

ETIC to Provide Support to Hakuyuukai Medical Corporation / the other company

March 31st, 2011

Enterprise Turnaround Initiative Corporation of Japan

The Enterprise Turnaround Initiative Corporation of Japan (“ETIC”) has decided to provide support to Hakuyuukai Medical Corporation and Atlas 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 of persons or companies concerned
Hakuyuukai Medical Corporation and Atlas Co., Ltd. (hereafter collectively, “Hakuyuukai”)
2. Name(s) of financial institutions jointly applying for rehabilitation support with Hakuyuukai
Amagasaki Shinkin Bank
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 Hakuyuukai. However, I ask that after reaching the decision to support, ETIC should encourage Hakuyuukai 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 Hakuyuukai complies with related laws and regulations, and that Hakuyuukai 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: *“Hakuyuukai operates in the Osaka City medical region, an area that has an oversupply of hospital beds, and although it has a role as a hospital receiving patients in the recovery phase that follows the acute phase of an illness, a certain number of hospital beds are already available to accommodate patients in the recovery phase. Rectifying the oversupply of hospital beds in the region remains an urgent*

task, and I therefore ask that in implementing the revitalization plan, due consideration is given to the opinion of the Governor of Osaka Prefecture, who is working to ensure that a proper structure exists for the provision of medical services in the region, and that further differentiation and collaboration be pursued between medical functions to reduce the number of available hospital beds to the minimum necessary.”

6. Debt purchase application period

From Thursday, March 31st, 2011 for receipt by ETIC no later than Wednesday, June 8th, 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, 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 support involves requesting financial support only from financial institutions providing loans to the target companies. 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

Hakuyuukai is a medical corporation based in Nishiyodogawa Ward, Osaka City that operates a general hospital, a home nursing support service, a nursing home for the elderly, and a special healthcare facility for sufferers of dementia. The business is highly public in nature, as it provides comprehensive healthcare and nursing services to residents in the area through the healthcare and nursing facilities that it operates.

Demand for Hakuyuukai's services is increasing, particularly in the area surrounding Osaka city, which has a growing elderly population. Among this population are patients who find it difficult to travel to hospital, and sufferers of cancer or other terminal illnesses who wish to spend their final days at home or in familiar surroundings. Hakuyuukai specializes in providing 24-hour, year-round home nursing services to patients either in

the recovery phase after the acute phase of an illness or those suffering from chronic illness. Hakuyuukai can be said to make a substantial social contribution to the welfare of the region, particularly in the context of the shift that the Ministry of Health Labor and Welfare is promoting from hospital-based nursing to home nursing.

Business failure of Hakuyuukai, if associated with the cessation of its healthcare and nursing services, would severely affect a large number of inpatients, residents and others relying on its facilities, as well as home patients, and would damage the welfare services infrastructure of the region, which has an advanced elderly population.

Accordingly ETIC has determined that there is ample merit in supporting the revitalization of Hakuyuukai as a means to contributing to the stable provision of healthcare and nursing services in the region. A further consideration is that Hakuyuukai already has the doctors, nurses, rehabilitation staff (physiotherapists, occupational therapists, etc.) necessary for the provision of these services.

Moreover, ETIC believes that successfully undertaking this support program will provide a useful business revitalization model for the home caring and rehabilitation sector. ETIC also believes that through the efficient deployment of internal resources and cultivation of the next generation of administrators, Hakuyuukai can provide an example for small-scale operators, which tend to be short-staffed at the managerial level, and contribute to the accumulated expertise of regional healthcare and nursing businesses.

9.2 Role of ETIC

Under the terms of this plan, ETIC will: (1) Act as a coordinator among the financial institutions involved to achieve a relaxation in repayment terms for interest-bearing debt; (2) Provide new financing; (3) Supply management personnel

With regard to (1) above, ETIC will improve the financial condition of Hakuyuukai by requesting a reduction in interest rate from the relevant financial institutions and a change in repayment terms. With regard to (2) above, ETIC will coordinate with Amagasaki Shinkin Bank to secure working capital and finance for structural reform and other matters, with the aim of stabilizing cash flows and enabling the steady implementation of business revitalization. With regard to (3), ETIC will place management staff within the organization to strengthen its management structure, while supporting Hakuyuukai in the establishment of a stable management structure.

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Appendix: Outline of the Business Revitalization Plan

Section 1: Overview of the companies receiving support

1.1 Names of companies

Hakuyuukai Medical Corporation (“Hakuyuukai”) and Atlas Co., Ltd. (“Atlas”)

1.2 Main business

Operation of healthcare services including a general hospital, a home nursing support service, a nursing home for the elderly, and a special healthcare facility for sufferers of dementia

1.3 Hospitals, healthcare facilities, elderly nursing homes, etc.

(i) Natori Hospital, Ono 2-1-32, Nishiyodogawa-ku, Osaka

(ii) Natori Clinic, Ono 2-1-29, Nishiyodogawa-ku, Osaka

(iii) Selena Natori Nursing Home for the Elderly, Ono 2-1-35, Nishiyodogawa-ku, Osaka

(iv) Group Home Sakuranbo, Ono 2-1-14, Nishiyodogawa-ku, Osaka

(v) Group Home Sakuranbo Nakashima, Nakashima 1-14-21, Nishiyodogawa-ku, Osaka

(vi) Food Delivery Service Natori Delica Ben, Nakashima 1-14-21, Nishiyodogawa-ku, Osaka

1.4 Head office

Ono 2-1-32, Nishiyodogawa-ku, Osaka

1.5 Number of employees

Hakuyuukai Medical Corporation: 360 (including part-time employees; as of February 28th, 2011)

Atlas Co., Ltd.: 4 (as of February 28th, 2011)

1.6 Labor union

None

1.7 Affiliated companies

Hakuyoukai Social Welfare Corporation

(Note: Hakuyoukai is not a recipient of ETIC support)

1.8 Main banks

Welfare and Medical Service Agency, GE Japan, Sumitomo Mitsui Banking Corporation, Amagasaki Shinkin Bank, The Osaka City Shinkin Bank, Osaka Shoko Shinkin Bank, etc.

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

(Hakuyuukai Medical Corporation*)

Medical practice revenue	¥2,164 million
Operating income	¥82 million
Interest-bearing debt	¥1,509 million

(Atlas Co., Ltd.*)

Net sales	¥244 million
Operating income	¥20 million
Interest-bearing debt	¥351 million

*Above figures include transactions between Hakuyuukai Medical Corporation and Atlas

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

During the period 2004 to 2006, Hakuyuukai borrowed funds for construction work for the expansion and renovation of hospital wards and as a result total group borrowings swelled to ¥2,118 million as of March 2007.

Also, in 2003, the year prior to the large-scale expansion and renovation works, the founder and director of Hakuyuukai died, profits from the new hospital wards and new organization failed to gain momentum, interest on borrowings became a burden, and from the second half of 2008 Hakuyuukai received a relaxation of repayment terms from its lending financial institutions.

Following this, as a result of a strengthened approach to the provision of treatment at patients homes, rehabilitation therapy, and other measures, profit from the medical treatment business improved from around ¥50 million to ¥100 million. However, these funds were insufficient to repay funds in accordance with loan agreements and Hakuyuukai continues to receive financial support, including a relaxation of repayment conditions.

In these circumstances, following discussions with Amagasaki Shinkin Bank, the company has formulated a repayment plan appropriate to its business income and expenditure and in order to seek to increase its corporate value applied to the ETIC for business revitalization support.

Section 3: Outline of business revitalization plan

1. Basic policy

From the first fiscal year of this plan, financial support measures will be implemented

including a reduction in interest rates and changes to repayment conditions, and by utilizing its current staff and its strengths Hakuyuukai will maintain an organization that can provide comprehensive support in its area, including the provision of medical and nursing facilities and home healthcare.

2. Main business revitalization plan measures

2.1 Strengthening of rehabilitation functions

Increase the unit price for inpatients by increasing the number of rehabilitation patient/day units undertaken. Also, raise overall staff productivity by increasing the number of rehabilitation patient/day units undertaken by rehabilitation staff (including physiotherapists and occupational therapists). By enhancing these rehabilitation functions, increase the degree of patient recovery and the rate of patients returning home, thereby further enhancing medical treatment while increasing income.

2.2 Improving hospital bed capabilities

In order to strengthen support to allow patients to recover at home, as well as raising the quality of rehabilitation as described above, the number of hospital beds will also be increased. The rehabilitation wards of the hospital produce high income and are highly profitable so this will be a priority operational improvement measure.

2.3 Restructuring of management administration

A person will be appointed with responsibility for operational improvement, including the prompt and appropriate revision of medical treatment fees and improvement of the hospital. Also, from the perspective of implementing prompt and assured business revitalization, an Executive Committee (provisional name) will be formed comprising the hospital director and directors seconded from the ETIC, which will handle decision making of important elements of the plan, while a Monitoring Committee (provisional name) comprising important staff members of Hakuyuukai and ETIC will meet each month to check progress in implementing the plan.

3. Request for financial support

In respect of a total of approximately ¥1.6 billion in borrowings by the company, changes in the lending conditions will be requested from the financial institutions concerned.

4. Financing

ETIC believes that the financial aid set forth in this business revitalization plan along with working capital funding provided jointly by Amagasaki Shinkin Bank and ETIC will ensure

that there will be no risk of Hakuyuukai becoming short of funds.

4. Conformance with standards for support

1. Standards for improved productivity

ETIC required that Hakuyuukai meet each of the following productivity improvement standards within three years of the decision to support: (1) The return on equity (ROE) improves by at least two percentage points; (2) The tangible fixed asset turnover ratio improves by at least 5%; and (3) The value-added per employee improves by at least 6%. As Hakuyuukai forecasts that through implementation of this plan it will meet the standards of the business revitalization plan for (1) ROE and (2) tangible fixed asset turnover ratio within three years of ETIC's decision to provide support, the productivity improvement standards of this business revitalization plan are being met.

2. Standards for financial soundness

The standards for support include standards for financial support that within three years of ETIC's decision to provide support the company is required to meet both of the following standards: (1) The ratio of interest-bearing debt to cash flow is less than 10 times; (2) Ordinary income exceeds ordinary expenditure. As it is expected that through implementation of this plan the company will meet all the standards of the business revitalization plan, the financial soundness standards of this business revitalization plan are being met.

3. Possibility of refinancing within three years

Through implementation of this business revitalization plan according to schedule it is expected that the company will secure a sound financial status and will have the capability to repay principal and bear the burden of interest payments, therefore the possibility of refinancing is high.

4. Relationship to the elimination of excess supply

The company's capacity to supply services will not increase as a result of the implementation of this business revitalization plan. 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.

5. 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 managers

As financial institutions have not been required to forgive debt, the current managers of the company were not directly involved in its difficulties, and they are difficult to replace and will be indispensable to the implementation of the business revitalization plan, in principle they will remain in employment.

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