

# **Mosaic Fashions hf.**

## **Condensed Consolidated Interim Financial Statements February - July 2007 GBP**

Mosaic Fashions hf.  
Sudurlandsbraut 4  
108 Reykjavík  
Iceland

Reg. no. 550405-0320

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# Endorsement and Signatures of the Board of Directors and the CEO

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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. These Condensed Consolidated Interim Financial Statements include the profits of Rubicon Retail Limited for the six months ended 28 July 2007, but not for the comparative six months ended 29 July 2006. The cost of investment of £182.3 million was funded by cash, bank borrowings, vendor loan notes and warrants. As part of this transaction all the debt of Mosaic Fashions hf. and Rubicon Retail Limited was refinanced.

On 4 May 2007, the Group announced that it had received a non-binding indicative offer from Baugur Group hf., on behalf of a new company, for the whole of the issued share capital of Mosaic Fashions hf. at ISK 17.5 per share. On 22 June 2007, it was announced that an agreement had been reached concerning the control and operation of Mosaic Fashions hf. between F-Capital ehf. (a wholly owned subsidiary of Baugur Group hf.), Kaupthing Bank hf., Gnipur fjarfestingafelag hf., Kevin Stanford, Karen Millen, The Millen Life Interest Settlement, Don M Limited, Tessera Holding ehf. and certain members of Mosaic Fashions hf.'s management team, who collectively owned 64.4% of the issued share capital of Mosaic Fashions hf. The takeover bid was made through Tessera Holding ehf. to the shareholders of Mosaic Fashions hf. on 9 July 2007.

Following the closure of the bid on 7 August 2007, Tessera Holding ehf. owned, directly or indirectly, 99.8% of the company's issued share capital. On 17 August 2007, Tessera Holding ehf. and the board of directors of Mosaic Fashions hf. decided that shareholders in Mosaic Fashions hf. who are not members of the consortium that made the bid for the company on 9 July 2007, would undergo redemption of their shares to Tessera Holding ehf.

On 14 September 2007, the board of directors of Mosaic Fashions hf. requested the delisting of the Company's shares from the OMX Nordic Exchange Iceland as the Company no longer complies with the conditions of ownership and distribution of share capital set out by the OMX Nordic Exchange Iceland hf. It was requested that the delisting should take place on 18 September 2007 or the next earliest date acceptable to OMX.

According to the Income Statement, the net loss for the six months ended 28 July 2007 amounted to GBP 4.7 million. The Group's revenue from the sale of goods and services amounted to GBP 407.0 million during the same period. According to the Balance Sheet, Equity at the end of the period amounted to GBP 146.9 million. Reference is made to the Statement of Changes in Equity during the period.

The Board of Directors and the CEO of Mosaic Fashions hf. hereby confirm the Condensed Consolidated Interim Financial Statements of the Company for the six months ended 28 July 2007, by means of their signatures.

London, 28 September 2007

Board of Directors:

Chief Executive Officer:

# Independent Auditors' Review Report

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To the Board of Directors of Mosaic Fashions hf.

## **Introduction**

We have reviewed the accompanying Condensed Consolidated Balance Sheet of Mosaic Fashions hf. and its subsidiaries ("the Group") as of 28 July 2007 and the related Condensed Consolidated Statements of Income, Changes in Equity and Cash Flows for the six month period then ended (interim financial information). Management is responsible for the preparation and presentation of this interim financial information in accordance with International Financial Reporting Standard IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

## **Scope of review**

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial information does not give a true and fair view of the financial position of the entity as at 28 July 2007, and of its financial performance and its cash flows for the six month period then ended in accordance with IAS 34, *Interim Financial Reporting*.

Reykjavík, 28 September 2007

KPMG hf.

# Consolidated Interim Income Statement

## For the six months ended 28 July 2007

	Note	Six months		Year ended 27.01.2007
		2007 28.01-28.07	2006 29.01-29.07	
Sales	1	407.0	211.7	585.8
Cost of sales		-156.7	-82.0	-229.7
Impact of fair value adjustment on acquired inventory		-	-	-3.2
Total cost of sales		-156.7	-82.0	-232.9
<b>Gross profit</b>		250.3	129.7	352.9
Distribution costs		-180.4	-86.6	-236.1
Administrative expenses before acquisition and integration costs		-54.3	-24.3	-67.4
Acquisition and integration costs		-0.3	-0.1	-1.3
Total administrative expenses		-54.6	-24.4	-68.7
<b>Operating profit before financing costs</b>		15.3	18.7	48.1
Share of loss of associate		-0.2	-0.4	-0.7
		15.1	18.3	47.4
Interest income	2	0.3	0.7	2.7
Financing costs before refinancing		-21.5	-10.7	-30.1
Financing costs arising from refinancing		-	-	-2.8
Total finance costs	2	-21.5	-10.7	-32.9
<b>Profit / (loss) before tax</b>		-6.1	8.3	17.2
Income tax (expense) / credit		1.4	-2.7	-6.5
<b>Profit / (loss) for the period</b>		-4.7	5.6	10.7
All profits are solely attributable to the equity holders of the Parent.				
<b>Earnings per share:</b>				
Basic earnings / (loss) per share (pence)		-0.162	0.191	0.369
Diluted earnings per share (pence)		-0.162	0.191	0.329

The notes on pages 9 to 16 are an integral part of these financial statements.

# Consolidated Interim Balance Sheet

28 July 2007

## Assets

	Note	28.07.2007	29.07.2006	27.01.2007
<b>Non-current assets:</b>				
Property, plant and equipment	3	83.2	54.0	83.4
Intangible assets	4	514.7	211.6	517.2
Investments in associates		0.2	0.2	0.4
Prepayments		6.6	3.4	6.8
Trade and other receivables		0.8	0.8	0.8
<b>Total non-current assets</b>		<u>605.5</u>	<u>270.0</u>	<u>608.6</u>
<b>Current assets:</b>				
Inventories		80.4	47.2	81.1
Trade and other receivables	5	67.3	30.3	62.8
Cash and cash equivalents		21.6	-	11.2
<b>Total current assets</b>		<u>169.3</u>	<u>77.5</u>	<u>155.1</u>
<b>Total assets</b>		<u>774.8</u>	<u>347.5</u>	<u>763.7</u>

## Equity and liabilities

### Equity:

Share capital	6	-23.5	-23.5	-23.5
Warrants	7	-9.8	-	-9.8
Share premium	8	-93.9	-93.9	-93.9
Retained earnings and reserves		-19.7	-17.8	-23.4
<b>Total equity</b>		<u>-146.9</u>	<u>-135.2</u>	<u>-150.6</u>

### Non-current liabilities:

Long term borrowings	9	-420.6	-113.5	-422.9
Deferred income	11	-15.0	-6.5	-13.9
Deferred tax liabilities	12	-69.5	-13.8	-69.5
<b>Total non-current liabilities</b>		<u>-505.1</u>	<u>-133.8</u>	<u>-506.3</u>

### Current liabilities:

Short term borrowings	9	-8.3	-17.0	-1.4
Bank overdrafts		-	-9.4	-
Trade and other payables	13	-107.0	-46.5	-95.4
Deferred income	11	-6.2	-2.4	-5.8
Income tax payable		-1.3	-3.2	-4.2
<b>Total current liabilities</b>		<u>-122.8</u>	<u>-78.5</u>	<u>-106.8</u>
<b>Total liabilities</b>		<u>-627.9</u>	<u>-212.3</u>	<u>-613.1</u>
<b>Total equity and liabilities</b>		<u>-774.8</u>	<u>-347.5</u>	<u>-763.7</u>

The notes on pages 9 to 16 are an integral part of these financial statements.

# Consolidated Interim Statement of Changes in Equity

For the six months ended 28 July 2007

	Issued capital	Warrants	Share premium	Own shares held	Own shares held reserve	Translation reserve	Retained earnings	Total
Equity 28.01.2006	23.5	-	93.9	-2.9	0.5	-	14.6	129.6
Net profit for the period	-	-	-	-	-	-	5.6	5.6
Equity 29.07.2006	<u>23.5</u>	<u>-</u>	<u>93.9</u>	<u>-2.9</u>	<u>0.5</u>	<u>-</u>	<u>20.2</u>	<u>135.2</u>
Equity 27.01.2007	23.5	9.8	93.9	-1.6	0.6	-0.9	25.3	150.6
Foreign currency translation differences for overseas operations	-	-	-	-	-	1.0	-	1.0
Net loss for the period	-	-	-	-	-	-	-4.7	-4.7
Equity 28.07.2007	<u>23.5</u>	<u>9.8</u>	<u>93.9</u>	<u>-1.6</u>	<u>0.6</u>	<u>0.1</u>	<u>20.6</u>	<u>146.9</u>

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

The notes on pages 9 to 16 are an integral part of these financial statements.

# Consolidated Interim Statement of Cash Flows

For the six months ended 28 July 2007

	Six months		Year ended
	2007	2006	27.01.2007
	28.01-28.07	29.01-29.07	
<b>Cash flows from operating activities:</b>			
Operating profit before net financing cost	15.3	18.7	48.1
Adjustments for:			
Depreciation of property, plant and equipment	13.2	7.2	17.9
Amortisation of intangible assets	2.8	0.2	2.0
(Profit) / loss on disposal of property, plant and equipment	0.1	-0.1	0.4
Share of loss of associates	-0.2	-0.4	-0.7
Operating profit before changes in working capital and provisions	31.2	25.6	67.7
(Increase) / decrease in inventories	0.7	-4.1	15.5
Increase in trade and other receivables	-4.4	-0.6	-2.7
Increase / (decrease) in trade and other payables	6.1	-14.5	-11.7
Increase in deferred income	1.5	0.6	10.6
Cash generated by operations	35.1	7.0	79.4
Interest income received	0.3	0.7	2.7
Financing costs paid	-10.3	-8.1	-21.8
Income taxes paid	-1.5	-2.5	-8.2
Net cash provided by / (used in) operating activities	23.6	-2.9	52.1
<b>Cash flows from investing activities:</b>			
Proceeds from sale of property	-	0.1	-
Acquisition of property, plant and equipment	-13.1	-10.3	-28.1
Acquisition of subsidiaries, net of cash acquired	-	-	-137.4
Investment in associates	-	-0.5	-1.0
Net cash used in investing activities	-13.1	-10.7	-166.5
<b>Cash flows from financing activities:</b>			
Proceeds from sale of own shares	-	-	1.4
Proceeds from long term borrowings	-	-	353.3
Repayment of borrowings	-0.1	-10.5	-241.3
Net cash provided by / (used in) financing activities	-0.1	-10.5	113.4
<b>Net increase / (decrease) in cash and cash equivalents</b>	10.4	-24.1	-1.0
<b>Effect of exchange rate fluctuations on cash held</b>	-	-	-2.5
<b>Cash and cash equivalents / (bank overdrafts) at start of period</b>	11.2	14.7	14.7
<b>Cash and cash equivalents / (bank overdrafts) at end of period</b>	21.6	-9.4	11.2

The notes on pages 9 to 16 are an integral part of these financial statements.



# **Notes to the Consolidated Interim Financial Statements**

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## **Accounting policies**

### **General information**

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

The Consolidated Interim Financial Statements of the Company for the period ended 28 July 2007 comprise the Company and its subsidiaries and the Group's interest in associates.

The Consolidated Interim 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.

a. **Statement of compliance**

These Consolidated Interim Financial Statements have been prepared in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting* as adopted by the EU. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the Consolidated Financial Statements of the Group for the 52 week period ended 27 January 2007.

The Consolidated Interim Financial Statements were approved by the Board of Directors on 28 September 2007.

b. **Significant accounting policies**

The accounting policies applied by the Group in these Consolidated Interim Financial Statements are the same as those applied by the Group in its Consolidated Financial Statements for the 52 week period ended 27 January 2007.

# Notes to the Consolidated Interim Financial Statements

## Segmental analysis

1. Sales arise entirely from fashion retailing and may be analysed as follows:

Business segment	Retailing			Overseas licensing			Consolidated		
	Six months		Year ended	Six months		Year ended	Six months		Year ended
	2007	2006		2007	2006		2007	2006	
	28.01-28.07	29.01-29.07	27.01.2007	28.01-28.07	29.01-29.07	27.01.2007	28.01-28.07	29.01-29.07	27.01.2007
Segment sales	392.3	201.8	560.6	14.7	9.9	25.2	407.0	211.7	585.8
Segment result	66.6	40.9	111.9	3.3	2.2	4.9	69.9	43.1	116.8
Unallocated expenses							-54.6	-24.4	-68.7
Results from operating activities							15.3	18.7	48.1
Assets	771.0	343.2	759.7	3.8	4.3	4.0	774.8	347.5	763.7
Liabilities	-627.9	-212.3	-613.1	-	-	-	-627.9	-212.3	-613.1
Depreciation	13.2	7.2	17.9	-	-	-	13.2	7.2	17.9
Amortisation of intangible assets	2.6	-	1.5	0.2	0.2	0.5	2.8	0.2	2.0

Summary of the Group's sales for the period by geographical segments:

	Six months		
	2007	2006	Year ended
	28.01-28.07	29.01-29.07	27.01.2007
United Kingdom	339.9	172.9	484.5
Ireland	39.9	21.0	57.4
Germany	2.1	2.6	5.1
Rest of Europe, Middle and Far East	22.5	13.6	34.7
USA	2.6	1.6	4.1
	407.0	211.7	585.8

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

# Notes to the Consolidated Interim Financial Statements

## Interest income and financing costs

2.		Six months		
		2007	2006	Year ended
	Interest income is specified as follows:	28.01-28.07	29.01-29.07	27.01.2007
	Interest income on bank deposits	<u>0.3</u>	<u>0.7</u>	<u>2.7</u>
		Six months		
		2007	2006	Year ended
	Financing costs are specified as follows:	28.01-28.07	29.01-29.07	27.01.2007
	Amortisation of loan costs	1.1	0.5	1.2
	Interest payable on bank loans and overdrafts	21.5	5.1	23.0
	Finance charges on bank loans and overdrafts	0.7	0.7	1.1
	Fair value adjustment of derivatives and foreign exchange revaluation	-1.8	4.4	4.8
	Financing costs before impact of refinancing	<u>21.5</u>	<u>10.7</u>	<u>30.1</u>
	Accelerated amortisation of costs	-	-	2.7
	Other costs of refinancing	-	-	0.1
	Financing costs arising from refinancing	<u>-</u>	<u>-</u>	<u>2.8</u>
	Total financing costs	<u>21.5</u>	<u>10.7</u>	<u>32.9</u>

The accelerated amortisation of costs arises due to the refinancing of the Group as part of the acquisition of Rubicon Retail Limited.

# Notes to the Consolidated Interim Financial Statements

## Property, plant and equipment

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

	Leasehold improve- ments	Fixtures and fittings	Computer equipment	Motor vehicles	Total
<b>Cost</b>					
At 27 January 2007	14.4	149.8	21.0	0.7	185.9
Additions	0.3	11.4	1.4	-	13.1
Disposals	-	-0.3	-	-	-0.3
At 28 July 2007	<u>14.7</u>	<u>160.9</u>	<u>22.4</u>	<u>0.7</u>	<u>198.7</u>
<b>Accumulated depreciation</b>					
At 27 January 2007	-8.4	-79.3	-14.3	-0.5	-102.5
Charge for the period	-0.3	-11.6	-1.2	-0.1	-13.2
Disposals	-	0.2	-	-	0.2
At 28 July 2007	<u>-8.7</u>	<u>-90.7</u>	<u>-15.5</u>	<u>-0.6</u>	<u>-115.5</u>
<b>Net book value</b>					
At 28 July 2007	<u>6.0</u>	<u>70.2</u>	<u>6.9</u>	<u>0.1</u>	<u>83.2</u>
At 27 January 2007	<u>6.0</u>	<u>70.5</u>	<u>6.7</u>	<u>0.2</u>	<u>83.4</u>
Depreciation rate	4-10%	10-20%	20-33%	25%	

# Notes to the Consolidated Interim Financial Statements

## Intangible Assets

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

	Goodwill	Brand names	Franchise agreements	Licence agreements	Concession agreements	Total
Carrying amount at 27 January 2007	281.0	188.0	4.0	19.3	24.9	517.2
Amortisation	-		-0.2	-1.0	-1.6	-2.8
Fair value adjustments	0.3	-	-	-	-	0.3
Carrying amount at 28 July 2007	<u>281.3</u>	<u>188.0</u>	<u>3.8</u>	<u>18.3</u>	<u>23.3</u>	<u>514.7</u>

Amortisation and impairment charge

The amortisation and impairment charge is recognised in the following line items in the Income Statement:

	Six months		Year ended
	2007	2006	27.01.2007
	28.01-28.07	29.01-29.07	
Administrative expenses before acquisition and integration costs	<u>2.8</u>	<u>0.2</u>	<u>2.0</u>

## Trade and other receivables

5. Trade and other receivables are specified as follows:

	28.07.2007	29.07.2006	27.01.2007
Trade receivables	40.5	15.3	36.8
Other receivables	4.7	0.8	5.0
Prepayments and accrued income	22.1	14.2	21.0
Total trade and other receivables	<u>67.3</u>	<u>30.3</u>	<u>62.8</u>

# Notes to the Consolidated Interim Financial Statements

## Equity

6.	Share capital is specified as follows:	Amount
	Authorised: 2,900,461,613 Ordinary Shares of ISK 1	<u>23.5</u>
	Issued: 2,900,461,613 Ordinary Shares of ISK 1	<u>23.5</u>

## Warrants

7.	The following warrants were granted during the period ended 27 January 2007:	Number of warrants	Exercise price (GBP)
	Kaupthing bank hf.	39,536,391	0.1294
	BG Holding ehf.	308,222,496	0.1294

None of these warrants have been exercised to date and they have an expiry date of 12 October 2011.

## Share premium

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

## Non-current liabilities

9.	Interest bearing loans and borrowings are specified as follows:	28.07.2007	29.07.2006	27.01.2007
	Bank loans	345.5	78.6	342.5
	Unsecured loan notes	31.5	-	29.9
	Unsecured Icelandic bond	51.9	51.9	51.9
		<u>428.9</u>	<u>130.5</u>	<u>424.3</u>
	Long term borrowing, including current portion	428.9	130.5	424.3
	Current portion	-8.3	-17.0	-1.4
	Total long term borrowings according to the Balance Sheet	<u>420.6</u>	<u>113.5</u>	<u>422.9</u>

# Notes to the Consolidated Interim Financial Statements

## Non-current liabilities (continued)

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

	28.07.2007	29.07.2006	27.01.2007
Year to April 2008	8.3	17.0	1.4
Year to April 2009	11.3	17.0	9.3
Year to April 2010	27.8	17.4	16.8
Year to April 2011	30.8	-	28.8
Year to April 2012	60.8	-	32.8
Subsequent	289.9	79.1	335.2
	<u>428.9</u>	<u>130.5</u>	<u>424.3</u>

The carrying amount of financial assets and liabilities at the respective balance sheets date equate their fair values at those dates.

The effective interest rate on the bank loans is 8.20%  
The effective interest rate on the unsecured loan notes is 9.90%  
The effective interest rate on the Icelandic bond is 6.75%

## Deferred income

11. Deferred income relates primarily to lease incentives received on properties, which are being released over the lives of the leases.

## Deferred tax liability

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

	28.07.2007	29.07.2006	27.01.2007
Deferred tax liability at the start of the period	69.5	15.3	69.5
Deferred tax credit for the period	-	-1.5	-
Deferred tax liability at the end of the period	<u>69.5</u>	<u>13.8</u>	<u>69.5</u>

# Notes to the Consolidated Interim Financial Statements

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## Trade and other payables

13.	Trade and other payables are specified as follows:	28.07.2007	29.07.2006	27.01.2007
	Trade creditors	39.9	12.5	32.5
	Other creditors	4.7	5.0	5.6
	Other taxation and social security	15.8	7.0	16.1
	Accruals	46.6	22.0	41.2
	Total trade and other payables	<u>107.0</u>	<u>46.5</u>	<u>95.4</u>

## Related parties

14. The Group has a related party relationship with its subsidiaries and its associate, and with its directors and executive officers and with its major shareholder, BG Holding ehf.

At 28 July 2007, Oasis Pacific Rim Limited owed the Group GBP 0.8 million.

## Subsequent events

15. On 7 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, through Tessera Holding ehf., successfully completed a takeover bid for the Company. The Company requested to be delisted from the OMX Nordic Exchange Iceland as of 18 September 2007. Further details can be found in the Endorsement and Signatures of the Board of Directors and the CEO on page 3 of these Financial Statements.