Consolidated Financial Summary for Baroque Japan Limited Quarterly Financial Information for the period ended August 31, 2020

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

During the consolidated cumulative second quarter, the Japanese economy saw dramatic decline in real GDP due to the large impact of the COVID-19 epidemic. Coupled with the world economy writ large lacking momentum, future economic predictions are still in a state of uncertainty.

In the casualwear specialty store industry to which our company belongs, although following the lifting of the State of Emergency a temporary recovery in consumer activity was observed, with the resurgence of COVID-19 infectivity after July and the effects of unseasonable weather in regards to the longer rainy season and typhoons, the consumer environment has continually maintained a harsh outlook.

Under these circumstances, regarding domestic business, although store operations fully resumed in early June due to the lifting of the State of Emergency and even with improvements in realization rate due to restraint in discount campaigns, domestic sales and gross profits saw a decrease year-on-year. This decrease can be contributed to the slow return of customers, especially in urban areas, the refraining of movement and returning home during the Obon holidays, and the aforementioned unseasonable weather which all had an effect on business. Additionally, it should be noted that the amount of domestic EC sales is growing year-on-year. In regards to SG&A expenses, we are continuing to curb SG&A expenses by reducing advertising expenses, commission rent, and sales consignment expenses.

Regarding overseas business, although our Chinese joint venture which we conduct with our strategic business partner Belle International Holdings Limited (hereon, Belle) saw a recovery trend following April when store operations resumed, due to the resurgence of COVID-19 infectivity in June we saw a subsequent cooling down of consumer sentiment. Although EC sales increased significantly, sales by retail companies (equity-method affiliate companies) and wholesale companies (consolidated subsidiaries) decreased year on year. In terms of the United States business operations, due to solid contributions from the wholesale of 'MOUSSY' since before the COVID-19 epidemic, the financial results remained profitable for the current consolidated cumulative period.

As of August 31, 2020, we have 358 stores in Japan (275 directly operated, 83 through franchise) and 5 overseas stores (5 directly operated), totaling in 363 stores. In addition, our Chinese retail business operations conducted alongside our joint venture partner Belle have grown to include 279 storefronts.

As a result of the above, the second quarter of the current consolidated cumulative period saw consolidated turnover of 20,929 million yen (down 33.1% year-on-year); operating loss was 446 million yen (compared to a profit of 2,068 million yen in the same period of the previous year); recurring loss was 857 million yen (compared to a profit of 2,078 million yen in the same period of the previous year); net loss was 918 million yen (compared to a profit of 1,231 million yen in the same period of the previous year).

(2) Financial review

During the 6 months' period ended August 31, 2020, assets decreased by 4,738 million yen to 33,544 million yen, mainly due to the decrease in Cash and cash equivalents by 2,846 million yen, the decrease in Notes and trade receivables by 847 million yen, and the decreased in Inventories by 766 million yen.

Liabilities decreased by 2,454 million yen to 14,335 million yen, mainly due to the decreased in Notes and trade payables by 1,433 million yen, and Current tax payable by 1,156 million yen.

Equity decreased by 2,284 million yen to 19,208 million yen, mainly due to the decrease in Retained earnings by 1,374 million yen for the payment of dividends and by 918million yen from net loss.

2. Consolidated financial statements

(1) Consolidated balance sheet

(Unit: million yen)

	As at February 29, 2020	As at August 31, 2020
Assets		
Current assets		
Cash and cash equivalents	16,133	13,287
Notes and trade receivables	7,455	6,607
Inventories	5,163	4,397
Consumables	61	149
Others	472	389
Provision for doubtful accounts	△0	－
Total current assets	29,285	24,832
Non-current assets		
Property, plant and equipment		
Building and leasehold improvements (net)	1,544	1,522
Land	350	350
Construction in progress	7	10
Others (net)	104	90
Total property, plant and equipment	2,005	1,972
Intangible assets		
Software	566	521
Others	74	105
Total intangible assets	640	627
Investments and other assets		
Investments in and advances to associates	1,666	1,344
Rental deposits	3,334	3,166
Deferred tax assets	1,219	1,473
Others	130	127
Total investments and other assets	6,351	6,112
Total non-current assets	8,997	8,712
Total assets	38,282	33,544

(Unit: million yen)

	As at February 29, 2020	As at August 31, 2020
Liabilities		
Current liabilities		
Notes and trade payables	3,442	2,009
Short-term Interest-bearing borrowings	—	3,000
Interest-bearing borrowings	3,982	275
Other payables	1,868	1,035
Accrued expenses	653	539
Current tax payable	1,338	181
Deposits received	25	10
Provision for bonus	261	134
Provision for reinstatement costs	66	77
Others	211	219
Total current liabilities	11,849	7,481
Non-current liabilities		
Interest-bearing borrowings	3,125	5,000
Other payables	111	108
Provision for retirement benefits	18	18
Deposits received	470	468
Provision for reinstatement costs	1,056	1,096
Deferred tax liabilities	64	62
Others	93	99
Total non-current liabilities	4,940	6,853
Total liabilities	16,790	14,335
Equity		
Shareholders' equity		
Share capital	8,258	8,258
Share premium	8,075	8,059
Retained earnings	4,854	2,561
Treasury stock	△749	△694
Total shareholders' equity	20,439	18,185
Other reserves		
Deferred gains or losses on hedges	△0	—
Foreign currency translation reserve	△213	△321
Total other reserves	△213	△321
Non-controlling interests	1,267	1,344
Total equity	21,492	19,208
Total liabilities and equities	38,282	33,544

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

Consolidated income statement

(Unit: million yen)

	For the 6 months period ended August 31, 2019	For the 6 months period ended August 31, 2020
Turnover	31,272	20,929
Cost of goods sold	12,890	9,674
Gross profit	18,381	11,255
Selling, general and administrative expenses	16,313	11,701
Operating profit or loss	2,068	△446
Non-operating income		
Interest income	4	3
Gain on foreign exchange	2	—
Subsidy income	78	73
Other income	10	19
Total non-operating income	96	96
Non-operating expenses		
Finance charges	10	14
Interest on bank and other loans	23	17
Loss on foreign exchange	—	31
Loss on disposals of property, plant and equipment	26	4
Share of loss of associates	10	414
Other expenses	14	25
Total non-operating expenses	85	507
Recurring profit or loss	2,078	△857
Extraordinary income		
Subsidies for employment adjustment	—	202
Total Extraordinary income	—	202
Extraordinary expenses		
Loss due to temporary store closures	—	397
Impairment loss	49	79
Total extraordinary expenses	49	476
Profit or loss before taxation	2,029	△1,131
Corporation tax, inhabitants tax and business tax	494	85
Income taxes refund	—	△163
Deferred income tax	208	△253
Total income tax	702	△331
Profit or loss for the period	1,327	△800
Profit attributable to non-controlling interests	95	118
Net profit or loss	1,231	△918

Consolidated statement of comprehensive income

(Unit: million yen)

	For the 6 months period ended August 31, 2019	For the 6 months period ended August 31, 2020
Profit or loss for the period	1,327	△800
Other comprehensive income		
Deferred gains or losses on hedges	0	0
Foreign currency translation	△99	△88
Share of other comprehensive income of associates	△62	△55
Other comprehensive income	△161	△143
Comprehensive income	1,165	△943
Attributable to:		
Equity shareholders	1,104	△1,025
Non-controlling interests	61	81

(3) Consolidated statement of cash flows

(Unit: million yen)

	For the 6 months period ended August 31, 2019	For the 6 months period ended August 31, 2020
Cash from operating activities		
Profit or loss before taxation	2,029	△1,131
Depreciation	448	495
Impairment	49	79
Increase (△decrease) in provision for bonus	4	△126
Interest income	△4	△3
Interest on bank and other loans	34	31
Foreign exchange losses (△ gain)	18	5
Share of loss (△ profit) of associates	10	414
Loss on disposals of property, plant and equipment	26	4
Decrease (△increase) in trade and other receivables	623	717
Decrease (△increase) in inventories	△330	764
Increase (△decrease) in trade and other payables	△1,385	△1,400
Increase (△decrease) in other payables	152	△813
Increase (△decrease) in provision for retirement benefits	△6	0
Others	△195	△337
Subtotal	1,475	△1,300
Interest income received	4	3
Interest expenses paid	△28	△26
Income taxes paid	△1,007	△1,141
Income taxes refund	—	163
Net cash from operating activities	442	△2,302
Cash from investing activities		
Purchase of property, plant and equipment	△460	△316
Purchase of intangible assets	△78	△95
Payments for rental deposits	△158	△84
Proceeds from collection of rental deposits	124	251
Others	△47	△29
Net cash from investing activities	△620	△274
Cash from financing activities		
Proceeds from short-term borrowings	—	3,000
Proceeds from long-term borrowings	—	2,000
Repayment of long-term borrowings	△2,006	△3,832
Purchase for treasury stock	△121	—
Payment for dividend	△1,391	△1,374
Repayment of lease obligations	△2	△2
Repayment of fixed assets installment payables	△21	△17
Net cash from financing activities	△3,543	△227
Effect of exchange rate change on cash and cash equivalents	△53	△41
Net increase (△ decrease) in cash and cash equivalents	△3,773	△2,846
Cash and cash equivalents at beginning of period	18,504	16,133
Cash and cash equivalents at end of period	14,730	13,287

(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)

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.

(Additional information)

(Regarding the Uncertainty of Accounting Estimates)

Across our group, in order to prevent the spread of COVID-19, within our domestic business operations, as of May 6,2020, all physical stores ceased business operations, but after the lifting of the State of Emergency, our store operations had since resumed, with the resumption of operations at all stores since the 9th of June. Additionally, as for overseas business operations, in China which has proactively resumed economic activity, sales are gradually recovering as of May 2020.

The impact of COVID-19 epidemic on our group has been illustrated in the decrease of customers due to stay-at-home orders and the request for the suspension of business. Previously assuming that we returned to normal business operations by June 2020 and recovered gradually hereafter, and we expected to converge it by the end of the second quarter at the least. As of August 31, 2020, in light of the extent to which consumer demand recovered after the lifting of the State of Emergency and the current situation of COVID-19 epidemic, we anticipate the gradual recovery of business performance in areas where economic activity has resumed. However, business performance will not recover to the level of normal years and the impact of COVID-19 epidemic on our group remains to a certain extent until the end of current fiscal year. Under this assumption we, hereafter, are performing impairment assessment for fixed assets and to determine the recoverability of deferred tax assets.

Note that currently, it is difficult to predict when the spread of COVID-19 will end, if it will take more time to end, there is the possibility that it may affect the business performance and financial conditions of the Group.

(Subsequent events)

(New borrowing)

The Company, on September 16, 2020, at the Board of Directors meeting resolved to make a new borrowing.

Outline of borrowing:

(1) Name of Lender	MUFG Bank, Ltd.
(2) Borrowing Amount	1 Billion Japanese Yen
(3) Borrowing Conditions	Base Interest Rate + Spread
(4) Date of Borrowing	September 30, 2020
(5) Maturity Date	September 29, 2023
(6) Asset for Collateral	N/A