Mosaic Fashions hf

Press Release
Reykjavik, 30 September 2008

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1st Half FY 2009 Results for the period ended 26 July 2008

Highlights

- Total group sales level at £410m, up 5% excluding Whistles.
- EBITDA[1] up 6% to £33.4m (H1 FY2008: £31.5m) representing 8% of sales, up 8% excluding Whistles.
- International sales up 14% to £79m (H1 FY2008: £69.5m) representing 19% of group sales on a statutory basis, and over 25% at retail[2].
- E-commerce sales up 85% to £13.6m, representing over 3% of group sales.
- Margin up 0.7% to 62.2%
- Long term borrowings reduced by £40.4m to £334.0m (FY2008: £374.4m).
- Total number of company owned stores and concessions up from 1,723 to 1,760 (excluding Whistles).

One of the Group's key strategies is to expand rapidly in international markets and this is delivering excellent results in tough economic conditions, with over 25% of retail sales now generated from outside the UK. The Group trades from 44 countries worldwide, opening in 7 new markets during the period including Egypt, Latvia and Gibraltar. Karen Millen remains Mosaic's most international brand, closely followed by Oasis; however Warehouse and Principles are benefiting from the strong expertise in the Group with a fast growing international portfolio, particularly in Europe and Russia. Meanwhile Coast, having completed a successful trial in Bloomingdales in the Spring, is opening in a further 20 Bloomingdales stores this season. With the outlook in the UK remaining challenging, all brands are well positioned to increase their international sales.

Another key strategic initiative has been to rapidly expand our e-commerce proposition. Sales from this channel have grown by 85% from this time last year and now represent over 3% of group sales. In addition to each brand's own transactional website, Coast, Karen Millen, Oasis and Shoe Studio all successfully trade on ASOS, maximising the opportunity to introduce new customers to their brands.

[1] EBITDA is defined as operating profit before changes in working capital and provisions after adding back integration costs, professional charges relating to delisting and acquisition costs.
[2] Retail sales are valued at the price paid by the customer, including VAT, whether through own stores, franchises or joint ventures.

Within the portfolio several brands have performed particularly strongly in 2008. The young fashion market remains more buoyant than other sectors and Warehouse has performed well throughout the season with a very strong product offer and solid organic growth as well as physical expansion in the UK and abroad. Oasis, after a difficult year last year, has shown a significant turnaround with the new team delivering substantial improvements to the range, encapsulated by the successful launch of several sub-brands, including *Floral Frocks* which generated significant media acclaim.

Karen Millen has had a very strong first half driven by excellent global growth, with international retail sales now over 48% of the brand's turnover. The last six months have seen the brand open a net 12 new international stores, including the official launch of the US flagship in the prestigious SoHo district of New York, and the launch of the Moscow flagship, the brand's 12th store in the country. Karen Millen continues to extend its global reach, opening in Azerbaijan, Jordan, Portugal and Romania so far this year.

In recognition of the challenging climate in the UK throughout 2008, Mosaic has instigated a number of cost-saving programmes across the brands and shared services, limiting the impact of increases in non controllable expenses on store and head office costs. At the same time Mosaic has reduced long term borrowings (including current portion) by £40.4m in the first half and by £95m over the last 12 months.

Derek Lovelock, CEO Mosaic Fashions, commented:

'Despite an increasingly difficult retail climate in the UK, I am delighted with the improvement in Group performance. EBITDA is up 8%, excluding Whistles, which we sold just before last year-end, and we are reaping the benefits of our long-term strategy to build international brands. The work we have undertaken to reduce our long term borrowings continues to deliver results and we have seen an excellent outcome from our cost management programmes this year.

The start of the second half has shown no relief in terms of adverse market conditions and the impact of the recent news from the financial markets on consumer confidence cannot be underestimated. We remain very cautious of the overall UK market for the remainder of FY 2009 and the whole of FY 2010, and this, together with the impact of adverse exchange rate movements on margins, means we anticipate a very tough time ahead for UK fashion retail. Nonetheless, with the strength of our brands and our exposure to international markets, we remain in a strong position to deliver improved performance through the second half and into next year.'

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Key Financial Information for H1 FY 2009

Income Statement

Sales were level, but up 5% excluding Whistles.

Gross margin was 0.7% higher at 62.2%.

Distribution costs for the group have risen slightly faster than sales; this reflects the impact of fixed store costs, which rose faster than sales in our solus portfolio. This has been largely offset by the results of our cost-saving programmes on controllable store costs.

Administration expenses were level with last year, as cost-saving programmes across all our brands and shared service functions largely offset inflationary pressures.

Amortisation of intangibles now reflects a finite life for all classes of intangible assets (see note 4 to the interim financial statements).

Operating profit of £10.4m was £4.9m lower than last year (H1 FY2008: £15.3m), entirely due to the increase in amortisation of intangible assets.

EBITDA of £33.4m, 6% higher than H1 FY2008, representing 8% sales, and up 8% excluding Whistles.

Ordinary net financing costs of £25.1m were £3.9m higher than H1 FY2008 this includes an adverse movement of £5m on fair value adjustment of derivatives and foreign exchange revaluation, and an additional £0.6m of amortisation of loan costs (see note 2 to the interim financial statements).

The loss after tax of £12.9m compares with a £4.7m loss in H1 FY2008.

Balance Sheet

Book value of equity has reduced by £9.8m to £188.8m (FY2008: £198.6m).

Total assets amounted to £731.0m compared to £780.3m in FY2008.

Current assets amounted to £152.3m a reduction of £45.8m compared to FY2008. Within this decrease is £20m in other receivables relating to the proceeds of the sale of Whistles, which was not received until shortly after year-end, when it formed part of an early repayment of long term borrowings, and a decrease in cash of £37.3m.

Non current assets reduced from £582.2m to £578.7m, largely due to the amortisation of intangible assets.

Long term borrowings, including current portion reduced from £374.4m to £334.0m.

Cash Flows

Operating profit before changes in working capital and provisions of £32.9m is £1.7m higher than H1 FY2008.

Net cash provided by operating activities is £4.5m compared to £23.6m in H1 FY2008, mainly due to an increase in trade debtors and higher interest payments.

The net decrease in cash of £37.3m from FY2008 leaves the group with a cash surplus of £0.6m at the end of the period. There is a revolving credit facility of £75m.

Auditing

The financial report for the period has been reviewed by the company's auditors and confirmed by the board of directors.

Financial Calendar

FY 2009 Results	30 April 2009

Further Information

For further information on the results please contact the company's Investor Relations Manager, Jessica Wilks on +44 20 7452 1122 or Gavin Anderson (Fergus Wylie/Clotilde Gros +44 207 554 1400)

Information on Mosaic Fashions hf is available on the company website at
www.mosaic-fashions.is or www.mosaic-fashions.co.uk

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Consolidated Interim Income Statement

For the six months ended 26 July 2008

	Note	Six months 2008 27.01-26.07	Six months 2007 28.01-28.07	Year ended 26.01.2008
Sales	1	410.6	410.2	877.6
Cost of sales		-155.0	-158.1	-349.2
Gross profit		255.6	252.1	528.4
Distribution costs		-183.2	-180.4	-379.1
Administrative expenses before amortisation of intangibles, integration costs, professional charges relating to delisting and acquisition		-53.4	-53.3	-106.3
Amortisation of intangibles	4	-8.1	-2.8	-16.3
Integration costs, professional charges relating to delisting and acquisition costs		-0.5	-0.3	-2.4
Total administrative expenses		-62.0	-56.4	-125.0
Operating profit before financing costs		10.4	15.3	24.3
Loss on disposal of subsidiary		-	-	-1.6
Share of loss of associate		-0.2	-0.2	-0.3
		10.2	15.1	22.4
Finance income	2	1.1	0.3	2.2
Financing costs before delisting		-26.2	-21.5	-42.0
Financing costs arising from delisting		-	-	-12.8
Total finance costs	2	-26.2	-21.5	-54.8
Net finance costs		-25.1	-21.2	-52.6
Loss before tax		-14.9	-6.1	-30.2
Income tax expense		2.0	1.4	13.9
Loss for the period		-12.9	-4.7	-16.3

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

coast KAREN MILLEN oasis Odille principles THE SHOE STUDIO WAREHOUSE

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Consolidated Interim Balance Sheet

26 July 2008

Assets

	Note	26.07.2008	28.07.2007	26.01.2008
Non-current assets:				
Property, plant and equipment	3	89.8	83.2	86.2
Intangible assets	4	480.9	514.7	489.0
Investments in associates		1.5	0.2	0.4
Prepayments		5.4	6.6	5.8
Trade and other receivables		1.1	0.8	0.8
Total non-current assets		578.7	605.5	582.2
Current assets:				
Inventories		74.0	80.4	74.1
Trade and other receivables	5	77.7	67.3	86.1
Cash and cash equivalents		0.6	21.6	37.9
Total current assets		152.3	169.3	198.1
Total assets		731.0	774.8	780.3

Equity and liabilities

	Note	26.07.2008	28.07.2007	26.01.2008
Equity:				
Share capital	6	-0.5	-23.5	-0.5
Warrants	7	-	-9.8	-
Share premium	8	-155.3	-93.9	-155.3
Capital redemption reserve		-26.4	-	-26.4
Retained earnings and reserves		-6.6	-19.7	-16.4
Total equity		-188.8	-146.9	-198.6
Non-current liabilities:				
Long term borrowings	9	-324.3	-420.6	-333.5
Deferred income	11	-11.5	-15.0	-14.2
Deferred tax liabilities	12	-51.1	-69.5	-53.1
Total non-current liabilities		-386.9	-505.1	-400.8
Current liabilities:				
Short term borrowings	9	-9.7	-8.3	-40.9
Trade and other payables	13	-124.7	-107.0	-124.2
Deferred income	11	-16.3	-6.2	-10.7
Income tax payable		-4.6	-1.3	-5.1
Total current liabilities		-155.3	-122.8	-180.9
Total liabilities		-542.2	-627.9	-581.7
Total equity and liabilities		-731.0	-774.8	-780.3

Consolidated Interim Statement of Cash Flows

For the six months ended 26 July 2008

	Six months 2008 27.01-26.07	2007 28.01-28.07	Year ended 26.01.2008
Cash flows from operating activities:			
Operating profit before net financing cost	10.4	15.3	24.3
Adjustments for:			
Depreciation of property, plant and equipment	14.3	13.2	26.9
Amortisation of intangible assets	8.1	2.8	16.3
Loss on disposal of property, plant and equipment	0.3	0.1	2.3
Share of loss of associates	-0.2	-0.2	-0.3
Operating profit before changes in working capital and provisions	32.9	31.2	69.5
Decrease in inventories	0.1	0.7	3.3
Increase in trade and other receivables	-11.1	-4.4	-4.9
(Decrease) increase in trade and other payables	-1.0	6.1	33.6
Increase in deferred income	2.9	1.5	5.8
Cash generated by operations	23.8	35.1	107.3
Interest income received	1.1	0.3	2.2
Financing costs paid	-19.9	-10.3	-35.5
Income taxes paid	-0.5	-1.5	-1.9
Net cash provided by operating activities	4.5	23.6	72.1
Cash flows from investing activities:			
Costs relating to the sale of property, plant and equipment	-	-	-0.6
Acquisition of property, plant and equipment	-17.8	-13.1	-37.1
Disposal of subsidiaries, net of cash disposed of	19.8	-	-0.7
Acquisition of subsidiaries, net of cash acquired	-	-	1.2
Investment in associates	-1.6	-	-0.3
Net cash used in investing activities	0.4	-13.1	-37.5
Cash flows from financing activities:			
Proceeds from the issue of share capital	-	-	6.0
Proceeds from the sale of own shares	-	-	4.6
Payment of deal costs	-1.2	-	-
Repayment of borrowings	-41.0	-0.1	-18.5
Net cash used in financing activities	-42.2	-0.1	-7.9
Net (decrease) increase in cash and cash equivalents	-37.3	10.4	26.7
Cash and cash equivalents at start of period	37.9	11.2	11.2
Cash and cash equivalents at end of period	0.6	21.6	37.9