

## ETIC to Provide Support to Shibamasa Kanko Co., Ltd.

March 3<sup>rd</sup>, 2011

Enterprise Turnaround Initiative Corporation of Japan

The Enterprise Turnaround Initiative Corporation of Japan (“ETIC”), has decided to provide support to Shibamasa Kanko Co., Ltd. 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  
Shibamasa Kanko Co., Ltd. (hereafter “Shibamasa Kanko”)
2. Name(s) of financial institutions jointly applying for rehabilitation support with Shibamasa Kanko  
The Fukui Bank, Ltd.
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 Shibamasa Kanko. However, I ask that after reaching the decision to support, ETIC should encourage Shibamasa Kanko 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 Shibamasa Kanko complies with related laws and regulations, and that Shibamasa Kanko 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 Economy, Trade and Industry: No opinion expressed.
6. Debt purchase application period  
From Thursday, March 3<sup>rd</sup>, 2011 for receipt by ETIC no later than Wednesday, March 23<sup>rd</sup>, 2011.

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 creditors

The decision by ETIC to provide support involves requesting the waiver of debt only from financial institutions providing loans to Shibamasa Kanko. 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.

9.1 Rationale

Shibamasa Kanko operates Shibamasa World, a leisure park facility centered on a swimming pool that operates during summer. Shibamasa World is one of the leading leisure facilities in the Hokuriku (northern Japan) area, attracting more than 300,000 visitors per year. The majority of these visitors are from outside the prefecture, which is evidence of the facility's appeal. Shibamasa Kanko, in operating a facility with such wide appeal to people both within and outside of the region, has over the course of many years contributed to the vitality of the regional economy. In addition to the pool, Shibamasa World incorporates a large lawn area of approximately 620,000m<sup>2</sup>, and by hosting a variety of events and activities that make use of this lawn outside of the summer pool season, Shibamasa Kanko contributes to the efforts of the regional tourism industry to attract longer-stay visitors to the region's other tourist attractions and lodgings.

Shibamasa Kanko also contributes to regional society through initiatives such as opening its lawn areas widely to the public, supporting the regional community and serving as a site that facilitates social education.

Accordingly, ETIC has determined that there is ample merit in supporting Shibamasa Kanko as a means of contributing to the development of the regional economy, as well as contributing to regional society.

## 9.2 Role of ETIC

In deciding to support Shibamasa Kanko, ETIC's planned role is as follows:

- (1) Act as a coordinator among the financial institutions involved
- (2) Implement a capital injection of ¥10 million
- (3) Provide new financing of ¥165 million
- (4) Supply management personnel.

With regard to (1) above, ETIC will reduce excessive interest-bearing debt and improve the financial condition of Shibamasa Kanko by requesting debt forgiveness from financial institutional creditors. Concomitant with requests from relevant financial institutions for debt purchase, ETIC also plans to purchase debt of Shibamasa Kanko. With regard to (2) and (3), ETIC will provide the support necessary to properly revitalize Shibamasa Kanko's operations, implementing a company separation (absorption separation) of Shibamasa Kanko and forming a new company containing its continuing operations, underwriting ordinary shares in the new company and providing some of the funding necessary for large-scale refurbishment of facilities. With regard to (4), ETIC will place management staff within the new company to strengthen its management, while supporting Shibamasa Kanko in the establishment of a stable management structure.

Ends

## Appendix: Outline of the Business Revitalization Plan

### Section 1: Overview of the companies receiving support

#### 1.1 Names of companies

Shibamasa Kanko Co., Ltd.

#### 1.2 Head office

Hamaji 45-1, Mikuni-cho, Sakai-shi, Fukui Prefecture

#### 1.3 Date of establishment

May 1, 1973

#### 1.4 Capital

¥25,000,000

#### 1.5 Shares

Total number of shares authorized: 64,000 shares

Total number of shares issued and outstanding: 50,000 shares

#### 1.6 Main shareholders

Name	Position	Number of shares	Percentage of total
Masato Maekawa	President	31, 800 shares	63.6%

#### 1.7 Main business

Operation of the Shibamasa World amusement facility

#### 1.8 Number of employees

30 (as of end December 2010)

#### 1.9 Main business locations

Head office (Sakai City, Fukui Prefecture)

#### 1.10 Main bank

The Fukui Bank, Ltd. ("Fukui Bank")

#### 1.11 Affiliated companies

Japan Entertainment Limited ("Japan Entertainment"); Shibamasa Co, Ltd. ("Shibamasa"); Shibamasa Noen Limited ("Shibamasa Noen")

#### 1.12 Financial overview (results for year ended April 30, 2010)

Sales	¥1,236,660,000
Operating loss	(¥44,980,000)
Net assets	(¥5,687,530,000)
Total assets	¥7,536,750,000

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

Shibamasa Kanko was established as a business managing tourism-related facilities, restaurants, and other such operations. In 1980 the company opened its Jumbo Pool, and shifted the focus of its business activities to the administration of large public leisure facilities. Expanding on its Jumbo Pool leisure center, the company strengthened its appeal to customers inside and outside the prefecture by opening a succession of new operations, including a museum, the Shibamasa Art Rest House, an adventure slider, a mini golf course, an ice skating rink and a heated indoor pool. Visitor numbers exceeded one million in the year to April 1991, and sales in the following year exceeded ¥4 billion as performance continued an upward trend. During this process the facilities hosted by Shibamasa Kanko became one of northern Japan's major leisure draw cards, capable of attracting visitors from neighboring and central regions of Japan.

However, with the collapse of Japan's economic bubble, consumption of leisure activities stagnated, and attendance at Shibamasa World declined suddenly. Between the fiscal years ended April 1992 and April 2000, sales fell steeply to around one-third of the April 1992 peak, and interest-bearing debt procured from financial institutions to fund facilities construction was placing a crippling strain on the company's financial position.

In 1997, Shibamasa Kanko received deferment of principle payments and other financial support from Fukui Bank, and in the same year limits were placed on large-scale capital expenditure and also on repairs and maintenance. From 2003 until the present, Shibamasa Kanko has had principal payments halted and received other such financial support from financial institutions. Despite this, the company's situation has not improved, and it was determined that comprehensive business revitalization would be difficult if excessive level of debt relative to revenue generating capacity continues.

Accordingly, Shibamasa Kanko, after discussions with Fukui Bank, resolved to apply for support from ETIC, and with the support of ETIC, undertake a comprehensive reform of the business, aiming to minimize damage to enterprise value while adopting transparent, fair procedures to ensure proper due process.

## **Section 3: Outline of business revitalization plan**

### **1. Business plan**

#### **(1) Basic policy**

As outlined above, the primary cause of Shibamasa Kanko's financial distress is

excessive capital investment, leading to an excessive debt burden relative to revenue-generating capacity. The first step will therefore be to dispose of assets that are not currently contributing to operations, while limiting expenditures on a rational basis through strategic control of capital expenditure and maintenance expenses. (Policy 1)

Further, Shibamasa Kanko does not have a system in place to regularly collect and analyze customer data. This kind of data is a critical management resource, necessary for decisions on marketing policy (including pricing and customer targeting) and capital expenditure planning (see Section 2 above, *Background and circumstances leading to request for ETIC support*), and the company currently lacks a management culture in which data analysis is used as the basis for strategic decision-making. Accordingly, a system will be constructed to enable the collection and analysis of the data and customer feedback necessary for efficient management decision-making. Previous errors in sales strategy will be fundamentally revised, as a means of maintaining and growing customer numbers throughout the year. (Policy 2)

In addition, Shibamasa Kanko has until now not collaborated sufficiently with neighboring tourist regions and tourism operators in its sales activities, and is lagging behind in joining regional cooperative initiatives developed in recent years. Accordingly, based on the strong regional customer appeal of its summer season business, Shibamasa Kanko will serve as a leading company in a unified regional approach to tourist revitalization, while for periods outside of the core summer season will strengthen regional collaboration in pursuit of the 'long-stay' tourists targeted by neighboring tourist attractions and accommodation providers. (Policy 3)

## (2) Main initiatives

### 2.1 Strategically control capital expenditure and maintenance expenses

#### A. Dispose of non-operating assets

In order to eradicate the excessive capital investment that was the direct cause of the current over-indebtedness sale or disposal of non-operating assets such as real estate outside of the amusement park and the sale of art items in the closed museum will be implemented.

#### B. Invest at an appropriate level and rigorously review expense cost-effectiveness

Appropriate levels of CAPEX and maintenance expenses will be assessed in accordance with cash flow in each period and expenditure will be ranked and prioritized in accordance with a rigorous review of cost-effectiveness

### C. Withdraw from non-profitable attractions

Attractions will be assessed by previous performance, and if it is determined that closing certain attractions will contribute to earnings more than investing large amounts in their refurbishment, such attractions will be operated only up until the point major investment is necessary and then closed without further investment.

## 2.2 Increase year-round customer appeal and review sales strategy

### A. Adopt a flexible approach to pool operating hours

To date, pool operating hours have been managed on a fixed basis. This will be reviewed so that operating hours are adjusted flexibly according to demand, while also taking into account weather conditions in each year.

### B. Recommence group travel sales through travel agencies

Given the merits of increasing visitor numbers and increasing ticket sales, food & beverage sales, and retail sales in a fixed-cost business such as Shibamasa Kanko, group sales through travel agency introductions, which are currently suspended, will be resumed.

### C. Strengthen data-based management

As a basis for implementing the strategies outlined in A and B above, a structure will be installed to enable the relevant and timely collection and analysis of management data.

## 2.3 Construct a system for regional cooperation

### A. Leverage strong summer customer appeal as a regional resource

Shibamasa Kanko's powerful capacity to attract tourists to the region during the summer season will be leveraged as a starting point for proactive promotions undertaken in collaboration with local tourist attractions and accommodation facilities, with Shibamasa Kanko taking the lead in developing a unified joint promotion plan for the region.

### B. Contribute to success of the region as a 'long stay' destination

By promoting Shibamasa Kanko's ability to attract visitors to events outside the core summer pool operating season, Shibamasa Kanko will contribute to the appeal of the region as a long stay destination, in line with the aims of local tourist attraction operators and accommodation providers.

### C. Contribute to the regional community and to social education

Shibamasa Kanko will also contribute to regional society through diverse initiatives such as opening its extensive lawn areas to the public, supporting the regional community and serving as a site that facilitates social education through a range of experiences and activities.

## 2. Business restructuring

### (1) Affiliated subsidiaries

Japan Entertainment will promptly be liquidated. It is planned that Shibamasa and Shimbamasa Noen will promptly commence special liquidation proceedings after the transfer to the new continuing company (defined in next section) of assets necessary for the ongoing operation of the business.

### (2) Company separation

Shibamasa Kanko will establish a 100% owned subsidiary (hereafter, “the New Company”) and after transferring all shares of the new company to ETIC, will implement a company separation (absorption separation) wherein all the assets and liabilities pertaining to its operations of Shimamasa World, along with its related food & beverage and retail sales operations, are transferred to the New Company for continued operation (second company method). After the company separation, Shibamasa Kanko (hereafter, “the Old Company”) will apply to be wound up under special liquidation proceedings. In addition, in order to provide partial funding for large-scale maintenance, refurbishment and other such expenses, the New Company will issue ¥10 million of new ordinary shares, which will be underwritten by ETIC.

### (3) Request for financial support from financial institutions, etc.

Of the approximately ¥12.87 billion owed to financial institutions, financial support will be requested for approximately ¥12.327billion. (Note: The above amount of requested financial support is based on the estimated value of non-operating real estate and other such assets. Because the asset disposal linked method is being used for debt repayment, the final amount of financial support will change.)

### (4) Financing

Based on the capital injection to be provided by ETIC as noted above, in addition to the new financing to be provided by ETIC and Fukui Bank, it is deemed that the New Company will not be at risk of funding insufficiency.



#### (5) Quantitative plan

For the fiscal year starting April 1, 2014, sales at the New Company are estimated to be lower than current sales, while securing ordinary income of approximately ¥48 million.

### **Section 4: Conformance with standards for support**

#### 1. Possession of effective management resources

Shibamasa Kanko operates Shibamasa World, a leisure park facility centered on a swimming pool that operates during summer. Shibamasa World is one of the leading leisure facilities in the Hokuriku (northern Japan) area, attracting more than 300,000 customers per year. The majority of these visitors are from outside the prefecture, which is evidence of the facility's appeal, and over the course of many years Shibamasa Kanko has contributed to the vitality of the regional economy. In addition to the pool, Shibamasa World incorporates a large lawn area of approximately 620,000m<sup>2</sup>, and by publicizing and hosting a variety of experiences that make use of this lawn outside of the summer pool season, Shibamasa Kanko contributes to the efforts of the regional tourism industry to attract long stay visitors to the region's tourist attractions and lodgings. Shibamasa Kanko also contributes to regional society through initiatives such as opening its lawn areas widely to the public, supporting the regional community and serving as a site that facilitates social education.

#### 2. Excessive indebtedness

Shibamasa Kanko carries total debt of approximately ¥12.87 billion, an excessive amount compared to its revenues. Debt forgiveness and financial support are essential to the revitalization of the business.

#### 3. Items supporting prospect of revitalization

##### 3.1 Agreement of main creditors

The application by Shibamasa Kanko was made jointly with Toho Bank.

##### 3.2 Standards for productivity improvement

In line with ETIC's proscribed standards, successful implementation of this business revitalization plan is expected to increase ROE by at least two percentage points, and increase the tangible fixed asset turnover ratio by at least five percentage points.

##### 3.3 Standards for financial soundness

Through implementation of this business revitalization plan, the ratio of interest-bearing debt to cash flow is expected to be within ten times, and current revenues are expected to be greater than current expenses.

4. Comparison with liquidation value

The value of Shibamasa Kanko's debt through implementation of the business revitalization plan is estimated to be greater than the value available through recovery on liquidation.

5. Potential to refinance within three years

Implementation of the business revitalization plan is expected to significantly improve the financial condition of Shibamasa Kanko and establish stable cash flows, making refinancing highly possible.

6. Connection with structural oversupply

Implementation of the business revitalization plan will not increase the supply capacity of Shibamasa Kanko. 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.

7. Status of consultations with workforce

Although there is no labor union connected with Shibamasa Kanko, it is planned that explanatory meetings with employees will be scheduled promptly after announcement of the decision by ETIC to provide support.

**Section 5: Responsibility of managers**

The responsibility of the management team of Shibamasa Kanko for its financial predicament will be reflected in the resignation of the entire management team, without directors' retirement benefits and without reappointment to the New Company.

**Section 6: Responsibility of shareholders**

Reflecting the responsibility of shareholders, in the special liquidation of the Old Company after the company separation the shareholders of the Old Company will not receive any distribution of remaining assets, and as a result their shares will be eliminated.

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