Consolidated Financial Summary for Baroque Japan Limited
Financial Information for the year ended January 31, 2018

Tokyo Stock Exchange First Section, 3548

English Translation of the original Japanese-Language Report

Contents

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 year ended January 31, 2018, although domestic economy was recovering gradually, disposable income did not increase and personal spending was still weak.

Our Group's principal business is speciality store retailer of private label apparel (SPA). We have a balanced portfolio of brands to match the needs and lifestyles of different target customers, and to expand our business in Japan, China, Hong Kong and United States markets.

For our domestic business, "SHEL'TTER PASS" membership point system was introduced for both our store and e-commerce businesses. This facilitated our digital marketing through mobile phones. We continued to revolutionize our product development, cost reduction, logistics and other supply chain management processes. "MOUSSY", "ENFÖLD", "STACCATO", "RIM.ARK" continued to perform well. "Adidas x MOUSSY" as well as "MOUSSY STUDIOWEAR" product lines were well received by customers. "ENFÖLD" introduced a resort line and obtained new customers. Our shoes brand "STACCATO" performed well in major department stores. "RIM.ARK" opened stores after consistently strong e-commerce performance in prior year.

AZUL by mousy, our Shopping Center brand with 133 stores in Japan, even though TV commercial was put in, number of customers dropped compared to prior year. Third-party e-commerce recorded growth, but in-house e-commerce sales dropped due to certain one-off problems happened when we introduced the new system. However, total e-commerce sales recorded growth.

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. We were also able to grow our wholesale business through reputable department stores and fashion select stores in the USA.

As a result, as at January 31, 2018, we have 368 stores in Japan (direct-operated 277, franchise 91), and 9 stores overseas (direct-operated 1, franchise 8), totaling 377 stores. In addition, we have another 227 stores in China with our joint venture partner Belle International Holdings Limited.

Consolidated turnover is 67,952 million yen (2.2% decrease from prior year), operating profit is 2,556 million yen (52.4% decrease from prior year), recurring profit is 2,556 million yen (52.5% decrease from prior year), and net profit is 1,236 million yen (64.8% decrease from prior year).

(2) Financial review

During the year ended January 31, 2018, assets increased by 2,858 million yen to 41,317 million yen, mainly due to the increase in cash and cash equivalents by 1,434 million yen, the increase in trade and other receivables by 1,632 million yen.

Liabilities increased by 1,394 million yen to 22,851 million yen, mainly due to the increase in interest-bearing borrowings by 2,126 million yen.

Equity increased by 1,464 million yen to 18,466 million yen, mainly due to the payment of dividends of 355 million yen, the increase in treasury stock by 263 million yen, the increase in share capital by 186 million yen and the increase in share premium by 186 million yen due to the exercise of stock options, the increase in net profit by 1,236 million yen, and the increase in non-controlling interests by 401 million yen.

(3) Cash flows review

Cash and cash equivalents increased by 1,434 million yen to 18,743 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 723 million yen (2,498 million yen decrease from prior year), mainly due to profit before taxation of 2,435 million yen, depreciation of 814 million yen, income taxes paid of 1,405 million yen.

(Cash flows from investing activities)

Net cash flows used in investing activities totaled 691 million yen (748 million yen increase from prior year), mainly due to purchase of property, plant and equipment of 260 million yen, payments for rental deposits of 304 million yen.

(Cash flows from financing activities)

Net cash flows provided by financing activities totaled 1,438 million yen (6,325 million yen decrease from prior year), mainly due to proceeds from long-term borrowings of 5,000 million yen, repayment of long-term borrowings of 4,373 million yen, proceeds from issuance of shares of 373 million yen.

(4) Future prospect

We saw a slow recovery of the domestic economy, strong Japanese yen added to the uncertainty of exports, and personal spending was not active.

Under such business situation, the Group targets to improve the stability and profitability of our domestic business, and to continue to expand our overseas business with a focus in China.

For our domestic business, in view of the decrease in number of customers, we plan to strengthen our digital marketing based on the user data we gathered from"SHEL'TTER PASS", as well as other advertisements using SNS. We also plan to perform scrap and build for our stores, closing under-performing stores and opening better profitable stores, to improve the overall profitability. We personalize marketing campaigns using the user data from "SHEL'TTER PASS" to improve store and e-commerce sales.

For our overseas business, especially our China business, we target to improve our brand recognition, grow our e-commerce, open around 40 stores, and expect a significant growth in profit contribution from China. Our USA business is supported by strong wholesale demands. We plan to continue to explore overseas e-commerce market.

The forecast consolidated turnover is 71,306 million yen, operating profit is 4,233 million yen, recurring profit is 4,780 million yen, and net profit is 3,287 million yen.

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 price competition.

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

We build our brand portfolio according to Customer Lifetime Value (CLTV) to minimize the impact from shrinking population.

Our high casual brand “MOUSSY”, daily-use casual brand “AZUL BY MOUSSY”, edgy fashion casual brand “BLACK BY MOUSSY” are able to take care the diversified needs of our customers. Our contemporary brand “ENFÖLD”, resort collection line “någonstans” are able to take care of the sophisticated needs of highly fashionable customers.

Other than our core brands, we also plan to improve the profitability of our middle size brands by scarp and build strategy, as well as to expand our customer base by further introducing new brands.

CLTV maximization shall be facilitated by our “SHEL'TTER PASS” platform and other digital marketing campaigns, and to improve the profitability of our store and e-commerce businesses.

②Overseas 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 the success of our major brands into North America and Europe areas.

③Supply chain management revolution

We plan to reduce our reliance on China and expand our sourcing from other Southeast Asia countries, and to revolutionize our production and logistic processes to improve our profitability.

④Compliance

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.

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, 2017	As at January 31, 2018
Assets		
Current assets		
Cash and cash equivalents	17,309	18,743
Trade and other receivables	6,172	7,804
Inventories	5,110	4,514
Consumables	111	56
Deferred tax assets	547	831
Others	783	864
Provision for doubtful accounts	△1	△0
Total current assets	30,034	32,815
Non-current assets		
Property, plant and equipment		
Building and leasehold improvements (net)	1,425	1,255
Land	350	350
Construction in progress	30	18
Others (net)	232	175
Total property, plant and equipment	2,038	1,800
Intangible assets		
Software	293	539
Others	12	12
Total intangible assets	305	551
Investments and other assets		
Investments in and advances to associates	1,820	1,848
Rental deposits	3,471	3,514
Deferred tax assets	528	585
Others	193	159
Total investments and other assets	6,013	6,108
Total non-current assets	8,358	8,460
Deferred assets		
Stock delivery expenses	66	42
Total deferred assets	66	42
Total assets	38,459	41,317

(Unit: million yen)

	As at January 31, 2017	As at January 31, 2018
Liabilities		
Current liabilities		
Trade and other payables	5,247	4,979
Short-term interest-bearing borrowings	—	1,500
Interest-bearing borrowings	4,373	2,123
Other payables	1,439	1,156
Accrued expenses	490	482
Current tax payable	845	633
Deposits received	297	41
Provision for bonus	—	133
Provision for reinstatement costs	32	50
Others	139	121
Total current liabilities	12,867	11,222
Non-current liabilities		
Interest-bearing borrowings	6,184	9,061
Other payables	102	84
Provision for retirement benefits	723	877
Provision for reinstatement costs	972	1,010
Deposits received	567	505
Others	39	89
Total non-current liabilities	8,589	11,628
Total liabilities	21,456	22,851
Equity		
Shareholders' equity		
Share capital	7,904	8,090
Share premium	7,901	8,016
Retained earnings	746	1,698
Treasury stock	—	△263
Total shareholders' equity	16,551	17,542
Other reserves		
Deferred gains or losses on hedges	△8	△3
Foreign currency translation reserve	76	184
Remeasurements of defined benefit plans	△87	△128
Total other reserves	△18	52
Non-controlling interests	469	871
Total equity	17,002	18,466
Total liabilities and equities	38,459	41,317

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

Consolidated income statement

(Unit: million yen)

	For the year ended January 31, 2017	For the year ended January 31, 2018
Turnover	69,493	67,952
Cost of goods sold	30,875	31,556
Gross profit	38,618	36,396
Selling, general and administrative expenses	33,249	33,840
Operating profit	5,368	2,556
Non-operating income		
Interest income	4	1
Gain on foreign exchange	—	2
Share of profit of associates	270	82
Subsidy income	46	116
Other income	8	20
Total non-operating income	330	223
Non-operating expenses		
Interest on bank and other loans	121	74
Finance charges	30	23
Loss on disposals of property, plant and equipment	68	59
Loss on foreign exchange	71	—
Loss on store closure	—	32
Other expenses	21	33
Total non-operating expenses	313	224
Recurring profit	5,385	2,556
Extraordinary income		
Reversal of provision for directors' retirement benefits	129	—
Total extraordinary income	129	—
Extraordinary expenses		
Impairment loss	41	120
Total extraordinary expenses	41	120
Profit before taxation	5,474	2,435
Corporation tax, inhabitants tax and business tax	1,574	1,158
Deferred income tax	220	△325
Total income tax	1,795	833
Profit for the year	3,678	1,602
Profit attributable to non-controlling interests	171	365
Net profit	3,507	1,236

Consolidated statement of comprehensive income

(Unit: million yen)

	For the year ended January 31, 2017	For the year ended January 31, 2018
Profit for the year	3,678	1,602
Other comprehensive income		
Deferred gains or losses on hedges	9	4
Foreign currency translation	△393	66
Remeasurements of defined benefit plans	△73	△40
Share of other comprehensive income of associates	△36	72
Other comprehensive income	△493	102
Comprehensive income	3,184	1,704
Attributable to:		
Equity shareholders	3,034	1,308
Non-controlling interests	150	396

(3) Consolidated statement of changes in equity

For the year ended January 31, 2017

(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	3,914	3,911	△2,761	－	5,063	△17	486	△13	454	334	5,853
Changes during year											
Issuance of shares	3,990	3,990			7,980						7,980
Net profit			3,507		3,507						3,507
Net changes other than shareholders' equity						9	△409	△73	△473	134	△339
Total changes during year	3,990	3,990	3,507	－	11,487	9	△409	△73	△473	134	11,148
Balance at end of year	7,904	7,901	746	－	16,551	△8	76	△87	△18	469	17,002

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

(4) Consolidated statement of cash flows

(Unit: million yen)

	For the year ended January 31, 2017	For the year ended January 31, 2018
Cash from operating activities		
Profit before taxation	5,474	2,435
Depreciation	946	814
Impairment	41	120
Interest income	△4	△1
Interest on bank and other loans	151	98
Foreign exchange losses (△ gain)	△3	△4
Share of profit of associates	△270	△82
Loss on disposals of property, plant and equipment	68	59
Decrease (△increase) in trade and other receivables	△171	△1,499
Decrease (△increase) in inventories	231	587
Increase (△decrease) in trade and other payables	△21	△301
Increase (△decrease) in other payables	△54	△66
Decrease in provision for directors' retirement benefits	△129	—
Increase (△decrease) in provision for retirement benefits	72	94
Increase (△decrease) in provision for bonus	△299	133
Others	△733	△173
Subtotal	5,297	2,212
Interest and dividend income received	4	1
Interest expenses paid	△134	△86
Income taxes paid	△1,945	△1,405
Net cash from operating activities	3,221	723
Cash from investing activities		
Purchase of property, plant and equipment	△943	△260
Purchase of intangible assets	△224	△353
Payments for rental deposits	△385	△304
Proceeds from collection of rental deposits	153	260
Payments for reinstatement	△40	△33
Net cash from investing activities	△1,440	△691
Cash from financing activities		
Proceeds from short-term borrowings	2,600	2,500
Repayment of short-term borrowings	△2,600	△1,000
Proceeds from long-term borrowings	3,500	5,000
Repayment of long-term borrowings	△3,066	△4,373
Proceeds from issuance of shares	7,907	373
Payments for treasury stock	—	△263
Payment for dividend	—	△355
Repayment of fixed assets installment payables	△540	△406
Repayment of lease obligations	△35	△36
Net cash from financing activities	7,764	1,438
Effect of exchange rate change on cash and cash equivalents	△81	△36
Net increase (△ decrease) in cash and cash equivalents	9,464	1,434
Cash and cash equivalents at beginning of year	7,845	17,309
Cash and cash equivalents at end of year	17,309	18,743

(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.

(Additional information)

For the year ended January 31, 2018
"Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No.26 March 28, 2016) has been applied from the beginning of the financial year. Board Benefit Trust (BBT) The Company introduced a new performance linked compensation system, Board Benefit Trust or BBT, for directors and senior executives on the 18th annual shareholders' meeting on April 26, 2017 in order to improve the performance of the Company over the longer term and to enhance corporate value. The accounting method regarding BBT complies with "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts" of PITF No.30 March 26, 2015 1. Overview The Company shall grant shares to directors and senior executives (excluding external directors) who meet certain conditions according to our internal rules. The Company shall grants points to directors and senior executives according to performance achievements, and they shall receive the Company's shares when they retire. The Company shall acquire the shares which shall be managed separately as Trust property. 2. Company shares in the Trust The book value (excluding incidental costs) of the Company shares held by the Trust are accounted for as treasury stock in the net assets section on balance sheet. As at January 31, 2018, the book value of treasure stock was 263 million yen, and total number of shares was 216,000 shares.

(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, 2017	For the year ended January 31, 2018
Net assets per share	465.68 Yen	488.43 Yen
Net profit per share	108.37 Yen	34.51 Yen
Diluted net profit per share	105.55 Yen	34.23 Yen

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

Item	For the year ended January 31, 2017	For the year ended January 31, 2018
Net assets (million yen)	17,002	18,466
Deduction from net assets (million yen)	469	871
(Non-controlling interests) (million yen)	469	871
Net assets applicable to common stock shareholders (million yen)	16,532	17,595
Year end number of shares of common stock	35,503,000	36,024,600

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

Item	For the year ended January 31, 2017	For the year ended January 31, 2018
Net profit per share		
Net profit (million yen)	3,507	1,236
Amount not applicable to common stock shareholders (million yen)	—	—
Net profit applicable to common stock shareholders (million yen)	3,507	1,236
Average number of shares of common stock outstanding during the year	32,370,213	35,829,292
Diluted net profit per share		
Adjusted net profit (million yen)	—	—
Increase in number of common stock	865,695	291,373
(from convertible bond)	—	—
(from stock option)	865,695	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 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 prior financial year.
4. 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 prior financial year.
5. The Company introduced a new performance linked compensation system, Board Benefit Trust or BBT, during the 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. Treasury stock of 216,000 shares were excluded when net assets per share was calculated. Treasury stock of 78,526 shares were excluded when net profit per share and diluted net profit per share were calculated.

(Subsequent events)

No significant subsequent events.

(Change of financial year end)

Subject to approval in the 19th annual shareholders' meeting on April 25, 2018, according to the board of directors meeting on March 15, 2018, the Company intends to change its financial year and the relevant articles.

1. Reason

The Company intends to change the year end to February end due to the following two reasons:

(1) Sale season of the apparel industry tends to extend into February, changing the year end to February end allows the Company to match its business cycle.

(2) For better comparison with other companies to facilitate our discussion with stakeholders.

2. Details

Current financial year end: end of January

Propose change : end of February

The transitional financial year will have 13 months, starting from February 1, 2018 and ending on February 28, 2019.