

Summary of Consolidated Financial Results
for the Second Quarter of the Fiscal Year Ending March 31, 2022
(Six Months Ended September 30, 2021)

[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, Executive Officer, General Manager of Business Administration Division
 Tel: +81-6-7222-3394
 Scheduled date of filing of Quarterly Report: November 5, 2021
 Scheduled date of payment of dividend: -
 Preparation of supplementary materials for quarterly financial results: Yes
 Holding of quarterly financial results meeting: None

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

1. Consolidated Financial Results for the Second Quarter Ended September 30, 2021

(April 1, 2021 – September 30, 2021)

(1) Consolidated operating results

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended Sep. 30, 2021	1,241	10.0	30	(60.3)	9	(88.4)	(4)	-
Six months ended Sep. 30, 2020	1,128	(4.7)	75	(52.6)	83	(47.8)	40	(59.6)

Note: Comprehensive income (million yen) Six months ended Sep. 30, 2021: (5) (-%)
 Six months ended Sep. 30, 2020: 38 (down 60.4%)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended Sep. 30, 2021	(0.88)	-
Six months ended Sep. 30, 2020	7.55	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of Sep. 30, 2021	2,143	1,353	61.4
As of Mar. 31, 2021	2,241	1,402	60.9

Reference: Shareholders' equity (million yen) As of Sep. 30, 2021: 1,316 As of Mar. 31, 2021: 1,364

2. Dividends

	Dividend per share				
	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
Fiscal year ending Mar. 31, 2022	-	0.00			
Fiscal year ending Mar. 31, 2022 (forecast)			-	8.00	8.00

Note: Revisions to the most recently announced dividend forecast: None

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

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	2,892	18.6	220	0.2	219	0.2	138	0.2	25.47

Note: Revisions to the most recently announced earnings forecasts: None

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in scope of consolidation): None

(2) Application of special accounting methods for presenting quarterly consolidated financial statements: None

(3) 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

(4) Number of issued shares (common stock)

1) Number of shares issued at the end of period (including treasury shares)

As of Sep. 30, 2021:	5,428,000 shares	As of Mar. 31, 2021:	5,428,000 shares
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2) Number of treasury shares at the end of period

As of Sep. 30, 2021:	506 shares	As of Mar. 31, 2021:	506 shares
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3) Average number of shares during the period

Six months ended Sep. 30, 2021:	5,427,494 shares	Six months ended Sep. 30, 2020:	5,427,516 shares
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* This quarterly financial report is not subject to quarterly review 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. Please refer to "1. Qualitative Information on Quarterly Consolidated Financial Performance, (3) Explanation of Consolidated Earnings Forecasts and Other Forward-looking Statements" on page 4 for forecast assumptions and notes of caution for usage.

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1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

During the first half of the fiscal year ending March 31, 2022 (hereinafter “the period under review”), the Japanese economy continued to be in a difficult situation, with the COVID-19 impacts still playing out and the state of emergency being re-declared and repeatedly extended in major urban areas. While countermeasures against the spread of infections and the promotion of vaccination are expected to bring about a pick up in the economy with the state of emergency having been fully lifted despite some restrictions remaining in place, the impact of the development of infections on the domestic and foreign economies still remain 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.

During the previous fiscal year, MKSystem relocated its Tokyo office. The new office site has not only MKSystem’s Tokyo office but also the offices of our consolidated subsidiary, partner companies and other affiliated organizations, which relocated at the same time, in order to work more closely and streamline the operations.

As a result, for the period under review, the Group reported net sales of 1,241 million yen (up 10.0% year on year), cost of sales of 638 million yen (up 12.8%), the ratio of cost of sales to net sales of 51.4% (up 1.2 percentage points), gross profit of 602 million yen (up 7.3%), operating profit of 30 million yen (down 60.3% year on year), the ratio of operating profit to net sales of 2.4% (down 4.3 percentage points), ordinary profit of 9 million yen (down 88.4% year on year), and loss attributable to owners of parent of 4 million yen (compared with profit attributable to owners of parent of 40 million yen for the same period of the previous fiscal year). In addition, the return on equity (ROE), one of the KPIs for the Group, was -0.4% (compared with 3.2 percentage points for the same period of the previous fiscal year) on a consolidated basis and 1.2% (compared with 5.4 percentage points for the same period of the previous fiscal 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 strengthened the service line-up by starting to offer “GooooN Jinzai Profile (with linkage to Shalom),” a personnel management system, as well as “ShaRobo Shalom V3.4,” an official Shalom RPA. These new services can be used in conjunction with the “Shalom” series, our mainstay service, allowing our customers to utilize such products more conveniently. In addition, the Marketing Strategy Department, newly established to strengthen the company-wide sales support system, strove to acquire new users and improve digital marketing, undertaking new initiatives such as social media advertising for seminars.

The “Shalom” series, our mainstay service, saw an increase in the number of contracts of House Plan for labor and social security attorneys. 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. As for the Company Edition, we continued to endeavor to win new users by exhibiting it at the hybrid EXPO (Online and Digitalization EXPO, Work from Home/Telework EXPO & New Normal Office EXPO), which was held for the first time this year, and at the 1st HR EXPO Online, one of the

biggest exhibitions in Japan specializing in business negotiations of personnel operation support systems.

As a result, sales of the cloud services, which consist of ASP services and system construction services, were 967 million yen (up 11.0% year on year). This was attributable to sales of ASP services amounted to 886 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 81 million yen (up 12.8%) mainly due to an increase in the number of Shalom House Plan contracts. In addition, sales of system products increased to 47 million yen (up 2.9%).

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 1,033 million yen (up 10.6% year on year), gross profit of 530 million yen (up 5.3%) and operating profit of 47 million yen (down 54.6%). The ratio of operating profit to net sales, one of the KPIs for the Group, was 4.6% (down 6.6 percentage points).

The CuBe Business

We have been engaged in the contracted development of front-end systems, customized to needs of an individual company, for the personnel and general affairs divisions of large companies to improve their business processes. The CuBe Business also provides cloud services that bring the convenience to small- and medium-sized companies by leveraging our know-how gained through the contracted development of systems for large companies.

In the 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 a significant increase in orders, in particular orders for several large-scale products that we have not seen in recent years. 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 223 million yen (up 3.5% year on year), gross profit of 75 million yen (up 30.2%) and operating loss of 20 million yen (compared with operating loss of 37 million yen for the same period of the previous fiscal year). Operating loss of the CuBe Business reflects amortization of goodwill of 19 million yen.

(2) Explanation of Financial Position

Cash Flows

The balance of cash and cash equivalents (hereinafter “net cash”) at the end of the period under review decreased 143 million yen from the end of the previous fiscal year to 474 million yen. The details of cash flows for the period under review from each activity and the major components of changes are as follows.

Cash flows from operating activities

Net cash provided by operating activities was 210 million yen (compared with net cash provided of 77 million yen for the same period of the previous fiscal year). Major positive factors include depreciation of 177 million yen and a 38 million yen decrease in trade receivables. Major negative factors include a 67 million yen increase in inventories and income taxes paid of 39 million yen.

Cash flows from investing activities

Net cash used in investing activities was 227 million yen (compared with net cash used of 276 million yen for the same period of the previous fiscal year). Major negative factors include purchase of property, plant and equipment of 27 million yen and purchase of intangible assets of 197 million yen.

Cash flows from financing activities

Net cash used in financing activities was 126 million yen (compared with net cash provided of 62 million yen for the same period of the previous fiscal year). Major positive factors include a 33 million yen increase in short-term borrowings, while major negative factors include repayments of long-term borrowings of 116 million yen and dividends paid of 43 million yen.

The Group's capital resources and liquidity of funds are as follows:

Funds that the Group uses mainly to finance capital expenditures and repay loans are primarily covered by internally generated funds derived from operating cash flows, thereby enabling us to ensure liquidity with our own funds. In addition, we intend to finance major capital investments by loans from financial institutions as needed.

Assets, Liabilities and Net Assets

Assets

The balance of current assets at the end of the period under review was 1,052 million yen (down 10.3% from the end of the previous fiscal year), consisting primarily of 501 million yen in cash and deposits and 429 million yen in accounts receivable-trade.

The balance of non-current assets was 1,091 million yen (up 2.1% from the end of the previous fiscal year), consisting primarily of 431 million yen in software, 194 million yen in goodwill, and 162 million yen in guarantee deposits.

As a result, the balance of total assets was 2,143 million yen (down 4.4% from the end of the previous fiscal year).

Liabilities

The balance of current liabilities at the end of the period under review was 647 million yen (up 10.4% from the end of the previous fiscal year), consisting primarily of 227 million yen in current portion of long-term borrowings, 96 million yen in accounts payable-other, 42 million yen in accrued expenses, and 53 million yen in advances received.

The balance of non-current liabilities was 141 million yen (down 43.9% from the end of the previous fiscal year), consisting solely of 141 million yen in long-term borrowings.

As a result, the balance of total liabilities was 789 million yen (down 6.0% from the end of the previous fiscal year).

Net assets

The balance of shareholders' equity at the end of the period under review was 1,316 million yen (down 3.5% from the end of the previous fiscal year), consisting primarily of 219 million yen in share capital, 197 million yen in capital surplus, and 900 million yen in retained earnings.

As a result, the balance of net assets was 1,353 million yen (down 3.5% from the end of the previous fiscal year).

(3) Explanation of Consolidated Earnings Forecasts and Other Forward-looking Statements

There are no revisions to the consolidated earnings forecast for the fiscal year ending March 31, 2022, which was announced in the "Summary of Consolidated Financial Results for the Fiscal Year Ended March 31, 2021 (Japanese GAAP)" on May 10, 2021.

2. Quarterly Consolidated Financial Statements and Notes**(1) Quarterly Consolidated Balance Sheet**

(Thousands of yen)

	FY3/21 (As of Mar. 31, 2021)	Second quarter of FY3/22 (As of Sep. 30, 2021)
Assets		
Current assets		
Cash and deposits	644,492	501,259
Accounts receivable-trade	467,416	429,286
Merchandise	7,054	41,456
Work in process	3,261	36,293
Supplies	77	118
Prepaid expenses	37,741	38,170
Consumption taxes receivable	-	242
Other	12,879	5,236
Total current assets	1,172,924	1,052,064
Non-current assets		
Property, plant and equipment		
Buildings, net	135,248	129,386
Vehicles, net	1,737	1,301
Tools, furniture and fixtures, net	85,789	89,951
Total property, plant and equipment	222,775	220,639
Intangible assets		
Software	397,537	431,610
Software in progress	40,416	48,032
Trademark right	1,316	1,201
Telephone subscription right	1,218	1,218
Goodwill	213,740	194,309
Total intangible assets	654,229	676,372
Investments and other assets		
Investments in capital	60	60
Guarantee deposits	161,362	162,937
Deferred tax assets	30,495	31,185
Other	98	98
Total investments and other assets	192,016	194,281
Total non-current assets	1,069,021	1,091,293
Total assets	2,241,946	2,143,358

(Thousands of yen)

	FY3/21 (As of Mar. 31, 2021)	Second quarter of FY3/22 (As of Sep. 30, 2021)
Liabilities		
Current liabilities		
Accounts payable-trade	45,006	83,742
Short-term borrowings	-	33,000
Current portion of long-term borrowings	233,304	227,778
Accounts payable-other	98,889	96,382
Accrued expenses	37,730	42,078
Income taxes payable	45,235	20,991
Accrued consumption taxes	11,841	12,763
Advances received	42,880	53,263
Provision for bonuses	64,113	69,061
Other	7,684	8,589
Total current liabilities	586,685	647,650
Non-current liabilities		
Long-term borrowings	252,851	141,725
Total non-current liabilities	252,851	141,725
Total liabilities	839,536	789,375
Net assets		
Shareholders' equity		
Share capital	219,110	219,110
Capital surplus	197,457	197,457
Retained earnings	948,784	900,569
Treasury shares	(499)	(499)
Total shareholders' equity	1,364,852	1,316,637
Non-controlling interests	37,557	37,345
Total net assets	1,402,410	1,353,983
Total liabilities and net assets	2,241,946	2,143,358

(2) Quarterly Consolidated Statements of Income and Comprehensive Income**Quarterly Consolidated Statement of Income
(For the Six-month Period)**

	(Thousands of yen)	
	First six months of FY3/21 (Apr. 1, 2020 – Sep. 30, 2020)	First six months of FY3/22 (Apr. 1, 2021 – Sep. 30, 2021)
Net sales	1,128,029	1,241,209
Cost of sales	566,043	638,324
Gross profit	561,985	602,885
Selling, general and administrative expenses	486,041	572,727
Operating profit	75,944	30,158
Non-operating income		
Interest income	3	3
Dividend income	1	1
Royalty income	300	-
Rental income	7,035	21,402
Subsidy income	1,056	-
Surrender value of insurance policies	25	-
Purchase discounts	190	21
Other	69	1,800
Total non-operating income	8,681	23,228
Non-operating expenses		
Interest expenses	1,333	1,038
Rental costs	-	19,014
Compensation expenses	-	23,700
Other	0	-
Total non-operating expenses	1,334	43,752
Ordinary profit	83,291	9,634
Extraordinary losses		
Loss on retirement of property, plant and equipment	700	-
Total extraordinary losses	700	-
Profit before income taxes	82,591	9,634
Income taxes-current	42,842	15,331
Income taxes-deferred	1,026	(690)
Total income taxes	43,868	14,641
Profit (loss)	38,723	(5,006)
Loss attributable to non-controlling interests	(2,253)	(211)
Profit (loss) attributable to owners of parent	40,976	(4,794)

Quarterly Consolidated Statement of Comprehensive Income
(For the Six-month Period)

	(Thousands of yen)	
	First six months of FY3/21 (Apr. 1, 2020 – Sep. 30, 2020)	First six months of FY3/22 (Apr. 1, 2021 – Sep. 30, 2021)
Profit (loss)	38,723	(5,006)
Comprehensive income	38,723	(5,006)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	40,976	(4,794)
Comprehensive income attributable to non-controlling interests	(2,253)	(211)

(3) Quarterly Consolidated Statement of Cash Flows

(Thousands of yen)

	First six months of FY3/21 (Apr. 1, 2020 – Sep. 30, 2020)	First six months of FY3/22 (Apr. 1, 2021 – Sep. 30, 2021)
Cash flows from operating activities		
Profit before income taxes	82,591	9,634
Depreciation	154,392	177,730
Amortization of goodwill	19,430	19,430
Increase (decrease) in provision for bonuses	4,415	4,947
Interest and dividend income	(4)	(4)
Interest expenses	1,333	1,038
Decrease (increase) in trade receivables	13,362	38,129
Decrease (increase) in inventories	(14,828)	(67,474)
Increase (decrease) in trade payables	(10,467)	38,736
Increase (decrease) in accrued consumption taxes	(91,025)	678
Increase (decrease) in accounts payable-other	(11,145)	5,850
Other, net	2,674	22,846
Subtotal	150,728	251,546
Interest and dividends received	3	3
Interest paid	(1,333)	(1,038)
Income taxes refund (paid)	(71,987)	(39,774)
Net cash provided by (used in) operating activities	77,411	210,737
Cash flows from investing activities		
Purchase of property, plant and equipment	(181,068)	(27,616)
Purchase of intangible assets	(95,786)	(197,910)
Proceeds from divestments	10	-
Payments of leasehold and guarantee deposits	-	(1,801)
Proceeds from refund of leasehold and guarantee deposits	35	226
Net cash provided by (used in) investing activities	(276,810)	(227,101)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	-	33,000
Proceeds from long-term borrowings	200,000	-
Repayments of long-term borrowings	(94,432)	(116,652)
Purchase of treasury shares	(32)	-
Dividends paid	(43,420)	(43,217)
Net cash provided by (used in) financing activities	62,115	(126,869)
Net increase (decrease) in cash and cash equivalents	(137,283)	(143,233)
Cash and cash equivalents at beginning of period	722,818	617,349
Cash and cash equivalents at end of period	585,534	474,115

(4) Notes to Quarterly Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Significant Changes in Shareholders' Equity

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 first quarter of the fiscal year ending in 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 first quarter of the current fiscal year, is added to or subtracted from retained earnings at the beginning of the first quarter 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 first quarter 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 first quarter 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 first quarter of the current fiscal year.

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

Furthermore, in accordance with the transitional treatment prescribed in Paragraph 28-15 of the Accounting Standard for Quarterly Financial Reporting (ASBJ Statement No. 12, March 31, 2020), MKSystem has not presented information on revenue from contracts with customers broken down for the first half of the previous fiscal year.

Segment Information

First six months of FY3/21 (Apr. 1, 2020 – Sep. 30, 2020)

Information related to net sales and profit/loss for each reportable segment

(Thousands of yen)

	Shalom Business	CuBe Business	Total	Adjustment (Note)	Amounts recorded in quarterly consolidated statement of income
Net sales					
External sales	917,304	210,725	1,128,029	-	1,128,029
Inter-segment sales and transfers	17,466	5,062	22,528	(22,528)	-
Total	934,770	215,788	1,150,558	(22,528)	1,128,029
Segment profit (loss)	104,356	(37,685)	66,670	9,274	75,944

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

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

First six months of FY3/22 (Apr. 1, 2021 – Sep. 30, 2021)

Information related to net sales and profit/loss for each reportable segment

(Thousands of yen)

	Shalom Business	CuBe Business	Total	Adjustment (Note)	Amounts recorded in quarterly consolidated statement of income
Net sales					
External sales	1,020,876	220,333	1,241,209	-	1,241,209
Inter-segment sales and transfers	12,966	3,084	16,050	(16,050)	-
Total	1,033,842	223,418	1,257,260	(16,050)	1,241,209
Segment profit (loss)	47,377	(20,930)	26,446	3,711	30,158

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

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

3. Information related to revisions for reportable segments

As described in Changes in Accounting Policies, MKSystem has applied the Accounting Standard for Revenue Recognition from the beginning of the first quarter of FY3/22 and changed the accounting method for revenue recognition. Accordingly, the method for calculating segment profit or loss has been changed as well. This change has no impact on the first six months of FY3/22.

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.