Consolidated Financial Results for the Fiscal Year Ended September 30, 2023

[Japanese GAAP]

November 10, 2023

Company name: Global Kids Company Corp.
Stock Exchange Listing: TSE
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 19, 2023
Scheduled date of payment of dividend:	December 20, 2023
Scheduled submission date of annual securities report:	December 20, 2023
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, 2023 (October 1, 2022 to September 30, 2023)

(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, 2023	25,136	3.2	341	(51.8)	321	(72.8)	(55)	-
Fiscal year ended Sep. 30, 2022	24,352	3.5	707	22.9	1,179	2.7	(314)	-

Note: Comprehensive income (million yen) Fiscal year ended Sep. 30, 2023: (35) (- %)
Fiscal year ended Sep. 30, 2022: (287) (- %)

	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, 2023	(5.94)	-	(0.7)	1.9	1.4
Fiscal year ended Sep. 30, 2022	(33.61)	-	(3.7)	6.8	2.9

Reference: Equity in earnings of affiliates (million yen) Fiscal year ended Sep. 30, 2023: - Fiscal year ended Sep. 30, 2022: -

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Sep. 30, 2023	16,675	8,078	48.4	858.21
As of Sep. 30, 2022	16,601	8,367	50.4	890.35

Reference: Shareholders' equity (million yen) As of Sep. 30, 2023: 8,078 As of Sep. 30, 2022: 8,367

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, 2023	1,154	(428)	(670)	1,359
Fiscal year ended Sep. 30, 2022	1,503	(705)	(821)	1,303

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, 2022	-	0.00	-	25.00	25.00	234	-	2.8
Fiscal year ended Sep. 30, 2023	-	0.00	-	30.00	30.00	282	-	3.4
Fiscal year ending Sep. 30, 2024 (Forecast)	-	0.00	-	30.00	30.00		-	

3. Consolidated Earnings Forecast for the Fiscal Year Ending September 30, 2024
(October 1, 2023 to September 30, 2024)

(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	26,000	3.4	450	31.9	480	49.5	190	-	20.18

***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: None
2) Changes in accounting policies other than 1) above: Yes
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, 2023:	9,429,141 shares	As of Sep. 30, 2022:	9,405,341 shares

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

As of Sep. 30, 2023:	15,823 shares	As of Sep. 30, 2022:	6,859 shares

3) Average number of shares issued during the period

Fiscal year ended Sep. 30, 2023:	9,409,052 shares	Fiscal year ended Sep. 30, 2022:	9,369,283 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.

Contents of Attachments

1. Overview of Results of Operations

(1) Results of Operations

(Results of operations for the fiscal year ended September 30, 2023)

Regarding the circumstances surrounding the child-rearing support business, the number of nursery school users and childcare facilities had been continuing to increase due to the rise in the number of households with two workers and the employment rate for women. However, the number of wait-listed children in April 2023 decreased by 264 children from the previous year to 2,680 children, and the number of newborns in 2023 fell below 800,000 for the first time since 1899 when the gathering of such statistics began. As seen by these trends, the external environment has been changing.

Meanwhile, as a government response, the "Children and Families Agency" was established in April 2023, under the banner of a "child-centered society" which unifies the measures regarding children and centrally positions child-related initiatives and policies within society in order to strengthen child-related policies. The draft plan announced in March 2023 contains policies referred to as "unprecedented measures to tackle the declining birth rate," including policies to decrease the number of children each childcare worker is to be in charge of for the first time in 75 years and further improve childcare workers' compensation, and to create a system, "*Kodomo Daredemo Tsuen* system (tentative name)," that enables all child-rearing households to use nursery schools regardless of work requirements, among other things. Furthermore, in the policy speech delivered in January 2023, child-related policies were given the highest priority, while in the Basic Policy on Economic and Fiscal Management and Reform (*Honebuto no Hoshin*, "big-boned policies") which was decided by the cabinet in June, a commitment is being made for an improvement in the authorized fees payable to nurseries and local government licensed centers for early childhood education and preschool programs, with a view toward enhancing the quality of early childhood education and preschool programs, thus indicating a further rise in society's child-oriented perspective.

Amid such substantial changes in the external environment surrounding the child-rearing support business, the Group is moving forward with initiatives whose core consists of three policies, namely "expansion of scale," "expansion of functions," and "strengthening of infrastructure," based on the "Medium-term Management Plan 2024" announced on November 12, 2021. As a concrete measure for "expansion of scale," the Company entered into a share transfer agreement on April 18, 2023, to acquire all shares of OHAYO KIDS CO., LTD. (former Tokyo Tatemono Kids Co., Ltd.) which mainly operates Tokyo Metropolitan Government licensed nursery schools on which the Group is focusing and it became our wholly-owned subsidiary on June 1, 2023. For details, please refer to "4. Consolidated Financial Statements and Notes, (5) Notes to Consolidated Financial Statements (Business Combination)." Also, based on the judgment that improving productivity through reorganization of the Group's head office functions would be indispensable for promoting the diversification of revenue sources mainly by strengthening new businesses seeking "expansion of functions," the Company transferred part of Global Kids K.K.'s child-rearing support business to GKS K.K., effective April 1, 2023. As a measure for "strengthening of infrastructure," the Company is pursuing development of a child-rearing platform, the focal point of ICT strategies, and continuing active investments. In addition, with respect to the "GlobalKids Plus +" learning business, lessons were started in Toyosu in June 2023.

As a result of the acquisition of 17 facilities operated by OHAYO KIDS CO., LTD. (former Tokyo Tatemono Kids Co., Ltd.), the number of facilities operated by the Group at the end of the fiscal year under review was a total of 188 facilities: 154 central government licensed nursery schools (115 in Tokyo, 29 in Kanagawa, four in Chiba, one in Saitama and five in Osaka); 22 local government licensed nursery schools or centers for early childhood education and care; 11 after-school day care centers or children's houses; and one company sponsored nursery schools.

Regarding results of operations for the fiscal year under review, net sales increased slightly year on year as a result of the conversion of OHAYO KIDS CO., LTD. into a consolidated subsidiary, despite the decrease due to the transfer of the company sponsored childcare business. In terms of expenses, both the cost of sales and the cost to sales ratio rose due mainly to increases in personnel and recruiting expenses. Also, owing to investments in the child-rearing platform mentioned above and other factors, outsourcing expenses increased, which resulted in a rise of the selling, general and administrative expenses ratio.

Consequently, the Group reported net sales for the fiscal year under review of 25,136 million yen (up 3.2% year on year) with operating profit of 341 million yen (down 51.8% year on year), ordinary profit of 321 million yen (down 72.8% year on year), and loss attributable to owners of parent of 55 million yen.

(2) Financial Position

Assets

Total assets amounted to 16,675 million yen at the end of the fiscal year under review, an increase of 74 million yen from the end of the previous fiscal year.

Current assets increased 206 million yen to 4,753 million yen. This was mainly attributable to an increase of 68 million yen in prepaid expenses resulting from system usage fees and other operation efficiency improvement expenses and an increase of 86 million yen in

income taxes refund receivable.
Non-current assets decreased 132 million yen to 11,921 million yen. This was mainly attributable to an increase of 265 million yen in software and software in progress, despite a decrease of 494 million yen in property, plant and equipment due to impairment loss and depreciation.

Liabilities
Total liabilities amounted to 8,596 million yen at the end of the fiscal year under review, an increase of 363 million yen from the end of the previous fiscal year.
Current liabilities increased 435 million yen to 3,652 million yen. This was mainly attributable to an increase of 195 million yen in the current portion of long-term loans payable, and an increase of 108 million yen in accounts payable-other.
Non-current liabilities decreased 71 million yen to 4,944 million yen. This was mainly attributable to an increase of 69 million yen in long-term loans payable, despite a decrease of 259 million yen in deferred tax liabilities.

Net assets
Net assets amounted to 8,078 million yen at the end of the fiscal year under review, a decrease of 289 million yen from the end of the previous fiscal year. This was mainly attributable to a decrease of 55 million yen as a result of the booking of loss attributable to owners of parent and a decrease of 234 million yen occurred due to the payment of year-end dividends for the previous fiscal year.

(3) Cash Flows
Cash and cash equivalents (hereinafter, “net cash”) at the end of the fiscal year under review increased 55 million yen from the end of the previous fiscal year to 1,359 million yen with net cash provided by operating activities of 1,154 million yen, net cash used in investing activities of 428 million yen, and net cash used in financing activities of 670 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 1,154 million yen, mainly due to increases associated with the recording of 608 million yen as a result of impairment loss and 809 million yen as a result of depreciation, despite decreases associated with the recording of 154 million yen in loss before income taxes, 21 million yen in profit from the step acquisition of OHAYO KIDS CO., LTD. through its conversion into a subsidiary, and 98 million yen in gain on bargain purchase.
Net cash provided decreased 349 million yen compared to the fiscal year ended September 30, 2022. This was mainly due to an increase in impairment loss of 1,068 million yen, despite a subsidy income of 642 million yen.

Cash flows from investing activities
Net cash used in investing activities amounted to 428 million yen, mainly due to the purchase of property, plant and equipment of 63 million yen and purchase of intangible assets of 289 million yen.
Net cash used in investing activities decreased 277 million yen compared to the fiscal year ended September 30, 2022. This was mainly due to a decrease in purchase of property, plant and equipment of 665 million yen, despite an increase in purchase of intangible assets of 283 million yen.

Cash flows from financing activities
Net cash used in financing activities amounted to 670 million yen, mainly due to repayments of long-term loans payable of 1,504 million yen, despite an increase in proceeds from long-term loans payable of 1,070 million yen.
Net cash used in financing activities decreased by 151 million yen compared to the fiscal year ended September 30, 2022. This was primarily due to payments of year-end dividends for the previous fiscal year of 234 million yen.

Reference: Cash flow indicators

	FY9/23
Equity ratio (%)	48.5
Market value-based equity ratio (%)	36.0
Interest-bearing debt to cash flow ratio (Years)	3.5
Interest coverage ratio (Times)	66.4

-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, 2018	April 1, 2019	April 1, 2020	April 1, 2021	April 1, 2022	April 1, 2023
19,895	16,772	12,439	5,634	2,944	2,680

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 26,000 million yen (up 3.4% year on year), operating profit of 450 million yen (up 31.9% year on year), ordinary profit of 480 million yen (up 49.5% year on year), and profit attributable to owners of parent of 190 million yen.

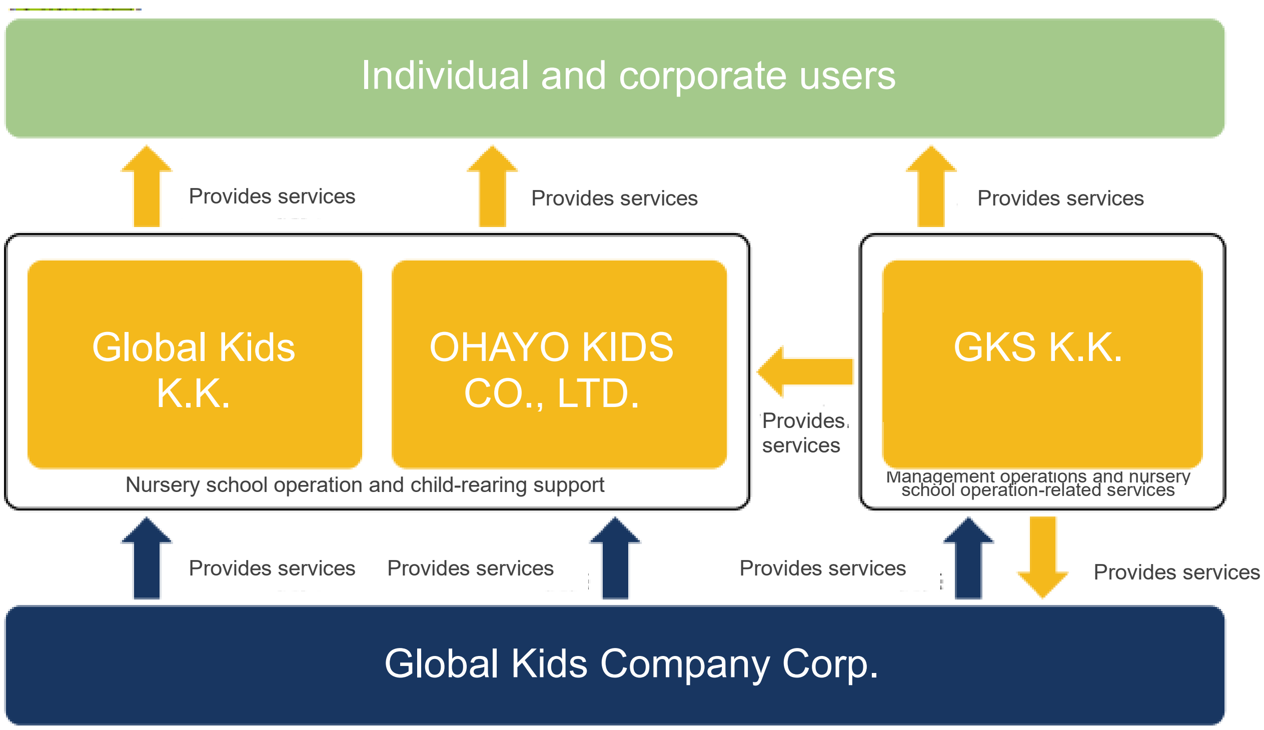
Net sales for the next fiscal year are expected to increase slightly due to a year-long contributions from the conversion of OHAYO KIDS CO., LTD. into a subsidiary offset by the transfer and closure of some facilities. Operating profit is expected to increase due to the implementation of revenue improvement measures, despite an increase in ICT-related expenses.

2. Corporate Group

The Group consists of the Company and its three consolidated subsidiaries 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)

	FY9/22 (As of Sep. 30, 2022)	FY9/23 (As of Sep. 30, 2023)
Assets		
Current assets		
Cash and deposits	1,303	1,359
Accounts receivable-other and contract assets	2,597	2,589
Prepaid expenses	640	708
Income taxes refund receivable	-	86
Other	5	9
Total current assets	4,546	4,753
Non-current assets		
Property, plant and equipment		
Land	692	692
Buildings and structures, net	8,584	8,145
Other, net	310	255
Total property, plant and equipment	9,587	9,093
Intangible assets		
Software	33	276
Software in progress	-	23
Total intangible assets	33	299
Investments and other assets		
Investment securities	47	27
Long-term prepaid expenses	365	293
Lease and guarantee deposits	1,717	1,878
Construction assistance fund receivables	266	247
Deferred tax assets	35	81
Other	0	0
Total investments and other assets	2,432	2,528
Total non-current assets	12,054	11,921
Total assets	16,601	16,675
Liabilities		
Current liabilities		
Current portion of long-term loans payable	754	949
Accounts payable-other	1,336	1,445
Income taxes payable	175	223
Advances received	120	135
Provision for bonuses	594	629
Other	234	268
Total current liabilities	3,217	3,652
Non-current liabilities		
Long-term loans payable	2,957	3,026
Net defined benefit liability	448	508
Deferred tax liabilities	1,249	990
Asset retirement obligations	360	414
Other	-	3
Total non-current liabilities	5,015	4,944
Total liabilities	8,233	8,596

(Millions of yen)

	FY9/22 (As of Sep. 30, 2022)	FY9/23 (As of Sep. 30, 2023)
Net assets		
Shareholders' equity		
Capital stock	1,296	1,302
Capital surplus	1,984	1,991
Retained earnings	5,127	4,811
Treasury shares	(6)	(12)
Total shareholders' equity	8,402	8,092
Accumulated other comprehensive income		
Remeasurements of defined benefit plans	(34)	(14)
Total accumulated other comprehensive income	(34)	(14)
Total net assets	8,367	8,078
Total liabilities and net assets	16,601	16,675

(2) Consolidated Statements of Income and Comprehensive Income

(Millions of yen)

	FY9/22 (Oct. 1, 2021 – Sep. 30, 2022)	FY9/23 (Oct. 1, 2022 – Sep. 30, 2023)
Net sales	24,352	25,136
Cost of sales	22,141	23,050
Gross profit	2,211	2,085
Selling, general and administrative expenses	1,503	1,744
Operating profit	707	341
Non-operating income		
Interest and dividend income	6	2
Subsidy income	642	-
Miscellaneous income	-	10
Other	6	-
Total non-operating income	654	13
Non-operating expenses		
Interest expenses	19	17
Capital expenses	155	-
Miscellaneous loss	-	15
Other	7	-
Total non-operating expenses	183	33
Ordinary profit	1,179	321
Extraordinary profit		
Insurance claim income	*1 39	-
Gain on step acquisitions	-	*2 21
Gain on bargain purchase	-	*3 98
Gain on donations	-	*4 15
Gain on reversal of subscription rights to shares	19	-
Total extraordinary profit	58	134
Extraordinary losses		
Impairment loss	*5 1,677	*5 608
Loss on retirement of non-current assets	-	1
Loss on closing of nursery schools	*6 8	-
System failure handling expense	*7 36	-
Total extraordinary losses	1,721	609
Profit (loss) before income taxes	(484)	(154)
Income taxes-current	347	279
Income taxes-deferred	(517)	(378)
Total income taxes	(169)	(98)
Profit (loss)	(314)	(55)
Profit (loss) attributable to		
Profit (loss) attributable to owners of parent	(314)	(55)
Profit attributable to non-controlling interests	-	-
Other comprehensive income		
Valuation difference on available-for-sale securities	0	-
Remeasurements of defined benefit plans, net of tax	26	20
Total other comprehensive income	*8 27	*8 20
Comprehensive income	(287)	(35)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(287)	(35)
Comprehensive income attributable to non-controlling interests	-	-

(3) Consolidated Statement of Changes in Equity
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

FY9/23 (Oct. 1, 2022–Sep. 30, 2023)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	1,296	1,984	5,127	(6)	8,402
Changes of items during period					
Issuance of new shares	6	6			12
Dividends of surplus			(234)		(234)
Loss attributable to owners of parent			(55)		(55)
Purchase of treasury shares				(6)	(6)
Net changes of items other than shareholders' equity			(25)		(25)
Total changes of items during period	6	6	(316)	(6)	(310)
Balance at end of current period	1,302	1,991	4,811	(12)	8,092

	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	-	(34)	(34)	-	8,367
Changes of items during period					
Issuance of new shares					12
Dividends of surplus					(234)
Loss attributable to owners of parent					(55)
Purchase of treasury shares					(6)
Net changes of items other than shareholders' equity	-	20	20	-	(4)
Total changes of items during period	-	20	20	-	(289)
Balance at end of current period	-	(14)	(14)	-	8,078

(4) Consolidated Statement of Cash Flows

(Millions of yen)

	FY9/22 (Oct. 1, 2021 –Sep. 30, 2022)	FY9/23 (Oct. 1, 2022 –Sep. 30, 2023)
Cash flows from operating activities		
Profit (loss) before income taxes	(484)	(154)
Depreciation	840	809
Impairment loss	1,677	608
Loss on closing of nursery schools	8	-
System failure handling expense	36	-
Subsidy income	(642)	-
Increase (decrease) in provision for bonuses	(22)	(19)
Increase (decrease) in net defined benefit liability	109	97
Interest and dividend income	(6)	(2)
Interest expenses	19	17
Insurance claim income	(39)	-
Decrease (increase) in accounts receivable-other and contract assets	(428)	87
Decrease (increase) in prepaid expenses	4	(13)
Increase (decrease) in accounts payable-other	47	55
Increase (decrease) in advances received	34	14
Gain on step acquisitions	-	(21)
Gain on bargain purchase	-	(98)
Gain on reversal of subscription rights to shares	(19)	-
Other, net	89	126
Subtotal	1,224	1,507
Interest and dividend income received	3	0
Interest expenses paid	(19)	(17)
Income taxes paid	(350)	(335)
Proceeds from subsidy income	642	-
Proceeds from insurance income	39	-
Payments for system failure handling	(36)	-
Net cash provided by (used in) operating activities	1,503	1,154
Cash flows from investing activities		
Purchase of property, plant and equipment	(728)	(63)
Proceeds from sale of property, plant and equipment	1	0
Purchase of intangible assets	(5)	(289)
Payments for lease and guarantee deposits	(45)	(5)
Proceeds from lease and guarantee deposits received	49	6
Collection of construction assistance fund receivables	21	21
Purchase of shares of consolidated subsidiaries	-	(98)
Other, net	1	(0)
Net cash provided by (used in) investing activities	(705)	(428)
Cash flows from financing activities		
Proceeds from long-term loans payable	-	1,070
Repayments of long-term loans payable	(820)	(1,504)
Repayments of lease obligations	(2)	(0)
Proceeds from exercise of share options	1	0
Dividends paid	-	(234)
Purchase of treasury shares	(0)	-
Net cash provided by (used in) financing activities	(821)	(670)
Net increase (decrease) in cash and cash equivalents	(23)	55
Cash and cash equivalents at beginning of period	1,327	1,303
Cash and cash equivalents at end of period	1,303	1,359

(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: 3

Name of consolidated subsidiary:

Global Kids K.K.

OHAYO KIDS CO., LTD.

GKS K.K.

GKS K.K. was established during the fiscal year under review and is included in the scope of consolidation. OHAYO KIDS CO., LTD. was converted into a subsidiary through the acquisition of its shares and is also included in the scope of consolidation.

2) Number of non-consolidated subsidiaries: 2

Names of non-consolidated subsidiaries

GLOBAL KIDS VIETNAM CO., LTD.

T-KIDS 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.

T-KIDS 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
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

The Group had previously included certain expenses related to the consolidated subsidiary’s facilities in selling, general and administrative expenses but starting from the fiscal year under review, it has changed the presentation method to include such expenses in the cost of sales.

As the Group transitions from the “business expansion” phase to the “business expansion and duplication” phase under the “Medium-term Management Plan 2024,” it is revising its organizational structure as part of the project to improve earnings.

While revising the system for facility assessment and reviewing facility profit/loss in the process of restructuring, the Group has refined its approach to expenses and has determined that accounting for certain selling, general and administrative expenses as cost of sales would more appropriately reflect the management environment, and accordingly has changed its accounting method.

This change in accounting policy has been retrospectively applied and for the previous fiscal year, the consolidated financial statements represent those after the retrospective application.

As a result, compared to the accounting method prior to the retrospective application, the cost of sales for the fiscal year ended September 30, 2022 increased by 836 million yen, and gross profit and selling, general and administrative expenses have decreased by the same amount, respectively. However, it has had no effect on operating profit, ordinary profit, profit before income taxes, and per share information.

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 Gain on step acquisitions

FY9/23 (Oct. 1, 2022 –Sep. 30, 2023)

The Group recorded 21 million yen following the step acquisition of shares of OHAYO KIDS CO., LTD. (former Tokyo Tatemono Kids Co., Ltd.)

*3 Gain on bargain purchase

FY9/23 (Oct. 1, 2022 –Sep. 30, 2023)

The Group recorded 98 million yen in gain on bargain purchase following the conversion of OHAYO KIDS CO., LTD. (former Tokyo Tatemono Kids Co., Ltd.) into a wholly-owned subsidiary effective June 1, 2023 through the acquisition of its shares.

*4 Gain on donations

FY9/23 (Oct. 1, 2022 –Sep. 30, 2023)

A donation received from Representative Director & CEO Yuichi Nakasho for the improvement of the environments of operating facilities.

*5 Impairment loss

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

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.

FY9/23 (Oct. 1, 2022 –Sep. 30, 2023)

Purpose	Type	Location	Impairment loss (Millions of yen)
Facility (16 facilities)	Buildings and structures “Other” under property, plant and equipment	Koto-ku, Tokyo, etc.	608

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 (583 million yen for buildings and structures and 25 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.

*6 Loss on closing of nursery schools

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 closure of a local government licensed nursery school in conjunction with the establishment of a new central government licensed nursery school in its neighborhood.

*7 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.

Business Combination

Business combination through acquisition

In accordance with the Board of Directors' resolution on April 18, 2023, the Company additionally acquired shares of Tokyo Tatemono Kids Co., Ltd. on June 1, 2023, thereby converting it into a wholly-owned subsidiary. The overview of the transaction is as follows.

1. The overview of the business combination

(1) Name of the acquiree and description of its business

Name of the acquiree	Tokyo Tatemono Kids Co., Ltd.
Description of its business	Child-rearing support business

(2) Main reason for the business combination

With the backdrop of the growing number of nursery school users due to an increase in the number of households with two workers and a rising employment rate for women, the Group has newly opened nursery schools every fiscal year since its founding in 2006. In recent years, however, the number of wait-listed children has been declining due to successful efforts made by local governments to expand nursery schools, and demand for opening new nursery schools is slowing down. The Group has set forth growth of the childcare business through the active use of M&A, in addition to opening new nursery schools, in its Medium-term Management Plan. As such, this initiative seeks to implement M&A with a view to achieving further growth amid a slowdown in demand for opening new nursery schools.

The Company and Tokyo Tatemono Kids Co., Ltd. are both primarily operators of central government licensed nursery schools, mainly in and around the Tokyo area, and synergistic effects, such as expansion of scale of the childcare business and improvement of productivity as a result of improved operational efficiency of some head office functions, are expected to emerge.

The Company will continue to open new childcare facilities and promote expansion of scale of the childcare business through the active use of M&A, as well as expand childcare peripheral businesses and strengthen initiatives to improve profitability in an effort to increase its corporate value.

(3) Date of the business combination

June 1, 2023

(4) Legal form of the business combination

Share acquisition

(5) Name of the company arising from the business combination

OHAYO KIDS CO., LTD.

(6) Proportion of voting rights acquired

Proportion of voting rights held immediately prior to the business combination	10%
Proportion of voting rights additionally acquired on the date of business combination	90%
Proportion of voting rights after the additional acquisition	100%

(7) Basis for determining the acquiree

Due to acquisition of the shares in the acquiree by payment of consideration in cash

2. Portion of the acquiree's fiscal period representing its financial performance reflected in the Consolidated Financial Statements for the fiscal year under review

From June 1, 2023 to September 30, 2023

3. Matters related to the calculation of the acquisition cost

(1) Acquisition cost of the acquiree

Fair value as of the date of the business combination, of the common stock held immediately prior to the business combination	41 million yen
Fair value of the common stock additionally acquired	370 million yen
Acquisition cost	411 million yen

(2) The difference between the acquisition cost of the acquiree, and the sum of the acquisition costs in all the transactions amounting to the acquisition of the acquiree

Gain on step acquisition 21 million yen

4. Matters related to allocation of the acquisition cost

(1) Amounts of assets acquired and liabilities assumed on the date of business combination and its summary schedule

Current assets	400 million yen
Non-current assets	1,019 million yen
Total assets	1,420 million yen
Current liabilities	560 million yen
Non-current liabilities	350 million yen
Total liabilities	911 million yen

(2) Amount of gain on bargain purchase arising from the business combination and the reason there behind

1) Amount of gain on bargain purchase 98 million yen

2) Reason there behind

Due to the fact that net asset value of the acquiree at the time of the business combination was greater than its acquisition cost

(3) Estimated impact on the Consolidated Statement of Income for the fiscal year under review assuming the business combination was completed on the first day of the consolidated fiscal year, and method for determining the said estimated impact

Omitted since the impact of the estimated amount would be minimal.

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

FY9/22 (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

FY9/23 (Oct. 1, 2022 –Sep. 30, 2023)

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	3,676	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)

	FY9/22 (Oct. 1, 2021 –Sep. 30, 2022)	FY9/23 (Oct. 1, 2022 –Sep. 30, 2023)
Net assets per share	890.35	858.21
Net income (loss) per share	(33.61)	(5.94)
Diluted net income per share	-	-

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:

	FY9/22 (Oct. 1, 2021 –Sep. 30, 2022)	FY9/23 (Oct. 1, 2022 –Sep. 30, 2023)
Net income (loss) per share		
Profit (loss) attributable to owners of parent (millions of yen)	(314)	(55)
Amount not attributable to ordinary shareholders (millions of yen)	-	-
Profit (loss) attributable to owners of parent applicable to common stock (millions of yen)	(314)	(55)
Average number of shares of common stock outstanding (shares)	9,369,283	9,409,052
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)	-	-
[Of which, stock acquisition rights (shares)]	[-]	[-]
Summary of dilutive shares not included in the calculation of diluted net income per share since there was no dilutive effect	-	-

Significant Subsequent Events

The Group currently operates 188 facilities including nursery schools, after-school day care centers or children's houses. As a result of an analysis of the geographical areas in which the Company operates, an examination of the area characteristics and demand for nursery services, and a verification of the earnings and expenditures forecast, it was decided that the Group's operational efficiency can be optimized by concentrating management resources in nursery business in the Tokyo metropolitan areas, in which solid business operation is expected over the medium to long-term. The following business transfer and share transfer were decided on such basis.

Business transfer

Business transfer to Social Welfare Corporation Sukusukudoronkonokai

By a resolution at the Board of Directors meeting held on July 18, 2023, the Company decided to transfer five central government licensed nursery schools in Osaka-shi operated by its consolidated subsidiary, Global Kids K.K. to Social Welfare Corporation Sukusukudoronkonokai, and concluded a business transfer agreement therewith, accordingly.

(1) Name of the transferee
  Social Welfare Corporation Sukusukudoronkonokai
(2) Description of the business to be transferred
  Five central government licensed nursery schools in Osaka-shi operated by Global Kids K.K.
(3) Scheduled date of completion of the transfer
  April 1, 2024
(4) Transfer price
  This information is not to be disclosed under the duty of confidentiality to the transferee.

Business transfer to SHINKS-K K.K.

By a resolution at the Board of Directors meeting held on August 10, 2023, the Company decided to transfer six local government licensed nursery schools operated by our consolidated subsidiary, Global Kids K.K. to SHINKS-K K.K., and entered into a business transfer agreement therewith, accordingly.

(1) Name of the transferee
  SHINKS-K K.K.
(2) Description of the business to be transferred
  Six local government licensed nursery schools
(3) Scheduled date of completion of the transfer
  April 1, 2024
(4) Transfer price
  This information is not to be disclosed under the duty of confidentiality to the transferee.

Share transfer

Share transfer to SHINKS Inc.

The Company decided to transfer all shares of its wholly-owned subsidiary, T-KIDS Co., Ltd. to SHINKS Inc. and entered into a share transfer agreement therewith, accordingly.

For one of these facilities, a notification was received from the governmental authorities indicating that the transfer would not be possible. Therefore, the actual number of transferred facilities was four. For details, please refer to the "(Disclosure Information Update) Notice of Changes to the Facilities to be Transferred in Relation to the Transfer (Share Transfer) of Indirectly Owned Subsidiary" issued on November 10, 2023.

Prior to the share transfer, an absorption-type divestiture is scheduled to be conducted whereby the operation of four local government licensed nursery schools operated by Global Kids K.K. shall be succeeded by T-KIDS Co., Ltd.

(1) Name of the transferee

SHINKS Inc.

(2) Overview of the transferee

(1) Company name		SHINKS Inc.
(2) Head office address		1305 Terrace Shibuya Mitake, 1-15-15, Shibuya, Shibuya-ku, Tokyo
(3) Representative		Yasuo Iwakabe, Representative Director
(4) Businesses		Nursery business, restaurant business
(5) Capital		10 million yen
(6) Establishment		March 24, 2017
(7) Major shareholders and shareholding ratios		Yasuo Iwakabe: 60.00%
(8) Relationship between the listed company and the transferor	Capital	Not applicable.
	Personnel	Not applicable.
	Trading	Not applicable.

(3) Scheduled date of completion of the transfer

April 1, 2024

(4) Transfer price

This information is not to be disclosed under the duty of confidentiality to the transferee.