

Consolidated Financial Summary for
Baroque Japan Limited
Quarterly Financial Information for the period ended August 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 second quarter, the outlook for the Japanese economy remained uncertain due to the spread of the “seventh wave” of the Covid-19 inflection, soaring raw material, energy prices, and concerns about exchange rate trends accompanying the rapid depreciation of the yen.

Regarding the Group’s domestic business, we can see a growth in department stores’ brands and FB/SB brands, and shop sales increase to 106.2% year-on-year. In addition, we are continuing to carry out careful sales methods with an emphasis on full price sales by reducing discounts. As a result, domestic sales and domestic gross profit in the consolidated cumulative second quarter were higher than in the same period of the previous year.

Since the company continues to work on cost reductions as well as strengthen company-wide efforts, the operating and recurring profits significantly exceeded the same period of the previous year.

Regarding the US business in the overseas business, sales for made in Japan luxury denim products remained strong in both EC and wholesale (luxury department stores and select stores) segment. The US business has expanded to a scale that greatly surpass 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, Even though we have expanding the new channel of online sales via live shopping on TikTok and enhancing other EC channels sales as well, sales and profits in Chinese business eventually declined year-on-year as a result of Shanghai's Covidlockdown. Therefore, share of loss of associates 581 million yen was recorded.

As of August 31, 2022, we have 369 stores in Japan (278 directly operated, 91 through franchise) and 3 overseas stores (1 directly operated, 2 through franchise) – for a total of 372 stores. In addition, the number of stores in the Chinese retail business operated through Joint Venture with Belle has reached 334.

As a result of the above, the current consolidated cumulative second quarter period saw a consolidated turnover of 26,987 million yen (1.6% increase from the same term last year), operating profit of 741 million yen (40.1% increase from the same term last year), recurring profit of 277 million yen (63.3% decrease from the same term last year), and net loss attributable to shareholders of the Parent Company was 164 million yen (the same term of last year was 299 million yen profit).

(2) Financial review

During the 6 months’ period ended August 31, 2022, assets decreased by 658 million yen to 37,973 million yen, mainly due to the decrease in Cash and cash equivalents by 1,531 million yen, the increased in Notes and trade receivables by 912 million yen.

Liabilities decreased by 235 million yen to 15,959 million yen, mainly due to the increased in Notes and trade payables by 307 million yen, the decrease in Provision for bonus by 141 million yen and Current tax payable by 531 million yen.

Equity decreased by 422 million yen to 22,014 million yen, mainly due to the decrease in Retained earnings by 1,376 million yen for the payment of dividends, the decrease in Retained earnings by 164 million yen from net loss, the increase in Foreign currency translation reserve by 696 million yen, and the increase in Non-controlling interests by 421 million yen.

2. Consolidated financial statements

(1) Consolidated balance sheet

(Unit: million yen)

	As at February 28, 2022	As at August 31, 2022
Assets		
Current assets		
Cash and cash equivalents	15,010	13,479
Notes and trade receivables	8,869	9,782
Inventories	5,550	5,563
Consumables	71	84
Others	343	578
Total current assets	29,846	29,488
Non-current assets		
Property, plant and equipment		
Building and leasehold improvements (net)	1,055	1,061
Land	350	350
Construction in progress	12	23
Others (net)	78	85
Total property, plant and equipment	1,496	1,521
Intangible assets		
Software	568	890
Others	402	200
Total intangible assets	970	1,091
Investments and other assets		
Investments in and advances to associates	1,603	1,279
Rental deposits	3,159	3,126
Deferred tax assets	1,503	1,415
Others	52	51
Total investments and other assets	6,318	5,872
Total non-current assets	8,785	8,485
Total assets	38,632	37,973

(Unit: million yen)

	As at February 28, 2022	As at August 31, 2022
Liabilities		
Current liabilities		
Notes and trade payables	3,329	3,637
Short-term interest-bearing borrowings	2,000	2,000
Interest-bearing borrowings	3,000	5,000
Other payables	1,131	1,121
Accrued expenses	483	528
Current tax payable	809	278
Deposits received	5	—
Provision for bonus	293	151
Provision for reinstatement costs	18	29
Others	242	273
Total current liabilities	11,313	13,019
Non-current liabilities		
Interest-bearing borrowings	3,000	1,000
Other payables	7	7
Deferred tax liabilities	74	83
Deposits received	488	502
Provision for share awards for directors	182	230
Provision for retirement benefits	20	20
Provision for reinstatement costs	1,106	1,089
Others	2	4
Total non-current liabilities	4,881	2,939
Total liabilities	16,194	15,959
Equity		
Shareholders' equity		
Share capital	8,258	8,258
Share premium	8,059	8,059
Retained earnings	4,168	2,628
Treasury stock	△692	△692
Total shareholders' equity	19,793	18,253
Other reserves		
Foreign currency translation reserve	459	1,155
Total other reserves	459	1,155
Non-controlling interests	2,184	2,605
Total equity	22,437	22,014
Total liabilities and equities	38,632	37,973

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

Consolidated income statement

(Unit: million yen)

	For the 6 months period ended August 31, 2021	For the 6 months period ended August 31, 2022
Turnover	26,566	26,987
Cost of goods sold	11,832	11,313
Gross profit	14,733	15,673
Selling, general and administrative expenses	14,204	14,931
Operating profit	529	741
Non-operating income		
Interest income	3	4
Gain on foreign exchange	138	—
Subsidy from regional bureau	13	20
Subsidy income	33	96
Share of profit of associates	71	—
Other income	50	34
Total non-operating income	310	155
Non-operating expenses		
Interest on bank and other loans	16	15
Finance charges	8	3
Loss on foreign exchange	—	13
Loss on disposals of property, plant and equipment	26	0
Share of loss of associates	—	581
Other expenses	32	5
Total non-operating expenses	84	620
Recurring profit	756	277
Extraordinary income		
Subsidies for employment adjustment	100	—
Total Extraordinary income	100	—
Extraordinary expenses		
Loss due to temporary store closures	106	—
Impairment loss	114	88
Total extraordinary expenses	220	88
Profit before taxation	636	189
Corporation tax, inhabitants tax and business tax	221	141
Deferred income tax	△16	101
Total income tax	204	242
Profit or loss (△) for the period	431	△53
Profit attributable to non-controlling interests	131	110
Net profit or loss (△)	299	△164

Consolidated statement of comprehensive income

(Unit: million yen)

	For the 6 months period ended August 31, 2021	For the 6 months period ended August 31, 2022
Profit or loss (Δ) for the period	431	Δ 53
Other comprehensive income		
Foreign currency translation reserve	322	759
Share of other comprehensive income of associates	154	225
Other comprehensive income	476	984
Comprehensive income	908	930
Attributable to:		
Equity shareholders	650	531
Non-controlling interests	258	398

(3) Consolidated statement of cash flows

(Unit: million yen)

	For the 6 months period ended August 31, 2021	For the 6 months period ended August 31, 2022
Cash from operating activities		
Profit before taxation	636	189
Depreciation	441	357
Impairment	114	88
Increase (Δdecrease) in provision for bonus	Δ148	Δ141
Interest income	Δ3	Δ4
Interest on bank and other loans	24	19
Foreign exchange losses (Δgain)	2	4
Share of loss (Δprofit) of associates	Δ71	581
Loss on disposals of property, plant and equipment	26	0
Subsidies for employment adjustment	Δ100	—
Decrease (Δincrease) in trade and other receivables	404	Δ59
Decrease (Δincrease) in inventories	Δ946	12
Increase (Δdecrease) in trade and other payables	Δ258	36
Increase (Δdecrease) in other payables	Δ78	Δ32
Increase (Δdecrease) in provision for retirement benefits	1	0
Others	26	Δ219
Subtotal	68	831
Interest income received	3	4
Interest expenses paid	Δ23	Δ19
Income taxes paid	Δ326	Δ689
Subsidies for employment adjustment received	100	—
Net cash from operating activities	Δ176	126
Cash from investing activities		
Purchase of property, plant and equipment	Δ325	Δ294
Purchase of intangible assets	Δ144	Δ329
Payments for rental deposits	Δ67	Δ74
Proceeds from collection of rental deposits	64	117
Others	Δ2	Δ44
Net cash from investing activities	Δ476	Δ625
Cash from financing activities		
Proceeds from short-term borrowings	2,000	2,000
Repayment of short-term borrowings	Δ3,000	Δ2,000
Repayment of long-term borrowings	Δ125	—
Payment for dividend	Δ1,158	Δ1,376
Repayment of lease obligations	Δ3	Δ1
Net cash from financing activities	Δ2,287	Δ1,377
Effect of exchange rate change on cash and cash equivalents	124	344
Net increase (Δdecrease) in cash and cash equivalents	Δ2,815	Δ1,531
Cash and cash equivalents at beginning of period	15,924	15,010
Cash and cash equivalents at end of period	13,109	13,479

(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 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.