



Annual Report 2012

French Connection Group PLC

French Connection

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French Connection Group PLC

The French Connection Group designs, produces and distributes branded fashion clothing for men and women to more than 50 countries around the world



French Connection • Great Plains • TOAST • YMC

A man with a beard is shown from the chest up, wearing a dark blue short-sleeved button-down shirt with small white polka dots. He is holding a dark metal can and pouring a white liquid, presumably milk, which is splashing onto his shirt. The background is a plain, light-colored wall. The text 'Today the Collection feels lactose intolerant' is overlaid in white, bold, sans-serif font in the center of the image.

**Today
the Collection
feels lactose
intolerant**

Chairman's Statement

Dear Shareholders,

During the past year our wholesale, international and licensing businesses have performed well, however, in the most difficult Winter season I have seen in all the years I have been in business, our UK retail division has been very disappointing and this has had a significant effect on our results for the year.

In the year ended 31 January 2012 the continuing operations achieved:

- total revenue of £215.4 million, a 5% increase;
- profit before tax of £5.0 million compared to £7.3 million last year; and
- closing cash of £34.2 million (2011: £34.1 million) with no borrowings.

In the light of the poor performance of the UK retail division we are reviewing our retail operations in order to improve sales and margin in this core business. We are very aware that there will be no quick solutions and that changes we make will take time to have an impact. We are working very hard on improving the performance of the retail stores, although clearly the state of the UK economy is not helping the position.

The rest of the Group has performed well over the last year:

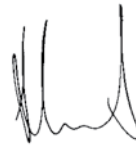
- the UK/Europe wholesale channel achieved a 17% increase in revenue largely from new customers, although with a lower gross margin;
- we are pleased to have achieved an operating profit of £3.3 million (2011: £nil) in our North America region with a good performance in the wholesale division as retailers sold the product extremely well;
- our licensees in Asia and Australia continue to perform well, as can be seen from an increase in revenue and profit generated in our operation in Hong Kong;
- our Joint Ventures in Hong Kong and China have also performed well, both achieving strong growth in like-for-like sales; and
- Group licensing income grew strongly, increasing by 47% to £8.5 million (2011: £5.8 million). This performance shows the strength of our brand globally and gives us confidence in the core strength of the business. The licensing income is derived from products carrying the brand in toiletries, eyewear, suiting, fragrance and for the first time includes income from our collaboration with Li & Fung and Sears in the US for the "UK Style" brand.

We have demonstrated our ability to produce fashionable, wearable products over the last 40 years and will continue to do so. With the help of the review of operations, a strong balance sheet and our global brand, we will return the business to the level of profitability we feel the Group deserves. I remain confident that we have the management, design talent and operational capabilities in place to make this happen.

The Group remains debt-free and generated positive cash flow during the year, ending with a cash position of £34.2 million, slightly ahead of last year, including payment of a dividend. We have decided to propose a final dividend of 1.0 pence per share bringing the full year dividend to 1.6 pence (2011: 1.5 pence).

I expect that the UK retail environment will remain subdued over the next twelve months and we are planning accordingly. We will, however, continue to work hard to improve our financial performance. We have added a new premium range in our stores and will be adding a range of home wares to our larger stores and on-line in April. We expect to see further growth in our wholesale channels, in international and additional store openings in China, Hong Kong and India. Our brand licensees continue to perform well.

I would like to thank all our staff around the world for their continuing efforts and hard work in these difficult economic times.



Stephen Marks
Chairman and Chief Executive

13 March 2012

Our Business

Fashion is a fast paced business requiring constant creative drive and leadership in order to keep ahead of customer expectations. This speed of change causes volatility which in turn creates the excitement which draws people into this most dynamic of businesses.

With its unrelenting rate of change, fashion can be a tough game. However, after 40 years in the business, French Connection is now one of the most recognised fashion brands on the high street. The brand has a global reach, available in over 50 countries through more than 1,000 stockists and with total worldwide retail sales of branded product of over £450 million, either directly, through wholesale or arising from licensing arrangements.

Fashion continues to develop as tastes, trends and reach become increasingly global, creating further opportunities for our business to expand its inspiration and market place. There are many geographic opportunities available to us for expansion and within existing markets we look to diversify our channels of distribution to cover retail, wholesale, licensing, and e-commerce. In addition we apply our experience and expertise to nurture and develop fledgling brands.

Fashion and style

At the heart of our business is a passion for the clothes.

In 1972, when French Connection was conceived, we set out to create well-designed, stylish clothing that appealed to a broad market. Staying true to that intention, French Connection has since become synonymous with fashion and style and it remains our prime goal to create and maintain brand credibility and distinctiveness in an ever-more crowded market place.

Driven by innovation and change, the brand's strength lies in balancing new and exciting ideas with consistent delivery of quality and affordability, with design being the bedrock around which the business and operations revolve. We work hard to sustain the vision and attitude that French Connection has developed over the years by cementing firmly in the minds of all who work with us that we have a worthy and credible tradition of successfully matching product, image and context with a company culture that nurtures talent and thus ensures longevity. In a world of "fast fashion" we are proud of our commitment to quality, design and the creative process.

Business aims and operations

With a passionate focus on fashion underpinning the business our aim is to generate increased shareholder value through the sale of fashion products and the extension of our brands into other lucrative markets through licensing. We continually assess markets and relationships for new opportunities to broaden our customer reach.

We design, produce and distribute branded fashion clothing for men and women from our business premises in London, Swansea, Paris, Dusseldorf, New York, Toronto and Hong Kong. We operate retail stores and concessions in the UK, Ireland, Europe, US and Canada and also operate highly successful e-commerce businesses in each of those territories. Further, we wholesale our products to retailers operating in over

50 countries around the world and have licensed partners operating French Connection stores across Asia, Australia and the Middle East. Other branded products, such as toiletries, shoes and eyewear, are produced under licence and are available across the world from our licensees.

We support the French Connection brand with advertising which, like everything we do, is designed to capture the spirit of the brand and show off our beautiful clothes.

Principal risks

Our success depends on our ability to produce ranges of garments which attract customers. Whilst we seek to achieve this and be as operationally flexible as possible, the nature of fashion means that it is not always possible to predict customers' reactions to each season's new ranges. Our customers' propensity to spend on clothing is impacted by their personal financial situation and other macro economic factors which impact the total size of the retail markets in which we operate. We have been able to mitigate this somewhat by developing our wholesale and licensing businesses which provide a more stable and predictable income stream. We consider that as a small operator at the upper end of the middle market the impact on our business of macro-economic elements is considerably smaller than the impact of the success of our designers in producing attractive products.

Brands

Our principal brand is French Connection which accounts for over 90% of the Group's revenues.

Our other brands include:

TOAST: a range of beautifully crafted ladies' and men's clothing and supplier of unique homeware, available on-line, through mail order and in a growing number of branded stores;

Great Plains: a fashion basics range produced in-house and supplied at wholesale to multi-brand retailers mainly in the UK; and

YMC: a fledgling edgy contemporary fashion brand for men and women with two stores in London and a growing wholesale base.

Each brand targets a different audience and has achieved high levels of recognition for style and design reflecting the creative passion and skill poured into the design and manufacture of their products.

French Connection

The *French Connection* brand operates in the fashion-orientated market place offering a fashion-forward range of quality products at affordable prices. Our customers, typically aged 18-35, appreciate that the brand is at the leading edge of high street fashion and offers quality and style in its products. We design ranges of products for both men and women from underwear to outerwear, casual wear to suits, denim, accessories and children's wear.

Our design teams are based in London and we arrange for the products to be manufactured in specialist facilities in Europe



The Collection is very happy

and Asia. The Group retails garments through a network of retail stores on high streets and in shopping malls across the UK, Ireland and North America and through concessions within leading department stores such as House of Fraser and John Lewis. We also operate highly successful e-commerce sites through which our products are available for home delivery in the UK, Ireland, Europe and North America.

The full range of products is also offered for sale at wholesale through our showrooms in London, New York, Paris and Hong Kong to selected customers operating department stores, multi-brand fashion stores or e-commerce sites around the world.

To further extend retail distribution we have granted franchises and licences to quality retailers allowing them to operate French Connection branded retail stores in the UK, Middle East, Asia and Australia. These customers are supplied through our wholesale channels in the UK and Hong Kong. Our licensees operating stores in Hong Kong and China are 50% joint venture businesses operated by our local partners in those territories.

Brand extensions

Our globally recognised French Connection and fcuk brands have been extended successfully into complementary licensed products including men's and women's toiletries and fragrances, shoes, watches, jewellery and eyewear which together generate another major profit stream for the Group: licence income. Our

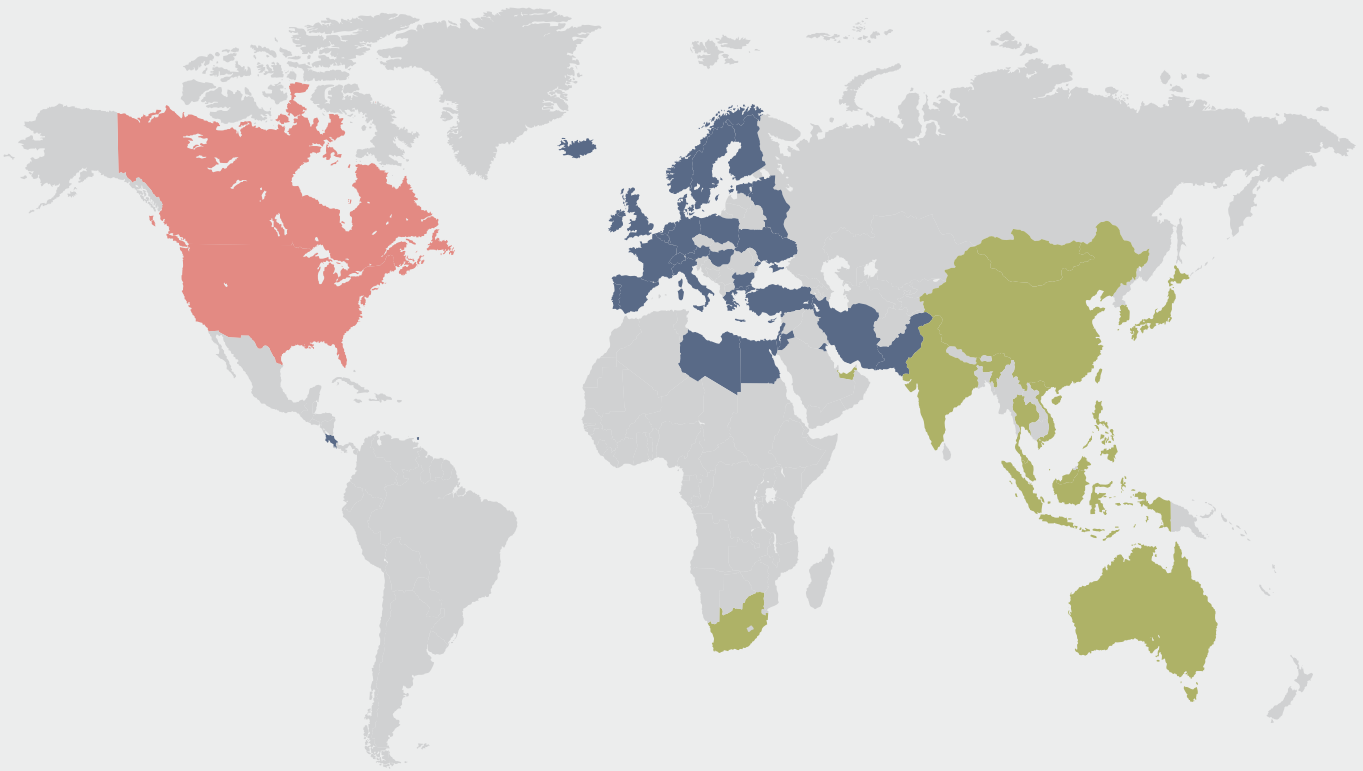
toiletries licensee in the UK has produced a hugely successful range of products for both men and women which are sold exclusively by Boots. In 2010, the Group granted a licence to a subsidiary of Li & Fung in the US to supply clothing products to the Sears department stores under the brand "UK Style by French Connection".

Management of the business

Founded by Chairman and Chief Executive Stephen Marks, French Connection's long history of success has been based on design quality and innovative fashion, supported by a strong market presence resulting in one of the most highly recognised and respected clothing brands in the UK and across the world. The senior management seek to ensure that our products are presented for sale in contemporary surroundings by knowledgeable and friendly staff who are in-tune with our customers. We recognise that our products are the core element of our business and that our ability to produce fashionable clothes matching our customers' expectation has been, and continues to be, the key to our continued success.

We seek to ensure that our resources are deployed effectively and efficiently to support our unitary business. Design and production of the ranges and maintenance of our operating standards are paramount for all our business managers who have broad responsibility for their area of operations.

Worldwide Operations



UK/Europe

LOCATION	
London, Paris, Dusseldorf	
TERRITORIES	
UK, Ireland, Europe and Middle East	
RETAIL OPERATIONS	
Retail stores and concessions, e-commerce	
WHOLESALE CUSTOMERS	
Department stores, multi-brand stores, franchise operators	
BRANDS	
French Connection, Great Plains, Toast, YMC	

North America

LOCATION	
New York	Toronto
TERRITORIES	
USA	Canada
RETAIL OPERATIONS	
Retail stores, e-commerce	Retail stores, e-commerce
WHOLESALE CUSTOMERS	
Department stores, multi-brand stores	Multi-brand stores
BRANDS	
French Connection, YMC	French Connection

Rest of the World

LOCATION	
Hong Kong	
TERRITORIES	
Hong Kong, China	Australia, Asia, India, South Africa etc.
RETAIL OPERATIONS	
Retail stores and concessions through joint ventures	
WHOLESALE CUSTOMERS	
	Brand licensees, department stores
BRANDS	
French Connection	French Connection

Our Business

Continued

Management of risks

Each year the brands produce two main ranges of fashions and the success of each of these is largely dependent on the ability of our designers to reflect attractively the emerging trends in fashion. We utilise a mix of experience and fresh thinking in our design studios under the consistent guidance of the senior management to ensure continuity of the brand attitudes.

Like all retailers we are susceptible to volatility in the propensity of consumers to spend, which is affected by macro-economic issues. The design process and our retail businesses in particular have a significant proportion of fixed costs giving rise to operational gearing and this is exacerbated by upward-only rent reviews which have recently seen cost increases well ahead of general inflation.

Our brands and the way they are perceived in their respective markets is very important to us. We are therefore very protective of the brands and work to ensure that they are presented in appropriate ways and that they are not misused. In our markets a main driver for brand perception is the products themselves and therefore our reputational risk is closely linked to our sales success.

As a wholesaler we also face the risk of default from our customers and manage this through active relationship management by our dedicated customer accounts team. Our experience of bad debts has been very low over many years due to this close management. We also insure certain debt risks, mainly overseas.

The Group maintains significant Sterling cash balances throughout the year and we are conscious to manage the Group's working capital effectively.

The principal treasury risks to the Group arise from exchange rate and interest rate fluctuations. The Board has approved policies for managing these risks, which are reviewed on a regular basis, including the use of financial instruments, principally forward foreign exchange contracts. No transactions of a speculative nature are undertaken.

The most significant exposure to foreign exchange fluctuations relates to purchases made in foreign currencies, principally the Hong Kong Dollar and Euro. The Group's policy is to reduce substantially the risk associated with purchases denominated in currencies other than Sterling by using forward fixed rate currency purchase contracts. There has been no change since the year end to the major treasury risks faced by the Group or the Group's approach to the management of these risks.

The Group is dependent on reliable IT systems for managing and controlling its business and for providing efficiency and speed in the supply chain. Our IT function oversees all the systems and has policies and procedures to protect the software, hardware and data and to prevent unauthorised access to the systems.

The Group's approach to the management of risks is further discussed in the Corporate Governance Report.

Key Performance Indicators

The Board considers that the key performance indicators for the businesses are:

- year-on-year comparison of retail sales on a same-store basis known as like-for-like sales growth;
- total sales achieved in the wholesale channels;
- gross margin by division;
- net operating contribution by division, being gross profit of the division, less the direct costs of the divisional operation; and
- net operating margin by division, being the operating profit before financing as a percentage of revenue.

Each of the above is discussed in more detail in the Business Review.

Growth and development plans

The restructuring of our business implemented in 2010 resulted in the divestiture or closure of a number of loss making businesses. The result was to improve the trading results such that the Group returned to profit and cash generation.

The senior management team is now focused on increasing sales volumes and improving margins in order to generate an improved net operating margin.

In the retail business our aim is to improve sales densities in our existing portfolio which will be evidenced by our key performance indicator of growth in like-for-like sales. Underperforming stores will, where possible, be closed.

In our wholesale business we aim to improve volumes with both existing wholesale customers and through recruiting new outlets, reported through the growth in total wholesale turnover. Along with this we aim to carefully control stock levels, margins and overheads.

We will also continue to expand our e-commerce operations which is now a significant sales channel. Our key performance indicators in this area are the sales, gross margins and net operating margins reported for each business segment.

We will continue to work to nurture and develop our younger brands, and we are excited about their prospects. Further, we aim to extend the reach of the French Connection brand through additional licensing in new product segments and territories and to support and nurture our existing licensees for further growth, the result of which will be seen in increases in licence royalty income.

Business Review

Introduction

Our principal brand is *French Connection* which accounts for over 90% of the Group's revenues and operates through owned retail locations in the UK, Ireland, Europe, US and Canada. Branded products are also available through our wholesale divisions to retailers worldwide. In addition, we have extended the brand into complementary products through our licensing programme.

French Connection Group also operates three other successful branded businesses – Toast, Great Plains and YMC:

- Toast has continued to grow its niche customer base and to increase revenues profitably. Our aim is to drive faster growth within this business and to this end the founders are building the capabilities of their team by recruiting further experienced management to work alongside them;
- Great Plains continues to be a highly successful wholesale brand creating relaxed, classic styles which sell very well in independent boutiques and department stores across the UK; and
- YMC creates stylish, alternative, modern clothing and has two stand-alone stores in London as well as a growing wholesale customer base worldwide.

The restructuring implemented in 2010 resulted in the sale and closure of unprofitable businesses. The continuing operations which have operated throughout the year ended 31 January 2012 comprise five operating divisions based on geographic location and channels to market with an additional and growing profit stream from brand licensing.

The UK/Europe retail division comprises the portfolio of *French Connection* branded retail stores and department store concessions across the UK, Ireland, Spain and Portugal. This division also includes the French Connection e-commerce business, Toast (which operates both mail-order and retail stores) and two YMC stores. E-commerce is now a significant and successful channel within our owned retail business, accounting for 17% of retail revenues. We continue to invest in this channel to ensure we have excellent on-line functionality and competitive delivery services.

The UK/Europe wholesale division supplies French Connection, Great Plains and YMC branded products to third party retailers such as specialist fashion independents, department stores and e-commerce sites based in the UK and Europe.

In North America the retail division comprises two businesses; a portfolio of eight stores (and e-commerce) in the US and twelve stores in Canada. In addition our wholesale division supplies department stores and independents across North America.

The Hong Kong wholesale business supplies product to French Connection licensees in Asia, Australia, South Africa and the Middle East.

French Connection product licences cover a number of different categories including toiletries, eyewear, watches,

suiting, fragrances, shoes and jewellery, with a global footprint. This part of the Group's business leverages off our investment in the French Connection brand and is a growing and profitable activity.

This Business Review will focus on the results of the continuing operations and then separately comment on the results of the discontinued operations.

Overview of Group Results

In the year ended 31 January 2012 the financial performance of the Group included good growth in our wholesale divisions and our international businesses combined with a significant step-up in brand licensing income. These elements of growth were offset by a poor trading performance in our core retail markets in the UK resulting in Group profit before tax of £5.0 million compared to £7.3 million for the equivalent businesses in the previous year.

Total revenue was 5% ahead of last year reflecting continued good growth in wholesale volumes in both UK/Europe and North America. Retail revenue in UK/Europe was broadly flat in both total and like-for-like terms, with growth in the first half offset by a poor winter season. Similarly, like-for-like retail revenue in North America was also broadly flat.

Group gross margin decreased by 390 basis points to 48.1%. There were a number of elements contributing to this decline, including increased production costs, a greater weighting of franchise customers in the wholesale channel, higher levels of clearance of old-season product and a greater weighting of revenue generated during the retail sales periods. The most significant divisional contributor to the decline was the UK/Europe retail business which accounted for 220 basis points of the difference.

Group overhead costs have benefited from £0.4 million of gains on the disposal of retail stores. The underlying increase in overheads was restricted to 2.1% despite additional investment in the e-commerce channel and the effect of retail space increases last year for YMC and Toast.

Licence income increased by £2.7 million as a result of the first contribution from the "UK Style by French Connection" licence in the US and continued good contributions from other licensees.

The resulting operating profit was £3.3 million (2011: £5.6 million).

Finance income has benefited from a one-off £0.8 million credit arising from exchange gains on the repayment of intra-group financing.

Our retail joint ventures in Hong Kong and China have continued to perform well with both businesses achieving strong growth in like-for-like revenue. Although the Group's share of the profits of these businesses showed a decrease from £1.5 million to £0.8 million in the year, the decrease reflected a £0.5 million one-off credit last year and some changes in the retail portfolio in Hong Kong.



**Look out.
The Collection
is feeling
fidgety**



**The Collection
is misbehaving**



Business Review

Continued

Divisional analysis, continuing operations

These tables set out the segmental analysis of the core continuing operations for the two years ended 31 January 2012.

	UK/Europe			North America			Hong Kong	Intra Group	Total
	Retail £m	Whole- sale £m	Total £m	Retail £m	Whole- sale £m	Total £m	Whole- sale £m	£m	£m
Year ended 31 January 2012									
Revenue	111.0	42.1	153.1	22.2	24.3	46.5	15.8		215.4
Gross profit	61.7	13.4	75.1	12.7	9.3	22.0	3.0	3.5	103.6
Gross margin	55.6%	31.8%	49.1%	57.2%	38.3%	47.3%	19.0%		48.1%
Trading overheads	(69.9)	(7.3)	(77.2)	(14.0)	(3.6)	(17.6)	(1.5)		(96.3)
Operating contribution	(8.2)	6.1	(2.1)	(1.3)	5.7	4.4	1.5	3.5	7.3
Common overhead costs			(4.6)			(3.1)			(7.7)
Other income			6.8			2.0	3.2	(3.5)	8.5
Divisional operating profit			0.1			3.3	4.7	–	8.1
Group management overheads									(4.8)
Operating profit									3.3
Net finance income									0.9
Share of joint ventures									0.8
Profit before taxation									5.0

	UK/Europe			North America			Hong Kong	Intra Group	Total
	Retail £m	Whole- sale £m	Total £m	Retail £m	Whole- sale £m	Total £m	Whole- sale £m	£m	£m
Year ended 31 January 2011									
Revenue	110.8	36.1	146.9	23.2	19.5	42.7	15.4		205.0
Gross profit	66.4	13.2	79.6	13.6	7.5	21.1	2.8	3.1	106.6
Gross margin	59.9%	36.6%	54.2%	58.6%	38.5%	49.4%	18.2%		52.0%
Trading overheads	(68.0)	(7.4)	(75.4)	(14.2)	(3.4)	(17.6)	(1.3)		(94.3)
Operating contribution	(1.6)	5.8	4.2	(0.6)	4.1	3.5	1.5	3.1	12.3
Common overhead costs			(4.2)			(3.5)			(7.7)
Other income			6.9			–	2.0	(3.1)	5.8
Divisional operating profit			6.9			–	3.5	–	10.4
Group management overheads									(4.8)
Operating profit									5.6
Net finance income									0.2
Share of joint ventures									1.5
Profit before taxation									7.3

United Kingdom and Europe – Retail

Total retail revenue in the UK/Europe division was broadly flat on last year both in total and on a like-for-like basis; average retail space barely changed. This overall performance was made up of a 4.6% growth in like-for-like sales in the first half which was then entirely off-set by a decline in the second half. The sales performance of ladies' wear and men's wear have been similar and the e-commerce channel has performed in-line with the retail stores. Both Toast and YMC have continued to achieve growth in like-for-like sales despite the current retail situation, albeit at a low level.

This performance in part reflects the general economic situation which has caused the consumer to be very cautious throughout the year. Where there was added impetus, for instance from good weather, the additional bank holiday or promotional discounts, the consumer reacted well to our ranges, but the main periods of full price trading were subdued. While our trading reflects the general economic situation we also recognise that our comparative performance has been very disappointing and therefore we are taking actions to improve our performance.

Business Review

Continued

The gross margin achieved in the retail channel was poor at 55.6% (2011: 59.9%). There were a number of reasons for this decline, each of which is receiving close attention. As reported previously, increases in production costs were driven by rises in the cost of cotton and other commodity prices along with wage inflation pressures in some of the countries in which we source our garments. We chose not to pass all of the increase on to our customers through our retail selling prices, resulting in a decrease in our input margins of 90 basis points over the year. Although consumers have been much more cautious during the year we saw they were more willing to spend during discount periods. This, combined with the price transparency presented by other retailers on the internet, means that it is increasingly difficult to maintain our full-price stance and to remain competitive. The impact of this change in shopping habits is that a higher proportion of our sales in the year were made during our two end-of-season sale periods, reducing the gross margin by 180 basis points. Further, with lower sales through the autumn season we have ended the year with more inventory than in previous years which has resulted in us taking a prudent approach with a higher level of provision against the cost of the inventory. This will be liquidated in the short term through both our wholesale and retail outlet channels.

Retail operating overheads increased by £1.9 million in the year. Overheads have been managed prudently and the majority of the increase can be accounted for by additional investment in e-commerce for both French Connection and Toast to support future growth in this channel. The increase in costs were associated with upgrading the website platform, increased customer acquisition investments and increased staff support for the web-sites including in-house studio facilities. Costs within the core French Connection retail store portfolio were at a similar level to the previous year. The rate of increase in rental settlements has slowed significantly and looking forward we expect this to continue. Further, the disposal of a store towards the end of the financial year gave rise to a gain of £0.7 million which has helped to limit the reported increase in overheads.

Overall the UK/Europe retail business generated a loss of £(8.2) million in the year (2011: £(1.6) million), a very disappointing outcome. As a result of the down-turn in results, we have started a detailed review of all aspects of our operations in the UK with the aim of significantly improving performance. Actions will be implemented as soon as possible but it is likely this will take some time and subsequent improvements in trading may take a number of seasons to bear fruit. We are confident that the Group has more than sufficient resources and strength to carry this process through and to create value for the long term. We will provide an update of the review along with our next interim management statement in May.

We have successfully operated at the upper-end of the middle market with a fashion-led product range for forty years. We consider that there are significant strengths in our approach to the business, particularly our ability, proven over many years, to move forward with the fashions and to constantly renew our customer base. However it is clear that improvements need to be made in order to revitalise our trading performance and retail results, particularly in the UK. New projects include the introduction of a range of premium women's wear for

the Spring season which is exclusive to our stores and e-commerce and, in order to broaden our branded offer, we will shortly launch a selection of home wares within our larger stores and through e-commerce. We are aiming to improve the margin performance through both continued management of the production costs, the minimisation of the sale periods and a reduction in the level of mark downs required. The key to improved profitability in our retail business lies in increasing the full-price sales densities in our stores which has the double effect of higher revenues and higher gross margins as the impact of discounted sales is diluted. Strong product ranges, supportive marketing, appropriate pricing and careful inventory management are important elements of achieving this and we are making all efforts to improve performance in each of these areas.

We continue to manage our portfolio of retail stores closely in order to find opportunities to improve the overall performance. Six store leases come to an end during the new financial year and a further eight the following year. Our experience so far has been that landlords are prepared to negotiate lower rentals in the current environment but where this is not possible and stores are uneconomic it is likely that we will reduce the size of the portfolio.

While no areas of the business will be omitted from the review we will ensure that the core strengths of the brand and our product which have proven successful over a long period and continue to be highly attractive in global markets are not diluted.

Looking to the near future, it appears unlikely that the economic environment will ease in the coming year and we are planning accordingly. As ever, we are working to maximise the performance of our stores and our ranges and will continue to work tirelessly to do so. We expect that our retail sales performance will remain under pressure and that it will take time for the effects of our review and actions to feed through to the financial results of this part of the business.

Toast had another good year despite the difficult market conditions. Sales continue to grow driven by its highly-anticipated and beautifully presented catalogues, interesting and comfortable stores and accessible website. Further, a selection of Toast products is now available in selected John Lewis stores, generating a new income stream. The business is closely managed in Swansea by its founders with support from the French Connection central team. We continue to develop a strategy to significantly grow the business's profitability so that it will add materially to the value of the Group.

YMC has also continued to perform well, increasing revenues and maintaining profitability. This is a youthful brand early in its development with significant opportunities for growth.

United Kingdom and Europe – Wholesale

Revenue in the wholesale business in UK/Europe increased by 17% in the year on top of the 11% increase achieved in the previous year. Growth has been achieved in both domestic and export markets and reflects both increased orders as a result of good rates of sell-through by our existing customers and new customers either placing orders for the first time or returning after a hiatus. In addition sales to our franchise

network increased by over 50% with the introduction of new franchises in Russia, Hungary, Turkey, Israel and Jordan.

The combination of the pressures on production costs, a higher proportion of sales to our franchise partners to whom we give structured volume discounts and higher levels of clearance has resulted in a reduction in our gross margin to 31.8% (2011: 36.6%). As commented above, the production cost pressures appear to be easing for the new financial year.

Great Plains and YMC have also had successful years despite very strong competition and a difficult trading environment which has affected our independent store customers.

Our forward orders for Spring/Summer 2012, a proportion of which was delivered in January 2012, were ahead of the equivalent orders for last year. Orders for Autumn/Winter 2012 are still being taken and while our customers have been pleased with the performance of our product in their stores there is an air of caution in their approach to Winter 2012 given the challenges recently experienced. Their reaction to our product, however, has been very positive.

Overhead costs within the division have been tightly controlled during the year, resulting in a small reduction.

This combination of factors lead to an increase in profit generated by the division to £6.1 million (2011: £5.8 million). The division retains considerable opportunity for growth and we expect to see some further increase in revenue in the new financial year. Through the business review we aim to enhance the positioning of our brand and attractiveness of our offer to our wholesale customers as well as improving the retail performance.

United Kingdom and Europe region

Together, the retail and wholesale businesses in UK/Europe incurred an operating loss of £(2.1) million in the year (2011: profit of £4.2 million). Common overhead costs for the region include shared accounting services and general brand advertising and marketing. The advertising budget for the year was increased from the previous year, resulting in the reported increase in costs but other expenditure was held steady.

Other income in the UK/Europe region of £6.8 million (2011: £6.9 million) includes both royalty receipts from external licensees and intra-group royalties which are eliminated from the Group result. The licence income from external sources in the UK held steady at £5.8 million with continued strong trading performances by Boots in relation to their toiletries licence, Specsavers in relation to their eyewear licence, and our suiting, jewellery and watch licensees. Further, we received increased royalties from our licensees in Australia, India and South Africa.

The operating result for the entire UK/Europe division was a profit of £0.1 million compared to £6.9 million in the previous year. Clearly we are extremely focused on improving the performance of this division of our business and in particular, as described above, the retail channel. We are confident that the combination of our significant experience, strong asset base, highly regarded brand, detailed approach to management and wide-ranging review will return this business to growth for the long-term.

North America – Retail

Revenue in our retail stores in North America fell to £22.2 million from £23.2 million in the year, partly due to the impact of changing exchange rates. On a like-for-like basis, revenue was broadly flat with the decrease arising from the closure of an underperforming store in Canada. Increased production costs and higher discounting in Canada caused the gross margin to be lower at 57.2% compared to 58.6% last year. Retail trading overheads in Sterling terms show a small decrease, due to the exchange rate changes. In Dollar terms the small increase in overheads was the result of the loss on disposal of the Canadian store of £(0.3) million. Overall, this resulted in a divisional loss of £(1.3) million (2011: £(0.6) million).

As with the UK stores we are working to increase the revenue in our stores in North America and this will focus on ensuring that the products we offer are attractive to our customer base and ensuring that operationally we maximise the opportunities. We also continue to review the store portfolio in order to deal with underperforming locations where possible.

North America – Wholesale

Operating contribution from our North America wholesale division made a very good step forward to £5.7 million for the year compared to £4.1 million in the previous year. This represented a 39% increase in profits on a 25% increase in revenue to £24.3 million. Increases came from both existing and new customers and we have achieved further customer acquisitions for the 2012 season, including another major department store group.

North America division

Together the two North America divisions generated a contribution of £4.4 million (2011: £3.5 million) in the year. Common overhead costs have been reduced compared to last year resulting in a contribution from trading of £1.3 million, compared to break-even last year. This highlights the significant impact of the restructuring implemented during 2010.

In addition this year we are reporting £2.0 million of licensing income generated from the North America division. This included the first minimum royalty contribution arising from our licence with Li & Fung to supply the “UK Style by French Connection” range of clothing to Sears department stores across the US. The launch of the range went well and our licensee and their customer are working to build momentum behind the range. This heading also includes royalty income in relation to our fragrance licensee based in the US. During the year a new fragrance line, “FCUK Friction” was launched which has added significantly to branded sales and royalty income.

Very pleasingly, the North America division generated an operating profit of £3.3 million compared to break-even last year.

Hong Kong – Wholesale

Revenue from our wholesale business based in Hong Kong increased by 6% in local currency and 3% in Sterling. Growth came from sales to our regional licensees in China, Korea, Malaysia and India, amongst others. The gross margin generated by this business is affected by the mix of the different supply arrangements with customers and while

Business Review

Continued

core margins were unchanged, the blended gross margin increased to 19.0% from 18.2%.

Reported overheads reflect a £0.2 million increase due to a reclassification of some commission income compared to last year. Underlying overheads have not changed significantly.

Other income in Hong Kong of £3.2 million (2011: £2.0 million) includes both buying office commission paid by Group companies in relation to shipments from Hong Kong to other divisions and buying office commissions and royalties payable by third parties. Of the £3.2 million, £2.5 million (2011: £2.0 million) is generated from intra-group business and is eliminated within the Group results.

Overall the Hong Kong business generated an operating profit of £4.7 million (2011: £3.5 million).

Group management and net finance income

The overheads relating to the Group management function were £4.8 million, the same as the previous year.

Net finance income in the year of £0.9 million (2011: £0.2 million) includes an exchange gain of £0.8 million recycled from reserves. The gain arose over a number of years and is now recycled as a result of the unwinding of intra-group loans. The core finance income represents the interest earned on our cash balances.

Share of profits of joint ventures

The Group is party to two joint ventures, each operating French Connection retail stores, one in Hong Kong and the other in China. The joint ventures are directly managed by local management teams with strategic input from the Group. From the perspective of the French Connection Group we benefit from not only our share of the profits generated by the joint venture but also from gross profit generated from supplying product to the businesses and the receipt of brand royalties.

The Group's share of net profits generated by the joint ventures during the year was £0.8 million, net of local taxes. The share of profits reported for the prior year of £1.5 million included a non-recurring credit of £0.5 million. The decrease in underlying profits is due to the closure of profitable stores in Hong Kong at the end of their leases. Both businesses continue to perform well, achieving strong like-for-like growth in sales.

Group profit before tax

The profit before tax of the Group for the year was £5.0 million compared to £7.3 million in the previous year for the equivalent businesses.

Following the restructuring in 2010 the Group has refocused on its core businesses and territories and achieved a return to profitability while successfully protecting our cash balances. It is therefore frustrating that these latest results are worse than our expectations. This is largely due to a disappointing result from the UK/Europe retail division where the performance has deteriorated in contrast to growth in our international businesses and licensing.

As described above, we have started a detailed review of the business with the aim of identifying strategies to return the retail division to profitability while enhancing the wholesale and licensing businesses further. It is likely that this review, the ensuing actions and the benefit from the changes will take some time to bear fruit and in the meantime all efforts are focused on operating the businesses to best effect.

Taxation

The tax charge in the year of £0.5 million (2011: £0.2 million) mainly reflects tax charged on profits generated in Hong Kong. No benefit has been recorded for tax losses incurred in the UK in the year. Historical tax losses generated in the US (which were not previously recognised in the accounts) are being utilised to offset the tax charge arising on profits in the US and therefore only a minimum tax charge of £0.1 million has been recorded in relation to these profits in the income statement.

The effective tax rate in future years will vary depending on the level of profit generated and the different geographic locations where it is taxed since the three principal countries of operation have significantly different tax rates and the Group has substantial tax losses which should be available to offset profits earned in the UK and US.

Discontinued operations

As previously reported the Group completed a strategic review in 2010 and implemented a range of actions which successfully returned the Group to profit and cash generation. The review resulted in a number of actions including the sale of the Nicole Farhi business in July 2010. The "discontinued operations" (as defined in IFRS 5) reported in the income statements for the two years ended 31 January 2012 reflect the trading results and loss on sale of this business.

In the year ended 31 January 2011 the trading results of these operations and the net costs of their disposal generated a loss of £(11.1) million.

In the year ended 31 January 2012 the discontinued operations generated an income of £0.8 million. This comprised a further £1.0 million of income in relation to the disposal of the Nicole Farhi business, made up of two payments described below, offset by the costs of disposal of two remaining stores.

Following the disposal in 2010, the Group held certain fixed and floating charges over the assets of the business as security in relation to the deferred contingent consideration. In April 2011, the Group agreed to alter those charges to allow the Nicole Farhi business to secure new bank lending. In return for this, the new owner of the business, OpenGate Capital, made a cash payment of £0.6 million. In January 2012 OpenGate entered into an agreement with Kelso Place Asset Management LLP ("Kelso Place") under which Kelso Place made a significant investment in Nicole Farhi alongside OpenGate. As a result of this, the Group will receive a further £0.4 million from

OpenGate on, or before, 31 January 2013 and has been granted a call option by OpenGate over a 5% interest in the Nicole Farhi business exercisable for nominal consideration.

Thus far the Group has received £1.6 million for the sale of the Nicole Farhi business and the payment referred to above will bring the total to £2.0 million. Other than these arrangements, the Company will receive no further Deferred Consideration.

Closed businesses

The trading results of the stores in the US which were closed by the end of the previous financial year were shown separately on the face of the income statement for the year ended 31 January 2011, identified as "closed operations". These operations gave rise to a profit in the year of £1.6 million as shown in the income statement. Combined with the loss from discontinued operations, the total loss for the year ended 31 January 2011 from closed or discontinued operations was £(9.5) million.

Further details of the disposals and closures are given in the Notes to the Group Accounts.

Non-controlling interests

The non-controlling interest of £0.0 million (2011: loss of £(0.1) million) reported in the income statement represents the net share of results attributable to the 25% ownership held by local management in Canada, Toast and YMC.

Earnings and dividend

Net earnings attributable to equity shareholders arising from the core continuing operations amounted to a profit of £4.5 million (2011: £7.2 million) and on the same basis adjusted earnings per share was 4.7 pence (2011: 7.5 pence).

Total net earnings for the year attributable to equity shareholders including the effect of discontinued operations was £5.3 million (2011: loss of £(2.3) million including both closed and discontinued operations) giving earnings per share of 5.5 pence per share (2011: loss of (2.4) pence per share).

The Board has recommended payment of a final dividend of 1.0 pence per share (2011: 1.0 pence per share) which, combined with the interim dividend of 0.6 pence per share, gives a dividend of 1.6 pence per share for the full year (2011: 1.5 pence per share). The increase in the dividend is a reflection of the Board's confidence in the future profitability and cash generation capabilities of the Group. The Board's intention is to increase the dividend in the future in line with increases in profits. Subject to approval at the Annual General Meeting, the final dividend will be paid on 4 July 2012 to shareholders on the register on 23 March 2012 (ex-dividend date 21 March 2012).

Balance sheet and cash flow

The Group balance sheet remains strong with £34.2 million of cash (2011: £34.1 million) and no bank borrowings. The trading operations of the Group generated net cash of £0.4 million, restricted by the increase in inventory at the year end.

Additional investment in fixed assets has been low in recent periods and this year the Group invested £1.6 million (2011: £1.0 million), being mainly in respect of stores and IT equipment, particularly in relation to the e-commerce business. The restricted capital expenditure over recent years has resulted in a reduced depreciation charge of £2.8 million (2011: £3.7 million). Our development and growth plans focus on developing the products and customer service and therefore are not capital-intensive. However should any store refurbishments be implemented then the level of capital expenditure would increase. It is expected that capital expenditure in the current financial year will be in the region of £2.0 million, subject to any plans arising from the business review.

The Board's policy is to maintain a strong capital base, including liquid funds, in order to maintain investor, creditor and market confidence and to sustain future development of the business.

Directors' Report

The Directors of French Connection Group PLC ("the Company") present their Annual Report for the year ended 31 January 2012.

Principal activity

The Group designs and supplies branded fashion clothing and accessories as more fully described in the section entitled Our Business.

Business review

The principal operating subsidiaries of the Group for the period under review were French Connection Limited, French Connection UK Limited, French Connection (London) Limited, French Connection Group Inc, French Connection (Hong Kong) Limited, Toast (Mail Order) Limited, French Connection (Canada) Limited and YMC Limited. The Companies Act 2006 requires that the Directors' Report contains a fair review of the business and a description of the principal risks and uncertainties facing the Group. A review of the business strategy and a commentary on the performance of the business is set out in the Business Review and the Chairman's Statement. The principal risks facing the business are detailed in the section entitled Our Business and the corporate and social responsibilities of the Group are outlined in the Corporate Responsibility Statement. The disclosures contained in those reports form part of this Directors' Report.

Proposed dividend

The Directors recommend the declaration of a final ordinary dividend of 1.0 pence per share (2011: 1.0 pence). Subject to approval at the Annual General Meeting, the final dividend will be paid on 4 July 2012 to shareholders on the register on 23 March 2012 (ex-dividend date 21 March 2012).

Directors

The Directors of the Company are set out on page 17.

Stephen Marks, Director, retires by rotation in accordance with the Articles of Association and offers himself for re-election at the Annual General Meeting. The Board considers that Mr Marks continues to make a major contribution to the strategy and operations of the Group and therefore recommends his re-election as a Director. Details of Mr Marks' remuneration and employment contract are set out in the Directors' Remuneration Report.

The Board has considered whether there are any factors which might compromise the independent judgement of either of the non-executive Directors and concluded there was none. The Board therefore considers both Mr Murray and Ms Kent to be independent of the Company.

At 31 January 2012, none of the Directors or their families held any beneficial interests in the issued capital of the Company other than Stephen Marks whose shareholding is disclosed below.

The details of share options held by Directors are set out on page 23. There have been no changes in the Directors' interests in the shares of the Company since the end of the financial year.

Significant shareholdings

As at 13 March 2012 the Company has been notified of the following substantial interests in its ordinary shares:

	Shares	Percentage of Issued Share Capital
Stephen Marks	40,094,190	41.8%
(of which, held in family trusts)	2,281,500	
Schroder Investment Management	14,296,288	14.9%
Standard Life Investments	4,045,868	4.2%
Ennismore Fund Management Limited	3,272,925	3.4%

Contractual arrangements

The Company has no contractual or other arrangements which are essential to the business of the Company nor any key customers or major suppliers on which it is dependent.

Supplier payment

The majority of the Group's creditors are suppliers with whom payment terms and conditions are agreed in advance. Where the supply of goods and services is satisfactory, it is the policy of the Group to pay creditors when they fall due for payment.

For the year ended 31 January 2012, the Group's average trade creditors represented 66 days purchases (2011: 72 days). The Company has minimal third party creditors.

Employees

It is the Group's established practice that all employees have access to their immediate superiors and ultimately to the Chief Executive to discuss matters of concern to them as employees and that the views of employees are sought and taken into account in making decisions which are likely to affect their interests.

Furthermore the Group seeks to encourage both the involvement of employees in its performance and a common awareness on the part of all employees of factors affecting its performance. The Group provides equal opportunities to all employees and prospective employees including those who are disabled.

Property, plant and equipment

The changes in intangible and tangible fixed assets during the year are set out in Notes 13 and 14 to the Group accounts.

Financial instruments

The financial instrument policies are set out in Note 28 to the Group accounts.

Joint ventures

The Group is a member of two 50:50 joint ventures operating retail stores in China and Hong Kong. Both joint ventures are managed by committees with equal representation from the members. The Group's share of the results of these businesses is included in these accounts for the whole of the financial year.

Charitable and political donations

Charitable donations of £8,370 (2011: £7,126) were made during the year. No political donations were made in either 2012 or 2011.

Share capital

The share capital of the Company comprises ordinary shares of 1p each; each share carries the right to one vote at general meetings of the Company. The authorised and issued share capital of the Company, together with movements in the Company's issued share capital during the year, are shown in Note 23.

Takeovers directive

Section 992 of the Companies Act 2006, which implements the EU Takeovers Directive, requires the Company to disclose certain information. Most of these requirements are dealt with elsewhere in the Annual Report, however the following additional disclosures are required:

The Company's Articles of Association ('Articles') give power to the Board to appoint Directors, but require Directors to submit themselves for election at the first Annual General Meeting following their appointment and for one third of the Board to retire by rotation and to offer themselves for re-election at each Annual General Meeting. The Articles may be amended by special resolution of the shareholders.

The Board of Directors is responsible for the management of the business of the Company and may exercise all the powers of the Company subject to the provisions of the relevant statutes, the Company's Memorandum and Articles of Association. The Articles contain specific provisions and restrictions regarding the Company's power to borrow money. Powers relating to the issuing of shares are also included in the Articles and such authorities are renewed by shareholders each year at the Annual General Meeting.

There are a small number of agreements that take effect, alter or terminate upon a change of control of the Group following a takeover, such as shareholder agreements with the minority shareholders in certain subsidiaries and the Company share option

schemes. None of these is deemed to be significant in terms of their potential impact on the business of the Group as a whole.

Annual General Meeting

The Annual General Meeting of the Company will be held at 10.00 am on 17 May 2012 and a notice of meeting has been sent to shareholders setting out details of the business to be conducted.

Disclosure of information to auditors

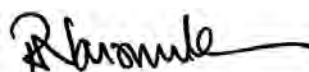
The Directors who were members of the Board on the date the Directors' Report was approved have confirmed the following:

- to the best of each Director's knowledge and belief there is no information relevant to their report of which the auditor is unaware; and
- each Director has taken all the steps a Director might reasonably be expected to take to be aware of relevant audit information and to establish that it has been communicated to the auditor.

Auditors

In accordance with section 485 of the Companies Act 2006, a resolution to re-appoint KPMG Audit Plc as auditors to the Company will be proposed at the forthcoming Annual General Meeting.

By order of the Board



Roy Naismith
Company Secretary

13 March 2012

Directors

Stephen Marks Chairman and Chief Executive	Roy Naismith C.A. Finance Director	Neil Williams A.C.A. Operations Director	Dean Murray Independent Non-executive Director	Claire Kent Independent Non-executive Director
Stephen (aged 65) founded the Company in 1969 and has managed the Group's development since then in the position of Chairman and Chief Executive.	Roy (aged 50) joined the Group in January 2001 as Finance Director. He was previously Finance Director at Starbucks Coffee Company and Group Head of Finance and Company Secretary at Capital Radio PLC.	Neil (aged 47) joined the Group from KPMG in 1992 and was appointed to the Board in May 1994.	Dean (aged 49) was appointed to the Board on 6 February 2008. He qualified as a chartered accountant with KPMG and was Chief Executive of Myriad Childrenswear Group Limited. Myriad was the leading UK specialist multi-brand and multi-channel childrenswear business with over 1,000 distribution outlets including the Adams Kidswear brand. He is currently Chairman of Neville Johnson Limited, a UK based bespoke furniture designer and of Flyers Limited, a multi-channel childrenswear business.	Claire (aged 48) was appointed to the Board on 3 October 2008. She was formerly a Managing Director with Morgan Stanley where she was ranked number one in luxury goods European retailing analysis for nine consecutive years. Working in the sector since the early 1990's she has accumulated an in-depth understanding of the operation of luxury and apparel brands and has worked very closely with some of the most respected brands in the sector. Since leaving Morgan Stanley, Claire has focused on advising companies on their IPOs (Prada in 2011; Pandora in 2010) and playing a role in the sale of private equity-owned companies (Cath Kidston, Original Additions). She is also a board member of Georg Jensen.

Corporate Governance Report

The Company is required by the Listing Rules issued by the Financial Services Authority to set out how it has applied the Main Principles set out in the UK Corporate Governance Code published by the UK Financial Reporting Council in June 2010 ("UK Corporate Governance Code", available on the FRC's website, frc.co.uk.) This section of the report, in two parts, sets out how the Company has applied the principles and the extent of our compliance with the detailed provisions contained in the UK Corporate Governance Code throughout 2011 and up to the date of this report.

Part one: Application of the principles

Operational culture

The Group operates under the detailed and entrepreneurial guidance of Stephen Marks (the founder of the business), the executive Directors and a broad range of operational managers. The cultural focus of the business is on the design, production and sale of fashionable products in a highly demanding and fast-moving environment. All managers and staff are expected to be intimately familiar with the operations they are involved with, to take responsibility for them, to monitor them daily and to act to improve business performance promptly and effectively. This culture is led by the executive Board members who act in the same way taking counsel among themselves and with others, including external advisers, as necessary.

The Board of Directors

The Board of Directors at the date of this report comprises three executive Directors and two non-executive Directors. Details of their employment terms and remuneration are set out in the Directors' Remuneration Report. The Board is chaired by Stephen Marks, Chief Executive, founder of the business and a significant shareholder. Dean Murray has served on the Board for four years, has trained as an accountant and had a career in clothing retail as finance director and chief executive of Myriad Childrenswear Group which operated the Adams Kidswear brand. Claire Kent has served on the Board for three years and was formerly a Managing Director with Morgan Stanley, specialising in European luxury goods retailing analysis. Neil Williams is the Operations Director and has worked in the business for twenty years following a training in finance and accounting. Roy Naismith joined the Board eleven years ago as Finance Director and previously held senior finance positions at Starbucks Coffee Company and Capital Radio PLC. Roy Naismith is also the Company Secretary.

The Board met nine times during the year to consider the development of the business and all of the Directors attended every meeting. An agenda with supporting information is distributed well in advance of each meeting, the detailed nature of which reflects the management approach. The Board reserves to itself certain key matters to approve or monitor, including the Group's strategic plans, annual operating budget, major capital expenditure, treasury policies, financial performance and external financial reporting. The Board delegates responsibility for the day-to-day operation of the business to the executive Directors and recognises its responsibility for ensuring that the Company operates within a framework of prudent and effective controls, to set the Company's strategic aims and to ensure that the necessary resources are in place.

Directors are subject to election by shareholders at the first opportunity after their appointment and one third of the Board is subject to re-election annually. Any member of the Board may take independent professional advice at the Company's expense. All Directors have access to the advice and services of the Company Secretary.

The Board recognises that the Board is of such a size to be unable to meet all the requirements relating to non-executive Directors, Board sub-committees and the division of responsibilities at the head of the Company set out in the UK Corporate Governance Code, but believes that the composition and breadth of experience of the Board and the senior management are appropriate for the size, nature, status and culture of the Company. The Board assesses its own performance by reference to the financial performance of the business compared to annual budgets, longer-term plans, city expectations and peer group comparators.

Audit committee

The Audit Committee comprises Dean Murray as Chairman and Claire Kent. The Committee's terms of reference indicate that it should meet at least three times in each year and should consult with the external auditors and senior management where appropriate. The Committee considers financial reporting and reviews the Group's accounting policies and annual statements. In particular, any major accounting issues of a subjective nature are discussed by the Committee. The Committee also reviews audit activity including the recommendation to the Board regarding the appointment of the external auditor, their remuneration and scope of work, including non-audit services. The Audit Committee is also responsible for considering the independence and objectivity of the external auditor, for monitoring the level of non-audit services provided by the external auditor and for assessing the effectiveness of the risk management process. Significant risk issues identified are referred to the Board for further consideration. The Audit Committee has considered the independence of the external auditor, including the non-audit services performed, and has concluded that those non-audit services provided do not impair the auditor's independence. The Committee met three times during the year and each meeting was fully attended. The terms of reference of the Audit Committee are available on the Company's website.

Remuneration committee

The Remuneration Committee comprises Claire Kent as Chair and Dean Murray. The Committee met during the year to determine the remuneration of the executive Directors and to review that of senior management. A Remuneration Report is included in this Annual Report. The terms of reference of the Audit Committee are available on the Company's website.

Communication with shareholders

Communication with shareholders, brokers and analysts is generally conducted through one-to-one meetings with the executive Directors (and the non-executive Directors if requested) for which there is an open invitation to shareholders to arrange but which typically occur shortly after the announcements of results. The opinions expressed by shareholders are passed to the Board as necessary.

The Annual General Meeting and the resolutions proposed for consideration at the meeting are another focus of communication with shareholders. Discussions are held prior to the meeting with shareholders where they have views on the resolutions. The level of proxy votes received is considered by the Board and published on the Group's website.

Internal control

The Directors acknowledge their overall responsibility for the Group's system of internal control and for reviewing its effectiveness. A system of internal control cannot provide absolute assurance against material misstatement or loss and the Group's systems are designed to manage rather than eliminate the risk of failure to meet business objectives. The systems can only provide the Directors with reasonable assurance that material errors and irregularities are either prevented or detected on a timely basis and dealt with appropriately.

The Board confirms that there are ongoing procedures in place for identifying, evaluating and managing significant risks faced by the Group and that these have been in place for the year under review and up to the date of approval of the annual report and accounts. The procedures have been reviewed by the Audit Committee and accord with the requirements of the UK Corporate Governance Code.

The Board has reviewed the major risks affecting the business and the effectiveness of the system of internal control. The culture of the business results in the executive Directors being closely involved in managing the business at a detailed level. This provides a high degree of direct monitoring of risks and control processes, conducted against the background of a culture of integrity, quality and high levels of communication. This is supported by reviews of daily, weekly and monthly detailed analyses of the performance of the business, the key performance indicators associated with the trading risks facing the Company and the detailed operational results.

The Group does not have an internal audit function although during the year the Audit Committee considered whether there is a need for such a function, concluding that the benefits, when compared to the potential benefits of deploying additional resources in other areas, are not sufficiently clear.

Part two: Compliance with the detailed code provisions

The UK Corporate Governance Code recommends that there should be a strong independent non-executive element on the Board with non-executive Directors comprising at least one half of the Board and a division of responsibility between the Chairman and the Chief Executive and that one of the non-executive Directors should be appointed as the senior independent Director. While the membership of the Board does not comply with this recommendation the Board considers that its composition is appropriate for the nature, size and culture of the Company.

The UK Corporate Governance Code also recommends the formation of audit, remuneration and nomination committees and that non-executive Directors should, from time to time,

meet without the executives or Chairman present. The Company has appointed both an audit committee and a remuneration committee but not a nomination committee. A nominations committee will be appointed by the Board when nominations to the Board are to be considered. No appointments were made or contemplated during the year.

The Board adheres to the remuneration principles set out in the UK Corporate Governance Code in establishing levels and forms of remuneration as detailed in the Directors' Remuneration Report. The Board has reviewed the standards expected of employees in relation to business ethics and also the arrangements for staff to raise concerns about possible improprieties in matters of financial reporting or other matters and is satisfied that they are appropriate.

There is no formal procedure for the evaluation of the performance of the Board.

Other than described above, the Company complied with the requirements of the UK Corporate Governance Code provisions throughout the accounting period.

Going concern

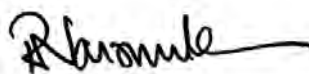
The Group is profitable and has considerable cash resources, ending the year with £34.2 million and with a minimum Group cash balance during the year in the region of £13 million. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

Based on this and the forecast performance for the Group over the next 18 months, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Board continues to adopt the going concern basis in preparing the accounts.

Bribery Act

The Bribery Act 2010 came into force during the year. The Board has considered the risks associated with this topic as part of the broader review of risks faced by the Group and has reviewed the processes and controls in place to prevent offences under the Act.

By order of the Board



Roy Naismith
Company Secretary

13 March 2012

Corporate Responsibility

The Board recognises that the long term profitability of the business depends, amongst other things, on appropriate protection of the Group's assets, reputation and brand names and is subject to the long-term sustainability of the supply chain. The risk register and the process for the review of internal controls therefore include these issues and the potential impact on the business of Corporate Responsibility ("CR") and sustainability issues.

The Board considers that the principal CR issues which face the French Connection Group are:

- the provision of a safe and healthy environment for our employees and retail customers;
- the business's direct and indirect impact on the environment; and
- the employment, environmental and social practices of the business's suppliers.

Safe and healthy environment

The business complies with locally applicable health and safety regulations in the countries in which it operates. This includes the provision and maintenance of safe environments for our employees, appropriate design of our stores, health and safety training for appropriate personnel, electrical installation reviews, risk assessments and risk monitoring in our offices, stores and warehouses.

Impact on the environment

The use of resources to manufacture and supply our products generates the major impact on the environment of our business. The source of the raw materials and the manufacture of the finished products is spread globally and provides employment, income and personal security at many different points in the process. We recognise, however, that our products utilise global resources some of which are limited in their nature. Manufactured items of clothing utilise similar amounts of resource, irrespective of the final retail price and we are proud that our products are designed to be of a quality that will provide repeated use over an extended time-frame therefore making good use of the resources invested.

In terms of environmental impacts at the point of delivery of our products we are aware that the use of disposable packaging and the use of power in our premises can be managed. In the UK, the business meets its responsibilities under the packaging waste regulations through membership of Valpak. The use of packaging internally has been reviewed and re-useable boxes have now replaced the use of disposable cardboard boxes for internal distribution. Further, we source our wooden hangers from sustainable sources and do not give them away with the products. Power for the business's larger stand-alone sites in the UK is bought from suppliers whose power generation has a limited impact on the environment through use of wind power, bio-mass and other environmentally low-impact generation sources.

Supply chain

The Group has used third party manufacturing facilities around the world for over thirty years but has specifically avoided suppliers or regions where the employment or environmental practices are known to be below acceptable standards. The Group requires all of its product suppliers to abide by its guidelines contained in the Supplier Guide. Our staff visit the factories we use for garment production on a regular basis and consider the environment and work practices during those visits, however currently our ability to formally audit the facilities is limited. Our Supplier Guide and the employment standards required of our suppliers accord with industry standards including *inter alia* that employees should: be given a safe and healthy environment to work in; be given the right to free association; be paid a fair wage; have freedom of association; not be forced or bonded labour; be of an appropriate age; and work only reasonable hours.

The Board recognises that it is not possible to provide absolute assurance that standards expected of our suppliers are adhered to. Where transgressions are identified we would work with the supplier to develop an appropriate remediation programme. However we will not hesitate to stop using any supplier who we identify is persistently operating in contravention of our standards or failing to implement agreed remediation programmes.

There are a number of other CR topics, such as business ethics, animal testing and use of chemicals, which are subject to set standards within the business.

Directors' Remuneration Report

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority. As required by the Regulations, a resolution to approve the report will be proposed at the Annual General Meeting of the Company at which the financial statements will be considered.

The regulations require the auditors to report to the Company's members on the "auditable part" of the Directors' remuneration report. The report has therefore been divided into two sections for audited and unaudited information.

Unaudited information

Remuneration policy

The Company's policy is:

- to provide remuneration packages for the executive Directors and other senior managers in the Group which are appropriate to the size and nature of the Group's business and which will attract, retain and motivate high calibre executives; and
- to balance the fixed and performance-related elements of remuneration appropriately and to provide both short-term and longer-term incentives to achieve the strategic aims of the Group.

The objective is to ensure this policy is appropriate to the Group's needs and rewards executives for creating shareholder value.

Basic Salary

Basic salaries are reviewed annually by the Remuneration Committee having regard to competitive market practice, each Director's contribution to the business and the conditions within the Group.

Annual Bonus

The annual grant of bonuses is conditional upon achievement of targets by reference to agreed financial performance measures and external expectations. Bonuses are capped at 100 per cent of basic salary.

Benefits

Benefits include such items as company cars, medical expense insurance, pension contributions and life assurance and are provided with reference to practices in the competitive market.

Long-term incentives

It is the Remuneration Committee's intention to develop incentive arrangements which are subject to challenging performance targets, reflect the Company's objectives and which motivate executives to focus on both annual and longer term performance.

Basic salaries and benefits (principally a car and private medical insurance) are reviewed annually taking into account external market data and conditions within the business. Annual bonus payments are based on the performance of the business and the Director's performance within their own area of responsibility.

All executive Directors are entitled to contributions into personal pension plans for the benefit of the Director at up to 10% of basic salary. There are no elements of remuneration, other than basic salary, which are treated as being pensionable. There are no defined benefit pension schemes.

Share schemes

The Company considers that it is appropriate to align the interests of the executive Directors and key employees with the performance of the business and the interests of the shareholders through share schemes.

The Company's policy is to grant share options to Directors at the discretion of the Board taking into account individual performance up to a maximum of two times salary in each year. In exceptional circumstances the Board has the discretion to issue options up to four times salary. Options are granted at market value on the date of grant. Options may be granted at a discount to the market value only in circumstances where the grant of options is agreed as part of a recruitment package; in these circumstances the exercise price of the option may be determined by reference to the market value on the date on which the individual's employment commenced.

The share option schemes include an upper limit on the number of shares which can be issued under the schemes. No options have been granted to Directors since October 2008.

In respect of the share options granted on 29 October 2008 the performance condition was based on the profit before tax and exceptional items of the continuing operations for the year ended 31 January 2011. This target was set to represent a significant recovery in the financial performance of the business. The results of the Group for the year ended 31 January 2011 exceeded the target and therefore 100% of the options granted in October 2008 vested in October 2011.

The Company does not operate any long-term incentive schemes other than the share option schemes described above.

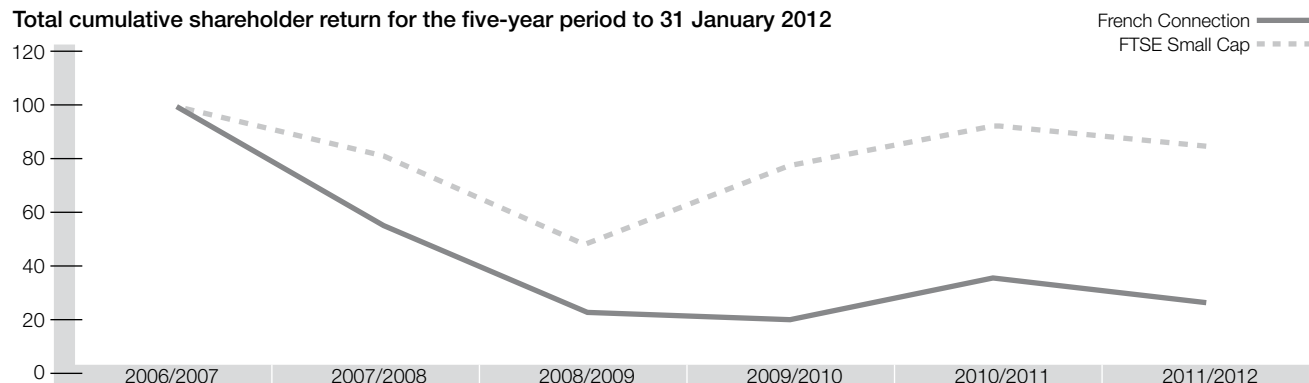
Directors' Remuneration Report

Continued

Performance graph

This graph shows the Company's performance, measured by total shareholder return, compared with the performance of the FTSE Small Cap Index also measured by total shareholder return. This index has been selected for the comparison because it reflects the market sector in which the Company is reported. The graph has been compiled on annual data at 31 January of each year.

Total cumulative shareholder return for the five-year period to 31 January 2012



Executive Directors' contracts

Neil Williams' service contract is dated 17 April 1996, has an indefinite term, and includes provision for a notice period of twelve months. Roy Naismith's service contract is dated 4 December 2001, has an indefinite term, and includes provision for a notice period of six months. Stephen Marks has no service contract.

Non-executive Directors

Non-executive Directors have specific terms of engagement and the Board determines their remuneration. Dean Murray's terms of engagement are dated 7 March 2008, have an indefinite term and allow for a notice period of one month. Claire Kent's terms of engagement are dated 3 October 2008, have an indefinite term and allow for a notice period of one month.

Audited information

Aggregate Directors' remuneration

The total amounts for Directors' remuneration were as follows:

	2012 £000	2011 £000
Emoluments	1,212	787
Money purchase pension contributions	70	67
	1,282	854

Directors' emoluments

Year ended 31 January 2012	Salary and fees £000	Benefits in kind £000	Annual bonus £000	2012 total (excluding pension) £000	2011 total (excluding pension) £000
Executive Directors					
Stephen Marks	291	22	174	487	303
Neil Williams	220	14	131	365	227
Roy Naismith	189	14	97	300	197
Non-executive Directors					
Dean Murray	30	–	–	30	30
Claire Kent	30	–	–	30	30
	760	50	402	1,212	787

The annual bonus shown above was paid in May 2011 in respect of the performance for the year ended 31 January 2011. The bonus for the year ended 31 January 2012 has not yet been determined.

Directors' pension contributions

Year ended 31 January 2012	2012 £000	2011 £000
Executive Directors		
Stephen Marks	29	28
Neil Williams	22	21
Roy Naismith	19	18
Non-executive Directors		
Dean Murray	-	-
Claire Kent	-	-
	70	67

Directors' share options

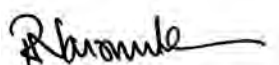
Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire shares in the Company granted or held by the Directors. Details of options to subscribe for ordinary shares of 1p each in the Company held by Directors who served during the year are as follows:

	1 Feb 2011 and 31 Jan 2012 No. of options	Exercise price (p)	Dates of grant	Dates from which exercisable	Dates of expiry
Stephen Marks	376,700	56.2	29 Oct 2008	29 Oct 2011	29 Oct 2018
Total	376,700				
Neil Williams	257,561	177.2	1 Nov 2002	1 Nov 2005	1 Nov 2012
	284,500	56.2	29 Oct 2008	29 Oct 2011	29 Oct 2018
Total	542,061				
Roy Naismith	105,000	141.5	1 Nov 2002	1 Nov 2005	1 Nov 2012
	98,759	177.2	1 Nov 2002	1 Nov 2005	1 Nov 2012
	244,300	56.2	29 Oct 2008	29 Oct 2011	29 Oct 2018
Total	448,059				

The market price of the shares at 31 January 2012 was 49.5p and the range during the year was 36.0p to 134.0p. The average market share price during the year was 79.9p. The options granted are exercisable between three and ten years after the date of grant subject to performance conditions as described above.

Approval

This report was approved by the Board of Directors on 13 March 2012 and signed on its behalf by:



Roy Naismith
Company Secretary

Company Number: 1410568

13 March 2012

Statement of Directors' Responsibilities

In respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent Company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent Company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

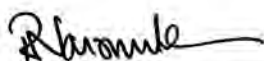
We, the Directors of the Company, confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the information that is cross referred from the Business Review section of the Directors' Report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board



Stephen Marks
Chairman and Chief Executive



Roy Naismith
Finance Director

13 March 2012

Independent Auditor's Report

To the members of French Connection Group plc

We have audited the financial statements of French Connection Group PLC for the year ended 31 January 2012. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent Company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 24, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and to express an opinion, on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 January 2012 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent Company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- information given in the Corporate Governance Statement set out on pages 18 and 19 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 19, in relation to going concern;
- the part of the Corporate Governance Statement on page 19 relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Robert Brent (Senior Statutory Auditor)

for and behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants, 15 Canada Square, London E14 5GL

13 March 2012

Consolidated Statement of Comprehensive Income

Year ended 31 January 2012

	Note	2012	2011		£m
		£m	Core £m	*Closed £m	
Continuing operations					
Revenue	4	215.4	205.0	8.8	213.8
Cost of sales		(111.8)	(98.4)	(4.8)	(103.2)
Gross profit	4	103.6	106.6	4.0	110.6
Operating expenses	5	(108.8)	(106.8)	(5.9)	(112.7)
Other operating income	6	8.5	5.8	–	5.8
Operating profit/(loss) before financing		3.3	5.6	(1.9)	3.7
Closure costs		–	–	3.5	3.5
Finance income		0.9	0.2	–	0.2
Finance expenses		–	–	–	–
Net financing income	8	0.9	0.2	–	0.2
Operating profit		4.2	5.8	1.6	7.4
Share of profit of joint ventures, net of tax	15	0.8	1.5	–	1.5
Profit before taxation	9	5.0	7.3	1.6	8.9
Income tax expense – UK		–	–	–	–
Income tax expense – overseas		(0.5)	(0.2)	–	(0.2)
Total income tax expense	10	(0.5)	(0.2)	–	(0.2)
Profit for the year from continuing operations		4.5	7.1	1.6	8.7
Discontinued operations					
Profit/(loss) from discontinued operations, net of tax	3	0.8	–	(11.1)	(11.1)
Profit/(loss) for the year		5.3	7.1	(9.5)	(2.4)

* See discontinued operations Note 3.

Consolidated Statement of Comprehensive Income

Continued

	Note	2012 £m	2011 £m
Profit/(loss) for the year		5.3	(2.4)
Other comprehensive income			
Currency translation differences for overseas operations		0.3	–
Currency translation differences on foreign currency loans, net of tax		(0.2)	0.3
Currency translation differences transferred to profit and loss, net of tax		(0.5)	2.5
Effective portion of changes in fair value of cash flow hedges		0.1	0.1
Other comprehensive income for the year, net of tax		(0.3)	2.9
Total comprehensive income for the year		5.0	0.5
Profit/(loss) attributable to:			
Equity holders of the Company		5.3	(2.3)
Non-controlling interests		–	(0.1)
Profit/(loss) for the year		5.3	(2.4)
Total comprehensive income attributable to:			
Equity holders of the Company		5.0	0.6
Non-controlling interests		–	(0.1)
Total income and expense recognised for the year		5.0	0.5
Earnings per share			
Basic and diluted earnings/(losses) per share	12	5.5p	(2.4)p
Continuing operations			
Basic and diluted earnings per share	12	4.7p	9.2p

The notes on pages 31 to 54 form part of these accounts.

Consolidated Statement of Financial Position

At 31 January 2012

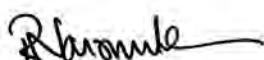
	Note	2012 £m	2011 £m
Assets			
Non-current assets			
Intangible assets	13	2.4	2.4
Property, plant and equipment	14	7.1	8.5
Investments in joint ventures	15	3.5	3.4
Deferred tax assets	22	4.4	4.1
Total non-current assets		17.4	18.4
Current assets			
Inventories	16	46.9	40.3
Trade and other receivables	17	26.5	25.6
Cash and cash equivalents	18	34.2	34.1
Derivative financial instruments	28	0.1	–
Total current assets		107.7	100.0
Total assets		125.1	118.4
Non-current liabilities			
Deferred tax liabilities	22	0.9	0.9
Total non-current liabilities		0.9	0.9
Current liabilities			
Trade and other payables	19	48.0	43.1
Current tax payable	21	0.5	1.1
Provisions	20	0.6	1.5
Total current liabilities		49.1	45.7
Total liabilities		50.0	46.6
Net assets		75.1	71.8
Equity			
Called-up share capital	23	1.0	1.0
Share premium account		9.4	9.4
Other reserves		5.4	5.7
Retained earnings		58.3	54.6
Total equity attributable to equity holders of the Company		74.1	70.7
Non-controlling interests		1.0	1.1
Total equity		75.1	71.8

The notes on pages 31 to 54 form part of these accounts.

These accounts were approved by the Board of Directors on 13 March 2012 and were signed on its behalf by:



Stephen Marks
Director



Roy Naismith
Director

Company Number: 1410568

Consolidated Statement of Changes in Equity

	Share capital £m	Share premium £m	Hedging reserve £m	Translation reserve £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
Balance at 31 January 2010	1.0	9.4	(0.1)	2.9	57.9	71.1	1.2	72.3
Loss for the year ended 31 January 2011					(2.3)	(2.3)	(0.1)	(2.4)
Other comprehensive income								
Currency translation differences for overseas operations				–		–		–
Currency translation differences on foreign currency loans, net of tax				0.3		0.3		0.3
Currency translation differences transferred to profit and loss, net of tax				2.5		2.5		2.5
Effective portion of changes in fair value of cash flow hedges			0.1			0.1		0.1
Transactions with owners recorded directly in equity								
Dividends					(1.0)	(1.0)		(1.0)
Balance at 31 January 2011	1.0	9.4	–	5.7	54.6	70.7	1.1	71.8
Profit for the year ended 31 January 2012					5.3	5.3	–	5.3
Other comprehensive income								
Currency translation differences for overseas operations				0.3		0.3		0.3
Currency translation differences on foreign currency loans, net of tax				(0.2)		(0.2)		(0.2)
Currency translation differences transferred to profit and loss, net of tax				(0.5)		(0.5)		(0.5)
Effective portion of changes in fair value of cash flow hedges			0.1			0.1		0.1
Transactions with owners recorded directly in equity								
Dividends					(1.6)	(1.6)		(1.6)
Transactions with non-controlling interests, recorded directly in equity								
Dividends							(0.1)	(0.1)
Balance at 31 January 2012	1.0	9.4	0.1	5.3	58.3	74.1	1.0	75.1

Translation reserve

The translation reserve comprises foreign currency differences arising from the translation of the financial statements of foreign operations as well as from the translation of foreign currency loans.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Consolidated Statement of Cash Flows

Year ended 31 January 2012

	Note	2012 £m	2011 £m
Operating activities			
Profit/(loss) for the period		5.3	(2.4)
Adjustments for:			
Depreciation and impairment		2.8	3.7
Restructuring costs		–	(3.5)
(Gain)/loss on disposal of discontinued operation, net of tax		(0.9)	5.7
Finance income		(0.3)	(0.2)
Currency translation differences		(0.6)	2.6
Share of profit of joint ventures		(0.8)	(1.5)
Non-operating profit on property, plant and equipment		(0.4)	(0.2)
Income tax expense		0.5	0.2
Operating profit before changes in working capital and provisions			
(Increase)/decrease in inventories		(6.9)	0.8
Increase in trade and other receivables		(1.0)	(1.8)
Increase/(decrease) in trade and other payables		3.4	(0.6)
Cash flows from operations			
Income tax (paid)/received		(0.7)	0.3
Cash flows from operating activities			
Investing activities			
Interest received		0.3	0.2
Proceeds from investment in joint ventures		0.8	0.7
Acquisition of property, plant and equipment		(1.6)	(1.0)
Net proceeds from sale of property, plant and equipment		0.7	0.3
Disposal of discontinued and closed operations		1.3	(4.2)
Cash flows from investing activities			
Financing activities			
Dividends paid	11	(1.7)	(1.0)
Cash flows from financing activities			
Net increase/(decrease) in cash and cash equivalents			
Cash and cash equivalents at 1 February	25	34.1	35.7
Exchange rate fluctuations on cash held	25	(0.1)	0.3
Cash and cash equivalents at 31 January			
	25	34.2	34.1

The notes on pages 31 to 54 form part of these accounts.

Notes to the Group Accounts

1 Accounting policies

a) Basis of preparation

French Connection Group PLC (the "Company") is a company domiciled in the United Kingdom, whose shares are publicly traded on the London Stock Exchange. These financial statements are presented in millions of pounds sterling rounded to the nearest one decimal place.

The consolidated financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the European Union ("adopted IFRS"). The Company has elected to prepare its parent Company financial statements in accordance with UK Generally Accepted Accounting Practice; these are presented on pages 55 to 59.

The consolidated financial statements have been prepared under the historical cost accounting rules, except for derivative financial instruments measured at fair value.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 8 to 15. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Business Review on pages 8 to 15. In addition Note 29 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and its exposures to credit risk and liquidity risk.

The Group has considerable cash resources and as a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The Group ended the year with £34.2 million of net cash and no borrowings. Over the cycle of the year the Group had minimum net cash in the region of £13 million and the core continuing operations generated cash from operating activities. Based on this and the forecast performance for the Group over the next 18 months, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Board continues to adopt the going concern basis in preparing the accounts.

The preparation of the financial statements in conformity with adopted IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these assumptions. The estimates and assumptions are based on historical experience and are reviewed on an ongoing basis and are disclosed in Note 31. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

The accounting policies set out below have been applied consistently to all periods in the consolidated financial statements.

There were no revisions to Adopted IFRS that became applicable in the year ended 31 January 2012 which had a significant impact on the Group's financial statements.

The Group does not consider that there are any standards, amendments or interpretations issued by the IASB, but not yet applicable, that will have a significant impact on the financial statements.

b) Basis of consolidation

The consolidated financial statements of the Group comprise the accounts of the Company and all its subsidiary undertakings, the accounts of which are all made up to 31 January each year end. The results of companies acquired or disposed of in the year are dealt with from or up to the date control commences or ceases. The net assets of companies acquired are incorporated in the consolidated accounts at their fair values to the Group at the date of acquisition. Intra-group balances and any unrealised gains or losses or income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Joint ventures are accounted for using the equity method. The consolidated financial statements include the Group's share of the income and expenses of joint ventures, after adjustments to align the accounting policies with those of the Group, from the date that joint control commences until the date that joint control ceases. When the Group's share of losses exceeds its interest in a joint venture, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee. Unrealised gains arising from transactions with joint ventures are eliminated against the investment to the extent of the Group's interest in the entity.

Notes to the Group Accounts

Continued

1 Accounting policies continued

c) Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill arising on business combinations represents the difference between the cost of the acquisition and the fair value of the identifiable assets, liabilities and contingent liabilities acquired. In respect of acquisitions prior to the IFRS transition date, 1 February 2004, goodwill is included on the basis of its deemed cost based on the amount recognised under UK GAAP.

Goodwill is stated at cost less any accumulated impairment losses as discussed in Note j) below. Goodwill is tested annually for impairment. Negative goodwill arising on an acquisition is recognised directly in the income statement.

The impairment calculations use cash flow projections based on actual operating results extrapolated forward for five years. An appropriate pre-tax discount rate has been used in discounting the projected cash flows based on the weighted average cost of capital applicable to the cash generating units concerned. For the purpose of impairment testing, goodwill is allocated to the lowest level of cash generating unit within the Group at which the goodwill is monitored for internal management purposes. Where goodwill forms part of a cash generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash generating unit retained.

d) Foreign currency

Transactions effected by companies in foreign currencies are translated into their functional currency at the foreign exchange rate ruling at the date of transaction. Monetary assets and liabilities of companies denominated in currencies other than the functional currency of the company are translated at the foreign exchange rate ruling at the balance sheet date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are measured in terms of historical cost are translated using the exchange rate at the date of transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at the foreign exchange rates ruling at the dates the fair value was determined.

Long term monetary assets and liabilities receivable from or payable to a foreign operation, the settlement of which is not planned or expected to occur in the foreseeable future, are considered to represent part of the Group's net investment in a foreign operation. Therefore, exchange gains and losses arising from these amounts are included in equity in the foreign currency translation reserve.

On consolidation, the assets and liabilities of foreign operations which have a functional currency other than Sterling are translated into Sterling at foreign exchange rates ruling at the balance sheet date. The income and expenses of these subsidiary undertakings are translated into Sterling at the average rates applicable to the period. All resulting exchange differences are taken to reserves. Any exchange differences that have arisen since 1 February 2004 are presented as a separate component of equity within a translation reserve. Such exchange differences taken to reserves as from the date of transition to IFRS are recognised in the income statement upon disposal of the subsidiary.

e) Derivative financial instruments

Derivative financial instruments in the form of forward foreign exchange contracts are used to manage the risk associated with purchases denominated in foreign currencies as described in the section entitled 'Management of risks' within Our Business.

Derivative financial instruments are initially measured at fair value. Any changes in the fair value of the forward contracts during the period in which the hedge is in effect are reflected as a component of equity within the hedging reserve to the extent that the hedge is effective. The ineffective part of the hedge is recognised in the income statement immediately.

f) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity, trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value including any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured at amortised cost less any impairment losses.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset. Purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

1 Accounting policies continued

g) Property, plant and equipment

Property, plant and equipment is stated at cost (which from 1 February 2009 includes capitalised borrowing costs where appropriate) less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the assets. Residual values are reviewed at each reporting date. The estimated useful lives are as follows:

Leasehold improvements	: period of the lease
Plant, equipment, fixtures and fittings	: 3 to 10 years

h) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Finance lease assets are stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. Leased assets are depreciated over the shorter of the lease term and their estimated useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Operating leases are leases where substantially all of the risks and rewards of ownership have not been transferred.

i) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business. Cost includes the purchase price of manufactured products, materials, direct labour, transport costs and a proportion of attributable design and production overheads calculated on a first in, first out basis.

j) Impairment

The carrying amount of the Group's assets, other than inventories and deferred tax assets, are reviewed each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised in the income statement whenever the carrying amount of an asset exceeds its recoverable amount. For tangible fixed assets, the recoverable amount is determined with reference to the cash generating unit to which the asset belongs. The impairment calculations use cash flow projections based on actual operating results extrapolated forward for five years. An appropriate pre-tax discount rate has been used in discounting the projected cash flows based on the weighted average cost of capital applicable to the individual assets concerned. Further details are provided in Note 13.

Impairment policy relating to goodwill is referred to in Note 1c).

k) Revenue

Revenue is measured at the fair value of the consideration received or receivable for goods sold to external customers, less returns and value added tax. The revenue arises from the sale of fashion clothing and accessories. Revenue from the sale of goods is recognised in the statement of income when the significant risks and rewards of ownership have been transferred. For retail sales, this occurs at the time the sale is recorded at the store. For wholesale and e-commerce sales, this normally occurs at the time the goods are shipped from the warehouse. Licensing revenue is included within other operating income and is recognised on an accruals basis.

l) Lease payments

Operating lease rentals are charged to the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement on a straight-line basis over the term of the lease.

Rentals receivable under operating leases are included in the income statement on a straight-line basis.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

m) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted, or substantially enacted at the balance sheet date, plus any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit and differences relating to investments in

Notes to the Group Accounts

Continued

1 Accounting policies continued

m) Income tax continued

subsidiaries and jointly controlled entities to the extent that they will probably not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantially enacted by the reporting date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

n) Pensions

The Group only has defined contribution pension schemes. Pension costs charged to the income statement represent the amount of contributions payable to defined contribution and personal pension schemes in respect of the period.

o) Share-based payment

The Group operates share option incentive schemes for Directors and key employees. The fair value of options granted is recognised as an employee expense in the income statement with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options is measured using the "Black-Scholes" option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised in the income statement is adjusted at each balance sheet date to reflect the number of share options that are expected to vest revised for expected leavers and estimated achievement of non-market based vesting conditions. The Group has adopted the exemption to apply IFRS 2 only to equity instruments granted after 7 November 2002.

p) Segment reporting

An operating segment is a distinguishable component of the Group that is engaged in business activities from which it may earn revenues and incur expenses and whose operating results are reviewed regularly by the Chief Operating Decision Maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

Reportable segments are operating segments that either meet the thresholds and conditions set out in IFRS 8 or are considered by the Board to be appropriately designated as reportable segments. Segment results represent the operating profits of each division and exclude tax and financing items. The segment results of the Group distinguishes three separate overhead categories. Trading overheads represent the direct costs of the divisional operations. Common overheads comprise costs shared between the divisions within geographic locations, in particular the costs of local management, advertising, finance and accounting. Group management overheads include the costs of Group management, legal, insurance and IT costs.

Intra-group transactions relate to internal licensing income and expense.

Segment assets comprise goodwill, other intangible assets, property, plant and equipment, inventories, trade and other receivables. Segment liabilities comprise trade and other payables, provisions and other payables. Unallocated items represent corporate and deferred taxation balances and all components of net funds.

q) Capital management

Details of capital risk management are set out in Note 28 to the Group accounts.

r) Financial risk management

Details of financial risk management are set out in Note 28 to the Group accounts.

1 Accounting policies continued

s) Guarantees

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of fellow subsidiaries or of third parties, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

t) Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at an amount equal to the best estimate of the expenditure required to settle the Group's liability. Obligations arising from restructuring plans are recognised when detailed formal plans have been established and when there is a valid expectation that such a plan will be carried out.

2 Operating segments

a) Operating segments

The Group's operating segments have been determined based on the management accounts reviewed by the Board of Directors.

The Group has five key reportable segments which are the Group's strategic units. These strategic business units service different customer markets within specific geographical locations and are managed separately since they require different business and geographic strategies.

Monthly internal management reports are prepared for each of the strategic business units and reviewed by the Board. The Chief Operating Decision Maker as defined by IFRS 8 is deemed to be the Board. The following summary describes the operations in each of the Group's reportable segments:

- **UK/Europe Retail** – sale of fashion garments and accessories through retail stores, concessions and e-commerce in the United Kingdom, Ireland and Continental Europe.
- **UK/Europe Wholesale** – sale of fashion garments and accessories through department stores, multi-brand stores and franchise operators in the United Kingdom, Ireland and Continental Europe.
- **North America Retail** – sale of fashion garments and accessories through retail stores and e-commerce in the US and Canada.
- **North America Wholesale** – sale of fashion garments and accessories through multi-brand stores in the US and Canada.
- **Hong Kong Wholesale** – sale of fashion garments and accessories through our Hong Kong office to department stores and licensed operators primarily in Australia, Asia, India and South Africa.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment operating profit before financing costs, as included in the internal management reports that are reviewed by the Board. Segment profit is used to measure performance as the Board believes that such information is the most relevant in evaluating the results of the segments relative to other entities that operate within this industry. Inter-segment pricing is determined on an arm's length basis. Finance income and expenses are not included within the reportable segments as these are managed centrally. The operating segments below are those used by the Board to review performance and to make resource allocations between segments. The performance in the year for each segment is detailed in the Business Review on pages 8 to 15. Within this the Directors have outlined the key factors underlying the results for the year including the contribution from individual brands or stores and licensing income where relevant.

The segment analysis below covers the Group as a whole. This includes both continuing and discontinued activities. The results of the discontinued activities are set out in Note 3.

Notes to the Group Accounts

Continued

2 Operating segments continued

a) Operating segments continued

2012	UK/Europe			North America			Hong Kong	Intra Group	Total
	Retail £m	Whole- sale £m	Total £m	Retail £m	Whole- sale £m	Total £m	Whole- sale £m	£m	£m
Revenue (Note 4)	111.5	42.1	153.6	22.3	24.3	46.6	15.8		216.0
Gross profit (Note 4)	61.8	13.4	75.2	12.8	9.3	22.1	3.0	3.5	103.8
<i>Gross margin</i>	55.4%	31.8%	49.0%	57.4%	38.3%	47.4%	19.0%		48.1%
Trading overheads	(70.2)	(7.3)	(77.5)	(14.0)	(3.6)	(17.6)	(1.5)		(96.6)
Operating contribution	(8.4)	6.1	(2.3)	(1.2)	5.7	4.5	1.5	3.5	7.2
Common overhead costs			(4.6)			(3.1)			(7.7)
Other income			6.8			2.0	3.2	(3.5)	8.5
Divisional operating profit/(loss)			(0.1)			3.4	4.7	–	8.0
Group management overheads									(4.8)
Operating profit before financing and closure costs									3.2
Represented by:									
Profit from continuing operations									3.3
Loss from discontinued operations (Note 3)									(0.1)
									3.2
Total assets	41.8	56.0	97.8	8.6	9.7	18.3	9.0		125.1
Total liabilities	18.1	17.9	36.0	2.0	2.9	4.9	9.1		50.0
Non-current asset additions	1.0	0.4	1.4	0.1	–	0.1	0.1		1.6
Depreciation	1.4	0.8	2.2	0.6	–	0.6	–		2.8
Impairment losses	–	–	–	–	–	–	–		–

The share of the results of the joint venture operations of £0.8 million (2011: £1.5 million) relate to retail operations in the rest of the world and are not disclosed in the information above (see Note 15).

2 Operating segments continued

a) Operating segments continued

	UK/Europe			North America			Hong Kong	Intra Group	Total
	Retail £m	Wholesale £m	Total £m	Retail £m	Wholesale £m	Total £m	Wholesale £m	£m	£m
2011									
Revenue (Note 4)	117.7	37.6	155.3	33.5	19.6	53.1	15.4		223.8
Gross profit (Note 4)	70.2	13.2	83.4	18.5	7.5	26.0	2.8	3.6	115.8
<i>Gross margin</i>	<i>59.6%</i>	<i>35.1%</i>	<i>53.7%</i>	<i>55.2%</i>	<i>38.3%</i>	<i>49.0%</i>	<i>18.2%</i>		<i>51.7%</i>
Trading overheads	(73.4)	(7.9)	(81.3)	(21.4)	(3.5)	(24.9)	(1.5)		(107.7)
Operating contribution	(3.2)	5.3	2.1	(2.9)	4.0	1.1	1.3	3.6	8.1
Common overhead costs			(4.8)			(3.5)			(8.3)
Other income			7.2				2.3	(3.6)	5.9
Divisional operating profit/(loss)			4.5			(2.4)	3.6	–	5.7
Group management overheads									(4.8)
Operating profit before financing and closure costs									0.9
Represented by:									
Profit from continuing operations									3.7
Loss from discontinued operations (Note 3)									(2.8)
									0.9
Total assets	39.2	55.0	94.2	8.7	8.6	17.3	6.9	–	118.4
Total liabilities	18.9	13.7	32.6	2.5	4.9	7.4	6.6	–	46.6
Non-current asset additions	0.9	0.1	1.0	–	–	–	–		1.0
Depreciation	1.6	0.8	2.4	1.1	0.1	1.2	–		3.6
Impairment losses	–	–	–	0.1	–	0.1	–		0.1

Excess provisions of £3.5 million were released in the year to 31 January 2011 relating to the closure of the US retail business (refer to Note 3).

The table above has been revised to reallocate a small amount of overheads between North America trading overheads and common overhead costs.

Notes to the Group Accounts

Continued

2 Operating segments continued

b) Revenue from external customers

	2012 £m	2011 £m
UK	133.9	140.0
US	34.2	39.8
Canada	12.7	13.3
Other	35.2	30.7
	216.0	223.8

c) Non-current assets

	2012 £m	2011 £m
UK	12.9	13.4
US	0.3	0.3
Canada	0.4	1.1
Hong Kong	1.4	1.6
China	1.8	1.6
Other	0.6	0.4
	17.4	18.4

No single customer represents more than 10% of the Group's total revenue.

3 Discontinued operations

In the financial year ended 31 January 2011, the Group completed the sale of the trading, assets and liabilities of the Nicole Farhi business to OpenGate Capital. The trading losses of the discontinued operations and the loss on sale from the disposal (along with recycled exchange translation differences) resulted in a total loss from discontinued operations of £(11.1) million reported in the income statement in the comparative financial year ended 31 January 2011.

The total profit from discontinued operations net of tax in the year to 31 January 2012 was £0.8 million comprising the following elements.

During the year, the Group received a payment of £0.6 million from OpenGate Capital relating to the release of the Group's charge over the intellectual property rights of the Nicole Farhi business.

On 11 January 2012 OpenGate Capital entered into an agreement with Kelso Place Asset Management LLP ("Kelso Place") under which Kelso Place made a significant investment in Nicole Farhi alongside OpenGate. As part of this arrangement, the Group will receive £0.4 million from OpenGate on, or before, 31 January 2013. This income has been accounted for within discontinued operations in the current year. Further, the Company has been granted a call option by OpenGate Capital over a 5% interest in the Nicole Farhi business exercisable for a nominal consideration. The Directors have assessed the value of the call option and deemed the value to be a nominal amount. Other than these arrangements, the Company will receive no further Deferred Consideration in relation to the sale of the Nicole Farhi business.

The total income arising in the year to 31 January 2012 in relation to the disposal of the Nicole Farhi business was therefore £1.0 million.

In addition the Group incurred trading losses of £(0.1) million and disposal losses of £(0.1) million in relation to the sale of the final two stores formerly operated by the Nicole Farhi business.

3 Discontinued operations continued

	2012 £m	2011 £m
Results of discontinued operations		
Revenue	0.6	10.0
Expenses	(0.7)	(12.8)
Results from operating activities before financing, impairments and exceptional costs	(0.1)	(2.8)
Currency translation differences	–	(2.6)
Results from operating activities before taxation	(0.1)	(5.4)
Income tax	–	–
Results from operating activities, net of tax	(0.1)	(5.4)
Profit/(loss) on sale of discontinued operation	0.9	(5.7)
Effect on profit/(loss) for the period	0.8	(11.1)
Cash flows from discontinued operations	2012 £m	2011 £m
Net cash utilised in operating activities	(0.3)	(3.4)
Net cash from investing activities	1.3	(1.9)
Net cash from discontinued operations	1.0	(5.3)

Included within investing activities on the cash flow statement are £nil (2011: £2.3 million) of US closure costs relating to continuing operations.

	31 January 2012 £m	31 January 2011 £m
Effect of disposal of the Nicole Farhi business on the financial position of the Group		
Inventories	(0.3)	(2.8)
Trade and other receivables	–	(2.4)
Cash	–	(1.0)
Trade and other payables	–	2.8
Net assets and liabilities	(0.3)	(3.4)
Cash consideration net of costs of disposal	1.2	(0.1)
Provisions for cost of transitional services and restructuring costs	–	(2.2)
Loss on sale of discontinued operation	0.9	(5.7)

US retail stores closed

During the prior year ended 31 January 2011, the Group completed the planned closure of the majority of its under-performing retail stores in the US. Losses from these closed retail stores of £(1.9) million are included within the operating results of continuing operations in the comparative year. Together with the release of £3.5 million of unutilised closure provisions, the closed US stores generated a profit of £1.6 million in year to 31 January 2011.

Notes to the Group Accounts

Continued

4 Revenue and gross profit

	Continuing operations		Discontinued operations		Consolidated operations	
	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m
Sale of goods						
Revenue	215.4	213.8	0.6	10.0	216.0	223.8
Gross profit	103.6	110.6	0.2	5.2	103.8	115.8

The revenue from external customers is derived from the sale of clothing and accessories.

5 Operating expenses

	2012 £m	2011 £m
Selling and distribution costs	99.0	102.6
Administration costs	9.8	10.1
	108.8	112.7

Included within discontinued operations (refer to Note 3) are £0.3 million (2011: £8.0 million) of operating expenses.

6 Other operating income

	2012 £m	2011 £m
Licensing income and buying office commission	8.5	5.8

Included within discontinued operations is £nil (2011: £0.1 million) of licensing income.

7 Staff numbers and costs

The average number of people employed by the Group during the year, including Directors, was as follows:

	2012 Number	2011 Number
Selling, distribution and retail	2,272	2,541
Design, development and production management	157	161
Administration	129	132
	2,558	2,834

The aggregate payroll costs of these people were as follows:

	2012 £m	2011 £m
Wages and salaries	38.9	41.9
Social security costs	3.3	3.6
Defined contribution pension costs	0.4	0.4
	42.6	45.9

Included within the total staff cost above is the remuneration of the Directors totalling £1.3 million (2011: £0.9 million). Details of Directors' remuneration, share options and pension entitlements are disclosed in the Directors' Remuneration Report. Details of pension costs are disclosed in Note 30 to the Group accounts.

8 Finance income and expense

Recognised in the income statement	2012 £m	2011 £m
Finance income		
Interest receivable on bank balances	0.3	0.2
Currency translation differences	0.6	–
Finance expense		
Interest payable on bank loans and overdrafts	–	–
	0.9	0.2

Included within currency translation differences are £0.8 million (2011: £nil) of currency translation differences recycled from reserves to the income statement.

9 Profit before taxation

The Group's profit before taxation is stated after charging/(crediting) the following:

	2012 £m	2011 £m
Fees payable to the Company's auditors and its associates in respect of		
the audit of the Group's annual accounts	0.1	0.1
the audit of the Company's subsidiaries, pursuant to legislation	0.2	0.3
tax and other assurance services	0.3	0.1
transaction assistance	–	0.2
Depreciation and impairment of owned assets	2.8	3.7
Profit on sale of items of property, plant and equipment	(0.4)	(0.2)
Closure costs – release of provision	–	(3.5)
Operating lease rentals		
Plant and machinery	0.2	0.1
Leasehold properties	28.1	32.6
Rent receivable	(1.5)	(1.2)

The auditor's remuneration in respect of the Company's audit fees was £40,000 (2011: £40,000).

During the year £284,000 (2011: £325,000) was paid to the auditors and their associates for non-audit services in respect of tax compliance and advisory services (£268,000 (2011: £50,000)), royalty and turnover reviews (£16,000 (2011: £21,000)), transaction assistance (£nil (2011: £242,000)) and other services (£nil (2011: £12,000)).

10 Income tax expense

a) Recognised in the income statement

	2012 £m	2011 £m
Current tax		
UK corporation tax on profits of the period	–	–
Overseas tax on profits of the period	0.9	0.7
Adjustment in respect of previous periods	(0.4)	(0.5)
Total current tax	0.5	0.2
Deferred tax – origination and reversal of		
UK temporary differences	(0.2)	(0.1)
Effect of change in tax rates	0.2	0.1
Total deferred tax	–	–
Tax on profit/(loss) (Note 10b)	0.5	0.2

None of the income tax expense is included within discontinued operations in either of the two years ended 31 January 2012 (see Note 3).

Notes to the Group Accounts

Continued

10 Income tax expense continued

b) Factors affecting tax charge for year

The tax charged for the year is different to the standard 26% (2011: 28%) rate of corporation tax in the UK. The differences are explained below:

	2012 £m	2011 £m
Profit/(loss) before taxation	5.8	(2.2)
Profit/(loss) multiplied by the standard rate of corporation tax in the UK of 26% (2011: 28%)	1.5	(0.6)
Effects of:		
Expenses not deductible for tax purposes	0.3	0.1
Disposal of discontinued operations for which no tax has been recognised	(0.2)	0.6
Foreign exchange movements transferred from reserves not taxable	–	0.1
Losses for which no deferred tax has been recognised	(1.0)	1.2
Current year temporary differences and deferred capital allowances for which no deferred tax has been recognised	0.7	–
Difference in effective tax rates on overseas earnings	(0.4)	(0.4)
Adjustments to tax charge in respect of previous periods	(0.4)	(0.5)
Share of joint venture tax charge which has been netted off within share of profit of joint ventures	(0.2)	(0.4)
Deferred tax charge relating to reduction in UK tax (26% to 25% effective from 1 April 2012)	0.2	0.1
Total tax charge for the year (Note 10a)	0.5	0.2

The effective tax rate in the future will be affected by the proportion of any profits or losses generated in the different tax jurisdictions.

c) Income tax recognised in other comprehensive income

	Before tax 2012 £m	Tax credit 2012 £m	Net of tax 2012 £m	Before tax 2011 £m	Tax expense 2011 £m	Net of tax 2011 £m
Currency translation differences on foreign currency net investments	0.3	–	0.3	–	–	–
Currency translation differences on foreign currency loans	(0.2)	–	(0.2)	0.4	(0.1)	0.3
Currency translation differences transferred to profit and loss	(0.8)	0.3	(0.5)	2.5	–	2.5
Effective portion of changes in fair value of cash flow hedges	0.1	–	0.1	0.1	–	0.1
	(0.6)	0.3	(0.3)	3.0	(0.1)	2.9

11 Dividends – equity

	2012 £m	Pence per share	2011 £m	Pence per share
Final paid for prior financial year	1.0	1.0p	0.5	0.5p
Interim paid for current financial year	0.6	0.6p	0.5	0.5p
Total dividends paid during the year	1.6	1.6p	1.0	1.0p

The Board is proposing a final dividend of 1.0 pence (2011: 1.0 pence) giving a total dividend for the current financial year of 1.6 pence per share (2011: 1.5 pence). £0.1 million (2011: £nil) of dividends were paid during the year to the minority shareholders of a subsidiary undertaking of the Group.

12 Earnings/(losses) per share

Basic earnings/(losses) per share are calculated on 95,884,740 (2011: 95,879,754) shares being the weighted average number of ordinary shares during the year.

Diluted earnings/(losses) per share are calculated on 96,632,850 shares being the weighted average number of ordinary shares adjusted to assume the exercise of dilutive options (2011: 95,879,754; there being no dilutive effect from options).

Basic and diluted earnings/(losses) per share of 5.5 pence per share (2011: losses of (2.4) pence) is based on £5.3 million (2011: losses of £(2.3) million) being the profit/(loss) attributable to equity shareholders.

On continuing operations the basic earnings per share of 4.7 pence per share (2011: 9.2 pence) is based on £4.5 million (2011: £8.8 million) being the profit relating to continuing operations.

On discontinuing operations the basic earnings/(losses) per share of 0.8 pence per share (2011: losses of (11.6) pence) is based on £0.8 million (2011: losses of £(11.1) million) being the profit/(loss) relating to discontinued operations.

The reconciliation to adjusted earnings per share is as follows:

	2012 Continuing £m	2012 Continuing Pence per share	2011 Continuing £m	2011 Continuing Pence per share
Profit attributable to equity shareholders	4.5	4.7p	8.8	9.2p
US closed stores	–	–	1.9	2.0p
Closure costs provision	–	–	(3.5)	(3.7)p
Adjusted profit	4.5	4.7p	7.2	7.5p

The adjusted earnings per share relates to the core continuing operations and in the opinion of the Directors, gives a better measure of the Group's underlying performance than the basic losses per share.

13 Intangible assets

	Goodwill 2012 £m
Cost	
At 1 February and 31 January	14.3
Impairment	
At 1 February and 31 January	(11.9)
Net book value at 1 February and 31 January	2.4

Goodwill of £2.0 million relates to the acquisition of retail franchise operations in the UK and the remainder relates to the acquisition of subsidiaries.

Given the similar nature of the activities of each cash generating unit, a consistent methodology is applied across the Group in assessing cash generating unit recoverable amounts. The recoverable amount is the higher of the value in use and the fair value less the costs to sell. The value in use is the present value of the cash flows expected to be generated by the cash generating unit over a projection period together with a terminal value. Cash flows are projected based on actual operating results and the Directors' five year forward forecasts which are based on Directors' knowledge, historical experience and economic growth forecasts for the fashion industry, including maximum sales growth forecasts of 2% per annum. A pre-tax discount rate of 15% (2011: 15%) has been applied to the value in use calculations reflecting market assessments of the time value of money at the balance sheet date. A terminal growth rate of 2% (2011: 2%) has been used based on industry growth rates. As discussed in Our Business on pages 4 to 7, like all retailers the Group is susceptible to volatility in the propensity of consumers to spend, which is affected by macro-economic issues. Further, both the Group's retail and wholesale businesses have largely inflexible cost bases given rise to substantial operational gearing. Accordingly the key sensitivity with regard to future cash flows and value in use relates to the assumed sales growth. As noted above this has been set at a maximum of 2% per annum.

Notes to the Group Accounts

Continued

14 Property, plant and equipment

2012	Short leasehold property £m	Plant equipment fixtures and fittings £m	Total £m
Cost			
At 1 February 2011	12.0	64.5	76.5
Currency movements	0.1	0.1	0.2
Additions	0.2	1.4	1.6
Disposals	(1.7)	(2.0)	(3.7)
At 31 January 2012	10.6	64.0	74.6
Depreciation			
At 1 February 2011	11.5	56.5	68.0
Currency movements	0.1	–	0.1
Charge for year	0.1	2.7	2.8
Disposals	(1.7)	(1.7)	(3.4)
At 31 January 2012	10.0	57.5	67.5
Net book value			
At 31 January 2012	0.6	6.5	7.1
At 31 January 2011	0.5	8.0	8.5

The Group has no plant and equipment held under finance leases in both the current and prior years and no depreciation was charged during either year.

The impairment loss recognised in the year of £nil (2011: £0.1 million) is a result of a review of the carrying value of the store portfolio assets.

Property, plant and equipment with a net book value of £0.3 million (2011: £0.1 million) was disposed of during the year. Net income received on disposal was £0.7 million (2011: £0.3 million) resulting in a profit on disposal of £0.4 million (2011: £0.2 million).

The Group has £48.7 million (2011: £52.7 million) of gross assets with a £nil net book value.

14 Property, plant and equipment continued

2011	Short leasehold property £m	Plant equipment fixtures and fittings £m	Total £m
Cost			
At 1 February 2010	18.1	70.5	88.6
Currency movements	–	0.5	0.5
Additions	–	1.0	1.0
Disposals	(6.1)	(7.5)	(13.6)
At 31 January 2011	12.0	64.5	76.5
Depreciation			
At 1 February 2010	17.4	60.1	77.5
Currency movements	–	0.3	0.3
Impairment	–	0.1	0.1
Charge for year	0.2	3.4	3.6
Disposals	(6.1)	(7.4)	(13.5)
At 31 January 2011	11.5	56.5	68.0
Net book value			
At 31 January 2011	0.5	8.0	8.5
At 31 January 2010	0.7	10.4	11.1

15 Investments

The Group's investments in joint ventures are as follows:

	2012 £m	2011 £m
Share of current assets	4.8	4.7
Share of non-current assets	0.3	0.4
Share of current liabilities	(1.6)	(1.7)
	3.5	3.4
Share of revenue	6.7	7.4
Share of expense	(5.7)	(5.6)
Share of income tax expense	(0.2)	(0.3)
	0.8	1.5

The investments are accounted for using the equity method of accounting.

Notes to the Group Accounts

Continued

16 Inventories

	2012 £m	2011 £m
Raw materials and consumables	0.7	0.8
Work in progress	0.9	0.8
Finished goods	45.3	38.7
	46.9	40.3

During the year, inventory write-downs of £6.0 million (2011: £3.1 million) were expensed within cost of sales. The amount of inventory recognised as an expense during both the current and prior years is equal to the amount recognised within cost of sales.

All inventory is valued at the lower of cost and net realisable value. There is no inventory carried at fair value less costs to sell either in the current or prior year.

17 Trade and other receivables

	2012 £m	2011 £m
Trade receivables	11.1	9.0
Other receivables	5.1	6.2
Prepayments and accrued income	10.3	10.4
	26.5	25.6

No receivables are due in more than one year and are non-interest bearing. Standard credit terms provided to customers differ, but are typically between 30 and 60 days. Included within trade receivables is a bad debt provision of £0.6 million (2011: £0.4 million). During the year, £0.1 million (2011: £0.1 million) of bad debt write-offs were incurred.

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in Note 28.

18 Cash and cash equivalents

	2012 £m	2011 £m
Cash and cash equivalents in the balance sheet and cash flow	34.2	34.1

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities is disclosed in Note 28.

19 Current trade and other payables

	2012 £m	2011 £m
Trade payables	23.8	19.2
Bills of exchange payable	2.6	2.2
Other taxation and social security	4.5	3.8
Accruals and deferred income	17.1	17.9
	48.0	43.1

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 28.

20 Provisions

Restructuring	2012 £m	2011 £m
Balance at 1 February	1.5	8.7
Increase during the year	–	2.2
Utilised during the year	(0.9)	(9.4)
Balance at 31 January	0.6	1.5

During the year ended 31 January 2010, the Group implemented a strategic review with the aim of making the changes necessary to return the Group to profit and cash generation.

Restructuring provisions were estimated for the following:

- £2.5 million provision relating to the termination of our retail operations in Japan, resulting in the closure of 21 stores included within discontinued operations;
- £6.2 million provision relating to the planned closure of certain retail stores in North America, included within continuing operations; and
- £2.2 million relating to the provision of support office functions and other transitional services to support the transition of the Nicole Farhi business into new ownership.

During the year, £0.9 million of the transitional services provision was utilised. In the prior year, £5.9 million of the restructuring provisions were utilised relating to lease terminations and the provision of transitional services. In addition, £3.5 million of the provisions were credited to the profit and loss account within continuing operations in the prior year following the settlement of the costs of closure of the US retail stores.

21 Current tax payable

	2012 £m	2011 £m
UK corporation tax	–	0.6
Overseas tax	0.5	0.5
Current tax payable	0.5	1.1

22 Deferred tax

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	2012 £m	2011 £m	2012 £m	2011 £m
Property, plant and equipment	3.1	2.3	–	–
Deferred rent	0.3	0.4	–	–
Provisions	0.3	0.7	–	–
Deferred capital gains	–	–	0.9	0.9
Trading losses	0.7	0.7	–	–
	4.4	4.1	0.9	0.9

Deferred tax assets have not been recognised on the following temporary differences due to the degree of uncertainty of the time period over which the underlying tax losses and deductions will be utilised in our UK and US businesses.

	2012 £m	2011 £m
Trading losses	13.2	13.1
Property, plant and equipment	1.3	3.0
Capital losses	1.7	0.3
Other temporary differences	0.5	0.8
	16.7	17.2

Notes to the Group Accounts

Continued

23 Share capital

Ordinary shares of 1 pence each	2012 Number	2012 £m	2011 Number	2011 £m
Authorised shares at the beginning of the year	125,000,000	1.3	125,000,000	1.3
Allotted, called up and fully paid shares at the beginning of the year	95,879,754	1.0	95,879,754	1.0
Shares issued during the year in respect of share options	20,000	–	–	–
Allotted, called up and fully paid shares at the beginning and end of the year	95,899,754	1.0	95,879,754	1.0

At 31 January 2012, the following equity settled options have been granted and remain outstanding in respect of ordinary shares of 1p each in the Company:

Date of grant	Options	Option price	Contractual life of options
1 November 2002 (vested 1 November 2005)	538,387	177.20p	10 years
1 November 2002 (vested 1 November 2005)	105,000	141.50p	10 years
29 October 2008 (vested 29 October 2011)	2,521,000	56.20p	10 years
27 April 2011	50,000	102.30p	10 years

Share options granted are subject to detailed performance conditions. The performance condition for the outstanding round of option grants is based on a target profit before tax and hurdles are set in order to reward strong financial performance. Options which do not vest following the application of the performance conditions lapse and become unavailable for exercise.

	Weighted average exercise price	Number of options 2012	Weighted average exercise price	Number of options 2011
Outstanding at the beginning of the period	79.04p	3,596,555	77.10p	4,895,861
Forfeited during the period	75.68p	(412,168)	71.71p	(1,299,306)
Exercised during the period	56.20p	(20,000)	–	–
Granted during the period	102.30p	50,000	–	–
Outstanding at the end of the period	79.97p	3,214,387	79.04p	3,596,555

The number of share options exercisable at the year end is 3,164,387 (2011: 709,755).

The Group has adopted the exemption to apply IFRS 2 only to equity instruments granted after 7 November 2002.

The fair value of the share options granted is not considered to be material to the accounts in the current and prior years.

24 Reconciliation of increase/(decrease) in cash to movement in net funds

	2012 £m	2011 £m
Change in net funds from cash flows	0.2	(1.9)
Translation differences	(0.1)	0.3
Movement in net funds	0.1	(1.6)
Net funds at beginning of year	34.1	35.7
Net funds at end of year	34.2	34.1

25 Analysis of net funds

	31 January 2011 £m	Cash flow £m	Non cash changes £m	31 January 2012 £m
Cash and cash equivalents in the balance sheet and cash flow	34.1	0.2	(0.1)	34.2
Net funds	34.1	0.2	(0.1)	34.2

26 Commitments

Aggregate future rental commitments payable under non-cancellable operating leases at 31 January 2012 for which no provision has been made in these accounts were as follows:

	Leasehold property		Other	
	2012 £m	2011 £m	2012 £m	2011 £m
Operating leases which expire:				
Within one year	5.8	3.4	–	–
Within two to five years	28.4	34.4	0.6	0.1
After five years	183.0	221.6	–	–
	217.2	259.4	0.6	0.1

Aggregate future rentals receivable under non-cancellable operating leases at 31 January 2012 for which no accrual has been made in these accounts were as follows:

	Leasehold property	
	2012 £m	2011 £m
Operating leases which expire:		
Within one year	–	1.0
Within two to five years	4.3	–
	4.3	1.0

At 31 January 2012 the Group had contracted capital commitments not provided for in the accounts of £0.1 million (2011: £0.4 million).

At 31 January 2012 the Group had commitments on foreign exchange contracts amounting to £1.0 million (2011: £4.8 million). In addition, the Group had commitments in respect of letters of credit of £0.8 million (2011: £1.4 million).

27 Contingent liabilities

The Group has a number of sublet and assigned properties. In the event that the tenants of these properties default, the Group may be liable. At the year end, the total annual commitment amounted to £0.4 million (2011: £0.5 million).

28 Financial instruments

Details of financial risk management, treasury policies and use of financial instruments are set out in the section entitled 'Management of risks' within Our Business.

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. Derivative financial instruments are used to hedge exposure to fluctuations in foreign exchange rates.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group monitors its cash position on a regular basis through the use of regularly updated cash flow forecasts, and believes that it has sufficient and appropriate net funds and facilities available.

Interest rate risk

The Group does not use interest rate financial instruments. The Group regularly monitors and reacts accordingly to any exposure to fluctuations in interest rates and the impact on its monetary assets and liabilities.

Foreign currency risk

The Group is exposed to foreign currency risks on sales, purchases and cash holdings that are denominated in a currency other than Sterling. The currency giving rise to this risk is primarily the Hong Kong Dollar. The Group's policy is to reduce the risk associated with purchases denominated in foreign currencies, by using forward fixed rate currency purchase contracts up to a maximum of one year forward, taking into account any forecast foreign currency cash flows.

In respect of other monetary assets and liabilities held in currencies other than the Hong Kong Dollar, the Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

The Group's policy is not to hedge the translational exposure that arises on consolidation of the statement of income at overseas subsidiaries.

Notes to the Group Accounts

Continued

28 Financial instruments continued

Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. The Group's main credit risk is primarily attributable to its trade receivables. Credit evaluations are performed on all customers requiring credit over a certain amount. The Group does not require collateral in respect of financial assets. The amounts recognised in the balance sheet are net of appropriate allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current economic environment. At the balance sheet date, there were no significant concentrations of credit risk by customer or by geography. Quantitative analysis of credit risk to receivables is presented below.

Credit risk associated with cash balances and derivative financial instruments is managed by transacting with an existing relationship bank with strong investment grade rating. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying amount	
	2012 £m	2011 £m
Trade and other receivables	16.2	15.2
Cash and cash equivalents	34.2	34.1
	50.4	49.3

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	Carrying amount	
	2012 £m	2011 £m
United Kingdom and Europe	9.4	7.6
North America	3.1	3.1
Hong Kong	3.7	4.5
	16.2	15.2

The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:

	2012	2011
	£m	£m
Wholesale customers	11.1	9.0

The ageing of gross trade receivables at the reporting date was:

	Gross	Impairment	Gross	Impairment
	2012 £m	2012 £m	2011 £m	2011 £m
Current	9.9	–	8.0	–
30 days	0.8	–	1.1	(0.1)
60 days	0.3	–	0.1	(0.1)
More than 60 days	0.7	(0.6)	0.2	(0.2)
	11.7	(0.6)	9.4	(0.4)

An impairment has been recorded against the trade receivables that the Group believes may not be recoverable. Based on past experience, the Group believes that no impairment allowance is necessary in respect of trade receivables not past due.

28 Financial instruments continued

Exposure to credit risk continued

The movement in impairment in respect of trade receivables during the year was as follows:

	2012 £m	2011 £m
At 1 February	0.4	0.3
Movement during year	0.2	0.1
At 31 January	0.6	0.4

Interest rate profile of financial assets

The interest rate profile of the financial assets of the Group at 31 January 2012 was as follows:

	Financial assets on which no interest is received		Floating rate financial assets		Total	
	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m
Sterling	0.2	0.1	22.7	23.8	22.9	23.9
US Dollar	–	–	4.4	5.6	4.4	5.6
Hong Kong Dollar	–	–	3.2	1.8	3.2	1.8
Other	–	–	3.7	2.8	3.7	2.8
Total	0.2	0.1	34.0	34.0	34.2	34.1

Financial assets comprise cash and short term deposits. The effective interest rate on floating rate financial assets during the year was 1.6% (2011: 1.3%).

There were no fixed rate or floating rate financial liabilities at the end of the current or prior year.

Currency exposure

Net monetary assets and liabilities of the Group that are not denominated in the local functional currency were as follows:

At 31 January 2012		US	Canadian	Hong Kong			Total
Net foreign currency monetary assets/(liabilities)	Sterling £m	Dollar £m	Dollar £m	Dollar £m	Euro £m	Other £m	£m
Trade and other receivables	2.0	0.4	–	–	1.2	0.1	3.7
Cash and overdraft	1.3	1.9	–	0.5	2.4	–	6.1
Trade and other payables	(1.2)	(1.5)	–	–	(2.2)	–	(4.9)
Intercompany balances	(2.5)	–	9.3	(9.6)	7.5	–	4.7
Total	(0.4)	0.8	9.3	(9.1)	8.9	0.1	9.6
At 31 January 2011		US	Canadian	Hong Kong			Total
Net foreign currency monetary assets/(liabilities)	Sterling £m	Dollar £m	Dollar £m	Dollar £m	Euro £m	Other £m	£m
Trade and other receivables	2.0	0.3	–	–	1.4	0.1	3.8
Cash and overdraft	–	2.0	–	0.5	1.7	–	4.2
Trade and other payables	(0.9)	(0.8)	–	–	(2.3)	–	(4.0)
Intercompany balances	(5.3)	13.6	6.9	(14.1)	6.7	–	7.8
Total	(4.2)	15.1	6.9	(13.6)	7.5	0.1	11.8

Forward foreign exchange contracts have not been taken into consideration above. As at 31 January 2012, the Group has committed forward foreign exchange contracts of £1.0 million (2011: £4.8 million).

Notes to the Group Accounts

Continued

28 Financial instruments continued

Currency exposure continued

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2012	2011	2012	2011
US Dollar	1.602	1.546	1.578	1.602
Canadian Dollar	1.579	1.587	1.583	1.602
Hong Kong Dollar	12.469	12.012	12.237	12.487
Euro	1.155	1.170	1.206	1.168

Sensitivity analysis

A 10% strengthening of Sterling against the following currencies at 31 January would have increased/(decreased) equity and profit and loss by the amounts shown below. This analysis assumes that all other variables, in particular, interest rates, remain constant. This analysis is performed on the same basis for the prior year.

	Equity 2012 £m	Profit and loss 2012 £m	Equity 2011 £m	Profit and loss 2011 £m
US Dollar	–	(0.1)	(0.9)	(0.4)
Canadian Dollar	(0.6)	(0.3)	(0.6)	–
Hong Kong Dollar	–	0.9	0.8	0.5
Euro	(0.4)	(0.5)	(0.4)	(0.3)
	(1.0)	–	(1.1)	(0.2)

Borrowing facilities

Working capital and letter of credit facilities of £3.3 million were available to the Group at 31 January 2012 (31 January 2011: £3.2 million). The facilities are subject to an annual review and were most recently renewed in September 2010.

Fair values

The fair value of the Group's financial instruments at 31 January 2012 were as follows:

	31 January 2012		31 January 2011	
	Carrying amount £m	Estimated fair value £m	Carrying amount £m	Estimated fair value £m
Primary financial instruments used to finance the Group's operations:				
Cash and cash equivalents	34.2	34.2	34.1	34.1
Trade receivables	11.1	11.1	9.0	9.0
Trade payables	(23.8)	(23.8)	(19.2)	(19.2)
Derivative financial instruments	0.1	0.1	–	–

The fair value of forward exchange contracts outstanding as at 31 January 2012 is an asset of £0.1 million (2011: £0.0 million). £0.1 million has been credited to the hedging reserve (2011: £0.1 million credited).

These contracts mature in the next 12 months, therefore the cash flows and resulting effect on profit and loss are expected to occur within the next 12 months.

The fair value of derivative financial instruments is determined using discounted cash flow techniques based on readily available market data and represent a Level 2 measurement in the fair value hierarchy under IFRS 7. Level 2 is defined as inputs other than quoted prices in active markets that are observable for the asset or liability.

28 Financial instruments continued

Capital management

The capital structure of the Group consists of net funds and equity attributable to the equity holders of the parent Company, comprising issued share capital, reserves and retained earnings. The Group manages its capital with the objective that all entities within the Group continue as going concerns. The Group is not subject to any externally imposed capital management.

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. To achieve this the Board of Directors monitors the balance sheet, the working capital, the cash flows and the level of dividends paid to shareholders.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

At present employees, including the Chairman, hold 42 percent of ordinary shares. Share options have been issued amounting to just over five percent of the issued share capital.

The Company does not have permission from shareholders to conduct share buy-backs.

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

29 Directors' interests and related party transactions

The Group made sales of £2.4 million (2011: £2.4 million) to FCUK IT Company and £1.3 million (2011: £0.8 million) to FCIT China Limited during the year, both of which are joint ventures. The closing liabilities due from the respective joint ventures are £0.7 million (2011: £0.6 million) and £0.6 million (2011: £0.2 million).

On 21 April 2011, French Connection UK Limited and NF Restaurants Limited, subsidiary undertakings of French Connection Group PLC, completed the sale of their "202" café business in London to SAM Corporation Limited for a nominal consideration. Stephen Marks, Chairman and Chief Executive of French Connection Group PLC is a Director of French Connection UK Limited, NF Restaurants Limited and SAM Corporation Limited and is the sole shareholder of SAM Corporation Limited. The impact of this transaction on French Connection Group PLC was a disposal of net assets with a net book value of £0.3 million generating a loss on disposal of £0.3 million.

There are no related party transactions between French Connection Group PLC and the non-controlling interest subsidiary undertakings.

At 31 January 2012, Stephen Marks, Chairman and Chief Executive had an interest in 40,094,190 ordinary shares (2011: 40,094,190) of which 2,281,500 shares (2011: 2,281,500) were held in family trusts, representing in aggregate 41.8% (2011: 41.8%) of the total issued ordinary share capital of the Company.

Details of the Directors' remuneration, being the key management personnel, are disclosed in the Directors' Remuneration Report.

30 Pension costs

The Group operates a Group defined contribution scheme and contributes towards a number of personal pension plans. The assets of these schemes are held separately from those of the Group in independently administered funds.

The pension cost charge for the year was £0.4 million (2011: £0.4 million). At 31 January 2012 and 31 January 2011 there were no outstanding amounts payable to the schemes.

31 Accounting estimates and judgements

The Directors have made significant accounting estimates and judgements in applying the Group's accounting policies in the following areas:

Impairment – the Group is required to test, at least annually, whether goodwill has suffered any impairment. The Group also reviews the carrying value of property, plant and equipment where events or changes in circumstances indicate any potential impairment. The Directors have used five year forecast models and an appropriate pre-tax weighted average cost of capital in its goodwill and fixed asset impairment calculations. Growth assumptions are based on Directors' knowledge and historical experience. The discount rate used is based on the weighted average cost of capital applicable to the individual assets concerned.

Inventory valuation – the Directors have used their knowledge and experience of the fashion industry in determining the level and rates of provisioning required to calculate the appropriate inventory carrying values.

Discontinued operations – the Directors have applied judgment in determining which entities to classify and present as discontinued, taking into account the criteria and guidance set out in IFRS and also with consideration of the size and contribution of the entities. This includes an assessment of how best to present the results for the Group to aid the reader to understand the contribution from those businesses that are being closed and disposed and those that are retained as continuing core businesses.

Notes to the Group Accounts

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32 Principal subsidiary undertakings

Details of the principal subsidiary undertakings at 31 January 2012 are set out below. Unless otherwise stated, the Company directly owned all the issued ordinary shares.

Company	Country of Incorporation, Registration and Operation	Principal Activity
French Connection Limited	England	Brand management
French Connection UK Limited	England	Supply of fashion merchandise
French Connection (London) Limited	England	Supply of fashion merchandise
French Connection (Hong Kong) Limited	British Virgin Islands (operates in Hong Kong)	Supply of fashion merchandise
French Connection No. 2 Pour Hommes Sarl*	France	Supply of fashion merchandise
PreTex Textilhandels GmbH*	Germany	Supply of fashion merchandise
French Connection Holdings Inc	USA	Holding Company
French Connection Group Inc*	USA	Supply of fashion merchandise
Louisiana Connection Limited*	USA	Supply of fashion merchandise
Roosevelt Connection Limited*	USA	Supply of fashion merchandise
Soho Connection Limited*	USA	Supply of fashion merchandise
French Connection (Canada) Limited (75%)	Canada	Supply of fashion merchandise
Toast (Mail Order) Limited (75%)	Wales	Supply of fashion merchandise
YMC Limited (75%)	England	Supply of fashion merchandise
FCUK IT Company (50% partnership)*	Hong Kong	Supply of fashion merchandise
FCIT China Limited (50%)*	Hong Kong	Supply of fashion merchandise

FCUK IT Company's principal place of business is Block 1, 7th Floor, Enterprise Square, 9 Sheung Yuet Road, Kowloon, Hong Kong.

FCIT China Limited's principal place of business is 31/F, Tower A, Southmark, 11 Yip Hing Street, Wong Chuk Hang, Hong Kong.

* Shares are held by subsidiary undertakings.

Company Balance Sheet

At 31 January 2012

	Note	2012 £m	2011 £m
Fixed assets			
Tangible assets	3	0.5	0.3
Investments	4	25.7	23.1
		26.2	23.4
Current assets			
Debtors	5	41.3	40.4
Cash at bank and in hand		–	–
Derivative financial instruments		0.1	–
		41.4	40.4
Current liabilities			
Creditors	6	(2.0)	(2.3)
		(2.0)	(2.3)
Net current assets		39.4	38.1
Total assets less current liabilities		65.6	61.5
Provisions for liabilities and charges	7	(0.7)	(0.8)
Net assets		64.9	60.7
Capital and reserves			
Called-up share capital	8	1.0	1.0
Share premium account	8	9.4	9.4
Profit and loss account	8	54.4	50.3
Other reserves	8	0.1	–
Equity shareholders' funds		64.9	60.7

The notes on pages 56 to 59 form part of these accounts.

These accounts were approved by the Board of Directors on 13 March 2012 and were signed on its behalf by:



Stephen Marks
Director



Roy Naismith
Director

Company Number: 1410568

Notes to the Company Accounts

1 Accounting policies

a) Basis of preparation

The Company has elected to prepare its parent Company financial statements in accordance with UK GAAP and these are presented on pages 55 to 59.

b) Basis of accounting

The accounts have been prepared under the historical cost accounting rules, except for derivative financial instruments measured at fair value, and in accordance with applicable accounting standards. As permitted by Section 408 of the Companies Act 2006, the profit and loss account under UK GAAP of the Company is not presented. No new standards have been adopted in this year's financial statements. The Company has taken the exemption granted by FRS 8 Related Party disclosures not to disclose transactions with wholly owned subsidiaries of the Group.

c) Depreciation

Depreciation is provided to write off the cost less estimated residual value of fixed assets by equal annual instalments over their useful lives, which are estimated to be as follows:

Plant, equipment, fixtures and fittings : 3 to 10 years

d) Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Full provision has been made for deferred taxation arising from timing differences between the recognition of income and expenditure for taxation and accounting purposes. Deferred tax amounts are not discounted.

e) Foreign exchange

Monetary assets and liabilities denominated in foreign currencies are translated into Sterling at rates of exchange ruling at the balance sheet date. Transactions in the period are translated into Sterling at the rates of exchange ruling on the date of transaction or at hedged rates. Resulting exchange differences are taken to the profit and loss account. Forward fixed rate currency purchase contracts are used.

f) Leased assets

Operating lease rentals are charged to the profit and loss account in the period to which they relate. Rentals receivable under operating leases are included in the profit and loss account on an accruals basis. There are no finance leases in the current year.

g) Pension cost

Pension costs charged to the profit and loss account represent the amount of contributions payable to defined contribution and personal pension schemes in respect of the period.

h) Share-based payment

The Group operates share option incentive schemes for Directors and key employees. The fair value of options granted is recognised as an employee expense in the income statement with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options is measured using the "Black-Scholes" option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised in the income statement is adjusted at each balance sheet date to reflect the number of share options that are expected to vest revised for expected leavers and estimated achievement of non-market based vesting conditions. The Group has adopted the exemption to apply FRS 20 only to equity instruments granted after 7 November 2002. The fair value of the share options granted is not considered to be material in the current or prior years.

i) Derivative financial instruments

Derivative financial instruments in the form of forward foreign exchange contracts are used to manage the risk associated with purchases denominated in foreign currencies as described in the section entitled 'Management of risks' within Our Business. Any changes in the fair value of the forward contracts during the period in which the hedge is in effect will be reflected as a component of reserves within a hedging reserve to the extent that the hedge is effective. The ineffective part of the hedge is recognised in the profit and loss account.

Financial Reporting Standard 29 "Financial Instruments: Disclosures" (FRS 29) sets out the requirements for the presentation of, and disclosures relating to, financial instruments and replaces the requirements of FRS 25 "Financial Instruments: Disclosure and Presentation". The Company is exempt from the requirements of FRS 29 as the financial statements for the Group include disclosures that comply with IFRS 7, the equivalent International Financial Reporting Standard.

1 Accounting policies continued

j) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity trade and other receivables, cash and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value including any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured at amortised cost less any impairment losses.

A financial instrument is recognised if the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset. Purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Company commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Company's obligations specified in the contract expire or are discharged or cancelled.

Cash comprises cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

k) Investments

Investments are stated at cost less provision for permanent diminution in value.

l) Share capital

When new shares are issued, they are recorded in share capital at their par value. The excess of the issue price over the par value is recorded in the share premium reserve. The cost of own shares purchased to satisfy the exercise of employee share options is charged to total equity and the proceeds of their reissue are credited to total equity.

m) Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

n) Guarantees

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of fellow subsidiaries or of third parties, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

2 Staff numbers and operating costs

All Directors and staff are employed by French Connection (London) Limited, a subsidiary undertaking. Details of staff numbers and costs are shown in that Company's accounts. Directors' remuneration is disclosed in the Directors' Remuneration Report.

The audit fee of the Company is disclosed in Note 9 to the Group accounts.

3 Property, plant and equipment

	Plant equipment fixtures and fittings £m	Total £m
Cost or valuation		
At 1 February 2011	3.3	3.3
Additions	0.3	0.3
Disposals	(0.3)	(0.3)
31 January 2012	3.3	3.3
Depreciation		
At 1 February 2011	3.0	3.0
Charge for year	0.1	0.1
Disposals	(0.3)	(0.3)
At 31 January 2012	2.8	2.8
Net book value		
At 31 January 2012	0.5	0.5
At 31 January 2011	0.3	0.3

Notes to the Company Accounts

Continued

4 Investments

The Company's investments in subsidiary undertakings is as follows:

	Total £m
Cost	
At 1 February 2011	51.8
Additions	19.0
At 31 January 2012	70.8
Provision	
At 1 February 2011	28.7
Charge for year	16.4
At 31 January 2012	45.1
Carrying amount	
At 31 January 2012	25.7
At 31 January 2011	23.1

During the year, the Company subscribed for additional share capital of £19.0 million in its subsidiary undertaking, French Connection Holdings Inc.

The Directors have conducted an impairment review comprising a comparison of the carrying amount of the investment with its recoverable amount being the higher of net realisable value and value in use. The recoverable amount has been determined as the net realisable value. To the extent that the carrying amount exceeds the recoverable amount, the investment is impaired and has been provided against. The impairment loss has been recognised in the profit and loss account in the year.

Impairment of £16.4 million (2011: £5.6 million) relating to the Group's investment in subsidiary company, French Connection Holdings Inc. has been provided in the current year.

The principal subsidiaries of the Company are set out in Note 32 to the Group accounts.

5 Debtors

	2012 £m	2011 £m
Amounts owed by subsidiary undertakings	40.3	39.8
Deferred tax recoverable (Note 7)	0.3	0.4
Other debtors	0.1	0.1
Prepayments and accrued income	0.6	0.1
	41.3	40.4

Included within debtors are amounts due within one year of £0.7 million (2011: £0.2 million).

6 Creditors: amounts falling due within one year

	2012 £m	2011 £m
Trade creditors	0.5	0.2
Corporation tax payable	–	0.1
Accruals and deferred income	1.5	2.0
	2.0	2.3

7 Deferred tax

	2012 £m	2011 £m
Deferred tax asset (Note 5)		
Deferred capital allowances	0.3	0.3
Short term timing differences	–	0.1
	0.3	0.4

7 Deferred tax continued

Deferred tax liability	2012 £m	2011 £m
Deferred capital gains	0.7	0.8

The movement during the year has been processed entirely through the profit and loss account.

8 Reserves

	Hedging reserve £m	Share premium account £m	Profit and loss account £m
At 1 February 2011	–	9.4	50.3
Loss for the financial year	–	–	(14.7)
Dividends paid during the year	–	–	(1.6)
Dividends received during the year from subsidiaries	–	–	20.4
Effective portion of changes in fair value of cash flow hedges	0.1	–	–
At 31 January 2012	0.1	9.4	54.4

Share capital and share option information is set out in Note 23 in the Group accounts.

The loss before taxation dealt with in the accounts of the Company was £(14.7) million (2011: £(5.5) million).

9 Reconciliation of movements in equity shareholders' funds

	2012 £m	2011 £m
Loss for the financial year	(14.7)	(5.5)
Dividends paid during the year	(1.6)	(1.0)
Dividend received during the year from a subsidiary	20.4	–
Effective portion of changes in fair value of cash flow hedges	0.1	0.1
Net movement in equity shareholders' funds	4.2	(6.4)
Opening equity shareholders' funds	60.7	67.1
Closing equity shareholders' funds	64.9	60.7

10 Commitments

	Leasehold property		Other	
	2012 £m	2011 £m	2012 £m	2011 £m
Operating leases which expire:				
Within two to five years	–	0.1	0.2	0.1
After five years	0.8	0.8	–	–
	0.8	0.9	0.2	0.1

At 31 January 2012 the Company had commitments on foreign exchange contracts amounting to £1.0 million (2011: £4.8 million).

The fair value of forward exchange contracts outstanding as at 31 January 2012 is an asset of £0.1 million (2011: £0.0 million). £0.1 million has been credited to the hedging reserve (2011: £0.1 million credit).

11 Contingent liabilities

The Company raises finance for and guarantees the bank borrowings of certain subsidiary undertakings which, at 31 January 2012, amounted to £nil (2011: £nil).

12 Related party disclosures

There are no related party transactions between the Company and the non-controlling interest subsidiary undertakings.

At 31 January 2012, Stephen Marks, Chairman and Chief Executive had an interest in 40,094,190 ordinary shares (2011: 40,094,190) of which 2,281,500 shares (2011: 2,281,500) were held in family trusts, representing in aggregate 41.8% (2011: 41.8%) of the total issued ordinary share capital of the Company.

Management has identified the Directors of the Company as related parties for the purpose of FRS8 'Related Party Disclosures'. Details of the relevant relationships with these individuals are disclosed in the Directors' Remuneration Report as set out in the Group financial statements.

Five Year Record

Years ended 31 January	2008 £	2009 £	2010 £	2011 £	2012 £
Total revenue	236.1m	248.0m	249.2m	223.8m	216.0m
Profit/(loss) before taxation	3.1m	(11.8)m	(9.0)m	8.9m	5.0m
Discontinued operations	–	(5.6)m	(15.7)m	(11.1)m	0.8m
Basic earnings/(losses) per share	1.5p	(17.3)p	(26.0)p	(2.4)p	5.5p
Adjusted earnings per share	1.5p	0.9p	0.5p	7.5p	5.5p
Dividends per share	5.0p	1.7p	0.5p	1.5p	1.6p
Net assets	118.0m	100.9m	72.3m	71.8m	75.1m
Operated retail trading space 000 sq ft	443	490	458	337	330

The 2010 results above reflect the results for that year as disclosed in the 2011 Annual Report and the 2009 results reflect the results for that year as disclosed in the 2010 Annual Report. Each has, respectively, been adjusted for discontinued operations.

The Adjusted Earnings Per Share has been amended to reflect the core continuing operations by excluding the trading of the discontinued and closed operations and excluding the costs of closure and loss on disposal in 2010 and 2011. In previous years the adjustments made are to remove the effect of property disposals.

Core continuing operations	2010 £	2011 £	2012 £
Revenue	200.8m	205.0m	215.4m
Profit before taxation	0.7m	7.3m	5.0m
Adjusted earnings per share	0.5p	7.5p	5.5p
Operated retail trading space 000 sq ft	337	337	330

The core continuing operations of the Group exclude the trading results of discontinued operations (including the Nicole Farhi business which was sold in FY2011 and the Japan business which was closed in FY2010) and the results of certain US retail stores which were closed before 31 January 2011. The core continuing operations reflect the entire business in operation at 1 February 2012.

Retail Locations

Core continuing operations	31 January 2012		31 January 2011	
	Locations	sq ft	Locations	sq ft
Operated locations				
UK/Europe				
French Connection Stores	71	214,468	72	221,858
French Connection/Great Plains Concessions	46	32,550	45	25,837
Toast Stores	9	10,578	9	10,578
YMC Stores	2	1,355	2	1,355
	128	258,951	128	259,628
North America				
French Connection US Stores	8	37,227	8	40,862
French Connection Canada Stores	12	33,935	13	36,535
	20	71,162	21	77,397
Total operated locations	148	330,113	149	337,025
French Connection licensed and franchised				
UK/Europe	11	15,791	13	18,460
North America	1	2,000	1	2,000
Middle East	12	21,797	13	25,331
Australia	85	91,919	80	84,800
Hong Kong	7	9,521	9	13,612
China	18	25,383	20	28,562
India	32	27,645	25	21,835
Other	41	41,416	41	42,035
Total licensed and franchised locations	207	235,472	202	236,635
Total branded locations	355	565,585	351	573,660

Notice of Meeting

Notice is hereby given that the Annual General Meeting of the Company will be held at 10.00 am on 17 May 2012 at the offices of French Connection Group PLC, Centro 1, 39 Camden Street, London NW1 0DX:

Ordinary Resolutions

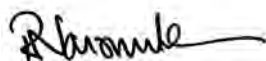
- 1 To receive and adopt the audited accounts and the report of the Directors and of the auditors for the financial year ended 31 January 2012.
- 2 To approve the payment of a final dividend of 1.0 pence per ordinary share for the year ended 31 January 2012.
- 3 To approve the Directors' Remuneration Report for the financial year ended 31 January 2012.
- 4 To re-elect Stephen Marks as a Director of the Company. Mr Marks is required to retire from the office of Director by rotation in accordance with the provisions of the Articles of Association of the Company.
- 5 To re-appoint KPMG Audit Plc as auditors and to authorise the Directors to determine their remuneration.
- 6 THAT:
the Directors be and they are hereby generally and unconditionally authorised pursuant to Section 551, Companies Act 2006 (the "Act") to exercise all powers of the Company to allot shares in the Company and grant rights to subscribe for or to convert any security into shares of the Company (such shares and rights to subscribe for shares or to convert any security into shares of the Company being "relevant securities") up to an aggregate nominal amount of £291,002 PROVIDED THAT unless previously revoked, varied or extended, this authority shall expire on the date of the next Annual General Meeting of the Company after the passing of this Resolution SAVE THAT the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

Special Resolution

To consider and, if thought fit, pass resolution 7 below as a Special Resolution of the Company:

- 7 THAT:
if resolution 6 is passed, the Directors be and they are hereby empowered pursuant to Section 570(1) of the Act to allot equity securities (as defined in Section 560(1) of the Act) of the Company wholly for cash pursuant to the authority under Section 551 of the Act conferred by resolution 6 above and/or by way of a sale of treasury shares for cash (by virtue of Section 573 of the Act) in each case as if Section 561(1) of the said Act did not apply to any such allotment provided that:
 - (a) the power conferred by this resolution shall be limited to:
 - (i) the allotment of equity securities and sale of treasury shares for cash in connection with an offer of, or invitation to apply for, equity securities:
 - (A) in favour of holders of ordinary shares in the capital of the Company, where the equity securities respectively attributable to the interests of all such holders are proportionate (as nearly as practicable) to the respective number of ordinary shares in the capital of the Company held by them; and
 - (B) to the holders of any other equity securities as required by the rights of those securities or as the directors otherwise consider necessary, but subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with treasury shares, fractional entitlements or legal, regulatory or practical problems arising under the laws or requirements of any overseas territory or by virtue of shares being represented by depository receipts or the requirements of any regulatory body or stock exchange or any other matter whatsoever; and
 - (ii) the allotment (otherwise than under sub-paragraph (i) above) of equity securities or sale of treasury shares up to an aggregate nominal value equal to £47,950 (representing 5% of the issued share capital for the time being); and
 - (b) unless previously revoked, varied or extended, this power shall expire on the date of the next Annual General Meeting of the Company after the passing of this Resolution SAVE THAT the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted (and treasury shares to be sold) after such expiry in pursuance of such an offer or agreement and the Directors may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

By order of the Board



Roy Naismith

Company Secretary
20-22 Bedford Row, London WC1R 4JS

13 March 2012

Notes

- 1 Holders of ordinary shares, or their duly appointed representatives, are entitled to attend and vote at the AGM. Shareholders are entitled to appoint a proxy to exercise all or any of their rights to attend and speak and vote on their behalf at the meeting. A shareholder can appoint the Chairman of the meeting or anyone else to be his/her proxy at the meeting. A proxy need not be a shareholder. More than one proxy can be appointed in relation to the AGM provided that each proxy is appointed to exercise the rights attached to a different ordinary share or shares held by that shareholder. To appoint more than one proxy, the Proxy Form should be photocopied and completed for each proxy holder. The proxy holder's name should be written on the Proxy Form together with the number of shares in relation to which the proxy is authorised to act. The box on the Proxy Form must also be ticked to indicate that the proxy instruction is one of multiple instructions being given. All Proxy Forms must be signed and, to be effective, must be lodged with Capita so as to arrive no later than 10 am on 15 May 2012.
- 2 The return of a completed Proxy Form, other such instrument or any CREST Proxy Instruction (as described in Note 3) will not prevent a shareholder attending the AGM and voting in person if he/she wishes to do so.
- 3 In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a CREST Proxy Instruction) must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by Capita (ID RA10) not later than 48 hours before the time fixed for the AGM. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which Capita is able to retrieve the message by enquiry to CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means. Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages and normal system timings and limitations will apply in relation to the input of a CREST Proxy Instruction. It is the responsibility of the CREST member concerned to take such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
- 4 Any person to whom this Notice is sent who is a person nominated under Section 146 of the CA 2006 to enjoy information rights (a Nominated Person) may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the AGM. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.
- 5 The statement of the rights of shareholders in relation to the appointment of proxies in Note 1 does not apply to Nominated Persons. The rights described in that note can only be exercised by shareholders of the Company.
- 6 As at 10 April 2012, being the latest practicable date prior to the publication of this document, the Company's issued share capital consists of 95,899,754 ordinary shares, carrying one vote each. Therefore the total voting rights in the Company as at 10 April 2012 are 95,899,754.
- 7 In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, only those members entered on the Company's register of members at 6 pm on 15 May 2012 or, if the meeting is adjourned, shareholders entered on the Company's register of members at 6 pm on the day two days before the date of any adjournment shall be entitled to attend and vote at the AGM.
- 8 Any member attending the meeting has the right to ask questions. The Company has to answer any questions raised by members at the meeting which relate to the business being dealt with at the meeting unless:
 - to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information;
 - the answer has already been given on a website in the form of an answer to a question, or;
 - it is undesirable in the interests of the Company or the good order of the meeting to answer the question.
- 9 Copies of the Directors' service contracts and letters of appointment are available for inspection at the registered office of the Company during normal business hours on any business day and will be available for inspection at the place where the meeting is being held from 15 minutes prior to and during the meeting.
- 10 A copy of this notice, and other information required by s311A of the Companies Act 2006, can be found at www.frenchconnection.com.
- 11 In the case of a member which is a company, your proxy form must be executed under its common seal or signed on its behalf by a duly authorised officer of the company or an attorney for the company.
- 12 Any power of attorney or any other authority under which your proxy form is signed (or a duly certified copy of such power or authority) must be included with your proxy form.
- 13 In the case of joint holders of shares, the vote of the first named in the register of members who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of other joint holders.
- 14 In accordance with section 338 of the Companies Act 2006, a member or members of the Company may (provided that the criteria set out in section 338(3) of the Companies Act 2006 are met) require the Company to give to members notice of a resolution which may properly be moved and is intended to be moved at the AGM, provided that: (a) the resolution must not be, if passed, ineffective (whether by reason of inconsistency with any enactment or the Company's constitution or otherwise); and (b) the resolution must not be defamatory of any person, frivolous or vexatious. Such a request may be in hard copy form or in electronic form, must be authenticated by the person or persons making it, must identify the resolution of which notice is to be given and must be received by the Company not later than 6 weeks before the AGM, or, if later, the time at which notice is given of the AGM. (In the foregoing sentence, the terms "hard copy form", "electronic form" and "authenticated" bear their respective meanings set out in the Companies Act 2006 in relation to a communication, or a document or information sent or supplied, to a company.)
- 15 In accordance with section 338A of the Companies Act 2006, a member or members of the Company may (provided that the criteria set out in section 338A(3) of the Companies Act 2006 are met) require the Company to include in the business to be dealt with at the AGM a matter (other than a proposed resolution) which may properly be included in the business of the AGM, provided that the matter is not defamatory of any person, frivolous or vexatious. A request may be in hard copy form or electronic form, must identify the matter to be included in the business, must be accompanied by a statement setting out the grounds for the request, must be authenticated by the person or persons making it and must be received by the Company not later than 6 weeks before the AGM, or, if later, the time at which notice is given of the AGM. (In the foregoing sentence, the terms "hard copy form", "electronic form" and "authenticated" bear the respective meanings set out in the Companies Act 2006 in relation to a communication, or a document or information sent or supplied, to a company.)

Advisers

<p>HEAD OFFICE</p> <p>Centro 1 39 Camden Street London NW1 0DX</p>	<p>STOCKBROKERS</p> <p>Numis Securities Ltd 10 Paternoster Square London EC4M 7LT</p>	<p>PRINCIPAL BANKERS</p> <p>Barclays Bank Plc London Corporate Banking 1 Churchill Place London E14 5HP</p>
<p>SECRETARY AND REGISTERED OFFICE</p> <p>Roy Naismith 20-22 Bedford Row London WC1R 4JS</p>	<p>AUDITORS</p> <p>KPMG Audit Plc 15 Canada Square Canary Wharf London E14 5GL</p>	<p>REGISTRARS AND TRANSFER OFFICE</p> <p>Capita Registrars Northern House Woodsome Park Fenay Bridge Huddersfield HD8 0GA</p>
<p>REGISTERED NUMBER</p> <p>1410568, England</p>		

Financial Calendar

2012	
17 May	Annual General Meeting and Interim Management Statement
12 September <i>(provisional)</i>	Half-Year Statement
21 November <i>(provisional)</i>	Interim Management Statement
2013	
31 January	Financial Year End
13 March <i>(provisional)</i>	Preliminary Announcement of Results

A mannequin is shown from the back, wearing a grey, sequined two-piece outfit consisting of a long-sleeved jacket and shorts. The outfit is hanging from a white hanger, which is suspended by a thin white cord. The background is a solid, vibrant orange color. The mannequin's legs are visible at the bottom of the frame.

**Today
the Collection
is forgetful**



FrenchConnection.Com