Enterprise Turnaround Initiative Corporation of Japan Act (Act 63, of 2009, hereafter “the ETIC Act”),

1. Name(s) of persons or companies concerned
Zenjinkai Medical Corporation (hereafter “Zenjinkai”)
2. Name(s) of financial institutions jointly applying for rehabilitation support with Zenjinkai
Tokyo Challenge Fund Limited Partnership for Investment
3. Outline of business revitalization plan
Please see appendix.
4. Comments from State Ministers in charge of ETIC
Prime Minister, Minister of Internal Affairs and Communications, Minister of Finance, Minister of Economy, Trade and Industry: No opinion expressed
Minister of Health, Labour and Welfare: *“I have no objection to the plan. However, I ask that after reaching the decision to support, ETIC should promptly encourage Zenjinkai to discuss the situation with employees of the companies as soon as possible. I also ask that in advising on and guiding the implementation of the corporate revitalization plan, ETIC should aim to ensure that Zenjinkai Medical complies with related laws and regulations, and that Zenjinkai Medical also provides adequate opportunities for substantive discussions between it and the workforce.”*
5. Comment from state minister supervising business activities
Minister of Health, Labour and Welfare: *“Zenjinkai provides necessary inpatient care and other long-term medical services for people in the southern Kita Tama healthcare area, which is an area that does not contain excess sickbeds. I therefore have no objection to the decision to provide support.
In carrying out the revitalization plan, I ask that ETIC respects the opinion of the Governor of Tokyo, who is working to secure the provision of appropriate medical services in the region, and makes every effort to ensure that necessary medical services*

can continue to be provided.”

6. Debt purchase application period

From Tuesday, August 24th, 2010 for receipt by ETIC no later than Wednesday, September 29th, 2010.

*Under this agreement, no debt purchasing will take place. Accordingly the stated debt purchase application period refers to the amount of time to agree on the control and disposal of debt in accordance with the business revitalization plan (Article 26, Clause 1, Paragraph 2 of the ETIC Act).

7. Request for temporary suspension

Under Article 27, Clause 1 of the ETIC Act, financial institutions have been requested not to recover loans or exercise any other rights they may have as creditors before the end of the debt purchase period as per item 6 above.

8. Treatment of trade and general creditors

The decision by ETIC to provide support involves requesting financial support only from financial institutions providing loans to Zenjinkai. No request for support will be made with regard to trade debt. Therefore there will be no impact on trade and general creditors.

9. Basis for decision to support

ETIC's basis for deciding to provide support is as follows.

9.1 Rationale

Zenjinkai is a corporation operating geriatric healthcare institutions in Chofu City. The medical and care facilities operated by Zenjinkai provide local residents with medical and nursing care services, and have a high degree of community involvement.

Zenjinkai contribution to the community is particularly important with respect to the fact that the corporation (1) focuses heavily on providing medical and nursing services for the elderly, and (2) is the only geriatric healthcare facility in Chofu shi, which is included with the wider southern Kita-Tama region, is facing a shortage of healthcare facilities.

The collapse of Zenjinkai would have a severe impact on local communities. The inability to provide necessary medical and nursing services would greatly affect

inpatients, outpatients and others relying on the facility.

Zenjinkai possesses useful business resources, including a sufficient number of hospital staff, such as doctors and nurses, necessary to ensure the maintenance and development of hospital functions. Moreover, the hospital building complex is located in a highly convenient area in central Chofu City, near to a train station, which is advantageous for securing patient and staff numbers, and the building is adequate to facilitate the hospital over the medium- to long- term, eliminating the necessity for large amounts of capital investment.

ETIC expects Zenjinkai to make a fast recovery by utilizing these business resources, and through receiving support from sponsor Heiseihakuaikai Medical Corporation, which has abundant expertise in geriatric healthcare. Accordingly, ETIC has determined that there is ample merit in supporting the revitalization of Zenjinkai as a means of contributing to the stable provision of medical and nursing services in regional society.

Moreover, by undertaking this support program ETIC aims to create a useful business transfer model for hospitals with geriatric facilities that are scheduled to be discontinued in March 2012, as well as a model for private revitalization of medical corporations, of which there are relatively few examples in Japan.

9.2 Role of ETIC

In deciding to support Zenjinkai, ETIC will pursue the smooth progress of the revitalization plan, by coordinating activities which Zenjinkai would have found difficult to execute alone, including reconciling the interests of the related financial institutions, sponsors, and other related parties from a fair and neutral standpoint.

Appendix: Outline of the Business Revitalization Plan

Section 1: Overview of the companies receiving support

1.1 Names of companies

Zenjinkai Medical Corporation (hereafter, “Zenjinkai”)

1.2 Main business

Operation of a hospital, visiting nurse station, and day service center

1.3 Main facilities

(1) Tamagawa Hospital

5-31-1 Kokuryo-Cho, Chofu shi, Tokyo

(2) Tamagawa Visiting Nurse Station

5-31-1 Kokuryo-Cho, Chofu shi, Tokyo

(3) Tamagawa Day Service Center

5-31-1 Kokuryo-Cho, Chofu shi, Tokyo

1.4 Head office

5-31-1 Kokuryo-Cho, Chofu shi, Tokyo

1.5 Number of employees

Full-time: 119 (including 5 doctors and 27 nurses/assistant nurses)

Temporary: 62 (including 10 doctors, 28 nurses/assistant nurses)

1.6 Labor union

A labor union exists and is affiliated with the Japan Federation of Medical Worker's Unions

1.7 Affiliated companies

Tamagawa Medical Service Co., Ltd.

1.8 Main banks

Tokyo Challenge Fund Limited Partnership for Investment

NLC Japan Co., Ltd.

Credit Guarantee Corporation of Tokyo

The Tama Shinkin Bank

1.9 Financial overview (financial results for year ended March 31, 2010)

Medical practice revenue	¥1,485 million
Operating profit	¥102 million
Interest-bearing debt	¥2,430 million

Section 2: Background and circumstances leading to request for ETIC support

Deriving from a medical clinic established in 1929 Zenjinkai operates a hospital, a visitor

nurse station, and a day service center in Chofu City, Tokyo, particularly focusing on providing medical and nursing services for the elderly.

Zenjinkai has operated as a medical and geriatric healthcare institution in the region for over 80 years, but around 1983, Zenjinkai made the decision to undergo large-scale expansion, and took out a large loan to fund the expansion, with no guarantee of future business return. Consequently, Zenjinkai was unable to withstand the large interest payments. Changes were made to loan repayment conditions, and Zenjinkai attempted a transformation into a geriatric healthcare facility with the aim of balancing payments and expenditures. However, changes to governmental policy led to a reduction in medical income, which caused problems with cash flow to the point where repayment commitments and bonus funds, could not be secured.

However, the collapse of Zenjinkai would have a severe impact on inpatients, outpatients, and others relying on the facility, and significantly impair the ability to provide necessary medical and nursing services in the local communities.

To avoid this outcome, Zenjinkai made the decision to apply for support from ETIC in an effort to enable sound and rapid revitalization. Zenjinkai will transfer business to Daiwakai Medical Corporation (Daiwakai) to plan and implement comprehensive business revitalization, incorporating the elimination of excessive debt, a shift in facility functionality, and the creation of management control functions.

Section 3: Outline of business revitalization plan

1. Basic policy

The business revitalization plan will utilize the expertise and credit capabilities of sponsors and revitalize the current medical staff to enable the provision of medical and nursing services that match the local needs and healthcare systems, ensuring the continuity of the hospital and elderly care facility in the region.

2. Main Initiatives

(1) Transformation of hospital functions

Authorized sickbeds which are the basis of income for Zenjinkai, are all currently managed as geriatric nursing care wards. However in order to increase income, these wards will be transformed by stages into medical treatment wards. Consideration will be taken of the increased personnel costs from additional nursing staff required as a result of this transformation.

(2) Development of management control functions

Zenjinkai had many problems with its management controls, and when the decision was made to undergo large-scale expansion in 1983, it borrowed large amounts of money with no sound prospect of business revenues.

Zenjinkai is expected to achieve solid business improvements through the transfer of all of its business to Daiwakai, and by being placed under the management control of Heiseihakuikai Corporation, which possesses strong, geriatric care-focused management foundations.

3. Request for financial support

Of the ¥2.4 billion owed to financial institutions and others by Zenjinkai, financial support of approximately ¥1.6 billion will be requested from financial institutions and others.

Section 4. Conformance with standards for support

1. Requirements related to standards of support

(1) Useful business resources

Zenjinkai possesses useful business resources in that it retains sufficient hospital staff numbers such as doctors and nurses, is located in a highly convenient area, in a complex which is adequate to facilitate the hospital over the medium- to long-term.

(2) Excessive debt

Zenjinkai bears excessive debt in relation to its profit earning capacity, to the point where it is necessary for it to receive financial support, such as disposal of liabilities, in order to conduct business revitalization through transfer of businesses.

2. Requirements related to decision to provide support

(1) Conformance with application for support

Zenjinkai made a joint application for support with Tokyo Challenge Fund Limited Partnership for Investment.

(2) Standards for productivity improvement

The Enterprise Turnaround Initiative Corporation of Japan Support Standards (hereafter "Support Standards") require that Zenjinkai either increases ROE by at least two percentage points, increases the tangible fixed asset turnover ratio by at least five percentage points, or increases the value-add per employee by at least six percentage points within three years of the day of the decision to provide support. As a result of the implementation of the business revitalization plan, Zenjinkai is expected to improve the operating profit ratio before depreciation by at least two

percentage points, and increase the ROE by at least five percentage points within three years of the day of the decision to provide support. Accordingly, the business revitalization plan is deemed to be meeting the standards for productivity improvement.

(3) Standards for financial soundness

The standards for financial support stipulate that the ratio of interest-bearing debt to cash flow should be within ten times, and current revenues should be greater than current expenses within three years of the day of the decision to provide support. As a result of the implementation of the business revitalization plan, Zenjinkai is expected to meet all of these standards. Accordingly, the business revitalization plan is deemed to be meeting the standards for financial soundness.

(4) Comparison with liquidation value

The liabilities expected to be recovered through the execution of this business revitalization plan exceed the estimated liabilities that could be recovered from conducting bankruptcy proceedings.

(5) Potential to refinance within three years

EITC will not conduct financing, capital injection, or a buyout in this particular scheme.

(6) Connection with structural oversupply

Under the business revitalization plan, there will be no attempt to increase the supply capacity of Zenjinkai. Accordingly, the plan has been judged as not hindering the resolution of structural oversupply as specified in Article 19 of the Act on Special Measures for Industrial Revitalization.

(7) Consultation with workforce

There is a labor union at Zenjinkai. As part of the revitalization process, it is planned that meetings with labor union representatives and members will be scheduled promptly after announcement of the decision to provide support, and opportunities provided to discuss aspects of the business revitalization plan.

Section 5. Responsibility of management and investors

1. Responsibility of management

(1) Following the approval of the business revitalization plan, the business transfer will

be conducted and Zenjinkai will go into liquidation proceedings. Following the conclusion of liquidation proceedings, all executive staff will forfeit their positions as executive officers. Executive staff of Zenjinkai will not become executive officers of the business transferee, Daiwakai.

(2) Removal of right of claim for retirement benefits for executive officers

All rights of executive officers to claim for retirement benefits will be removed.

2. Responsibility of investors

Under the liquidation proceedings, the residual assets of Zenjinkai will not be distributed to the three investors, the Director and his sons. By this operation, the three will bear their responsibilities as investors.

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