FRENCH CONNECTION GROUP PLC

Interim Results for the six-month period ending 31 July 2018

"Continue to Make Progress"

French Connection Group PLC ("French Connection" or "the Group") today announces results for the six-month period ending 31 July 2018.

Highlights:

- Group revenues of £58.1m (2017: £59.5m) down 2.4% (0.8% at constant currency) with continued growth in wholesale performance offset by a reduced store portfolio and tough retail trading in the UK
- Wholesale revenues up 6.2% (up 8.9% at constant currency)
- Decline in LFL sales in UK/Europe of 7.0% reflecting difficult trading conditions (2017: down 4.1%)
- Licensing income flat on last year at £2.6m
- Composite gross margin of 41.5% (2017: 42.9%) due to higher proportion of wholesale sales
- Further two non-contributing stores closed during the last six months, while one new concession opened
- Underlying operating loss before taxation reduced to £5.5m, an improvement of £0.4m (2017: loss of £5.9m)
- Gain on sale of the Toast brand in April with proceeds from the sale of £11.7m, offset by provisions for onerous retail leases and debt impairment
- Closing cash of £12.8m (2017: £6.7m) boosted by sale proceeds from Toast
- Group remains on track to return to profitability at the year end

Commenting on the results, Stephen Marks, Chairman and Chief Executive said:

"I am pleased that the changes we have made around the business over the last couple of years continue to move us forward.

There is no doubt that progress has not been helped by the trading conditions in which we operate in the UK, although we can take great confidence from the performance of the wholesale business and the stability of the licence income.

The order books we have provide a clear outlook for the second half of the year in wholesale although retail continues to be challenging. We remain on target to return the business to profitability this year and we will be doing everything we can to ensure that happens."

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1. Key performance indicators for the 26 week trading period are outlined below:

	H1 18/19	H1 17/18	Var %
Total Group revenue (£m)	**58.1**	59.5	(2.4%)
Total Retail revenue (£m)	**27.3**	30.5	(10.5%)
Total Wholesale revenue (£m)	**30.8**	29.0	6.2%
Total Licensing income (£m)	**2.6**	2.6	0.0%
Retail LFL (%)	**(7.0)**	(4.1)	
Average UK/Europe Retail Space (sq.ft. '000s)	**164.5**	178.1	(7.6%)
Average Group Retail Space (sq.ft. '000s)	**177.1**	191.9	(7.7%)
Number of stores/concessions:			
- Operated	**103**	107	(3.7%)
- Franchised, Licensed & JV	**204**	230	(11.3%)
Underlying gross margin (%)	**41.5**	42.9	-140bps
Underlying operating loss before taxation (£m)	**(5.5)**	(5.9)	+6.8%
Net cash position (£m)	**12.8**	6.7	+91.0%

Notes:

1. 2017 comparatives have been restated to exclude discontinued operations.
2. Constant Currency is calculated translating the half year ending 31 July 2018 at 31 July 2017 rates to remove the impact of exchange rate fluctuations.
3. LFL or "Like-for-Like" sales growth is defined as the year-on-year sales growth for owned stores and concessions open more than one year, including ecommerce revenues, removing the impact of closed stores and reported in constant currency.
4. Underlying Operating Loss excludes adjusting items and discontinued operations.

The Directors believe these measures are best reflective of how the business is managed and are informative to shareholders in understanding the performance of the business.

CHAIRMAN'S STATEMENT

I am pleased to report that during the first half of the year we have continued to make good progress in our aim of returning the Group to profitability. This has been achieved against a trading background in the UK that has definitely become more difficult, as has been widely reported in the media.

The wholesale business has grown strongly during the period in both UK/Europe and the USA, however retail has been impacted by the general trading environment. Overall the underlying operating loss reduced by £0.4m in the period to £5.5m.

The increased revenue in wholesale has been driven particularly by those customers in UK/Europe who have significant online businesses as well as with department stores in the USA. We expect this trend to grow in the second half of the year based on our current level of Winter 18 orders.

The retail business benefitted from the reduction in stores we have seen over the last year, however our remaining stores saw a 7% reduction in like for like sales across the period reflecting the difficult trading conditions in the UK. We continue to actively review our retail portfolio and expect eight stores to close this year, with two having already closed in the first half. In addition given the continued deterioration of trading conditions on the UK high street, we have reviewed the underlying lease contracts of a number of loss-making stores that we are actively looking to exit but are currently unable to and have made a one-off provision for the onerous nature of those contracts.

Licensee income remained at the same level as last year reflecting a strong performance again from DFS, although impacted by reduced income from our Australian licensee.

As previously announced in April, we sold our 75% holding in the Toast brand to the Bestseller Group for £11.7m net of costs.

Wholesale

Revenue increased by 6.2% to £30.8m (8.9% at constant currency). We achieved good growth in both UK/Europe and USA, with a small reduction in the Rest of the World. The major customers in the UK continued to grow - particularly in online operations - both pure play and multi-channel. In the USA good progress was made with the department stores, especially Bloomingdales and Nordstrom. Reduced sales to Australia and our HK/China joint ventures partially offset growth.

Gross margin decreased slightly to 30.8% (2017: 31.4%) reflecting an increased level of clearance sales in the US. Tight control of operating costs meant they were reduced by 5.9% at constant currency, resulting in the overall contribution from the wholesale division increasing by £0.9m to £4.6m.

Considerable progress has been made over the last two years in returning the wholesale business to growth and we expect this to accelerate over the remainder of the year, given the current Winter 18 order books and the positive reaction we have received to the Summer 19 collections.

Retail

Overall revenue decreased by 10.5% to £27.3m (-10.1% at constant currency). This was the combination of the planned reduction in our store portfolio with a 7.7% reduction in average space traded together with a 7% fall in like for like sales in UK/Europe. The period as a whole saw weak trading, with the early and later parts affected by unseasonal weather and trading conditions overall being difficult throughout.

Gross margin was 53.5% (2017: 53.8%), reduced by the impact of the higher proportion of sales through our outlet stores as the full store portfolio reduced. Underlying margins remained in line with last year. Overheads were 5.6% lower due to the reduced store portfolio with underlying overheads flat overall after some business rates and payroll cost increases were offset by lower rentals achieved on lease extensions. As a result, and predominantly due to the sales shortfall in the period contribution from the retail division reduced by £0.5m.

Within this ecommerce revenue reduced slightly, but with our continued focus on improving gross margin, the overall contribution was maintained. Progress has been made with the site, with a new checkout recently launched and additional customer experience enhancements to be rolled out during the second half of the year to drive engagement and conversion. The activity generated through mobile continues to grow with visits at 54.4% up from 49.3% last year.

Licensing

Licence income was flat on last year at £2.6m. DFS has continued to perform strongly, even though it is clear that market has also been affected by the challenging trading conditions in furniture markets. Offsetting that improvement was a continued impact from our Australian licence and a decrease in eyewear revenue. The new French Connection fragrance has launched in both the UK and USA.

Group operating expenses dropped by 5.1% (3.9% at constant currency). The majority of the saving was in relation to the net store closures but there was also a small reduction in overall costs reflecting the continued focus on costs.

Other items

As mentioned above we have recognised a provision for onerous lease costs in the period of £6.4m. In addition to this we have taken an IFRS9 impairment provision of £2.0m in relation to a debt from our Indian licensee and a £0.8m bad debt provision against amounts due from House of Fraser. The profit on the sale of our stake in the Toast brand amounted to £9.7m.

We believe that the business is best served by retaining our current cash reserves to support the turnaround of the business and therefore do not recommend the payment of an interim dividend. We do however intend to keep the shareholder distribution policy under close review during the remainder of the year as we return to profitability.

Outlook

I am pleased that the changes we have made all around the business over the last couple of years continue to move us forward. There is no doubt that progress has not been helped by the trading conditions in which we operate in the UK, although we can take great confidence from the performance of the wholesale business and the stability of the licence income. The order books we have provide a clear outlook for the second half of the year in wholesale although retail continues to be challenging. We remain on target to return the business to profitability this year and we will be doing everything we can to ensure that happens

Stephen Marks
Chairman and Chief Executive
20 September 2018

Notes:

1. Underlying Operating Loss excludes adjusting items and discontinued operations.
2. LFL or “Like-for-Like” sales growth is defined as the year-on-year sales growth for owned stores and concessions open more than one year, including ecommerce revenues, removing the impact of closed stores and reported in constant currency.
3. Constant Currency is calculated translating the half year ending 31 July 2018 at 31 July 2017 rates to remove the impact of exchange rate fluctuations.
4. 2017 comparatives have been restated to exclude discontinued operations.
5. Underlying overheads consist of LFL store overheads.

The Directors believe these measures are best reflective of how the business is managed and are informative to shareholders in understanding the performance of the business.

FINANCIAL REVIEW

Financial results overview

We have seen a further step forward in underlying profitability in the half, which is traditionally a low point in the year, with a loss of £5.5m, an improvement of £0.4m (6.8%) on the year (2017: (£5.9m).

We have continued to see a strong performance in our Wholesale division while the continued difficult trading conditions and recent weather extremes have impacted the performance of our Retail division. Licensing has remained flat on the year.

Revenue overview

Total H1 2018 revenue of £58.1m was 2.4% lower than the previous year (2017: £59.5m) on a reduced store portfolio. Wholesale revenue grew in both the UK and North America with overall growth of 6.2% (8.9% at constant currency). Overall retail sales reduced by 10.5%, (-10.1% at constant currency) with a UK/Europe LFL performance of -7.0% reflecting the general poor conditions in the UK High Street this year.

Gross margin

Composite gross margin of 41.5% was down by 140bps (2017: 42.9%) reflecting the increased proportion of wholesale sales in the mix. Both Wholesale and Retail saw margin dilutions with Wholesale delivering a margin of 30.8% which was down on the year by 60bps (2017: 31.4%) while Retail delivered a margin rate at 53.5%, 30bps down on last year (2017: 53.8%).

Wholesale

Wholesale trading was strong with sales of £30.8m, up £1.8m (6.2%) on last year (8.9% at constant currency) with both the UK/Europe and North America businesses continuing to grow. On a constant currency basis the strongest growth was seen across UK/Europe with sales up 14.5%, and with North America up 7.0%. In our Rest of World segment there was a reduction in sales (at a lower margin) to our partners in Australia and Hong Kong.

Group wholesale gross margin reduced to 30.8% (2017: 31.4%) with the UK strengthening but being offset by a higher level of clearance. This enabled US stock levels to finish the half in a much tighter position with wholesale stock units down 10.1%.

Sell through rates across the board have been good, but particularly in the US department stores where we have ranked highly for the season. This has been reflected in the strong order books that we have for Winter 18 and the positive feedback we have received on the Spring 19 collection.

Retail

Group retail revenues of £27.3m were 10.5% lower than the prior year (2017: £30.5m) (-10.1% lower at constant currency) due to the reduced store portfolio and LFL decline of -7.0% in UK/Europe. The reduced store portfolio followed the planned closure of two non-contributing stores in the period, and three non-contributing stores and three concessions in the past 12 months; a reduction of 7.7% in average trading space over the 12 months period. One new store in Manchester was opened in the past 12 months, and one new concession was opened during the half.

Retail gross margins of 53.5% (2017: 53.8%) were slightly lower on the year, mainly as full price stores have closed leading to a higher mix of outlet sales. There was also a mid season sale which was not run in the prior year.

The underlying retail loss of £(7.2)m was a step back in performance by £0.5m compared to the prior year (2017: £(6.7)m). This was driven by the sales decline suffered in the UK High Street as a whole together with a softer margin. Store closures have continued but at a slower pace with most closures this year timed after the peak Christmas trading period in the second half of the year. We continue to see upward cost pressures from a combination of rent, rates and the living wage but have successfully renegotiated several leases to reduce rent overall for continuing stores.

Ecommerce revenue increased in proportion to represent 21.5% of Group Retail revenue (H1 2017: 19.7%). Mobile comprises 54.4% of ecommerce traffic (H1 2017: 49.3%) and 39.5% of transactions (H1 2017: 33.8%) as we continue to develop our CRM capability and targeted social media advertising.

Geographical analysis

The restated geographical revenue break-down sees the UK/Europe moving forward on the year representing 76.8% of Group revenues (2017: 75.2%). This growth has seen the US and RoW falling back with the North America share reducing to 20.8% (2017: 21.3%). The Rest of the World share has reduced to 2.4% (2017: 3.5%). The growth in revenue in the UK/Europe, has reduced the loss by 12% to £(2.2)m (2017: £(2.5)m) whereas North America has reduced by 50% to £(0.3)m (2017: £(0.6)m).

Licensing income
Licensing income of £2.6m was generated during the period, which was flat on the prior year (2017: £2.6m). This stabilised following the annualisation of the loss of the footwear licence. DFS continues to increase its contribution to the business for the third year in a row, offsetting the softer performance of some of the legacy licensees. During the period we have continued to develop the US homewear, jewellery and intimates licences, while the new French Connection fragrance has just started to enter stores globally.

Operating expenses
Total Group operating expenses of £31.9m were 5.1% lower than last year (2017: £33.6m). After adjusting for currency fluctuations and store closures, underlying operating expenses at £31.7m were 0.4% lower compared to prior year (2017: £31.8m). We continue to focus on cost control against the pressure of ongoing rent and rates rises and the impact of the living wage increases.

Discontinued Operations
On 30 April 2018, the Group together with the 25% interest minority shareholders, sold the entire issued share capital of Toast (Mail Order) Limited to Bestseller United A/S for gross proceeds of £23.3 million, comprising consideration of £21.3 million and a pre-completion dividend of £2.0 million. After the payment of management exit awards and transaction costs, the Group received net proceeds of £13.2m comprising cash of £11.7m and £1.5m dividend (75% share) utilised to pay down intercompany debt.

The transaction has generated a total profit on sale of £9.7 million.

Adjusting items
Adjusting items of £9.6m have been recognised in the period. Impairment of bad debts under revised IFRS requirements of £2.8m relating to both a contractual licensee debt and the House of Fraser administration were recognised in the period. Onerous leases of £6.4m have been provided to reflect the drop off in performance of a number of stores and the losses that are created in operating them. We see this downturn as a structural event supported by the level of closures and CVAs in both the retail and leisure markets, particularly on the high street. In addition, a provision for store closure and restructuring costs of £0.4m has been made. The Group continues to review its store portfolio and exit non-profitable stores.

Balance sheet
The Group balance sheet at 31 July 2018 remains strong with net assets of £40.9m (2017: £44.1m) including closing cash of £12.8m (2017: £6.7m) and no bank borrowings. Inventory reduced by £7.3m (19.0%) to £31.1m reflecting the sale of Toast, reduced store portfolio and tighter retail buy. Trade and other payables have reduced by a similar amount reflecting the lower stockholding. Trade and other receivables remain flat due to bad debt provisions of £2.8m as noted above.

Cash flow
The trading operations of the Group consumed cash of £7.0m in the six months to 31 July 2018 (2017: £4.3m) which was higher than the previous year due to a working capital outflow of £1.9m (2017: inflow of £0.4m) driven by increases in trade receivables reflecting higher wholesale seasonal orders.

The sale of the Toast business generated net proceeds of £13.2m comprising cash of £11.7m and £1.5m dividend utilised to pay down intercompany debt. £0.5m dividend was paid to the minority shareholders. The half also incurred store disposal costs of £0.7m (2017: £1.5m) from the closure of non-contributing stores.

Capital expenditure of £0.3m (2017: £0.7m) included IT costs, investment in upgrading the ecommerce CRM platform and retail improvements. We continue to target the closure of non-contributing stores and expect six more to close in the current year.

Taxation
The tax charge for the half was £Nil (2017: £Nil).

Dividends
The Board of Directors remain of the view that the business is best served by retaining current cash reserves to support the turnaround of the business, and therefore do not recommend the payment of an interim dividend. The Board intend to keep the shareholder distribution policy under close review during the year.

Going concern
Having reviewed the cash forecasts and the sources of cash funding available to the Group, the Board has concluded that it is appropriate to prepare the Group financial statements on a going concern basis.

Principal risks and uncertainties
The principal risks and uncertainties were outlined in the Director's Report within the 2018 Annual Report and remain unchanged. These are described in Note 8 to these financial statements.

Related party transactions
There have been no additional related party transactions to those disclosed in the Group's Annual Report and Accounts for the year ended 31 January 2018.

By order of the Board

Lee Williams
Chief Financial Officer
20 September 2018

Notes:
1. Underlying Operating Loss excludes adjusting items and discontinued operations.
2. LFL or "Like-for-Like" sales growth is defined as the year-on-year sales growth for owned stores and concessions open more than one year, including ecommerce revenues, removing the impact of closed stores and reported in constant currency.
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4. 2017 comparatives have been restated to exclude discontinued operations.
5. Underlying overheads consist of LFL store overheads.
The Directors believe these measures are best reflective of how the business is managed and are informative to shareholders in understanding the performance of the business.

RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE HALF-YEARLY FINANCIAL REPORT

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU;

- the interim management report includes a fair review of the information required by:

  (a) DTR rule 4.2.7R of the *Disclosure and Transparency Rules*, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

  (b) DTR rule 4.2.8R of the *Disclosure and Transparency Rules*, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

By order of the Board

Stephen Marks	**Lee Williams**
Chairman and Chief Executive	**Chief Financial Officer**
20 September 2018	

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months 31 July 2018			Six months 31 July 2017 *			Year ended 31 Jan 2018 *		
		Before adjusting items	Adjusting items	Total	Before adjusting items	Adjusting items	Total	Before adjusting items	Adjusting items	Total
	Note	£m	£m	£m	£m	£m	£m	£m	£m	£m
Continuing operations										
Revenue	1	**58.1**	**-**	**58.1**	59.5	-	59.5	135.0	-	135.0
Cost of sales		**(34.0)**	**-**	**(34.0)**	(34.0)	-	(34.0)	(77.3)	-	(77.3)
Gross profit	1	**24.1**	**-**	**24.1**	25.5	-	25.5	57.7	-	57.7
Operating expenses		**(31.9)**	**(9.6)**	**(41.5)**	(33.6)	-	(33.6)	(65.4)	(1.7)	(67.1)
Other operating income	4	**2.6**	**-**	**2.6**	2.6	-	2.6	6.3	-	6.3
Finance expense		**-**	**-**	**-**	-	-	-	(0.1)	-	(0.1)
Share of loss of joint ventures, net of tax		**(0.3)**	**-**	**(0.3)**	(0.4)	-	(0.4)	(0.6)	-	(0.6)
Loss before taxation	3	**(5.5)**	**(9.6)**	**(15.1)**	(5.9)	-	(5.9)	(2.1)	(1.7)	(3.8)
Taxation		**-**	**-**	**-**	-	-	-	0.4	-	0.4
Loss for the period from continuing operations		**(5.5)**	**(9.6)**	**(15.1)**	(5.9)	-	(5.9)	(1.7)	(1.7)	(3.4)
Discontinued operations										
Profit/(loss) from discontinued operations, net of tax	2	**9.3**	**-**	**9.3**	0.2	-	0.2	1.1	-	1.1
Profit/(loss) for the period		**3.8**	**(9.6)**	**(5.8)**	(5.7)	-	(5.7)	(0.6)	(1.7)	(2.3)

* restated see discontinued operations Note 2

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

	Note	Six months 31 July 2018 £m	Restated* Six months 31 July 2017 £m	Restated* Year ended 31 Jan 2018 £m
Loss for the period		**(5.8)**	(5.7)	(2.3)
Other comprehensive income				
Currency translation differences for overseas operations		**0.3**	(0.6)	(0.9)
Currency translation differences on foreign currency loans, net of tax		**0.1**	0.4	(0.1)
Effective portion of changes in fair value of cash flow hedges		**0.6**	-	-
Other comprehensive income for the period, net of tax		**1.0**	(0.2)	(1.0)
Total comprehensive income for the period		**(4.8)**	(5.9)	(3.3)
Loss attributable to:				
Equity holders of the Company	5	**(5.7)**	(5.7)	(2.6)
Non-controlling interests		**(0.1)**	-	0.3
Loss for the period		**(5.8)**	(5.7)	(2.3)
Total comprehensive income attributable to:				
Equity holders of the Company		**(4.7)**	(5.9)	(3.6)
Non-controlling interests		**(0.1)**	-	0.3
Total income and expense recognised for the period		**(4.8)**	(5.9)	(3.3)
Losses per share				
Basic and diluted losses per share	5	**(5.9)p**	(5.9)p	(2.7)p

* see discontinued operations Note 2

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31 July 2018 £m	31 July 2017 £m	31 Jan 2018 £m
Assets				
Non-current assets				
Intangible assets		**0.2**	0.4	0.4
Property, plant and equipment		**2.6**	2.8	3.2
Investments in joint ventures		**2.2**	2.9	2.5
Deferred tax assets		**4.3**	4.4	4.6
Total non-current assets		**9.3**	10.5	10.7
Current assets				
Inventories		**31.1**	38.4	31.8
Trade and other receivables		**25.3**	25.8	26.1
Cash and cash equivalents	6	**12.8**	6.7	9.5
Derivative financial instruments		**0.5**	-	-
Total current assets		**69.7**	70.9	67.4
Total assets		**79.0**	81.4	78.1
Current liabilities				
Trade and other payables		**31.7**	37.2	31.0
Provisions	7	**6.4**	-	0.3
Derivative financial instruments		**-**	0.1	0.1
Total current liabilities		**38.1**	37.3	31.4
Net assets		**40.9**	44.1	46.7
Equity				
Called-up share capital		**1.0**	1.0	1.0
Share premium account		**9.7**	9.6	9.6
Other reserves		**8.0**	7.8	7.0
Retained earnings		**22.2**	24.8	27.9
Total equity attributable to equity holders of the Company		**40.9**	43.2	45.5
Non-controlling interests		**-**	0.9	1.2
Total equity		**40.9**	44.1	46.7

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months 31 July 2018	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 2018	**1.0**	**9.6**	**(0.1)**	**7.1**	**27.9**	**45.5**	**1.2**	**46.7**
Loss for the period ended 31 July 2018					**(5.7)**	**(5.7)**	**(0.1)**	**(5.8)**
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				0.1		**0.1**		**0.1**
Effective portion of changes in fair value of cash flow hedges			0.6			**0.6**		**0.6**
Transactions with owners recorded directly in equity								
Share options exercised		0.1				**0.1**		**0.1**
Transactions with non-controlling interests, recorded directly in equity								
Dividends							(0.5)	**(0.5)**
Disposal of discontinued operation							(0.6)	**(0.6)**
Balance at 31 July 2018	**1.0**	**9.7**	**0.5**	**7.5**	**22.2**	**40.9**	**-**	**40.9**

Six months 31 July 2017	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 2017	**1.0**	**9.6**	**(0.1)**	**8.1**	**30.5**	**49.1**	**0.9**	**50.0**
Loss for the period ended 31 July 2017					**(5.7)**	**(5.7)**	**-**	**(5.7)**
Other comprehensive income								
Currency translation differences for overseas operations				(0.6)		**(0.6)**		**(0.6)**
Currency translation differences on foreign currency loans, net of tax				0.4		**0.4**		**0.4**
Balance at 31 July 2017	**1.0**	**9.6**	**(0.1)**	**7.9**	**24.8**	**43.2**	**0.9**	**44.1**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Six months 31 July 2018 £m	Six months 31 July 2017 £m	Year ended 31 Jan 2018 £m
Operating activities				
Loss for the period		**(5.8)**	(5.7)	(2.3)
Adjustments for:				
Depreciation and impairment		**0.6**	0.6	1.3
Share of loss of joint ventures		**0.3**	0.4	0.6
Finance expense		**-**	-	0.1
Profit on sale of subsidiary	2	**(9.7)**	-	-
Provisions	3	**9.6**	-	0.9
Other professional fees	3	**-**	-	0.8
Income tax credit		**(0.1)**	-	-
Operating cash flows before changes in working capital and provisions		**(5.1)**	(4.7)	1.4
Increase in inventories		**(2.3)**	(7.0)	(0.7)
(Increase)/decrease in trade and other receivables		**(2.7)**	1.7	1.1
Increase/(decrease) in trade and other payables		**3.1**	5.7	(0.6)
Cash flows from operations		**(7.0)**	(4.3)	1.2
Income tax paid		**-**	-	(0.1)
Cash flows from operating activities		**(7.0)**	(4.3)	1.1
Investing activities				
Investment in joint ventures		**-**	(0.3)	(0.3)
Acquisition of property, plant and equipment		**(0.3)**	(0.7)	(1.8)
Disposal of subsidiary	2	**11.7**	-	-
Net costs from store closures		**(0.7)**	(1.5)	(2.0)
Other professional fees		**-**	-	(0.8)
Cash flows from investing activities		**10.7**	(2.5)	(4.9)
Financing activities				
Interest paid		**-**	-	(0.1)
Proceeds from exercise of share options		**0.1**	-	-
Dividends paid	2	**(0.5)**	-	-
Cash flows from financing activities		**(0.4)**	-	(0.1)
Net increase/(decrease) in cash and cash equivalents	6	**3.3**	(6.8)	(3.9)
Cash and cash equivalents at 1 February	6	**9.5**	13.5	13.5
Exchange rate fluctuations on cash held	6	**-**	-	(0.1)
Cash and cash equivalents at period end	6	**12.8**	6.7	9.5

NOTES TO THE HALF-YEAR STATEMENT

1. Segment revenue and results

Income Statement	Six months 31 July 2018 £m	Restated* Six months 31 July 2017 £m	Restated* Year ended 31 Jan 2018 £m
Revenue			
Retail	**27.3**	30.5	65.3
Wholesale	**30.8**	29.0	69.7
Group revenue	**58.1**	59.5	135.0
Gross profit	**24.1**	25.5	57.7
Retail	**53.5%**	53.8%	54.1%
Wholesale	**30.8%**	31.4%	32.1%
Group gross margin	**41.5%**	42.9%	42.7%
Underlying operating (loss)/profit			
Retail	**(7.2)**	(6.7)	(9.7)
Wholesale	**4.6**	3.7	12.1
Licence income	**2.6**	2.6	6.3
Common and Group overheads	**(5.2)**	(5.1)	(10.1)
Finance expense	**-**	-	(0.1)
Share of loss from joint ventures	**(0.3)**	(0.4)	(0.6)
Underlying Group operating loss**	**(5.5)**	(5.9)	(2.1)
Underlying operating margin			
Retail	**(26.4)%**	(22.0)%	(14.9)%
Wholesale	**14.9%**	12.8%	17.4%
Underlying Group operating margin	**(9.5)%**	(9.9)%	(1.6)%

Geographical information			
Revenue			
UK/Europe	**76.8%**	75.2%	74.2%
North America	**20.8%**	21.3%	23.3%
Rest of the World	**2.4%**	3.5%	2.5%
Divisional operating (loss)/profit			
UK/Europe	**(2.2)**	(2.5)	1.1
North America	**(0.3)**	(0.6)	2.4
Rest of the World	**(0.6)**	(0.6)	(1.0)
Group overheads and finance income	**(2.4)**	(2.2)	(4.6)
Underlying Group operating loss**	**(5.5)**	(5.9)	(2.1)

* see discontinued operations Note 2
** excludes adjusting items and discontinued operations

NOTES TO THE HALF-YEAR STATEMENT

2. Discontinued operations

On 30 April 2018, French Connection Group PLC together with the 25% interest minority shareholders, sold the entire issued share capital of Toast (Mail Order) Limited to Bestseller United A/S for gross proceeds of £23.3 million, comprising consideration of £21.3 million and a pre-completion dividend of £2.0 million. After the payment of management exit awards and transaction costs, the Group received net proceeds of £13.2m comprising cash of £11.7m and £1.5m dividend (75% share) utilised to pay down intercompany debt.

At 30 April 2018, the Toast subsidiary comprised net assets of £2.1 million, of which French Connection Group PLC directly owned £1.5 million being 75% of the net assets. Further, French Connection will support the transition of the Toast business into new ownership by providing support office functions and other transitional services for up to two years at no cost to the Purchaser. £0.4 million has been provided in relation to these future costs. Transactional costs of £1.1 million comprising legal and other advisory fees have been expensed by French Connection Group PLC as part of the profit on disposal.

The transaction has generated a total profit on sale of £9.7 million.

Results of discontinued operations	**Six months 31 July 2018 £m**	**Six months 31 July 2017 £m**	**Year ended 31 Jan 2018 £m**
Revenue	**3.3**	8.6	19.0
Expenses	**(3.8)**	(8.4)	(17.5)
Results from operating activities before tax	**(0.5)**	0.2	1.5
Taxation	**0.1**	-	(0.4)
Results from operating activities, net of tax	**(0.4)**	0.2	1.1
Profit on sale of discontinued operations	**9.7**	-	-
Effect on profit for the period	**9.3**	0.2	1.1

Cash flows used in discontinued operations	**Six months 31 July 2018 £m**	**Six months 31 July 2017 £m**	**Year ended 31 Jan 2018 £m**
Net cash from operating activities	**(1.4)**	(0.2)	1.9
Net cash from financing activities	**(2.0)**	-	-
Net cash utilised in discontinued operations	**(3.4)**	(0.2)	1.9

Included within financing activities is the pre-completion dividend of £2.0 million, of which £0.5 million was paid to the 25% interest minority shareholders.

NOTES TO THE HALF-YEAR STATEMENT

2. Discontinued operations (continued)

Effect of disposal of the Toast subsidiary on the financial position of the Group	31 July 2018 £m
Fixed assets	(0.2)
Deferred tax	(0.3)
Inventories	(3.4)
Trade and other receivables	(0.8)
Cash	(0.2)
Trade and other payables	2.8
Net assets and liabilities	**(2.1)**
Minority interest (25%)	0.6
Net assets and liabilities disposed	**(1.5)**
Goodwill on acquisition of subsidiary written off	(0.1)
Cash consideration net of costs of disposal	11.7
Provisions for cost of transitional services	(0.4)
Profit on sale	**9.7**

3. Loss before tax

Reconciliation of loss before tax to underlying operating loss	Six months 31 July 2018 £m	Six months 31 July 2017 £m	Year ended 31 Jan 2018 £m
Loss before tax	**(15.1)**	(5.9)	(3.8)
Adjusting items:			
Provisions for bad debts	**2.8**	-	-
Provisions for onerous leases and store disposals	**6.8**	-	0.9
Other professional fees	**-**	-	0.8
	9.6	-	1.7
Underlying operating loss	**(5.5)**	(5.9)	(2.1)

Provisions for bad debts, net of VAT recoverable, of £2.8m have been expensed in the period including unpaid contractual debt due from a licensing partner of £2.0m and £0.8m due from a UK concession partner in administration.

Provisions for onerous leases of £6.4m have been recognised in the period relating to UK stores whereby the future contractual obligation costs exceed the economic benefits forecast to be received. In addition, a charge of £0.4m has been expensed in the current period relating to unprovided store closure costs incurred (see Note 7).

NOTES TO THE HALF-YEAR STATEMENT

4. Other operating income

	Six months 31 July 2018 £m	Six months 31 July 2017 £m	Year ended 31 Jan 2018 £m
Licensing income	**2.6**	2.6	6.3

5. Losses per share

Basic and diluted losses per share are calculated on the following weighted average number of ordinary shares during the period.

	Six months 31 July 2018	Six months 31 July 2017	Year ended 31 Jan 2018
Weighted average number of ordinary shares	**96,304,524**	96,253,134	96,253,134

Basic and diluted losses per share of 5.9 pence per share (2017: losses of 5.9 pence) is based on losses of £5.7m (2017: losses of £5.7m) attributable to equity shareholders.

The reconciliation from basic and diluted losses per share to adjusted losses per share is as follows:

	Six months 31 July 2018		Six months 31 July 2017		Year ended 31 Jan 2018	
	£m	pence per share	£m	pence per share	£m	pence per share
Loss attributable to equity shareholders	(5.7)	(5.9)p	(5.7)	(5.9)p	(2.6)	(2.7)p
Profit on sale of subsidiary	(9.7)	(0.3)p	-	-	-	-
Adjusting items (see note 3)	9.6	0.2p	-	-	1.7	1.8p
Adjusted loss	**(5.8)**	**(6.0)p**	**(5.7)**	**(5.9)p**	**(0.9)**	**(0.9)p**

6. Cash and cash equivalents

	31 January 2018 £m	Cash flow £m	Non cash changes £m	31 July 2018 £m	31 July 2017 £m
Cash and cash equivalents in the balance sheet and cash flow	9.5	3.3	-	**12.8**	6.7

NOTES TO THE HALF-YEAR STATEMENT

7. Provisions

Store disposals and onerous leases	Six months 31 July 2018 £m	Six months 31 July 2017 £m	Year ended 31 Jan 2018 £m
Balance at 1 February	**0.3**	1.4	1.4
Utilised during the period	**(0.7)**	(1.4)	(2.0)
Increase during the period	**6.8**	-	0.9
Balance at period end	**6.4**	-	0.3

Provisions are recorded to reflect the estimated committed closure costs of identified underperforming retail stores including onerous leases whereby the future contractual obligations exceed the forecast economic benefits. The associated costs are forecast to be incurred over the remaining lease period.

8. Statutory accounts and basis of preparation of half-year financial statements

Reporting entity
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. These condensed consolidated half-year financial statements of the Company as at and for the six months ended 31 July 2018 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in joint ventures.

The consolidated financial statements of the Group as at and for the year ended 31 January 2018 are available upon request from the Company's registered office at First Floor, Centro One, 39 Plender Street, London NW1 0DT or can be found on the Group website *www.frenchconnection.com*.

Principal activities
The principal activity of the Group is the international retailing and wholesaling of branded fashion clothing and accessories and the licensing of its brands.

Statement of compliance
These condensed consolidated half-year financial statements have been prepared in accordance with the requirements of IAS 34 'Interim Financial Reporting' as adopted by the EU.

As required by the Disclosure and Transparency Rules ("the DTR") of the Financial Conduct Authority, the condensed consolidated half-year financial statements have been prepared applying the accounting policies and presentation that were applied in the preparation of the Company's published consolidated financial statements for the year ended 31 January 2018, which were prepared in accordance with IFRS as adopted by the EU.

These condensed consolidated half-year financial statements have not been audited or reviewed by auditors pursuant to the Auditing Practices Board guidance on *Review of Interim Financial Information*. The comparative figures for the year ended 31 January 2018 are not the Company's statutory accounts for that period. Those accounts have been reported on by the Company's auditors and have been delivered to the Registrar of Companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

The Board of Directors approved the condensed consolidated half-year financial statements on 20 September 2018.

8. Statutory accounts and basis of preparation of half-year financial statements (continued)

Significant accounting policies
The accounting policies applied by the Group in these condensed consolidated half-year financial statements are the same as those that applied to the consolidated financial statements of the Group for the year ended 31 January 2018.

Key sources of estimation uncertainty
In applying the accounting policies, management has made appropriate estimates in many areas, and the actual outcome may differ from those calculated. The key sources of estimation uncertainty at the balance sheet date were the same as those that applied to the consolidated financial statements of the Group for the year ended 31 January 2018.

Principal risks and uncertainties
Like all retailers we are susceptible to volatility in the propensity of consumers to spend, which is affected by macro-economic issues. 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.

The Group maintains a positive net cash balance throughout the year and we are conscious to manage the Group's working capital effectively.

The Group's approach to the management of risks was the same as that which applied to the consolidated financial statements of the Group for the year ended 31 January 2018. The Board confirms that there are ongoing procedures in place for identifying, evaluating and managing significant risks faced by the Group. There has been no change since the year end to the major risks faced by the Group.

Related party transactions
In the six months to 31 July 2018, there were no material changes in related parties nor any related party transactions. The Group's related party transactions and relationships were disclosed in the Notes to the Annual Report for the year ended 31 January 2018. All transactions with related parties are conducted on an arm's length basis and in accordance with normal business terms. Transactions between related parties that are Group subsidiaries are eliminated on consolidation.

Going concern
The Group has considerable cash resources, ending the half-year with £12.8m and with a minimum Group cash balance during the period of £2.1m. The Group has no debt.

Having reviewed the cash forecasts and the sources of cash funding available to the Group, the Board has concluded that the Group has a reasonable expectation 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.

NOTES TO THE HALF-YEAR STATEMENT

9. Retail locations

		31 July 2018 Locations	31 July 2018 sq ft	31 January 2018 Locations	31 January 2018 sq ft	31 July 2017 Locations	31 July 2017 sq ft
Operated locations							
UK/Europe							
French Connection	Stores	**46**	**127,440**	47	128,835	49	134,154
French Connection/Great Plains	Concessions	**52**	**34,526**	51	35,556	52	36,190
Toast	Stores	**-**	**-**	12	13,546	12	13,546
YMC	Stores	**2**	**1,355**	2	1,355	2	1,355
Total UK/Europe		**100**	**163,321**	112	179,292	115	185,245
North America							
French Connection US	Stores	**2**	**9,102**	2	9,102	2	9,102
French Connection Canada	Stores	**1**	**2,350**	2	4,650	2	4,650
Total North America		**3**	**11,452**	4	13,752	4	13,752
Total operated locations		**103**	**174,773**	116	193,044	119	198,997
French Connection licensed and franchised							
UK/Europe		**5**	**5,642**	5	5,642	5	5,642
North America		**1**	**2,346**	1	2,346	1	2,346
Middle East		**10**	**15,686**	10	15,686	9	15,030
Australasia		**140**	**71,677**	139	73,980	144	82,728
Hong Kong		**3**	**3,378**	4	7,000	5	8,400
China		**10**	**14,644**	11	16,018	13	18,842
India		**14**	**7,779**	20	11,249	30	14,450
Other		**21**	**15,240**	22	15,863	23	17,357
Total licensed and franchised locations		**204**	**136,392**	212	147,784	230	164,795
Total branded locations		**307**	**311,165**	328	340,828	349	363,792