English Translation

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Consolidated financial results (Japanese Accounting Standards) for the Second Quarter of the fiscal year ending March 31, 2022

Filing date: November 1, 2021

Company name: IMAGICA GROUP Inc. Stock exchange listing: Tokyo 1st section
Securities code: 6879 URL: https://www.imagicagroup.co.jp/en/
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Quarterly report filing date (as planned): November 1, 2021
Dividend payment date (as planned): ―
Supplemental material of quarterly results: Yes
Convening briefing of quarterly results: Yes

(Millions of yen, rounded down)

1. Consolidated Financial Results for the Second Quarter of the fiscal year ending March 31, 2022 (April 1, 2021 – September 30, 2021)

(1) Consolidated Operating Results

(Percentage represents change from the same period of the previous fiscal year.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
6 months ended Sept 30, 2021	33,846	(5.6)	431	―	999	―	1,694	―
6 months ended Sept 30, 2020	35,835	(24.4)	(2,628)	―	(2,928)	―	(1,952)	―

(Note) Comprehensive income: 2nd quarter ended September 30, 2021: 2,328 millions of yen /－%
2nd quarter ended September 30, 2020: (2,435) millions of yen /－%

	Earnings per share of common stock	Diluted earnings per share of common stock
	Yen	Yen
6 months ended Sept 30, 2021	38.17	―
6 months ended Sept 30, 2020	(44.05)	―

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio to total assets
	Millions of yen	Millions of yen	%
As of Sept 30, 2021	64,533	32,583	46.2
As of March 31, 2021	60,446	29,832	45.4

(Reference) Shareholders' equity: As of September 30, 2021: 29,817 millions of yen
As of March 31, 2021: 27,450 millions of yen

2. Dividends

	Dividend per share				
	1st quarter- end	2nd quarter- end	3rd quarter- end	Year-end	Annual
	yen	yen	yen	yen	yen
Year ended March 31,2021	–	0.00	–	0.00	0.00
Year ending March 31,2022	–	0.00			
Year ending March 31,2022 (Forecast)			–	5.00	5.00

(Note) Changes in dividends forecast from the latest disclosed information: None

3. Consolidated forecast for the fiscal year ending March 31, 2022
(April 1, 2021 - March 31, 2022)

(Percentage represents change from the same period of the previous fiscal year.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent		Earnings per share of common stock
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	yen
Fiscal year ending Mar.2022	75,000	(13.5)	1,500	–	2,000	–	2,000	(42.1)	45.06

(Note) Changes in earnings forecast from the latest disclosed information： None

*Notes:

(1) Material changes in subsidiaries during this period (changes in scope of consolidations resulting from change in subsidiaries): Yes

(2) The application of specific accounting of the consolidated quarterly financial statements: No

(3) Changes in accounting policies, accounting estimates and retrospective
1) Changes in accounting policies based on revisions of accounting standards: Yes
2) Changes in accounting policies other than ones based on revisions of accounting standards: Yes
3) Changes in accounting estimates: Yes
4) Retrospective restatement: None

(4) Number of issued and outstanding shares (common stock)
1) Number of issued and outstanding shares at the end of fiscal year (including treasury stock)

As of September 30, 2021	44,741,467 shares	As of March 31, 2021	44,741,467 shares

2) Number of treasury stock at the end of fiscal year

As of September 30, 2021	345,844 shares	As of March 31, 2021	353,231 shares

3) Average number of shares

As of September 30, 2021	44,390,071 shares	As of September 30, 2020	44,312,754 shares

***Consolidated quarterly financial results are exempted from quarterly review by a public certified accountant or an auditing firm.**

(Explanation regarding the appropriate usage of financial forecasts and other special instructions)
Forward-looking statements, such as financial forecasts, presented in this document are based on information available and certain assumptions deemed to be reasonable to the Company at the time of publication, and are not to be read as guarantees of future performance by the Company. For preconditions of the assumptions and special instructions regarding the appropriate use of financial forecasts, please refer to "*1. Qualitative Information on Results in the Second Quarter, (3) Explanation of Consolidated Forecasts and Other Forward-looking Information*" on page 4 of the supplemental material.

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1. Qualitative Information on Results in the Second Quarter

(1) Explanation of Operating Results

(Overview of the second quarter of consolidated fiscal year ending March 31, 2022)

The business environment surrounding the IMAGICA GROUP saw changes in the social environment due to the novel coronavirus (COVID-19) pandemic, in addition to rapid technological innovations. These factors are bringing about many changes in our imaging-related businesses such as the emergence of the online live market and video streaming market. The IMAGICA GROUP formulated G-EST 2025, our new mid-term plan, based on our view that these changes present growth opportunities. We have positioned fiscal year ending March 31, 2022, the initial year of this plan, as the year in which we will build the foundation for transforming into a highly profitable business, and are pursuing initiatives aimed at achieving the plan in each business segment.

The Group's financial performance for the first half of consolidated fiscal year ending March 31, 2022 resulted in net sales of 33,846 million yen (down 5.6% year-on-year), an operating income of 431 million yen (compared to an operating loss of 2,628 million yen in the first half of the previous fiscal year), and an ordinary income of 999 million yen by posting non-operating income including subsidy income of 631 million yen (compared to an ordinary loss of 2,928 million yen in the first half of the previous fiscal year). Net profit attributable to owners of the parent was 1,694 million yen by posting extraordinary income (compared to a loss of 1,952 million yen in the first half of the previous fiscal year).

The decline in net sales resulted from the implementation of the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, revised on March 31, 2020; hereafter, the "Revenue Recognition Accounting Standard") and related guidance from the beginning of the first quarter of consolidated fiscal year ending March 31, 2022, and the sales of all shares held in SDI Media Group, Inc. at the end of last fiscal year, removing it from consolidation.

See "(Changes in accounting policies, etc.)," and "(Segment information and others), [Segment Information], 2. Notes concerning changes in reportable segments" under "2. Quarterly Consolidated Financial Statements, (3) Notes to Quarterly Consolidated Statements" for further details on the impact of the implementation of the Revenue Recognition Accounting Standard and related guidance on the financial status and operating results of the IMAGICA GROUP.

(Performance by business segment)

The financial results by business segment are as follows.

One subsidiary (IMAGICA LIVE Corp.), which was previously included in the Production Services business segment, was reclassified to the Imagining Systems & Solutions business segment from the first quarter of consolidated fiscal year ending March 31, 2022. The consolidated fiscal year comparisons for the first quarter are based on the new classification.

1) Content Creation

The financial performance of the Content Creation business segment in the first half of consolidated fiscal year ending March 31, 2022 resulted in net sales of 8,833 million yen (up 22.9% year-on-year) and an operating income of 13 million yen (compared to an operating loss of 712 million yen in the first half of the previous fiscal year).

For feature films, TV dramas, TV animation and other productions, the number of orders received was in line with the forecast and sales were healthy. For TV commercials and other advertising, the number of orders received kept recovering, and orders were also strong for online streaming of live music performances and shooting music videos.

The above factors resulted in an increase in both sales and operating income in the Content Creation business segment.

2) Production Services

The financial performance of the Production Services business segment in the first half of consolidated fiscal year ending March 31, 2022 resulted in net sales of 18,458 million yen (down 9.0% year-on-year) and an operating income of 202 million yen (compared to an operating loss of 2,172 million yen in the first half of the previous fiscal year).

Domestic E2E services[*1] saw growth in the number of productions delivered to video streaming service providers, due in part to collaboration with Pixelogic Holdings LLC, which became a consolidated subsidiary last fiscal year. Orders for video file compression, conversion, and other encoding and localization services also grew. In addition, the performance of services for digital cinemas is recovering thanks to the reopening of movie theaters. Furthermore, we received orders for post-production services for feature films, drama series, animation, large-scale live music performances, etc., so sales were healthy.

International E2E services, including Pixelogic Holdings LLC, saw substantial sales growth due to firm orders for localization for video streaming service providers, despite a decrease in orders for digital cinema services, owing to the postponement of the release of feature films in Europe and the U.S.

In post-production services for TV programs and TV commercials, etc.[*2], orders for services for large-scale events of TV programs contributed, and sales grew from the previous year. Thanks to the recovery of the advertisement market, the sales of services for TV commercials remained favorable, and the demand for the online delivery system grew.

In game production, human talent services, etc.[*3], the situation of corporate recruitment activities in the field of the creative talent dispatch and referral business remained harsh, but the number of orders for game production-related services, such as 3DCG production and debugging, was healthy.

Sales for the Production Services business segment as a whole declined due to the sale of all shares held in SDI Media Group, Inc. at the end of last fiscal year, removing the subsidiary from consolidation. However, the structural reform completed last fiscal year led to improvement in gross profit and the operating income.

[*1] E2E services: Refers to an integrated end-to-end (E2E) service that covers the entire post-production process for feature films, dramas, animation, and other audio/video content up to media services for localization (subtitling/dubbing) and distribution of these through all kinds of media, including theaters, TV, and video streaming via the Internet.

[*2] As part of the restructuring of the Production Services business, the description of services collectively called “media and post-production services” up to last fiscal year has been revised to “E2E services” and “post-production services for TV programs and TV commercials, etc.”

[*3] The names of “human talent services” and “digital content” used up to last fiscal year have been revised to “game production, human talent services, etc.”

[*] Companies in the international E2E services area have a fiscal year-end of December 31. The financial performance for this area during the second quarter of fiscal year ending March 31, 2022 therefore reflects the results for January 1 through June 30, 2021.

3) Imaging Systems & Solutions

The financial performance of the Imaging Systems & Solutions business segment in the first half of consolidated fiscal year ending March 31, 2022 resulted in net sales of 7,321 million yen (down 18.1% year-on-year) and an operating income of 486 million yen (down 4.1% year-on-year).

High-speed cameras saw a rebound in demand in Asia, Europe, and the U.S., despite continued sluggish sales in Japan. Projects for broadcasting stations were still sluggish, due to the decline in the number of transactions, the postponement of order placement in the third and fourth quarters, etc. The online delivery system for TV commercials continued to see strong sales due to expansion in market needs, while video and image processing LSI saw strong domestic and overseas sales.

Moreover, IMAGICA LIVE Corp. was included in the Imaging Systems & Solutions business in the first quarter of consolidated fiscal year ending March 31, 2022 due to segment reclassification. It achieved growth in both orders and sales of live sports relay and streaming services for archived videos.

The full amount of compensation received from customers for sale of mobile communication lines was previously recognized as revenue. However, the implementation of the Revenue Recognition Accounting Standard and related guidance has resulted in a decrease in net sales due to the change in the method of recognizing revenue for the net amount after amounts paid to suppliers are deducted from the total amount of the sale.

The above factors resulted in a decrease in sales and profit in the Imaging Systems & Solutions business segment.

(2) Explanation of Financial Position

(Assets)

Current assets increased by 2,845 million yen (9.3%) from the end of the previous consolidated fiscal year to 33,286 million yen. This was mainly due to a decrease in notes and accounts receivable-trade, and contract assets, while inventories increased.

Non-current assets increased by 1,242 million yen (4.1%) from the end of the previous consolidated fiscal year to 31,247 million yen. This was mainly due to a decrease in stocks of subsidiaries and affiliates, while construction in progress, lease and guarantee deposits and deferred tax asset increased.

Consequently, total assets increased by 4,087 million yen (6.8%) from the end of the previous consolidated fiscal year to 64,533 million yen.

(Liabilities Statement)

Current liabilities increased by 2,079 million yen (9.4%) from the end of the previous consolidated fiscal year to 24,196 million yen. This was mainly due to a decrease in short-term loans payable, while contract liabilities and notes and accounts payable - trade increased.

Non-current liabilities decreased by 742 million yen (8.7%) from the end of the previous consolidated fiscal year to 7,753 million yen. This was mainly due to a decrease in long-term loans payable.

The above factors resulted in total liabilities of 31,950 million yen, an increase of 1,337 million yen (4.4%) from the end of the previous consolidated fiscal year.

(Net Assets)

Net assets increased by 2,750 million yen (9.2%) from the end of the previous consolidated fiscal year to 32,583 million yen. This was mainly due to an increase in retained earnings and foreign currency translation adjustment.

(3) Explanation of Consolidated Forecasts and Other Forward-looking Information

Regarding the full-year forecasts for fiscal year ending March 31, 2022, there is no change to the revised earnings forecast announced on August 3, 2021. When calculating annual operating income, the amortization of goodwill, etc.* amounting to about 1.6 billion yen was included in expenses.

*Amortization of goodwill, etc. = Goodwill amortization + amortization of intangible fixed assets in the wake of M&A

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Thousands of yen)	March 31, 2021	September 30, 2021
Assets		
Current assets		
Cash and deposits	6,908,657	6,414,020
Notes and accounts receivable- trade	15,159,083	–
Notes and accounts receivable - trade, and contract assets	–	13,685,840
Inventories	6,499,812	11,318,195
Other	1,918,018	1,915,843
Allowance for doubtful accounts	(44,735)	(47,628)
Total current assets	30,440,836	33,286,272
Non-current assets		
Property, plant and equipment		
Buildings and structures	3,065,365	2,950,179
Machinery and equipment	85,810	357,817
Land	1,705,819	1,705,819
Lease Assets	475,187	389,131
Construction in progress	526,880	1,320,463
Other	1,365,805	1,431,023
Total Property, plant and equipment	7,224,868	8,154,435
Intangible assets		
Goodwill	12,048,747	12,363,532
Other	2,464,367	2,711,436
Total Intangible assets	14,513,115	15,074,969
Investments and other assets		
Investment securities	3,163,483	2,612,777
Stocks of subsidiaries and affiliates	1,095,950	459,556
Lease and guarantee deposits	1,641,911	2,179,863
Deferred tax asset	2,154,662	2,579,181
Other	328,808	302,479
Allowance for doubtful accounts	(117,446)	(115,761)
Total Investments and other assets	8,267,369	8,018,095
Total Non-current assets	30,005,354	31,247,500
Total assets	60,446,190	64,533,773

(Thousands of yen)	March 31, 2021	September 30, 2021
Liabilities		
Current liabilities		
Notes and accounts payable- trade	5,416,309	6,902,229
Short-term loans payable	7,402,726	5,205,534
Accounts payable	1,212,857	1,152,178
Income taxes payable	211,609	265,396
Advances received	2,811,112	–
Contract liabilities	–	5,560,091
Provision for bonuses	977,286	920,542
Provision for loss on order received	79,660	–
Provision for loss on litigation	531,408	536,462
Other	3,474,389	3,654,318
Total current liabilities	22,117,359	24,196,753
Non-current liabilities		
Long-term loans payable	5,384,905	4,590,498
Long-term accounts payable-other	148,018	210,810
Net defined benefit liabilities	550,324	513,146
Deferred tax liabilities	1,219,724	1,268,064
Asset retirement obligations	627,722	655,993
Other	565,200	515,005
Total non-current liabilities	8,495,895	7,753,519
Total Liabilities	30,613,255	31,950,273
Net assets		
Shareholders' equity		
Capital stock	3,306,002	3,306,002
Capital surplus	13,238,832	13,230,722
Retained earnings	10,966,151	12,750,433
Treasury stock	(361,659)	(351,496)
Total shareholders' equity	27,149,326	28,935,663
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	880,107	699,430
Revaluation reserve for land	(17,933)	(17,933)
Foreign currency translation adjustment	(559,947)	201,516
Re-measurements of defined benefit plans	(688)	(1,023)
Total accumulated other comprehensive income	301,538	881,989
Stock acquisition right	11,484	11,484
Non-controlling Interests	2,370,585	2,754,362
Total Net assets	29,832,935	32,583,500
Total liabilities and Net assets	60,446,190	64,533,773

(2) Quarterly Consolidated Statements of Income and Statements of Comprehensive Income

Quarterly Consolidated Statements of Income

(Thousands of yen)	6 months ended September 30, 2020	6 months ended September 30, 2021
Net sales	35,835,183	33,846,057
Cost of sales	28,213,928	23,987,688
Gross profit	7,621,255	9,858,368
Selling, general and administrative expenses	10,249,792	9,426,616
Operating income (loss)	(2,628,536)	431,751
Non-operating income		
Interest income	134,751	558
Dividend income	15,408	14,041
Subsidy income	39,461	631,626
Equity in earnings of affiliates	–	1,196
Foreign exchange gains	12,017	5,669
Other	63,696	62,179
Total non-operating income	265,336	715,273
Non-operating expenses		
Interest expenses	152,274	101,087
Equity in losses of affiliates	339,691	–
Other	73,494	46,422
Total non-operating expenses	565,460	147,510
Ordinary income (loss)	(2,928,661)	999,514
Extraordinary income		
Gain on sales of non-current assets	1,194	813
Gain on sales of investment securities	–	414,702
Gain on sale of shares of subsidiaries and associates	–	357,963
Compensation for forced relocation	121,825	–
Other	216	20,081
Total extraordinary income	123,236	793,560
Extraordinary losses		
Loss on sales of non-current assets	263	–
Loss on retirement of non-current assets	29,036	10,946
Office transfer related expenses	5,296	224,131
Other	84,142	2,131
Total extraordinary losses	118,738	237,210
Net income (loss) before income tax	(2,924,162)	1,555,865
Income taxes	(436,957)	(191,788)
Net income (loss)	(2,487,205)	1,747,654
Net income (loss) attributable to non-controlling interests	(535,049)	53,311
Net income (loss) attributable to owners of the parent	(1,952,155)	1,694,342

Quarterly Consolidated Statements of Comprehensive Income

(Thousands of yen)	6 months ended September 30, 2020	6 months ended September 30, 2021
Net income (loss)	(2,487,205)	1,747,654
Other comprehensive income		
Valuation difference on available-for-sale securities	219,140	(178,691)
Deferred gains or losses on hedges	(5,897)	–
Foreign currency translation adjustment	(161,240)	759,644
Re-measurements of defined benefit plans	55	(335)
Total other comprehensive income	52,058	580,617
Comprehensive income	(2,435,146)	2,328,271
(Breakdown)		
Comprehensive income attributable to owners of parent	(1,825,815)	2,274,794
Comprehensive income attributable to non-controlling interests	(609,330)	53,477

(3) Notes to Quarterly Consolidated Statements

(Notes regarding ongoing concern assumption)

No relevant matters to be noted.

(Notes concerning material changes in the amount of shareholders' equity)

No relevant matters to be noted.

(Changes in accounting policies, etc.)

(Changes in accounting policies)

(Changes accompanying implementation of the Accounting Standard for Revenue Recognition and related guidance)
The Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, revised March 31, 2020; hereafter, the "Revenue Recognition Accounting Standard") and related guidance were implemented from the beginning of the first quarter of consolidated fiscal year ending March 31, 2022. Under this standard, the amount the company expects to receive in exchange for goods and services is recognized as revenue when control over the promised goods or services is transferred to the customer. The main changes from implementation of the Revenue Recognition Accounting Standard and related guidance are as follows:

(1) Recognition of revenue on product export sales
For export sales of imaging equipment, etc., revenue was previously recognized when the goods cleared customs. This has changed to the method of recognizing revenue once control over the asset is deemed to have transferred to the customer, according to the transaction terms.

(2) Recognition of revenue on transactions involving multiple fulfillment obligations in a single contract
In the Content Creation business, revenue on transactions involving multiple fulfillment obligations in a single contract was previously recognized once all obligations were completely fulfilled in cases where the obligations were highly interrelated. For transactions in which the customer performs an inspection for each of the fulfillment obligations, this has changed to the method of recognizing revenue for each fulfilled obligation once the customer has performed the inspection and deemed each individual obligation fulfilled.

(3) Recognition of revenue on agency transactions
For mobile communication lines, revenue was previously recognized on the total amount of the sale received from the customer. This has changed to the method of recognizing revenue for the net amount after deducting payments to suppliers from the full amount. This resulted from determining the company's role (provided directly or as an agent) in providing the goods or services to the customer.

The implementation of the Revenue Recognition Accounting Standard and related guidance follows the transitional treatment in the exception clause of Paragraph 84 of the Revenue Recognition Accounting Standard. The new accounting standard was applied to the balance of retained earnings from the beginning of the period and retained earnings were adjusted for the cumulative impact assuming application of the new accounting standard retroactively before the beginning of the accounting period for the first quarter of consolidated fiscal year ending March 31, 2022.
However, we have applied the method specified in Paragraph 86 of the Revenue Recognition Accounting Standard and have not retroactively applied the new accounting policy to contracts for which nearly all of the revenue recognized prior to the beginning of the first quarter of consolidated fiscal year ending March 31, 2022, was handled according to the previous accounting method.
These changes resulted in a decrease in retained earnings at the beginning of the first quarter of consolidated fiscal year ending March 31, 2022 of 9,934 thousand yen. It also resulted in decreases of 3,110,514 thousand yen in net sales and 3,114,572 thousand yen in cost of sales for the second quarter of the fiscal year ending March 31, 2022. The operating income, ordinary income and net income before income tax increased by 4,058 thousand yen, respectively.
Due to implementation of the Revenue Recognition Accounting Standard and related guidance, "Notes and accounts receivable-trade," which was presented in "Advances received" in the Quarterly Consolidated Balance Sheets for the previous fiscal year, is included in "Notes and accounts receivable-trade, and contract assets" from the first quarter of consolidated fiscal year ending March 31, 2022. Likewise, "Advance received," which was presented in "Current liabilities," is included "Contract liabilities" from the first quarter of consolidated fiscal year ending March 31, 2022. In accordance with the transitional treatment specified in Paragraph 89-2 of the Revenue Recognition Accounting Standard, the new method of presentation has not been retroactively applied to the previous consolidated fiscal year.

(Changes accompanying implementation of the Accounting Standard for Fair Value Measurement)

The Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019; hereafter, “Fair Value Accounting Standard”) and related guidance were implemented from the beginning of the first quarter of consolidated fiscal year ending March 31, 2022. In accordance with the transitional treatment specified in Paragraph 19 of the Fair Value Accounting Standard and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), the new accounting policy specified in the Fair Value Accounting Standard and related standards were applied prospectively. The change did not have any impact on the quarterly consolidated financial statements.

(Changes in accounting policies that are difficult to differentiate from changes in accounting estimates)

The IMAGICA GROUP and its domestic subsidiaries have mainly used the declining balance method of depreciation for property, plant, and equipment (excluding lease assets). We have changed this to the straight-line depreciation method from the first quarter of consolidated fiscal year ending March 31, 2022.

In light of the change from an era in which state-of-the-art equipment functions and editing services were strengths to an era in which we are called upon to perform an integrated range of complex work in a secure environment for worldwide simultaneous release, the IMAGICA GROUP response up to fiscal year ended March 31, 2021 included revising the international strategy, undertaking structural reform and Group business reorganization, using fixed assets effectively, and invigorating creative talent by establishing an office environment that accommodates new workstyles.

We took advantage of the opportunity presented by implementing the measures mentioned above to consider the status of property, plant, and equipment use. This revealed that the risk of rapid technological and economic obsolescence is now lower and property, plant, and equipment can be expected to operate stably over the remaining useful life, based on our New Mid-Term Plan "G-EST 2025.” We therefore decided that the equal allocation of costs under the straight-line depreciation method is a more reasonable reflection of the actual usage of property, plant, and equipment.

Compared to the previous method, this change resulted in an increase of 70,035 thousand yen in the operating income, ordinary income and net income before income tax, respectively, for the first half of consolidated fiscal year ending March 31, 2022.

(Segment information and others)

[Segment Information]

I. For the 6 months ended September 30, 2020 (from April 1, 2020 to September 30, 2020)

1. Information regarding net sales and profit (loss) by reportable segment

(Thousands of yen)

	Content Creation	Production Services	Imaging Systems & Solutions	Sub total
Net sales				
Sales to external customers	7,165,162	19,933,289	8,730,958	35,829,410
Inter-segment sales or transfers	25,170	342,810	206,364	574,344
Total	7,190,332	20,276,099	8,937,323	36,403,755
Segment income (loss)	(712,178)	(2,172,271)	506,900	(2,377,550)

	Adjustments (Note 1)	Amount in the Quarterly Consolidated Statements of Income (Note 2)
Net sales		
Sales to external customers	5,773	35,835,183
Inter-segment sales or transfers	(574,344)	–
Total	(568,571)	35,835,183
Segment income (loss)	(250,986)	(2,628,536)

Notes:

1. The segment income (loss) adjustment of (250,986) thousand yen consists of 1,338,912 thousand yen in income of the Company and intersegment transaction eliminations of (1,589,898) thousand yen.
2. The segment income (loss) adjustment is based on the operating loss item in the Quarterly Consolidated Statements of Income.

II. For the 6 months ended September 30, 2021 (from April 1, 2021 to September 30, 2021)

1. Information regarding net sales and profit (loss) by reportable segment

(Thousands of yen)

	Content Creation	Production Services	Imaging Systems & Solutions	Sub total
Net sales				
Sales to external customers	8,745,027	17,931,664	6,978,803	33,655,496
Inter-segment sales or transfers	88,505	526,427	342,277	957,209
Total	8,833,532	18,458,092	7,321,080	34,612,705
Segment income	13,832	202,234	486,246	702,313

	Adjustments (Note 1)	Amount in the Quarterly Consolidated Statements of Income (Note 2)
Net sales		
Sales to external customers	190,561	33,846,057
Inter-segment sales or transfers	(957,209)	–
Total	(766,648)	33,846,057
Segment income	(270,561)	431,751

Notes:

1. The segment income adjustment of (270,561) thousand yen consists of 844,751 thousand yen in income of the Company and intersegment transaction eliminations of (1,115,313) thousand yen.
2. The segment income adjustment is based on the operating income item in the Quarterly Consolidated Statements of Income.

2. Notes concerning changes in reportable segments

(Changes in reportable segments)

One consolidated subsidiary (IMAGICA LIVE Corp.) was previously included in the Production Services segment. It has been reclassified and included in the Imaging Systems & Solutions segment from the first quarter of consolidated fiscal year ending March 31, 2022.

The figures provided in “Information regarding net sales and profit (loss) by reportable segment” for the second quarter of the previous consolidated fiscal year show the figures after the changes to the reportable segments were made.

(Changes in accounting policies)

As stated in “Changes in accounting policies,” the Revenue Recognition Accounting Standard and related guidance were implemented from the beginning of the first quarter of consolidated fiscal year ending March 31, 2022. The changes in the method of accounting for revenue recognition also resulted in the same changes in the method of calculating business segment income or loss.

Compared to the previous method, this change resulted in an increase of 18,988 thousand yen in sales for Content Creation, an increase of 5,424 thousand yen in sales for Production Services, and a decrease of 3,134,926 thousand yen in sales for Imaging Systems & Solutions. It also decreased segment income by 1,366 thousand yen for Content Creation and increased by 5,424 thousand yen for Production Services for the first half of consolidated fiscal year ending March 31, 2022.

(Change in property, plant, and equipment depreciation method)

As stated in “Changes in accounting policies that are difficult to differentiate from changes in accounting estimates,” the Group and its domestic consolidated subsidiaries previously used the declining balance method for depreciating property, plant, and equipment (excluding lease assets). The method of depreciation was changed to the straight-line method from the first quarter of consolidated fiscal year ending March 31, 2022.

Compared to the previous method, this change resulted in increases of 5,254 thousand yen in the segment income for Content Creation, 19,919 thousand yen in the segment income for Production Services, 29,475 thousand yen in the segment income for Imaging Systems & Solutions, and 15,386 thousand yen in adjustments, respectively, for the first half of consolidated fiscal year ending March 31, 2022.