Mosaic Fashions hf.

Consolidated Financial Statements
52 week period ended 26 January 2008
GBP

Mosaic Fashions hf.
Sudurlandsbraut 4
108 Reykjavík
Iceland

Reg. no. 550405-0320

Contents

Endorsement and Signatures of the Board of Directors and the CEO

Mosaic Fashions hf. was incorporated on 12 April 2005. The object of the Company, according to Article 3 of its Articles of Association, is to own and run businesses involved in the production, sale and distribution of fashion goods and other related activities, the management of real estate and any other activities which the Company may reasonably be expected to be involved in. The operating year of the Company is from 1 February to 31 January, with the financial year end falling on the last Saturday of this period.

The Group acquired the entire issued share capital of Rubicon Retail Limited on 12 October 2006. The comparative figures in these Consolidated Financial Statements include the post acquisition profits of Rubicon Retail Limited and its subsidiaries for the period from 13 October 2006 to 27 January 2007, together with their closing balance sheet as at 27 January 2007.

On 13 August 2007, a consortium including F-Capital ehf. (a wholly owned subsidiary of Baugur Group hf.), Kaupthing Bank hf. and certain members of Mosaic Fashions hf.'s management team, successfully acquired the shares of Mosaic Fashions hf. held by all of the shareholders excluding the consortium members, through Tessera Holding ehf. Immediately after the bid, Kaupthing Bank hf. and BG Holding ehf. exercised their warrants, which had been issued as part of the Rubicon acquisition, resulting in an additional 347,758,887 shares. In consideration for the warrants, the warrant holders assigned their loan notes, which they held with Mosaic Fashions Limited, to Mosaic Fashions hf., and accepted a further 21,735,972 shares in lieu of interest. On 20 September 2007, the shares were transferred to certain of the consortium members.

The Company's shares were delisted from the OMX Nordic Exchange, Iceland on 22 October 2007, but the Company's bonds remain listed. On 23 October 2007, the shareholders of Mosaic Fashions hf. passed a resolution to increase the authorised share capital and divide the share capital into two classes, being A and B shares. An additional 44,674,287 A shares were subscribed for a consideration of GBP 6.0 million, and 3,228,516 B shares were subscribed for a consideration of GBP 0.03 million by the consortium members. Immediately after this subscription, the A share capital was reduced by cancellation, at a ratio of 80:1 to 41,432,884 shares of ISK1.

According to the Income Statement, the loss after tax for the 52 week period ended 26 January 2008 amounted to GBP 16.3 million. The Group's revenue from the sale of goods and services amounted to GBP 870.3 million during the period. According to the Balance Sheet, Equity at the end of the period amounted to GBP 198.6 million. Reference is made to the Consolidated Statement of Changes in Equity during the period.

The Company's total issued share capital amounted to GBP 0.5 million at 26 January 2008. The Company did not hold any of its own shares. Share capital at 26 January 2008 was divided among 11 shareholders. Three shareholders held over 10% of voting shares, as shown below:

F-Capital ehf.	49.0%
Kaupthing Bank hf.	20.0%
Gnupur Fjarfestingarfelag hf.	11.2%

Endorsement and Signatures of the Board of Directors and the CEO (continued)

Statement by the Board of Directors and CEO

According to our best knowledge it is our opinion that the Consolidated Financial Statements give a true and fair view of the consolidated financial performance of the Group for the 52 week period ended 26 January 2008, its assets, liabilities and consolidated financial position as at 26 January 2008 and its consolidated cash flows for the period then ended.

Further, in our opinion the Consolidated Financial Statements and the Endorsement of the Board of Directors and the CEO give a fair view of the development and performance of the Group's operations and its position and describes the principal risks and uncertainties faced by the Group.

The Board of Directors and the CEO of Mosaic Fashions hereby confirm the Consolidated Financial Statements for the 52 week period ended 26 January 2008.

London, 25 April 2008

Board of Directors:	Stewart Binnie
	Richard Glanville
	Margaret Lustman
	Michael Shearwood
	Jón Ásgeir Jóhannesson
	Frank Sekula
	Gunnar Sigurðsson
Chief Executive Officer:	Derek Lovelock

Independent Auditor's Report

To the Board of Directors and Shareholders of Mosaic Fashions hf.

Report on the Consolidated Financial Statements

We have audited the accompanying Consolidated Financial Statements of Mosaic Fashions hf. and its subsidiaries (the 'Group'), which comprise the Consolidated Balance Sheet as at 26 January 2008, and the Consolidated Income Statement, Consolidated Statement of Changes in Equity and Consolidated Cash Flow Statement for the period then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these Consolidated Financial Statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the Financial Statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Financial Statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Consolidated Financial Statements give a true and fair view of the consolidated financial position of Mosaic Fashions hf. as at 26 January 2008, and of its consolidated financial performance and its consolidated cash flows for the period then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Reykjavík, 25 April 2008

KPMG hf.

Consolidated Income Statement

For the 52 week period ended 26 January 2008

	Note	2008 28.01-26.01	2007 29.01-27.01 Restated
Sales	1	870.3	585.8
Cost of sales		-343.7	-229.7
Impact of fair value adjustment on acquired inventory		-	-3.2
Total cost of sales		-343.7	-232.9
Gross profit		526.6	352.9
Distribution costs		-379.1	-236.1
Administrative expenses before amortisation of intangibles, professional charges relating to delisting and acquisition and integration costs		-104.5	-65.4
Amortisation of intangibles	10	-16.3	-2.0
Professional charges relating to delisting and acquisition and integration costs		-2.4	-1.3
Total administrative expenses		-123.2	-68.7
Operating profit before financing costs		24.3	48.1
Loss on disposal of subsidiary	2	-1.6	-
Share of loss of associate	11	-0.3	-0.7
		22.4	47.4
Finance income	6	2.2	2.7
Financing costs before delisting		-42.0	-30.1
Financing costs arising from delisting		-12.8	-2.8
Total finance costs	6	-54.8	-32.9
Net finance costs		-52.6	-30.2
(Loss) profit before tax		-30.2	17.2
Income tax expense		13.9	-6.5
(Loss) profit for the period		-16.3	10.7

All profits are solely attributable to the equity holders of the Parent.

Earnings per share:

	Note	2008	2007
Basic (loss) earnings per share (pence)	8	-42.6	29.5
Diluted (loss) earnings per share (pence)	8	-42.6	26.4

The notes on pages 10 to 35 are an integral part of these financial statements.

Financial Statements of Mosaic Fashions hf. 26 January 2008 6 Amounts are in GBP million

Consolidated Balance Sheet
As at 26 January 2008

Assets

	Note	26.01.2008	27.01.2007
Non-current assets:			
Property, plant and equipment	9	86.2	83.4
Intangible assets	10	489.0	517.2
Investments in associates	11	0.4	0.4
Prepayments		5.8	6.8
Trade and other receivables		0.8	0.8
Total non-current assets		582.2	608.6
Current assets:			
Inventories	12	74.1	81.1
Trade and other receivables	13	86.1	62.8
Cash and cash equivalents	14	37.9	11.2
Total current assets		198.1	155.1
Total assets		780.3	763.7

Equity and liabilities

	Note	26.01.2008	27.01.2007
Equity:			
Share capital	15	-0.5	-23.5
Warrants	16	-	-9.8
Share premium	17	-155.3	-93.9
Capital redemption reserve	18	-26.4	-
Retained earnings and reserves		-16.4	-23.4
Total equity		-198.6	-150.6
Non-current liabilities:			
Long term borrowings	19	-333.5	-422.9
Deferred income	21	-14.2	-13.9
Deferred tax liabilities	22	-53.1	-69.5
Total non-current liabilities		-400.8	-506.3
Current liabilities:			
Short term borrowings	19	-40.9	-1.4
Trade and other payables	23	-124.2	-95.4
Deferred income	21	-10.7	-5.8
Income tax payable		-5.1	-4.2
Total current liabilities		-180.9	-106.8
Total liabilities		-581.7	-613.1
Total equity and liabilities		-780.3	-763.7

The notes on pages 10 to 35 are an integral part of these financial statements.

Financial Statements of Mosaic Fashions hf. 26 January 2008 7 Amounts are in GBP million

Consolidated Statement of Changes in Equity

For the 52 week period ended 26 January 2008

	Issued capital	Warrants	Share premium	Capital redemption reserve	Own shares held	Own shares held reserve	Translation reserve	Retained earnings	Total
Equity 29.01.2006	23.5	-	93.9	-	-2.9	0.5	-	14.6	129.6
Warrants issued in Mosaic Fashions hf.	-	9.8	-	-	-	-	-	-	9.8
Own shares sold	-	-	-	-	1.3	0.1	-	-	1.4
Foreign currency translation differences for overseas operations	-	-	-	-	-	-	-0.9	-	-0.9
Profit for the period	-	-	-	-	-	-	-	10.7	10.7
Equity 27.01.2007	23.5	9.8	93.9	-	-1.6	0.6	-0.9	25.3	150.6
Equity 28.01.2007	23.5	9.8	93.9	-	-1.6	0.6	-0.9	25.3	150.6
Warrants exercised	-	-9.8	9.8	-	-	-	-	-	-
Consideration received*	-	-	1.2	-	-	-	-	-	1.2
Shares issued	3.4	-	50.4	-	-	-	-	-	53.8
Share reduction	-26.4	-	-	26.4	-	-	-	-	-
Own shares sold	-	-	-	-	1.6	3.0	-	-	4.6
Foreign currency translation differences for overseas operations	-	-	-	-	-	-	4.7	-	4.7
Loss for the period	-	-	-	-	-	-	-	-16.3	-16.3
Equity 26.01.2008	0.5	-	155.3	26.4	-	3.6	3.8	9.0	198.6

Equity is solely attributable to equity holders of the Parent. Own shares held, own shares held reserve, translation reserve and retained earnings are shown within retained earnings and reserves on the face of the balance sheet.

* Consideration received was a refund of stamp duty received during the period in relation to the reverse acquisition of Mosaic Fashions Limited.

The notes on pages 10 to 35 are an integral part of these financial statements.

Financial Statements of Mosaic Fashions hf. 26 January 2008 8 Amounts are in GBP million

Consolidated Statement of Cash Flows

For the 52 week period ended 26 January 2008

	2008 28.01-26.01	2007 29.01-27.01
Cash flows from operating activities:		
Operating profit before net financing cost	24.3	48.1
Adjustments for:		
Depreciation of property, plant and equipment	26.9	17.9
Amortisation of intangible assets	16.3	2.0
Loss on disposal of property, plant and equipment	2.3	0.4
Share of loss of associates and joint ventures	-0.3	-0.7
Operating profit before changes in working capital and provisions	69.5	67.7
Decrease in inventories	3.3	15.5
Increase in trade and other receivables	-4.9	-2.7
Increase (decrease) in trade and other payables	33.6	-11.7
Increase in deferred income	5.8	10.6
Cash generated by operations	107.3	79.4
Interest income received	2.2	2.7
Financing costs paid	-35.5	-21.8
Income taxes paid	-1.9	-8.2
Net cash provided by operating activities	72.1	52.1
Cash flows from investing activities:		
Costs relating to sale of property, plant and equipment	-0.6	-
Acquisition of property, plant and equipment	-37.1	-28.1
Disposal of subsidiaries, net of cash disposed of	-0.7	-
Acquisition of subsidiaries, net of cash acquired	1.2	-137.4
Investment in associates and joint ventures	-0.3	-1.0
Net cash used in investing activities	-37.5	-166.5
Cash flows from financing activities:		
Proceeds from the issue of share capital	6.0	-
Proceeds from sale of own shares	4.6	1.4
Proceeds from long term borrowings	-	353.3
Repayment of borrowings	-18.5	-241.3
Net cash used (provided) by financing activities	-7.9	113.4
Net increase (decrease) in cash and cash equivalents	26.7	-1.0
Effect of exchange rate fluctuations on cash held	-	-2.5
Cash and cash equivalents at start of period	11.2	14.7
Cash and cash equivalents at end of period	37.9	11.2

The notes on pages 10 to 35 are an integral part of these financial statements.

Financial Statements of Mosaic Fashions hf. 26 January 2008 9 Amounts are in GBP million

Notes to the Consolidated Financial Statements

Significant accounting policies

a. ***Basis of preparation***

The legal residence of Mosaic Fashions hf. (the 'Company') is at Sudurlandsbraut 4, Reykjavík, Iceland.

Mosaic Fashions hf. was incorporated on 12 April 2005. With effect from the 23 May 2005, the Company became the legal parent company of Mosaic Fashions Limited and its subsidiary undertakings in a share for share transaction. Due to the relative values of the companies, the former shareholders of Mosaic Fashions Limited became the majority shareholders with 100% of the share capital of the enlarged share capital of Mosaic Fashions hf., prior to the placing and open offer in May / June 2005. Accordingly, the substance of the combination was that Mosaic Fashions hf. acquired Mosaic Fashions Limited in a reverse acquisition.

The consolidated Financial Statements of the Company for the 52 week period ended 26 January 2008 comprise the Company and its subsidiaries (the 'Group') and the Group's interest in associates. The Financial Statements were authorised for issue by the Directors on 25 April 2008.

The consolidated Financial Statements are presented in Pounds Sterling, which is the functional currency of the legal subsidiary, rounded to the nearest one hundred thousand. They are prepared on the historical cost basis except that derivative financial instruments are measured at fair value through the Income Statement.

The consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and their interpretations adopted by the International Accounting Standards Board (IASB), as adopted by the European Union.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

Note 2 – business combinations
Note 10 – measurement of the recoverable amounts of cash-generating units
Note 12 – inventory write downs
Note d – valuation of financial instruments
Note f – impairment of goodwill

Notes to the Consolidated Financial Statements

b. ***Basis of consolidation***

(i) *Subsidiaries*

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases.

(ii) *Associates and joint ventures*

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Associates and joint ventures are accounted for using the equity method (equity accounted investees).

The Consolidated Financial Statements include the Group's share of the income and expenses of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, 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.

(iii) *Transactions eliminated on consolidation*

Intragroup balances and transactions, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the Consolidated Financial Statements. Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated against the investment to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

c. ***Foreign currency***

Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency of the entity based on the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the Balance Sheet date are translated into the functional currency of the entity based on the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the Income Statement.

The assets and liabilities of foreign operations are translated at the closing exchange rate. Profit and loss accounts of foreign operations are consolidated at their average rates of exchange during the period, where this rate approximates to the foreign exchange rates ruling at the dates of the transactions. Gains and losses arising on these translations are taken to reserves.

d. ***Derivative financial instruments***

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational and financing activities. The Group has entered into forward agreements to limit its exposure to foreign exchange risk in relation to transactions in foreign currency. The Group has also entered into option agreements which limit its exposure to foreign exchange risk arising from its financing in foreign

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are measured at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the Income Statement.

Notes to the Consolidated Financial Statements

e. ***Property, plant and equipment***

(i) *Owned assets*

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

(ii) *Depreciation*

Depreciation is charged to the Income Statement over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

On a straight line basis:	Useful life
Leasehold improvements	Over period of lease
Fixtures and fittings	3-10 years
Computer hardware and software	3-5 years
Motor vehicles	4 years

f. ***Intangible assets***

(i) *Goodwill*

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries. In respect of business acquisitions that have occurred since 31 January 2004, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment.

In respect of acquisitions prior to 31 January 2004, goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous UK GAAP, less amortisation until 31 January 2004. The classification and accounting treatment of business combinations that occurred prior to 31 January 2004 was not reconsidered in preparing the Group's opening IFRS Balance Sheet at 31 January 2004.

Negative goodwill arising on an acquisition is recognised directly in the Income Statement.

(ii) *Other intangible assets*

Other intangible assets that are acquired by the Group which are deemed to have finite lives, are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged to the Income Statement on a straight line basis over the estimated useful life of the relevant asset as follows:

Brand names	20 years
Franchise agreements	10 years
Licence agreements	8 years
Concession agreements	6 years

On 28 January 2007, the Group reassessed the estimated useful life of the Brand names to 20 years (2007: indefinite life).

Expenditure on internally generated goodwill and brands is recognised in the Income Statement as an expense as incurred.

g. ***Inventories***

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the weighted average basis and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

Financial Statements of Mosaic Fashions hf. 26 January 2008 12 Amounts are in GBP million

h. ***Impairment***

The carrying amounts of the Group's trade receivables and non-financial assets, other than deferred tax assets and inventories, are reviewed at 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.

For goodwill the recoverable amount is estimated at each balance sheet date and whenever there is an indication of impairment.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the Income Statement

Calculation of recoverable amount

A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

i. ***Share capital***

(i) *Repurchase of share capital*

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity.

(ii) *Dividends*

Dividends on preference shares classified as a liability are recognised as a liability and expensed on an accrual basis. Other dividends are recognised as a liability and as a deduction from equity in the period in which they are authorised.

(iii) *Warrants*

Warrants are stated at their fair value, being the amount for which the asset could have been exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction at the time of issue

j. ***Sales***

Sales represents the value, net of discounts given, of goods sold and licensing income received, excluding value added tax. Sales are recognised only when all significant risks and rewards of ownership of goods have been transferred to the purchaser. Provision is made for expected returns.

Notes to the Consolidated Financial Statements

k. ***Expenses***

(i) *Cost of sales and other expenses*

Cost of sales consists of direct costs attributable to sales.

Distribution and administrative costs cover the running costs of the store locations, distribution centre and head office.

(ii) *Operating lease payments*

Payments made under operating leases are recognised in the Income Statement on a straight line basis over the term of the lease.

Any benefits received as an incentive to sign a lease, specifically rent free periods and reverse premiums, are initially capitalised in deferred income and then released to the Income Statement on a straight line basis over the term of the lease.

l. ***Finance income and financing costs***

All finance income relates to interest income on bank and cash deposits.

Financing costs comprise interest payable on borrowings, foreign exchange gains and losses, and gains and losses on hedging instruments that are recognised in the Income Statement.

Borrowing costs and interest income are recognised in the Income Statement as they accrue, using the effective interest method.

Costs associated with raising loan finance and equity shares are recorded against the loan principal and share premium account respectively. Loan finance costs are amortised to the Income Statement over the life of the relevant loan at a constant rate of return on the carrying amount.

m. ***Income tax***

Income tax on the profit or loss for the period comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the Balance Sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for; goodwill not deductible for tax purposes, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the Balance Sheet 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 reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

n. ***Pensions***

The Group provides access to a stakeholder pension for all UK employees. In addition, contributions are made to specific employees' personal pension plans. The assets and liabilities of the schemes are held separately from those of the Group in independently administered funds. Obligations for contributions to these plans are recognised as an expense in the Income Statement as incurred.

o. ***Employee Benefit Trust***

The Group operates an Employee Benefit Trust for the purpose of funding employees' bonuses. In accordance with SIC 12, Special Purpose Entities, the transactions of this trust have been consolidated within these Financial Statements. In particular, cash held by the trust is included within the cash of the Group and the cost of own shares in the parent are included in 'Own shares held', and the surplus or deficit on sales of such shares are recorded in 'Own shares held reserve', directly in Equity.

Notes to the Consolidated Financial Statements

p. ***Reserves***

Translation reserve

Foreign exchange differences arising on translation of financial statements or subsidiaries are recognised directly in a separate component of equity.

Capital redemption reserve

The capital redemption reserve represents the redemption of ordinary share capital.

Reverse acquisition reserve

Mosaic Fashions hf. (the Company) was incorporated on 12 April 2005. With effect from the 23 May 2005, the Company became the legal parent company of Mosaic Fashions Limited and its subsidiary undertakings in a share for share transaction. Due to the relative values of the companies, the former shareholders of Mosaic Fashions Limited became the majority shareholders with 100% of the share capital of the enlarged share capital of Mosaic Fashions hf., prior to the placing and open offer in May / June 2005. Accordingly, the substance of the combination was that Mosaic Fashions hf. acquired Mosaic Fashions Limited in a reverse acquisition.

q. ***New accounting policies and future requirements***

The following standards or interpretations, issued by the IASB or the IFRIC came into effect during the year and have been adopted by the group:

Amendment to IAS 1 – Presentation of Financial Statements Capital Disclosures

IFRS 7 – Financial Instruments: Disclosures

IFRIC 8 – Scope of IFRS 2

IFRIC 9 – Reassessment of Embedded Derivatives

IFRIC 10 – Interim Financial Reporting and Impairment

The standards listed above did not have a significant effect on the consolidated results or financial position of the group or the company.

The following standards or interpretations, issued by the IASB or the IFRIC, have been adopted by the European Commission, but only become effective for accounting periods after 31 December 2007:

IFRS 8 – Operating Segments, introduces the management approach to segment reporting. IFRS 8, which becomes mandatory for the group's 2009 financial statements, will require disclosure of segment information based on the internal reports regularly reviewed by the chief operating decision maker in order to assess each segment's performance. Under the current reporting standard, the Group is presenting the information in the same way as it does to the chief operating decision maker.

IFRIC 11 IFRS 2 – Group and Treasury Share Transactions, requires a share based payment arrangement in which an entity receives goods and services as consideration for its own equity instruments to be accounted for as an equity settled share based payment transaction, regardless of how the equity instruments are obtained. IFRIC 11 will become mandatory for the group's 2008 financial statements, with retrospective application. The group and the company do not currently believe the adoption of this interpretation will have a significant effect or the consolidated results or financial position.

Notes to the Consolidated Financial Statements

r. ***Determination of fair values***

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods.

(i) *Intangible assets*

The fair value of intangible assets acquired in business combinations is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

(ii) *Inventory*

The fair value of inventory acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventory.

(iii) *Trade and other receivables*

The fair value of trade and other receivables, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(iv) *Non-derivative financial liabilities*

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

(v) *Non-derivative financial instruments*

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option.

s. ***Financial risk management***

The Group has exposure to the following risks from its use of financial instruments:

Credit risk;
Liquidity risk; and
Market risk.

This note presents information about the Group's exposure to each of the above risks and the Group's policies and processes for measuring and managing these risks. The Group operates a centralised treasury function covering funding and management of foreign exchange exposure and interest rate risk.

(i) Credit risk

Credit risk is the risk of financial loss to the Group if a customer fails to meet its contractural obligations, and arises principally from the Group's receivables from customers.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group assigns credit limits to its customers based on external credit ratings and, where deemed required, letters of credit are also obtained. The Group's policy is to provide for bad debts based on the specific circumstances of each debtor. Given the relative nature of the business, credit risk from trade and other receivables is not deemed significant by management.

Guarantees

The Group's policy is to provide financial guarantees only to wholly owned subsidiaries.

Notes to the Consolidated Financial Statements

s. ***Financial risk management (continued)***

(ii) 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 prepares a detailed rolling annual cash flow forecast which is updated every quarter. Cash flows are monitored weekly against the forecast.

The Group maintains the following lines of credit in addition to existing loan finance under its Senior, Mezzanine and PIK facilities:

GBP 75.0 million revolving facility that is unsecured. Interest would be payable at a rate of LIBOR + 2.25%

The Senior, Mezzanine, PIK and revolving facilities include the need to meet certain covenant tests on a quarterly basis. The achievability of these tests is monitored regularly as part of the cash flow monitoring process.

(iii) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising return.

Currency risk

The Group is exposed to foreign currency on sales and purchases. Exposures are primarily to the US Dollar and the Euro.

Forecast transactional exposures are reviewed and hedged based on forecasted levels of foreign currency transactions. Hedging is achieved using forward exchange contracts.

The derivative contracts do not qualify for hedge accounting as they are not taken out against specific future transactions and therefore do not meet the requirements laid down in IAS 39 for this accounting treatment to be adopted.

Interest rate risk

The Group's policy is to minimise the impact of interest rate volatility on interest cost to protect earnings. This is achieved by reviewing both the amount of floating indebtedness over a certain period of time and its sensitivity to interest rate fluctuations. From time to time, the Group may take out interest rate swaps in order to fix the Group's exposure to interest rates on floating debt.

Notes to the Consolidated Financial Statements

Segmental reporting

1. Sales arise entirely from the fashion industry and may be analysed into either retailing or overseas licensing of the Group's retail brands.

Business segment	Retailing		Overseas licensing		Consolidated	
	2008	2007	2008	2007	2008	2007
Segment sales	834.5	560.6	35.8	25.2	870.3	585.8
Segment result	139.5	111.9	8.0	4.9	147.5	116.8
Unallocated expenses					-123.2	-68.7
Results from operating activities					24.3	48.1
Assets	776.8	759.7	3.5	4.0	780.3	763.7
Liabilities	-581.7	-613.1	-	-	-581.7	-613.1
Depreciation	26.9	17.9	-	-	26.9	17.9
Amortisation of intangible assets	15.8	1.5	0.5	0.5	16.3	2.0

Summary of the Group's sales for the period by geographical segments:	2008 28.01-26.01	2007 29.01-27.01
United Kingdom	724.1	484.5
Ireland	87.4	57.4
Germany	4.8	5.1
Rest of Europe, Middle and Far East	48.4	34.7
USA	5.6	4.1
	870.3	585.8

Sales by location of customer is not materially different from sales by country of operation.

Financial Statements of Mosaic Fashions hf. 26 January 2008 18 Amounts are in GBP million

Notes to the Consolidated Financial Statements

Disposal of subsidiary

2. On 26 January 2008, the Group sold all the shares of Whistles Limited and its subsidiaries, Whistles Stores Ireland Limited, Whistles International Limited and Whistles (Bicester) Limited, for a net consideration of GBP 19.8 million, satisfied by cash received after the period end.

Property, plant and equipment	7.3
Intangible assets	12.2
Inventories	3.7
Trade and other receivables	1.9
Cash and cash equivalents	0.7
Trade and other payables	-3.8
Deferred income	-0.6
Net assets disposed	21.4
Consideration receivable	20.0
Disposal costs	-0.2
Net consideration receivable	19.8
Loss on disposal before tax	-1.6

Salaries and salary related expenses

3. Salaries and salary related expenses are specified as follows:

	2008 28.01-26.01	2007 29.01-27.01
Salaries	147.1	93.6
Social security costs	11.4	7.5
Pension costs	1.0	0.6
Total salaries and salary related expenses	159.5	101.7
Average number of employees	14,761	12,538

4. Salaries and salary related expenses paid to the Board of Directors for their work for companies within the Group and their ownership in the Company are specified as follows

	Salaries		Nominal value of shares owned	
	2008 28.01-26.01	2007 29.01-27.01	26.01.2008	27.01.2007
Stewart Binnie, Chairman of the Board	0.1	0.1	-	-
Derek Lovelock, CEO	0.7	0.5	-	1.5
Richard Glanville, Finance Director	0.4	0.3	-	0.8
Michael Shearwood, Deputy CEO	0.5	-	-	-
Margaret Lustman, Group Strategy & Development Director	0.2	-	-	-
Gunnar Sigurðsson, Board Member	-	-	-	-
Jón Ásgeir Jóhannesson, Board Member	-	-	-	-
Frank Sekula, Board Member	-	-	-	-

Financial Statements of Mosaic Fashions hf. 26 January 2008 19 Amounts are in GBP million

Notes to the Consolidated Financial Statements

Auditors' Fees

		2008	2007
5.	Auditors' fees are specified as follows:	28.01-26.01	29.01-27.01
	Audit of the financial statements	0.3	0.3
	Review of interim financial statements	0.1	0.1
	Other services	1.1	1.8
	Total auditors' fees	1.5	2.2

Finance income and financing costs

		2008	2007
6.	Finance income is specified as follows:	28.01-26.01	29.01-27.01
	Interest income on bank deposits	2.2	2.7

	2008	2007
Financing costs are specified as follows:	28.01-26.01	29.01-27.01
Amortisation of loan costs	2.5	1.2
Interest expense on bank loans and overdrafts	44.3	23.0
Finance charges on bank loans and overdrafts	1.4	1.1
Fair value adjustment of derivatives and foreign exchange revaluation	-6.2	4.8
Financing costs before impact of delisting	42.0	30.1
Accelerated amortisation of loan costs	-	2.7
Accelerated accretion of loan notes	12.8	-
Other costs of refinancing	-	0.1
Financing costs arising from delisting and refinancing	12.8	2.8
Total financing costs	54.8	32.9

The accelerated accretion of loan notes in 2008 arose due to the redemption of the unsecured loan note (see note 19).

The accelerated amortisation of loan costs in 2007 arose due to the refinancing of the Group as part of the acquisition of Rubicon Retail Limited.

Financial Statements of Mosaic Fashions hf. 26 January 2008 20 Amounts are in GBP million

Notes to the Consolidated Financial Statements

Income tax expense

7. Recognised in the Income Statement

	2008 28.01-26.01	2007 29.01-27.01
Current tax expense:		
Current year	3.9	9.0
Adjustment in respect of prior years	-1.4	-1.1
	2.5	7.9
Deferred tax expense:		
Origination and reversal of temporary differences	-11.0	-1.4
Effect of law changes	-3.9	-
Adjustment in respect of prior years	-1.5	-
Total income tax in income statement	-13.9	6.5

Reconciliation of effective tax rate

	2008	2007
Profit before tax	-30.2	17.2
Income tax according to current UK tax rate 30% (2007: 30%)	-9.1	5.2
Non deductible expenditure	5.1	1.2
Depreciation on ineligible assets	2.0	1.2
Tax losses utilised	-	-1.0
Gains arising on warrants	-	2.9
Tax on overseas income	-3.1	-1.9
Non-taxable gain arising on sale of investment	-2.0	-
Effect of law changes	-3.9	-
Over provided in prior years	-2.9	-1.1
Total income tax in income statement	-13.9	6.5
Effective tax rate	46%	38%

Financial Statements of Mosaic Fashions hf. 26 January 2008 21 Amounts are in GBP million

Notes to the Consolidated Financial Statements

Earnings per share

8. Basic earnings per share is specified as follows:

Basic earnings per share is calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average outstanding number of shares during the period.

As noted in note 15, a share reduction occurred during the period. As a result, the comparative period has been restated to reflect the share reduction.

	2008 28.01-26.01	2007 29.01-27.01
(Loss) profit for the period attributable to the equity holders of the Company	-16.3	10.7

	26.01.2008 Number (millions)	27.01.2007 Number (millions) Restated
Number of shares at the beginning of the period	2,900.5	2,900.5
Effect of the increase of share capital during the period	163.6	-
Effect of share reduction during the period (see note 15)	-3,025.8	-2,864.2
Weighted average outstanding number of shares	38.3	36.3

	2008 28.01-26.01	2007 29.01-27.01 Restated
Basic (loss) earnings per share (pence)	-42.6	29.5

Diluted earnings per share is specified as follows:

Diluted earnings per share is calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average outstanding number of shares during the period, after adjustment for the effects of all dilutive potential shares.

	2008 28.01-26.01	2007 29.01-27.01
(Loss) profit for the period attributable to the equity holders of the Company	-16.3	10.7

	26.01.2008 Number (millions)	27.01.2007 Number (millions) Restated
Weighted average outstanding number of shares (basic)	38.3	36.3
Effect of conversion of warrants*	N/A	4.3
Weighted average outstanding number of shares (diluted)	38.3	40.6

* Under IAS33, potential ordinary shares shall be treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase loss per share from continuing operations.

	2008 28.01-26.01	2007 29.01-27.01 Restated
Diluted (loss) earnings per share (pence)	-42.6	26.4

Notes to the Consolidated Financial Statements

Property, plant and equipment

9. Property, plant and equipment and their depreciation is specified as follows:

	Leasehold improve-ments	Fixtures and fittings	Computer equipment	Motor vehicles	Total
Cost					
At 28 January 2006	5.5	84.8	16.0	0.6	106.9
Acquisition of Rubicon Retail Limited	7.9	51.6	1.0	-	60.5
Additions	1.2	22.5	4.3	0.1	28.1
Disposals	-0.2	-9.1	-0.3	-	-9.6
At 27 January 2007	14.4	149.8	21.0	0.7	185.9
Retranslation	0.1	1.1	0.1	-	1.3
Additions	0.7	33.2	3.1	0.1	37.1
Disposals	-0.9	-1.8	-0.1	-	-2.8
Disposal of Whistles Limited	-2.6	-9.6	-1.0	-	-13.2
At 26 January 2008	11.7	172.7	23.1	0.8	208.3
Accumulated depreciation					
At 28 January 2006	-3.8	-40.0	-11.8	-0.4	-56.0
Acquisition of Rubicon Retail Limited	-4.7	-32.7	-1.0	-	-38.4
Charge for the period	-0.7	-15.3	-1.8	-0.1	-17.9
Reclassification	0.6	-	-	-	0.6
Disposals	0.2	8.7	0.3	-	9.2
At 27 January 2007	-8.4	-79.3	-14.3	-0.5	-102.5
Retranslation	-0.1	-0.4	-	-	-0.5
Charge for the period	-1.4	-23.1	-2.3	-0.1	-26.9
Reclassification	0.7	-	-	-	0.7
Disposals	0.2	0.9	-	-	1.1
Disposal of Whistles Limited	1.0	4.7	0.3	-	6.0
At 26 January 2008	-8.0	-97.2	-16.3	-0.6	-122.1
Net book value					
At 26 January 2008	3.7	75.5	6.8	0.2	86.2
At 27 January 2007	6.0	70.5	6.7	0.2	83.4
Depreciation rate	4-10%	10-33%	20-33%	25%	

Financial Statements of Mosaic Fashions hf. 26 January 2008 23 Amounts are in GBP million

Property, plant and equipment (continued)

9. continued

Depreciation charge

The depreciation charge is recognised in the following line items in the Income Statement:

	2008 28.01-26.01	2007 29.01-27.01
Distribution costs	22.9	14.9
Administrative expenses before amortisation of intangibles, professional charges relating to delisting and acquisition and integration costs	4.0	3.0
	26.9	17.9

Intangible Assets

10. The Group's intangible assets are specified as follows:

	Goodwill	Brand names	Franchise agreements	Licence agreements	Concession agreements	Total
Carrying amount at 28 January 2006	161.9	44.4	4.5	1.0	-	211.8
Acquisition of Rubicon Retail Limited	119.1	143.6	-	18.9	25.8	307.4
Amortisation	-	-	-0.5	-0.6	-0.9	-2.0
Carrying amount at 27 January 2007	281.0	188.0	4.0	19.3	24.9	517.2
Sale of Whistles Stores Limited	-3.8	-8.4	-	-	-	-12.2
Amortisation	-	-9.0	-0.5	-2.5	-4.3	-16.3
Fair value adjustment	0.3	-	-	-	-	0.3
Carrying amount at 26 January 2008	277.5	170.6	3.5	16.8	20.6	489.0

Amortisation

The amortisation charge is recognised within 'Amortisation of intangibles' in the Income Statement.

Impairment review

For the purposes of impairment testing, goodwill is allocated to the Group's brand operating divisions, which represent the lowest level within the Group at which goodwill is monitored for internal management purposes.

The carrying amount of the Group's goodwill deemed to have an indefinite life was reviewed at the balance sheet date using the methodology described below:

The recoverable amounts are based on value in use calculations. Cash flow projections, which were based on the three year business plan, were used to calculate the value in use. A projection period of fifteen years was used. A growth rate of 10% was used for years four and five and 3% for years six to fifteen. A pre-tax discount rate of 10% has been used in discounting the cash flows. The discount rate was estimated based on an industry weighted cost of capital, adjusted to reflect the risks specific to the asset being assessed. Based on this assessment, no impairment has been recognised.

Financial Statements of Mosaic Fashions hf. 26 January 2008 24 Amounts are in GBP million

Notes to the Consolidated Financial Statements

Investments in associates and joint ventures

11. The Group's investments in associates are specified as follows:

	Share		Carrying amount	
	2008	2007	2008	2007
	28.01-26.01	29.01-27.01	28.01-26.01	29.01-27.01
Oasis Pacific Rim Limited (incorporated in Hong Kong)	50.0%	50.0%	0.4	0.4
Ship (2006) Limited (incorporated in the UK)	19.0%	19.0%	-	-
			0.4	0.4

Summary financial information for Oasis Pacific Rim Limited for the calendar year ended 31 December 2007:

Balance sheet	2007	2006
Assets	2.5	2.0
Liabilities	-3.3	-1.9
Income statement		
Revenue	4.5	3.6
Loss for the year	-0.6	-1.4

Summary financial information for Ship (2006) Limited for the period ended 31 December 2006:

Balance sheet	2006
Assets	146.8
Liabilities	-147.5
Income statement	
Revenue	0.4
Loss for the period	-0.7

The financial information given is based on a 100% holding. No financial information for Ship (2006) Limited for the calendar year ended 31 December 2007 is currently available.

Inventories

12. Inventories are specified as follows:

	26.01.2008	27.01.2007
Goods for resale	68.6	73.9
Work in progress	2.8	3.2
Raw materials	2.7	4.0
Total inventories	74.1	81.1

During the period, inventory write downs were recognised as an expense within cost of sales. An estimation of current inventory write downs is included within the inventory value at the balance sheet date.

Trade and other receivables

13. Trade and other receivables are specified as follows:

	26.01.2008	27.01.2007
Trade receivables	37.8	36.8
Other receivables	24.5	5.0
Prepayments and accrued income	23.8	21.0
Total trade and other receivables	86.1	62.8

Financial Statements of Mosaic Fashions hf. 26 January 2008 25 Amounts are in GBP million

Notes to the Consolidated Financial Statements

Cash and cash equivalents

		26.01.2008	27.01.2007
14.	Cash and cash equivalents are specified as follows:		
	Bank balances	37.9	11.2

Included within bank balances is an amount of GBP 4.6 million (2007: nil) held in relation to and for the use of the Employee Benefit Trust.

Equity

15. Share capital is specified as follows:

		26.01.2008	27.01.2007
Authorised:	41,432,884 A ordinary shares of ISK 1 (2007: 2,900,461,613 ordinary shares of ISK 1)	0.5	23.5
	3,228,516 B ordinary shares of ISK 1 (2007: nil)	-	-
		0.5	23.5
Issued and fully paid:	41,432,884 A ordinary shares of ISK 1 (2007: 2,900,461,613 ordinary shares of ISK 1)	0.5	23.5
	3,228,516 B ordinary shares of ISK 1 (2007: nil)	-	-
		0.5	23.5

None of the shares within the issued share capital are held by the Employee Benefit Trust (2007: 32,870,387).

Changes in share capital during the period are specified as follows:		Share capital
As at 27 January 2007		23.5
23 October 2007	A ordinary share subscription (347,758,887 shares)	2.8
23 October 2007	A ordinary share subscription (21,735,972 shares)	0.2
23 October 2007	A ordinary share subscription (44,674,287 shares)	0.4
23 October 2007	B ordinary share subscription (3,228,516 shares)	-
09 November 2007	A ordinary share reduction (3,273,197,875 shares) (note 18)	-26.4
As at 26 January 2008		0.5

On 09 November 2007, the authorised and issued A ordinary share capital of the Company was reduced to 41,432,884 A ordinary shares of ISK 1.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and the A shareholders only are entitled to one vote per share at meetings of the Company.

Warrants

16. The following warrants were exercised in the period ended 26 January 2008:

	Number of warrants	Exercise price (GBP)
Kaupthing Bank hf.	39,536,391	0.1294
BG Holding ehf.	308,222,496	0.1294

In consideration for the exercise of the warrants, the warrant holders assigned their loan notes to Mosaic Fashions hf. (see note 19).

Financial Statements of Mosaic Fashions hf. 26 January 2008 26 Amounts are in GBP million

Notes to the Consolidated Financial Statements

Share premium

17. Share premium represents excess of payment above nominal value (ISK 1 per share) that shareholders have paid for shares sold by the Company. According to Icelandic Companies Act, 25% of the nominal value of share capital must be held in a reserve which cannot be paid out as dividend to shareholders

Capital redemption reserve

18. The capital redemption reserve arose on the redemption of ordinary share capital on 09 November 2007 as noted in note 15.

Non-current liabilities

19. Loans from credit institutions are specified as follows:

	26.01.2008	27.01.2007
Bank loans	281.6	341.1
Unsecured loan notes	-	29.9
Unsecured Icelandic bond	51.9	51.9
	333.5	422.9
Long term borrowing, including current portion	374.4	424.3
Current portion	-40.9	-1.4
Total long term borrowings according to the Balance Sheet	333.5	422.9

During the period, the existing financing package was restructured. The carrying amounts are shown net of GBP 16.7 million of deal fees, and comprise:

	Nominal interest rate	Year of maturity	Carrying amount
Ordinary bank loans	LIBOR +2.25% / 3.5%	2011-2013	251.5
Mezzanine bank loan	LIBOR +4% / 6%	2014	67.7
PIK facility	LIBOR +15%	2015	20.0
Icelandic bond	LIBOR +1.95%	2010	51.9
Gross amount			391.1
Deal fees			-16.7
Net amount			374.4

Prior to the delisting the unsecured loan notes were redeemed early. The face value of the loan notes was GBP 45.0 million. Accelerated accretion of interest of GBP 12.8 million was charged to the income statement (see note 6).

During the year GBP 6.0 million (2007: GBP 13.9 million) was capitalised in respect of the loan deal costs.

During the comparative period, a new financing package was put in place at the time of the acquisition of Rubicon Retail Limited, repaying much of the Group's existing debt and all of the debt of Rubicon Retail Limited, and providing cash for the acquisition of Rubicon Retail Limited.

Financial Statements of Mosaic Fashions hf. 26 January 2008 27 Amounts are in GBP million

Notes to the Consolidated Financial Statements

Non-current liabilities (continued)

20. Aggregated annual maturities of long term liabilities owed to credit institutions at the period end are specified as follows:

	26.01.2008	27.01.2007
Year to January 2009	44.2	3.6
Year to January 2010	13.7	11.5
Year to January 2011	74.2	19.0
Year to January 2012	25.0	31.0
Year to January 2013	73.1	35.0
Subsequent	160.9	337.3
	391.1	437.4
Deal costs	-16.7	-13.1
	374.4	424.3

The carrying amount of financial assets and liabilities equate to their fair values at 27 January 2007 and 26 January 2008.

The effective interest rate on the bank loans is 11.20%.
The effective interest rate on the unsecured Icelandic bond is 7.48%.

Deferred income

21. Deferred income relates primarily to lease incentives received on properties, which are being released over the life of the lease.

Financial Statements of Mosaic Fashions hf. 26 January 2008 28 Amounts are in GBP million

Notes to the Consolidated Financial Statements

Deferred tax liability

22. The Group's deferred tax assets and liabilities according to the balance sheet are specified as follows:

	Assets		Liabilities		Net	
	26.01.2008	27.01.2007	26.01.2008	27.01.2007	26.01.2008	27.01.2007
Property, plant and equipment	7.0	0.4	-	-	7.0	0.4
Provisions	-	-	-0.2	-0.3	-0.2	-0.3
Leases	0.4	0.5	-	-	0.4	0.5
Intangible assets	-	-	-59.9	-71.2	-59.9	-71.2
Hedging reserve	-	-	-	-	-	-
Fair value of derivatives	-	1.1	-0.4	-	-0.4	1.1
Tax assets/(liabilities)	7.4	2.0	-60.5	-71.5	-53.1	-69.5

Movement in temporary differences during the period

	Balance at 27 January 2007	Recognised in income	Recognised in equity	Transferred on acquisition	Balance at 26 January 2008
Property, plant and equipment	0.4	6.6	-	-	7.0
Provisions	-0.3	0.1	-	-	-0.2
Leases	0.5	-0.1	-	-	0.4
Intangible assets	-71.2	11.3	-	-	-59.9
Hedging reserve	-	-	-	-	-
Fair value of derivatives	1.1	-1.5	-	-	-0.4
	-69.5	16.4	-	-	-53.1

	Balance at 28 January 2006	Recognised in income	Recognised in equity	Transferred on acquisition	Balance at 27 January 2007
Property, plant and equipment	-1.5	1.2	-	0.7	0.4
Provisions	0.3	-0.6	-	-	-0.3
Leases	0.5	-	-	-	0.5
Intangible assets	-14.9	0.2	-	-56.5	-71.2
Hedging reserve	-0.2	-	0.2	-	-
Fair value of derivatives	0.5	0.6	-	-	1.1
	-15.3	1.4	0.2	-55.8	-69.5

It has been announced that the income tax rate applicable to the Group is expected to change from 30% to 28% from 1 April 2008. The deferred tax liability has been calculated at 28% in accordance with IAS 12.

Trade and other payables

23. Trade and other payables are specified as follows:

	26.01.2008	27.01.2007
Trade creditors	46.6	32.5
Other creditors	4.6	5.6
Other taxation and social security	19.7	16.1
Accruals	53.3	41.2
Total trade and other payables	124.2	95.4

Financial Statements of Mosaic Fashions hf. 26 January 2008 29 Amounts are in GBP million

Notes to the Consolidated Financial Statements

Derivatives and other financial instruments

24. *Fair values of financial instruments*

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet are as follows:

	26.01.2008 Carrying amount	26.01.2008 Fair value	27.01.2007 Carrying amount	27.01.2007 Fair value
Financial assets				
Current				
Cash and cash equivalents	37.9	37.9	11.2	11.2
Trade and other receivables	86.1	86.1	62.8	62.8
	124.0	124.0	74.0	74.0
Financial liabilities				
Non-current				
Loans and borrowings	-333.5	-333.5	-393.0	-393.0
Unsecured loan note	-	-	-29.9	-29.9
Current				
Trade and other payables	-124.4	-124.4	-95.4	-95.4
Loans and borrowings	-40.9	-40.9	-1.4	-1.4
	-498.8	-498.8	-519.7	-519.7
	-374.8	-374.8	-445.7	-445.7

Interest rates used for determining fair value

The interest rates used to discount estimated cash flows, where applicable, are as follows:

The interest rates

	2008 28.01-26.01	2007 29.01-27.01
Unsecured loan note	N/A	9.94%

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 GBP 86.1 million (2007: GBP 62.8 million).

Financial Statements of Mosaic Fashions hf. 26 January 2008 30 Amounts are in GBP million

Notes to the Consolidated Financial Statements

Derivatives and other financial instruments (continued)

24. continued

Other receivables included an amount for GBP 19.8 million in relation to the disposal of the subsidiary, Whistles Limited, as noted in note 2. The consideration was received on 28 January 2008.

The ageing of trade and other receivables at the period end was

	26.01.2008	27.01.2007
Not past due to 120 days past due	85.8	62.8
Past due more than 120 days	0.3	-
	86.1	62.8

The Group do not consider the exposure to credit risk is significant by geographical region due to the nature of their business.

At the period end, net receivable balances included provisions against bad or doubtful debts. At the period end there were receivables aged more than 120 days totalling GBP 0.5 million (2007: GBP 0.5 million) against which provisions of GBP 0.2 million (2007: GBP 0.5 million) were in place

Liquidity risk

The following are the contractual maturities of financial liabilities, including interest payments

26 January 2008	Carrying amount	Contractual cash flows	0-1 years	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities						
Secured bank loans	339.2	-565.5	-73.7	-48.2	-203.1	-240.5
Unsecured bond	51.9	-62.3	-4.2	-4.1	-54.0	-
Trade and other payables	124.4	-124.4	-124.4	-	-	-
	515.5	-752.2	-202.3	-52.3	-257.1	-240.5

27 January 2007	Carrying amount	Contractual cash flows	0-1 years	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities						
Secured bank loans	385.5	-490.5	-40.0	-59.5	-214.4	-176.6
Unsecured Bond	51.9	-61.9	-4.0	-4.0	-53.9	-
Trade and other payables	95.4	-95.4	-95.4	-	-	-
	532.8	-647.8	-139.4	-63.5	-268.3	-176.6

The secured bank loans are subject to a flexing arrangement whereby a tranche of debt up to defined limits can be reclassified as Senior Debt or Payment in Kind debt or vice versa on the occurrence of certain events.

Financial Statements of Mosaic Fashions hf. 26 January 2008 31 Amounts are in GBP million

Notes to the Consolidated Financial Statements

Derivatives and other financial instruments (continued)

24. continued

Market risk

Market risk - interest rate risk:

At the balance sheet date, the interest rate profile of the Group's interest bearing financial instruments was

		26.01.2008	27.01.2007
Variable rate instruments			
Senior debt	LIBOR +2.25% / 3.5%	251.5	300.0
Mezzanine bank loan	LIBOR +4% / 5%	67.7	55.6
Payment in Kind debt	LIBOR +15%	20.0	-
Unsecured loan note	LIBOR +2%/ 10%	-	29.9
Unsecured bond	LIBOR +1.95%	51.9	51.9
		391.1	437.4

The Group makes use of interest rate swap contracts to manage the perceived interest rate risk. These derivative instruments all have maturity dates of less than one year after the balance sheet date and are initially recognised in the balance sheet at cost and subsequently re-measured to their fair value through the income statement.

The derivative contracts do not qualify for hedge accounting as they are not taken out against specific future transactions and therefore do not meet the requirements laid down in IAS 39 for this accounting treatment to be adopted. The following table shows the contract and fair values of the derivative instruments analysed by type of contract at 26 January 2008 and at 27 January 2007.

Derivative	Contract amount		Fair values	
financial instrument	26.01.2008	27.01.2007	26.01.2008	27.01.2007
Interest rate swap contracts	70.2	70.2	0.2	0.1

Market risk - foreign currency risk:

The Group has significant US Dollar and Euro revenues and costs necessitating the need to manage its total currency exposure. The risk attached to adverse currency movements is managed through the forecasting of all foreign currency revenues and costs and using currency hedging instruments to hedge against exposures up to 12 months ahead.

The Group makes use of foreign exchange contracts to manage the perceived foreign currency risk. These derivative instruments all have maturity dates of less than one year after the balance sheet date and are initially recognised in the balance sheet at cost and subsequently re-measured to their fair value through the income statement.

The derivative contracts do not qualify for hedge accounting as they are not taken out against specific future transactions and therefore do not meet the requirements laid down in IAS 39 for this accounting treatment to be adopted. The following table shows the contract and fair values of the derivative instruments analysed by type of contract at 26 January 2008 and at 27 January 2007

Derivative	Contract amount		Fair values	
financial instrument	26.01.2008	27.01.2007	26.01.2008	27.01.2007
Forward exchange rate contracts	132.7	94.1	0.7	-4.9

Financial Statements of Mosaic Fashions hf. 26 January 2008 32 Amounts are in GBP million

Notes to the Consolidated Financial Statements

Derivatives and other financial instruments (continued)

24. continued

The Company's exposure to foreign currency risk is as follows. This is based on the carrying amount for monetary financial instruments except derivatives, for which it is based on notional amounts.

26 January 2008	Sterling	Euro	US Dollar	Other	Total
Cash and cash equivalents	26.4	7.2	2.7	1.6	37.9
Trade and other payables	-115.1	-4.2	-4.4	-0.5	-124.2
Bank loans	-374.4	-	-	-	-374.4
Net exposure	-463.1	3.0	-1.7	1.1	-460.7

The Group do not consider the exposure to foreign currency risk is significant within trade and other receivables due to the nature of their business, whereby the majority of transactions are invoiced in GBP.

Sensitivity analysis

A 10 percent weakening of the following currencies against the pound sterling at 26 January 2008 would have decreased equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables, in particular other exchange rates and interest rates, remain constant. The analysis is performed on the same basis for 27 January 2007.

	Equity		Profit or loss	
	26.01.2008	27.01.2007	26.01.2008	27.01.2007
Euro	-3.7	-1.4	-3.7	-1.4
US Dollar	-9.6	-12.1	-9.6	-12.1

A 10 percent strengthening of the above currencies against the pound sterling at 26 January 2008 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Financial Statements of Mosaic Fashions hf. 26 January 2008 33 Amounts are in GBP million

Notes to the Consolidated Financial Statements

Commitments and contingent liabilities

25. Commitments are specified as follows:

Commitments under non-cancellable operating leases for land and buildings

	26.01.2008	27.01.2007
Within one year	65.0	65.3
Between two and five years	230.2	236.1
Over five years	291.4	287.0
	586.6	588.4

The Group are involved in an ongoing legal case in Ireland with Dunnes Stores regarding design right infringement. In December 2007, the Irish Commercial Court ruled in favour of the Group. Dunnes have since filed an appeal against this decision, which is expected to be heard by the Irish Supreme Court later this year. Legal advice has been sought and management are confident that any appeal will be unsuccessful and, as such, a provision would not be required in respect of the costs incurred by both parties to date. The amount and detail of any potential provision has not been disclosed on the grounds that it may be prejudicial to the Group's interests in its dealings with this case.

Related parties

26. **Identity of related parties**

The Group has related party relationships with its subsidiaries and its associates, with its directors and executive officers and with its major shareholders, F-Capital ehf., Kaupthing Bank hf. and Glitnir Bank hf.

Transactions with key management personnel and major shareholders

There were no transactions with key management personnel or major shareholders.

Directors of the Company and their related parties control 7.2% of the voting shares.
F-Capital ehf. controls 49.0% of the voting shares.
Kaupthing Bank hf. controls 20.0% of the voting shares.
Gnupur Fjarfestingarfelag hf. controls 11.2% of the voting shares.

Other related party transactions

Associates

At 26 January 2008, Oasis Pacific Rim Limited owed the Group GBP 0.8 million (2007: GBP 0.8 million).

Financial Statements of Mosaic Fashions hf. 26 January 2008 34 Amounts are in GBP million

Notes to the Consolidated Financial Statements

Group entities

27. Entities in the Group are specified as follows:

Name	Country of incorporation	Share 26.01.2008	Share 27.01.2007
Anoushka G Fashions Limited	UK	100%	-
Bertie Shoes Limited	UK	100%	100%
Coast Stores Ireland Limited	Ireland	100%	100%
Coast Stores Limited	UK	100%	100%
Karen Millen (Hong Kong) Limited	Hong Kong	100%	100%
Karen Millen Belgium SPRL	Belgium	100%	100%
Karen Millen Denmark APS	Denmark	100%	100%
Karen Millen Deutschland GmbH	Germany	100%	100%
Karen Millen France SARL	France	100%	100%
Karen Millen Holdings Limited	UK	100%	100%
Karen Millen Holland BV	Holland	100%	100%
Karen Millen Ireland Limited	Ireland	100%	100%
Karen Millen Limited	UK	100%	100%
Karen Millen Sweden AB	Sweden	100%	100%
Mohave Limited	UK	100%	100%
Mosaic Fashions Finance Limited	UK	100%	100%
Mosaic Fashions Limited	UK	100%	100%
Mosaic Fashions US Limited	UK	100%	100%
(formerly Karen Millen US Limited)			
Noel Acquisitions Limited	UK	100%	100%
Oasis Fashions Ireland Limited	Ireland	100%	100%
Oasis Pacific Rim Limited	Hong Kong	50%	50%
Oasis Stores Limited	UK	100%	100%
Pied A Terre Group Limited	UK	100%	100%
Press & Bastyan Limited	UK	100%	100%
Principles Retail Ireland Limited	Ireland	100%	100%
Principles Retail Limited	UK	100%	100%
Rayne Shoes (1994) Limited	UK	100%	100%
Roberto Vianni Limited	UK	100%	100%
Rubicon Card Services Limited	UK	100%	100%
Rubicon Retail Fashion Limited	UK	100%	100%
Rubicon Retail Finance Limited	UK	100%	100%
Rubicon Retail Holdings Limited	UK	100%	100%
Rubicon Retail Limited	UK	100%	100%
Ship (2006) Limited	UK	19%	19%
Sierra Acquisitions Limited	UK	100%	100%
Sierra Holdings Limited	UK	100%	100%
Sonora Holdings Limited	UK	100%	100%
Stanton Harcourt International Centre Limited	UK	100%	100%
Studio Group Brands Limited	UK	100%	100%
Studio Group Holdings Limited	UK	100%	100%
The Shoe Studio Group Holdings Limited	UK	100%	100%
The Shoe Studio Group Limited	UK	100%	100%
The Shoe Studio Ireland Limited	Ireland	100%	100%
The Warehouse Group Limited	UK	100%	100%
Volta Investments	UK	-	100%
Warehouse Fashion Ireland Limited	Ireland	100%	100%
Warehouse Fashion Limited	UK	100%	100%
Warehouse Limited	UK	100%	100%
Whistles (Bicester) Limited	UK	-	100%
Whistles International Limited	UK	-	100%
Whistles Limited	UK	-	100%
Whistles Stores Ireland Limited	Ireland	-	100%

Financial Statements of Mosaic Fashions hf. 26 January 2008 35 Amounts are in GBP million