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Consolidated financial results (Japanese Accounting Standards) for the fiscal year ended March 31, 2023

Filing date: May 11, 2023

Company name: IMAGICA GROUP Inc. Stock exchange listing: Tokyo Prime
 Securities code: 6879 URL: <https://www.imagicagroup.co.jp/en/>
 Representative: Nobuo Fuse, Representative Director, President Tel: +81-3-5777-6295
 Inquiries: Masakazu Morita, Director and Senior Managing Executive Officer
 Scheduled date for ordinary general meeting of shareholders: June 27, 2023
 Scheduled date for commencement of dividend payment: June 13, 2023
 Expected date of filing of annual securities report: June 27, 2023
 Supplemental material of quarterly results: Yes
 Convening briefing of quarterly results: Yes

(Millions of yen, rounded down)

1. Consolidated Financial Results for the fiscal year ended March 31, 2023 (April 1, 2022 – March 31, 2023)

(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	%
Fiscal year ended Mar.2023	94,147	17.4	3,868	13.2	3,638	(7.5)	3,864	41.6
Fiscal year ended Mar.2022	80,184	(7.5)	3,417	-	3,934	-	2,729	(21.0)

(Note) Comprehensive income: Fiscal year 2023: 7,186 millions of yen /91.5%
 Fiscal year 2022: 3,753 millions of yen /7.5%

	Net profit attributable to owners of parent per share	Diluted net profit attributable to owners of parent per share	Return on equity net income	Total asset ordinary income ratio	Operating income ratio
	yen	yen	%	%	%
Fiscal year ended Mar.2023	86.79	-	11.5	4.7	4.1
Fiscal year ended Mar.2022	61.49	-	9.3	5.9	4.3

(Reference) Equity in net income of affiliates: Fiscal year ended March 31, 2023 : (8) millions of yen
 Fiscal year ended March 31, 2022 : (7) millions of yen

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio to total assets	Net assets per share of common stock
	Millions of yen	Millions of yen	%	yen
As of March 31, 2023	81,888	40,303	44.1	809.83
As of March 31, 2022	73,384	34,025	42.4	701.63

(Reference) Shareholders' equity: Year ended March 31, 2023: 36,106 millions of yen
 Year ended March 31, 2022: 31,149 millions of yen

(3) Consolidated Cash Flows

	Cash flow from operating activities	Cash flow from investing activities	Cash flow from financing activities	Cash and cash equivalents at the end of the period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Fiscal year ended Mar.2023	6,109	(2,380)	(2,585)	7,812
Fiscal year ended Mar.2022	7,414	(3,928)	(4,183)	6,419

2. Dividends

	Dividend per share					Dividends total (Annual)	Dividend payout ratio (Consolidated)	Dividends to Net Assets (Consolidated)
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Annual			
	yen	yen	yen	yen	yen	Millions of yen	%	%
Fiscal year ended Mar.2022	-	0.00	-	15.00	15.00	665	24.4	2.3
Fiscal year ended Mar.2023	-	0.00	-	15.00	15.00	668	17.3	2.0
Fiscal year ending Mar.2024 (Forecast)	-	0.00	-	15.00	15.00		30.4	

3. Consolidated forecast for the fiscal year ending March 31, 2024 (April 1, 2023 - March 31, 2024)

(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.2024	100,000	6.2	4,000	3.4	3,500	(3.8)	2,200	(43.1)	49.34

*Notes:

(1) Material changes in subsidiaries during this period (changes in scope of consolidations resulting from change in subsidiaries):
None

(2) 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 standard: None
- 3) Changes in accounting estimates: None
- 4) Retrospective restatement: None

(3) 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 March 31, 2023	44,741,467 shares	As of March 31, 2022	44,741,467 shares
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2) Number of treasury stock at the end of fiscal year

As of March 31, 2023	156,042 shares	As of March 31, 2022	345,938 shares
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3) Average number of shares

As of March 31, 2023	44,527,222 shares	As of March 31, 2022	44,392,807 shares
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(Explanation about the appropriate usage of business prospects and other special notes)

- The above-mentioned business forecasts were based on the information available as of the date of the release of this report.
- Future events may cause the actual results to be significantly different from the forecasts.

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1. Overview of Operating Results

(1) Overview of operating results for the current period

① Overview for the current consolidated fiscal year

In the imaging-related business, the Group's main business domain, the market environment is undergoing dizzying changes, including rapid technological innovation, the emergence of online live shows and new forms of entertainment utilizing the metaverse due to social changes caused by the COVID-19 pandemic, and fiercer competition among video streaming service providers.

Viewing this environment as an opportunity for growth, the Group has launched its mid-term plan "G-EST 2025." In the fiscal year ended March 31, 2023, the second year of the plan, we set a policy of "continue to build the foundation for conversion to a high profitability Group" and advanced initiatives focused on our four key strategies.

As a result, looking at performance of the Group for the consolidated fiscal year ended March 31, 2023, net sales were 94,147 million yen (up 17.4% year-on-year), operating income was 3,868 million yen (up 13.2% year-on-year), ordinary income was 3,638 million yen (down 7.5% year-on-year), and net income attributable to owners of the parent was 3,864 million yen (up 41.6% year-on-year). Ordinary income decreased due to the recording of 875 million yen in non-operating income, including subsidy income, in the previous year. Net income attributable to owners of the parent increased due to the recording of extraordinary income, including compensation for relocation, during the year.

② Performance by business segment

Financial results by business segment are as follows.

Effective from the first quarter of the consolidated fiscal year ended March 31, 2023, one consolidated subsidiary (IMAGICA EEX Inc.), which had previously been included in "Adjustments," was reclassified to the Content Creation business segment due to an increase in its importance. Analyses and comparisons with the previous consolidated fiscal year are based on conditions following the reclassification.

1) Content Creation business

In the consolidated fiscal year ended March 31, 2023, the Content Creation business reported net sales of 23,537 million yen (up 4.7% year-on-year) and operating income of 535 million yen (down 30.1% year-on-year).

In feature films and dramas, sales increased significantly due to an increase in the number of projects from the previous fiscal year and the recording of large projects for video streaming service providers. Earnings declined in commercial production, partly due to low orders for TV commercials from the second half of the fiscal year. In animation productions, gross margin continues to improve due to strict per-production profit management and the streamlining of production. In the Live Entertainment business, earnings decreased due to the reactionary decline from the recording of large-scale projects in the previous fiscal year.

These developments resulted in improved net sales but decreased profit for the overall Content Creation business segment.

2) Production Services business

In the consolidated fiscal year ended March 31, 2023, the Production Services business posted net sales of 54,128 million yen (up 28.6% year-on-year) and operating income of 2,532 million yen (up 46.7% year-on-year).

In domestic E2E services*, post-production services for feature films, drama series, and animation productions remained strong. Orders for digital cinema services also increased. Net sales of encoding and localization services, including compression and conversion of video files, remained strong as the business continued to secure orders from video streaming service providers, but profit declined due to an increase in fixed costs associated with the relocation of offices.

In overseas E2E services, demand for localization for video streaming service providers remained strong, and foreign exchange effects also contributed to a significant increase in sales.

In post-production services for TV programs and TV commercials, orders for projects struggled, against expectations.

In game production and human talent services, etc., orders for game 3DCG production, debugging, and other services remained strong.

As a result, net sales and income grew for the overall Production Services business.

* E2E services: End-to-end services. This is a general term for one-stop services ranging from post-production in the production of video content such as movies, dramas, and animation to media services for the localization (dubbing and subtitling) and distribution required for the distribution of said content through movie theaters, TV, and the Internet.

Note: As overseas E2E services have a settlement date of December 31, their performance from January 1, 2022 to December 31, 2022 is reflected in the consolidated fiscal year ended March 31, 2023.

3) Imaging Systems & Solutions business

In the consolidated fiscal year ended March 31, 2023, the Imaging Systems & Solutions business recorded sales of 18,930 million yen (up 7.3% year-on-year) and operating income of 2,086 million yen (up 19.9% year-on-year).

In high-speed cameras, impacts of the semiconductor shortage eased and product shipments recovered from the second half of the year, resulting in an increase in sales and profit. In Broadcast Imaging Systems & Solutions, net sales failed to grow due to low orders for projects. In the Optical Measurement business, net sales of both optical elements and optical measurement systems increased in line with recovery in capital investments. Sales of online delivery of TV commercials remained strong, and sales of video and image processing LSIs remained robust in Japan and overseas (especially in Asia).

Therefore, net sales and income rose for the overall Imaging Systems & Solutions business.

(2) Overview of financial situation for the current period

① Assets

Current assets increased by 3,904 million yen (9.5%) from the end of the previous consolidated fiscal year to 44,970 million yen.

This was primarily due to an increase in accounts receivable.

Non-current assets increased by 4,599 million yen (14.2%) from the end of the previous consolidated fiscal year to 36,917 million yen.

This was primarily due to an increase in lease assets as a result of the start of application of U.S. lease accounting standards.

As a result, total assets increased by 8,503 million yen (11.6%) from the end of the previous consolidated fiscal year to 81,888 million yen.

② Liabilities

Current liabilities increased by 926 million yen (2.9%) from the end of the previous consolidated fiscal year to 33,205 million yen.

This was mainly due to an increase in short-term loans payable and lease obligations, despite a decrease in notes and accounts payable.

Non-current liabilities increased by 1,298 million yen (18.3%) from the end of the previous consolidated fiscal year to 8,378 million yen.

This was mainly due to an increase in lease obligations, despite a decrease in long-term loans payable.

As a result, total liabilities increased by 2,225 million yen (5.7%) from the end of the previous consolidated fiscal year to 41,584 million yen.

③ Net assets

Net assets increased by 6,278 million yen (18.5%) from the end of the previous consolidated fiscal year to 40,303 million yen.

The ratio of shareholder's equity to total assets is 44.1%.

(3) Overview of cash flow for the current period

Cash and cash equivalents (hereinafter "cash") at the end of the consolidated fiscal year ended March 31, 2023 increased by 1,393 million yen (21.7%) from the end of the previous consolidated fiscal year to 7,812 million yen.

Cash flows for the consolidated fiscal year ended March 31, 2023 and the reasons for them are as follows.

1) Cash flow from operating activities

Cash provided by operating activities amounted to 6,109 million yen (7,414 million yen in the same period of the previous year).

This was primarily due to an increase in cash resulting from the receipt of compensation for relocation.

2) Cash flow from investment activities

Cash used as a result of investing activities amounted to 2,380 million yen (3,928 million yen in the same period of the previous year).

This was mainly due to a decrease in cash associated with the acquisition of tangible fixed assets.

3) Cash flow from financing activities

Cash used as the result of financing activities amounted to 2,585 million yen (4,183 million yen in the same period of the previous year).

This was primarily due to a decrease in cash associated with the repayment of long-term loans payable.

(Reference) Trends in cash flow related indicators

	Fiscal year ending March 2019	Fiscal year ending March 2020	Fiscal year ending March 2021	Fiscal year ending March 2022	Fiscal year ending March 2023
Shareholders' equity ratio to total assets	38.9	40.3	45.4	42.4	44.1
Shareholders' equity ratio on a market price basis (%)	45.5	25.1	39.7	43.3	32.4
Ratio of cash flow to interest-bearing liabilities	10,625.2	162.4	(2,282.9)	117.2	215.7
Interest coverage ratio	0.4	21.4	(1.7)	35.5	21.0

*Shareholders' equity ratio: Shareholders' equity/total assets

Shareholders' equity ratio on a market price basis: Total market value of shares/total assets

Ratio of cash flow to interest-bearing liabilities: Interest-bearing liabilities/operating cash flow

Interest coverage ratio: Operating cash flow/interest payments.

Notes: 1. All indicators are calculated using financial figures on a consolidated basis.

2. Total market value of shares is calculated by multiplying the closing share price at the end of the period by the number of shares outstanding (less treasury stock) at the end of the period.

3. Cash flow from operating activities is the cash flow from operating activities in the consolidated statements of cash flow. Interest-bearing liabilities includes all liabilities on the consolidated balance sheets for which interest is paid. Interest payments are based on the amount of interest paid in the consolidated statements of cash flows.

(4) Future outlook

The fiscal year ending March 31, 2024, the third year of the Mid-Term Plan "G-EST2025," is positioned as one in which we will "steer the company from the establishment of a foundation to a growth path" and will continue to steadily implement the four key strategies set forth in the Mid-Term Plan.

1. Global expansion of business domain (Global E2E business)
2. Establishment of a new Live Entertainment business (Live Entertainment business)
3. Generation of additional business value in the Imaging Systems & Solutions business (Imaging Systems & Solutions business)
4. Accomplishment of business transformation (Transformational business)

Our efforts concerning these basic strategies have resulted in a consolidated performance forecast for the fiscal year

ending March 2024 that projects net sales of 100,000 million yen, operating income of 4,000 million yen, ordinary income of 3,500 million yen, and net income attributable to owners of the parent of 2,200 million yen. Operating income includes approximately 1,900 million yen in amortization of goodwill and other expenses*.

Specific details on the progress of the Mid-Term Plan "G-EST 2025" will be disclosed at the financial results briefing to be held on May 18, 2023.

(*Amortization of goodwill and other expenses equals amortization of goodwill plus amortization of intangible assets associated with M&A.)

<Dividend policy>

The Group considers the return of profits to shareholders as an important management objective. Our basic policy is to distribute earnings in line with consolidated results. We target a consolidated payout ratio of 30% and aim to maintain stable dividends and increase the level of dividends.

If any special factor, such as an extraordinary gain or loss, significantly impacts the net income of a given fiscal year, our general policy is to take the special factor into consideration in determining dividends, after consideration of all aspects, including provision of stable dividends to shareholders, future business development, and retained earnings.

Based on the above, the year-end dividend for the fiscal year ending March 2024 is forecast to be 15 yen per share.

2. Basic Policy for the Selection of Accounting Standards

Considering comparability of consolidated financial statements over time, the Group will continue to use the Japanese accounting standards in the immediate future.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Thousands of yen)	March 31, 2022	March 31 2023
Assets		
Current assets		
Cash and deposits	6,420,308	7,813,769
Notes receivable- trade	353,710	420,745
Accounts receivable- trade	18,321,433	21,445,673
Contract assets	174,250	71,061
Inventories	13,613,658	12,460,112
Other	2,223,017	2,868,953
Allowance for doubtful accounts	(39,570)	(109,328)
Total current assets	41,066,808	44,970,987
Non-current assets		
Property, plant and equipment		
Buildings and structures	5,448,367	4,009,273
Machinery and equipment	832,609	545,383
Land	1,705,807	921,363
Lease Assets	303,675	4,998,147
Construction in progress	214,187	1,711,600
Other	1,664,776	2,288,372
Total Property, plant and equipment	10,169,425	14,474,140
Intangible assets		
Goodwill	11,482,801	11,780,285
Other	2,352,770	2,460,007
Total Intangible assets	13,835,572	14,240,292
Investments and other assets		
Investment securities	2,670,687	2,876,524
Stocks of subsidiaries and affiliates	385,838	514,042
Lease and guarantee deposits	2,066,324	2,048,952
Deferred tax asset	3,051,529	2,420,133
Other	286,596	490,206
Allowance for doubtful accounts	(148,462)	(147,088)
Total Investments and other assets	8,312,513	8,202,771
Total Non-current assets	32,317,511	36,917,204
Total assets	73,384,320	81,888,191

(Thousands of yen)	March 31, 2022	March 31 2023
Liabilities		
Current liabilities		
Notes and accounts payable- trade	8,884,981	7,133,738
Short-term loans payable	4,170,485	6,432,680
Lease liabilities	208,046	881,977
Accounts payable	1,824,055	1,769,403
Income taxes payable	850,863	1,172,785
Contract liabilities	8,373,707	7,591,449
Provision for bonuses	1,594,260	1,281,691
Provision for loss on order received	3,717	1,100
Provision for loss on litigation	584,309	630,660
Asset retirement obligations	41,401	23,181
Other	5,743,062	6,286,605
Total current liabilities	32,278,892	33,205,274
Non-current liabilities		
Long-term loans payable	4,019,743	1,366,665
Lease liabilities	293,316	4,498,102
Long-term accounts payable-other	208,183	252,767
Deferred tax liabilities	396,815	196,598
Net defined benefit liabilities	1,311,241	1,241,071
Asset retirement obligations	636,938	653,518
Other	213,750	170,257
Total non-current liabilities	7,079,990	8,378,982
Total Liabilities	39,358,882	41,584,257
Net assets		
Shareholders' equity		
Capital stock	3,306,002	3,306,002
Capital surplus	13,223,561	13,020,018
Retained earnings	13,785,809	16,982,736
Treasury stock	(351,569)	(158,530)
Total shareholders' equity	29,963,804	33,150,226
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	610,074	713,553
Deferred gains or losses on hedges	—	20,740
Revaluation reserve for land	(17,933)	(17,933)
Foreign currency translation adjustment	595,800	2,237,081
Re-measurements of defined benefit plans	(2,483)	2,828
Total accumulated other comprehensive income	1,185,458	2,956,270
Non-controlling Interests	2,876,174	4,197,436
Total Net assets	34,025,437	40,303,934
Total liabilities and Net assets	73,384,320	81,888,191

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

(Thousands of yen)	Fiscal year 2021	Fiscal year 2022
Net sales	80,184,157	94,147,707
Cost of sales	56,797,356	67,424,283
Gross profit	23,386,800	26,723,423
Selling, general and administrative expenses	19,969,029	22,854,523
Operating income	3,417,771	3,868,899
Non-operating income		
Interest income	1,203	3,709
Dividend income	22,240	26,117
Rent income	65,386	65,177
Foreign exchange gains	46,132	83,005
Other	740,474	111,149
Total non-operating income	875,437	289,160
Non-operating expenses		
Interest expenses	204,657	290,255
Equity in losses of affiliates	7,224	8,290
Taxes and dues	—	84,271
Other	146,855	136,686
Total non-operating expenses	358,737	519,503
Ordinary income	3,934,471	3,638,556
Extraordinary income		
Gain on sales of non-current assets	4,690	7,464
Gain on sales of investment securities	414,702	1,576,172
Compensation for forced relocation	438,754	3,608,494
Other	442,959	135,034
Total extraordinary income	1,301,107	5,327,166
Extraordinary losses		
Loss on retirement of non-current assets	102,982	21,425
Impairment loss	1,280,371	326,587
Loss on valuation of investment securities	—	188,001
Extra retirement payments	—	785,559
Other	653,911	124,279
Total extraordinary losses	2,037,265	1,445,854
Net income before income tax	3,198,313	7,519,868
Income Taxes Current	1,351,725	1,984,715
Income Taxes Deferred (loss)	(1,018,408)	345,712
Income taxes	333,317	2,330,427
Net income	2,864,995	5,189,440
Net income attributable to non-controlling interests	135,277	1,324,955
Net income attributable to owners of the parent	2,729,718	3,864,485

Consolidated Statements of Comprehensive Income

(Thousands of yen)	Fiscal year 2021	Fiscal year 2022
Net income	2,864,995	5,189,440
Other comprehensive income		
Valuation difference on available-for-sale securities	(266,504)	318,208
Deferred gains or losses on hedges	—	20,740
Foreign currency translation adjustment	1,156,758	1,652,856
Re-measurements of defined benefit plans	(1,795)	5,312
Total other comprehensive income	888,458	1,997,117
Comprehensive income	3,753,454	7,186,558
(Breakdown)		
Comprehensive income attributable to owners of parent	3,613,638	5,635,297
Comprehensive income attributable to non-controlling interests	139,815	1,551,261

(3) Consolidated Statements of Cash Flow Statement

(Thousands of yen)	Fiscal year 2021	Fiscal year 2022
Cash flows from operating activities		
Income before income taxes	3,198,313	7,519,868
Depreciation and Amortization	2,059,069	2,596,176
Impairment loss	1,280,371	326,587
Amortization of goodwill	1,406,351	1,558,279
Increase (decrease) in net defined benefit liabilities	62,677	(61,306)
Increase (decrease) in allowance for doubtful accounts	22,559	63,157
Increase (decrease) in provision for bonuses	585,000	(312,568)
Interest and dividend income	(23,443)	(35,041)
Interest expenses	204,657	290,255
Equity in (earnings) losses of affiliates	7,224	8,290
Loss (gain) on sales of non-current assets	98,292	13,960
Loss (gain) on sales of investment securities	(414,702)	(1,576,172)
Compensation for forced relocation	(438,754)	(3,608,494)
Extra retirement payments	—	785,559
Decrease (increase) in trade receivables and contract assets	(1,992,676)	(2,179,438)
Decrease (increase) in inventories	(6,770,229)	1,172,665
Increase (decrease) in notes and accounts payable-trade	2,431,249	(2,007,531)
Increase (decrease) in contract liabilities	5,393,275	(876,900)
Other, net	(153,927)	2,155,621
Subtotal	6,955,306	5,832,968
Interest and dividend income received	22,585	34,182
Subsidies received	22,617	—
Interest expenses paid	(209,152)	(290,320)
Proceeds from compensation for forced relocation	1,858,926	3,434,095
Extra retirement payments paid	—	(712,525)
Office transfer related expenses paid	(530,888)	—
Business restructuring expenses paid	(315,537)	—
Income taxes paid	(389,105)	(2,189,269)
Net cash provided by (used in) operating activities	7,414,751	6,109,130
Cash flows from investing activities		
Purchase of property, plant and equipment	(3,996,470)	(2,853,620)
Purchase of intangible assets	(612,816)	(655,015)
Proceeds from sale of investment securities	944,982	1,642,912
Payments of leasehold and guarantee deposits	(546,979)	(161,444)
Other, net	282,929	(353,275)
Net cash provided by (used in) investing activities	(3,928,354)	(2,380,444)

Imagica Group, Inc. (6879), Financial Statements for Fiscal Year ending March 31, 2023

(Thousands of yen)	Fiscal year 2021	Fiscal year 2022
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(2,023,493)	280,149
Repayment of long-term loans payable	(1,974,386)	(1,334,433)
Cash dividends paid	—	(665,932)
Dividends paid to non-controlling shareholders	(57,658)	(140,670)
Purchase of investments in subsidiaries do not result in change in scope of consolidation	(43,198)	(442,473)
Proceeds from share issuance to non-controlling shareholders	267,500	—
Others, net	(352,724)	(282,415)
Net cash provided by (used in) financing activities	(4,183,962)	(2,585,777)
Effect of exchange rate change on cash and cash equivalents	211,125	250,452
Net increase (decrease) in cash and cash equivalents	(486,439)	1,393,361
Cash and cash equivalents at beginning of period	6,856,953	6,419,206
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	48,693	—
Cash and cash equivalents at end of period	6,419,206	7,812,568

(4) Notes to consolidated financial statements
(Notes regarding ongoing concern assumption)

No relevant matters to be noted.

(Changes in accounting policy)

(Adoption of FASB Accounting Standards Codification (ASC) No. 842, "Leases")

As of the beginning of the first quarter of the consolidated fiscal year ending March 31, 2023, ASC No. 842, "Leases," was adopted for foreign consolidated subsidiaries that have adopted U.S. GAAP.

In principle, therefore, all leases of lessees are recorded as assets and liabilities. When applying this standard, the Company follows transitional treatment and recognizes the cumulative effect of a change in accounting policy at the date of adoption.

As a result, "Lease assets (net)" under "Property, plant, and equipment," "Lease obligations" under "Current liabilities," and "Lease obligations" under "Non-current liabilities" increased by 3,002,985 thousand yen, 384,364 thousand yen, and 2,735,036 thousand yen, respectively, at the beginning of the consolidated fiscal year ended March 31, 2023. Impacts on the beginning balance of retained earnings for the consolidated fiscal year ended March 31, 2023 and the impact on the Consolidated Statements of Income for the consolidated fiscal year ended March 31, 2023 are immaterial.

(Additional information)

(Application of treatment of disclosure and accounting treatment when the Japanese Group Relief System is applied)

The Company and a number of its consolidated subsidiaries in Japan have transitioned from a consolidated tax payment system to the Japanese Group Relief System from the consolidated fiscal year ended March 31, 2023. In accordance with this change, the disclosure and accounting treatment of corporate tax, local corporate tax, and tax-effect accounting now follow "Handling of Disclosure and Accounting Treatment under Application of the Japanese Group Relief System" (ASBJ PITF No. 42, August 12, 2021; hereinafter "PITF No. 42"). In accordance with Paragraph 32 (1) of PITF No. 42, no impact is deemed to arise from the change in accounting policy associated with the application of PITF No. 42.

(Segment information and other items)

[Segment information]

1. Overview of reportable segments

(1) Method for determining reportable segments

The reportable segments of the Group are those constituent units of the Company and its consolidated subsidiaries for which separate financial information is available and which are subject to periodic review by the Board of Directors for the purpose of determining the allocation of management resources and evaluating performance.

The Group is engaged in a wide range of businesses in the Content Creation field, and has three reportable segments: Content Creation business, Production Services business, and Imaging Systems & Solutions business.

The Content Creation business includes planning and production of feature films, drama programs, animation, and web-related video; advertising production for TV commercials, the Internet, etc.; publishing; audio-visual production primarily for music videos; and comprehensive production of spaces centered on visual content, such as live music performances in metaverses that fuse the virtual and real worlds.

The Production Services business provides one-stop global imaging technology services that range from shooting and broadcasting to editing and distribution, including shooting; live broadcasting; image and audio editing for programs, commercials, PR, etc.; digital synthesis; VFX and CG production; digital cinema; localization; and distribution, as well as game 3DCG production and debugging, human talent services, etc.

The Imaging Systems & Solutions business operates in areas such as development, manufacturing, import, sales, and maintenance services for cutting-edge hardware and software related to video and imaging, as well as the development and sales of video and image processing LSIs, and the live broadcast and distribution of sporting events, etc.

(2) Note concerning changes in reportable segments

(Reporting Segments changed)

Effective the first quarter of the consolidated fiscal year ended March 31, 2023, one consolidated subsidiary (IMAGICA EEX Inc.), which had previously been included in "Adjustments," was reclassified to the Content Creation business segment due to an increase in its importance.

Relevant "information for each reportable segment including net sales, profit or loss, assets, liabilities, and other items" for the previous consolidated fiscal year is disclosed on the basis of the new classification.

2. Method for calculating sales, profit or loss, assets, liabilities, and other items for each reportable segment

The accounting methods for reportable business segments are generally the same as those used in consolidated financial statements.

Profits of reportable segments are based on operating income.

Intersegment sales or transfers are based on prevailing market prices.

3. Information concerning sales, profit or loss, assets, liabilities and other items

Previous consolidated fiscal year (from April 1, 2021 to March 31, 2022)

(Thousands of yen)

	Content Creation	Production Services	Imaging Systems & Solutions	Sub total
Net sales				
Sales to external customers	22,287,825	40,902,341	16,981,276	80,171,443
Inter-segment sales or transfers	198,813	1,178,645	658,710	2,036,169
Total	22,486,638	42,080,986	17,639,986	82,207,612
Segment income	765,556	1,726,100	1,740,806	4,232,463
Segment assets	19,171,370	38,853,874	14,877,213	72,902,459

	Adjustments (Note 1)	Amount in the Quarterly Consolidated Statements of Income (Note 2)
Net sales		
Sales to external customers	12,713	80,184,157
Inter-segment sales or transfers	(2,036,169)	—
Total	(2,023,455)	80,184,157
Segment income	(814,692)	3,417,771
Segment assets	481,860	73,384,320

Notes: 1. Adjustments are as follows.

- (1) Sales to outside customers include real estate rental income.
 - (2) The (814,692) thousand yen segment profit or loss (loss) adjustment consists mainly of a 541,590 thousand yen profit related to the Company and (1,356,283) thousand yen of elimination of intersegment transactions.
 - (3) The amount of 481,860 thousand yen as an adjustment for segment assets includes corporate assets of 15,196,791 thousand yen not allocated to reportable segments and elimination of intersegment transactions amounting to (14,714,930) thousand yen. Corporate assets consist mainly of cash and deposits and fixed assets such as investment securities.
2. Segment profits are adjusted with operating income in the consolidated financial statements

Current consolidated fiscal year (April 1, 2022 to March 31, 2023)

(Thousands of yen)

	Content Creation	Production Services	Imaging Systems & Solutions	Sub total
Net sales				
Sales to external customers	23,397,103	52,563,615	18,173,043	94,133,762
Inter-segment sales or transfers	140,321	1,564,527	757,182	2,462,031
Total	23,537,424	54,128,142	18,930,226	96,595,794
Segment income	535,234	2,532,715	2,086,987	5,154,937
Segment assets	18,448,131	44,625,497	16,601,645	79,675,274

	Adjustments (Note 1)	Amount in the Quarterly Consolidated Statements of Income (Note 2)
Net sales		
Sales to external customers	13,944	94,147,707
Inter-segment sales or transfers	(2,462,031)	—
Total	(2,448,086)	94,147,707
Segment income	(1,286,037)	3,868,899
Segment assets	2,212,916	81,888,191

Notes: 1. Adjustments are as follows.

- (1) Sales to outside customers include real estate rental income.
 - (2) The adjustment of segment profits amounting to (1,286,037) thousand yen mainly includes profits of 872,667 thousand yen related to the Company and elimination of intersegment transactions of (2,158,704) thousand yen
 - (3) The 2,212,916 thousand yen adjustment for segment assets includes corporate assets of 14,277,047 thousand yen not allocated to a reportable segment and inter-segment elimination of (12,064,130) thousand yen. Corporate assets consist mainly of cash and deposits and fixed assets such as investment securities.
2. Segment profits are adjusted with operating income in the consolidated statements of income.

(Per-share information)

	Fiscal year 2021 (April 1, 2021 to March 31, 2022)	Fiscal year 2022 (April 1, 2022 to March 31, 2023)
Net assets per share	701.63 yen	809.83 yen
Net income per share	61.49 yen	86.79 yen

Notes: 1. As there are no residual shares that could dilute stock value diluted net income per share in the previous consolidated fiscal year is not shown.

As there are no residual shares, diluted net income per share in the current consolidated fiscal year is not shown.

2. As stated in "Changes in accounting policy", the Company has adopted U.S. FASB Accounting Standards Codification (ASC) No. 842, "Leases." The impact of this on net income per share for the consolidated fiscal year ended March 31, 2023 is immaterial.

3. Net income per share is calculated on the following basis.

	Fiscal year 2021 (April 1, 2021 to March 31, 2022)	Fiscal year 2022 (April 1, 2022 to March 31, 2023)
Net income per share		
Net income attributable to parent company shareholders (thousands of yen)	2,729,718	3,864,485
Amount not attributable to ordinary shareholders (thousands of yen)	—	—
Net income attributable to shareholders of the parent company for common stock (thousands of yen)	2,729,718	3,864,485
Average number of shares of common stock during period (shares)	44,392,807	44,527,222
Summary of potential stock not included in the calculation of diluted net income per share due to the absence of a dilutive effect.	Stock acquisition rights by resolution of the Board of Directors on July 11, 2019 Third series of stock acquisition rights 42,901 stock acquisition rights (4,290 thousand shares of common stock) Fourth series of stock acquisition rights 40,000 stock acquisition rights (4,000 shares of common stock) All of the above stock acquisition rights were acquired and canceled on November 16, 2021.	—

4. Basis for calculating net assets per share is as follows.

	Fiscal year 2021 (ending March 31, 2022)	Fiscal year 2022 (ending March 31, 2023)
Total net assets (thousands of yen)	34,025,437	40,303,934
Amount deducted from total net assets (thousands of yen)	2,876,174	4,197,436
(of which, non-controlling interest (thousands of yen))	(2,876,174)	(4,197,436)
Net assets at period end related to common shares (thousands of yen)	31,149,262	36,106,497
Number of shares of common stock at end of period used for calculating net assets per-share	44,395,529	44,585,425

(Significant subsequent events)

No relevant matters to be noted.

4. Others, net

(1) Changes in executives

Will be disclosed when decided.