

Consolidated Financial Summary for
Baroque Japan Limited
Financial Information for the year ended February 28, 2022
Tokyo Stock Exchange, 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 fiscal year ended February 28, 2022, the Japanese economy has repeatedly downturn and recovered due to the frequent issuance of State of Emergency and Covid-19 quasi-emergency all over the country. In addition to this, the severe business environment continues, with concerns about rise in raw material prices and rising crude oil prices and transportation costs mainly due to the increase of geopolitical risks.

Under these circumstances, the Group's domestic business was affected by refraining from going out until the first half of the year, however in the third quarter of the current fiscal year, the flow of people recovered due to the lift of the State of Emergency, and at the same time, the temperature dropped, and showed a strong performance. Then, in the fourth quarter, despite the impact of the rapid expansion of Omicron variant, domestic sales of the fiscal year ended February 28, 2022, increased year-on-year. Furthermore, EC sales have increased by 110.6% year-on-year due to the successful promotion of OMO measures utilizing SNS. As a result, in the fiscal year ended February 28, 2022, domestic sales and gross profit significantly exceeded the same period of the previous year.

In addition, as the company continues to work on cost reductions, SG&A expenses ratio improved year-on-year, and operating profit and recurring profit significantly exceeded the same period of the previous year.

Regarding the US business in the overseas business, brand recognition for wealthy people in North America has increased, and the demand for the mainstay luxury made-in Japan denim is still strong, and by promoting a business model centered on EC and wholesale (for luxury department stores and select stores), the US business grew significantly. As for the Chinese Joint Venture with Belle International Holdings Limited (hereon, Belle), our strategic business partner within the Joint Venture, in the first half of the year, business performance was strong, however, due to the spread of the Covid-19 epidemic in China from last fall, although it was affected by action restrictions in the second half, EC growth also contributed to a significant increase in sales and profits in the Chinese business compared to the previous year.

As for the number during the fiscal year ended February 28, 2022, the number of domestic stores was 367 (278 directly managed, 89 through franchise) and the number of overseas stores was 6 (4 directly managed) – for a total of 373 stores. In addition, the number of stores in the Chinese retail business operated through Joint Venture with Belle has reached 332.

As a result of the above, in the fiscal year ended February 28, 2022, consolidated turnover was 59,139 million yen (16.9% increase from the prior year), operating profit was 2,752 million yen (109.7% increase from the prior year), recurring profit was 2,846 million yen (139.7% increase from the prior year), and net income attributable to shareholders of the Parent Company was 1,471 million yen (291.6% increase from the prior year).

(2) Financial review

Total assets, liabilities and equity as of the year ended February 28, 2022 are as follows:

(Total assets)

Total assets at the end of the current consolidated fiscal year increased by 288 million yen from the end of the previous consolidated fiscal year to 38,632 million yen.

This was mainly due to the decrease in Cash and cash equivalents by 913 million yen, the increase in Notes and trade receivables by 868 million yen, the increase in Inventories by 631 million yen, and the decrease in Consumables by 126 million yen.

(Liabilities)

Liabilities decreased by 1,236 million yen to 16,194 million yen from the end of the previous fiscal year. This was mainly due to the decrease in Notes and trade payables by 543 million yen, the repayment of Interest-bearing borrowings by 1,125 million yen, and the increase in Other payables by 184 million yen, and the increase in Current tax payable by 259 million yen.

(Equity)

Equity increased by 1,525 million yen to 22,437 million yen. This was mainly due to the decrease in Retained earnings by 1,158 million yen for the payment of dividends, the increase in Retained earnings by 1,471 million yen

from net profit, the increase in Foreign currency translation reserve by 630 million yen, and the increase in Non-controlling interests by 582 million yen.

(3) Cash flows review

Cash and cash equivalents decreased by 913 million yen to 15,010million yen.

A summary of cash flows during the year is as follows:

(Cash flows from operating activities)

Net cash flows provided by operating activities totaled 1,995 million yen, mainly due to profit before taxation of 2,574 million yen, depreciation of 811 million yen, the increase in inventories by 621 million yen, and income taxes paid of 527 million yen.

(Cash flows from investing activities)

Net cash flows used by investing activities totaled 823 million yen, mainly due to purchase of property, plant and equipment of 452 million yen, and purchase of intangible assets of 390 million yen.

(Cash flows from financing activities)

Net cash flows provided by financing activities totaled 2,288 million yen, mainly due to the new short-term borrowings amounted to 2,000 million yen, repayment of short-term borrowings amounted to 3,000 million yen, and payment for dividend amounted to 1,158 million yen.

(4) Future prospect

The Covid-19 epidemic has not contained and has been prolonged, and the impact of action restrictions as an infection control measures on the economic activities of each country is large, and it will take more time for the full-scale recovery of the world economy. In addition, rising raw material prices and distribution costs are becoming apparent, and the future remains uncertain.

Under these circumstances, in order to promote narrowing down and strengthening our constitution, we will focus on ①selection and concentration, ②improvement of profitability, and ③improvement of brand competitiveness as priority strategies for the domestic market. Promote initiatives such as building manufacturing that does not overproduce, improving business efficiency and customer convenience by strengthening OMO, transmitting a new “culture” and improving brand value and recognition by proposing a richer life. Furthermore, as a foundation to support the business, we will proactively make investments that will be the foundation for future growth, such as renewal of core systems, and in addition, we will work on reform of supply chain management and promoting measures to reduce costs.

Regarding overseas business, we will continue to position China as a medium-to long-term priority strategic region, and will strive to strengthen our business management system while maintaining continuous growth of our business in China. In addition, while promoting the strengthening of product planning capabilities for China, we will further strengthen efforts to expand new sales channels such as TikTok for EC. Furthermore, regarding the US business, we will work to further expand sales channels in EC and wholesale.

Regarding new businesses, we will utilize our strengths such as sales power and expansion capabilities in China to create new businesses that contribute to the realization of a sustainable society.

2. Basic approach for the selection of accounting standards

The Group prepares its consolidated financial statements based on the generally accepted accounting principles in Japan to allow comparisons with prior years and other companies.

Regarding the adoption of International Financial Reporting Standards, we shall continue to evaluate both internal and external environments before making a decision.

3. Consolidated financial statements

(1) Consolidated balance sheet

(Unit: million yen)

	As at February 28, 2021	As at February 28, 2022
Assets		
Current assets		
Cash and cash equivalents	15,924	15,010
Notes and trade receivables	8,001	8,869
Inventories	4,918	5,550
Consumables	197	71
Others	348	343
Total current assets	29,390	29,846
Non-current assets		
Property, plant and equipment		
Building and leasehold improvements (net)	1,317	1,055
Land	350	350
Construction in progress	32	12
Others (net)	74	78
Total property, plant and equipment	1,773	1,496
Intangible assets		
Software	701	568
Others	118	402
Total intangible assets	819	970
Investments and other assets		
Investments in and advances to associates	1,597	1,603
Rental deposits	3,232	3,159
Deferred tax assets	1,426	1,503
Others	102	52
Total investments and other assets	6,359	6,318
Total non-current assets	8,952	8,785
Total assets	38,343	38,632

(Unit: million yen)

	As at February 28, 2021	As at February 28, 2022
Liabilities		
Current liabilities		
Notes and trade payables	3,872	3,329
Short-term interest-bearing borrowings	3,000	2,000
Interest-bearing borrowings	125	3,000
Other payables	946	1,131
Accrued expenses	641	483
Current tax payable	550	809
Deposits received	10	5
Provision for bonus	297	293
Provision for reinstatement costs	9	18
Others	180	242
Total current liabilities	9,632	11,313
Non-current liabilities		
Interest-bearing borrowings	6,000	3,000
Other payables	15	7
Deferred tax liabilities	65	74
Deposits received	459	488
Provision for share awards for directors	121	182
Provision for retirement benefits	17	20
Provision for reinstatement costs	1,120	1,106
Others	—	2
Total non-current liabilities	7,798	4,881
Total liabilities	17,431	16,194
Equity		
Shareholders' equity		
Share capital	8,258	8,258
Share premium	8,059	8,059
Retained earnings	3,855	4,168
Treasury stock	△692	△692
Total shareholders' equity	19,480	19,793
Other reserves		
Foreign currency translation reserve	△170	459
Total other reserves	△170	459
Non-controlling interests	1,601	2,184
Total equity	20,911	22,437
Total liabilities and equities	38,343	38,632

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

Consolidated income statement

(Unit: million yen)

	For the year ended February 28, 2021	For the year ended February 28, 2022
Turnover	50,590	59,139
Cost of goods sold	22,742	26,358
Gross profit	27,847	32,781
Selling, general and administrative expenses	26,535	30,028
Operating profit	1,312	2,752
Non-operating income		
Interest income	6	7
Gain on foreign exchange	44	216
Rent income	13	14
Subsidy from regional bureau	—	61
Subsidy income	81	64
Other income	24	29
Total non-operating income	170	393
Non-operating expenses		
Interest on bank and other loans	34	31
Finance charges	27	13
Loss on disposals of property, plant and equipment	9	29
Share of loss of associates	177	142
Loss on cancellation of rental contracts	—	64
Other expenses	48	18
Total non-operating expenses	296	299
Recurring profit	1,187	2,846
Extraordinary income		
Subsidies for employment adjustment	243	100
Total Extraordinary income	243	100
Extraordinary expenses		
Loss due to temporary store closures	397	106
Impairment loss	197	265
Total extraordinary expenses	594	372
Profit before taxation	836	2,574
Corporation tax, inhabitants tax and business tax	490	852
Corporate tax refund	△168	△1
Deferred income tax	△170	△70
Total income tax	152	780
Profit for the year	683	1,793
Profit attributable to non-controlling interests	307	321
Net profit	375	1,471

Consolidated statement of comprehensive income

(Unit: million yen)

	For the year ended February 28, 2021	For the year ended February 28, 2022
Profit for the year	683	1,793
Other comprehensive income		
Deferred gains or losses on hedges	0	—
Foreign currency translation	43	598
Share of other comprehensive income of associates	24	270
Other comprehensive income	67	868
Comprehensive income	751	2,662
Attributable to		
Equity shareholders	419	2,102
Non-controlling interests	332	560

(3) Consolidated statement of changes in equity

For the year ended February 28, 2021

(Unit: million yen)

	Shareholders' equity					Other reserves			Non-controlling interests	Total equity
	Share capital	Share premium	Retained earnings	Treasury stock	Total shareholder's equity	Deferred gains or losses on hedges	Foreign currency translation reserve	Total other reserves		
Balance at beginning of year	8,258	8,075	4,854	△749	20,439	△0	△213	△213	1,267	21,492
Changes during year										
Dividend			△1,374		△1,374					△1,374
Disposal of treasury stock		△16		56	39					39
Net profit			375		375					375
Net changes other than shareholders' equity						0	43	43	334	377
Total changes during year	—	△16	△998	56	△958	0	43	43	334	△580
Balance at end of year	8,258	8,059	3,855	△692	19,480	—	△170	△170	1,601	20,911

For the year ended February 28, 2022

(単位：百万円)

	Shareholders' equity					Other reserves			Non-controlling interests	Total equity
	Share capital	Share premium	Retained earnings	Treasury stock	Total shareholder's equity	Deferred gains or losses on hedges	Foreign currency translation reserve	Total other reserves		
Balance at beginning of year	8,258	8,059	3,885	△692	19,480	—	△170	△170	1,601	20,911
Changes during year										
Dividend			△1,158		△1,158					△1,158
Net profit			1,471		1,471					1,471
Net changes other than shareholders' equity						—	630	630	582	1,212
Total changes during year	—	—	313	—	313	—	630	630	582	1,525
Balance at end of year	8,258	8,059	4,168	△692	19,793	—	459	459	2,184	22,437

(4) Consolidated statement of cash flows

(Unit: million yen)

	For the year ended February 28, 2021	For the year ended February 28, 2022
Cash from operating activities		
Profit before taxation	836	2,574
Depreciation	945	811
Impairment	197	265
Increase (Δdecrease) in provision for bonus	36	Δ4
Interest income	Δ6	Δ7
Interest on bank and other loans	61	45
Foreign exchange losses (Δgain)	6	Δ5
Share of loss (Δprofit) of associates	177	142
Loss on disposals of property, plant and equipment	9	29
Subsidies for employment adjustment	Δ243	Δ100
Decrease (Δincrease) in trade and other receivables	Δ474	Δ81
Decrease (Δincrease) in inventories	239	Δ621
Increase (Δdecrease) in trade and other payables	458	Δ790
Increase (Δdecrease) in other payables	Δ899	97
Increase (Δdecrease) in provision for retirement benefits	Δ1	2
Others	Δ348	99
Subtotal	993	2,458
Interest and dividend income received	6	7
Interest expenses paid	Δ57	Δ45
Income taxes paid	Δ1,212	Δ527
Corporate tax refund	168	1
Subsidies for employment adjustment received	243	100
Net cash from operating activities	142	1,995
Cash from investing activities		
Purchase of property, plant and equipment	Δ548	Δ452
Purchase of intangible assets	Δ411	Δ390
Payments for rental deposits	Δ336	Δ141
Proceeds from collection of rental deposits	434	223
Payments for reinstatement	Δ58	Δ62
Net cash from investing activities	Δ920	Δ823
Cash from financing activities		
Proceeds from short-term borrowings	3,000	2,000
Repayment of short-term borrowings	—	Δ3,000
Proceeds from long-term borrowings	3,000	—
Repayment of long-term borrowings	Δ3,982	Δ125
Payment for dividend	Δ1,374	Δ1,158
Repayment of fixed assets installment payables	Δ22	—
Repayment of lease obligations	Δ5	Δ4
Net cash from financing activities	615	Δ2,288
Effect of exchange rate change on cash and cash equivalents	Δ46	202
Net increase (Δ decrease) in cash and cash equivalents	Δ208	Δ913
Cash and cash equivalents at beginning of year	16,133	15,924
Cash and cash equivalents at end of year	15,924	15,010

(5) Notes to the consolidated financial statements

(Note on going concern)

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

(Change in accounting policy)

No such change.

(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. Although it is difficult to accurately predict how the Covid-19 epidemic will spread and when it will end, in view of the current situation, it will not recover to the level of normal performance. However, it is expected that business performance will gradually recover throughout regions where economic activity has resume. Under the assumption that business performance will recover by 90% by year, we shall make accounting estimates for inventory provision and impairment of fixed assets.

Moreover, the impact of Covid-19 epidemic 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.

(Segment accounting)

The Group is reporting as one segment with respect to apparel design and selling business. The disclosure of other business is omitted, since it is immaterial.

(Per share information)

	For the year ended February 28, 2021	For the year ended February 28, 2022
Net assets per share	536.18 Yen	562.36 Yen
Net profit per share	10.44 Yen	40.87 Yen

(Note) 1. The diluted net profit per share is not disclosed because there are no potentially dilutive common shares.

2. The basis of calculating the net assets per share is as follows:

Item	As at February 28, 2021	As at February 28, 2022
Net assets (million yen)	20,911	22,437
Deduction from net assets (million yen)	1,601	2,184
(Non-controlling interests) (million yen)	1,601	2,184
Net assets applicable to common stock shareholders (million yen)	19,310	20,253
Year-end number of shares of common stock used for calculation of net assets per share	36,014,300	36,014,300

3. The basis of calculating the net profit and diluted net profit per share is as follows:

Item	For the year ended February 28, 2021	For the year ended February 28, 2022
Net profit per share		
Net profit (million yen)	375	1,471
Amount not applicable to common stock shareholders (million yen)	—	—
Net profit applicable to common stock shareholders (million yen)	375	1,471
Average number of shares of common stock outstanding during the year	35,990,013	36,014,300

4. The Company has introduced a performance linked compensation system, Board Benefit Trust or BBT.

The treasury stock for that purpose was deducted from the total number of common stock when the net profit per share and net assets per share were calculated.

(Subsequent events)

No significant subsequent events.