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Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending March 31, 2025 (J-GAAP)



October 31, 2024

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 Planned semi-annual securities report filing date: October 31, 2024
 Planned dividend payment date: —
 Supplemental material of financial results: Available
 Planned financial results briefing: Available

(Millions of yen, rounded down)

1. Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending March 31, 2025 (April 1, 2024 – September 30, 2024)

(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 parent | |
|-------------------------------------|-------------|-------|------------------|--------|-----------------|--------|---|--------|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % |
| Six months ended September 30, 2024 | 42,719 | (8.5) | (421) | — | (803) | — | (955) | — |
| Six months ended September 30, 2023 | 46,686 | 12.3 | 967 | (31.5) | 938 | (29.8) | 700 | (12.4) |

(Note) Comprehensive income: Six months ended September 30, 2024: ¥819 million / (61.2)%

Six months ended September 30, 2023: ¥2,113 million / (23.2)%

| | Basic earnings per share | Diluted earnings per share |
|-------------------------------------|--------------------------|----------------------------|
| | Yen | Yen |
| Six months ended September 30, 2024 | (21.59) | — |
| Six months ended September 30, 2023 | 15.78 | — |

(2) Consolidated Financial Position

| | Total assets | Net assets | Equity ratio |
|--------------------------|--------------|-------------|--------------|
| | Million yen | Million yen | % |
| As of September 30, 2024 | 78,492 | 39,471 | 48.1 |
| As of March 31, 2024 | 78,694 | 39,906 | 48.1 |

(Reference) Shareholders' equity: As of September 30, 2024: ¥37,717 million

As of March 31, 2024: ¥37,828 million

(Note) In the six months ended September 30, 2024, the Company finalized the provisional accounting treatments related to business combinations, and the figures for the fiscal year ended March 31, 2024 reflect the details of the provisional accounting treatments.

2. Dividends

| | Dividend per share | | | | |
|--|--------------------|--------------------|-------------------|-----------------|--------------|
| | First quarter-end | Second quarter-end | Third quarter-end | Fiscal year-end | Annual |
| Fiscal year ended March 31, 2024 | Yen — | Yen 0.00 | Yen — | Yen 15.00 | Yen 15.00 |
| Fiscal year ending March 31, 2025 | — | 0.00 | | | |
| Fiscal year ending March 31, 2025 (Forecast) | | | — | 15.00 | 15.00 |

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

3. Consolidated Forecast for the Fiscal Year Ending March 31, 2025 (April 1, 2024 - March 31, 2025)

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

| | Net sales | | Operating income | | Ordinary income | | Net income attributable to owners of parent | | Basic earnings per share |
|-----------|-----------------------|------------|----------------------|-------------|--------------------|-------------|---|--------|--------------------------|
| Full year | Million yen 96,000 | % (3.7) | Million yen 1,200 | % (69.4) | Million yen 800 | % (78.5) | Million yen (900) | % — | Yen (20.36) |

(Note) Changes in earnings forecast from the latest disclosed information: Yes

* Notes:

(1) Significant changes in the scope of consolidation during the period: None

(2) The application of specific accounting of the consolidated semi-annual financial statements: Yes

(3) Changes in accounting policies, accounting estimates and retrospective restatement

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: None

3) Changes in accounting estimates: None

4) Retrospective restatement: None

(4) Number of shares issued (common shares)

1) Number of shares issued at the end of the period (including treasury stock)

| | | | |
|--------------------------|-------------------|----------------------|-------------------|
| As of September 30, 2024 | 44,741,467 shares | As of March 31, 2024 | 44,741,467 shares |
|--------------------------|-------------------|----------------------|-------------------|

2) Number of treasury stock at the end of the period

| | | | |
|--------------------------|----------------|----------------------|----------------|
| As of September 30, 2024 | 444,809 shares | As of March 31, 2024 | 541,346 shares |
|--------------------------|----------------|----------------------|----------------|

3) Average number of shares during the period

| | | | |
|--------------------------|-------------------|--------------------------|-------------------|
| As of September 30, 2024 | 44,235,993 shares | As of September 30, 2023 | 44,397,288 shares |
|--------------------------|-------------------|--------------------------|-------------------|

*** Semi-annual financial results reports are exempt from review conducted by certified public accountants or an audit 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 the Company deemed to be reasonable at the time of publication, and the Company does not guarantee its future performance. Actual results may differ significantly due to various factors.

Table of Contents

| | |
|--|---|
| 1. Overview of Operating Results, etc..... | 2 |
| (1) Overview of operating results for this period | 2 |
| (2) Overview of financial situation for this period | 3 |
| (3) Explanation of consolidated forecasts and other forward-looking information | 3 |
| 2. Semi-annual Consolidated Financial Statements | 4 |
| (1) Semi-annual Consolidated Balance Sheets | 4 |
| (2) Semi-annual Consolidated Statements of Income and Statements of Comprehensive Income | 6 |
| (3) Notes to Semi-annual Consolidated Financial Statements | 8 |
| (Notes on ongoing concern assumption) | 8 |
| (Notes in the event of significant changes in shareholders' equity) | 8 |
| (Special accounting method applied to semi-annual consolidated financial statements) | 8 |
| (Changes in account policies) | 8 |
| (Notes on segment information and others) | 9 |

1. Overview of Operating Results, etc.

(1) Overview of operating results for this period

① Overview of the first six months of the fiscal year

The Group is working on business operations focused on “expanding its growth path and promoting business transformation” in the current consolidated fiscal year.

The Group’s performance in the first six months of the fiscal year was as follows: Net sales were 42,719 million yen (down 8.5% year on year), operating loss of 421 million yen (compared to operating income of 967 million yen in the same period of the previous fiscal year), ordinary loss of 803 million yen (compared to ordinary income of 938 million yen in the same period of the previous fiscal year), and net loss attributable to owners of parent was 955 million yen (compared to net income of 700 million yen in the same period of the previous fiscal year), reflecting the recording of 129 million yen in extraordinary losses, including impairment losses of non-current assets.

② Performance by business segment

Financial results by business segment are as follows.

1) Content Creation business

In the first six months of the fiscal year, the segment reported sales of 11,201 million yen (down 12.3% year on year) and operating income of 955 million yen (up 971.8%).

Despite a decrease in sales of feature films and dramas, reflecting the fact that the previous fiscal year had seen several major works, operating income was secured by recording incentive fees for films produced. Sales for commercial production increased, owing to steady inflows of orders for TV commercials. Operating income in animation works showed improvement due to contributions from TV series and CG animation works. Sales and operating income in the publishing business also increased owing to strong sales of the original “The Apothecary Diaries” novel and its accompanying comic book series, as well as the recording of distribution-related income from the TV animation production committee.

As a result, sales decreased, but operating income increased in the segment.

2) Production Technology Services business

In the first six months of the fiscal year, the segment reported sales of 25,016 million yen (down 7.0% year on year) and operating loss of 1,156 million yen (compared to operating income of 793 million yen in the same period of the previous fiscal year).

In domestic E2E services^{*1}, sales increased mainly owing to solid sales of film-editing and digital cinema services.

However, in overseas E2E services^{*1}, sales significantly decreased because orders of localization services have yet to return to the previous fiscal year’s level. At our overseas locations, while the segment has been implementing cost reduction measures, including workforce reductions, these have not yet been sufficient to offset the decline in operating income due to decreased sales, and operating income decreased significantly.

In the game-related business^{*2}, sales increased as orders for Game 3DCG production increased in response to a scaling-up of our production system, among other factors.

In post-production services for TV, sales declined due to sluggish orders for TV programs, despite steady orders for commercials.

As a result, sales and operating income decreased in the segment.

^{*1} 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 through movie theaters, TV, and the Internet. Meanwhile,

the closing date for overseas E2E services is December 31, and therefore the results from January 1, 2024 to June 30, 2024 are reflected in those for the first six months of the fiscal year.

*2 Game-related business: 2D/3DCG production, debugging and software testing, creative talent dispatch and referral etc. for games

3) Imaging Systems & Solutions business

In the first six months of the fiscal year, the segment reported sales of 7,427 million yen (down 8.2% year on year) and operating income of 457 million yen (down 31.9%).

Sales of high-speed cameras decreased due to the slowdown in the Chinese market despite steady sales overseas excluding China and in Japan. Sales of broadcast imaging systems & solutions decreased following the recording of sales of large projects in the previous fiscal year. Sales of optical measurements declined due to weak demand for measurement equipment overseas.

As a result, sales and operating income decreased in the segment.

(2) Overview of financial situation for this period

With regard to the business combination made on February 8, 2024, between mediafellows GmbH and one of its subsidiaries, provisional accounting was carried out in the previous fiscal year. However, with the finalization being made in the first six months of the current fiscal year, the amount used in the year-on-year comparison and analysis is one that reflects significant revisions made to the initial amount allocated for the acquisition following this finalization of the provisional accounting method.

① Assets

Current assets decreased by 831 million yen (2.0%) from the end of the previous fiscal year to 40,457 million yen. This was mainly due to decreases in notes and accounts receivable - trade and contract assets, while inventories increased.

Non-current assets increased by 629 million yen (1.7%) from the end of the previous fiscal year to 38,035 million yen. This was mainly due to an increase in goodwill.

As a result, total assets decreased by 202 million yen (0.3%) from the end of the previous fiscal year to 78,492 million yen.

② Liabilities

Current liabilities increased by 1,108 million yen (3.8%) from the end of the previous fiscal year to 30,058 million yen. This was mainly due to an increase in short-term borrowings despite decreases in notes and accounts payable - trade and accounts payable.

Non-current liabilities decreased by 875 million yen (8.9%) from the end of the previous fiscal year to 8,962 million yen. This was mainly due to decreases in long-term borrowings and lease liabilities.

As a result, total liabilities increased by 232 million yen (0.6%) from the end of the previous fiscal year to 39,020 million yen.

③ Net assets

Net assets decreased by 434 million yen (1.1%) from the end of the previous fiscal year to 39,471 million yen. This was mainly due to decreases in retained earnings, capital surplus, and non-controlling interests, while foreign currency translation adjustment increased.

(3) Explanation of consolidated forecasts and other forward-looking information

The full-year forecasts for the fiscal year ending March 31, 2025 have been changed from the figures announced on May 09, 2024. For details, please refer to the “Notice Regarding Revision of Forecasts” released today (October 31, 2024).

2. Semi-annual Consolidated Financial Statements

(1) Semi-annual Consolidated Balance Sheets

(Thousands of yen)

| | March 31, 2024 | September 30, 2024 |
|--|----------------|--------------------|
| Assets | | |
| Current assets | | |
| Cash and deposits | 5,242,625 | 4,914,912 |
| Notes and accounts receivable - trade, and contract assets | 20,572,387 | 16,216,467 |
| Inventories | 11,536,441 | 14,292,420 |
| Other | 3,997,518 | 5,078,971 |
| Allowance for doubtful accounts | (60,000) | (45,612) |
| Total current assets | 41,288,972 | 40,457,160 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings and structures | 13,081,194 | 13,477,691 |
| Accumulated depreciation | (8,155,338) | (8,565,254) |
| Accumulated impairment | (598,722) | (664,653) |
| Buildings and structures, net | 4,327,134 | 4,247,783 |
| Machinery, equipment and vehicles | 5,904,211 | 5,932,600 |
| Accumulated depreciation | (5,212,534) | (5,206,857) |
| Accumulated impairment | (137,053) | (173,682) |
| Machinery, equipment and vehicles, net | 554,623 | 552,060 |
| Land | 921,363 | 921,363 |
| Leased assets | 5,411,365 | 5,155,705 |
| Accumulated depreciation | (734,703) | (941,873) |
| Accumulated impairment | (89,060) | (54,409) |
| Leased assets, net | 4,587,602 | 4,159,421 |
| Construction in progress | 1,516,451 | 1,272,984 |
| Other | 9,016,129 | 10,051,897 |
| Accumulated depreciation | (6,303,911) | (7,063,990) |
| Accumulated impairment | (125,339) | (129,735) |
| Other, net | 2,586,878 | 2,858,170 |
| Total property, plant and equipment | 14,494,052 | 14,011,784 |
| Intangible assets | | |
| Goodwill | 11,411,410 | 11,972,485 |
| Other | 3,096,544 | 3,288,319 |
| Total intangible assets | 14,507,955 | 15,260,804 |
| Investments and other assets | | |
| Investment securities | 3,081,638 | 3,181,973 |
| Shares of subsidiaries and affiliates | 1,480,535 | 1,480,535 |
| Leasehold and guarantee deposits | 2,000,866 | 2,094,669 |
| Deferred tax assets | 1,672,072 | 1,813,787 |
| Other | 326,433 | 366,549 |
| Allowance for doubtful accounts | (157,899) | (174,990) |
| Total investments and other assets | 8,403,647 | 8,762,524 |
| Total non-current assets | 37,405,654 | 38,035,113 |
| Total assets | 78,694,627 | 78,492,274 |

(Thousands of yen)

| | March 31, 2024 | September 30, 2024 |
|---|----------------|--------------------|
| Liabilities | | |
| Current liabilities | | |
| Notes and accounts payable - trade | 6,799,221 | 5,868,656 |
| Short-term borrowings | 5,143,423 | 7,795,935 |
| Lease liabilities | 983,578 | 1,027,946 |
| Accounts payable | 2,530,291 | 1,732,031 |
| Income taxes payable | 1,432,145 | 753,661 |
| Contract liabilities | 4,886,312 | 6,885,857 |
| Provision for bonuses | 1,393,870 | 953,559 |
| Provision for loss on orders received | 11,380 | 1,225 |
| Assets retirement obligations | — | 57,798 |
| Other | 5,770,083 | 4,981,849 |
| Total current liabilities | 28,950,308 | 30,058,520 |
| Non-current liabilities | | |
| Long-term borrowings | 3,120,478 | 2,455,097 |
| Lease liabilities | 4,015,709 | 3,660,337 |
| Long-term accounts payable | 519,874 | 552,228 |
| Deferred tax liabilities | 214,227 | 226,512 |
| Retirement benefit liability | 1,219,274 | 1,244,215 |
| Asset retirement obligations | 667,624 | 750,238 |
| Other | 80,746 | 73,452 |
| Total non-current liabilities | 9,837,935 | 8,962,082 |
| Total liabilities | 38,788,243 | 39,020,603 |
| Net assets | | |
| Shareholders' equity | | |
| Share capital | 3,306,002 | 3,306,002 |
| Capital surplus | 12,149,768 | 11,781,941 |
| Retained earnings | 18,686,599 | 17,079,919 |
| Treasury shares | (411,354) | (337,995) |
| Total shareholders' equity | 33,731,016 | 31,829,868 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 1,076,431 | 1,171,116 |
| Deferred gains or losses on hedges | 30,654 | (13,143) |
| Revaluation reserve for land | (17,933) | (17,933) |
| Foreign currency translation adjustment | 3,024,687 | 4,761,423 |
| Remeasurements of defined benefit plans | (16,227) | (13,838) |
| Total accumulated other comprehensive income | 4,097,613 | 5,887,625 |
| Non-controlling interests | 2,077,752 | 1,754,176 |
| Total net assets | 39,906,383 | 39,471,670 |
| Total liabilities and net assets | 78,694,627 | 78,492,274 |

(2) Semi-annual Consolidated Statements of Income and Statements of Comprehensive Income
Semi-annual Consolidated Statements of Income

(Thousands of yen)

| | Six months ended September 30, 2023 | Six months ended September 30, 2024 |
|---|--|--|
| Net sales | 46,686,164 | 42,719,011 |
| Cost of sales | 33,821,236 | 29,992,508 |
| Gross profit | 12,864,927 | 12,726,502 |
| Selling, general and administrative expenses | 11,897,303 | 13,148,152 |
| Operating income (loss) | 967,624 | (421,649) |
| Non-operating income | | |
| Interest income | 4,933 | 5,967 |
| Dividend income | 23,914 | 23,723 |
| Rent income | 24,300 | 28,855 |
| Foreign exchange gains | 225,834 | — |
| Other | 54,159 | 71,178 |
| Total non-operating income | 333,143 | 129,724 |
| Non-operating expenses | | |
| Interest expenses | 182,644 | 273,884 |
| Equity in losses of affiliates | 9,071 | — |
| Foreign exchange losses | — | 170,599 |
| Other | 170,927 | 67,066 |
| Total non-operating expenses | 362,644 | 511,550 |
| Ordinary income (loss) | 938,123 | (803,475) |
| Extraordinary income | | |
| Gain on sale of non-current assets | 252 | 861 |
| Gain on bargain purchase | — | 34,282 |
| Gain on sale of investment securities | 290,067 | 16,940 |
| Reversal of provision for loss on litigation | 234,162 | — |
| Total extraordinary income | 524,482 | 52,084 |
| Extraordinary losses | | |
| Loss on sale of non-current assets | — | 378 |
| Loss on retirement of non-current assets | 1,283 | 1,768 |
| Impairment losses | 15,430 | 127,786 |
| Total extraordinary losses | 16,714 | 129,932 |
| Net income (loss) before income taxes | 1,445,891 | (881,323) |
| Income taxes | 569,768 | 99,938 |
| Net income (loss) | 876,123 | (981,262) |
| Net income (loss) attributable to non-controlling interests | 175,695 | (26,070) |
| Net income (loss) attributable to owners of parent | 700,427 | (955,191) |

Semi-annual Consolidated Statements of Comprehensive Income

(Thousands of yen)

| | Six months ended September 30, 2023 | Six months ended September 30, 2024 |
|--|--|--|
| Net income (loss) | 876,123 | (981,262) |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | 136,875 | 112,946 |
| Deferred gains or losses on hedges | 17,842 | (43,798) |
| Foreign currency translation adjustment | 1,083,612 | 1,729,395 |
| Remeasurements of defined benefit plans, net of tax | (637) | 2,389 |
| Total other comprehensive income | 1,237,693 | 1,800,932 |
| Comprehensive income | 2,113,816 | 819,670 |
| (Breakdown) | | |
| Comprehensive income attributable to owners of parent | 1,937,336 | 846,333 |
| Comprehensive income attributable to non-controlling interests | 176,480 | (26,662) |

(3) Notes to Semi-annual Consolidated Financial Statements

(Notes on ongoing concern assumption)

No relevant matters to be noted.

(Notes in the event of significant changes in shareholders' equity)

No relevant matters to be noted.

(Special accounting method applied to semi-annual consolidated financial statements)

(Calculation of tax expenses)

Tax expenses are calculated by reasonably estimating the effective tax rate after tax effect accounting on net income before income taxes for the fiscal year that includes the six months ended September 30, 2024 and multiplying net income before income taxes for the six-month period by the estimated effective tax rate.

However, if using this estimated effective tax rate results in extremely unreasonable tax expenses, the statutory effective tax rate is used after adjusting net income (loss) before income taxes for material differences that are not temporary.

(Changes in account policies)

The Company has applied the "Accounting Standard for Current Income Taxes, etc." (ASBJ Statement No. 27, October 28, 2022; hereinafter, referred to as "Revised Accounting Standard, 2022") and other standards from the beginning of the six months ended September 30, 2024.

With regard to the accounting classification used for income taxes, etc. (other comprehensive income taxation), the Company acts in accordance with the transitional treatment provided for in the proviso to Paragraph 20-3 of the Revised Accounting Standard, 2022 and the proviso to Paragraph 65-2 (2) of Guidance on Accounting Standard for Tax Effect Accounting (ASBJ Guidance No. 28, October 28, 2022; hereinafter, referred to as the "Revised Guidance on Tax Effect Accounting"). This change in accounting policy will have no material impact on the semi-annual consolidated financial statements.

Furthermore, with regard to the amendments made in relation to the review of treatments in the consolidated financial statements for the deferment of profits/losses arising from the sale of shares, etc., of subsidiary companies between consolidated companies for tax purposes, Revised Accounting Standard, 2022 has been applied from the beginning of the six months ended September 30, 2024. This change in accounting policy has been applied retroactively, and the semi-annual consolidated financial statements and the annual consolidated financial statements for the previous semi-annual period and previous fiscal year reflect this retroactive application. This change in accounting policy will have no impact on the semi-annual consolidated financial statements and the annual consolidated financial statements for the previous semi-annual period and previous fiscal year.

(Notes on segment information and others)

I. For the six months ended September 30, 2023 (from April 1, 2023 to September 30, 2023)

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

(Thousands of yen)

| | Content Creation | Production Technology Services | Imaging Systems & Solutions | Sub total | Adjustments (Note 1) | Amount in the Semi-annual Consolidated Statements of Income (Note 2) |
|-------------------------------------|---------------------|--------------------------------------|-----------------------------------|------------|-------------------------|---|
| Net sales | | | | | | |
| Sales to external customers | 12,729,065 | 26,245,479 | 7,707,197 | 46,681,742 | 4,421 | 46,686,164 |
| Inter-segment sales or transfers | 41,332 | 668,366 | 387,695 | 1,097,393 | (1,097,393) | — |
| Total | 12,770,397 | 26,913,845 | 8,094,892 | 47,779,136 | (1,092,971) | 46,686,164 |
| Segment income | 89,192 | 793,593 | 671,926 | 1,554,713 | (587,088) | 967,624 |

(Notes) 1. Adjustment to segment income of (587,088) thousand yen consists of income (loss) related to the Company of 1,037,966 thousand yen and elimination of inter-segment transactions of (1,625,055) thousand yen.

2. Segment income is adjusted against operating income on the semi-annual consolidated financial statements.

II. For the six months ended September 30, 2024 (from April 1, 2024 to September 30, 2024)

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

(Thousands of yen)

| | Content Creation | Production Technology Services | Imaging Systems & Solutions | Sub total | Adjustments (Note 1) | Amount in the Semi-annual Consolidated Statements of Income (Note 2) |
|-------------------------------------|---------------------|--------------------------------------|-----------------------------------|------------|-------------------------|---|
| Net sales | | | | | | |
| Sales to external customers | 11,183,735 | 24,424,711 | 7,082,964 | 42,691,411 | 27,599 | 42,719,011 |
| Inter-segment sales or transfers | 18,247 | 591,948 | 344,534 | 954,729 | (954,729) | — |
| Total | 11,201,983 | 25,016,659 | 7,427,498 | 43,646,141 | (927,130) | 42,719,011 |
| Segment income (loss) | 955,948 | (1,156,938) | 457,820 | 256,831 | (678,480) | (421,649) |

(Notes) 1. Adjustment to segment income (loss) of (678,480) thousand yen consists of income (loss) related to the Company of 1,638,998 thousand yen and elimination of inter-segment transactions of (2,317,479) thousand yen.

2. Segment income (loss) is adjusted against operating loss on the semi-annual consolidated financial statements.

2. Information regarding impairment losses on non-current assets or goodwill, etc., by reportable segment
(Significant impairment losses on non-current assets)

Production Technology Services business recorded impairment losses of 127,786 thousand yen on non-current assets.

(Significant changes in the amount of goodwill)

In the Production Technology Services business, with regard to the business combination made on February 8, 2024 with mediafellows GmbH and one of its subsidiaries, provisional accounting was carried out in the previous fiscal year. However, it was finalized in the first six months of the current fiscal year. As a result of the finalization of the provisional accounting, the amount of goodwill provisionally calculated at the end of the previous fiscal year changed from 1,126,082 thousand yen to 491,679 thousand yen.

(Significant gain on bargain purchase)

Production Technology Services business recorded gain on bargain purchase of 34,282 thousand yen in extraordinary income, resulting from the acquisition of the post-production segment “ATELIER ARTE” of ADK Creative One Inc.