

ETIC to Provide Support to Okiso Construction Co., Ltd. and the related company

April 28th, 2011

Enterprise Turnaround Initiative Corporation of Japan

The Enterprise Turnaround Initiative Corporation of Japan (“ETIC”) has decided to provide support to Okiso Construction 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 companies concerned
Okiso Construction Co., Ltd. and Kenso Co., Ltd. (hereafter the “Okiso Companies”)
2. Name of the financial institution jointly applying for rehabilitation support with the Okiso Companies
The Bank of Okinawa, Ltd. (hereafter “Bank of Okinawa”)
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 decision to support the Okiso Companies. However, I ask that after reaching the decision to support, ETIC should encourage Okiso to discuss the situation with employees 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 the Okiso Companies comply with related laws and regulations, and that they also provide 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 Land, Infrastructure and Transport: No opinion expressed
6. Debt purchase application period
From Thursday, April 28th, 2011 for receipt by ETIC no later than Friday, July 15th, 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 and general creditors

The decision by ETIC to provide support involves requesting financial support only from financial institutions providing loans to the Okiso 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

Over the past 30 years since being established in 1982, the Okiso Companies have operated an apartment and detached housing construction business, a rental property management business, and a real estate rental business mainly in Okinawa Prefecture. The apartment and detached housing construction businesses have a construction track record of 500 rental apartment buildings and 1,300 detached houses. Furthermore, the rental property management business holds contracts with rental apartment owners for the management of a total of 4,200 apartments, and boasts the largest business scale among similar companies that base their main headquarters in Okinawa Prefecture. The Okiso Companies also possess one of the few precast productions factories in Okinawa Prefecture. Using the concrete walls produced at this factory, the Okiso Companies are able to construct buildings at a consistent level of quality, at a lower cost and in a shorter time than using traditional manufacturing methods, and this capability is rated highly by rental apartment owners and their tenants.

The Okiso Companies have developed a strong competitive advantage based on the effective management resources noted above, and maintain a certain degree of profitability in each of their businesses.

Looking at the macro environment, housing demand in Okinawa Prefecture is

expected to gradually increase. Moreover, based on data, including the ratio of rental housing starts in relation to the population and the growth rate in housing starts, Okinawa continues to be a highly attractive market.

In the event of the collapse of the Okiso Companies, liabilities owed to apartment owners pertaining to large sums of money deposited with the Okiso Companies for rent and security deposits would be lost, rental management operations contracted to the Okiso Companies would be greatly disrupted, and ultimately a significant impact on the lives of the rental apartment owners and their tenants would be unavoidable.

While the Okiso Companies employ 74 staff (as of January 31st, 2011). Taking into consideration the employees of the numerous partner companies (building contractors, raw material supply contractors, etc.), employment numbers associated with the Okiso Companies is substantial. In the event of the collapse of the Okiso Companies, there would be significant impact on the employment of a large number of people, causing widespread effect on the community of Okinawa—an area in which employment opportunities are not abundant.

Accordingly, ETIC has determined that there is ample merit in supporting the revitalization of the Okiso Companies as a means of preventing disturbances to the lives of rental apartment owners and their tenants, and contributing to the stable provision of their lifestyle fundamentals. Moreover, ETIC believes that successfully undertaking this support program will ensure the stable employment of staff of the Okiso Companies, and also contribute to stability in the local economy.

9.2 Role of ETIC

In deciding to support the Okiso Companies, ETIC's planned role is as follows:

- (1) Act as a coordinator among the financial institutions involved
- (2) Supply outside management personnel

With regard to (1) above, ETIC will pursue the smooth progress of the revitalization plan, by coordinating activities which the Okiso Companies would have found difficult to execute independently, including reconciling the interests of the related financial institutions, sponsors, and other related parties from a fair and neutral standpoint. With regard to (2), ETIC will place outside management personnel in the Succeeding Company after the company separation, thereby supporting the business revitalization

process. ETIC will not provide the Okiso Companies with financing or a capital injection.

9.3 Transfer of COM CITY

The execution of the business revitalization plan of the Okiso Companies is subject to the precondition that COM CITY (3-2374 Kurosaki, Yahatanishi-ku, Kita-Kyushu City.) is transferred to Kita-Kyushu City in early July 2011. Accordingly, ETIC's decision to provide support is subject to the abovementioned transfer.

After the abovementioned transfer is confirmed to have been completed as planned in early July 2011, a decision on the purchase of debt will be made by ETIC (under article 31, Clause 1, and Article 28 Clause 1 of the ETIC Act).

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Section 1: Overview of the companies receiving support

1.1 Name of company

Okiso Construction Co., Ltd. (hereafter “Okiso”)

Kenso Co., Ltd. (hereafter “Kenso”)

(Collectively, “the Okiso Companies”)

1.2 Affiliated companies

Asakawa Kenchiku Sekkei Kozo Jimusho Co., Ltd., (hereafter “Succeeding Company”)

1.3 Head office

Okiso: 180-7 Aza-Mekaru Naha-shi Okinawa

Kenso: 5192-24 Katsurenhaebaru, Uruma-shi, Okinawa

Succeeding company: 5192-24 Katsurenhaebaru, Uruma-shi, Okinawa

1.4 Main business

Okiso: Apartment construction business, housing construction business, rental property management business, real estate rental business, etc.

Kenso: Real estate rental business

1.5 Number of employees

Okiso:

Full-time employees: 67 (including 5 seconded to the Succeeding Company)

Employees received

on secondment: 1

Part time employees: 2

Kenso:

Full-time employees: 4

1.6 Main banks

The Bank of Okinawa, Ltd.

The Bank of Tokyo-Mitsubishi UFJ, Ltd.

The Okinawa Development Finance Corporation

Resona Bank, Limited.

Bank of The Ryukyus, Limited.

The Bank of Fukuoka, Ltd.

The Eighteenth Bank, Limited

Orix Corporation

The Shoko Chukin Bank, Ltd.
The Daido Fire and Marine Insurance Co., Ltd.
Okinawa Prefectural Agricultural Cooperatives
Okinawa Credit Guarantee Corporations
Housing Improvement and Development Public Corporation Foundation

1.7 Financial overview (financial results for the year ended June 30, 2010)

Okiso: Net sales ¥5,595 million; operating income ¥174 million

Kenso: Net sales ¥1,412 million; operating income ¥126 million

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

Since being established in 1982, the Okiso Companies have been operating an apartment and detached housing construction business, a rental property management business, and a real estate rental business in Okinawa Prefecture. In recent years they have actively worked to expand outside Okinawa Prefecture, including opening a Fukuoka Branch in 2000, and a Tokyo Branch in 2003. Reflecting the business environment at the time, particularly in Tokyo, their real estate-focused business was successful and contributed to business performance. However, the global financial crisis, symbolized by the collapse of Lehman Brothers in September 2008, caused Japan's real estate market to stagnate. As a result, the Okiso Companies were forced to sell their real estate assets at discounted prices, which resulted in substantial losses.

With regard to COM CITY, a retail facility in Kita-Kyushu City acquired in September 2007, as the real estate market continued to plunge, the Okiso Companies faced difficulties in achieving a sale of the facility at their initially forecast price. Continuing to hold the facility caused substantial losses as they faced high costs for property tax, management fees and other costs, and dwindling rental income.

While the Okiso Companies maintain a certain degree of profitability with regard to their apartment construction business, detached housing construction business, rental property management business, and their rental real estate business in Okinawa, the transfer of COM CITY is a matter that must be urgently addressed in order to ensure the continuance of these businesses. On April 15th 2011, the Okiso Companies formed a preliminary sale agreement with Kita-Kyushu City. Accordingly, with the transfer of COM CITY in sight, the Okiso Companies resolved to apply for support from ETIC

Section 3: Outline of business revitalization plan

1. Business plan

Business operations of the Okiso Companies are separated into core businesses and non-core businesses as follows. The Succeeding Company will receive and continue the core business operations of the Okiso Companies through a company separation (absorption separation) using the second company method.

(1) Core business operations (continuing businesses)

Apartment construction business, detached housing construction business, rental property business and real estate rental business inside Okinawa are positioned as core businesses operations, and will be continued by the Succeeding Company.

(2) Non-core business operations (businesses subject to withdrawal)

Okiso will withdraw from its condominium construction and sales business, and its real estate rental and real estate sales businesses outside Okinawa.

2. Request for financial support from the financial institutions, etc.

Of the ¥6.4 billion owed to financial institutions and others by the Okiso Companies (current estimated figure) financial support (effectively, debt forgiveness) will be requested for ¥4.0 billion. (Note: The amount of financial support is based on a calculation of the disposal value of non-operations-related real estate that the Succeeding Company will not take over. The final amount of financial support will change, as the amount of loan repayment is linked to the achieved real estate disposal values.)

3. Financing

Under the plan, financing of debt repayment and other funds required for the continuing business will be provided by a capital injection and income from businesses based in Okinawa Prefecture (Okinawa Syarring Co., Ltd., Kyuyo Cement Co., Ltd., Kaicon Co., Ltd., The Bank of Okinawa, Ltd., The Okigin General Lease Co., Ltd., Ogikin SPO Co., Ltd., and others). Moreover, in preparation for unforeseen circumstances, a new facility will be established for from the Bank of Okinawa, Ltd.

4. Transfer of COM CITY

This plan is subject to the precondition that COM CITY will be transferred to the City of Kita-Kyushu in late July 2011.

Section 4. Conformance with standards for support

1. Requirements related to standards of support

1.1 Possession of effective management resources

For nearly 30 years since being established in 1982, the Okiso Companies have operated an apartment and detached housing construction business in Okinawa Prefecture, and created a construction track record of 500 apartment buildings for rental and 1,300 individual houses (as of January 31st, 2011). Furthermore, in the rental property management business, the Okiso Companies are contracted by rental apartment owners for the management of a total of 4,200 apartments, and boast the largest business scale among similar companies that base their main headquarters in Okinawa Prefecture. The Okiso Companies also possess one of the few precast productions plants in Okinawa Prefecture and employ over 70 people, as such possessing effective management resources.

1.2 Excessive indebtedness

The Okiso Companies carry an excessive amount compared to revenues. Financial support is essential to the revitalization of the Okiso Companies.

2. Factors confirming potential for business revitalization

2.1 Agreement of main creditors

The Okiso Companies made a joint application for support with core creditor the Bank of Okinawa, Ltd.

2.2 Standards for productivity improvement

The required standards for productivity improvement are expected to be met through the implementation of this business revitalization plan.

2.3 Standards for financial soundness

The required standards for financial soundness are expected to be met through the implementation of this business revitalization plan.

2.4 Comparison with liquidation value

The value of the Okiso Companies' debt upon implementation of the business revitalization plan is estimated to be more than the value available through liquidation.

3. Potential to refinance and for sale of shares within three years

Implementation of the business revitalization plan is expected to significantly improve the financial condition of the Okiso Companies, enabling a steady a level of cash flow, and making refinancing and the sale of ETIC's shares highly possible.

4. Connection with structural oversupply

Implementation of the business revitalization plan will not increase the supply capacity of the Okiso Companies (the Succeeding Company). 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 unions

Because there is no labor union at the Okiso Companies it is planned that following the decision to provide support, meetings with employees will be promptly scheduled as part of the revitalization process to explain the main points of the business revitalization plan, and consult on employment and working conditions.

Section 5: Responsibility of management

To reflect the responsibility of the management team for the current predicament of the Okiso Companies, president Keibun Yokota will have no role in the management of the Succeeding Company, but will be involved with the revitalization of the company as an advisor.

Section 6: Responsibility of shareholders

After the company separation, the new company will sell the non-operations-related real estate assets, and following the sale will promptly apply to begin special liquidation proceedings. No allocation of remaining assets will be made to shareholders in the course of these proceedings

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