

ETIC to Provide Support to Keijinkai Medical Corporation

March 29th, 2012

Enterprise Turnaround Initiative Corporation of Japan

The Enterprise Turnaround Initiative Corporation of Japan (“ETIC”) has decided to provide support to Keijinkai 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 of corporation concerned
Keijinkai Medical Corporation (hereinafter “Keijinkai”)
2. Name of financial institution jointly applying for rehabilitation support with Keijinkai
The Tokyo Tomin Bank, Limited (hereafter, “Tokyo Tomin Bank”)
3. Outline of the 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 Keijinkai. However, I ask that after reaching the decision to support, ETIC should encourage Keijinkai 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 Keijinkai complies with related laws and regulations, and that Keijinkai 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: *“Keijinkai is positioned as a facility providing secondary emergency care and recovery rehabilitation services for people in the southern Tokachi medical region, 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 Chiba, who is working to secure the provision of appropriate medical*

services 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 29th, 2012 for receipt by ETIC no later than Thursday, May 31st, 2012

7. Request for temporary suspension of debt collection

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 business revitalization plan, 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 assistance does not extend beyond requesting financial support from those financial institutions designated in the revitalization plan that are providing loans to Keijinkai. 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.

- (1) Keijinkai is a medical corporation based in Yachiyo City, Chiba Prefecture which operates hospitals, home-visit nursing care, ambulatory rehabilitation facilities and in-home long-term care support. The facilities operated by Keijinkai offer comprehensive medical and care services and are of great importance to the local community.

In particular, the southern Tokatsu medical region including Yachiyo City where Keijinkai belongs has a shortage of hospital beds and medical needs are expected to increase in the future owing to the aging of the population. Keijinkai has general and sanatorium beds and accordingly makes an extremely large contribution to the sub-acute and chronic medical care and home support services in the locality. In addition, Keijinkai is the only sanatorium-bed equipped hospital in Yachiyo, Sakura and Inzai Cities with in-patient dialysis facilities. As it is able to provide rehabilitation services to dialysis patients, it performs an important and unusual role for the local community.

Accordingly, in the event Keijinkai's financial condition deteriorated and it became unable to provide medical services, there would be a major impact on users of the facilities, including in-patients and in-home long-term care patients, and the provision of medical services would be impaired in a region where the population is aging.

ETIC has therefore determined that there are sufficient grounds to support the revitalization of Keijinkai as it would contribute to the stable provision of medical services in the local community and to ensure the medically necessary number of physicians, nurses and rehabilitation staff (physiotherapists, occupational therapists and so on).

In providing this support, ETIC intends to contribute to the continued provision of medical services to the community by appropriately improving Keijinkai's financial condition and providing a revitalization plan to normalize its financial transactions.

(2) Role of ETIC

The role of ETIC in this matter is as follows:

- (1) Act as a coordinator among the financial institutions already involved (including the purchase of debt)
- (2) Coordinate the involvement of new financial institutions (Tokyo Tomin Bank)
- (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 purchase debt as necessary in order to improve Keijinkai's financial condition.

With regard to (2), ETIC will normalize Keijinkai's financial transactions by arranging funding from the newly involved financial institution, namely the Tokyo Tomin Bank, and by refinancing debts held by the previously involved financial institutions.

With regard to (3), ETIC will strengthen management systems by providing management personnel and enabling Keijinkai to put in place a stable management structure.

Appendix: Outline of the Business Revitalization Plan

Section 1: Overview of the companies receiving support

1.1 Names of companies

Keijinkai Medical Corporation

1.2 Main business

Hospital Operations

1.3 Main medical and nursing care facilities

St. Margaret Hospital: 195 general beds and 120 sanatorium beds

Asato Hospital (52 sanatorium beds)

1.4 Location of facilities

2-5-15 Yachiyo-Nishi, Yachiyo City, Chiba Prefecture

1.5 Number of employees

369 (of which 202 full-time and 167 non full-time)

1.6 Labor union

None

1.7 Affiliated companies

SK Bussan Limited Private Company, Margaret Healthcare Systems Corporation

1.8 Financial institutions with whom transacting

Nisshin Debt Recovery Corporation, Welfare and Medical Service Agency

1.9 Financial overview

Interest-bearing debt: ¥2,797 million

Income from medical operations: ¥2,112 million

Profit from medical operations: ¥46 million

Section 2: Background and Circumstances Leading to Request for ETIC Support

Keijinkai has operated a hospital business in Yachiyo City, Chiba Prefecture since its foundation in 1962, but its business performance has deteriorated owing to the establishment of private practices by hospital-employed doctors and expanded numbers of locum physicians. By the summer of 1990 interest-bearing debt had expanded to ¥4.1 billion and the repayment of funds for setting up the business and the payment of taxes was in arrears.

The chairman of the board and eldest son of the founder also became the head of the hospital in 2001. He implemented improved management policies such as increased capacity to handle emergency cases and a better dialysis care. Revenue and profits both increased.

Keijinkai has been paying back debt to the affected financial institutions in a smooth manner and revenues have been stable, but there is no prospect of repaying the excessive debts incurred in the past. Accordingly, the financial institution providing new funds (the Tokyo Tomin Bank) and Keijinkai jointly applied for assistance to ETIC with the objective of improving Keijinkai's financial condition and normalizing its financial transactions by obtaining refinancing funds from the main banks.

Section 3: Outline of business revitalization plan

1. Main Policies

(1) Strengthening medical care in a region of high need

(1) Improved availability of in-patient dialysis

Improvements will be made to both the availability of in-patient dialysis in a region which lacks such facilities, and to the rehabilitation of the affected patients.

(2) Strengthening home care services

The operation of visiting services (home-visit nursing care and ambulatory rehabilitation) and of home care support will be improved.

(2) Consolidation, reorganization and effective use of group assets

(1) Reorganization of two Medical Service Companies

Two medical service companies will be liquidated after their assets and operations have been absorbed into Keijinkai.

(2) Efficient utilization of Asato Hospital's Grounds

A plan to build and operate a medical complex in the grounds of the Asato hospital is being evaluated.

2. Business reorganization (structure)

No reorganization of Keijinkai's business is planned under this revitalization plan.

3. Request to creditors for financial support

Keijinkai will seek forgiveness from the related financial institutions for ¥1,149 million of the ¥2,207 million debt principal and the interest and delinquent payments thereon.

4. Funding plans

Funds for debt redemption as determined by this revitalization plan will be provided from operating cash flow and from loans from Tokyo Tomin Bank.

Section 4: Conformance with standards for support

This revitalization plan meets ETIC's standards for support.

1. Possession of effective management resources

Keijinkai provides mainly sub-acute and chronic medical care in a region with a shortage of hospital beds. Above all, it performs an important role in the area as a rare medical institution accepting long-term dialysis patients. It has secured the requisite number of nursing staff to provide medical care in a prefecture that has experienced a shortage in recent years.

2. Standards for productivity improvement

Implementation of this revitalization plan is expected to meet the standards for improved productivity.

3. Standards for return to financial soundness

Implementation of this revitalization plan is expected to meet the standards for a return to financial health.

4. Comparison with liquidation value

The debts recoverable as a result of following this revitalization plan are expected to exceed the amount recoverable through bankruptcy and civil rehabilitation proceedings.

5. Potential to refinance within three years

Implementation of this revitalization plan is expected to improve Keijinkai's financial position substantially and to offer a good chance that cash flows for debt redemption will be consistent with the debt repayment plan.

6. Connection with structural oversupply

The implementation of this revitalization plan will not result in an increase in Keijinkai's supply capacity, i.e. it will not increase the number of beds. Moreover, the region has a shortage of hospital beds so it has been judged that the plan will not impede the elimination of any structural excess capacity.

7. Status of consultations with workforce

Keijinkai does not have a labor union, but it is planned that meetings with employees will be scheduled promptly after the decision to provide support is announced to explain the business revitalization plan, including employment and working conditions.

Section 5: Management responsibility and governance

1. Responsibility of management

Directors recognized as being responsible for Keijinkai's mismanagement will resign and forfeit the directors' retirement benefit.

2. Responsibility of equity stakeholders

Employees recognized as having management responsibility will resign and forfeit their right to seek repayment of their stake in Keijinkai.