

Consolidated Financial Summary for
Baroque Japan Limited
Quarterly Financial Information for the period ended May 31, 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 consolidated cumulative first quarter, the Japanese economy began to move towards a normalisation of economic activities, mainly due to the easing of restrictions on activities following a decrease in the number of new cases of Covid-19 epidemic. On the other hand, the business environment remains uncertain due to the significant impact of rising raw material prices and transportation costs, the rapid depreciation of the yen, and restrictions on activities associated with China's zero-Covid policy.

Regarding the Group's domestic business, with the easing activities restrictions s from late March and a recovery in the flow of people, the overall recovery trend strengthened, particularly for department stores' brands and FB/SB brands, and shop sales increase to 114.5% year-on-year. As a result, domestic sales and domestic gross profit in the consolidated cumulative first quarter were higher than in the same period of the previous year.

In addition, by increasing the top line and the company continues to work on cost reductions, the SG&A expenses ratio was kept at the same level as in the previous year, and operating and recurring profits significantly exceeded the same period of the previous year.

Regarding the US business in the overseas business, demand for the mainstay luxury made-in Japan denim remained strong, with strong sales in EC and wholesale (luxury department stores and select stores). The US business has expanded to a scale that exceeds that of the pre-Covid-19 epidemic period, and the US business achieved significant year-on-year increases in both revenue and profit. As for the Chinese Joint Venture with Belle International Holdings Limited (hereon, "Belle"), our strategic business partner within the Joint Venture, despite the impact of restrictions on activities following the spread of the Covid-19 epidemic in China, and despite expanding the channel to TikTok and focusing on EC sales, sales and profits in the China business declined year-on-year.

As of May 31, 2022, we have 373 stores in Japan (282 directly operated, 91 through franchise) and 3 overseas stores (1 directly operated, 2 through franchise) – for a total of 376 stores. In addition, the number of stores in the Chinese retail business operated through Joint Venture with Belle has reached 330.

As a result of the above, the current consolidated cumulative first quarter period saw a consolidated turnover of 14,071 million yen (6.5% increase from the same term last year), operating profit of 1,090 million yen (35.9% increase from the same term last year), recurring profit of 837 million yen (5.9% decrease from the same term last year), and net income attributable to shareholders of the Parent Company was 398 million yen (1.0% decrease from the same term last year).

(2) Financial review

During the 3 months' period ended May 31, 2022, assets increased by 200 million yen to 38,832 million yen, mainly due to the decrease in Cash and cash equivalents by 1,221 million yen, the increase in Notes and trade receivables by 1,201 million yen, and the increase in Inventories by 107 million yen.

Liabilities increased by 617 million yen to 16,812 million yen, mainly due to the increased in Notes and trade payables by 274 million yen, the increase in Other payables by 95 million yen, and the increase in Provision for bonus by 150 million yen.

Equity decreased by 417 million yen to 22,019 million yen. This was mainly due to the decrease in Retained earnings by 1,376 million yen for the payment of dividends, the increase in Retained earnings by 398 million yen from net profit, the increase in Foreign currency translation reserve by 333 million yen, and the increase in Non-controlling interests by 227 million yen.

2. Consolidated financial statements

(1) Consolidated balance sheet

(Unit: million yen)

	As at February 28, 2022	As at May 31, 2022
Assets		
Current assets		
Cash and cash equivalents	15,010	13,789
Notes and trade receivables	8,869	10,071
Inventories	5,550	5,658
Consumables	71	71
Others	343	513
Total current assets	29,846	30,103
Non-current assets		
Property, plant and equipment		
Building and leasehold improvements (net)	1,055	1,143
Land	350	350
Construction in progress	12	4
Others (net)	78	67
Total property, plant and equipment	1,496	1,565
Intangible assets		
Software	568	831
Others	402	178
Total intangible assets	970	1,010
Investments and other assets		
Investments in and advances to associates	1,603	1,431
Rental deposits	3,159	3,130
Deferred tax assets	1,503	1,530
Others	52	60
Total investments and other assets	6,318	6,152
Total non-current assets	8,785	8,728
Total assets	38,632	38,832

(Unit: million yen)

	As at February 28, 2021	As at May 31, 2022
Liabilities		
Current liabilities		
Notes and trade payables	3,329	3,604
Short-term interest-bearing borrowings	2,000	2,000
Interest-bearing borrowings	3,000	5,000
Other payables	1,131	1,227
Accrued expenses	483	502
Current tax payable	809	822
Deposits received	5	—
Provision for bonus	293	444
Provision for reinstatement costs	18	38
Others	242	243
Total current liabilities	11,313	13,882
Non-current liabilities		
Interest-bearing borrowings	3,000	1,000
Other payables	7	7
Deferred tax liabilities	74	79
Deposits received	488	503
Provision for share awards for directors	182	218
Provision for retirement benefits	20	19
Provision for reinstatement costs	1,106	1,096
Others	2	5
Total non-current liabilities	4,881	2,929
Total liabilities	16,194	16,812
Equity		
Shareholders' equity		
Share capital	8,258	8,258
Share premium	8,059	8,059
Retained earnings	4,168	3,191
Treasury stock	△692	△692
Total shareholders' equity	19,793	18,815
Other reserves		
Foreign currency translation reserve	459	792
Total other reserves	459	792
Non-controlling interests	2,184	2,411
Total equity	22,437	22,019
Total liabilities and equities	38,632	38,832

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

Consolidated income statement

(Unit: million yen)

	For the 3 months period ended May 31, 2021	For the 3 months period ended May 31, 2022
Turnover	13,208	14,071
Cost of goods sold	5,297	5,454
Gross profit	7,910	8,617
Selling, general and administrative expenses	7,108	7,527
Operating profit	802	1,090
Non-operating income		
Interest income	1	2
Gain on foreign exchange	91	7
Subsidy from regional bureau	—	19
Subsidy income	3	8
Share of profit of associates	4	—
Other income	7	23
Total non-operating income	107	61
Non-operating expenses		
Interest on bank and other loans	8	7
Finance charges	5	2
Loss on disposals of property, plant and equipment	0	0
Share of loss of associates	—	304
Other expenses	6	0
Total non-operating expenses	20	314
Recurring profit	889	837
Extraordinary expenses		
Loss due to temporary store closures	106	—
Impairment loss	63	30
Total extraordinary expenses	170	30
Profit before taxation	719	806
Corporation tax, inhabitants tax and business tax	245	363
Deferred income tax	△18	△22
Total income tax	226	341
Profit for the period	492	465
Profit attributable to non-controlling interests	90	66
Net profit	402	398

Consolidated statement of comprehensive income

(Unit: million yen)

	For the 3 months period ended May 31, 2021	For the 3 months period ended May 31, 2022
Profit for the period	492	465
Other comprehensive income		
Foreign currency translation	255	957
Share of other comprehensive income of associates	0	123
Other comprehensive income	255	1,080
Comprehensive income	748	1,545
Attributable to:		
Equity shareholders	560	1,091
Non-controlling interests	188	454

(3) 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 policies)

(Adoption of Accounting Standards for Revenue Recognition)

The Company has adopted "The Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020.) and relevant ASBJ guidance from the beginning of the first quarter of the current financial year, and it has recognized revenue when the control of promised goods or services is transferred to the customers at the transaction price expected to be received upon exchange of said those goods or services.

The company granted customer loyalty program in connection with the sale of goods to customers, and the company previously provided provisions for the points granted which were expected to be used in the future and recorded corresponding expense in selling, general and administrative expenses. The company has changed to recognize the points as a performance obligation and defer the recognition of revenue when they provide a significant right to the customer.

The application of the Accounting Standard for Revenue Recognition and relevant ASBJ guidance is subject to the transitional treatment provided in the proviso to paragraph 84 of the Accounting Standard for Revenue Recognition. The cumulative effect of the retrospective application, assuming the new accounting policy had been applied to periods prior to the beginning of the first quarter of the current fiscal year was added to or deducted from the opening balance of retained earnings of the first quarter of the current fiscal year, and thus the new accounting policy was applied from such opening balance.

As a result, the impact of this change in accounting policy on the quarterly consolidated financial statements is negligible, and there is no impact on the beginning balance of retained earnings.

(Adoption of Accounting Standards for Fair Value Measurement)

The Company has adopted "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019.) and relevant ASBJ regulations from the beginning of the first quarter of the current financial year. In accordance with the transitional treatment prescribed by the Accounting Standard for Fair Value Measurement No. 19 and the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), paragraph 44-2, the Company will prospectively adopt the new accounting policy stipulated by the Accounting Standard for Fair Value Measurement. There is no impact on the quarterly consolidated financial statements.

(Segment information)

There is one reportable segment of the Group with respect to apparel design and selling business. The other operating segment is omitted, since it is immaterial.

(Additional information)

(About the uncertainty of accounting estimates)

The impact of the Covid-19 epidemic on our Group was mainly 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. The assumptions used in the related accounting estimates have not changed materially from those described in "Notes (Additional Information) (Uncertainty in accounting estimates)" in "No. 5 Accounting" in the Annual Securities Report for the previous fiscal year.

The uncertain situation is expected to continue for a certain period of time, including the impact on the market of the activities restrictions as part of the zero-Covid policy in China, 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.