

# **ANNUAL REPORT 2013**

**French Connection Group PLC**

# French Connection Group PLC

FRENCH CONNECTION • GREAT PLAINS • TOAST • YMC

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

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# CHAIRMAN'S STATEMENT

Dear Shareholders,

After a difficult trading year, I am pleased to be able to tell you about the changes we have made in our business. Many of the initiatives we have taken are beginning to show interesting results and while it is still early days, we see some good progress and feel that we are moving in the right direction.

As you will be aware, we implemented a review of our retail business in March of last year. We announced a set of detailed initiatives with the Interim Results in September and I commented then that we expect that the changes will have a growing positive impact on our trading performance over the next two financial years but would have a limited impact on trading in the remaining part of the year to 31 January 2013. Today we are announcing our financial results for that year.

In the year to 31 January 2013, Group revenue fell 8% to £197.3 million as a result of declines in sales volumes in both our retail and wholesale businesses in UK/Europe. Gross margin was little changed at 47.9% and overheads continue to be tightly controlled. Group loss before taxation, goodwill impairment and store disposal costs was £(7.2) million, compared with a profit of £4.6 million last year. However, we ended the year with a strong balance sheet with £28.5 million of cash and no bank debt.

The initiatives we have taken have resulted in some major changes and are progressing well. The changes will help provide a new impetus to sales growth in both the retail and wholesale businesses. The programme includes:

## Store operations

- we have re-engineered a number of in-store processes resulting in a saving in labour hours;
- a revised approach to labour rostering has been developed and is being applied with an emphasis on ensuring the most effective staff coverage in-store; and
- our training programmes have been developed to focus specifically on selling skills along with improved customer service and this is being rolled out across our store portfolio.

## Customer focused product

- our product ranges are now being developed within a revised framework designed to meet the aspirations and value perceptions of our core customers more accurately;
- our new design team, including five new members, has created a Winter collection which is more customer focused and will provide great value;
- the new collection has been well received by our Wholesale customers and our new retail team are confident that we are going forward with the right product;
- the pricing architecture of these new ranges is now more focused; and
- with our new head of accessory design, we are beginning to see improvements and exciting new products.

## Merchandise management

- we have implemented a total change in our buying patterns to give more flexibility and this has resulted in a 30% reduction in new season inventory levels;
- the reaction speed to our best selling lines has been improved by changing the structure and processes of the relevant departments; and
- we have worked hard on our gross margin and will be changing our sale periods. By reducing our buying we expect to generate a better level of gross margin.

## Portfolio management

- in a very difficult property market we have successfully negotiated the disposal of two stores in UK/Europe and three stores in North America. We are in the process of closing one further store and six concessions and we are likely to close two further stores during the new year. We continue to search for potential tenants for other targeted under-performing stores; and
- we are in on-going discussions with landlords to vacate other stores or to make realistic agreements on future rents.

## Strengthened management team

- all the new senior management appointments have been made including the Head of Design who joined in May, Head of Retail who joined in September, Head of Production and Director of Multi-channel Marketing who both joined in October. There have also been important changes at other levels.

The initial impact on trading of these changes has been positive, although it is still early days. The changes to in-store operations are beginning to demonstrate benefit and the Spring/Summer 2013 ranges, which have been supplemented and amended to reflect our revised positioning, have performed better. This has been achieved on significantly lower inventory levels, therefore giving us the ability to respond and move more quickly.

It is clear from our market research that the French Connection brand continues to have significant strength and with the improvements in ranges, selling skills and inventory management outlined above I am confident we will achieve steady and significant improvement in our trading performance and Group profitability over the next two financial years.

During the year our e-commerce business has continued to perform well and has grown significantly, benefiting from our continued investment in this area. The introduction of "click-and-collect" and allowing web sales to be returned to stores have been taken up enthusiastically by our customers and over 10% of our French Connection retail sales in UK/Europe are now through our web store.

Licensing continues to be a very important part of the business highlighting the strength of the brand. Our licensees continue to be very successful and generate a strong revenue stream for the Group. During the later part of the year we introduced new licensees in the UK for shoes, children's wear and furniture and in the US for coats, bags and hosiery. As reported last year, a change in strategy at Sears resulted in the termination of our licence to supply fashion clothing to their stores, but despite this, net royalty income in the year was significant at £6.5 million (2012: £8.5 million). Looking forward, we expect our new licensees to make a significant contribution to income.

We are continuing to build our international distribution network with additional stores opening in Asia, India and Eastern Europe in the new year. The new shop fit concept, which we have recently been developing, has successfully launched in China and Hong Kong and will be used for this new expansion.

The Group remains debt-free and ended the year with a cash position of £28.5 million after payment of last year's dividend during the year. We monitor and manage our working capital very closely and we have more than sufficient resources to see us through our recovery programme. However, in order to conserve working capital, the Board has decided that no dividend should be paid for the year (2012: 1.6 pence per share).

The changes we have made and continue to make will improve our financial performance in this most difficult and competitive of markets. We are managing the business cautiously in order to increase full-price sales volumes, limit discounting, manage inventory levels, control cash and build confidence with our customers.

I would like to thank all our staff around the world for their continuing efforts and hard work.



**Stephen Marks**  
Chairman and Chief Executive

12 March 2013

# OUR BUSINESS

Fashion can be a tough game. It is a fast-paced business requiring constant creative drive 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.

After over 40 years in that environment, *French Connection* has succeeded in becoming one of the most recognised fashion brands on the high street. The brand has a global reach, operating in over 30 countries through more than 1,000 stockists and with over £400 million of branded retail sales worldwide, either directly through our own retail chain, through wholesale channels or generated from licensed arrangements.

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. We have since worked hard to build on that vision and as a result, *French Connection* is synonymous with fashion and style.

It remains our prime goal to create distinctiveness in a crowded market place through focus on design. The brand's strength lies in balancing new, exciting ideas with consistent quality and affordability and in a world of "fast fashion" we are proud of our commitment to 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, New York, Paris, Hong Kong and Toronto. We operate retail stores and concessions in the UK, Ireland, Europe, US and Canada and also operate e-commerce businesses in each of those territories. Further, we wholesale our products to retailers operating in over 30 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.

## Principal risks

Our success depends on our ability to produce ranges of garments which are sufficiently attractive to potential customers. We seek to achieve this through retention of experienced and skilled designers and merchandisers and by remaining as operationally flexible as possible. The nature of fashion retail, however, 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 affected 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 88% of the Group's revenues.

Our other brands include:

*TOAST*: a range of beautifully crafted ladies' and men's clothing and unique homeware, available on-line, in selected John Lewis stores and through a growing number of dedicated high-street stores;

*Great Plains*: a fashion basics range produced in-house and supplied through 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 and accessories.

Our design teams are based in London and we arrange for the products to be manufactured in specialist facilities in Europe 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 El Corte Inglés in Spain. We also operate e-commerce internet sites through which our products are available for home delivery in the UK, Ireland, Europe and North America.

The product ranges are 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 Europe, the 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 fcuik brands have been extended successfully into complementary licensed products including men's and women's toiletries and fragrances, shoes, watches, jewellery, furniture and eyewear which together generate another major profit stream for the Group: licence royalty income.

### **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. We seek to ensure that 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 clothing to match 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.

### **Management of risks**

Each year the brands produce two main seasonal fashion ranges 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 for our retail store portfolio 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. 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 a positive net cash balance 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.

# OUR BUSINESS

Continued

## Growth and development plans

Following a restructuring of the business implemented in 2010 the Group traded profitably up to July 2011 at which point the UK/Europe retail business started to experience a decline in sales volumes. This had a significant effect on Group profitability despite continued growth in wholesale, licensing and our international businesses. As a result the Board implemented an extensive review of the UK retail business. This review resulted in a broad range of significant initiatives which were announced in September 2012.

The initiatives focus on the following main areas:

### Store operations

- develop better selling skills and improve customer service to increase basket size and average transaction values;
- improve efficiency in-store by re-engineering processes; and
- optimise effectiveness of labour hours through more flexible labour management.

### Customer focused product

- develop our ranges to better meet the aspirations of our core customers;
- ensure product pricing matches customers' value perceptions; and
- improve accessories and ancillary product ranges.

### Merchandise management

- implement a more carefully structured approach to buying;
- improve reaction speed to best selling lines and changing trends; and
- continue to carefully manage gross margin during sale periods.

### Portfolio management

- target the disposal of loss making stores where economically viable; and
- engage external property agents working with landlords and potential tenants.

### Strengthened management team

- made a number of new senior management appointments in design, retail and multi-channel functions.

Details of progress in implementing these initiatives is provided in the Chairman's Statement. We are confident that the initiatives will result in a steady and significant improvement in the revenue and gross margins in the UK/Europe retail business and therefore have a positive impact on Group profitability over the next two financial years and beyond.

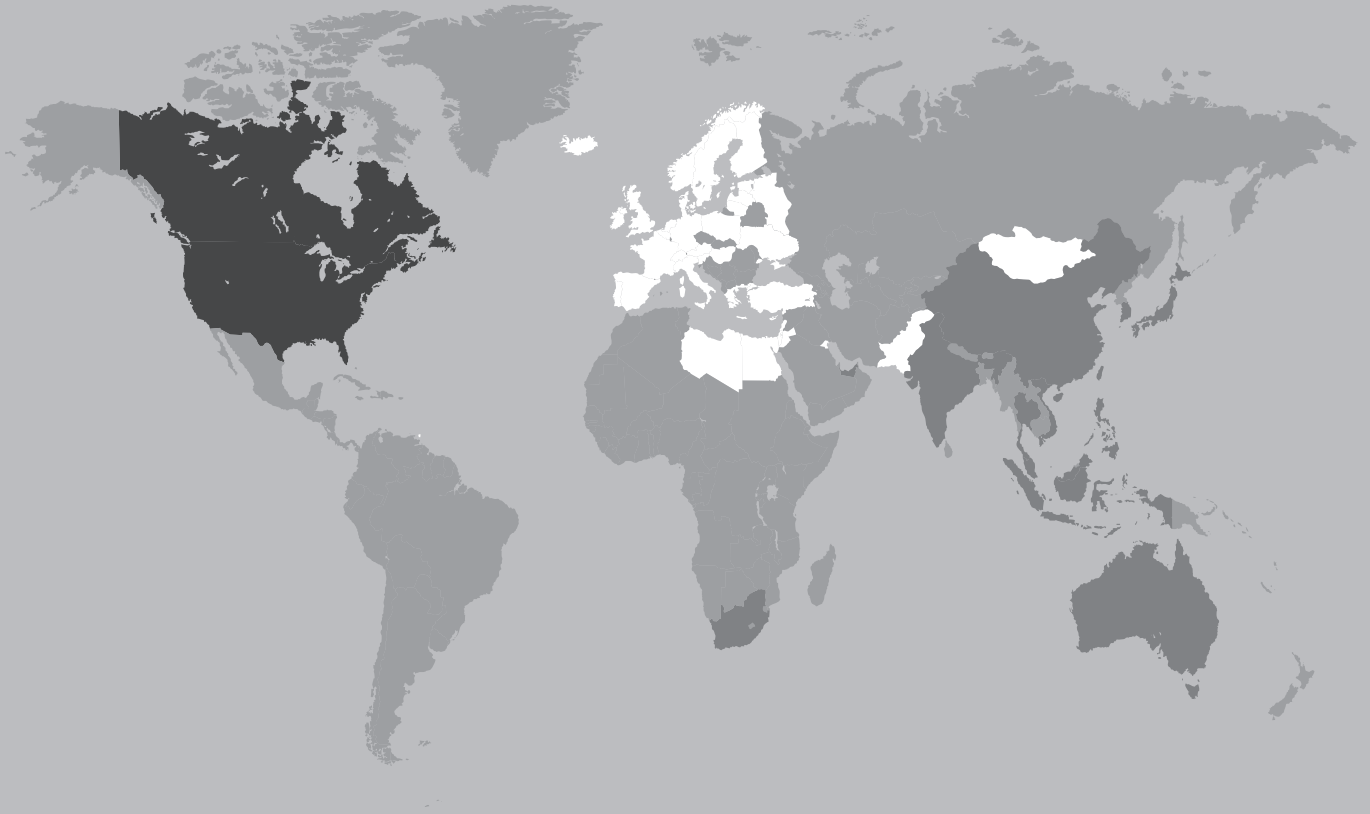
The overall aim is to improve sales densities and achieved gross margin in our retail stores which will be evidenced by our key performance indicators of growth in like-for-like sales and gross margin percentage. Underperforming stores will, where possible, be closed. We will also continue to expand our e-commerce operation which is now a significant sales channel.

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. 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 other brands. 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.



# WORLDWIDE OPERATIONS



## UK/Europe

LOCATION	
London, Paris, Dusseldorf	
TERRITORIES	
UK, Ireland, Europe, Middle East and Asia	
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

# BUSINESS REVIEW

## Overview of Group Results

In the year ended 31 January 2013 the financial performance of the Group reflected a continuation of the poor trading experienced in the UK/Europe retail channel from the autumn of 2011 along with a decline in volumes through the UK/Europe wholesale channel. Conversely, the North America region achieved good growth in wholesale volumes and a robust performance in retail, but the decline in volumes and consequent decline in gross profit margins in UK/Europe had a significant effect on the Group result. The Group incurred a loss before taxation, goodwill impairment and the cost of store closures of £(7.2) million. This compared to a profit before tax of £4.6 million in the previous year. After taking into account an impairment of goodwill and the cost of disposal of under-performing stores, the total loss before tax was £(10.5) million (2012: profit of £5.0 million).

Total revenue was 8% lower than last year reflecting continued good growth in wholesale volumes in North America but declines in all other channels. Like-for-like sales in Retail in UK/Europe declined by 7.4% and in North America by 4.1% over the year.

Group gross margin was broadly flat at 47.9% with increases in the total value of discounting offset by an increased proportion of sales in the higher-margin retail channel.

Total Group operating expenses were slightly lower than last year, but included charges arising from the retail review and asset impairments relating to under-performing stores. The underlying costs declined by 1.3% despite additional investment in the e-commerce channel.

The net income received from our licensees was £6.5 million in the year. This represented a decline of £2.0 million compared to last year, largely as a result of the termination of the licence to supply product to the Sears department stores in the US. For the new year we have agreed a number of new licences which will provide growth.

The resulting loss from operating activities was £(9.1) million (2012: operating profit of £3.3 million).

As a consequence of the poor retail trading experienced in recent seasons, an impairment charge of £2.0 million has been made in relation to goodwill previously carried on the balance sheet.

Net finance income in the prior year benefited from a one-off £0.8 million credit arising from exchange gains on the repayment of intra-group financing. The net income in the year to 31 January 2013 of £0.2 million represents interest income on cash deposits held and foreign currency exchange gains.

Our retail joint ventures in Hong Kong and China have seen a tightening in their respective markets and while total revenue increased in these joint ventures by 3%, the effect of the increased costs from additional trading space resulted in a small decline in the contribution from these businesses.

## United Kingdom and Europe – Retail

Total retail revenue in the UK/Europe division declined by 7% in the year, both in total and on a like-for-like basis; average retail space barely changed.

## Divisional analysis

These tables set out the segmental analysis of the continuing operations for the two years ended 31 January 2013.

Year ended 31 January 2013	UK/Europe			North America			Rest of the World	Intra Group	Total
	Retail £m	Whole-sale £m	Total £m	Retail £m	Whole-sale £m	Total £m	Whole-sale £m	£m	£m
Revenue	103.4	34.2	<b>137.6</b>	20.0	29.0	<b>49.0</b>	<b>10.7</b>		<b>197.3</b>
Gross profit	56.7	10.6	<b>67.3</b>	11.2	11.5	<b>22.7</b>	<b>2.0</b>	2.6	<b>94.6</b>
Gross margin	54.8%	31.0%	<b>48.9%</b>	56.0%	39.7%	<b>46.3%</b>	<b>18.7%</b>		<b>47.9%</b>
Trading overheads	(71.6)	(6.7)	<b>(78.3)</b>	(12.6)	(3.7)	<b>(16.3)</b>	<b>(1.5)</b>		<b>(96.1)</b>
Store disposals and closures	(1.1)		<b>(1.1)</b>	(0.2)		<b>(0.2)</b>			<b>(1.3)</b>
Operating contribution	(16.0)	3.9	<b>(12.1)</b>	(1.6)	7.8	<b>6.2</b>	<b>0.5</b>	2.6	<b>(2.8)</b>
Common overhead costs			<b>(4.3)</b>			<b>(3.2)</b>			<b>(7.5)</b>
Other income			<b>6.8</b>			<b>0.7</b>	<b>1.6</b>	(2.6)	<b>6.5</b>
Divisional operating (loss)/profit			<b>(9.6)</b>			<b>3.7</b>	<b>2.1</b>	–	<b>(3.8)</b>
Group management overheads									<b>(5.3)</b>
Operating loss before financing and goodwill impairment									<b>(9.1)</b>

As previously reported, this performance was a continuation of the marked decline first noted in Autumn 2011. This prompted an extensive review of the UK retail business with the help of external consultants and gave rise to a series of initiatives discussed further in the Chairman's Statement.

The decline in revenue in recent seasons has resulted in higher levels of discounting and greater volumes of product sold during our end-of-season sales. An important strand of our improvement initiatives is to protect the gross margin rate by reducing the scale of the sale periods. To this end, the winter sale was delayed by one week compared to last year. The effect of this and other changes to levels of discounting was to reduce revenue but increase the gross margin rate in the end of season sale. However, total gross margin in the UK/Europe retail business across the year was a little lower at 54.8% compared to 56.2% last year. The decrease was caused by a combination of slightly lower core margins and the effect of a higher proportion of sales during the spring sale, earlier in the year.

Retail operating overheads increased by £1.0 million in the year including an impairment charge of £0.5 million (2012: £nil) in relation to underperforming stores. Overheads have been managed prudently and the underlying increase in the cost base has arisen from continued investment in our e-commerce businesses and new stores. In addition, the store portfolio management process generated a charge of £1.1 million comprising premiums paid in relation to the assignment or provisions for the cost of closure of underperforming stores. In contrast, in the previous year, store disposals generated net income of £0.7 million.

Toast's total revenue during the year was little changed on last year, which was disappointing given the previous rate of growth. The new Spring season has started very well, however.

Overall the UK/Europe retail business generated a loss of £(16.0) million in the year (2012: £(7.5) million).

### United Kingdom and Europe – Wholesale

Revenue in the wholesale business in UK/Europe declined by 19% during the year. A large portion of the decline arose from the closure of three high-volume stores operated by our former franchisee in Russia. The remaining decline reflected decreases in orders as a result of disappointing sales performances in the previous seasons. We expect that the initiatives implemented in relation to the product ranges as part of the retail review will have a beneficial impact on the wholesale channel in due course.

With much of the decline in volumes arising from full-price customers, the gross margin declined to 31.0% (2012: 32.8%).

Our forward orders for Spring/Summer 2013, a proportion of which was delivered in January 2013, were lower than the equivalent orders for last year. Orders for Autumn/Winter 2013 are still being taken and the reaction to the range has been positive. However the value of orders is affected by the previous seasons' sales performance in our customers' outlets and to date the buyers are being cautious. The forward orders so far are broadly flat on the level achieved at the same time last year.

Overhead costs within the division have been tightly controlled during the year, resulting in a 7% reduction.

## Divisional analysis continued

Year ended 31 January 2012	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
Revenue	111.0	42.1	<b>153.1</b>	22.2	24.3	<b>46.5</b>	<b>15.8</b>		<b>215.4</b>
Gross profit	62.4	13.8	<b>76.2</b>	13.2	9.3	<b>22.5</b>	<b>2.1</b>	2.8	<b>103.6</b>
Gross margin	56.2%	32.8%	<b>49.8%</b>	59.5%	38.3%	<b>48.4%</b>	<b>13.3%</b>		<b>48.1%</b>
Trading overheads	(70.6)	(7.2)	<b>(77.8)</b>	(13.7)	(3.6)	<b>(17.3)</b>	<b>(1.5)</b>		<b>(96.6)</b>
Store disposals and closures	0.7		<b>0.7</b>	(0.3)		<b>(0.3)</b>			<b>0.4</b>
Operating contribution	(7.5)	6.6	<b>(0.9)</b>	(0.8)	5.7	<b>4.9</b>	<b>0.6</b>	2.8	<b>7.4</b>
Common overhead costs			<b>(4.7)</b>			<b>(3.1)</b>			<b>(7.8)</b>
Other income			<b>7.4</b>			<b>2.0</b>	<b>1.9</b>	(2.8)	<b>8.5</b>
Divisional operating profit			<b>1.8</b>			<b>3.8</b>	<b>2.5</b>	–	<b>8.1</b>
Group management overheads									<b>(4.8)</b>
Operating profit before financing									<b>3.3</b>

# BUSINESS REVIEW

Continued

This combination of factors lead to a decrease in profit generated by the division to £3.9 million (2012: £6.6 million).

## United Kingdom and Europe region

Together, the retail and wholesale businesses in UK/Europe incurred an operating loss of £(12.1) million in the year (2012: £(0.9) million). Common overhead costs for the region include shared accounting services and brand advertising and marketing. The advertising budget for the year was cut back from the previous year resulting in over 8% savings.

Other income in the UK/Europe region of £6.8 million (2012: £7.4 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 was broadly steady at £5.3 million with continued good contributions from Boots in relation to their toiletries licence, Specsavers in relation to their eyewear licence, and our suiting, jewellery and watch licensees amongst others.

The operating result for the entire UK/Europe division was a loss of £(9.6) million compared to a profit of £1.8 million in the previous year. Clearly we are entirely focused on improving the performance of this division of our business and in particular the retail channel. We are confident that the combination of the broad-ranging changes, strong cash position and highly regarded brand will return this business to growth for the long-term.

## North America – Retail

Revenue in our retail stores in North America fell to £20.0 million from £22.2 million, mainly due to the impact of the closure of three stores during the year but also reflecting a decline in like-for-like sales of 4.1%. Higher levels of discounting caused the gross margin to be lower at 56.0% compared to 59.5% last year. Retail trading overheads were £1.1 million, 8% lower, partly due to the closure of stores. The store closures were implemented at a cost of £0.2 million and will have a positive impact on profit in the new financial year. The retail operating loss for the year was £(1.6) million compared to £(0.8) million in the previous year.

Sales through our North America e-commerce sites now represent 10% of our retail revenue in the region with continuing good growth in the period.

As with the UK 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 customers and ensuring that operationally we maximise our opportunities. We also continue to review the store portfolio in order to deal with underperforming locations where possible.

## North America – Wholesale

The operating contribution from our North America wholesale division made a further good step forward to £7.8 million for the year compared to £5.7 million in the previous year on revenue 19% ahead at £29.0 million. Increases came from both existing

and new customers. Forward orders for the new seasons, however, are weaker, and current indications suggest that some of the growth achieved last year will be reversed. We anticipate that this will be corrected with revised ranges for later in 2013 and beyond.

## North America division

Together the two North America divisions generated a contribution of £6.2 million (2012: £4.9 million) in the year. Common overhead costs were similar to last year resulting in a trading profit of £3.0 million, compared to £1.8 million last year.

Last year we reported £2.0 million of licensing income generated from the North America division. This included a royalty contribution arising from our licence with Li & Fung to supply the “UK Style” range of clothing to Sears department stores across the US. As previously reported this licence has since been terminated, resulting in a significant decrease in licence income in the year to 31 January 2013.

Despite the reduction in royalty income, the North America division generated an operating profit of £3.7 million compared to £3.8 million last year.

## Rest of World – Wholesale

Revenue from our wholesale business based in Hong Kong fell to £10.7 million in the year (2012: £15.8 million) as a result of reductions in deliveries to our licensee in Australia in a difficult retail market. The gross margin generated by this business is affected by the mix of the different supply arrangements with customers and while core margins were unchanged, the blended gross margin increased to 18.7% from 13.3%. With overhead costs unchanged the operating contribution was £0.5 million (2012: £0.6 million).

Other income in Hong Kong 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 receivable from third parties. Of the £1.6 million income, £1.1 million is generated from intra group business and is eliminated within the Group results. The remainder reflects royalty and buying office commission from third parties.

Overall the Hong Kong business generated an operating profit of £2.1 million (2012: £2.5 million).

## Group management overheads

The overheads arising from Group management functions amounted to £5.3 million (2012: £4.8 million) including the costs associated with the review of the retail business conducted by specialist consultants. Underlying costs were reduced.

## Operating result

The Group's trading divisions generated an operating loss of £(9.1) million in the year (2012: profit of £3.3 million). The significant decline reflects the sharp down-turn in both retail and wholesale revenues in the year and the magnifying effect of structural operating leverage within the business: the majority of our cost base, being store costs and the costs of creating our product ranges, are largely fixed.

## **Impairment, net finance income and joint ventures**

A charge of £2.0 million has been recorded in the year in relation to the impairment of goodwill. The goodwill originally arose as a result of the acquisition of three of our UK franchises over a number of years up to 2009. As a result of the depressed store trading results the goodwill arising from these acquisitions has been impaired to nil. There is no cash impact of this charge.

Net finance income in the year was £0.2 million (2012: £0.9 million including a one-off exchange gain of £0.8 million). The core finance income represents the continued low interest rates earned on our cash balances.

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 £0.4 million, net of local taxes (2012: £0.8 million) and cash dividends received amounted to £0.9 million. Profitability has declined as a result of both changes in the portfolio of stores and a softening of retail sales performance in Hong Kong.

## **Group result**

The Group incurred a loss before tax for the year of £(10.5) million (2012: profit of £5.0 million). Excluding the impairment charge and the cost of disposal of underperforming stores the loss before tax was £(7.2) million (2012: profit of £4.6 million).

## **Taxation**

The tax charge in the year of £0.0 million (2012: £0.5 million) reflects tax charged on profits generated in Hong Kong and minimum taxes payable in the US offset by prior year credits. 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 most of the tax charge arising on profits in the US.

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 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**

The Group disposed of the Nicole Farhi business in July 2010. The "discontinued operations" reported in the income statement for the year ended 31 January 2012 reflect the residual impact of this transaction.

## **Non-controlling interests**

The non-controlling interest of £(0.2) million (2012: £0.0 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 amounted to a loss of £(10.3) million (2012: profit of £4.5 million from the core continuing operations) and a loss per share of (10.7) pence (2012: earnings of 4.7 pence).

The Board has concluded that no dividend should be paid for the year (2012: dividend of 1.6 pence per share).

## **Balance sheet and cash flow**

The Group balance sheet at 31 January 2013 remains strong with £28.5 million of cash (2012: £34.2 million), no bank borrowings and a minimum cash position during the year of £10.6 million. The trading operations of the Group utilised cash of only £3.7 million as a result of a release of cash utilised within working capital, in particular a decrease in inventory of £5.4 million.

Additional investment in fixed assets has been low in recent periods and this year the Group invested £1.7 million (2012: £1.6 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 relatively low depreciation charge of £2.6 million (2012: £2.8 million). In addition, store fixed assets have been impaired in the year creating an additional charge of £0.5 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.

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. The initiatives taken in order to return the Group to profitability will take some time to implement and then will have a growing impact over a number of periods. The Board's aim is to achieve at least break-even in the year ending 31 January 2015 and then to grow in profitability thereafter. The initiatives are not capital intensive, but trading losses in the intervening period will result in a reduction in cash resources until such time as the Group returns to profitability. Having reviewed the cash forecasts and the sources of cash funding available to the Group, including detailed discussions with our bankers, Barclays, the Board has concluded that the Group has access to more than sufficient funds to see it through the implementation of the recovery initiatives over the next two years.

# DIRECTORS' REPORT

The Directors of French Connection Group PLC ("the Company") present their Annual Report for the year ended 31 January 2013.

## 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.

## Dividend

The Directors are recommending that no dividend should be paid for the year.

## Directors

The Directors of the Company are set out on page 14.

Roy Naismith and Dean Murray, Directors, retire by rotation in accordance with the Articles of Association and offer themselves for re-election at the Annual General Meeting. The Board considers that both Mr Naismith and Mr Murray continue to make a major contribution to the strategy and operations of the Group and therefore recommend their re-election as Directors. Details of Mr Naismith's and Mr Murray's remuneration and contracts 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 2013, 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 21. 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 12 March 2013 the Company is aware 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	1,506,500	
– held by family members	775,000	
Schroder Investment Management	14,317,880	14.9%
OTK Holding	6,000,000	6.3%
Standard Life Investments	3,677,869	3.8%

## 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 2013, the Group's average trade creditors represented 31 days purchases (2012: 33 days). The method of calculation of average creditor days has changed and the prior year has been restated. 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 £20,659 (2012: £8,370) were made during the year. No political donations were made in either 2013 or 2012.

### 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 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 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 15 May 2013 and a notice of meeting has been sent to shareholders setting out details of the business to be conducted.

Explanatory notes on all the business to be considered at this year's AGM appear on pages 59 and 60 of this document.

### Articles of Association

We are asking shareholders to approve a number of amendments to our articles of association primarily to reflect the provisions of the Companies Act 2006. An explanation of the main changes between the proposed and the existing articles of association is set out on page 59 of this document.

### Disclosure of information to auditors

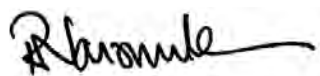
The Directors who were members of the Board on the date the Directors' Report was approved have confirmed the following:

- 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

12 March 2013

## DIRECTORS

<p><b>Stephen Marks</b>  <b>Chairman and</b>  <b>Chief Executive</b></p>	<p>Stephen (aged 66) founded the Company in 1969 and has managed the Group's development since then in the position of Chairman and Chief Executive.</p>
<p><b>Roy Naismith C.A.</b>  <b>Finance Director</b></p>	<p>Roy (aged 51) 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.</p>
<p><b>Neil Williams A.C.A.</b>  <b>Operations Director</b></p>	<p>Neil (aged 48) joined the Group from KPMG in 1992 and was appointed to the Board in May 1994.</p>
<p><b>Dean Murray</b>  <b>Independent</b>  <b>Non-executive</b>  <b>Director</b></p>	<p>Dean (aged 50) 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, of Gear4music, an online retailer of musical instruments and of Flyers Limited, a multi-channel childrenswear business.</p>
<p><b>Claire Kent</b>  <b>Independent</b>  <b>Non-executive</b>  <b>Director</b></p>	<p>Claire (aged 49) 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 an advisory Director of Investcorp, a consultant for Prada and a Board member of Georg Jensen.</p>



# 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, [www.frc.co.uk](http://www.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 2012 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 five 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. Based on this and his current involvement in retail businesses, the Board considers that Mr Murray has appropriate recent and relevant financial experience. Claire Kent has served on the Board for four 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-one years following a training in finance and accounting. Roy Naismith joined the Board twelve 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 except one meeting which Ms Kent was unable to attend. An agenda with supporting information is distributed 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.

The Company's articles of association 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. 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.

### 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 terms of reference of the Audit Committee are available on the Company's website.

The Committee met three times during the year and each meeting was fully attended.

# CORPORATE GOVERNANCE REPORT

Continued

The Committee has adopted a policy in relation to the appointment of the external auditors to conduct non-audit services for the Group. The policy identifies three categories of work: that which is closely related to the statutory audit work, such as tax planning and compliance, and which is therefore pre-approved by the committee, that which it is inappropriate for the auditors to conduct, such as internal accounting work, IT services, or internal auditing, and from which the auditors are therefore excluded and all other types of work for which prior approval is required from the Audit Committee where the costs are greater than £5,000. The objective of this policy is to protect the independence of the auditors while retaining the benefits to be gained from synergies with existing work areas.

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.

## **Remuneration committee**

The Remuneration Committee comprises Claire Kent as Chair and Dean Murray. The Committee met twice during the year to consider the Directors' and senior managers' remuneration. A Remuneration Report is included in this Annual Report. The terms of reference of the Remuneration 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 conducts an annual review of 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 a separate 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. Certain elements of internal audit work are conducted or coordinated by the existing finance and accounting functions. These include reviews of financial controls internationally, externally facilitated reviews of procurement transactions and support for system developments between the separate accounting functions.

## Part two: Compliance with the detailed code provisions

The UK Corporate Governance Code recommends that there should be a division of responsibility between the Chairman and the Chief Executive. Mr Marks is both Chairman and Chief Executive and is also the founder and the major shareholder. The culture of the business, led by the Chief Executive, is one of detailed involvement and speedy reaction times and Mr Marks has led this culture and defined the character of the business throughout its existence.

The Code recommends that one of the non-executive Directors should be appointed as the senior independent Director. The Board contains two non-executive Directors, each of which chairs one of the two committees of the Board and therefore has specific responsibilities. The Board has concluded that there would be no benefit in nominating a senior non-executive Director. Both are utilised as sounding boards for the Chairman and both are available to other executive Directors or shareholders as necessary.

The UK Corporate Governance Code also recommends the formation of a nomination committee. It is our intention to form a nominations committee comprising the two non-executive Directors when any appointment is contemplated. 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 or the Chairman.

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

### Bribery Act

The Board has considered the risks associated with the issues raised by the Bribery Act 2010 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.

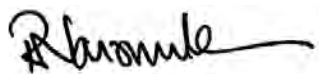
### Going concern

The Group has considerable cash resources, ending the year with £28.5 million and with a minimum Group cash balance during the year of £10.6 million.

Having reviewed the cash forecasts and the sources of cash funding available to the Group, including detailed discussions with our bankers, Barclays, the Board has concluded that the Group has access to more than sufficient funds to see it through the implementation of the recovery initiatives over the next two years.

Based on this and the forecast performance for the Group, 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.

By order of the Board



**Roy Naismith**  
Company Secretary

12 March 2013

# 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, anti-bribery, 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, general inflation rates and the conditions within the Group. The salaries of the executive Directors were increased by 3% on 1 February 2012 in line with the increase granted generally within the UK head office. No increase has been implemented for 2013.

### Annual Bonus

The annual grant of bonuses is based on the financial performance of the Group in relation to initial budgets, prior year performance and market conditions. Bonuses are capped at 100 per cent of basic salary. The bonuses paid in the year related to the performance of the Group in the previous year to 31 January 2012. In that year the profits of the Group fell below the level achieved for the core continuing operations in the previous year. On that basis the bonuses were granted at one half of the level granted in the previous year, when a restructuring had been successfully implemented and a significant improvement in operating profit had been achieved. No bonus has been granted in relation to the year ended 31 January 2013 as a result of the significant decline in operating profit experienced in the year.

For the year ending 31 January 2014 the Board's objective is to implement the retail initiatives and to maximise the initial effect of those on the trading results. Given that the impact of the changes will not be immediate, the Board does not expect the Group to return to break-even until the following year at the earliest. Before any bonus is considered for the new financial year, the executive Directors will be expected to have generated a substantial improvement in operating results and to beat the internal budgets.

### 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. At present, the only long-term incentives in place is the share option scheme as described below. The Committee intends to consider implementation of other clear, uncomplicated long-term incentives during 2013 with a focus on the long term recovery in financial performance.

### Pension contributions

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 the use of share option schemes.

At the discretion of the Board the Company issues share options to senior managers and Directors 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 although this power has not been utilised in the last ten years. 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 which case 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 of 10% of the total share capital in any ten year period. No options have been granted to Directors since October 2008.

# DIRECTORS' REMUNERATION REPORT

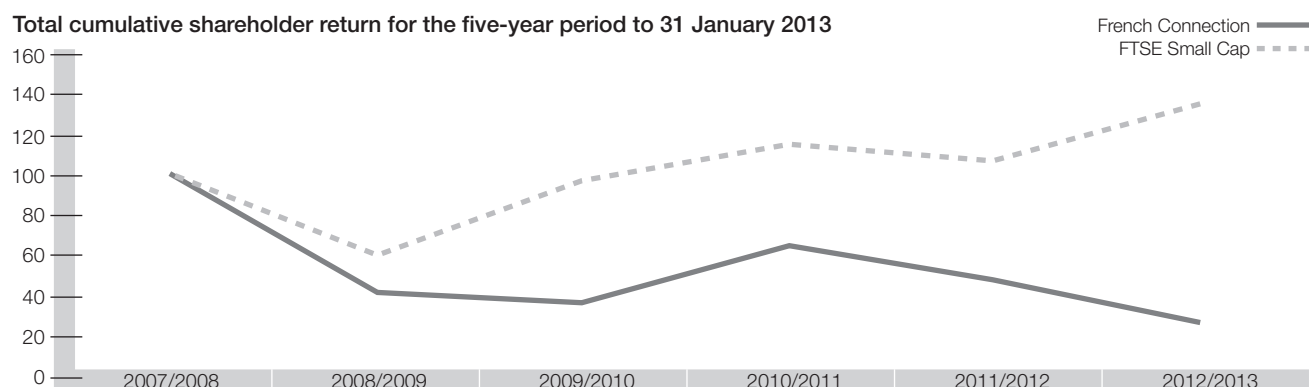
Continued

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.

## 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.



## 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. In the event of any termination payment being made to a Director, the Remuneration Committee will take full account of that Director's duty to mitigate any loss.

## 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:

	2013 £000	2012 £000
Emoluments	1,032	1,212
Money purchase pension contributions	71	70
	<b>1,103</b>	<b>1,282</b>

### Directors' emoluments

Year ended 31 January 2013	Salary and fees £000	Benefits in kind £000	Annual bonus £000	2013 total (excluding pension) £000	2012 total (excluding pension) £000
<b>Executive Directors</b>					
Stephen Marks	299	23	87	409	487
Neil Williams	226	14	66	306	365
Roy Naismith	194	14	49	257	300
<b>Non-executive Directors</b>					
Dean Murray	30	–	–	30	30
Claire Kent	30	–	–	30	30
	779	51	202	<b>1,032</b>	<b>1,212</b>

The annual bonus shown above was paid in May 2012 in respect of the performance for the year ended 31 January 2012. No bonus will be paid in relation to the year ended 31 January 2013.

## Directors' pension contributions

Year ended 31 January 2013	2013 £000	2012 £000
<b>Executive Directors</b>		
Stephen Marks	30	29
Neil Williams	22	22
Roy Naismith	19	19
<b>Non-executive Directors</b>		
Dean Murray	–	–
Claire Kent	–	–
	<b>71</b>	<b>70</b>

## Directors' share options

Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire shares in the Company granted to 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:

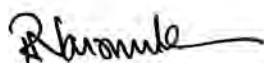
	1 Feb 2012 No. of options	Lapsed during the year	31 Jan 2013 No. of options	Exercise price (p)	Dates of grant	Dates from which exercisable	Dates of expiry
Stephen Marks	376,700	–	376,700	56.2	29 Oct 2008	29 Oct 2011	29 Oct 2018
<b>Total</b>	376,700	–	376,700				
Neil Williams	257,561	(257,561)	–	177.2	1 Nov 2002	1 Nov 2005	1 Nov 2012
	284,500	–	284,500	56.2	29 Oct 2008	29 Oct 2011	29 Oct 2018
<b>Total</b>	542,061	(257,561)	284,500				
Roy Naismith	105,000	(105,000)	–	141.5	1 Nov 2002	1 Nov 2005	1 Nov 2012
	98,759	(98,759)	–	177.2	1 Nov 2002	1 Nov 2005	1 Nov 2012
	244,300	–	244,300	56.2	29 Oct 2008	29 Oct 2011	29 Oct 2018
<b>Total</b>	448,059	(203,759)	244,300				

No share options were granted to Directors during the year.

The market price of the shares at 31 January 2013 was 27.0p and the range during the year was 19.5p to 58.8p. The average market share price during the year was 31.0p. The options granted are exercisable between three and ten years after the date of grant and were subject to performance conditions described above.

## Approval

This report was approved by the Board of Directors on 12 March 2013 and signed on its behalf by:



### Roy Naismith

Company Secretary

Company Number: 1410568

12 March 2013



# 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.

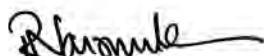
Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

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.

By order of the Board



**Stephen Marks**  
Chairman and Chief Executive



**Roy Naismith**  
Finance Director

12 March 2013



# 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 2013 set out on pages 24 to 56. The financial reporting framework that has been applied in their preparation of the Group financial statements 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 22, 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 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 Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

## 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 2013 and of the Group's loss 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
- the information given in the Corporate Governance Statement set out on pages 15 to 17 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; or
- a Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 17, in relation to going concern;
- the part of the Corporate Governance Statement on page 17 in 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

12 March 2013

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 January 2013

	Note	2013 £m	2012 £m
<b>Continuing operations</b>			
Revenue	4	197.3	215.4
Cost of sales		(102.7)	(111.8)
<b>Gross profit</b>	4	94.6	103.6
Operating expenses	5	(108.9)	(109.2)
Other operating income	6	6.5	8.5
Net (loss)/gain on store disposals and closures		(1.3)	0.4
<b>Operating (loss)/profit before financing and impairments</b>		(9.1)	3.3
Impairment of goodwill	13	(2.0)	–
Finance income		0.2	0.9
Finance expenses		–	–
<b>Operating (loss)/profit</b>		(10.9)	4.2
Share of profit of joint ventures, net of tax	15	0.4	0.8
(Loss)/profit before taxation, store disposals, closures and impairment of goodwill		(7.2)	4.6
Net (loss)/gain on store disposals and closures		(1.3)	0.4
Impairment of goodwill		(2.0)	–
<b>(Loss)/profit before taxation</b>	9	(10.5)	5.0
Income tax credit – UK		–	–
Income tax expense – overseas		–	(0.5)
<b>Total income tax expense</b>	10	–	(0.5)
<b>(Loss)/profit for the year from continuing operations</b>		(10.5)	4.5
<b>Discontinued operations</b>			
Profit from discontinued operations, net of tax	3	–	0.8
<b>(Loss)/profit for the year</b>		(10.5)	5.3

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Continued

	Note	2013 £m	2012 £m
<b>(Loss)/profit for the year</b>		<b>(10.5)</b>	5.3
<b>Other comprehensive income</b>			
Currency translation differences for overseas operations		(0.2)	0.3
Currency translation differences on foreign currency loans, net of tax		0.1	(0.2)
Currency translation differences transferred to profit and loss, net of tax		–	(0.5)
Effective portion of changes in fair value of cash flow hedges		–	0.1
<b>Other comprehensive income for the year, net of tax</b>		<b>(0.1)</b>	(0.3)
<b>Total comprehensive income for the year</b>		<b>(10.6)</b>	5.0
<b>(Loss)/profit attributable to:</b>			
Equity holders of the Company		(10.3)	5.3
Non-controlling interests		(0.2)	–
<b>(Loss)/profit for the year</b>		<b>(10.5)</b>	5.3
<b>Total comprehensive income attributable to:</b>			
Equity holders of the Company		(10.4)	5.0
Non-controlling interests		(0.2)	–
<b>Total income and expense recognised for the year</b>		<b>(10.6)</b>	5.0
<b>Earnings per share</b>			
Basic and diluted (losses)/earnings per share	12	(10.7)p	5.5p
<b>Continuing operations</b>			
Basic and diluted (losses)/earnings per share	12	(10.7)p	4.7p

The notes on pages 29 to 50 form part of these accounts.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 January 2013

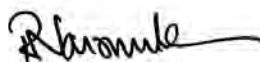
	Note	2013 £m	2012 £m
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	13	0.4	2.4
Property, plant and equipment	14	5.7	7.1
Investments in joint ventures	15	3.0	3.5
Deferred tax assets	22	4.4	4.4
<b>Total non-current assets</b>		<b>13.5</b>	17.4
<b>Current assets</b>			
Inventories	16	41.5	46.9
Trade and other receivables	17	23.7	26.5
Cash and cash equivalents	18	28.5	34.2
Derivative financial instruments	28	0.1	0.1
<b>Total current assets</b>		<b>93.8</b>	107.7
<b>Total assets</b>		<b>107.3</b>	125.1
<b>Non-current liabilities</b>			
Deferred tax liabilities	22	0.9	0.9
<b>Total non-current liabilities</b>		<b>0.9</b>	0.9
<b>Current liabilities</b>			
Trade and other payables	19	41.2	48.0
Current tax payable	21	–	0.5
Provisions	20	1.7	0.6
<b>Total current liabilities</b>		<b>42.9</b>	49.1
<b>Total liabilities</b>		<b>43.8</b>	50.0
<b>Net assets</b>		<b>63.5</b>	75.1
<b>Equity</b>			
Called-up share capital	23	1.0	1.0
Share premium account		9.4	9.4
Other reserves		5.3	5.4
Retained earnings		47.0	58.3
<b>Total equity attributable to equity holders of the Company</b>		<b>62.7</b>	74.1
<b>Non-controlling interests</b>		<b>0.8</b>	1.0
<b>Total equity</b>		<b>63.5</b>	75.1

The notes on pages 29 to 50 form part of these accounts.

These accounts were approved by the Board of Directors on 12 March 2013 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
<b>Balance at 31 January 2011</b>	<b>1.0</b>	<b>9.4</b>	<b>–</b>	<b>5.7</b>	<b>54.6</b>	<b>70.7</b>	<b>1.1</b>	<b>71.8</b>
<b>Profit for the year ended 31 January 2012</b>					<b>5.3</b>	<b>5.3</b>	<b>–</b>	<b>5.3</b>
<b>Other comprehensive income</b>								
Currency translation differences for overseas operations				0.3		<b>0.3</b>		<b>0.3</b>
Currency translation differences on foreign currency loans, net of tax				(0.2)		<b>(0.2)</b>		<b>(0.2)</b>
Currency translation differences transferred to profit and loss, net of tax				(0.5)		<b>(0.5)</b>		<b>(0.5)</b>
Effective portion of changes in fair value of cash flow hedges			0.1			<b>0.1</b>		<b>0.1</b>
<b>Transactions with owners recorded directly in equity</b>								
Dividends					(1.6)	<b>(1.6)</b>		<b>(1.6)</b>
<b>Transactions with non-controlling interests, recorded directly in equity</b>								
Dividends							(0.1)	<b>(0.1)</b>
<b>Balance at 31 January 2012</b>	<b>1.0</b>	<b>9.4</b>	<b>0.1</b>	<b>5.3</b>	<b>58.3</b>	<b>74.1</b>	<b>1.0</b>	<b>75.1</b>
<b>Loss for the year ended 31 January 2013</b>					<b>(10.3)</b>	<b>(10.3)</b>	<b>(0.2)</b>	<b>(10.5)</b>
<b>Other comprehensive income</b>								
Currency translation differences for overseas operations				(0.2)		<b>(0.2)</b>		<b>(0.2)</b>
Currency translation differences on foreign currency loans, net of tax				0.1		<b>0.1</b>		<b>0.1</b>
Effective portion of changes in fair value of cash flow hedges			–			<b>–</b>		<b>–</b>
<b>Transactions with owners recorded directly in equity</b>								
Dividends					(1.0)	<b>(1.0)</b>		<b>(1.0)</b>
<b>Balance at 31 January 2013</b>	<b>1.0</b>	<b>9.4</b>	<b>0.1</b>	<b>5.2</b>	<b>47.0</b>	<b>62.7</b>	<b>0.8</b>	<b>63.5</b>

## 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 2013

	Note	2013 £m	2012 £m
<b>Operating activities</b>			
(Loss)/profit for the period		(10.5)	5.3
Adjustments for:			
Depreciation and impairment		3.1	2.8
Impairment of goodwill		2.0	–
Gain on disposal of discontinued operation, net of tax		–	(0.9)
Finance income		(0.1)	(0.3)
Currency translation differences		(0.1)	(0.6)
Share of profit of joint ventures		(0.4)	(0.8)
Non-operating loss/(profit) on store disposals and closures		1.3	(0.4)
Income tax expense		–	0.5
<b>Operating (loss)/profit before changes in working capital and provisions</b>		<b>(4.7)</b>	5.6
Decrease/(increase) in inventories		5.4	(6.9)
Decrease/(increase) in trade and other receivables		2.4	(1.0)
(Decrease)/increase in trade and other payables		(6.8)	3.4
<b>Cash flows from operations</b>		<b>(3.7)</b>	1.1
Income tax paid		(0.5)	(0.7)
<b>Cash flows from operating activities</b>		<b>(4.2)</b>	0.4
<b>Investing activities</b>			
Interest received		0.1	0.3
Proceeds from investment in joint ventures		0.9	0.8
Acquisition of property, plant and equipment		(1.7)	(1.6)
Net (costs)/proceeds from sale of property, plant and equipment		(0.2)	0.7
Disposal of discontinued operations	3	0.4	1.3
<b>Cash flows from investing activities</b>		<b>(0.5)</b>	1.5
<b>Financing activities</b>			
Dividends paid	11	(1.0)	(1.7)
<b>Cash flows from financing activities</b>		<b>(1.0)</b>	(1.7)
<b>Net (decrease)/increase in cash and cash equivalents</b>	25	<b>(5.7)</b>	0.2
Cash and cash equivalents at 1 February	25	34.2	34.1
Exchange rate fluctuations on cash held	25	–	(0.1)
<b>Cash and cash equivalents at 31 January</b>	25	<b>28.5</b>	34.2

The notes on pages 29 to 50 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 51 to 56.

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 11. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Business Review on pages 8 to 11. In addition Note 28 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 £28.5 million of net cash and no borrowings. Over the cycle of the year the Group had minimum net cash of £10.6 million. 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 2013 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.

# NOTES TO THE GROUP ACCOUNTS

Continued

## 1 Accounting policies continued

### b) Basis of consolidation continued

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.

### 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.



## **1 Accounting policies continued**

### **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.

### **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.

# NOTES TO THE GROUP ACCOUNTS

Continued

## 1 Accounting policies continued

### 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 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.

## 1 Accounting policies continued

### 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.

### 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, Continental Europe, the Middle East and Asia.
- **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 11. Within this the Directors have outlined the key factors underlying the results for the year including the contribution from individual brands 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

	UK/Europe			North America			Rest of the World	Intra Group	Total
	Retail £m	Whole-sale £m	Total £m	Retail £m	Whole-sale £m	Total £m	Whole-sale £m	£m	£m
<b>Year ended 31 January 2013</b>									
Revenue (Note 4)	103.4	34.2	<b>137.6</b>	20.0	29.0	<b>49.0</b>	<b>10.7</b>		<b>197.3</b>
Gross profit (Note 4)	56.7	10.6	<b>67.3</b>	11.2	11.5	<b>22.7</b>	<b>2.0</b>	2.6	<b>94.6</b>
Gross margin	54.8%	31.0%	<b>48.9%</b>	56.0%	39.7%	<b>46.3%</b>	<b>18.7%</b>		<b>47.9%</b>
Trading overheads	(71.6)	(6.7)	<b>(78.3)</b>	(12.6)	(3.7)	<b>(16.3)</b>	<b>(1.5)</b>		<b>(96.1)</b>
Store disposals and closures	(1.1)		<b>(1.1)</b>	(0.2)		<b>(0.2)</b>			<b>(1.3)</b>
Operating contribution	(16.0)	3.9	<b>(12.1)</b>	(1.6)	7.8	<b>6.2</b>	<b>0.5</b>	2.6	<b>(2.8)</b>
Common overhead costs			<b>(4.3)</b>			<b>(3.2)</b>			<b>(7.5)</b>
Other income			<b>6.8</b>			<b>0.7</b>	<b>1.6</b>	(2.6)	<b>6.5</b>
Divisional operating (loss)/profit			<b>(9.6)</b>			<b>3.7</b>	<b>2.1</b>	-	<b>(3.8)</b>
Group management overheads									<b>(5.3)</b>
Operating loss before financing and goodwill impairment									<b>(9.1)</b>
<b>Represented by:</b>									
Loss from continuing operations									<b>(9.1)</b>
Loss from discontinued operations (Note 3)									-
									<b>(9.1)</b>
Total assets	31.2	48.8	<b>80.0</b>	7.7	12.8	<b>20.5</b>	<b>6.8</b>	-	<b>107.3</b>
Total liabilities	16.9	15.9	<b>32.8</b>	3.0	3.4	<b>6.4</b>	<b>4.6</b>	-	<b>43.8</b>
Non-current asset additions	1.1	0.2	<b>1.3</b>	0.4	-	<b>0.4</b>	-		<b>1.7</b>
Depreciation	1.3	0.8	<b>2.1</b>	0.5	-	<b>0.5</b>	-		<b>2.6</b>
Impairment losses	0.5	-	<b>0.5</b>	-	-	-	-		<b>0.5</b>

The share of the results of the joint venture operations of £0.4 million (2012: £0.8 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			Rest of the World	Intra Group	Total
	Retail £m	Whole- sale £m	Total £m	Retail £m	Whole- sale £m	Total £m	Whole- sale £m	£m	£m
<b>Year ended 31 January 2012</b>									
Revenue (Note 4)	111.5	42.1	<b>153.6</b>	22.3	24.3	<b>46.6</b>	<b>15.8</b>		<b>216.0</b>
Gross profit (Note 4)	62.5	13.8	<b>76.3</b>	13.3	9.3	<b>22.6</b>	<b>2.1</b>	2.8	<b>103.8</b>
Gross margin	56.1%	32.8%	<b>49.7%</b>	59.6%	38.3%	<b>48.5%</b>	<b>13.3%</b>		<b>48.1%</b>
Trading overheads	(70.9)	(7.2)	<b>(78.1)</b>	(13.7)	(3.6)	<b>(17.3)</b>	<b>(1.5)</b>		<b>(96.9)</b>
Store disposals and closures	0.7		<b>0.7</b>	(0.3)		<b>(0.3)</b>			<b>0.4</b>
Operating contribution	(7.7)	6.6	<b>(1.1)</b>	(0.7)	5.7	<b>5.0</b>	<b>0.6</b>	2.8	<b>7.3</b>
Common overhead costs			<b>(4.7)</b>			<b>(3.1)</b>			<b>(7.8)</b>
Other income			<b>7.4</b>			<b>2.0</b>	<b>1.9</b>	(2.8)	<b>8.5</b>
Divisional operating profit			<b>1.6</b>			<b>3.9</b>	<b>2.5</b>	–	<b>8.0</b>
Group management overheads									<b>(4.8)</b>
Operating profit before financing									<b>3.2</b>
<b>Represented by:</b>									
Profit from continuing operations									<b>3.3</b>
Profit from discontinued operations (Note 3)									<b>(0.1)</b>
									<b>3.2</b>
Total assets	41.8	56.0	<b>97.8</b>	8.6	9.7	<b>18.3</b>	<b>9.0</b>	–	<b>125.1</b>
Total liabilities	18.1	17.9	<b>36.0</b>	2.0	2.9	<b>4.9</b>	<b>9.1</b>	–	<b>50.0</b>
Non-current asset additions	1.0	0.4	<b>1.4</b>	0.1	–	<b>0.1</b>	<b>0.1</b>		<b>1.6</b>
Depreciation	1.4	0.8	<b>2.2</b>	0.6	–	<b>0.6</b>	–		<b>2.8</b>

The divisional table for the year ended 31 January 2012 has been amended for changes to the intercompany charges, none of which impact upon the Group's pre-tax results.

# NOTES TO THE GROUP ACCOUNTS

Continued

## 2 Operating segments continued

### b) Revenue from external customers

	2013 £m	2012 £m
UK	121.5	133.9
US	37.5	34.2
Canada	11.7	12.7
Other	26.6	35.2
	<b>197.3</b>	<b>216.0</b>

### c) Non-current assets

	2013 £m	2012 £m
UK	9.4	12.9
US	0.6	0.3
Canada	0.1	0.4
Hong Kong	0.8	1.4
China	2.0	1.8
Other	0.6	0.6
	<b>13.5</b>	<b>17.4</b>

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

## 3 Discontinued operations

There were no discontinued operations in the current financial year.

In the year ended 31 January 2012 a profit of £0.8 million arose from discontinued operations as a result of the disposal of the Nicole Farhi business in 2010 as follows:

The Group received a payment of £0.6 million from OpenGate Capital ("OpenGate") relating to the release of the Group's charge over certain intellectual property rights. Then, in January 2012, following an onward disposal of the Nicole Farhi business, the Group recorded the final deferred consideration amount of £0.4 million from OpenGate. This amount was received in October 2012.

The total income arising in relation to the disposal of the Nicole Farhi business in the year ended 31 January 2012 was therefore £1.0 million. In addition, the Group incurred trading and disposal losses of £(0.2) million in relation to the sale of the final two stores formerly operated by the Nicole Farhi business.

	2013 £m	2012 £m
<b>Results of discontinued operations</b>		
Revenue	–	0.6
Expenses	–	(0.7)
<b>Results from operating activities before taxation</b>	–	(0.1)
Income tax	–	–
<b>Results from operating activities, net of tax</b>	–	(0.1)
Profit on sale of discontinued operation	–	0.9
<b>Effect on (loss)/profit for the period</b>	–	0.8
<b>Cash flows from discontinued operations</b>		
Net cash utilised in operating activities	–	(0.3)
Net cash from investing activities	0.4	1.3
<b>Net cash from discontinued operations</b>	0.4	1.0

### 3 Discontinued operations continued

	31 January 2013 £m	31 January 2012 £m
<b>Effect of disposal of the Nicole Farhi business on the financial position of the Group</b>		
Inventories	–	(0.3)
<b>Net assets and liabilities</b>	<b>–</b>	<b>(0.3)</b>
Cash consideration net of costs of disposal	–	1.2
<b>Profit on sale of discontinued operation</b>	<b>–</b>	<b>0.9</b>

### 4 Revenue and gross profit

	Continuing operations		Discontinued operations		Consolidated operations	
	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
<b>Sale of goods</b>						
Revenue	197.3	215.4	–	0.6	197.3	216.0
Gross profit	94.6	103.6	–	0.2	94.6	103.8

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

### 5 Operating expenses

	2013 £m	2012 £m
Selling and distribution costs	98.2	99.0
Administration costs	10.7	10.2
	<b>108.9</b>	<b>109.2</b>

Included within discontinued operations (refer to Note 3) are £nil (2012: £0.3 million) of operating expenses.

### 6 Other operating income

	2013 £m	2012 £m
Licensing income and buying office commission	6.5	8.5

### 7 Staff numbers and costs

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

	2013 Number	2012 Number
Selling, distribution and retail	2,097	2,214
Design, development and production management	209	215
Administration	138	129
	<b>2,444</b>	<b>2,558</b>

The aggregate payroll costs of these people were as follows:

	2013 £m	2012 £m
Wages and salaries	37.6	38.9
Social security costs	3.0	3.3
Defined contribution pension costs	0.5	0.4
	<b>41.1</b>	<b>42.6</b>

Included within the total staff cost above is the remuneration of the Directors totalling £1.1 million (2012: £1.3 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.

# NOTES TO THE GROUP ACCOUNTS

Continued

## 8 Finance income and expense

Recognised in the income statement	2013 £m	2012 £m
Finance income		
Interest receivable on bank balances	0.1	0.3
Currency translation differences	0.1	0.6
Finance expense		
Interest payable on bank loans and overdrafts	–	–
	<b>0.2</b>	<b>0.9</b>

Included within currency translation differences are £nil (2012: £0.8 million) of currency translation differences recycled from reserves to the income statement.

## 9 (Loss)/profit before taxation

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

	2013 £m	2012 £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	0.1	0.2
tax and other assurance services	0.2	0.3
Depreciation and impairment of owned assets	3.1	2.8
Loss/(profit) on sale of items of property, plant and equipment	0.2	(0.4)
Store closure provisions	1.1	–
Impairment of goodwill	2.0	–
Operating lease rentals		
Plant and machinery	0.3	0.2
Leasehold properties	28.4	28.1
Rent receivable	(1.4)	(1.5)

The auditor's remuneration in respect of the audit of the Company was £40,000 (2012: £40,000).

During the year, the fees payable to the auditors and their associates for non-audit services was £182,000 (2012: £284,000) in respect of tax compliance and advisory services (£162,000 (2012: £268,000)), royalty and turnover reviews (£14,000 (2012: £16,000)) and other services (£6,000 (2012: £nil)).

## 10 Income tax expense

### a) Recognised in the income statement

	2013 £m	2012 £m
Current tax		
UK corporation tax	–	–
Overseas tax	0.5	0.9
Adjustment in respect of previous periods	(0.5)	(0.4)
<b>Total current tax</b>	<b>–</b>	<b>0.5</b>
Deferred tax – origination and reversal of		
UK temporary differences	(0.2)	(0.2)
Effect of change in tax rates	0.2	0.2
<b>Total deferred tax</b>	<b>–</b>	<b>–</b>
<b>Tax on (loss)/profit (Note 10b)</b>	<b>–</b>	<b>0.5</b>



## 10 Income tax expense continued

### b) Factors affecting tax charge for year

The tax charged for the year is different to the standard 24% (2012: 26%) rate of corporation tax in the UK. The differences are explained below:

	2013 £m	2012 £m
(Loss)/profit before taxation	<b>(10.5)</b>	5.8
(Loss)/profit multiplied by the standard rate of corporation tax in the UK of 24% (2012: 26%)	<b>(2.5)</b>	1.5
Effects of:		
Expenses not deductible	<b>0.3</b>	0.3
Impairment of goodwill	<b>0.4</b>	–
Disposal of discontinued operations	–	(0.2)
Losses for which no deferred tax asset has been recognised	<b>1.8</b>	(1.0)
Current year temporary differences and deferred capital allowances for which deferred tax has not been recognised	<b>0.5</b>	0.7
Difference in effective tax rates on overseas earnings	<b>(0.1)</b>	(0.4)
Adjustments to tax charge in respect of previous periods	<b>(0.5)</b>	(0.4)
Share of joint venture tax charge which has been netted off within share of profit of joint ventures	<b>(0.1)</b>	(0.2)
Deferred tax charge relating to reduction in UK tax (25% to 23% effective from 1 April 2013)	<b>0.2</b>	0.2
<b>Total tax charge for the year (Note 10a)</b>	<b>–</b>	0.5

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

### c) Income tax recognised in other comprehensive income

	Before tax 2013 £m	Tax credit 2013 £m	Net of tax 2013 £m	Before tax 2012 £m	Tax credit 2012 £m	Net of tax 2012 £m
Currency translation differences on foreign currency net investments	<b>(0.2)</b>	–	<b>(0.2)</b>	0.3	–	0.3
Currency translation differences on foreign currency loans	<b>0.1</b>	–	<b>0.1</b>	(0.2)	–	(0.2)
Currency translation differences transferred to profit and loss	–	–	–	(0.8)	0.3	(0.5)
Effective portion of changes in fair value of cash flow hedges	–	–	–	0.1	–	0.1
	<b>(0.1)</b>	–	<b>(0.1)</b>	(0.6)	0.3	(0.3)

## 11 Dividends – equity

	2013 £m	Pence per share	2012 £m	Pence per share
Final paid for prior financial year	<b>1.0</b>	<b>1.0p</b>	1.0	1.0p
Interim paid for current financial year	–	–	0.6	0.6p
<b>Total dividends paid during the year</b>	<b>1.0</b>	<b>1.0p</b>	1.6	1.6p

The Board is proposing that no dividend should be paid for the year. No dividends were paid during the year to the minority shareholders of a subsidiary undertaking of the Group (2012: £0.1 million).

# NOTES TO THE GROUP ACCOUNTS

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## 12 (Losses)/earnings per share

Basic (losses)/earnings per share are calculated on 95,899,754 (2012: 95,884,740) shares being the weighted average number of ordinary shares during the year.

Diluted (losses)/earnings per share are calculated on 95,983,319 shares being the weighted average number of ordinary shares adjusted to assume the exercise of dilutive options (2012: 96,632,850).

Basic and diluted (losses)/earnings per share of (10.7) pence per share (2012: earnings of 5.5 pence) is based on losses of £(10.3) million (2012: profits of £5.3 million) attributable to equity shareholders.

On continuing operations the basic (losses)/earnings per share of (10.7) pence per share (2012: earnings of 4.7 pence) is based on £(10.3) million (2012: £4.5 million) being the (loss)/profit relating to continuing operations.

On discontinuing operations the basic earnings per share of nil pence per share (2012: 0.8 pence) is based on £nil (2012: £0.8 million) being the profit relating to discontinued operations.

The reconciliation to adjusted earnings per share is as follows:

	2013 £m	2013 Pence per share	2012 Continuing £m	2012 Continuing pence per share
(Loss)/profit attributable to equity shareholders	(10.3)	(10.7)p	4.5	4.7p
Net loss/(gain) on store disposals and closures	1.3	1.3p	(0.4)	(0.4)p
Impairment of goodwill	2.0	2.1p	–	–
<b>Adjusted (loss)/profit</b>	<b>(7.0)</b>	<b>(7.3)p</b>	4.1	4.3p

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 2013 £m
Cost	
<b>At 1 February 2012 and 31 January 2013</b>	<b>14.3</b>
Impairment	
At 1 February 2012	(11.9)
During the year	(2.0)
<b>At 31 January 2013</b>	<b>(13.9)</b>
<b>Net book value at 31 January 2013</b>	<b>0.4</b>
Net book value at 31 January 2012	2.4

As a result of the downturn in retail trade, goodwill of £2.0 million (2012: £nil) relating to the acquisition of retail franchise operations in the UK has been impaired during the year.

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% (2012: 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% (2012: 2%) has been used based on industry growth rates. As discussed in Our Business on pages 4 to 6, 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 giving 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.

## 14 Property, plant and equipment

2013	Short leasehold property £m	Plant equipment fixtures and fittings £m	Total £m
Cost			
At 1 February 2012	10.6	64.0	74.6
Currency movements	–	(0.2)	(0.2)
Additions	0.3	1.4	1.7
Disposals	(0.5)	(3.2)	(3.7)
<b>At 31 January 2013</b>	<b>10.4</b>	<b>62.0</b>	<b>72.4</b>
Depreciation			
At 1 February 2012	10.0	57.5	67.5
Currency movements	–	(0.2)	(0.2)
Impairment	–	0.5	0.5
Charge for year	0.1	2.5	2.6
Disposals	(0.5)	(3.2)	(3.7)
<b>At 31 January 2013</b>	<b>9.6</b>	<b>57.1</b>	<b>66.7</b>
Net book value			
<b>At 31 January 2013</b>	<b>0.8</b>	<b>4.9</b>	<b>5.7</b>
At 31 January 2012	0.6	6.5	7.1

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 £0.5 million (2012: £nil) 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 £nil (2012: £0.3 million) was disposed of during the year. Net costs incurred on disposal were £0.2 million (2012: proceeds of £0.7 million) resulting in a loss on disposal of £(0.2) million (2012: profit of £0.4 million).

The Group has £53.9 million (2012: £48.7 million) of gross assets with a £nil net book value.

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)
<b>At 31 January 2012</b>	<b>10.6</b>	<b>64.0</b>	<b>74.6</b>
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)
<b>At 31 January 2012</b>	<b>10.0</b>	<b>57.5</b>	<b>67.5</b>
Net book value			
<b>At 31 January 2012</b>	<b>0.6</b>	<b>6.5</b>	<b>7.1</b>
At 31 January 2011	0.5	8.0	8.5

# NOTES TO THE GROUP ACCOUNTS

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## 15 Investments

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

	2013 £m	2012 £m
Share of current assets	4.8	4.8
Share of non-current assets	0.5	0.3
Share of current liabilities	(2.3)	(1.6)
	<b>3.0</b>	3.5
Share of revenue	6.9	6.7
Share of expense	(6.4)	(5.7)
Share of income tax expense	(0.1)	(0.2)
	<b>0.4</b>	0.8

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

## 16 Inventories

	2013 £m	2012 £m
Raw materials and consumables	0.4	0.7
Work in progress	0.5	0.9
Finished goods	40.6	45.3
	<b>41.5</b>	46.9

During the year, inventory write-downs of £6.8 million (2012: £6.0 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

	2013 £m	2012 £m
Trade receivables	10.9	11.1
Other receivables	4.7	5.1
Prepayments and accrued income	8.1	10.3
	<b>23.7</b>	26.5

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 £0.3 million (2012: £0.6 million). During the year, £0.3 million (2012: £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

	2013 £m	2012 £m
Cash and cash equivalents in the balance sheet and cash flow	<b>28.5</b>	34.2

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

	2013 £m	2012 £m
Trade payables	19.7	23.8
Bills of exchange payable	1.9	2.6
Other taxation and social security	3.8	4.5
Accruals and deferred income	15.8	17.1
	<b>41.2</b>	<b>48.0</b>

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

## 20 Provisions

Store closures	2013 £m	2012 £m
Balance at 1 February	0.6	1.5
Increase during the year	1.1	–
Utilised during the year	–	(0.9)
<b>Balance at 31 January</b>	<b>1.7</b>	<b>0.6</b>

Provisions are recorded to reflect the estimated committed closure costs of identified underperforming UK retail stores. The associated costs are forecast to be incurred over a period of two years.

## 21 Current tax payable

	2013 £m	2012 £m
Overseas tax	–	0.5

## 22 Deferred tax

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	2013 £m	2012 £m	2013 £m	2012 £m
Property, plant and equipment	3.1	3.1	–	–
Deferred rent	0.3	0.3	–	–
Provisions	0.3	0.3	–	–
Deferred capital gains	–	–	0.9	0.9
Trading losses	0.7	0.7	–	–
	<b>4.4</b>	<b>4.4</b>	<b>0.9</b>	<b>0.9</b>

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.

	2013 £m	2012 £m
Trading losses	13.7	13.2
Property, plant and equipment	1.6	1.3
Capital losses	1.8	1.7
Other temporary differences	0.4	0.5
	<b>17.5</b>	<b>16.7</b>

# NOTES TO THE GROUP ACCOUNTS

Continued

## 23 Share capital

Ordinary shares of 1 pence each	2013 Number	2013 £m	2012 Number	2012 £m
Allotted, called up and fully paid shares at the beginning of the year	95,899,754	1.0	95,879,754	1.0
Shares issued during the year in respect of share options	–	–	20,000	–
<b>Allotted, called up and fully paid shares at the end of the year</b>	<b>95,899,754</b>	<b>1.0</b>	<b>95,899,754</b>	<b>1.0</b>

At 31 January 2013, 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
29 October 2008 (vested 29 October 2011)	2,436,500	56.20p	10 years
27 April 2011	50,000	102.30p	10 years
1 November 2012	400,000	24.50p	10 years

Share options granted are subject to detailed performance conditions. The performance conditions for the outstanding option grants are 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 2013	Weighted average exercise price	Number of options 2012
Outstanding at the beginning of the period	79.97p	3,214,387	79.04p	3,596,555
Forfeited during the period	97.60p	(128,442)	75.68p	(412,168)
Lapsed during the period	170.95p	(599,445)	–	–
Exercised during the period	–	–	56.20p	(20,000)
Granted during the period	24.50p	400,000	102.30p	50,000
<b>Outstanding at the end of the period</b>	<b>52.61p</b>	<b>2,886,500</b>	<b>79.97p</b>	<b>3,214,387</b>

The number of share options exercisable at the year end is 2,436,500 (2012: 3,164,387).

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 (decrease)/increase in cash to movement in net funds

	2013 £m	2012 £m
Change in net funds from cash flows	(5.7)	0.2
Translation differences	–	(0.1)
Movement in net funds	(5.7)	0.1
Net funds at beginning of year	34.2	34.1
<b>Net funds at end of year</b>	<b>28.5</b>	<b>34.2</b>

## 25 Analysis of net funds

	1 February 2012 £m	Cash flow £m	Non cash changes £m	31 January 2013 £m
Cash and cash equivalents in the balance sheet and cash flow	34.2	(5.7)	–	28.5
<b>Net funds</b>	<b>34.2</b>	<b>(5.7)</b>	<b>–</b>	<b>28.5</b>

## 26 Commitments

Aggregate future rental commitments payable under non-cancellable operating leases at 31 January 2013 for which no provision has been made in these accounts, were as follows:

	Leasehold property		Other	
	2013 £m	2012 £m	2013 £m	2012 £m
Operating leases which expire:				
Within one year	4.1	5.8	–	–
Within two to five years	25.1	28.4	0.4	0.6
After five years	165.1	183.0	–	–
	<b>194.3</b>	<b>217.2</b>	<b>0.4</b>	<b>0.6</b>

Aggregate future rentals receivable under non-cancellable operating leases at 31 January 2013 for which no accrual has been made in these accounts were as follows:

	Leasehold property	
	2013 £m	2012 £m
Operating leases which expire:		
Within two to five years	3.1	4.3
After five years	0.6	–
	<b>3.7</b>	<b>4.3</b>

At 31 January 2013 the Group had contracted capital commitments not provided for in the accounts of £0.3 million (2012: £0.1 million).

At 31 January 2013 the Group had commitments on foreign exchange contracts amounting to £4.5 million (2012: £1.0 million). In addition, the Group had commitments in respect of letters of credit of £1.1 million (2012: £0.8 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 (2012: £0.4 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

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## 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	
	2013 £m	2012 £m
Trade and other receivables	15.6	16.2
Cash and cash equivalents	28.5	34.2
	<b>44.1</b>	50.4

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

	Carrying amount	
	2013 £m	2012 £m
United Kingdom and Europe	8.0	9.4
North America	3.9	3.1
Hong Kong	3.7	3.7
	<b>15.6</b>	16.2

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

	2013 £m	2012 £m
Wholesale customers	10.9	11.1

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

	Gross 2013 £m	Impairment 2013 £m	Gross 2012 £m	Impairment 2012 £m
Current	9.7	–	9.9	–
30 days	0.6	–	0.8	–
60 days	0.2	–	0.3	–
More than 60 days	0.7	(0.3)	0.7	(0.6)
	<b>11.2</b>	<b>(0.3)</b>	11.7	(0.6)

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.

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

	2013 £m	2012 £m
At 1 February	0.6	0.4
Movement during year	(0.3)	0.2
<b>At 31 January</b>	<b>0.3</b>	0.6



## 28 Financial instruments continued

### Interest rate profile of financial assets

The interest rate profile of the financial assets of the Group at 31 January 2013 was as follows:

	Financial assets on which no interest is received		Floating rate financial assets		Total	
	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
Sterling	0.2	0.2	15.3	22.7	15.5	22.9
US Dollar	-	-	7.5	4.4	7.5	4.4
Hong Kong Dollar	-	-	2.9	3.2	2.9	3.2
Other	-	-	2.6	3.7	2.6	3.7
<b>Total</b>	<b>0.2</b>	<b>0.2</b>	<b>28.3</b>	<b>34.0</b>	<b>28.5</b>	<b>34.2</b>

Financial assets comprise cash and short term deposits. The effective interest rate on floating rate financial assets during the year was 1.3% (2012: 1.6%).

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 2013							
Net foreign currency monetary assets/(liabilities)	Sterling £m	US Dollar £m	Canadian Dollar £m	Hong Kong Dollar £m	Euro £m	Other £m	Total £m
Trade and other receivables	2.2	0.3	-	-	0.9	0.1	3.5
Cash and overdraft	0.4	4.9	-	1.1	1.7	0.1	8.2
Trade and other payables	(1.2)	(1.5)	-	-	(2.3)	-	(5.0)
Intercompany balances	(0.1)	2.9	9.7	(9.6)	9.0	-	11.9
<b>Total</b>	<b>1.3</b>	<b>6.6</b>	<b>9.7</b>	<b>(8.5)</b>	<b>9.3</b>	<b>0.2</b>	<b>18.6</b>

At 31 January 2012							
Net foreign currency monetary assets/(liabilities)	Sterling £m	US Dollar £m	Canadian Dollar £m	Hong Kong Dollar £m	Euro £m	Other £m	Total £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
<b>Total</b>	<b>(0.4)</b>	<b>0.8</b>	<b>9.3</b>	<b>(9.1)</b>	<b>8.9</b>	<b>0.1</b>	<b>9.6</b>

Forward foreign exchange contracts have not been taken into consideration above. As at 31 January 2013, the Group has committed forward foreign exchange contracts of £4.5 million (2012: £1.0 million).

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2013	2012	2013	2012
US Dollar	1.589	1.602	1.586	1.578
Canadian Dollar	1.587	1.579	1.584	1.583
Hong Kong Dollar	12.321	12.469	12.296	12.237
Euro	1.232	1.155	1.168	1.206

# NOTES TO THE GROUP ACCOUNTS

Continued

## 28 Financial instruments continued

### 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 2013 £m	Profit and loss 2013 £m	Equity 2012 £m	Profit and loss 2012 £m
US Dollar	–	(0.6)	–	(0.1)
Canadian Dollar	(0.6)	(0.4)	(0.6)	(0.3)
Hong Kong Dollar	–	0.8	–	0.9
Euro	(0.4)	(0.6)	(0.4)	(0.5)
	(1.0)	(0.8)	(1.0)	–

### Borrowing facilities

Working capital and letter of credit facilities of £3.3 million were available to the Group at 31 January 2013 (31 January 2012: £3.3 million). The facilities are subject to an annual review and were most recently renewed in July 2012.

### Fair values

The fair value of the Group's financial instruments at 31 January 2013 were as follows:

	31 January 2013		31 January 2012	
	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	28.5	28.5	34.2	34.2
Trade receivables	10.9	10.9	11.1	11.1
Trade payables	(19.7)	(19.7)	(23.8)	(23.8)
Derivative financial instruments	0.1	0.1	0.1	0.1

The fair value of forward exchange contracts outstanding as at 31 January 2013 is an asset of £0.1 million (2012: £0.1 million). £nil has been credited to the hedging reserve (2012: £0.1 million).

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.

### 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 41.8 percent of ordinary shares. Share options have been issued amounting to just over three percent of the issued share capital.

The Company does not have permission from shareholders to purchase its own shares.

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 £1.7 million (2012: £2.4 million) to FCUK IT Company and £1.1 million (2012: £1.3 million) to FCIT China Limited during the year, both of which are joint ventures. The closing liabilities due from the respective joint ventures are £0.4 million (2012: £0.7 million) and £0.4 million (2012: £0.6 million).

In the prior year 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 2013, Stephen Marks, Chairman and Chief Executive had an interest in 40,094,190 ordinary shares (2012: 40,094,190) of which 2,281,500 shares (2012: 2,281,500) were held by family members or in family trusts, representing in aggregate 41.8% (2012: 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 £0.5 million (2012: £0.4 million). At 31 January 2013 and 31 January 2012 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 judgement 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

Continued

## 32 Principal subsidiary undertakings

Details of the principal subsidiary undertakings at 31 January 2013 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 2013

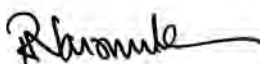
	Note	2013 £m	2012 £m
<b>Fixed assets</b>			
Tangible assets	3	0.6	0.5
Investments	4	25.7	25.7
		<b>26.3</b>	26.2
<b>Current assets</b>			
Debtors	5	40.5	41.3
Cash at bank and in hand		–	–
Derivative financial instruments		0.1	0.1
		<b>40.6</b>	41.4
<b>Current liabilities</b>			
Creditors	6	(1.5)	(2.0)
		<b>(1.5)</b>	(2.0)
<b>Net current assets</b>		<b>39.1</b>	39.4
<b>Total assets less current liabilities</b>		<b>65.4</b>	65.6
Deferred tax liability	7	(0.7)	(0.7)
<b>Net assets</b>		<b>64.7</b>	64.9
<b>Capital and reserves</b>			
Called-up share capital	8	1.0	1.0
Share premium account	8	9.4	9.4
Profit and loss account	8	54.2	54.4
Other reserves	8	0.1	0.1
<b>Equity shareholders' funds</b>		<b>64.7</b>	64.9

The notes on pages 52 to 56 form part of these accounts.

These accounts were approved by the Board of Directors on 12 March 2013 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 51 to 56.

### 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.

## **1 Accounting policies continued**

### **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.

### **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.

# NOTES TO THE COMPANY ACCOUNTS

Continued

## 3 Property, plant and equipment

	Plant equipment fixtures and fittings £m	Total £m
Cost or valuation		
At 1 February 2012	3.3	3.3
Additions	0.2	0.2
Disposals	(0.3)	(0.3)
<b>At 31 January 2013</b>	<b>3.2</b>	<b>3.2</b>
Depreciation		
At 1 February 2012	2.8	2.8
Charge for year	0.1	0.1
Disposals	(0.3)	(0.3)
<b>At 31 January 2013</b>	<b>2.6</b>	<b>2.6</b>
Net book value		
<b>At 31 January 2013</b>	<b>0.6</b>	<b>0.6</b>
At 31 January 2012	0.5	0.5

## 4 Investments

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

	Total £m
Cost	
<b>At 1 February 2012 and 31 January 2013</b>	<b>70.8</b>
Provision	
<b>At 1 February 2012 and 31 January 2013</b>	<b>(45.1)</b>
Carrying amount	
<b>At 31 January 2013 and 31 January 2012</b>	<b>25.7</b>

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 £nil (2012: £16.4 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

	2013 £m	2012 £m
Amounts owed by subsidiary undertakings	39.8	40.3
Deferred tax (Note 7)	0.3	0.3
Other debtors	0.1	0.1
Prepayments and accrued income	0.3	0.6
	40.5	41.3

Included within debtors are amounts due within one year of £0.4 million (2012: £0.7 million).

## 6 Creditors: amounts falling due within one year

	2013 £m	2012 £m
Trade creditors	0.4	0.5
Accruals and deferred income	1.1	1.5
	1.5	2.0

## 7 Deferred tax

Deferred tax asset (Note 5)	2013 £m	2012 £m
Deferred capital allowances	0.3	0.3
	0.3	0.3
Deferred tax liability	2013 £m	2012 £m
Deferred capital gains	0.7	0.7
	0.7	0.7

Any 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 2012	0.1	9.4	54.4
Profit for the financial year	–	–	0.8
Dividends paid during the year	–	–	(1.0)
	0.1	9.4	54.2
<b>At 31 January 2013</b>	<b>0.1</b>	<b>9.4</b>	<b>54.2</b>

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

The profit/(loss) before taxation dealt with in the accounts of the Company was £0.8 million (2012: £(14.7) million).

# NOTES TO THE COMPANY ACCOUNTS

Continued

## 9 Reconciliation of movements in equity shareholders' funds

	2013 £m	2012 £m
Profit/(loss) for the financial year	0.8	(14.7)
Dividends paid during the year	(1.0)	(1.6)
Dividends received during the year from subsidiaries	–	20.4
Effective portion of changes in fair value of cash flow hedges	–	0.1
Net movement in equity shareholders' funds	(0.2)	4.2
Opening equity shareholders' funds	64.9	60.7
<b>Closing equity shareholders' funds</b>	<b>64.7</b>	<b>64.9</b>

## 10 Commitments

	Leasehold property		Other	
	2013 £m	2012 £m	2013 £m	2012 £m
Operating leases which expire:				
Within two to five years	–	–	0.2	0.2
After five years	0.8	0.8	–	–
	<b>0.8</b>	<b>0.8</b>	<b>0.2</b>	<b>0.2</b>

At 31 January 2013 the Company had commitments on foreign exchange contracts amounting to £4.5 million (2012: £1.0 million). The fair value of forward exchange contracts outstanding as at 31 January 2013 is an asset of £0.1 million (2012: £0.1 million). £nil has been credited to the hedging reserve (2012: £0.1 million).

## 11 Contingent liabilities

The Company raises finance for and guarantees the bank borrowings of certain subsidiary undertakings which, at 31 January 2013, amounted to £nil (2012: £nil).

## 12 Related party disclosures

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

At 31 January 2013, Stephen Marks, Chairman and Chief Executive had an interest in 40,094,190 ordinary shares (2012: 40,094,190) of which 2,281,500 shares (2012: 2,281,500) were held by family members or in family trusts, representing in aggregate 41.8% (2012: 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	2009 £	2010 £	2011 £	2012 £	2013 £
Revenue	248.0m	249.2m	223.8m	216.0m	<b>197.3m</b>
Profit/(loss) before taxation	(11.8)m	(9.0)m	8.9m	5.0m	<b>(10.5)m</b>
Discontinued operations	(5.6)m	(15.7)m	(11.1)m	0.8m	–
Basic earnings/(losses) per share	(17.3)p	(26.0)p	(2.4)p	5.5p	<b>(10.7)p</b>
Adjusted earnings/(losses) per share	0.9p	0.5p	7.5p	4.3p	<b>(7.3)p</b>
Dividends per share	1.7p	0.5p	1.5p	1.6p	–
Net assets	100.9m	72.3m	71.8m	75.1m	<b>63.5m</b>
Operated retail trading space 000 sq ft	490	458	337	330	<b>325</b>

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 to exclude 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 losses on disposal.

## RETAIL LOCATIONS

	31 January 2013		31 January 2012	
	Locations	sq ft	Locations	sq ft
<b>Operated locations</b>				
<b>UK/Europe</b>				
French Connection Stores	74	218,115	71	214,468
French Connection/Great Plains Concessions	54	36,134	46	32,550
Toast Stores	11	11,407	9	10,578
YMC Stores	2	1,355	2	1,355
	<b>141</b>	<b>267,011</b>	128	258,951
<b>North America</b>				
French Connection US Stores	8	33,900	8	37,227
French Connection Canada Stores	9	24,325	12	33,935
	<b>17</b>	<b>58,225</b>	20	71,162
<b>Total operated locations</b>	<b>158</b>	<b>325,236</b>	148	330,113
<b>French Connection licensed and franchised</b>				
UK/Europe	10	14,821	11	15,791
North America	1	2,000	1	2,000
Middle East	13	23,842	12	21,797
Australia	92	96,329	85	91,919
Hong Kong	6	7,031	7	9,521
China	21	31,556	18	25,383
India	89	56,129	32	27,645
Other	51	45,240	41	41,416
<b>Total licensed and franchised locations</b>	<b>283</b>	<b>276,948</b>	207	235,472
<b>Total branded locations</b>	<b>441</b>	<b>602,184</b>	355	565,585

# NOTICE OF MEETING

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to the action you should take, you are recommended to seek your own personal advice from your stockbroker, accountant or other independent professional adviser authorised under the Financial Services and Markets Act 2000. If you have sold or otherwise transferred all of your ordinary shares in French Connection Group PLC, you should forward this document and other documents enclosed (except the personalised form of proxy) as soon as possible to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

**Notice is hereby given** that the Annual General Meeting of the Company will be held at 10.00 am on 15 May 2013 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 2013.
- 2 To approve the Directors' Remuneration Report for the financial year ended 31 January 2013.
- 3 To re-elect Roy Naismith as a Director of the Company. Mr Naismith is required to retire from the office of Director by rotation in accordance with the provisions of the Articles of Association of the Company.
- 4 To re-elect Dean Murray as a Director of the Company. Mr Murray is required to retire from the office of non-executive 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 £288,000 (being 30% of the issued share capital) 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 resolutions 7 and 8 below as Special Resolutions 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

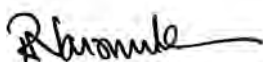
(ii) the allotment (otherwise than under sub-paragraph (i) above) of equity securities or sale of treasury shares up to an aggregate nominal value equal to £47,950 (representing 5% of the issued share capital for the time being); and

(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.

### 8 THAT:

the Articles of Association produced to the meeting and initialled by the Chairman of the meeting for the purpose of identification be adopted as the Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association.

By order of the Board



## Roy Naismith

Company Secretary  
20-22 Bedford Row  
London WC1R 4JS

12 March 2013

# NOTICE OF MEETING

## Explanatory notes to the AGM Notice

### 1. Inspection of documents

Copies of the Directors' service contracts and letters of appointment and the proposed new articles of association (as well as the current articles of association marked to show the changes being proposed in the new articles of association) 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.

### 2. Explanatory notes regarding resolution 8

It is proposed in resolution 8 to adopt new articles of association (the "New Articles") in order to update the Company's current articles of association (the "Current Articles") primarily to take account of changes in English company law brought about by the Companies Act 2006. The principal changes introduced in the New Articles are summarised in the Notes below. Other changes, which are of a minor, technical or clarifying nature and also some more minor changes which merely reflect changes made by the Companies Act 2006 have not been noted. The New Articles (and Current Articles marked to show the changes being proposed in the New Articles) are available for inspection, as noted above.

### 3. Resolution 8: Principal changes to the Company's Articles of Association

#### i Articles which duplicate statutory provisions

Provisions in the Current Articles which replicate provisions contained in the Companies Act 2006 are in the main amended to bring them into line with the Companies Act 2006. Certain examples of such provisions include provisions as to the form of resolutions, the variation of class rights, the requirement to keep accounting records and provisions regarding the period of notice required to convene general meetings. The main changes made to reflect this approach are detailed below.

#### ii Authorised share capital

The Companies Act 2006 abolished the concept of authorised share capital. The Current Articles contains a statement of the Company's authorised share capital. The reference to authorised share capital has been removed from the New Articles. This means that there is no prescribed maximum number of shares which the Company may issue. Notwithstanding this amendment, however, the Directors will still be required to be authorised by shareholders under Section 551 of the Companies Act 2006 in order to allot shares in the Company or grant rights to subscribe for or to convert securities into shares of the Company.

#### iii Change of name

The Companies Act 2006 provides that a company may change its name by any means permitted by its articles of association. The New Articles enable the Company to change its name by resolution of the Board of Directors.

#### iv Form of resolution

The Current Articles contain a provision that, where for any purpose an ordinary resolution is required, a special or extraordinary resolution is also effective and that, where an extraordinary resolution is required, a special resolution is also effective. This provision is being removed as the concept of extraordinary resolutions has not been retained under the Companies Act 2006. Further, the remainder of the provision is reflected in full in the Companies Act 2006. The Current Articles enable members to act by written resolution. Under the Companies Act 2006, public companies can no longer pass written resolutions. These provisions have therefore been removed in the New Articles.

#### v Variation of class rights

The Current Articles contain provisions regarding the variation of class rights. The proceedings and specific quorum requirements for a meeting convened to vary class rights are contained in the Companies Act 2006. The relevant provisions have therefore been amended in the New Articles.

#### vi Uncertificated shares

The Current Articles do not contain any provisions explicitly dealing with shares held in uncertificated, paperless form (for example, in CREST). The New Articles have been amended to ensure compliance with the requirements of the UK Listing Authority's Listing Rules relating to electronic settlement, as well as the Uncertificated Securities Regulations 2001 and the Companies Act 2006 (Consequential Amendments) (Uncertificated Securities) Order 2009. The New Articles contain specific provisions relating to, amongst other things, transfers of uncertificated shares and payment of dividends on uncertificated shares.

#### vii Convening extraordinary and annual general meetings

The provisions in the Current Articles dealing with the convening of general meetings and the length of notice required to convene general meetings are being amended to conform to new provisions in the Companies Act 2006. In particular an extraordinary general meeting to consider a special resolution can be convened on 14 days' notice whereas previously 21 days' notice was required.

### viii Votes of members

Under the Companies Act 2006 proxies are entitled to vote on a show of hands whereas under the Current Articles proxies are only entitled to vote on a poll. The time limits for the appointment or termination of a proxy appointment have been altered by the Companies Act 2006 so that the articles cannot provide that they should be received more than 48 hours before the meeting or in the case of a poll taken more than 48 hours after the meeting, more than 24 hours before the time for the taking of a poll, with weekends and bank holidays being permitted to be excluded for this purpose. Multiple proxies may be appointed provided that each proxy is appointed to exercise the rights attached to a different share held by the shareholder. Multiple corporate representatives may be appointed (but if they purport to exercise their rights in different ways, then the power is treated as not being exercised). The New Articles reflect all of these new provisions.

Under the Current Articles, the chairman has a casting vote at general meetings of the Company. Under the Companies Act 2006, the chairman of a traded company is not entitled to a casting vote at a general meeting and, accordingly, this power has been removed from the New Articles.

### ix Number of Directors

Under the Current Articles, the maximum number of Directors is 20. This has been reduced to 15 Directors under the New Articles.

### x Age of Directors on appointment

The Current Articles contain a provision requiring a Director's age to be disclosed if he has attained the age of 70 years or more in the notice convening a meeting at which the Director is proposed to be elected or re-elected. Such provision could now fall foul of the Employment Rights Act 1996 and the Equality Act 2010 so has been removed from the New Articles.

### xi Directors' fees

Under the Current Articles (which were adopted in 1996), the maximum aggregate level of Directors' fees is £150,000 per annum. It is proposed to increase this level to £300,000 per annum in the New Articles.

### xii Conflicts of interest

The Companies Act 2006 set out Directors' general duties which largely codified the existing law but with some changes. Under the Companies Act, from 1 October 2008 a Director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the company's interests. The requirement is very broad and could apply, for example, if a Director becomes a Director of another company or a trustee of another organisation. The Companies Act 2006 allows Directors of public companies to authorise conflicts and potential conflicts, where appropriate, where the articles of association contain a provision to this effect. The Companies Act 2006 also allows the articles of association to contain other provisions for dealing with Directors' conflicts of interest to avoid a breach of duty. The New Articles give the Directors authority to approve such situations and to include other provisions to allow conflicts of interest to be dealt with in a similar way to the current position.

There are safeguards which will apply when Directors decide whether to authorise a conflict or potential conflict. First, only Directors who have no interest in the matter being considered will be able to take the relevant decision, and secondly, in taking the decision the Directors must act in a way they consider, in good faith, will be most likely to promote the company's success. The Directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

It is also proposed that the New Articles should contain provisions relating to confidential information, attendance at board meetings and availability of board papers to protect a Director being in breach of duty if a conflict of interest or potential conflict of interest arises. These provisions will only apply where the position giving rise to the potential conflict has previously been authorised by the Directors.

### xiii Electronic and web communications

Provisions of the Companies Act 2006 which came into force in January 2007 enable companies to communicate with members by electronic and/or website communications. The New Articles allow communications to members in electronic form and, in addition, they also permit the Company to take advantage of the provisions relating to website communications. Before the Company can communicate with a member by means of website communication, the relevant member must be asked individually by the Company to agree that the Company may send or supply documents or information to him by means of a website. The Company is asking its members to make an election in this respect in the letter accompanying this document. In order to communicate with a member by means of website communication, the Company must either have received a positive response or have received no response within the period of 28 days beginning with the date on which the request was sent. The Company will notify the member (either in writing, or by other permitted means) when a relevant document or information is placed on the website and a member can always request a hard copy version of the document or information.

# NOTICE OF MEETING

## Explanatory notes to the AGM Notice continued

### xiv Directors' indemnities and loans to fund expenditure

The Companies Act 2006 has in some areas widened the scope of the powers of a company to indemnify Directors and to fund expenditure incurred in connection with certain actions against Directors. In particular, a company that is a trustee of an occupational pension scheme can now indemnify a Director against liability incurred in connection with the company's activities as trustee of the scheme. In addition, the existing exemption allowing a company to provide money for the purpose of funding a Director's defence in court proceedings now expressly covers regulatory proceedings and applies to associated companies.

### xv General

Generally the opportunity has been taken to bring clearer language into the New Articles.

#### 4. General notes to the AGM Notice

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 enclosed 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 13 May 2013.

5. 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 (although voting in person at the AGM will terminate the proxy appointment).
6. 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.
7. 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.
8. 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.
9. As at 8 April 2013, 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 8 April 2013 are 95,899,754.
10. 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 13 May 2013 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.

11. 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.
12. Copies of the Directors' service contracts and letters of appointment and new articles of association and current articles of association marked to show the changes proposed in the new articles of association 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.
13. A copy of this notice, and other information required by s311A of the Companies Act 2006, can be found at [www.frenchconnection.com](http://www.frenchconnection.com).
14. 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.
15. 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.
16. 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.
17. It is possible that, pursuant to requests made by members of the Company under section 527 of the Companies Act 2006, the Company may be required to publish on a website a statement setting out any matter relating to: (a) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the AGM; or (b) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Companies Act 2006. The Company may not require the members requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under section 527 of the Companies Act 2006, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the AGM includes any statement that the Company has been required under section 527 of the Companies Act 2006 to publish on a website.
18. 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.)
19. 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

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

## FINANCIAL CALENDAR

### 2013

15 May	Annual General Meeting and Interim Management Statement
18 September <i>(provisional)</i>	Half-Year Statement
20 November <i>(provisional)</i>	Interim Management Statement

### 2014

31 January	Financial Year End
12 March <i>(provisional)</i>	Preliminary Announcement of Results

**FrenchConnection.Com**