

Consolidated Financial Summary for
Baroque Japan Limited
Quarterly Financial Information for the period ended August 31, 2021
Tokyo Stock Exchange First Section, 3548

English Translation of the original Japanese-Language Report

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Note:

If there is any inconsistency or conflict between English and Japanese versions of this information, the Japanese version shall prevail.

1. Management discussion and analysis

(1) Summary of the business

During the consolidated cumulative second quarter, in regards to the Japanese economy, due to the spread of Covid-19 epidemic, the issue of State of Emergency had an effect in the restrictions of economic activities and personal consumptions also remains in a severe situation. Although vaccination has progressed so far, the spread of new variant made the outlook for the future economy continues to remain certain.

Under these circumstances, the Group's domestic business was affected by the expansion of subjected areas and extensions of the State of Emergency due to the 5th wave of Covid-19 epidemic and unseasonable weather such as localized torrential rain also led the second quarter of store sales decrease. However, domestic EC sales significantly grew year-on-year due to strengthening live commerce, etc., and as a result, domestic sales and gross profit during the consolidated cumulative second quarter, were significantly higher than in the same period of the previous year.

In addition, through proper sales and inventory control, we further strengthen to reduce business consignment expenses, etc., and while the SG&A expense ratio improved year-on-year, operating profit and recurring profit significantly exceeded the same period of the previous year.

Regarding the Chinese Joint Venture with Belle International Holdings Limited (hereon, Belle), our strategic business partner within the Joint Venture, Chinese personal consumption remains strong and the sales of both retail companies (equity method affiliates) and wholesale companies (consolidated subsidiaries) have increased year-on-year. Additionally, in regards to our US business operations, demand for luxury made-in Japan denim continued to grow, and both wholesale and EC sales significantly grew year-on-year.

As of August 31, 2021, we have 369 stores in Japan (284 directly operated, 85 through franchise) and 6 overseas stores (5 directly operated) totaling in 375 stores. In addition, our Chinese retail business operations conducted alongside our joint venture partner Belle have grown to include 304 storefronts.

As a result of the above, the second quarter of the current consolidated cumulative period saw a consolidated turnover of 26,566 million yen (26.9% increase from the same term last year), operating profit of 529 million yen (year-on-year loss of 446 million yen), recurring profit of 756 million yen (year-on-year loss of 857 million yen), and net income attributable to shareholders of the parent company was 299 million yen (year-on-year loss of 918 million yen).

(2) Financial review

During the 6 months' period ended August 31, 2021, assets decreased by 1,752 million yen to 36,590 million yen, mainly due to the decrease in Cash and cash equivalents by 2,815 million yen, the increased in Inventories by 953 million yen.

Liabilities decreased by 1,514 million yen to 15,917 million yen, mainly due to the decreased in Short-term interest-bearing borrowings by 1,000 million yen, the decrease in Notes and trade payables by 117 million yen and Current tax payable by 159 million yen.

Equity decreased by 238 million yen to 20,673 million yen, mainly due to the decrease in Retained earnings by 1,158 million yen for the payment of dividends, the increase in Retained earnings by 299 million yen from net profit, the increase in Foreign currency translation reserve by 350 million yen, and the increase in Non-controlling interests by 270 million yen.

2. Consolidated financial statements

(1) Consolidated balance sheet

(Unit: million yen)

	As at February 28, 2021	As at August 31, 2021
Assets		
Current assets		
Cash and cash equivalents	15,924	13,109
Notes and trade receivables	8,001	8,010
Inventories	4,918	5,871
Consumables	197	85
Others	348	387
Total current assets	29,390	27,465
Non-current assets		
Property, plant and equipment		
Building and leasehold improvements (net)	1,317	1,323
Land	350	350
Construction in progress	32	3
Others (net)	74	77
Total property, plant and equipment	1,773	1,754
Intangible assets		
Software	701	631
Others	118	200
Total intangible assets	819	832
Investments and other assets		
Investments in and advances to associates	1,597	1,772
Rental deposits	3,232	3,242
Deferred tax assets	1,426	1,446
Others	102	76
Total investments and other assets	6,359	6,538
Total non-current assets	8,952	9,125
Total assets	38,343	36,590

(Unit: million yen)

	As at February 28, 2021	As at August 31, 2021
Liabilities		
Current liabilities		
Notes and trade payables	3,872	3,755
Short-term interest-bearing borrowings	3,000	2,000
Interest-bearing borrowings	125	—
Other payables	946	947
Accrued expenses	641	520
Current tax payable	550	390
Deposits received	10	0
Provision for bonus	297	148
Provision for reinstatement costs	9	23
Others	180	240
Total current liabilities	9,632	8,027
Non-current liabilities		
Interest-bearing borrowings	6,000	6,000
Other payables	15	15
Deferred tax liabilities	65	70
Deposits received	459	468
Provision for retirement benefits	17	18
Provision for reinstatement costs	1,120	1,158
Others	121	158
Total non-current liabilities	7,798	7,890
Total liabilities	17,431	15,917
Equity		
Shareholders' equity		
Share capital	8,258	8,258
Share premium	8,059	8,059
Retained earnings	3,855	2,996
Treasury stock	△692	△692
Total shareholders' equity	19,480	18,621
Other reserves		
Foreign currency translation reserve	△170	179
Total other reserves	△170	179
Non-controlling interests	1,601	1,872
Total equity	20,911	20,673
Total liabilities and equities	38,343	36,590

(2) Consolidated income statement and consolidated statement of comprehensive income

Consolidated income statement

(Unit: million yen)

	For the 6 months period ended August 31, 2020	For the 6 months period ended August 31, 2021
Turnover	20,929	26,566
Cost of goods sold	9,674	11,832
Gross profit	11,255	14,733
Selling, general and administrative expenses	11,701	14,204
Operating profit or loss (Δ)	Δ 446	529
Non-operating income		
Interest income	3	3
Gain on foreign exchange	—	138
Subsidy income	73	33
Share of profit of associates	—	71
Other income	19	64
Total non-operating income	96	310
Non-operating expenses		
Interest on bank and other loans	17	16
Finance charges	14	8
Loss on foreign exchange	31	—
Loss on disposals of property, plant and equipment	4	26
Share of loss of associates	414	—
Other expenses	25	32
Total non-operating expenses	507	84
Recurring profit or loss (Δ)	Δ 857	756
Extraordinary income		
Subsidies for employment adjustment	202	100
Total Extraordinary income	202	100
Extraordinary expenses		
Loss due to temporary store closures	397	106
Impairment loss	79	114
Total extraordinary expenses	476	220
Profit or loss (Δ) before taxation	Δ 1,131	636
Corporation tax, inhabitants tax and business tax	85	222
Income taxes refund	Δ 163	Δ 1
Deferred income tax	Δ 253	Δ 16
Total income tax	Δ 331	204
Profit or loss (Δ) for the period	Δ 800	431
Profit attributable to non-controlling interests	118	131
Net profit or loss (Δ)	Δ 918	299

Consolidated statement of comprehensive income

(Unit: million yen)

	For the 6 months period ended August 31, 2020	For the 6 months period ended August 31, 2021
Profit or loss (Δ) for the period	$\Delta 800$	431
Other comprehensive income		
Deferred gains or losses on hedges	0	—
Foreign currency translation	$\Delta 88$	322
Share of other comprehensive income of associates	$\Delta 55$	154
Other comprehensive income	$\Delta 143$	476
Comprehensive income	$\Delta 943$	908
Attributable to:		
Equity shareholders	$\Delta 1,025$	650
Non-controlling interests	81	258

(3) Consolidated statement of cash flows

(Unit: million yen)

	For the 6 months period ended August 31, 2020	For the 6 months period ended August 31, 2021
Cash from operating activities		
Profit or loss (Δ) before taxation	$\Delta 1,131$	636
Depreciation	495	441
Impairment	79	114
Increase (Δ decrease) in provision for bonus	$\Delta 126$	$\Delta 148$
Interest income	$\Delta 3$	$\Delta 3$
Interest on bank and other loans	31	24
Foreign exchange losses (Δ gain)	$\Delta 4$	2
Share of loss (Δ profit) of associates	414	$\Delta 71$
Loss on disposals of property, plant and equipment	4	26
Subsidies for employment adjustment	$\Delta 202$	$\Delta 100$
Decrease (Δ increase) in trade and other receivables	717	404
Decrease (Δ increase) in inventories	764	$\Delta 946$
Increase (Δ decrease) in trade and other payables	$\Delta 1,400$	$\Delta 258$
Increase (Δ decrease) in other payables	$\Delta 813$	$\Delta 78$
Increase (Δ decrease) in provision for retirement benefits	0	1
Others	$\Delta 337$	26
Subtotal	$\Delta 1,503$	68
Interest income received	3	3
Interest expenses paid	$\Delta 26$	$\Delta 23$
Income taxes paid	$\Delta 1,141$	$\Delta 327$
Income taxes refund	163	1
Subsidies for employment adjustment received	202	100
Net cash from operating activities	$\Delta 2,302$	$\Delta 176$
Cash from investing activities		
Purchase of property, plant and equipment	$\Delta 316$	$\Delta 325$
Purchase of intangible assets	$\Delta 95$	$\Delta 144$
Payments for rental deposits	$\Delta 84$	$\Delta 67$
Proceeds from collection of rental deposits	251	64
Others	$\Delta 29$	$\Delta 2$
Net cash from investing activities	$\Delta 274$	$\Delta 476$
Cash from financing activities		
Proceeds from short-term borrowings	3,000	2,000
Repayment of short-term borrowings	—	$\Delta 3,000$
Proceeds from long-term borrowings	2,000	—
Repayment of long-term borrowings	$\Delta 3,832$	$\Delta 125$
Payment for dividend	$\Delta 1,374$	$\Delta 1,158$
Repayment of lease obligations	$\Delta 2$	$\Delta 3$
Repayment of fixed assets installment payables	$\Delta 17$	—
Net cash from financing activities	$\Delta 227$	$\Delta 2,287$
Effect of exchange rate change on cash and cash equivalents	$\Delta 41$	124
Net increase (Δ decrease) in cash and cash equivalents	$\Delta 2,846$	$\Delta 2,815$
Cash and cash equivalents at beginning of period	16,133	15,924
Cash and cash equivalents at end of period	13,287	13,109

(4) Notes to the consolidated financial statements

(Note on going concern)

No significant doubt on the ability to continue as a going concern.

(Change in shareholders' equity)

No applicable.

(Change in accounting policy)

No such change.

(Segment accounting)

The Group is operating as one segment with respect to apparel design and selling business.

(Additional information)

(About the uncertainty of accounting estimates)

The impact of Covid-19 epidemic on our group can be seen in consumers refraining from going out and in a decrease of the number of customers visiting stores due to following requests for curtailment of business hours and operation. Given the current situation of the Covid-19 epidemic, we anticipate gradual recovery in business performance throughout regions where economic activity has resumed, but expect the impact of the Covid-19 epidemic on the Group to remain to a certain extent until the end of the current consolidated fiscal year. Under the assumption that business performance will recover by 90% by year, we shall make accounting estimates for impairment of fixed assets and recoverability of deferred tax assets.

Moreover, there are no significant changes to the Group's assumptions regarding when Covid-19 epidemic will end, but the impact of it to the market and the situation of uncertainty to the future are expected to continue for one to two years, and it may affect business performance and financial situation of our group if it takes more time to settle.

(Subsequent events)

No significant subsequent events.