Consolidated Financial Summary for Baroque Japan Limited Quarterly Financial Information for the period ended October 31, 2018

Tokyo Stock Exchange First Section, 3548

English Translation of the original Japanese-Language Report

Contents

1. Management discussion and analysis	3
(1) Summary of the business	3
(2) Financial review	3
2. Consolidated financial statements and notes	4
(1) Consolidated balance sheet	4
(2) Consolidated income statement and consolidated statement of comprehensive income	6
(3) Notes to the consolidated financial statements	8
(Note on going-concern)	8
(Change in shareholders' equity)	8
(Change in accounting policy)	8
(Segment accounting)	8
(Significant subsequent events)	8

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 9 months period ended October 31, 2018, domestic economy had been recovering, corporate investments were active, and the employment market was also improved. However, there were a number of natural disasters, for example rainstorm, typhoon and earthquake, happened from summer to autumn, as well as the high oil price, causing a reduction in consumer spending. The protectionism policies of Donald Trump administration also added to the uncertainty about domestic economy.

The consumer market environment was still difficult for casual wear retailers, especially with the rainstorm, typhoon and earthquake, as well as the warm weather in this autumn winter.

Under such environment, for our domestic business, we strengthened our core product and product mix, and MOUSSY, ENFÖLD and STACCATO were performing well, but AZUL slowed down the sales growth. Even though our same store sales were only slightly decreased, we significantly improved our profitability by increasing gross profit margin through product cost reduction and fewer discounts, decreasing promotion expenses by making use of digital marketing, and reducing staff cost by rearranging our shifts.

Regarding our overseas business, together with our strategic partner Belle International Holdings Limited, sales of our wholesale joint venture in China decreased due to purchase quantity adjustment, but sales of our retail joint venture increased favorably even under the difficult market environment in China. We were also able to grow our MOUSSY wholesale business in the USA and Europe, through our team in New York. ENFOLD wholesale business also received many orders from around the world.

As a result, as at October 31, 2018, we have 360 stores in Japan (direct-operated 268, franchise 92), and 4 stores overseas (direct-operated 1, franchise 3), totaling 364 stores. In addition, we have another 238 stores in China with our joint venture partner Belle International Holdings Limited.

Consolidated turnover is 47,767 million yen (increase by 0.2% against prior year), operating profit is 2,802 million yen (increase by 185.3% against prior year), recurring profit is 2,664 million yen (increase by 224.0% against prior year), and net profit is 1,602 million yen (increase by 819.9% against prior year).

(2) Financial review

During the 9 months period ended October 31, 2018, assets decreased by 647 million yen to 40,670 million yen, mainly due to the decrease in cash and cash equivalents by 2,245 million yen, the decrease in trade and other receivables by 105 million yen, and the increase in inventories by 2,063 million.

Liabilities decreased by 956 million yen to 21,894 million yen, mainly due to the decrease in interest-bearing borrowings.

Equity increased by 309 million yen to 18,776 million yen, mainly due to the net profit of 1,602 million and the payment of dividends of 1,377 million.

2. Consolidated financial statements and notes

(1) Consolidated balance sheet

(Unit: million yen)

	As at January 31, 2018	As at October 31, 2018
Assets		
Current assets		
Cash and cash equivalents	18,743	16,498
Trade and other receivables	7,804	7,699
Inventories	4,514	6,577
Consumables	56	67
Deferred tax assets	831	937
Others	864	447
Provision for doubtful accounts	△0	△0
Total current assets	32,815	32,226
Non-current assets		
Property, plant and equipment		
Building and leasehold improvements (net)	1,255	1,370
Land	350	350
Construction in progress	18	7
Others (net)	175	130
Total property, plant and equipment	1,800	1,858
Intangible assets		
Software	539	550
Others	12	67
Total intangible assets	551	617
Investments and other assets		
Investments in and advances to associates	1,848	1,633
Rental deposits	3,514	3,530
Deferred tax assets	585	628
Others	159	151
Total investments and other assets	6,108	5,943
Total non-current assets	8,460	8,419
Deferred assets		
Stock delivery expenses	42	24
Total deferred assets	42	24
Total assets	41,317	40,670

(Unit: million yen)

	As at January 31, 2018	As at October 31, 2018
Liabilities		
Current liabilities		
Trade and other payables	4,979	5,561
Short-term interest-bearing borrowings	1,500	—
Interest-bearing borrowings	2,123	3,012
Other payables	1,156	986
Accrued expenses	482	497
Current tax payable	633	646
Deposits received	41	15
Provision for bonus	133	391
Provision for reinstatement costs	50	24
Others	121	189
Total current liabilities	11,222	11,324
Non-current liabilities		
Interest-bearing borrowings	9,061	7,890
Other payables	84	41
Provision for retirement benefits	877	923
Deposits received	505	508
Provision for reinstatement costs	1,010	1,061
Others	89	144
Total non-current liabilities	11,628	10,569
Total liabilities	22,851	21,894
Equity		
Shareholders' equity		
Share capital	8,090	8,160
Share premium	8,016	7,977
Retained earnings	1,698	2,032
Treasury stock	△263	△258
Total shareholders' equity	17,542	17,910
Other reserves		
Deferred gains or losses on hedges	△3	△1
Foreign currency translation reserve	184	2
Remeasurements of defined benefit plans	△128	△98
Total other reserves	52	△97
Non-controlling interests	871	962
Total equity	18,466	18,776
Total liabilities and equities	41,317	40,670

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

Consolidated income statement

(Unit: million yen)

	For the 9 months period ended October 31, 2017	For the 9 months period ended October 31, 2018
Turnover	47,660	47,767
Cost of goods sold	21,697	20,265
Gross profit	25,962	27,501
Selling, general and administrative expenses	24,979	24,699
Operating profit	982	2,802
Non-operating income		
Interest income	0	2
Subsidy income	99	113
Refund of insurance premium	—	45
Others	9	3
Total non-operating income	110	164
Non-operating expenses		
Finance charges	17	19
Interest on bank and other loans	56	47
Loss on foreign exchange	58	55
Loss on disposals of property, plant and equipment	18	3
Share of loss of associates	95	160
Other expenses	23	17
Total non-operating expenses	269	302
Recurring profit	822	2,664
Extraordinary expenses		
Impairment loss	80	64
Total extraordinary expenses	80	64
Profit before taxation	742	2,600
Corporation tax, inhabitants tax and business tax	666	1,018
Deferred income tax	△320	△162
Total income tax	345	855
Profit for the period	396	1,744
Profit attributable to non-controlling interests	222	142
Net profit	174	1,602

Consolidated statement of comprehensive income

(Unit: million yen)

	For the 9 months period ended October 31, 2017	For the 9 months period ended October 31, 2018
Profit for the period	396	1,744
Other comprehensive income		
Deferred gains or losses on hedges	3	2
Foreign currency translation	10	△120
Remeasurements of defined benefit plans	16	30
Share of other comprehensive income of associates	23	△104
Other comprehensive income	53	△192
Comprehensive income	450	1,551
Attributable to:		
Equity shareholders	215	1,452
Non-controlling interests	235	99

(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 policy)

No such change.

(Segment accounting)

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

(Significant subsequent events)

The Company abolished part of the qualified retirement pension plan and adopted a defined contribution pension system, effective on November 2, 2018, and adopted ASBJ Guidance No. 1 Guidance on Accounting for Transfer between Retirement Benefit Plans and PITF No. 2 Practical Solution on Accounting for Transfer between Retirement Benefit Plans.

The relevant extraordinary income to be recorded in the fourth quarter was estimated to be 359 million.