A Transformed TYO Creative Business City

Motivating the spirit of creativity for the next TYO

—Interview with new directors—
Fifteen talented men that the next generation requires
Know-how that capitalizes on change and operational capability with originality

Motivating the spirit of creativity for the next TYO

Providing an “environment” where talented creators can work at the highest level, TYO continues to produce exceptional content for every sector of the video business. TYO has now established an overseas presence in China and the West, so there has been no change in its consistent approach of responding to challenges. TYO also has reorganized its corporate structure. TYO’s TV commercial planning and production division was spun off as the independent TYO Productions Inc., and TYO has strengthened the functions of the core TYO entity for the overall control of the corporate group. Further, TYO has taken on a full-fledged commitment to the business of rights management.

TYO also is involved in new enterprises, too, such establishing a game software sales company and becoming involved with the Tsuburaya Productions. There are 43 distinctive companies at present in this group, which rang up consolidated sales of 18.9 billion yen in the year ended July 2007 (a shortened 10-month accounting period). The “creative engine TYO” has relaunched itself in an environment characterized by the increasing diversification of media and the growth of interactive content. Hiroaki Yoshida, TYO Group President and CEO, describes its vibrant strategy.

In the 26 years since its founding, TYO has built a brand in the industry by providing the market with video content of exceptional quality. The video industry has been transformed during this period, with changes that include the shift from analog to digital and the appearance of a succession of new media. TYO has properly hewed to the course indicated by contemporary trends, reorganizing its structure in response to those trends and expanding and reducing the roster of group companies.

The consistent basis of our operating philosophy since our founding has been to create business using the best talent and generate profits without being contented with the status quo.

TYO was launched with its main business being the production of TV commercials. A look at the sales ratio for each business segment during the previous term, however, shows that terrestrial TV commercials accounted for 54% of total revenue. This indicates the extent to which the breadth of media has grown and video content has diverged. These are the trends of an age characterized by diversification in and individuality.

In August 2008, to keep ahead of the trends of the times, we spun off the TV commercial planning and production division of the main TYO unit and created the independent TYO Productions Inc. to create a highly efficient and profitable business structure for all the TYO group.
As a result, the main TYO unit will no longer be involved with video production. Instead, the core of its operations will be to create business and provide the infrastructure that maximizes the profitability of the group companies.

We have also appointed 11 new directors from each of our business segments to join the four directors we have had since our founding. The directors will distill views from a variety of perspectives to create a consensus and make decisions for TYO operations.

Further, in our industry, advertising and PR sales tend to be concentrated in March and September. That made it difficult to ascertain our actual performance by the end of the interim period in March and the full fiscal year in September. Therefore, our fiscal year will now conclude at the end of July instead of September to enable us to present sound and stable figures for our performance.

Reforming its organizational structure with an eye to the future

If the first TYO generation could be described as the members at our founding who became the corporate core and expanded our business, the second generation is the group as a whole with the addition of the new directors from the organizational restructuring during the term under review to create an all-round video company. The newly appointed directors work at posts that correspond to the president of our group companies. They have been selected from every division, including advertising, the Web, entertainment, content solutions, the international division, the administration division, finance, and business strategies. This expansion in the breadth of information collated at the Board of Directors enables the examination and thorough scrutiny of the consolidated results from the perspective of the group as a whole.

TYO is now facing a critical turning point in its existence, but there will continue to be periods in the future in which change will be essential. It is our intention to create a structure capable of eliciting the maximum in organizational capabilities when that occurs. Are not companies that continue to undertake drastic reforms while accurately gauging the trends of the age the only ones capable of producing results that meet the needs of that age?

It is my sense after 26 years in this company that business requires no special maneuvers. The most important factors are to increase corporate competitiveness by determining how consistently results are achieved and creating an organizational structure that does not overlook profit opportunities. Success in business is not possible without the accumulation of these daily efforts.

Since its founding, TYO has constructed its own methods for converting talent to business and generating profits. We will not waver in following our precept of creating business using the best talent, regardless of the changes in our organization and structure.
With the spin-off of the TV commercial planning and production division as an independent company, TYO will strengthen its role in the future as a holding company that provides the business infrastructure to improve overall group profitability. It will also launch a full-fledged rights management business that will include the management and distribution of content copyrights, and the management of financing for films and TV programs. We will not limit ourselves to creating content of the highest quality; we also will create a structure for maximizing earnings by taking advantage of every distribution and profit opportunity.

For the administration of overall group operations, the most important issues we currently face are to manage earnings to enable each of the 43 group companies to conduct business on a sound basis, and to establish a unique TYO business model. At present, the TV commercial planning and production division has achieved a sound business environment with complete earnings management, in part due to the many years of experience gained from its operation. In other our business divisions, however, it is apparent that earnings management has yet to be as fully implemented as it has been in the main unit. We intend to conduct the complete oversight of finances in the TYO manner with the result of achieving sound business conditions for the entire company, while respecting the individuality of each of the group companies. No matter how many excellent products we create, we will in the end lose the ability to create them unless we have established excellent business principles. We cannot be creative without sound operations. We will surely make improvements if we rationally consider each of our businesses and companies. This requires bold and decisive measures, but it is the important role of the main TYO unit to have a complete grasp of the situation down to the smallest details.

The start of the multi-brand strategy and the new Tsuburaya Productions

Tsuburaya Productions got a new start in the TYO group in October 2007. This had a greater impact than we originally envisioned. We recognized once again that Ultraman was a character from whom social responsibility was demanded. The major reforms of Tsuburaya Productions have now been largely completed. In addition to transforming its management team, we have reevaluated the operations of the Ultraman-related facilities, which were not generating earnings. Further, we have formed capital and business ties with Bandai Co., Ltd. for our long-term strategic development, with a focus on toys. In business, there is strength in starting over from scratch. The top management of Tsuburaya Productions consists of extremely capable people. President Tsuneyuki Morishima has an exceptional production sense. The vice-presidents are Shinichi Ooka, who is an expert in filming, and Jyunya Okabe, who has remarkable abilities in the molding. We firmly believe that blending the abilities of these three men and incorporating a vision of overseas expansion in the future will result in the successful growth of Tsuburaya Productions.

Until now, TYO has never handled a character like Ultraman. We think that Ultraman will become an important factor in our multi-brand strategy from the perspective of the steady growth of rights management. We view this heavy responsibility as an opportunity and will use it to create yet another new “aspect” for TYO.

For the vitality of TYO now and in the future

The Web is serving as the agent driving the full-fledged media diversification now underway. Among all TYO sales, sales for this medium are growing steadily. The linkage between the Web and TV commercials is already taken as a matter of course, and demand is projected to increase in the future. Collaboration within the group for the Web productions is increasing yearly. This allows us to display the group strengths. Each of the companies in the group can introduce their group partners — their assets, so to speak — to clients. Therefore, we want to utilize the strengths of all 43 group companies to their greatest extent.

Our collaboration with brilliant creators throughout the world has become a firmly entrenched part of our international business. One example is the Great Works, which have received several important advertising awards for the high quality of the creations. There is no question that needs will increase in the future for borderless content production with borderless media.

In the animation sector, we have been making anticipatory investments in several
areas since we established in 2005 the Japanese-Chinese joint venture Da Lian Eastern Dragon Cartoon Development Co., Ltd. In the future, we plan to expand our business in Asia such as Taiwan and Hong Kong, and we also have Europe in our sights. There are 400 million children in the Chinese market alone, and Japan accounts for 60% of the world’s animated productions, so we expect our business there to flourish even further in the future. Further we launched Genterprise Inc., a company specializing in game software sales, in January 2008. This integrates the sales, advertising, and promotion functions of each company to boost sales of original game software. As the game market in Japan grows and user preferences diversify, we believed it was necessary to create a corporate structure that facilitated growth in software unit sales. Therefore, we started this new enterprise.

In this way, the creative activities provide an "environment" for the conduct of business, and we think it is important to expand this "environment" in the future. The results will not only drive the individual companies so as to create a synergistic effect among all group companies, but will also actively promote joint efforts with other companies.

In the future, TYO will be vigorously involved with turning the best talent into businesses as we increases the number of "faces" we present to the public. You can look forward to one constant - TYO will always be new.
The 15 newly appointed directors spoke to us about their commitment to the future and the growth of each business segment.

Riding the waves of change to the next stage of growth

TYO will have two aspects in the future. The first will be as a holding company functioning as the center for the 43 group companies. The second will be as an operating company that generates video-related business outside the field of actual production. As a holding company, it will be responsible for such duties as managing the operations of the group companies and handling administrative work. As an operating company that generates video-related business outside the field of actual production, it will invest in video content of all types, acquire and manage rights, distribute and sell video content, and utilize the expertise it has cultivated for overseeing group company operations. We will become a comprehensive holding company that will indeed handle all aspects of the video business outside of production, including the provision of operating reforms to companies both inside and outside the group, and lend money.

Now that we have undertaken the drastic reform of spinning off our TV commercial planning and production division, the TYO group has completed its preparations for moving on to the next stage. All the industries in which the TYO group operates are being buffeted by the waves of change. The critical point for our future will be how well we are able to ride out these waves of change and achieve further growth. Leaving the current situation for the next growth stage will show the real value of the new TYO group.
The TYO Board of Directors is the most important body for making the business decisions of the entire group. TYO’s growth over the past 26 years has not been a phenomenon that occurred naturally. Companies that have achieved growth through their own efforts have done so by making clear judgments and taking prompt action in their business. We believe that adding the knowledge and intelligence of the young directors who represent all the group sectors will create new objectives and behavior for TYO by using newer information and concepts.

TYO has created a business model using a completely new style of operation. After fulfilling one role for 26 years, we have now entered a period of rebirth by incorporating the DNA of our previous incarnation. Media today is cross-fertilizing and becoming increasingly complex. Organizational strength and the speed of decision making are important means for seizing new business opportunities. Our group reorganization will enable us to more aggressively exhibit our organizational strength and solidify a structure in which we will succeed by using our hands and head.

When considering how to create a better environment for craftsmanship, the first priority is to create a worksite that is always filled with vigor and vitality. The increase in the number of TYO group companies has increased our depth as a group as well as created the challenge of how best to proceed as a group with speed and dynamism. One way to meet this challenge is to be found in this turning point for the group. We believe that placing all the group companies in alignment will create an organizational form with a creative tension, making our approach to those outside the group more positive.

This group reorganization will be a turning point for TYO. We have high hopes for the new TYO Productions. Corporate governance and compliance will be important topics for the company. This will expand the role of administration in TYO. I think it will be very interesting if administration expands our outlook in the future to include new business. Not only will this enhance our management inside the group, but it will also enable us to provide to those outside the group the know-how we have developed over the years, such as that related to information security.

It was good that we were able to create a structure that enabled us to decide things by adding young and adaptable directors. TYO has always taken the initiative in the trend toward the diversification of video content. It will be critical for corporate strategy in the future to anticipate the changes in media and rapidly make a decision. That’s why this aggregation of wisdom in the form of new directors who represent the group companies is very significant. Different personalities will think about the group as a whole, and we look forward to the emergence of viewpoints we haven’t seen before.
This group reorganization has resulted in the further strengthening of horizontal ties between the companies. We can anticipate the successful applications of synergistic effects to continue, not only among group companies, but also with outside companies. The times demand effective cross-media strategies. TYO has evolved from being a TV commercial production company. It has established new, organic ties, and created a distinctive corporate style that has spread throughout the business world.

Reform is required for corporations to grow. The time for passing the torch from one generation to another will also come. Now, I believe the timing was right for reorganizing the TV commercial production division. The style in which people from various creative sectors meet and exchange opinions is possible because we are who we are, and this is a major source of sustenance for the group as a whole. The younger generation does not form factions and by nature they accept collaboration without hesitation, so, I look forward to developments growing more interesting in the future.

The TYO group today consists of 43 companies, and it is an aggregation of diverse individuals. I think this group reorganization will be effective for more fully utilizing these advantages. That’s because the newly appointed directors are from a wide variety of sectors. The synergy will not be limited to the group, but will spread outside the group framework. I think TYO’s image will become one of borderless creativity. An important task for the future will be how the borderless medium of the web drives this development.

I think there are many ways to increase TYO group profits in the entertainment sector, including future-based media proposals and package business. Our role is to create a mechanism that skillfully links all those, while boosting the profits of all our companies. It is also possible to consider game equipment as a medium. If the ties between our companies become closer, it will be easy for us to give form to the new ideas. We have created an environment in which more exciting business development is possible in the future.
Previously, the cooperative efforts within the group had taken different forms, but this group reorganization is an indication of our capabilities in that it strengthens us. The concept of “Multiple uses for unique content” is a key for TYO’s development. The time has come for us to expand our content business using our own strengths and accumulate know-how. For the animation, we’d like to take the initiative and take concrete steps in areas in which a market has not yet been established.

Director in Charge of Entertainment Business
Group Executive Officer, Executive Board Member
President, HAL FILM MAKER Inc.
Katsunori Haruta

The media will evolve in different directions as we head toward the launch of terrestrial digital broadcasts in 2011. Now, I have personally added the perspective of viewing the group as a whole from the standpoint of a director. I’d really like to emphasize balance and convey information actively rather than passively so that TYO as a whole grows. To achieve that, we will make it a priority to first foster personnel in house at the editorial level who are capable of production. The increase in individual ability is what will enable us to obtain a synergistic effect.

Director in Charge of Contents Solution Business
Group Executive Officer, Executive Board Member
Senior Vice President, Post Production Center Inc.
Kazuyuki Gondo

The TYO group currently has seven companies located overseas. The horizontal ties within the group are close to begin with due to the nature of overseas development, but we want to pursue flexible development in the future through more dynamic activities. Simply put, if the markets are different by nature of their being overseas, the style of collaboration will also be different. The capability for this type of flexible and obstacle-free movement is a TYO’s strength. Our collaboration will result in the creation of exceptional products that will elevate the TYO brand throughout the world.

Director in Charge of International Business
Group Executive Officer, Executive Board Member
Managing Director/CEO, TYO International B.V.
You Matsutani

Before, our standpoint had been to consider overall group profits, but with our new structure, our target is to create a mechanism for profit growth. Achieving that will require an in-depth understanding of the business activities and conditions on-site at all of our companies, and managing through figures. This idea will involve a further strengthening of in-house information sharing, lead to the development of our own systems, and establish mechanisms for financial operations. One of our most important tasks for the future will be to commercialize these shared assets that are outside the creative sphere.

Director in Charge of Strategic Financing
Group Executive Officer
Executive Board Member
Takashi Morita

The extremely important conditions for ensuring group expansion and promoting continued growth will be the creation of mechanisms for that objective and obtaining earnings in the sectors not involved with production. We can consider many possibilities apart from the financing and content distribution business that are currently in the planning stage. Our role is to help each company improve its quality, and increase its value. I hope to be able to turn the spotlight on the value of the TYO brand that differs from the common perception of us as a TV commercial production company.

Director in Charge of Strategic Business
Group Executive Officer
Executive Board Member
Hiroaki Uekubo
We enjoy craftsmanship, and that is why we want to make Ultraman a key part of our efforts.

Ooka: I’ve been involved with filming Ultraman for a long time, and I found it extremely interesting that management was devoting so much effort to a reborn and transformed Ultraman. I am keenly aware of the need to quickly launch a new production system.

Okabe: As one whose experience with Ultraman has been watching and enjoying the program since childhood, it feels funny to have been added to the management team and becoming involved with the actual production. I hope to be able to use my connection with the program’s past to produce a result in a form that everyone can accept.

Ooka: Considering the complex relationship between operations and craftsmanship, it won’t be possible to maintain the success of Ultraman, a sort of national hero, merely by creating good video product. When considering the future of Ultraman, the participation of Tsuburaya Productions in the TYO group will be extremely beneficial from the perspective of their personnel and information networks, as well as their operations. I also understand your job well, but I am really surprised by the power of your ideas.

Okabe: I’m just in love with craftsmanship, and I also have a tendency to get carried away with myself, but I want to revive Ultraman, this time being aware of the management aspects.

The new ideas for improving Ultraman

Okabe: The TYO group has many talented creators. In the future I want to establish Tsuburaya Productions’ position within the group, and initiate exchanges with creators active in other cultures for production purposes. I think the synergy resulting from those exchanges will generate the driving force that creates the new Ultraman.

Ooka: I think it is my role to realize your conceptual abilities within the context of Tsuburaya Productions. It’s like traffic management. Your abilities for conceiving and executing ideas not tied to existing concepts will be the stimulus and energy that changes Tsuburaya Productions. You will be destroying those existing concepts in the positive sense of the term. That’s what I’m looking forward to from you. A new Ultraman requires a new approach.

Okabe: My intention is to maintain that...
unique worldview while improving quality, and add something new and different.

**Ultraman development with an eye toward commercial success**

**Ooka:** One of the things that Tsuburaya Productions has lacked until now has been the clear vision for its products. There has been a particular weakness in the marketing strategy. With the increasingly radical changes taking place with media, including broadcasting and distribution, there was no long-term vision in sight for how to combine media and develop characters, and include rights management in the process. I think the capital ties with Bandai Co., Ltd. that were formed in January 2008 will enable total character development. This also allows for the possibility of blending in the TYO group’s video production know-how.

**Okabe:** That’s right. Marketing is an essential part of character development. The most important prerequisite for creating a total image is solid production. It is important to formulate a strategy with clear targets from the planning stage. I think this will also allow us to lighten the burden on the technical production system. For example, one procedure that can be considered is the diversification and combination of several teams for production rather than having one team create all the video. Certain scenes can be assigned to teams whose specialty is computer graphics, or certain characters could be assigned to another team. This also will minimize lost time.

**The idea of craftsmanship for creating products with a higher dimension**

**Ooka:** It has only been a short time since the new structure was created, so we can’t expect results right away, but I am convinced we will be able to create good products. There is a history of the unique methods and processes developed over 40 years in the production of Ultraman, but each of the companies in the TYO group has their own rules. The process of determining the rules of production by refining each of those rules, and creating the product by ultimately determining how to evaluate and select those rules, will be indispensable in the future for creating good productions.

**Okabe:** It’s best not to stick too closely to one set of rules when making anything. It’s the same with Ultraman. If we want to make a good film, it’s not necessary to insist on the production methods we’ve used until now. This does not lessen the flavor of craftsmanship. Rather, it is the idea that we can select the best methods because we have many to choose from. This may sound conceited, but I have both the nerve and the confidence to create high quality productions on the level of the past Ultraman productions, even for the special effects.

**Ooka:** I want to continue to incorporate the beneficial practices and techniques to promote the broader and deeper penetration of Ultraman, both overseas as well as Japan. I hope to bring about a new Tsuburaya Productions that blends different talents to create a hero that transcends generations. It seems that Tsuburaya Productions has become identified with Ultraman before I knew it, but one of my targets for the future to have Tsuburaya Productions return to being the leader in Japan for special effects technology.

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**to be continued...**

**Look forward to the appearance of the new stronger Ultraman!!**
Profiles of New Members of the TYO group

In the world of commercial “production”, marketing and creative activities are like the two wheels on an axle. If the balance between the two is off, it is not possible to go straight ahead. Tsuburaya Productions gave birth to a hero character popular nationwide, but even it has gotten out of balance in this regard.

Creators are usually fastidious about quality when they create things, but sometimes they get too caught up in the pursuit of “high quality” and lose their cost perspective, which is fatal to business.

Tsuburaya Productions aims to take the opportunity of joining the TYO group to make a new start. We will launch the “New Tsuburaya Productions” by clearly stating company objectives and ensuring all employees have the same information and values. The products we produce after joining the TYO group will not start to be released until 2009, but we are heading in that direction at full throttle.

Because it consists of a variety of creative companies, we are looking forward to working in the fortuitous environment provided by the TYO group to see how the characters of Tsuburaya Productions will be utilized to realize their future potential. We look forward to offering fans “an even stronger Ultraman”.

Charged with energy and aiming for a global presence of Tsuburaya Productions

Ultraman fans in Japan watch every move of Tsuburaya Productions. While bearing this pressure and responsibility, the reborn Tsuburaya Productions is working to spread the dream across the world.

Between business and creative activities

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Working to expand strategic markets

The target of Ultraman is today’s children, and the “original” children from the 40-year period from the birth of Ultraman until today. Ultraman is a rare character that combines diversity with unpredictability. That is what has kept Ultraman going for over 40 years. While valuing these two aspects we will work in a regular and timely manner to maximize the Ultraman asset.

Ultraman is a character which can also be said is also a Japanese asset. By comprehensively winning the lawsuit in Thailand that has lasted over 10 years, Ultraman will now be able to make the world his stage in fact as well as name. The advancement of modern media and technology will make this a reality in a short time.

In addition, we will implement thorough and smart cost reductions in the production process without compromising quality. For example, if we determine the broadcast framework in advance and plan the contents of the entire series ahead of time, we will also be able to systematically plan set construction. Our goal is to develop production to balance and harmonize the three aspects of scheduling, quality, and budget.

The ultimate mission of Tsuburaya Productions is “to continue to provide children with dreams and imagination” by giving our all from major targets to small efforts to keep Ultraman as a hero forever.
profiles of New Members of the TYO group

ZEO Corporation

Aiming for maximum effect in marketing communication

Creating a location is not the only work of a space producer. The foundation of ZEO’s creative work is never being satisfied with the status quo but continually seeking to create the unique by adding something new.

ZEO was established in 1988 to produce space for exhibitions and stores in particular. The start of the company coincided with the economic boom and most of our work was producing discos and restaurants. At that time, just placing some nondescript rock in front of a restaurant garnered the incredible production fee of several million yen. Being emerged in such an environment will dull our senses and the direction the company should take, so we shifted from store and restaurant production to exhibitions and other space production.

The work of space production is deeply related to the overall company marketing communication. To effectively express the company brand concept requires a range of creativity that must take into consideration images and visitor oriented communication tools based on this concept; a website, questionnaires, and other informative materials; and onsite communication.

So-called space production is comprehensive creative work of images, music, and lighting as well as the form and details of the space itself. Further, a single project will require interaction with 30 to 50 companies, so having the skill to maintain uniform quality is a must.

Since its foundation, ZEO has made “Cool & Unique” its creation theme. Creations have to look cool, but I also want them to be unique in a way that others cannot copy them. To do that, we have to keep ourselves in a position where we can continually receive fresh stimulation that keeps us from becoming stuck in a rut. Being able to joint the TYO group, a listed company, puts us in an environment with the best kind of stimulation. Many of our clients to date have been foreign companies because they often select companies based on the degree of quality. Although things are changing, Japanese clients tend to select companies based on their size. With the support of the TYO group, we will actively make presentations to domestic companies as well. We will also strengthen ourselves in the field by realizing synergies with companies from other groups that are strong in the general consumer market.

Joint the TYO group has the additional merit that it provides the framework for our work to be evaluated objectively. ZEO has now set a business plan that calls for 3 billion yen in sales in 2010.

Today, the advertising world requires higher quality communication. We are very excited with the prospect that the TYO group synergies will present various methods of high-quality expression.
Light Work Co., Ltd.

Shining light on productions through reliability built on workplace capability and abundant experience

Light Work is the leader in lighting equipment rentals in Japan and the abilities of the second president, Naoki Kondo, are expanding the company and solidifying its position as a lighting professional.

Lighting services are moving to the era of providing total packages

Light Work was established in 1973 with lighting equipment rental as its main business. Our company was the first to introduce metal halide lamps (HMI) to Japan and the rental business for these was well received. The company gradually increased the type of lighting equipment it offered to where now the lineup is the greatest in Japan with tens of thousands of items to select from.

Today, in addition to renting lighting equipment for commercials and promotions, events, movies, and similar activities, the company also rents out equipment trucks and power trucks for on-location use to provide total light-related services.

One of our current focuses is “location package plans”. For these plans, lighting technicians are dispatched with the vehicles and lighting equipment to handle all of the lighting work. This style has been common outside of the urban areas, but it had not caught on in the urban area where lighting technicians are freelance. However, providing such total packages greatly reduces the preparation time before the event begins and thus reduces costs, so the demand for such services is very high in the urban area now as well.

Joining the TYO group has increased the trust built with customers and is increasing the number of clients that order total packages as well as the number of new customers. First of all, we will solidify the orders for this total service to expand the company beyond being just an equipment provider to firmly establishing ourselves in the industry as lighting professionals.

Shining light on the production site with pride

Lighting is not a simple thing. Expensive pieces of lighting equipment can cost several million yen per system and some pieces of this equipment approach being works of art. Since we carry a wide range of equipment, much time is required for maintenance and the knowledge and technology for modifying important equipment to meet Japanese specifications are required. It is also important to gather information on new products in Europe and on what kind of “light” is currently required. We strive to send technicians to overseas events and to utilize technician networks to continually exchange the latest information.

We have recently begun to prepare manuals on lighting types and effects for new employees as well as manuals covering maintenance technology, but preparing manuals for everything is an impossible task, so we give priority to onsite training for new employees because onsite communication with customers is important for proposing and assembling the suitable lighting equipment.

Although not limited to lighting, the production site requires imagination and a sense of things as manuals alone are insufficient for the work. The first thing we do is to have the staff understand how fascinating but difficult the work is. Because our work is to “shine light” on the production site, we aim to be a company that takes pride in meeting 100% of customer needs.
Great Works AB

High-quality products expand the possibilities of interactive media

Great Works has been working on high-quality works since its founding. The company has also received many advertising awards since it joined the TYO group. Its advertising development that utilizes vertical and horizontal networks is excellent and much is expected of the company going forward.

Using many awards as steps to reaching the top of the world

We take pride in the high appraisal given to our creativity. We have been nominated for nearly all of the major advertising awards and have received many of these awards including the Cannes Lions, Europe’s Premier Creative Awards (Epica), New York Festival Awards, Webby Awards, Cresta International Advertising Award, One Show Advertising Award, The Eurobest Award, D&AD Award, and domestic awards from several countries. The best known award-winning work of our company is the V&S ABSOLUT SPIRITS, a Swedish vodka manufacturer, promotion site "ABSOLUT METROPOLIS". No other online campaign has received so many awards. A point in common of all three of our offices in Stockholm, Barcelona, and New York is that they have large coverage by employing multiple channels in the web markets of those cities. A good example is the promotion site "ABSOLUT Machines", which was set up as a music machine between Stockholm and New York that allows mutual access from the website.

Currently, we are building a new system for the ABSOLUT project and we are also constructing a new online shopping site for the Swedish apparel maker H&M (Hennes & Mauritz AB). We are also opening a new office in Japan with plans to support the global campaigns of client companies.

The goal of Great Works by establishing offices around the world is to become one of the most creative digital agencies in the world. As a member of the TYO group with its excellent creative mind we are aiming to create products that put us at the top of the world.
LUDENS CO., LTD.

To be a creator that takes on the challenge to advance the business potential of CG

A person who uses his own sense of taste to work on character design and package illustrations and who was a pioneer of SF illustration in Japan, Ryukow Masuo established LUDENS in 1990 and is now moving the company into new businesses.

I first got the impression that the world of computer graphics (CG) that takes on the dimensions of fantasy and desire could be used for realistic creation when participating in the international society SIGGRAPH* held in Boston in 1982. That is when I came in contact with the CG imaging in “Star Trek II: The Wrath of Khan”, which was a movie that made true, if only partial, use of CG. I strongly felt that means of expression would allow me to realize the things I wanted to do. Creating CG images at that time required a huge amount of money and was still just a dream for me. Several years later I acquired an environment that could be bought with personal funds but which I could manage to use to create full-color CG still images. Then, at a price tens of millions higher than that, it became possible to acquire an environment for creating movies, so I started LUDENS with the desire to create CG imaging.

Since I was an illustrator, the policy of the company from its inception was “CG is to make pictures”. The rapid advancement of computer hardware and software has created an age when anyone can “make pictures” even if they are lacking a professional touch. If we don’t understand a “picture” as a work of art, it is nothing more than data created with CG software and will not communicate a sense of life as a work of art does. I’m honored that in this respect the CG of LUDENS continues to meet the needs of clients for high quality. For that reason, I have no intention of lowering the hurdle. I realize that is one thing that motivates everybody in the company.

*SIGGRAPH: This is held annually in the United States to allow people to present papers related to computer graphics and is the largest computer graphics festival in the world.

LUDENS CO., LTD.

4th Floor, Chugai Bldg., 3-1-16 Uehara, Shibuya-ku, Tokyo 151-0064, Japan
TEL: +81-3-5452-0050 / FAX: +81-3-5452-0112
URL http://www.ludens.co.jp/
Established: March 1990
Capital: 10 million yen
(Investment share of TYO: 72%)
Business content: Computer graphics production

CG is an attractive expression with a temporal axis

I first got the impression that the world of computer graphics (CG) that takes on the dimensions of fantasy and desire could be used for realistic creation when participating in the international society SIGGRAPH* held in Boston in 1982. That is when I came in contact with the CG imaging in “Star Trek II: The Wrath of Khan”, which was a movie that made true, if only partial, use of CG. I strongly felt that means of expression would allow me to realize the things I wanted to do. Creating CG images at that time required a huge amount of money and was still just a dream for me. Several years later I acquired an environment that could be bought with personal funds but which I could manage to use to create full-color CG still images. Then, at a price tens of millions higher than that, it became possible to acquire an environment for creating movies, so I started LUDENS with the desire to create CG imaging.

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Creating a world with a new value standard of CG

LUDENS has been an independent company for close to 20 years, but in thinking about the development of the company I wondered whether continuing that style of management would be the best for the future. Technological innovation in the CG world is rapid and needs are increasingly diversifying, so high-quality creative work alone is not sufficient to survive in the business world. Considering the risk involved, capital investment in technology, and development of people required to take on large projects, a company needs to have active management as well as actively take on the development of original contents and technologies. Taking those things into consideration, I decided the best course was to participate in the TYO group.

The name of the company was taken from the work “Homo Ludens” by Dutch author Johan Huizinga. In Latin Homo Ludens means “a person who plays”. Just as this book discusses that “economic benefits accrue to play, which is human creativity”, the business model sought for by our creators is not just to concentrate on the cost cutting or pursuit of profits that are in front of our noses, but also to spend money to provide high-quality works that bring in profits. In other words, our goal is not just to create what is desired, but to make a profit by providing what we think is good.

Ryukow Masuo
CEO
LUDENS CO., LTD.
TYO Productions Inc.

We aim for hit productions from a core position in the TYO group

In discussing the history of the TYO group, one has to mention two of the top officers, Wajyu Fukuda and Jun Ebihara, who lead the production of TV commercials. They became independent of the business division of the main TYO unit to take on more challenging and solid creative system.

Ebihara: The spin-off of TYO Productions was handled as an inevitable and natural development. Self-supporting accounting was already used while still a part of the business division of the main TYO unit, so nothing in particular changed with the spin-off.

Fukuda: Of course, we spend more time on management than we did while still part of the business division of the main TYO unit, but on the other hand being two of the top management allows for quicker decision making, which is an advantage for company management.

Ebihara: Of the individual companies in the group, TYO Productions has become the largest with about 110 employees. We are honored to be the core of TYO and we plan to continue to lead the group well as the core company.

Fukuda: We realize we must be prepared to be the “cleanup hitter” at all times. Rather than doing something small, we will work to meet expectations by always getting a good hit. I think it is important to always have that sense of urgency and mission.

Ebihara: One of the characteristics of TYO is “mega strength”. We are past the age when commercials are made using the star power of just the producer. Looking at the group overall, the individual companies retain their respective strengths while coalescing into a greater strength. I am confident that the organization with this strength can meet the needs of the times and come out victorious.

Fukuda: And with the media diversifying like it is today, we must continuously work in the main stream to keep our senses sharp. We must keep a sharp eye on the things that change and those that don’t, on pushing individuality and on maintaining harmony. Our goal is to continue to be a company that keeps these things in good balance.
TYO Business  Vol 4

Corporate Information

Group Outline

TYO Inc.

● Location of Head Office  2-21-7 Kami-Osaki, Shinagawa-ku, Tokyo
TEL: +81-3-5434-1580  FAX: +81-3-5434-1595

● TYO Group Executives Officers and Auditors

  President and CEO, and CEO of the Group  Hiroaki Yoshida

  Vice-representative, Executive Board Member  Kazuyoshi Hayakawa

  Vice-representative, Executive Board Member  Shuji Kakimoto

  Director in Charge of Administration Business, Group Executive Officer, Executive Board Member  Koichi Iida

  Director in Charge of Advertising Business, Group Executive Officer, Executive Board Member  Jun Ebihara

  Director in Charge of Advertising Business, Group Executive Officer, Executive Board Member  Wajyu Fukuda

  Director in Charge of Advertising Business, Group Executive Officer, Executive Board Member  Haruo Takarada

  Director in Charge of Web Business, Group Executive Officer, Executive Board Member  Kenji Morimoto

  Director in Charge of Entertainment Business, Group Executive Officer, Executive Board Member  Hidenori Ueki

  Director in Charge of Entertainment Business, Group Executive Officer, Executive Board Member  Masahiro Yonezawa

  Director in Charge of Entertainment Business, Group Executive Officer, Executive Board Member  Katsunori Haruta

  Director in Charge of Contents Solution Business, Group Executive Officer, Executive Board Member  Kazuyuki Gondo

  Director in Charge of International Business, Group Executive Officer, Executive Board Member  You Matsutani

  Director in Charge of Strategic Financing, Group Executive Officer, Executive Board Member  Takashi Morita

  Director in Charge of Strategic Business, Group Executive Officer, Executive Board Member  Hiroaki Uekubo

  Director in Charge of Strategic Business, Group Executive Officer, Executive Board Member  Hidejiro Matsuda

  Director in Charge of Contents Solution Business, Group Executive Officer, Executive Board Member  Keisuke Morishima

  Director in Charge of Contents Solution Business, Group Executive Officer, Executive Board Member  Shigeyuki Mito

● Capital  ¥1,077 million (as of July 31, 2007)

● Number of group employees  884 (as of July 31, 2007)

● Consolidated net sales  ¥18,912 million (as of July 31, 2007)

Group Companies

Advertising Business

TYO Productions Inc.
Investment share of TYO: 100%
1-17-13 Mita, Meguro-ku, Tokyo 153-0062, Japan
TEL: +81-3-5434-1580  FAX: +81-3-5434-1595

TV commercial planning and production, Web advertising, Video production

MONSTER FILMS Inc.
Investment share of TYO: 80%
4-2-14 Roppongi, Minato-ku, Tokyo 106-0032, Japan
TEL: +81-3-6229-1611  FAX: +81-3-6229-1622

TV commercial planning and production

Camp KAZ Productions Inc.
Investment share of TYO: 100%
1-12-24 Mita, Meguro-ku, Tokyo 153-0062, Japan
TEL: +81-3-5725-6321  FAX: +81-3-5725-6322

TV commercial planning and production

Kirameki Inc.
Investment share of TYO: 80%
1-13-6 Kami-Meguro, Meguro-ku, Tokyo 153-0051, Japan
TEL: +81-3-5459-1091  FAX: +81-3-5459-1092

TV commercial planning and production

1st Avenue Inc.
Investment share of TYO: 75%
1-7-13 Mita, Meguro-ku, Tokyo 153-0062, Japan
TEL: +81-3-5719-1900  FAX: +81-3-5719-1901

Advertisement planning and production

Lemon Company Inc.
Investment share of TYO: 100%
4-2-14 Roppongi, Minato-ku, Tokyo 106-0032, Japan
TEL: +81-3-5447-0581  FAX: +81-3-5447-0582

TV commercial planning and production

M-one Productions Inc.
Investment share of TYO: 100%
1-7-13 Mita, Meguro-ku, Tokyo 153-0062, Japan
TEL: +81-3-5434-1580  FAX: +81-3-5434-1595

TV commercial planning and production

SASSO Films Inc.
Investment share of TYO: 70%
3-17-39 Nishi-Azabu, Minato-ku, Tokyo 106-0031, Japan
TEL: +81-3-5785-3011  FAX: +81-3-5785-3012

TV commercial planning and production

Ultra Inc.
Investment share of TYO: 100%
1-1-4-604 Kami-Osaki, Shinagawa-ku, Tokyo 141-0021, Japan
TEL: +81-3-5475-6922  FAX: +81-3-5475-6923

Planning and production

ZEO Corporation
Investment share of TYO: 70%
2-9-28 Hiroo, Shibuya-ku, Tokyo 150-0012, Japan
TEL: +81-3-5487-8911  FAX: +81-3-5487-8203

TV commercial planning and production

MONSTER FILMS Inc.
Investment share of TYO: 80%
4-2-14 Roppongi, Minato-ku, Tokyo 106-0032, Japan
TEL: +81-3-6229-1611  FAX: +81-3-6229-1622

TV commercial planning and production

Camp KAZ Productions Inc.
Investment share of TYO: 100%
1-12-24 Mita, Meguro-ku, Tokyo 153-0062, Japan
TEL: +81-3-5725-6321  FAX: +81-3-5725-6322

TV commercial planning and production

Kirameki Inc.
Investment share of TYO: 80%
1-13-6 Kami-Meguro, Meguro-ku, Tokyo 153-0051, Japan
TEL: +81-3-5459-1091  FAX: +81-3-5459-1092

TV commercial planning and production

1st Avenue Inc.
Investment share of TYO: 75%
1-7-13 Mita, Meguro-ku, Tokyo 153-0062, Japan
TEL: +81-3-5719-1900  FAX: +81-3-5719-1901

Advertisement planning and production

Lemon Company Inc.
Investment share of TYO: 100%
4-2-14 Roppongi, Minato-ku, Tokyo 106-0032, Japan
TEL: +81-3-5447-0581  FAX: +81-3-5447-0582

TV commercial planning and production
Entertainment business

Digital Frontier Inc.
Investment share of TYO: 100%
TEL: +81-3-3794-2476  FAX: +81-3-3794-2472

SARUCHIN COMPANY
Investment share of Digital Frontier: 80%
TEL: +81-3-3476-5505  FAX: +81-3-3476-5642

Suzak Inc.
Investment share of TYO: 100%
TEL: +81-3-5724-5912  FAX: +81-3-5724-5913

Sting Co., Ltd.
Investment share of TYO: 80%
TEL: +81-3-5724-6224  FAX: +81-3-5728-6682

HAL Film Maker Inc.
Investment share of TYO: 82%
TEL: +81-11-6469-4001, Japan
TEL: +81-3-5434-8751  FAX: +81-3-5434-5530

Yumeta Co., Ltd.
Investment share of TYO: 80%
TEL: +81-3-5724-8891  FAX: +81-3-5724-8892

Mazri Inc.
Investment share of TYO: 100%
TEL: +81-3-5724-8891  FAX: +81-3-5724-8892

dwarf Inc.
Investment share of TYO: 82%
TEL: +81-3-5724-6224  FAX: +81-3-5724-6662

Web Business

TYO Interactive Design Inc.
Investment share of TYO: 100%
TEL: +81-3-5547-8000  FAX: +81-3-5547-8001

colab Inc.
Investment share of TYO: 51%
TEL: +81-3-5434-8815  FAX: +81-3-5434-8816

COM Co., Ltd.
Investment share of TYO: 73%
TEL: +81-3-5724-6666  FAX: +81-3-5724-6667

Theoria Communications Inc.
Investment share of TYO: 87%
TEL: +81-3-5434-1585  FAX: +81-3-5434-1595

SEIPTENI BROADCASTING CO., LTD.
Investment share of TYO: 30%
TEL: +81-3-5774-8556  FAX: +81-3-5774-8557

Post Production Center Inc.
Investment share of TYO: 73%
TEL: +81-3-3473-2461  FAX: +81-3-3473-2566

CRANK Inc.
Investment share of TYO: 100%
TEL: +81-3-5447-6081  FAX: +81-3-5447-6082

Light Work Co., Ltd.
Investment share of TYO: 70%
TEL: +81-3-3359-2821  FAX: +81-3-3359-2829

CG and digital content planning and production

Digital content, games and CG planning and production

Game software development

Game software development

Animation planning and production

Music clip planning and production

Character planning and development

Web production

Web production

Web production

Web production

Web production

The planning, production, and sale of Internet video advertisements

Post production for films

Filming-related operations

Lighting equipment related businesses

GEOMA, Inc.
Investment share of Digital Frontier: 85%
TEL: +81-3-3474-4443  FAX: +81-3-3474-4443

LUDENS CO., LTD.
Investment share of TYO: 72%
TEL: +81-3-5452-0300  FAX: +81-3-5452-0112

Centerprise Inc.
Investment share of TYO: 100%
TEL: +81-3-5434-1585  FAX: +81-3-5434-1595

5P Inc.
Investment share of TYO: 80%
TEL: +81-3-5434-1585  FAX: +81-3-5434-1595

REAL-T Inc.
Investment share of HAL Film Maker: 80%
TEL: +81-3-5434-1585  FAX: +81-3-5434-1595

DOGA KOBO Inc.
Investment share of TYO: 70%
TEL: +81-3-5434-1585  FAX: +81-3-5434-1595

Haxen International Inc.
Investment share of TYO: 85%
TEL: +81-3-5434-1585  FAX: +81-3-5434-1595

TSUBURAYA PRODUCTIONS CO., LTD.
Investment share of TYO: 66%
TEL: +81-3-5434-1585  FAX: +81-3-5434-1595

multimedia, Financing business, Licensing business

International Business

Da Lian Eastern Dragon Cartoon Development Co., Ltd.
Investment share of TYO: 35%
TEL: +86-411-84799945  FAX: +86-411-84799957

Great Works AB
Investment share of TYO International: 60%
TEL/FAX: +39-055-245-855

Great Works, S.L.
Investment share of TYO International: 60%
TEL/FAX: +46-8-52-80-77-77

Calloghi s.r.l.
Investment share of TYO International: 80%
TEL/FAX: +39-055-245-855

Great Works S.L.
Investment share of TYO International: 60%
TEL/FAX: +39-055-245-855

Great Works America Inc.
Investment share of TYO International: 60%
TEL/FAX: +1-646-403-9740

Shepherd Digital Marketing Consulting (Shanghai) Co., Ltd.
Investment share of TYO International: 97%
TEL/FAX: +86-21-635-68830

TYO Administration
Investment share of TYO: 100%
TEL: +81-3-5434-1585  FAX: +81-3-5434-1595

Group management services

TYO Business Vol 4
The TYO group’s advertising business consists of the planning and production of TV commercials and advertising. In the process of expanding our business to include film production, we added the ZEO Corporation to our group in July 2007. This marked our first entry into the marketing and communications sector. We also spun off the TV commercial planning and production division of TYO Inc. in August 2007 to form the new company, TYO Productions Inc. We thus created a structure that allowed each of our companies to focus on their core business. We intend to continue to provide creative products in the future that will meet our clients’ needs in a wide range of areas.

This business is involved with the planning and production of interactive content. An increasing number of companies are utilizing web advertising as a mainstay medium to rank side-by-side with TV commercials. This market is growing dramatically. In addition, the viewing of videos on the Internet is now an established practice, and we expect demand for video advertising to increase in the future. With this climate prevailing in our industry, we brought SEPTENI BROADCASTING CO., LTD., which is involved with video advertising on the Internet, into the group as a company accounted for under the equity method. Making this video advertising specialist a group member will expand the territory of our web business both in Japan and overseas as we continue to create media combinations, including the Internet, in corporate advertising strategies.
Our entertainment business is growing in a multitude of sectors, including the production of computer graphics, animation, game software, and music videos; and the planning and production of characters and documentaries; and the content business. TSUBURAYA PRODUCTIONS CO., LTD., known for its Ultraman series, which features the most popular Japanese action hero, became part of our group in October 2007. TSUBURAYA PRODUCTIONS and Bandai Co., Ltd. formed capital and business ties in January 2008 for the long-term, strategic development of the content business in the future. In our character business, dwarf Inc. has been involved with the planning and development of original characters. They also started operation of a studio exclusively for the use of stop motion technique, and have been working in film and TV program production.

In the future, we intend to devote additional resources to business expansion, focusing as much as possible on the core businesses of our group, by enhancing the brand strength of each enterprise, investing in production committees, establishing new companies, and acquiring existing companies through merger or acquisition.
In this business we provide the platform and editing technology for visual content production, shoot the video, and handle the lighting work. The post production division provides the most advanced platform and the technology required for visual content editing. The filming-related operations division sends camera operators to locations and lends filming equipment. In addition, Light Work Co., Ltd., which develops and lends lighting equipment, became part of our group in October 2007. This has enabled us to rapidly provide all the equipment needed for video production. In the future, we hope to improve our service as we expand the range of the solutions we provide.

In this business we are involved with the expansion overseas of interactive content and animation. As the core of our group’s global strategy, TYO International B.V., an intermediate holding company, invests in, establishes, and facilitates mergers and acquisitions between brilliant creative enterprises throughout the world. In March 2007, Great Works, a major Western web production company whose clients include the world’s largest companies, became part of our group. We also established Shepherd Digital Marketing Consulting, involved with the production of digital advertising, in Shanghai, China, in June 2007. It is providing creative work of the highest quality to the Chinese-language Internet market. In the future, we will continue to aggressively expand our business and internationalize the brands of our group companies.
The objective of our group is to establish ourselves as the leading brand in the markets in which our group companies operate. In addition, we will continue to expand our business into different visual content sectors with the intention of creating a new business model that is not limited to the existing visual content business. Our aim is not merely to expand profits by boosting our shares through continued multi-branding in each business segment. We also will rebuild the business portfolio for the entire group and ameliorate business risk caused by changes in the economic climate. Our goal over the mid-term is for consolidated sales of 40 billion yen by 2010, achieving our plan as outlined below.

We intend to redouble our efforts to expand our businesses and manage our profits in the future by aggressively continuing to create new companies and promote mergers and acquisitions with the goal of achieving our mid-term business targets.

<table>
<thead>
<tr>
<th>Fiscal Term</th>
<th>Fiscal year ended September 2008</th>
<th>Fiscal year ended September 2009</th>
<th>Fiscal year ended September 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Sales (¥ billion)</td>
<td>29.0</td>
<td>34.5</td>
<td>40.0</td>
</tr>
<tr>
<td>Ordinary Income (¥ billion)</td>
<td>1.70</td>
<td>2.28</td>
<td>3.00</td>
</tr>
<tr>
<td>Sales and Ordinary Income Ratio (%)</td>
<td>5.9</td>
<td>6.6</td>
<td>7.5</td>
</tr>
</tbody>
</table>

Our most pressing challenges as we work to achieve our group’s mid-term target of 40 billion yen in sales by 2010 include a further expansion of our business areas including overseas development, thorough implementation of cost management, and investments in all our production committees.

1. **Thorough profit management**

We will define standard numerical values for sales and ordinary income ratios in every segment to identify the mission of all our group companies, and strive to establish solid profit management with a dedicated concentration to conducting business that achieves these figures.

2. **Promoting mergers, acquisitions, and the establishment of new companies**

The number of companies in our group has expanded from eight JASDAQ-registered companies in 2002 to 43 today. In the future, we will strengthen our brand by aggressively promoting mergers, acquisitions, and the establishment of new companies, particularly in the web and entertainment sectors. We also aim to expand our business with the intention of exchange listing individual group companies.

3. **Group development overseas**

The Web and animation businesses are part of the international market, so we plan to conduct aggressive overseas business development, including mergers, acquisitions, and the establishment of new companies, to expand our business opportunities.

4. **Investment business development**

In addition to the production of animations, films, and games in our entertainment business, we will acquire window rights and copyrights by investing in production committees to obtain greater profits within the range of production profits.
Our basic stance on corporate governance involves not just strengthening the corporate governance practices conducted by each individual company, but the corporate governance practices for the group as a whole. We obtained ISO 27001 certification for our information security management system in April 2007. In the future, we intend to expand our creative business areas based on our multibrand strategy. Extremely important factors for doing so will be the governance system for the overall group, the group subsidiaries, and companies accounted for under the equity method. Oversight through regulations and auditing are of course essential aspects of this effort, but it is also necessarily important to create incentives leading to corporate behavior by subsidiaries and companies accounted for under the equity method that accords with group policies.
Our group devoted itself to organizational reform, a challenge it had been facing for some time, to promote future growth.

First, we spun off the TV commercial planning and production division and created the wholly owned subsidiary of TYO Productions Inc. This enables us to devote more time to oversight and the new company to devote more of its energies to planning and production of TV commercials. Second, we shifted the end of our business year from the end of September to the end of July. Sales of advertising and publicity, which is the primary business of our group, are focused in March and September. That made it difficult to accurately gauge our performance in the interim period and for the full fiscal year. Changing the end of our business year will enable us to avoid dealing with the gap between the forecast business results and the actual business results.

Third, we appointed directors to represent all our business segments. The participation of influential personnel from all our segments as directors in our operations will enable us to create an operating structure with greater mobility.

In conjunction with the change in the end of our business year, the consolidated accounting year under review lasted 10 months from October 1, 2006, to July 31, 2007. Therefore, we were unable to incorporate our revenue from the core advertising business, in which sales are concentrated in August and September. During this period, we posted operating profit of 780 million yen, current profit of 585 million yen, and net profit of 210 million yen on sales of 18.912 billion yen.

(Figures for the 26th business year are relatively low because of the shortened 10-month accounting period, which we explained previously.)
Business was brisk in the advertising business overall despite the impact of a shortened, 10-month accounting period due to the change in the end of the business year. This segment posted operating profit of 1.016 billion yen on sales of 12.088 billion yen. In addition, 36 million yen for the goodwill amortization resulting from mergers and acquisitions is included in selling, general, and administrative expenses.

There has been rapid growth in the Internet advertising market in recent years, and we achieved sharp increases in both sales and operating profit in our web business for the year under review despite the shortened, 10-month accounting period due to the change in the end of the business year. We posted operating profit of 172 million yen on sales of 1.668 billion yen. In addition, 64 million yen for the goodwill amortization resulting from mergers and acquisitions is included in selling, general, and administrative expenses.

In our entertainment business, the computer graphics business achieved substantial revenue during the second half, but we did not meet our operating profit targets for the animation business. Therefore, we suffered an operating loss of 130 million yen on 4.18 billion yen in sales. In addition, 100 million yen for the goodwill amortization resulting from mergers and acquisitions is included in selling, general, and administrative expenses.

We were able to achieve solid business results in our content solutions business due to the boost provided by the TV commercial production business.

We prioritized management costs during the consolidated accounting year under review, so the performance in our international business was insufficient to contribute to consolidated revenue and earnings. We will create a structure in the near future to enable this business’s contribution to our results by focusing on the management of operations of companies already in the group and newly established companies. We suffered an operating loss of 41 million yen on sales of 425 million yen in this sector. In addition, 13 million yen for the goodwill amortization resulting from mergers and acquisitions is included in selling, general, and administrative expenses.
Financial Information

Consolidated Cash Flows

Cash flows from operating activities
The funds used for operating activities totaled 445 million yen, a decline of 1,231 billion yen from the year-before period. The primary factors behind this included the increase in net income before income taxes and accounts payable. Offset factors were the increase in accounts receivable, the increase in inventory assets, and corporate tax payments.

Cash flow from investing activities
The funds used for investing activities totaled 958 million yen, an increase of 258 million yen from the year-before period. The primary factors contributing to the increase included the recovery of funds from loans, the sale of subsidiaries’ stock, and the sales of investment securities. The factors reducing the overall total included the acquisition of tangible and intangible fixed assets, the purchases of investment securities, investments in production committees, and the acquisition of subsidiaries’ stock through mergers and acquisitions.

Cash flow from financing activities
The funds derived from financing activities totaled 1,481 billion yen, an increase of 914 million yen from the year-before period. The primary factors contributing to the increase included both short-term and long-term borrowings. The factors reducing the overall total included the repayment of long-term borrowing, the purchases of treasury stock, and the dividends paid.

Consolidated Net Assets
(Unit: ¥ Million)

- Fiscal year ended September 2005: 2,439
- Fiscal year ended September 2006: 2,633
- Fiscal year ended July 2007: 2,276

Consolidated Total Assets
(Unit: ¥ Million)

- Fiscal year ended September 2005: 18,000
- Fiscal year ended September 2006: 12,119
- Fiscal year ended July 2007: 12,996

Consolidated Equity Ratio
(%)

- Fiscal year ended September 2005: 20
- Fiscal year ended September 2006: 20.1
- Fiscal year ended July 2007: 18.1

Consolidated Return on Equity Ratio
(%)

- Fiscal year ended September 2005: 25.2
- Fiscal year ended September 2006: 18.8
- Fiscal year ended July 2007: 9.6
## Consolidated Balance Sheet

(Unit: ¥ thousands)

<table>
<thead>
<tr>
<th>Fiscal Term</th>
<th>Previous Consolidated Fiscal Year (as of Sept. 30, 2006)</th>
<th>%</th>
<th>Consolidated Fiscal Year Under Review (as of July 31, 2007)</th>
<th>%</th>
<th>Difference</th>
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</thead>
<tbody>
<tr>
<td>Item</td>
<td>Amount</td>
<td>Ratio</td>
<td>Amount</td>
<td>Ratio</td>
<td>Amount</td>
</tr>
<tr>
<td><strong>(Assets)</strong></td>
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<tr>
<td><strong>I. Current Assets</strong></td>
<td></td>
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</tr>
<tr>
<td>1. Cash and cash equivalents</td>
<td>1,511,731</td>
<td>1.794565</td>
<td>1,794,565</td>
<td>58.1</td>
<td>1,857,217</td>
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<tr>
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<td>3,785,717</td>
<td>4,399,968</td>
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<tr>
<td>3. Inventories</td>
<td>1,823,034</td>
<td>2,539,490</td>
<td>585,644</td>
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<td>4. Deferred tax assets</td>
<td>98,345</td>
<td>66,740</td>
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<tr>
<td>5. Other</td>
<td>309,319</td>
<td>585,644</td>
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<td></td>
</tr>
<tr>
<td>6. Allowance for doubtful accounts</td>
<td>(17,659)</td>
<td>(18,703)</td>
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<tr>
<td><strong>Total Current Assets</strong></td>
<td>7,510,488</td>
<td>57.8</td>
<td>9,367,705</td>
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<td>1,857,217</td>
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<tr>
<td><strong>II. Fixed assets</strong></td>
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<tr>
<td>1. Tangible fixed assets</td>
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<tr>
<td>(1) Buildings</td>
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<td>1,402,017</td>
<td>581,434</td>
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<tr>
<td>Accumulated depreciation</td>
<td>525,157</td>
<td>712,843</td>
<td>187,686</td>
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<tr>
<td>(2) Land</td>
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<td>869,199</td>
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<tr>
<td>Accumulated depreciation</td>
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<td>530,382</td>
<td>100,449</td>
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<td>2. Intangible fixed assets</td>
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<td>(1) Goodwill</td>
<td>465,947</td>
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<td>(2) Other</td>
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<tr>
<td><strong>Total intangible fixed assets</strong></td>
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<td>1,802,075</td>
<td>11.2</td>
<td>1,142,314</td>
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<td>3. Investments and other assets</td>
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<td>(1) Investment securities</td>
<td>492,847</td>
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<td>(2) Long-term loans receivable</td>
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<td>(3) Contribution to capital</td>
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<td>(4) Investment in affiliated companies</td>
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<td>222,481</td>
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<td>(5) Deferred tax assets</td>
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<td>161,124</td>
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<td>(6) Insurance reserves</td>
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<td>967,692</td>
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<td>(7) Lease deposits</td>
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<td>(8) Other</td>
<td>92,497</td>
<td>264,583</td>
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<tr>
<td>(9) Allowance for doubtful accounts</td>
<td>(6,009)</td>
<td>(168,389)</td>
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<tr>
<td><strong>Total investments and other assets</strong></td>
<td>3,081,869</td>
<td>23.7</td>
<td>2,935,005</td>
<td>18.2</td>
<td>(146,864)</td>
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<td>16,112,716</td>
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### Financial Information

#### (as of Sept. 30, 2006)

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<tr>
<th>Item</th>
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<th>Amount</th>
<th>Ratio</th>
<th>Amount</th>
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<tr>
<td>I. Current Liabilities</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>1. Notes and accounts payable</td>
<td>2,261,995</td>
<td></td>
<td>2,864,361</td>
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<tr>
<td>2. Current portion of long-term bonds</td>
<td>50,000</td>
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<td>50,000</td>
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<tr>
<td>3. Short-term borrowings</td>
<td>3,292,357</td>
<td></td>
<td>5,365,612</td>
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<td></td>
</tr>
<tr>
<td>4. Accrued liabilities</td>
<td>581,033</td>
<td></td>
<td>778,955</td>
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<td></td>
</tr>
<tr>
<td>5. Income taxes payable</td>
<td>287,854</td>
<td></td>
<td>282,127</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Advance received</td>
<td>622,249</td>
<td></td>
<td>519,144</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Allowance for bonuses</td>
<td>103,862</td>
<td></td>
<td>63,035</td>
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<tr>
<td>8. Allowance for customer benefit program</td>
<td>919</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>9. Other</td>
<td>207,518</td>
<td></td>
<td>192,273</td>
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</tr>
<tr>
<td>Total Current Liabilities</td>
<td>7,407,790</td>
<td>57.0</td>
<td>10,115,509</td>
<td>62.8</td>
<td>2,707,719</td>
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<tr>
<td>II. Fixed Liabilities</td>
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<tr>
<td>1. Bonds</td>
<td>85,000</td>
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<td>40,000</td>
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<tr>
<td>2. Long-term loans</td>
<td>2,416,232</td>
<td></td>
<td>3,231,509</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Allowances for retirement benefits</td>
<td>19,802</td>
<td></td>
<td>7,626</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Allowances for retirement benefits and compensation for executives</td>
<td>368,683</td>
<td></td>
<td>380,933</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Other</td>
<td>65,864</td>
<td></td>
<td>60,583</td>
<td></td>
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</tr>
<tr>
<td>Total Fixed Liabilities</td>
<td>2,955,582</td>
<td>22.7</td>
<td>3,720,653</td>
<td>23.1</td>
<td>765,070</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>10,363,373</td>
<td>79.7</td>
<td>13,836,163</td>
<td>85.9</td>
<td>3,472,790</td>
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</tbody>
</table>

#### (as of July 31, 2007)

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
<th>Ratio</th>
<th>Amount</th>
<th>Ratio</th>
<th>Amount</th>
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<td></td>
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<td>7. Allowance for bonuses</td>
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<td>63,035</td>
<td></td>
<td></td>
</tr>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Other</td>
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<td></td>
<td>192,273</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Current Liabilities</td>
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<td>57.0</td>
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<td>62.8</td>
<td>2,707,719</td>
</tr>
<tr>
<td>II. Fixed Liabilities</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>1. Bonds</td>
<td>85,000</td>
<td></td>
<td>40,000</td>
<td></td>
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</tr>
<tr>
<td>2. Long-term loans</td>
<td>2,416,232</td>
<td></td>
<td>3,231,509</td>
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<tr>
<td>3. Allowances for retirement benefits</td>
<td>19,802</td>
<td></td>
<td>7,626</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Allowances for retirement benefits and compensation for executives</td>
<td>368,683</td>
<td></td>
<td>380,933</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Other</td>
<td>65,864</td>
<td></td>
<td>60,583</td>
<td></td>
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</tr>
<tr>
<td>Total Fixed Liabilities</td>
<td>2,955,582</td>
<td>22.7</td>
<td>3,720,653</td>
<td>23.1</td>
<td>765,070</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>10,363,373</td>
<td>79.7</td>
<td>13,836,163</td>
<td>85.9</td>
<td>3,472,790</td>
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</table>

#### (Net Assets)

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
<th>Ratio</th>
<th>Amount</th>
<th>Ratio</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td>I. Common stock</td>
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<td>1. Capital stock</td>
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<td>1,077,582</td>
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<tr>
<td>2. Capital surplus</td>
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<td>1,023,186</td>
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<td>3. Retained earnings</td>
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<td>4.9</td>
<td>723,325</td>
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<td>86,467</td>
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<td>4. Treasury stock</td>
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<td>(3.3)</td>
<td>(879,305)</td>
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<td>(450,293)</td>
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<tr>
<td>Total common stock</td>
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<td>1,944,789</td>
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<td>II. Evaluation and conversion difference</td>
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<td>1. Net unrealized gain on other securities</td>
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<td>III. Minority interests</td>
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<td>16,112,716</td>
<td>100.0</td>
<td>3,115,856</td>
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</table>

**N.B.: The accounting period was shortened to 10 months due to the change in the end of the business year in July 2007.**
## Consolidated Statements of Income

(Unit: ¥ thousands)

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</thead>
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<td></td>
<td>Amount</td>
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<td>Amount</td>
</tr>
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<td>I. Net Sales</td>
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<td>Gross Profit</td>
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<td>4,412,978</td>
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<td>III. Sales, General and Administrative Expenses</td>
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<td>1. Provision for allowance for doubtful accounts</td>
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<td>4,667</td>
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<tr>
<td>2. Executive compensation</td>
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<td>1,068,936</td>
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<tr>
<td>3. Salaries and bonus</td>
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<td>638,184</td>
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<td>4. Provision for accrued bonus</td>
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<tr>
<td>5. Business consignment fee</td>
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<tr>
<td>6. Rent expenses paid</td>
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<td>182,408</td>
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<tr>
<td>7. Provision for allowances for retirement benefits and compensation for executives</td>
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<td>12,249</td>
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<tr>
<td>8. Retirement benefit cost</td>
<td>12,601</td>
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<td>9. Goodwill depreciation</td>
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<td>10. Other</td>
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<td>1,279,233</td>
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<td>IV. Non-operating Income</td>
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<td>3. Equity in losses of affiliates</td>
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<tr>
<td>4. Commission expenses</td>
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<td>5. Depreciation on investments in associations</td>
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<td>6. Other</td>
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<td>Ordinary Income</td>
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<td>VI. Extraordinary Income</td>
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</tr>
<tr>
<td>1. Gain on sales of equity in affiliates</td>
<td>141,627</td>
<td>485,333</td>
<td></td>
</tr>
<tr>
<td>2. Gain on sale of securities</td>
<td>141,627</td>
<td>0.7</td>
<td>11,215</td>
</tr>
<tr>
<td>VII. Extraordinary Loss</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Loss on disposal of fixed asset</td>
<td>3,212</td>
<td>20,495</td>
<td></td>
</tr>
<tr>
<td>2. Provision for prior year allowances for retirement benefits and compensation for executives</td>
<td>43,532</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Valuation loss on investment securities</td>
<td>62,800</td>
<td>109,545</td>
<td>0.5</td>
</tr>
<tr>
<td>Income before income taxes and distribution of net income/loss to silent partnership</td>
<td>1,217,935</td>
<td>1,040,050</td>
<td>5.5</td>
</tr>
<tr>
<td>Distribution of net income/loss to silent partnership</td>
<td>8,009</td>
<td>(103)</td>
<td>0.0</td>
</tr>
<tr>
<td>Net income before income taxes</td>
<td>1,209,926</td>
<td>1,040,154</td>
<td>5.5</td>
</tr>
<tr>
<td>Income taxes - current</td>
<td>680,351</td>
<td>601,056</td>
<td></td>
</tr>
<tr>
<td>Income taxes - deferred</td>
<td>(8,214)</td>
<td></td>
<td>672,137</td>
</tr>
<tr>
<td>Minority Interests</td>
<td>87,104</td>
<td>80,848</td>
<td>0.4</td>
</tr>
<tr>
<td>Net Income</td>
<td>450,684</td>
<td>210,011</td>
<td>2.1</td>
</tr>
</tbody>
</table>

N.B.: There is no comparison to year-before figures because the accounting period was shortened to 10 months due to the change in the end of the business year in July 2007.
## Consolidated Statements of Shareholders' Equity

<table>
<thead>
<tr>
<th>Item</th>
<th>Common stock</th>
<th>Evaluation and conversion difference</th>
<th>Minority interests</th>
<th>Total net assets</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Capital stock</td>
<td>Capital surplus</td>
<td>Retained earnings</td>
<td>Treasury stock</td>
</tr>
<tr>
<td>Balance at September 30, 2006</td>
<td>1,077,582</td>
<td>1,029,124</td>
<td>636,857</td>
<td>(429,011)</td>
</tr>
<tr>
<td>Difference in amount during fiscal year</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Distribution of surplus (Note)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disposal of treasury stock</td>
<td>(5,938)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acquisition of treasury stock</td>
<td>(468,178)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Difference in amount (net) in items other than shareholders’ equity during fiscal year</td>
<td>(11,742)</td>
<td>54,124</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total difference in amount during fiscal year</td>
<td>(5,938)</td>
<td>86,467</td>
<td>(450,293)</td>
<td>(369,764)</td>
</tr>
<tr>
<td>Balance at July 31, 2007</td>
<td>1,077,582</td>
<td>1,023,186</td>
<td>723,325</td>
<td>(879,305)</td>
</tr>
</tbody>
</table>

Note: Profit appropriation items as presented to the regular general shareholders’ meeting held in December 2006.

## Consolidated Statements of Cash Flow

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Cash Flows from Operating Activities</td>
<td>785,763</td>
<td>(445,698)</td>
<td>(1,231,462)</td>
</tr>
<tr>
<td>II. Cash Flows from Investing Activities</td>
<td>(1,217,248)</td>
<td>(958,776)</td>
<td>258,471</td>
</tr>
<tr>
<td>III. Cash Flows from Financing Activities</td>
<td>567,835</td>
<td>1,481,912</td>
<td>914,076</td>
</tr>
<tr>
<td>IV. Foreign Exchange Adjustments on Cash and Cash Equivalents</td>
<td>19,079</td>
<td>48,238</td>
<td>29,158</td>
</tr>
<tr>
<td>V. Increase (Decrease) in Cash and Cash Equivalents</td>
<td>155,430</td>
<td>125,675</td>
<td>(29,755)</td>
</tr>
<tr>
<td>VI. Cash and Cash Equivalents at Beginning of Year</td>
<td>1,356,300</td>
<td>1,511,731</td>
<td>155,430</td>
</tr>
<tr>
<td>VII. Cash and Cash Equivalents at End of Year</td>
<td>1,511,731</td>
<td>1,637,406</td>
<td>125,675</td>
</tr>
</tbody>
</table>

N.B.: The accounting period was shortened to 10 months due to the change in the end of the business year in July 2007.