

Summary of Consolidated Financial Results for the Fiscal Year Ended March 31, 2024

[Japanese GAAP]

Company name: MKSystem Corporation Listing: Tokyo Stock Exchange
 Stock code: 3910 URL: <https://www.mks.jp>
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Scheduled date of Annual General Meeting of Shareholders: June 27, 2024
 Scheduled date of payment of dividend: June 28, 2024
 Scheduled date of filing of Annual Securities Report: June 27, 2024
 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, 2024 (April 1, 2023–March 31, 2024)

(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, 2024	2,639	(7.9)	(348)	–	(345)	–	(668)	–
Fiscal year ended Mar. 31, 2023	2,867	4.5	219	51.1	227	75.7	145	59.3

Note: Comprehensive income (million yen) Fiscal year ended Mar. 31, 2024: (667) (–%)

Fiscal year ended Mar. 31, 2023: 145 (up 57.5%)

	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, 2024	(123.17)	–	(57.4)	(13.5)	(13.2)
Fiscal year ended Mar. 31, 2023	26.82	–	9.9	9.5	7.7

Reference: Equity in earnings of affiliates (million yen) Fiscal year ended Mar. 31, 2024: – Fiscal year ended Mar. 31, 2023: –

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Mar. 31, 2024	2,558	816	31.6	148.82
As of Mar. 31, 2023	2,559	1,527	59.4	279.99

Reference: Shareholders' equity (million yen) As of Mar. 31, 2024: 807 As of Mar. 31, 2023: 1,519

(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, 2024	(316)	(353)	772	711
Fiscal year ended Mar. 31, 2023	617	(557)	88	609

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, 2023	–	0.00	–	8.00	8.00	43	29.8	3.0
Fiscal year ended Mar. 31, 2024	–	0.00	–	4.00	4.00	21	(3.2)	1.9
Fiscal year ending Mar. 31, 2025 (forecast)	–	0.00	–	4.00	4.00		–	

3. Consolidated Earnings Forecasts for the Fiscal Year Ending March 31, 2025 (April 1, 2024–March 31, 2025)

(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
Full year	3,240	22.7	107	–	109	–	73	–	13.45

*** 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, 2024: 5,428,000 shares As of Mar. 31, 2023: 5,428,000 shares
- 2) Number of treasury shares at the end of period
 As of Mar. 31, 2024: 506 shares As of Mar. 31, 2023: 506 shares
- 3) Average number of shares outstanding during the period
 Fiscal year ended Mar. 31, 2024: 5,427,494 shares Fiscal year ended Mar. 31, 2023: 5,427,494 shares

Reference: Summary of Non-consolidated Financial Results

Non-consolidated Financial Results for the Fiscal Year Ended March 31, 2024 (April 1, 2023–March 31, 2024)

(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, 2024	2,040	(12.2)	(379)	–	(354)	–	(661)	–
Fiscal year ended Mar. 31, 2023	2,324	7.8	221	77.0	247	105.6	171	100.2

	Basic earnings per share		Diluted earnings per share	
	Yen		Yen	
Fiscal year ended Mar. 31, 2024	(121.79)		–	
Fiscal year ended Mar. 31, 2023	31.58		–	

(2) Non-consolidated financial position

	Total assets		Net assets		Equity ratio		Net assets per share	
	Million yen		Million yen		%		%	
As of Mar. 31, 2024	2,518		988		39.2		182.09	
As of Mar. 31, 2023	2,624		1,692		64.5		311.89	

Reference: Shareholders' equity (million yen) As of Mar. 31, 2024: 988 As of Mar. 31, 2023: 1,692

* 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	5
3. Consolidated Financial Statements and Notes	6
(1) Consolidated Balance Sheet	6
(2) Consolidated Statements of Income and Comprehensive Income	8
Consolidated Statement of Income	8
Consolidated Statement of Comprehensive Income	9
(3) Consolidated Statement of Changes in Equity	10
(4) Consolidated Statement of Cash Flows	11
(5) Notes to Consolidated Financial Statements	12
Going Concern Assumption	12
Segment and Other Information	12
Per Share Information	13
Subsequent Events	13

1. Overview of Results of Operations, etc.

(1) Results of Operations

During the fiscal year ended March 31, 2024 (hereinafter “the current fiscal year”), the Japanese economy saw a gradual recovery due to normalization of socioeconomic activities along with the shift of COVID-19 to Class 5 Infectious Disease. However, considering the resource price hikes caused by the prolonged Ukraine situation, impact on the currency market by global financial tightening, and concerns with the outlook for the Chinese economy, the Japanese economy 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, corporate investment demand remained high to improve business efficiency, enhance cost competitiveness, and expand sales against the backdrop of advancing digital technologies, such as generative AI and IoT-linked robotics, and a prolonged labor shortage. However, companies took a cautious attitude toward investment as demonstrated by postponement of some new investment because of concern about impacts of the above on the domestic and foreign economies.

Under these circumstances, as announced in “Notice of Ransomware Infection Damages by a Third Party” (available in Japanese only) on June 6, 2023, servers of the data center that provided our services were compromised by a third party using a ransomware. As a result, we were unable to provide the services properly, and cancelled billing to the affected users for the subscription in June and part of July.

In recovering the system, we removed the infected servers in the data center, as we have decided to migrate our services to a cloud computing platform. In addition, unexpected expenses were incurred for investigation by an external specialized agency, reconstruction of system infrastructure, and security enhancement. Accordingly, we recognized 129 million yen of loss on retirement of non-current assets and 132 million yen of system failure response expenses both as extraordinary losses.

As a result, for the current fiscal year, the Group reported consolidated net sales of 2,639 million yen (down 7.9% year on year), gross profit of 858 million yen (down 36.4%), operating loss of 348 million yen (compared with operating profit of 219 million yen for the previous fiscal year), ordinary loss of 345 million yen (compared with ordinary profit of 227 million yen for the previous fiscal year), and loss attributable to owners of parent of 668 million yen (compared with profit attributable to owners of parent of 145 million yen for the previous fiscal year). In addition, the return on equity (ROE), one of the KPIs for the Group, was at minus 57.4% (positive 9.9% for the previous fiscal year) on a consolidated basis and minus 49.3% (positive 10.5% for the previous fiscal year) on a non-consolidated basis.

Results by business segment were as follows.

The Shalom Business

We provide software to support business of labor and social security attorney offices, labor insurance administration associations and general corporations by facilitating their operations and processes for the social security insurance, labor insurance, and payroll calculation. Our products mainly consist of the following cloud services: Shalom series as our flagship product, MYNABOX series as a My Number management system, and eNEN as a web-based year-end adjustment filing system.

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.

In this segment, as mentioned earlier, we were unable to provide proper services to most of roughly 3,400 users due to the unauthorized access to the servers in our data center by a third party using a ransomware. As a result of the incident, net sales decreased due to cancellation of billing to the affected users for the subscription in June and part of July.

Net sales of the segment consist of those from the cloud services of 1,914 million yen (down 13.3% year on year), of which the ASP services under the subscription model amounted to 1,822 million yen (down 10.1%) and the

system construction services amounted to 91 million yen (down 49.2%); and those from the system products of 81 million yen (down 11.2%).

Gross profit and operating profit significantly decreased comparing with the previous fiscal year due to an increase in cost of sales by higher-than-expected operating cost for the cloud services built as our new system platform, in addition to a decrease in net sales for the above mentioned reason.

As a result, the segment recorded net sales of 2,040 million yen (down 12.2% year on year), gross profit of 652 million yen (down 44.9%), and operating loss of 379 million yen (compared with operating profit of 221 million yen for the previous fiscal year). The ratio of operating profit (loss) to net sales, one of the KPIs for the Group, came in at minus 18.6% (compared with positive 9.5% for the previous fiscal year).

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, GooooN, which brings the convenience to small- and medium-sized companies by leveraging our know-how gained through the contracted development of systems for large companies.

In the contracted development of front-end systems, sales of maintenance business ordered by large companies and local governments have steadily increased. Meanwhile, the number of new development projects that respond to demand for investment in updating systems has piled up at the same pace as that for the past years. In addition, during the third quarter, we received a large-scale development project that will contribute to sales in the next fiscal year and beyond. In the cloud service business GooooN, we focused on functional enhancement and cultivation of sales channels.

While we are continuing to work on reducing costs, the segment recorded operating profit despite incurrence of upfront costs consisting mainly of outsourcing expenses and promotion expenses.

As a result, the segment recorded net sales of 617 million yen (up 10.1% year on year), gross profit of 207 million yen (up 24.4%), and operating profit of 8 million yen (compared with operating loss of 19 million yen for the previous fiscal year). Operating profit of the CuBe Business reflects amortization of goodwill of 39 million yen.

• Sales and composition by segment

	Amount (Millions of yen)	Composition (%)
Shalom Business	2,033	77.0
Cloud service	1,914	72.5
System product sale	81	3.1
Other services	38	1.4
CuBe Business	606	23.0
Total	2,639	100.0

(2) Financial Position

Assets

The balance of current assets at the end of the current fiscal year was 1,437 million yen (up 16.6% from the end of the previous fiscal year), consisting primarily of 711 million yen in cash and deposits and 564 million yen in accounts receivable-trade.

The balance of non-current assets was 1,120 million yen (down 15.6% from the end of the previous fiscal year), consisting primarily of 485 million yen in software, 244 million yen in software in progress, and 97 million yen in goodwill.

As a result, the balance of total assets was 2,558 million yen (down 0.1% from the end of the previous fiscal year).

Liabilities

The balance of current liabilities at the end of the end of the current fiscal year was 1,010 million yen (up 21.5% from the end of the previous fiscal year), consisting of current portion of long-term borrowings of 304 million yen, short-term borrowings of 300 million yen, and accounts payable-other of 125 million yen.

The balance of non-current liabilities was 731 million yen (up 264.0% from the end of the previous fiscal year), consisting of 722 million yen in long-term borrowings.

As a result, the balance of total liabilities was 1,741 million yen (up 68.7% from the end of the previous fiscal year).

Net assets

The balance of shareholders' equity at the end of the current fiscal year was 807 million yen (down 46.8% from the end of the previous fiscal year), consisting primarily of 219 million yen in share capital, 202 million yen in capital surplus, and 386 million yen in retained earnings.

As a result, the balance of net assets was 816 million yen (down 46.6% 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 increased 102 million yen from the end of the previous fiscal year to 711 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 used in operating activities was 316 million yen. Major positive factors include depreciation of 361 million yen and amortization of goodwill of 39 million yen. Major negative factors include loss before income tax of 622 million yen, a 55 million yen increase in inventories, and a 56 million yen increase in trade receivables.

Cash flows from investing activities

Net cash used in investing activities was 353 million yen. Major positive factors include proceeds from refund of leasehold and guarantee deposits of 7 million yen. Major negative factors include purchase of intangible assets of 325 million yen and purchase of property, plant and equipment of 34 million yen.

Cash flows from financing activities

Net cash provided by financing activities was 772 million yen. Major positive factors include proceeds from long-term borrowings of 900 million yen, while major negative factors include repayments of long-term borrowings of 184 million yen and dividends paid of 43 million yen.

(4) Outlook

Although the socioeconomic activities have been moving toward normalcy, the future situation for the global and Japanese economies remains unclear due to surging prices of raw materials and energy resources such as crude oil caused by the prolonged Ukraine situation, concerns about global financial instability, and other factors.

In the personnel and labor market, in which the Group provides services, against the backdrop of environmental changes and initiatives to reform work styles with an eye for co-existence with the coronavirus, companies are becoming increasingly interested in IT investment to solve these problems. The adoption of cloud computing is expanding not only among large companies but also among small- and medium-sized companies, and the migration from on-premise to cloud is expected to continue to grow in the future due to its benefits for companies in terms of security, cost, and operational efficiency.

Under these circumstances, the Group's medium- to long-term vision is to build a stable growth model, and it aims to expand its business scale and to improve profitability by providing various products and services offered through each of its businesses to more people over a longer period of time.

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. We will also further strengthen corporate sales and service development departments to accelerate our inroads into general corporate markets.

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, 2025, we forecast net sales of 3,240 million yen, gross profit of 1,483 million yen, operating profit of 107 million yen, ordinary profit of 109 million yen, and profit attributable to owners of parent of 73 million yen.

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)	
	FY3/23 (As of Mar. 31, 2023)	FY3/24 (As of Mar. 31, 2024)
Assets		
Current assets		
Cash and deposits	609,336	711,780
Accounts receivable-trade	507,988	564,670
Merchandise	29,154	7,912
Work in process	29,966	91,442
Supplies	440	430
Prepaid expenses	47,293	39,879
Other	8,350	20,991
Total current assets	1,232,530	1,437,107
Non-current assets		
Property, plant and equipment		
Buildings, net	112,613	101,089
Vehicles, net	0	0
Tools, furniture and fixtures, net	144,907	25,678
Total property, plant and equipment	257,520	126,767
Intangible assets		
Software	485,234	485,536
Software in progress	249,092	244,876
Trademark right	855	625
Telephone subscription right	1,218	1,218
Goodwill	136,016	97,056
Total intangible assets	872,417	829,312
Investments and other assets		
Investments in capital	60	60
Guarantee deposits	163,022	157,246
Deferred tax assets	33,216	6,390
Other	1,176	1,176
Total investments and other assets	197,475	164,872
Total non-current assets	1,327,414	1,120,953
Total assets	2,559,945	2,558,060

	(Thousands of yen)	
	FY3/23 (As of Mar. 31, 2023)	FY3/24 (As of Mar. 31, 2024)
Liabilities		
Current liabilities		
Accounts payable-trade	78,633	62,683
Short-term borrowings	200,000	300,000
Current portion of long-term borrowings	115,592	304,428
Accounts payable-other	125,321	125,355
Accrued expenses	17,838	24,855
Income taxes payable	77,519	16,151
Accrued consumption taxes	25,688	14,142
Advances received	111,909	88,133
Provision for bonuses	71,228	63,169
Other	8,001	11,251
Total current liabilities	831,733	1,010,170
Non-current liabilities		
Long-term borrowings	195,000	722,059
Retirement benefit liability	6,010	9,688
Total non-current liabilities	201,010	731,747
Total liabilities	1,032,743	1,741,917
Net assets		
Shareholders' equity		
Share capital	219,110	219,110
Capital surplus	202,122	202,122
Retained earnings	1,098,920	386,973
Treasury shares	(499)	(499)
Total shareholders' equity	1,519,653	807,706
Non-controlling interests	7,548	8,436
Total net assets	1,527,201	816,143
Total liabilities and net assets	2,559,945	2,558,060

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

	(Thousands of yen)	
	FY3/23	FY3/24
	(Apr. 1, 2022 – Mar. 31, 2023)	(Apr. 1, 2023 – Mar. 31, 2024)
Net sales	2,867,469	2,639,951
Cost of sales	1,518,004	1,781,750
Gross profit	1,349,465	858,201
Selling, general and administrative expenses	1,129,789	1,206,335
Operating profit (loss)	219,675	(348,134)
Non-operating income		
Interest income	5	4
Dividend income	1	1
Rental income	42,804	40,318
Purchase discounts	158	–
Outsourcing service income	6,000	6,000
Other	400	56
Total non-operating income	49,368	46,380
Non-operating expenses		
Interest expenses	2,734	5,608
Rental costs	38,028	32,205
Commission expenses	–	6,000
Miscellaneous losses	632	303
Total non-operating expenses	41,394	44,117
Ordinary profit (loss)	227,650	(345,871)
Extraordinary losses		
Loss on retirement of non-current assets	–	129,831
System failure response expenses	–	132,106
Loss on valuation of goods	–	14,853
Total extraordinary losses	–	276,791
Profit (loss) before income taxes	227,650	(622,662)
Income taxes-current	86,604	18,955
Income taxes-deferred	(4,930)	26,125
Total income taxes	81,673	45,081
Profit (loss)	145,976	(667,743)
Profit (loss) attributable to non-controlling interests	396	782
Profit (loss) attributable to owners of parent	145,580	(668,526)

Consolidated Statement of Comprehensive Income

(Thousands of yen)

	FY3/23 (Apr. 1, 2022 – Mar. 31, 2023)	FY3/24 (Apr. 1, 2023 – Mar. 31, 2024)
Profit (loss)	145,976	(667,743)
Comprehensive income	145,976	(667,743)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	145,580	(668,526)
Comprehensive income attributable to non-controlling interests	396	782

(3) Consolidated Statement of Changes in Equity

FY3/23 (Apr. 1, 2022–Mar. 31, 2023)

(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	202,122	996,759	(499)	1,417,493	7,152	1,424,645
Changes during period							
Dividends of surplus			(43,419)		(43,419)		(43,419)
Profit (loss) attributable to owners of parent			145,580		145,580		145,580
Net changes in items other than shareholders' equity						396	396
Total changes during period	–	–	102,160	–	102,160	396	102,556
Balance at end of period	219,110	202,122	1,098,920	(499)	1,519,653	7,548	1,527,201

FY3/24 (Apr. 1, 2023–Mar. 31, 2024)

(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	202,122	1,098,920	(499)	1,519,653	7,548	1,527,201
Changes during period							
Dividends of surplus			(43,419)		(43,419)		(43,419)
Profit (loss) attributable to owners of parent			(668,526)		(668,526)		(668,526)
Net changes in items other than shareholders' equity						887	887
Total changes during period	–	–	(711,946)	–	(711,946)	887	(711,058)
Balance at end of period	219,110	202,122	386,973	(499)	807,706	8,436	816,143

(4) Consolidated Statement of Cash Flows

(Thousands of yen)

	FY3/23 (Apr. 1, 2022 – Mar. 31, 2023)	FY3/24 (Apr. 1, 2023 – Mar. 31, 2024)
Cash flows from operating activities		
Profit (loss) before income taxes	227,650	(622,662)
Depreciation	352,724	361,958
Amortization of goodwill	38,861	39,065
Increase (decrease) in provision for retirement benefits for directors (and other officers)	(5,000)	–
Increase (decrease) in retirement benefit liability	6,010	3,678
Increase (decrease) in provision for bonuses	3,439	(8,059)
Interest and dividend income	(6)	(5)
Interest expenses	2,734	5,608
Loss on valuation of goods	–	14,853
Loss on retirement of non-current assets	–	129,831
Decrease (increase) in trade receivables	(32,931)	(56,681)
Decrease (increase) in inventories	(17,043)	(55,076)
Increase (decrease) in trade payables	17,000	(15,949)
Increase (decrease) in accrued consumption taxes	6,817	(29,886)
Increase (decrease) in accounts payable-other	(6,198)	2,355
Other, net	41,443	(8,797)
Subtotal	635,503	(239,768)
Interest and dividends received	5	5
Interest paid	(2,734)	(5,608)
Income taxes paid	(15,524)	(71,368)
Net cash provided by (used in) operating activities	617,250	(316,739)
Cash flows from investing activities		
Proceeds from withdrawal of time deposits	7,094	–
Purchase of property, plant and equipment	(119,622)	(34,090)
Purchase of intangible assets	(443,745)	(325,123)
Payments of leasehold and guarantee deposits	(284)	(1,446)
Proceeds from refund of leasehold and guarantee deposits	218	7,223
Purchase of golf club membership	(1,077)	–
Net cash provided by (used in) investing activities	(557,416)	(353,437)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	74,000	100,000
Proceeds from long-term borrowings	300,000	900,000
Repayments of long-term borrowings	(242,259)	(184,105)
Dividends paid	(43,290)	(43,274)
Net cash provided by (used in) financing activities	88,450	772,620
Net increase (decrease) in cash and cash equivalents	148,283	102,443
Cash and cash equivalents at beginning of period	461,052	609,336
Cash and cash equivalents at end of period	609,336	711,780

(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”.

Inventories are valued at the amount after written down of the book value to reflect the effect of lower profitability. 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

FY3/23 (Apr. 1, 2022–Mar. 31, 2023)

(Thousands of yen)

	Reportable segment			Adjustment (Note)	Amounts recorded in consolidated financial statements
	Shalom Business	CuBe Business	Total		
Net sales					
External sales	2,314,941	552,527	2,867,469	–	2,867,469
Inter-segment sales and transfers	9,291	8,789	18,080	(18,080)	–
Total	2,324,232	561,317	2,885,550	(18,080)	2,867,469
Segment profit (loss)	221,105	(19,588)	201,517	18,158	219,675
Segment assets	1,970,863	596,140	2,567,003	(7,059)	2,559,944
Other items					
Depreciation	324,822	27,902	352,724	–	352,724
Amortization of goodwill	–	38,861	38,861	–	38,861
Increase in property, plant and equipment and intangible assets	372,796	40,662	413,459	–	413,459

- 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.

FY3/24 (Apr. 1, 2023–Mar. 31, 2024)

(Thousands of yen)

	Reportable segment			Adjustment (Note)	Amounts recorded in consolidated financial statements
	Shalom Business	CuBe Business	Total		
Net sales					
External sales	2,033,728	606,223	2,639,951	–	2,639,951
Inter-segment sales and transfers	6,510	11,556	18,066	(18,066)	–
Total	2,040,238	617,779	2,658,018	(18,066)	2,639,951
Segment profit (loss)	(379,095)	8,731	(370,363)	22,229	(348,134)
Segment assets	1,865,117	695,394	2,560,512	(2,452)	2,558,060
Other items					
Depreciation	330,618	31,340	361,958	–	361,958
Amortization of goodwill	–	39,065	39,065	–	39,065
Increase in property, plant and equipment and intangible assets	347,903	13,203	361,107	–	361,107

- 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)

	FY3/23 (Apr. 1, 2022–Mar. 31, 2023)	FY3/24 (Apr. 1, 2023–Mar. 31, 2024)
Net assets per share	279.99	148.82
Basic earnings (loss) per share	26.82	(123.17)

- 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)

	FY3/23 (Apr. 1, 2022–Mar. 31, 2023)	FY3/24 (Apr. 1, 2023–Mar. 31, 2024)
Profit (loss) attributable to owners of parent	145,580	(668,526)
Amounts not available to common shareholders	–	–
Profit (loss) attributable to owners of parent available to common stock	145,580	(668,526)
Average number of shares of common stock during the period (Shares)	5,427,494	5,427,494

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

(Thousands of yen unless otherwise stated)

	FY3/23 (As of Mar. 31, 2023)	FY3/24 (As of Mar. 31, 2024)
Total net assets	1,527,201	816,143
Deduction on total net assets	7,548	8,436
[of which non-controlling interests]	[7,548]	[8,436]
Net assets applicable to common stock	1,519,653	807,706
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.