TOAST (MAIL ORDER) LIMITED

Directors' Report and Financial Statements

31 January 2010

Registered No: 3399254

TOAST (MAIL ORDER) LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
31 JANUARY 2010

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DIRECTORS' REPORT

The Directors present their Annual Report and the Financial Statements for the year ended 31 January 2010

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 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 our own retail stores

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 six retail locations and very good growth in mail order sales both in the existing ladies' wear ranges and home ware selection Mail order turnover increased by £1 5 million (19%) to £9 5 million (2009 £8 0 million) Retail sales increased 9% to £3 7 million (2009 £3 4 million) with like-for-like sales increasing by 19% in the year The gross margin in the mail order division remained constant with the previous years at 62 5% The retail margin increased by 2% to 66% reflecting the strong range and a reduction in discounting in the year Overheads increased by 23% to £7 0 million (2009 £5 7 million) as a result of the increased volumes and rent reviews during the year The resulting operating profit was £1 3 million (2009 £1 2 million)

The balance sheet of the Company is strong with net assets of £3 3 million (2009 £4 9 million), the reduction due to payment of a dividend of £2 4 million

Results and dividends

The results for the year are set out in the profit and loss account on page 7 The retained profit for the year transferred to reserves was £800,000 (2009 £866,000) An interim dividend of £2 4 million (2009 £Nil) was paid during the year to the shareholders The Directors do not recommend a final dividend (2009 £Nil), leaving distributable reserves carried forward of £3 3 million (2009 £4 9 million)

Directors

The Directors who served during the year are as follows

Stephen Marks
Neil Williams
Roy Naismith
Jessica Seaton
James 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 2010, the Company's average trade creditors represented 86 days purchases (2009 64 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 £2,979 (2009 £283) were made during the year No political donations were made in either 2010 or 2009

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

13 July 2010

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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the 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 adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the 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 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 2010 set out on pages 7 to 18 The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www frc org uk/apb/scope/UKNP

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 January 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements 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

R Brent

Robert Brent (Senior Statutory Auditor)

for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants, 8 Salisbury Square, London

13 JULY 2010

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 JANUARY 2010

	Note	2010 £'000	2009 £'000
Turnover	2	**13,165**	11,369
Cost of sales		**(4,838)**	(4,417)
Gross profit		**8,327**	6,952
Operating expenses	3	**(7,011)**	(5,711)
Profit on ordinary activities before taxation	4	**1,316**	1,241
Tax on profit on ordinary activities	7	**(516)**	(375)
Profit for the financial year	15	**800**	866

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 the financial statements

BALANCE SHEET
AT 31 JANUARY 2010

	Note	2010 £'000	Restated 2009 £'000
Fixed assets			
Intangible assets	8	**3**	6
Tangible assets	9	**945**	859
		948	865
Current assets			
Stocks	10	**2,434**	2,526
Debtors	11	**2,090**	3,390
Cash at bank and in hand	18	**86**	161
		4,610	6,077
Creditors· amounts falling due within one year	12	**(2,216)**	(2,000)
Net current assets		**2,394**	4,077
Net assets		**3,342**	4,942
Capital and reserves			
Called-up share capital	14	**24**	24
Profit and loss account	15	**3,318**	4,918
Equity shareholders' funds	16	**3,342**	4,942

The comparative balance sheet for the year ended 31 January 2009 has been restated to reflect changes in accounting policy as explained in Note 1

The attached notes form part of these accounts

The financial statements were approved by the Board of Directors on 13 July 2010 and were signed on its behalf by

Roy Naismith
Director

Company Number 3399254

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 JANUARY 2010

	Note	2010 £'000	2009 £'000
Net cash inflow from operating activities	17	**2,758**	125
Tax paid		**(15)**	(331)
Capital expenditure			
Purchase of tangible fixed assets		**(418)**	(125)
Dividends paid		**(2,400)**	-
Decrease in cash	18	**(75)**	(331)

NOTES TO THE FINANCIAL STATEMENTS

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

To be in line with the amendments to IAS 38 *Intangible Assets* which is consistent with UK GAAP, and as adopted by the Group in the Consolidated Financial Statements, the Company has changed its accounting policy in respect of advertising and promotional activities This requires that expenditure in respect of advertising and promotional activities is recognised as an expense when the Company has access to the related goods or has received the related services Similarly, all sample costs are now expensed as incurred This change in accounting policy has been adopted for the year ended 31 January 2010 and has been retrospectively applied to the comparative audited results for the year ended 31 January 2009 The impact of the balance sheet for the year ended 31 January 2009 has been to reduce trade and other receivables by £25,000 and to decrease retained earnings by £25,000 There has been no material impact on the consolidated income statement reported in either of the affected periods and therefore there is no change to the previously reported results

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

Going concern
The Company's business activities, together with the factors likely to affect its future development and positions are set out in the Business Review section of the Directors' Report on pages 2 to 3

The Company participates in the Group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries

The Directors, having assessed the responses of the Directors of the Company's parent French Connection Group PLC to their enquiries, have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the French Connection Group PLC to continue as a going concern or its ability to continue with the current banking arrangements

On the basis of their assessment of the Company's financial position and of the enquiries made of the Directors of French Connection Group PLC, the Company's Directors have a reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements

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

Tangible assets and 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

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. **Accounting policies** (continued)

Impairment
The carrying amounts of the Company's assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable If any indication exists, the asset's recoverable amount is estimated

An impairment loss is recognised whenever the carrying amount of an asset or its income-generating unit exceeds its recoverable amount

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

2. **Turnover**

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

3. **Operating expenses**

	2010 **£'000**	2009 £'000
Selling and distribution costs	**5,028**	4,174
Administrative expenses	**1,983**	1,537
	7,011	5,711

NOTES TO THE FINANCIAL STATEMENTS (continued)

4 Profit on ordinary activities before taxation

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

	2010 £'000	2009 £'000
Operating lease rental		
Leasehold properties	**486**	315
Amortisation of copyrights	**3**	2
Depreciation on owned assets	**307**	328
Loss on disposal	**25**	-
Auditor's remuneration	**14**	14

5 Directors' emoluments

Directors' emoluments during the year were £350,000 (2009 £267,000) inclusive of pension contributions and benefits in kind The highest paid Director was paid £175,000 (2009 £134,000) including pension contributions of £5,000 (2009 £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 (2009 £Nil) Details of their emoluments are disclosed in the financial statements of French Connection Group PLC, the ultimate parent Company

6. Staff numbers and costs

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

	2010 Number	2009 Number
Selling, distribution and retail	**105**	101
Design, development and production management	**21**	19
Administration	**14**	9
	140	129

The aggregate payroll costs of these people were as follows

	2010 £'000	2009 £'000
Wages and salaries	**2,451**	2,054
Social security costs	**207**	163
Other pension costs	**28**	24
	2,686	2,241

The 2009 wages and salaries comparative has been restated This has no impact on the total operating expenses in the current or prior year

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. Tax on profit on ordinary activities

a) Analysis of charge in period

	2010 £'000	2009 £'000
Current tax		
Group relief	**389**	443
Adjustment in respect of previous periods	**127**	15
Total current tax (Note 7b)	**516**	458
Deferred tax – origination and reversal of		
UK timing differences	-	(79)
Adjustment in respect of previous periods	-	(1)
Effect of change in tax rate	-	(3)
Total deferred tax	-	(83)
Tax on profit on ordinary activities	**516**	375

b) Factors affecting tax charge for period

The tax charged for the period is higher than the standard 28% (2009 28%) rate of corporation tax in the UK The differences are explained below

	2010 £'000	2009 £'000
Profit on ordinary activities before tax	**1,316**	1,241
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28% (2009 28%)	**368**	347
Effects of		
Expenses not deductible for tax purposes	**21**	17
Depreciation for period in excess of capital allowances and short term timing differences	-	79
Adjustment to tax charge in respect of previous periods	**127**	15
Group relief of losses from fellow subsidiary undertakings	**(389)**	(443)
Recharge of tax benefit of group relief from fellow subsidiary undertakings	**389**	443
Current tax charge for the period (Note 7a)	**516**	458

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. Intangible fixed assets

	Copyrights £'000
Cost	
At 1 February 2009 and 31 January 2010	30
Amortisation	
At 1 February 2009	24
Provided during the year	3
At 31 January 2010	**27**
Net book value	
At 31 January 2010	**3**
At 31 January 2009	6

9 Tangible fixed assets

	Plant equipment, fixtures and fittings £'000
Cost	
At 1 February 2009	1,898
Additions	418
Disposals	(120)
At 31 January 2010	**2,196**
Depreciation	
At 1 February 2009	1,039
Charge for year	307
Disposals	(95)
At 31 January 2010	**1,251**
Net book value	
At 31 January 2010	**945**
At 31 January 2009	859

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. Stocks

	2010 £'000	2009 £'000
Finished goods held for sale	**2,434**	2,526

11 Debtors

	2010 £'000	Restated 2009 £'000
Trade debtors	**-**	19
Amounts owed by Group undertakings	**1,314**	2,283
Prepayments and accrued income	**734**	1,046
Deferred tax recoverable (Note 13)	**42**	42
	2,090	3,390

12. Creditors amounts falling due within one year

	2010 £'000	2009 £'000
Trade creditors	**1,152**	1,080
UK corporation tax	**-**	15
Other taxation and social security	**485**	503
Accruals and deferred income	**579**	402
	2,216	2,000

NOTES TO THE FINANCIAL STATEMENTS (continued)

13 Deferred tax

The amount provided for deferred taxation is set out below

Represented by

Deferred tax asset (Note 11)

	2010 £'000	2009 £'000
Deferred capital allowances	**42**	42

Deferred tax has not been recognised on the following timing differences between the treatment for taxation and accounting purposes due to uncertain timing and probability over the reversals of such timing differences

	2010 £'000	2009 £'000
Deferred capital allowances	**77**	-

14 Share capital

	2010 £'000	2009 £'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 2009	4,943
Change in accounting policy	(25)
Restated balance at 1 February 2009	4,918
Retained profit for the financial year	800
Dividend paid to shareholders during the year	(2,400)
At 31 January 2010	**3,318**

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. Reconciliation of movements in equity shareholders' funds

	2010 £'000	Restated 2009 £'000
Retained profit for the financial year	**800**	866
Dividend paid to shareholders during the year	**(2,400)**	-
Opening shareholder's equity	**4,942**	4,076
Closing shareholder's equity	**3,342**	4,942

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

	2010 £'000	2009 £'000
Operating profit	**1,316**	1,241
Depreciation and amortisation	**310**	330
Loss on disposal	**25**	-
Decrease/(increase) in stocks	**92**	(822)
Decrease/(increase) in debtors	**784**	(1,072)
Increase in creditors	**231**	448
Net cash inflow from operating activities	**2,758**	125

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

	2010 £'000	2009 £'000
Decrease in cash being movement in net funds in the period	**(75)**	(331)
Net funds at beginning of period	**161**	492
Net funds at end of period	**86**	161

NOTES TO THE FINANCIAL STATEMENTS (continued)

19 Commitments

At 31 January 2010 the Company had annual commitments under non-cancellable operating leases as follows

	2010 £'000	2009 £'000
Leasehold property		
Operating leases which expire		
Between two and five years	189	-
After more than five years	298	300
	487	300

At 31 January 2010 the Company had contracted capital commitments not provided for in the accounts of £170,000 (2009 £nil)

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 James 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 2010			
French Connection Limited	Group Company	1,295	1,245
Janie Bates (Jewellery supplier)	Sister of Director	9	-
Nicholas Seaton (Photography services)	Son of Directors	9	-
Rachel Seaton (Website services)	Daughter of Directors	9	-
For the year ended 31 January 2009			
French Connection Limited	Group Company	1,516	2,283
Janie Bates (Jewellery supplier)	Sister of Director	32	-

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