

**BRIEF STATEMENT OF CONSOLIDATED FINANCIAL RESULTS
FOR THE 3rd QUARTER OF THE FISCAL YEAR ENDING MARCH 2022**

This is an English translation of summarized consolidated financial results prepared for the convenience of non-resident shareholders. Should there be any inconsistency between the translation and the official Japanese text, the latter shall prevail.

February 14, 2022

Faith, Inc. (Stock code 4295, Listed on TSE 1st section)

(URL <https://www.faith.co.jp/>)

Representative: Hajime Hirasawa, CEO/President

Contact: Chikayo Suzuki, CFO/Executive Officer Tel: +81-3-6855-7811

Date of Submission of Securities Report: February 14, 2022

Starting Date of the Dividend Payment: —

Preparation of Supplementary Materials for Quarterly Financial Results: None

Information Meeting for Quarterly Financial Results to be Held: None

Amounts are rounded down to the nearest JPY 1 million.

1. Results for the 3rd Quarter of the Fiscal Year Ending March 2022

(From April 1, 2021 to December 31, 2021)

(1) Consolidated Operating Results

(Percentages indicate changes compared with the same quarter of the previous fiscal year.)

	Net Sales		Operating Income		Ordinary Income		Net Income	
	<i>Millions of yen</i>	%	<i>Millions of yen</i>	%	<i>Millions of yen</i>	%	<i>Millions of yen</i>	%
Year ending March 2022 Q3	11,444	△24.2	△8	—	256	△63.0	△8	—
Year ending March 2021 Q3	15,097	△0.8	633	21.3	692	22.8	182	—

(Note) Comprehensive income: 3rd quarter of the fiscal year ending March 2022: ¥569 million (△46%); 3rd quarter of fiscal year ending March 2021: ¥1,055 million (—%);

	Net Income per Share	Diluted Net Income per Share
	<i>Millions of yen</i>	<i>Millions of yen</i>
Year ending March 2022 Q3	△0.68	—
Year ending March 2021 Q3	14.43	—

(2) Consolidated Financial Position

	Total Assets	Net Assets	Ratio of Equity Capital
	<i>Millions of yen</i>	<i>Millions of yen</i>	%
Year ending March 2022 Q3	26,772	18,224	68.1
Year ending March 2021	26,702	17,627	66.0

(Reference) Equity capital: 3rd quarter of fiscal year ending March 2022: ¥18,224 million; fiscal year ending March 2021: ¥17,627 million

2. Dividends

	Dividends per Share				
	1 st Quarter	Interim	3 rd Quarter	Year-end	Total
Year ending March 2021	<i>yen</i> —	<i>yen</i> 5.00	<i>yen</i> —	<i>yen</i> 5.00	<i>yen</i> 10.00
Year ending March 2022	—	5.00	—	—	—
Year ending March 2022 (Forecast)	—	—	—	5.00	10.00

(Note) These figures have not been modified since the time of the most recently announced dividend forecast.

3. Forecast for the Consolidated Results for the Year Ending March 2022 (from April 1, 2021 to March 31, 2022)

(Percentages indicate changes compared with the previous fiscal year.)

	Net Sales		Operating Income		Ordinary Income		Net Income Attributable to the Shareholders of the Parent Company		Net Income per Share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	15,000	△25	△230	—	30	△96.3	△380	—	△30.08

(Note) These figures have been modified since the time of the most recently announced business result forecast.

* Notes

(1) Changes in significant subsidiaries (accompanying changes in scope of consolidation): None

Newly added subsidiaries: 0 companies (subsidiary's name:)

Removed subsidiaries: 0 companies (subsidiary's name:)

(2) Adoption of simplified accounting practices or specific procedures in preparation of the quarterly consolidated financial reports: Applicable

* For details, please refer to "2. Consolidated Financial Statements and Important Explanatory Notes, (3) Notes Concerning the Consolidated Financial Statements (Adoption of Simplified Methods in the Preparation of the Quarterly Financial Statements)" on page 10 of the accompanying material.

(3) Changes in accounting policy, changes in accounting estimates, and restatements

(i) Changes accompanying revisions of accounting standards, etc.: Applicable

(ii) Changes other than the above: None

(iii) Changes in accounting estimates: None

(iv) Restatements: None

(4) Outstanding shares (common shares)

(i) Outstanding shares at the end of the term (including treasury shares):

The 3rd quarter of the fiscal year ending March 2022: 13,831,091 shares

The fiscal year ending March 2021: 13,831,091 shares

(ii) Treasury shares at the end of the term:

The 3rd quarter of the fiscal year ending March 2022: 1,198,794 shares

The fiscal year ending March 2021: 1,197,855 shares

(iii) Average number of shares during the interim accounting period:

The 3rd quarter of the fiscal year ending March 2022: 12,632,690 shares

The 3rd quarter of the fiscal year ending March 2021: 12,628,788 shares

(Note) The number of shares of treasury stock at the end of the period includes the Company's shares contributed as trust assets in the performance-based stock compensation plan (3rd quarter of fiscal year ending March 2022: 257,200 shares, fiscal year ending March 2021: 257,200 shares).

Moreover, such shares are also included in the treasury shares that are deducted in calculating the average number of shares during the period (the 3rd quarter of the fiscal year ending March 2022: 257,200 shares, the 3rd quarter of the fiscal year ending March 2021: 262,500 shares).

* This financial results report is exempt from quarterly review procedures.

* Statement regarding the proper use of financial forecasts and other special remarks

(Notice regarding statements concerning the future)

Statements concerning the future, such as performance forecasts, etc., described in the present material are based on information currently available to the Company and on certain assumptions judged as reasonable by the Company. The Company's actual performance may differ substantially from these forecasts as a result of various factors beyond the Company's control. For details of cautions, etc., employed in making performance forecasts and the assumptions underlying performance forecasts, please refer to "1. Qualitative Information Concerning the Settlement of Accounts for the 3rd Quarter, (3) Explanation Concerning Future Forecast Information on the Consolidated Financial Results, etc." on page 5 of the accompanying material.

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1. Qualitative Information Concerning the Settlement of Accounts for the 3rd Quarter

(1) Explanation Concerning the Operating Results

In the Japanese information and communications field in 2020, the Internet penetration rate remained high at 83.4%, while the percentage of households owning one or more smartphones increased to 86.8%, far exceeding the 70.1% of households owning one or more personal computers^{(*)1}. In addition, while the movement away from television has continued since the year 2000, mainly centered on younger people, advertising expenses for the Internet in Japan increased by 5.9% in 2020 from the previous year to ¥2,229 billion, exceeding advertising expenses for television of ¥1,655.9 billion for the second consecutive year^{(*)2}. This trend is also evident worldwide, where global spending on digital advertising reached approximately ¥40 trillion (US\$355.7 billion) in 2021, an increase of 29.1% from the previous year, with spending on digital advertising exceeding 50% of the total spending on advertising for the first time^{(*)3}.

*1. Source: Ministry of Internal Affairs and Communications, *2020 Telecommunications Usage Trend Survey Results*

*2. Source: Dentsu Inc., *2020 Advertising Expenditures in Japan*

*3. Source: Dentsu Inc., *Global Ad Spend Forecasts (2021-2024)*

In the entertainment market in 2020, sales in the global music market centered on streaming services grew by 7.4% year over year to approximately ¥2,332.8 billion (US\$21.6 billion), marking its sixth consecutive year of growth^{(*)4}. In Japan, the production value of music software including music videos decreased by 15% year over year to ¥194.4 billion, and sales of packaged products continued to decline, but sales of paid music distribution increased by 11% to ¥78.3 billion. In the paid music distribution sales category, subscription audio streaming increased by 27% year over year to ¥58.9 billion, accounting for 75% of total paid music distribution sales^{(*)5}. Conversely, large-scale events and live concerts have been postponed and canceled due to the spread of COVID-19, and the live entertainment market in 2020 shrank by 82.4% compared to the previous year to ¥110.6 billion^{(*)6}. In 2021, music events at real venues began to resume in accordance with the guidelines for infection prevention measures in accordance with the government's basic response policy. Meanwhile, new ways of enjoying live entertainment are taking root, with many artists offering “hybrid performances” in which a limited audience is allowed into the venue and the performance is also distributed online. With live performances in front of various audience sizes being distributed, the scale of the digital live performance market reached ¥14 billion in 2020, and it is projected to expand rapidly to about ¥100 billion by 2024^{(*)7}.

*4. Source: IFPI, *Global Music Report 2021*

*5. Source: Recording Industry Association of Japan (RIAJ), *The Recording Industry in Japan 2021*

*6. Source: PIA Research Institute, *Japanese Live Entertainment Market Size Preliminary Report* (published May 13, 2021)

*7. Source: CyberZ Co., Ltd., *Domestic Digital Live Entertainment Market Trend Survey*

Founded in 1992, Faith was the first company in the world to commercialize ringtones, and has steadily grown centered on the music distribution business and in step with the spread of mobile phones. However, the spread of smartphones in today's music market has been accompanied by the diversification of media such as streaming, user upload content (UUC) that allows general users to easily transmit information to society, and social media, with the result that all kinds of activities in the music industry are changing, including content distribution methods, consumption styles and content production methods.

In this environment, the Faith Group is continuing to utilize the results of the efforts it has been pouring into digital content distribution ever since its establishment, and is forging ahead with its Multi-Content and Multi-Device Strategy of creating environments in which people can enjoy a wide diversity of contents whenever and wherever they choose. We are also strengthening the development of new services in response to the changing market environment, which includes platforms that collect and organize the information flooding the Internet and provide this to users after increasing its added value.

In June 2020, Faith released Thumva, a new live streaming platform, as an Internet viewing service that provides a new kind of live experience. In addition to group viewing and comment posting, it also includes a gifting function for artists, allowing the users to share a sense of excitement and unity as if they were attending a live performance without actually being at the venue. A diverse lineup of live performances by numerous artists and online experiential attractions have already been made available on Thumva, and we are planning to continue live streaming with a widening variety of lineups in future. Since the launch of the service, about 320 performances have been distributed and the number of registered members has grown to over 160,000 (as of December 2021).

Utilizing the resources of Thumva, we launched Thumva BIZ in July 2021 as a new online service for

stores that allows customers who wish to make inquiries or consult online to begin business negotiations with a single click. We are proposing an online store-style service that meets the requirements of the digital transformation era, and companies in various industries have already introduced this service. In September, we entered into a business partnership with Nippon Travel Agency, Inc., with a view to marketing our services. Through that company's nationwide sales network, we are planning to provide Thumva BIZ and a number of other Faith Group services in future. Thumva BIZ will continue to expand its sales channels as a new DX service for stores in a variety of fields, particularly in face-to-face customer service industries.

One of Tokyo's largest music lounges, the Faith-operated PLUSTOKYO, is continuing to operate while taking necessary measures in accordance with the Tokyo Metropolitan Government's guidelines for preventing the spread of COVID-19, including the declaration of a state of emergency with regard to COVID-19 infections, priority measures to help limit the further spread of the disease, and measures to prevent its reemergence. As a new initiative, we have organized limited-time menus and exhibition projects in collaboration with artists and creators of anime works. We will continue to place the highest priority on preventing the spread of infections and ensuring safety, and we will continue to operate PLUSTOKYO carefully in accordance with administrative policies and action plans.

In the Label Business, we welcomed Mr. Tatsumi Yoda (President and CEO of GAGA Corporation, Chairman of T.Y. Limited), who has been making innovative and significant contributions to the music and film industries for many years, as our Chief Advisor for Label Management from December 2021. Mr. Yoda will continue to serve as Chief Advisor to the Board of Directors of Dreamusic Inc., which became a wholly owned subsidiary of the Faith Group on September 30, 2021, and he will also contribute to the further strengthening of the Label Business.

The Faith Group has established a regular teleworking system. In addition, we have consolidated our main office functions, which were previously dispersed throughout the company, into the Minami Aoyama Office, which has been completely renovated. In anticipation of changes in behavioral patterns and the establishment of new values, we are committed to realizing diverse and efficient new ways of working based on the concept of "activity-based working" ^(*). In the future, we will continue to promote our business activities with the aim of improving management efficiency and profitability.

*8. A way of working that allows individuals to choose their workspace and style according to their work contents.

The Faith Group's business results for the cumulative third quarter of the consolidated fiscal year ending March 2022 were negatively impacted by year-over-year decreases in product sales in the Points Service Business and sales in the Label Business. As a result, the Group reported net sales of ¥11,444 million (a decrease of 24.2% compared with the same period of the previous fiscal year), an operating loss of ¥8 million (compared to operating income of ¥633 million yen for the same period of the previous fiscal year), ordinary income of ¥256 million (a decrease of 63.0% year over year), and a net loss attributable to the shareholders of the parent company of ¥8 million (compared to net income attributable to owners of the parent of ¥182 million for the same period of the previous fiscal year).

The Faith Group has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) and other related standards from the beginning of the first quarter consolidated accounting period. In accordance with this change, compared with the previous accounting method, net sales for the cumulative third quarter of the current fiscal year decreased by ¥2,365 million, the operating loss decreased by ¥138 million, ordinary income increased by ¥138 million, and the net loss before income taxes and minority interests decreased by ¥138 million. For details, please refer to "2. Consolidated Financial Statements and Important Explanatory Notes, (3) Notes Concerning the Consolidated Financial Statements (Changes in Accounting Policy)" on page 10.

Information on each business segment is as follows.

Content Business

In the Content Business, as sales in the existing distribution business are continuing to decline, the Faith Group will continue to invest in new fields of growth, including new product development, interlinking and platforming of various services to capture diversified profit opportunities, and expanding our business overseas.

We are actively developing sales activities for FaRao PRO, focusing not only on providing BGM for commercial use, but also on expanding the functions necessary for store operations, such as solutions for store branding and announcement functions. In the future, we will continue to create and revitalize the new BGM market.

In Fans', our platform of services for artists based on the D2C ^{(*)9} business model, which is expected to expand further in future, we are enhancing the functions essential to artists' musical activities such as official website construction, music and video distribution, sales of artist goods, and fan club operation. We have introduced a system that allows fans to contribute to the creation of a community by spreading the information that creators send out by strengthening ties via SNS. In addition, by offering a service that allows more artists to freely disseminate their works and information, we are aiming to acquire and expand the number of users and improve the quality of the service by pursuing enhanced convenience.

^{(*)9}. Abbreviation of "Direct to Consumer"
—a business model for delivering services and products planned and manufactured by Faith directly to users

Regarding the performance of this segment for the cumulative third quarter of the current fiscal year, due to a decrease in sales of carrier official website services and self-restraint of store operations in accordance with government recommended measures against the spread of COVID-19, the Content Business recorded net sales of ¥1,736 million (a decrease of 21.4% year over year), and an operating loss of ¥383 million (compared with an operating loss of ¥383 million for the same period of the previous fiscal year).

The Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) and other relevant standards have been applied from the beginning of the first quarter of the current fiscal year. In accordance with this change, compared with the previous accounting method, net sales in this segment decreased by ¥380 million. However, the application of the accounting standard had no impact on the operating loss.

Point Service Business

In the Point Service Business, in addition to providing point issue services to retail stores, we offer total support for point issue data acquisition, analysis and sales promotion utilization as a series of cycles from planning to operation, and we provide outsourcing services that maximize retail sales promotion efficiency.

Regarding the performance of this segment, due to a decrease in sales of goods and issuance of points at existing member stores, net sales decreased by 85.2% year over year to ¥427 million and operating income decreased by 63.4% year over year to ¥103 million.

The Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) and other relevant standards have been applied from the beginning of the first quarter of the current fiscal year. In accordance with this change, compared with the previous accounting method, net sales in this segment decreased by ¥402 million. However, the application of the accounting standard had no impact on operating income.

Label Business

In the Label Business, under the severe environment facing the music and video-related industry in line with changes the music market, we are strengthening new businesses with an eye on the future in order to overcome the present situation in which this segment remains dependent on sales of package products.

Regarding the performance of this segment, due mainly to lower sales of animation titles and lower royalties from the use of high-profit-margin sound sources by Nippon Columbia Co., Ltd., net sales in this segment decreased by 7.2% year over year to ¥9,280 million, and operating income decreased by 63.1% year over year to ¥270 million.

The Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) and other relevant standards have been applied from the beginning of the first quarter of the current fiscal year. In accordance with this change, compared with the previous accounting method, net sales in this segment decreased by ¥582 million and operating income increased by ¥138 million.

*Product and service names appearing in this document are trademarks or registered trademarks of Faith, Inc. either in Japan or in other countries.

(2) Explanation Concerning the Financial Position

As of the end of the second quarter of the current consolidated fiscal year ending March 2022 (December 31, 2021), total assets increased by ¥70 million yen compared to the end of the previous consolidated fiscal year to ¥26,772 million. This result was mainly due to increases in tangible fixed assets and investment securities.

Total liabilities decreased by ¥526 million compared to the end of the previous consolidated fiscal year to ¥8,548 million. This result was mainly due to decreases in income taxes payable and asset retirement obligations (current liabilities).

Net assets increased by ¥596 million compared to the end of the previous consolidated fiscal year to ¥18,224 million. This was mainly due to an increase in the valuation difference on other marketable securities.

The equity ratio increased by 2.1 percentage points to 68.1% from the end of the previous consolidated fiscal year.

(3) Explanation Concerning Future Forecast Information on the Consolidated Financial Results, etc.

For details of the consolidated performance forecast for the fiscal year ending March 31, 2022, please refer to the Notice Concerning Revision of Performance Forecast (in Japanese), which was disclosed separately on February 14, 2022.

Moreover, there is a possibility that the actual performance figures will differ significantly from the forecast figures due to a variety of factors in the future.

2. Consolidated Financial Statements and Important Explanatory Notes

(1) Consolidated Balance Sheet

	(Unit: thousands of yen)	
	FY 2020	3rd Quarter of FY 2021
	(As of March 31, 2021)	(As of Dec. 31, 2021)
(Assets)		
Current assets		
Cash and deposits	12,997,014	11,658,567
Accounts and notes receivable	2,018,712	2,569,101
Marketable securities	229,796	228,393
Commercial products	366,536	366,704
Products in progress	491,109	436,333
Primary materials and inventory goods	58,592	69,005
Corporation tax refund receivable, etc.	71,062	175,171
Other current assets	519,948	531,839
Allowance for doubtful accounts	△18,669	△18,763
Total current assets	16,734,103	16,016,353
Fixed assets		
Tangible fixed assets	2,946,103	3,229,669
Intangible fixed assets		
Goodwill	1,395,695	1,302,127
Other intangible fixed assets	357,776	407,020
Total intangible fixed assets	1,753,472	1,709,148
Investment and other assets		
Investment securities	3,898,711	4,670,128
Deferred tax assets	846,890	733,392
Other investment and other assets	1,108,603	1,036,281
Allowance for doubtful accounts	△585,342	△622,117
Total investment and other assets	5,268,863	5,817,685
Total fixed assets	9,968,439	10,756,503
Total assets	26,702,542	26,772,857
(Liabilities)		
Current liabilities		
Accounts and notes payable	964,025	1,180,080
Short-term loans payable	340,000	340,000
Current portion of long-term debt	258,700	228,600
Accounts payable-other	741,426	637,513
Accrued expenses payable	2,796,448	2,911,453
Income taxes payable	371,157	89,619
Reserve for bonuses	352,424	212,891
Reserve for sales returns	55,441	—
Contract liabilities	—	34,966
Asset retirement obligations	146,892	—
Other current liabilities	1,140,736	965,190
Total current liabilities	7,167,251	6,600,314
Fixed liabilities		
Long-term loans payable	379,850	215,925
Net defined retirement benefits	576,922	539,268
Reserve for stock benefits for directors	33,129	38,051
Asset retirement obligations	39,233	39,233
Deferred tax liabilities	874,056	1,112,124
Other fixed liabilities	4,453	3,300
Total fixed liabilities	1,907,645	1,947,903
Total liabilities	9,074,896	8,548,217

	(Unit: thousands of yen)	
	FY 2020 (March 31, 2021)	3rd Quarter of FY 2021 (December 31, 2021)
(Net assets)		
Shareholder's equity		
Common stock	3,218,000	3,218,000
Capital surplus	2,840,667	2,840,498
Retained earnings	10,698,825	10,718,423
Treasury stock	△1,121,619	△1,122,234
Total shareholders' equity	15,635,873	15,654,687
Other accumulated comprehensive income		
Valuation difference on marketable securities	1,987,860	2,528,642
Foreign currency translation adjustments	△30,807	△8,881
Cumulative adjustment for retirement benefit obligations	34,719	50,191
Total other accumulated comprehensive income	1,991,773	2,569,952
Non-controlling interests	—	—
Total net assets	17,627,646	18,224,640
Total liabilities and net assets	26,702,542	26,772,857

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

	(Unit: thousands of yen)	
	3rd Quarter of FY 2020 (April 1-Dec.31, 2020)	3rd Quarter of FY 2021 (April 1-Dec. 31, 2021)
Net sales	15,097,633	11,444,650
Cost of sales	9,630,788	7,065,011
Gross profit	5,466,845	4,379,639
Selling, general and administrative expenses	4,833,086	4,388,262
Operating income or operating loss (Δ = loss)	633,759	Δ 8,622
Non-operating income		
Interest income	406	60
Dividend income	3,922	4,258
Interest on marketable securities	12	7
Gain on equity method investment	—	27,412
Gain on investment partnership management	109,714	125,308
Gain on valuation of marketable securities	1,403	—
Gain on foreign exchange	—	634
Subsidy income	42,398	193,549
Miscellaneous receipts	31,916	10,162
Total non-operating income	189,773	361,394
Non-operating expenses		
Interest paid	4,362	3,428
Loss on equity method investment	13,669	—
Loss on investment partnership management	106,456	90,538
Loss on valuation of marketable securities	—	1,660
Loss on foreign exchange	631	—
Miscellaneous expenses	6,007	668
Total non-operating expenses	131,127	96,295
Ordinary income	692,405	256,476
Extraordinary income		
Gain on sale of investment securities	—	34,114
Gain on sale of fixed assets	—	141
Total extraordinary income	—	34,255
Extraordinary losses		
Loss on disposal of fixed assets	33,993	42
Loss on liquidation of subsidiaries	—	29,756
Loss on sale of investment securities	4,931	—
Loss on valuation of investment securities	26,757	27,214
Office relocation costs	74,510	—
Total extraordinary losses	140,192	57,013
Net income before income taxes	552,213	233,719
Corporate, local, and business taxes	433,351	163,479
Income taxes - deferred	Δ 63,381	78,861
Current quarter net income or net loss (Δ = loss)	182,243	Δ 8,622
Current quarter net income attributable to non-controlling interests	—	—
Current quarter net income or net loss attributable to shareholders of the parent company (Δ = loss)	182,243	Δ 8,622

(Consolidated Statement of Comprehensive Income)

	(Unit: thousands of yen)	
	3rd Quarter of FY 2020	3rd Quarter of FY 2021
	(April 1-Dec.31, 2020)	(April 1-Dec. 31, 2021)
Current quarter net income or net loss (Δ = loss)	182,243	Δ 8,622
Other comprehensive income		
Valuation difference on other marketable securities	852,820	540,781
Foreign currency translation adjustments	Δ 8,567	21,925
Retirement benefit adjustments	29,038	15,472
Total other comprehensive income	873,290	578,179
Comprehensive income	1,055,534	569,557
(Details)		
Comprehensive income attributable to shareholders of the parent company	1,055,534	569,557
Comprehensive income attributable to non-controlling interests	—	—

(3) Notes Concerning the Consolidated Financial Statements
(Note Concerning the Premise of a Going Concern)
Not applicable

(Note in the Case of Significant Changes in the Amount of Shareholders' Equity)
Not applicable

(Adoption of Simplified Methods in the Preparation of the Quarterly Financial Statements)

Tax expenses for the Company and a portion of its consolidated subsidiaries are calculated by multiplying the amount of net income before income taxes by the estimated effective tax rate, which is reasonably estimated by applying tax effect accounting to estimated income before income taxes for the current consolidated fiscal year including the third quarter under review.

(Changes in Accounting Policy)

(Application of Accounting Standard for Revenue Recognition)

The Company has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020, hereinafter the "Accounting Standard for Revenue Recognition") and other related standards from the beginning of the first quarter of the current fiscal year. Based on this standard, revenue the Company expects to receive in exchange for the provision of goods and services is recognized when the control of the goods and services is transferred to customers.

As a result of this change, in the Point Service Business, in which revenue was previously recognized when points were issued to customers and cost of sales was recognized when the points were used, since these transactions correspond to repurchase agreements with a right of return, the Company now recognizes revenue on a net basis. In addition, regarding the distribution of royalties to copyright holders, mainly in the Label Business, the total amount of consideration received from music users, etc., was previously recognized as revenue, but since the Company conducts these transactions as an agent, the Company now recognizes revenue as the net amount received from music users, etc., minus the amount paid to copyright holders. Moreover, in the past, revenue from music licensing fees for karaoke music in the Label Business was recognized on a one-time basis, but as a result of examining the identification and satisfaction of performance obligations, the Company now recognizes revenue over a certain period of time. Furthermore, for sales with a right of return in the Label Business, the total amount of consideration was previously recognized as revenue at the time of sale, and an adjustment allowance for sales returns was recorded based on records of previous sales returns, but the Company now recognizes revenue as the total amount of consideration excluding the amount of consideration for merchandise that is expected to be returned.

With regard to the Accounting Standard for Revenue Recognition, in accordance with the transitional treatment stipulated in the provisions of Article 84 of the Accounting Standard for Revenue Recognition, the cumulative effect of retrospectively applying the new accounting policy prior to the beginning of the first quarter of the current fiscal year was added to or deducted from retained earnings at the beginning of the first quarter of the current fiscal year, and the new accounting policy was applied from the beginning balance of the current fiscal year.

As a result, for the current consolidated cumulative third quarter, net sales decreased by ¥2,365,237 thousand, cost of sales decreased by ¥2,253,573 thousand, selling, general and administrative expenses decreased by ¥249,858 thousand, the operating loss decreased by ¥138,104 thousand, ordinary income increased by ¥138,104 thousand, and the net loss before income taxes and minority interests decreased by ¥138,104 thousand. In addition, the balance of retained earnings at the beginning of the period increased by ¥157,121 thousand.

Due to the application of the Accounting Standard for Revenue Recognition, the provision for sales returns, which was presented under the current liabilities in the consolidated balance sheets in the previous fiscal year, is included in the other current liabilities from the first quarter of the current fiscal year. In accordance with the transitional treatment prescribed in Paragraph 89-2 of the Accounting Standard for Revenue Recognition, no reclassification has been made to the previous fiscal year's consolidated financial statements to conform to the new presentation. Furthermore, in accordance with the transitional treatment prescribed in Paragraph 28-15 of the Accounting Standard for Quarterly Financial Reporting

(ASBJ Statement No. 12, March 31, 2020), the Company has not presented the disaggregation of revenue from contracts with customers for the consolidated cumulative third quarter of the previous fiscal year.

(Application of Accounting Standard for Fair Value Measurement)

The Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019, hereinafter the “Accounting Standard for Fair Value Measurement”) has been applied from the beginning of the first quarter of the current fiscal year, and in accordance with the transitional treatment stipulated in article 19 of the Accounting Standard for Fair Value Measurement and Article 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), the new accounting policy stipulated by the Accounting Standard for Fair Value Measurements will be applied in the future. This change has no impact on the Company’s quarterly consolidated financial results.

(Segment Information)

I 3rd quarter of the previous consolidated fiscal year/FY 2020 (April 1, 2020 through Dec. 31, 2020)

1. Information on sales and profit or loss by reportable segment

(Unit: thousands of yen)

	Content	Point Service	Label	Total	Adjustment amount (Note 1)	Amount recorded in Consolidated Financial Statements (Note 2)
Net sales						
Sales to external customers	2,209,092	2,885,243	10,003,298	15,097,633	—	15,097,633
Intersegment sales or transfer amount	145,021	146	13,402	158,569	△158,569	—
Total	2,354,113	2,885,389	10,016,700	15,256,203	△158,569	15,097,633
Segment income or loss (△)	△383,563	283,063	732,267	631,766	1,992	633,759

Notes: 1. The segment income or loss adjustment amount of ¥1,992 thousand is calculated by eliminating intersegment transactions.
2. Segment income amounts are adjusted with operating income in the quarterly consolidated profit and loss statement.

2. Information regarding impairment loss on fixed assets or goodwill by segment reported

This information is omitted since there is no critical impairment loss on fixed assets or significant change in amount of goodwill.

II 3rd quarter of the current consolidated fiscal year/FY 2021 (April 1, 2021 through Dec. 31, 2021)

1. Information on sales and profit or loss by reportable segment

(Unit: thousands of yen)

	Content	Point Service	Label	Total	Adjustment amount (Note 1)	Amount recorded in Consolidated Financial Statements (Note 2)
Net sales						
Revenue from contracts with customers	1,736,891	427,154	9,280,605	11,444,650	—	11,444,650
Sales to external customers	1,736,891	427,154	9,280,605	11,444,650	—	11,444,650
Intersegment sales or transfer amount	255,205	115	17,589	272,910	△272,910	—
Total	1,992,096	427,269	9,298,195	11,717,561	△272,910	11,444,650
Segment income or loss (△)	△383,897	103,670	270,072	△10,154	1,532	△8,622

Notes: 1. The segment income or loss adjustment amount of ¥1,532 thousand is calculated by eliminating intersegment transactions.
2. Segment income or loss amounts are adjusted with opening income in the quarterly consolidated profit and loss statement.

2. Information regarding impairment loss on fixed assets or goodwill by segment reported

This information is omitted since there is no critical impairment loss on fixed assets or significant change in amount of goodwill.

3. Matters related to changes in reportable segments, etc.

As described in the aforementioned “Changes in Accounting Policies” section, the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) and other related standards have been applied from the beginning of the first quarter of the current fiscal year, with the result that the accounting method for revenue recognition and the method for calculating the income or loss in each business segment have been modified.

As a result of this change, for the consolidated cumulative third quarter of the current fiscal year, compared with the previous method, in the Content Business net sales decreased by ¥380,097 thousand and in the Point Service Business net sales decreased by ¥1,402,710 thousand, but in both cases, there was no impact on segment income or loss, while in the Label Business net sales decreased by ¥582,518 thousand and segment income increased by ¥138,104 thousand.