Consolidated Financial Results for the Fiscal Year Ended September 30, 2022

[Japanese GAAP]

November 11, 2022

Company name:	Global Kids Company Corp.	Stock Exchange Listing: TSE (Prime)	
Securities code:	6189	URL: https://www.gkids.jp/	
Representative:	Yuichi Nakasho, Representative Director & CEO		
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Scheduled date of annual shareholders' meeting:	December 20, 2022
Scheduled date of payment of dividend:	December 21, 2022
Scheduled submission date of annual securities report:	December 21, 2022
Preparation of supplementary materials for quarterly financial results:	Yes
Holding of quarterly financial results meeting:	Yes (for institutional investors and analysts)

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

1. Consolidated Financial Results for the Fiscal Year Ended September 30, 2022 (October 1, 2021 to September 30, 2022)

(1) Consolidated results of operations

(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 Sep. 30, 2022	24,352	3.5	707	22.9	1,179	2.7	(314)	-
Fiscal year ended Sep. 30, 2021	23,529	6.2	576	20.6	1,148	25.3	481	10.0

Note: Comprehensive income (million yen) Fiscal year ended Sep. 30, 2022: (287) (- %)
Fiscal year ended Sep. 30, 2021: 497 (up 14.8%)

	Net income per share	Diluted net income per share	Return on equity	Ordinary profit to total assets	Operating profit to net sales
	Yen	Yen	%	%	%
Fiscal year ended Sep. 30, 2022	(33.61)	-	(3.7)	6.8	2.9
Fiscal year ended Sep. 30, 2021	51.97	51.41	5.7	6.3	2.4

Reference: Equity in earnings of affiliates (million yen) Fiscal year ended Sep. 30, 2022: - Fiscal year ended Sep. 30, 2021: -

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Sep. 30, 2022	16,601	8,367	50.4	890.35
As of Sep. 30, 2021	18,110	8,658	47.7	928.85

Reference: Shareholders' equity (million yen) As of Sep. 30, 2022: 8,367 As of Sep. 30, 2021: 8,639

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 the fiscal year
	Million yen	Million yen	Million yen	Million yen
Fiscal year ended Sep. 30, 2022	1,503	(705)	(821)	1,303
Fiscal year ended Sep. 30, 2021	1,235	(907)	(816)	1,327

2. Dividends

	Dividend per share					Total dividends	Dividend payout ratio (consolidated)	Dividends on net assets (consolidated)
	1Q-end	2Q-end	3Q-end	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
Fiscal year ended Sep. 30, 2021	-	0.00	-	0.00	0.00	-	-	-
Fiscal year ended Sep. 30, 2022	-	0.00	-	25.00	25.00	234	-	2.8
Fiscal year ending Sep. 30, 2023 (Forecast)	-	0.00	-	30.00	30.00		-	

3. Consolidated Earnings Forecast for the Fiscal Year Ending September 30, 2023
(October 1, 2022 to September 30, 2023)

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	24,750	1.6	800	13.0	780	(33.8)	500	-	53.20

***Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in 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 shares issued (common stock)

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

As of Sep. 30, 2022:	9,405,341 shares	As of Sep. 30, 2021:	9,328,511 shares

2) Number of treasury shares as of the end of the period

As of Sep. 30, 2022:	6,859 shares	As of Sep. 30, 2021:	6,797 shares

3) Average number of shares issued during the period

Fiscal year ended Sep. 30, 2022:	9,369,283 shares	Fiscal year ended Sep. 30, 2021:	9,272,876 shares

* 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 and other forward-looking statements in these materials are based on assumptions judged to be valid and information available to the Company’s management at the time these materials were prepared, but are not promises by the Company regarding future performance. Actual results may differ significantly from these forecasts for a number of reasons.

Please refer to the section “1. Overview of Results of Operations, (4) Future Outlook” on page 4 of the attachments for details on the above forecasts.

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1. Overview of Results of Operations

(1) Results of Operations

(Results of operations for the fiscal year ended September 30, 2022)

First of all, it was discovered that Global Kids K.K., a consolidated subsidiary of the Company, falsified names and attendance records of employees at its central government licensed nursery schools and local government licensed nursery schools, and made false reports to the government authorities, with the involvement of its headquarters, as if the employees were actually working at the facilities but were not actually working there. As a result, the company took steps to prevent recurrence, reformed its management structure to clarify where responsibility lies, two Directors have resigned, and the Representative Director has reduced his remuneration. We deeply apologize to our shareholders, business partners, users, government officials, and all other stakeholders of our Group for the concern and inconvenience caused by this fraudulent act. The company has paid the restitution and other amounts due and is implementing measures to prevent recurrence of the incident in due course.

In Japan, dealing with the declining workforce due to the low birthrate and aging population has become an issue of the utmost urgency, and child-rearing business providers continue to play an important role as an infrastructure to support the social advancement and active participation of women who are expected to boost the country's economic vitality.

To reduce the number of wait-listed children at nursery schools, both the central and local governments are implementing measures that aim to expand service capacity by securing childcare workers and developing nursery schools. Specifically, free early childhood education and preschool programs began in October 2019, and in December 2020, the government announced the New Child-rearing Security Plan, setting a goal of securing additional capacity for approximately 140,000 children over the four years from fiscal 2021 to the end of fiscal 2024.

The number of wait-listed children is decreasing, thanks to these initiatives taken by the government. Even if there is a lull in the quantity of demand for childcare services, the Group expects there to be continued demand for "nursery schools of choice" that supply high quality childcare, provide guardians with convenience, and offer educational functions.

Furthermore, in an effort to unify its measures regarding children, the government plans to create a new "Agency for Children and Families" in April 2023, under the banner of a "child-centered society" which centrally positions child-related initiatives and policies within society. The establishment of Agency for Children and Families is expected to raise the percentage of childcare-related expenditures against GDP and to improve the compensation and social standing of childcare workers, and the stance of promoting children-centric policies has become increasingly marked.

Under such circumstances, the Group opened six central government licensed nursery schools (including one facility that was transitioned from local government licensed nursery school status), as indicated below, during the current fiscal year as a result of our continued efforts to develop new facilities in Tokyo and Kanagawa.

Consequently, at the end of the current fiscal year, the Group operates a total of 174 facilities: 141 central government licensed nursery schools (103 in Tokyo, 28 in Kanagawa, four in Chiba, one in Saitama and five in Osaka); 20 local government licensed nursery schools or centers for early childhood education and care; 10 after-school day care centers or children's houses; and three child developmental support facilities.

(Central government licensed nursery schools)

Tokyo

- Global Kids Shoin-jinja Ekimae
- Global Kids Hamacho
- Global Kids Toyosu
- Global Kids Matsushima
- Global Kids Higashifushimi

Kanagawa

- Global Kids Shinkoyasu No. 2

Net sales for the current fiscal year increased due to contributions from newly opened facilities and a rise in the number of nursery school children at relatively new nursery schools in their second year of operation, despite a reaction to the change in the timing of recording some subsidies for operation that was implemented in the previous fiscal year. As for cost of sales, while there were increases in foodstuff costs and utilities costs, the gross profit margin rose 0.3 points from the end of the previous fiscal year due to the effect of increased revenues resulting from an increase in the number of nursery school children, the transfer of the company sponsored childcare business, and the closing of unprofitable nursery schools. In addition, the selling, general and administrative

expenses ratio improved by 0.2 points over the previous fiscal year due to a decrease in headquarters personnel expenses as a result of efforts to improve operational efficiency, despite one-time expenses incurred for M&A and other activities.
Consequently, the Group reported net sales for the current fiscal year of 24,352 million yen (up 3.5% year on year) with operating profit of 707 million yen (up 22.9% year on year), ordinary profit of 1,179 million yen (up 2.7% year on year), and loss attributable to owners of parent of 314 million yen.

(2) Financial Position

Assets

Total assets amounted to 16,601 million yen at the end of the current fiscal year, a decrease of 1,509 million yen from the end of the previous fiscal year.
Current assets increased 416 million yen to 4,546 million yen. This was mainly attributable to an increase of 428 million yen in accounts receivable-other and contract assets (indicated as "accounts receivable-other" until the previous fiscal year).
Non-current assets decreased 1,925 million yen to 12,054 million yen. This was mainly attributable to a decrease of 1,772 million yen in property, plant and equipment due to impairment loss and depreciation, despite an acquisition of buildings and structures as well as machinery and equipment due to the opening of new nursery schools.

Liabilities

Total liabilities amounted to 8,233 million yen at the end of the current fiscal year, a decrease of 1,218 million yen from the end of the previous fiscal year.
Current liabilities increased by 5 million yen to 3,217 million yen. This was mainly attributable to a decrease of 66 million yen in current portion of long-term loans payable, despite an increase of 55 million yen in accounts payable-other and an increase of 34 million yen in advances received.
Non-current liabilities decreased 1,223 million yen to 5,015 million yen. This was mainly attributable to a decrease of 754 million yen in long-term loans payable.
Total interest-bearing debt decreased 823 million yen from the end of the previous fiscal year and the equity ratio increased by 2.7 points.

Net assets

Net assets amounted to 8,367 million yen at the end of the current fiscal year, a decrease of 290 million yen from the end of the previous fiscal year. This was mainly attributable to a decrease of 314 million yen in retained earnings as a result of the booking of loss attributable to owners of parent.

(3) Cash Flows

Cash and cash equivalents (hereinafter, "net cash") at the end of the current fiscal year decreased 23 million yen from the end of the previous fiscal year to 1,303 million yen with net cash provided by operating activities of 1,503 million yen, net cash used in investing activities of 705 million yen, and net cash used in financing activities of 821 million yen.
The cash flow components for the current fiscal year and the main factors for changes are described below.

Cash flows from operating activities

Net cash provided by operating activities amounted to 1,503 million yen, mainly due to an increase of 2,517 million yen as a result of impairment loss and depreciation, despite decreases of 484 million yen due to the recording of loss before income taxes, 428 million yen due to an increase in accounts receivable-other and contract assets (indicated as "accounts receivable-other" until the previous fiscal year), and 350 million yen due to payment of income taxes.
Net cash provided increased 268 million yen compared to the fiscal year ended September 30, 2021. This was mainly due to an increase in impairment loss of 1,418 million yen and a decrease in income taxes paid of 219 million yen, despite a decrease in profit (loss) before income taxes of 1,300 million yen.

Cash flows from investing activities

Net cash used in investing activities amounted to 705 million yen, mainly due to collection of construction assistance fund receivables of 21 million yen and purchase of property, plant and equipment of 728 million yen.
Net cash used in investing activities decreased 201 million yen compared to the fiscal year ended September 30, 2021. This was mainly due to an increase in proceeds from lease and guarantee deposits received of 47 million yen, despite decreases in purchase of

property, plant and equipment of 57 million yen and payments for lease and guarantee deposits of 91 million yen.

Cash flows from financing activities
Net cash used in financing activities amounted to 821 million yen, mainly due to repayments of long-term loans payable of 820 million yen.
Net cash used in financing activities increased by 5 million yen compared to the fiscal year ended September 30, 2021. This was mainly due to decreases in repayments of long-term loans payable of 83 million yen and proceeds from long-term loans payable of 90 million yen.

Reference: Cash flow indicators

	FY9/22
Equity ratio (%)	50.4
Market value-based equity ratio (%)	34.8
Interest-bearing debt to cash flow ratio (Years)	2.5
Interest coverage ratio (Times)	76.0

-Equity ratio: Shareholders' equity / Total assets
-Market value-based equity ratio: Market capitalization / Total assets
-Interest-bearing debt to cash flow ratio: Interest-bearing debt / Operating cash flows
-Interest coverage ratio: Operating cash flows / Interest expenses
Notes: 1. Market capitalization is calculated by multiplying the closing share price at the period end (or the contract price for the most recent day prior to the period end if there is no applicable contract execution at the period end) by the number of shares issued and outstanding (excluding treasury shares) at the period end.
2. Cash flows are calculated using the figures for operating cash flows in the statement of cash flows.
3. Interest-bearing debt includes all debt on the consolidated balance sheet that incur interest.

(4) Future Outlook

Due to changing attitudes toward women's participation in society and the government's promotion of women's active participation in the workforce, the percentage of households with two workers is increasing year by year, and the employment rate for women aged 25-44 remains high at nearly 70%. In December 2020, the government launched the New Child-rearing Security Plan with the goal of providing childcare services for approximately 140,000 children over the four years from fiscal 2021 to the end of fiscal 2024, and the number of childcare facilities is expected to continue to increase. As a result, the number of children on waiting lists continues to decline, and childcare services may have reached a quantitative plateau.
Even if quantitative demand for childcare services declines, we assume that demand will continue for "nursery schools of choice" that offer high-quality childcare, convenience for parents, and educational functions.
In light of this turning point in the demand for childcare services, the Group is working to enhance corporate value by setting forth three key policies in its Medium-term Management Plan (2024): "expansion of scale" of the childcare business through M&A in addition to organic growth; "expansion of functions" to diversify revenue sources and improve the competitiveness of the childcare business through the development of new businesses; and "strengthening of base" to balance investment in growth and shareholder returns while increasing productivity through the strategic use of ICT, creating added value, and maintaining financial soundness.

Number of wait-listed children

April 1, 2017	April 1, 2018	April 1, 2019	April 1, 2020	April 1, 2021	April 1, 2022
26,081	19,895	16,772	12,439	5,634	2,944

Source: *Summary of Nursery School Situation* issued by the Ministry of Health, Labour, and Welfare

Based on the above, for the next fiscal year, we project net sales of 24,750 million yen (up 1.6% year on year), operating profit of 800 million yen (up 13.0% year on year), ordinary profit of 780 million yen (down 33.8% year on year), and profit attributable to owners of parent of 500 million yen.
Net sales for the next fiscal year are expected to increase due to an increase in the occupancy rate of relatively new nursery schools

that have been in operation for one to three years. In addition, operating profit is expected to increase due to the efficiency improvement that will accompany the improved occupancy rate, as well as the optimization of personnel costs through improved staffing.

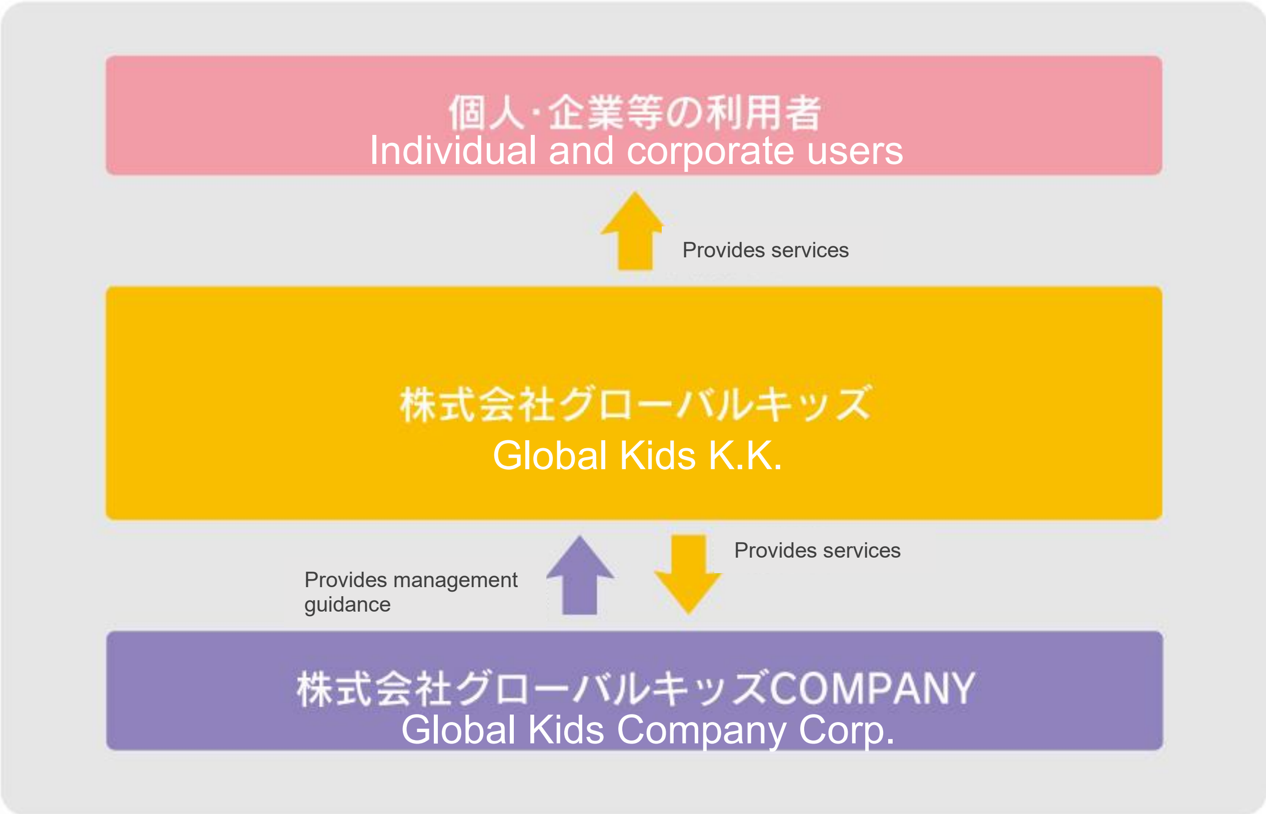
Since there are no plans to open new nursery schools in the next fiscal year and no subsidies related to the opening of such schools will be recorded, ordinary income is expected to decrease.

2. Corporate Group

The Group consists of the Company and its consolidated subsidiary that engage primarily in the child-rearing support business by operating nursery schools, after-school day care centers, children houses, and child developmental support business.

The following diagram shows the Group's business activities and the positioning of the Company and its affiliated companies in the business.

Business structure diagram



3. Basic Approach to the Selection of Accounting Standards

We adopt Japanese GAAP because most of our stakeholders are shareholders, creditors, users, and business partners located in Japan, and we do not necessarily have to raise funds from overseas capital markets.

4. Consolidated Financial Statements and Notes
(1) Consolidated Balance Sheet

(Millions of yen)

	FY9/21 (As of Sep. 30, 2021)	FY9/22 (As of Sep. 30, 2022)
Assets		
Current assets		
Cash and deposits	1,327	1,303
Accounts receivable-other	2,168	-
Accounts receivable-other and contract assets	-	2,597
Prepaid expenses	629	640
Other	4	5
Total current assets	4,130	4,546
Non-current assets		
Property, plant and equipment		
Land	635	692
Buildings and structures, net	10,317	8,584
Construction in progress	52	-
Other, net	356	310
Total property, plant and equipment	11,360	9,587
Intangible assets		
Software	42	33
Total intangible assets	42	33
Investments and other assets		
Investment securities	50	47
Long-term prepaid expenses	455	365
Lease and guarantee deposits	1,746	1,717
Construction assistance fund receivables	285	266
Deferred tax assets	38	35
Other	0	0
Total investments and other assets	2,576	2,432
Total non-current assets	13,979	12,054
Total assets	18,110	16,601
Liabilities		
Current liabilities		
Current portion of long-term loans payable	820	754
Accounts payable-other	1,280	1,336
Income taxes payable	177	175
Advances received	86	120
Provision for bonuses	617	594
Other	229	234
Total current liabilities	3,212	3,217
Non-current liabilities		
Long-term loans payable	3,711	2,957
Net defined benefit liability	408	448
Deferred tax liabilities	1,755	1,249
Asset retirement obligations	364	360
Other	0	-
Total non-current liabilities	6,239	5,015
Total liabilities	9,452	8,233

(Millions of yen)

	FY9/21 (As of Sep. 30, 2021)	FY9/22 (As of Sep. 30, 2022)
Net assets		
Shareholders' equity		
Capital stock	1,288	1,296
Capital surplus	1,976	1,984
Retained earnings	5,442	5,127
Treasury shares	(6)	(6)
Total shareholders' equity	8,701	8,402
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(0)	-
Remeasurements of defined benefit plans	(61)	(34)
Total accumulated other comprehensive income	(62)	(34)
Subscription rights to shares	19	-
Total net assets	8,658	8,367
Total liabilities and net assets	18,110	16,601

(2) Consolidated Statements of Income and Comprehensive Income

(Millions of yen)

	FY9/21 (Oct. 1, 2020 – Sep. 30, 2021)	FY9/22 (Oct. 1, 2021 – Sep. 30, 2022)
Net sales	23,529	24,352
Cost of sales	20,654	21,304
Gross profit	2,874	3,047
Selling, general and administrative expenses	2,298	2,339
Operating profit	576	707
Non-operating income		
Interest and dividend income	5	6
Subsidy income	761	642
Other	37	6
Total non-operating income	805	654
Non-operating expenses		
Interest expenses	23	19
Capital expenses	209	155
Other	0	7
Total non-operating expenses	233	183
Ordinary profit	1,148	1,179
Extraordinary profit		
Insurance claim income	-	*1 39
Gain on reversal of subscription rights to shares	-	19
Total extraordinary profit	-	58
Extraordinary losses		
Impairment loss	*2 258	*2 1,677
Loss on valuation of investment securities	*3 59	-
Loss on closing of nursery schools	*4 13	*4 8
System failure handling expense	-	*5 36
Total extraordinary losses	332	1,721
Profit (loss) before income taxes	815	(484)
Income taxes-current	374	347
Income taxes-deferred	(40)	(517)
Total income taxes	333	(169)
Profit (loss)	481	(314)
Profit (loss) attributable to		
Profit (loss) attributable to owners of parent	481	(314)
Profit attributable to non-controlling interests	-	-
Other comprehensive income		
Valuation difference on available-for-sale securities	(2)	0
Remeasurements of defined benefit plans, net of tax	17	26
Total other comprehensive income	*6 15	*6 27
Comprehensive income	497	(287)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	497	(287)
Comprehensive income attributable to non-controlling interests	-	-

(3) Consolidated Statement of Changes in Equity

FY9/21 (Oct. 1, 2020–Sep. 30, 2021)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	1,278	1,967	4,960	(1)	8,205
Changes of items during period					
Issuance of new shares	9	9			19
Profit attributable to owners of parent			481		481
Purchase of treasury shares				(4)	(4)
Net changes of items other than shareholders' equity					
Total changes of items during period	9	9	481	(4)	496
Balance at end of current period	1,288	1,976	5,442	(6)	8,701

	Accumulated other comprehensive income			Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	1	(79)	(77)	19	8,146
Changes of items during period					
Issuance of new shares					19
Profit attributable to owners of parent					481
Purchase of treasury shares					(4)
Net changes of items other than shareholders' equity	(2)	17	15	-	15
Total changes of items during period	(2)	17	15	-	511
Balance at end of current period	(0)	(61)	(62)	19	8,658

FY9/22 (Oct. 1, 2021–Sep. 30, 2022)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	1,288	1,976	5,442	(6)	8,701
Changes of items during period					
Issuance of new shares	7	7			15
Loss attributable to owners of parent			(314)		(314)
Purchase of treasury shares				(0)	(0)
Net changes of items other than shareholders' equity					
Total changes of items during period	7	7	(314)	(0)	(299)
Balance at end of current period	1,296	1,984	5,127	(6)	8,402

	Accumulated other comprehensive income			Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	(0)	(61)	(62)	19	8,658
Changes of items during period					
Issuance of new shares					15
Loss attributable to owners of parent					(314)
Purchase of treasury shares					(0)
Net changes of items other than shareholders' equity	0	26	27	(19)	8
Total changes of items during period	0	26	27	(19)	(290)
Balance at end of current period	-	(34)	(34)	-	8,367

(4) Consolidated Statement of Cash Flows

(Millions of yen)

	FY9/21 (Oct. 1, 2020 –Sep. 30, 2021)	FY9/22 (Oct. 1, 2021 –Sep. 30, 2022)
Cash flows from operating activities		
Profit (loss) before income taxes	815	(484)
Depreciation	850	840
Impairment loss	258	1,677
Loss on valuation of investment securities	59	-
Loss on closing of nursery schools	13	8
System failure handling expense	-	36
Subsidy income	(761)	(642)
Increase (decrease) in provision for bonuses	31	(22)
Increase (decrease) in net defined benefit liability	107	109
Increase (decrease) in provision for retirement benefits for directors (and other officers)	(24)	-
Interest and dividend income	(5)	(6)
Interest expenses	23	19
Insurance claim income	-	(39)
Decrease (increase) in accounts receivable-other	(370)	-
Decrease (increase) in accounts receivable-other and contract assets	-	(428)
Decrease (increase) in prepaid expenses	(43)	4
Increase (decrease) in accounts payable-other	6	47
Increase (decrease) in advances received	(41)	34
Gain on reversal of subscription rights to shares	-	(19)
Other, net	143	89
Subtotal	1,063	1,224
Interest and dividend income received	2	3
Interest expenses paid	(23)	(19)
Income taxes paid	(569)	(350)
Proceeds from subsidy income	761	642
Proceeds from insurance income	-	39
Payments for system failure handling	-	(36)
Net cash provided by (used in) operating activities	1,235	1,503
Cash flows from investing activities		
Purchase of property, plant and equipment	(785)	(728)
Proceeds from sale of property, plant and equipment	-	1
Purchase of intangible assets	(6)	(5)
Payments for lease and guarantee deposits	(136)	(45)
Proceeds from lease and guarantee deposits received	2	49
Collection of construction assistance fund receivables	21	21
Other, net	(3)	1
Net cash provided by (used in) investing activities	(907)	(705)
Cash flows from financing activities		
Proceeds from long-term loans payable	90	-
Repayments of long-term loans payable	(904)	(820)
Repayments of lease obligations	(3)	(2)
Proceeds from exercise of share options	2	1
Purchase of treasury shares	-	(0)
Net cash provided by (used in) financing activities	(816)	(821)
Net increase (decrease) in cash and cash equivalents	(488)	(23)
Cash and cash equivalents at beginning of period	1,816	1,327
Cash and cash equivalents at end of period	1,327	1,303

(5) Notes to Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Significant Accounting Policies in the Preparation of Consolidated Financial Statements

1. Scope of consolidation

1) Number of consolidated subsidiaries: 1

Name of consolidated subsidiary:

Global Kids K.K.

2) Name of non-consolidated subsidiary

Non-consolidated subsidiary

GLOBAL KIDS VIETNAM CO., LTD.

(Reason for exclusion from the scope of consolidation)

The non-consolidated subsidiary is excluded from the scope of consolidation as it would be of minor importance in the consolidated financial statements considering its total assets, net sales, profit/loss (amounts proportionate to the Company's equity interest) and retained earnings (amount proportionate to the Company's equity interest) even if it is excluded from the scope of consolidation, as its business is small in scale.

2. Application of the equity method

1) Non-consolidated subsidiaries and affiliates accounted for under the equity method

Not applicable.

2) Non-consolidated subsidiaries and affiliates not accounted for under the equity method

Name of major company

GLOBAL KIDS VIETNAM CO., LTD.

(Reason for exclusion from the scope of equity-method application)

The above non-consolidated subsidiary is excluded from the scope of application of the equity method as it would be of minor importance in the consolidated financial statements considering profit/loss (amount proportionate to the Company's equity interest) and retained earnings (amount proportionate to the Company's equity interest) even if the method is not applied.

3. Period end of consolidated subsidiaries

The fiscal year of the consolidated subsidiaries ends on the closing date of consolidated financial statements.

4. Accounting policies

(1) Valuation criteria and methods for significant assets

1) Available-for-sale securities

Other than non-marketable securities, etc.

Stated at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, directly included in net assets. Cost of securities sold is determined by the moving average method.

Non-marketable securities, etc.

Moving average cost method.

2) Inventories

Supplies

Stated at cost determined by the first-in and first-out method (the carrying value on the consolidated balance sheet is written down to reflect the effect of lower profit margins).

(2) Depreciation and amortization method for significant depreciable assets

1) Property, plant and equipment (excluding leased assets)

The Company applies the straight-line method.

The useful lives of property, plant and equipment are summarized as follows:

Buildings and structures 6 to 39 years

2) Intangible assets (excluding leased assets)

The Company applies the straight-line method.

Software for internal use is amortized over an estimated internal useful life of five years.

3) Leased assets

Leased assets associated with finance lease transactions where there is no transfer of ownership
The straight-line method with no residual value is applied over the lease period used as the useful life of the assets.

(3) Accounting for significant allowance
Provision for bonuses
An allowance is provided, based on an estimated amount of payment for the current fiscal year, to prepare for the payment of bonuses to employees of the Group.

(4) Accounting method for retirement benefits
1) Method of attributing estimated retirement benefits to periods
In its calculation of retirement benefit obligations, the Company uses the benefit formula basis for attributing estimated retirement benefit obligations to the period until the end of the current fiscal year.
2) Amortization of actuarial difference and past service cost
Past service cost is amortized by the straight-line method over a certain period (five years) within the average remaining years of service of the eligible employees.
Actuarial gain or loss is amortized and charged to expense in the year following the fiscal year in which such gain or loss is recognized by the straight-line method over a certain period (five years) within the average remaining years of service of the eligible employees.
3) Accounting method for unrecognized actuarial gains and losses and unrecognized prior service cost
Unrecognized actuarial gains and losses and unrecognized prior service cost are included in the remeasurements of defined benefit plans under accumulated other comprehensive income in net assets, after adjusting for tax effects.

(5) Cash and cash equivalents in the consolidated statement of cash flows
Cash and cash equivalents consist of cash on hand, deposits that can be withdrawn on demand, and short-term investments, with maturities of three months or less, that are highly liquid and readily convertible to known amounts of cash and present insignificant risk of change in value.

(6) Other significant matters for preparation of the consolidated financial statements
Accounting for consumption taxes
Consumption taxes are accounted for by the tax-exclusion method. Non-deductible consumption taxes are recorded as expenses in the corresponding fiscal years. However, non-deductible consumption taxes associated with non-current assets are included in long-term prepaid expenses under investments and other assets and amortized over five years by the straight-line method.

Changes in Accounting Policies

(Application of Accounting Standard for Revenue Recognition, Etc.)

The Group has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020; hereinafter referred to as the "Revenue Recognition Accounting Standard"), etc., from the beginning of the current fiscal year. Under this standard, revenue is recognized as being the amount expected to be received for promised goods and services at the time of transfer of control of such goods and services to the customer.

The Group has only a single business segment, which is the child-rearing support business. The primary sales produced by the Group's businesses are categorized as indicated below.

(1) Central government licensed nursery schools, etc.

Central government licensed nursery schools are childcare facilities which meet the establishment standards (facility size, number of childcare workers and other personnel, school meal equipment, disaster management, hygiene management, etc.) stipulated by the national government in accordance with the Child Welfare Act. They have been licensed by prefectural governors, etc. and by the mayors of municipal governments, and meet the approval standards stipulated by the ordinance of municipal governments. Under the Comprehensive Support System for Children and Child-rearing, the operation of these facilities is funded by public institutional and regional childcare facility benefits provided by the national and municipal governments in the form of consignment fees.

Performance obligations for the majority of their revenue are fulfilled by providing childcare services to users. Based on the authorized prices stipulated by the Cabinet Office and the subsidization guidelines stipulated by municipal governments, revenue is recognized at the specific point in time when requests for consignment fees and subsidies are submitted to municipal governments based on the number of enrolled children, the number of workers, etc.

On the other hand, performance obligations for some of the revenue are fulfilled gradually through the payment of wages to staff and the payment of nursery school rent, in accordance with the subsidization guidelines of municipal governments. Such revenue is recognized over the span of time during the fulfillment of performance obligations.

(2) Unlicensed childcare facilities

Unlicensed childcare facilities are childcare facilities that are not licensed by prefectural governors, etc., and are funded by childcare fees paid by users and operation expense subsidies received from municipal governments and the Foundation for Child Well-being. Of this revenue, the amount requested to municipal governments is recognized based on equivalent standards to those used for central government licensed nursery schools, etc. With regard to the amount charged to users, childcare consignment contracts are concluded directly with users, performance obligations are fulfilled at the point at which childcare services are offered, and revenue is recognized at that specific point in time.

(3) After-school day care centers and children’s houses

The purpose of these facilities is to provide children who are enrolled in elementary school, generally under the age of 10, whose guardians are not at home during the day due to work, etc., with appropriate after-school play spaces and spaces to stay using children’s houses, etc., with the aim of promoting their healthy development. Their operation is funded by the receipt of operation expenses from municipal governments and usage fees from users.

Performance obligations for the majority of their revenue are fulfilled by providing childcare services to users, and are fulfilled over a span of time by providing childcare services based on consignment contracts with municipal governments. Consequently, revenue is recognized over the span of time during the fulfillment of performance obligations.

The Group has applied the Revenue Recognition Accounting Standard, etc., in accordance with the transitional treatment provided in the proviso of Paragraph 84 of the Revenue Recognition Accounting Standard. The application had no effect on the beginning balance of retained earnings. In addition, the Group has applied the method set forth in Paragraph 86 of the Revenue Recognition Accounting Standard and did not apply the new accounting policy retrospectively to contracts in which almost all of the revenue amounts were recognized using the previous accounting practice prior to the beginning of the current fiscal year. As a result, this had no effect on the consolidated financial statements for the current fiscal year compared to the previous accounting practice.

Due to the application of the Revenue Recognition Accounting Standard, etc., the “accounts receivable-other” indicated within “current assets” in the consolidated balance sheet of the previous fiscal year is indicated as “accounts receivable-other and contract assets” from the current fiscal year. The “decrease (increase) in accounts receivable-other” indicated within “net cash provided by (used in) operating activities” in the consolidated statement of cash flows of the previous fiscal year is included in the “decrease (increase) in accounts receivable-other and contract assets” from the current fiscal year. In accordance with the transitional treatment provided in Paragraph 89-2 of the Revenue Recognition Accounting Standard, the prior year’s consolidated financial statements have not been reclassified to conform to the new presentation method. Furthermore, in accordance with the transitional treatment provided in Paragraph 89-3 of the Revenue Recognition Accounting Standard, the “Revenue Recognition-Related” notes for the previous fiscal year are not presented.

(Application of Accounting Standard for Fair Value Measurement, Etc.)

The Group has applied the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019; hereinafter referred to as the “Fair Value Measurement Accounting Standard”), etc., from the beginning of the current fiscal year. In accordance with the transitional treatment provided in Paragraph 19 of the Fair Value Measurement Accounting Standard and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), the Group will apply prospectively the new accounting policy set forth in the Fair Value Accounting Standard, etc. The application has no effect on the consolidated financial statements.

Consolidated Statements of Income and Comprehensive Income

*1 Insurance claim income

FY9/22 (Oct. 1, 2021 –Sep. 30, 2022)

This represents the receipt of insurance claim for expenses related to system failures caused by malware infections that occurred during the current fiscal year.

*2 Impairment loss

The Group reported impairment loss for the following group of assets.

FY9/21 (Oct. 1, 2020 –Sep. 30, 2021)

Purpose	Type	Location	Impairment loss (Millions of yen)
Facility (17 facilities)	Buildings and structures “Other” under property, plant and equipment	Ota-ku, Tokyo, etc.	258

The Group’s assets are grouped by facility as a basic unit, which is the smallest group of assets that generates cash inflows. The Group recognized an impairment loss (244 million yen for buildings and structures and 14 million yen for “Other” under property, plant and equipment) as an extraordinary loss as well as writing down the carrying amount of facilities with deteriorating operating performance to their recoverable amount. Their recoverable amount is measured based on value in use, which is determined to be zero as the future cash flows cannot be expected.

FY9/22 (Oct. 1, 2021 –Sep. 30, 2022)

Purpose	Type	Location	Impairment loss (Millions of yen)
Facility (23 facilities)	Buildings and structures “Other” under property, plant and equipment	Koto-ku, Tokyo, etc.	1,677

The Group’s assets are grouped by facility as a basic unit, which is the smallest group of assets that generates cash inflows. The Group recognized an impairment loss (1,640 million yen for buildings and structures and 36 million yen for “Other” under property, plant and equipment) as an extraordinary loss as well as writing down the carrying amount of facilities with deteriorating operating performance to their recoverable amount.

*3 Loss on valuation of investment securities

FY9/21 (Oct. 1, 2020 – Sep. 30, 2021)

Of the securities held by the Company that are classified as available-for-sale securities, the Company recognized a loss on valuation for those whose actual value has deteriorated significantly.

*4 Loss on closing of nursery schools

FY9/21 (Oct. 1, 2020 – Sep. 30, 2021)

The Company recognized a loss on closing of nursery schools as a result of incurring restoration costs of 13 million yen, due to the closing of a local government licensed nursery school in conjunction with the establishment of a new central government licensed nursery school in its neighborhood.

FY9/22 (Oct. 1, 2021 – Sep. 30, 2022)

The Company recognized a loss on closing of nursery schools as a result of incurring restoration costs of 8 million yen, due to the closing of a local government licensed nursery school in conjunction with the establishment of a new central government licensed nursery school in its neighborhood.

*5 System failure handling expense

FY9/22 (Oct. 1, 2021 – Sep. 30, 2022)

Expenses were incurred as a result of the system failure that was caused by malware that used malicious emails, discovered on February 24, 2022. Expenses primarily consisted of the costs involved in having an outside expert perform investigation and analysis.

Segment and Other Information

a. Segment information

Omitted since the Group has only a single business segment, which is the “child-rearing support business.”

b. Related information

FY9/21 (Oct. 1, 2020 –Sep. 30, 2021)

1. Information by product or service

Omitted since sales to external customers, which account for more than 90% of net sales shown on the consolidated statement of income, are derived from a single product or service category.

2. Information by region

(1) Net sales

Not applicable because there are no external sales outside Japan.

(2) Property, plant and equipment

Not applicable because there are no property, plant and equipment outside Japan.

3. Information by major client

(Millions of yen)

Customer name	Net sales	Relevant segment
Yokohama City	3,320	Child-rearing support business

FY9/22 (Oct. 1, 2021 –Sep. 30, 2022)

1. Information by product or service

Omitted since sales to external customers, which account for more than 90% of net sales shown on the consolidated statement of income, are derived from a single product or service category.

2. Information by region

(1) Net sales

Not applicable because there are no external sales outside Japan.

(2) Property, plant and equipment

Not applicable because there are no property, plant and equipment outside Japan.

3. Information by major client

(Millions of yen)

Customer name	Net sales	Relevant segment
Yokohama City	3,469	Child-rearing support business

c. Information related to impairment losses on non-current assets for each reportable segment

Omitted since the Group has only a single business segment.

d. Information related to goodwill amortization and the unamortized balance for each reportable segment

Not applicable.

e. Information related to gain on bargain purchase for each reportable segment

Not applicable.

Per-share Information

(Yen)

	FY9/21 (Oct. 1, 2020 –Sep. 30, 2021)	FY9/22 (Oct. 1, 2021 –Sep. 30, 2022)
Net assets per share	928.85	890.35
Net income (loss) per share	51.97	(33.61)
Diluted net income per share	51.41	-

Notes: 1. Diluted net income per share is not shown in the above table, because a net loss per share was reported, although there are residual shares.

2. The basis of calculating the net income (loss) per share and diluted net income per share is as follows:

	FY9/21 (Oct. 1, 2020 –Sep. 30, 2021)	FY9/22 (Oct. 1, 2021 –Sep. 30, 2022)
Net income (loss) per share		
Profit (loss) attributable to owners of parent (millions of yen)	481	(314)
Amount not attributable to ordinary shareholders (millions of yen)	-	-
Profit (loss) attributable to owners of parent applicable to common stock (millions of yen)	481	(314)
Average number of shares of common stock outstanding (shares)	9,272,876	9,369,283
Diluted net income per share		
Adjustment to profit attributable to owners of parent (millions of yen)	-	-
Increase in number of shares of common stock (shares)	101,116	-
[Of which, stock acquisition rights (shares)]	[101,116]	[-]
Summary of dilutive shares not included in the calculation of diluted net income per share since there was no dilutive effect	-	-

Significant Subsequent Events

(Conclusion or Termination of Important Contracts, Etc.)

In accordance with the Board of Directors' resolution of October 20, 2022, the Company terminated a basic agreement (the "Basic Agreement") regarding a business merger with Sakurasaku plus Co., Ltd. (the "Merger") on October 20, 2022. Below is an overview of the contract.

(1) Reason for termination

As announced in the July 19, 2022 press release titled "Notice of Basic Agreement on Business Merger between Global Kids Company Corp. and Sakurasaku Plus Co Ltd.," the two companies entered into a basic agreement regarding the Merger. The companies subsequently established an Integration Preparatory Committee to discuss the terms and conditions of the Merger. However, due to differences of opinion between the companies regarding the direction of governance and overall management strategy, the companies have come to the conclusion that it will be difficult to execute the definitive agreement, which was scheduled for October 2022.

(2) Future outlook

Although the Basic Agreement regarding the Merger is terminated, the good relationship between the two companies will be maintained in light of the possibility of future collaboration.

As per the "Plan for Compliance with Listing Maintenance Criteria for the New Market Classification" announced on December 21, 2021, which had been put on hold, the Company will strive to improve its corporate value to meet the criteria for market capitalization of tradable shares.