

*** 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.

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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 "Nenmatsuchosei 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 (As of Mar. 31, 2019) | FY3/20 (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 (As of Mar. 31, 2019) | FY3/20 (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 | <u>(165,782)</u> | <u>814,853</u> |
| 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 | <u>(244,710)</u> | <u>814,299</u> |
| 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 | <u>(281,916)</u> | <u>(330,425)</u> |
| 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 | <u>173,339</u> | <u>(60,811)</u> |
| Net increase (decrease) in cash and cash equivalents | <u>(353,287)</u> | <u>423,062</u> |
| Cash and cash equivalents at beginning of period | <u>653,043</u> | <u>299,755</u> |
| Cash and cash equivalents at end of period | <u>299,755</u> | <u>722,818</u> |

(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.