

ANNUAL REPORT 2017

French Connection Group PLC

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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

We have seen an improvement in performance over the financial year with continued good progress in the UK/Europe retail business, but as previously reported, this has been partly held back by the wholesale and licensing divisions particularly in the first half of the year. The underlying operating loss¹ for the year was £(3.7)m (2016: £(4.7)m), with an increase in profit during the second half of the year.

We maintained growth in our UK/Europe retail division with Like-for-Like sales up 4.4% being a third consecutive season of full price growth for Autumn/Winter but again against the background of a tough retail environment. We have continued the reduction of the store base with nine non-contributing stores closed during the financial year itself and a further two recently in February 2017.

There has been an improvement in wholesale, with sales in North America increasing in the second half with greatly improved sell through of the product. In UK/Europe we have again seen a shift in the phasing of the new Spring season deliveries to customers with more being made in the new financial year, holding back the overall improvement.

Licence income for the year was adversely impacted by the change in our global perfume licensee and the bankruptcy of our shoe licensee as discussed at the half-year, although we believe that there is considerable opportunity for growth in both these areas moving forward.

Retail

I am pleased to report that the increase in UK/Europe LFL² sales was 4.4% over the year (2016: -6.4%) with growth being seen during both halves of the financial year. This reflected the continued improvements in the collections, merchandising, buying and momentum in the business.

Overall retail revenue decreased by 4.9% to £87.9m (-6.5% at constant currency³) with the impact of the improved LFL performance being offset by the closure of a further nine non-contributing stores during the year (seven UK/Europe and two North America). In the last four years we have closed 37 full price French Connection stores representing over 40% of the store base. This programme will continue during the current year with two stores already closed and another six expected later in the year. Whilst there are still some stores within the portfolio that we wish to exit given their performance, the rate of closure will reduce going forward and we expect to have around 30 full price French Connection stores remaining by January 2019. The average lease length of the remaining UK/Europe stores is 3.2 years (2016: 4.0 years).

Gross margins reduced during the year to 56.8% (2016: 57.3%) reflecting the higher proportion of sales through our outlet stores as the full price store portfolio reduced. The full price margin achieved in stores increased reflecting the improved full price trading, reduced discount periods and an increase in the input margin for the Winter season. Underlying overheads reduced by 2.8% reflecting the tight ongoing management of costs which resulted in a significant improvement in the performance of the Retail division.

Ecommerce grew by 12.7% and now represents 27.3% of retail revenue. Considerable investment and focus has been placed on all our online platforms to ensure we capitalise as much as possible on the growth in that channel. We have seen the benefits of this feed through and will increase investment in marketing and infrastructure to enable this momentum to continue to build during the current year. Mobile continues to be a growing proportion of our online activity generating 39.7% of traffic, up from 32.7% last year.

Wholesale

Revenue in the year was down 9.1% to £65.3m (-14.7% at constant currency). As previously reported revenue was impacted by the poor sell through performance achieved last year particularly in the first half. This improved considerably during the second half. There was a small decrease in UK/Europe caused by a change in the phasing of deliveries of new season Spring product, into the current financial year.

Gross margins were down 1.3% on last year reflecting the need to discount stock to clear it through especially during the first half of the year. Costs were again tightly controlled and in constant currency terms were down 1.7% on last year.

Spring 17 orders are ahead of this time last year and the current financial year will be helped by the changed phasing of deliveries. The improved sell through performance that we saw during the second half of last year has continued into the new financial year. The initial reaction to the Winter 17 collection from customers has been very positive and although we are only part of the way through the selling period, this is a good indicator of the strength of the collection.

Licensing

Licence income was £6.3m (2016: £7.3m) reflecting the transition of our perfume licence to Interparfums during the year, one of the world's leading perfume companies, which caused a short term drop in income but will be a significant benefit for the future. In addition our shoe licensee went into bankruptcy in the US requiring us to be cautious as to the income we have recognised in the year. DFS continued to grow very strongly with an enlarged product range and high levels of marketing. We have recently signed an underwear licence for North America and are currently in negotiations in a number of other product categories which we believe will enhance our current portfolio.

Operating expenses, adjusted for store closures and currency movements, were down 2.6% in the year, reflecting the continued tight control of costs exercised across the Group. Looking forward there will be some upward pressure on costs specifically in relation to rental costs where we have a number of leases under review, although measures have been taken to mitigate these, for example with a reorganisation of head office space being actioned.

The Group remains debt free and ended the year with a strong cash position of £13.5m (2016: £14.0m), reflecting the poor trading but offset by tight management of working capital especially inventory levels. The Board have decided again that there will be no dividend payable for the year.

CHAIRMAN'S STATEMENT

Continued

I was sorry to see the recent departure of Christos Angelides as an independent Non-Executive Director of the Company but thank him for his contribution during his time with us and wish him well for the future. Dean Murray, another Non-Executive Director and Chairman of the Audit Committee, has passed his nine year term during which the Corporate Code deems him as independent. We are currently in the middle of a formal process, with external assistance, to recruit new Non-Executive Directors to the Board but Dean has agreed to remain with us until a suitable replacement is found.

Overall whilst the performance for the year as a whole has been disappointing, the noticeable improvement we have seen during the second half and into the new financial year leads me to believe that we are moving in the right direction. The reaction to this year's collections has been very strong so far with sales both in our own stores and wholesale customers' up on last year. It is early in the year and we have a considerable amount of work to do to take the Group back to profitability, however I believe that the actions we have taken and continue to take, will go a long way to achieving that goal this year.

Finally I would like to take the opportunity to thank all our staff for the effort and dedication they have put into the business and hope that we will see the benefits of that work in the near future.

Stephen Marks

Chairman and Chief Executive

14 March 2017

Notes:

1. Underlying Operating Loss excludes profit/loss on store disposals and closures.
2. LFL or "Like-for-Like" sales growth is defined as the year-on-year sales growth for owned stores and concessions open more than one year, including ecommerce revenues, removing the impact of closed stores and reported in constant currency.
3. Constant Currency is calculated by translating the year ending January 2017 at 2016 rates to remove the impact of exchange rate fluctuations.

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.

OUR BUSINESS

Business objectives, strategy, and business model

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.

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.

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' expectations 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 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.

Brands

Our principal brand is *French Connection* which accounts for 83% of the Group's revenues.

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. French Connection designs, produces and distributes branded fashion clothing, accessories and homeware for men, women, and children to more than 50 countries around the world through its main distribution channels: retail stores, ecommerce, wholesale and licensing.

Our other brands include:

TOAST: a range of beautifully crafted ladies' clothing and unique homeware, available on-line, in selected John Lewis stores and through branded high-street stores;

Great Plains: a fashion basics range for women designed in-house. Available on-line and supplied through wholesale to multi-brand retailers; and

YMC: a fledgling, edgy, contemporary fashion brand for men and women available on-line, in two London stores 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.

Our operations

We design, produce and distribute branded fashion clothing and homeware from our business premises in London, New York, Paris, Düsseldorf, Hong Kong and Toronto. We operate retail stores and concessions in the UK, Europe, US and Canada and also operate ecommerce businesses in each of those territories. Further, we wholesale our products to retailers operating in over 50 countries around the world and have licensed partners operating *French Connection* stores across Asia, Australia and the Middle East.

Our design teams are based in London and we arrange for the products to be manufactured in specialist third party factories in Europe and Asia supervised by local buying offices. The main countries where manufacturing takes place are China, India and Turkey.

The Group retails garments through a network of stores on high streets and in shopping malls across the UK, Europe and North America and through concessions within leading department stores such as House of Fraser. We also operate ecommerce channels in the UK, Europe and North America. The product ranges are also offered for sale at wholesale through our showrooms in London, New York, Paris, Düsseldorf and Hong Kong to selected customers operating department stores, multi-brand fashion stores and ecommerce 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* brand has been extended successfully into complementary licensed products including men's and women's toiletries and fragrances, shoes, watches, jewellery, eyewear and furniture. Our Design and Licensing teams work closely with branded partners to develop and enhance product for sale.

Current trends

The continued growth of multi-channel retailing is a clear focus for French Connection. We will continue to invest in the people and systems to support this growth opportunity to ensure our customers can shop with us however they wish and get the very best multi-channel experience. The success of our CRM system is an example of this investment.

OUR BUSINESS

Continued

Worldwide operations

Region	Location	Territories	Retail operations	Wholesale customers	Licensing	Brands
UK/Europe	London Paris Düsseldorf	UK, Europe, Middle East	Retail stores and concessions, ecommerce	Department stores, multi-brand stores, franchise operators	Product and country licensing	French Connection, Great Plains, Toast, YMC
North America	New York	USA	Retail stores, ecommerce	Department stores, multi-brand stores	Product licensing	French Connection, YMC
	Toronto	Canada	Retail stores, ecommerce	Department stores, multi-brand stores		French Connection
Rest of World	Hong Kong	Hong Kong, China	Retail stores and concessions through joint ventures, ecommerce		Product licensing	French Connection
		Australia, Asia		Brand licensees, concessions, department stores	Product licensing	French Connection

Retail locations

	31 January 2017		31 January 2016		
	Locations	sq ft	Locations	sq ft	
Operated locations					
UK/Europe					
French Connection	Stores	53	146,542	60	169,370
French Connection/Great Plains	Concessions	53	36,651	54	35,491
Toast	Stores	12	13,546	11	13,105
YMC	Stores	2	1,355	2	1,355
		120	198,094	127	219,321
North America					
French Connection US	Stores	2	9,102	4	14,021
French Connection Canada	Stores	2	4,650	2	4,650
		4	13,752	6	18,671
Total operated locations		124	211,846	133	237,992
French Connection licensed and franchised					
UK/Europe		6	6,520	6	6,544
North America		1	2,346	1	2,000
Middle East		8	14,438	10	19,402
Australia		158	104,760	143	106,775
Hong Kong		7	10,429	8	11,859
China		18	27,268	19	29,191
India		63	33,464	80	44,233
Other		24	17,635	21	16,863
Total licensed and franchised locations		285	216,860	288	236,867
Total branded locations		409	428,706	421	474,859

OUR BUSINESS

Continued

Principal risks and uncertainties

The Board recognises there are a number of risks and uncertainties that face the Group. The following highlights some of the principal risks:

Risk	Impact	Mitigation
Fashion and design	Our success depends on our ability to produce ranges of garments which are attractive to potential customers.	<p>We seek to achieve this through retention of experienced and skilled designers and merchandisers and by remaining as operationally flexible as possible particularly in relation to our supply chain and up front commitments.</p> <p>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.</p>
Brand and reputational risk	Our brands and the way they are perceived in their respective markets is very important to us.	We are 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.
Macroeconomic factors	The nature of fashion retail 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 also affected by their personal financial situation and other macroeconomic factors which impact the total size of the retail markets in which we operate.	We consider that as a small operator at the upper end of the middle market the impact on our business of macroeconomic elements is considerably smaller than the impact of the success of our designers in producing attractive products.
Supply chain	The Group is exposed to supply chain operational risk if product is not delivered in a timely fashion, to specification or in appropriate quantities.	The Group's supply chain is diversified across a number of suppliers in different countries. Our buying offices and production teams work closely with suppliers to mitigate these risks.

OUR BUSINESS

Continued

Risk	Impact	Mitigation
Infrastructure	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.	To mitigate cost pressures we are constantly focused on store operating cost efficiencies, and have already achieved considerable savings by optimising our rostering timetables in store and actively managing our store estate, and exiting stores where the opportunity is economically available to us.
Financial risks	The Group is exposed to financial risks including currency, interest and liquidity.	<p>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.</p> <p>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 overseas debt risk.</p> <p>The principal treasury risks to the Group arise from exchange 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.</p>
IT	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 Statement.

Key Performance Indicators

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

- UK retail LFL sales growth;
- Sales achieved in the wholesale channels;
- Sales by geography;
- Gross margin %;
- Underlying operating profit/loss; and
- Inventory levels.

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

CORPORATE SOCIAL 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.

Impact on the environment

The use of resources to manufacture and supply our products utilise finite global resources. 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.

Some of the initiatives we have implemented include:

- In the UK, the business meets its responsibilities under the packaging waste regulations through membership of Valpak;
- Wooden hangers are sourced from sustainable sources and we do not give them away with the products;
- Reduction in packaging materials for finished goods i.e. no plastic banding, no inner cartons;
- Plastic returnable tote bins for shipping to our own UK stores to reduce cardboard;
- Plastic and cardboard waste is collected from our UK stores and head offices for recycling;
- At Toast packaging is recyclable, and catalogues are printed on FSC paper with vegetable based inks;
- In our US operations, corrugated cartons are re-used whenever possible and ultimately recycled using a band machine so they are crushed into bails for collection;
- In Canada we are participants in 'Stewardship Ontario' paying a fee for all point of sale materials to be recycled, and all lighting has been replaced with LEDs; and
- Donation of end of life stock to local and national charitable organisations.

The greenhouse gas (GHG) emissions report is in line with UK mandatory reporting requirements, set out by the Department for Environment, Food and Rural Affairs (DEFRA).

The mandatory requirement is for the disclosure of scope 1 and 2 emissions only. We have captured all material qualifying emissions from around the Group. Some extrapolation and estimation techniques have been used to calculate the Group CO₂e. in respect of less than 5% of our stores and the final month of our data.

The reported sources fall within our consolidated financial statements. We do not have responsibility for any emission sources that are not included in our consolidated financial statements. We have computed our emissions using the DEFRA Environmental Reporting Guidelines: Including mandatory greenhouse gas emissions reporting guidance issued in June 2013.

Our total GHG footprint in line with these guidelines is 3,737 tonnes CO₂e (2016: 4,446 tonnes).

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; not be forced or bonded labour; be of an appropriate age; and work only reasonable hours.

Carbon emissions	Tonnes of CO ₂ e 2017	Tonnes of CO ₂ e 2016
Emissions from		
Scope 1 (vehicles, fugitive emissions, gas)	187	218
Scope 2 (electricity)	3,550	4,228
Total footprint	3,737	4,446
Group chosen intensity measurement	£m	£m
Turnover	153.2	164.2
Emissions reported above per £m of turnover	24	27

CORPORATE SOCIAL RESPONSIBILITY

Continued

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.

The Group supports the non-use of animals in testing and challenge our suppliers on this matter – our glycerine soaps as an example, do not contain any animal derived ingredients and are suitable for use by vegetarian and vegans.

The Group acknowledges the new 'Modern Slavery Act' legislation and will be publishing a 'Slavery and Human Trafficking' compliance statement on its website in due course.

Tax

The Board is committed to ensuring full compliance with the law and making all tax payments on a timely basis.

The Board is committed to ensuring that openness, honesty and transparency will be paramount in all dealings with the tax authorities and other relevant bodies.

We run cycle to work and childcare voucher schemes in the UK for our employees.

People

We are committed to providing equal opportunities for all of our employees.

We ensure that every employee, without exception, is treated equally and fairly and that all employees are aware of their responsibilities.

The breakdown of the gender of Directors and employees at the end of the financial year is as follows:

	Men Number 2017	Women Number 2017
Company Directors	5	1
Other senior managers	7	5
All other employees	363	1,287
Total	375	1,293

Notes:

Company Directors consist of the Company's Board.

Other senior managers is as defined in The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, and includes: i) persons responsible for planning, directing or controlling the activities of the Company, or a strategically significant part of the Company, other than Company Directors; and ii) any other Directors of undertakings included in the consolidated accounts.

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.

FINANCIAL REVIEW

Overall Financial Performance

Overall results for the full year show an Underlying Group Operating Loss* of £(3.7)m, (2016: £(4.7)m) a 21.3% improvement on the 52 Weeks to 31 January 2016. Loss before taxation, inclusive of store disposals and closures, was £(5.3)m (2016: £(3.5)m, with net store closure costs of £(1.6)m (2016: £1.2m income).

Revenue

Group revenue reduced by 6.7% (-10.1% at constant currency²) to £153.2m. This reduction was due to a combination of store closures (retail down 4.9% on an average space reduction of 11.7%), and a decline in wholesale, the majority of which occurred in the first half.

Segment revenue and results	2017 £m	2016 £m
Revenue		
Retail	87.9	92.4
Wholesale	65.3	71.8
Group revenue	153.2	164.2
Gross profit	70.1	76.0
Retail	56.8%	57.3%
Wholesale	30.9%	32.2%
Group gross margin	45.8%	46.3%
Underlying operating (loss)/profit		
Retail	(9.8)	(15.6)
Wholesale	10.0	13.3
Licence income	6.3	7.3
Common and Group overheads	(9.4)	(9.3)
Share of loss from joint ventures	(0.8)	(0.4)
Underlying Group operating loss*	(3.7)	(4.7)
Underlying operating margin		
Retail	(11.1)%	(16.9)%
Wholesale	15.3%	18.5%
Underlying Group operating margin	(2.4)%	(2.9)%
Geographical information	2017 £m	2016 £m
Revenue		
UK/Europe	76.4%	73.9%
North America	19.4%	20.7%
Rest of the World	4.2%	5.4%
Divisional operating (loss)/profit		
UK/Europe	(0.1)	(2.8)
North America	1.1	1.8
Rest of the World	(0.9)	0.1
Group overheads and finance income	(3.8)	(3.8)
Underlying Group operating loss*	(3.7)	(4.7)

* excludes net (loss)/gain on store disposals and closures

FINANCIAL REVIEW

Continued

Retail

Retail revenue for the year was down £4.5m to £87.9m, 4.9% on the comparable 52 weeks (-6.5% at constant currency). During the year we opened one new store and two concessions, but closed nine non-contributing stores and three concessions, resulting overall in nine less locations. We have now restructured the lease on the Oxford Street store which has resulted in a reduced term. We ended the year with 124 operating locations. Average store selling space was reduced by 11.7% over the period.

On a Like-for-Like (LFL³) basis sales in UK/Europe grew by 4.4%. Total Ecommerce revenue grew by 12.7% across our websites representing 27.3% of total Group retail sales, up from 23.0% in 2016.

The overall performance in the year saw the retail division reduce its loss to £(9.8)m, (2016: £(15.6)m), a 37.2% improvement on the prior period through growing Like-for-Like sales, closure of non-contributory stores, continued cost control and improved ecommerce sales.

Wholesale

Group wholesale revenues of £65.3m were 9.1% lower than prior period (-14.7% at constant currency). This reduction was predominantly driven by the 16.9% decline in first half which was impacted by poor sell through in previous seasons. In the second half UK/Europe down 1.5% due to phasing of Spring 17 deliveries.

Unfortunately following the disappointing sales performance in the first half of the year, together with reduced margins through stock clearance, wholesale's profitability reduced to £10.0m (2016: £13.3m).

Geographical Analysis

The geographical revenue break-down is more weighted to UK/Europe representing 76.4% of Group revenues (2016: 73.9%) as a result of challenging trading conditions in North America and reduced stores in UK/Europe. Of the overall £1.0m improvement in Underlying Operating Profit, £2.7m came from UK/Europe. North America was down (£0.7m) as a result of a poor first half and Rest of World down (£1.0m). Group overheads remaining level on the year.

Other Income

The net income received from Global licensing was £6.3m in the year (2016: £7.3m). Our furniture licensee DFS continues to perform very well however as reported at the half-year we had a gap in perfume licensee in the year and our North American footwear licensee filing for Chapter 11 resulted in lower licensing income than the prior year. Going forward the global fragrance licencing agreement with Interparfums is expected to bring growth and we are confident of agreeing a new footwear licence this year.

Gross Margin

Gross margin at 45.8% was 50bps lower than the prior period (2016: 46.3%), mainly through old stock clearance. As the proportion of outlet stores increases relative to full price stores this has an impact on margin with retail gross margins at 56.8%, down 50bps on 2016. Due to continued levels of clearance of old stock, wholesale gross margin declined by 130bps as we continued to see higher levels of discounting in wholesale to liquidate old stock. However, both these events contributed to reducing inventories by £4.5m, 12.4% year-on-year.

Operating Expenses

Total Group operating expenses of £79.3m were 9.5% lower than prior period. After adjusting for store closures and currency, operating expenses were 2.6% lower with upward pressure from rent reviews offset by a restructure of head office costs in response to the reduction in number of stores and ongoing careful management of costs. The Oxford Street lease restructure has generated a benefit, part of which is included within operating expenses. The cash will be utilised to exit other stores. We will continue to maintain tight control of overheads although expect some inflationary pressure from rent reviews, living wage increases and the apprenticeship levy.

Balance Sheet

The Group balance sheet at 31 January 2017 remains strong with £13.5m of cash (2016: £14.0m), no bank borrowings and a minimum cash position during the year of £2.0m (2016: £6.1m). Inventory reduced by £4.5m to £31.7m through tighter purchases and the liquidation of older stock.

Cash Flow

The trading operations of the Group consumed cash of £1.0m (2016: £7.4m) with the reduction being a result of lower levels of trading losses and a working capital inflow of £0.9m (2016: £4.0m outflow). This was driven by the reduction in inventory as described above.

Capital expenditure of £0.7m (2016: £0.8m) includes investment in website functionality improvements and store updates. We continue to target the closure of non-contributing stores and expect another eight to close in the current year.

Taxation

The tax charge for the year of £Nil (2016: £Nil) 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 £15.8m, of which £14.6m 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.

FINANCIAL REVIEW

Continued

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.

The strategic report, from pages 3-13, has been reviewed and approved by the Board on 14 March 2017.

By order of the Board

Lee Williams

Group Finance Director

14 March 2017

Notes:

1. Underlying Operating Loss excludes profit/loss on store disposals and closures.
2. Constant Currency is calculated by translating the year ending January 2017 at 2016 rates to remove the impact of exchange rate fluctuations.
3. LFL or "Like-for-Like" sales growth is defined as the year-on-year sales growth for owned stores and concessions open more than one year, including ecommerce revenues, removing the impact of closed stores and reported in constant currency.

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.

BOARD OF DIRECTORS

<p>Stephen Marks Chairman and Chief Executive</p>	<p>Stephen founded the Company in 1969 and has managed the Group's development since then in the position of Chairman and Chief Executive.</p>
<p>Neil Williams A.C.A. Chief Operating Officer</p>	<p>Neil joined the Group from KPMG in 1992 and was appointed to the Board in May 1994. He is a qualified Chartered Accountant and has filled a number of operational roles within the Group primarily focused on the wholesale, international and licensing businesses.</p>
<p>Lee Williams CGMA Group Finance Director</p>	<p>Lee joined French Connection in April 2016 from ASOS, the global online fashion destination, where he was Director of Finance. Prior to that he was CFO of the WorldStores and Kiddicare businesses and Head of Financial Planning and Analysis at BrightHouse Group Plc. He spent the majority of the earlier part of his career at Wm. Morrison Supermarkets Plc and Kingfisher Plc in various senior finance roles. He also spent 4 years working for PwC Consulting with Retail assignments in the UK, US and Central Europe. Lee has amassed a wealth of commercial and financial retail experience, in both traditional multisite operations but also, importantly, online. He is a member of the Chartered Institute of Management Accountants.</p>
<p>Dean Murray A.C.A. Non-Executive Director</p>	<p>Dean was appointed to the Board on 6 February 2008. He qualified as a Chartered Accountant with KPMG and was Chief Executive of Myriad Childrenswear Group Limited. Myriad was the leading UK specialist multi-brand and multi-channel childrenswear business with over 1,000 distribution outlets including the Adams Kidswear brand. He is currently Chairman of Neville Johnson Limited, a UK based bespoke furniture designer, and Gear4music, an online retailer of musical instruments.</p>
<p>Claire Kent Independent Non-Executive Director</p>	<p>Claire 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 European luxury goods retailing analysis for nine consecutive years. Working in the sector since the early 1990s she has accumulated an in-depth understanding of the operation of luxury and apparel brands and has worked very closely with some of the most respected brands in the sector. Since leaving Morgan Stanley, Claire has focused on advising companies on their IPOs (Prada in 2011, Pandora in 2010) and playing a role in the sale of private equity-owned companies (Cath Kidston, Original Additions). She is also a consultant for Prada and a co-founder of the British crafted runwear brand, Iffley Road.</p>

DIRECTORS' REPORT

The Directors of French Connection Group PLC ("the Company") present their Annual Report for the year ended 31 January 2017.

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, Contracts Limited, French Connection Group, Inc., French Connection (Hong Kong) Limited, Toast (Mail Order) Limited, French Connection (Canada) Limited and YMC Limited.

The Companies Act 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 Strategic Report. 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 Social Responsibility Statement. The Corporate Governance Statement may be found on page 17. The disclosures contained in those reports form part of this Directors' Report.

Fair, balanced and understandable

The Board has considered the regulatory changes impacting corporate reporting and Executive remuneration and believes this Annual report and Accounts complies with these changes taking into account emerging best practice. Notably the Board has determined that the 2017 Annual Report and Accounts, taken as a whole is fair, balanced and understandable. It provides the information necessary for shareholders to assess the position, performance, strategy and operating model of the Group and Company in accordance with the Code requirements.

Dividend

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

Directors

The Directors of the Company are set out in the Board of Directors on page 13.

Stephen Marks and Dean Murray retire by rotation in accordance with the Articles of Association and offer themselves for re-election at the AGM. The Board considers that Mr Marks 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 Marks' and Mr Murray's remuneration and contracts are set out in the Directors' Remuneration Report.

The Board understands that the UK Corporate Governance Code considers a Non-Executive Director to be no longer independent if they have served on the Board for more than nine years. Dean Murray was appointed to the Board on 6 February 2008 and, although independent at the year ended 31 January 2017, is not considered to be independent at the signing of this Annual Report. Christos Angelides joined the Board as an independent Non-Executive Director on 15 March 2016 and has subsequently resigned from his position on 28 February 2017 having accepted an executive role at a fashion retailer considered to be a direct competitor to French Connection.

The Board has considered all the factors which might compromise the independent judgement of the Non-Executive Directors at the year end and concluded there were none. However, the Board acknowledges that Dean Murray is no longer an independent Non-Executive Director and a search is currently underway for a replacement and for additional Non-Executive Directors.

At 31 January 2017, none of the Directors or their families held any beneficial interests in the issued capital of the Company other than Stephen Marks and Christos Angelides whose shareholding is disclosed below in the Directors' Remuneration Report.

The details of share options held by Directors are set out in the Directors' Remuneration Report. 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 14 March 2017 the Company is aware of the following substantial interests in its ordinary shares:

	Shares	Percentage of Issued Share Capital
Stephen Marks	40,094,190	41.7%
of which:		
– held in family trusts	1,506,500	
– held by family members	775,000	
Sports Direct International plc	10,737,643	11.2%
Liad Meidar/GCM Partners I LP	7,716,442	8.0%
OTK Holding	6,000,000	6.2%

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.

DIRECTORS' REPORT

Continued

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 2017, the Group's average trade creditors represented 42 days purchases (2016: 38 days). The Company has minimal third party creditors.

Employees

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

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

Carbon emissions

The Group has disclosed carbon emissions data within the Corporate Social Responsibility Report.

Property, plant and equipment

The changes in intangible and tangible fixed assets during the year are set out in Notes 11 and 12 to the Group accounts.

Financial instruments

The financial instrument policies are set out in Note 26 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 are included in these financial statements.

Charitable and political donations

Charitable donations of £10,990 (2016: £19,361) were made during the year. No political donations were made in either 2017 or 2016.

Share capital and control

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 21.

The rights and obligations attached to the Company's shares, in addition to those conferred on their holders by law, are set out in the Articles of Association. The holders of ordinary shares are entitled to receive all shareholder documents, attend and speak at general meetings of the Company, exercise all voting rights and to receive dividends and participate in other distributions of assets.

The Company is not aware of any agreements between shareholders restricting the voting rights or the right to transfer shares in the Company.

The rules about the appointment and replacement of Directors are contained in the Company's Articles of Association. Changes to the Articles of Association must be approved by the shareholders in accordance with the legislation in force from time to time. The powers of the Directors are determined by legislation and the Articles of Association of the Company in force from time to time. Powers relating to the issuing and buying back of shares are included in the Company's Articles of Association and shareholder approval of such authorities may be sought, if considered appropriate by Directors, at the Annual General Meeting.

The Company does not have agreements with any Director or employee that would provide compensation for loss of office or employment resulting from a takeover, save that the Company's share schemes contain provisions which may cause options and awards granted to employees to vest on a takeover.

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 AGM.

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.

Going concern

The Group has considerable cash resources, ending the year with £13.5m (2016: £14.0m) and with a minimum Group cash balance during the year of £2.0m (2016: £6.1m). The Group has no debt.

Having reviewed the cash forecasts and the sources of cash funding available to the Group, the Board has concluded that the Group has a reasonable expectation to continue in operational existence for a period of one year from the date of this report. For this reason, the Board continues to adopt the going concern basis in preparing the accounts.

DIRECTORS' REPORT

Continued

Viability statement

In accordance with provision C2.2 of the 2014 revision of the Code, the Directors have assessed the viability of the Company over a longer period than the 12 months required by the 'Going Concern' provision. The Board conducted this review for a period of three years which is deemed to be an appropriate period over which to provide the Group's viability statement. The period is consistent with the Group's forecasting process which considers annually and on a rolling basis a three year strategic plan. In making this statement, the Directors have carried out a robust assessment of the Group's current position and prospects, the principal risks facing the business, the impact of sensitivity analysis and stress-testing and the effectiveness of any mitigating actions. The principal risks are identified in the 'Principal risks and uncertainties' section within 'Our Business' of the Annual Report. The assessment has considered the potential impacts of these risks on the business model, future performance, solvency and liquidity over the period. Based on this assessment, the Directors have a reasonable expectation that the Group will be able to continue in operation and meets its liabilities as they fall due for the term of the assessment period.

Controlling shareholder

In order to comply with changes to the Listing Rules relating to controlling shareholders, a relationship agreement has been executed between French Connection Group PLC and Stephen Marks. The Company has complied with all of the independence provisions of the Listing Rules.

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

KPMG LLP were appointed at the last AGM and have indicated their willingness to continue as Auditors. Resolutions to reappoint them and to authorise the Directors to determine their remuneration will be proposed at the 2017 AGM.

AGM

The AGM of the Company will be held at 10.00 am on 24 May 2017 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 66 to 67 of this document.

By order of the Board

Lee Williams

Company Secretary

14 March 2017

CORPORATE GOVERNANCE STATEMENT

Compliance with the UK Corporate Governance Code

The Board is responsible for ensuring compliance with the UK Corporate Governance Code (the 'Code'), which was published by the Financial Reporting Council in September 2012 and applies to reporting periods beginning on or after 1 October 2014. The code is available at www.frc.org.uk.

Except as referred to below, the Company has complied with all relevant provisions of the 2012 Code throughout the year ended 31 January 2017 and from that date up to the date of publication of this Annual Report.

Mr Marks is both Chairman and Chief Executive and is also the founder and the major shareholder (provisions A2.1 and A3.1). The culture of the business, led by the Chief Executive, is one of detailed involvement and a need for speedy reaction times. Mr Marks has led this culture and defined the character of the business throughout its existence.

Constructive challenge by the independent Non-Executive Directors, as well as the effective functioning of the committees, ensures that authority is suitably balanced.

As at the date of this report the Board includes two Non-Executive Directors, Dean Murray and Claire Kent. In addition, Christos Angelides was appointed as an independent Non-Executive Director on 15 March 2016 and served to the end of the financial year, resigning on 28 February 2017. Dean Murray and Claire Kent each chair one of the two committees of the Board and therefore have specific responsibilities. The Board has concluded that there would be no benefit in nominating a senior independent Non-Executive Director (provision A4.1). Both Non-Executive Directors are utilised as sounding boards for the Chairman and both are available to other Executive Directors or shareholders as necessary.

Provision B1.1 recommends that the Board consider whether each Non-Executive Director is independent including whether the Director has served on the Board for more than nine years from the date of their first election. Dean Murray was appointed to the Board on 6 February 2008. The Board acknowledges that Dean Murray, although independent at year ended 31 January 2017, is no longer considered to be independent and a search is currently underway for a replacement. The Board considers Claire Kent to be independent under the terms of provision B1.1.

The Board has considered whether there are any factors that might compromise the judgement of the Non-Executive Directors at the year end and concluded there was none. The Board therefore considers that throughout the financial year all of the Non-Executive Directors were independent of the Company and thus fulfilled the requirements of provision B1.2 of the Code.

No Nominations Committee was formed during the year (B2.1 – B2.4). However, following the departure of Christos Angelides, the Board has subsequently met to contemplate a replacement appointment as well as considering any additional Non-Executive Board members.

The Chairman believes that the Board and its Committees functioned well during the year and supported the strategy and development of the Company. A detailed and formal evaluation was therefore not carried out during the year (provisions B6.1 – B6.3).

The Board and its composition

The Board reserves to itself certain key matters to approve or monitor on behalf of the shareholders the strategic direction, development and control of the Group. It approves strategic plans and annual capital and revenue budgets. It reviews significant investment proposals and the performance of past investments and maintains an overview and control of the Group's operating and financial performance. It monitors the Group's overall system of internal controls, governance and compliance and ensures that the necessary financial and human resources are in place for the Company to meet its objectives.

The Board delegates responsibility for the day-to-day operation of the business to the Executive Directors within the framework of agreed prudent and effective controls.

The Company Secretary's responsibilities include ensuring relevant and timely information flows to the Board and between senior management and the Non-Executive Directors. Lee Williams, following his appointment to the Board, replaced Neil Williams as Company Secretary in April 2016. The appointment and removal of the Company Secretary is a matter reserved for the Board. The Company Secretary is responsible, through the Chairman, for advising the Board on all corporate governance matters and for assisting the Directors with their professional development.

All Directors are briefed by the use of comprehensive papers circulated in advance of Board meetings and by presentations at the meetings in addition to receiving minutes of previous meetings.

The training needs of Directors are formally considered on an annual basis and are also monitored throughout the year with appropriate training being provided if required.

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. All Directors of the Company are covered by a comprehensive Directors and Officers insurance policy.

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 AGM following their appointment. At least one third of the Board is subject to re-election annually.

The Board of Directors at the date of this report comprises three Executive Directors and two Non-Executive Directors, one of whom is considered by UK Corporate Governance Code guidance to be independent. The biographical details of each Board member are set out in the Board of Directors report on page 13, including any other commitments outside the Company.

During FY 2017 there were nine scheduled Board meetings. All the meetings were fully attended.

Lee Williams joined the Board as Group Finance Director in April 2016, replacing Neil Williams who had assumed the temporary position of Interim Group Finance Director following the departure of Adam Castleton in October 2015. Lee has the necessary and relevant financial experience for the role of Group Finance Director and Company Secretary. A full biography is set out in the Board of Directors.

CORPORATE GOVERNANCE STATEMENT

Continued

The Non-Executive Director is considered to be independent in that they remain free from any business or other relationship which could materially influence their judgement and represent a strong source of advice and independent challenge. Dean Murray, as of February 2017, is no longer considered by UK Corporate Governance Code guidance to be independent. The Group are currently in the process of recruiting new Non-Executive Directors to the Board and Dean Murray has agreed to remain until a suitable replacement has been found.

Stephen Marks and Dean Murray are required to stand for annual re-election in accordance with Section B7.1 of the Code and the Company's Articles of Association.

Committees

Each Board Committee has written terms of reference approved by the Board, which are available on the Company's website.

Audit Committee

The Audit Committee comprises Dean Murray, who is Chair of the Committee, and Claire Kent, the two Non-Executive Directors. Christos Angelides, independent Non-Executive Director, also attended the Committee until his resignation from the Company on 28 February 2017. The Company's auditors and the Group Finance Director attend by invitation.

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

Details of the Audit Committee are included in the Audit Committee Report.

Remuneration Committee

The Remuneration Committee comprises Claire Kent, who is Chair of the Committee, and Dean Murray. Christos Angelides, independent Non-Executive Director, also attended the meetings until his resignation from the Board. The Group Finance Director attends by invitation. The Committee met twice during the year and each meeting was fully attended.

Details of the Remuneration Committee are included in the Directors' Remuneration Report.

The Disclosure Committee

The Disclosure Committee was established in October 2013 to assist and inform the Chief Executive in his decisions concerning the identification of inside information and its disclosure. The Disclosure Committee comprises the Chief Executive, Group Finance Director and Chief Operating Officer.

Code of ethics

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. As noted above, the Board includes two Non-Executive Directors who the Board believes provide independent challenge and input into the overall governance of the Group.

The culture established by Mr Marks and the senior management is to expect a high standard of behaviour from everybody working for the Company.

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.

The Company also offers a confidential, whistleblowing hotline for any employee wishing to report any concern that they feel is inappropriate to raise with their line manager. All whistleblowing allegations are reported to, and considered by, the Executive Committee and Board. No instances occurred during the financial year.

Tax

Board level oversight of tax matters is part of the Company's tax risk governance process.

All significant tax matters are reported to the Board by the Group Finance Director and tax matters are governed by the Group tax strategy.

Internal control and risk management

The Board, supported by the Audit Committee, 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 on an ongoing basis throughout the year by the Audit Committee and in accordance 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 Board considered whether there is a need for such a function, and concluded there are sufficient controls in place such 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.

CORPORATE GOVERNANCE STATEMENT

Continued

Communication with shareholders

Communication with shareholders 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 all shareholders and proactive invitation made to shareholders with more than 1% of the share capital.

Meetings typically occur shortly after the announcements of half-year and full year results. The opinions expressed by shareholders are gathered by the Company Broker and passed directly to the Board.

The AGM 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 carefully by the Board and published on the Group's website with details of any proposed Board action where significant votes were cast against a specific resolution.

By order of the Board

Lee Williams

Company Secretary

14 March 2017

AUDIT COMMITTEE REPORT

Introduction from the Audit Committee Chair

I am pleased to present the Audit Committee Report for the year ended 31 January 2017.

Since my appointment as Chair of the Audit Committee in October 2009, I have focused on using my financial and commercial expertise to ensure the Committee fulfils its duties properly. In accordance with the UK Corporate Governance Code, I am no longer considered to be an independent Non-Executive Director as of February 2017 and therefore the Board of Executive Directors are currently searching for a replacement. I would like to thank my fellow Board members and other French Connection employees for their support and contribution during my tenure as Non-Executive Director.

The Audit Committee is responsible for ensuring that the financial integrity of the Group is effective, through the regular review of its financial performance. It is also responsible for ensuring that the Group has appropriate risk management processes and internal controls, and that the external audit process is robust. I explain in more detail the Committee's activities in this report.

The Audit Committee provides effective governance over external financial reporting, risk management and internal controls and reports its findings and recommendations to the Board. In my capacity as Chairman of the Audit Committee, I am pleased to report on the operations of the Committee during the past year, with emphasis on the specific matters we have considered, including compliance with the UK Corporate Governance (the Code) and associated Guidance on Audit Committees. I confirm that we have fully complied with the audit related requirements of the Code. Significant risk issues identified are referred to the Board for further consideration.

Lee Williams joined the Company as Group Finance Director in April 2016. Lee joins the Board from ASOS, the global online fashion destination, where he was Director of Finance. Lee has amassed a wealth of commercial and retail experience in his previous retail assignments. During the interim period, Neil Williams (Chief Operating Officer) combined his role with that of Interim Group Finance Director. I would like to thank Neil for his diligence and for the Finance team's combined professionalism during this period.

I thank my fellow Committee members Claire Kent and Christos Angelides for their work and input to the Committee and have welcomed the openness of KPMG and French Connection personnel throughout the year.

Dean Murray

Chair of the Audit Committee

Membership and remit of the Audit Committee

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, objectivity and effectiveness 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.

In accordance with Code provision B1.1, at the date of the 2017 Annual Report, the Audit Committee comprises one independent Non-Executive Director: Claire Kent.

Dean Murray (Chair) was appointed to the Board on 6 February 2008. The Board understands that the UK Corporate Governance Code considers a Non-Executive Director to be no longer independent if they have served on the Board for more than nine years. The Board acknowledges that Dean Murray, although independent at year ended 31 January 2017, is no longer an independent Non-Executive Director. Dean Murray will continue to Chair the Audit Committee until a suitable replacement is found and a handover will then follow. However, in accordance with Code provision C3.1, the Board considers that Dean Murray has significant, recent and relevant financial experience. Biographies of all of the members of the Audit Committee, including a summary of their experience, are set out on page 13 of these accounts.

The Audit Committee normally meets at least three times a year. Audit Committee meetings are also attended by the Group Finance Director, who is Secretary to the Committee and by invitation members of the Group Finance team and Partner and other senior staff of the external auditor. The Committee met three times during the financial year and each meeting was fully attended.

Terms of reference

The terms of reference of the Audit Committee are available on the Company's website. Significant risk issues identified are referred to the Board for further consideration.

The Audit Committee is authorised by the Board to review any activity within the business. It is authorised to seek any information it requires from, and require the attendance at any of its meetings of, any Director or member of management, and all employees are expected to co-operate with any request made by the Audit Committee.

The Audit Committee is authorised by the Board to obtain, at the Company's expense, outside legal or other independent professional advice and secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

The Chair of the Audit Committee reports to the subsequent Board meeting on the Committee's work and the Board receives a copy of the minutes of each meeting.

AUDIT COMMITTEE REPORT

Continued

Significant issues considered by the Audit and Risk Committee

The Committee considered the significant accounting issues, matters and judgements in relation to the Group's financial statements and disclosures for the year ended 31 January 2017. As part of the half-year and full year reporting process, management present a Financial Review to the Committee, and the external auditors are asked to also comment on the key areas of accounting judgement and disclosure. The information presented is used by the Committee to critically review and assess the key policies and judgements that have been applied, the consistency of policy application from year to year and the appropriateness of key disclosures made, together with compliance with the applicable accounting standards.

After discussion with both management and the external auditor, the Committee determined that the significant accounting issues in relation to the Group's financial statements related to:

Net realisable value of inventories (NRV)

Net realisable value was discussed with management during the year and with the auditor at the time the Committee reviewed and agreed the auditors' Group audit plan, and also at the conclusion of the audit of the financial statements.

The Committee interrogated management's key assumptions made regarding net realisable value and was satisfied that the significant assumptions had been appropriately scrutinised, challenged and were sufficiently robust.

The auditor explained their audit procedures to test management's assumptions and calculations and considered the Group's disclosures on the subject. On the basis of their audit work, the auditor considered that the carrying value of inventory was materially appropriate in the context of the financial statements as a whole.

Store disposals and closures

The Group implemented an extensive review of the UK retail business in 2012 targeting the disposal of loss making stores where economically viable. The Audit Committee required the Group Financial Controller to present a summary of the store disposal costs expended during the year and accrued at the end of the financial period and the accounting treatment of these costs.

The Committee interrogated management's key assumptions and was satisfied that the significant assumptions were sufficiently robust. The Committee agreed that the review process was ongoing and that loss making stores continued to be actively marketed for disposal. The Committee acknowledged that the initial retail review had taken longer than expected to implement and that there was a revised targeted date of 2019 to rationalise the store portfolio to an acceptable size. The Committee therefore advocated the accounting treatment of these costs as separately identifiable to trading revenue and expenses and to be reported separately from underlying operating loss.

The auditor explained their audit procedures to test management's assumptions and calculations and considered the Group's disclosures on the subject. On the basis of this audit work, the auditor considered that the accounting treatment was appropriate.

Risk management framework

The risk management framework is considered by the Board during the year, and was discussed on an ongoing basis in the Audit Committee.

The Audit Committee also considered a Business Systems Risk Review report presented by the Head of IT which set out in detail for all business systems the IT risk register, risk ranking, risk mitigation and investment plans. The Audit Committee supported the approach taken by management to identify and mitigate IT risks.

The Group did not have a separate internal audit function during the year. The Audit Committee considered whether there was a need for such a function and concluded that there are sufficient controls in place such that the benefits, when compared to the potential benefits of deploying additional resources in other areas, were not sufficiently clear.

Confidential reporting

The Group's whistle blowing policy enables staff, in confidence, to raise concerns about possible improprieties in financial and other matters and to do so without fear of reprisal.

The Audit Committee receives quarterly reports on whistle blowing incidents and remains satisfied that the procedures in place are satisfactory to enable independent investigation and follow up action of all matters reported.

No issues have been reported in the current year.

Other matters considered

Changes to the UK Corporate Governance Code were considered by the Committee.

The Audit Committee strategy and timetable was considered and agreed.

Reporting of other matters

All significant insurance claims and incidents of fraud or theft are reported to the Committee.

There have been no significant incidents during the year.

External auditor appointment

The Financial Reporting Council (the FRC) has now published the final stage of its Consultation on "Enhancing Confidence in Audit: Proposed revisions to the Ethical Standard, Auditing Standards, UK Corporate Governance Code and Guidance on Audit Committees" which details proposals to implement the EU Directive and Regulation on audit reform. The Ethical Standard came into effect for accounting periods commencing on or after 17 June 2016.

The Audit Committee understands that this will be relevant for all listed companies from 2016. The Committee is aware that KPMG LLP's last possible year of engagement is currently 2021 and will therefore develop an appropriate Audit tendering policy when applicable.

AUDIT COMMITTEE REPORT

Continued

External auditor's independence

The Committee has adopted a policy in relation to the appointment of the external auditors to conduct non-audit services for the Group. Following the introduction of new auditor independence rules, the policy has now changed such that the majority of services including tax planning and compliance are now not permitted to be performed by the external auditor. The services prohibited ceased prior to the year ended 31 January 2017.

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.

In 2016/2017 the ratio of audit to non-audit fees was 1 : 0.31.

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.

External audit annual assessment

The Group Finance Director, and the Audit Committee meet with the external auditors to discuss the audit strategy and any key issues included on the Audit Committee's agenda during the year.

After formal discussion, the Audit Committee considers that the relationship with the auditors is working well and is satisfied with their effectiveness.

DIRECTORS' REMUNERATION REPORT

Annual Statement by the Chairman of the Remuneration Committee

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for the year ended 31 January 2017.

In my report as Chairman of the Remuneration Committee, I set out the Committee's approach to Directors' remuneration. The Committee's objective is to set a remuneration policy that is clearly understood by our shareholders and employees, and that drives the right behaviour in terms of incentivising Executive Directors to deliver growth in long-term shareholder value.

Lee Williams joined the Board as Group Finance Director in April 2016, replacing Neil Williams who had assumed the temporary position of Interim Group Finance Director following the departure of Adam Castleton in October 2015.

Christos Angelides joined the Board as an independent Non-Executive Director in March 2016 and has subsequently resigned as of February 2017.

The Remuneration Committee considered and approved the contract of employment and remuneration package for both Lee Williams and Christos Angelides in accordance with the Group remuneration policy and the details of both are contained within this report.

There were no substantial changes relating to Directors' remuneration made during the year.

Following the approval of the Directors' Remuneration Policy at the 2014 AGM we are seeking shareholders' approval of the Directors' Remuneration Report, as set out in the next section of this report, at the 2017 AGM.

We are happy to discuss any remuneration matters with shareholders and hope that we can enjoy your support on the remuneration-related resolutions at the 2017 AGM.

Claire Kent

Chairman, Remuneration Committee

Directors' Remuneration Report

The Directors' Remuneration Report sets out details of the remuneration policy (Section 1) for Executive and Non-Executive Directors, describes the implementation of that policy (Section 2) and discloses the amounts paid relating to the year ended 31 January 2017.

The report complies with the provisions of the Companies Act 2006 and Schedule 8 of The Large and Medium-sized companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. The report has been prepared in line with the recommendations of the UK Corporate Governance Code and the requirements of the UKLA Listing Rules, as well as the GC100 and Investor Group.

The Remuneration Committee comprises Claire Kent as Chair and Dean Murray. The Group Finance Director acts as Secretary to the Committee. The Committee met twice during the year to consider the Directors' and senior managers' remuneration. All meetings were fully attended.

When setting the policy for Executive Directors' remuneration, the Committee takes into account total remuneration levels operating in companies of a similar size and complexity, the responsibilities of each individual role, individual performance and an individual's experience. Our overall policy, having had due regard to the factors noted, is to weight remuneration towards variable pay. This is typically achieved through setting base pay, pension and benefits up to market median levels, with a variable pay opportunity linked to the achievement of company and personal performance targets.

In setting remuneration for the Executive Directors, the Committee does take note of the overall approach to reward for employees in the Group and salary increases will ordinarily be (in percentage of salary terms) in line with those of the wider workforce.

We remain committed to shareholder dialogue and take an active interest in voting outcomes. There have been no significant policy changes or other substantial matters which required dialogue with shareholders during the year. If any of the shareholders are opposed to our policy we would endeavour to meet with them to understand and respond to any issues they may have.

The Committee considers developments in institutional investors' best practice expectations and the views expressed by shareholders during any dialogue. The Committee does not formally consult directly with employees on Executive pay.

DIRECTORS' REMUNERATION REPORT

Continued

Terms of reference for the Remuneration Committee

The terms of reference can be found on the Company's website.

Section 1: Remuneration Policy

The objective of the policy is to ensure it is appropriate to the Group's needs and reward Executives for creating shareholder value. It is the Remuneration Committee's intention to maintain 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.

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.

Structure of remuneration

Element	Purpose and link to strategy	Operation (including maximum levels)	Framework used to assess performance and provisions for the recovery of sums paid
Salary and fees	To provide the core reward for the role Sufficient to attract, retain and motivate high calibre Executives	Basic salaries are reviewed annually, with changes effective from February 1st Salaries are typically set having regard to competitive market practice, each Director's contribution to the business, general inflation rates and the conditions within the Group Salaries may be adjusted and any increase will ordinarily be (in percentage of salary terms) in line with those of the wider workforce Increases beyond those granted to the wider workforce (in percentage of salary terms) may be awarded in certain circumstances such as where there is a change in responsibility, progression in the role, experience or a significant increase in the scale of the role and/or size, value and/or complexity of the Group Salary levels for current incumbents for the 2017 financial year are as follows: Chairman/CEO: £320,924 Chief Operating Officer: £254,345 Group Finance Director: £190,000	The Committee considers individual salaries at the appropriate Committee meeting each year after having due regard to the factors noted in operating the salary policy No recovery provisions apply to salary
Benefits in kind	In line with the Company's strategy to keep remuneration simple and consistent with practices in the market	Executive Directors receive car benefit, medical cover and life cover in line with other senior management Executive Directors also receive personal accident and sickness cover The cost to the Company of providing these benefits may vary from year to year depending on the cost of insuring the benefit	Not applicable No recovery provisions apply to benefits
Pension	To provide post-retirement remuneration and market typical benefits to ensure that the overall remuneration package is competitive	Defined contribution plan with up to 10% monthly employer contributions A cash alternative may be considered	Not applicable No recovery provisions apply to pension benefits
Annual Bonus	To incentivise and recognise execution of the business strategy on an annual basis Rewards the achievement of annual financial, operational and individual goals	Bonuses are capped at 100% of basic salary Bonus payments are proposed to the Board after the end of each financial year and approved by the Committee for payment in March The bonus is calculated using pro-rata base salary if the Director joined the Company during the year If the Director resigns or has his/her employment terminated before the payment date, no bonus will normally be payable	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, as well as operational and individual goals No recovery provisions apply to the Annual Bonus.

DIRECTORS' REMUNERATION REPORT

Continued

Element	Purpose and link to strategy	Operation (including maximum levels)	Framework used to assess performance and provisions for the recovery of sums paid
Long-term incentive plans (LTIPs)	<p>To align the interests of the Executive Directors with the performance of the business and the interests of the shareholders through the use of share option schemes</p> <p>To incentivise and recognise execution of the business strategy over the longer term</p> <p>Rewards strong financial performance</p>	<p>At the discretion of the Board and approval of the Remuneration Committee the Company may issue share options to Directors up to a maximum of two times salary in each year</p> <p>In exceptional circumstances the Board has the discretion to issue options up to four times salary although this power has not been used for more than ten years</p> <p>Options will normally be granted at market value on the date of grant unless otherwise stated in a Service Agreement</p> <p>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</p> <p>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</p>	<p>Share Awards vest based on three year performance against a challenging range of financial targets</p> <p>No recovery provisions apply to the LTIP. Any provisions will be considered in 17/18 in line with D1.1 of the Corporate Governance code</p>

The Committee has not been required to apply any discretion during 2017 outside the stated Remuneration Policy.

Any use of the above discretions would, where relevant, be explained in the annual Directors' Remuneration Report and may, as appropriate, be the subject of consultation with the Company's major shareholders.

The performance metrics that are used for our annual bonus and LTIP are to reflect the Group's key performance indicators, notably 'Profit before Tax'.

The Executive remuneration policy is broadly in line with other French Connection employees, with the main difference that there is no share scheme below senior Executive level and some variation of benefits offered.

Any loss of office payment will be approved by the Group Board and Remuneration Committee. Any payment will be made at discretion and on a case-by-case basis. Any payments made beyond contractual and statutory obligations would be exceptional in nature either due to additional obligations taken on by the departing Director or due to specific circumstance and always benchmarked against market practice.

Illustration of application of policy

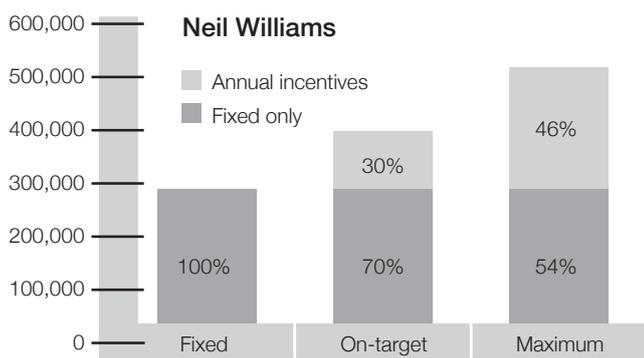
The tables below represent the variations in remuneration at different levels of performance for the first year application of the remuneration policy for the Executive Directors.



	Base	Benefit	Pension	Total
Fixed (£)	320,924	27,009	32,092	380,025
On-target	On-target is assumed to be an annual bonus equal to 50% of maximum			
Maximum	Full payout of annual variable pay i.e. 100% of base salary			

DIRECTORS' REMUNERATION REPORT

Continued



	Base	Benefit	Pension	Total
Fixed (£)	254,345	17,350	12,294	283,989
On-target	On-target is assumed to be an annual bonus equal to 50% of maximum			
Maximum	Full payout of annual variable pay i.e. 100% of base salary			



	Base	Benefit	Pension	Total
Fixed (£)	190,000	11,096	19,000	220,096
On-target	On-target is assumed to be an annual bonus equal to 50% of maximum			
Maximum	Full payout of annual variable pay i.e. 100% of base salary			

Executive Director's terms of employment

Neil Williams' service contract is dated 17 April 1996, has an indefinite term, and includes provision for a notice period of twelve months by either party.

Lee Williams' service contract is dated 4 April 2016, has an indefinite term, and includes provision for a notice period of six months by either party.

The service agreements can be inspected at the Group registered office.

Stephen Marks has no service contract.

Non-Executive Directors

Non-Executive Directors have specific terms of engagement and the Board determines their remuneration.

Dean Murray's terms of engagement are dated 7 March 2008, have an indefinite term and allow for a notice period of one month.

Claire Kent's terms of engagement are dated 3 October 2008, have an indefinite term and allow for a notice period of one month.

Christos Angelides' terms of engagement were dated 15 March 2016 and terminated on 28 February 2017.

The Non-Executive Directors each receive total annual salaries of £30,000.

No detailed disclosures have been provided for Non-Executive Directors other than for that relating to their fees, as this is the only form of remuneration the Non-Executive Directors receive.

Section 2: Application of the remuneration policy for 2017

The Executive Directors' salaries will be reviewed on 1 April 2017 and will be increased as follows:

Stephen Marks	+2%
Neil Williams	+2%
Lee Williams	+2%

The annual bonus for the 2017 financial year will operate on the same basis as for the 2016 financial year and will be consistent with the policy detailed in the Remuneration policy section of this report in terms of the maximum bonus opportunity. The measures have been selected to reflect goals that support the key strategic objectives of the Company.

The Remuneration Committee will exercise their discretion to grant share options according to the Remuneration Policy during the Financial Year 2017 dependent upon the financial position of the Group and the personal contribution of each Executive Director. Currently no share grant is contemplated for the forthcoming year.

DIRECTORS' REMUNERATION REPORT

Continued

Directors' single figure of total remuneration (audited)

The following table sets out the single figure of total remuneration for Directors for the financial years ended 31 January 2017 and 2016:

Director's earnings

Directors' emoluments

Year ended 31 January 2017	Salary & fees £000	Benefits in kind £000	Annual bonus £000	Pension £000	Total £000
Executive Directors					
Stephen Marks	321	27	–	32	380
Neil Williams	255	17	–	12	284
Lee Williams*	158	9	–	16	183
Non-Executive Directors					
Dean Murray	30	–	–	–	30
Claire Kent	30	–	–	–	30
Christos Angelides+	27	–	–	–	27
	821	53	–	60	934

* Lee Williams joined the Board as Group Finance Director on 4 April 2016

+ Christos Angelides joined the Board as Non-Executive Director on 15 March 2016 and resigned on 28 February 2017

Directors' emoluments

Year ended 31 January 2016	Salary & fees £000	Benefits in kind £000	Annual bonus £000	Pension £000	Total £000
Executive Directors					
Stephen Marks	315	25	–	31	371
Neil Williams	238	17	–	25	280
Adam Castleton*	164	14	–	16	194
Non-Executive Directors					
Dean Murray	30	–	–	–	30
Claire Kent	30	–	–	–	30
	777	56	–	72	905

* Adam Castleton ceased to be an Executive Director and the Group Finance Director of the Company on 30 October 2015. Mr Castleton's share options lapsed on 30 October 2015.

Percentage change in remuneration of Chief Executive

The Chief Executive received a 2% pay increase in 2017 in line with the rest of the eligible Group employees. There was no Group increase in benefits in kind or pension contributions. No annual bonus was paid to the Chief Executive in 2017 (2016: £Nil). Employee annual incentives have not been finalised at the signing date of the Annual Report.

Relative importance of spend on pay

Remuneration paid to all employees of the Group during 2017 was £34.0m which represented 43% of the total overheads of the Group (2016: £35.8m (41%)).

The table below shows the total pay for all of the Group's employees compared to distributions.

	2017 £m	2016 £m	% change
Employee costs	34.0	35.8	(5)%
Dividends	–	–	–

DIRECTORS' REMUNERATION REPORT

Continued

Directors' shareholding and share interests (audited)

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 February 2016 No. of options	Issued during the year	31 January 2017 No. of options	Exercise price (p)	Dates of grant	Dates from which exercisable	Dates of expiry
Stephen Marks	376,700	–	376,700	56.20	29 Oct 2008	29 Oct 2011	29 Oct 2018
Neil Williams	284,500	–	284,500	56.20	29 Oct 2008	29 Oct 2011	29 Oct 2018
Lee Williams	–	537,736	537,736	35.33	4 Jul 2016	4 Jul 2019	4 Jul 2026

No options were exercised during the year.

The options awarded to Lee Williams during the year have targeted performance conditions attached (50% of the share options will be exercisable if the minimum performance criteria is met) and a three year service condition. The face value of these options based on the share price at the date of the grant was £190,000.

The market price of the shares at 31 January 2017 was 33.50p and the range during the year was 31.25p to 50.25p. The average market share price during the year was 38.51p. The options granted are exercisable between three and ten years after the date of grant and were subject to performance conditions described above.

Statement of Directors' shareholding and share interests (audited)

	Share options* with performance conditions No.	Vested but unexercised No.	Shares beneficially owned No.	Total interest in shares No.
Stephen Marks	–	376,700	40,094,190	40,470,890
Neil Williams	–	284,500	–	284,500
Lee Williams	537,736	–	–	537,736
Christos Angelides	–	–	120,000	120,000
	537,736	661,200	40,214,190	41,413,126

* Outstanding service conditions

Statement of shareholding voting

The results of the vote on the Remuneration Report at the 2016 AGM are set out in the table below.

	Votes for		Discretion		Votes against		Votes withheld
	Number	%	Number	%	Number	%	Number
Remuneration Report	51,242,350	99.93	12,900	0.03	22,640	0.04	5,000

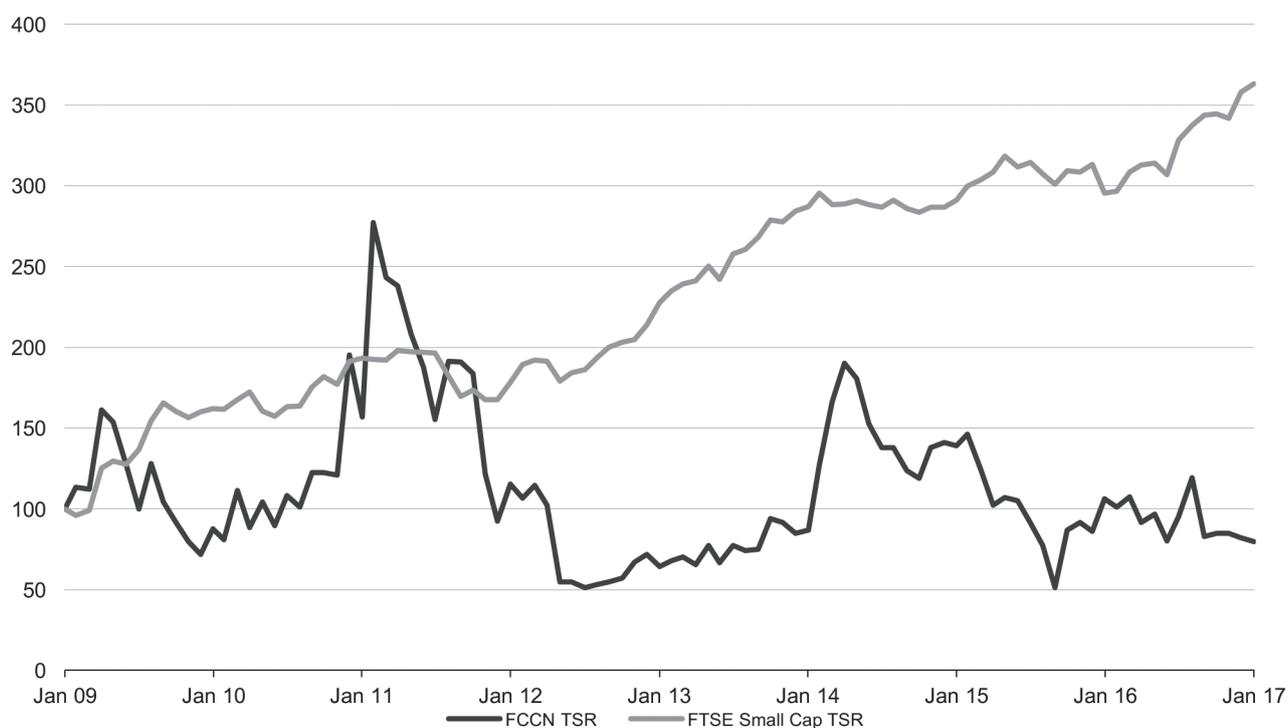
DIRECTORS' REMUNERATION REPORT

Continued

Review of past performance and total shareholder return

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

Total cumulative shareholder return for the eight-year period to 31 January 2017



	2010 £'000	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000
Total CEO remuneration	330	505	342	352	402	361	371	380
Annual variable element award rates against maximum opportunity	0%	62%	0%	0%	17%	0%	0%	0%

Approval

This report was approved by the Board of Directors on 14 March 2017 and signed on its behalf by:

Lee Williams

Company Secretary

Company Number: 1410568

14 March 2017

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, including FRS 101 *Reduced Disclosure Framework*.

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 Strategic Report, 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.

Responsibility statement of the Directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the strategic report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

By order of the Board

Stephen Marks

Chairman and Chief Executive

14 March 2017

Lee Williams

Group Finance Director

INDEPENDENT AUDITOR'S REPORT

To the members of French Connection Group PLC

Opinions and conclusions arising from our audit

1 Our opinion on the financial statements is unmodified

We have audited the financial statements of French Connection Group PLC for the year ended 31 January 2017 set out on pages 34 to 62

- 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 2017 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with UK Accounting Standards, including FRS 101 *Reduced Disclosure Framework*; 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.

2 Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risk of material misstatement that had the greatest effect on our audit was as follows:

Carrying value of inventory (£31.7m (2016: £36.2m)) Risk vs 2016: ◀▶

Refer to page 21 (Audit Committee Report), page 40 (accounting policy) and page 54 (financial disclosures).

- *The risk* – Inventory is carried in the financial statements at the lower of cost and net realisable value. The net realisable value of inventory in the fashion industry is difficult to estimate, in particular due to uncertain consumer demand. As a result there is a risk that the amount recognised exceeds the lower of net realisable value or cost.
- *Our response* – In this area our audit procedures were as follows:
 - We tested the Group's controls over inventory by attending inventory counts at both the warehouse and a number of retail sites. We tested the controls over the calculation of inventory loss allowances, inventory provisions, standard costs, and reconciliation between the inventory ledger and the general ledger.
 - We challenged the adequacy of the Group's provisions against inventory by corroborating on a sample basis that items on the stock ageing listing by season were classified appropriately in the relevant ageing bracket and assessed the reasonableness of the provision percentages applied to each season based on our knowledge of the Group and the industry. We challenged the Group's assumptions used in making the most significant judgements regarding the net realisable value of inventory, in particular on the extent to which old inventory can be sold through various channels, based on our knowledge of the industry and of current and historical performance of the Group. We tested the accuracy of the current year provisions taking into consideration the historical accuracy of prior year provisions.
 - We considered the adequacy of the Group's disclosures and judgements involved in respect of the degree of estimation involved in valuing inventory.

3 Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at £1.55m (2016: £1.65m). This has been determined with reference to a benchmark of Group revenue, of £153.2m (2016: £164.2m), of which it represents 1.0% (2016: 1.0%) reflecting industry consensus levels. This benchmark is considered to be one of the principal considerations for members of the Company in assessing the financial performance of the Group and providing a more stable measure year on year than Group profit or loss.

We report to the Audit Committee any corrected and uncorrected misstatements we identified through our audit with a value in excess of £0.075m (2016: £0.08m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's fifteen (2016: fifteen) reporting components we subjected seven (2016: seven) to audits for Group reporting purposes and one (2016: one) in the USA to specified risk focused audit procedures. The latter was not individually financially significant enough to require an audit for Group reporting purposes, but did present specific individual risks that needed to be addressed and as such we performed specified audit procedures to address these risks.

INDEPENDENT AUDITOR'S REPORT

To the members of French Connection Group PLC

The components within the scope of our work accounted for the following percentages of the Group's results:

	Number of components	Group revenue	Total profits and losses that made up Group loss before tax	Group total assets
Audits for Group reporting purposes	7	69%	86%	78%
Specified risk-focused audit procedures	1	17%	0%	11%
Total	8	86%	86%	89%
2016				
Audits for Group reporting purposes	7	66%	84%	80%
Specified risk-focused audit procedures	1	18%	4%	12%
Total	8	84%	88%	92%

For these residual components which represent 14% (2016: 16%) of Group revenue and 11% (2016: 8%) of total Group assets, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group audit team instructed the component auditors in the USA and UK as to the significant areas to be covered, including the relevant risk detailed above and the information to be reported back. The Group audit team approved the component materialities which were set at £1.0m (2016: £1.0m). The work on the USA and UK components was performed by component auditors.

The Group audit team held telephone meetings with the component auditors in the USA and the UK. At these meetings, the findings reported to the Group audit team were discussed in more detail, and any further work required by the Group audit team was then performed by the component auditors.

4 Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

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 Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

5 We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the Directors' statement of viability statement on page 16, concerning the principal risks, their management, and, based on that, the Directors' assessment and expectations of the Group's continuing in operation over the three years to 31 January 2020; or
- the disclosures in Note 1 of the financial statements concerning the use of the going concern basis of accounting.

INDEPENDENT AUDITOR'S REPORT

To the members of French Connection Group PLC

6 We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the Audit Committee Report does not appropriately address matters communicated by us to the audit committee.

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

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

Under the Listing Rules we are required to review:

- the Directors' statements, set out on page 15, in relation to going concern and longer-term viability; and
- the part of the Corporate Governance Statement on pages 17 to 19 relating to the Company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 30 the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. 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. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Jeremy Hall (Senior Statutory Auditor)

For and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square, London E14 5GL

14 March 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 January 2017

	Note	2017 £m	2016 £m
Revenue	2	153.2	164.2
Cost of sales		(83.1)	(88.2)
Gross profit	2	70.1	76.0
Operating expenses	3	(79.3)	(87.6)
Other operating income	4	6.3	7.3
Net (loss)/gain on store disposals and closures		(1.6)	1.2
Finance expense	6	-	-
Share of loss of joint ventures, net of tax	13	(0.8)	(0.4)
Operating loss		(5.3)	(3.5)
Underlying operating loss		(3.7)	(4.7)
Net (loss)/gain on store disposals and closures		(1.6)	1.2
Loss before taxation	7	(5.3)	(3.5)
Taxation	8	-	-
Loss for the year		(5.3)	(3.5)

The Group's results were entirely from continuing operations.

	Note	2017 £m	2016 £m
Loss for the year		(5.3)	(3.5)
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss			
Currency translation differences for overseas operations		(0.7)	1.7
Currency translation differences on foreign currency loans, net of tax		1.8	(0.4)
Effective portion of changes in fair value of cash flow hedges		(0.4)	-
Other comprehensive income for the year, net of tax		0.7	1.3
Total comprehensive income for the year		(4.6)	(2.2)
Loss attributable to:			
Equity holders of the Company		(5.6)	(3.3)
Non-controlling interests		0.3	(0.2)
Loss for the year		(5.3)	(3.5)
Total comprehensive income attributable to:			
Equity holders of the Company		(4.9)	(2.0)
Non-controlling interests		0.3	(0.2)
Total income and expense recognised for the year		(4.6)	(2.2)
Losses per share			
Basic and diluted losses per share	10	(5.8)p	(3.4)p

The notes on pages 38 to 55 form part of these accounts.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 January 2017

	Note	2017 £m	2016 £m
Assets			
Non-current assets			
Intangible assets	11	0.4	0.4
Property, plant and equipment	12	2.7	3.0
Investments in joint ventures	13	3.1	3.5
Deferred tax assets	20	4.4	4.9
Total non-current assets		10.6	11.8
Current assets			
Inventories	14	31.7	36.2
Trade and other receivables	15	27.9	28.4
Cash and cash equivalents	16	13.5	14.0
Derivative financial instruments	26	–	0.3
Total current assets		73.1	78.9
Total assets		83.7	90.7
Current liabilities			
Trade and other payables	17	32.2	35.0
Provisions	18	1.4	1.1
Derivative financial instruments	26	0.1	–
Total current liabilities		33.7	36.1
Net assets		50.0	54.6
Equity			
Called-up share capital	21	1.0	1.0
Share premium account		9.6	9.6
Other reserves		8.0	7.3
Retained earnings		30.5	36.1
Total equity attributable to equity holders of the Company		49.1	54.0
Non-controlling interests		0.9	0.6
Total equity		50.0	54.6

The notes on pages 38 to 55 form part of these accounts.

These accounts were approved by the Board of Directors on 14 March 2017 and were signed on its behalf by:

Stephen Marks

Director

Lee Williams

Director

Company Number: 1410568

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

At 31 January 2017

	Share capital £m	Share premium £m	Hedging reserve £m	Translation reserve £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
Balance at 31 January 2015	1.0	9.6	0.3	5.7	39.4	56.0	0.8	56.8
Loss for the year ended 31 January 2016					(3.3)	(3.3)	(0.2)	(3.5)
Other comprehensive income								
Currency translation differences for overseas operations				1.7		1.7		1.7
Currency translation differences on foreign currency loans, net of tax				(0.4)		(0.4)		(0.4)
Balance at 31 January 2016	1.0	9.6	0.3	7.0	36.1	54.0	0.6	54.6
Loss for the year ended 31 January 2017					(5.6)	(5.6)	0.3	(5.3)
Other comprehensive income								
Currency translation differences for overseas operations				(0.7)		(0.7)		(0.7)
Currency translation differences on foreign currency loans, net of tax				1.8		1.8		1.8
Effective portion of changes in fair value of cash flow hedges			(0.4)			(0.4)		(0.4)
Balance at 31 January 2017	1.0	9.6	(0.1)	8.1	30.5	49.1	0.9	50.0

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 2017

	Note	2017 £m	2016 £m
Operating activities			
Loss for the period		(5.3)	(3.5)
Adjustments for:			
Depreciation and impairment		1.1	1.6
Share of loss of joint ventures		0.8	0.4
Non-operating loss/(profit) on store disposals and closures		1.6	(1.4)
Operating cash flows before changes in working capital and provisions		(1.8)	(2.9)
Decrease/(increase) in inventories		5.3	(0.5)
Increase in trade and other receivables		(1.2)	(2.1)
Decrease in trade and other payables		(3.2)	(1.4)
Cash flows from operations		(0.9)	(6.9)
Income tax paid		(0.1)	(0.5)
Cash flows from operating activities		(1.0)	(7.4)
Investing activities			
Net costs from investments in joint ventures		–	(0.5)
Acquisition of property, plant and equipment		(0.7)	(0.8)
Net proceeds/(costs) from store closures		1.1	(0.5)
Cash flows from investing activities		0.4	(1.8)
Net decrease in cash and cash equivalents	23	(0.6)	(9.2)
Cash and cash equivalents at 1 February	23	14.0	23.2
Exchange rate fluctuations on cash held	23	0.1	–
Cash and cash equivalents at 31 January	23	13.5	14.0

The notes on pages 38 to 55 form part of these accounts.

NOTES TO THE GROUP ACCOUNTS

Year ended 31 January 2017

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 56 to 62.

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 Financial Review. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review. In addition Note 26 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.

The Group ended the year with £13.5m of net cash and no borrowings. Over the cycle of the year the Group had minimum net cash of £2.0m. 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 a period of one year from the date of this report. 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 29. 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.

The following Adopted IFRSs have been issued but have not been applied by the Group in these financial statements. The Group is currently reviewing the impact on the financial statements:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contract with Customers
- IFRS 16 Leases (not yet endorsed)
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses
- Amendments to IAS 7: Disclosure Initiative
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions
- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

There are no other standards, amendments or interpretations adopted by the EU that are in issue but not yet effective that are expected to have a significant impact on the Group 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. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Joint ventures are those entities over whose activities the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities. Joint ventures are accounted for using the

NOTES TO THE GROUP ACCOUNTS

Continued

1 Accounting policies continued

b) Basis of consolidation continued

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 Our Business.

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

f) Non-derivative financial instruments

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

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

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

NOTES TO THE GROUP ACCOUNTS

Continued

1 Accounting policies continued

f) Non-derivative financial instruments continued

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 and work in progress are stated at the lower of cost and net realisable value. 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. Net realisable value is the estimated selling price in the ordinary course of business. Provision is made for obsolete, slow moving or defective items where appropriate.

j) Impairment

The carrying amount of the Group's assets, other than 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 11.

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 ecommerce sales, this normally occurs at the time the goods are shipped from the warehouse. Returns on ecommerce sales are not deemed material and as such no significant estimate or judgement is deemed required.

l) Other operating income

Licensing revenue is included within other operating income. Licence income receivable from licensees are accrued as earned on the basis of the terms of the relevant licence agreement, which is typically on the basis of a variable amount based on turnover.

m) 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.

NOTES TO THE GROUP ACCOUNTS

Continued

1 Accounting policies continued

n) 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 substantively 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 substantively 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.

o) 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.

p) 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.

q) 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 underlying operating profits of each division and exclude store disposal and closure costs, tax and financing items. Overheads represent the direct costs of the divisional operations, common overheads shared between the divisions within geographic locations, in particular, the costs of local management, advertising, finance and accounting and Group management overheads including the costs of Group management, legal, insurance and IT costs.

r) Capital management

Details of capital risk management are set out in Note 26 to the Group accounts.

s) Financial risk management

Details of financial risk management are set out in Note 26 to the Group accounts.

t) 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.

u) 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.

NOTES TO THE GROUP ACCOUNTS

Continued

2 Operating segments

a) Segment reporting

The Group's operating segments have been determined based on the key monthly information reviewed by the Board of Directors (deemed to be the Chief Operating Decision Maker). The key metric reviewed cover the Retail and Wholesale sectors in totality, with the performance by key geographies also reviewed.

In addition to the information provided below, detailed commentary on the results of Retail and Wholesale, together with an analysis of the geographical performance, can be found in the Financial Review.

b) Segment revenue and results

Income Statement	2017 £m	2016 £m
Revenue		
Retail	87.9	92.4
Wholesale	65.3	71.8
Group revenue	153.2	164.2
Gross profit	70.1	76.0
Retail	56.8%	57.3%
Wholesale	30.9%	32.2%
Group gross margin	45.8%	46.3%
Underlying operating (loss)/profit		
Retail	(9.8)	(15.6)
Wholesale	10.0	13.3
Licence income	6.3	7.3
Common and Group overheads	(9.4)	(9.3)
Share of loss from joint ventures	(0.8)	(0.4)
Underlying Group operating loss*	(3.7)	(4.7)
Underlying operating margin		
Retail	(11.1)%	(16.9)%
Wholesale	15.3%	18.5%
Underlying Group operating margin	(2.4)%	(2.9)%

c) Geographical information

	2017 £m	2016 £m
Revenue		
UK/Europe	76.4%	73.9%
North America	19.4%	20.7%
Rest of the World	4.2%	5.4%
Divisional operating (loss)/profit		
UK/Europe	(0.1)	(2.8)
North America	1.1	1.8
Rest of the World	(0.9)	0.1
Group overheads and finance income	(3.8)	(3.8)
Underlying Group operating loss*	(3.7)	(4.7)

* excludes net (loss)/gain on store disposals and closures

NOTES TO THE GROUP ACCOUNTS

Continued

2 Operating segments continued

d) Revenue from external customers

	2017 £m	2016 £m
UK	101.2	106.9
US	26.8	29.3
Canada	3.3	4.8
Other	21.9	23.2
	153.2	164.2

e) Non-current assets

	2017 £m	2016 £m
UK	6.9	7.6
US	0.1	0.2
Other	3.6	4.0
	10.6	11.8

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

3 Operating expenses

	2017 £m	2016 £m
Selling and distribution costs	71.4	79.6
Administration costs	7.9	8.0
	79.3	87.6

4 Other operating income

	2017 £m	2016 £m
Licensing income	6.3	7.3

5 Staff numbers and costs

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

	2017 Number	2016 Number
Selling, distribution and retail	1,415	1,655
Design, development and production management	180	194
Administration	129	130
	1,724	1,979

The aggregate payroll costs of these people were as follows:

	2017 £m	2016 £m
Wages and salaries	30.8	32.6
Social security costs	2.7	2.7
Defined contribution pension costs	0.5	0.5
	34.0	35.8

Included within the total staff cost above is the remuneration of the Directors totalling £0.9m (2016: £0.9m). Details of Directors' remuneration, share options and pension entitlements are disclosed in the Directors' Remuneration Report. Details of pension costs are disclosed in Note 28 to the Group accounts.

NOTES TO THE GROUP ACCOUNTS

Continued

6 Finance income and expense

Recognised in the income statement	2017 £m	2016 £m
Finance expense	-	-

7 Loss before taxation

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

	2017 £m	2016 £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	0.1
tax and other assurance services	0.1	0.1
Depreciation and impairment of owned assets	1.1	1.6
Store closure provisions	1.6	(1.2)
Operating lease rentals		
Plant and machinery	0.3	0.3
Leasehold properties	20.3	24.1
Rent receivable	(2.7)	(2.3)

The auditor's remuneration in respect of the audit of the Company was £37,000 (2016: £37,000).

During the year, the fees payable to the auditors and their associates for non-audit services was £69,000 (2016: £104,000) in respect of tax compliance and advisory services (£66,000 (2016: £66,000)), royalty and turnover reviews (£3,000 (2016: £38,000)).

8 Taxation

a) Recognised in the statement of comprehensive income

	2017 £m	2016 £m
Current tax		
Overseas tax	0.1	0.3
Adjustment in respect of previous periods	(0.1)	(0.1)
	-	0.2
Deferred tax – origination and reversal of		
UK temporary differences	(0.2)	-
Effect of change in tax rates	0.2	-
Adjustment in respect of previous periods	-	(0.2)
	-	(0.2)
Tax on loss (Note 8b)	-	-

NOTES TO THE GROUP ACCOUNTS

Continued

8 Taxation continued

b) Factors affecting tax credit for year

The tax credited for the year is different to the standard 20.00% (2016: 20.17%) rate of corporation tax in the UK. The differences are explained below:

	2017 £m	2016 £m
Loss before taxation	(5.3)	(3.5)
Loss multiplied by the standard rate of corporation tax in the UK of 20.00% (2016: 20.17%)	(1.1)	(0.7)
Effects of :		
Expenses not deductible	0.2	0.1
Trading losses carried forward	0.6	0.8
Share of joint venture tax credit which has been netted off within share of loss of joint ventures		
Reduction in deferred tax asset relating to reduction in UK tax rate (20% to 19% effective from 1 April 2017)	0.2	0.1
Adjustments in respect of previous periods	(0.1)	(0.3)
Total tax credit for the year (Note 8a)	-	-

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 past tax losses. A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 31 January 2017 has been calculated based on these rates.

c) Income tax recognised in other comprehensive income

	Before tax 2017 £m	Tax charge 2017 £m	Net of tax 2017 £m	Before tax 2016 £m	Tax credit 2016 £m	Net of tax 2016 £m
Currency translation differences on foreign overseas operations	(0.7)	-	(0.7)	1.7	-	1.7
Currency translation differences on foreign currency loans	2.3	(0.5)	1.8	(0.6)	0.2	(0.4)
Effective portion of changes in fair value of cash flow hedges	(0.4)	-	(0.4)	-	-	-
	1.2	(0.5)	0.7	1.1	0.2	1.3

9 Dividends – equity

The Board is proposing that no dividend should be paid for the year (2016: £Nil). No dividends were paid during the year to the minority shareholders of a subsidiary undertaking of the Group (2016: £Nil).

10 Losses per share

Basic and diluted losses per share are calculated on 96,253,134 (2016: 96,216,764) shares being the weighted average number of ordinary shares during the year.

Basic and diluted losses per share of (5.8) pence per share (2016: losses of (3.4) pence) is based on losses of £(5.6)m (2016: losses of £(3.3)m) attributable to equity shareholders.

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

	2017 £m	2017 pence per share	2016 £m	2016 pence per share
Loss attributable to equity shareholders	(5.6)	(5.8)p	(3.3)	(3.4)p
Net loss/(gain) on store disposals and closures	1.6	1.6p	(1.2)	(1.3)p
Adjusted loss	(4.0)	(4.2)p	(4.5)	(4.7)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 TO THE GROUP ACCOUNTS

Continued

11 Intangible assets

Goodwill	2017 £m	2016 £m
Cost		
At 1 February and 31 January	14.3	14.3
Impairment		
At 1 February and 31 January	13.9	13.9
Net book value at 31 January	0.4	0.4

12 Property, plant and equipment

2017	Short leasehold property £m	Plant equipment fixtures and fittings £m	Total £m
Cost			
At 1 February 2016	7.2	46.6	53.8
Currency movements	0.3	0.9	1.2
Additions	–	0.7	0.7
Disposals	(1.3)	(3.5)	(4.8)
At 31 January 2017	6.2	44.7	50.9
Depreciation			
At 1 February 2016	6.9	43.9	50.8
Currency movements	0.3	0.8	1.1
Charge for year	–	1.1	1.1
Disposals	(1.3)	(3.5)	(4.8)
At 31 January 2017	5.9	42.3	48.2
Net book value			
At 31 January 2017	0.3	2.4	2.7
At 31 January 2016	0.3	2.7	3.0

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.

Property, plant and equipment with a net book value of £Nil (2016: £0.3m) was disposed of during the year. Net proceeds were £Nil (2016: £0.5m) resulting in a profit on disposal of £Nil (2016: £0.2m).

The Group has £40.8m (2016: £43.6m) of gross assets with a £Nil net book value.

13 Investments

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

	2017 £m	2016 £m
Share of current assets	4.6	3.9
Share of non-current assets	0.5	0.6
Share of current liabilities	(2.0)	(1.0)
	3.1	3.5
Share of revenue	4.2	4.9
Share of expense	(5.0)	(5.3)
	(0.8)	(0.4)

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

NOTES TO THE GROUP ACCOUNTS

Continued

14 Inventories

	2017 £m	2016 £m
Raw materials and consumables	0.1	0.1
Work in progress	0.1	0.3
Finished goods	31.5	35.8
	31.7	36.2

During the year, inventory write-downs of £2.8m (2016: £3.2m) were expensed within cost of sales. The amount of inventory recognised as an expense within cost of sales during the current year is £72.4m (2016: £77.5m).

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.

15 Trade and other receivables

	2017 £m	2016 £m
Trade receivables	12.4	12.8
Other receivables	1.4	1.5
Prepayments and accrued income	14.1	14.1
	27.9	28.4

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 £0.2m (2016: £0.2m). During the year £0.0m (2016: £0.0m) 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 26.

16 Cash and cash equivalents

	2017 £m	2016 £m
Cash and cash equivalents in the balance sheet and cash flow	13.5	14.0

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities is disclosed in Note 26.

17 Current trade and other payables

	2017 £m	2016 £m
Trade payables	17.7	19.9
Other taxation and social security	3.1	3.3
Accruals and deferred income	11.4	11.8
	32.2	35.0

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 26.

18 Provisions

	2017 £m	2016 £m
Store disposals and closures		
Balance at 1 February	1.1	1.0
Utilised during the year	(1.3)	(1.1)
Increase during the year	1.6	1.2
Balance at 31 January	1.4	1.1

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

NOTES TO THE GROUP ACCOUNTS

Continued

19 Current tax payable

	2017 £m	2016 £m
Overseas tax	–	–

20 Deferred tax

Deferred tax assets are attributable to the following:

Recognised	2017 £m	2016 £m
Trading losses	1.2	1.2
Property, plant and equipment	3.0	3.5
Other timing differences	0.2	0.2
	4.4	4.9

In addition, the Group has unused tax trading losses with a potential value of £14.6m (2016: £13.0m), which have not been recognised as a deferred tax asset. As the Group returns to profit, these tax losses can be utilised.

Not recognised	2017 £m	2016 £m
Trading losses	14.6	13.0
Property, plant and equipment	0.9	0.4
Other timing differences	1.1	1.0
	16.6	14.4

21 Share capital and share options

Ordinary shares of 1 pence each	2017 Number	2017 £m	2016 Number	2016 £m
Allotted, called up and fully paid shares at the beginning	96,253,134	1.0	96,178,134	1.0
Shares issued during the year in respect of share options	–	–	75,000	–
Allotted, called up and fully paid shares at the end of the year	96,253,134	1.0	96,253,134	1.0

Ordinary shareholders have rights to dividends.

At 31 January 2017, 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)	1,473,520	56.20p	10 years
19 October 2015	150,000	32.50p	10 years
4 July 2016	537,736	35.33p	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. More details of the share option scheme can be found in the Directors' Remuneration Report.

NOTES TO THE GROUP ACCOUNTS

Continued

21 Share capital and share options continued

	Weighted average exercise price	Number of options 2017	Weighted average exercise price	Number of options 2016
Outstanding at the beginning of the period	54.12p	1,707,620	44.92p	2,557,620
Forfeited during the period	56.20p	(84,100)	28.72p	(675,000)
Lapsed during the period	–	–	24.50p	(250,000)
Exercised during the period	–	–	24.50p	(75,000)
Granted during the period	35.33p	537,736	32.50p	150,000
Outstanding at the end of the period	49.36p	2,161,256	54.12p	1,707,620

The number of share options exercisable at the year end is 1,473,520 (2016: 1,557,620).

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

22 Reconciliation of decrease in cash to movement in net funds

	2017 £m	2016 £m
Change in net funds from cash flows	(0.6)	(9.2)
Translation differences	0.1	–
Net funds at beginning of year	14.0	23.2
Net funds at end of year	13.5	14.0

23 Analysis of net funds

	1 February 2016 £m	Cash flow £m	Non cash changes £m	31 January 2017 £m
Cash and cash equivalents in the balance sheet and cash flow	14.0	(0.6)	0.1	13.5
Net funds	14.0	(0.6)	0.1	13.5

24 Commitments

Aggregate future rental commitments payable under non-cancellable operating leases at 31 January 2017 for which no provision has been made in these accounts, were as follows:

	Leasehold property		Other	
	2017 £m	2016 £m	2017 £m	2016 £m
Within one year	21.2	20.1	0.2	0.3
Within two to five years	54.8	59.7	0.4	0.5
After five years	26.2	31.4	–	–
	102.2	111.2	0.6	0.8

Aggregate future rentals receivable under non-cancellable operating leases at 31 January 2017 for which no accrual has been made in these accounts were as follows:

	Leasehold property	
	2017 £m	2016 £m
Within one year	3.1	2.5
Within two to five years	8.3	9.5
After five years	4.0	5.1
	15.4	17.1

At 31 January 2017 the Group had contracted capital commitments not provided for in the accounts of £0.1m (2016: £0.1m).

At 31 January 2017 the Group had commitments on foreign exchange contracts amounting to £4.6m (2016: £3.0m). In addition, the Group had commitments in respect of letters of credit of £0.4m (2016: £1.4m).

NOTES TO THE GROUP ACCOUNTS

Continued

25 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 £0.5m (2016: £0.5m).

26 Financial instruments

Details of financial risk management, treasury policies and use of financial instruments are set out in the section entitled 'Principal risks and uncertainties' 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.

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	
	2017 £m	2016 £m
Trade and other receivables	13.8	14.3
Cash and cash equivalents	13.5	14.0
	27.3	28.3

NOTES TO THE GROUP ACCOUNTS

Continued

26 Financial instruments continued

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

	Carrying amount	
	2017 £m	2016 £m
UK/Europe	8.3	9.0
North America	2.3	2.0
Hong Kong	3.2	3.3
	13.8	14.3

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

	2017 £m	2016 £m
Wholesale customers	12.4	12.8

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

	Gross 2017 £m	Impairment 2017 £m	Gross 2016 £m	Impairment 2016 £m
Current	9.4	–	9.7	–
30 days	1.6	–	1.5	–
60 days	0.6	–	0.5	–
More than 60 days	1.0	(0.2)	1.3	(0.2)
	12.6	(0.2)	13.0	(0.2)

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:

	2017 £m	2016 £m
At 1 February	0.2	0.3
Movement during year	–	(0.1)
At 31 January	0.2	0.2

Interest rate profile of financial assets

The interest rate profile of the financial assets of the Group at 31 January 2017 was as follows:

	Financial assets on which no interest is received		Floating rate financial assets		Total	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Sterling	0.1	0.1	8.3	8.5	8.4	8.6
US Dollar	–	–	1.1	2.5	1.1	2.5
Hong Kong Dollar	–	–	1.3	0.6	1.3	0.6
Other	–	–	2.7	2.3	2.7	2.3
Total	0.1	0.1	13.4	13.9	13.5	14.0

Financial assets comprise cash and short term deposits. The effective interest rate on floating rate financial assets during the year was 0.3% (2016: 0.3%).

There were no fixed rate or floating rate financial liabilities at the end of the current or prior year. The effective interest rate on floating rate financial liabilities during the year was 7.1%.

NOTES TO THE GROUP ACCOUNTS

Continued

26 Financial instruments continued

Currency exposure

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

31 January 2017 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	1.8	1.7	–	–	1.2	0.2	4.9
Cash and overdraft	0.3	0.1	–	–	1.3	0.2	1.9
Trade and other payables	(0.4)	(3.8)	–	–	(0.9)	–	(5.1)
Intercompany balances	(0.5)	(1.3)	13.0	(5.1)	9.4	–	15.5
Total	1.2	(3.3)	13.0	(5.1)	11.0	0.4	17.2
31 January 2016 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	1.5	1.4	–	–	0.7	0.1	3.7
Cash and overdraft	0.2	0.8	–	–	0.8	0.1	1.9
Trade and other payables	(0.8)	(2.4)	–	–	(0.7)	–	(3.9)
Intercompany balances	(0.4)	–	10.1	(4.6)	5.7	–	10.8
Total	0.5	(0.2)	10.1	(4.6)	6.5	0.2	12.5

Forward foreign exchange contracts have not been taken into consideration above. As at 31 January 2017, the Group has committed forward foreign exchange contracts of £4.6m (2016: £3.0m).

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2017	2016	2017	2016
US Dollar	1.339	1.521	1.258	1.418
Canadian Dollar	1.764	1.971	1.640	1.996
Hong Kong Dollar	10.390	11.797	9.762	11.040
Euro	1.212	1.378	1.164	1.310

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 2017 £m	Profit and loss 2017 £m	Equity 2016 £m	Profit and loss 2016 £m
US Dollar	–	0.2	(0.1)	–
Canadian Dollar	(1.1)	(0.2)	(0.9)	–
Hong Kong Dollar	0.4	0.1	–	0.4
Euro	(0.6)	(0.5)	(0.3)	(0.4)
	(1.3)	(0.4)	(1.3)	–

NOTES TO THE GROUP ACCOUNTS

Continued

26 Financial instruments continued

Borrowing facilities

Working capital and letter of credit facilities of £5.3m were available to the Group at 31 January 2017 (31 January 2016: £4.4m). The facilities are subject to an annual review and were most recently renewed in October 2016. The Group also has bank guarantees of £0.8m at 31 January 2017 (2016: £1.1m).

Fair values

The fair value of the Group's financial instruments at 31 January 2017 were as follows:

	31 January 2017		31 January 2016	
	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	13.5	13.5	14.0	14.0
Trade receivables	12.4	12.4	12.8	12.8
Trade payables	(17.7)	(17.7)	(19.9)	(19.9)
Derivative financial instruments	(0.1)	(0.1)	0.3	0.3

The fair value of forward exchange contracts outstanding as at 31 January 2017 is a liability of £(0.1)m (2016: asset of £0.3m). £(0.4)m has been debited to the hedging reserve (2016: £Nil).

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 the year end, employees, including the Chairman, hold 41.8% (2016: 41.7%) of ordinary shares. Share options have been issued amounting to 2.2% (2016: 1.6%) of the issued share capital.

The Company will request permission from shareholders if deemed necessary 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.

NOTES TO THE GROUP ACCOUNTS

Continued

27 Directors' interests and related party transactions

The Group made sales of £1.0m (2016: £1.5m) to FCUK IT Company and £0.5m (2016: £0.8m) to FCIT China Limited during the year, both of which are joint ventures. The closing liabilities due from the respective joint ventures are £0.8m (2016: £0.4m) and £0.6m (2016: £0.6m).

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

The Group was invoiced for property costs relating to 202 Westbourne Grove, London and recharged these costs to SAM Corporation Limited. Stephen Marks, Chairman and Chief Executive of French Connection Group PLC is a Director of French Connection Group PLC and is the sole shareholder of SAM Corporation Limited. The total costs invoiced and recharged during the year was £476,474 and was conducted at arm's length. The total amount due to French Connection Group PLC at 31 January 2017 from SAM Corporation Limited was £70,064.

YMC Limited, a subsidiary of French Connection Group PLC, made sales to Une Deux Trois Limited during the year. Stephen Marks is a 25% shareholder of Une Deux Trois Limited. The total sales during the year was £4,321 and was conducted at arm's length. The total amount due to YMC Limited at 31 January 2017 from Une Deux Trois Limited was £5,185.

At 31 January 2017, Stephen Marks, Chairman and Chief Executive had an interest in 40,094,190 ordinary shares (2016: 40,094,190) of which 2,281,500 shares (2016: 2,281,500) were held by family members or in family trusts, representing in aggregate 41.7% (2016: 41.7%) 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.

28 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 £0.5m (2016: £0.5m). At 31 January 2017 and 31 January 2016 there were no outstanding amounts payable to the schemes.

29 Accounting estimates and judgements

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

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. Inventory is carried in the financial statements at the lower of cost and net realisable value. Sales in the fashion industry can be extremely volatile and consumer demand changing significantly based on current trends. As a result there is a risk that the cost of inventory exceeds its net realisable value. Provision is made for obsolete, slow moving or defective items where appropriate. Provisions are considered on a seasonal basis taking into consideration the various channels that are available to the Group to sell existing inventory and the estimated prices that can be achieved.

NOTES TO THE GROUP ACCOUNTS

Continued

30 Related undertakings

In accordance with Section 409 of the Companies Act 2006, a full list of subsidiaries and joint ventures as at 31 January 2017 is disclosed below. Unless otherwise stated, each of the subsidiary undertakings is wholly owned through ordinary shares by French Connection Group PLC. All of the subsidiary undertakings are included within the consolidated financial statements. All trading companies are engaged in the principal activities of the Group, as defined in the Director's report.

Company and Address	Country of Incorporation, Registration and Operation	Principal Activity
French Connection Limited 20-22 Bedford Row, London, WC1R 4JS, England	England	Brand management and licensing
French Connection UK Limited 20-22 Bedford Row, London, WC1R 4JS, England	England	Supply of fashion merchandise
French Connection (London) Limited 20-22 Bedford Row, London, WC1R 4JS, England	England	Supply of fashion merchandise
Contracts Limited 20-22 Bedford Row, London, WC1R 4JS, England	England	Supply of fashion merchandise
French Connection (Hong Kong) Limited Room 01, 22/F, Skyline Tower, 39 Wang Kwong Road, Kowloon Bay, Hong Kong	British Virgin Islands (operates in Hong Kong)	Supply of fashion merchandise
French Connection No 2 pour Hommes Sàrl* 23 Rue Jean Jacques Rousseau, 75001 Paris, France	France	Supply of fashion merchandise
PreTex Textilhandels GmbH* 53 Cecilienallee, 40474 Düsseldorf, Germany	Germany	Supply of fashion merchandise
French Connection Group, Inc.* 18410 Jamaica Avenue, 3rd Floor, Hollis, New York 11423, USA	USA	Supply of fashion merchandise
Louisiana Connection, Ltd.* 18410 Jamaica Avenue, 3rd Floor, Hollis, New York 11423, USA	USA	Supply of fashion merchandise
Roosevelt Connection, Ltd.* 18410 Jamaica Avenue, 3rd Floor, Hollis, New York 11423, USA	USA	Supply of fashion merchandise
Soho Connection, Ltd.* 18410 Jamaica Avenue, 3rd Floor, Hollis, New York 11423, USA	USA	Supply of fashion merchandise
Westwood Connection, Ltd.* 18410 Jamaica Avenue, 3rd Floor, Hollis, New York 11423, USA	USA	Supply of fashion merchandise
French Connection (Canada) Limited (75%) Suite 406A, 111 Peter Street, Toronto, Ontario, Canada	Canada	Supply of fashion merchandise
Toast (Mail Order) Limited (75%) 20-22 Bedford Row, London, WC1R 4JS, England	Wales	Supply of fashion merchandise
YMC Limited (75%) 20-22 Bedford Row, London, WC1R 4JS, England	England	Supply of fashion merchandise
FCUK IT Company (50% partnership)*+ 31/F, Tower A, Southmark, 11 Yip Hing Street, Wong Chuk Hang, Hong Kong	Hong Kong	Supply of fashion merchandise
FCIT China Limited (50%)*+ 31/F, Tower A, Southmark, 11 Yip Hing Street, Wong Chuk Hang, Hong Kong	Hong Kong	Supply of fashion merchandise
Glory Premium Limited (50%)*+ 31/F, Tower A, Southmark, 11 Yip Hing Street, Wong Chuk Hang, Hong Kong	Hong Kong	Supply of fashion merchandise
FCIT Macau Limited (50%)*+ 31/F, Tower A, Southmark, 11 Yip Hing Street, Wong Chuk Hang, Hong Kong	Macau	Supply of fashion merchandise
Kenchart Apparel (Shanghai) Limited (50%)*+ Room H625, Floor 6, H District (East Building), No.666 East Beijing Road, Huang pu District, Shanghai, China	China	Supply of fashion merchandise
The French Connection Overseas Limited 20-22 Bedford Row, London, WC1R 4JS, England	England	Holding Company
French Connection (China) Limited 20-22 Bedford Row, London, WC1R 4JS, England	England	Holding Company
French Connection Holdings, Inc. 18410 Jamaica Avenue, 3rd Floor, Hollis, New York 11423, USA	USA	Holding Company
French Connection Retail Sweden AB Box 1062, 101 39 Stockholm, Sweden	Sweden	Dormant
Western Jean Company Limited 20-22 Bedford Row, London, WC1R 4JS, England	England	Dormant
Efsel Limited 20-22 Bedford Row, London, WC1R 4JS, England	England	Dormant
NF Restaurants Limited 20-22 Bedford Row, London, WC1R 4JS, England	England	Dormant
Water Tower Connection, Ltd.* 18410 Jamaica Avenue, 3rd Floor, Hollis, New York 11423, USA	USA	Dormant

* Shares are held by subsidiary undertakings

+ Joint ventures accounted for using the equity method

COMPANY BALANCE SHEET

At 31 January 2017

	Note	2017 £m	2016 £m
Fixed assets			
Tangible assets	3	0.4	0.3
Investments	4	38.7	41.3
		39.1	41.6
Current assets			
Debtors	5	0.8	0.8
Cash at bank and in hand		–	0.1
Derivative financial instruments		–	0.3
		0.8	1.2
Current liabilities			
Creditors	6	(12.6)	(7.7)
Derivative financial statements		(0.1)	–
		(12.7)	(7.7)
Net current liabilities		(11.9)	(6.5)
Net assets		27.2	35.1
Capital and reserves			
Called-up share capital	8	1.0	1.0
Share premium account	8	9.6	9.6
Profit and loss account	8	16.7	24.2
Hedging reserve	8	(0.1)	0.3
Equity shareholders' funds		27.2	35.1

The notes on pages 58 to 62 form part of these accounts.

These accounts were approved by the Board of Directors on 14 March 2017 and were signed on its behalf by:

Stephen Marks

Director

Lee Williams

Director

Company Number: 1410568

STATEMENT OF CHANGES IN EQUITY

At 31 January 2017

	Share capital £m	Share premium £m	Hedging reserve £m	Profit and loss account £m	Total equity £m
Balance at 31 January 2015	1.0	9.6	0.3	20.5	31.4
Profit for the year ended 31 January 2016				3.7	3.7
Balance at 31 January 2016	1.0	9.6	0.3	24.2	35.1
Loss for the year ended 31 January 2017				(7.5)	(7.5)
Effective portion of changes in fair value of cash flow hedges			(0.4)		(0.4)
Balance at 31 January 2017	1.0	9.6	(0.1)	16.7	27.2

NOTES TO THE COMPANY ACCOUNTS

At 31 January 2017

1 Accounting policies

a) Basis of preparation

French Connection Group PLC (the "Company") is a company incorporated and domiciled in the UK.

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101").

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The results of the Company are included in the consolidated financial statements of French Connection Group PLC.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a Cash Flow Statement and related notes;
- disclosures in respect of transactions with wholly owned subsidiaries;
- capital management disclosures (IAS 1);
- the effects of new but not yet effective IFRSs.

As the consolidated financial statements of French Connection Group PLC include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 Share Based Payments in respect of group settled share based payments;
- certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument.

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 FRS 101 of the Company is not presented.

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.

NOTES TO THE COMPANY ACCOUNTS

Continued

1 Accounting policies continued

h) 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.

i) Investments

Investments are stated at cost less provision for impairment.

j) 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.

k) 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.

l) 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 7 to the Group accounts.

NOTES TO THE COMPANY ACCOUNTS

Continued

3 Property, plant and equipment

	Plant equipment fixtures and fittings £m
Cost or valuation	
At 1 February 2016	2.6
Additions	0.2
Disposals	(0.1)
At 31 January 2017	2.7
Depreciation	
At 1 February 2016	2.3
Charge for year	0.1
Disposals	(0.1)
At 31 January 2017	2.3
Net book value	
At 31 January 2017	0.4
At 31 January 2016	0.3

4 Investments

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

	Total £m
Cost	
At 1 February 2016	156.8
Additions	0.4
At 31 January 2017	157.2
Provision	
At 1 February 2016	115.5
Charge for year	3.0
At 31 January 2017	118.5
Carrying amount	
At 31 January 2017	38.7
At 31 January 2016	41.3

During the year, the Company subscribed for additional share capital of £0.4m in its subsidiary undertaking, French Connection (China) Limited.

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.

Impairments of £3.0m (2016: £1.2m) relating to the Group's investment in subsidiary companies, French Connection UK Limited and French Connection Holdings Inc. have been provided in the current year.

In accordance with its accounting policy, the Company states its investments in subsidiaries at cost less provision for impairment. However, the net asset value of its subsidiaries is £47.0m (2016: £46.8m).

The related undertakings of the Company are set out in Note 30 to the Group accounts.

NOTES TO THE COMPANY ACCOUNTS

Continued

5 Debtors

	2017 £m	2016 £m
Other debtors	0.1	0.1
Prepayments and accrued income	0.3	0.3
Deferred tax (Note 7)	0.4	0.4
	0.8	0.8

Included within debtors are amounts due within one year of £0.4m (2016: £0.4m).

6 Creditors: amounts falling due within one year

	2017 £m	2016 £m
Trade creditors	0.3	0.4
Amounts owed to subsidiary undertakings	12.0	7.0
Accruals and deferred income	0.3	0.3
	12.6	7.7

7 Deferred tax

Deferred tax asset (Note 5)	2017 £m	2016 £m
Deferred capital allowances and short-term timing differences	0.4	0.4

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 2016	0.3	9.6	24.2
Loss for the financial year			(7.5)
Effective portion of changes in fair value of cash flow hedges	(0.4)		
At 31 January 2017	(0.1)	9.6	16.7

The loss for the year before taxation, intercompany dividends and provisions for impairment was £(4.5)m (2016: £(4.6)m). The loss before taxation dealt within the accounts was £(4.5)m (2016: profit of £3.4m).

Share capital and share option information is set out in Note 21 in the Group accounts.

NOTES TO THE COMPANY ACCOUNTS

Continued

9 Commitments

Aggregate future rental commitments payable under non-cancellable operating leases at 31 January 2017 for which no provision has been made in these accounts, were as follows:

	Leasehold property		Other	
	2017 £m	2016 £m	2017 £m	2016 £m
Operating leases which expire:				
Within one year	1.3	0.9	0.2	0.2
Within two to five years	3.7	3.5	0.4	0.5
	5.0	4.4	0.6	0.7

At 31 January 2017 the Company had commitments on foreign exchange contracts amounting to £4.6m (2016: £3.0m). The fair value of forward exchange contracts outstanding as at 31 January 2017 is a liability of £(0.1)m (2016: asset of £0.3m). £(0.4)m has been debited to the hedging reserve (2016: £Nil)

10 Contingent liabilities

The Company raises finance for and guarantees the bank borrowings of certain subsidiary undertakings which, at 31 January 2017, amounted to £Nil (2016: £Nil).

11 Related party disclosures

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

Details of Director related party transactions are disclosed in Note 27 to the Group accounts.

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	2013 £	2014 £	2015 £	2016 £	2017 £
Revenue	197.3m	189.4m	178.5m	164.2m	153.2m
Loss before taxation	(10.5)m	(6.1)m	(1.6)m	(3.5)m	(5.3)m
Basic losses per share	(10.7)p	(6.4)p	(1.6)p	(3.4)p	(5.8)p
Adjusted losses per share	(7.3)p	(4.6)p	(0.7)p	(4.7)p	(4.2)p
Dividends per share	-	-	-	-	-
Net assets	63.5m	56.5m	56.8m	54.6m	50.0m
Operated retail trading space 000 sq ft	325	300	271	238	212

ADVISERS

HEAD OFFICE	STOCKBROKERS	PRINCIPAL BANKERS
First Floor, Centro 1, 39 Plender Street, London NW1 0DT	Numis Securities Ltd, 10 Paternoster Square, London EC4M 7LT	Barclays Bank Plc, London Corporate Banking, 1 Churchill Place, London E14 5HP
SECRETARY AND REGISTERED OFFICE	AUDITORS	REGISTRARS AND TRANSFER OFFICE
Lee Williams, 20-22 Bedford Row, London WC1R 4JS	KPMG LLP, 15 Canada Square, Canary Wharf, London E14 5GL	Capita Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU
REGISTERED NUMBER		
1410568, England		

FINANCIAL CALENDAR

2017

24 May	Annual General Meeting
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19 September <i>(provisional)</i>	Half-Year Statement
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2018

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

The Board considers each of the proposed resolutions to be in the best interests of the Company and the shareholders as a whole. Accordingly, the Board unanimously recommends that you vote in favour of all the resolutions.

Notice is hereby given that the Annual General Meeting of the Company will be held at 10.00 am on Wednesday 24 May 2017 at the offices of French Connection Group PLC, First Floor, Centro 1, 39 Plender Street, London NW1 0DT to consider and, if thought fit, pass the following resolutions:

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 2017.
- 2 To approve the Directors' Remuneration Report for the financial year ended 31 January 2017.
- 3 To approve the Directors' Remuneration Policy in the form set out in the Directors' Remuneration Report in the Company's annual report and accounts for the financial year ended 31 January 2017.
- 4 To re-elect Stephen Marks as a Director of the Company.
- 5 To re-elect Dean Murray as a Director of the Company.
- 6 To appoint KPMG LLP as auditors to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting at which accounts are laid and to authorise the Directors to determine their remuneration.
- 7 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 £288,759 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 Resolutions

To consider and, if thought fit, pass resolutions 8 and 9 below as Special Resolutions of the Company:

- 8 THAT:

if resolution 7 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 8 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 £48,127 (representing 5% of the issued share capital for the time being);

- (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.

- 9 THAT a general meeting other than an annual general meeting may be called on not less than 14 clear days' notice, provided that this authority shall expire at the end of the next Annual General Meeting of the Company.

By order of the Board

Lee Williams

Secretary
20-22 Bedford Row
London WC1R 4JS

10 April 2017

NOTICE OF MEETING

Continued

Explanatory notes to the Annual General Meeting Notice

Resolution 1 – Approval of the annual report and accounts

The Directors are required by the Companies Act 2006 (the “Act”) to lay before the Company at this Annual General Meeting the accounts of the Company for the financial year ended 31 January 2017, the report of the Directors, the Directors’ Remuneration Report and the report of the Company’s auditor on those accounts.

Resolution 2 – Directors’ Remuneration Report

Resolution 2 is the ordinary resolution to approve the Directors’ Remuneration Report. The vote of this resolution is advisory and no Director’s remuneration is conditional upon the passing of this resolution.

Resolution 3 – Directors’ Remuneration Policy

Resolution 3 deals with the Directors’ Remuneration Policy which is set out in the Directors’ Remuneration Report. The Policy sets out the Company’s forward looking policy on Directors’ remuneration and is subject to a binding shareholder vote at least every three years following approval except to the extent that a change to the Policy is proposed or the advisory vote on the Remuneration Report is not passed in any year subsequent to the approval of the Policy.

The Directors’ Remuneration Policy was approved by shareholders at the AGM held on 14 May 2014 and is therefore subject to binding approval by shareholders at the 2017 AGM. If Resolution 3 is passed, the Policy will take effect from the date of the AGM (the Effective Date) and will have a binding effect on the Company from that date.

Resolutions 4 to 5 – Re-election of Directors

The articles of association of the Company require any Director newly appointed by the Board to retire and submit themselves for re-appointment at the first AGM following their appointment.

The articles of association of the Company require the nearest number to one third of the Directors to retire at each annual general meeting. Stephen Marks and Dean Murray are subject to rotation and being eligible, offer themselves for re-election. Biographical details of Directors seeking re-election can be found in the section entitled ‘Board of Directors’ within the Annual Report.

Resolution 6 – Appointment of auditors

The Company is required to appoint an auditor at each general meeting at which accounts are laid before the Company, to hold office until the next such meeting. The Audit Committee has recommended and the Board has approved the resolution to re-appoint KPMG LLP as auditor of the Company.

Resolution 7 – Authority to allot shares

Under section 551 of the Act, Directors require shareholders’ authority for the allotment of shares. Shareholders last granted such general authority to the Directors at the annual general meeting of the Company held in 2016. Such authority will expire at the end of this AGM and Resolution 7 seeks to renew it (although the Directors have no current plans to utilise the authority, except in relation to the issue of new shares pursuant to the Company’s share incentive schemes). Accordingly, Resolution 7 would renew this authority until the next AGM by authorising the Directors to allot shares up to an aggregate nominal amount equal to approximately one third of the current issued share capital of the Company.

Resolution 8 – Disapplication of statutory pre-emption rights

This resolution seeks to disapply the pre-emption rights provisions of section 561 of the Act, which requires Directors wishing to allot shares to offer them in the first instance to existing ordinary shareholders in proportion to their ordinary shareholding. There may be occasions, however, when the Directors will need the flexibility to finance business opportunities by the issue of ordinary shares without a pre-emptive offer to existing ordinary shareholders. Shareholders last granted authority to Directors to dis-apply pre-emptive rights at the AGM held in 2016. Such authority will expire at the end of this AGM and Resolution 8 seeks to renew it. Except in relation to rights issues or any other pre-emptive offer concerning equity securities, the authority contained in this resolution will be limited to the issue of shares for cash. The Directors have no present intention of issuing any shares pursuant to this disapplication. The Directors will continue to seek to renew this authority at each AGM, in accordance with current best practice.

Resolution 9 – Notice of general meetings

Under the Companies Act 2006 all general meetings must be held on 21 days’ notice unless shareholders approve a shorter period, which cannot be less than 14 clear days (AGMs will continue to be held on at least 21 clear days’ notice). The Directors believe it is in the best interests of the shareholders of the Company to enable general meetings to be called on 14 clear days’ notice. It is intended that this flexibility will only be used for non-routine business and, where merited, in the interests of shareholders as a whole. The approval will be effective until the Company’s next AGM, when it is expected that a similar resolution will be proposed.

General notes to the Annual General Meeting notice

1. Holders of ordinary shares, or their duly appointed representatives, are entitled to attend and vote at the AGM. Shareholders are entitled to appoint a proxy to exercise all or any of their rights to attend and speak and vote on their behalf at the meeting. A shareholder can appoint the Chairman of the meeting or anyone else to be his/her proxy at the meeting. A proxy need not be a shareholder. More than one proxy can be appointed in relation to the AGM provided that each proxy is appointed to exercise the rights attached to a different ordinary share or shares held by that shareholder. To appoint more than one proxy, the Proxy Form 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 10.00 am on 22 May 2017.
2. The return of a completed Proxy Form, other such instrument or any CREST Proxy Instruction (as described in Note 1) 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).
3. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a CREST Proxy Instruction) must be properly authenticated in accordance with Euroclear UK & Ireland Limited’s specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by Capita (ID RA10) not later than 48 hours before the time fixed for the AGM. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which Capita is able to retrieve the message by enquiry to CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means. Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages and normal system timings and limitations will apply in relation to the input of a CREST Proxy Instruction. It is the responsibility of the CREST member concerned to take such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
4. Any person to whom this Notice is sent who is a person nominated under Section 146 of the CA 2006 to enjoy information rights (a Nominated Person) may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the AGM. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.
5. The statement of the rights of shareholders in relation to the appointment of proxies in Note 1 does not apply to Nominated Persons. The rights described in that note can only be exercised by shareholders of the Company.

NOTICE OF MEETING

Continued

6. As at 9 April 2017, being the latest practicable date prior to the publication of this document, the Company's issued share capital consists of 96,253,134 ordinary shares, carrying one vote each. Therefore the total voting rights in the Company as at 9 April 2017 are 96,253,134.
7. In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, only those members entered on the Company's register of members on as at close of business on 22 May 2017 or, if the meeting is adjourned, shareholders entered on the Company's register of members as at close of business on the day two days before the date of any adjournment shall be entitled to attend and vote at the AGM.
8. Any member attending the meeting has the right to ask questions. The Company has to answer any questions raised by members at the meeting which relate to the business being dealt with at the meeting unless:
 - to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information;
 - the answer has already been given on a website in the form of an answer to a question, or;
 - it is undesirable in the interests of the Company or the good order of the meeting to answer the question.
9. Copies of the Directors' service contracts and letters of appointment along with a copy of the Company's 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.
10. A copy of this notice, and other information required by s311A of the Companies Act 2006, can be found at www.frenchconnection.com.
11. In the case of a member which is a company, your proxy form must be executed under its common seal or signed on its behalf by a duly authorised officer of the company or an attorney for the company.
12. Any power of attorney or any other authority under which your proxy form is signed (or a duly certified copy of such power or authority) must be included with your proxy form.
13. In the case of joint holders of shares, the vote of the first named in the register of members who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of other joint holders.
14. 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.
15. 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.)
16. 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.)

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