

TYO Business

NEXT WEB

Aiming Towards
Interactive Communication
An update on
“Production that can compete globally”

TYO Special Interview

Expanding our Business
by Building an Organization that
Develops Talent and Creativity

Feature: Animation Market in China

Out of China: Animation for the World

Special Feature - Management Strategy Interview - Part 2

TYO Towns Are Born Because There Are People
A Creative Business City Expands into the World
**Creative Business City
in the World**

Towns Are Born Because There Are People

A Creative Business City Expands into the World

TYO Group started out in the advertising business for TV commercials and web contents. We then expanded into the entertainment business, which includes game and music software, computer graphics, animation, and digital contents. And our content solutions business, which is focused on expanding its customer base, offers sales and marketing services for digital content and technical expertise. At present, TYO Group comprises a “creative business city” of 25 companies.

Consolidated results for the period ending Sep-

tember 2005 showed sales of ¥19.839 billion, an increase of 32% compared to the previous period, and current profit of ¥1.207 billion, up 43%. The increase was largely due to a combination of expanding earnings at existing subsidiaries and the positive impact of M&A as a result of TYO’s “multi-brand strategy.”

In this issue, Group President Hiroaki Yoshida will discuss M&A activities and the lure of the creative business city, and he will talk about his strategy for spreading the creative business city globally.

TYO Group has expanded to 25 companies

TYO Group started as a TV commercials company with advertising accounting for 100% of its business until six to seven years ago. In recent years, We have been focusing more on movies, animation, gaming software, and entertainment products. As a result, the entertainment business now accounts for as much as 23% of our total business. Last fiscal year, we were joined by two companies in advertising, three companies in entertainment, and one company in content solutions, and have consequently become a group of 25 companies (including overseas subsidiaries under the equity

method).

With regard to the process of companies joining our group, in addition to M&A, there are spin-offs and people from outside TYO who are contemplating starting their own company based on their own individual idea. These people join us after presenting their business plan.

Among the companies added to the group, 10 companies were the result of acquisitions. These acquisitions were made for cash, rather than equity swap, resulting in a total purchase amount of ¥820 million. On the other hand, I would like to point out that the total contribution of these 10 companies is ¥6.6 billion in revenue and ¥500 million in current profit for the current fiscal year.

In general, listening to the mass media, it is easy to assume that M&A means

paying an extraordinarily high premium to intrinsic value. However, for us, each company is not particularly large and we have been able to acquire them on relatively reasonable terms. This is possible because from the standpoint of the acquired company, there are advantages to be gained above and beyond the acquisition price.

For production companies, there are many cases where they have the ability to create excellent products but a lack of management presence means that they cannot generate profit. These companies do not need capital but, rather, management know-how. Without a structure capable of generating profits and injecting funds into the company through loans and increased capitalization, management will only deteriorate.

TYO Creative Busi



Hiroaki Yoshida
President and CEO, TYO Group

The price offered by TYO is not low without a reason or basis. Rather, assets and projected five-year company profits are factored into the calculation. We are not just investors. We regularly take an active role in the company's management, and offer our managerial know-how and resources. Even though these are unsecured deals with no guarantees, massive amounts of work and equipment are required to finance loans and raise capital. We enhance the profits at the companies we bring into our fold, and these companies are acquired by us for prices that are appropriate relative to their competitive advantages. Therefore, TYO bears all the normal economic responsibilities. Prior to such deals, we conduct extensive negotiations with our potential sub-

sidaries, and because we acquire these companies based on mutual agreement, of 50 to 60 candidates, only 1 in every 10 deals are consummated each year.

**The group's strength, scale,
and management empower
smaller-size companies**

For example, last year we founded a joint-venture animation production company in China, and the focus of our business became a film-making business called Hal Film Maker. President Haruta, Hal's president, had actually been preparing for this deal in Dalian, China for ten years prior to joining the TYO Group. He had established a lot of credibility in

the region, but the company was small and he could not have done real business without having key officials from the city government and local party involved. Consequently, Hal joined the TYO Group and created a new company in Dalian, based on the credibility of TYO as a listed company. This is an example of how a smaller firm can gain size by joining the Group and be able to do business on a greater scale. Also, in the animation business, production is very capital intensive. In many cases, cash advances from TV stations and other sources are necessary. However, animation production companies within the TYO Group have access to such financing, and this gives us an upper hand in negotiating contract prices with TV stations and distributors. Another advantage we offer is our stability and reliability to deliver on our commitments. And this is even more important as recently there have been several bankruptcies among production companies, while companies joining TYO are strengthened by our scale.

In addition, company presidents can focus more of their energy on production rather than worrying about financing. Also, in terms of management, TYO Administration Inc. offers support in revenue management, the monthly closing of accounts, and the planning of funding, which improves the judgment of our Group company presidents.

Depending on the company, it may take up to 3 to 4 years to completely settle the accrued liabilities that we inherit. However, on a fiscal year basis, we will make the business profitable in the second year. These are all advantages of joining the Group.

Business City **in the World**

Satisfaction-based M&A supporting the expansion of the Creative Business City

When the president of a company is contemplating whether or not to join the TYO Group, pricing terms alone are never that crucial. In the long run, it is more important that your own company flourishes and you ultimately bring about greater benefits to yourself.

We recently acquired Build Up Inc., a CGI production company, and the company's president, Mr. Okabe, is a man who is known as a special effects genius. I met him two years ago. At the time, talks had begun in the ¥300 million range, but we did not come to terms. He made another offer a year later and came fairly close in terms of price, but there were a number of points on which we could not agree, so this offer also failed to gain approval. He repeated his offer again one year later, and then he made a decision during a very amicable and positive conversation that Build Up should join the TYO Group. He said 'rather than worry about management, I want to draw on my abilities as a producer to once again grow the company. The group has solid book value, so I'd like to join even at a lower price' and then he made a commitment to join us. This agreement was the result of a major change in his thinking, and we



never haggled over it. It was probably a question of our seeing eye to eye on the future. In the TYO Group, acquiring ten companies like this at a price of ¥820 million through M&A is a natural outcome.

Even in the past, a company in our group that has grown by assimilating the benefits of the group has sometimes brought in the next company. The TYO Group will not evolve unless each president is truly satisfied after joining the group. Referred to as a creative business city, the relationship between the group and its affiliates is like the relationship between a town and its shops, and M&A is similar to one company inducing another. If shops are not glad to be in town, the next inducement would end in failure. For the TYO Group, the future that we desire is the spread of our town's attraction through M&A and not hostile takeovers. But we have had cases in the past when things have not gone well after the acquisition and a president bought back the company from us with his own financing after a year and a half. When one company was acquired in the past, we had talks with the owner of the company and bought it from the owner himself, but the referral came to us through an introduction from venture capital. And while the company is fully consolidated, we own only 44% of the shares. The fact remains that management authority is still in limbo and we are unable to clearly define policy as a group.

Although we made efforts to rectify a large number of management problems and we had been profitable for one year, the perception gap between the president and the group could not be bridged and the relationship was dissolved.

Facing the World

We have had two other cases in which companies have left the group after becoming affiliates. One was a TV commer-

cial production company that had been in business for more than 40 years, and involved a pre-listing issue. The other was an Indie-level music publishing house. The reasons leading to the dissolutions were different in each case, but we believe that the dissolutions occurred due to our poor judgment at the acquisition stage and because the presidents of the affiliates could not pursue profits for their own companies or consider and realize the merits of joining the group.

The TYO Group has forged ahead with M&A based on a 'multi-brand strategy,' and has been building up the group along with our superior video content production companies. And last year our global expansion finally showed significant progress.

When considering an overseas strategy, the concepts of 'overseas as creation' and 'overseas as market' are important. In terms of creation, terrestrial TV commercials are essentially local. In the past, global companies have tried to run them in every country by creating a global version of the commercial and have also attempted to create a standard version in the EU bloc, but they were not well received. This failure occurred because the commercials were consumer-oriented, and a country-specific approach and expression works best.

On the other hand, the Internet is borderless. In the TYO Group, we are building a site for a Danish hotel chain in Japan, or building the site of a Japanese advertising agency in France. In other words, we want the best creators worldwide on the Internet.

If we look next at the world as a market, animation and game software are global products. Animation and game software made in Japan have been well received globally, so we have the know-how for selling these products abroad. And TYO is actually sending a lot of products abroad.

In this case, there is no need whatsoever to perform the act of selling itself. Since the market where we want to sell TYO

products is an 'open market,' we do not particularly need local representatives. However, forays into the field are required for 'closed markets.'

**'Overseas as a Market'
Establishing an Animation
Production Joint Venture
Company in China'**

In the TYO Group, we are beginning our overseas expansion on the basis of two approaches in this way.

We established the animation production joint venture company Da Lian Eastern Dragon last August in Dalian, Liaoning Province. This joint venture became possible when China eased the restrictions on foreign investment to allow foreign capital participation of below 50%. With its 35% investment, TYO is an equity method affiliate.

China's biggest attraction for us is its market. Attendance in Japan for 'Nankyoku Monogatari (South Pole Story),' a movie that was once a big hit, was 10 million, but attendance can be 120 million for the biggest blockbusters in China. A major market is opening up that is not comparable to Japan.

There are currently 400 million children below high school age in China, and they are enjoying television and movies the same way that children did in Japan 30 years ago. For that reason, the government is also promoting animation production and is firming up a policy that would make the Chinese animation market ¥1.4 trillion within three years.

However, while present-day China is a free market for general merchandise, strong controls are being applied that prevent the free importation and release of movies or TV programs that influence people's spirit and thinking. It is called the 'One-to-One Rule,' and companies created inside China may broadcast imported works up to the same length as domestically produced works. The

production company needs a public government license, and separate approval is also required for the work. Under these circumstances, TYO obtained the cooperation of the Dalian City Government in Liaoning Province and, for the first time, a Japanese company was able to form a production company that was authorized by the Chinese government.

Because TYO's strategy is to build a global infrastructure for creative work, we direct the animation production and the Chinese produce it. But because we are group-affiliated, we can supply both finance and management know-how, as well as resources and technology. In addition, thanks to the One-to-One Rule, there is a clear path for importing works produced by Japanese affiliates into the Chinese market. With the support of national policy, we anticipate higher profits and more viewers, and we feel this is connected to a significant leap forward in our entertainment business.

**'Overseas as a Creation'
Europe: The Ring of Web
Commercial Assets Expands**

We are starting partnerships with European web production companies for global expansion in the human resource and creation fields. The impetus for this effort came from our affiliate, TYO-ID, having won the Cyber Lion Grand Prix at the Cannes Film Festival. At the awards ceremony, TYO-ID officials became acquainted with award-winning companies in a variety of countries including Sweden, England, France, Germany, and Italy. They are now in contact with seven firms and plan to begin investing in the relatively low 10-15% range.

We have started group building in Europe using TYO's 100% joint venture as the interim holding company. In March 2006, we established the interim holding company TYO International in Amsterdam. We would like to keep building a



loose coalition with a number of production companies, similar to 'wards' in a creative business city. In addition, our plan is to admit TV commercial companies, and seven or eight web production companies, into the group.

**The Creative Business City—
which has 'People' first and then
becomes a 'City'—Spreads into
the World**

Our advances into China and network building in Europe were both achieved because people in the Group suggested, and were then capable of implementing, them.

The TYO Group can make a city that first has people, and then a structure is created that allows them to make use of their superior talents to achieve self-fulfillment. The idea is that people are first – but what cannot be done by the individual can be done by the group – and this idea has been elevated into a business model. Seeing a business as merely an organization chart and a composition written at a desk is not the TYO way of going about it.

In the future, the TYO Group will continue to grow through each and every creative manager and staff member.

Expanding our Business by Building an Organization that Develops Talent and Creativity

TYO offers a steady flow of great products, from TV commercials to images for Web ads. Here, executive producers Waju Fukuda and Jun Ebihara discuss the organization, how it develops talent, and the future outlook.



Waju Fukuda, Senior Executive Producer, TYO



Jun Ebihara, Senior Executive Producer, TYO

Where does the power come from for a production company to be a consistent winner?

Ebihara: Nowadays, it is really tough to grasp what market demand is; advertising is changing, and it has become more difficult to produce ads. In addition to having depth and breadth of knowledge and techniques, it is important to keep your antenna in motion and detect what customers are thinking of faster than in the past.

Fukuda: You cannot deny the importance of maintaining customer trust. This is really where you have to focus your activity. Another is "Turn out top quality products!" It is not simply a matter of making something that is good, but of maximizing advertising performance. The hurdles these days are set fairly high, and there are more of them, too. All the more reason why the trust of the customer is essential.

Ebihara: A work order to produce an ad does not go to a company, it goes to a human being. Just as they say, "This is the job, and I want so-and-so to do it," it is the capability of the individual that is important.

Then, it becomes a case of how we can learn the customer's needs. All the more reason why it is "the person" that is important, and for the organization it is "how do you raise someone" that is important.

An organization where people grow

Ebihara: If you keep a person fixed in the same spot that person is not going to shine, and is going to fall into a rut. He will become oblivious to the fact that there are other places, other ways. An organization has to place the right person in the right spot.

Fukuda: The issue is how to energize a person. But I think that the point is to what extent can this person's ability be energized. It is all right for the organization to change again and again if you can bring out the person's ability.

Ebihara: There is a process whereby a person grows. Because we cannot just erase all of that, we need to think about how to bring out that person's strong points – and that is something that we feel we can do.

The bigger the company gets, the more cogs in its machine. Even if one cog doesn't turn, the machine moves. But if the number of people who are not turning

increases, then we have a big problem. It is best if that can be recognized so the company is able to put the right person in the right spot.

Fukuda: TYO is a group which includes small companies of 20 or 30 people. Every person on the staff can see everyone else and that makes it easy to know each person's strengths, and it is easy to provide advice. Because a small company doesn't have any redundant employees, each person has to perform the best they can. If people just work passively, doing only what they are told to do, their strengths are wasted. So this is the best scale there is for developing people capable of a high level of self management.

Ebihara: One of the strengths of the TYO Group, I think, is that we have created an environment where young people can get exposed to the front lines. Companies normally get older, but we rejuvenate ourselves through generational change. This is good for the customers and can be thought of as one of our great strengths.

Each person's growth is a matter of self development

Fukuda: Creativity is an attribute that you have to produce yourself, and that is why

you cannot be passive. You have to think and make the right decisions for yourself. If you are motivated at work, then that is an example of success in creating talent, I think.

Ebihara: The only way for senior people to train junior people is to create many opportunities for them. Whether someone who has been offered an opportunity makes something of it or not depends on that very person.

Because you cannot do creative work from day one, you have to accumulate experience over a two- to three-year period. If you do not grow, then you cannot compete with the others. Until you can compete, you just have to gain experience through a pro-active attitude.

The ultimate goal in this company is to become a producer. Once you have become a production manager, you can do different projects and meet different people. This is how to cultivate the way of thinking that you need when you are the chief.

Fukuda: Advertisements have changed a lot in the past ten years. It is not one hurdle that you have to jump over; there are all kinds of needs that you have to satisfy. A producer has to have more than one pair of eyes. As a producer of images he - or she - has to be fluent with regard to movies, music, art, the mood of the times, and much more, and then develop the ability as a producer to reconstruct it all. To be nimble and versatile is what the producer of the 21st century is - or should be - this is what I have been saying. If you are already aware of all this, and then act ahead of other people, the time will come when others notice. This is the start of becoming a professional.

Ebihara: Our work comes out in the numbers, including sales. In such an environment, a producer needs self-development. It may be important for the person at the top to exert pressure in a form that is not apparent. When the person himself becomes aware of this, and changes the way he works, that too is education.

How will creative work at TYO change?

Ebihara: In the past it was fairly easy to read what was going on in the minds of consumers, and it was somewhat easy to attract them with ads. But now it has become difficult, especially with information spilling everywhere.

Fukuda: Our work boils down to how much we can deliver really great offerings to the world. Even though we have been working with them for a long time, the approaches and media that we use have become more complicated.

Ebihara: In the future, TYO plans to offer not only TV commercials but also to provide companies with a total package, including events, television programs, ads - an all-inclusive package. I have been thinking about a good way to do this.

Fukuda: Looking at the advertising market as a whole, we see that there are limits to TV commercials alone, which means that we need a diverse staff to produce ads for all of the applications. It has already been a long time since the Web was hailed as a new medium. I think that for a TV commercial producer who knows how to make commercials rather

than advertisements for the Web, moving into other fields would be more effective in regards to communicating with the ad agencies. I felt that quite strongly when we participated in the Cannes International Advertising Festival last year. In other words, I think 2005 and 2006 mark the end of the reform mentality. Reform has already become an everyday matter, taken for granted, and I can say that it is already a stale topic. We are in a phase when we are making full use of the TYO Group's synergy. And this is exactly why it is vital that we train professional producers who are alert and agile.

Ebihara: And it is important to always be taking up a new challenge. For example, there is a company called Post Production Center Inc. and they introduced online editing, offline editing, and everything up to audio mix, fully digital, ahead of anyone else. They made a substantial investment in order to improve their creativity, and it was a large investment in their human resources as well. This investment is yielding solid results in different areas outside production as well. It may not quickly help cash flow, but the attitude of being open to doing something new is a big advance. So people who have grown can do more work.



Client: Central Japan Railway
Title: '05 JR Tokai Kyoto Autumn Zenpoji



Client: NTT East Corporation
Title: Corporate Advertisement "Maintenance" version

TYO Productions Inc.

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Est. April 2, 1982 Capital ¥1,076 million(holding company)
Line of business: TV commercial planning and production

Out of China: Animation for the World



Katsunori Haruta, President, Hal Film Maker Co., Limited

There is a man creating animation content because he can never forget how he felt when he first saw Disney animation. He is Katsunori Haruta, president of Hal Film Maker. From the creation of the original story through animation production with a focus on the production of family contents, Mr. Haruta is a unique filmmaker in the TYO Group.

In 2005 he became a pioneer by entering the Chinese animation market through a joint venture. Haruta's animation is already on its way to Europe, the US, China and the rest of the world.

The appeal of Disney's animation pulled him into the world of images

I began thinking that I wanted to work with images when I was a child. Around 4 or 5, my mother took me to see the first movies that I ever saw, Disney's "101 Dalmations" and "Peter Pan". At the time, we had TV but to see things on that big screen made me shake with excitement – I felt like I was almost being sucked into the screen! It was thrilling. I laughed, I cried - these were my very first expressions of emotion. The way that I had been moved stayed with me until I reached junior high school, and it was then that I decided I wanted to work in film. I was dying to make movies. And I haven't changed to this day. When I finished high school, I gained experience working as an assistant to an experimental film director and producer,

and then was asked to work on animation at a company that was in the visual contents and package software business. This was my start in creating original video animation.

Four or five years passed, and I happened to recall how I was moved by Disney's images when I was a kid. I thought that I would like to pass on those same feelings that I had 17 or 18 years earlier to kids all over the world, so I started a business specializing in animation, Hal Film Maker.

Joining the TYO Group freed him from management issues and improved the creativity of his work

The animation business is divided into three main areas. One area is the animation of original manga art, which is then commercialized by the makers of toys or

other products. We have had this arrangement for a long time – it is a business in which the focus is to market products that use broadcasts of visual content to promote sales as well as related products.

The second area, where the business is focused on images specifically for anime enthusiasts, is now mainstream. Broadcasts have a short lifespan of less than six months and when these broadcasts are released on DVD profits can be earned. The third area is simply making programs under contract to TV broadcasters.

In my own case, I have been targeting a fusion of the first and second areas from the time I started my own business. And that required up-front investment. At first, the company tried to go it alone but we ran into a profit ceiling because animation is a type of business with razor-thin profit margins. Then, about two years ago, I joined the TYO Group.

The greatest advantage I had in joining

the TYO Group is that I do not have to continually chase next week's business because the TYO Group operates on the basis of a long-term vision. In the past, as the president of a small company, I had to manage production as well as sales. Since a focus on both creating products and managing profits is contradictory, it was very difficult to realistically balance both full-time tasks.

Joining TYO has meant access to the Group's finances, so all the documentation needed to get financing and the time and energy needed to sign contracts are gone now. This change has made it possible to return to concentrating on production and to working on business deals overseas. TYO administrators have greatly reduced the time I spend on financial management. Before joining the Group, I had to spend so much time on the work of being president that at times I was away from production for about half a month. The greatest advantage, though, was that being relieved of acting as president enabled me to raise the quality of my productions.

Hal Film's individuality comes from its insistence on using original works

There are other animation production companies in the TYO Group, but because each company has its own style from the outset each is differentiated in that each company knows "what we do no one else can do." In the case of my company, we have positioned ourselves in a special way within the animation world, and within the Group. What sets us apart is that we start by planning the original work that will become anime, and work through to the production phase. Usually, when there is a comic or a novel that is a hit, it gets picked up by an animation production company. But we start with original work and we will follow it through to the animation or publishing stage. Because of this model, we build

our business using our own copyrights. While there have been a number of projects like this in the anime business, very few companies are based on this approach. And another difference is our engagement overseas.

We have data that shows that Japan accounts for 60% of global anime programs - which shows how popular Japanese anime is abroad. At present, however, 90% of Japanese anime targets the enthusiast segment of the market.

However, it still takes a great deal of effort to get established in the Japanese market given what Hal Film Maker has sought to do from the outset, namely to create family content - or content that both children and parents can enjoy. When we look at the overseas market, we find the main fans of anime are families and kids. It is easier to do business in the world market, and my company is growing its business in Europe, America and Asia.

A JV in China in 2005 was the first advance into the Chinese animation market by a Japanese company

Concerning our approach to overseas markets, we've already released a good

deal of content in Europe and America. In 2005 we succeeded in entering the Chinese market, by establishing an animation production joint venture with Da Lian Eastern Dragon Cartoon Development Co., Limited.

My connections to China go back about 15 years. The commercial value of the anime we make is based on universal emotions, such as pleasure, sorrow, and laughter. When I thought that I wanted to go overseas 15 years ago, I had little experience and few accomplishments so the hurdle between myself and America was a high one. That is when I thought of working in a cultural environment where feelings, language, and customs resembled Japan, and where what we call entertainment had not yet matured. So I headed to China.

Until 40 or 50 years ago, Chinese animation was more developed than that of Japan and China was sweeping international prize competitions. The genius that was there, however, was banished by the Cultural Revolution - but the basic skill and technique potential persisted. All along, I thought that if I could work with China we could make products together that were born in Asia to compete with Hollywood.



Tian tian xiao

Mr. Liu, the president of Eastern Dragon (Da Lian), has been my friend for 15 years. In addition to the connections that I've been able to make with him, I have developed a relationship with the central government and at the China Central Television bureau (CCTV). Together, Mr. Liu and I have been told that the government, and Liaoning Province in particular, are eager to get into the anime industry. In the past few years, China has moved to strengthen its domestic capacity for animation work and has eased restrictions on foreign direct investment in production and distribution, so the time is ripe. They have the goal of seeing the animation market grow to ¥1.4 trillion within three years, though the market is now less than a tenth of that. Annual broadcast time for anime was 20,000 minutes in fiscal 2004, but it was announced that the figure increased ten-fold in 2005 to 200,000 minutes.

Not to let this opportunity slip by, I asked TYO's president, Mr. Yoshida, to set up a company in China and he did it in only six months. We were the first Japanese company to do this in China.

Warner Brothers and Sony Pictures had already expanded into China at that time, but their objective was to form distribution systems and to export American films. Since our objective in China was to partner in making films with good quality content for Chinese children, out of the three companies, TYO was the one that the Chinese government welcomed the most. Dalian's city government was very proud that this Sino-Japanese anime joint venture has been established.

We are also making films for theatres, but in China we are permitted to make only three films a year. So far, we have received approval for the most important one of them. You can understand how much we are looking forward to this one, given that Da Lian is making a film approved by a country where even Zhang Yi Mou movies cannot be made.

In addition, three other TV films are being

made at Da Lian: "Laugh Everyday" has four animals as the main performers, "Li-aozhai" (A Chinese Ghost Story) is based on a classical work, and "Captain QiQi" is a detective film. Besides these films, CCTV has telecast two films made in Japan by Hal Film Maker through TYO, and these are seen as relatively important by CCTV.

Emotions know no borders - We want to share our anime with the whole world

As a company, Hal Film Maker is dedicated to continuing to provide high quality content to the world, as our purpose is to inspire the children of the world with dreams, feelings, hopes, and courage through anime. By considering alliances with other Japanese companies that share our beliefs, or inviting these companies to become part of the TYO Group, we are trying to build an environment that facilitates high quality work by high quality creators.

With regard to our overseas expansion, we have already made "Molly Star-Rac-



er," a joint Japan-France TV series. This series will start with a telecast on Channel 3, the French national broadcasting channel, and broadcasts are planned for 50 countries. Also, we are working with an American network on a project to take "Laugh Everyday" to the United States, and then to Latin America. With Da Lian at the center, we want to complete a joint framework of funding, marketing and creating, mainly by building a solid network including Korea and Malaysia.

Emotions know no borders. If we make all the arrangements and create good content, I am absolutely certain that we can spread emotion around the world.



(Top left) "Molly Star-Racer" © 2004 SAVI THE WORLD productions
 (Top center) "Aria the Animation" © 2005 Kozue Amano and MAG Garden Corporation - ARIA Company
 (Top right) "Strange Dawn" © Junichi Sato - Hal/"Strange Dawn" Production Committee
 (Bottom) "Strange Star - Twin Princesses of Wonder Planet" © BIRTHDAY - NAS - TV TOKYO

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 Est. August 11, 1993
 Capital 3 million yen (TYO share of equity: 85%)
 Business line: Planning and production of anime



Tadanori Mabuchi: CEO/President of TYO Interactive Design Inc.



Kenji Morimoto: Creative Business Division; COO/Vice President of TYO Interactive Design Inc.

Aiming Towards Interactive Communication An update on “Production that can compete globally”

TYO Interactive Design handles web advertising, internet promotions, and interactive communication contents. By providing borderless partnerships and strategic solutions to clients,

its business field is expanding globally. CEO Mabuchi and COO Morimoto talk about the strengths of TYO Interactive Design.

What is TYO Interactive Design (TYO-ID) and what are its strengths?

Mabuchi: Since 1994, TYO has had a separate media design department. However in 2002, in light of increasing demand for corporate websites and web advertising, the department was spun off as a separate company known as TYO Interactive Design.

I am sure that many people are under the impression that we are a “Web de-

sign company” by the sound of our company name, but we actually do work in fields that are more strategic. There are many cases where we support the ‘core’ parts of a client’s business, such as the corporate image that they want to have, the direction of product sales, or branding. In fact, today our business covers a broader range than just the so-called general operations of a production company.

Morimoto: The reason why the internet is so powerful today is because those involved in production are not focusing purely on visual expressions but have

also been able to put their efforts into producing results. For this reason, on business issues, there are many cases where we start at a stage relatively close to consulting and end up providing solutions. Of course, since we are handling advertisements, we are always thinking about ‘producing results’. Accordingly, in order to increase the range of talent or solutions, we like to have our feelers out in all directions, whether they are international or domestic.

Mabuchi: Our Company’s selling point is definitely production and organizational ability. I believe that this is why we are

now favored by our clients. While there may be times that we are seen as “in times of trouble - TYO-ID”, and our services are used as a refuge, this is really where we can find new business opportunities. After all, there is no need to do things that other companies are already doing.

What can TYO-ID do in the future within the interactive field?

Mabuchi: I believe that something close to direct marketing through web advertising will be required in the future. The one thing that separates the Web from the other current 4 (four) large types of media is that vendors and consumers have a direct connection with each other. Currently in the U.S.A., a little over 20% of all consumers no longer go directly to the dealer to purchase a vehicle but complete the purchase over the internet. Of course, in the future it will only become easier to purchase various items over the internet.

I believe that one of the dynamic attributes of the internet, although it is no match for television, is that with respect to interactivity it is close to marketing and even closer to sales. In that sense, I have been hearing that for E-CRM, a little special “something” is becoming increasingly necessary. For instance, in the real world, the key to the next generation of interactive communication is that ‘something special’ lies in the realm of vendor and consumer communication.

Morimoto: Our name is not “Web Design” but “Interactive Design” so we feel that we have to make advertising on the internet “inter” and “active”. We believe that it is critical when creating things to take into consideration communication with users. Thus, it cannot just have a lot of words in a row or just look cool. Of course, it is absolutely natural to take the client's services, products, and business type

into consideration when developing the backbone of the idea or design. We strive to effectively provide new items that grab consumers by either utilizing wonderful designs or quality movies. I believe that our strength is our ability to produce this type of service.

Mabuchi: Of course our final output may appear to be avant garde, or traditional and logical. However, there are reasons for this and there is a basis from which we can clearly explain how our solutions respond to each and every situation. We believe that we have the creative team which can offer such things. One could say there are limitless ways to express oneself. However, the basis for putting this to use must be logical.

I believe that only the TYO Group has this experience, with its backbone as an advertiser.

Morimoto: Of course the majority of our operations are creating web advertisements. We have created the ‘KDDI Design Studio’ kiosk end application which is located in Harajuku. As long as it is interactive media, we are not picky about what kind of media it may be. We may design the interface for a bank ATM machine or maybe even an automobile operation system. I believe that this is where our knowledge lies.

How are you going to realize the strength of the TYO group as a web specialist?

Mabuchi: I think that instead of just utilizing the strengths of the TYO group, it is better to say we would like you to utilize our individual strengths. The form of communication with users clearly differs between commercials and the internet. I believe that when it comes to selling an item, we are able to get closest to the consumer.

Morimoto: I think that we can expect that the internet will increase the effectiveness of communication in the future.

Of course that would result in people having more opportunities to view the internet. Even in this context, I am sure that the internet will become the center of advertisement strategy.

Mabuchi: As broadband becomes increasingly popular, the place where general users first get their information is changing. News. Commercials. In the past, most people would get a newspaper or watch TV then go to the store to buy what they saw advertised. However, this is no longer the case. TV needs to modify its methods as consumers are gaining product information directly from the internet. We should consider how to effectively utilize both the internet and TV, rather than just discussing which is better – the internet or TV.

Morimoto: If we are talking about utilizing the group's strengths, within the TYO Group we have specialists in a number of media and this gives us a lot of synergies in terms of media solutions.

I believe that this type of common knowledge is the main point within each industry. Rather than just using one approach, when a new approach is introduced the problem is how to make use of both approaches. Of course, I believe that TYO should make the most of its base in commercials, and we should also become even more interactive than we have up until now.

Mabuchi: Even as a group, we should gather as many people as possible from various fields. For example, I came from the publishing industry and Morimoto came from the production industry. Of course there are individuals from the commercial industry here at the company as well. We wonder what we can make with this combination of people. If I can quote Mr. Yoshida, this group is a town and there are many talented individuals living here. Should we decide to create a web cinema, all we would have to do is go downstairs. For example, the WWF banner advertisement which Morimoto was responsible for that won the Cannes

Advertisement Festival required the cooperation of both commercial planners and directors to get an even better message delivered.

Overseas initiatives and partnerships with overseas creators

Mabuchi: We are currently focusing abroad on affiliating with international partners in England, Sweden, and France. We are battling it out on the internet field. We believe there is no reason to separate boundaries between staff and clients as the internet can be viewed and created from anywhere.

Morimoto: As an example, employees in our British "unit 9" consist of individuals from 9 different countries which essentially create a multinational force. "GREAT WORKS" in Sweden employs only about 16 individuals but works as a small family-like team with some creative people and others in sales. They not only have an incredible sense of design, but they also have the tools and technology to incorporate designs into the system without having to utilize HTML each time they update information on the internet.

Mabuchi: "GROUEK" in France is a company which was created by a university physics professor and the major consulting corporation "Accenture". This team is very creative, knowledgeable, and wonderful. They created websites for a major Japanese agency. In addition to these, we also plan on expanding our partnerships to work in Brazil and China.

Morimoto: Currently, Japanese creativity is famous throughout the world but there is no exact example as to where the extent of this specific collaboration extends. Therefore, while this is definitely a challenge for us, we just have to get on with it and do it. It has taken a little over a year but we have finally employed native English speakers to teach English lessons within the company. At the same time, we also offer an 'Exchange-

Program' several times a year for the employees to work in different locations.

Mabuchi: We have seen the greatest impact from this program in the field. Without going to the USA and Europe, we as Japanese tend to think that western creativity is cool but once we actually go there, it is easy to realize that they think highly of the Japanese level of creativity as well. This, of course, means that "I too can fight within this world". This is one of the largest motivating factors when working.

Aiming for interactive communication professionals who can compete globally

Mabuchi: We currently have a Business Development Group in charge of manag-

ing international clients and agencies. Employees are at offices in locations such as the Netherlands and New York and we also have people doing sales. While it is critical that we take care of Japanese customers, we also would like to be the first company that an international company thinks of when it considers its strategy in Asia.

Morimoto: We want to take the best from the world while also being a company the world desires. Thus, we want to build our knowledge base – that is our stance.

Mabuchi: Essentially, we have to think that "we want to draw in good individuals and work from various locations worldwide" in order to keep this interactive communication professional that competes globally. We are a production which works day and night.



Website Client: Toyota Automobile Corporation
Dentsu Agency Corporation,
Dentsu Tec Corporation



Website Client: Sony Marketing Corporation
Dentsu Agency Corporation



Website Client: Frontage Corporation
Client and Agency Corporation



KDDI Contents Card Maker
Showroom Display
Client: KDDI Corporation
Agency: Delface Corporation,
Monster Films Corporation

TYO Interactive Design Corporation

1-7-13 Mita, Meguro-ku, Tokyo 153-0062

TEL. +81-3-5722-9956 FAX. +81-3-5722-9951

Est. October 1, 2002

Capital 10 million JPY (TYO share of equity: 100%)

Business line: Web Advertisement, Internet promotions, Interactive content planning, production, and operations

"Branding" and beyond.

Moving with the times.

Strategia Inc., is expanding into the new business niche of a "Branding Agency". In the world of Japanese advertising, there is probably no other company that claims to offer the same service. So what exactly is branding? Why branding? A representative from Strategia talks about the path of a branding business.

The word "strategia" is derived from Greek and means "strategy" in English. The essential meaning is "the knowledge or method of making plants and animals thrive as a species".



Takahiro Kishi, Strategia Inc.'s CEO

(The draw of advertising)

I joined an advertising agency over twenty years ago and I have never tasted the same sense of power as I had at that time. It is ironic, but the sense of reality of being part of the advertising scene increased as time went on. After that, the economic bubble burst and things just would not sell and what was particularly difficult was that we had to cram a product's qualities into 15 seconds. It is essentially impossible to explain anything in just 15 seconds. Because of this cramming, it was more and more difficult to inform consumers, and advertisements became stale and uninteresting. Advertisements became information bulletins. But the influence of advertising still remains strong with me. I asked myself, could I do the same thing again? What could I think of that is lacking in current advertisements? In the end, I thought that what was missing from these advertisements was "Brand Communications".

(What is branding?)

What is a brand? David A. Arker encapsulates it in four parts: promoting the brand name; brand loyalty; brand connection; and quality of perception. This is similar to Philip Cutler's standard description of marketing as the four Ps: Product, Price, Place and Promotion. What is branding? Unfortunately, even foreign academics have yet to provide a framework to describe it. There is no exact branding formula for taking the name

of your company, product, or service and turning it into a brand.

(Branding is a great business opportunity)

Previously, branding was considered to be simply creating an image for a product. Why don't you have this kind of image? Why don't you build your image progressively? Basically, this is building superficial images with weak foundations. And now, far from the original aims of advertising, we are coming to a time when the product's value itself begins to disappear. To fully grasp the essence of a product or company, to catch its core value, this is the basis of brand communication. It is very orthodox, but in this age it is becoming extremely important to create a brand that catches the essence of a product ("orthodoxy" can be thought of as a strategy for success). It is common knowledge that a good brand name will continue to sell. This is not simply because consumers know or understand a product, but that the product has captured their imagination and they like it. When a brand makes an emotional connection it establishes its existence

as a "good product". That is why there has to be people who are able to create concepts and ideas for brands that will distinctly appeal to consumers. When a product becomes a brand it continues to sell. Branding is the technique of creating brands. Strategia's core competence is branding, and we hope to work together with companies to create their brand names and more effectively communicate. Companies obviously want their products to sell, so this is a great business opportunity for these times.

(Ways to use products better- The pursuit of power)

I worked in the marketing section of an advertising agency until I was 33. And, from the age of 34, as a creative director with a background in marketing, I was responsible for everything from developing marketing strategies to creating original ideas. I still remember jobs like taking an inferior brand and turning it into a superior one, and promoting the value of a new brand which helped the product sell. My goal is to develop branding which touches people's hearts.



T.V. commercial for Japan Postal Service Public Corporation, Kampo.

Strategia Inc.

Bungei Shunshu Ginza Bekkan
Ginza 5-5-12, Chuo-ku, 104-0061, Tokyo
TEL. +81-3-3569-1555
FAX. +81-3-3569-1565
Est. July 1, 2005
Capital: 10 million yen (TYO share of equity: 80%)
Business interests: Planning strategies and creating expressions for brand communication

TYO Group + Music = Media Mix Strategy.

5 Powered & Basics. Named after the five basic human senses: sight, hearing, smell, taste and touch, 5pb has stolen the hearts of many fans with its music and sound for games and animation. And now their “power” is being utilized to create a cross media that spans the world of games and reality.



Chiyomaru Shikura, 5pb Inc.'s CEO

(Making and producing music is 5pb's main business)

The sound and music producer, 5pb Inc., joined the TYO group as a new member in April 2005. From my time at university, I have always had a strong desire to work in the music industry and entering a company that manufactured the TV games that I loved to play at the time helped me get my foot into the door of this world.

After a few years later, the media for games shifted from cartridges to discs and the characteristic pip-pip sound of games has improved to CD quality. Also, these days, there is a voice-over actor craze in the world of games and anime with singers and actors performing the theme tunes, completely transforming the nature of the product. For these reasons, I began to specialize in vocal songs, and started working in earnest as one of the writers who produces songs for games.

(The otaku (enthusiast) market place is no laughing matter)

According to my interpretation, the anime term “moe” or “infatuation” can apply to things and images, as well as people, and when something touches one of the five senses it is “the instant that feelings change”. Those people's feelings and senses are stimulated and this is why these days we have a “moe craze” which has the potential to develop into a large market. A point that is worth noting is that the target

age range is extremely broad. Amongst males, even when they become adults, there is always a side that is a Gundam fan or likes plastic models and figures. In other words, you never grow out of an “infatuation” and that is why the target range is ever-increasing.

Of course our company is not just targeting this “moe” market. In my previous company, I was involved in the production of songs for TV commercials, such as the rabbit song for NOVA, and I want to make the best of this experience when collaborating with characters from TV commercials. Also, along with our musical interests, we are generating the foundations for various new projects, such as producing plans for consumer games and administering plans for reality stores. Normally, companies pay to use copyrights held by other companies and then produce a series of CDs but, at present, we have content producers in-house. So from now on we will be actively striving to produce original designs.

(Original reality stores - the new media mix)

We are broadening our manufacturing range and pursuing what is known in the media mix as “business collaboration appeal”. One result of this was the opening of The Afilia Magic Institute in Ikebukuro, Tokyo. This original store takes a new approach. The theme for the store is the world of magic, and everything from the décor of the store and the employees' costumes to the

menus and the language spoken reflect this theme. The customers also take part in the manners and rules, enjoying the supreme “make-believe world of magic”. Against the store's unique background and environment, you can find various media such as music and comics, games and anime. As a result, the people working there take on an idol-like status which contributes to store sales. Surely, this is a system with expected synergy. The days when music and movies could only be bought over the counter are over now that online sales are increasing. However, no matter how the methods of purchasing and advertising may change it will always be necessary to “make things”. Manufacturing even better, high quality products is the key to surviving in the entertainment business these days.



Memories Off #5 Interrupted Film THE ANIMATION.

5pb Inc.

NEST Daikanyama Building B1F
28-11 Sarugakucho, Shibuya-ku,
150-0033, Tokyo

TEL. +81-3-5457-3567

FAX. +81-3-5457-3568

Est. April 6, 2005

Capital: 10 million yen (TYO share of equity: 51%)

Business Interests: Music and sound manufacture.

Group Outline

The TYO group consists of TYO Productions Inc. and 25 consolidated subsidiaries and equity method affiliates. The Group is engaged in advertising, entertainment and content solutions businesses with the goal of expanding and developing the “Creative Business City” based on its core medium-term management strategy of multi-branding, that is, forming a Group comprising many leading content

production companies with TYO serving as the operational holding company. The Group’s 25 companies, with TYO Productions at the center, seek to establish themselves as the top brands in their respective visual content markets while simultaneously expanding into related visual content businesses. The Group as a whole strives to create an innovative business model for the visual content business.

● **Location of Head Office** **2-21-7 Kami-Osaki, Shinagawa-ku, Tokyo**

● **TYO Group Executives Officers and Auditors**

President and CEO, and CEO of the Group	Hiroaki Yoshida	Director and Group Executive Officer	Koichi Iida
Director and Senior Group Executive Officer	Katsumi Kimura	Auditor	Shujiro Matsuda
Director and Senior Group Executive Officer	Kazuyoshi Hayakawa	Auditor	Keisuke Morishima
Director and Group Executive Officer	Shuji Kakimoto	Auditor	Shigeyuki Mito
Managing Director, Chief Manager of Productions and Group Executive Officer	Minoru Ui		

(As of December 22, 2005)

- **Capital** **¥1,076 million** (as of September 30, 2005)
- **Number of group companies** **25** (as of December 31, 2005) (including equity method affiliates)
- **Number of group employees** **568** (as of December 31, 2005)
- **Consolidated net sales** **¥19,839 million** (as of September 30, 2005)

Advertisement business

TV commercial planning and production, web content planning and production

Entertainment business










Planning, production and sales of game software, planning, production and sales of music videos, computer graphics (CG), planning and production of animation and other digital content, planning and development of characters.

Content solutions business











Internet and CD-ROM sales of digital content (photographs, CG, etc.), provision and planning of platforms (editing space, editing equipment, etc.) and editing technology for visual content production, planning and producing, operations related to filming of visual materials.

Group Companies






Advertisement Business

 <p>TYO Productions Inc. Holding Company 2-21-7 Kami-Osaki, Shinagawa-ku, Tokyo 141-0021, Japan TEL: +81-3-5434-1580 FAX: +81-3-5434-1595</p>	<p>TV commercial planning and production</p>	 <p>MONSTER FILMS Inc. Investment share of TYO Productions: 80% 4-2-14 Roppongi, Minato-ku, Tokyo 106-0032, Japan TEL: +81-3-6229-1611 FAX: +81-3-6229-1622</p>	<p>TV commercial planning and production</p>
 <p>M-one Productions Inc. Investment share of TYO Productions: 100% MIC Bldg., 2-8-21 Minami-Azabu, Minato-ku, Tokyo 106-0047, Japan TEL: +81-3-5484-7761 FAX: +81-3-5484-7762</p>	<p>TV commercial planning and production</p>	 <p>TYO Interactive Design Inc. Investment share of TYO Productions: 100% 1-7-13 Mita, Meguro-ku, Tokyo 115-0051, Japan TEL: +81-3-5722-9956 FAX: +81-3-5722-9951</p>	<p>Web production</p>
 <p>Camp KAZ Productions Inc. Investment share of TYO Productions: 100% B1 floor, MT3 Bldg., 1-12-24 Mita, Meguro-ku, Tokyo 153-0062 TEL: +81-3-5725-6321 FAX: +81-3-5725-6322</p>	<p>TV commercial planning and production</p>	 <p>SASSO Films, Inc. Investment share of TYO Productions: 70% 3-17-39 Nishi-Azabu, Minato-ku, Tokyo 106-0031, Japan TEL: +81-3-5785-3011 FAX: +81-3-5785-3012</p>	<p>TV commercial planning and production</p>
 <p>Nexis Communications Corporation Investment share of TYO Productions: 80% 2-21-7 Kami-Osaki, Shinagawa-ku, Tokyo 141-0021, Japan TEL: +81-3-5434-8815 FAX: +81-3-5434-8816</p>	<p>Web production</p>	 <p>Kirameki Investment share of TYO Productions: 80% 2-9-21 Kami-Osaki, Shinagawa-ku, Tokyo 141-0021, Japan TEL: +81-3-5795-0702 FAX: +81-3-5795-0703</p>	<p>Advertisement planning and production</p>
 <p>OK Planning and Produce Corporation Investment share of TYO Productions: 80% Kaname Bldg., 4F, 1-4-20 Minami-Azabu, Minato-ku, Tokyo 106-0047, Japan TEL: +81-3-5442-8391 FAX: +81-3-5442-8392</p>	<p>Advertisement planning and production</p>		

Entertainment business

 <p>Digital Frontier Inc. Investment share of TYO Productions: 100% 1-7-13 Mita, Meguro-ku, Tokyo 153-0062, Japan TEL: +81-3-5794-8444 FAX: +81-3-5794-8445</p>	<p>CG and digital content planning and production</p>	 <p>Mazri Inc. Investment share of TYO Productions: 100% 2-21-7 Kami-Osaki, Shinagawa-ku, Tokyo 141-0021, Japan TEL: +81-3-5434-8751 FAX: +81-3-5434-5530</p>	<p>Music clip planning and production</p>
 <p>Suzak Inc. Investment share of TYO Productions: 100% 1-7-13 Mita, Meguro-ku, Tokyo 153-0062, Japan TEL: +81-3-5724-5912 FAX: +81-3-5724-5913</p>	<p>Game software development</p>	 <p>Shing Inc. Investment share of TYO Productions: 80% 1-7-13 Mita, Meguro-ku, Tokyo 153-0062, Japan TEL: +81-3-5768-6234 FAX: +81-3-5768-6682</p>	<p>Game software development</p>
 <p>dwarf Inc. Investment share of TYO Productions: 100% 2-21-7 Kami-Osaki, Shinagawa-ku, Tokyo 141-0021, Japan TEL: +81-3-5436-7221 FAX: +81-3-5436-7223</p>	<p>Character planning and development</p>	 <p>HAL Film Maker Co., Ltd. Investment share of TYO Productions: 85% 4th floor, Ogikubo Fukuchi Building, 1-10-6 Kamiogi, Suginami-ku, Tokyo 167-0043, Japan TEL: +81-3-5347-9330 FAX: +81-3-5347-9337</p>	<p>Animation planning and production</p>
 <p>Yumeta Co., Ltd. Investment share of TYO Productions: 80% Yokoyama Bldg., 1-42-20 Matsuyama, Kiyose-shi, Tokyo 204-0022, Japan TEL: +81-424-95-5116 FAX: +81-424-95-5117</p>	<p>Animation planning and production</p>	 <p>Da Lian Eastern Dragon Cartoon Development Co., Ltd. (equity method affiliate) Investment share of TYO Productions: 35% No. 610, Huangpu Road, Dalian High-Tech Industrial Zone, Liaoning Province, China</p>	<p>Animation planning and production</p>
 <p>5pb Inc. Investment share of TYO Productions: 80% 4th floor, Central Daikanyama, 14-23 Daikanyama-cho, Shibuya-ku, Tokyo 150-0034, Japan TEL: +81-3-5457-3567 FAX: +81-3-5457-3568</p>	<p>Music production</p>	 <p>Build Up Inc. Investment share of TYO Productions: 80% 1-7-13 Mita, Meguro-ku, Tokyo 153-0062, Japan TEL: +81-3-5768-2520 FAX: +81-3-5768-2521</p>	<p>Planning, image production, and modeling for movies, CM, games, and amusement facilities</p>

Content solutions business

 <p>Digital Archive Japan, Inc. Investment share of TYO Productions: 78% 1-7-13 Mita, Meguro-ku, Tokyo 153-0062, Japan TEL: +81-3-5720-7221 FAX: +81-3-5720-7222</p>	<p>Digital content sales</p>	 <p>Post Production Center Inc. Investment share of TYO Productions: 73% 3F-4F, Minami-Azabu Shibuya Bldg., 4-11-30 Minami-Azabu, Minato-ku, Tokyo 106-0047, Japan TEL: +81-3-3473-2661 FAX: +81-3-3473-2566</p>	<p>Post production for films</p>
 <p>Ultra Inc. Investment share of TYO Productions: 100% 1-1-4-604 Kami-Osaki, Shinagawa-ku, Tokyo 141-0021, Japan TEL: +81-3-5475-6922 FAX: +81-3-5475-6923</p>	<p>Planning and production</p>	 <p>Crank Inc. Investment share of TYO Productions: 100% 1F, Landic Minami-Azabu Bldg., 4-11-21 Minami-Azabu, Minato-ku, Tokyo 106-0047, Japan TEL: +81-3-5447-6081 FAX: +81-3-5447-6082</p>	<p>Filming-related operations</p>
 <p>Strategia Inc. Investment share of TYO Productions: 80% Bungei Shunju Ginza Annex, 5-5-12 Ginza, Chuo-ku, Tokyo 104-0061, Japan TEL: +81-3-3569-1555 FAX: +81-3-3569-1565</p>	<p>Advertisement planning and production</p>		

Group management services

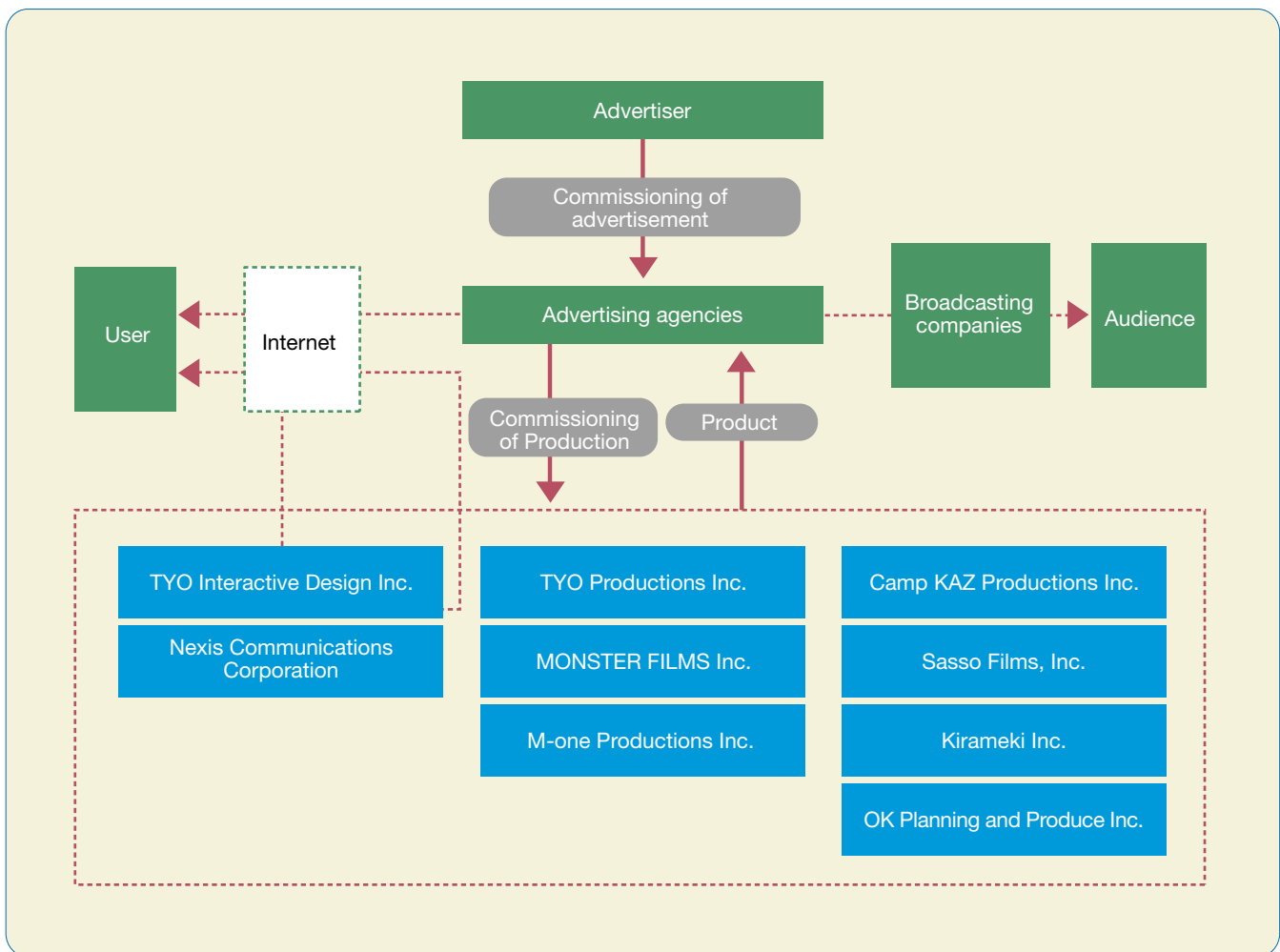
 <p>TYO Administration Investment share of TYO Productions: 100% 2-21-7 Kami-Osaki, Shinagawa-ku, Tokyo 141-0021, Japan TEL: +81-3-5434-1585 FAX: +81-3-5434-1595</p>	<p>Administration operations</p>		
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Advertisement Business

Since its establishment, TYO Productions has been primarily involved in the production of TV commercials, and its advertising business still remains at the core of its operations. In this business segment, the company engages in the planning and production of TV commercials for advertising agencies. The industry is now starting to recover somewhat expanding to ¥200.6 billion, a year-on-year increase of 0.3% (source: Dentsu Inc., “2005 Advertising Expenditures in Japan”). With regard to the planning and production of web contents whose chief target is the Internet advertising market, the Dentsu report

shows that the market has seen a rapid expansion to ¥280.8 billion, up 55% year-on-year.

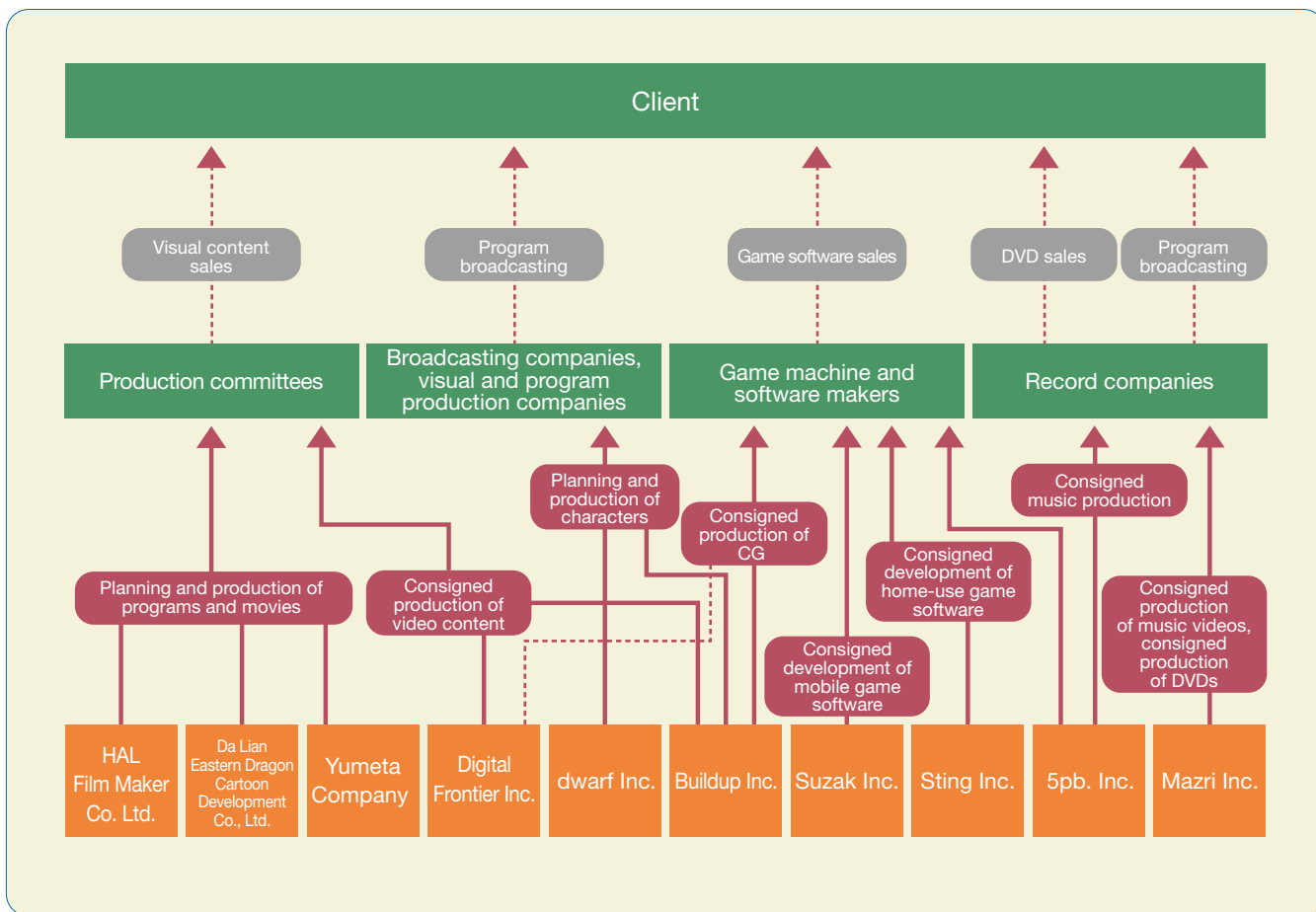
Looking ahead, we expect a diversification in TV commercial needs due to the shift to broadband for the Internet and for mobile phones, and an expansion of contents in which entertainment and information are fused. In this environment, we will continue with our aim of launching businesses that give full play to the edge held by our group by making full use of our know-how in both the TV commercial and interactive content fields.



Entertainment Business

In the Entertainment Business, we plan and produce digital content in the field of entertainment represented by animation, computer graphics (CG), TV programs and game software, and consigned development of game software. In August 2005, we further expanded our animation business by establishing a joint venture (equity method affiliate) based on a 35% investment ratio with our partner in Dalian, China. Our group's goal was to enter the Chinese animation field, which is enjoying spectacular

growth. In addition, 5pb Inc., which is engaged in the production of music and audio for games, animation and content, joined our group in April 2005 and has enlarged the scope of our involvement in the music business. In the future, we intend to cultivate these operations into the Group's core business by further expanding the scope of the Entertainment Business through multi-branding in each field and adding film and television production to the Group.



Contents Solution Business

Our contents solution business is implemented under four business models. In July 2005, the Group's Planning and Production Division was further strengthened when Strategia Inc., which carries out the planning and production of advertisements, became one of the Group's companies and thereby created a system that can provide a detailed response to the needs of future planning proposals. We are striving for expanded profitability as the growth of the Group boosts the operating capacity of the Post-Production Department and as the Group's business areas expand due to the diversification of digital visual content and the increased sophistication of editing technology. Moreover, demand in the royalty-free materials market continues to expand as the Internet takes root and the digital content market extends its reach. Our policy is to aim for a further expansion of business in this field. With respect to photography services using professional photographers, we are advancing our business by offering reasonable prices and high quality. As the Group expands, the scope of the solutions it provides also grows, and we are aiming for better cost control through joint services and purchasing leverage that fully utilize the Group's scale advantages, as well as improved services tailored to client needs.

1 Post-Production

A business model that generates profit by providing cutting-edge platforms for visual content editing, including editing facilities and equipment, and editing techniques for visual content by skilled editors and recording engineers, such as image processing technology and after-recording technology, to a broad range of productions that handle visual content.

○ Post Production Center Inc.

2 Digital Archiving

A business model that involves organizing professional photographers and selling more than 70,000 pieces of digital content archived through data compression (photographs, computer graphics and motion pictures) on the Internet or CD-ROM. Photography services by professional photographers are also provided.

○ Digital Archive Japan, Inc.

3 Planning and Producing

A business model that provides a full range of services, from the planning and production of advertisements to entertainment

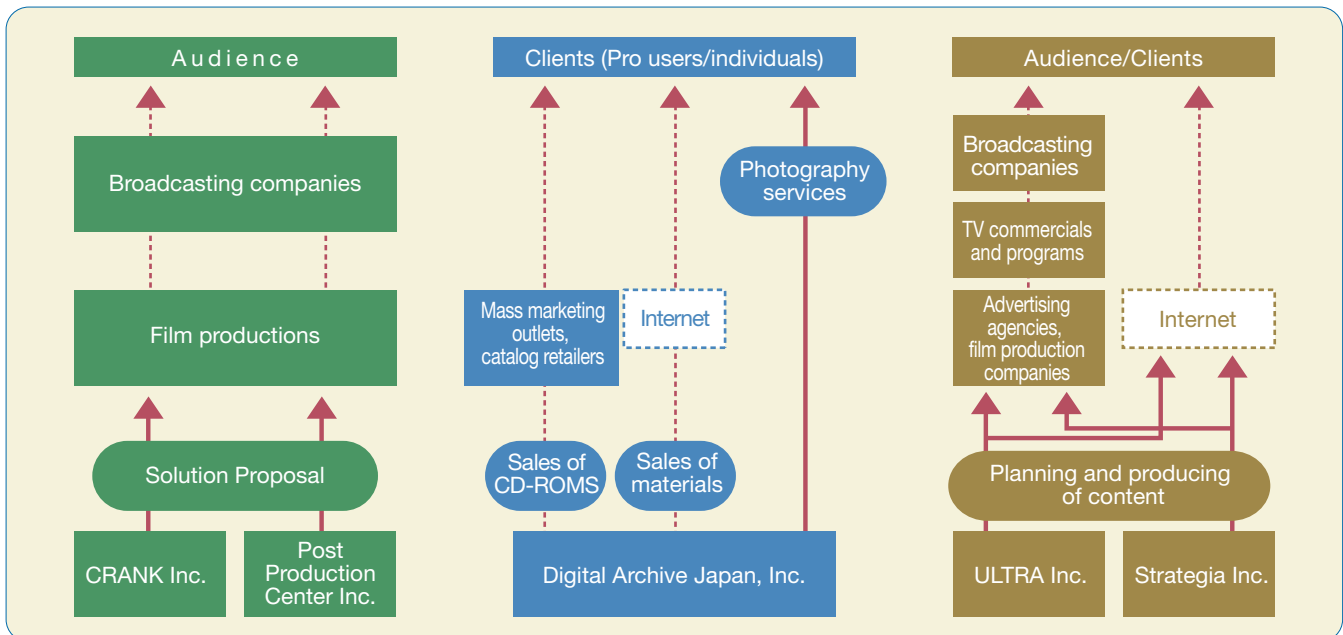
○ ULTRA Inc.

○ Strategia Inc.

4 Filming-Related Operations

A business model that involves dispatching camera crews and renting filming equipment.

○ CRANK Inc.



Medium-Term Management Plan

The core business of the TYO Group (TYO Productions and its consolidated subsidiaries and equity method affiliates) is the advertisement business, centered on TV commercial production, while the group is also involved in the entertainment and content solution businesses.

The Group's 25 companies, with TYO Productions at the center, strive to establish themselves as the top brands in their respective visual markets, while working as a Group to expand the "Creative Business City", a loose association of consolidated companies, as a cluster of various visual production brands. Based on this policy, the Group has grown from seven companies at the time of its initial public offering to 22 companies by establishing new companies and through M&A activity. Moreover, the Group's business divisions have expanded their domains to include the

planning and production of animation and the planning and production of home-use game software. We will seek further expansion of the Group's business and profits in the entertainment business, which will continue to rapidly grow in the future, by adding movie production, animation planning, and TV program production companies. In addition to increasing profit by raising market share through multi-branding in each business segment, we will also reorganize our business portfolio to lower the level of business risk associated with changes in the economic environment. Our immediate goal is to achieve a Group sales target of ¥40 billion by 2010, comprising ¥20 billion from the Advertisement Business and ¥20 billion from the combined Entertainment and Content Solution Businesses, and to strive for a further expansion of the Group's business.

Challenges Ahead

Further expansion of the Group's business domain, including overseas expansion and the thorough implementation of cost management, are

the most crucial challenges for achieving the medium-term managerial targets of net sales of ¥40 billion and an ordinary profit of ¥3.2 billion set for our Group.

1 Promotion of M&A activity and growth in size

The number of companies in our Group has grown from 19 at the end of last fiscal year to 25 today. In terms of net sales, the Advertisement Business accounts for approximately 65% of the total, the Entertainment Business for approximately 26%, and the Content Solution Business for approximately 8%, with greater parity being achieved among the business domains. We are aiming at business expansion while considering the listing of individual Group companies and the active promotion of M&A activities in the future.

2 The Group's overseas development

We are using the beachhead established by our investment in the English Overseas Creative Agency and the establishment of a joint venture in the People's Republic of China to launch our "multi-brand strategy" in Europe and East Asia. With these efforts, we are aiming to further diversify the Group's business and realize synergies with Group companies in Japan.

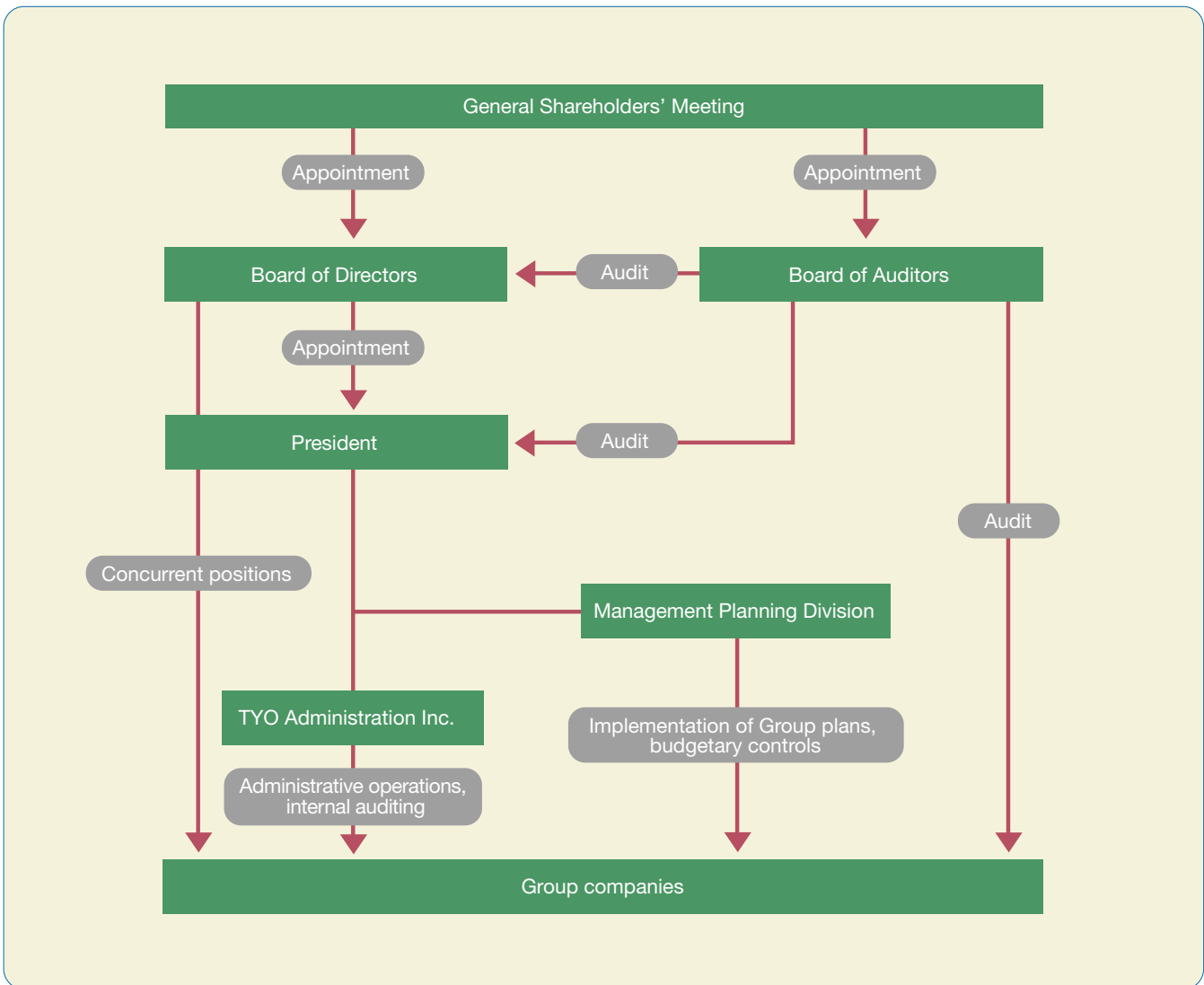
3 Thorough profit management

We are realizing accurate, swift and clear budget controls, and are aiming at the firm establishment of a solid profit management system, by concentrating information in the centralized Group Administration Division.

Our Basic Stance on Corporate Governance

Our basic stance is to strengthen the corporate governance of TYO Productions and the Group as a whole. We recognize that corporate governance structures for the entire Group and for Group subsidiaries and equity-method companies constitute an important factor in expanding our

creative business areas based on our multi-branding strategy. While guidelines and auditing represent standard control mechanisms, we believe we must refine the incentives and other means offered to Group companies to encourage routine compliance in the course of our corporate activities.



Results for the Consolidated Fiscal Year Under Review

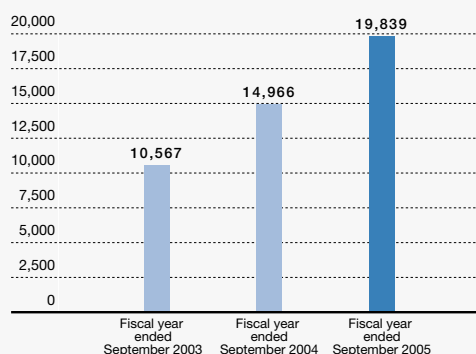
The TYO Group is continuing to grow by means of a mechanism unprecedented in Japan - by combining a number of top visual content makers competing for the preeminence of their respective brand under the aegis of one holding company. The industry as a whole recognizes this mechanism, which is called the "Creative Business City". In the previous term and current term, this city has steadily grown with the number of companies in the Group increasing from 19 at the end of the last consolidated fiscal year to 25 at present. The entertainment business field has exhibited particularly marked growth, and this made possible a significant improvement in that business's balance sheet. With the additional impact of a Chinese animation business,

we expect to realize high earnings next fiscal year. In addition, the advertisement business and the content solution business are also continuing to perform well, while increased efficiency has been achieved through cost control in Group Administration.

As a result, net sales in the current consolidated fiscal year were ¥19,839 million (an increase of 32.6% year-over-year), operating income was ¥1,280 million (an increase of 30.5% year-over-year), ordinary income was ¥1,207 million (an increase of 43.4% year-over-year), and current net income was ¥489 million (an increase of 136.8% year-over-year). A total of ¥227 million for sales rights and consolidated adjustments due to M&A are included in the sales and general administrative expenses.

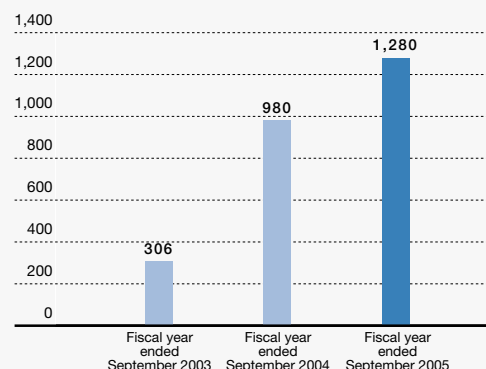
Net Sales

(Unit: ¥ Million)



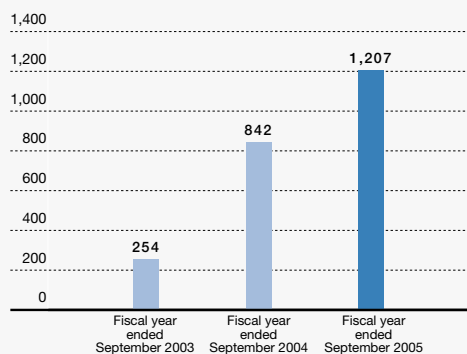
Operating Income

(Unit: ¥ Million)



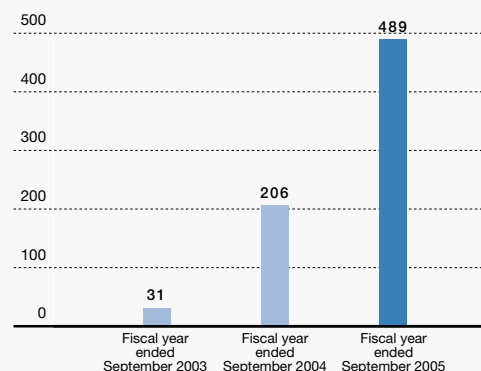
Ordinary Income

(Unit: ¥ Million)



Net Income

(Unit: ¥ Million)



Sales by Business Segment

Advertisement Business

Unit: ¥ thousands

Sales in the advertisement business were ¥13,015 million (25.4% increase year-on-year) while operating income rose to ¥1,243 million (3.2% increase year-on-year). Included in sales and general administrative expenses are ¥86 million of goodwill amortization and consolidated adjustments due to M&A activities.

	Fiscal year ended September 2004	Fiscal year ended September 2005	Difference	Year-on-year change
Sales	10,375,870	13,015,977	2,640,106	125.4%
(Customers)	10,350,544	12,930,565	2,580,021	124.9%
(Inter-segment Sales)	25,326	85,411	60,085	337.2%
Operating cost	9,170,945	11,772,926	2,601,980	128.4%
Operating income	1,204,925	1,243,051	38,126	103.2%

Entertainment Business

Unit: ¥ thousands

Sales in the entertainment business were ¥5,254 million (61.7% increase year-on-year) and operating income was ¥22 million (an improvement of ¥34 million compared to the previous period). Included in sales and general administrative expenses are ¥125 million of goodwill amortization and consolidated adjustments due to M&A activities.

	Fiscal year ended September 2004	Fiscal year ended September 2005	Difference	Year-on-year change
Sales	3,248,282	5,254,012	2,005,730	161.7%
(Customers)	3,222,566	5,224,833	2,002,266	162.1%
(Inter-segment Sales)	25,715	29,179	3,463	113.5%
Operating cost	3,260,626	5,231,806	1,971,179	160.5%
Operating income	△ 12,344	22,206	34,550	-

Contents Solutions Business

Unit: ¥ thousands

Content solution business sales were ¥2,399 million (up 23.7% year-on-year) and operating income was ¥342 million (44.8% increase year-on-year). Included in sales and general administrative expenses are ¥14 million of goodwill amortization and consolidated adjustments due to M&A activities.

	Fiscal year ended September 2004	Fiscal year ended September 2005	Difference	Year-on-year change
Sales	1,939,631	2,399,599	459,967	123.7%
(Customers)	1,393,202	1,684,236	291,034	120.9%
(Inter-segment Sales)	546,429	715,362	168,932	130.9%
Operating cost	1,702,717	2,056,606	353,888	120.8%
Operating income	236,914	342,992	106,078	144.8%

Consolidated Cash Flows

Cash Flows from Operating Activities

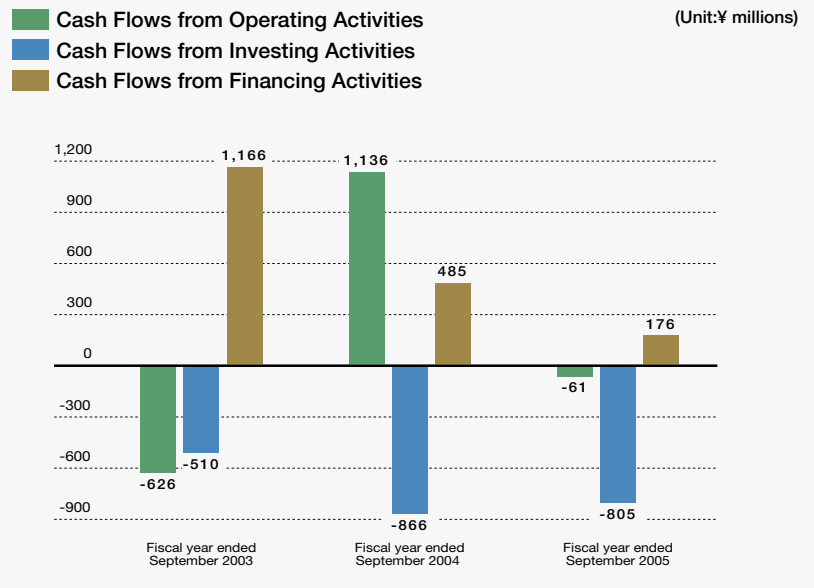
Cash flow generated by operating activities decreased to ¥61 million (¥1,198 million less year-on-year). Earnings before income taxes, depreciation charges, goodwill amortization and consolidated adjustments as well as increases in accounts receivable all improved cash flow. However, at the same time, cash flow was reduced by an increase in accounts payable, executive compensation expenses, and income taxes.

Cash Flows from Investing Activities

Cash flow used in investing activities decreased by ¥805 million (¥61 million less year-on-year). Association investments, the purchase of tangible and intangible assets, and insurance reserve funds contributed to the cash flow reduction.

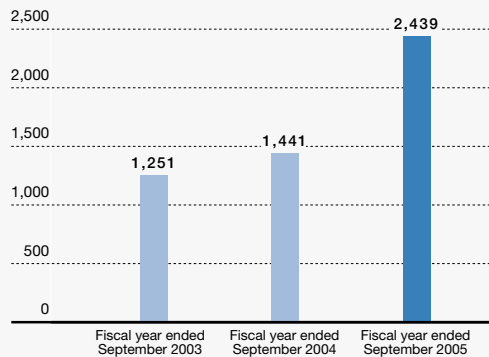
Cash Flows from Financing Activities

Cash flow generated by financing activities increased to ¥176 million (¥309 million less year-on-year). Despite the large repayment of long-term debt and bond redemptions, funds from new stock issuance contributed to cash flow.



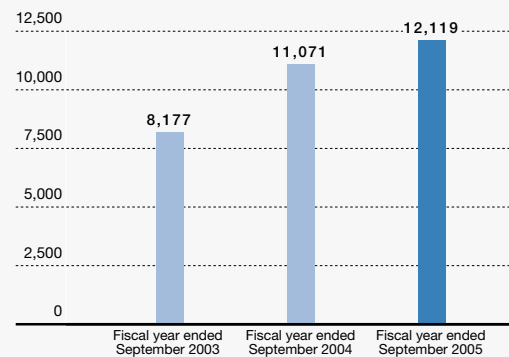
Consolidated Net Assets

(Unit:¥ millions)



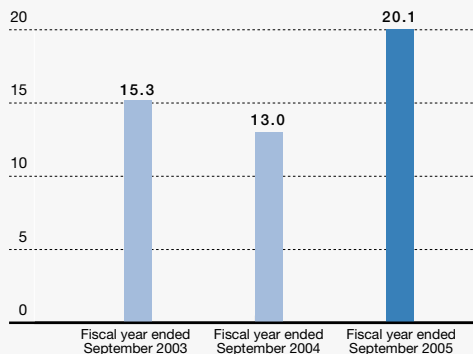
Consolidated Total Assets

(Unit:¥ millions)



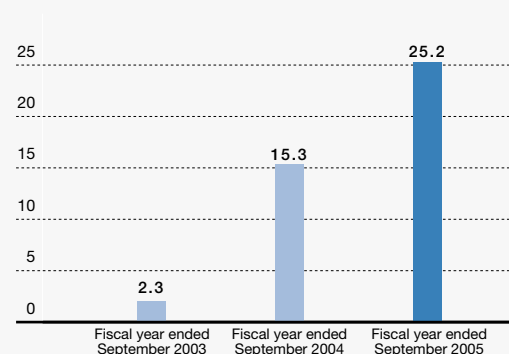
Consolidated Equity Ratio

(%)



Consolidated Return on Equity Ratio

(%)



Consolidated Balance Sheet

(Unit: ¥ thousands)

Fiscal Term	Previous Consolidated Fiscal Year (as of Sept. 30, 2004)		%	Consolidated Fiscal Year Under Review (as of Sept. 30, 2005)		%	Difference
	Amount			Ratio	Amount		
(Assets)							
I. Current Assets							
1. Cash and cash equivalents		2,050,142			1,359,200		△ 690,941
2. Notes and accounts receivable		2,882,034			3,953,720		1,071,686
3. Inventories		1,662,453			1,686,705		24,252
4. Deferred tax assets		59,003			99,344		40,340
5. Other		193,640			188,387		△ 5,253
6. Allowance for doubtful accounts		△ 16,523			△ 18,194		△ 1,670
Total Current Assets		6,830,750	61.7		7,269,163	60.0	438,413
II. Fixed assets							
1. Tangible fixed assets							
(1) Buildings	1,085,230			1,122,970			
Accumulated depreciation	418,211	667,018		459,312	663,658		△ 3,360
(2) Land		746,208			746,208		—
(3) Other	403,159			547,158			
Accumulated depreciation	284,893	118,266		295,100	252,058		△ 133,791
Total tangible fixed assets		1,531,493	13.8		1,661,925	13.7	130,431
2. Intangible fixed assets							
(1) Goodwill		89,131			44,565		△ 44,565
(2) Consolidated adjustment account		700,354			579,345		△ 121,008
(3) Other		246,983			271,564		24,580
Total intangible fixed assets		1,036,469	9.4		895,475	7.4	△ 140,994
3. Investments and other assets							
(1) Investment securities		352,671			564,201		211,529
(2) Investment in affiliated companies		—			23,673		23,673
(3) Deferred tax assets		168,073			240,515		72,441
(4) Insurance reserves		702,690			832,711		130,020
(5) Lease deposits		339,994			388,714		48,720
(6) Other		212,952			280,801		67,849
(7) Allowance for doubtful accounts		△ 103,771			△ 37,555		66,215
Total investments and other assets		1,672,611	15.1		2,293,061	18.9	620,450
Total Fixed Assets		4,240,574	38.3		4,850,462	40.0	609,887
Total Assets		11,071,324	100.0		12,119,626	100.0	1,048,301

(Unit: ¥ thousands)

Fiscal Term	Previous Consolidated Fiscal Year (as of Sept. 30, 2004)		Consolidated Fiscal Year Under Review (as of Sept. 30, 2005)		Difference
Item	Amount	Ratio	Amount	Ratio	Amount
(Liabilities)					
I. Current Liabilities					
1. Accounts payable	1,876,217		2,238,100		361,883
2. Current portion of long-term bonds	100,000		100,000		—
3. Short-term borrowings	4,007,866		4,020,358		12,491
4. Accrued liabilities	—		606,704		606,704
5. Income taxes payable	349,225		470,108		120,882
6. Advance received	892,927		493,116		△ 399,810
7. Allowance for bonuses	94,671		114,202		19,530
8. Other	569,705		124,121		△ 445,584
Total Current Liabilities	7,890,614	71.3	8,166,711	67.4	276,097
II. Fixed Liabilities					
1. Bonds	235,000		135,000		△ 100,000
2. Long-term loans	868,868		598,510		△ 270,358
3. Allowances for retirement benefits	14,504		18,115		3,610
4. Allowances for retirement benefits and compensation for executives.	348,918		426,701		77,783
5. Other	78,225		71,925		△ 6,300
Total Fixed Liabilities	1,545,516	13.9	1,250,252	10.3	△ 295,264
Total Liabilities	9,436,130	85.2	9,416,963	77.7	19,166
(Minority interests)					
Minority interests	193,289	1.8	263,481	2.2	70,191
(Shareholders' Equity)					
I. Capital stock	727,992	6.6	1,076,952	8.9	348,960
II. Capital surplus	691,414	6.2	1,040,843	8.6	349,429
III. Retained earnings	261,963	2.4	542,923	4.5	280,960
IV. Net unrealized gain on other securities	36,180	0.3	64,855	0.5	28,675
V. Treasury stock	△ 275,645	△ 2.5	△ 286,394	△ 2.4	△ 10,748
Total Shareholders' Equity	1,441,905	13.0	2,439,181	20.1	997,276
Total Liabilities, Minority Interests and Shareholders' Equity	11,071,324	100.0	12,119,626	100.0	1,048,301

Consolidated Statements of Income

(Unit: ¥ thousands)

Fiscal Term Item	Previous Consolidated Fiscal Year (Oct. 1, 2003 to Sept. 30, 2004)		%	Consolidated Fiscal Year Under Review (Oct. 1, 2004 to Sept. 30, 2005)		%	Difference Amount
	Amount			Amount			
I. Net Sales		14,966,313	100.0		19,839,635	100.0	4,873,322
II. Cost of Sales		11,542,904	77.1		15,525,208	78.3	3,982,304
Gross Profit		3,423,408	22.9		4,314,426	21.7	891,018
III. Sales, General and Administrative Expenses							
1. Provision for allowance for doubtful accounts	2,684			4,609			
2. Executive compensation	789,898			898,515			
3. Salaries and bonus	397,000			493,750			
4. Provision for accrued bonus	40,751			31,152			
5. Business consignment fee	176,076			261,012			
6. Rent expenses paid	96,154			149,030			
7. Provision for allowances for retirement benefits and compensation for executives	14,329			17,246			
8. Retirement benefit cost	13,825			10,652			
9. Depreciation of consolidated adjustment accounts	138,881			182,476			
10. Other	772,806	2,442,409	16.3	985,409	3,033,856	15.2	591,447
Operating Income		980,999	6.6		1,280,570	6.5	299,570
IV. Non-operating Income							
1. Interest income	375			774			
2. Insurance refund	10,183			35,351			
3. Dividends from investment in associations	—			51,402			
4. Other	12,567	23,126	0.1	21,115	108,644	0.5	85,518
V. Non-operating Expenses							
1. Interest expenses	82,622			81,404			
2. Loss on sale of accounts receivable	23,428			25,466			
3. Commission expenses	37,259			23,552			
4. Depreciation on investments in associations	—			29,459			
5. Other	18,761	162,071	1.1	21,636	181,520	0.9	19,449
Ordinary Income		842,055	5.6		1,207,693	6.1	365,639
VI. Extraordinary Income							
1. Gain on sale of securities	—			42,050	42,050	0.2	42,050
VII. Extraordinary Loss							
1. Loss on disposal of fixed asset	6,643			13,484			
2. Loss due to expropriation of fixed asset	11,041			—			
3. Provision for prior year allowances for retirement benefits and compensation for executives	60,536			60,536			
4. Executive retirement benefit fund	4,600			—			
5. Provisions for allowances for doubtful accounts	6,100			—			
6. Valuation loss on membership rights	1,000	89,922	0.6	—	74,021	0.4	△ 15,900
Net income before income taxes		752,133	5.0		1,175,722	5.9	423,589
Income taxes - current	453,839			714,696			
Income taxes - deferred	10,043	463,882	3.1	△ 132,440	582,255	2.9	118,373
Minority Interests		81,732	0.5		104,425	0.5	22,692
Net Income		206,518	1.4		489,042	2.5	282,524

Consolidated Statements of Retained Earnings

(Unit: ¥ thousands)

Fiscal Term	Previous Consolidated Fiscal Year (Oct. 1, 2003 to Sept. 30, 2004)		Consolidated Fiscal Year Under Review (Oct. 1, 2004 to Sept. 30, 2005)		Difference
Item	Amount		Amount		Amount
(Capital Surplus)					
I. Capital Surplus at Beginning of Year		612,216		691,414	79,197
II. Increase in Capital Surplus					
Capital increase through new stock issuance	79,197	79,197	349,429	349,429	270,232
III. Capital Surplus at End of Year		691,414		1,040,843	349,429
(Retained Earnings)					
I. Retained Earnings at Beginning of Year		174,812		261,963	87,150
II. Increase in Retained Earnings					
Net income	206,518	206,518	489,042	489,042	282,524
III. Decrease in Retained Earnings					
1. Dividends	99,909		80,437		△ 19,472
2. Executive bonus	19,457	119,367	127,645	208,082	108,187
IV. Retained Earnings at End of Year		261,963		542,923	280,960

Consolidated Statements of Cash Flow

(Unit: ¥ thousands)

Fiscal Term	Previous Consolidated Fiscal Year (Oct. 1, 2003 to Sept. 30, 2004)		Consolidated Fiscal Year Under Review (Oct. 1, 2004 to Sept. 30, 2005)		Difference
Item	Amount		Amount		Amount
I. Cash Flows from Operating Activities					
Income before income taxes		752,133		1,175,722	423,589
Depreciation and amortization		164,062		216,286	52,224
Depreciation of consolidated adjustment accounts		138,881		182,476	43,594
Depreciation of goodwill		44,565		44,565	—
Loss on disposal of fixed asset		6,643		13,484	6,840
Loss due to expropriation of fixed asset		11,041		—	△ 11,041
Valuation loss on investment securities		—		△ 42,050	△ 42,050
Increase (decrease) in allowances for doubtful accounts		8,684		△ 64,792	△ 73,477
Increase (decrease) in allowances for bonuses		27,261		18,648	△ 8,612
Increase (decrease) in allowances for retirement benefits		△ 35,805		△ 108	35,697
Increase (decrease) in allowances for retirement compensation for executives		71,891		77,783	5,891
Interest and dividend income		△ 2,223		△ 2,949	△ 725
Interest expenses		82,622		81,404	△ 1,217
Insurance refund		△ 10,183		△ 35,351	△ 25,168
Commission expenses		37,259		23,552	△ 13,706
Increase (decrease) in accounts receivable		13,453		△ 1,030,690	△ 1,044,143
Increase (decrease) in inventories		△ 355,768		△ 12,760	343,008
Increase (decrease) in trade accounts payable		246,001		350,632	104,631
Increase (decrease) in other accounts payable		△ 29,067		△ 4,087	24,980
Increase (decrease) in advance received		102,564		△ 375,905	△ 478,469
Executive compensation expenses		△ 23,000		△ 139,870	△ 116,870
Other		253,105		150,489	△ 102,616
Sub-Total		1,504,122		626,481	△ 877,640
Interests and dividends received		2,216		2,955	738
Interests paid		△ 84,147		△ 82,756	1,390
Income taxes paid		△ 285,411		△ 608,251	△ 322,839
Cash Flows from Operating Activities		1,136,780		△ 61,570	△ 1,198,350

(Unit: ¥ thousands)

Fiscal Term	Previous Consolidated Fiscal Year (Oct. 1, 2003 to Sept. 30, 2004)		Consolidated Fiscal Year Under Review (Oct. 1, 2004 to Sept. 30, 2005)		Difference
Item	Amount		Amount		Amount
II. Cash Flows from Investing Activities					
Income received from time deposit		164,710		—	△ 164,710
Expense paid to timed deposit		△ 135,235		△ 2,900	132,335
Expense for acquisition of tangible fixed asset		△ 100,112		△ 126,944	△ 26,832
Expense for acquisition of intangible fixed asset		△ 153,738		△ 141,540	12,198
Income received from sale of investment securities		—		78,050	78,050
Expense for acquisition of investment securities		△ 142,763		△ 199,538	△ 56,774
Expense for lease deposit		△ 40,766		△ 59,969	△ 19,202
Expense for association production committee		—		△ 161,910	△ 161,310
Income from insurance refund		17,004		42,057	25,053
Expense for insurance reserves		△ 134,749		△ 138,136	△ 3,387
Expense for acquisition of subsidiary stock requiring change in scope of consolidation		△ 333,022		△ 46,797	286,224
Other		39,456		△ 47,827	△ 8,370
Cash Flows from Investing Activities		△ 866,660		△ 805,457	61,202
III. Cash Flows from Financing Activities					
Net increase (decrease) in short-term borrowings		662,186		75,000	△ 587,186
Income from long-term loans		250,000		—	△ 250,000
Expense for repayment of long-term loans		△ 492,866		△ 362,442	130,424
Income from bond issuance		200,000		—	△ 200,000
Expense for bond redemption		△ 58,670		△ 100,000	△ 41,330
Income from stock issuance		157,499		698,389	540,890
Expense for acquisition of treasury stock		△ 80,848		△ 10,748	70,100
Dividend payments		△ 99,909		△ 80,437	19,472
Dividend payments to minority interests		△ 10,900		△ 25,335	△ 14,435
Other		△ 40,548		△ 17,552	22,995
Cash Flows from Financing Activities		485,941		176,872	△ 309,068
IV. Foreign Exchange Adjustments on Cash and Cash Equivalents		△ 2,331		△ 3,686	△ 1,355
V. Increase (Decrease) in Cash and Cash Equivalents		753,731		△ 693,841	△ 1,447,572
VI. Cash and Cash Equivalents at Beginning of Year		1,296,411		2,050,142	753,731
VII. Cash and Cash Equivalents at End of Year		2,050,142		1,356,300	△ 693,841



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JASDAQ Stock Code 4358