

Summary of Consolidated Financial Results for the Fiscal Year Ended March 31, 2020

[Japanese GAAP]

Company name: MKSystem Corporation

Listing: Tokyo Stock Exchange (JASDAQ)

Stock code: 3910

URL: <https://www.mks.jp>

Representative: Noboru Miyake, Representative Director and President

Contact: Masaki Yoshida, General Manager of Management Planning Office

Tel: +81-6-7222-3394

Scheduled date of Annual General Meeting of Shareholders: June 25, 2020

Scheduled date of payment of dividend: June 26, 2020

Scheduled date of filing of Annual Securities Report: June 25, 2020

Preparation of supplementary materials for financial results: Yes

Holding of financial results meeting: Yes (a video will be uploaded as a substitute)

(All amounts are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Fiscal Year Ended March 31, 2020 (April 1, 2019 – March 31, 2020)

(1) Consolidated operating results

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Fiscal year ended Mar. 31, 2020	2,380	14.7	314	(0.9)	312	2.4	197	75.9
Fiscal year ended Mar. 31, 2019	2,075	10.0	317	1.0	305	(4.0)	112	(45.2)

Note: Comprehensive income (million yen) Fiscal year ended Mar. 31, 2020: 193 (up 85.6%)

Fiscal year ended Mar. 31, 2019: 104 (down 51.0%)

	Basic earnings per share	Diluted earnings per share	Return on equity	Ordinary profit on total assets	Operating profit to net sales
	Yen	Yen	%	%	%
Fiscal year ended Mar. 31, 2020	36.32	-	16.5	15.0	13.2
Fiscal year ended Mar. 31, 2019	20.65	-	10.3	14.8	15.3

Reference: Equity in earnings of affiliates (million yen) Fiscal year ended Mar. 31, 2020: - Fiscal year ended Mar. 31, 2019: -

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Mar. 31, 2020	2,234	1,304	56.8	234.04
As of Mar. 31, 2019	1,945	1,164	57.4	205.87

Reference: Shareholders' equity (million yen) As of Mar. 31, 2020: 1,270 As of Mar. 31, 2019: 1,117

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	Million yen	Million yen	Million yen	Million yen
Fiscal year ended Mar. 31, 2020	814	(330)	(60)	722
Fiscal year ended Mar. 31, 2019	(244)	(281)	173	299

2. Dividends

	Dividend per share					Total dividends	Payout ratio (consolidated)	Dividend on equity (consolidated)
	1Q-end	2Q-end	3Q-end	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
Fiscal year ended Mar. 31, 2019	-	0.00	-	8.00	8.00	43	38.7	4.0
Fiscal year ended Mar. 31, 2020	-	0.00	-	8.00	8.00	43	22.0	3.6
Fiscal year ending Mar. 31, 2021 (forecast)	-	0.00	-	8.00	8.00		21.6	

3. Consolidated Earnings Forecasts for the Fiscal Year Ending March 31, 2021 (April 1, 2020 – March 31, 2021)

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	1,200	1.4	26	(83.6)	25	(84.2)	14	(85.8)	2.65
Full year	2,749	15.5	324	3.2	322	3.1	201	2.1	37.08

* Notes

(1) Changes in significant subsidiaries during the period (changes in scope of consolidation): None

(2) Changes in accounting policies and accounting-based estimates, and restatements

- 1) Changes in accounting policies due to revisions in accounting standards, others: None
- 2) Changes in accounting policies other than 1) above: None
- 3) Changes in accounting-based estimates: None
- 4) Restatements: None

(3) Number of issued shares (common stock)

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

As of Mar. 31, 2020: 5,428,000 shares As of Mar. 31, 2019: 5,428,000 shares

2) Number of treasury shares at the end of period

As of Mar. 31, 2020: 474 shares As of Mar. 31, 2019: 312 shares

3) Average number of shares during the period

Fiscal year ended Mar. 31, 2020: 5,427,599 shares Fiscal year ended Mar. 31, 2019: 5,427,709 shares

Reference: Summary of Non-consolidated Financial Results

Non-consolidated Financial Results for the Fiscal Year Ended March 31, 2020 (April 1, 2019 – March 31, 2020)

(1) Non-consolidated operating results

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Fiscal year ended Mar. 31, 2020	1,784	18.2	358	(6.1)	361	(5.4)	245	29.1
Fiscal year ended Mar. 31, 2019	1,509	15.3	382	21.3	382	20.6	190	(15.6)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Fiscal year ended Mar. 31, 2020	45.25	-
Fiscal year ended Mar. 31, 2019	35.05	-

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Mar. 31, 2020	2,258	1,414	62.6	260.61
As of Mar. 31, 2019	1,842	1,212	65.8	223.37

Reference: Shareholders' equity (million yen) As of Mar. 31, 2020: 1,414 As of Mar. 31, 2019: 1,212

* The current financial report is not subject to audit by certified public accountants or auditing firms.

* Explanation of appropriate use of earnings forecasts, and other special items

Forecasts of future performance in this report are based on assumptions judged to be valid and information available to the MKSystem's management at the time the materials were prepared but are not promises by MKSystem regarding future performance. Actual results may differ significantly from these forecasts for a number of reasons.

* How to view supplementary information at the financial results meeting

Although MKSystem plans to hold the financial results meeting for institutional investors and securities analysts, we decided to cancel the meeting from the standpoint of infection prevention of COVID-19.

Video and materials to explain the financial results will be posted on its website on May 21, 2020.

Contents of Attachments

1. Overview of Results of Operations, etc.	2
(1) Results of Operations	2
(2) Financial Position	3
(3) Cash Flows	4
(4) Outlook	4
2. Basic Approach to the Selection of Accounting Standards	6
3. Consolidated Financial Statements and Notes	7
(1) Consolidated Balance Sheet	7
(2) Consolidated Statements of Income and Comprehensive Income	9
(3) Consolidated Statement of Changes in Equity	11
(4) Consolidated Statement of Cash Flows	12
(5) Notes to Consolidated Financial Statements	13
Going Concern Assumption	13
Segment and Other Information	13
Per Share Information	14
Subsequent Events	14

1. Overview of Results of Operations, etc.

(1) Results of Operations

During the fiscal year ended on March 31, 2020 (hereinafter “the current fiscal year”), the Japanese economy continued its gradual recovery on the back of improvements in corporate earnings and employment. However, the future remains highly unpredictable due to several reasons including the global outbreak of the novel coronavirus disease (COVID-19) that started in the second half of the current fiscal year, as well as the impacts on the global economy of the U.S.-China trade friction and the Brexit from the European Union.

The domestic information service industries have been seeing an accelerated trend of providing services typically through the cloud computing. Amid such a trend, these industries have been working on initiatives to increase added value by, for example, utilizing the latest technologies such as AI (Artificial Intelligence) and strengthening linkages between cloud services. In the field of the personnel and labor management, which MKSystem Corporation and its group companies (hereinafter collectively “the Group”) are involved, many companies in Japan continue to be highly motivated to invest in systems that will help them to improve productivity and operational efficiency. This is on the background of the government's promotion of work-style reforms including teleworking.

Under these circumstances, the Group worked to help our customers to improve operational efficiency and increase added value, as well as to further enhance our customers’ satisfaction. The “Shalom” series, our mainstay service, are the systems that support the business processes associated primarily with social insurance and labor insurance, and have been introduced broadly by more than 2,500 labor and social security attorney offices. In recent years, in relation to mandatory electronic applications, we have received increasing inquiries from companies in various industries about our system construction services for the “Company Edition” series, which are designed for general corporation customers. In the CuBe Business, we worked to expand our business by enhancing the service functions of “CuBe Cloud” and strengthening marketing activities to cultivate sales channels.

As a result, for the current fiscal year, the Group reported net sales of 2,380 million yen (up 14.7% year on year), cost of sales of 1,184 million yen (up 31.2%), the ratio of cost of sales to net sales of 49.7% (up 6.3 percentage points), gross profit of 1,196 million yen (up 2.0%), operating profit of 314 million yen (down 0.9%), the ratio of operating profit to net sales of 13.2% (down 3.4 percentage points), ordinary profit of 312 million yen (up 2.4%) and profit attributable to owners of parent of 197 million yen (up 75.9%). In addition, the return on equity (ROE), one of the KPIs for the Group, was 16.5% (up 6.2 percentage points) on a consolidated basis and 18.7% (up 2.1 percentage points) on a non-consolidated basis.

Results by business segment were as follows.

The Shalom Business

A growing number of companies as well as labor and social security attorney offices, our main customers, are motivated to introduce relevant systems from an increasing need for operational efficiency for work-style reforms including teleworking. At the same time, we expect an intensified competition as we witness an increasing number of new entrants in the market.

During the current fiscal year, we released “DirectHR,” a new solution for small- and medium-sized companies. For the “Shalom” series services, we changed the service names and logo designs, and fully renewed the website. Furthermore, we have fully updated our existing services to release “Shalom V5.0,” “Net de Komon V3.0,” and “MYNABOX.” We have also continued working to respond to revisions to various laws and regulations.

Effective January 1, 2020, Business Net Corporation Co., Ltd., our consolidated subsidiary, transferred its system development business conducted by Matsuyama Development Center of the Development Department to the Company through a company split. Consequently, effective March 31, 2020, the Company received “Nenmatsuchosei Cube Cloud”—cloud computing-based services to improve the efficiency of year-end tax adjustment, through the takeover of the business.

As a result, sales of the cloud service were 1,658 million yen (up 18.5% year on year). Specifically, sales of ASP services amounted to 1,453 million yen (up 18.4%) due to increased use by general corporations as well as accumulated monthly usage fees in line with a steady increase in the number of customers who use our main services of Shalom brand products. Sales of system construction services amounted to 204 million yen (up 19.5%)

in line with a growth in new installation orders from general corporations.

In addition, sales of system products were 113 million yen (up 6.4% year on year), at the same level as the previous fiscal year, and those from the other services were 538 thousand yen (down 85.8%).

Meanwhile, cost of sales increased compared to the previous fiscal year, as a result of factors such as increased depreciation due to the release of new products.

Consequently, the segment recorded net sales of 1,771 million yen (up 17.4% year on year), gross profit of 1,015 million yen (up 1.7%) and operating profit of 364 million yen (down 4.7%). In addition, the ratio of operating profit to net sales, one of the KPIs for the Group, was 20.6% (down 4.8 percentage points).

The CuBe Business

We have been engaged in the contracted development of front-end systems, customized to needs of an individual company, for the personnel and general affairs divisions of large companies to improve their business processes. The CuBe Business also provides cloud services that bring the convenience to small- and medium-sized companies by leveraging our know-how gained through the contracted development of systems for large companies.

In the contracted development business for front-end systems, we have accurately grasped existing customers' needs for system revamp and striven to receive more orders. In addition, as higher development costs caused a decrease in profits for the previous fiscal year, we exercised strict management over such costs and improved profits. In the cloud service business, on the other hand, we strove to acquire new users by strengthening sales of "GooooN" and enhancing the service functions of "Nenmatsu-chosei (year-end tax adjustment) CuBe Cloud" including response to revisions to laws and regulations.

As a result, the segment recorded net sales of 608 million yen (up 7.5% year on year), gross profit of 180 million yen (up 4.1%), and operating loss of 49 million yen (compared with operating loss of 64 million yen for the previous fiscal year). Operating loss of the CuBe Business reflects amortization of goodwill of 38 million yen.

Sales and composition by segment

	Amount (Millions of yen)	Composition (%)
Shalom Business	1,771	74.4
Cloud service	1,658	69.6
System product sale	113	4.8
Other services	0	0.0
CuBe Business	608	25.6
Total	2,380	100.0

(2) Financial Position

Assets

The balance of current assets at the end of the current fiscal year was 1,196 million yen (up 34.9% from the end of the previous fiscal year), consisting primarily of 749 million yen in cash and deposits, and 420 million yen in accounts receivable-trade.

The balance of non-current assets was 1,038 million yen (down 1.9% from the end of the previous fiscal year), consisting primarily of 476 million yen in software, 252 million yen in goodwill, and 29 million yen in software in progress.

As a result, the balance of total assets was 2,234 million yen (up 14.9% from the end of the previous fiscal year).

Liabilities

The balance of current liabilities at the end of the current fiscal year was 599 million yen (up 34.1% from the end of the previous fiscal year), consisting primarily of 166 million yen in current portion of long-term borrowings, 94 million yen in accrued consumption taxes, and 91 million yen in accounts payable-other.

The balance of non-current liabilities was 330 million yen (down 0.8% from the end of the previous fiscal year), consisting solely of 330 million yen in long-term borrowings.

As a result, the balance of total liabilities was 930 million yen (up 19.2% from the end of the previous fiscal year).

Net assets

The balance of shareholders' equity at the end of the current fiscal year was 1,270 million yen (up 13.7% from the end of the previous fiscal year), consisting primarily of 219 million yen in share capital, 197 million yen in capital surplus, and 854 million yen in retained earnings.

As a result, the balance of net assets was 1,304 million yen (up 12.0% from the end of the previous fiscal year).

(3) Cash Flows

The balance of cash and cash equivalents (hereinafter "net cash") at the end of the current fiscal year was 722 million yen, an increase of 423 million yen from the end of the previous fiscal year. The cash flow components during the current fiscal year and the main reasons for changes are described as follows.

Cash flows from operating activities

Net cash provided by operating activities was 814 million yen. Major positive factors include profit before income taxes of 300 million yen, depreciation of 271 million yen, and an increase in accrued consumption taxes of 133 million yen. Major negative factors include decreases in provision for loss on order received of 10 million yen, and trade payable of 9 million yen.

Cash flows from investing activities

Net cash used in investing activities was 330 million yen. Major positive factors include proceeds from refund of leasehold and guarantee deposits of 11 million yen. Major negative factors include purchase of intangible assets of 182 million yen and payments of leasehold and guarantee deposits of 139 million yen.

Cash flows from financing activities

Net cash used in financing activities was 60 million yen. Major positive factors include proceeds from long-term borrowings of 200 million yen. Major negative factors include repayments of long-term borrowings of 186 million yen and dividends paid of 43 million yen.

(4) Outlook

The Japanese economy is expected to remain unclear as we can hardly predict when the COVID-19 outbreak will be controlled. There also is a risk of further economic downturn in and outside Japan due to COVID-19.

In the personnel and labor related market in which the Group provides services, we forecast that the further introduction of system will continue for the purposes of enhancing operational efficiency and supporting the various ways of working, as part of work-style reform measures including infection prevention measures.

Under such circumstances, in the Shalom Business, we will extend and improve the functions of our mainstay services including "Shalom," "DirectHR," and "eNEN" (renamed from "Nenmatsu-chosei CuBe Cloud"), as well as enhance such functions to support electronic government systems (gBizID, Myna Portal, and the next version of e-Gov). In addition, we will continue exploring new demand and customers in the market of labor and social security attorneys and improve the functions of the corporate sales and service development. As a result, we will accelerate the cultivation of general corporate markets.

With regard to profit, we anticipate an increase in cost of sales and a resulting decline in profit margin. Such increase in cost includes an increase in labor cost to strengthen development systems and an increase in other costs, such as office rent costs, related to the relocation of Tokyo office (scheduled in August 2020).

Meanwhile, in the CuBe Business, to increase the number of contracted developments of CuBe products for large companies, we will carry out improvement and maintenance works as well as develop and deliver large-scale projects for "Jinzai CuBe" and "Shugyo CuBe" for which we have received orders. With respect to cloud services, we will make full-fledged efforts to expand sales of "GooooN" (Jinzai CuBe Cloud) and proactively move into new markets, aiming for its early contribution to revenue.

As a result, for the fiscal year ending March 31, 2021, we forecast net sales of 2,749 million yen (up 15.5% year

on year), gross profit of 1,442 million yen (up 20.6%), operating profit of 324 million yen (up 3.2%), the ratio of operating profit to net sales of 11.8% (down 1.4 percentage points), ordinary profit of 322 million yen (up 3.1%), and profit attributable to owners of parent of 201 million yen (up 2.1%).

How the Company is responding to the COVID-19 outbreak

As of now, the COVID-19 outbreak has no direct impact on the Group's business performance.

Responding to the COVID-19 outbreak, the Group has taken various measures. For example, to all of our employees, we have paid special allowances and provided surgical masks. We also have had our employees work at home in principle, and for cases where employees have work that needs to be done at offices, we have introduced staggered working hours. Furthermore, we have placed bottles of alcohol disinfectant in offices and used hypochlorous acid water to sterilize and deodorize offices to prevent the spread of infections in facilities of the Company. In accordance with the government's policy, we will continue to make efforts so that we can make a contribution even if only slightly to resolving the COVID-19 outbreak.

Details of net sales, cost of sales and selling, general and administrative (SG&A) expenses for each business segment, year-on-year changes and major factors of the changes are presented as follows.

Shalom Business

	Amount (Millions of yen)	YoY change (%)	Major factors of change
Net sales	2,144	+21.0	-
Cloud service	2,032	+22.6	An increase in sales is expected due to acquiring new customers and introducing new services.
System product sales	112	-0.9	Sales are expected to be at the previous fiscal year's level.
Cost of sales	942	+24.7	An increase in cost of sales is expected due mainly to an increase in software amortization expenses and an increase in labor cost related to the acceptance of Matsuyama Development Center.
SG&A expenses	897	+37.6	An increase in SG&A expenses is expected as personnel-related expenses will increase due to an increase in the number of personnel and other costs will increase due to the relocation of Tokyo office.
Operating profit	304	-16.5	-

CuBe Business

	Amount (Millions of yen)	YoY change (%)	Major factors of change
Net sales	605	-0.6	-
Contracted development	565	+0.1	Sales are expected to be at the previous fiscal year's level by strengthening our development and sales system and ensuring the implementation of collection and maintenance contracts.
Cloud service	40	-10.3	A decrease in sales is expected as the cloud services we provide are limited to "GooooN" due to the transfer of "Nenmatsu-chosei CuBe Cloud."
Cost of sales	363	-15.0	A decrease in cost of sales is expected as labor cost will decrease due to the acceptance of Matsuyama Development Center.
SG&A expenses	224	-2.6	Despite an increase in costs related to the relocation of our Tokyo office, a decrease in SG&A expenses is expected due to cost cut efforts in all aspects.
Operating profit	16	-	-

Note: The difference between the sum of net sales, cost of sales and SG&A expenses of each business segment and the amounts of net sales, cost of sales and SG&A expenses of the consolidated earnings forecast is attributable to inter-segment transactions.

2. Basic Approach to the Selection of Accounting Standards

The Group prepares its consolidated financial statements in accordance with accounting principles generally accepted in Japan. This decision was made in consideration primarily of burdens for developing a system to prepare the consolidated financial statements in accordance with International Financial Reporting Standards.

3. Consolidated Financial Statements and Notes**(1) Consolidated Balance Sheet**

	(Thousands of yen)	
	FY3/19	FY3/20
	(As of Mar. 31, 2019)	(As of Mar. 31, 2020)
Assets		
Current assets		
Cash and deposits	326,895	749,960
Accounts receivable-trade	430,221	420,149
Merchandise	3,917	5,904
Work in process	48,433	1,451
Supplies	172	173
Prepaid expenses	29,413	17,623
Consumption taxes receivable	44,301	-
Income taxes receivable	2,457	-
Other	720	1,004
Total current assets	886,532	1,196,267
Non-current assets		
Property, plant and equipment		
Buildings, net	22,968	18,455
Vehicles, net	3,911	2,608
Tools, furniture and fixtures, net	54,021	41,623
Total property, plant and equipment	80,901	62,688
Intangible assets		
Software	408,214	476,781
Software in progress	155,411	29,507
Trademark right	1,536	1,535
Telephone subscription right	1,218	1,218
Goodwill	291,464	252,602
Total intangible assets	857,845	761,646
Investments and other assets		
Investments in capital	70	70
Guarantee deposits	52,077	180,890
Deferred tax assets	67,868	33,078
Other	98	98
Total investments and other assets	120,114	214,137
Total non-current assets	1,058,860	1,038,471
Total assets	1,945,393	2,234,739

	(Thousands of yen)	
	FY3/19	FY3/20
	(As of Mar. 31, 2019)	(As of Mar. 31, 2020)
Liabilities		
Current liabilities		
Accounts payable-trade	36,251	27,019
Short-term borrowings	30,000	10,000
Current portion of long-term borrowings	150,311	166,644
Accounts payable-other	89,087	91,235
Accrued expenses	31,513	32,347
Income taxes payable	4,633	81,720
Accrued consumption taxes	5,163	94,545
Advances received	30,619	33,341
Provision for loss on order received	10,367	-
Provision for bonuses	47,787	55,634
Other	11,332	7,099
Total current liabilities	447,066	599,588
Non-current liabilities		
Long-term borrowings	333,340	330,595
Total non-current liabilities	333,340	330,595
Total liabilities	780,406	930,183
Net assets		
Shareholders' equity		
Share capital	219,110	219,110
Capital surplus	198,169	197,457
Retained earnings	700,449	854,151
Treasury shares	(327)	(466)
Total shareholders' equity	1,117,400	1,270,251
Non-controlling interests	47,586	34,303
Total net assets	1,164,987	1,304,555
Total liabilities and net assets	1,945,393	2,234,739

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

(Thousands of yen)

	FY3/19 (Apr. 1, 2018 – Mar. 31, 2019)	FY3/20 (Apr. 1, 2019 – Mar. 31, 2020)
Net sales	2,075,349	2,380,616
Cost of sales	902,668	1,184,313
Gross profit	1,172,680	1,196,303
Selling, general and administrative expenses	855,338	881,859
Operating profit	317,342	314,443
Non-operating income		
Interest income	8	6
Dividend income	1	1
Subsidy income	-	100
Surrender value of insurance policies	9	22
Purchase discounts	58	95
Interest on tax refund	-	434
Other	76	135
Total non-operating income	153	795
Non-operating expenses		
Interest expenses	3,115	2,605
Loss on cancellation of insurance policies	9,041	-
Other	28	2
Total non-operating expenses	12,185	2,607
Ordinary profit	305,310	312,631
Extraordinary losses		
Loss on retirement of non-current assets	8,412	12,512
Penalty	94,121	-
Total extraordinary losses	102,534	12,512
Profit before income taxes	202,776	300,119
Income taxes-current	1,819	71,361
Income taxes-deferred	96,441	34,789
Total income taxes	98,260	106,151
Profit	104,515	193,968
Profit (loss) attributable to non-controlling interests	(7,540)	(3,155)
Profit attributable to owners of parent	112,056	197,123

Consolidated Statement of Comprehensive Income

	(Thousands of yen)	
	FY3/19	FY3/20
	(Apr. 1, 2018 – Mar. 31, 2019)	(Apr. 1, 2019 – Mar. 31, 2020)
Profit	104,515	193,968
Comprehensive income	104,515	193,968
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	112,056	197,123
Comprehensive income attributable to non-controlling interests	(7,540)	(3,155)

(3) Consolidated Statement of Changes in Equity

FY3/19 (Apr. 1, 2018 – Mar. 31, 2019)

(Thousands of yen)

	Shareholders' equity					Non-controlling interests	Total net assets
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity		
Balance at beginning of period	219,110	198,290	648,098	(265)	1,065,232	70,996	1,136,229
Changes during period							
Dividends of surplus			(59,705)		(59,705)		(59,705)
Profit attributable to owners of parent			112,056		112,056		112,056
Change in ownership interest of parent due to transactions with non-controlling interests		(120)			(120)	(15,869)	(15,990)
Purchase of treasury shares				(62)	(62)		(62)
Net changes in items other than shareholders' equity						(7,540)	(7,540)
Total changes during period	-	(120)	52,351	(62)	52,168	(23,410)	28,757
Balance at end of period	219,110	198,169	700,449	(327)	1,117,400	47,586	1,164,987

FY3/20 (Apr. 1, 2019 – Mar. 31, 2020)

(Thousands of yen)

	Shareholders' equity					Non-controlling interests	Total net assets
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity		
Balance at beginning of period	219,110	198,169	700,449	(327)	1,117,400	47,586	1,164,987
Changes during period							
Dividends of surplus			(43,421)		(43,421)		(43,421)
Profit attributable to owners of parent			197,123		197,123		197,123
Change in ownership interest of parent due to transactions with non-controlling interests		(712)			(712)	(10,126)	(10,839)
Purchase of treasury shares				(138)	(138)		(138)
Net changes in items other than shareholders' equity						(3,155)	(3,155)
Total changes during period	-	(712)	153,702	(138)	152,851	(13,282)	139,568
Balance at end of period	219,110	197,457	854,151	(466)	1,270,251	34,303	1,304,555

(4) Consolidated Statement of Cash Flows

(Thousands of yen)

	FY3/19 (Apr. 1, 2018 – Mar. 31, 2019)	FY3/20 (Apr. 1, 2019 – Mar. 31, 2020)
Cash flows from operating activities		
Profit before income taxes	202,776	300,119
Depreciation	126,351	271,888
Amortization of goodwill	38,861	38,861
Increase (decrease) in provision for loss on order received	10,367	(10,367)
Increase (decrease) in provision for bonuses	(1,139)	7,846
Interest and dividend income	(9)	(7)
Interest expenses	3,115	2,605
Loss on retirement of non-current assets	8,412	12,512
Decrease (increase) in trade receivables	(38,412)	10,071
Decrease (increase) in inventories	(37,493)	44,993
Increase (decrease) in trade payables	(1,275)	(9,232)
Increase (decrease) in accrued consumption taxes	(26,867)	133,683
Increase (decrease) in accounts payable-other	(449,259)	(5,090)
Increase (decrease) in long-term accounts payable-other	-	16,967
Other, net	(1,210)	-
Subtotal	(165,782)	814,853
Interest and dividends received	7	4
Interest paid	(3,115)	(2,605)
Income taxes paid	(75,819)	(409)
Income taxes refund	-	2,457
Net cash provided by (used in) operating activities	(244,710)	814,299
Cash flows from investing activities		
Payments into time deposits	-	-
Proceeds from withdrawal of time deposits	40,014	-
Purchase of property, plant and equipment	(43,244)	(19,325)
Purchase of intangible assets	(304,336)	(182,286)
Payments of leasehold and guarantee deposits	(73)	(139,857)
Proceeds from refund of leasehold and guarantee deposits	1,842	11,044
Purchase of insurance funds	-	-
Proceeds from cancellation of insurance funds	23,881	-
Net cash provided by (used in) investing activities	(281,916)	(330,425)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(70,000)	(20,000)
Proceeds from long-term borrowings	500,000	200,000
Repayments of long-term borrowings	(179,649)	(186,412)
Repayments of lease obligations	(1,254)	-
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(15,990)	(10,839)
Purchase of treasury shares	(62)	(138)
Dividends paid	(59,705)	(43,421)
Net cash provided by (used in) financing activities	173,339	(60,811)
Net increase (decrease) in cash and cash equivalents	(353,287)	423,062
Cash and cash equivalents at beginning of period	653,043	299,755
Cash and cash equivalents at end of period	299,755	722,818

(5) Notes to Consolidated Financial Statements**Going Concern Assumption**

Not applicable.

Segment and Other Information

Segment information

1. Overview of reportable segment

The reportable segments of the Group are components for which discrete financial information is available and whose operating results are regularly reviewed by the Board of Directors to make decisions about resource allocation and to assess performance.

The Group consists of business segments sorted by merchandise, products and services based on MKSystem and its consolidated subsidiaries. The Group has two reportable segments: Shalom Business and CuBe Business.

2. Method of calculating net sales, profit/loss, assets, liabilities and other items by reportable segment

The figures of the business segments are prepared in accordance with the accounting procedures in line with those adopted for preparing the consolidated financial statements. Segment profit is the same as operating profit.

Inter-segment sales and transfers are based on the arm's length transaction price.

3. Information related to net sales, profit/loss, assets, liabilities and other items for each reportable segment

FY3/19 (Apr. 1, 2018 – Mar. 31, 2019)

(Thousands of yen)

	Reportable segment			Adjustment (Note)	Amounts recorded in consolidated financial statements
	Shalom Business	CuBe Business	Total		
Net sales					
External sales	1,508,829	566,520	2,075,349	-	2,075,349
Inter-segment sales and transfers	552	690	1,242	(1,242)	-
Total	1,509,381	567,210	2,076,591	(1,242)	2,075,349
Segment profit (loss)	382,025	(67,203)	314,822	2,520	317,342
Segment assets	1,226,591	820,539	2,047,130	(101,737)	1,945,393
Other items					
Depreciation	85,105	41,245	126,351	-	126,351
Amortization of goodwill	-	38,861	38,861	-	38,861
Increase in property, plant and equipment and intangible assets	548,116	91,365	639,482	-	639,482

Notes: 1. The segment profit (loss) adjustment is the amount of elimination of inter-segment transactions.

2. Segment profit (loss) has been adjusted to the operating profit stated in the consolidated statement of income.

FY3/20 (Apr. 1, 2019 – Mar. 31, 2020)

(Thousands of yen)

	Reportable segment			Adjustment (Note)	Amounts recorded in consolidated financial statements
	Shalom Business	CuBe Business	Total		
Net sales					
External sales	1,771,842	608,774	2,380,616	-	2,380,616
Inter-segment sales and transfers	12,363	19,542	31,906	(31,906)	-
Total	1,784,206	628,316	2,412,523	(31,906)	2,380,616
Segment profit (loss)	358,707	(46,263)	312,444	1,999	314,443
Segment assets	1,632,142	713,138	2,345,281	(110,542)	2,234,739
Other items					
Depreciation	215,107	56,780	271,888	-	271,888
Amortization of goodwill	-	38,861	38,861	-	38,861
Increase in property, plant and equipment and intangible assets	318,354	37,655	356,009	-	356,009

Notes: 1. The segment profit (loss) adjustment is the amount of elimination of inter-segment transactions.

2. Segment profit (loss) has been adjusted to the operating profit stated in the consolidated statement of income.

Per Share Information

(Yen)

	FY3/19 (Apr. 1, 2018 – Mar. 31, 2019)	FY3/20 (Apr. 1, 2019 – Mar. 31, 2020)
Net assets per share	205.87	234.04
Basic earnings per share	20.65	36.32

Notes: 1. Diluted earnings per share is not presented since MKSystem had no dilutive potential shares.

2. The basis of calculating basic earnings per share is as follows:

(Thousands of yen unless otherwise stated)

	FY3/19 (Apr. 1, 2018 – Mar. 31, 2019)	FY3/20 (Apr. 1, 2019 – Mar. 31, 2020)
Profit attributable to owners of parent	112,056	197,123
Amounts not available to common shareholders	-	-
Profit attributable to owners of parent available to common stock	112,056	197,123
Average number of shares of common stock during the period (Shares)	5,427,709	5,427,599

3. The basis of calculating net assets per share is as follows:

(Thousands of yen unless otherwise stated)

	FY3/19 (As of Mar. 31, 2019)	FY3/20 (As of Mar. 31, 2020)
Total net assets	1,164,987	1,304,555
Deduction on total net assets	47,586	34,303
[of which non-controlling interests]	[47,586]	[34,303]
Net assets applicable to common stock	1,117,400	1,270,251
Number of shares of common stock at the fiscal year end used in calculation of net assets per share (Shares)	5,427,688	5,427,526

Subsequent Events

Not applicable.

This financial report is solely a translation of MKSystem's Kessan Tanshin (including attachments) in Japanese, which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.