Consolidated Financial Summary for
Baroque Japan Limited
Financial Information for the year ended February 28, 2023

Tokyo Stock Exchange, 3548

English Translation of the original Japanese-Language Report

Contents

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, 2023, despite the impact of the COVID-19 pandemic, signs of recovery showed in the domestic economy as the government no longer asked citizen staying at home. However, the business environment remained uncertain, due to the yen's depreciation and the price of raw material and energy soaring dramatically. In China, Shanghai lockdown was affecting not only China's economy, but also the group's supply chain. Due to the infection spread drastically after the Chinese government relaxed Zero-COVID suddenly, personal consumption became slump.

Regarding the Group's domestic business, after the government relaxed stay-at-home requests, recent data showed recovery in people flow. The shop sales increased to 104.0% year-on-year. Especially, there was significant growth in department store's brand. E-commerce sales were 101.2% year-on-year. In the consolidated fiscal year, domestic sales were 102.7% year-on-year. Through controlling purchases and focusing on full price sales, domestic gross profit in the consolidated fiscal year was 101.5% year-on-year. However, the impact of the rising cost and yen's depreciation was greater than we expected.

Due to the increase in advertising and promotional cost, sales-linked commissions, which included store rent and fee for franchisee, the selling, general and administrative expenses increased by 3.7% compared to the previous year despite the company-wide efforts to control expenses. As a result, operating profit and recurring profit fell below the results of the previous fiscal year.

Regarding the US business in the overseas business, the group is expanding our business with a business model centered on e-commerce and wholesale (for high-end department stores and select shops), sales made in Japan luxury denim products remained strong. 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"), in addition to store closures due to the lockdown in Shanghai, there have been intermittent restrictions on movement in various parts of China even after the lift of lockdown in Shanghai. The group was heavily impacted by the spread of the COVID-19 pandemic. The closure of stores due to the closure of commercial facilities and the cooling of consumer sentiment had a major impact on the Chinese business. Both sales and profit decreased significantly year-on-year. As a result, we have recorded share of loss of associates of 940 million yen from the joint venture in China.

Furthermore, as part of our efforts to strengthen our business in Asia, an ENFÖLD new store was opened in Seoul, South Korea, in September 2022.

As of February 28, 20232, we have 366 stores in Japan (274 directly operated, 92 through franchise) and 4 overseas stores (1 directly operated, 3 through franchise) – for a total of 370 stores. In addition, the number of stores in the Chinese retail business operated through Joint Venture with Belle has reached 326.

As a result of the above, in the fiscal year ended February 28, 2023, consolidated turnover of 58,842 million yen (0.5% decrease from the prior year), operating profit of 2,150 million yen (21.9% decrease from the prior year), recurring profit of 1,211 million yen (57.5% decrease from the prior year), and loss attributable to owners of the parent was 243 million yen (83.4% decrease from the prior year).

(2) Financial review

Total assets, liabilities and equity as of the year ended February 28, 2023 are as follows:

(Total assets)

Total assets at the end of the current consolidated fiscal year decreased by1,386 million yen from the end of the previous consolidated fiscal year to 37,245 million yen.

This was mainly due to the decrease in Cash and cash equivalents by 266 million yen, the decrease in Trade receivables by 846 million yen, the increase in Inventories by 366 million yen, and the decrease in Investments in and advances to associates by 829 million yen.

(Liabilities)

Liabilities decreased by 1,035 million yen to 15,159 million yen from the end of the previous fiscal year. This was mainly due to the decrease in Notes and trade payables by 339 million yen, and the decrease in Other payables by 133 million yen, and the decrease in Current tax payable by 613 million yen.

(Equity)

Equity decreased by 351 million yen to 22,085 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 243 million yen from Profit attributable to owners of parent, the increase in Foreign currency translation reserve by 395 million yen, and the increase in Non-controlling interests by 379 million yen.

(3) Cash flows review

Cash and cash equivalents decreased by 266 million yen to 14,744 million 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 2,041 million yen, mainly due to profit before taxation of 1,072 million yen, share of loss of associates of 940 million yen, the decrease in trade and other receivables by 1,333 million yen, and income taxes paid of 1,125 million yen.

(Cash flows from investing activities)

Net cash flows used by investing activities totaled 1,273 million yen, mainly due to purchase of property, plant and equipment of 573 million yen, and purchase of intangible assets of 659 million yen.

(Cash flows from financing activities)

Net cash flows used by financing activities totaled 1,381million yen, mainly due to the payment for dividend amounted to 1,376 million yen.

(4) Future prospect

Even as the spread of COVID-19 is getting slow down, it is expected that it will take longer for the global economy to fully recover. Moreover, the future of the economic situation is uncertain because increasing cost of materials and the depreciation of the yen are still significant.

In order to deal with this kind of uncertain condition, the group focuses on restructuring supply chain, improving costs, and strengthening organizations to ensure appropriate profits.

① To restructure the supply chain and promote cost improvement, the group will increase the ratio of production in Southeast Asia, decentralize production bases concentrated in China, and make effort to tackle with foreign exchange risks.

② To strengthen organization to ensure appropriate profits, the group will promote business creation in Japan and expansion of overseas sales channels, mainly in Southeast Asia.

In domestic business, the group focuses on opening new stores of growing brand with strengthening the organization. To provide a highly sensitive and special store experience, and introduce a digital strategy that fits the times to use it as a base for our OMO strategy, the group renovated our flagship store, The SHEL'TTER TOKYO Tokyu Plaza Omotesando Harajuku. In addition, the group will proactively make investments that will serve as a foundation for future growth, such as core system upgrades, in order to improve the infrastructure that supports our business.

In overseas business, the group has positioned China as a key strategic region in the medium and long term and is working to grow business in China. The group will expand our EC sales channels by opening stores on new EC platforms and boosting sales through TikTok, while reinforcing products designed specifically for China. With regard to the U.S. business, the group is working to expand the European market and increase retail sales by renewing our global e-commerce website.

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, 2022	As at February 28, 2023
Assets		
Current assets		
Cash and cash equivalents	15,010	14,744
Trade receivables	8,869	8,023
Inventories	5,550	5,917
Consumables	71	66
Others	343	432
Total current assets	29,846	29,184
Non-current assets		
Property, plant and equipment		
Building and leasehold improvements (net)	1,055	1,027
Land	350	350
Construction in progress	12	17
Others (net)	78	157
Total property, plant and equipment	1,496	1,553
Intangible assets		
Software	568	824
Others	402	410
Total intangible assets	970	1,235
Investments and other assets		
Investments in and advances to associates	1,603	774
Rental deposits	3,159	3,150
Deferred tax assets	1,503	1,297
Others	52	51
Total investments and other assets	6,318	5,272
Total non-current assets	8,785	8,061
Total assets	38,632	37,245

(Unit: million yen)

	As at February 28, 2022	As at February 28, 2023
Liabilities		
Current liabilities		
Notes and trade payables	3,329	2,990
Short-term interest-bearing borrowings	2,000	2,000
Interest-bearing borrowings	3,000	3,000
Other payables	1,131	997
Accrued expenses	483	488
Current tax payable	809	196
Deposits received	5	33
Provision for bonus	293	292
Provision for reinstatement costs	18	18
Others	242	218
Total current liabilities	11,313	10,235
Non-current liabilities		
Interest-bearing borrowings	3,000	3,000
Other payables	7	7
Deferred tax liabilities	74	78
Deposits received	488	477
Provision for share awards for directors	182	221
Provision for retirement benefits	20	18
Provision for reinstatement costs	1,106	1,099
Others	2	21
Total non-current liabilities	4,881	4,924
Total liabilities	16,194	15,159
Equity		
Shareholders' equity		
Share capital	8,258	8,258
Share premium	8,059	8,059
Retained earnings	4,168	3,036
Treasury stock	△692	△686
Total shareholders' equity	19,793	18,667
Other reserves		
Foreign currency translation reserve	459	854
Total other reserves	459	854
Non-controlling interests	2,184	2,563
Total equity	22,437	22,085
Total liabilities and equities	38,632	37,245

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

Consolidated income statement

(Unit: million yen)

	For the year ended February 28, 2022	For the year ended February 28, 2023
Turnover	59,139	58,842
Cost of goods sold	26,358	25,432
Gross profit	32,781	33,410
Selling, general and administrative expenses	30,028	31,259
Operating profit	2,752	2,150
Non-operating income		
Interest income	7	8
Gain on foreign exchange	216	—
Rent income	14	14
Subsidy from regional bureau	61	20
Subsidy income	64	141
Other income	29	46
Total non-operating income	393	231
Non-operating expenses		
Interest on bank and other loans	31	30
Finance charges	13	6
Loss on foreign exchange	—	147
Loss on disposals of property, plant and equipment	29	16
Share of loss of associates	142	940
Loss on cancellation of rental contracts	64	—
Other expenses	18	30
Total non-operating expenses	299	1,171
Recurring profit	2,846	1,211
Extraordinary income		
Subsidies for employment adjustment	100	—
Total Extraordinary income	100	—
Extraordinary expenses		
Loss due to temporary store closures	106	—
Impairment loss	265	138
Total extraordinary expenses	372	138
Profit before taxation	2,574	1,072
Corporation tax, inhabitants tax and business tax	851	379
Deferred income tax	△70	217
Total income tax	780	597
Profit for the year	1,793	474
Profit attributable to non-controlling interests	321	230
Profit attributable to owners of parent	1,471	243

Consolidated statement of comprehensive income

(Unit: million yen)

	For the year ended February 28, 2022	For the year ended February 28, 2023
Profit for the year	1,793	474
Other comprehensive income		
Foreign currency translation	598	384
Share of other comprehensive income of associates	270	147
Other comprehensive income	868	532
Comprehensive income	2,662	1,006
Attributable to		
Owners of parent	2,102	639
Non-controlling interests	560	367

(3) Consolidated statement of changes in equity

For the year ended February 28, 2022

(Unit: million yen)

	Shareholders' equity					Other reserves		Non-controlling interests	Total equity
	Share capital	Share premium	Retained earnings	Treasury stock	Total shareholders' equity	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
Profit attributable to owners of parent			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

For the year ended February 28, 2023

(Unit: million yen)

	Shareholders' equity					Other reserves		Non-controlling interests	Total equity
	Share capital	Share premium	Retained earnings	Treasury stock	Total shareholders' equity	Foreign currency translation reserve	Total other reserves		
Balance at beginning of year	8,258	8,059	4,168	△692	19,793	459	459	2,184	22,437
Changes during year									
Dividend			△1,376		△1,376				△1,376
Disposal of treasury stock				6	6				6
Profit attributable to owners of parent			243		243				243
Net changes other than shareholders' equity						395	395	379	774
Total changes during year	—	—	△1,132	6	△1,126	395	395	379	△351
Balance at end of year	8,258	8,059	3,036	△686	18,667	854	854	2,563	22,085

(4) Consolidated statement of cash flows

(Unit: million yen)

	For the year ended February 28, 2022	For the year ended February 28, 2023
Cash from operating activities		
Profit before taxation	2,574	1,072
Depreciation	811	724
Impairment	265	138
Increase (△decrease) in provision for bonus	△4	△1
Interest income	△7	△8
Interest on bank and other loans	45	36
Foreign exchange losses (△gain)	△5	7
Share of loss (△profit) of associates	142	940
Loss on disposals of property, plant and equipment	29	16
Subsidies for employment adjustment	△100	—
Decrease (△increase) in trade and other receivables	△81	1,333
Decrease (△increase) in inventories	△621	△348
Increase (△decrease) in trade and other payables	△790	△551
Increase (△decrease) in other payables	97	△152
Increase (△decrease) in provision for retirement benefits	2	△1
Others	99	△11
Subtotal	2,458	3,195
Interest and dividend income received	7	8
Interest expenses paid	△45	△36
Income taxes paid	△526	△1,125
Subsidies for employment adjustment received	100	—
Net cash from operating activities	1,995	2,041
Cash from investing activities		
Purchase of property, plant and equipment	△452	△573
Purchase of intangible assets	△390	△659
Payments for rental deposits	△141	△154
Proceeds from collection of rental deposits	223	177
Payments for reinstatement	△62	△62
Net cash from investing activities	△823	△1,273
Cash from financing activities		
Proceeds from short-term borrowings	2,000	2,000
Repayment of short-term borrowings	△3,000	△2,000
Proceeds from long-term borrowings	—	3,000
Repayment of long-term borrowings	△125	△3,000
Payment for dividend	△1,158	△1,376
Repayment of lease obligations	△4	△4
Net cash from financing activities	△2,288	△1,381
Effect of exchange rate change on cash and cash equivalents	202	346
Net increase (△ decrease) in cash and cash equivalents	△913	△266
Cash and cash equivalents at beginning of year	15,924	15,010
Cash and cash equivalents at end of year	15,010	14,744

(5) Notes to the consolidated financial statements

(Note on going concern)

Not applicable.

(Change in accounting policy)

(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 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 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 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 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, 2022	For the year ended February 28, 2023
Net assets per share	562.36 Yen	541.99 Yen
Earnings per share	40.87 Yen	6.77 Yen

(Note) 1. The diluted earnings 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, 2022	As at February 28, 2023
Net assets (million yen)	22,437	22,085
Deduction from net assets (million yen)	2,184	2,563
(Non-controlling interests) (million yen)	2,184	2,563
Net assets applicable to common stock shareholders (million yen)	20,253	19,522
Year-end number of shares of common stock used for calculation of net assets per share	36,014,300	36,019,500

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

Item	For the year ended February 28, 2022	For the year ended February 28, 2023
Net profit per share		
Net profit (million yen)	1,471	243
Amount not applicable to common stock shareholders (million yen)	—	—
Net profit applicable to common stock shareholders (million yen)	1,471	243
Average number of shares of common stock outstanding during the year	36,014,300	36,016,023

4. The Company has introduced a performance linked stock compensation system, Board Benefit Trust or BBT. The treasury stock for that purpose was deducted from the total number of common stock when the earnings per share and net assets per share were calculated.

(Subsequent events)

Not applicable.