Mosaic Fashions hf.

Condensed Consolidated Interim Financial Statements
February - July 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.

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 six month period ended 26 July 2008 amounted to GBP 12.9 million. The Group's revenue from the sale of goods and services amounted to GBP 410.6 million during the period. According to the Balance Sheet, Equity at the end of the period amounted to GBP 188.8 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 July 2008. The Company did not hold any of its own shares. Share capital at 26 July 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%
Stapi fjarfestingarfelag ehf.	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 Condensed Consolidated Interim Financial Statements give a true and fair view of the consolidated financial performance of the Group for the six month period ended 26 July 2008, its assets, liabilities and consolidated financial position as at 26 July 2008 and its consolidated cash flows for the period then ended.

Further, in our opinion the Condensed Consolidated Interim 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 hf. hereby confirm the Condensed Consolidated Interim Financial Statements of the Company for the six months ended 26 July 2008, by means of their signatures.

London, 30 September 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 Review Report

To the Board of Directors of Mosaic Fashions hf.

We have reviewed the accompanying (condensed) consolidated financial statements of Mosaic Fashions hf., which comprise the consolidated balance sheet as at 26 July 2008 and the consolidated income statement, statement of changes in equity and cash flow statement for the six month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Financial Reporting Standards, as adopted by the EU. 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 interim financial information does not give a true and fair view of the financial position of the entity as at 26 July 2008, and of its financial performance and its cash flows for the six month period then ended in accordance with International Financial Reporting Standards, as adopted by the EU.

Reykjavík, 30 September 2008

KPMG hf.

Consolidated Interim Income Statement

For the six months ended 26 July 2008

	Note	Six months 2008 27.01-26.07	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.

	Note	Six months 2008 27.01-26.07	2007 28.01-28.07	Year ended 26.01.2008
Loss per share:	6			
Basic loss per share (pence)		-28.9	-13.0	-42.6
Diluted loss per share (pence)		-28.9	-13.0	-42.6

The notes on pages 10 to 17 are an integral part of these financial statements.

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

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

The notes on pages 10 to 17 are an integral part of these financial statements.

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Consolidated Statement of Changes in Equity

For the six months ended 26 July 2008

	Issued capital	Warrants	Share premium	Capital redemption reserve	Own shares held	Own shares held reserve	Translation reserve	Retained earnings	Total
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
Profit for the period	-	-	-	-	-	-	-	-4.7	-4.7
Equity 28.07.2007	23.5	9.8	93.9	-	-1.6	0.6	0.1	20.6	146.9
Equity 26.01.2008	0.5	-	155.3	26.4	-	3.6	3.8	9.0	198.6
Foreign currency translation differences for overseas operations	-	-	-	-	-	-	3.1	-	3.1
Loss for the period	-	-	-	-	-	-	-	-12.9	-12.9
Equity 26.07.2008	0.5	-	155.3	26.4	-	3.6	6.9	-3.9	188.8

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.

The notes on pages 10 to 17 are an integral part of these financial statements.

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Consolidated Interim Statement of Cash Flows

For the six months ended 26 July 2008

	Six months 2008 27.01-26.07	Six months 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

The notes on pages 10 to 17 are an integral part of these financial statements.

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Notes to the Consolidated Interim Financial Statements

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 26 July 2008 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 26 January 2008.

The Consolidated Interim Financial Statements were approved by the Board of Directors on 30 September 2008.

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 26 January 2008.

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			Six months			Six months		
	2008	2007	Year ended	2008	2007	Year ended	2008	2007	Year ended
	27.01-26.07	28.01-28.07	26.01.2008	27.01-26.07	28.01-28.07	26.01.2008	27.01-26.07	28.01-28.07	26.01.2008
Segment sales	390.5	393.1	836.5	20.1	17.1	41.1	410.6	410.2	877.6
Segment result	67.6	67.0	140.3	4.8	4.7	9.0	72.4	71.7	149.3
Unallocated expenses							-62.0	-56.4	-125.0
Results from operating activities							10.4	15.3	24.3
Assets	727.8	771.0	776.8	3.2	3.8	3.5	731.0	774.8	780.3
Liabilities	-542.2	-627.9	-581.7	-	-	-	-542.2	-627.9	-581.7
Depreciation	14.3	13.2	26.9	-	-	-	14.3	13.2	26.9
Amortisation of intangible assets	8.0	2.6	15.8	0.2	0.2	0.5	8.2	2.8	16.3

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

	Six months		
	2008	2007	Year ended
	27.01-26.07	28.01-28.07	26.01.2008
United Kingdom	331.6	340.7	726.1
Ireland	43.5	39.9	87.4
Germany	2.1	2.1	4.8
Rest of Europe, Middle and Far East	30.5	24.9	53.7
USA	2.9	2.6	5.6
	410.6	410.2	877.6

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

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Notes to the Consolidated Interim Financial Statements

Finance income and financing costs

		Six months		
		2008	2007	Year ended
2.	Finance income is specified as follows:	27.01-26.07	28.01-28.07	26.01.2008
	Interest income on bank deposits	1.1	0.3	2.2

	Six months		
	2008	2007	Year ended
Financing costs are specified as follows:	27.01-26.07	28.01-28.07	26.01.2008
Amortisation of loan costs	1.7	1.1	2.5
Interest expense on bank loans and overdrafts	20.9	21.5	44.3
Finance charges on bank loans and overdrafts	0.4	0.7	1.4
Fair value adjustment of derivatives and foreign exchange revaluation	3.2	-1.8	-6.2
Financing costs before impact of refinancing	26.2	21.5	42.0
Accelerated accretion of loan notes	-	-	12.8
Financing costs arising from refinancing	-	-	12.8
Total financing costs	26.2	21.5	54.8

The accelerated accretion of loan notes in the year ended 26 January 2008 arose due to the redemption of the unsecured loan notes.

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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
Cost					
At 26 January 2008	11.7	172.7	23.1	0.8	208.3
Retranslation	0.1	0.8	-	-	0.9
Reclassification	-	0.7	-	-	0.7
Additions	0.2	16.3	1.3	-	17.8
Disposals	-	-0.5	-	-	-0.5
At 26 July 2008	12.0	190.0	24.4	0.8	227.2
Accumulated depreciation					
At 26 January 2008	-8.0	-97.2	-16.3	-0.6	-122.1
Retranslation	-	-0.4	-	-	-0.4
Reclassification	-0.1	-0.7	-	-	-0.8
Charge for the period	-0.4	-11.9	-1.9	-0.1	-14.3
Disposals	-	0.2	-	-	0.2
At 26 July 2008	-8.5	-110.0	-18.2	-0.7	-137.4
Net book value					
At 26 July 2008	3.5	80.0	6.2	0.1	89.8
At 26 January 2008	3.7	75.5	6.8	0.2	86.2
Depreciation rate	4-10%	10-33%	20-33%	25%	

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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 26 January 2008	277.5	170.6	3.5	16.8	20.6	489.0
Amortisation	-	-4.5	-0.3	-1.2	-2.1	-8.1
Carrying amount at 26 July 2008	277.5	166.1	3.2	15.6	18.5	480.9

On 28 Jan 2007, the Group reassessed the estimated useful life of the brand names to 20 years. Prior to this date, the useful life of the Brands had been deemed to be indefinite. Therefore, no amortisation was recognised in the comparative period.

Trade and other receivables

5. Trade and other receivables are specified as follows:

	26.07.2008	28.07.2007	26.01.2008
Trade receivables	42.2	40.5	39.2
Other receivables	8.3	4.7	24.1
Prepayments and accrued income	27.2	22.1	22.8
Total trade and other receivables	77.7	67.3	86.1

Equity

6. Share capital is specified as follows:

		26.07.2008	28.07.2007	26.01.2008
Authorised:	41,432,884 A ordinary shares of ISK 1 (28.07.2007: 2,900,461,613 ordinary shares of ISK 1)	0.5	23.5	0.5
	3,228,516 B ordinary shares of ISK 1 (28.07.2007: nil)	-	-	-
		0.5	23.5	0.5
Issued and fully paid:	41,432,884 A ordinary shares of ISK 1 (28.07.2007: 2,900,461,613 ordinary shares of ISK 1)	0.5	23.5	0.5
	3,228,516 B ordinary shares of ISK 1 (28.07.2007: nil)	-	-	-
		0.5	23.5	0.5

Basic EPS 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 above, a share reduction occurred during the second half of the period ended 26 January 2008. As a result, the comparative period has been restated to reflect the share reduction.

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Notes to the Consolidated Interim Financial Statements

Warrants

7. 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.

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:

	26.07.2008	28.07.2007	26.01.2008
Bank loans	272.4	337.2	281.6
Unsecured loan notes	-	31.5	-
Unsecured Icelandic bond	51.9	51.9	51.9
	324.3	420.6	333.5
Long term borrowing, including current portion	334.0	428.9	374.4
Current portion	-9.7	-8.3	-40.9
Total long term borrowings according to the Balance Sheet	324.3	420.6	333.5

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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:

	26.07.2008	28.07.2007	26.01.2008
Year to July 2009	9.7	8.3	44.2
Year to July 2010	21.6	13.5	13.7
Year to July 2011	75.7	30.0	74.2
Year to July 2012	45.8	33.0	25.0
Year to July 2013	73.1	63.0	73.1
Subsequent	124.4	291.0	160.9
	350.3	438.8	391.1
Deal costs	-16.3	-9.9	-16.7
	334.0	428.9	374.4

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

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:

	26.07.2008	28.07.2007	26.01.2008
Deferred tax liability at the start of the period	53.1	69.5	69.5
Deferred tax credit for the period	-2.0	-	-16.4
Deferred tax liability at the end of the period	51.1	69.5	53.1

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Notes to the Consolidated Interim Financial Statements

Trade and other payables

13.	Trade and other payables are specified as follows:	26.07.2008	28.07.2007	26.01.2008
	Trade creditors	50.8	39.9	46.6
	Other creditors	6.3	4.7	4.6
	Other taxation and social security	14.7	15.8	19.7
	Accruals	52.9	46.6	53.3
	Total trade and other payables	124.7	107.0	124.2

Related parties

14. The Group has a related party relationship with its subsidiaries and its associates, and with its directors and executive officers and with its major shareholder, F-Capital ehf.

At 26 July 2008, Oasis Pacific Rim Limited owed the Group GBP 0.8 million and Hansson Brandname Management AB owed the Group GBP 0.3 million.

Interim Financial Statements of Mosaic Fashions hf. 26 July 2008 17 Amounts are in GBP million