

Summary of Consolidated Financial Results for the Fiscal Year Ended March 31, 2021

[Japanese GAAP]

Company name: MKSystem Corporation Listing: Tokyo Stock Exchange (JASDAQ)
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Scheduled date of Annual General Meeting of Shareholders: June 22, 2021

Scheduled date of payment of dividend: June 23, 2021

Scheduled date of filing of Annual Securities Report: June 22, 2021

Preparation of supplementary materials for financial results: Yes

Holding of financial results meeting: None

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

1. Consolidated Financial Results for the Fiscal Year Ended March 31, 2021 (April 1, 2020 – March 31, 2021)

(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, 2021 | 2,439 | 2.5 | 219 | (30.2) | 218 | (30.0) | 137 | (30.0) |
| Fiscal year ended Mar. 31, 2020 | 2,380 | 14.7 | 314 | (0.9) | 312 | 2.4 | 197 | 75.9 |

Note: Comprehensive income (million yen) Fiscal year ended Mar. 31, 2021: 141 (down 27.1%)

Fiscal year ended Mar. 31, 2020: 193 (up 85.6%)

| | 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, 2021 | 25.41 | - | 10.5 | 9.8 | 9.0 |
| Fiscal year ended Mar. 31, 2020 | 36.32 | - | 16.5 | 15.0 | 13.2 |

Reference: Equity in earnings of affiliates (million yen) Fiscal year ended Mar. 31, 2021: - Fiscal year ended Mar. 31, 2020: -

(2) Consolidated financial position

| | Total assets | Net assets | Equity ratio | Net assets per share |
|---------------------|--------------|-------------|--------------|----------------------|
| | Million yen | Million yen | % | Yen |
| As of Mar. 31, 2021 | 2,241 | 1,402 | 60.9 | 251.47 |
| As of Mar. 31, 2020 | 2,234 | 1,304 | 56.8 | 234.04 |

Reference: Shareholders' equity (million yen) As of Mar. 31, 2021: 1,364 As of Mar. 31, 2020: 1,270

(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, 2021 | 340 | (381) | (64) | 617 |
| Fiscal year ended Mar. 31, 2020 | 814 | (330) | (60) | 722 |

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, 2020 | - | 0.00 | - | 8.00 | 8.00 | 43 | 22.0 | 3.6 |
| Fiscal year ended Mar. 31, 2021 | - | 0.00 | - | 8.00 | 8.00 | 43 | 31.4 | 3.3 |
| Fiscal year ending Mar. 31, 2022 (forecast) | - | 0.00 | - | 8.00 | 8.00 | | - | |

3. Consolidated Earnings Forecasts for the Fiscal Year Ending March 31, 2022 (April 1, 2021 – March 31, 2022)

(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 | 1,286 | 14.0 | (12) | - | (12) | - | (24) | - | (4.54) |
| Full year | 2,892 | 18.6 | 220 | 0.2 | 219 | 0.2 | 138 | 0.2 | 25.47 |

*** 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, 2021: 5,428,000 shares As of Mar. 31, 2020: 5,428,000 shares

2) Number of treasury shares at the end of period

As of Mar. 31, 2021: 506 shares As of Mar. 31, 2020: 474 shares

3) Average number of shares during the period

Fiscal year ended Mar. 31, 2021: 5,427,505 shares Fiscal year ended Mar. 31, 2020: 5,427,599 shares

Reference: Summary of Non-consolidated Financial Results

Non-consolidated Financial Results for the Fiscal Year Ended March 31, 2021 (April 1, 2020 – March 31, 2021)

(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, 2021 | 1,929 | 8.2 | 221 | (38.2) | 225 | (37.8) | 151 | (38.3) |
| Fiscal year ended Mar. 31, 2020 | 1,784 | 18.2 | 358 | (6.1) | 361 | (5.4) | 245 | 29.1 |

| | Basic earnings per share | Diluted earnings per share |
|---------------------------------|--------------------------|----------------------------|
| | Yen | Yen |
| Fiscal year ended Mar. 31, 2021 | 27.93 | - |
| Fiscal year ended Mar. 31, 2020 | 45.25 | - |

(2) Non-consolidated financial position

| | Total assets | Net assets | Equity ratio | Net assets per share |
|---------------------|--------------|-------------|--------------|----------------------|
| | Million yen | Million yen | % | Yen |
| As of Mar. 31, 2021 | 2,281 | 1,522 | 66.7 | 280.54 |
| As of Mar. 31, 2020 | 2,258 | 1,414 | 62.6 | 260.61 |

Reference: Shareholders' equity (million yen) As of Mar. 31, 2021: 1,522 As of Mar. 31, 2020: 1,414

* 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.

Materials for financial results will be posted on its website on May 25, 2021.

Contents of Attachments

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1. Overview of Results of Operations, etc.

(1) Results of Operations

During the fiscal year ended on March 31, 2021 (hereinafter “the current fiscal year”), the Japanese economy deteriorated rapidly as COVID-19 spread worldwide and the impact of people being urged to stay at home, businesses being asked to shut their doors, the declaration of a state of emergency, and so on substantially restricted personal consumption and corporate activity. Although a short-lived recovery was observed, with another state of emergency being declared and there being no end to the pandemic in sight, there are concerns that the suppression of economic activity is here for the long term.

The information service industries in Japan have been employing DX (digital transformation), which facilitates flexible changes in business and life, to tackle such tasks of revamping work styles. On these backgrounds corporate systems investment demand, which is aimed at raising productivity and improving business efficiency, remained high, though the uncertain economic outlook also resulted in greater caution in investment decision-making.

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 addition, the Group strengthened marketing activities to expand sales for “Company Edition” series designed for general corporation customers, “eNEN,” a year-end tax adjustment tool, as well as “Cloud Pocket,” which was newly released in July 2020. In the CuBe Business, we worked to expand our business by enhancing the service functions of “GooooN” and strengthening marketing activities to expand sales channels.

During the current fiscal year, the Company relocated its Tokyo office. The new office site has not only the Company’s Tokyo office but also the offices of our consolidated subsidiary, partner companies and other affiliated organizations, which relocated at the same time, in order to work more closely and streamline the operations. As a result of the relocation, the Company reported rental income of 28 million yen from the partner companies and other affiliated organizations as non-operating income and rental costs of 25 million yen as non-operating expenses.

As a result, for the current fiscal year, the Group reported net sales of 2,439 million yen (up 2.5% year on year), cost of sales of 1,238 million yen (up 4.6%), the ratio of cost of sales to net sales of 50.8% (up 1.0 percentage point), gross profit of 1,200 million yen (up 0.4%), operating profit of 219 million yen (down 30.2%), the ratio of operating profit to net sales of 9.0% (down 4.2 percentage points), ordinary profit of 218 million yen (down 30.0%), and profit attributable to owners of parent of 137 million yen (down 30.0%). In addition, the return on equity (ROE), one of the KPIs for the Group, was 10.5% (down 6.0 percentage points) on a consolidated basis and 10.3% (down 8.4 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 the work-style reforms including teleworking. At the same time, we expect an intensified competition and pricing pressure as we witness active entries in the market.

During the current fiscal year, Human Capital 2020—a professional event on HR-related solutions at which we have exhibited every year and that attracts inquiries from many companies—was cancelled due to the spread of COVID-19. We were also forced to call off the Company-sponsored seminars that were to be held at physical venues. As a result, our in-person sales activities were considerably restricted. Furthermore, in both the labor and social security attorney market and the general corporate market, we experienced delays in negotiations and installations because persons with the authority to sign off on transactions as well as personnel managers were so busy.

Under such circumstances, we started by taking sufficient care to prevent the spread of infections so as to keep our employees safe. For example, we had some employees work from home and had others come to work at staggered times. We also provided all our employees with a special bonus. In terms sales activities, we held follow-up

meetings for the Shalom brand products and various seminars online, and also switched communication with customers to telephone and online. Furthermore, we strengthened web-based promotional activities. In addition, we enhanced the service functions of “DirectHR,” a solution for small- and medium-sized companies, “Cloud Pocket,” which we released in July 2020, and “eNEN (renamed from Nenmatsu-chosei CuBe Cloud),” which was acquired by the Company from Business Net Corporation Co., Ltd. through a business transfer.

As a result, sales of the cloud services, which consist of ASP services and system construction services, were 1,788 million yen (up 7.8% year on year). Specifically, sales of ASP services amounted to 1,639 million yen (up 12.6%) due to increased use by general corporations as well as accumulated monthly usage fees in line with an increase in the number of customers who use our main services of Shalom brand products. However, sales of system construction services decreased to 148 million yen (down 27.0%) due to the slower-than-expected progress of orders received for Shalom House Plan and new installation by general corporations, which was impacted by curtailed sales activities. In addition, sales of system products also decreased to 102 million yen (down 9.1%), affected by a trend of customers transitioning to telework.

In the previous fiscal year, cost of sales increased due to rises in labor cost and software amortization expenses in conjunction with a strengthening of the development structure. Furthermore, selling, general and administrative expenses climbed mainly as a result of higher office rent following the relocation of the Tokyo office.

Consequently, the segment recorded net sales of 1,929 million yen (up 8.2% year on year), gross profit of 1,005 million yen (down 0.5%) and operating profit of 221 million yen (down 38.2%). The ratio of operating profit to net sales, one of the KPIs for the Group, was 11.5% (down 8.6 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 previous fiscal year, the “eNEN (renamed from Nenmatsu-chosei CuBe Cloud)” business was transferred by BNC to its parent company, MKSystem Corporation.

As a result of the spread of COVID-19 from the beginning of the fiscal year, delays in negotiations and installations occurred, and sales were down year on year. However, by establishing the new development structure and endeavoring to boost efficiency, there was a substantial improvement in operating margin.

As a result, the segment recorded net sales of 550 million yen (down 12.4% year on year), gross profit of 194 million yen (up 3.9%), and operating loss of 5 million yen (compared with operating loss of 46 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 | 1,897 | 77.8 |
| Cloud service | 1,787 | 73.3 |
| System product sale | 102 | 4.2 |
| Other services | 6 | 0.3 |
| CuBe Business | 541 | 22.2 |
| Total | 2,439 | 100.0 |

(2) Financial Position

Assets

The balance of current assets at the end of the current fiscal year was 1,172 million yen (down 2.0% from the end of the previous fiscal year), consisting primarily of 644 million yen in cash and deposits and 467 million yen in accounts receivable-trade.

The balance of non-current assets was 1,069 million yen (up 2.9% from the end of the previous fiscal year), consisting primarily of 397 million yen in software, 213 million yen in goodwill, 161 million yen in guarantee deposits, and 135 million yen in buildings.

As a result, the balance of total assets was 2,241 million yen (up 0.3% from the end of the previous fiscal year).

Liabilities

The balance of current liabilities at the end of the current fiscal year was 586 million yen (down 2.2% from the end of the previous fiscal year), consisting primarily of 233 million yen in current portion of long-term borrowings, 98 million yen in accounts payable-other, and 64 million yen in provision for bonuses.

The balance of non-current liabilities was 252 million yen (down 23.5% from the end of the previous fiscal year), consisting solely of 252 million yen in long-term borrowings.

As a result, the balance of total liabilities was 839 million yen (down 9.7% from the end of the previous fiscal year).

Net assets

The balance of shareholders' equity at the end of the current fiscal year was 1,364 million yen (up 7.4% from the end of the previous fiscal year), consisting primarily of 219 million yen in share capital, 197 million yen in capital surplus, and 948 million yen in retained earnings.

As a result, the balance of net assets was 1,402 million yen (up 7.5% 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 decreased 105 million yen from the end of the previous fiscal year to 617 million yen. The details of cash flows during the current fiscal year from each activity and the major components of changes are as follows.

Cash flows from operating activities

Net cash provided by operating activities was 340 million yen. Major positive factors include profit before income taxes of 217 million yen, depreciation of 323 million yen and amortization of goodwill of 38 million yen. Major negative factors include income taxes paid of 105 million yen, an 82 million yen decrease in accrued consumption taxes and a 47 million yen increase in trade receivables.

Cash flows from investing activities

Net cash used in investing activities was 381 million yen. Major positive factors include proceeds from refund of leasehold and guarantee deposits of 19 million yen. Major negative factors include purchase of intangible assets of 205 million yen and purchase of property, plant and equipment of 195 million yen.

Cash flows from financing activities

Net cash used in financing activities was 64 million yen. Major positive factors include proceeds from long-term borrowings of 200 million yen, while major negative factors include repayments of long-term borrowings of 211 million yen and dividends paid of 43 million yen.

(4) Outlook

As for the future, the situation is expected to remain unclear as there is still no end in sight to the COVID-19 pandemic. The risk of the domestic economy worsening further is also a worry.

In the personnel and labor market, in which the Group provides services, harsh conditions are predicted as desire to invest in new equipment is forecast to be lackluster because of the deterioration in corporate performance. On the other hand, given initiatives to reform work styles, partly as a means of tackling COVID-19, systems investment for the purposes of enhancing operational efficiency and supporting various ways of working is expected to continue, though the scale of such investment will depend on the level of need.

Under such circumstances, in the Shalom Business, we will improve the quality and expand the functions of mainstay products such as “Shalom,” “DirectHR,” and “eNEN.” At the same time, through steady migration to NEW Shalom (Shalom V5.0), we will strive to increase our share of the labor and social security attorney market. We will also further strengthen corporate sales and service development to accelerate our inroads into general corporate markets.

With regard to profit, we anticipate a decline in profit margin as a result of an increase in cost of sales due to higher labor cost associated with the strengthening of the development structure and an increase in selling, general and administrative expenses associated with the strengthening of digital marketing, which is designed to attract new customers.

Meanwhile, in the CuBe Business, we will be actively approaching potential customers through various channels with the aim of expanding the market for “GooooN” (Jinzai CuBe Cloud). As for contracted developments for CuBe products for large companies, we will be endeavoring to get them to make a stable contribution to revenue not only by developing and delivering large-scale products, but also by steadily carrying out improvement and maintenance work.

As a result, for the fiscal year ending March 31, 2022, we forecast net sales of 2,892 million yen (up 18.6% year on year), gross profit of 1,395 million yen (up 16.2%), operating profit of 220 million yen (up 0.2%), the ratio of operating profit to net sales of 7.6% (down 1.4 percentage point), ordinary profit of 219 million yen (up 0.2%), and profit attributable to owners of parent of 138 million yen (up 0.2%).

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 | 2,300 | +19.2 | - |
| Cloud service | 2,167 | +19.1 | An increase in sales is expected due to higher monthly subscription revenue, the acquisition of new customers, and the introduction of new services. |
| System product sales | 132 | +20.6 | An increase in sales is expected due to the acquisition of new customers. |
| Cost of sales | 1,101 | +19.2 | 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 an increase in the number of personnel. |
| SG&A expenses | 959 | +22.4 | An increase in SG&A expenses is expected as personnel-related expenses will increase due to a rise in the number of personnel and other costs will increase due to higher sales promotion expenses incurred in connection with the strengthening of digital marketing. |
| Operating profit | 238 | +7.8 | - |

CuBe Business

| | Amount (Millions of yen) | YoY change (%) | Major factors of change |
|------------------------|-----------------------------|-------------------|---|
| Net sales | 610 | +10.8 | - |
| Contracted development | 520 | +3.0 | 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 | 90 | +96.6 | An increase in sales is expected as we acquire new customers and pursue further integration with Shalom products. |
| Cost of sales | 413 | +16.3 | An increase in cost of sales is expected as both labor cost and outsourcing expenses will increase, the former as a result of a rise in the number of personnel. |
| SG&A expenses | 180 | -10.2 | Despite an increase in personnel-related expenses due to an increase in the number of personnel, 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)

| | FY3/20 (As of Mar. 31, 2020) | FY3/21 (As of Mar. 31, 2021) |
|-------------------------------------|---------------------------------|---------------------------------|
| Assets | | |
| Current assets | | |
| Cash and deposits | 749,960 | 644,492 |
| Accounts receivable-trade | 420,149 | 467,416 |
| Merchandise | 5,904 | 7,054 |
| Work in process | 1,451 | 3,261 |
| Supplies | 173 | 77 |
| Prepaid expenses | 17,623 | 37,741 |
| Other | 1,004 | 12,879 |
| Total current assets | 1,196,267 | 1,172,924 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings, net | 18,455 | 135,248 |
| Vehicles, net | 2,608 | 1,737 |
| Tools, furniture and fixtures, net | 41,623 | 85,789 |
| Total property, plant and equipment | 62,688 | 222,775 |
| Intangible assets | | |
| Software | 476,781 | 397,537 |
| Software in progress | 29,507 | 40,416 |
| Trademark right | 1,535 | 1,316 |
| Telephone subscription right | 1,218 | 1,218 |
| Goodwill | 252,602 | 213,740 |
| Total intangible assets | 761,646 | 654,229 |
| Investments and other assets | | |
| Investments in capital | 70 | 60 |
| Guarantee deposits | 180,890 | 161,362 |
| Deferred tax assets | 33,078 | 30,495 |
| Other | 98 | 98 |
| Total investments and other assets | 214,137 | 192,016 |
| Total non-current assets | 1,038,471 | 1,069,021 |
| Total assets | 2,234,739 | 2,241,946 |

(Thousands of yen)

| | FY3/20 (As of Mar. 31, 2020) | FY3/21 (As of Mar. 31, 2021) |
|---|---------------------------------|---------------------------------|
| Liabilities | | |
| Current liabilities | | |
| Accounts payable-trade | 27,019 | 45,006 |
| Short-term borrowings | 10,000 | - |
| Current portion of long-term borrowings | 166,644 | 233,304 |
| Accounts payable-other | 91,235 | 98,889 |
| Accrued expenses | 32,347 | 37,730 |
| Income taxes payable | 81,720 | 45,235 |
| Accrued consumption taxes | 94,545 | 11,841 |
| Advances received | 33,341 | 42,880 |
| Provision for bonuses | 55,634 | 64,113 |
| Other | 7,099 | 7,684 |
| Total current liabilities | 599,588 | 586,685 |
| Non-current liabilities | | |
| Long-term borrowings | 330,595 | 252,851 |
| Total non-current liabilities | 330,595 | 252,851 |
| Total liabilities | 930,183 | 839,536 |
| Net assets | | |
| Shareholders' equity | | |
| Share capital | 219,110 | 219,110 |
| Capital surplus | 197,457 | 197,457 |
| Retained earnings | 854,151 | 948,784 |
| Treasury shares | (466) | (499) |
| Total shareholders' equity | 1,270,251 | 1,364,852 |
| Non-controlling interests | 34,303 | 37,557 |
| Total net assets | 1,304,555 | 1,402,410 |
| Total liabilities and net assets | 2,234,739 | 2,241,946 |

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

(Thousands of yen)

| | FY3/20 (Apr. 1, 2019 – Mar. 31, 2020) | FY3/21 (Apr. 1, 2020 – Mar. 31, 2021) |
|---|--|--|
| Net sales | 2,380,616 | 2,439,074 |
| Cost of sales | 1,184,313 | 1,238,421 |
| Gross profit | 1,196,303 | 1,200,652 |
| Selling, general and administrative expenses | 881,859 | 981,109 |
| Operating profit | 314,443 | 219,543 |
| Non-operating income | | |
| Interest income | 6 | 7 |
| Dividend income | 1 | 1 |
| Subsidy income | 100 | 1,056 |
| Royalty income | - | 600 |
| Rental income | - | 28,437 |
| Surrender value of insurance policies | 22 | 30 |
| Purchase discounts | 95 | 263 |
| Interest on tax refund | 434 | - |
| Other | 135 | 69 |
| Total non-operating income | 795 | 30,463 |
| Non-operating expenses | | |
| Interest expenses | 2,605 | 2,631 |
| Rental costs | - | 25,280 |
| Other | 2 | 3,157 |
| Total non-operating expenses | 2,607 | 31,068 |
| Ordinary profit | 312,631 | 218,938 |
| Extraordinary losses | | |
| Loss on retirement of property, plant and equipment | 12,512 | 700 |
| Loss on retirement of intangible assets | - | 1,204 |
| Total extraordinary losses | 12,512 | 1,904 |
| Profit before income taxes | 300,119 | 217,033 |
| Income taxes-current | 71,361 | 73,144 |
| Income taxes-deferred | 34,789 | 2,582 |
| Total income taxes | 106,151 | 75,726 |
| Profit | 193,968 | 141,306 |
| Profit (loss) attributable to non-controlling interests | (3,155) | 3,387 |
| Profit attributable to owners of parent | 197,123 | 137,919 |

Consolidated Statement of Comprehensive Income

| | (Thousands of yen) | |
|--|--------------------------------|--------------------------------|
| | FY3/20 | FY3/21 |
| | (Apr. 1, 2019 – Mar. 31, 2020) | (Apr. 1, 2020 – Mar. 31, 2021) |
| Profit | 193,968 | 141,306 |
| Comprehensive income | 193,968 | 141,306 |
| Comprehensive income attributable to | | |
| Comprehensive income attributable to owners of parent | 197,123 | 137,919 |
| Comprehensive income attributable to non-controlling interests | (3,155) | 3,387 |

(3) Consolidated Statement of Changes in Equity

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 |

FY3/21 (Apr. 1, 2020 – Mar. 31, 2021)

(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 | 197,457 | 854,151 | (466) | 1,270,251 | 34,303 | 1,304,555 |
| Changes during period | | | | | | | |
| Dividends of surplus | | | (43,420) | | (43,420) | | (43,420) |
| Profit attributable to owners of parent | | | 138,053 | | 138,053 | (134) | 137,919 |
| Change in ownership interest of parent due to transactions with non-controlling interests | | - | | | - | - | - |
| Purchase of treasury shares | | | | (32) | (32) | | (32) |
| Net changes in items other than shareholders' equity | | | | | - | 3,388 | 3,388 |
| Total changes during period | - | - | 94,633 | (32) | 94,600 | 3,253 | 97,854 |
| Balance at end of period | 219,110 | 197,457 | 948,784 | (499) | 1,364,852 | 37,557 | 1,402,410 |

(4) Consolidated Statement of Cash Flows

(Thousands of yen)

| | FY3/20 (Apr. 1, 2019 – Mar. 31, 2020) | FY3/21 (Apr. 1, 2020 – Mar. 31, 2021) |
|--|--|--|
| Cash flows from operating activities | | |
| Profit before income taxes | 300,119 | 217,033 |
| Depreciation | 271,888 | 323,506 |
| Amortization of goodwill | 38,861 | 38,861 |
| Increase (decrease) in provision for loss on order received | (10,367) | - |
| Increase (decrease) in provision for bonuses | 7,846 | 8,479 |
| Interest and dividend income | (7) | (8) |
| Interest expenses | 2,605 | 2,631 |
| Loss on retirement of property, plant and equipment | 12,512 | 700 |
| Loss on retirement of intangible assets | - | 1,204 |
| Decrease (increase) in trade receivables | 10,071 | (47,267) |
| Decrease (increase) in inventories | 44,993 | (2,864) |
| Increase (decrease) in trade payables | (9,232) | 17,986 |
| Increase (decrease) in accrued consumption taxes | 133,683 | (82,704) |
| Increase (decrease) in accounts payable-other | (5,090) | (8,636) |
| Other, net | 16,967 | (20,758) |
| Subtotal | 814,853 | 448,164 |
| Interest and dividends received | 4 | 6 |
| Interest paid | (2,605) | (2,631) |
| Income taxes paid | (409) | (105,355) |
| Income taxes refund | 2,457 | - |
| Net cash provided by (used in) operating activities | 814,299 | 340,184 |
| Cash flows from investing activities | | |
| Purchase of property, plant and equipment | (19,325) | (195,275) |
| Purchase of intangible assets | (182,286) | (205,379) |
| Proceeds from divestments | - | 10 |
| Payments of leasehold and guarantee deposits | (139,857) | - |
| Proceeds from refund of leasehold and guarantee deposits | 11,044 | 19,527 |
| Net cash provided by (used in) investing activities | (330,425) | (381,116) |
| Cash flows from financing activities | | |
| Net increase (decrease) in short-term borrowings | (20,000) | (10,000) |
| Proceeds from long-term borrowings | 200,000 | 200,000 |
| Repayments of long-term borrowings | (186,412) | (211,084) |
| Purchase of shares of subsidiaries not resulting in change in scope of consolidation | (10,839) | - |
| Purchase of treasury shares | (138) | (32) |
| Dividends paid | (43,421) | (43,420) |
| Net cash provided by (used in) financing activities | (60,811) | (64,536) |
| Net increase (decrease) in cash and cash equivalents | 423,062 | (105,469) |
| Cash and cash equivalents at beginning of period | 299,755 | 722,818 |
| Cash and cash equivalents at end of period | 722,818 | 617,349 |

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

Not applicable.

Segment and Other Information

Segment information

1. Overview of reportable segment

(1) Method of determining the reportable segments

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) Products and services by each reportable segment

The Shalom Business segment provides software to support the business processes associated primarily with social insurance and labor insurance as an application service provider (ASP).

The CuBe Business segment provides consultation services focused on the business processes to the human resources and general affairs divisions of companies to customize, develop and provide front-end systems that help enhance efficiency of operations for each customer.

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

The accounting treatment methods for reportable business segments are generally the same as those listed in "Significant Accounting Policies in the Preparation of Consolidated Financial Statements," except for the valuation of inventories.

Inventories are evaluated by the amount before written down to reflect the effect of lower profit margins. Profits for reportable segments are generally operating profit figures. Profits on and transfer amounts of inter-segment transactions within the Group are based on current market prices.

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

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 | 320,613 | 37,655 | 358,268 | - | 358,268 |

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

2. The adjustment of segment assets is the elimination of inter-segment receivables and payables.

3. Segment profit (loss) is adjusted to be consistent with operating profit presented on the consolidated statement of income.

FY3/21 (Apr. 1, 2020 – Mar. 31, 2021)

(Thousands of yen)

| | Reportable segment | | | Adjustment (Note) | Amounts recorded in consolidated financial statements |
|--|--------------------|---------------|-----------|----------------------|---|
| | Shalom Business | CuBe Business | Total | | |
| Net sales | | | | | |
| External sales | 1,897,373 | 541,700 | 2,439,074 | - | 2,439,074 |
| Inter-segment sales and transfers | 32,606 | 8,758 | 41,364 | (41,364) | - |
| Total | 1,929,979 | 550,459 | 2,480,439 | (41,364) | 2,439,074 |
| Segment profit (loss) | 221,597 | (5,788) | 215,809 | 3,733 | 219,543 |
| Segment assets | 1,654,510 | 593,458 | 2,247,969 | (6,022) | 2,241,946 |
| Other items | | | | | |
| Depreciation | 282,437 | 41,069 | 323,506 | - | 323,506 |
| Amortization of goodwill | - | 38,861 | 38,861 | - | 38,861 |
| Increase in property, plant and equipment and intangible assets | 388,594 | 16,886 | 405,481 | - | 405,481 |

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

2. The adjustment of segment assets is the elimination of inter-segment receivables and payables.

3. Segment profit (loss) is adjusted to be consistent with operating profit presented on the consolidated statement of income.

Per Share Information

(Yen)

| | FY3/20 (Apr. 1, 2019 – Mar. 31, 2020) | FY3/21 (Apr. 1, 2020 – Mar. 31, 2021) |
|--------------------------|--|--|
| Net assets per share | 234.04 | 251.47 |
| Basic earnings per share | 36.32 | 25.41 |

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)

| | FY3/20 (Apr. 1, 2019 – Mar. 31, 2020) | FY3/21 (Apr. 1, 2020 – Mar. 31, 2021) |
|--|--|--|
| Profit attributable to owners of parent | 197,123 | 137,919 |
| Amounts not available to common shareholders | - | - |
| Profit attributable to owners of parent available to common stock | 197,123 | 137,919 |
| Average number of shares of common stock during the period (Shares) | 5,427,599 | 5,427,505 |

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

(Thousands of yen unless otherwise stated)

| | FY3/20 (As of Mar. 31, 2020) | FY3/21 (As of Mar. 31, 2021) |
|---|---------------------------------|---------------------------------|
| Total net assets | 1,304,555 | 1,402,410 |
| Deduction on total net assets | 34,303 | 37,557 |
| [of which non-controlling interests] | [34,303] | [37,557] |
| Net assets applicable to common stock | 1,270,251 | 1,364,852 |
| Number of shares of common stock at the fiscal year end used in calculation of net assets per share (Shares) | 5,427,526 | 5,427,494 |

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.