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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

① Current financial year

During the year ended January 31, 2017, we saw a recovery of the domestic economy. However, personal spending was weak as the future economy was full of uncertainties.

The general decrease in customer spending and the unstable weather also added to the uncertainties for the casualwear apparel industry.

Under the current business situation, even though the domestic business of Baroque Japan Limited experienced a tough environment for same store sales growth and average customer spending, we were able to continue to grow our store number. Furthermore, our ecommerce business also recorded a healthy growth.

We have been consistently improving our supply chain to strengthen our product development, reducing product cost and logistic cost, etc.

Regarding our overseas business, we have been able to continue to expand our joint venture business mainly for MOUSSY in China with Belle International Holdings Limited.

As a result, as at January 31, 2017, we have 358 stores in Japan (direct-operated 263, franchise 95), and 10 stores overseas (direct-operated 2, franchise 8), totaling 368 stores. In addition, we have another 187 stores in China with our joint venture partner Belle International Holdings Limited.

Consolidated turnover is 69,493 million yen (1.1% increase from prior year), operating profit is 5,368 million yen (10.5% decrease from prior year), recurring profit is 5,385 million yen (12.3% decrease from prior year), and net profit is 3,507 million yen (16.9% decrease from prior year).

② Outlook for January 31, 2018

We expect the recovery of the domestic economy to continue with the weak yen and increase in government spending. However, personal spending and inbound customers are expected to continue to slow down.

Under such business situation, we target to improve the stability and profitability of our domestic business, and to continue to expand our overseas business.

For our domestic business, we target to increase our market share in Tokyo area and to adopt the scrap and build strategy to improve our profitability. We plan to strengthen our multi-channel marketing and to increase the proportion of our ecommerce business.

For our overseas business, we target to open around 60 stores and expect a significant growth in profit contribution from China. We continue to study the Europe, Southeast Asia markets besides our North America market.

The forecast consolidated turnover is 76,206 million yen, operating profit is 6,312 million yen, recurring profit is 6,187 million yen, and net profit is 4,479 million yen.

### (2) Financial review

① Assets, liabilities, and equity

During the year ended January 31, 2017, assets increased by 10,160 million yen to 38,457 million yen, mainly due to the increase in cash and cash equivalents.

Liabilities decreased by 988 million yen to 21,456 million yen, mainly due to the decrease in current tax payable and other payables.

Equity increased by 11,148 million yen to 17,002 million yen, mainly due to the increase in share capital, share premium and retained earnings.

② Cash flows

Cash and cash equivalents increased by 9,464 million yen to 17,309 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 3,221 million yen (402 million yen decrease from prior year), mainly due to profit before taxation of 5,474 million yen, depreciation of 946 million yen, income taxes paid of 1,945 million yen.

(Cash flows from investing activities)

Net cash flows used in investing activities totaled 1,440 million yen (818 million yen increase from prior year), mainly due to purchase of property, plant and equipment of 943 million yen, payments for rental deposits of 385 million yen.

(Cash flows from financing activities)

Net cash flows provided by financing activities totaled 7,764 million yen (8,964 million yen increase from prior year), mainly due to proceeds from issuance of shares of 7,907 million yen.

### (3) Dividend policy for current and following years

The company was listed on the First Section of the Tokyo Stock Exchange on November 1, 2016. We would like to express our heartfelt thanks to our shareholders and many others for your kind support and guidance, which has helped us to achieve this milestone. Accordingly, as an expression of thanks for the continual support of our shareholders, in commemoration of our listing on the First Section of the Tokyo Stock Exchange, we have decided to propose a dividend of ten (10) yen per share in the 18th annual shareholders' meeting on April 26, 2017.

Furthermore, from the financial year ending January 31, 2018, the Company will adopt a basic policy aiming at a stable payout ratio of 30–40%, and we will continue to secure adequate internal reserves to ensure the ongoing expansion and development of the business and strengthen our corporate structure to enable us to cope with changes in the industry and increased business competition.

## 2. Management policies

### (1) Basic management policy

The company philosophy of Baroque Japan Limited is "Challenge". We target to "launch Baroque on the world stage as a leading Japanese fashion brand".

### (2) Performance target

We emphasize on recurring profit margin and return on equity.

### (3) Medium- to long-term business strategy

The apparel market is difficult given the shrinking population, diversification and slow-down in customer spending, as well as competition brought about by multinational players.

Furthermore, increase in production cost in China and exchange rate fluctuation also add to the uncertainties.

Under such business situation, we have the following strategies to expand our business:

① Domestic business strategy

For MOUSSY and SLY, we plan to further improve our product development, customer service, brand loyalty for brand value and profitability maximization.

For Shopping Center brands, AZUL by moussy and RODEO CROWNS, we expect to continue to grow our store number and improve our profitability at the same time.

For store expansion strategy, we target to increase our market share in Tokyo area and to adopt the scrap and build strategy to improve our profitability.

For our ecommerce business, we plan to further improve our webstore platform and digital marketing schemes to target a significant growth.

② Overseas business strategy

Regarding our overseas business, we have been able to continue to improve our supply chain and to expand our

joint venture business mainly for MOUSSY in China with Belle International Holdings Limited.

We target to replicate our success in China into North America and Europe areas.

③ Supply chain management revolution

We plan to revolutionize our production and logistic processes to improve our profitability.

④ Compliance

As the number of staff is increasing with the scale of the business, we shall continue to strengthen our compliance, legal as well as company philosophy trainings.

### (4) Challenges

Enhancing brand value, further improving product quality, developing human resources, strengthening company management, improving ERP system are regarded as the most important matters for the Company, and we develop our strategies accordingly.

① Enhancing brand value

We are designing and producing edgy apparel products mainly for customers and fans in Japan and China with sophisticated fashion sense. By feeling and thinking from the customers' perspective, we will continue to introduce new fashions, further enhancing our brand value to satisfy our customers.

② Further improving product quality

If there is any quality problem in the products we sold to our customers, our reputation may be damaged and we may need to pay penalty.

③ Developing human resources

Store staff and their customer service are the most important element to our success. We shall also continue to develop designers and marketing staff to incentivize them to stay and develop their career with us.

④ Strengthening company management

We believe that a strong corporate governance system is essential to our business expansion. We strive our best to improve our internal controls and compliance matters.

⑤ Improving ERP system

We are operating under a number of POS, accounting, ecommerce systems. Any system failure may cost damage to our business.

## 3. 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.

4. Consolidated financial statements

(1) Consolidated balance sheet

(Unit: million yen)

| | As at January 31, 2016 | As at January 31, 2017 |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | 7,845 | 17,309 |
| Trade and other receivables | 6,145 | 6,172 |
| Inventories | 5,348 | 5,110 |
| Consumables | 76 | 111 |
| Deferred tax assets | 702 | 547 |
| Others | 382 | 783 |
| Provision for doubtful accounts | △11 | △1 |
| Total current assets | 20,490 | 30,034 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Building and leasehold improvements (net) | 1,127 | 1,425 |
| Land | 350 | 350 |
| Construction in progress | 15 | 30 |
| Others (net) | 255 | 232 |
| Total property, plant and equipment | 1,749 | 2,038 |
| Intangible assets | | |
| Software | 142 | 293 |
| Others | 13 | 12 |
| Total intangible assets | 156 | 305 |
| Investments and other assets | | |
| Investments in and advances to associates | 1,895 | 1,820 |
| Rental deposits | 3,238 | 3,471 |
| Deferred tax assets | 565 | 528 |
| Others | 202 | 193 |
| Total investments and other assets | 5,903 | 6,013 |
| Total non-current assets | 7,808 | 8,358 |
| Deferred assets | | |
| Stock delivery expenses | — | 66 |
| Total deferred assets | — | 66 |
| Total assets | 28,298 | 38,459 |

(Unit: million yen)

| | As at January 31, 2016 | As at January 31, 2017 |
|---|---|---|
| Liabilities | | |
| Current liabilities | | |
| Trade and other payables | 5,330 | 5,247 |
| Interest-bearing borrowings | 2,722 | 4,373 |
| Other payables | 1,691 | 1,439 |
| Accrued expenses | 578 | 490 |
| Current tax payable | 1,194 | 845 |
| Deposits received | 393 | 297 |
| Provision for bonus | 299 | — |
| Provision for reinstatement costs | 27 | 32 |
| Others | 177 | 139 |
| Total current liabilities | 12,415 | 12,867 |
| Non-current liabilities | | |
| Interest-bearing borrowings | 7,402 | 6,184 |
| Other payables | 447 | 102 |
| Provision for directors' retirement benefits | 129 | — |
| Provision for retirement benefits | 545 | 723 |
| Provision for reinstatement costs | 846 | 972 |
| Deposits received | 610 | 567 |
| Others | 47 | 39 |
| Total non-current liabilities | 10,029 | 8,589 |
| Total liabilities | 22,445 | 21,456 |
| Equity | | |
| Shareholders' equity | | |
| Share capital | 3,914 | 7,904 |
| Share premium | 3,911 | 7,901 |
| Retained earnings | △2,761 | 746 |
| Total shareholders' equity | 5,063 | 16,551 |
| Other reserves | | |
| Deferred gains or losses on hedges | △17 | △8 |
| Foreign currency translation reserve | 486 | 76 |
| Remeasurements of defined benefit plans | △13 | △87 |
| Total other reserves | 454 | △18 |
| Non-controlling interests | 334 | 469 |
| Total equity | 5,853 | 17,002 |
| Total liabilities and equities | 28,298 | 38,459 |

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

Consolidated income statement

(Unit: million yen)

| | For the year ended January 31, 2016 | For the year ended January 31, 2017 |
|---|---|---|
| Turnover | 68,769 | 69,493 |
| Cost of goods sold | 29,555 | 30,875 |
| Gross profit | 39,213 | 38,618 |
| Selling, general and administrative expenses | 33,217 | 33,249 |
| Operating profit | 5,996 | 5,368 |
| Non-operating income | | |
| Interest income | 10 | 4 |
| Gain on foreign exchange | 30 | — |
| Share of profit of associates | 272 | 270 |
| Subsidy income | 66 | 46 |
| Other income | 22 | 8 |
| Total non-operating income | 401 | 330 |
| Non-operating expenses | | |
| Interest on bank and other loans | 169 | 121 |
| Finance charges | 51 | 30 |
| Loss on disposals of property, plant and equipment | 28 | 68 |
| Loss on foreign exchange | — | 71 |
| Other expenses | 6 | 21 |
| Total non-operating expenses | 256 | 313 |
| Recurring profit | 6,141 | 5,385 |
| Extraordinary income | | |
| Gain on disposals of property, plant and equipment | 2 | — |
| Reversal of provision for directors' retirement benefits | — | 129 |
| Total extraordinary income | 2 | 129 |
| Extraordinary expenses | | |
| Impairment loss | 52 | 41 |
| Store closure loss | 8 | — |
| Total extraordinary expenses | 60 | 41 |
| Profit before taxation | 6,083 | 5,474 |
| Corporation tax, inhabitants tax and business tax | 1,749 | 1,574 |
| Deferred income tax | 72 | 220 |
| Total income tax | 1,822 | 1,795 |
| Profit for the period | 4,261 | 3,678 |
| Profit attributable to non-controlling interests | 40 | 171 |
| Net profit | 4,221 | 3,507 |

Consolidated statement of comprehensive income

(Unit: million yen)

| | For the year ended January 31, 2016 | For the year ended January 31, 2017 |
|---|---|---|
| Profit for the period | 4,261 | 3,678 |
| Other comprehensive income | | |
| Deferred gains or losses on hedges | △4 | 9 |
| Foreign currency translation | △61 | △393 |
| Remeasurements of defined benefit plans | 14 | △73 |
| Share of other comprehensive income of associates | — | △36 |
| Other comprehensive income | △50 | △493 |
| Comprehensive income | 4,210 | 3,184 |
| Attributable to: | | |
| Equity shareholders | 4,184 | 3,034 |
| Non-controlling interests | 25 | 150 |

## (3) Consolidated statement of changes in equity

For the year ended January 31, 2016

(Unit: million yen)

| | Shareholders' equity | | | |
|---|---|---|---|---|
| | Share capital | Share premium | Retained earnings | Total shareholders' equity |
| Balance at beginning of year | 3,914 | 3,911 | △6,983 | 842 |
| Changes during year | | | | |
| Net profit | | | 4,221 | 4,221 |
| Net changes other than shareholders' equity | | | | |
| Total changes during year | — | — | 4,221 | 4,221 |
| Balance at end of year | 3,914 | 3,911 | △2,761 | 5,063 |

| | Other reserves | | | | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|
| | Deferred gains or losses on hedges | Foreign currency translation reserve | Remeasurements of defined benefit plans | Total other reserves | | |
| Balance at beginning of year | △12 | 532 | △28 | 491 | 318 | 1,652 |
| Changes during year | | | | | | |
| Net profit | | | | | | 4,221 |
| Net changes other than shareholders' equity | △4 | △46 | 14 | △36 | 15 | △20 |
| Total changes during year | △4 | △46 | 14 | △36 | 15 | 4,200 |
| Balance at end of year | △17 | 486 | △13 | 454 | 334 | 5,853 |

For the year ended January 31, 2017

(Unit: million yen)

| | Shareholders' equity | | | |
|---|---|---|---|---|
| | Share capital | Share premium | Retained earnings | Total shareholders' equity |
| Balance at beginning of year | 3,914 | 3,911 | △2,761 | 5,063 |
| Changes during year | | | | |
| Issuance of shares | 3,990 | 3,990 | | 7,980 |
| Net profit | | | 3,507 | 3,507 |
| Net changes other than shareholders' equity | | | | |
| Total changes during year | 3,990 | 3,990 | 3,507 | 11,487 |
| Balance at end of year | 7,904 | 7,901 | 746 | 16,551 |

| | Other reserves | | | | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|
| | Deferred gains or losses on hedges | Foreign currency translation reserve | Remeasurements of defined benefit plans | Total other reserves | | |
| Balance at beginning of year | △17 | 486 | △13 | 454 | 334 | 5,853 |
| Changes during year | | | | | | |
| Issuance of shares | | | | | | 7,980 |
| Net profit | | | | | | 3,507 |
| Net changes other than shareholders' equity | 9 | △409 | △73 | △473 | 134 | △339 |
| Total changes during year | 9 | △409 | △73 | △473 | 134 | 11,148 |
| Balance at end of year | △8 | 76 | △87 | △18 | 469 | 17,002 |

(4) Consolidated statement of cash flows

(Unit: million yen)

| | For the year ended January 31, 2016 | For the year ended January 31, 2017 |
|---|---|---|
| Cash from operating activities | | |
| Profit before taxation | 6,083 | 5,474 |
| Depreciation | 746 | 946 |
| Impairment | 52 | 41 |
| Interest income | △10 | △4 |
| Interest on bank and other loans | 221 | 151 |
| Foreign exchange losses (△ gain) | 7 | △3 |
| Share of profit of associates | △272 | △270 |
| Gain on disposals of property, plant and equipment | △2 | — |
| Loss on disposals of property, plant and equipment | 28 | 68 |
| Decrease (△increase) in trade and other receivables | △781 | △171 |
| Decrease (△increase) in inventories | △1,187 | 231 |
| Increase (△decrease) in trade and other payables | 461 | △21 |
| Increase (△decrease) in other payables | △463 | △54 |
| Decrease in provision for directors' retirement benefits | △0 | △129 |
| Increase (△decrease) in provision for retirement benefits | 57 | 72 |
| Increase (△decrease) in provision for bonus | 90 | △299 |
| Others | 269 | △733 |
| Subtotal | 5,301 | 5,297 |
| Interest and dividend income received | 10 | 4 |
| Interest expenses paid | △241 | △134 |
| Income taxes paid | △1,446 | △1,945 |
| Net cash from operating activities | 3,624 | 3,221 |
| Cash from investing activities | | |
| Purchase of property, plant and equipment | △244 | △943 |
| Proceeds from sales of property, plant and equipment | 2 | — |
| Purchase of intangible assets | △104 | △224 |
| Payments for rental deposits | △530 | △385 |
| Proceeds from collection of rental deposits | 295 | 153 |
| Payments for reinstatement | △42 | △40 |
| Net cash from investing activities | △622 | △1,440 |
| Cash from financing activities | | |
| Proceeds from short-term borrowings | 1,014 | 2,600 |
| Repayment of short-term borrowings | △1,194 | △2,600 |
| Proceeds from long-term borrowings | 8,500 | 3,500 |
| Repayment of long-term borrowings | △8,552 | △3,066 |
| Proceeds from issuance of shares | — | 7,907 |
| Repayment of fixed assets installment payables | △919 | △540 |
| Repayment of lease obligations | △49 | △35 |
| Net cash from financing activities | △1,200 | 7,764 |
| Effect of exchange rate change on cash and cash equivalents | △27 | △81 |
| Net increase (△ decrease) in cash and cash equivalents | 1,774 | 9,464 |
| Cash and cash equivalents at beginning of year | 6,071 | 7,845 |
| Cash and cash equivalents at end of year | 7,845 | 17,309 |

## (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)

(Newly applicable accounting standards on business combinations)

Accounting Standard for Business Combinations (Accounting Standards Board of Japan ("ASBJ") Statement No.21, September 13, 2013), Accounting Standard for Consolidated Financial Statements (ASBJ No.22, September 13, 2013) and Accounting Standard for Business Divesture (ASBJ No.7, September 13, 2013) have been adopted since the first quarter ended April 30, 2016.

(Application of Practical Solution on a change in depreciation method due to Tax Reform 2016)

Following the revision to the Corporation Tax Act, the Group has applied the "Practical Solution on a Change in depreciation method due to Tax Reform 2016" (ASBJ PITF No. 32, June 17, 2016) from the first quarter ended April 30, 2016, and changed the depreciation method for facilities attached to buildings and structures acquired on or after April 1, 2016 from the declining balance method to the straight line method.

The effect on the consolidated financial statements for the year ended January 31, 2017 is immaterial.

(Segment accounting)

The Group is operating as one segment with respect to apparel design and selling business.

(Per share information)

| | For the year ended January 31, 2016 | For the year ended January 31, 2017 |
|---|---|---|
| Net assets per share | 176.30 Yen | 465.68 Yen |
| Net profit per share | 134.85 Yen | 108.37 Yen |
| Diluted net profit per share | Note 3 | 105.55 Yen |

(Note) 1. The basis of calculating the net assets per share is as follows:

| Item | For the year ended January 31, 2016 | For the year ended January 31, 2017 |
|---|---|---|
| Net assets (million yen) | 5,853 | 17,002 |
| Deduction from net assets (million yen) | 334 | 469 |
| (Non-controlling interests) (million yen) | 334 | 469 |
| Net assets applicable to common stock shareholders (million yen) | 5,518 | 16,532 |
| Year end number of shares of common stock | 31,303,000 | 35,503,000 |

2. The basis of calculating the net profit and diluted net profit per share is as follows。

| Item | For the year ended January 31, 2016 | For the year ended January 31, 2017 |
|---|---|---|
| Net profit per share | | |
| Net profit (million yen) | 4,221 | 3,507 |
| Amount not applicable to common stock shareholders (million yen) | — | — |
| Net profit applicable to common stock shareholders (million yen) | 4,221 | 3,507 |
| Average number of shares of common stock outstanding during the year | 31,303,000 | 32,370,213 |
| | | |
| Diluted net profit per share | | |
| Adjusted net profit (million yen) | — | — |
| Increase in number of common stock | — | 865,695 |
| (from convertible bond) | — | — |
| (from stock option) | — | 865,695 |
| Potential stock not included in the calculation of diluted net profit per share since there was no dilutive effect | Not applicable | Not applicable |

3. The Company was not a publicly listed company during the prior financial year. Although there were stock options, it was impossible to get the average share price during the year, so the diluted net profit per share was not disclosed.
4. The Company was listed on the First Section of the Tokyo Stock Exchange on November 1, 2016. The average share price from the listing date was used in the calculation of the diluted net profit per share for current financial year.
5. The Company conducted a 1 for 200 common stock split on August 26, 2016. Net profit per share was calculated as if the stock split had been taken place at the beginning of the financial year.

(Subsequent events)

No significant subsequent events.