

Consolidated Financial Summary for
Baroque Japan Limited
Quarterly Financial Information for the period ended August 31, 2023
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 Japanese economy experienced a gradual recovery due to the transition of the COVID-19 to Class 5. Normalization of economic activities accompanied by increased inbound demand contributed to this recovery. Although there were challenges related to raw material price increases and a weaker yen, there was a noticeable improvement in individual consumption, and the overall economic situation was in a mild recovery trend.

Regarding the group's domestic business, the higher-than-average temperatures during the period led to increased demand for summer products. As a result, store sales increased by 107.9% year-on-year, and e-commerce sales increased by 103.0% year-on-year. We also focused on selling products at appropriate prices by refraining from excessive discounts and implemented initiatives to improve costs due to the ASEAN production shift.

Because of these efforts, both the sales and gross profit of the group's domestic operations for the consolidated cumulative second quarter exceeded those of the previous fiscal year. Additionally, increased advertising expenses due to the strengthening of advertising and promotion activities for our key brands led to an increase in selling, general and administrative (SG&A) expenses compared to the same period of the previous fiscal year. However, these expenses were within the plan. Operating profit and recurring profit were higher than in the same period of the previous fiscal year.

Regarding the Chinese joint venture with Belle International Holdings Limited (hereon, "Belle"), a strategic business partner, the business in China saw an increase in sales and profit compared to the same period of the previous fiscal year, driven by the recovery in sales. Although the number of stores decreased by 39 compared to the previous period-end, this reduction was mainly due to the scrapping of unprofitable stores in regional areas, while maintaining store numbers in Beijing and Shanghai.

As for the U.S. business, the group have been focusing on a business model primarily centered around e-commerce and wholesale distribution to high-end department stores and select shops, with a focus on selling Japanese-made high-end denim products. The U.S. business experienced a decline in sales and profit year-on-year, mainly due to the contraction in U.S. consumer spending. However, we are currently implementing strategies and measures aimed at future recovery.

As of August 31, 2023, the group have 359 stores in Japan (271 directly operated, 88 through franchise) and 6 overseas stores (1 directly operated, 5 through franchise) – for a total of 365 stores. In addition, the number of stores in the Chinese retail business operated through Joint Venture with Belle was 287 stores.

As a result of the above, the current consolidated cumulative second quarter saw a consolidated turnover of 28,440 million yen (5.4% increase from the same term last year), operating profit of 909 million yen (22.6% increase from the same term last year), recurring profit of 1,040 million yen (275.2% increase from the same term last year), and profit attributable to owners of parent was 596 million yen (the same term of the last year, there was a loss of 164 million yen.).

(2) Financial review

During the 6 months' period ended Aug 31, 2023, total assets decreased by 250 million yen from the end of the previous consolidated fiscal year to 36,994 million yen. This was mainly due to the decrease in Cash and cash equivalents by 2,501 million yen and the increase in Trade receivables by 2,086 million yen.

Liabilities increased by 916 million yen to 16,075 million yen from the end of the previous fiscal year. This was mainly due to the increase in Notes and trade payables by 138 million yen, and the increase in Other payables by 441 million yen and the increase in Current tax payable by 194 million yen.

Equity decreased by 1,166 million yen to 20,919 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 596 million yen from Profit attributable to owners of parent, the decrease in Foreign currency translation reserve by 626 million yen, and the increase in Non-controlling interests by 231 million yen.

2.Consolidated financial statements

(1)Consolidated balance sheet

(Unit: million yen)

	As at February 28, 2023	As at August 31, 2023
Assets		
Current assets		
Cash and cash equivalents	14,744	12,243
Trade receivables	8,023	10,109
Inventories	5,917	6,018
Consumables	66	81
Others	432	429
Total current assets	29,184	28,883
Non-current assets		
Property, plant and equipment		
Building and leasehold improvements (net)	1,027	1,401
Land	350	350
Construction in progress	17	11
Others (net)	157	191
Total property, plant and equipment	1,553	1,954
Intangible assets		
Software	824	830
Others	410	832
Total intangible assets	1,235	1,663
Investments and other assets		
Investments in and advances to associates	774	26
Rental deposits	3,150	3,064
Deferred tax assets	1,297	1,320
Others	51	83
Total investments and other assets	5,272	4,494
Total non-current assets	8,061	8,111
Total assets	37,245	36,994

(Unit: million yen)

	As at February 28, 2023	As at August 31, 2023
Liabilities		
Current liabilities		
Notes and trade payables	2,990	3,128
Short-term interest-bearing borrowings	2,000	2,000
Interest-bearing borrowings	3,000	1,000
Other payables	997	1,438
Accrued expenses	488	541
Current tax payable	196	391
Deposits received	33	13
Provision for bonus	292	302
Provision for reinstatement costs	18	26
Others	218	256
Total current liabilities	10,235	9,097
Non-current liabilities		
Interest-bearing borrowings	3,000	5,000
Other payables	7	7
Deferred tax liabilities	78	81
Deposits received	477	476
Provision for share awards for directors	221	241
Provision for retirement benefits	18	19
Provision for reinstatement costs	1,099	1,134
Others	21	17
Total non-current liabilities	4,924	6,977
Total liabilities	15,159	16,075
Equity		
Shareholders' equity		
Share capital	8,258	8,258
Share premium	8,059	8,059
Retained earnings	3,036	2,256
Treasury stock	△686	△678
Total shareholders' equity	18,667	17,895
Other reserves		
Foreign currency translation reserve	854	228
Total other reserves	854	228
Non-controlling interests	2,563	2,795
Total equity	22,085	20,919
Total liabilities and equities	37,245	36,994

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

Consolidated income statement

(Unit: million yen)

	For the 6 months period ended August 31, 2022	For the 6 months period ended August 31, 2023
Turnover	26,987	28,440
Cost of goods sold	11,313	11,919
Gross profit	15,673	16,521
Selling, general and administrative expenses	14,931	15,611
Operating profit	741	909
Non-operating income		
Interest income	4	4
Gain on foreign exchange	—	114
Subsidy from regional bureau	20	—
Subsidy income	96	33
Share of profit of associates	—	11
Other income	34	18
Total non-operating income	155	182
Non-operating expenses		
Interest on bank and other loans	15	14
Finance charges	3	3
Loss on foreign exchange	13	—
Loss on disposals of property, plant and equipment	0	3
Share of loss of associates	581	—
Other expenses	5	29
Total non-operating expenses	620	51
Recurring profit	277	1,040
Extraordinary expenses		
Impairment loss	88	25
Total extraordinary expenses	88	25
Profit before taxation	189	1,014
Corporation tax, inhabitants tax and business tax	141	316
Deferred income tax	101	△24
Total income tax	242	292
Profit or loss (△) for the period	△53	722
Profit attributable to non-controlling interests	110	126
Profit or loss (△) attributable to owners of parent	△164	596

Consolidated statement of comprehensive income

(Unit: million yen)

	For the 6 months period ended August 31, 2022	For the 6 months period ended August 31, 2023
Profit or loss (Δ) for the period	$\Delta 53$	722
Other comprehensive income		
Foreign currency translation reserve	759	296
Share of other comprehensive income of associates	225	$\Delta 823$
Other comprehensive income	984	$\Delta 527$
Comprehensive income	930	194
Attributable to		
Owners of parent	531	$\Delta 29$
Non-controlling interests	398	224

(3) Consolidated statement of cash flows

(Unit: million yen)

	For the 6 months period ended August 31, 2022	For the 6 months period ended August 31, 2023
Cash from operating activities		
Profit before taxation	189	1,014
Depreciation	357	423
Impairment	88	25
Increase (Δdecrease) in provision for bonus	Δ141	10
Interest income	Δ4	Δ4
Interest on bank and other loans	19	17
Foreign exchange losses (Δgain)	4	21
Share of loss (Δprofit) of associates	581	Δ11
Loss on disposals of property, plant and equipment	0	3
Decrease (Δincrease) in trade and other receivables	Δ59	Δ1,845
Decrease (Δincrease) in inventories	12	Δ83
Increase (Δdecrease) in trade and other payables	36	64
Increase (Δdecrease) in other payables	Δ32	434
Increase (Δdecrease) in provision for retirement benefits	0	1
Others	Δ219	50
Subtotal	831	123
Interest income received	4	4
Interest expenses paid	Δ19	Δ17
Income taxes paid	Δ689	Δ141
Net cash from operating activities	126	Δ31
Cash from investing activities		
Purchase of property, plant and equipment	Δ294	Δ649
Purchase of intangible assets	Δ329	Δ655
Payments for rental deposits	Δ74	Δ50
Proceeds from collection of rental deposits	117	139
Others	Δ44	Δ54
Net cash from investing activities	Δ625	Δ1,271
Cash from financing activities		
Proceeds from short-term borrowings	2,000	2,000
Repayment of short-term borrowings	Δ2,000	Δ2,000
Proceeds from long-term borrowings	—	2,000
Repayment of long-term borrowings	—	Δ2,000
Payment for dividend	Δ1,376	Δ1,376
Repayment of lease obligations	Δ1	Δ3
Net cash from financing activities	Δ1,377	Δ1,379
Effect of exchange rate change on cash and cash equivalents	344	180
Net increase (Δdecrease) in cash and cash equivalents	Δ1,531	Δ2,501
Cash and cash equivalents at beginning of period	15,010	14,744
Cash and cash equivalents at end of period	13,479	12,243

(4) Notes to the consolidated financial statements

(Note on going concern)

Not applicable.

(Change in shareholders' equity)

Not applicable.

(Subsequent events)

Not applicable.