Consolidated Financial Summary for Baroque Japan Limited Financial Information for the year ended February 28, 2019

Tokyo Stock Exchange First Section, 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

We have made 13-month irregular account settlement due to the change in the accounting period. As a result, no comparisons were made with the previous fiscal year.

During the year ended February 28, 2019, the domestic economy saw a gradual recovery against a backdrop of increasing capital spending backed by strong corporate performance and improvement in the employment environment, although there was some downward pressure on the economy between summer and early fall due mainly to the impact of natural disasters.

From a global economic perspective, although there were concerns about negative factors for the Japanese economy, such as the trade conflict between the United States and China, the slowdown in the Chinese economy, and soaring crude oil prices due to an instable situation in the Middle East, the world economy gradually expanded overall, led by the strong U.S. economy.

The casual wear industry, to which our company belongs, continued to face a harsh consumption environment due to the impact of aforementioned heavy rain, typhoons and earthquakes as well as slow demand for fall and winter clothes due to continued high temperature.

Amid this environment, our Group in the domestic business continued to make efforts to strengthen the development of our mainstay products and review our product mix. While sales of brands such as "MOUSSY," "ENFÖLD," and "STACCATO" contributed to the overall increase in sales during the year under review, "AZUL BY MOUSSY" and other brands weighed down sales growth. As a result, although sales of the existing stores in Japan decreased compared with the same period of the previous year, we achieved a significant improvement in operating profit ratio. This was attributable to the success of our efforts to improve the gross profit ratio by improving the purchase cost ratio and curbing discounts under a policy of company-wide supply chain management (SCM) promotion, as well as efforts to curb advertising expenses by utilizing digital marketing and to reduce selling and administrative expenses by controlling personnel expenses through efficient personnel deployment.

Regarding our overseas business, as a result of our retail companies (equity-method affiliates) working to improve the efficiency of product procurement in our China joint venture business with Belle International Holdings Limited, sales at wholesale companies (consolidated subsidiaries) declined from the previous fiscal year, while sales at retailers remained on a slight upward trend. However, due to factors such as chronic difficulties in securing human resources at stores and the impact of the deteriorating Chinese economy, the results of the joint venture fell below the results for the previous fiscal year. For our "MOUSSY" operations in the United States, which is seeing a steady expansion in the wholesale business, we have been making efforts to develop wholesale partners in the United States, and to develop sales channels in Europe and other parts for the world from our sales base in New York. "ENFÖLD," which engages in wholesale operations from Japan, also posted an increase in orders from around the world.

As a result, as at February 28, 2019, we have 352 stores in Japan (direct-operated 263, franchise 89), and 3 stores overseas (direct-operated 3), totaling 355 stores. In addition, we have 249 stores in China with our joint venture partner Belle International Holdings Limited

Consolidated turnover is 71,034 million yen, operating profit is 4,736 million yen, recurring profit is 4,542 million yen, and net profit is 2,944 million yen.

(2) Financial review

Total assets, liabilities and equity as of the year ended February 28, 2019 are as follows:

(Total assets)

Total assets at the end of the current consolidated fiscal year decreased by 602 million yen from the end of the previous consolidated fiscal year to 40,715 million yen.

This was mainly due to an increase of 924 million yen in inventories due to the change of financial year end, decrease of 239 million yen in cash and deposits, decrease of 493 million yen in trade receivables, decrease of 459

million yen in other current assets due to collection of receivables from affiliates, and decrease of 216 million yen in investment in associates.

(Liabilities)

Liabilities decreased by 2,501 million yen to 20,349 million yen from the end of the previous fiscal year. This was mainly due to a decrease of 2,676 million yen in loans payable.

(Equity)

Equity increased by 1,898 million yen to 20,365 million yen. This was mainly because of a decrease in retained earnings by 1,268 million yen and in share premium by 108 million yen for the payment of dividends, an increase in share capital by 143 million yen and in share premium by 143 million yen for the issuance of shares resulting from the exercise of stock options, and an increase in retained earnings by 2,944 million yen due to net profit and increase in non-controlling interests by 181million yen.

(3) Cash flows review

Cash and cash equivalents decreased by 239 million yen to 18,504 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 4,738 million yen, mainly due to profit before taxation of 4,762 million yen, depreciation of 909 million yen, income taxes paid of 828 million yen.

(Cash flows from investing activities)

Net cash flows used by investing activities totaled 995 million yen, mainly due to purchase of property, plant and equipment of 635 million yen, and purchase of intangible assets of 228 million yen.

(Cash flows from financing activities)

Net cash flows provided by financing activities totaled 3,953 million yen, mainly due to proceeds from long-term loans of 1,000 million yen, repayment of loans payable amounted to 2,176 million yen, proceeds from short-term loans payable amounted to 3,500 million yen, and repayment of short-term loans payable amounted to 5,000 million yen and cash dividends paid by 1,377 million yen.

(4) Future prospect

Although the domestic economy is showing signs of recovery such as improvement in corporate earnings and employment situation, the business outlook continues to be uncertain due to the impact of the expected consumption tax hike on domestic consumption, trade conflict between the United States and China and concerns over a global economic recession due to the economic slowdown in China.

In light of these conditions, the Group aims to achieve its business plan by seeking to improve the stability and profitability of our domestic business, and to continue to expand our overseas business mainly focus in China, as priority issues.

For our domestic business, we will strengthen the product appeal of brands that have seen a decline in number of customers, reorganize merchandizing, and promote efficient store operations by performing scrap and build for our stores, streamlining our logistics using RFID (Radio Frequency Identification) product tags, and standardizing the store floor area. For our well-selling brands, we will make medium- and long-term investments to expand their customer base by further expanding their product lineup. Furthermore, for the new business we launched last year, we aim to turn a profit at an early stage.

As for our domestic business overall, we aim to improve profitability while offering greater appeal and convenience to our customers by strengthening our digital marketing using the “SHEL'TTER PASS” membership point app and promoting collaboration between our e-commerce site and stores. In addition, we will promote efficient operations through the use of ICT (Information and Communication Technology) and respond to the reforms of working styles.

For our overseas business, especially our joint venture business with Belle International Holdings Limited in China, we will aim to increase its contribution to profits through a net increase of around 20 to 30 stores and by

strengthening the e-commerce business, while also giving attention to optimizing our merchandizing structure. For our "MOUSSY" operations in the United States, which is seeing a steady expansion in the wholesale business, we will continue to develop sales channels in Europe and other parts for the world from our sales base in New York. Our wholesale brand "ENFÖLD" in Japan will also seek to increase orders from around the world.

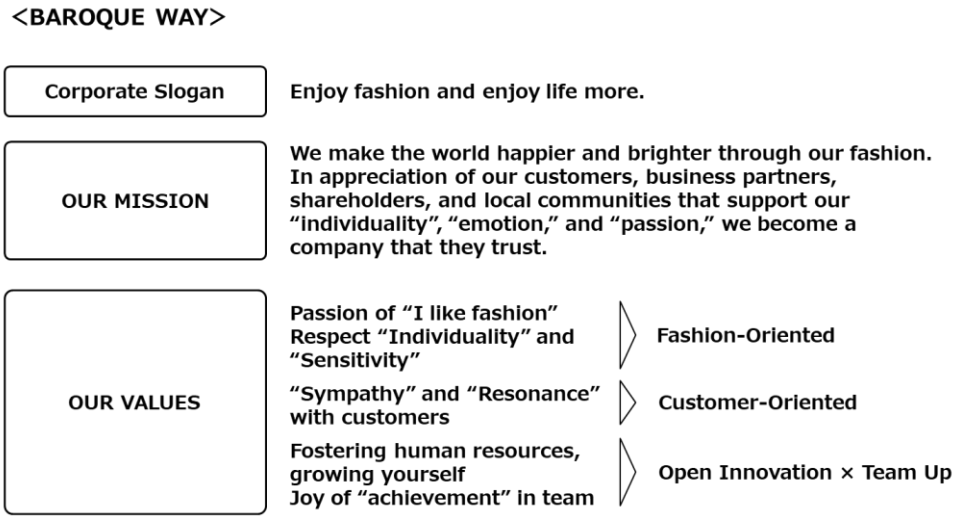
The forecasted consolidated sales is 67,945 million yen, operating profit is 4,669 million yen, recurring profit is 4,725 million yen, and net profit is 2,895 million yen.

2. Management policies

(1) Basic management policy

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

As a concrete way of taking up this "challenge," we pursue the following objectives as "OUR MISSION" under our corporate slogan "Enjoy fashion and enjoy life more."



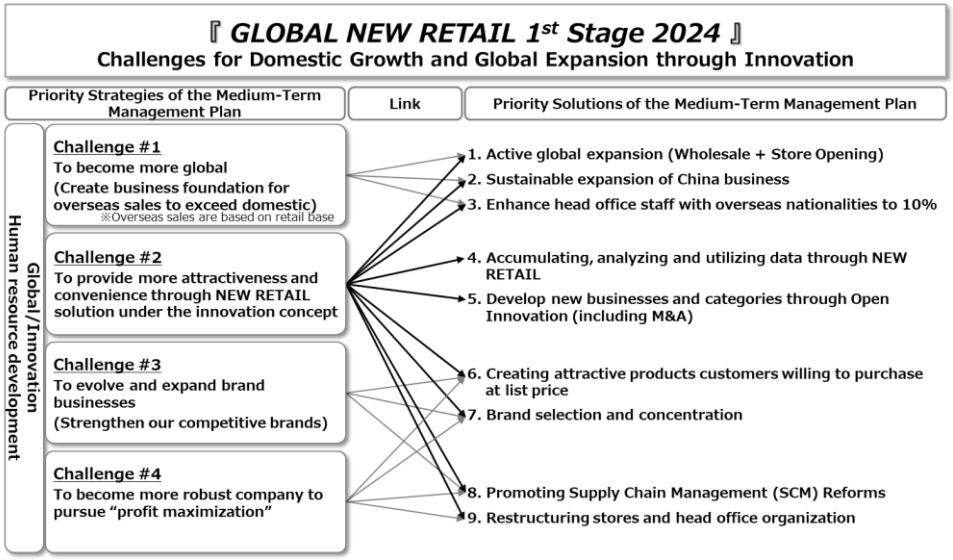
(2) Performance target

To continue enhancing corporate value going forward, we aim to increase consolidated operating profit, recurring profit and return on equity by raising our growth potential, focusing on the profitability of both the domestic business and the overseas business.

(3) Medium- to long-term business strategy

Focusing on sustainable growth at home and abroad as well as obtaining high evaluation from stakeholders, we have formulated the new mid-term (5-year) plan "GLOBAL NEW RETAIL 1ST STAGE 2024" starting from the year ending February 29, 2020.

We aim to enhance corporate value under the following concept:



Our main target figures are as follows:

Item	Year ended February 28,2019	Year ending February 29, 2024
Sales	71.0billion yen	100.0billion yen
Operating profit	4.7billion yen	8.5billion yen
Recurring profit	4.5billion yen	8.7billion yen
Net profit	2.9billion yen	5.7billion yen
Overseas sales ratio	24.0%	33.0%
Return on equity (ROE)	16.0%	20.0%

(4) Challenges

The apparel market is set to continue to face difficulties given the shrinking population, diversification and slow-down in customer spending, as well as price competition.

Furthermore, the increase in production costs in China and exchange rate fluctuations also add to the uncertainties.

In light of these conditions, our Group will give priority to the improvement of profitability of the domestic business and continuous expansion of our overseas business with a focus in China. At the same time, we will address challenges such as enhancing brand value, further improving product quality, developing human resources, strengthening company management, and improving the functionality and stable operation of ERP system.

① Improving profitability in the domestic business

a) Finding new customers through new businesses

Based on our founding principle "Create what we want to wear," we have provided customers of diverse individuality and sensitivity with a variety of brands. In the year under review, we established four new brands and, and then launched another new brand in the year ending February 29, 2020.

Specifically, we established a new brand "någonstans" in February, 2018, which proposes a style of resort wear for adults as a spin-off from ENFÖLD, and subsequently in March, 2018, the brand "R4G" with a new concept that is a fusion of anime and fashion, born from our new business discovery contest "NEXT IS YOU." In March, 2018, we also established the new brand "Leory×EBLÓA," which appoints two popular influencers of the Company as

designers and has the concept of growing out of the Shibuya fashion style, as well as new e-commerce platform based brand "STYLE MIXER," which appoints a popular influencer from outside the Company as the curator.

For the year ending February 29, 2020, we launched a department store brand "y/m" and began operating with the concept of a "wardrobe for individual tastes – your own beauty –."

On the other hand, we are seeing new business models emerge such as sharing, custom-made fashion based on e-commerce, and cross-border e-commerce, mainly due to the diversification of personal values and the progress of IT and digitization. Grasping this trend accurately, we will promote investment in new businesses where we can expect to complement and strengthen our brand business so that we can provide customers with new values and more convenience.

We will cultivate and acquire new customers through these new brands and new businesses.

b) Initiatives to build sustainable customer relationships

For our domestic business, we will make efforts to build sustainable customer relationships utilizing the "SHEL'TTER PASS" membership point app.

Specifically, we will integrate the membership data of "SHEL'TTER PASS" and those on our e-commerce system, and strengthen efforts to deliver information on recommended products or information on deals such as coupons that match the customer's preferences, based on the customer's purchase and browsing history information. Also, we will group customers according to their purchase frequency and purchased amount, then test out sales strategies effective for each group, find the optimal sales strategy that typifies each group through trial and error, and introduce automated mechanisms for each strategy.

In order to utilize the ability to suggest outfit coordination, which is the strength of the Company's sales staff, and the information distribution capabilities of social media, we link the outfit coordination pictures posted by our sales staff on social media to product information registered on our e-commerce website. Besides creating a way to lead customers to our e-commerce website, we introduced a system where we can see the ranking of staff members on our website based on the volume of sales of the coordinated outfits, and information on the number of page views (PV).

Through these initiatives, we will work on increasing the volume of customers visiting our stores and our e-commerce website.

c) Improving the gross profit ratio

For each brand's business, besides developing mainstay products with clearly defined product strengths, we will place orders which give the depth to these mainstay products and narrow down the number of models of these products. Furthermore, we will strengthen the promotion of mainstay products, and by conveying the value of the products in stores and on the ecommerce website, we will improve the cash conversion rate through sales that does not rely on discounts.

We will also endeavor to reduce product costs, by promoting direct trade that does not rely on trading companies for production in China, and implementing initiatives for supply chain management (SCM) reform that utilizes production in third countries such as those in the ASEAN region.

Through these measures, we will work on improving the gross profit ratio.

d) Controlling selling and administrative expenses and raising efficiency

By introducing RFID (Radio Frequency Identification) product tags, registering the product data of each carton at the final packaging location of the products, introducing a system that manages the location information of cartons that are in shipment, and adopting a standardized carton to improve the container load factor, we endeavor to improve the efficiency of logistics.

By introducing RFID management systems for stores, we aim to streamline inventory operations, cash register operations, and other operations, and promote efficient store management. Also, we will work on improving the efficiency of staff members in the stores through strategic scrap and build of the stores.

Furthermore, we will aim to improve the efficiency of using promotion costs, by promoting digital marketing and strengthening analysis by inflow channel, which is not possible through a paper medium.

Through these efforts, we will work on reducing expenses for and improving the efficiency of logistics, human resources, and advertising and promotion.

Through these measures, we will endeavor to improve profitability in the domestic business.

② Expanding the overseas business

For our business in China, besides strengthening the e-commerce business on the back of greater brand recognition, we will aim at a stable business growth, limiting the net increase in the number of stores to around 20 to 30 per year.

For our business in the United States, we will develop the robust wholesale business of MOUSSY not only within the United States but to other countries across the world.

We are also expanding the overseas wholesale business of ENFÖLD brand from Japan. We will monitor the reputation and evaluation of the brand in each country through these wholesale operations, and will link this to opening of stores in Southeast Asia and other countries to accelerate our global expansion.

Through the above, we will work on expanding the overseas business.

③ Enhancing brand value

We are designing and producing edgy apparel products mainly for customers and fans in Japan and China with sophisticated fashion sense. Moving forward, we will continue to cater to customer preferences and seek to expand our customer base through enhanced product development and introduction of new brands, with a view to further enhancing our brand value.

④ Further improving product quality

We will further improve the quality of our products by carefully selecting production contractors with a focus on quality, inspecting products, and managing logistics and inventory.

⑤ Developing human resources

At our stores, we build and maintain relationships with our customers by offering personalized suggestions for outfit coordination of highly fashionable products. As a means of attracting customers, we develop original products by appointing members of our sales staff to participate in product development, and for marketing, make frequent use of information disseminated by our sales staff via digital media. We will augment these efforts to secure and develop human resources, which are important management resources for the Company. In addition, we will promote efficient operations through the use of ICT and respond to the reforms of working styles.

⑥ Strengthening company management

We believe that a strong corporate governance system is essential to our business expansion. We will continue to enforce thorough regulatory compliance and appropriate implementation of internal control systems to ensure the appropriateness of our business operations and reliability of our financial reports.

⑦ Improving ERP system

We use a number of POS, accounting and e-commerce systems in our business operations. Stable operation of these systems is essential for the continuity and growth of our business. We will strengthen our framework for system development, maintenance and inspection of our ERP system and other business systems to ensure stable operation.

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.

Regarding the adoption of International Financial Reporting Standards, we shall continue to evaluate both internal and external environments before making a decision.

4. Consolidated financial statements

(1) Consolidated balance sheet

(Unit: million yen)

	As at January 31, 2018	As at February 28, 2019
Assets		
Current assets		
Cash and cash equivalents	18,743	18,504
Trade and other receivables	7,804	7,311
Inventories	4,514	5,438
Consumables	56	50
Deferred tax assets	831	901
Others	864	404
Provision for doubtful accounts	△0	－
Total current assets	32,815	32,611
Non-current assets		
Property, plant and equipment		
Building and leasehold improvements (net)	1,255	1,275
Land	350	350
Construction in progress	18	17
Others (net)	175	119
Total property, plant and equipment	1,800	1,762
Intangible assets		
Software	539	513
Others	12	57
Total intangible assets	551	571
Investments and other assets		
Investments in and advances to associates	1,848	1,631
Rental deposits	3,514	3,540
Deferred tax assets	585	455
Others	159	125
Total investments and other assets	6,108	5,752
Total non-current assets	8,460	8,087
Deferred assets		
Stock delivery expenses	42	15
Total deferred assets	42	15
Total assets	41,317	40,715

(Unit: million yen)

	As at January 31, 2018	As at February 28, 2019
Liabilities		
Current liabilities		
Trade and other payables	4,979	4,873
Short-term interest-bearing borrowings	1,500	—
Interest-bearing borrowings	2,123	2,901
Other payables	1,156	1,485
Accrued expenses	482	523
Current tax payable	633	1,246
Deposits received	41	5
Provision for bonus	133	260
Provision for reinstatement costs	50	54
Others	121	192
Total current liabilities	11,222	11,541
Non-current liabilities		
Interest-bearing borrowings	9,061	7,107
Other payables	84	22
Provision for retirement benefits	877	22
Provision for reinstatement costs	1,010	1,038
Deposits received	505	495
Others	89	120
Total non-current liabilities	11,628	8,808
Total liabilities	22,851	20,349
Equity		
Shareholders' equity		
Share capital	8,090	8,234
Share premium	8,016	8,051
Retained earnings	1,698	3,374
Treasury stock	△263	△258
Total shareholders' equity	17,542	19,401
Other reserves		
Deferred gains or losses on hedges	△3	△1
Foreign currency translation reserve	184	△87
Remeasurements of defined benefit plans	△128	—
Total other reserves	52	△88
Non-controlling interests	871	1,052
Total equity	18,466	20,365
Total liabilities and equities	41,317	40,715

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

Consolidated income statement

(Unit: million yen)

	For the year ended January 31, 2018	For the year ended February 28, 2019
Turnover	67,952	71,034
Cost of goods sold	31,556	30,693
Gross profit	36,396	40,341
Selling, general and administrative expenses	33,840	35,605
Operating profit	2,556	4,736
Non-operating income		
Interest income	1	4
Gain on foreign exchange	2	－
Share of profit of associates	82	－
Subsidy income	116	116
Refunds of cancelled insurance premium	－	45
Other income	20	9
Total non-operating income	223	176
Non-operating expenses		
Interest on bank and other loans	74	65
Finance charges	23	25
Loss on disposals of property, plant and equipment	59	45
Loss on foreign exchange	－	171
Loss on store closure	32	－
Share of loss of associates	－	33
Other expenses	33	29
Total non-operating expenses	224	370
Recurring profit	2,556	4,542
Extraordinary income		
Gain on revision of retirement benefit plan	－	340
Total extraordinary income	－	340
Extraordinary expenses		
Impairment loss	120	120
Other expenses	－	0
Total extraordinary expenses	120	120
Profit before taxation	2,435	4,762
Corporation tax, inhabitants tax and business tax	1,158	1,556
Deferred income tax	△325	2
Total income tax	833	1,558
Profit for the year	1,602	3,203
Profit attributable to non-controlling interests	365	259
Net profit	1,236	2,944

Consolidated statement of comprehensive income

(Unit: million yen)

	For the year ended January 31, 2018	For the year ended February 28, 2019
Profit for the year	1,602	3,203
Other comprehensive income		
Deferred gains or losses on hedges	4	2
Foreign currency translation	66	△185
Remeasurements of defined benefit plans	△40	128
Share of other comprehensive income of associates	72	△152
Other comprehensive income	102	△207
Comprehensive income	1,704	2,995
Attributable to:		
Equity shareholders	1,308	2,802
Non-controlling interests	396	192

(3) Consolidated statement of changes in equity

For the year ended January 31, 2018

(Unit: million yen)

	Shareholders' equity					Other reserves				Non-controlling interests	Total equity
	Share capital	Share premium	Retained earnings	Treasury stock	Total shareholders' equity	Deferred gains or losses on hedges	Foreign currency translation reserve	Remeasurements of defined benefit plans	Total other reserves		
Balance at beginning of year	7,904	7,901	746	－	16,551	△8	76	△87	△18	469	17,002
Changes during year											
Issuance of shares	186	186			373						373
Dividend		△71	△284		△355						△355
Treasury stock				△263	△263						△263
Net profit			1,236		1,236						1,236
Net changes other than shareholders' equity						4	108	△40	71	401	473
Total changes during year	186	115	952	△263	990	4	108	△40	71	401	1,464
Balance at end of year	8,090	8,016	1,698	△263	17,542	△3	184	△128	52	871	18,466

For the year ended February 28, 2019

(Unit: million yen)

	Shareholders' equity					Other reserves				Non-controlling interests	Total equity
	Share capital	Share premium	Retained earnings	Treasury stock	Total shareholders' equity	Deferred gains or losses on hedges	Foreign currency translation reserve	Remeasurements of defined benefit plans	Total other reserves		
Balance at beginning of year	8,090	8,016	1,698	△263	17,542	△3	184	△128	52	871	18,466
Changes during year											
Issuance of shares	143	143			286						286
Dividend		△108	△1,268		△1,377						△1,377
Treasury stock				4	4						4
Net profit			2,944		2,944						2,944
Net changes other than shareholders' equity						2	△271	128	△141	181	40
Total changes during year	143	34	1,675	4	1,858	2	△271	128	△141	181	1,898
Balance at end of year	8,234	8,051	3,374	△258	19,401	△1	△87	－	△88	1,052	20,365

(4) Consolidated statement of cash flows

(Unit: million yen)

	For the year ended January 31, 2018	For the year ended February 28, 2019
Cash from operating activities		
Profit before taxation	2,435	4,762
Depreciation	814	909
Impairment	120	120
Increase (Δdecrease) in provision for bonus	133	126
Interest income	Δ1	Δ4
Interest on bank and other loans	98	90
Foreign exchange losses (Δgain)	Δ4	Δ2
Share of loss (Δprofit) of associates	Δ82	33
Loss on disposals of property, plant and equipment	59	45
Decrease (Δincrease) in trade and other receivables	Δ1,499	190
Decrease (Δincrease) in inventories	587	Δ929
Increase (Δdecrease) in trade and other payables	Δ301	27
Increase (Δdecrease) in other payables	Δ66	437
Increase (Δdecrease) in provision for retirement benefits	94	Δ668
Others	Δ173	496
Subtotal	2,212	5,635
Interest and dividend income received	1	4
Interest expenses paid	Δ86	Δ73
Income taxes paid	Δ1,405	Δ828
Net cash from operating activities	723	4,738
Cash from investing activities		
Purchase of property, plant and equipment	Δ260	Δ635
Purchase of intangible assets	Δ353	Δ228
Payments for rental deposits	Δ304	Δ266
Proceeds from collection of rental deposits	260	192
Payments for reinstatement	Δ33	Δ57
Net cash from investing activities	Δ691	Δ995
Cash from financing activities		
Proceeds from short-term borrowings	2,500	3,500
Repayment of short-term borrowings	Δ1,000	Δ5,000
Proceeds from long-term borrowings	5,000	1,000
Repayment of long-term borrowings	Δ4,373	Δ2,176
Proceeds from issuance of shares	373	286
Payments for treasury stock	Δ263	—
Payment for dividend	Δ355	Δ1,377
Repayment of fixed assets installment payables	Δ406	Δ163
Repayment of lease obligations	Δ36	Δ22
Net cash from financing activities	1,438	Δ3,953
Effect of exchange rate change on cash and cash equivalents	Δ36	Δ29
Net increase (Δ decrease) in cash and cash equivalents	1,434	Δ239
Cash and cash equivalents at beginning of year	17,309	18,743
Cash and cash equivalents at end of year	18,743	18,504

(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)

No such change.

(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, 2018	For the year ended February 28, 2019
Net assets per share	488.43 Yen	530.41 Yen
Net profit per share	34.51 Yen	81.42 Yen
Diluted net profit per share	34.23 Yen	81.21 Yen

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

Item	For the year ended January 31, 2018	For the year ended February 28, 2019
Net assets (million yen)	18,466	20,365
Deduction from net assets (million yen)	871	1,052
(Non-controlling interests) (million yen)	871	1,052
Net assets applicable to common stock shareholders (million yen)	17,595	19,312
Year-end number of shares of common stock used for calculation of net assets per share	36,024,600	36,410,400

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

Item	For the year ended January 31, 2018	For the year ended February 28, 2019
Net profit per share		
Net profit (million yen)	1,236	2,944
Amount not applicable to common stock shareholders (million yen)	—	—
Net profit applicable to common stock shareholders (million yen)	1,236	2,944
Average number of shares of common stock outstanding during the year	35,829,292	36,159,876
Diluted net profit per share		
Adjusted net profit (million yen)	—	—
Increase in number of common stock	291,373	94,407
(from convertible bond)	—	—
(from stock option)	212,847	—
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 has introduced a new performance linked compensation system, Board Benefit Trust or BBT, since the previous fiscal year. The treasury stock for that purpose was deducted from the total number of common stock when the net profit per share, diluted net profit per share, and net assets per share were calculated.

(Subsequent events)

No significant subsequent events.