

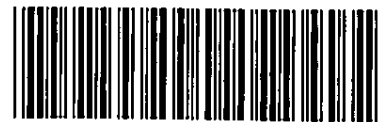
The Mountain Group Limited

**Directors' report and consolidated
financial statements**

Registered number 6240297

29 February 2008

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Directors' Report

The directors present their annual report and the audited financial statements for the period ended 29 February 2008

Principal activity

The principal activity of the company is that of a holding company

The company was incorporated on 8 May 2007 as HS 431 Limited. It changed its name to The Mountain Group Limited on 2 July 2007. It purchased the entire share capital of Mountain Warehouse Holdings Limited on 10 July 2007.

Enhanced business review

The Company acquired the shares of Mountain Warehouse Holdings Limited on 10 July 2007. The Board is satisfied with the growth of the business since acquisition.

The Board is confident in the future growth of the Company despite a challenging consumer environment.

Proposed dividend

The directors do not recommend the payment of a dividend.

Director and directors' interests

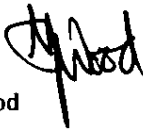
The directors who held office during the year, were as follows:

Director	Appointed/(Resigned)
Heatons Directors Limited	8 May 2007 (2 July 2007)
Andrew Manders	2 July 2007
Jonathan Eeles	2 July 2007
Mark Neale	10 July 2007
Shantelle Augier	10 July 2007
Carl Deering	10 July 2007
Marcus Ward	1 September 2007

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they each are aware, there is no relevant audit information of which the group's auditors are unaware, and each director has taken all the steps that ought to have been taken as a director to make himself aware of any relevant audit information and to establish that the group's auditors are aware of that information.

By order of the board


M Wood
Secretary

The Coach House
Bakery Place
London
SW11 1JQ

24 June 2008

Statement of directors' responsibilities in respect of the directors' report and financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group and parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The financial statements are required by law to give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group and parent company for that period.

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and parent company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the parent company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



1 The Embankment
Neville Street
Leeds
LS1 4DW

Independent auditors' report to the members of The Mountain Group Limited

We have audited the group and parent company financial statements (the "financial statements") of The Mountain Group Limited for the period ended 29 February 2008 which comprise the Consolidated Profit and Loss Account, the Consolidated and Parent Company Balance Sheets, the Reconciliation of Movements in Shareholders' Funds, the Consolidated Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 2.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent auditors' report to the members of The Mountain Group Limited
(continued)

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the group and parent company's affairs as at 29 February 2008 and the group's profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

24 June 2008

Consolidated profit and loss account
for the period ended 29 February 2008

	<i>Note</i>	8 months ended 29 February 2008 £
Turnover	<i>1</i>	15,016,228
Cost of sales		(6,020,507)
Gross profit		8,995,721
Administrative expenses		(6,680,042)
Operating profit		2,315,679
Interest received		22,157
Interest payable and similar charges	<i>5</i>	(1,065,006)
Profit on ordinary activities before taxation	<i>2-4</i>	1,272,830
Tax on profit on ordinary activities	<i>6</i>	(656,768)
Retained profit for the financial period		<u>616,062</u>

The company was incorporated on 8 May 2007 as HS 431 Limited. It changed its name to The Mountain Group Limited on 2 July 2007. It purchased the entire share capital of Mountain Warehouse Holdings Limited on 10 July 2007. The results above represent 8 months trading.

A statement of the movement on reserves is set out in note 14. There are no recognised gains or losses other than the profit for the period as stated above. The results derive entirely from continuing operations. The profit on ordinary activities before taxation is the historical cost profit.

Consolidated balance sheet
at 29 February 2008

	<i>Note</i>	2008	£
Fixed assets			
Intangible fixed Assets	8	13,792,120	
Tangible fixed assets	9	1,544,106	
			15,336,226
Current assets			
Stocks – finished goods		2,633,868	
Debtors	10	867,015	
Cash at bank and in hand		1,696,514	
		5,197,397	
Creditors' amounts falling due within one year	11	(3,862,050)	
Net current assets			1,335,347
Total assets less current liabilities			16,671,573
Creditors' amounts falling due after one year	12		(15,555,512)
Net assets			1,116,061
Capital and reserves			
Called up share capital	13		499,999
Share premium	14		-
Profit and loss account	14		616,062
Shareholders' funds			1,116,061

These financial statements were approved by the board of directors on 24 June 2008 and were signed on its behalf by



M Ward
Director

Company balance sheet
at 29 February 2008

	<i>Note</i>	2008 £	£
Fixed assets			
Investments	7		13,913,596
Current assets			
Debtors	10	853,337	
Cash at bank and in hand		-	
		<u>853,337</u>	
Creditors amounts falling due within one year	11	<u>(391,996)</u>	
Net current assets			<u>461,341</u>
Total assets less current liabilities			<u>14,374,937</u>
Creditors amounts falling due after one year	12		(15,096,332)
Net liabilities			<u>(721,395)</u>
Capital and reserves			
Called up share capital	13		499,999
Share premium	14		-
Profit and loss account	14		(1,221,394)
Shareholders' deficit			<u>(721,395)</u>

These financial statements were approved by the board of directors on 24 June 2008 and were signed on its behalf by



M Ward
Director

Consolidated cash flow statement
for the period ended 29 February 2008

	8 months ended 29 February 2008 £
Reconciliation of operating profit to net cash flow from operating activities	
Operating profit	2,315,679
Depreciation	295,034
Amortisation of leasehold capital contributions	(203,074)
Amortisation of goodwill	475,665
Increase in stocks	(130,793)
Increase in debtors	(392,057)
Increase in creditors	908,058
Net cash inflow from operating activities	3,268,512
Cash flow statement	
Net cash inflow from operating activities	3,268,512
Returns on investments and servicing of finance	18 (417,922)
Capital expenditure	18 (15,199,382)
Corporation tax	-
Financing	18 14,045,306
Increase in cash	1,696,514

Reconciliation of movements in shareholders' funds
for the period ended 29 February 2008

	8 months ended 29 February 2008
	£
Profit for the financial period	616,062
Share capital issued	499,999
Net increase in shareholders' funds	1,116,061
Shareholders' funds at incorporation	-
Closing shareholders' funds	<u>1,116,061</u>

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost accounting rules on a going concern basis

The accounts have been prepared on a going concern basis, notwithstanding that the parent company balance sheet is in a net liabilities position as at 29 February 2008. This is on the basis that there are sufficient post acquisition distributable reserves in the parent company's subsidiaries that could be used to return the company to a net asset position via dividend payments

Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings for the period ended 29 February 2008. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal

Under section 230(4) of the Companies Act 1985 the company is exempt from the requirement to present its own profit and loss account

Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on consolidation is capitalised. Purchased goodwill is amortised to nil by equal instalments over its estimated useful life

Fixed assets and depreciation

Depreciation is provided to write-off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows

Fixtures and fittings	-	5 years
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Foreign currencies

Transactions in foreign currencies are recorded using a standard rate of exchange which is reviewed and updated regularly. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account

The assets and liabilities of the company's overseas subsidiary undertaking are translated at the closing exchange rates. The profit and loss account of the undertaking is consolidated at the average rate of exchange during the year. Gains and losses arising on these translations are taken to reserves

Notes (continued)

1 Accounting policies (continued)

Leases

Where the group enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease'. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated by the methods stated above. Future instalments under such leases, net of finance charges, are included with creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as 'operating leases' and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease.

Any incentives received to sign lease agreements have been spread over the duration of the term of the lease in accordance with UITF Abstract 28.

Stocks

Stocks are stated at the lower of cost and net realisable value.

Taxation

The charge for taxation is based on the result for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation arisen but not reversed by the balance sheet date, except as otherwise required by FRS19.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers during the period.

Investments

Investments held as fixed assets are included at cost less any provision for diminution in value.

2 Profit on ordinary activities before taxation

	8 months ended 29 February 2008 £
<i>Profit on ordinary activities before taxation is stated after charging</i>	
Fees paid to auditor for audit of the company's accounts	3,000
Fees paid to auditor for audit of subsidiary accounts	15,000
Fees paid to auditor for other services – tax services	6,500
Depreciation owed assets	295,034
Amortisation of goodwill	475,664

Notes (continued)

3 Remuneration of directors

8 months ended
29 February
2008
£

Directors' emoluments	286,416
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4 Staff numbers and costs

The average number of persons employed by the group (including directors) during the period, analysed by category, was as follows

Number of
employees
2008

Sales and administration	319
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The aggregate payroll costs of these persons was as follows

8 months ended
29 February 2008
£

Wages and salaries	2,192,008
Social security costs	136,901
	2,328,909

5 Interest payable and similar charges

8 months ended
29 February 2008
£

Interest on	
Bank loans and overdrafts	423,017
Preference shares	559,665
Other charges – amortisation of debt issue costs	82,324
	1,065,006

Notes (continued)

6 Taxation

	8 months ended 29 February 2008 £
Current tax on income for the period	666,211
Deferred tax	(9,443)
	<u>656,768</u>

Factors affecting the tax charge for the current year

The current tax charge for the year is higher than the standard rate of corporation tax in the UK (30%) The differences are explained below

	8 months ended 29 February 2008 £
<i>Current tax reconciliation</i>	
Profit on ordinary activities	1,272,830
	<u>381,849</u>
Current tax at 30%	
<i>Effects of</i>	
Expenses not deductible for tax purposes (predominately goodwill amortisation and preference share dividends)	274,919
Fixed asset timing differences	9,443
	<u>666,211</u>

7 Fixed asset investments – company

	Shares in group undertakings £
<i>Cost</i>	
At beginning of period	-
Additions	13,913,596
	<u>13,913,596</u>
At end of period	
<i>Provisions</i>	
At beginning and end of period	-
	<u>-</u>
<i>Net book value</i>	
At 29 February 2008	13,913,596
	<u>-</u>
At beginning of period	-
	<u>-</u>

Notes (continued)

7 Fixed asset investments – company (continued)

The companies in which the company's interest is more than 20% is as follows

Subsidiary undertakings	Country of registration	Principal activity	Class and percentage of shares held
Direct holdings			
Mountain Warehouse Holdings Limited	England and Wales	Holding Company	100% of ordinary shares
Indirect holdings			
Mountain Warehouse Limited	England and Wales	Retailing of clothing and equipment for outdoor pursuits	100% of ordinary shares
Mountain Warehouse Handelgesellschaft GmbH	Austria	Retailing of clothing and equipment for outdoor pursuits	100% of ordinary shares
Mountain Warehouse Sro	Czech Republic	Dormant company	100% of ordinary shares

8 Intangible fixed assets

Goodwill	Group £
Cost	
At beginning of period	-
Additions (see note 21)	14,267,784
At end of year	14,267,784
Amortisation	
At beginning of period	-
Charge for period	475,664
At end of period	475,664
Net book value	
At 29 February 2008	13,792,120
At beginning of period	-

Goodwill is being amortised over a period of 20 years

Notes (continued)

9 Tangible fixed assets

Group	Fixtures and Fittings £
<i>Cost</i>	
At beginning of period	-
Acquisitions	1,027,062
Additions	812,078
At end of year	1,839,140
<i>Depreciation</i>	
At beginning of period	-
Charge for period	295,034
At end of period	295,034
<i>Net book value</i>	
At 29 February 2008	1,544,106
At beginning of period	-

10 Debtors

	Group 2008 £	Company 2008 £
Amount owed by subsidiary undertaking	-	841,156
Prepayments	731,731	-
Other debtors	60,228	12,181
Deferred tax asset – fixed asset timing differences	75,056	-
	867,015	853,337

Notes (continued)

11 Creditors: amounts falling due within one year

	Group 2008 £	Company 2008 £
Bank loans	366,578	366,578
Trade creditors	914,493	-
Accruals and deferred income	1,096,790	6,439
Interest payable	18,979	18,979
Corporation tax	805,032	-
Other taxes and social security	660,178	-
	<u>3,862,050</u>	<u>391,996</u>

Bank loans falling due within one year are stated net of unamortised debt issue costs of £123,486

12 Creditors: amounts falling due after more than one year

	Group 2008 £	Company 2008 £
Bank loans	6,485,931	6,485,931
Preference shares	8,500,000	8,500,000
	<u>14,985,931</u>	<u>14,985,931</u>
Unamortised debt issue costs	(432,202)	(432,202)
	<u>14,553,729</u>	<u>14,553,729</u>
Accruals and deferred income	459,180	-
Interest payable	542,603	542,603
	<u>15,555,512</u>	<u>15,096,332</u>
Analysis of debt due after one year	£	£
Debt can be analysed as falling due		
Between one and two years	576,514	576,514
Between two and five years	13,977,215	13,977,215
	<u>14,553,729</u>	<u>14,553,729</u>

Bank loans are secured over all the assets of the group

Notes (continued)

13 Called up share capital

	2008 £
<i>Authorised share capital, shares of £1 each</i>	
200,000 'A' Ordinary shares	200,000
300,000 'B' Ordinary shares	300,000
1,500,000 'C' Ordinary shares	1,500,000
13,000,000 Preference shares	13,000,000
	15,000,000
<i>Allotted, called up and fully paid, shares of £1 each</i>	
199,999 'A' Ordinary shares	199,999
300,000 'B' Ordinary shares	300,000
8,500,000 Preference shares	8,500,000
	8,999,999
Shares classified as liabilities	8,500,000
Shares classified as shareholders funds	499,999

Preference shareholders are entitled to receive a fixed cumulative preferential dividend at the annual rate of 10%. The preferential dividend is payable on a winding-up in priority to other claims or rights of shareholders in respect of share capital. Preference shares are redeemable on the earlier of (i) Sale or Listing of the Company, or, (ii) 10th July 2014.

Shares classified as shareholders funds are subject to the following rights

	'A' Ordinary shares	'B' Ordinary shares	'C' Ordinary shares
Rights to dividends	As determined by the Board with the consent of all holders of preference shares	As determined by the Board with the consent of all holders of preference shares	As determined by the Board with the consent of all holders of preference shares
Redemption	None	None	None
Priority on winding up	Joint priority	Joint priority	Joint priority
Voting rights	One vote per share	One vote per share	One vote per share
Rights on sale of company	Equal rights	Equal rights	Equal rights

Notes (continued)

14 Reserves

	Group		Company	
	Share premium account £	Profit and loss account £	Share premium account £	Profit and loss account £
At beginning of period	-	-	-	-
Profit / (loss) for financial period	-	616,062	-	(1,221,394)
At end of period	-	616,062	-	(1,221,394)

15 Contingent liabilities

The Company has foreign currency contracts in place to purchase US Dollars, the amount contracted at the year end was £11.0m

16 Related party transactions

The following table summarises those disclosures for transactions between the company and related parties during the year to 29 February 2008

Related party	Relationship	Type of transaction	Received	Paid	Due (to)/from at 29 February 2008
			£	£	£
Arev UK LLP	Non-executive Directors	Fees	-	25,346	-

Notes (continued)

17 Commitments

Lease commitments at the end of the financial period are as follows

	2008	
	Land & Buildings	Other
	£	£
<i>Operating leases which expire</i>		
Within one year	303,644	16,925
In the second to fifth years inclusive	821,200	5,311
Over five years	1,251,086	940
	<u>2,375,930</u>	<u>23,176</u>

18 Analysis of cash flows

	8 months ended 29 February 2008	
	£	£
Returns on investments and servicing of finance		
Interest received	22,157	
Interest paid	(440,079)	
	<u></u>	<u>(417,922)</u>
Capital expenditure		
Purchase of subsidiary undertaking	(13,913,596)	
Overdraft acquired with subsidiary	(873,708)	
Purchase of tangible fixed assets	(812,078)	
Receipts from capital contributions	400,000	
	<u></u>	<u>(15,199,382)</u>
Financing		
Issue of ordinary share capital	499,999	
New loans	15,170,307	
Repayment of loans	(1,625,000)	
	<u></u>	<u>14,045,306</u>

Notes (continued)

19 Analysis of changes in net debt

	At incorporat ion £	Acquisitio n £	Cash flows £	Non-cash movements	At 29 February 2008 £
Bank overdraft / cash at bank	-	-	1,696,514	-	1,696,514
Debt – due less than one year	-	-	(284,254)	(82,324)	(366,578)
Debt – due after more than one year	-	(1,375,000)	(13,178,729)	-	(14,553,729)
	-	(1,375,000)	(11,766,469)	(82,324)	(13,223,793)

20 Reconciliation of net cash flow to movements in net debt

	2008 £
Increase in cash in the period	1,696,514
New loans	(15,170,307)
Repayment of loans	1,625,000
	(13,545,307)
Loans acquired with subsidiary	(1,375,000)
Movement in net funds during the period	(13,223,793)
Net debt at start of period	-
Net debt at end of period	(13,223,793)

Notes (continued)

21 Acquisitions

On 10 July 2007 the Company acquired all of the shares of Mountain Warehouse Holdings Limited. The resulting goodwill has been capitalised and is being amortised over 20 years, the directors' assessment of the period over which future economic benefits will be received of the group.

	Book Value	Re-valuation	Other Adjustments	Fair Value
	£	£	£	£
Fixed Assets				
Tangible fixed assets	1,051,065	(24,003)	-	1,027,062
Current assets				
Stock	2,703,075	-	(200,000)	2,503,075
Debtors	399,902	-	-	399,902
Total assets	<u>4,154,042</u>	<u>(24,003)</u>	<u>(200,000)</u>	<u>3,930,039</u>
Liabilities				
Bank overdraft	873,708	-	-	873,708
Bank loan	1,375,000	-	-	1,375,000
Other creditors	2,035,519	-	-	2,035,519
Total liabilities	<u>4,284,227</u>	<u>-</u>	<u>-</u>	<u>4,284,227</u>
Net liabilities	<u>(130,185)</u>	<u>(24,003)</u>	<u>(200,000)</u>	<u>(354,188)</u>
Goodwill				<u>14,267,784</u>
Purchase consideration and costs of acquisition				<u>13,913,596</u>

The adjustments above reflect provisional fair value adjustments made by the directors in respect of the carrying value of stock at the date of acquisition.