TOAST (MAIL ORDER) LIMITED

Directors' Report and Accounts

31 January 2008

Registered No: 3399254

DIRECTORS' REPORT

The Directors present their Annual Report and the audited accounts for the year ended 31 January 2008

Principal activity

The principal activity of the Company is the sale of retail and mail order clothing and accessories

Business review

Our business aim is to generate increased shareholder value through the retail of mail order clothing and accessories

We operate under one principal brand, *Toast*, a home-shopping based ladies' fashion range The business operates both a catalogue and internet home shopping service in addition to six own branded retail stores and two concessions In addition we operate a fulfillment service for the mail order business of our fellow subsidiary, French Connection Limited

Our design team is based in Swansea and we arrange for the products to be manufactured in specialist facilities in Europe and Asia The finished articles are available via our mail order business and through both our own retail stores and concessions

Our approach to managing the business is to ensure that our resources are deployed in the most effective and efficient manner to support the elements of the business which have a direct impact on trading Design and production of the ranges and maintenance of our mail order and retail operating standards are paramount for our managers who are given broad responsibility for their area of operation and are expected to generate continued improvements in results

The main risks and uncertainties facing the business reflect the nature of the fashion business Each year we produce two main ranges of fashions for each of our brands and the success of each of these is entirely dependent on the ability of our designers to accurately judge and attractively reflect the emerging trends in fashion

Like all retailers we are susceptible to volatility in the propensity of consumers to spend, which is affected by macro-economic issues Our retail business has a largely inflexible cost base giving rise to substantial operational gearing

The principal treasury risks to the Company arise from exchange rate and interest rate fluctuations The Board has approved policies for managing these risks, which are reviewed on a regular basis, including the use of financial instruments, principally forward foreign exchange contracts These instruments are managed and reflected in the accounts of the parent Company, French Connection Group PLC No transactions of a speculative nature are undertaken Options are not used

The business has encountered a mixed year in which our mail order revenues have remained constant while our retail sales have contracted on a like-for-like basis Our primary aim in the short term is to continue to grow our mail order sales volumes while maintaining or improving margins In the retail business our aim is to improve sales densities in our existing portfolio which will be evidenced by our key performance indicator of growth in our like-for-like sales

Key performance indicators

The Board considers that the key performance indicators for the business are

- total sales achieved in the mail-order channels,
- year-on-year comparison of retail sales on a same-store basis and excluding any periods of significantly different discounting activity, known as like-for-like sales growth,
- gross margin by division,
- net operating profit

DIRECTORS' REPORT (continued)

Key results

Mail order turnover of £6 7 million was consistent with the previous year, reflecting a difficult Spring/Summer 2007 season followed by much stronger sales of the Autumn/Winter ranges and a very good response to the new homeware selection Retail sales increased 7% to £2 9 million (2007 £2 7 million) following the opening of three new stores during the year, two in London and one in Bath as well as the closure of two concessions However, there was a like-for-like sales decline of 12% in the year The gross margin in the mail order division remained constant at 61% although the retail margin decreased to 60% reflecting increased discounting Overheads increased by 9% to £4 7 million (2007 £4 3 million) as a direct result of the new store openings The resulting operating profit was £1 1 million (2007 £1 4 million)

The balance sheet remains strong with net assets increasing to £4 1 million (2007 £3 4 million)

Results and dividends

The results for the year are set out in the profit and loss account on page 6 No dividends were paid during the year and the Directors do not recommend payment of a final dividend (2007 £Nil)

The retained profit transferred to reserves was £734,000 (2007 £990,000)

Directors

The Directors who served during the year are as follows
Stephen Marks
Neil Williams
Roy Naismith
Jessica Seaton
Jamie Seaton

Supplier payment

The majority of the Company'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 Company to pay creditors when they fall due for payment

For the year ended 31 January 2008, the Company's average trade creditors represented 75 days purchases (2007 87 days)

Employees

It is the Company's established practice that all employees have access to their immediate superiors and ultimately to the Chairman, 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 Company 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 Company provides equal opportunities and training to all employees and prospective employees including those who are disabled

DIRECTORS' REPORT (continued)

Charitable and political donations

Charitable donations of £3,200 (2007 £1,170) were made during the year No political donations were made in either 2008 or 2007

Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Auditors

The Company has taken advantage of Section 386(1) of the Companies Act 1985, as amended, to dispense with the obligation to appoint an auditor annually The auditor, KPMG Audit Plc, is willing to continue in office and will be deemed to be reappointed on the expiry of its term in office in respect of the year ended 31 January 2008

By order of the Board

Dinesh Shah
Company Secretary

20-22 Bedford Row
London WC1R 4JS

9 September 2008

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND FINANCIAL STATEMENTS

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year Under that law the Directors have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period

In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 1985 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TOAST (MAIL ORDER) LIMITED

We have audited the financial statements of Toast (Mail Order) Limited for the year ended 31 January 2008 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and the related notes These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of Directors and auditors
The Directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 4

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

Opinion
In our opinion
- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 January 2008 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

KPMG Audit Plc
KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

10 September 2008

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 JANUARY 2008

	Note	2008 £'000	2007 £'000
Turnover	2	**9,625**	9,444
Cost of sales		**(3,805)**	(3,695)
Gross profit		**5,820**	5,749
Operating expenses	3	**(4,750)**	(4,319)
Profit on ordinary activities before taxation	4	**1,070**	1,430
Tax on profit on ordinary activities	7	**(336)**	(440)
Profit for the financial year	15	**734**	990

There were no recognised gains or losses in either period other than the results shown above

The Company's results were entirely from continuing operations

The attached notes form part of these accounts

BALANCE SHEET
AT 31 JANUARY 2008

	Note	2008 £'000	2007 £'000
Fixed assets			
Intangible assets	8	**8**	11
Tangible assets	9	**1,036**	749
		1,044	760
Current assets			
Stocks	10	**1,704**	2,285
Debtors	11	**2,744**	2,175
Cash at bank and in hand		**492**	278
		4,940	4,738
Creditors: amounts falling due within one year	12	**(1,842)**	(2,095)
Net current assets		**3,098**	2,643
Total assets less current liabilities		**4,142**	3,403
Provisions for liabilities	13	**(41)**	(36)
Net assets		**4,101**	3,367
Capital and reserves			
Called-up share capital	14	**24**	24
Profit and loss account	15	**4,077**	3,343
Equity shareholders' funds	16	**4,101**	3,367

The attached notes form part of these accounts

These accounts were approved by the Board of Directors on 9 September 2008 and were signed on its behalf by

Roy Naismith
Director

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 JANUARY 2008

	Note	2008 £'000	2007 £'000
Net cash inflow from operating activities	17	**1,250**	811
Tax paid		**(486)**	(502)
Capital expenditure			
Purchase of tangible fixed assets		**(550)**	(132)
Increase in cash	18	**214**	177

The attached notes form part of these accounts

NOTES TO THE ACCOUNTS

1. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements

Basis of preparation
The Company has elected to prepare its financial statements in accordance with UK GAAP

Basis of accounting
The financial statements have been prepared under the historical cost accounting rules and in accordance with applicable accounting standards

Turnover
Turnover represents goods sold to external customers, less returns and value added tax

Copyrights
Copyrights are valued at cost less accumulated amortisation Amortisation is calculated to write off the cost in equal annual installments over their estimated useful life of 10 years

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

Office equipment	-	25% reducing balance
Website design costs	-	50% straight line
Shop fittings	-	10% straight line

Stocks
Stocks are valued at the lower of cost and estimated net realisable value Cost comprises materials, direct labour and an appropriate proportion of attributable production overheads

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

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 during the period are translated into Sterling at the rates of exchange ruling on the date of transaction or at hedged rates All exchange differences are dealt with through the profit and loss account

Operating leases
Annual rentals are charged to the profit and loss account in the period to which they relate There are no finance leases in the current year

Pension costs
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 ACCOUNTS (continued)

2. Turnover

Turnover arises principally from the sale of retail and mail order clothing and accessories undertaken in the UK

3 Operating expenses

	2008 £'000	2007 £'000
Selling and distribution costs	**3,634**	3,325
Administrative expenses	**1,116**	994
	4,750	4,319

4. Profit on ordinary activities before taxation

The profit on ordinary activities before taxation is stated after charging the following -

	2008 £'000	2007 £'000
Operating lease rentals		
Leasehold properties	**311**	87
Amortisation of copyrights	**3**	3
Depreciation on owned assets	**252**	188
Loss on disposal	**11**	-
Auditor's remuneration	**14**	11

5 Directors' emoluments

During the year the Directors' emoluments arising in respect of their services to the Company were £229,000 (2007 £289,000) The highest paid Director during the year received £115,000 (2007 £145,000) including £5,000 (2007 £8,000) of pension contributions These emoluments include pension contributions and benefits in kind Retirement benefits are accruing to two directors under money purchase pension schemes The emoluments of Stephen Marks, Neil Williams and Roy Naismith are borne by French Connection Group PLC and are disclosed in the financial statements of that Company

6. Staff numbers and costs

The average number of persons employed by the Company during the year, including Directors, was as follows -

	2008 Number	2007 Number
Selling, distribution and retail	**115**	93
Design, development and production management	**15**	14
Administration	**6**	5
	136	112

NOTES TO THE ACCOUNTS (continued)

6. Staff numbers and costs (continued)

The aggregate payroll costs of these people were as follows

	2008 £'000	2007 £'000
Wages and salaries	**1,672**	1,632
Social security costs	**145**	126
Other pension costs	**24**	21
	1,841	1,779

7. Tax on profit on ordinary activities

a) Analysis of charge in period

	2008 £'000	2007 £'000
Current tax		
UK corporation tax on profits of the period	**332**	437
Adjustment in respect of previous periods	**(1)**	49
Total current tax (Note 7b)	**331**	486
Deferred tax – origination and reversal of		
UK timing differences	**4**	2
Adjustment in respect of previous periods	**1**	(48)
Total deferred tax	**5**	(46)
Tax on profit on ordinary activities	**336**	440

b) Factors affecting tax charge for period

The tax charged for the period is higher than the standard rate of corporation tax in the UK (30%) The differences are explained below

	2008 £'000	2007 £'000
Profit on ordinary activities before tax	**1,070**	1,430
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2007 30%)	**321**	429
Effects of		
Expenses not deductible for tax purposes	**15**	10
Depreciation for period in excess of capital allowances and short term timing differences	**(4)**	(2)
Adjustment to tax charge in respect of previous periods	**(1)**	49
Current tax charge for the period (Note 7a)	**331**	486

The UK Company tax rate will reduce to 28% as of 1 April 2008

NOTES TO THE ACCOUNTS (continued)

8. Intangible fixed assets

	Copyrights £'000
Cost	
At 1 February 2007 and 31 January 2008	**30**
Amortisation	
At 1 February 2007	19
Provided during the year	3
At 31 January 2008	**22**
Net book value	
At 31 January 2008	**8**
At 31 January 2007	11

9 Tangible fixed assets

	Plant equipment, fixtures and fittings £'000
Cost	
At 1 February 2007	1,251
Additions	550
Disposals	(54)
At 31 January 2008	**1,747**
Depreciation	
At 1 February 2007	502
Charge for year	252
Disposals	(43)
At 31 January 2008	**711**
Net book value	
At 31 January 2008	**1,036**
At 31 January 2007	749

NOTES TO THE ACCOUNTS (continued)

10. Stocks

	2008 £'000	2007 £'000
Raw materials and consumables	4	4
Finished goods held for sale	1,700	2,281
	1,704	2,285

11. Debtors

	2008 £'000	2007 £'000
Trade debtors	257	168
Amounts owed by Group undertakings	2,062	1,727
Prepayments and accrued income	425	280
	2,744	2,175

12. Creditors. amounts falling due within one year

	2008 £'000	2007 £'000
Trade creditors	760	997
UK corporation tax	331	486
Other taxation and social security	495	392
Accruals and deferred income	256	220
	1,842	2,095

13. Provisions for liabilities and charges

The amount provided for deferred taxation and the full potential liability, calculated on the liability method, at 28% (2007 30%) is set out below

a) Represented by

	2008 £'000	2007 £'000
Deferred tax liability		
Accelerated capital allowances	41	36

b) Deferred tax movements

	Liability £'000
At 1 February 2007	36
Charge to the profit and loss account	5
At 31 January 2008	**41**

NOTES TO THE ACCOUNTS (continued)

14. Share capital

	2008 £'000	2007 £'000
Equity		
Authorised		
100,000 ordinary shares of £1 each	**100**	100
Allotted, called up and fully paid		
24,000 ordinary shares of £1 each	**24**	24

15. Reserves

	Profit and loss account £'000
At 1 February 2007	3,343
Retained profit for the financial year	734
At 31 January 2008	**4,077**

16. Reconciliation of movements in equity shareholders' funds

	2008 £'000	2007 £'000
Retained profit for the financial year	**734**	990
Opening shareholders' equity	**3,367**	2,377
Closing shareholders' equity	4,101	3,367

17. Reconciliation of operating profit to net cash inflow from operating activities

	2008 £'000	2007 £'000
Operating profit	**1,070**	1,430
Depreciation and amortisation	**255**	191
Loss on disposal	**11**	-
Decrease/(increase) in stocks	**581**	(247)
Increase in debtors	**(569)**	(677)
(Decrease)/increase in creditors	**(98)**	114
Net cash inflow from operating activities	**1,250**	811

NOTES TO THE ACCOUNTS (continued)

18. Reconciliation of net cash flow to movement in net funds

	2008 £'000	2007 £'000
Increase in cash being movement in net funds in the period	214	177
Net funds at beginning of period	278	101
Net funds at end of period	492	278

19. Commitments

At 31 January 2008 the Company had annual commitments under non-cancellable operating leases as follows

	2008 £'000	2007 £'000
Leasehold property		
Operating leases which expire		
Within one year	8	10
Between two and five years	-	95
After more than five years	295	-
	303	105

20. Pensions

The Group operated a Group Personal Pension Scheme during the year and contributed to a number of personal pension schemes The assets of these schemes are held separately from those of the Group in independently administered funds The particulars of these schemes are disclosed within the accounts of the ultimate holding company, French Connection Group PLC The pension cost charged in the profit and loss account during the year is disclosed in Note 6

21. Related party transactions

Name of party	Relationship	Purchases within financial year £'000	Amounts due (to)/from related party at year end £'000
For the year ended 31 January 2008			
French Connection Limited	Group Company	1,421	2,062
Janie Bates (Jewellery supplier)	Sister of Director	57	(13)
For the year ended 31 January 2007			
French Connection Limited	Group Company	1,664	1,727
Janie Bates (Jewellery supplier)	Sister of Director	71	(6)

NOTES TO THE ACCOUNTS (continued)

22. Ultimate holding Company

The controlling interest of the Company is held by French Connection Group PLC, which is incorporated in Great Britain and registered in England and Wales Copies of the Group accounts may be obtained from 20-22 Bedford Row, London WC1R 4JS