TOAST (MAIL ORDER) LIMITED

Directors' Report and Accounts

31 January 2009

Registered No: 3399254

DIRECTORS' REPORT

The Directors present their Annual Report and the audited accounts for the year ended 31 January 2009.

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 one concession. 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.

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

The Toast business has had a very strong year with like-for-like sales growth in the seven retail locations and very good growth in mail order sales both in the existing ladies' wear ranges and newer home ware selection. Mail order turnover increased by £1.3 million (19%) to £8.0 million (2008: £6.7 million). Retail sales increased 17% to £3.4 million (2008: £2.9 million) with like-for-like sales increasing by 11% in the year. The gross margin in the mail order division remained constant with the previous years at 61%. The retail margin increased by 4% to 64% reflecting the strong range and a reduction in discounting in the year. Overheads increased by 21% to £5.7 million (2008: £4.7 million) as a result of the increased volumes and additional overheads arising from a larger store portfolio. The resulting operating profit was £1.2 million (2008: £1.1 million).

The balance sheet of the Company is strong with net assets of £5.0 million (2008: £4.1 million), which will reduce to £2.6 million after payment of the proposed final dividend.

Results and dividends

The results for the year are set out in the profit and loss account on page 6. The retained profit for the year transferred to reserves was £866,000 (2008: £734,000).

A final dividend of £2.4 million (2008: £Nil) is proposed, leaving distributable reserves of £2.5 million. No provision has been accounted for regarding the final dividend.

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 2009, the Company's average trade creditors represented 64 days purchases (2008: 75 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 £283 (2008: £3,200) were made during the year. No political donations were made in either 2009 or 2008.

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

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office.

By order of the Board

Dinesh Shah
Company Secretary

20-22 Bedford Row
London WC1R 4JS

10 July 2009

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 2009 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 2009 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 July 2009

TOAST (MAIL ORDER) LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 JANUARY 2009

	Note	2009 £000	2008 £000
Turnover	2	**11,369**	9,625
Cost of sales		**(4,417)**	(3,805)
Gross profit		**6,952**	5,820
Operating expenses	3	**(5,711)**	(4,750)
Profit on ordinary activities before taxation	4	**1,241**	1,070
Tax on profit on ordinary activities	7	**(375)**	(336)
Profit for the financial year	15	**866**	734

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.

TOAST (MAIL ORDER) LIMITED

BALANCE SHEET
AT 31 JANUARY 2009

	Note	2009 £000	2008 £000
Fixed assets			
Intangible assets	8	**6**	8
Tangible assets	9	**859**	1,036
		865	1,044
Current assets			
Stocks	10	**2,526**	1,704
Debtors	11	**3,415**	2,744
Cash at bank and in hand	18	**161**	492
		6,102	4,940
Creditors: amounts falling due within one year	12	**(2,000)**	(1,842)
Net current assets		**4,102**	3,098
Total assets less current liabilities		**4,967**	4,142
Provisions for liabilities	13	**-**	(41)
Net assets		**4,967**	4,101
Capital and reserves			
Called-up share capital	14	**24**	24
Profit and loss account	15	**4,943**	4,077
Equity shareholders' funds	16	**4,967**	4,101

The attached notes form part of these accounts.

These accounts were approved by the Board of Directors on 10 July 2009 and were signed on its behalf by:

Roy Naismith
Director

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 JANUARY 2009

	Note	2009 £000	2008 £000
Net cash inflow from operating activities	17	**125**	1,250
Tax paid		**(331)**	(486)
Capital expenditure			
Purchase of tangible fixed assets		**(125)**	(550)
(Decrease)/increase in cash	18	**(331)**	214

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:

Plant equipment, fixtures and fittings - 3 to 7 years

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

	2009 £000	2008 £000
Selling and distribution costs	**4,174**	3,634
Administrative expenses	**1,537**	1,116
	5,711	4,750

4. Profit on ordinary activities before taxation

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

	2009 £000	2008 £000
Operating lease rental		
Leasehold properties	**315**	311
Amortisation of copyrights	**2**	3
Depreciation on owned assets	**328**	252
Loss on disposal	**-**	11
Auditor's remuneration	**14**	14

5. Directors' emoluments

Directors' emoluments during the year were £267,000 (2008: £229,000) inclusive of pension contributions and benefits in kind. The highest paid Director was paid £134,000 (2008: £115,000) including pension contributions of £5,000 (2008: £5,000). Retirement benefits are accruing under money purchase pension schemes for two Directors.

Stephen Marks, Neil Williams and Roy Naismith received no remuneration for their services to the Company (2008: £Nil). Details of their emoluments are disclosed in the financial statements of French Connection Group PLC, the ultimate parent Company.

NOTES TO THE ACCOUNTS (continued)

6. Staff numbers and costs

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

	2009 Number	2008 Number
Selling, distribution and retail	**101**	115
Design, development and production management	**19**	15
Administration	**9**	6
	129	136

The aggregate payroll costs of these people were as follows:

	2009 £000	2008 £000
Wages and salaries	**1,867**	1,672
Social security costs	**163**	145
Other pension costs	**24**	24
	2,054	1,841

7. Tax on profit on ordinary activities

a) Analysis of (credit)/charge in period

	2009 £000	2008 £000
Current tax		
UK corporation tax on profits of the period	**443**	332
Adjustment in respect of previous periods	**15**	(1)
Total current tax (Note 7b)	**458**	331
Deferred tax – origination and reversal of		
UK timing differences	**(79)**	4
Adjustment in respect of previous periods	**(1)**	1
Effect of change in tax rate	**(3)**	-
Total deferred tax	**(83)**	5
Tax on profit on ordinary activities	**375**	336

NOTES TO THE ACCOUNTS (continued)

7. **Tax on profit on ordinary activities** (continued)

b) **Factors affecting tax charge for period**

The tax charge for the period is lower/higher than the standard 28% (2008: 30%) rate of corporation tax in the UK. The differences are explained below:

	2009 £000	2008 £000
Profit on ordinary activities before tax	**1,241**	1,070
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28% (2008: 30%)	**347**	321
Effects of		
Expenses not deductible for tax purposes	**17**	15
Depreciation for period in excess of capital allowances and short term timing differences	**79**	(4)
Adjustment to tax charge in respect of previous periods	**15**	-
Group relief of losses by fellow subsidiary undertakings	**(443)**	-
Recharge of tax benefit of group relief from fellow subsidiary undertakings	**443**	-
Current tax charge for the period (Note 7a)	**458**	331

8. **Intangible fixed assets**

	Copyrights £000
Cost	
At 1 February 2008 and 31 January 2009	**30**
Amortisation	
At 1 February 2008	22
Provided during the year	2
At 31 January 2009	**24**
Net book value	
At 31 January 2009	**6**
At 31 January 2008	8

NOTES TO THE ACCOUNTS (continued)

9. Tangible fixed assets

	Plant equipment, fixtures and fittings £000
Cost	
At 1 February 2008	1,747
Additions	151
At 31 January 2009	**1,898**
Depreciation	
At 1 February 2008	711
Charge for year	328
At 31 January 2009	**1,039**
Net book value	
At 31 January 2009	**859**
At 31 January 2008	1,036

10. Stocks

	2009 £000	2008 £000
Raw materials and consumables	-	4
Finished goods held for sale	**2,526**	1,700
	2,526	1,704

NOTES TO THE ACCOUNTS (continued)

11. Debtors

	2009 £000	2008 £000
Trade debtors	**19**	257
Amounts owed by Group undertakings	**2,283**	2,062
Prepayments and accrued income	**1,071**	425
Deferred tax recoverable (Note 13)	**42**	-
	3,415	2,744

12. Creditors: amounts falling due within one year

	2009 £000	2008 £000
Trade creditors	**1,080**	760
UK corporation tax	**15**	331
Other taxation and social security	**503**	495
Accruals and deferred income	**402**	256
	2,000	1,842

13. Deferred tax

The amount provided for deferred taxation and the full potential liability, calculated on the liability method, at 28% (2008: 30%) is set out below:

a) Represented by

	2009 £000	2008 £000
Deferred tax asset (Note 11)		
Deferred capital allowances	**42**	-

	2009 £000	2008 £000
Deferred tax liability		
Accelerated capital allowances	**-**	41

NOTES TO THE ACCOUNTS (continued)

13. Deferred tax

b) Deferred tax movements

	Asset/(Liability) £000
At 1 February 2008	(41)
Credit to the profit and loss account	83
At 31 January 2009	42

14. Share capital

	2009 £000	2008 £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 2008	4,077
Retained profit for the financial year	866
At 31 January 2009	**4,943**

16. Reconciliation of movements in equity shareholders' funds

	2009 £000	2008 £000
Retained profit for the financial year	**866**	734
Opening shareholder's equity	**4,101**	3,367
Closing shareholder's equity	**4,967**	4,101

NOTES TO THE ACCOUNTS (continued)

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

	2009 £000	2008 £000
Operating profit	**1,241**	1,070
Depreciation and amortisation	**330**	255
Loss on disposal	**-**	11
(Increase)/decrease in stocks	**(822)**	581
Increase in debtors	**(1,072)**	(569)
Increase/(decrease) in creditors	**448**	(98)
Net cash inflow from operating activities	**125**	1,250

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

	2009 £000	2008 £000
(Decrease)/increase in cash being movement in net funds in the period	**(331)**	214
Net funds at beginning of period	**492**	278
Net funds at end of period	**161**	492

19. Commitments

At 31 January 2009 the Company had annual commitments under non-cancellable operating leases as follows:

	2009 £000	2008 £000
Leasehold property		
Operating leases which expire:		
Within one year	**-**	8
After more than five years	**300**	295
	300	303

NOTES TO THE ACCOUNTS (continued)

20. Pensions

The Company makes contributions to the Directors' personal pension schemes. The pension cost charged in the profit and loss account during the year is disclosed in Note 5.

21. Related party transactions

French Connection Group PLC owns 75% of the shareholding of Toast (Mail Order) Limited. The remaining 25% is owned between two of the Directors, Jessica and Jamie Seaton.

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 2009			
French Connection Limited	Group Company	1,516	2,283
Janie Bates (Jewellery supplier)	Sister of Director	32	-
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)

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.