

ETIC to Provide Support to Shiroganekai Medical Association

March 22nd, 2012

Enterprise Turnaround Initiative Corporation of Japan

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

1. Name of companies concerned

Shirogane Medical Association (hereafter “Shiroganekai”)/etc,

2. Name(s) of financial institutions jointly applying for rehabilitation support with Shiroganekai

Aozora Loan Services Co., Ltd. (Hereafter “Aozora Loan Services”)

The First Bank of Toyama, Ltd. (Hereafter “First Bank of Toyama”)

3. Outline of business revitalization plan

Please see appendix.

4. Comments from State Ministers in charge of ETIC

Prime Minister, Minister of Internal Affairs, Minister of Finance, Minister of Economy, Trade and Industry: No opinion expressed

Minister of Health, Labour and Welfare: *“I have no objection to the decision to support Shiroganekai. However, I ask that after reaching the decision to support, ETIC should encourage Shiroganekai to discuss the situation with employees of the company 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 Shiroganekai complies with related laws and regulations, and that Shiroganekai also provides adequate opportunities for substantive discussions with the workforce with due consideration of employment stability and other such factors.”*

5. Comment from State Minister supervising business activities

Minister of Health, Labour and Welfare: *“Although Shiroganekai operates in the Ishikawa central medical region, an area that has an oversupply of hospital beds, it plays a central role in the region, receiving mainly chronically ill patients for its long-term care*

beds, and continues to maintain a high rate of bed utilization. I therefore have no objection to the decision to support Shiroganekai.

I ask that in implementing the revitalization plan, due consideration is given to the opinion of the Governor of Ishikawa Prefecture, who is working to ensure that a proper structure exists for the provision of medical services and to confirm the non-profit status of medical institutions in the region, and that all necessary medical functions continue to be delivered through a system that has an appropriate scale in terms of available hospital beds and other such factors.”

6. Debt purchase application period

From Thursday, March 22nd, 2012 for receipt by ETIC no later than Friday, May 18th, 2012.

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, other than those permitted under the corporate revitalization plan, before the end of the debt purchase period as per item 6 above.

8. Treatment of trade creditors

The decision by ETIC to provide support involves requesting the waiver of debt only from financial institutions having provided loans to Shiroganekai. No request for support will be made with regard to trade debt. Therefore there will be no impact on trade creditors.

9. Basis for decision to support

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

(1) Rationale

Shiroganekai operates the Hayashi Hospital in Kanazawa City, Ishikawa Prefecture. All 164 authorized beds at the Hayashi Hospital are registered as sanatorium beds. Two wards are general medical care wards and one a long-term medical care ward.

The central medical region in Ishikawa Prefecture, including Kanazawa City, is “over capacity zone of beds”; however, the Hayashi Hospital itself is fully occupied at all times and a large number of patients are awaiting admission. The hospital is essential to the region,

providing medical services to many elderly patients with chronic conditions that are difficult to manage at home or in a general care setting, as well as specialist care for terminally ill patients.

In the event of bankruptcy where Hayashi Hospital should become unable to provide medical services, there would be a severe impact on in-patients and others relying on the facility, and on the wider regional community.

ETIC has accordingly come to make a judgement that supporting the revitalization of the recipient's business is to be justified and that should contribute to the stable provision of medical services for the local community.

(2) The Role of ETIC

In deciding to support the Hayashi Hospital, ETIC's planned role is as follows:

- (1) Act as a coordinator among the financial institutions concerned (for debt purchase)
- (2) Facilitate the involvement of new financial institutions
- (3) Supply management personnel

With regard to (1) above, ETIC will reduce excessive interest-bearing debt by requesting support in the form of debt forgiveness from the financial institutions concerned and improve the financial position of Shiroganekai.

With regard to (2), ETIC will contribute to stable fund procurement at Shiroganekai by building a cooperative financing structure composed of the new main bank, First Bank of Toyama, and several other financial institutions, which will support Shiroganekai along with ETIC itself.

With regard to (3), ETIC will strengthen the management structure by providing management personnel and enable the recipient to put in place the foundations needed to operate the Hayashi Hospital on a stable basis.

Ends

Appendix: Outline of the Business Revitalization Plan

Section 1: Overview of the companies receiving support

1.1 Names of companies

Shiroganekai Medical Association (Hereafter “Shiroganekai”)/etc,

1.2 Main Business

Operation of the Hayashi Hospital

1.3 Main medical and geriatric facilities

The Hayashi Hospital: 164 beds

1.4 Facility location

1-2-27 Hommachi, Kanazawa-shi, Ishikawa-ken

1.5 Number of employees

Shiroganekai Medical Association: 116 (including 101 full-time employees and 15 part-time employees)

1.6 Labor union

None

1.7 Affiliated companies

Shirogane Y.K.

1.8 Main banks

Aozora Loan Services, Hokuriku Shinkin Bank, The Hokkoku Bank, The Fukui Bank (Ishikawa Guarantee)

1.9 Financial overview (financial results for year ended March 31, 2011)

Interest-bearing debt	¥4,262 million
Medical practice revenue	¥1,026 million
Medical practice profit	¥254 million

(2) Background and circumstances leading to request for ETIC support

The Hayashi Hospital was established in 1969 by the late Seiichiro Hayashi. He managed the hospital successfully, but conducted an other business in real estate during the “bubble economy” period and was left with a severe debt burden. He later died in 2005.

Mr. Hayashi’s wife, Michiko Hayashi, herself a hospital doctor, wished to continue the Hayashi Hospital, but inherited the medical and real estate operations as a private business burdened with a severe excess of liabilities over assets.

Michiko Hayashi then converted the privately owned hospital business into a medical corporation under the name “Shiroganekai”, but the associated monthly-contract car parking business could not be transferred to Shiroganekai under the provisions of the Medical Care Law. Accordingly, the large debts and real estate (hospital and car parking) assets continued to be privately held.

(3) Outline of the Business Revitalization Plan

1. Basic Policy

The heavy debts incurred as a result of failed real estate investments when the business was privately owned will be restructured to ensure the continuation of the hospital business, which plays an important role in the region’s medical care and which has maintained stable profits both in the past and currently. The assets needed to run the hospital business and the debts commensurate thereto will be transferred to Shiroganekai.

2. Main Initiatives

(1) Initiatives to Boost Income

A number of measures will be put into effect, including the hiring of a physiotherapist and appropriate calculation of fees for rehabilitation. Reimbursement fees pertaining to patient nutritional therapy (administered by the nursing staff) will be calculated appropriately.

(2) Initiatives Related to Costs

A number of measures will be put into effect, including negotiations to bring prices into line with suppliers offering high discounts in cases where pharmaceuticals are being sourced at premium prices. Corrections will be made in cases where the outsourcing costs for meal provision, bedclothes and cleaning are out of line with market prices.

(3) Administration and Personnel

Administration and management systems will be reorganized with the aim of implementing the switch from individual to corporate management. Systems will be established to enable consensus decision-making. Organization and regulations will be overhauled to make decision making less bureaucratic and more transparent.

As regards personnel, additional full-time physicians, physiotherapists, pharmacists and radiologists will be hired to improve the range and quality of medical care.

3. Business Restructuring

(1) A De Facto “Second Company Restructuring”

This scheme is effectively a “second company restructuring”. The affected business operators are in the midst of transforming the Hayashi Hospital from a privately run business to a corporation. Michiko Hayashi will transfer all hospital assets to Shiroganekai. As consideration for these assets, Shiroganekai will accept without liability the portion of Michiko Hayashi’s debt corresponding to the portion of hospital assets that Shiroganekai is able to bear. Michiko Hayashi will thereafter liquidate the private business.

(2) Fund Procurement from New Financial Institutions

Financial institutions with an existing relationship will terminate their business connection as a result of ETIC support. Shiroganekai needs to initiate transactions with new financial institutions to procure funding. It has been agreed that The First Bank of Toyama will be the main bank, with other financial institutions cooperating.

(3) Establishment of a Car Parking Business Company

Of the car parking land managed by the affected business operators, a land site adjacent to the Hayashi Hospital is the most favored site for the construction of a new Hayashi Hospital. Accordingly, it will not be sold to a third party. Almost all the car-parking operations are monthly contract car parks which are not allowed to be operated as businesses by a medical corporation. Therefore a new company will be set up to take over the car parking business.

(4) Request for Support from Creditors

The business operators will request debt forgiveness amounting to ¥2,822 million out of the total affected assets of ¥4,185 million from concerned financial institutions as defined under article 6, Clause 1, “Financial Institutions Requesting Financial Support”.

(5) Plans for Funds

Shiroganekai’s operating cash flow will be applied to the funding of redemptions as defined in this restructuring plan.

Section 4. Conformance with standards for support

This business revitalization plan meets ETIC's standards for support.

1. Main clauses in standards for support

1.1 Possession of effective management resources

Hayashi Hospital features a post intensive care unit, and provides care for a high number of patients suffering from chronic illnesses, for which beds are insufficient in the region. The hospital provides medical care to elderly patients who have illnesses that are difficult to manage at home or in a general care setting, as well as specialist care for terminally ill patients, and as such makes a significant contribution to the medical functions of Kanazawa city.

Furthermore, the hospital has a sufficient number of physicians, nurses and care specialists for the operation of this hospital, which deals with many chronically ill patients requiring intensive-level medical treatment as well as chronically ill patients requiring high-level nursing care.

1.2 Excessive indebtedness

Shiroganekai carries an excessive amount of debt compared to its revenues. Debt forgiveness and financial support are essential to the revitalization of Shiroganekai.

2. Standards relating to decision to support

2.1 Agreement of main creditors

The application by Shiroganekai was made jointly with Aozora Loan Services and new creditor, First Bank of Toyama.

2.2 Standards for productivity improvement

Successful implementation of this business revitalization plan is expected to enable Shiroganekai to meet the required standards with respect to productivity.

2.3 Standards for financial soundness

Successful implementation of this business revitalization plan is expected to enable Shiroganekai to meet the required standards with respect to financial soundness.

3. Comparison with liquidation value

The value of Shiroganekai available through implementation of the business revitalization plan is estimated to be greater than the value available through debt recovery on bankruptcy or civil rehabilitation proceedings.

4. Potential to refinance within three years

Implementation of the business revitalization plan is expected to significantly improve the financial condition of Shiroganekai and enable it to fund redemptions from sustainable cash flow.

5. Connection with structural oversupply

Implementation of the business revitalization plan will not increase the supply capacity of Shiroganekai. Accordingly, the plan has been judged as 'not hindering the resolution of structural oversupply' with reference to Article 19 of the Act on Special Measures for Industrial Revitalization and Industrial Innovation.

6. Status of consultations with workforce

As the company does not have an employees union it is planned that meetings with employees will be scheduled promptly after announcement of the decision to provide support, and opportunities provided to discuss employment conditions and other aspects of the business revitalization plan.

Section 5: Responsibility of management and governance

1. Responsibility of directors

All current directors of Shiroganekai will resign from their positions, and their directors' retirement benefits will be removed.

Hereafter Dr. Ichiro Matsuda, who will continue the operations of Shiroganekai, will assume a new role as chairperson.

Although Michiko Hayashi will retire from her role as director, it is planned that she will remain working as a full-time doctor with a role as honorary hospital director.

2. Responsibility of investors

As there are no investors in Shiroganekai, and no creditors with equity interest, it is therefore not necessary to consider the responsibility of investors.

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