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

Due to a change in the fiscal year-end, the period for the previous consolidated fiscal year was 13 months from February 1, 2018 to February 28, 2019. As a result, the consolidated cumulative period for the current second quarter (from March 1, 2019 to August 31, 2019) is different from the consolidated cumulative period for the previous second quarter (from February 1, 2018 to July 31, 2018), Hence, there is no comparison with the consolidated cumulative period for the previous fiscal year.

During the consolidated cumulative second quarter (from March 1, 2019 to August 31, 2019), the Japanese economy faced uncertainty about the future of the economy, as global economy generally lacked momentum due to heightened uncertainty about U.S. trade policies and other factors, while domestic demand remained relatively firm, including personal consumption, capital investment, and public investment.

In the casual wear industry to which we belong, consumption was brisk due to factors such as May holidays and August sales of goods. However, the consumption environment remained challenging due to the impact of record cool temperatures in July and concerns about the sluggish growth of real income such as the consumption tax hike.

Against this backdrop, in the domestic business, sales of department store apparel brands “ENFÖLD”, “någonstans”, “BLACK BY MOUSSY” and shoe specialty brand “STACCATO” remained strong. In addition, sales and customer numbers of shopping center brand “AZUL BY MOUSSY”, which had been sluggish previously, came on a recovery trend. On the other hand, same-store sales in Japan decreased from the same period of the previous fiscal year, due to the impact of the cool summer and weak demand of list price products in the fashion and station building brands overall.

With regard to gross profit in domestic business, gross profit margin remained unchanged from the previous year in the second quarter, due to the prioritization of inventory reduction until August, and weak discount sale demand in July. However, for the first half cumulative period, gross profit margin improved significantly.

With regard to SG&A expenses, domestic operating profit exceeded the plan due to the contribution of restrained SG&A expenses, including a review of outsourcing expenses, and reductions in commission rent and sales outsourcing expenses.

In the overseas business, sales of spring and summer apparel, including those of e-commerce, were favorable at a Chinese joint venture with our strategic business partner Belle International. Retail Company (our equity-method affiliates) worked to increase the sales mix of Japanese-planned products. Sales of wholesale company (our consolidated subsidiaries) also increased due to an increase in purchases by Retail Company. In the U.S.-based business of MOUSSY, we continued to develop sales channels in Europe and other parts of the world with New York as our sales base. In addition, we made progress in developing wholesale customers worldwide for ENFÖLD, originated from Japan, and made preparations for the opening of pop-up stores outside Japan.

As a result, as at August 31, 2019, we have 349 stores in Japan (direct-operated 263, franchise 86), and 4 stores overseas (direct-operated 4), totaling 353 stores. In addition, we have another 250 stores in China with our joint venture partner Belle International Holdings Limited.

Consolidated turnover was 31,272 million yen, operating profit was 2,068 million yen, recurring profit was 2,078 million yen, and net profit was 1,231 million yen.

(2) Financial review

During the 6 months' period ended August 31, 2019, assets decreased by 3,923 million yen to 36,791 million yen, mainly due to the decrease in Cash and cash equivalents by 3,773 million yen, the decrease in Trade and other receivables by 721 million yen, and the increase in inventories by 328 million yen.

Liabilities decreased by 3,627 million yen to 16,722 million yen, mainly due to the decrease in Trade and other payables by 1,419 million yen, and the decrease in Interest-bearing borrowings by 2,006 million yen due to repayment.

Equity decreased by 296 million yen to 20,068 million yen, mainly due to the decrease in Retained earnings by 1,391 million yen for the payment of dividends, the increase in Retained earnings by 1,231 million yen due to net profit, and the increase in Treasury stock by 114 million yen.

2. Consolidated financial statements and notes

(1) Consolidated balance sheet

(Unit: million yen)

	As at February 28, 2019	As at August 31, 2019
Assets		
Current assets		
Cash and cash equivalents	18, 504	14, 730
Trade and other receivables	7, 311	6, 589
Inventories	5, 438	5, 767
Consumables	50	72
Others	404	601
Total current assets	31, 710	27, 761
Non-current assets		
Property, plant and equipment		
Building and leasehold improvements (net)	1, 275	1, 418
Land	350	350
Construction in progress	17	19
Others (net)	119	113
Total property, plant and equipment	1, 762	1, 901
Intangible assets		
Software	513	501
Others	57	63
Total intangible assets	571	565
Investments and other assets		
Investments in and advances to associates	1, 631	1, 653
Rental deposits	3, 540	3, 571
Deferred tax assets	1, 356	1, 214
Others	125	120
Total investments and other assets	6, 654	6, 560
Total non-current assets	8, 988	9, 026
Deferred assets		
Stock delivery expenses	15	3
Total deferred assets	15	3
Total assets	40, 715	36, 791

(Unit: million yen)

	As at February 28, 2019	As at August 31, 2019
Liabilities		
Current liabilities		
Trade and other payables	4, 873	3, 454
Interest-bearing borrowings	2, 901	4, 727
Other payables	1, 485	1, 410
Accrued expenses	523	678
Current tax payable	1, 246	671
Deposits received	5	—
Provision for bonus	260	264
Provision for reinstatement costs	54	67
Others	192	242
Total current liabilities	11, 541	11, 516
Non-current liabilities		
Interest-bearing borrowings	7, 107	3, 275
Other payables	22	211
Provision for retirement benefits	22	16
Deposits received	495	488
Provision for reinstatement costs	1, 038	1, 064
Deferred tax liabilities	—	64
Others	120	84
Total non-current liabilities	8, 808	5, 206
Total liabilities	20, 349	16, 722
Equity		
Shareholders' equity		
Share capital	8, 234	8, 258
Share premium	8, 051	8, 075
Retained earnings	3, 374	3, 214
Treasury stock	△258	△373
Total shareholders' equity	19, 401	19, 175
Other reserves		
Deferred gains or losses on hedges	△1	△0
Foreign currency translation reserve	△87	△215
Total other reserves	△88	△216
Non-controlling interests	1, 052	1, 109
Total equity	20, 365	20, 068
Total liabilities and equities	40, 715	36, 791

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

Consolidated income statement

(Unit: million yen)

	For the 6 months period ended July 31, 2018	For the 6 months period ended August 31, 2019
Turnover	31, 104	31, 272
Cost of goods sold	13, 321	12, 890
Gross profit	17, 782	18, 381
Selling, general and administrative expenses	16, 515	16, 313
Operating profit	1, 266	2, 068
Non-operating income		
Interest income	0	4
Gain on foreign exchange	－	2
Subsidy income	89	78
Other income	1	10
Total non-operating income	91	96
Non-operating expenses		
Finance charges	12	10
Interest on bank and other loans	32	23
Loss on foreign exchange	92	－
Loss on disposals of property, plant and equipment	0	26
Share of loss of associates	77	10
Other expenses	14	14
Total non-operating expenses	230	85
Recurring profit	1, 128	2, 078
Extraordinary expenses		
Impairment loss	64	49
Total extraordinary expenses	64	49
Profit before taxation	1, 063	2, 029
Corporation tax, inhabitants tax and business tax	476	494
Deferred income tax	△108	208
Total income tax	367	702
Profit for the period	695	1, 327
Profit attributable to non-controlling interests	76	95
Net profit	619	1, 231

Consolidated statement of comprehensive income

(Unit: million yen)

	For the 6 months period ended July 31, 2018	For the 6 months period ended August 31, 2019
Profit for the period	695	1, 327
Other comprehensive income		
Deferred gains or losses on hedges	1	0
Foreign currency translation	△105	△99
Remeasurements of defined benefit plans	20	―
Share of other comprehensive income of associates	△83	△62
Other comprehensive income	△167	△161
Comprehensive income	528	1, 165
Attributable to:		
Equity shareholders	484	1, 104
Non-controlling interests	43	61

(3) Consolidated statement of cash flows

(Unit: million yen)

	For the 6 months period ended July 31, 2018	For the 6 months period ended August 31, 2019
Cash from operating activities		
Profit or loss before taxation	1,063	2,029
Depreciation	416	448
Impairment	64	49
Increase (Δdecrease) in provision for bonus	124	4
Interest income	△0	△4
Interest on bank and other loans	45	34
Foreign exchange losses (Δ gain)	△1	18
Share of loss (Δ profit) of associates	77	10
Loss on disposals of property, plant and equipment	0	26
Decrease (Δincrease) in trade and other receivables	1,700	623
Decrease (Δincrease) in inventories	△369	△330
Increase (Δdecrease) in trade and other payables	△1,411	△1,385
Increase (Δdecrease) in other payables	△149	152
Increase (Δdecrease) in provision for retirement benefits	55	△6
Others	150	△195
Subtotal	1,765	1,475
Interest income received	0	4
Interest expenses paid	△36	△28
Income taxes paid	△409	△1,007
Net cash from operating activities	1,320	442
Cash from investing activities		
Purchase of property, plant and equipment	△395	△460
Purchase of intangible assets	△112	△78
Payments for rental deposits	△111	△158
Proceeds from collection of rental deposits	128	124
Others	△66	△47
Net cash from investing activities	△557	△620
Cash from financing activities		
Proceeds from short-term borrowings	500	—
Repayment of short-term borrowings	△1,000	—
Repayment of long-term borrowings	△1,061	△2,006
Proceeds from issuance of shares	47	—
Purchase for treasury stock	—	△121
Payment for dividend	△1,377	△1,391
Repayment of lease obligations	△18	△2
Repayment of fixed assets installment payables	△111	△21
Net cash from financing activities	△3,021	△3,543
Effect of exchange rate change on cash and cash equivalents	△27	△53
Net increase (Δ decrease) in cash and cash equivalents	△2,285	△3,773
Cash and cash equivalents at beginning of period	18,743	18,504
Cash and cash equivalents at end of period	16,458	14,730

(4) 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)

(Acquisition of treasury stock)

At the meeting of the Board of Directors held on July 16, 2019, we resolved to acquire its own shares pursuant to Articles 459-1 of the Japanese Companies Act.

1. The reason for the acquisition

In order to enhance shareholder returns, improve capital efficiency and implement flexible capital policies in accordance with the business environment.

2. Outline of the acquisition

(1) Type of shares to be acquired	Common shares
(2) Number of shares to be acquired	Up to 1,100,000 shares （3.00% of the total number of shares (excluding treasury stock)）
(3) Total amount of acquisition	Up to JPY 1,000,000,000
(4) Acquisition period	From July 17, 2019 to October 31, 2019
(5) Acquisition method	Market purchase on the Tokyo Stock Exchange

3. Results of the acquisition (From July 17, 2019 to August 31, 2019)

(1) Number of shares acquired	115,000 shares
(2) Total amount of acquisition	JPY 121,598,700

(Change in accounting policy)

No such change.

(Segment accounting)

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

(Additional information)

"Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No.28, issued on February 16, 2018) has been applied from the beginning of the current period, deferred tax assets are presented under investment and other assets and deferred tax liabilities under non-current liabilities.