12 March 2019

FRENCH CONNECTION GROUP PLC

Preliminary Results for the year ended 31 January 2019

French Connection Group PLC ("French Connection" or "the Group") today announces results for its financial year ended 31 January 2019.

Highlights:

- Return to profitability as anticipated with £0.1m underlying operating profit[2] (2018: loss of £2.1m)
- Wholesale revenue up 10.3% (13.2% CCY[3]) from UK/Europe and North America
- LFL[1] sales down 6.8% due to the impact of the tough retail trading environment in the UK (2018: up 0.8%)
- Further 10 non-contributing locations closed during the year, with one new store and one concession opened
- Composite gross margin of 42.3% (2018: 42.7%) due to higher proportion of wholesale sales as growth continues
- Gain on sale of the Toast brand in April with proceeds from the sale of £11.7m, offset by provisions for onerous retail leases, debt impairment and store closure costs
- Closing cash of £16.2m (2018: £9.5m)

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

“I am pleased to report that we have achieved our target of returning the Group to underlying profitability this financial year.

This is only part of our overall journey, however it represents a significant achievement given the results over recent years.

This has been achieved despite the ongoing difficult retail trading environment in the UK and is the result of the changes we have made in all areas of the business to adapt to the ever evolving markets in which we operate.

While we still have a way to go to return the business to an appropriate level of profitability, I believe that we have made and continue to make significant progress. “

Notes:

Key performance indicators for the 52 week trading period are outlined below:

	FY19	FY18[4]	Var %
Total Group revenue (£m)	**135.3**	135.0	0.2%
Total Retail revenue (£m)	**58.4**	65.3	(10.6%)
Total Wholesale revenue (£m)	**76.9**	69.7	10.3%
Retail LFL[1] (%)	**-6.8**	+0.8	
Stock (£m)	**28.4**	28.7	(1.0%)
Average UK/Europe Retail Space (sq.ft. '000s)	**165.6**	175.1	(5.4%)
Average Group Retail Space (sq.ft. '000s)	**178.2**	188.9	(5.7%)
Number of stores/concessions:			
- Operated	**96**	104	(7.7%)
- Franchised, Licensed & JV	**195**	212	(8.0%)
Underlying gross margin (%)	**42.3**	42.7	(40bps)
Net cash position (£m)	**16.2**	9.5	70.5%

Notes:

1. LFL or "Like-for-Like" sales growth is defined as the year-on-year sales growth for owned stores and concessions open more than one year, including ecommerce revenues, removing the impact of closed stores and reported in constant currency.

2. Underlying Operating Profit/Loss excludes profit/loss on store disposals and closures, provisions for bad debts and onerous leases and other professional fees.

3. Constant Currency (CCY) is calculated by translating the year ending January 2019 at 2018 rates to remove the impact of exchange rate fluctuations.

4. The comparative information has been restated to show the discontinued operations separately from the continued operations. See discontinued operations Note 3.

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

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CHAIRMAN'S STATEMENT

Dear Shareholders

I am pleased to report that we have achieved our target of returning the Group to underlying[1] profitability this financial year which represents a significant achievement given the results over recent years. This has been achieved despite the ongoing difficult retail trading environment in the UK and is the result of the changes we have made in all areas of the business to adapt to the ever evolving markets in which we operate. While we still have a way to go to return the business to an appropriate level of profitability, I believe that we have made and continue to make significant progress.

Growth in the wholesale business accelerated during the second half of the year building on the progress made earlier in the year, in both UK/Europe and the USA, however this was offset by the continued difficult retail trading environment in the UK. Overall we achieved an underlying operating profit of £0.1m, an improvement of £2.2m over last year. Including adjusted items we reported an operating loss of £9.3m (2018: £3.8m). We have continued to see good growth in the wholesale business particularly in the USA, with the department stores performing very strongly throughout the year driven by strong consumer demand. Improvements in UK/Europe came in pure-play ecommerce and multi-channel customers.

Whilst the retail business continues to benefit from the ongoing store rationalisation programme, which has resulted in over half the portfolio being exited over the last five years as planned, it has again been impacted by the difficult trading conditions on the UK high street. We saw a 6.8% reduction in like-for-like sales in the remaining portfolio for the year. We have continued with store closures during the second half of the year. Given the current environment the renegotiation of leases is now becoming more favourable to tenants and better deals are available certainly in the short term. This has resulted in a number of stores that were expected to be closed continuing to trade for the time being. As disclosed in our half year results, given the worsening market conditions, we reviewed the underlying lease contracts of a number of loss-making stores that we are actively looking to exit but are currently unable to and have made a one-off provision for the onerous nature of those contracts.

Licensee income reduced slightly on last year reflecting a strong performance once again from DFS, however impacted by reduced income from our Australian licensee, the cessation of ladies Christmas toiletries gifting with Boots and a one off benefit from our previous shoe licensee last year.

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

Wholesale

Revenue increased by 10.3% in the year (13.2% CCY[3]). The strong growth that we saw last year in both UK/Europe and North America has continued throughout the year and actually accelerated in the second half. The major customers in the UK continued to grow - particularly in the online space - both pure play and multi-channel. In North America, good progress was made with all the department stores, particularly Bloomingdales and Nordstrom, who saw a significantly improved sell through and increased volumes. We are currently rationalising our structure in North America by consolidating everything through our New York operation and removing our office in Toronto, thereby reducing the cost base going forward but maintaining the majority of the revenue.

Gross margins at 32.5% were 0.4% up on last year driven by the increased proportion of full price sales. Despite the increase in revenue, costs were again tightly controlled particularly in UK/Europe and were reduced by 4.9% (0.3% CCY). Overall this has resulted in a 25.6% increase in contribution to £15.2m.

Reaction to both the Summer and Winter 19 collections has been good and orders in North America have continued to be very strong again this year, however the UK in the short term is being impacted to some extent by the current economic climate with customers being conservative in their buying.

CHAIRMAN'S STATEMENT

Retail
Overall revenue decreased by 10.6% (10.2% CCY) due to a combination of the continued store closure programme with a further 10 locations closed during the year (5 stores and 5 concessions), together with the reduction in like-for-like sales of 6.8% for the year. We had initially anticipated additional stores being closed in the second half of the year, however it is becoming apparent that at the end of leases certain landlords are now becoming more flexible on terms and this has meant that 4 stores expected to close are continuing to trade in the short term but are likely to close during the current financial year. Our target of 30 full-price stores will be passed in the current year with another 8 stores expected to close but again this will depend on the individual negotiations on each site. The uncertainty that existed in relation to House of Fraser in the middle of the year given the change in ownership has now gone away, with the majority of stores remaining open. This has led to an increased opportunity for us particularly with Menswear and Great Plains, although the House of Fraser online channel has been particularly difficult after an extended closure of the site early in the second half of the year. The average lease length of the remaining UK/Europe stores is 2.3 years (2018: 2.4 years).

Gross margins increased by 1.0% to 55.1%. This was achieved by improved base margins and slightly lower markdowns despite the increase in the proportion of sales through the outlet stores. Underlying overheads, excluding the impact of the reduced store portfolio, rose by 0.9% reflecting the new stores/concessions, inflationary pressures particularly on staff costs and continued business rates increase in the South East, offset by ongoing tight cost management. Overall contribution for the year reduced by £0.6m.

Within retail, revenue for ecommerce was slightly down on last year, reflecting the general trading environment but also impacted by a high turnover of staff within this area, particularly at the senior level. We have recently recruited a new senior team including management, trading, digital and technical, in order to place greater emphasis and focus on this key area of growth. We have started to see the benefits of this feed through in the early part of the new financial year. Based on this we will increase the level of investment as we go forward both on the customer experience elements and into higher levels of digital marketing, to drive improved levels of engagement and conversion. The move towards higher levels of mobile traffic continues at 56.8% compared to 50.9% last year.

Licensing
Licensing income for the year was £5.8m compared to £6.3m last year. There are a number of different elements contributing to this movement. We saw continued excellent performance from our partnership with DFS and the launch of our homewear licence in North America which performed very well during the second half of the year. These were offset by a shortfall in income from our Australian licensee, the cessation of a ladies toiletries Christmas gifting programme in the UK and the benefit from the final income from our previous shoe licensee last year. Looking forward we have a North America luggage licensee starting this year and expect to see continued growth from homeware in the USA.

Operating expenses, adjusted for store closures and currency movements, were flat on the year with inflationary pressures especially from staff costs and the impact of increased business rates, offset by rent renegotiations and group-wide cost saving initiatives.

We have recognised a provision for onerous lease costs in the period of £5.2m. In addition to this we have taken an IFRS9 impairment provision of £2.0m in relation to a debt from our Indian licensee, a £0.8m bad debt provision against amounts due from House of Fraser, £0.9m in respect of store closure costs and £0.5m restructuring costs in relation to our Canadian business. The profit to the Group on the sale of our stake in the Toast brand amounted to £9.7m and generated sale proceeds of £11.7m.

The Group ended the year with a strong cash position of £16.2m (2018: £9.5m), reflecting the proceeds on the sale of our stake in Toast, payments to exit stores during the year and capital expenditure mainly on stores and IT infrastructure. Overall working capital increased by £4.6m with the continued growth in the wholesale business. The Board have decided that there will be no dividend payable for the year.

CHAIRMAN'S STATEMENT

In October last year, following press speculation regarding the potential sale of the Group, we announced that we were in the process of reviewing all strategic options in order to deliver maximum value for shareholders. Alongside several potential strategic options, the review includes the consideration of all types of corporate and brand transactions, including seeking offers for the Group. As disclosed at the time, we had commenced preliminary discussions with several interested parties and have had conversations with several other interested parties regarding the Group's plans. The discussions are ongoing with a number of parties. We continue to expect this strategic review (including the formal sale process) to conclude during the first half of 2019 and will make further announcements when appropriate.

Our initial goal has been to return the Group to profitability which we have now achieved, however we now must intensify our efforts to ensure that we build on the momentum that we have within the business and move to an appropriate level of profitability. It is clear though that the retail market in which we are operating in the UK is unlikely to improve in the near future especially given the uncertainty surrounding our exit from the European Union and the knock on effect that is having on consumer confidence. Our performance in wholesale remains strong especially in the USA with reaction to the new collections being very positive. In addition we have new and growing license partners working with us. Although we are only early into the new financial year, I believe we are in a very good place and will make further significant progress. One of the continued strengths of the Group is the hard work and dedication of all the people who work here. I would like to thank you all for your continued contribution, especially for the determination and commitment you have shown during another particularly tough year on the high street but you should take pride in the progress we have made.

Stephen Marks
Chairman and Chief Executive

Notes:

1. Underlying Operating Profit excludes adjusting items and discontinued operations.
2. LFL or "Like-for-Like" sales growth is defined as the year-on-year sales growth for owned stores and concessions open more than one year, including ecommerce revenues, removing the impact of closed stores and reported in constant currency.
3. Constant Currency (CCY) is calculated by translating the year ending January 2019 at 2018 rates to remove the impact of exchange rate fluctuations.
4. Underlying overheads consist of LFL store overheads.
5. Adjusting items include provisions for bad debts, onerous leases and store closures and other professional fees.
6. Continuing operations exclude the discontinued results from the disposed Toast subsidiary.

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

FINANCIAL REVIEW

Overall Financial Performance
Underlying results for the full year show a profit of £0.1m before taxation[1], adjusting items and discontinued operations, a significant improvement on the previous year (2018: loss of £2.1m), and the first underlying profit for the business in 7 years. Including adjusting items the Group reported an operating loss of £9.3m (2018: £3.8m). The overall performance for the year inclusive of adjusting items and discontinued operations was breakeven at £0.0m (2018: loss of £(2.3)m). This comes despite the profitable Toast business being sold to the Bestseller Group during the year. Within adjusting items we have recognised a provision for onerous lease costs in the period of £5.2m. In addition to this we have taken an IFRS9 impairment provision of £2.0m in relation to a debt from our Indian licensee, £0.8m bad debt provision against amounts due from House of Fraser following their administration, £0.9m in respect of store closure costs and £0.5m restructuring costs in relation to our Canadian business. The profit to the Group on the sale of our stake in the Toast brand amounted to £9.7m.

As previously announced and also discussed at the interims, we sold our 75% holding in Toast (Mail Order) Limited to the Bestseller Group in April 2018 for £11.7m net of costs, recognising a total profit on sale of £9.7m.

Revenue
Group revenue from continuing operations increased by £0.3m, +0.2% (+1.9% at constant currency[2]) to £135.3m. This increase was due to strong wholesale performance up 10.3% (+13.2% CCY[2]) which offset a negative retail like-for-like (-6.8%[3]) performance (2018: +0.8%) combined with store closures.

Wholesale
Group wholesale revenues from continuing operations of £76.9m were 10.3% higher than prior period (13.2% CCY) (2018: £69.7m). Growth was seen across UK/Europe and North America during the year, though this was partly offset by a continuing decline in the lower margin Rest of World segment. Growth in UK/Europe was mainly driven through a broad range of pure play and multi-channel partners while in North America the core department store business grew strongly across the majority of accounts, particularly Bloomingdales and Nordstrom, who saw a significantly improved sell through and increased volumes. This continues the momentum experienced in the previous year.

This strong performance saw wholesale's profitability increase 25.6% in the year to £15.2m (2018: £12.1m).

Retail
Retail revenue from continuing operations for the year was down £6.9m to £58.4m, -10.6% on the comparable 52 weeks (-10.2% CCY). During the year we closed ten non-contributing locations consisting of 5 stores and 5 concessions. We also opened a new You Must Create (YMC) store and one French Connection concession. We ended the year with 96 operating locations. Average store selling space was reduced by 5.7% over the period.

On a LFL[3] basis, sales in UK/Europe contracted by 6.8%. Disappointingly, total ecommerce revenue also contracted by 3.7% across our websites. However, ecommerce still increased penetration of total Group retail sales, which now represents 21.2%, up from 19.8% in 2018. Mobile phone traffic also increased with transactions on mobile increasing to 56.8% of all online transactions, from 50.9% in 2018.

The overall performance in the year unfortunately saw the retail division increase its loss to £10.3m (2018: £9.7m), a 6.2% change on the prior period with cost reductions unable to offset the reducing LFL sales.

Discontinued Operations
On 30 April 2018, we, together with the 25% minority interest shareholders, sold the entire issued share capital of Toast (Mail Order) Limited to Bestseller United A/S for gross proceeds of £23.3m, comprising £21.3m and a pre-completion dividend of £2.0m. After the payment of management exit awards and transaction costs, the Group received net proceeds of £13.2m comprising cash of £11.7m and £1.5m dividend (75% share) utilised to pay down intercompany debt. The transaction has generated a total profit on sale of £9.7m.

Geographical Analysis
Following the sale of Toast and to aid transparency, the geographical breakdown for 2018 has been restated. This naturally reduces slightly the focus of the Group towards the UK/Europe and increases the proportional impact of North America. The geographical revenue break-down for 2019 continues to be weighted towards UK/Europe representing 70.7% of Group revenues (2018: 74.2%) but due to the stronger growth in North America than in the UK/Europe this is down on the previous year. Of the overall £2.2m improvement in Underlying Operating Profit, £1.0m came from UK/Europe, while North America contributed an extra £1.3m over the previous year. This more than offset the increased loss of the Rest of World segment which saw the loss increase to £1.3m (2018: £1.0m). Group overheads reduced by £0.2m to £4.4m.

FINANCIAL REVIEW

Other Income
The net income received from global licensing was down £0.5m (7.9%) at £5.8m in the year (2018: £6.3m). Although our furniture licensee DFS continues to perform extremely well for us and we launched a new homeware licence in North America in the second half of the year, other more historic licences have not performed so well. We saw a reduction in income from our Australian licensee, the cessation of the ladies toiletries Christmas gifting programme with Boots and the benefit from the final income from our previous shoe licensee last year not being repeated.

Gross Margin
Gross margin at 42.3% was 40bps lower than the prior period (2018: 42.7%), due to the impact on the sales mix with wholesale growing faster than retail in the year. All parts of the business saw margin growth with retail gross margins at 55.1%, up 100bps on 2018 with improved margins with FX benefits coming through during the year. Wholesale margins at 32.5% were also 40bps higher than 2018 with the mix of full price sales increasing, together with a reduction in margin support in the growing US market. By removing Toast stock from the prior year we can see that inventory has fallen by £0.3m to £28.4m. Although overall inventory has fallen on the year, the profile of stock remaining has aged slightly, so the stock provision has slightly increased proportionately, though not in overall terms.

Operating Expenses
Total Group operating expenses excluding adjusting items of £62.2m were 4.9% lower than the prior period. After adjusting for store closure operating costs and currency, operating expenses were 1.2% higher with upward pressure from rates, rent reviews and payroll impacting on the cost base. We have continued to close stores and reorganise where we see opportunities to reduce costs. Total operating expenses including adjusting items were £71.6m (2018: £67.1m).

Balance Sheet
The Group balance sheet at 31 January 2019 reflects the sale of the Toast business. We closed the year with £16.2m of cash (2018: £9.5m) and no bank borrowings. The inventory was £3.4m (10.7%) lower than the previous year at £28.4m (2018: £31.8m).

The Group will implement IFRS 16 'Leases' for the reporting period ending 31 January 2020 and will adopt the 'modified retrospective' method. The comparative 2019 results under this methodology will not be restated on transition when the standard is applied. The adoption of the standard will have no impact on the daily operations or cash flows of the Group. However, there will be a material impact on the presentation of the financial statements including the income statement, balance sheet and cash flow.

In summary, IFRS 16 aligns the presentation of leased assets more closely to owned assets resulting in current operating leases being brought onto the balance sheet and part of what is currently reported as operating lease costs being recorded as finance interest expense. Current operating rental lease expense will be replaced by depreciation and interest. The depreciation of the right of use asset will be charged on a straight line basis whilst the interest charged on the outstanding lease liability will be front-loaded and higher in the earlier years decreasing over the life of the lease.

A right of use asset and lease liability will be represented on the balance sheet with the lease liability recognised at the present value of future lease payments. The right of use asset will be matched in value to the lease liability at inception subject to any rent-free or lease inducements. However, the respective assets and liabilities will be charged/(credited) independently over the life of the lease.

The Group has assessed the potential impact and we anticipate that the new standard will result in the carrying value of leased assets being increased by approximately £26m, with leased liabilities being increased by approximately £40m on the date of transition.

Cash Flow
The trading operations of the Group generated cash of £6.8m (2018: £(3.9)m outflow) with the improvement on the previous year being driven by the sale of Toast raising £11.2m net proceeds. Lower levels of trading losses and a working capital increase of £(4.6)m (2018: £(0.2)m) supporting the improvement in the wholesale business. This was driven by timing differences between inventory, debtors and creditors.

Capital expenditure of £0.8m (2018: £1.8m) included the investment in the new You Must Create store in Bloomsbury, London, but at a lower cost to the Manchester French Connection store, opened at the end of 2017 and included in the previous year's expenditure. Other capital expenditure this year has mainly been in stores and on IT infrastructure. We continue to target the closure of non-contributing stores and following the challenging retail environment during 2018 expect to close more in the current year as we come towards end of lease and undertake negotiations.

FINANCIAL REVIEW

Taxation
The total Group tax charge for the year of £Nil (2018: £Nil inclusive of Toast discontinued operation) represents tax payable on current profits generated in Hong Kong and the US offset by historic losses. The Group has unused tax trading losses with a potential value of £12.5m, of which £10.5m has not been recognised in these financial statements. As the Group returns to profit, these tax losses can be utilised.

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

Going Concern
Having reviewed the cash forecasts and the sources of cash funding available to the Group, the Board has concluded that it is appropriate to prepare the Group financial statements on a going concern basis. Furthermore, the Group has additional levers available to manage cash including reducing discretionary spend such as Capex, accelerating the liquidation of older season stock and bringing forward wholesale customer payments where deemed appropriate.

Brexit
It remains uncertain whether a withdrawal agreement with the EU will be in place before the UK leaves the EU on the 29 March 2019. The long term implications and full economic impact also remain unclear. The Group considers the principal risk factors to be macro-economic uncertainty leading to a downturn in the UK economy, trading restrictions leading to friction at the borders, the imposition of tariffs, further exchange rate volatility and other recruitment concerns. Tariff increases or trading restrictions are mitigated through the Group's suppliers predominantly being located outside of the EU. In addition, EU imports have been prioritised to arrive before the 29 March to minimise any immediate potential impact. The potential fall in the value of Sterling and further exchange rate volatility following Brexit is partly mitigated within the Group due to the proportion of our business which is transacted in US$ and Euros. This leads to a relatively large natural hedge. For the remainder we hedge in advance. The likely contraction in the labour market is considered a minor risk to the Group, with no senior positions currently held by non-UK EU citizens. The Group has communicated across the organisation the steps and procedures required to assist any EU citizens to take advantage of the EU Settlement Scheme to remain in the UK following any transition period. The Board will continue to monitor Brexit developments and assess the potential impact on the business when there is greater certainty and clarity over potential outcomes.

Lee Williams
Chief Financial Officer

Notes:

1. Underlying Operating Profit excludes adjusting items and discontinued operations.
2. Constant Currency (CCY) is calculated by translating the year ending January 2019 and January 2018 at a consistent rate to remove the impact of exchange rate fluctuations.
3. LFL or "Like-for-Like" sales growth is defined as the year-on-year sales growth for owned stores and concessions open more than one year, including ecommerce revenues, removing the impact of closed stores and reported in constant currency.
4. Adjusting items include provisions for bad debts, onerous leases and store closures and other professional fees.
5. Continuing operations exclude the discontinued results from the disposed Toast subsidiary.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 January 2019

		Year ended 31 January 2019			Restated* Year ended 31 January 2018		
	Note	Before adjusting items £m	Adjusting items** £m	Total £m	Before adjusting items £m	Adjusting items** £m	Total £m
Continuing operations							
Revenue	2	**135.3**	**-**	**135.3**	135.0	-	135.0
Cost of sales		**(78.1)**	**-**	**(78.1)**	(77.3)	-	(77.3)
Gross profit	2	**57.2**	**-**	**57.2**	57.7	-	57.7
Operating expenses		**(62.2)**	**(9.4)**	**(71.6)**	(65.4)	(1.7)	(67.1)
Other operating income	5	**5.8**	**-**	**5.8**	6.3	-	6.3
Finance expense		**-**	**-**	**-**	(0.1)	-	(0.1)
Share of loss of joint ventures, net of tax		**(0.7)**	**-**	**(0.7)**	(0.6)	-	(0.6)
Profit/(loss) before taxation	6	**0.1**	**(9.4)**	**(9.3)**	(2.1)	(1.7)	(3.8)
Taxation		**-**	**-**	**-**	0.4	-	0.4
Profit/(loss) for the period from continuing operations		**0.1**	**(9.4)**	**(9.3)**	(1.7)	(1.7)	(3.4)
Discontinued operations							
Profit from discontinued operations, net of tax	3	**9.3**	**-**	**9.3**	1.1	-	1.1
Profit/(loss) for the period		**9.4**	**(9.4)**	**-**	(0.6)	(1.7)	(2.3)

* The comparative results have been restated to exclude discontinued operations (see Note 3).
** Underlying Group operating profit/(loss) excludes adjusting items (see Note 6) and discontinued operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 January 2019
(continued)

	Note	2019 £m	Restated* 2018 £m
Profit/(loss) for the year		**-**	(2.3)
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss			
Currency translation differences for overseas operations		**0.5**	(0.9)
Currency translation differences on foreign currency loans, net of tax		**(0.2)**	(0.1)
Effective portion of changes in fair value of cash flow hedges		**0.1**	-
Other comprehensive income for the year, net of tax		**0.4**	(1.0)
Total comprehensive income for the year		**0.4**	(3.3)
Profit/(loss) attributable to:			
Equity holders of the Company		**0.1**	(2.6)
Non-controlling interests		**(0.1)**	0.3
Profit/(loss) for the year		**-**	(2.3)
Total comprehensive income attributable to:			
Equity holders of the Company		**0.5**	(3.6)
Non-controlling interests		**(0.1)**	0.3
Total income and expense recognised for the year		**0.4**	(3.3)
Earnings/(losses) per share			
Basic and diluted earnings/(losses) per share	8	**0.1p**	(2.7)p
Continuing operations			
Basic and diluted losses per share	8	**(9.6)p**	(3.5)p

* The comparative results have been restated to exclude discontinued operations (see Note 3).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 January 2019

	Note	2019 £m	2018 £m
Assets			
Non-current assets			
Intangible assets		**0.2**	0.4
Property, plant and equipment		**2.5**	3.2
Investments in joint ventures		**1.8**	2.5
Deferred tax assets		**4.3**	4.6
Total non-current assets		**8.8**	10.7
Current assets			
Inventories		**28.4**	31.8
Trade and other receivables		**24.1**	26.1
Cash and cash equivalents		**16.2**	9.5
Total current assets		**68.7**	67.4
Total assets		**77.5**	78.1
Non-current liabilities			
Provisions		**3.5**	-
Total non-current liabilities		**3.5**	-
Current liabilities			
Trade and other payables		**25.4**	31.0
Provisions		**2.4**	0.3
Derivative financial instruments		**-**	0.1
Total current liabilities		**27.8**	31.4
Total liabilities		**31.3**	31.4
Net assets		**46.2**	46.7
Equity			
Called-up share capital		**1.0**	1.0
Share premium account		**9.8**	9.6
Other reserves		**7.4**	7.0
Retained earnings		**28.0**	27.9
Total equity attributable to equity holders of the Company		**46.2**	45.5
Non-controlling interests		**-**	1.2
Total equity		**46.2**	46.7

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £m	Share premium £m	Hedging reserve £m	Translation reserve £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
Balance at 31 January 2017	**1.0**	**9.6**	**(0.1)**	**8.1**	**30.5**	**49.1**	**0.9**	**50.0**
(Loss)/profit for the year ended 31 January 2018					**(2.6)**	**(2.6)**	**0.3**	**(2.3)**
Other comprehensive income								
Currency translation differences for overseas operations				(0.9)		**(0.9)**		**(0.9)**
Currency translation differences on foreign currency loans, net of tax				(0.1)		**(0.1)**		**(0.1)**
Balance at 31 January 2018	**1.0**	**9.6**	**(0.1)**	**7.1**	**27.9**	**45.5**	**1.2**	**46.7**
Profit/(loss) for the year ended 31 January 2019					**0.1**	**0.1**	(0.1)	**-**
Other comprehensive income								
Currency translation differences for overseas operations				0.5		**0.5**		**0.5**
Currency translation differences on foreign currency loans, net of tax				(0.2)		**(0.2)**		**(0.2)**
Effective portion of changes in fair value of cash flow hedges			0.1			**0.1**		**0.1**
Transactions with owners recorded directly in equity								
Share options exercised		0.2				**0.2**		**0.2**
Transactions with non-controlling interests, recorded directly in equity								
Dividends							(0.5)	**(0.5)**
Disposal of discontinued operation							(0.6)	**(0.6)**
Balance at 31 January 2019	**1.0**	**9.8**	**-**	**7.4**	**28.0**	**46.2**	**-**	**46.2**

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. The translation reserve carried forward is net of £0.4m (2018: £0.4m) deferred tax.

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 2019

	Note	2019 £m	2018 £m
Operating activities			
Profit/(loss) for the period		**-**	(2.3)
Adjustments for:			
Depreciation and impairment		**1.2**	1.3
Share of loss of joint ventures		**0.7**	0.6
Finance expense		**-**	0.1
Profit on sale of subsidiary	3	**(9.7)**	-
Provisions	6	**9.4**	0.9
Other professional fees	6	**-**	0.8
Income tax credit		**(0.1)**	-
Operating cash flows before changes in working capital and provisions		**1.5**	1.4
Decrease/(Increase) in inventories		**0.4**	(0.7)
(Increase)/decrease in trade and other receivables		**(2.0)**	1.1
Decrease in trade and other payables		**(3.0)**	(0.6)
Cash flows from operations		**(3.1)**	1.2
Income tax received/(paid)		**0.2**	(0.1)
Cash flows from operating activities		**(2.9)**	1.1
Investing activities			
Investment in joint ventures		**-**	(0.3)
Acquisition of property, plant and equipment		**(0.8)**	(1.8)
Disposal of subsidiary	3	**11.7**	-
Net costs from store closures		**(0.9)**	(2.0)
Other professional fees		**-**	(0.8)
Cash flows from investing activities		**10.0**	(4.9)
Financing activities			
Interest paid		**-**	(0.1)
Proceeds from exercise of share options		**0.2**	-
Dividends	7	**(0.5)**	-
Cash flows from financing activities		**(0.3)**	(0.1)
Net increase/(decrease) in cash and cash equivalents		**6.8**	(3.9)
Cash and cash equivalents at 1 February		**9.5**	13.5
Exchange rate fluctuations on cash held		**(0.1)**	(0.1)
Cash and cash equivalents at 31 January		**16.2**	9.5

NOTES

1 Basis of preparation

Consolidated financial statements and accounting policies
The preliminary announcement for the year ended 31 January 2019 has been prepared in accordance with International Accounting Standards and International Financial Reporting Standards as adopted by the European Union (EU) at 31 January 2019. The annual financial information presented in the preliminary announcement for the year ended 31 January 2019 is based on, and is consistent with, that in the Group's unaudited Financial Statements for the year ended 31 January 2019, and those Financial Statements will be delivered to the Registrar of Companies following the Company's Annual General Meeting.

These consolidated financial statements have been prepared using the historical cost convention, modified for certain items carried at fair value, as stated in the accounting policies.

Statutory accounts

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 January 2019 or 2018. The financial information for 31 January 2018 is derived from the statutory accounts for 2018 which have been delivered to the Registrar of Companies. The auditor has reported on the 2018 accounts; their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The statutory accounts for 2019 will be finalised on the basis of the financial information presented by the Directors in this preliminary announcement and will be delivered to the Registrar of Companies and made available for viewing and download from the Group's website at www.frenchconnection.com in due course. The Annual Report will be circulated in printed form to shareholders in the second week of April 2019.

NOTES

2 Operating segments

Segment revenue and results

Income Statement	2019 £m	Restated* 2018 £m
Revenue		
Retail	**58.4**	65.3
Wholesale	**76.9**	69.7
Group revenue	**135.3**	135.0
Gross profit	**57.2**	57.7
Retail	**55.1%**	54.1%
Wholesale	**32.5%**	32.1%
Group gross margin	**42.3%**	42.7%
Underlying operating (loss)/profit		
Retail	**(10.3)**	(9.7)
Wholesale	**15.2**	12.1
Licence income	**5.8**	6.3
Common and Group overheads	**(9.9)**	(10.1)
Finance expense	**-**	(0.1)
Share of loss from joint ventures	**(0.7)**	(0.6)
Underlying Group operating profit/(loss)**	**0.1**	(2.1)
Underlying operating margin	**(17.6)%**	(14.9)%
Retail	**19.8%**	17.4%
Wholesale		
Underlying Group operating margin	**0.1%**	(1.6)%

Geographical information

	2019 £m	Restated* 2018 £m
Revenue		
UK/Europe	**70.7%**	74.2%
North America	**27.2%**	23.3%
Rest of the World	**2.1%**	2.5%
Divisional operating profit/(loss)		
UK/Europe	**2.1**	1.1
North America	**3.7**	2.4
Rest of the World	**(1.3)**	(1.0)
Group overheads and finance income	**(4.4)**	(4.6)
Underlying Group operating profit/(loss)**	**0.1**	(2.1)

* The comparative results have been restated to exclude discontinued operations (see Note 3).
** Underlying Group operating profit/(loss) excludes adjusting items (see Note 6) and discontinued operations.

NOTES

3 Discontinued operations

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

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

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

Results of discontinued operations	**Year ended 31 Jan 2019 £m**	**Year ended 31 Jan 2018 £m**
Revenue	**3.3**	19.0
Expenses	**(3.8)**	(17.5)
Results from operating activities before tax	**(0.5)**	1.5
Taxation	**0.1**	(0.4)
Results from operating activities, net of tax	**(0.4)**	1.1
Profit on sale of discontinued operations	**9.7**	-
Effect on profit for the period	**9.3**	1.1

NOTES

3 Discontinued operations (continued)

Effect of disposal of the Toast subsidiary on the financial position of the Group	**31 Jan 2019 £m**
Fixed assets	(0.2)
Deferred tax	(0.3)
Inventories	(3.4)
Trade and other receivables	(0.8)
Cash	(0.2)
Trade and other payables	2.8
Net assets and liabilities	**(2.1)**
Minority interest (25%)	0.6
Net assets and liabilities disposed	**(1.5)**
Goodwill on acquisition of subsidiary written off	(0.1)
Cash consideration net of costs of disposal	11.7
Provisions for cost of transitional services	(0.4)
Profit on sale	**9.7**

Cash flows used in discontinued operations	**Year ended 31 Jan 2019 £m**	**Year ended 31 Jan 2018 £m**
Net cash from operating activities	**(1.4)**	1.9
Net cash from financing activities	**(2.0)**	-
Net cash utilised in discontinued operations	**(3.4)**	1.9

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

NOTES

4 Revenue and gross margin

Sale of goods	Continuing operations 2019 £m	Continuing operations 2018 £m	Discontinued operations* 2019 £m	Discontinued operations* 2018 £m	Consolidated operations 2019 £m	Consolidated operations 2018 £m
Revenue	**135.3**	135.0	**3.3**	19.0	**138.6**	154.0
Gross margin	**57.2**	57.7	**2.4**	11.9	**59.6**	69.6

The revenue from external customers is derived from the sale of clothing and accessories.
* see discontinued operations Note 3.

5 Other operating income

	2019 £m	2018 £m
Licensing income	**5.8**	6.3

6 Profit/(loss) before taxation

Reconciliation of loss before tax to underlying operating profit/(loss)	Year ended 31 Jan 2019 £m	Year ended 31 Jan 2018 £m
Loss before tax	**(9.3)**	(3.8)
Adjusting items:		
Provisions for bad debts and bad debt write-offs	**2.8**	-
Provisions for onerous leases and store disposals	**6.6**	0.9
Other professional fees	**-**	0.8
	9.4	1.7
Underlying operating profit/(loss)	**0.1**	(2.1)

Provisions for bad debts, net of VAT recoverable, of £2.0m have been expensed in the period relating to unpaid contractual debt due from our Indian licensing partner. £0.8m due from a UK concession partner in administration has been written off as a bad debt.

Provisions for onerous leases and store disposals of £5.9m have been recognised in the period relating to UK stores whereby the future contractual obligation costs exceed the economic benefits forecast to be received. In addition, a charge of £0.7m has been expensed in the current period relating to store closure costs.

NOTES

7 Dividends - equity

The Board is proposing that no dividend should be paid for the year (2018: £Nil). Dividends of £0.5m were paid during the year to the minority shareholders of a subsidiary undertaking of the Group (2018: £Nil).

8 Earnings/ (losses) per share

Basic and diluted earnings/ (losses) per share are calculated on 96,404,508 (2018: 96,253,134) shares being the weighted average number of ordinary shares during the year.

Basic and diluted earnings per share of 0.1 pence per share (2018: losses of (2.7) pence) is based on profit of £0.1m (2018: loss of £(2.6)m) attributable to equity shareholders.

On continuing operations the basic losses per share of (9.6) pence per share (2018: (3.5) pence) is based on losses of £(9.3)m (2018: £(3.4)m) relating to continuing operations.

On discontinued operations the basic earnings per share of 9.7 pence per share (2018: 0.8 pence) is based on profits of £9.4m (2018: £0.8m) relating to discontinued operations.

The reconciliation from basic and diluted earnings/(losses) per share to adjusted losses per share is as follows:

	2019 £m	**2019 pence per share**	2018 £m	2018 pence per share
Profit/(loss) attributable to equity shareholders	**0.1**	**0.1p**	(2.6)	(2.7)p
Profit on sale of subsidiary	**(9.7)**	**(10.0)p**	-	-
Adjusting items (Note 6)	**9.4**	**9.7p**	1.7	1.8p
Adjusted loss	**(0.2)**	**(0.2)p**	(0.9)	(0.9)p

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

NOTES

9 Retail locations

		31 January 2019		31 January 2018	
		Locations	sq ft	Locations	sq ft
Operated locations					
UK/Europe					
French Connection	Stores	43	120,469	47	128,835
French Connection/Great Plains	Concessions	47	43,214	51	35,556
Toast	Stores	-	-	12	13,546
YMC	Stores	3	1,805	2	1,355
		93	165,488	112	179,292
North America					
French Connection US	Stores	2	9,102	2	9,102
French Connection Canada	Stores	1	2,350	2	4,650
		3	11,452	4	13,752
Total operated locations		96	176,940	116	193,044
French Connection licensed and franchised					
UK/Europe		4	4,142	5	5,642
North America		1	2,346	1	2,346
Middle East		10	15,686	10	15,686
Australia		140	72,553	139	73,980
Hong Kong		3	3,378	4	7,000
China		11	16,614	11	16,018
India		7	3,710	20	11,249
Other		19	14,242	22	15,863
Total licensed and franchised locations		195	132,671	212	147,784
Total branded locations		291	309,611	328	340,828