



Consolidated Financial Results for the Fiscal Year Ended September 30, 2020

[Japanese GAAP]

November 12, 2020

Company name: Global Kids Company Corp.

Securities code: 6189

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Stock Exchange Listing: TSE (1st section)

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Scheduled date of annual shareholders' meeting:

December 22, 2020

Scheduled submission date of annual securities report:

December 23, 2020

Scheduled date of payment of dividend:

-

Preparation of supplementary materials for financial results:

Yes

Holding of 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, 2020

(October 1, 2019 to September 30, 2020)

(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, 2020	22,160	12.5	477	175.0	916	(48.7)	438	(60.8)
Fiscal year ended Sep. 30, 2019	19,694	15.6	173	(48.6)	1,786	(6.8)	1,116	99.8

Note: Comprehensive income (million yen)

Fiscal year ended Sep. 30, 2020: 433 (down 61.1%)

Fiscal year ended Sep. 30, 2019: 1,114 (up 82.3%)

	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, 2020	47.65	46.75	5.5	5.0	2.2
Fiscal year ended Sep. 30, 2019	122.24	119.23	15.7	10.5	0.9

Reference: Equity in earnings of affiliates (million yen) Fiscal year ended Sep. 30, 2020: - Fiscal year ended Sep. 30, 2019: -

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Sep. 30, 2020	18,561	8,146	43.8	882.76
As of Sep. 30, 2019	18,259	7,706	42.1	840.44

Reference: Shareholders' equity (million yen) As of Sep. 30, 2020: 8,127

As of Sep. 30, 2019:

7,687

(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, 2020	1,999	(1,044)	(619)	1,816
Fiscal year ended Sep. 30, 2019	2,196	(2,842)	825	1,480

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, 2019	-	0.00	-	0.00	0.00	-	-	-
Fiscal year ended Sep. 30, 2020	-	0.00	-	0.00	0.00	-	-	-
Fiscal year ending Sep. 30, 2021 (Forecast)	-	0.00	-	0.00	0.00		-	

3. Consolidated Earnings Forecast for the Fiscal Year Ending September 30, 2021

(October 1, 2020 to September 30, 2021)

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	Net income per share
Full year	Million yen	%	Million yen	%	Million yen	%	Million yen	Yen
	23,800	7.4	700	46.6	1,260	37.5	680	55.2
								73.68

*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: 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, 2020: 9,229,880 shares As of Sep. 30, 2019: 9,170,058 shares

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

As of Sep. 30, 2020: 1,072 shares As of Sep. 30, 2019: 236 shares

3) Average number of shares issued during the period

Fiscal year ended Sep. 30, 2020: 9,193,412 shares Fiscal year ended Sep. 30, 2019: 9,137,817 shares

* The current financial report is not subject to quarterly review by certified public accountants or auditing firms.

* Explanation of appropriate use of earnings forecasts and other special items

Forecasts 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, (3) 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, 2020)

During the fiscal year ended September 30, 2020 (hereinafter, “the current fiscal year”), the situation in the Japanese economy has been extremely severe due to the impact of the novel coronavirus infection. Following the lifting of the state of emergency, although there have been signs of a partial recovery in domestic economic activity, the outlook remains uncertain.

As for the child-rearing support business in this economic environment above, although there was a move to temporarily suspend nursery admissions due to the spread of the novel coronavirus in some parts of the country, a change in awareness of the social advancement of women and government efforts to encourage them to take active roles have helped to maintain high levels in the number of double-income households and the employment rate of women. Accordingly, demand for childcare services has remained at a high level.

In response to this increase in demand for childcare services, both the central and local governments are implementing measures to secure childcare workers and develop nursery schools to expand service capacity, based on a policy of establishing capacity for a total of 3,000,000 children by the end of fiscal 2020. In addition, the Cabinet Office’s Childcare Council (held on October 5, 2020) estimated that there is a childcare service capacity shortage of 141,000 children, and is now considering developing additional service capacity for more than 100,000 children by the end of fiscal 2024.

Due to these measures undertaken by the government, demand for establishing new nursery schools is expected to continue for the time being, which reflects a continued growth in demand for childcare services in central Tokyo, where we have focused our efforts. Given the concern over Japan’s declining workforce due to its aging population and a decrease in its total population, the development of a sound child-rearing environment and improvement of the quality of childcare services are issues to be addressed in the course of promoting the social advancement of women to boost the country’s economic vitality. In this context, the child-rearing support service providers are playing an increasingly important social role.

Under such circumstances, the Group opened seven central government licensed nursery schools and three child developmental support facilities 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 176 facilities: 125 central government licensed nursery schools (91 in Tokyo, 25 in Kanagawa, three in Chiba, one in Saitama and five in Osaka); 23 local government licensed nursery schools or centers for early childhood education and care; 11 employer-sponsored nurseries; 13 after-school day care centers or children’s houses; and four child developmental support facilities.

(Central government licensed nursery schools)

Tokyo

Global Kids Shinonome
Global Kids Hikifune
Global Kids Meguro
Global Kids Rokugo
Global Kids Koganei No. 2

Kanagawa

Global Kids Okurayama
Global Kids Ofuna

(Child developmental support facilities)

Tokyo

Global Kids Act Mejiro

Kanagawa

Global Kids Act Okurayama
Global Kids Act Miyamaedaira

Net sales for the current fiscal year increased attributable to a rise in the number of nursery school children mainly due to an increase in the number of facilities under operation. While the attendance rate for nursery school children decreased temporarily due to the issuance of a declaration of a state of emergency concerning the novel coronavirus infection, subsidies from local governments were paid as usual, and increased year-on-year. In terms of profit, the operating profit ratio improved due to lower recruiting costs, as well as a decrease in variable costs, etc. resulting from a decline in the attendance rate.

The Group recognizes subsidy income as non-operating income for municipal subsidies, received to cover part of the capital expenditures (mainly for interior construction costs) to open new facilities. As for the current fiscal year, subsidy income decreased as a result of curbing the number of newly opened facilities, compared to the previous fiscal year.

Consequently, the Group reported net sales for the current fiscal year of 22,160 million yen (up 12.5% year on year) with operating profit of 477 million yen (up 175.0% year on year), ordinary profit of 916 million yen (down 48.7% year on year), and profit attributable to owners of parent of 438 million yen (down 60.8% year on year).

(2) Financial Position

1) Assets, liabilities, and net assets

Assets

Total assets amounted to 18,561 million yen at the end of the current fiscal year, an increase of 301 million yen from the end of the previous fiscal year.

Current assets increased 383 million yen to 4,194 million yen. This was mainly attributable to increases of 336 million yen in cash and deposits.

Non-current assets decreased by 81 million yen to 14,366 million yen. This was mainly attributable to a decrease of 117 million yen in buildings and structures, despite an increase of 74 million yen in construction in progress, in preparation for the opening of new nursery schools in the next fiscal year. Depreciation and impairment loss exceeded capital expenditures for opening new facilities, resulting in the decrease in buildings and structures.

Liabilities

Total liabilities amounted to 10,414 million yen at the end of the current fiscal year, a decrease of 138 million yen from the end of the previous fiscal year.

Current liabilities increased 379 million yen to 3,466 million yen. This was mainly attributable to an increase of 276 million yen in income taxes payable, along with an increase of 56 million yen in advances received.

Non-current liabilities decreased 518 million yen to 6,947 million yen. This was mainly attributable to decreases of 544 million yen in long-term loans payable and 78 million yen in deferred tax liabilities, despite an increase of 85 million yen in net defined benefit liability.

Net assets

Net assets increased 440 million yen to 8,146 million yen at the end of the current fiscal year. This was mainly attributable to an increase of 438 million yen in retained earnings as a result of the booking of profit attributable to owners of parent.

2) Cash flows

Cash and cash equivalents (hereinafter, "net cash") at the end of the current fiscal year increased 336 million yen from the end of the previous fiscal year to 1,816 million yen with net cash provided by operating activities of 1,999 million yen, net cash used in investing activities of 1,044 million yen, and net cash used in financing activities of 619 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 1,999 million yen, mainly due to profit before income taxes of 774 million yen, a decrease in accounts receivable-other of 134 million yen, and an increase in net defined benefit liability of 85 million yen.

Cash flows from investing activities

Net cash used in investing activities amounted to 1,044 million yen, mainly due to purchase of property, plant and equipment of 867 million yen and payments for lease and guarantee deposits of 107 million yen.

Cash flows from financing activities

Net cash used in financing activities amounted to 619 million yen, mainly due to repayments of long-term loans payable of 1,070 million yen, despite proceeds from long-term loans payable of 478 million yen.

Reference: Cash flow indicators

	FY9/20
Equity ratio (%)	43.8
Market value-based equity ratio (%)	45.7
Interest-bearing debt to cash flow ratio (Years)	2.7
Interest coverage ratio (Times)	70.7

-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.

(3) Future Outlook

A change in awareness of the social advancement of women and government efforts to encourage them to take active roles have helped the upward trend in the number of double-income households and the employment rate of women. In this environment, the demand for nursery services and the usage rate of nursery schools remain at a high level at over 90%.

Meanwhile, local governments have been building more nursery schools, and the number of wait-listed children has decreased for three consecutive years, as shown in the table below.

However, as of April 2020, the number of children on the waiting list stood at 12,439, a figure that is still far from the government's goal of zero. In addition, the government is now considering developing additional service capacity for more than 100,000 children by the end of fiscal 2024, and the demand for establishing new nursery schools is expected to continue to remain at a certain level.

In this environment, we are making it a policy to promote the stable development of new facilities to fulfill the social demand for eliminating wait-listed children.

Number of wait-listed children

April 1, 2015	April 1, 2016	April 1, 2017	April 1, 2018	April 1, 2019	April 1, 2020
23,167	23,553	26,081	19,895	16,772	12,439

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

Based on the above, we anticipate net sales for the next fiscal year of 23,800 million yen (up 7.4% year on year) with operating profit of 700 million yen (up 46.6% year on year), ordinary profit of 1,260 million yen (up 37.5% year on year), and profit attributable to owners of parent of 680 million yen (up 55.2% year on year).

The year-on-year increase in net sales for the next fiscal year is attributable to an expected rise in the number of nursery school children mainly due to the opening of new nursery schools, as well as the rising occupancy rates of relatively new nursery schools in the second and third years after establishment. In addition, both operating profit and ordinary profit are expected to increase due to expected contributions from sales and optimization of personnel expenses through optimized staff allocation, in addition to improved efficiency associated with higher occupancy rates.

(4) Basic Policy for Profit Distribution and Dividends for the Current and Next Fiscal Years

Our basic dividend policy is to distribute profits stably and consistently based on the considerations of expected capital expenditures, financial soundness, earnings prospects, and other factors.

We plan to exploit our internal reserves effectively as a source of funds to open new facilities and make other capital investments with an aim to further expand our business.

If we decide to pay dividends of surplus, we will in principle make an annual payment as a year-end dividend subject to resolution at a general meeting of shareholders. As the Company is permitted to pay interim dividends as stipulated in the Articles of Incorporation in accordance with Article 454, Paragraph 5 of the Companies Act, we will also consider such payments based on a review of the earnings prospects.

Previously, the Company has not paid dividends, as we prioritized proactive capital investment and a strengthening of our financial soundness for business expansion. However, going forward, we will strive to improve our performance with the aim of distributing profits early, based on a full consideration of our business performance and the adequacy of internal reserves.

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)

	FY9/19 (As of Sep. 30, 2019)	FY9/20 (As of Sep. 30, 2020)
Assets		
Current assets		
Cash and deposits	1,480	1,816
Accounts receivable-other	1,932	1,797
Prepaid expenses	392	574
Other	6	6
Total current assets	3,810	4,194
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	10,640	10,523
Land	589	635
Construction in progress	32	107
Other, net	437	400
Total property, plant and equipment	11,701	11,666
Intangible assets		
Software	30	52
Software in progress	23	4
Total intangible assets	54	56
Investments and other assets		
Investment securities	79	113
Long-term prepaid expenses	705	570
Lease and guarantee deposits	1,546	1,632
Construction assistance fund receivables	324	304
Deferred tax assets	10	23
Other	26	0
Total investments and other assets	2,693	2,643
Total non-current assets	14,448	14,366
Total assets	18,259	18,561
Liabilities		
Current liabilities		
Current portion of long-term loans payable	907	859
Current portion of bonds	23	-
Accounts payable-other	1,228	1,261
Income taxes payable	93	370
Advances received	71	127
Provision for bonuses	553	586
Provision for retirement benefits for directors (and other officers)	-	24
Other	209	237
Total current liabilities	3,087	3,466
Non-current liabilities		
Long-term loans payable	5,032	4,487
Net defined benefit liability	255	340
Deferred tax liabilities	1,852	1,773
Asset retirement obligations	319	343
Other	6	2
Total non-current liabilities	7,466	6,947
Total liabilities	10,553	10,414

	(Millions of yen)	
	FY9/19 (As of Sep. 30, 2019)	FY9/20 (As of Sep. 30, 2020)
Net assets		
Shareholders' equity		
Capital stock	1,275	1,278
Capital surplus	1,963	1,967
Retained earnings	4,522	4,960
Treasury shares	(0)	(1)
Total shareholders' equity	7,760	8,205
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(0)	1
Remeasurements of defined benefit plans	(72)	(79)
Total accumulated other comprehensive income	(73)	(77)
Subscription rights to shares	19	19
Total net assets	7,706	8,146
Total liabilities and net assets	18,259	18,561

(2) Consolidated Statements of Income and Comprehensive Income

(Millions of yen)

	FY9/19 (Oct. 1, 2018 –Sep. 30, 2019)	FY9/20 (Oct. 1, 2019 –Sep. 30, 2020)
Net sales	19,694	22,160
Cost of sales	17,234	19,385
Gross profit	2,459	2,774
Selling, general and administrative expenses	2,285	2,296
Operating profit	173	477
Non-operating income		
Interest income	6	6
Subsidy income	2,065	606
Other	7	2
Total non-operating income	2,078	615
Non-operating expenses		
Interest expenses	32	28
Capital expenses	426	143
Other	6	5
Total non-operating expenses	466	177
Ordinary profit	1,786	916
Extraordinary income		
Gain on sale of businesses	-	27
Total extraordinary income	-	27
Extraordinary losses		
Impairment loss	*1 62	*1 137
Loss on cancellation of systems	16	-
Loss on valuation of investment securities	-	*2 6
Loss on valuation of shares of subsidiaries and associates	-	*3 26
Total extraordinary losses	78	169
Profit before income taxes	1,708	774
Income taxes-current	145	425
Income taxes-deferred	445	(89)
Total income taxes	591	336
Profit (Loss)	1,116	438
Profit (loss) attributable to		
Profit (loss) attributable to owners of parent	1,116	438
Profit attributable to non-controlling interests	-	-
Other comprehensive income		
Valuation difference on available-for-sale securities	0	1
Remeasurements of defined benefit plans, net of tax	(2)	(6)
Total other comprehensive income	(2)	(4)
Comprehensive income	1,114	433
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,114	433
Comprehensive income attributable to non-controlling interests	-	-

(3) Consolidated Statement of Changes in Equity

FY9/19 (Oct. 1, 2018–Sep. 30, 2019)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	1,267	1,955	3,405	(0)	6,629
Changes of items during period					
Issuance of new shares	7	7			14
Profit attributable to owners of parent			1,116		1,116
Purchase of treasury shares				(0)	(0)
Net changes of items other than shareholders' equity					
Total changes of items during period	7	7	1,116	(0)	1,131
Balance at end of current period	1,275	1,963	4,522	(0)	7,760

	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)	(69)	(70)	19	6,577
Changes of items during period					
Issuance of new shares					14
Profit attributable to owners of parent					1,116
Purchase of treasury shares					(0)
Net changes of items other than shareholders' equity	0	(2)	(2)	-	(2)
Total changes of items during period	0	(2)	(2)	-	1,129
Balance at end of current period	(0)	(72)	(73)	19	7,706

FY9/20 (Oct. 1, 2019–Sep. 30, 2020)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	1,275	1,963	4,522	(0)	7,760
Changes of items during period					
Issuance of new shares	3	3			7
Profit attributable to owners of parent			438		438
Purchase of treasury shares				(0)	(0)
Net changes of items other than shareholders' equity					
Total changes of items during period	3	3	438	(0)	445
Balance at end of current period	1,278	1,967	4,960	(1)	8,205

	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)	(72)	(73)	19	7,706
Changes of items during period					
Issuance of new shares					7
Profit attributable to owners of parent					438
Purchase of treasury shares					(0)
Net changes of items other than shareholders' equity	1	(6)	(4)	-	(4)
Total changes of items during period	1	(6)	(4)	-	440
Balance at end of current period	1	(79)	(77)	19	8,146

(4) Consolidated Statement of Cash Flows

(Millions of yen)

	FY9/19 (Oct. 1, 2018 –Sep. 30, 2019)	FY9/20 (Oct. 1, 2019 –Sep. 30, 2020)
Cash flows from operating activities		
Profit before income taxes	1,708	774
Depreciation	729	822
Impairment loss	62	137
Loss on cancellation of systems	16	-
Subsidy income	(2,065)	(606)
Loss (gain) on sale of businesses	-	(27)
Loss on valuation of investment securities	-	6
Loss on valuation of shares of subsidiaries and associates	-	26
Increase (decrease) in provision for bonuses	108	33
Increase (decrease) in net defined benefit liability	68	85
Increase (decrease) in provision for retirement benefits for directors (and other officers)	-	24
Interest and dividend income	(6)	(6)
Interest expenses	32	28
Decrease (increase) in accounts receivable-other	(239)	134
Decrease (increase) in prepaid expenses	(35)	(176)
Increase (decrease) in accounts payable-other	(11)	32
Increase (decrease) in advances received	(18)	56
Other, net	190	218
Subtotal	539	1,562
Interest and dividend income received	2	2
Interest expenses paid	(32)	(28)
Income taxes paid	(378)	(144)
Proceeds from subsidy income	2,065	606
Net cash provided by (used in) operating activities	2,196	1,999
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,705)	(867)
Proceeds from sales of property, plant and equipment	10	-
Purchase of intangible assets	(7)	(78)
Payments for lease and guarantee deposits	(94)	(107)
Proceeds from lease and guarantee deposits received	20	1
Collection of construction assistance fund receivables	24	23
Purchase of shares of affiliated companies	(18)	-
Other, net	(72)	(16)
Net cash provided by (used in) investing activities	(2,842)	(1,044)
Cash flows from financing activities		
Proceeds from long-term loans payable	1,955	478
Repayments of long-term loans payable	(1,090)	(1,070)
Redemption of bonds	(35)	(23)
Repayments of lease obligations	(4)	(4)
Proceeds from exercise of share options	1	1
Purchase of treasury shares	(0)	0
Net cash provided by (used in) financing activities	825	(619)
Net increase (decrease) in cash and cash equivalents	178	336
Cash and cash equivalents at beginning of period	1,301	1,480
Cash and cash equivalents at end of period	1,480	1,816

(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

Securities with market quotations

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.

Securities without market quotations

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

1) 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.

2) Provision for retirement benefits for directors (and other officers)

An allowance is provided, based on an estimated amount of payment, to prepare for the payment of retirement benefits for directors (and other officers).

(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.

(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.

Consolidated Statements of Income and Comprehensive Income***1 Impairment loss**

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

FY9/19 (Oct. 1, 2018 – Sep. 30, 2019)

Purpose	Type	Location	Impairment loss (Millions of yen)
Headquarters	Software	Head Office (Chiyoda-ku, Tokyo)	62

The Group has previously recorded the expenses required for the development of the system introduced to enhance the employee benefit system as software. However, as the number of the users of the system was lower than initially planned, the Company has judged that the asset value has been lost and recorded it under extraordinary loss as an impairment loss.

FY9/20 (Oct. 1, 2019 – Sep. 30, 2020)

Purpose	Type	Location	Impairment loss (Millions of yen)
Facility (3 facilities)	Buildings and structures “Other” under property, plant and equipment	Toda City, Saitama Prefecture, etc.	95
Headquarters	Software	Head Office (Chiyoda-ku, Tokyo)	41

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 (89 million yen for buildings and structures and 6 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.

The Group has previously recorded the expenses required for the development of the system being built to enhance work efficiency as construction in progress. However, as it was determined that the initially forecast results cannot be expected, the Company has judged that the asset value has decreased and recorded it under extraordinary losses as an impairment loss.

***2 Loss on valuation of investment securities**

FY9/20 (Oct. 1, 2019 – Sep. 30, 2020)

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.

***3 Loss on valuation of shares of subsidiaries and associates**

FY9/20 (Oct. 1, 2019 – Sep. 30, 2020)

The Company recognized a loss on valuation of the shares of GLOBAL KIDS VIETNAM CO., LTD, an unconsolidated subsidiary.

Additional Information

(Accounting-based estimates regarding the impact of the novel coronavirus infection)

With regard to the impact of the novel coronavirus infection, we have estimated the recoverability of future cash flows from the impairment of non-current assets, based on the assumption that there will be no major facility closures due to reemergence of the infection, and that normal facility operations will be achieved in April 2021, although countermeasures against the virus will continue.

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

FY9/19 (Oct. 1, 2018 –Sep. 30, 2019)

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	2,722	Child-rearing support business

FY9/20 (Oct. 1, 2019 –Sep. 30, 2020)

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	3,049	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

Omitted since the Group has only a single business segment.

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

Not applicable.

Per-share Information

(Yen)

	FY9/19 (Oct. 1, 2018 –Sep. 30, 2019)	FY9/20 (Oct. 1, 2019 –Sep. 30, 2020)
Net assets per share	840.44	882.76
Net income per share	122.24	47.65
Diluted net income per share	119.23	46.75

Note: The basis of calculating the net income per share and diluted net income per share is as follows:

	FY9/19 (Oct. 1, 2018 –Sep. 30, 2019)	FY9/20 (Oct. 1, 2019 –Sep. 30, 2020)
Net income per share		
Profit attributable to owners of parent (millions of yen)	1,116	438
Amount not attributable to ordinary shareholders (millions of yen)	-	-
Profit attributable to owners of parent applicable to common stock (millions of yen)	1,116	438
Average number of shares of common stock outstanding (shares)	9,137,817	9,193,412
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)	230,356	178,236
[Of which, stock acquisition rights (shares)]	[230,356]	[178,236]
Summary of dilutive shares not included in the calculation of diluted net income per share since there was no dilutive effect	-	-

This financial report is solely a translation of “Kessan Tanshin” (in Japanese, including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.