

Summary of Consolidated Financial Results for the Fiscal Year Ended March 31, 2019

[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, Director, General Manager of Management Department
 Tel: +81-6-7222-3394

Scheduled date of Annual General Meeting of Shareholders: June 20, 2019
 Scheduled date of payment of dividend: June 21, 2019
 Scheduled date of filing of Annual Securities Report: June 20, 2019
 Preparation of supplementary materials for financial results: Yes
 Holding of financial results meeting: Yes (for institutional investors and securities analysts)
 (All amounts are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Fiscal Year Ended March 31, 2019 (April 1, 2018 – March 31, 2019)

(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, 2019	2,075	10.0	317	1.0	305	(4.0)	112	(45.2)
Fiscal year ended Mar. 31, 2018	1,887	17.9	314	1.5	317	3.1	204	9.7

Note: Comprehensive income (million yen) Fiscal year ended Mar. 31, 2019: 104 (down 51.0%)
 Fiscal year ended Mar. 31, 2018: 213 (up 7.2%)

	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, 2019	20.65	-	10.3	14.8	15.3
Fiscal year ended Mar. 31, 2018	37.66	-	20.7	15.0	16.6

Reference: Equity in earnings of affiliates (million yen) Fiscal year ended Mar. 31, 2019: - Fiscal year ended Mar. 31, 2018: -

Note: MKSystem conducted a 2-for-1 split of its common stock with an effective date of April 1, 2018. Basic earnings per share was calculated based on the assumption that the stock split had been conducted at the beginning of the previous fiscal year.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Mar. 31, 2019	1,945	1,164	57.4	205.87
As of Mar. 31, 2018	2,178	1,136	48.9	196.26

Reference: Shareholders' equity (million yen) As of Mar. 31, 2019: 1,117 As of Mar. 31, 2018: 1,065

Note: MKSystem conducted a 2-for-1 split of its common stock with an effective date of April 1, 2018. Net assets per share was calculated based on the assumption that the stock split had been conducted at the beginning of the previous fiscal year.

(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, 2019	(244)	(281)	173	299
Fiscal year ended Mar. 31, 2018	444	(248)	(173)	653

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, 2018	-	0.00	-	22.00	22.00	59	29.2	6.0
Fiscal year ended Mar. 31, 2019	-	0.00	-	8.00	8.00	43	38.7	4.0
Fiscal year ending Mar. 31, 2020 (forecast)	-	0.00	-	8.00	8.00		19.3	

Note: MKSystem conducted a 2-for-1 split of its common stock with an effective date of April 1, 2018. Dividends for the fiscal year ended March 31, 2018 were based on the number of shares before the stock split.

3. Consolidated Earnings Forecasts for the Fiscal Year Ending March 31, 2020 (April 1, 2019 – March 31, 2020)

(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	1,163	22.9	84	7.0	82	6.8	53	-	9.92
Full year	2,496	20.3	359	13.2	356	16.7	225	101.1	41.52

*** 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, 2019: 5,428,000 shares As of Mar. 31, 2018: 5,428,000 shares

2) Number of treasury shares at the end of period

As of Mar. 31, 2019: 312 shares As of Mar. 31, 2018: 238 shares

3) Average number of shares during the period

Fiscal year ended Mar. 31, 2019: 5,427,709 shares Fiscal year ended Mar. 31, 2018: 5,427,888 shares

Note: MKSystem conducted a 2-for-1 split of its common stock with an effective date of April 1, 2018. Number of shares issued at the end of period, number of treasury shares at the end of period, and average number of shares during the period were calculated based on the assumption that the stock split had been conducted at the beginning of the previous fiscal year.

Reference: Summary of Non-consolidated Financial Results

Non-consolidated Financial Results for the Fiscal Year Ended March 31, 2019 (April 1, 2018 – March 31, 2019)

(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, 2019	1,509	15.3	382	21.3	382	20.6	190	(15.6)
Fiscal year ended Mar. 31, 2018	1,309	9.5	315	21.3	317	22.0	225	23.8

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Fiscal year ended Mar. 31, 2019	35.05	-
Fiscal year ended Mar. 31, 2018	41.53	-

Note: MKSystem conducted a 2-for-1 split of its common stock with an effective date of April 1, 2018. Basic earnings per share was calculated based on the assumption that the stock split had been conducted at the beginning of the previous fiscal year.

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Mar. 31, 2019	1,842	1,212	65.8	223.37
As of Mar. 31, 2018	1,879	1,081	57.6	199.33

Reference: Shareholders' equity (million yen) As of Mar. 31, 2019: 1,212 As of Mar. 31, 2018: 1,081

Note: MKSystem conducted a 2-for-1 split of its common stock with an effective date of April 1, 2018. Net assets per share was calculated based on the assumption that the stock split had been conducted at the beginning of the previous fiscal year.

* 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.

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1. Overview of Results of Operations, etc.

(1) Results of Operations

During the fiscal year ended on March 31, 2019 (hereinafter “the current fiscal year”), the Japanese economy continued its gradual recovery on the back of improvements in corporate earnings and employment. Meanwhile, the future of the global economy remained unpredictable, affected by overseas economic uncertainties such as the U.S.-China trade friction and Brexit.

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 utilizing the latest technologies such as AI (Artificial Intelligence). Specifically in the field of the personnel and labor management, which MKSystem Corporation and its group companies (hereinafter collectively “the Group”) involve, companies are increasingly motivated to leverage cloud services to realize efficient ways of working in line with the government-promoted “work style reform.”

Under these circumstances, the Group worked to expand its business by promoting sales of the Shalom System (which literally means a dream system for labor and social security attorneys) in the Shalom Business and by enhancing the service functions of “CuBe Cloud” in the CuBe Business. On the other hand, the Shalom Business reported extraordinary loss of 94 million yen as a penalty concerning license fees payable incurred in prior periods.

As a result, for the current fiscal year, the Group reported net sales of 2,075 million yen (up 10.0% year on year), cost of sales of 902 million yen (up 19.8%), the ratio of cost of sales to net sales of 43.5% (up 3.6 percentage points), gross profit of 1,172 million yen (up 3.4%), operating profit of 317 million yen (up 1.0%), the ratio of operating profit to net sales of 15.3% (down 1.4 percentage points), ordinary profit of 305 million yen (down 4.0%) and profit attributable to owners of parent of 112 million yen (down 45.2%). In addition, the return on equity (ROE), one of the KPIs for the Group, was 10.3% (down 10.4 percentage points) on a consolidated basis and 16.6% (down 6.1 percentage points) on a non-consolidated basis.

Results by business segment were as follows.

The Shalom Business

As the government is promoting online one-stop social security and tax procedures, 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 reform.” At the same time, we expect an intensified competition as we witness an increasing number of new entrants in the market.

Under these circumstances, we have worked to respond to revisions to various laws and regulations and encouraged customers to adopt the Shalom System by offering a campaign to discount the initial cost. Furthermore, we developed “DirectHR,” a new solution for corporate personnel and general affairs divisions, by capitalizing on our know-how based on original Shalom products.

As a result, sales of the cloud service were 1,398 million yen (up 16.2% year on year). Sales of ASP services generated 1,227 million yen (up 18.1%), as monthly usage fees accumulated in line with a steady increase in the number of customers who use our main services, “Net de Shalom” and “Shalom House.” Sales of system construction services amounted to 170 million yen (up 4.2%), attributable to growth in new installation orders using various campaigns.

In addition, sales of system products were 106 million yen (up 4.3% year on year), at the same level as the previous fiscal year, and those from the other services were 3 million yen (up 3.7%).

Selling, general and administrative expenses increased as a result of continued efforts, as with the previous fiscal year, such as strengthening sales activities and expanding the system to provide our services.

Consequently, the segment recorded net sales of 1,508 million yen (up 15.3% year on year), gross profit of 999 million yen (up 12.1%) and operating profit of 382 million yen (up 21.4%). In addition, the ratio of operating profit to net sales, one of the KPIs for the Group, was 25.3% (up 1.3 percentage points).

The CuBe Business

We have been engaged over the past years in the contracted development of front-end systems for the personnel and general affairs divisions of large companies to improve their business processes. On top of this, the CuBe Business has started to provide cloud services 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, the segment suffered a year-on-year decrease in sales due to a reduction in large-scale project deliveries, and a significant drop in profit margin for some projects. In the cloud service business, on the other hand, after the launch of “Jinzai (human resources) CuBe Cloud” in April 2018, we renamed it “GooooN” and began to offer the new version to large corporate group customers that had outsourced system development to the Group. Furthermore, we have seen a significant increase in the number of customers of “Nenmatsu-chosei (year-end tax adjustment) CuBe Cloud,” made available in the previous fiscal year, as we enhanced its service functions and responded to revisions to laws and regulations. However, we still need upfront investments and expenses for service design, development, and sales activities to enhance the competitiveness of our services.

As a result, the segment recorded net sales of 566 million yen (down 2.1% year on year), gross profit of 173 million yen (down 28.6%), and operating loss of 64 million yen (compared with operating loss of 0 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)	Percentage Composition (%)
Shalom Business	1,508	72.7
Cloud service	1,398	67.4
System product sale	106	5.1
Other services	3	0.2
CuBe Business	566	27.3
Total	2,075	100.0

(2) Financial Position

Assets

The balance of current assets at the end of the current fiscal year was 886 million yen (down 24.0% from the end of the previous fiscal year), consisting primarily of 326 million yen in cash and deposits and 430 million yen in accounts receivable-trade.

The balance of non-current assets was 1,058 million yen (up 4.7% from the end of the previous fiscal year), consisting primarily of 408 million yen in software, 291 million yen in goodwill, and 155 million yen in software in progress.

As a result, the balance of total assets was 1,945 million yen (down 10.7% from the end of the previous fiscal year).

Liabilities

The balance of current liabilities at the end of the current fiscal year was 447 million yen (down 54.9% from the end of the previous fiscal year), consisting primarily of 150 million yen in current portion of long-term loans payable, 89 million yen in accounts payable-other, and 36 million yen in accounts payable-trade.

The balance of non-current liabilities was 333 million yen (up 562.5% from the end of the previous fiscal year), consisting solely of long-term loans payable.

As a result, the balance of total liabilities was 780 million yen (down 25.1% from the end of the previous fiscal year).

Net assets

The balance of shareholders' equity at the end of the current fiscal year was 1,117 million yen (up 4.9% from the end of the previous fiscal year), consisting primarily of 219 million yen in capital stock, 198 million yen in capital surplus, and 700 million yen in retained earnings.

As a result, the balance of net assets was 1,164 million yen (up 2.5% 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 was 299 million yen, a decrease of 353 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 used in operating activities was 244 million yen. Major positive factors include profit before income taxes of 202 million yen and depreciation of 126 million yen. Major negative factors include a 449 million yen decrease in accounts payable-other and income taxes paid of 75 million yen.

Cash flows from investing activities

Net cash used in investing activities was 281 million yen. Major positive factors include payments into time deposits of 40 million yen and proceeds from cancellation of insurance funds of 23 million yen. Major negative factors include purchase of intangible assets of 304 million yen and purchase of property, plant and equipment of 43 million yen.

Cash flows from financing activities

Net cash provided by financing activities was 173 million yen. Major positive factors included proceeds from long-term loans payable of 500 million yen. Major negative factors include repayments of long-term loans payable of 179 million yen and a net decrease in short-term loans payable of 70 million yen.

(4) Outlook

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 the government-promoted "work style reform" progresses.

Under such circumstances, in the Shalom Business, we will enhance the functions of "Shalom" series, our mainstay service, to support e-government, and build systems in line with work style reform as well as revisions to laws and regulations. Also, 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.

Furthermore, in April 2019 we released our self-developed system "DirectHR," designed to help corporate personnel and general affairs divisions to support their work style reform. This system centrally manages applications submitted by employees during the period from joining to leaving the company. With this product, we aim to explore new market domains and customer bases outside the markets for labor and social security attorneys and major companies that we have focused on.

With regard to profit, we anticipate an increase in cost of sales due to the recognition of depreciation expenses related to "DirectHR" and next-generation systems and a resulting decline in profit margin.

Meanwhile, in the CuBe Business, to increase the number of contracted development 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 completed the development stage of "GooooN" (Jinzai CuBe Cloud), and subsequently released it in April 2019. Going forward, we will make full-fledged efforts to expand sales, aiming for its early contribution to revenue.

As a result, for the fiscal year ending March 31, 2020, we forecast net sales of 2,496 million yen (up 20.3% year on year), gross profit of 1,238 million yen (up 5.6%), operating profit of 359 million yen (up 13.2%), the ratio of operating profit to net sales of 14.4% (down 0.9 percentage points), ordinary profit of 356 million yen (up 16.7%), and profit attributable to owners of parent of 225 million yen (up 101.1%).

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	1,800	+19.3	-
Cloud service	1,694	+21.1	An increase in sales is expected due to acquiring new customers and introducing new services.
System product sales	106	+0.0	Sales are expected to be at the previous fiscal year's level.
Cost of sales	761	+49.2	An increase in cost of sales is expected due mainly to increases in software amortization and licensing expense.
SG&A expenses	650	+5.4	An increase in SG&A expenses is expected as personnel-related expenses will increase due to an increase in the number of personnel.
Operating profit	388	+1.6	-

CuBe Business

	Amount (Millions of yen)	YoY change (%)	Major factors of change
Net sales	696	+22.3	-
Contracted development	581	+8.8	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	115	+247.3	An increase in sales is expected due to acquiring new customers and introducing new services.
Cost of sales	496	+26.1	An increase in cost of sales is expected due mainly to increases in software amortization and operating expenses for the cloud services.
SG&A expenses	232	-3.4	Despite an increase in advertising expenses to strengthen sales promotion of the cloud services, a decrease in SG&A expenses is expected due to cost cut efforts in all aspects.
Operating profit	(32)	-	-

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)	
	FY3/18	FY3/19
	(As of Mar. 31, 2018)	(As of Mar. 31, 2019)
Assets		
Current assets		
Cash and deposits	720,192	326,895
Accounts receivable-trade	391,808	430,221
Merchandise	5,011	3,917
Work in process	9,718	48,433
Supplies	299	172
Prepaid expenses	26,723	29,413
Consumption taxes receivable	-	44,301
Income taxes receivable	-	2,457
Other	13,320	720
Total current assets	1,167,074	886,532
Non-current assets		
Property, plant and equipment		
Buildings, net	24,540	22,968
Vehicles, net	5,863	3,911
Tools, furniture and fixtures, net	49,221	54,021
Leased assets, net	821	-
Total property, plant and equipment	80,447	80,901
Intangible assets		
Software	139,035	408,214
Software in progress	216,627	155,411
Trademark right	1,384	1,536
Telephone subscription right	1,218	1,218
Goodwill	330,326	291,464
Total intangible assets	688,592	857,845
Investments and other assets		
Investments in capital	70	70
Guarantee deposits	53,846	52,077
Insurance funds	23,881	-
Deferred tax assets	164,309	67,868
Other	98	98
Total investments and other assets	242,206	120,114
Total non-current assets	1,011,245	1,058,860
Total assets	2,178,320	1,945,393

	(Thousands of yen)	
	FY3/18 (As of Mar. 31, 2018)	FY3/19 (As of Mar. 31, 2019)
Liabilities		
Current liabilities		
Accounts payable-trade	37,527	36,251
Short-term loans payable	100,000	30,000
Current portion of long-term loans payable	112,985	150,311
Lease obligations	1,254	-
Accounts payable-other	542,594	89,087
Accrued expenses	33,039	31,513
Income taxes payable	82,510	4,633
Accrued consumption taxes	-	5,163
Advances received	24,083	30,619
Provision for loss on order received	-	10,367
Provision for bonuses	48,926	47,787
Other	8,855	11,332
Total current liabilities	991,776	447,066
Non-current liabilities		
Long-term loans payable	50,315	333,340
Total non-current liabilities	50,315	333,340
Total liabilities	1,042,091	780,406
Net assets		
Shareholders' equity		
Capital stock	219,110	219,110
Capital surplus	198,290	198,169
Retained earnings	648,098	700,449
Treasury shares	(265)	(327)
Total shareholders' equity	1,065,232	1,117,400
Non-controlling interests	70,996	47,586
Total net assets	1,136,229	1,164,987
Total liabilities and net assets	2,178,320	1,945,393

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

(Thousands of yen)

	FY3/18 (Apr. 1, 2017 – Mar. 31, 2018)	FY3/19 (Apr. 1, 2018 – Mar. 31, 2019)
Net sales	1,887,269	2,075,349
Cost of sales	753,276	902,668
Gross profit	1,133,992	1,172,680
Selling, general and administrative expenses	819,843	855,338
Operating profit	314,149	317,342
Non-operating income		
Interest income	18	8
Dividend income	1	1
Subsidy income	1,696	-
Trademark fee income	300	-
Insurance premiums refunded cancellation	8,470	9
Purchase discounts	907	58
Other	133	76
Total non-operating income	11,528	153
Non-operating expenses		
Interest expenses	2,277	3,115
Loss on insurance cancellation	-	9,041
Other	5,424	28
Total non-operating expenses	7,701	12,185
Ordinary profit	317,975	305,310
Extraordinary losses		
Loss on retirement of non-current assets	1,080	8,412
Penalty	-	94,121
Total extraordinary losses	1,080	102,534
Profit before income taxes	316,895	202,776
Income taxes - current	129,193	1,819
Income taxes - deferred	(25,477)	96,441
Total income taxes	103,715	98,260
Profit	213,180	104,515
Profit (loss) attributable to non-controlling interests	8,755	(7,540)
Profit attributable to owners of parent	204,425	112,056

Consolidated Statement of Comprehensive Income

(Thousands of yen)

	FY3/18 (Apr. 1, 2017 – Mar. 31, 2018)	FY3/19 (Apr. 1, 2018 – Mar. 31, 2019)
Profit	213,180	104,515
Comprehensive income	213,180	104,515
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	204,425	112,056
Comprehensive income attributable to non-controlling interests	8,755	(7,540)

(3) Consolidated Statement of Changes in Equity

FY3/18 (Apr. 1, 2017 – Mar. 31, 2018)

(Thousands of yen)

	Shareholders' equity					Non-controlling interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity		
Balance at beginning of current period	219,110	198,290	495,238	(79)	912,558	62,241	974,799
Changes of items during period							
Dividends of surplus			(51,565)		(51,565)		(51,565)
Profit attributable to owners of parent			204,425		204,425		204,425
Change in ownership interest of parent due to transactions with non-controlling interests							
Purchase of treasury shares				(185)	(185)		(185)
Net changes of items other than shareholders' equity						8,755	8,755
Total changes of items during period	-	-	152,859	(185)	152,674	8,755	161,429
Balance at end of current period	219,110	198,290	648,098	(265)	1,065,232	70,996	1,136,229

FY3/19 (Apr. 1, 2018 – Mar. 31, 2019)

(Thousands of yen)

	Shareholders' equity					Non-controlling interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity		
Balance at beginning of current period	219,110	198,290	648,098	(265)	1,065,232	70,996	1,136,229
Changes of items 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 of items other than shareholders' equity						(7,540)	(7,540)
Total changes of items during period		(120)	52,351	(62)	52,168	(23,410)	28,757
Balance at end of current period	219,110	198,169	700,449	(327)	1,117,400	47,586	1,164,987

(4) Consolidated Statement of Cash Flows

(Thousands of yen)

	FY3/18 (Apr. 1, 2017 – Mar. 31, 2018)	FY3/19 (Apr. 1, 2018 – Mar. 31, 2019)
Cash flows from operating activities		
Profit before income taxes	316,895	202,776
Depreciation	94,288	126,351
Amortization of goodwill	38,861	38,861
Increase (decrease) in provision for loss on order received	-	10,367
Increase (decrease) in provision for bonuses	3,922	(1,139)
Interest and dividend income	(19)	(9)
Interest expenses	2,277	3,115
Loss on retirement of non-current assets	1,080	8,412
Decrease (increase) in notes and accounts receivable-trade	42,050	(38,412)
Decrease (increase) in inventories	2,823	(37,493)
Increase (decrease) in notes and accounts payable-trade	(65,213)	(1,275)
Increase (decrease) in accrued consumption taxes	(9,898)	(26,867)
Increase (decrease) in accounts payable - other	-	(449,259)
Increase (decrease) in long-term accounts payable-other	111,392	-
Other, net	12,536	(1,210)
Subtotal	550,998	(165,782)
Interest and dividend income received	10	7
Interest expenses paid	(2,277)	(3,115)
Income taxes paid	(108,603)	(75,819)
Income taxes refund	4,639	-
Net cash provided by (used in) operating activities	444,767	(244,710)
Cash flows from investing activities		
Payments into time deposits	(30,000)	-
Proceeds from withdrawal of time deposits	-	40,014
Purchase of property, plant and equipment	(36,960)	(43,244)
Purchase of intangible assets	(226,142)	(304,336)
Payments for leasehold and guarantee deposits	(6,986)	(73)
Proceeds from collection of leasehold and guarantee deposits	100	1,842
Purchase of insurance funds	(5,970)	-
Proceeds from cancellation of insurance funds	57,358	23,881
Net cash provided by (used in) investing activities	(248,601)	(281,916)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	-	(70,000)
Proceeds from long-term loans payable	-	500,000
Repayments of long-term loans payable	(114,411)	(179,649)
Repayments of lease obligations	(7,357)	(1,254)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	-	(15,990)
Purchase of treasury shares	(185)	(62)
Cash dividends paid	(51,565)	(59,705)
Net cash provided by (used in) financing activities	(173,519)	173,339
Net increase (decrease) in cash and cash equivalents	22,646	(353,287)
Cash and cash equivalents at beginning of period	630,397	653,043
Cash and cash equivalents at end of period	653,043	299,755

(5) Notes to Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Changes in Presentation Method

(Change associated with application of *Partial Amendments to Accounting Standard for Tax Effect Accounting*)

Effective from the beginning of the current fiscal year, we applied *Partial Amendments to Accounting Standard for Tax Effect Accounting* (Accounting Standards Board of Japan (ASBJ) Statement No. 28, February 16, 2018). Accordingly, we have changed the presentation method of “Deferred tax assets” and “Deferred tax liabilities” by presenting the former in the investments and other assets section and the latter in the non-current liabilities section of the consolidated balance sheet.

As a result, “Deferred tax assets” of 162 million yen in the current assets section of the consolidated balance sheet at the end of the previous fiscal year is included in “Deferred tax assets” of 164 million yen in the investments and other assets section.

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 reported below 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

FY3/18 (Apr. 1, 2017 – Mar. 31, 2018)

(Thousands of yen)

	Reportable segment			Adjustment (Note)	Amounts recorded in consolidated financial statements
	Shalom Business	CuBe Business	Total		
Net sales					
External sales	1,308,847	578,421	1,887,269	-	1,887,269
Inter-segment sales and transfers	623	428	1,051	(1,051)	-
Total	1,309,470	578,850	1,888,320	(1,051)	1,887,269
Segment profit (loss)	315,054	(3,282)	311,772	2,377	314,149
Segment assets	1,279,391	899,321	2,178,712	(392)	2,178,320
Other items					
Depreciation	73,970	20,317	94,288	-	94,288
Amortization of goodwill	-	38,861	38,861	-	38,861
Increase in property, plant and equipment and intangible assets	135,823	156,441	292,264	-	292,264

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.

FY3/19 (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.

Per Share Information

(Yen)

	FY3/18 (Apr. 1, 2017 – Mar. 31, 2018)	FY3/19 (Apr. 1, 2018 – Mar. 31, 2019)
Net assets per share	196.26	205.87
Basic earnings per share	37.66	20.65

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

2. MKSystem conducted a 2-for-1 split of its common stock with an effective date of April 1, 2018. Net assets per share and basic earnings per share were calculated based on the assumption that the stock split had been conducted at the beginning of the previous fiscal year.

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

(Thousands of yen unless otherwise stated)

	FY3/18 (Apr. 1, 2017 – Mar. 31, 2018)	FY3/19 (Apr. 1, 2018 – Mar. 31, 2019)
Profit attributable to owners of parent	204,425	112,056
Amounts not available to common shareholders	-	-
Profit attributable to owners of parent available to common stock	204,425	112,056
Average number of common stock during the period (Shares)	5,427,888	5,427,709

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

(Thousands of yen unless otherwise stated)

	FY3/18 (As of Mar. 31, 2018)	FY3/19 (As of Mar. 31, 2019)
Total net assets	1,136,229	1,164,987
Deduction on total net assets	70,996	47,586
[of which non-controlling interests]	[70,996]	[47,586]
Net assets applicable to common stock	1,065,232	1,117,400
Number of common stock at the fiscal year end used in calculation of net assets per share (Shares)	5,427,762	5,427,688

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.