

Summary of Consolidated Financial Results for the Fiscal Year Ended March 31, 2022

[Japanese GAAP]

Company name: MKSystem Corporation
 Stock code: 3910
 Representative: Noboru Miyake, Representative Director and President
 Contact: Masaki Yoshida, Executive Officer, General Manager of Business Administration Division
 Tel: +81-6-7222-3394

Listing: Tokyo Stock Exchange
 URL: <https://www.mks.jp>

Scheduled date of Annual General Meeting of Shareholders: June 21, 2022
 Scheduled date of payment of dividend: June 22, 2022
 Scheduled date of filing of Annual Securities Report: June 21, 2022
 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, 2022 (April 1, 2021 – March 31, 2022)

(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, 2022	2,742	12.5	145	(33.8)	129	(40.8)	91	(33.8)
Fiscal year ended Mar. 31, 2021	2,439	2.5	219	(30.2)	218	(30.0)	138	(30.0)

Note: Comprehensive income (million yen) Fiscal year ended Mar. 31, 2022: 92 (down 34.4%)

Fiscal year ended Mar. 31, 2021: 141 (down 26.9%)

	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, 2022	16.84	-	6.6	5.8	5.3
Fiscal year ended Mar. 31, 2021	25.41	-	10.5	9.8	9.0

Reference: Equity in earnings of affiliates (million yen) Fiscal year ended Mar. 31, 2022: - Fiscal year ended Mar. 31, 2021: -

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Mar. 31, 2022	2,231	1,424	63.5	261.17
As of Mar. 31, 2021	2,241	1,402	60.9	251.47

Reference: Shareholders' equity (million yen) As of Mar. 31, 2022: 1,417 As of Mar. 31, 2021: 1,364

(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, 2022	493	(472)	(177)	461
Fiscal year ended Mar. 31, 2021	340	(381)	(64)	617

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			
Fiscal year ended Mar. 31, 2021	-	0.00	-	8.00	8.00	43	31.5	3.3
Fiscal year ended Mar. 31, 2022	-	0.00	-	8.00	8.00	43	47.5	3.1
Fiscal year ending Mar. 31, 2023 (forecast)	-	0.00	-	8.00	8.00		-	

3. Consolidated Earnings Forecasts for the Fiscal Year Ending March 31, 2023 (April 1, 2022 – March 31, 2023)

(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	1,418	14.3	37	25.9	42	343.9	22	-	4.17
Full year	3,115	13.6	272	87.6	282	118.3	175	92.6	32.42

*** 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: Yes
- 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, 2022: 5,428,000 shares As of Mar. 31, 2021: 5,428,000 shares

2) Number of treasury shares at the end of period

As of Mar. 31, 2022: 506 shares As of Mar. 31, 2021: 506 shares

3) Average number of shares during the period

Fiscal year ended Mar. 31, 2022: 5,427,494 shares Fiscal year ended Mar. 31, 2021: 5,427,505 shares

Reference: Summary of Non-consolidated Financial Results

Non-consolidated Financial Results for the Fiscal Year Ended March 31, 2022 (April 1, 2021 – March 31, 2022)

(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, 2022	2,156	11.7	124	(43.6)	120	(46.6)	85	(43.5)
Fiscal year ended Mar. 31, 2021	1,929	8.2	221	(38.2)	225	(37.8)	151	(38.3)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Fiscal year ended Mar. 31, 2022	15.78	-
Fiscal year ended Mar. 31, 2021	27.93	-

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Mar. 31, 2022	2,279	1,564	68.7	288.31
As of Mar. 31, 2021	2,281	1,522	66.7	280.54

Reference: Shareholders' equity (million yen) As of Mar. 31, 2022: 1,564 As of Mar. 31, 2021: 1,522

* 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.

Contents of Attachments

1. Overview of Results of Operations, etc.	2
(1) Results of Operations	2
(2) Financial Position	3
(3) Cash Flows	4
(4) Outlook	4
2. Basic Approach to the Selection of Accounting Standards	6
3. Consolidated Financial Statements and Notes	7
(1) Consolidated Balance Sheet	7
(2) Consolidated Statements of Income and Comprehensive Income	9
(3) Consolidated Statement of Changes in Equity	11
(4) Consolidated Statement of Cash Flows	12
(5) Notes to Consolidated Financial Statements	13
Going Concern Assumption	13
Changes in Accounting Policies	13
Segment and Other Information	14
Per Share Information	15
Subsequent Events	15

1. Overview of Results of Operations, etc.

(1) Results of Operations

During the fiscal year ended March 31, 2022 (hereinafter “the current fiscal year”), the promotion of vaccination against COVID-19 continued to bring about a pick up in the Japanese economy; however, considering new threats from variants, semiconductor shortage, surges in resource prices stemmed from the Russian and Ukraine situation, and supply chain disruption, the impact of such factors on the domestic and foreign economies still remained unpredictable.

In the domestic information service industry and the field of personnel and labor management, in which MKSystem Corporation and its group companies (hereinafter collectively “the Group”) are involved, the government has promoted the work-style reform, the rapid transition to teleworking as a measure against the COVID-19 infections, or furtherance of DX (digital transformation) to improve business efficiency. On these backgrounds corporate investment demand remained increasing, though companies are being cautious about investing and postponing new investment considering the impact of COVID-19 situation, which repeatedly worsens and improves, on corporate performance.

Under these circumstances, the Group worked to further enhance our customers’ satisfaction, by actively utilizing online seminars and remote meetings so that customers could improve their operational efficiency and create added value.

As a result, for the current fiscal year, the Group reported net sales of 2,742 million yen (up 12.5% year on year), cost of sales of 1,468 million yen (up 18.5% year on year), the ratio of cost of sales to net sales of 53.5% (up 2.8 percentage points year on year), gross profit of 1,274 million yen (up 6.2% year on year), operating profit of 145 million yen (down 33.8% year on year), the ratio of operating profit to net sales of 5.3% (down 3.7 percentage points year on year), ordinary profit of 129 million yen (down 40.8% year on year), and profit attributable to owners of parent of 91 million yen (down 33.8% year on year). In addition, the return on equity (ROE), one of the KPIs for the Group, was 6.6% (down 3.9 percentage points year on year) on a consolidated basis and 5.5% (down 4.8 percentage points year on year) 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.

Under these circumstances, in the Shalom Business, we promoted quality improvement and function enhancement of the product lines, including Shalom, “ShaRobo,” an official Shalom RPA, and “Cloud Pocket,” an official documents distribution system. For services for labor and social security attorneys, the “Shalom” series, our mainstay service, saw an increase in the number of contracts for the House Plan. This is thanks to a campaign to discount the initial cost and the adoption of the subsidies under the Project to Support Introduction of IT for Improvement of Service Productivity, which lead to increased inquiries from potential customers every year. For corporate services, we boosted sales with an increase in new orders of “eNEN,” a web-based year-end tax adjustment system and a resulting increase of the number of employees using the system. At the same time, in addition to our continued action to publish an article about the Shalom Company Edition on “IT Trend,” we held small seminars to find potential demand for peripherals and related products, thereby striving for acquiring higher potential projects.

As a result, sales of the cloud services, which consist of ASP services and system construction services, were 2,025 million yen (up 13.3% year on year). This was attributable to sales of ASP services amounted to 1,818 million yen (up 10.9%) due to accumulated monthly usage fees in line with increases in the number of IDs issued and the number of customers who use our main services of Shalom brand products, and sales of system construction services amounted to 207 million yen (up 39.3%) mainly due to an increase in the number of Shalom House Plan

contracts. In addition, sales of system products were 99 million yen (down 3.5%).

On the other hand, personnel and labor costs increased due to the active recruitment in conjunction with strengthening of sales and development systems. In addition, promotion expenses increased due to the strengthening of digital marketing aimed at increasing customer acquisition.

Consequently, the segment recorded net sales of 2,156 million yen (up 11.7% year on year), gross profit of 1,083 million yen (up 7.7%) and operating profit of 124 million yen (down 43.6%). The ratio of operating profit to net sales, one of the KPIs for the Group, was 5.8% (down 5.7 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 contract development of front-end systems, customers of large companies and local governments have been actively investing in system renewal for the purpose of work-style reform, teleworking promotion, and personnel system reform. Responding to such a situation, we strengthened our sales system and stimulated our clients into ordering, which brought about several large-scale development projects that we have not seen in recent years and a significant increase in sales. In the cloud service business, on the other hand, we strove to develop new sales channels for “GooooN” and win new users.

On the cost front, efforts to improve development efficiency and reduce the cost of sales ratio on a project-by-project basis have resulted in improved profit margin compared to that for the previous fiscal year.

As a result, the segment recorded net sales of 615 million yen (up 11.8% year on year), gross profit of 194 million yen (down 0.2%) and operating profit of 9 million yen (compared with operating loss of 5 million yen for the previous fiscal year). Operating profit of the CuBe Business reflects amortization of goodwill of 38 million yen.

Sales and composition by segment

	Amount (Millions of yen)	Composition (%)
Shalom Business	2,136	77.9
Cloud service	2,025	73.9
System product sale	99	3.6
Other services	11	0.4
CuBe Business	606	22.1
Total	2,742	100.0

(2) Financial Position

Assets

The balance of current assets at the end of the current fiscal year was 1,056 million yen (down 9.9% from the end of the previous fiscal year), consisting primarily of 468 million yen in cash and deposits and 475 million yen in accounts receivable-trade.

The balance of non-current assets was 1,174 million yen (up 9.9% from the end of the previous fiscal year), consisting primarily of 438 million yen in software, 174 million yen in goodwill, 162 million yen in guarantee deposits, and 124 million yen in buildings.

As a result, the balance of total assets was 2,231 million yen (down 0.4% from the end of the previous fiscal year).

Liabilities

The balance of current liabilities at the end of the current fiscal year was 751 million yen (up 28.1% from the end of the previous fiscal year), consisting primarily of 197 million yen in current portion of long-term borrowings, 156 million yen in accounts payable-other, and 86 million yen in advances received.

The balance of non-current liabilities was 55 million yen (down 78.0% from the end of the previous fiscal year), consisting solely of 55 million yen in long-term borrowings.

As a result, the balance of total liabilities was 807 million yen (down 3.8% from the end of the previous fiscal year).

Net assets

The balance of shareholders' equity at the end of the current fiscal year was 1,417 million yen (up 3.9% from the end of the previous fiscal year), consisting primarily of 219 million yen in share capital, 202 million yen in capital surplus, and 996 million yen in retained earnings.

As a result, the balance of net assets was 1,424 million yen (up 1.6% 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 156 million yen from the end of the previous fiscal year to 461 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 493 million yen. Major positive factors include profit before income taxes of 129 million yen, depreciation of 376 million yen and amortization of goodwill of 38 million yen. Major negative factors include income taxes paid of 76 million yen, a 32 million yen increase in inventories and a 7 million yen increase in trade receivables.

Cash flows from investing activities

Net cash used in investing activities was 472 million yen. Major positive factors include proceeds from withdrawal of time deposits of 20 million yen. Major negative factors include purchase of intangible assets of 441 million yen and purchase of property, plant and equipment of 48 million yen.

Cash flows from financing activities

Net cash used in financing activities was 177 million yen. Major positive factors include a 126 million yen net increase in short-term borrowings, while major negative factors include repayments of long-term borrowings of 233 million yen and dividends paid of 43 million yen.

(4) Outlook

The future situation is expected to remain unclear due to possible re-spreading of COVID-19 infection, uncertainty over how the Ukraine situation will turn out, global financial tightening, and other concerns.

In the personnel and labor market, in which the Group provides services, demands for systems for corporate activities are predicted to keep expanding, given environmental changes and initiatives to reform work styles with an eye for post-pandemic transitions. With such prediction considered, investments in new equipment are forecast to continue for the purposes of addressing a variety of challenges including enhancing operational efficiency, though the scale of such investment will depend on the level of need.

Under these circumstances, in the Shalom Business, we will strive to increase sales and earnings by steadily increasing revenue from accumulated monthly usage fees as well as by acquiring more users of Shalom products including Shalom House Plan and increasing the number of IDs issued. At the same time, through steady migration to NEW Shalom (Shalom V5.0), we will improve the quality and expand the functions of the products and further strengthen corporate sales and service development to accelerate our inroads into general corporate markets.

With regard to profit, while expecting an improvement in profit margin compared to the previous fiscal year, we continue to anticipate an increase in costs due to the price increase in the licensing cost for each issued license (please refer to Notice on Price Revision disclosed on March 15, 2022), higher amortization cost associated with

the strengthening of the development structure, and other factors.

Meanwhile, in the CuBe Business, we will be actively approaching potential customers through various channels, such as social security attorneys and partners, 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 outlook for the fiscal year ending March 31, 2023, we forecast net sales of 3,115 million yen (up 13.6% year on year), gross profit of 1,469 million yen (up 15.3%), operating profit of 272 million yen (up 87.6%), the ratio of operating profit to net sales of 8.8% (up 3.5 percentage points), ordinary profit of 282 million yen (up 118.3%), and profit attributable to owners of parent of 175 million yen (up 92.6%).

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	2,500	+15.9	-
Cloud service	2,371	+17.1	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	100	+0.6	Sales are expected to be at the previous fiscal year’s level.
Others	28	-8.0	Contract development sales and temporary/contract placement sales at Matsuyama Development Center are expected to be recorded.
Cost of sales	1,231	+14.8	An increase in cost of sales is expected due mainly to an increase in licensing cost and an increase in software amortization expenses.
SG&A expenses	1,004	+4.9	Despite an increase in promotion expenses, an overall increase in SG&A expenses is expected to be at the previous fiscal year’s level with the intention of cost reduction.
Operating profit	263	+108.8	-

CuBe Business

	Amount (Millions of yen)	YoY change (%)	Major factors of change
Net sales	635	+3.2	-
Contracted development	580	+1.4	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	55	+27.8	An increase in sales is expected as we acquire new customers.
Cost of sales	431	+2.6	Despite an increase in outsourcing expenses, an overall cost of sales is expected to be at the previous fiscal year’s level.
SG&A expenses	206	+11.4	An increase in personnel-related expenses is expected due to an increase in the number of personnel.
Operating profit	(2)	-	-

Note: The difference between the sum of the forecasts 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)	
	FY3/21 (As of Mar. 31, 2021)	FY3/22 (As of Mar. 31, 2022)
Assets		
Current assets		
Cash and deposits	644,492	468,147
Accounts receivable-trade	467,416	475,057
Merchandise	7,054	35,267
Work in process	3,261	7,096
Supplies	77	155
Prepaid expenses	37,741	60,730
Income taxes refund receivable	-	5,300
Other	12,879	5,229
Total current assets	1,172,924	1,056,984
Non-current assets		
Property, plant and equipment		
Buildings, net	135,248	124,164
Vehicles, net	1,737	866
Tools, furniture and fixtures, net	85,789	118,476
Total property, plant and equipment	222,775	243,507
Intangible assets		
Software	397,537	438,283
Software in progress	40,416	124,583
Trademark right	1,316	1,086
Telephone subscription right	1,218	1,218
Goodwill	213,740	174,878
Total intangible assets	654,229	740,050
Investments and other assets		
Investments in capital	60	60
Guarantee deposits	161,362	162,956
Deferred tax assets	30,495	28,285
Other	98	98
Total investments and other assets	192,016	191,400
Total non-current assets	1,069,021	1,174,958
Total assets	2,241,946	2,231,942

	(Thousands of yen)	
	FY3/21 (As of Mar. 31, 2021)	FY3/22 (As of Mar. 31, 2022)
Liabilities		
Current liabilities		
Accounts payable-trade	45,006	61,632
Short-term borrowings	-	126,000
Current portion of long-term borrowings	233,304	197,259
Accounts payable-other	98,889	156,920
Accrued expenses	37,730	16,222
Income taxes payable	45,235	8,619
Accrued consumption taxes	11,841	17,139
Advances received	42,880	86,840
Provision for retirement benefits for directors (and other officers)	-	5,000
Provision for bonuses	64,113	67,789
Other	7,684	8,283
Total current liabilities	586,685	751,705
Non-current liabilities		
Long-term borrowings	252,851	55,592
Total non-current liabilities	252,851	55,592
Total liabilities	839,536	807,297
Net assets		
Shareholders' equity		
Share capital	219,110	219,110
Capital surplus	197,457	202,122
Retained earnings	948,784	996,759
Treasury shares	(499)	(499)
Total shareholders' equity	1,364,852	1,417,493
Non-controlling interests	37,557	7,152
Total net assets	1,402,410	1,424,645
Total liabilities and net assets	2,241,946	2,231,942

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

(Thousands of yen)

	FY3/21 (Apr. 1, 2020 – Mar. 31, 2021)	FY3/22 (Apr. 1, 2021 – Mar. 31, 2022)
Net sales	2,439,074	2,742,835
Cost of sales	1,238,421	1,468,017
Gross profit	1,200,652	1,274,818
Selling, general and administrative expenses	981,109	1,129,406
Operating profit	219,543	145,411
Non-operating income		
Interest income	7	5
Dividend income	1	1
Subsidy income	1,056	-
Royalty income	600	-
Rental income	28,437	42,804
Purchase discounts	263	155
Outsourcing service income	-	4,800
Other	99	55
Total non-operating income	30,463	47,821
Non-operating expenses		
Interest expenses	2,631	1,960
Rental costs	25,280	38,028
Compensation expenses	-	23,700
Miscellaneous losses	3,157	-
Total non-operating expenses	31,068	63,688
Ordinary profit	218,938	129,544
Extraordinary losses		
Loss on retirement of property, plant and equipment	700	-
Loss on retirement of intangible assets	1,204	-
Total extraordinary losses	1,904	-
Profit before income taxes	217,033	129,544
Income taxes-current	73,144	34,680
Income taxes-deferred	2,582	2,209
Total income taxes	75,726	36,889
Profit	141,306	92,654
Profit attributable to non-controlling interests	3,252	1,259
Profit attributable to owners of parent	138,053	91,394

Consolidated Statement of Comprehensive Income

	(Thousands of yen)	
	FY3/21	FY3/22
	(Apr. 1, 2020 – Mar. 31, 2021)	(Apr. 1, 2021 – Mar. 31, 2022)
Profit	141,306	92,654
Comprehensive income	141,306	92,654
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	138,053	91,394
Comprehensive income attributable to non-controlling interests	3,252	1,259

(3) Consolidated Statement of Changes in Equity

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		138,053
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						3,253	3,253
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

FY3/22 (Apr. 1, 2021 – Mar. 31, 2022)

(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	948,784	(499)	1,364,852	37,557	1,402,410
Changes during period							
Dividends of surplus			(43,419)		(43,419)		(43,419)
Profit attributable to owners of parent			91,394		91,394		91,394
Change in ownership interest of parent due to transactions with non-controlling interests		4,665			4,665		4,665
Purchase of treasury shares					-		-
Net changes in items other than shareholders' equity						(30,405)	(30,405)
Total changes during period	-	4,665	47,974	-	52,640	(30,405)	22,234
Balance at end of period	219,110	202,122	996,759	(499)	1,417,493	7,152	1,424,645

(4) Consolidated Statement of Cash Flows

(Thousands of yen)

	FY3/21 (Apr. 1, 2020 – Mar. 31, 2021)	FY3/22 (Apr. 1, 2021 – Mar. 31, 2022)
Cash flows from operating activities		
Profit before income taxes	217,033	129,544
Depreciation	323,506	376,903
Amortization of goodwill	38,861	38,861
Increase (decrease) in provision for retirement benefits for directors (and other officers)	-	5,000
Increase (decrease) in provision for bonuses	8,479	3,676
Interest and dividend income	(8)	(6)
Interest expenses	2,631	1,960
Loss on retirement of property, plant and equipment	700	-
Loss on retirement of intangible assets	1,204	-
Decrease (increase) in trade receivables	(47,267)	(7,640)
Decrease (increase) in inventories	(2,864)	(32,124)
Increase (decrease) in trade payables	17,986	16,626
Increase (decrease) in accrued consumption taxes	(82,704)	5,298
Increase (decrease) in accounts payable-other	(8,636)	26,643
Other, net	(20,758)	7,206
Subtotal	448,164	571,949
Interest and dividends received	6	5
Interest paid	(2,631)	(1,960)
Income taxes paid	(105,355)	(76,269)
Net cash provided by (used in) operating activities	340,184	493,725
Cash flows from investing activities		
Proceeds from withdrawal of time deposits	-	20,049
Purchase of property, plant and equipment	(195,275)	(48,981)
Purchase of intangible assets	(205,379)	(441,948)
Proceeds from divestments	10	-
Payments of leasehold and guarantee deposits	-	(1,988)
Proceeds from refund of leasehold and guarantee deposits	19,527	394
Net cash provided by (used in) investing activities	(381,116)	(472,474)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(10,000)	126,000
Proceeds from long-term borrowings	200,000	-
Repayments of long-term borrowings	(211,084)	(233,304)
Purchase of shares of subsidiaries not resulting in change in scope of consolidation	-	(27,000)
Purchase of treasury shares	(32)	-
Dividends paid	(43,420)	(43,243)
Net cash provided by (used in) financing activities	(64,536)	(177,547)
Net increase (decrease) in cash and cash equivalents	(105,469)	(156,296)
Cash and cash equivalents at beginning of period	722,818	617,349
Cash and cash equivalents at end of period	617,349	461,052

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

Not applicable.

Changes in Accounting Policies

MKSystem started to apply the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) at the beginning of the fiscal year ended March 2022. Based on this standard, revenue expected to be received in exchange for the provision of goods and services is recognized when the control of the goods and services is transferred to customers.

In addition, MKSystem applies the alternative treatment prescribed in Paragraph 98 of the Guidance on Accounting Standard for Revenue Recognition, and recognizes revenue at the time of shipment when the period between the time of shipment and the time when control of the relevant goods is transferred to the customer is a normal period for domestic sales of goods.

For the application of the Accounting Standard for Revenue Recognition, in accordance with the transitional measures in the proviso to Paragraph 84 of this standard, the cumulative effect of the retrospective application of the new accounting standard, if it is applied prior to the current fiscal year, is added to or subtracted from retained earnings at the beginning of the current fiscal year. The new standard is then applied beginning with this amount of retained earnings. However, MKSystem has applied the method prescribed in Paragraph 86 of this standard and has not retrospectively applied the new accounting policy to contracts in which almost all revenue were recognized in accordance with the previous treatment prior to the beginning of the current fiscal year. In addition, MKSystem has applied the method prescribed in Paragraph 86, Article 1 of the Accounting Standard for Revenue Recognition, and accounted for contract changes made prior to the beginning of the current fiscal year based on the contract terms after reflecting all contract changes, and added or subtracted the cumulative effect of such changes to retained earnings at the beginning of the current fiscal year.

This change has no impact on profit and loss for the current fiscal year or the beginning balance of retained earnings for the current fiscal year.

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.

As stated in the Changes in Accounting Policies, MKSystem started to apply the Accounting Standard for Revenue Recognition to the consolidated financial statements from the current fiscal year and has changed the accounting procedures relating to revenue recognition. In line with this change, the method of calculating profit/loss by business segment has also changed.

The change in the calculation method has no impact on the net sales and segment profit (loss) for the current fiscal year.

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

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.

FY3/22 (Apr. 1, 2021 – Mar. 31, 2022)

(Thousands of yen)

	Reportable segment			Adjustment (Note)	Amounts recorded in consolidated financial statements
	Shalom Business	CuBe Business	Total		
Net sales					
External sales	2,136,196	606,638	2,742,835	-	2,742,835
Inter-segment sales and transfers	20,055	8,643	28,699	(28,699)	-
Total	2,156,252	615,282	2,771,534	(28,699)	2,742,835
Segment profit	124,891	9,538	134,429	10,982	145,411
Segment assets	1,625,639	613,387	2,239,027	(7,084)	2,231,942
Other items					
Depreciation	346,989	29,913	376,903	-	376,903
Amortization of goodwill	-	38,861	38,861	-	38,861
Increase in property, plant and equipment and intangible assets	491,491	40,611	532,103	-	532,103

Notes: 1. The adjustment to segment profit 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 is adjusted to be consistent with operating profit presented on the consolidated statement of income.

Per Share Information

(Yen)

	FY3/21 (Apr. 1, 2020 – Mar. 31, 2021)	FY3/22 (Apr. 1, 2021 – Mar. 31, 2022)
Net assets per share	251.47	261.17
Basic earnings per share	25.44	16.84

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

2. As stated in the Changes in Accounting Policies, the Accounting Standard for Revenue Recognition is applied, which has no impact on the net assets per share and the basic earnings per share for the current fiscal year.

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

(Thousands of yen unless otherwise stated)

	FY3/21 (Apr. 1, 2020 – Mar. 31, 2021)	FY3/22 (Apr. 1, 2021 – Mar. 31, 2022)
Profit attributable to owners of parent	138,053	91,394
Amounts not available to common shareholders	-	-
Profit attributable to owners of parent available to common stock	138,053	91,394
Average number of shares of common stock during the period (Shares)	5,427,505	5,427,494

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

(Thousands of yen unless otherwise stated)

	FY3/21 (As of Mar. 31, 2021)	FY3/22 (As of Mar. 31, 2022)
Total net assets	1,402,410	1,424,645
Deduction on total net assets	37,557	7,152
[of which non-controlling interests]	[37,557]	[7,152]
Net assets applicable to common stock	1,364,852	1,417,493
Number of shares of common stock at the fiscal year end used in calculation of net assets per share (Shares)	5,427,494	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.