Annual Report 08

and Financial Statements

ESTABLISHING A GLOBAL LUXURY BRAND

A unique destination store...

for well-edited collections of eclectic and avant-garde fashions.

LIBERTY

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LIBERTY IS ESTABLISHING ITSELF AS THE DESTINATION FOR WELL-EDITED COLLECTIONS OF ECLECTIC AND AVANT-GARDE FASHIONS.

In addition, through its Liberty of London luxury goods label and its wholesale fabrics, the business is becoming a global brand.

Operating Highlights

- A "retail sector beacon" with 9% sales uplift to £50.1m against £45.8m.
- Liberty Art Fabrics delivered impressive 31% sales growth and 35% EBITDA uplift.
- Successful launch of transactional website in July 2008 – rapid development culminating in excellent Christmas trading.
- 2008 focus: significant investment and restructuring in retailing activities particularly within flagship store and online sales facility, culminating in successful "Renaissance of Liberty" launch in February 2009.
- Liberty of London wholesale distribution continued to expand in world's leading stores including Corso Como, Jeffrey and Le Bon Marché.
- Since "Slumdog Millionaire" star Freida Pinto's February 2009 "Renaissance of Liberty" launch, flagship store trading and margins have achieved 12% growth over 2008 comparative period.

Richard Balfour-Lynn
Chairman

"WE APPRECIATE WE ARE ENTERING A DIFFICULT AND UNCERTAIN ECONOMIC PERIOD. However, I am confident that investing during these challenging times to refocus our identity will considerably improve our ability to achieve our vision and create value for shareholders."

Chairman's Statement

LIBERTY WAS ONE OF THE SECTOR'S FEW BEACONS…

by Richard Balfour-Lynn

Chairman
Liberty Plc

The impact of the economic climate over the past 12 months on retailing has been well documented. Yet, in spite of the difficulties imposed by the credit crunch, Liberty was one of the sector's few beacons as it produced a 9% uplift in sales across its business to £50m for the year.

The results for the 12 months to 31 December 2008 reflect the increasing success of the strategy and foundations developed over the past 18 months. At the heart of this strategy is the creation of Liberty as a global luxury brand across our four distinct business activities, with each based on a common heritage and shared support functions. These foundations have been consolidated through the creation of a dynamic international executive team capable of delivering our key objectives and goals over the medium term.

Our major focus in 2008 was to restructure and invest significantly in our retailing activities, particularly in the flagship store and our online sales facility, culminating in the "Renaissance of Liberty" which was launched by the actress Freida Pinto, of the Oscar-winning film Slumdog Millionaire, in February 2009 to great acclaim, both from the public and the industry. Since the launch, I am pleased to report that trading has exceeded our expectations, delivering double-digit growth on comparative trading in 2008.

As a result of all these efforts, and despite the adverse economic climate, group sales for the year to end December 2008 totalled £50.2m against £45.8m for the same period a year earlier, with the flagship store virtually matching the previous year's record performance at £32m. We regard this as a very creditable performance in the current adverse economic and retailing climate.

EBITDA for the year slipped slightly from a loss of £3.6m to a loss of £3.9m, resulting in a pre-tax loss of £7.0m after increased interest costs compared to £6.4m last year. It must be borne in mind that during the year the group had to bear some large one-off costs that included the launch of the independent Liberty of London store and our new internet sales platform, together with major reorganisation expenses within the flagship store in preparation for the Renaissance and to take the business forward in the coming years. All of these costs have been accounted for in the 2008 year results.

We appreciate we are entering a difficult and uncertain economic period. However, I am confident that investing during these challenging times to refocus our identity will considerably improve our ability to achieve our vision and create value for shareholders.

Richard Balfour-Lynn
Chairman
Liberty

24 April 2009

"Since the launch of the Liberty Renaissance in February 2009, I am pleased to report that trading has exceeded our expectations."

Geoffroy de La Bourdonnaye
Chief Executive

"OUR MAJOR FOCUS IN 2008 WAS TO RESTRUCTURE AND INVEST SIGNIFICANTLY IN OUR RETAILING ACTIVITIES, PARTICULARLY IN THE FLAGSHIP STORE AND OUR ON-LINE SALES FACILITY. This culminated in the "Renaissance of Liberty" which was launched by actress Freida Pinto to great acclaim from both the public and fashion media alike."

WE ARE RETURNING TO OUR ROOTS BUT WITH A 21ST CENTURY FEEL…

by Geoffroy de La Bourdonnaye

Chief Executive

Our principal aim is to re-capture our position as London's destination for all that is avant-garde in the world of fashion, whether that be womenswear, shoes, jewellery, accessories or fabrics. In turn this enables our transactional website to expand globally; it will nurture the Liberty of London collections and make the brand more desirable.

Particular successes in the flagship came from Menswear, up 6%, and Beauty, up 5% on the comparative period in 2007. These two areas continue to underpin flagship store sales, producing consistent growth for the past three years and attracting our loyal Liberty customers back time and time again. We have exciting plans for our beauty hall in the second half of 2009, building on the range of exclusive and limited edition skincare, cosmetics, perfume and home fragrance products we offer. Liberty carries the sharpest, most focused edited range of any store that carries luxury men's clothing which is attracting increasing footfall as customers visit to discover the product our experienced buyers have chosen for them.

Liberty Art Fabrics, where restructuring started in 2007, delivered an impressive 31% sales growth and a 35% uplift in EBITDA. This remarkable performance was driven equally by our wholly-owned Japanese subsidiary assisted by a strong Yen and by the impact of our new international commercial team outside Japan.

Liberty Art Fabrics can now be seen on a wide array of global brands such as Nike, Balmain or Junya Wattanabe. Collaborations with contemporary artists such as Grayson Perry reinforced the positioning of our Art Fabrics Studio as one of the most avant-garde and eclectic providers of top quality fashion and design prints currently in London.

Liberty of London, our in-house studio which develops fashion accessories for men and women, opened its stand-alone store on Sloane Street, Knightsbridge in July 2008 to critical acclaim from both the fashion and retail press alike. Although trading has been slower than anticipated, this store is helping us re-engineer our product strategy under the direction of our new commercial director, Fabio Guidetti, who joined in October 2008 with the clear objective to make Liberty of London profitable in the near future.

Liberty of London wholesale distribution, which only started in 2007, continued to expand in the most prestigious and directional stores such as Corso Como in Milan, Tokyo and Seoul, Jeffrey in New York and Le Bon Marché in Paris, with the total number of outlets now exceeding 100. Our men's shirts collection was awarded the prestigious "best print of the year" award by Wallpaper magazine. A limited edition scarf for the Chelsea Flower Show met with immediate success and more collaborations with high-profile brands, designers and artists are planned for 2009.

We successfully launched the Liberty transactional website in July 2008 which has developed rapidly since then, culminating in excellent trading performance in the run up to Christmas. Spanning a selection of the best in Beauty, Design, Fashion and Gifts, the response to our fashion offer indicates a huge potential for this part of our business.

The worldwide potential of the website will be further enhanced by the global awareness of the Liberty brand name through the flagship store's Renaissance as a leading curator of international Fashion, Design and Beauty.

Despite the general consensus that Christmas 2008 was going to be the worst for a very long time, Liberty virtually matched the record sales we achieved in the previous year and exceeded forecasts. Contributing factors to the high level of sales were some excellent customer promotional events and our determination to clear stocks in preparation for the "Renaissance of Liberty" renovation programme within the flagship store, all of which achieved their targets.

At the heart of the flagship store's Renaissance is a new lay-out and product offer. There are now three new fashion floors with a large number of newly added exclusive brands. The new International Room on the first floor houses sophisticated collections from Jil Sander and Alexander McQueen next to the work of younger generation designers, such as Christopher Kane, Balmain, Josh Goot and Peter Piloto.

The central atrium on the first floor now showcases avant-garde anchor brands including Rick Owens, Martin Margiela, Acne and Dries Van Noten, each with their distinct corners in a beautiful light-flooded space.

Considerable thought has been given to our customers' desire for affordable luxury. The new Essentials Room on the second floor houses focused selections of the key pieces in denim, t-shirts and cashmere from hot brands such as Acne, Aquascutum and APC. The room will evolve season by season and be expertly edited to ensure that our customers are not overwhelmed with choice.

Our Home business has not been forgotten. New bathshop and gift areas are open on the third floor, and the revamped Dress Fabrics and Haberdashery atrium space is trading much better than expected.

Carpets have moved to the east gallery, whilst Liberty of London Home enjoys a new atrium space with exposed fireplaces and comfortable seating.

The store has been further enhanced through the addition of a new scarf room and our jewellery room that has been doubled in size. At the same time we have re-focused Liberty's bag offer with a wide range of accessible pieces and introduced, for the first time, sunglasses and hair accessories.

To support this Renaissance we have significantly upgraded service standards within the flagship store to provide a more friendly and welcoming approach from all staff. A new style service ensures expert advice is always available to even the most demanding clients but in a private and discreet environment.

In short, we are returning to our roots but with a 21st Century look and feel. What Arthur Liberty, the founder of Liberty, did was to make the store a fantastic backdrop for everything that was innovative and avant-garde in design, but still affordable. Supporting these products from around the world was a knowledgeable sales staff whose style and demeanour reflected the ambiance of the store and its range of design-led goods: and this is what we are achieving today.

Our principal aim is to re-capture our position as London's destination for all that is avant-garde in the world of fashion whether that be womenswear, shoes, jewellery, accessories or fabrics. In turn this will enable our transactional website to expand globally, it will nurture the Liberty of London collections and make the brand more desirable. The website will also make our Liberty prints even more popular and fashionable, both to artists and discerning shopper alike, for whom Liberty will again become the retail destination of choice.

Geoffroy de La Bourdonnaye
Chief Executive
Liberty Plc

24 April 2009

Key Financial Highlights

Liberty Plc is in the process of transforming itself into a dynamic retail destination, underpinned by a strong and expanding retail brand. The historical trading and balance sheet performance of Liberty Plc is summarised below:–

Financial performance

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Revenue	**50,159**	45,845
EBITDA before brand expenditure and reorganisation costs	**1,822**	1,417
Operating loss before brand expenditure and reorganisation costs	**(535)**	94
Brand expenditure	**(4,344)**	(3,484)
Reorganisation costs	**(1,346)**	(2,702)
Loss before taxation	**(6,975)**	(6,376)

Balance sheet composition

	31 December 2008 £'000	31 December 2007 £'000
Intangible assets – brand and goodwill	**18,382**	18,382
Property, plant and equipment	**31,006**	34,400
Net debt	**(19,937)**	(9,003)
Net assets	**29,835**	41,536

Revenue

£50.2m

(2007: £45.8m)

Property, plant and equipment

£31.0m

(2007: £34.4m)

LIBERTY

LIBERTY
OF LONDON

Directors and Principal Advisers

DIRECTORS

R.G. Balfour-Lynn BA (Hons)
EXECUTIVE CHAIRMAN

G. de La Bourdonnaye
CHIEF EXECUTIVE

P. Harris ACMA
FINANCE DIRECTOR

J. Singh
NON-EXECUTIVE DIRECTOR

J.W. Harrison FRICS
NON-EXECUTIVE DIRECTOR

B.A. Myerson
NON-EXECUTIVE DIRECTOR

J. Peggie
NON-EXECUTIVE DIRECTOR

K.K.D. Thong
NON-EXECUTIVE DIRECTOR

HEAD OFFICE

210-220 Regent Street
London W1B 5AH
Telephone: 020 7734 1234
Website: www.liberty.co.uk

SECRETARY

Filex Services Limited

REGISTERED OFFICE

179 Great Portland Street
London W1W 5LS

AUDITORS

KPMG Audit Plc
8 Salisbury Square
London EC4Y 8BB

NOMINATED ADVISER & BROKER

Seymour Pierce
20 Old Bailey
London EC4M 7EN

PRINCIPAL BANKERS

Bank of Scotland PLC
Head Office
The Mound
Edinburgh EH1 1YZ

REGISTRARS & TRANSFER OFFICE

Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield,
West Yorkshire HD8 0LA

Telephone: 0871 664 0300 from the UK
(calls cost 10p per minute plus network extras)
Overseas: +44 208 639 3399

REGISTERED NUMBER

3967671

Report of the Directors

for the year ended 31 December 2008

INTRODUCTION

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2008.

DIRECTORS

The Directors who served during the year were as follows:

R.G. Balfour-Lynn	Executive Chairman	
G. de La Bourdonnaye	Chief Executive	
P. Harris	Finance Director	Appointed 13 May 2008
C. Mardon	Finance Director	Resigned 13 May 2008
J. Singh	Non-Executive Director	
J.W. Harrison	Non-Executive Director	
B.A. Myerson	Non-Executive Director	
J. Peggie	Non-Executive Director	
K.K.D. Thong	Non-Executive Director	

The Articles of Association of the Company require that all Directors appointed by the Board during the year and prior to the next Annual General Meeting, as well as one third of all other Directors, retire at the next Annual General Meeting. Paul Harris was appointed during the year ended 31 December 2008 and offers himself for re-election in accordance with the articles.

J. Peggie and J.W. Harrison are the Directors retiring by rotation this year and they have both put themselves forward for re-election at the 2009 Annual General Meeting. The Board has concluded that, subject to shareholder approval, the retiring Directors should continue in office.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company operates as a holding company principally for its Retail, Fabric and Brand owning subsidiaries. The principal activities of the Retail Division (operating as Liberty Retail Plc) are the retailing of luxury fashion, homeware, gift and beauty products. The principal activities of the Fabric Division are the distribution of Liberty fabric through wholesale and licensing channels in the UK and abroad. The principal activities of the Brand Division involve the development of an internationally distributed luxury goods brand and retailing of this brand in our Flagship store.

A detailed review of the activities and development of the Group during the year is set out in the Chairman's Statement and Chief Executive's Report on pages 3 to 6. The Company is listed on AIM (Alternative Investment Market of the London Stock Exchange) and the parent company, MWB Group Holdings Plc has retained a 68% interest in the Company.

CORPORATE STRATEGY

The Group comprises three operational businesses: Retail, Fabric and Liberty of London branded product. Each of our three businesses has its own Business Plan and the Board manages adherence to these plans on a continual basis.

The strategy of the Group, led by the activities of the Board, is firstly to return the Liberty retail business to profitability by repositioning the business as a luxury design emporium housed in the iconic Tudor Building on Great Marlborough Street. At the heart of the store is the newly developed Liberty of London luxury goods range. The Group also operates the Liberty fabric business which is focused on growing the market for its quality printed shirting fabric. It is identifying routes to diversify its product and design service offering to grow the profitability of Liberty Fabric and to diversify away from reliance on printed shirting fabric.

The long-term strategy of the Group is focused on developing Liberty of London into a luxury goods brand that will be distributed on a global scale. The store and the brand are becoming increasingly popular and well known to domestic customers and international retailing organisations.

In summary, ownership and intensive management of the Group's three businesses is planned to enable the Company to be well placed to produce cash which will be used principally to repay debt and also re-invested in the longer term development of the Liberty of London brand. The Board is committed to ensuring delivery of this strategy, which is the central focus of the Group's business activities.

Report of the Directors

for the year ended 31 December 2008

KEY PERFORMANCE INDICATORS MONITORED BY THE BOARD

The Directors use a number of KPIs which they consider are effective in measuring delivery of their strategy, and which assist the Directors in management of the business. The KPIs relating to the business are shown below. These are for the year ended 31 December 2008 and for the year ended 31 December 2007, in order that shareholders can gauge the trends achieved over these periods. The results of these are as follows:-

		Year ended 31 December 2008	Year ended 31 December 2007
Total revenue	£'000	**50,159**	45,845
Positive variance to prior year	%	**9.4**	4.2
Retail revenue	£'000	**31,767**	32,375
(Negative)/Positive variance to prior year	%	**(1.9)**	1.0
Fabric revenue	£'000	**17,426**	13,275
Variance to prior year	%	**31.3**	10.9
Liberty of London wholesale revenue	£'000	**966**	195
Flagship sales per square foot (including concession revenue)	£	**551**	547
Positive variance to prior year	%	**0.7**	6.2
Gross profit	%	**45.1**	44.0
Variance to prior year	%	**1.1**	(1.5)
EBITDA before brand expenditure and reorganisation costs	£'000	**1,822**	1,417
As a percentage of sales	%	**3.6**	3.1

BUSINESS RISKS AND UNCERTAINTIES

The Board and the Senior Executive team identify and evaluate risks and uncertainties in the period covered by the Group Business Plan and design controls to mitigate these. Responsibility for management of each key risk is identified and delegated by the Board to specific Executive Directors and Senior Executives within each of the Group's operating businesses.

This section describes some of the specific risks that could materially affect the Group's businesses. The risks outlined below should be considered in connection with any financial and forward-looking information in the financial statements. The risks below are not the only ones that the Group faces and some that the Group does not currently believe to be material could later turn out to be material. These risks could materially affect the Group's business, its operating profits, earnings, net assets, liquidity and capital resources.

Economic, political, social and regulatory changes adversely affecting the Group's financial performance
The Group is exposed to the risks of global and regional adverse political, economic and financial market developments (including recession, inflation and currency fluctuations), that could lower the Group's revenues and operating results in the future.

The Group's results could also be adversely affected by events that reduce domestic or international travel, such as actual or threatened acts of terrorism or war, epidemics, travel-related accidents or industrial action, increased transportation and fuel costs and natural disasters.

Financial market volatility adversely affecting the Group's financial performance
Most of the risks faced by the Group at the date of this report emanate from the volatility of financial markets, the resultant reduction in supply of credit and its significant increase in cost. This has been accentuated during the recent eighteen months to the date of this report, arising from the rapid deterioration in financial markets in the UK. For Liberty, these risks fall into a number of categories as set out below, all of which continue to be proactively managed by the Board.

Liquidity risk affects the Group, in that this could result in it being unable to meet its financial obligations as they fall due. The Board's approach to managing liquidity is to ensure, as far as possible, that the Group has sufficient liquidity to meet its liabilities, without incurring unacceptable losses or risking damage to the Group's reputation and business. The Group uses detailed divisional cash flow reporting to assist the Board in monitoring cash flow requirements and optimising cash returns on investments across the whole Group.

The Group's variable rate borrowings are exposed to a risk of change in cash flows due to changes in interest rates. Investments in short-term receivables and payables are not exposed to interest rate risk.

Report of the Directors

for the year ended 31 December 2008

BUSINESS RISKS AND UNCERTAINTIES (continued)

Reliance on bank loan and support from the Group's ultimate parent
Note 1 to the consolidated financial statements summarises liquidity risks associated with the financing arrangements of the Group.

Technology and systems disruption adversely affecting the Group's efficiency
To varying degrees, the Group is reliant upon information technologies and systems for the running of its businesses, particularly those which are highly integrated with business processes. Any disruption to those technologies or systems could adversely affect the efficiency of the business.

Loss of key management personnel
The Group is reliant on its team of executives. The future success of the Group depends on the ability of its existing management team, the identification and appointment of suitable additional executives when required, and on the Group's ability to motivate and retain staff with the requisite experience.

Changes in fashion trends
Liberty is dependent upon its ability to interpret and offer fashion products that consumers wish to purchase. The Liberty printed fabric business is susceptible to industry change. Failure to be successful in this area of activity, particularly noting the long lead times before product is available for sale in the Store, would cause an adverse impact on the Liberty's revenues and profitability.

Reliance on reputation of Liberty of London brand
If an event occurred that materially damaged the reputation of any of Liberty's core brands or there was a failure to sustain the appeal of Liberty's brands to its customers, this could have an adverse impact on Liberty's revenues and resultant shareholder value.

In addition, the value of Liberty's brands is influenced by a number of external factors including consumer preference and perceptions. Liberty is focused on service delivery to ensure that the product provided matches customer preferences. Strict controls are in place to help ensure adherence to all legislative aspects affecting the business and experienced executives manage these important areas of Liberty.

Potential uninsured product liability claims
Many manufacturers and retailers are potentially vulnerable to product liability claims. Liberty conducts regular reviews with its external insurance agent to assess potential insurance risk and to ensure that adequate product and public liability insurance is in place. Liberty could also face liability and/or reputational damage relating to counterfeit products. Accordingly, Liberty pursues all copyright and trademark infringement to the extent necessary to protect its intellectual property rights that would be materially affected.

Pension scheme shortfalls
The Liberty Retail Plc Pension Scheme, which is a defined benefit pension scheme, is currently showing a deficit of £2m. The level of deficit of the scheme has fluctuated significantly over the last 12 months as the financial markets produced negative returns on the Scheme's assets, although there have also been reductions in the Scheme's liabilities. If the value of the Scheme assets were to decline materially relative to its liabilities, the pension scheme would be likely to show an increased deficit and Liberty might be required to make additional contributions to cover this shortfall. This would have an adverse impact on cash flow available to the Group, with resultant adverse effects on the cash flow and net worth of the Group.

Management and Pension Scheme Trustees meet regularly and have made major changes to the investment strategy of the Scheme over recent years, to respond to changes in the market and to underpin its financial performance. They also receive advice from external actuaries and investment advisers which assists in mitigating this risk through the Scheme's diversified investments and risk minimisation strategy.

Foreign exchange fluctuations
The Group settles a significant proportion of its merchandise purchases in foreign currency. The Group mitigates to a large extent the effect of any adverse movement in exchange rates by arranging forward exchange contracts. Consolidation of the Group's Japanese Fabric business in these Financial Statements includes the impact of the movement in the Sterling/Yen exchange rate during the year and at the year end on the results and Balance Sheet of the foreign operations. No specific hedging instruments are deployed against dividend receipts in Yen from Liberty Japan as the financial effect is considered by the directors of Liberty not to be material.

Report of the Directors

for the year ended 31 December 2008

BUSINESS RISKS AND UNCERTAINTIES (continued)

Ownership of Grade II listed building
The Group owns the freehold interest in the Tudor Building on Great Marlborough Street. The bank facility requires that drawdown on the bank debt does not exceed 67% of the value of the property. This covenant is tested quarterly. The existing use value of this property may decline, adversely impacting Shareholder value. In order to protect this the Board reviews the market value of the property at least twice a year against external professional valuations and reviews insurance cover on a regular basis throughout the year and in detail at the insurance renewal date of May in each year.

The Tudor Building is a Grade II listed building and may require significant investment to refurbish departments within the store as well as to maintain the interior and exterior fabric of the building. The board of the operational business undertakes ongoing assessments of refurbishment expenditure with internal project managers and external quantity surveyors in order to ensure, where reasonably possible, that cost is minimised and value protected.

Currently the business is heavily reliant on its principal retail trading location in the heart of London's West End. The development of a wholesale distribution network for Liberty product as well as the new transactional website is expected to help reduce the Company's reliance on the sales activity of the Tudor Building.

Changes in tax legislation materially changing the tax paid by the Group
The Group is exposed to financial risks from increases in tax rates and changes in the basis of taxation, including corporation tax and VAT. The engagement of experienced executives within the Group and by its parent undertaking to handle these matters enhances the protection to the Group in this area of its activities. The Group and its parent undertaking also maintain a regular monitoring of legislative proposals and undertakes detailed analysis and review with external (non-audit related) advisers to evaluate and, if possible, mitigate the impact of the changes.

RESULTS

The consolidated income loss of the Group for the year ended 31 December 2008 was £7.4m and is set out on page 25 of the financial statements. The financial position of the Group, showing a net asset value of £29.8m, is set out in the consolidated balance sheet on page 27 of the financial statements. The equity attributable to ordinary shareholders amounts to £29.1m or 129p per share and is set out on page 54. The developments of the Group's activities are reviewed in the Chairman's Statement and Chief Executive's Report, on pages 3 to 6.

DIVIDEND

Whilst the Group is trading at a loss, the Directors do not recommend the payment of an ordinary dividend. At 31 December 2008 the Company had a deficiency on its profit and loss account reserve, which prevents the payment of the dividend on its 6% cumulative non-redeemable preference shares and on its ordinary shares. Payment of the cumulative arrears on the preference shares will be made, at the discretion of the Company, when this deficiency has been made good from future profits. No ordinary dividend will be recommended or paid until this deficiency has been made good and the arrears on the preference shares has been paid.

INTANGIBLE ASSET

The Directors consider that the Group's brand has an indefinite life due to the durability of the underlying business. This has been demonstrated over many years. Accordingly the brand has not been amortised but has instead been subject to an annual impairment review. An impairment review of the carrying value of the Liberty brand was performed by the Board at 31 December 2008, based on the business and operations of the Group at that date. The value in use was determined by discounting future cash flows generated from continuing use of the cash generating unit. This is based on projected cash flows in the Company's 5 year business plan and further projections for years 6 to 10 to produce a 10 year cash flow model. This supported the value in use of the Liberty brand at more than the book value of £18.2m at which it has been included in the financial statements of the Group throughout the year and accordingly the brand has been retained at a value of £18.2m in these financial statements.

Report of the Directors

for the year ended 31 December 2008

PROPERTY

The Group owns the freehold of the Tudor Building in Great Marlborough Street. Details of the property valuation at 31 December 2008 which has decreased in value from £33.0m at 31 December 2007 to £28.8m, are explained further in note 12 to the financial statements on pages 44 and 45.

CASH FLOW

The consolidated cash flow statement on page 28 shows the funds generated by the Group, those raised from external sources, the investments made and the effect thereof on the Group's cash position.

This can be summarised as follows:-

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Net cash outflow from operating activities	**(8,086)**	(3,628)
Net cash outflow from investing activities	**(2,483)**	(3,789)
Net cash received in financing activities	**8,176**	12,904
Net (decrease) / increase in cash and cash equivalents	**(2,393)**	5,487
Opening cash and cash equivalents	**4,296**	(1,191)
Closing cash and cash equivalents	**1,903**	4,296

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

The Company has been notified of the following interests that represent 3% or more of the issued share capital of the Company at 24 April 2009:

	Number of ordinary shares held	**Percentage**
MWB Group Holdings Plc	**15,440,432**	**68.3%**
Cartesian Partners	**2,359,177**	**10.4%**
Principle Capital Holdings S.A.	**1,693,541**	**7.5%**
Dawnfield Pte	**960,000**	**4.2%**
	20,453,150	**90.4%**

EQUITY INTERESTS AND INCENTIVE ARRANGEMENTS OF DIRECTORS OF THE COMPANY

The interests of the Directors and of their families, which are beneficial unless otherwise referred to below, in the issued ordinary shares of the Company as shown in the Register of Directors' interests required to be kept under Sections 324, 325 and 328 of the Companies Act 1985, or which are required pursuant to Section 325 of the Act to be entered in the register referred to in that Section, or which are interests of persons connected (within the meaning of Section 346 of the Act) with any of the Directors, and the existence of which is known to, or could with reasonable diligence be ascertained by that Director, at 31 December 2008 and at the previous financial year end of 31 December 2007, are as follows:-

	31 December 2008 Ordinary shares	31 December 2007 Ordinary shares
Principle Capital Holdings S.A.[1]	**1,693,541**	1,693,541
Dawnfield Pte[2]	**960,000**	960,000
	2,653,541	2,653,541

Notes

[1] Liberty Plc has been advised that Brian Myerson is a possible beneficiary of a trust which is interested in the entire issued share capital of Concerto Capital Corporation. At the date of this report, Liberty Plc has been advised that Concerto Capital Corporation owns 30.6% of the issued share capital of Principle Capital Holdings S.A. Brian Myerson has been the Chief Executive Officer of Principle Capital Holdings S.A. Principle Capital Investment Trust plc owns 9,176,222 Ordinary Shares in MWB Group Holdings Plc, representing 12.7% of the issued share capital of that company.

[2] Kok Khee Dato' Thong is a director of Dawnfield Pte.

Report of the Directors

for the year ended 31 December 2008

EQUITY INTERESTS AND INCENTIVE ARRANGEMENTS OF DIRECTORS OF THE COMPANY (continued)

None of the Directors have an interest in the share capital of any subsidiary of Liberty Plc.

Arrangements have been put in place to incentivise certain Executive Directors and Senior Executives of the Group, to realise value for shareholders in cash or cash equivalents at levels significantly in excess of current book values. For each individual, a minimum level of cash realisation (in all cases materially in excess of current net book value) has to be achieved before a minimum level of bonus becomes payable. Thereafter, varying levels of bonus become payable after the achievement of further target amounts of cash realisation. These arrangements are not capped so as to incentivise participants to achieve material outperformance for the benefit of all shareholders.

If cash and cash equivalent realisations are received by shareholders in excess of a minimum of £71.1m, incentive payments would accrue as follows:-

Gross Cash Returns to shareholders	Incentive payment in percentage terms for each band of Gross Cash Returns to shareholders	Cumulative Incentive Payment £m
£0m – £71.1m	0.0%	£0.0m
£71.1m	Fixed amount	£0.7m
£71.1m – £113.0m	13.5%	£0.7m – £6.3m

EQUITY INTERESTS OF THE DIRECTORS IN MWB GROUP HOLDINGS PLC

The interests of the Directors and of their families, which are beneficial unless otherwise referred to below, in the issued ordinary shares of the ultimate parent company, MWB Group Holdings Plc, as shown in the Register of Directors' interests required to be kept under Sections 324, 325 and 328 of the Companies Act 1985, or which are required pursuant to Section 325 of the Act to be entered in the register referred to in that Section, or which are interests of persons connected (within the meaning of Section 346 of the Act) with any of the Directors, and the existence of which is known to, or could with reasonable diligence be ascertained by that Director, at 31 December 2008 and at the previous financial year end of 31 December 2007, are as follows:-

	31 December 2008 Ordinary shares	31 December 2007 Ordinary shares
R.G. Balfour-Lynn	**7,533,655**	7,533,655
J. Singh	**1,030,803**	1,030,803
J. W. Harrison	**4,366,999**	4,366,999
	12,931,457	12,931,457
Percentage of issued share capital	**17.9%**	16.1%

So far as the Board is aware, the other Directors of the Company do not have an interest in the share capital of MWB Group Holdings Plc.

EMPLOYMENT

It is Group policy to keep employees informed of the aims, objectives, activities and financial performance of the Group and to encourage them to take a wider interest in its affairs. This is achieved in a variety of ways, including electronic media, operational reporting and briefing sessions, as well as consultation of employees or their representatives on a regular basis so that their views can be taken into account in making decisions likely to affect their interests.

The health and safety of employees is important to the Group. This is reviewed from time to time and also in light of good practice and developing legislation.

The Group is an equal opportunities employer and is committed to developing a working culture which enables all employees to make their own distinctive contribution. Employment policies are designed to be fair and equitable, and to be consistent with the abilities of the employees and the needs of the Group. Applications for employment by disabled persons are fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of any member of staff becoming disabled, effort would be made to enable their employment with the Group to continue. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be similar to that of other employees.

PENSIONS AND LIFE ASSURANCE

The Group operates two Defined Benefit Pension Schemes for certain employees of the Group, one in the UK and one in Japan. The UK Defined Benefit Scheme was closed to new members in February 2001. Since that date, all new UK employees of Liberty Plc have been invited to join the Liberty Plc Defined Contribution Personal Pension Plan. In January 2007 after full consultation with members, the UK Defined Benefit Pension Scheme was closed to future benefit accrual. All previous active members of the Scheme retained their accrued benefits (subject to the investment performance of the Scheme) as deferred members and were offered membership of the Liberty Defined Contribution Personal Pension Plan.

Report of the Directors

for the year ended 31 December 2008

PENSIONS AND LIFE ASSURANCE (continued)

Principally as a result of an increase in bond yields and the continuing strategy followed by the Trustees of the Defined Benefit Pension Scheme during the year ended 31 December 2008, coupled with the reduction in liability arising from the closure of the Scheme to future benefit accrual, the deficit in the Scheme has been reduced from £6.8m at 30 June 2005 to £2.0m at 31 December 2008. On the Company's adoption of IFRSs on 1 July 2005, the deficit at 30 June 2005 of £6.8m was charged against income in accordance with IFRSs. Accordingly, all subsequent surpluses or deficits arising from the strategy adopted by the Trustees and the Group are shown as movements through reserves of the Group.

Having taken advice from external Investment Consultants, the Trustees of the UK Defined Benefit Scheme have also reviewed the Scheme's investment arrangements and implemented further changes to its investment strategy. The type of liabilities incurred by the Scheme suggest a higher investment in bonds is appropriate and this has been followed by the Trustees of the Scheme. The remaining investments, currently invested in equities has also been further diversified. This has been structured by the Trustees to improve predictability and stability of investment returns, by investing a proportion in alternative asset classes. The Trustees have considered the funding position of the Scheme and after taking this and the closure of the Scheme to future benefit accrual into account, have made further amendments to the investment strategy of the Scheme which were implemented during the year ended 31 December 2007. These amendments are expected to stabilise the rate of return achieved by the Scheme by reference to the general investment market and therefore, subject to other factors affecting the value of assets and liabilities of the Scheme, to continue to manage effectively the deficit of the UK Scheme, which currently amounts to £2.0m.

DONATIONS

The Group made no charitable or political donations during the year (2007: £nil).

PAYMENT POLICY FOR CREDITORS

The Group's policy is to purchase fairly, and wherever possible to pay in accordance with terms agreed with suppliers. The Group agrees payment terms with suppliers when it orders items or commits expenditure. It is the Group's policy to make payments for purchases on a fair basis, provided that the relevant invoice is presented to the Group in a timely fashion and is complete. It seeks to adhere to these arrangements, providing it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. Amounts due to creditors of the Group are paid on average within 50 days (2007: 51 days) from receipt of invoice. The Company itself does not have a significant level of trade creditors.

ENVIRONMENTAL RESPONSIBILITY AND HEALTH AND SAFETY

The Company considers that corporate social responsibility and effective corporate governance are important components of its businesses. The Group is committed to fair treatment of all stakeholders in the business, and to responsible employment policies.

The Group's risk review assists the Board in identifying and assessing risks that could affect the businesses of the Group. This in turn enables them to implement appropriate social, ethical and environmental policies in conjunction with the financial policies of the Group. The Group does not operate in areas of high environmental risk. One of its principal environmental impacts arises from energy consumption, which the Group continues to monitor and to set reduction targets where practicable. The Group also seeks to reduce the impact of paper usage by recycling and by the increasing use of online transmissions and electronic data collection.

The Board continues to operate the business in pursuit of good environmental standards, including the following:-

- Respecting the environment in which we operate, whilst maintaining commercial viability and long term profitability.
- Setting objectives and targets and monitoring our performance to ensure adherence.
- Raising the environmental awareness of our employees and customers. Working in partnership with suppliers and contractors to ensure effective management of our environmental and social impacts and to minimise any adverse impact of our operations on the environment.
- Compliance with relevant legislation and related requirements.

Ultimate responsibility for environmental issues within the Group rests with Geoffroy de La Bourdonnaye, the Chief Executive of the Group.

The Board continues to adopt high levels of health and safety at work. Health and safety considerations are addressed as follows:-

- Providing a good working environment for our employees and treating employees with fairness, dignity and respect.
- Promoting a high standard of health and safety for our staff and contractors.
- Operating an equal opportunities policy to ensure all job applicants are treated equally.
- Compliance with relevant legislation and related requirements.
- Ensuring that a safe and healthy working environment is maintained for the well-being of all employees.

Ultimate responsibility for health and safety issues within the Group rests with Geoffroy de La Bourdonnaye, the Chief Executive of the Group.

DIRECTORS' INDEMNITIES AND DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

In accordance with the Company's Articles of Association, the Directors are granted an indemnity from the Company to the extent permitted by law in respect of liabilities incurred as a result of their office as Directors. Liability insurance cover has also been maintained during the year by the Group in respect of Directors and Senior Executives of the Group.

Report of the Directors

for the year ended 31 December 2008

SIGNIFICANT AGREEMENTS

At the date of this report, the Group is a party to an agreement with its bank relating to the provision of £15m of loan facilities. As is customary for financing facilities of this nature, provisions in these agreements may affect the continuation of these facilities in the event of a change of control of the Company, dependent upon the identity of the party obtaining control. At 31 December 2008, the Group had borrowings of £14.6m under this agreement.

The share schemes operated by the Company contain provisions relating to a change of control. Under these provisions, a change of control would be a vesting event crystallising exercise of outstanding options and awards, subject to satisfaction of performance conditions relating to growth in earnings per share. Further details of these arrangements are provided on page 52 of these financial statements.

The Company's Incentive Scheme for certain Senior Executives is based on Gross Cash Returns achieved for shareholders. A change of control of Liberty may result in Gross Cash Returns being made to shareholders which would crystallise to payment of the incentives referred to in those arrangements. Further details of these arrangements are provided on page 16.

There are a number of commercial contracts in the Group that could alter in the event of a change of control of the Company, although none is considered to be material in terms of their potential impact on the Group as a whole.

AUDIT INFORMATION

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

AUDITORS

A resolution proposing the re-appointment of KPMG Audit Plc as Auditors of the Company and authorising the Directors to agree their remuneration, will be proposed at the Annual General Meeting. It is the Board's opinion that the appointment of the Auditors and the fees payable to the Auditors are inter-related issues and they are therefore dealt with as part of one resolution.

ANNUAL GENERAL MEETING

The Company holds an annual general meeting in each calendar year, which it normally aims to hold approximately one month after publication of its year end financial statements. The Company's 2008 Annual General Meeting was held on 15 May 2008. A notice convening the 2009 Annual General Meeting, which will be held on 18 June 2009, is set out on page 59.

Ordinary business to be considered at the 2009 Annual General Meeting

Approval of financial statements and related matters – Resolutions 1 and 5
Resolutions 1 and 5 deal with the approval of the Company's Annual Report and Financial Statements for the year ended 31 December 2008, Directors retiring by rotation and the re-appointment of the Company's auditors. These resolutions are similar to resolutions passed on these matters in previous years.

Rotation and proposed re-election of Directors – Resolutions 2 to 4
The Articles of Association of the Company require all new Directors appointed by the Board during the year and prior to the annual general meeting of that year, as well as one third of all other Directors, to retire at the next annual general meeting of the Company. Paul Harris has been appointed since the 2008 annual general meeting. J. Peggie and J.W. Harrison are the Directors retiring by rotation this year and they have each put themselves forward for re-election at the 2009 Annual General Meeting.

Other business to be considered at the 2009 Annual General Meeting

In addition to the ordinary business referred to in resolutions 1 to 5 of the Notice, the Directors propose certain special business as set out in resolutions 6 to 8 of the Notice. Where appropriate, the proposed authorities and the conditions which attach to these resolutions are within the guidelines laid down by the Investment Committees of the Insurance and Pension Management Industries and by the UK Listing Authority. Resolutions 6 and 7 are similar to those passed at the 2008 Annual General Meeting of the Company held in May 2008.

A summary of the special business proposed at the meeting, which is the subject of resolutions 6 to 8 is as follows:

Resolution 6
Resolution 6 will grant the Directors authority to allot, pursuant to Section 80 of the Companies Act 1985, up to 7.3 million Ordinary Shares (being £1.825 million in nominal amount) of the Company's authorised but unissued share capital.

The Directors have no present intention of issuing the shares for which authority to allot is being sought. If approved, the authority to allot up to 7.3 million Ordinary Shares, representing slightly less than 33% of the issued Ordinary Share capital at the date of approval of this report, will expire at the conclusion of the Annual General Meeting of the Company next following the passing of this resolution which is expected to be in May 2010, and in any event before 15 August 2010.

Report of the Directors

for the year ended 31 December 2008

ANNUAL GENERAL MEETING (continued)

Resolution 7

Resolution 7 relates to issues of shares for cash. Section 89 of the Companies Act 1985 requires that when Directors propose to allot Ordinary Shares for cash, they must first offer such shares to existing shareholders in proportion to their existing holdings, unless powers have previously been given to the Directors under Section 95 of the Act to disapply these provisions.

This resolution refers to proposed disapplications of these statutory pre-emption rights in the very limited instance of allotments for cash of up to £280,000 in nominal value of the Company's share capital (being 1,120,000 Ordinary Shares), representing slightly less than 5% of the issued Ordinary Share capital at the date of approval of this report. If approved, this authority will expire at the conclusion of the Annual General Meeting of the Company next following the passing of the resolution which is expected to be in May 2010, and in any event before 15 August 2010.

Resolution 8

Under this resolution, the Board is asking shareholders to approve amendments to the Articles of Association of the Company. The amendments proposed are only to reflect the provisions of the Companies Act 2006, which has come into force since the 2008 Annual General Meeting. An explanation of these proposed changes is set out below.

The Companies Act 2006 sets out directors' general duties which largely codify the existing law but also include some new provisions. From 1 October 2008, a director must avoid a situation where he has, or could have, a direct or indirect interest that conflicts, or possibly may conflict, with the Company's interests. The requirement is very broad and could apply, for example, if a director becomes a director of another company or a trustee of another organisation. The Companies Act 2006 allows directors of public companies to authorise conflicts and potential conflicts, if the Articles of Association contain a provision to this effect. The Companies Act 2006 also allows the Articles of Association to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty. The proposed amendments give the Directors authority to approve such situations and to include other provisions to allow conflicts of interest to be dealt with in a similar way to the current position. The proposed amendments also provide that the Directors will not be in breach of their duty to avoid a conflict of interest simply by being appointed a director of more than one Liberty group company.

Under these provisions, safeguards will apply when Directors decide whether to authorise each conflict or potential conflict, and these safeguards are similar to those already in place in the Company. Primarily, only Directors who have no interest in the matter being considered will be able to take the relevant decision, and secondly, in taking the decision the Directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. The authorising Directors will also be able to impose limits or conditions when giving authorisation if they consider this is appropriate.

The proposed amendments also contain provisions to protect the Company relating to availability of confidential information, attendance at Board Meetings and provision of Board papers, if a conflict of interest or potential conflict of interest has arisen. These provisions will only apply where the position giving rise to the potential conflict has previously been authorised by the Directors.

Resolution 9

As referred to in resolution 8 above, the new conflict of interest rules are capable of broad interpretation and can potentially apply to a wide range of situations, including instances where a director is appointed to the board of (or has some other such interest in) more than one company or other entity. Therefore, to ensure the Directors of the Company are not found to be in breach unintentionally of these new provisions in respect of their existing appointments, the Board is proposing Shareholders approve any potential conflict that may be considered to arise pursuant to the Companies Act 2006 as a result of any Director of the Company acting as a Trustee of the Liberty Retail Plc Pension Scheme, a pension scheme that is administered for the benefit of certain non-Director Liberty employees and which is funded by the Group. Further details of the Scheme are set out in note 6 to the financial statements.

Recommendations

The Directors consider that the business to be considered referred to in resolutions 1 to 7 in the Notice of Annual General Meeting is in the best interests of shareholders as a whole. Accordingly, the Directors unanimously recommend shareholders to vote in favour of resolutions 1 to 7 to be proposed at the 2009 AGM. The Directors and persons connected with them intend to vote in favour of these resolutions in respect of 15,440,432 shares, representing approximately 68.3% of the issued share capital of the Company.

By order of the Board

Filex Services Limited

Secretary
179 Great Portland Street
London W1W 5LS

24 April 2009

Report on Corporate Governance

for the year ended 31 December 2008

INTRODUCTION

Liberty's policy is to adhere to good practice standards in its business operations. These procedures are documented or form part of the agreed operational procedures of the Group; the principal policies are referred to below. This section of the Annual Report and Financial Statements describes how the Company has applied the principles set out in Section 1 of the Combined Code on Corporate Governance.

Although the Company is listed on AIM rather than the Main Market, the Board fully supports the principles of good governance through the operation of the Board. Accordingly, whenever practicable, it has adopted elements of the Combined Code (June 2006) during the year ended 31 December 2008, as outlined below. The Company and its subsidiaries have a policy of seeking to comply with established good practice in the field of corporate governance. The Board has adopted core values and Group standards which set out the behaviours expected of staff in their dealings with shareholders, customers, colleagues, suppliers and other stakeholders of the Group.

THE BOARD

Composition

The Company is run by the Board, which leads and controls the Group. The current Board comprises three Executive Directors including the Chairman and five Non-Executive Directors; the Directors bring a wide range of experience and skills to the Company.

The division of responsibilities between the Chairman of the Board Richard Balfour-Lynn, and the Chief Executive Geoffroy de La Bourdonnaye, is clearly defined and has been approved by the Board. This ensures there is a balance of power and authority within the Board.

The Chairman leads the Board in the determination of its strategy and in the achievement of its objectives. The Chairman provides advice on strategy and targets to be achieved by the Group, he is responsible for organising the business of the Board, he ensures its effectiveness and sets out matters to be handled by the Board. The Chairman also facilitates the effective contribution of Non-Executive Directors and ensures that constructive relations exist between Executive and Non-Executive Directors. Through Paul Harris, the Finance Director of the Company, he is also responsible for ensuring that Directors receive accurate, timely and clear information.

The Chief Executive is responsible for running the business and for implementing Board strategy and policy. He also has direct charge and overall control of the Group on a day-to-day basis and is directly accountable to the Board for the financial and operational performance of the Group.

The terms of appointment of the Non-Executive Directors are available for inspection during normal business hours from the Company Secretary at the Company's registered office.

Responsibility

The Board's main roles are to increase value for shareholders, principally through enhanced profitability and creation of capital value. It achieves this by leadership of the Group, defining the Group's strategic objectives and ensuring that the necessary financial and other resources are made available to enable the Group and the Board to meet those objectives. The specific responsibilities reserved to the Board include the growth of the Company; the setting of Group strategy; approving annual budgets and medium term projections; reviewing operational and financial performance; borrowing limits; treasury policy; reviewing the Group's systems of financial control and risk management; ensuring that appropriate management development and succession plans are in place; reviewing the environmental, health and safety performance of the Group; approving appointments to the Board and of the Company Secretary; approving policies relating to Directors' remuneration and the severance of Directors' service contracts; and ensuring that a satisfactory dialogue takes place with shareholders over the Group's results and its aspirations for the future.

The Board has delegated certain responsibilities to the Executive Directors and to an Operating Board comprising the Executive Directors and certain Senior Executives of the Group. These include development and recommendation of strategic plans for consideration by the Board that reflect the objectives and priorities established by the Board, including implementation of the strategies and policies of the Group as determined by the Board; monitoring the operating and financial results against plans and budgets; management and control of borrowing limits and treasury policy; technical and human resources; and developing and implementing risk management systems.

ROTATION OF DIRECTORS

Each Director's appointment is subject to the Company's Articles of Association, the Companies Acts and satisfactory performance by the Director concerned. All Directors are appointed for an initial term. At the first Annual General Meeting after a Director's appointment and also prior to the third Annual General Meeting after he or she was elected, the Board discusses with the Director concerned whether it is appropriate for a further term to be served. If re-election is agreed, that Director will be proposed for re-election at the next Annual General Meeting of the Company.

THE COMPANY SECRETARY AND EXTERNAL PROFESSIONAL ADVICE

The Company Secretary is responsible for advising the Board through the Chairman on all governance matters. All Directors have access to the advice and services of the Company Secretary. The Company's Articles of Association and the schedule of matters reserved to be decided only by the Board provide that the appointment and removal of the Company Secretary is a matter for the Board. Subject to prior written approval and due consideration at a meeting of the Board, the Directors are given access to external professional advice at the Group's expense, if the Board deems this necessary, in order to enable them to carry out their responsibilities.

Report on Corporate Governance

for the year ended 31 December 2008

INTERNAL CONTROL AND RISK MANAGEMENT

The Directors operate the Company in accordance with its Articles of Association which set out the overall operating framework of the Group. The Board acknowledges its responsibility to maintain systems of internal control which safeguard shareholder investment in the Company and control the Company's assets.

The Board has established procedures that monitor the effectiveness of the Group's internal controls. These include risk management and the review of internal controls by Directors at Board and management meetings. The results of these reviews are monitored throughout the year. Ongoing reporting and improvement of internal controls are performed by the Finance Department, under the overall control of the Finance Director.

The Board is responsible for the Group's systems of internal control and risk management and for reviewing the effectiveness of those systems. These systems are designed to manage, rather than to eliminate, risks within the business, as a balanced level of risk can enhance the rate of return achieved for shareholders. These systems are structured to enable business objectives to be met, whilst accepting that any system can provide only reasonable and not absolute assurance against material misstatement or loss. Within this environment, the Board places reliance on adherence to the Group's control framework by employees and senior executives of the Group.

The Directors are also responsible for the Group's internal financial controls. These are structured to ensure that transactions are executed in accordance with management authority, transactions are appropriately recorded to permit the preparation of reliable financial statements that are free from material misstatement, the Company's assets are protected, and that fraud should be prevented or detected.

The Group's management structure has delegated authority levels, functional reporting lines and accountability within the Group. The Group operates a comprehensive budgeting and financial reporting system, which compares actual performance to budget on a monthly as well as year to date basis. Variances against forecasts and budgeted performance are examined and business enhancements are implemented where feasible, enabling management to monitor financial and operational performance on a continuing basis.

The Group has policies for health and safety which ensure that appropriate standards are maintained. These policies, together with environmental considerations, have been integrated into the day to day business management of the Group, its operating businesses and its property. Further details of these are summarised on page 17 of the Report of the Directors.

Due to the Group's small size, with equity shareholders' funds of less than £30 million, internal audit functions are not an established feature of the Group. However, major elements of its operations are subject to regular checking and review. When reviewing the Company's interim and final financial statements, the Board receives detailed analytical reports on the results and financial position of the Group. These are presented to the Board by Paul Harris, Finance Director.

The Directors of the Company acknowledge their responsibility for the Group's systems of internal control and the framework for this control. They have reviewed this throughout the year and its appropriateness for the Group for succeeding years. Systems have been established for many years in respect of the principal financial areas of the Group.

The principal financial controls that are in operation across the Group are as follows:-

- A defined control environment. There is a clear organisational structure with defined lines of responsibility, authorisation procedures and delegation of authority. Formal policies, including the documentation of key systems and procedures, are in place and are controlled.
- The assessment of risk and the improvement of returns therefrom. The Board is responsible for identifying business risks affecting the Group, and for assessing the likelihood of their impact. The Board's approach to risk management and internal control aims to assist the Group in meeting the challenge of balancing commercial success with cost efficiency. This is managed by the Executive Directors through formal decision making processes.
- Financial management and results. Monthly budgets and annual forecasts are prepared for the three principal divisions of the business, against which actual results are monitored and controlled by the Executive Directors.
- Financial reporting. Monthly management accounts are provided to all members of the operating Board. These provide detailed analysis of the financial performance, sales, balance sheet, cash flow and profitability projections and related KPI based information for the Group on a monthly performance and on a year to date basis. This enables members of the Operating Board to appraise actual and projected performance for the current and future years and to consider improvement where appropriate.
- Employment. Experienced staff are responsible for the human resource requirements of the Group. Annual appraisal procedures assess performance against agreed objectives and where necessary identify changes to improve the Group's performance.

Report on Corporate Governance

for the year ended 31 December 2008

INVESTOR RELATIONS

The investor relations activities of the Group are designed to provide a balanced level of communication between the Company and its shareholders. The Group publishes Interim and Annual results within the time periods stipulated by the AIM Rules. The Group's public relations activity ensures that press releases and related announcements issued by the Group are provided to key shareholders, to financial analysts and to the press, at the same time as they are released to the Stock Market for the benefit of all shareholders and for transparent market awareness, aimed at improving awareness of the objectives and achievements of the Group.

It is the Company's policy to enable shareholders to be involved in the affairs of the Group and to give them the opportunity at the Annual General Meeting to ask questions about its activities and prospects. The Board runs these meetings so that shareholders can vote separately on each matter, by proposing separate resolutions for each item to be considered. It is the Board's opinion that the re-appointment of the auditors and the fees payable to the auditors are inter-related issues and these are therefore dealt with as part of one resolution.

The proxy votes for and against each resolution are counted before the Annual General Meeting. Each resolution is voted upon by shareholders and only after they have voted are the results of the proxy votes provided to the meeting, thus enabling shareholders present to vote independently of the results of proxy votes already received.

In accordance with the provisions of the Combined Code, the notice of the 2009 Annual General Meeting is being sent to shareholders at least 20 working days before the meeting. Shareholders have the opportunity to vote separately on each proposal at the Annual General Meeting, either in person or by proxy.

GOING CONCERN

The provisions of the Combined Code require directors to confirm whether, after making appropriate enquiries, they have reasonable expectations that the Company and the Group have adequate financial resources to continue in operational existence for the foreseeable future. Details relating to the basis of preparation in respect of the going concern assumption are included in Note 1 to the Consolidated Financial Statements.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For these reasons, the Directors consider it appropriate to prepare the financial statements on a going concern basis.

Statement of Directors' Responsibilities in respect of the Annual Report and Financial Statements

The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements, in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have prepared the Parent Company financial statements in accordance with UK Accounting Standards and applicable law, ie UK Generally Accepted Accounting Practice.

The Group financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and performance of the Group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The Parent Company financial statements are required by law to give a true and fair view of the state of affairs of the Parent Company for each financial year.

In preparing each of the Group and Parent Company 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;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the Parent Company financial statements, state whether applicable UK Generally Accepted Accounting Practice has been followed, subject to any material departures disclosed and explained in the Parent Company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulations. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Report of the Directors, a Report on Remuneration of Directors and a Corporate Governance Statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We the Directors of Liberty Plc confirm that to the best of our knowledge:

- the financial statements of the Group have been prepared in accordance with IFRSs as adopted by the EU, and for the Company under UK GAAP, in accordance with applicable United Kingdom law and give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Report of the Directors includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that face the Group.

By order of the Board

Richard Balfour Lynn
Chairman

Geoffroy de La Bourdonnaye
Chief Executive

24 April 2009

Independent Auditors' Report to the Members of Liberty Plc

KPMG Audit Plc
8 Salisbury Square
London EC4Y 8BB

We have audited the Group and Parent Company financial statements (the "financial statements") of Liberty Plc for the year ended 31 December 2008 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Recognised Income and Expense 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 Directors' Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU, and for preparing the Parent Company 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 23.

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 also report to you whether in our opinion the information given in the Report to the Directors 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 other information in the Report and financial statements and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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 Group's and 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.

OPINION

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2008 and of its loss for the year then ended;
- the Parent Company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Parent Company's affairs as at 31 December 2008;
- 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 Audit Plc
London
Chartered Accountants
Registered Auditor

24 April 2009

Consolidated Income Statement

for the year ended 31 December 2008

	Notes	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Revenue	2	**50,159**	45,845
Cost of sales		**(27,561)**	(25,663)
Gross profit		**22,598**	20,182
Selling and distribution costs		**(24,580)**	(22,789)
Administrative expenses		**(4,934)**	(4,426)
Other operating income		**691**	941
Results from operating activities		**(6,225)**	(6,092)
Finance income	7	**1,439**	1,002
Finance expenses	7	**(2,189)**	(1,286)
Loss before taxation	8	**(6,975)**	(6,376)
Taxation	9	**(395)**	(371)
Loss for the year		**(7,370)**	(6,747)
Attributable to:			
Equity shareholders of the Company		**(7,424)**	(7,107)
Minority interests		**54**	360
Loss for the year		**(7,370)**	(6,747)
Loss per share (basic and diluted)	10	**(32.8p)**	(31.4p)

All results relate to continuing operations. The notes on pages 29 to 55 form part of these financial statements.

Consolidated Statement of Recognised Income and Expense

for the year ended 31 December 2008

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Foreign exchange translation differences for foreign operations	**1,070**	82
Revaluation of property, plant and equipment	**(3,520)**	(2,312)
Defined benefit pension scheme actuarial gains/(losses)	**(2,019)**	754
Income and expense recognised directly to equity	**(4,469)**	(1,476)
Loss for the year	**(7,370)**	(6,747)
Total recognised income and expense for the year	**(11,839)**	(8,223)
Attributable to:		
Equity shareholders of the Company	**(11,893)**	(8,583)
Minority interests	**54**	360
Total recognised income and expense for the year	**(11,839)**	(8,223)

Consolidated Balance Sheet

at 31 December 2008

	Notes	**31 December 2008 £'000**	31 December 2007 £'000
Non-current assets			
Intangible assets and goodwill	*11*	**18,382**	18,382
Property, plant and equipment	*12*	**31,006**	34,400
		49,388	52,782
Current assets			
Inventories	*13*	**9,190**	7,595
Trade and other receivables	*14*	**10,108**	6,812
Cash and cash equivalents	*15*	**1,903**	4,296
Derivative financial instruments		**341**	–
		21,542	18,703
Total assets		**70,930**	71,485
Current liabilities			
Trade and other payables	*16*	**(23,689)**	(15,734)
Tax payable	*17*	**(157)**	(249)
		(23,846)	(15,983)
Non-current liabilities			
Loans and borrowings	*18*	**(14,633)**	(13,000)
Employee benefits	*6*	**(2,066)**	(416)
Provisions	*19*	**(550)**	(550)
		(17,249)	(13,966)
Total liabilities		**(41,095)**	(29,949)
Net assets		**29,835**	41,536
Equity			
Share capital	*22*	**6,036**	6,036
Other reserves	*23*	**68,271**	71,791
Retained earnings	*23*	**(45,242)**	(36,869)
Total equity attributable to shareholders of the Company		**29,065**	40,958
Minority interests	*23*	**770**	578
Total equity		**29,835**	41,536

The notes on page 29 to 55 form part of these financial statements. Approved by the Board of Directors on 24 April 2009 and signed on its behalf by:

Richard Balfour-Lynn
Chairman

Geoffroy de La Bourdonnaye
Chief Executive

Consolidated Cash Flow Statement

for the year ended 31 December 2008

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Loss for the year	**(7,370)**	(6,747)
Adjustments		
Taxation	**395**	371
Finance income	**(1,439)**	(1,002)
Finance expenses	**2,189**	1,286
Depreciation of property, plant and equipment	**2,357**	2,475
Currency translation differences	**64**	8
Equity settled share based payment transactions	**–**	124
Cash flows from operations before changes in working capital	**(3,804)**	(3,485)
Change in inventories	**(1,595)**	106
Change in trade and other receivables	**(3,296)**	815
Change in trade and other payables	**1,789**	(240)
Cash used in operating activities	**(6,906)**	(2,804)
Interest paid	**(877)**	(338)
Taxation paid	**(303)**	(486)
Net cash used in operating activities	**(8,086)**	(3,628)
Cash flows from investing activities		
Interest received	**–**	46
Acquisition of subsidiary, net of cash acquired	**–**	(1,235)
Purchase of property, plant and equipment	**(2,483)**	(2,600)
Net cash used from investing activities	**(2,483)**	(3,789)
Cash flows from financing activities		
Proceeds from drawdown of borrowings	**1,633**	13,000
Proceeds from drawdown from related parties	**6,543**	–
Payments to minority interests	**–**	(96)
Net cash received/(used) in financing activities	**8,176**	12,904
Net (decrease)/increase in cash and cash equivalents	**(2,393)**	5,487
Opening cash and cash equivalents	**4,296**	(1,191)
Closing cash and cash equivalents	**1,903**	4,296

Notes to the Consolidated Financial Statements

for the year ended 31 December 2008

1. ACCOUNTING POLICIES

Reporting Entity

Liberty Plc (the “Company”) is a company domiciled in the United Kingdom. The address of the Company’s registered office is 179 Great Portland Street, London W1W 5LS. The consolidated financial statements of the Company at, and for the year ended, 31 December 2008 comprise the Company and its subsidiaries (together referred to as the “Group” and individually as “Group entities”). The Group is primarily involved in the operation of a retail luxury goods store and the manufacture of fabric and luxury goods.

Basis of preparation

The Group financial statements for the year ended 31 December 2008 have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (“Adopted IFRS”). The Company has elected to prepare its parent company financial statements in accordance with UK GAAP.

These financial statements incorporate the results of Liberty Plc and its subsidiary undertakings. The results have been prepared on the basis of the accounting policies adopted in the financial statements of the Group for the year ended 31 December 2008, consistently applied in all material respects.

The Group is dependent for its future working capital, and ongoing investment in Liberty of London and the flagship store, on cash generated from its operations, cash holdings of £1.9m at 31 December 2008, funds provided to it through a £20m revolving credit and ancillary facilities with Bank of Scotland (the ‘bank facility’) and a £16.5m facility provided by MWB Group Holdings Plc (‘MWB’), the Company’s ultimate parent company.

The Group reported an operating loss of £6.2m for the year ended 31 December 2008. At 31 December 2008, the Group had net assets of £29.8m, net current liabilities of £2.3m (which included a loan of £7.5m from MWB provided under a facility expiring in July 2009), and further net debt of £12.4m (which included an amount drawn down under the bank facility of £14.6m, the term of which runs to 30 September 2010). On 23 April 2009, MWB increased and extended the term of the facility provided to the Group by making available up to £16.5m for the whole of the period to 31 December 2010. This increased and extended facility is legally constituted and the Group has the ability to utilise it throughout its term. The availability of additional drawings from MWB up to the facility limit of £16.5m is subject to the financial position of MWB. Having made appropriate enquiries about MWB's financial position, the Directors are confident that the full MWB facility will be available to the Group throughout its term.

The nature of the Group’s business is such that there can be unpredictable variations in the timing of cash inflows and performance. This is amplified in the business risks and uncertainties section in the Report of the Directors. The Directors recognise that, in the current economic environment, risks may exist regarding the achievability of forecast sales and margins within different parts of the Group and the timing of cash flows. The Directors have prepared projected cash flow information for the period to 30 September 2010 (the ‘Projections’). The Projections are based on reasonable assumptions and show that the Group is capable of operating within the facilities currently available and meeting the financial covenant tests for the full term covered by the Projections.

The Group has three covenant tests in relation to its bank facility, namely Loan to Value Security Cover, Debt Service Cover and Senior Interest Cover, with Liberty of London brand costs and other one-off costs excluded from the test of the latter two. Security Cover requires the loan to be no more than 67% of the Realisation Value of the Tudor Building. At 31 December 2008, the Tudor Building was valued at £28.8m, and £14.6m of facilities were utilised. Accordingly, the Loan to Value Security Cover was only 52% at that date, demonstrating significant headroom. Sufficient headroom is also forecast over the period covered by the Projections. Debt Service Cover requires the ratio of EBITDA to Total Debt Service to be not less than 1.25:1. This covenant was met for the year ended 31 December 2008 with continuing headroom forecast over the period covered by the Projections. Senior Interest Cover requires the ratio of EBIT to Senior Interest to be not less than 1.5:1. This covenant will first be tested in December 2009 and thereafter annually. At the test for the year ending 31 December 2009, the Directors forecast sufficient headroom. Liberty trading results for the first quarter of 2009 have been strong, and demonstrate sales levels well ahead of 2008 levels, thus underpinning the 2009 Projections. The Directors continue to monitor adherence to these covenants carefully and to take reasonable steps to ensure adherence at all times. The bank facility also permits the Group to cash cure any breach that might occur within 14 days of the relevant test date.

The Directors have tested the impact of variations from the Projections by assessing adequacy of the Group’s funds, and the ability of the Group to operate within the financial covenants, under a combination of different scenarios constructed to reflect reasonable possible downside risks to the assumptions contained within the Projections. In such downside scenarios, the ability to continue to operate within the facilities available and maintain compliance with the financial covenants would be dependent on implementing various cost saving initiatives and mitigating actions referred to below within the timescales required, should these downside scenarios crystallise. These cost saving initiatives and mitigating actions, all of which are already formulated, are under the control of the Board and can be implemented as required.

After making enquiries, and considering the uncertainties as described above, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For these reasons, the Directors consider it appropriate to prepare the financial statements on a going concern basis.

The consolidated financial statements are prepared on the historical cost basis except for the freehold property and derivative financial instruments which are measured at fair value.

These consolidated financial statements are presented in UK Sterling, which is the Company’s functional currency. All financial information has been rounded to the nearest thousand pounds.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2008

1. ACCOUNTING POLICIES (continued)

Use of estimates and judgements

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 6 – the assumptions used to measure defined benefit obligations
- Note 11 – the assumptions used to assess value in use for impairment testing of the Group's brand.
- Note 12 – the valuation of the Group's property

Basis of consolidation

Where necessary, adjustments are made to the information included in the financial statements of subsidiaries to bring their accounting policies in line with those used by the Group and so reflect that information on a consistent basis with the rest of the Group.

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 are currently 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. Dilution gains and losses on increases in minority interests, where no change of control results, are recognised directly in equity. Where necessary, accounting policies of subsidiaries are changed on acquisition to align them with the policies adopted by the Group.

Intra-group balances and transactions and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures.

Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in the income statement.

Goodwill arising on the acquisition of a minority interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange.

Goodwill is measured at cost less impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

Brands

In accordance with IFRS 3, brands acquired by the Group are initially included in the financial statements at their fair value. The Directors consider that the Group's brand has an indefinite useful life due to the durability of its underlying businesses which has been demonstrated over many years. An annual assessment of the useful life is performed at the end of each financial year.

Accordingly, the brand has not been amortised but has instead been subject to an impairment assessment conducted at each financial year end. Where this reveals a surplus, the value of the brand is retained, where it reveals a deficit, the brand is written down and the deficit is charged to the income statement. Subsequent expenditure on the brand is recognised in the income statement when incurred.

Subsidiary companies

The subsidiary undertakings of the Company are all engaged in retail activities, wholesale distribution or licensing activities, or act as intermediary holding companies for such operations. Details of the Group's principal subsidiary undertakings are set out in note 28 to the financial statements.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2008

1. ACCOUNTING POLICIES (continued)

Property, plant and equipment

Property is land and buildings held for use in the production or supply of goods or services, or for administrative purposes, and are stated in the balance sheet at their revalued amounts, being the fair value, determined from market-based evidence and appraisals undertaken by professional valuers at the balance sheet date.

Any revaluation increase arising on the revaluation of such land and buildings is credited to the revaluation reserve within equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such land and buildings is charged as an expense in the income statement to the extent that it exceeds the balance, if any, held in the revaluation reserve relating to previous revaluations of that asset.

The gain or loss on disposal or retirement of property, plant and equipment is determined by comparing the sale proceeds with the carrying amount of the asset at the date of disposal or retirement, and is recognised in the income statement. When revalued assets are sold, the amounts included in the revaluation reserve relating to those assets are transferred directly to retained earnings.

Depreciation is charged so as to write off the cost or valuation of property, plant and equipment, other than land and property under construction and less residual amounts, using the straight line method, over their following estimated useful lives:-

Freehold property	100 years
Air conditioning and lifts or plant forming part of the property	15 years
Fixtures and equipment	5 to 10 years
IT equipment	3 to 7 years

Freehold land is not depreciated.

Assets held under operating leases are not recognised as assets of the Group. Rentals payable are recognised in the Income Statement on a straight-line basis over the term of the lease.

Impairment

The carrying amounts of the Group's non-financial assets other than 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 intangible assets that have an indefinite useful life, the recoverable amount is estimated at each balance sheet date.

The recoverable amount of an asset or cash generating unit is the higher 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. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash generating unit").

For the purpose of impairment testing the brand, the cash generating unit comprises all the businesses in the Group, as all these revenues are dependent on the brand.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit/group of units exceeds its recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any intangible asset allocated to the unit and then to reduce the carrying amount of other assets in the unit on a pro-rata basis.

Impairment losses, on assets other than goodwill, 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 has been recognised. Impairment losses in respect of goodwill are not reversed.

Inventories

Inventories are measured at the lower of cost and net realisable value. Cost is based on the first in, first out principle and comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing inventories to their existing location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2008

1. ACCOUNTING POLICIES (continued)

Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the dates of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on transactions are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at a foreign exchange rates ruling at the dates the fair value was determined.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated at foreign exchange rates ruling at the balance sheet date. The income and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions.

Exchange differences arising from the translation of foreign operations, and of related qualifying hedges, are taken directly to the translation reserve. They are released into the income statement upon disposal.

Financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables. Non-derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the statement of cash flows.

The Group's activities expose it primarily to the financial risk of changes in exchange rates and foreign exchange rates on its trading operations with overseas suppliers and customers. The Group uses an extendable forward plus hedging instrument to hedge these exposures. The Group does not use derivative instruments for speculative purposes.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in the income statement as incurred. Subsequent to initial recognition, derivatives are measured at fair value.

Changes in the fair value of derivative financial instruments that are designated and effective as cash flow hedges are recognised directly in equity to the extent that the hedge is effective. To the extent the ineffective changes impair value, they are recognised in the income statement. If the cash flow hedge of a firm commitment or a forecast transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net income.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Ordinary share capital is classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Derivatives

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed price is not available then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk free interest rate based on government bonds.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, the risks specific to the liability.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2008

1. ACCOUNTING POLICIES (continued)

Retirement benefits

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. Obligations for contributions to defined contribution pension schemes are recognised as an expense in the Income Statement.

The Group's net obligation in respect of defined benefit pension schemes is calculated separately for each scheme by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value at the date of the financial statements. Any unrecognised past service costs and the fair value of any scheme assets is deducted in calculating the Group's net obligation to the scheme for the retirement benefits to be provided. The discount rate used is the yield at the balance sheet date on AA credit rated bonds that have maturity dates approximating to the term of the Group's obligations under the scheme, and which are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the scheme or reductions in future contributions to the scheme.

When the benefits of a scheme are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

Revenue

Revenue is measured at the fair value of consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of staff discounts and the costs of loyalty scheme rewards and is stated net of value added tax and other sales-related taxes. Revenue on Flagship and Liberty of London store sales of goods and commission on concession sales are recognised when goods are sold to the customer. Internet and Fabric sales are recognised when the goods are delivered to the customer. Revenue from gift vouchers and gift coins sold by the Group is recognised on redemption of the gift voucher or gift coin. It is the Group's policy to sell its products to the end customer with a right of return. Accumulated experience is used to consider the need for a provision for such returns on an annual basis.

Cost of sales

Cost of sales comprises the cost of goods sold, together with the direct costs incurred in managing and operating the Group's operating activities.

Share-based payment transactions

The share option programme allows certain employees to acquire shares in the Group.

The fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is due only to share prices not achieving the threshold for vesting.

Dividends

Dividends that have been approved by shareholders at previous Annual General Meetings are included within liabilities. Dividends proposed at the balance sheet date that are subject to approval by shareholders at the annual general meeting are not included as a liability in the current period's financial statements. Dividend income is recognised in the income statement on the date the Group entity's right to receive the income is established.

Finance income and expenses

Finance income comprises interest receivable on funds invested and dividend income. Interest income is recognised in the income statement as it accrues, using the effective interest rate method. All interest payable is charged to the Income Statement.

Finance expenses comprise interest paid or payable that are recognised in the Income Statement.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2008

1. ACCOUNTING POLICIES (continued)

Taxation

The income tax expense in the Consolidated Income Statement comprises current and deferred tax. Income tax expense is recognised in the Consolidated Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are only offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities but they intend to settle current tax liabilities and assets on a net basis, or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference 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.

Additional income taxes which arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

Debt/equity

Under IAS 32, preference shares are classed as equity instruments in the financial statements of Liberty Retail Plc, and in the consolidated financial statements of Liberty Plc as:

- the preference shares include no contractual obligation to deliver cash or another financial asset to another entity; and
- they include no contractual obligation to exchange financial assets or financial liabilities with another equity under conditions that are potentially unfavourable to the issuer.

Adoptions of standards and interpretations during the year

IFRIC 11: Scope of IFRS 2 Group and Treasury Share transactions. This standard provides guidance on applying IFRS 2 in three circumstances: when share-based payments involve an entity's own equity instruments, where a parent grants rights to its equity instruments or where a subsidiary grants rights to equity instruments of its parent to employees. The board does not consider application of this standard had a material impact on these financial statements. The standard was implemented in the financial statements for the year ended 31 December 2008.

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations have been issued recently but are not effective for the financial year ended 31 December 2008. Accordingly, they have not been applied in preparing these financial statements. Their adoption is not expected to have a material affect on the financial statements. The main standards that may affect future financial statements of the Group are as follows:-

- IFRS 8 *Operating Segments* introduces the management approach to segment reporting. IFRS 8, which will be mandatory for the Group's 31 December 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Board in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segment information in respect of its business and geographical segments, in the manner set out in note 2. The board does not consider application of this standard to have a material impact on these financial statements.
- IFRIC 14 and IAS 19 *The limit on a defined benefit asset, minimum funding requirements and their interaction*. IFRIC 14 provides additional guidance on assessing the amount that can be recognised as an asset of a defined benefit pension surplus and as a consequence the amount of deferred tax on that surplus. The Group has assessed the impact of IFRIC 14 and IAS 19 at 31 December 2008. The adoption of IFRIC 14 at 31 December 2008 would have no impact on the balance sheet of the Group at 31 December 2008. Had IFRIC 14 been applied at 1 January 2008, the net liability on the balance sheet at that date would have been £1.5 million.
- Revised IAS 23 *Borrowing Costs* requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset and removes the option to expense the related borrowing costs. The revised IAS 23 will become mandatory for the Group's 2009 consolidated financial statements and this accords with the policy already adopted by the Group. In accordance with the transitional provisions, the Group will apply the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date. Therefore there will be no impact on prior periods in the Group's 2009 consolidated financial statements.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2008

1. ACCOUNTING POLICIES (continued)

New standards and interpretations not yet adopted (continued)

- IFRIC 13 *Customer Loyalty Programmes* addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes under which customers can redeem credits for awards such as free or discounted goods or services. IFRIC 13 becomes mandatory for the Group's 2009 consolidated financial statements. The Group has not yet determined the potential effect of this standard on the Group although the Directors do not consider it will be material to the Company's consolidated financial statements as a whole.
- Revised IAS 1 *Presentation of Financial Statements* (2007) introduces the term "Total Comprehensive Income", which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total Comprehensive Income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income. Revised IAS 1, which becomes mandatory for the Group's 2009 consolidated financial statements, is expected to have a significant impact on the presentation of consolidated financial statements. The Directors plan for the Group to provide Total Comprehensive Income in a single statement of comprehensive income in its 2009 consolidated financial statements.
- Amendment to IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations* clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The amendments to IFRS 2 will become mandatory for the Group's 2009 consolidated financial statements, with retrospective application. The Group has not yet determined the potential effect of the amendment, although the Directors do not consider it will be material in the context of the Company's consolidated financial statements as a whole.

2. SEGMENT REPORTING

Segment information is presented in respect of the Group's businesses and geographical segments. The primary format is based on the Group's management and internal reporting structure.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Inter-segment pricing is determined on an arm's length basis. Unallocated items comprise mainly central loans and borrowings and related expenses, corporate assets (primarily the Company's head office operations) and tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment.

Business segments

The segment analysis of operations reflects the structure of the Group. Retail includes the UK retail operations at Regent Street, the Liberty of London store in Sloane Street and the transactional internet site. Fabric includes the results of the UK and Japanese fabric businesses. Liberty of London wholesale includes our branded product that is distributed globally.

Cash balances and bank loans are allocated to Retail as this division utilises the cash balances and buildings against which debt is secured.

In presenting information on the basis of geographical segments, segmental revenue and assets are based on the geographical location of the assets.

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Revenue by business division		
Retail including Liberty of London retail	**31,767**	32,375
Wholesale fabric	**17,426**	13,275
Liberty of London wholesale	**966**	195
	50,159	45,845
Revenue by geographical origin		
United Kingdom	**43,102**	40,840
Japan	**7,057**	5,005
	50,159	45,845
Revenue by geographical destination		
United Kingdom	**33,612**	33,402
Japan	**7,124**	5,283
Other	**9,423**	7,160
	50,159	45,845

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2. SEGMENT REPORTING (continued)

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
(Loss) / profit by business division		
Retail including Liberty of London retail	**(7,411)**	(5,675)
Wholesale fabric	**3,738**	2,993
Liberty of London wholesale	**(2,552)**	(3,410)
Operating loss	**(6,225)**	(6,092)
Net finance expenses	**(750)**	(284)
Taxation	**(395)**	(371)
Loss for the year	**(7,370)**	(6,747)
(Loss) / profit for the year by geographical origin		
United Kingdom	**(7,124)**	(7,069)
Japan	**899**	977
Operating loss	**(6,225)**	(6,092)
Net finance costs	**(750)**	(284)
Taxation	**(395)**	(371)
Loss for the year	**(7,370)**	(6,747)

Net assets	31 December 2008 £'000	31 December 2007 £'000
By business division		
Retail including Liberty of London retail	**10,159**	31,490
Wholesale fabric	**14,112**	10,046
Liberty of London wholesale	**5,564**	–
	29,835	41,536
By geographical origin:		
United Kingdom	**27,071**	39,960
Japan	**2,764**	1,576
	29,835	41,536

Concession revenue

Sales from concession departments are included on a commission only basis within revenue above. Gross revenue of concession departments was as follows:

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Gross revenue of concession departments	**9,379**	7,660

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for the year ended 31 December 2008

3. EARNINGS BEFORE INTEREST, TAXATION, DEPRECIATION AND AMORTISATION ("EBITDA")

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
The EBITDA of the Group is calculated as follows:		
Loss before finance income, finance expenses and taxation	**(6,225)**	(6,092)
Add depreciation and amortisation for the year	**2,357**	2,475
Total negative EBITDA for the year	**(3,868)**	(3,617)

4. REMUNERATION OF DIRECTORS

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Remuneration as Executives	**495**	587
Payments for loss of office	**209**	1,662
Pension contributions	**4**	22
	708	2,271

The aggregate emoluments of the highest paid director were £340,000 in the year ended 31 December 2008 (2007: £194,000). There were no payments to defined contribution pension schemes in respect of Directors (2007: three Directors).

5. STAFF NUMBERS AND COSTS

The average full time equivalent number of staff employed by the Group, including part time employees, was as follows:

	Year ended 31 December 2008 Number	Year ended 31 December 2007 Number
Selling and distribution	**232**	229
Administration	**98**	98
	330	327

The payroll cost of the Group was as follows:

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Wages and salaries	**12,072**	9,676
Social security costs	**1,104**	989
Share based payment transactions	**–**	124
Pension costs	**102**	108
	13,278	10,897

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5. STAFF NUMBERS AND COSTS (continued)

Equity Interests and Incentive Arrangements of the Directors of the Company

Arrangements are in place to incentivise management for the realisation of value for equity shareholders in cash or cash equivalents at levels in excess of current book values. If such cash or cash equivalent realisations are below £71.1m, no bonus is payable. If cash or cash equivalent realisations total £71.1m an incentive payment totalling £0.7m would become payable by the Company. If realisations exceed £71.1m, the incentive payable by the Company would increase at the rate of 13.5% of such excess up to £113.0m, producing a cumulative incentive payment of £6.3m.

Share based payments

The Company operates an employee Share Option Scheme. Options granted under the scheme cannot be exercised during the first three years of ownership and lapse at the end of 10 years. However, no charge (2007: £124,000) has been included in Administrative expenses in the Consolidated Income Statement as all options granted under the scheme have lapsed either as recipients have left the Company or because performance criteria have not been met.

6. EMPLOYEE BENEFITS

Overall summary

Liberty operates a defined contribution pension scheme and two defined benefit pension schemes. One of the defined benefit schemes is for certain UK employees of its wholly owned subsidiary Liberty Retail Plc. This scheme has been closed to new entrants since February 2001 and was closed to future benefit accrual with effect from 1 January 2007. The other scheme is a minor pension arrangement for the Japanese subsidiary of Liberty Retail Plc.

The assets of all pension schemes of the Group are held in separate trust administered funds. The total pension charge of the Group for the year ended 31 December 2008 was £63,000 (year ended 31 December 2007: £139,000).

Defined contribution schemes

During the year ended 31 December 2008 the Group paid £94,000 (year ended 31 December 2007: £116,000) in respect of contributions to Defined Contribution Pension Schemes operated on behalf of Group employees.

Defined benefit schemes

The Group contributions to the UK defined benefit scheme of Liberty Retail Plc during the year ended 31 December 2008 amounted to £360,000 (year ended 31 December 2007: £360,000). At 31 December 2008, £30,000 was due by the Group to the UK pension scheme, which was paid shortly after the period end. The contribution rate is determined by an independent qualified actuary, using the projected unit method, on the basis of triennial valuations. A full actuarial valuation was carried out at 2 June 2006 by the scheme's independent qualified actuary.

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6. EMPLOYEE BENEFITS (continued)

Actuarial valuation

A full actuarial valuation of the UK defined benefit scheme was carried out at 2 June 2006 by a qualified independent actuary. An IAS19 valuation has been prepared at 31 December 2008 by the actuary based on assumptions set by the Company and is reflected in these financial statements. The assumptions used by the actuary are those recommended by the Trustees of the Pension Scheme and, in the actuary's opinion, are the best estimates chosen from a range of possible actuarial assumptions. Due to the timescale covered, these assumptions may not necessarily be borne out in practice. The major assumptions used by the actuary were as follows:-

	Year ended 31 December 2008	Year ended 31 December 2007
Discount rate of scheme liabilities at year end	**6.4%**	5.8%
Expected rate of return on Scheme assets	**6.4%**	6.7%
Inflation per annum	**2.5%**	3.3%
Rate of increase per annum in pensions in payment accrued before 5 April 1997	**3.0%**	3.0%
Rate of increase per annum in pensions in payment accrued after 5 April 1997	**2.5%**	3.3%
Mortality assumption (see below)	**pxa 00 birth year**	pxa 92 birth year
Percentage of members taking cash at retirement	**75%**	75%
Forecast life expectancy of Scheme members	**86**	84
Rate of increase per annum in deferred pensions	**2.5%**	3.3%
Expected long term rate of return on Scheme assets	**6.4%**	6.6%

The overall expected return on assets is calculated as the weighted average of expected returns on each individual asset class. The expected return on equities is the sum of inflation, the dividend yield, economic growth and investment expenses. The return on gilts and bonds is the current market yield on long term gilts and bonds. The expected return on other assets is set equal to expected inflation.

Assumptions relating to the rate of increase in salaries at 31 December 2006 are not applicable because the Scheme was closed to future benefit accrual with effect from 1 January 2007.

The pxa 00 birth year mortality assumption used in 2008 refers to the male and female tables weighted by pension amount and using a long cohort, based on experience occurring in insurance company data in 2000 (a year which is now used generally in the assessment of pension obligations), projected forwards from the date of birth of members. In 2007 and previous years, the pxa 92 birth year mortality assumption was used. That birth year assumption referred to the male and female tables weighted by pension amount based on experience occurring in insurance company data in 1992, which was considered by the pension industry in those years to have been the appropriate birth year to use.

For the UK defined benefit scheme, which is closed to new entrants, the current service cost is expected to increase as members of the scheme approach retirement. As the scheme is closed to future benefit accrual, there is no expected contribution rate for future years calculated by reference to Contribution Earnings of Participating Earnings. The expected contribution for future years for the UK scheme is £360,000 per annum, payable by Liberty Retail Plc.

	31 December 2008 £'000	31 December 2007 £'000
Summary		
Cumulative net liability of UK scheme	**(2,044)**	(414)
Cumulative net liability of Japanese scheme	**(22)**	(2)
Total present value of employee benefits	**(2,066)**	(416)

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for the year ended 31 December 2008

6. EMPLOYEE BENEFITS (continued)

Movement of deficit in the UK defined benefit pension scheme of Liberty Retail Plc

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Movement in present value of defined benefit obligations		
Present value of defined benefit obligations at start of year	**17,402**	18,077
Benefits paid by the scheme	**(899)**	(721)
Interest cost	**984**	939
Actuarial gains recognised in equity	**(1,736)**	(893)
Present value of defined benefit obligations at year end	**15,751**	17,402
Movement in fair value of Scheme assets		
Fair value of Scheme assets at start of year	**16,988**	16,484
Contributions paid by the Group	**360**	360
Benefits paid by the Scheme	**(899)**	(721)
Expected return on Scheme assets	**1,007**	955
Actuarial (losses)/gains on Scheme assets recognised in equity	**(3,749)**	(90)
Fair value of Scheme assets at year end	**13,707**	16,988
Expense recognised in Income Statement		
Interest on obligation	**(984)**	(939)
Expected return on Scheme assets	**1,007**	955
Income recognised in Income Statement	**23**	16
Actuarial gains and losses recognised directly in equity		
Cumulative liability at start of year	**(414)**	(1,593)
Actuarial gains and losses recognised directly in equity during year	**(2,013)**	803
Contributions paid by the Group	**360**	360
Income recognised in income statement	**23**	16
Cumulative liability at year end	**(2,044)**	(414)
Actual return on Scheme assets	**(2,742)**	865

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for the year ended 31 December 2008

6. EMPLOYEE BENEFITS (continued)

Movement of deficit in the Japan defined benefit pension scheme of Liberty Plc

The movement in the Japan defined benefit pension scheme during the year was as follows:-

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Surplus/(deficit) in scheme at beginning of year	**(2)**	45
Movements in year:-		
Contributions received	**7**	18
Current service cost	**(21)**	(16)
Increase in value of scheme assets less increase in actuarial valuation of current scheme liabilities	**(6)**	(49)
Deficit in scheme at year end	**(22)**	(2)

Analysis of amount recognised in Statement of Recognised Income and Expense

The fair values of both the UK and Japan schemes' assets are not intended to be realised in the short term and may be subject to significant change before they are realised. The present value of the scheme's liabilities is derived from cash flow projections over long periods of time and is thus inherently uncertain. However, both tables represent the Trustee's and the Actuary's best estimate of the deficit in the schemes at the dates referred to.

	31 December 2008 £'000	31 December 2007 £'000
Actual return less expected return on pension scheme assets in UK	**(3,749)**	(270)
Changes in assumptions underlying present value of scheme liabilities in UK	**1,736**	1,073
	(2,013)	803
Actual return less expected return on pension scheme assets in Japan	**(6)**	(49)
Actuarial (loss)/gain in consolidated statement of recognised gains and losses	**(2,019)**	754

Historical information

UK scheme	**31 December 2008 £'000**	31 December 2007 £'000	31 December 2006 £'000	30 June 2005 £'000	30 June 2004 £'000
Equities	**5,275**	9,867	10,682	8,945	7,631
Bonds	**8,400**	7,085	5,790	4,695	4,034
Other investments	**32**	36	12	31	31
Fair value of scheme assets	**13,707**	16,988	16,484	13,671	11,696
Present value of defined benefit obligations	**(15,751)**	(17,402)	(18,077)	(20,493)	(17,326)
Deficit in the Scheme	**(2,044)**	(414)	(1,593)	(6,822)	(5,630)
Experience adjustments arising on Scheme assets	**(3,749)**	(270)	1,492	303	1,094
Experience adjustments arising on Scheme liabilities	**–**	1,073	3,635	4,423	2,289

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for the year ended 31 December 2008

7. FINANCE INCOME AND EXPENSES

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
The finance income arose as follows:-		
Interest income on cash deposits	**91**	47
Forward currency contracts	**341**	–
Defined benefit pension scheme expected return on scheme assets	**1,007**	955
Total finance income for the year	**1,439**	1,002
The finance expenses arose on financial liabilities measured at amortised cost as follows:-		
Bank loans and overdrafts	**(877)**	(347)
Loan from ultimate holding company	**(321)**	–
Interest on pension scheme liabilities	**(984)**	(939)
Other interest payable	**(7)**	–
Total finance expense for the year	**(2,189)**	(1,286)

8. LOSS BEFORE TAXATION

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
The loss before taxation is stated after charging the following:		
Depreciation-property, plant and equipment owned	**2,357**	2,475
Operating lease expense	**1,107**	915
Auditors' remuneration charged in Income Statement:-		
Audit of the financial statements of the Company	**100**	75
Audit of financial statements of subsidiaries pursuant to legislation	**35**	25
All other services	**–**	60
Provision for obsolete inventories	**40**	350
Foreign exchange loss	**257**	77
And after crediting the following:		
Rent receivable	**21**	80
Licensing and royalty income	**696**	515
Release of provision for obsolete inventories	**384**	–
Foreign exchange gains	**7**	468
Release of staircase provision	**–**	750

9. TAXATION

The taxation for the year in the Income Statement arose as follows:

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Foreign tax		
Tax on Japanese profits for the year	**(395)**	(371)

No tax was recognised directly in equity during the year ended 31 December 2008 or during the previous year.

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9. TAXATION (continued)

The taxation charge has been reduced from the amount that would arise from applying the prevailing corporation tax rate to the loss before taxation in the Consolidated Income Statement, as follows:

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
UK corporation tax credit at 28.5% (2007: 30%) on Group loss before tax	**1,988**	1,913
Excess of depreciation charged over capital allowances claimed	**(672)**	(743)
Expenditure permanently disallowed for taxation purposes and unrelieved tax losses	**(1,573)**	(1,472)
Taxation on overseas earnings at higher rate than UK corporation tax	**(138)**	(69)
Taxation charge for the year	**(395)**	(371)

10. LOSS PER SHARE

The loss per share figures are calculated by dividing the loss attributable to equity shareholders of the Company for the year, by the weighted average number of ordinary shares in issue during the year, as follows:-

		Year ended 31 December 2008	Year ended 31 December 2007
Loss for the year attributable to equity shareholders of the Company	£'000	**(7,424)**	(7,107)
Weighted average number of ordinary shares in issue during the year	'000	**22,603**	22,603
Loss per share (basic and diluted)	Pence	**(32.8p)**	(31.4p)

11. INTANGIBLE ASSETS AND GOODWILL

	Goodwill £'000	**Brand £'000**	**Total £'000**
Balance at 31 December 2007 and 31 December 2008	**182**	**18,200**	**18,382**

Assessment of the useful life and impairment testing on the carrying value of the Brand

The Directors consider that the Group's brand has an indefinite life due to the durability of the underlying business. This has been demonstrated over many years. Accordingly the brand has not been amortised but has instead been subject to an annual impairment review. An external professional valuation of the Liberty brand was undertaken by Equilibrium Consulting at 31 December 2007. The principal assumptions in the 2007 valuation included a discount rate of 10.2% and a long term growth assumption of 2% into perpetuity. At 31 December 2008, the value in use was determined by discounting future cash flows generated from continuing use of the cash generating unit. This is based on projected cash flows in the Company's 5 year business plan and further projections for years 6 to 10 to produce a 10 year cash flow model. A 2% growth assumption has been applied to cash flows at the end of year 10. Forecast annual revenue growth included in the projections is 9.7% in 2009 and 5.3% by year 5 reflecting the 5 year business plan and 3% by year 10. The cash flows generated from the business plan project net outflows in 2009 and 2010 with net cash inflows beginning in 2011. A pre-tax discount rate of 10% was applied to resultant cash flows to determine present day value in use, reflecting current market assessments of risk specific to the asset. The values assigned also represent assessments of future trends in the retail industry and are based on both external sources and internal historical data. The above calculation of value in use is particularly sensitive in two areas: a movement of 1% in the discount rate would affect the calculated value of the brand by £4m, and a movement of 1% in future planned net cash inflows before capital expenditure, central costs and working capital movements would affect the calculated value of the brand by approximately £1m. The impairment review at 31 December 2008 supported the value in use of the Liberty brand at more than the book value of £18.2m at which it has been included in the financial statements of the Group throughout the year and accordingly the brand has been retained at a value of £18.2m in these financial statements.

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for the year ended 31 December 2008

12. PROPERTY, PLANT AND EQUIPMENT

	Freehold property £'000	Plant, machinery, fixtures & equipment £'000	Total £'000
Cost or valuation			
At 1 January 2008	29,474	13,945	43,419
Additions	–	2,483	2,483
Revaluation	(3,879)	–	(3,879)
At 31 December 2008	**25,595**	**16,428**	**42,023**
Depreciation			
At 1 January 2008	–	(9,019)	(9,019)
Charge for the year	(359)	(1,998)	(2,357)
Revaluation	359	–	359
At 31 December 2008	**–**	**(11,017)**	**(11,017)**
Net book value at 31 December 2008	**25,595**	**5,411**	**31,006**

	Freehold property £'000	Plant, machinery, fixtures & equipment £'000	Total £'000
Cost or valuation			
At 1 January 2007	32,148	11,345	43,493
Additions	–	2,600	2,600
Revaluation	(2,674)	–	(2,674)
At 31 December 2007	29,474	13,945	43,419
Depreciation			
At 1 January 2007	–	(6,906)	(6,906)
Charge for the year	(362)	(2,113)	(2,475)
Revaluation	362	–	362
At 31 December 2007	–	(9,019)	(9,019)
Net book value at 31 December 2007	29,474	4,926	34,400

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12. PROPERTY, PLANT AND EQUIPMENT (continued)

Valuation

The Group's property, plant and equipment is primarily located in the United Kingdom, with a minor amount located in Japan. The Group's property was valued at 31 December 2008 by qualified professional valuers working for the company of DTZ, Chartered Surveyors, ("DTZ"), acting in the capacity of External Valuers. All such valuers are Chartered Surveyors, being members of the Royal Institution of Chartered Surveyors ("RICS").

DTZ act as valuers to the Group and undertake half year and year end valuations for accounting purposes. DTZ has been carrying out this valuation instruction for the Group for a continuous period since 1999 and Paul Wolfenden has been the signatory of Valuation Reports provided to the Group for the same period. In addition, DTZ provide ad-hoc valuation advice to the Group. DTZ is a wholly owned subsidiary of DTZ Holdings plc. In the financial year to 30 April 2008, the proportion of total fees payable by the Group to the total fee income of DTZ Holdings plc was less than 5%. It is not anticipated that this situation will vary in terms of the financial year of DTZ to 30 April 2009. DTZ has not received any introductory fees or acquisition fees in respect of the property owned by the Liberty Group within the 12 months prior to the date of valuation.

The valuation was carried out in accordance with the RICS Appraisal and Valuation Standards 6th Edition ("the Manual") and the property was valued on the basis of Existing Use Value. Existing Use Value is defined in the Manual as the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction, after proper marketing, wherein the parties had acted knowledgeably, prudently and without compulsion, assuming that the buyer is granted vacant possession of all parts of the property required by the business and disregarding potential alternative uses and any other characteristics of the property that would cause its Market Value to differ from that needed to replace the remaining service potential.

The valuation includes the land and buildings; the trade fixtures, fittings, furniture, furnishings and equipment; and the market's perception of the trading potential excluding personal goodwill; together with an assumed ability to renew existing licences, consents, certificates and permits. The value excludes consumables and stock in trade. The valuation excludes any goodwill associated with the management by the Company or its subsidiaries.

The valuation of the Tudor property and fixtures totalled £28.8m, including fixtures and equipment with a net book value of £3.2m at 31 December 2008. The historic cost of the Group's property at 31 December 2008 includes capitalised interest of £0.2m (2007: £0.2m).

Reconciliation of values

The reconciliation of the values at which the property is included in the above table with their original cost less accumulated depreciation is as follows:

	Original cost less accumulated depreciation at 31 December 2008 £'000	Cumulative valuation surplus at 31 December 2008 £'000	Valuation at 31 December 2008 £'000
Freehold property	18,827	6,768	25,595
Fixtures and equipment within Tudor property	3,205	–	3,205
Total Tudor property and fixtures	22,032	6,768	28,800
Other fixtures and equipment	2,206	–	2,206
Total property, fixtures and equipment	**24,238**	**6,768**	**31,006**

13. INVENTORIES

	31 December 2008 £'000	31 December 2007 £'000
Raw materials	**1,247**	780
Finished goods	**7,943**	6,815
	9,190	7,595

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14. TRADE AND OTHER RECEIVABLES

	31 December 2008 £'000	31 December 2007 £'000
Trade receivables	**7,772**	5,073
Amount due from related parties (note 24)	**12**	3
Other receivables	**1,211**	622
Prepayments and accrued income	**1,113**	1,114
	10,108	6,812

15. CASH AND CASH EQUIVALENTS

	31 December 2008 £'000	31 December 2007 £'000
Cash and cash equivalents	**1,931**	246
Deposits	**–**	4,050
Less bank overdraft	**(28)**	–
Net cash and cash equivalents per consolidated cash flow statement and consolidated balance sheet	**1,903**	4,296

16. TRADE AND OTHER PAYABLES

	31 December 2008 £'000	31 December 2007 £'000
Trade payables	**9,349**	7,829
Amounts due to related parties (note 24)	**7,548**	299
Other payables	**1,436**	784
PAYE, NIC and VAT	**1,157**	1,281
Accruals and deferred income	**4,199**	5,541
	23,689	15,734

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 21.

Amounts due to related parties relate to amounts due to MWB Group Holdings Plc. The loan was provided under a facility that had a term that ran to July 2009. Subsequent to the year end, this facility was increased to £16.5m and extended to 31 December 2010. Drawings under this facility incur interest at a rate of 9% per annum.

17. TAX PAYABLE

	31 December 2008 £'000	31 December 2007 £'000
Japanese corporation tax	**157**	249

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18. LOANS AND BORROWINGS

The Group's interest-bearing loans and borrowings are measured at amortised cost. Details of the Group's exposure to interest rate, foreign currency and liquidity risk are set out in note 21.

The Group utilises a financing facility provided by Bank of Scotland ("BOS") for a loan facility of £20m which comprises a revolving credit facility of £15m and an ancillary facility of £5m. At 31 December 2008, the Group has drawn £14.6m (2007: £13m) of the £15m revolving credit facility and £0.2m (2007: nil) of the ancillary facility.

Terms and debt repayment schedule

The Group's loans are denominated in Sterling and no foreign exchange risk existed on its debt arrangements during the year ended 31 December 2008 or during the previous year. The Group's loans bear variable rates of interest which are set by reference to Bank of Scotland base rate as follows:-

	Nominal interest rate per annum	Latest year of maturity	**31 December 2008** Face value £'000	**31 December 2008** Carrying amount £'000	31 December 2007 Face value £'000	31 December 2007 Carrying amount £'000
Secured bank loan	3.25%	2010	**14,633**	**14,633**	13,000	13,000

The facility has a term that runs until September 2010, at which time, or prior to which, discussions will be held with BOS with regard to refinancing, repayment or extending the loan repayment date.

The bank loan is secured on freehold property with a carrying amount of £28.8m (2007:£33m) (see note 12), a debenture and corporate guarantee provided by Liberty Plc in favour of BOS.

Net debt

	31 December 2008 £'000	31 December 2007 £'000
Due within one year		
Cash and cash equivalents	**1,903**	4,296
Derivative financial instruments	**341**	–
Amount due to related parties	**(7,548)**	(299)
Due within one to two years		
Secured bank loan	**(14,633)**	(13,000)
Net Debt	**(19,937)**	(9,003)

Undrawn facilities

At 31 December 2008, the Group had £0.4m (2007: £2.0m) of undrawn credit financing facilities available for use by the Group.

Funding financial risk

The Group's funding financial risk centres on the total interest cost incurred on the Group's short and medium term loans, which at 31 December 2008 included bank borrowings of £14.6m (2007: £13m). The Board has currently chosen to retain the bank borrowings at variable rates due to the low level of current interest rates. The Board reviews this policy on a regular basis to ensure good management of its exposure to interest rate fluctuations.

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19. PROVISIONS

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Balance at start of year	**550**	1,300
Provision released during year	**–**	(750)
Balance at end of year	**550**	550

An obligation exists under a Section 106 agreement to reinstate an oak panelled staircase into the Tudor Building at a future date. The provision is the estimated building cost necessary to incorporate the staircase into the existing fabric of the building.

20. DEFERRED TAXATION

The deferred tax liabilities/(assets) at 31 December 2008 and at the previous year end arose as follows.

	31 December 2008 £'000	31 December 2007 £'000
Deferred tax liability provided		
Liberty brand net of other capital losses	**4,499**	4,869
Accelerated capital allowances	**(4,552)**	(4,927)
Short term timing differences	**53**	58
Deferred tax liability provided at year end	**–**	–
Deferred tax assets not provided		
Accelerated capital allowances	**(2,103)**	(1,293)
Pension deficit	**(578)**	–
Trading tax losses	**(14,116)**	(12,672)
Deferred tax assets not provided at year end	**(16,797)**	(13,965)

Deferred tax assets not provided

After deducting all deferred tax liabilities including those relating to the brand, the Group had unrelieved capital expenditure from current and prior years at 31 December 2008 of approximately £7.5m (2007: £4.6m). At the same date, it had net trading losses carried forward in certain parts of the Group of approximately £50.4m (2007: £45.2m) and a cumulative net liability in respect of its defined benefit pension scheme of £2.1m. These gross tax assets totalling £60m are reflected at the prevailing tax rate of 28% in the deferred tax asset of £16.8m referred to above. Due to uncertainty as to timing and use of these net tax assets, particularly the trading losses and pension deficit which are restricted in their use, these net tax assets have not been recognised as an asset in the consolidated balance sheet at 31 December 2008. No charges or credits were made in the Consolidated Income Statement in respect of deferred taxation during the years referred to above.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2008

21. FINANCIAL INSTRUMENTS

Overall summary

The Group has exposure to the following principal risks in the operation and management of its business:-

(i) Liquidity risk;

(ii) Market risk;

(iii) Interest rate risk;

(iv) Currency risk; and

(v) Credit risk.

Set out below is information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Directors have overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies to provide protection for the Group's activities are reviewed during the year to reflect changes in market conditions. The Group, through its management standards and procedures, aims to develop a disciplined and constructive control environment in which employees understand their roles and obligations. This is managed and controlled through a detailed funding policy and capital management strategy, details of which are set out below.

The Group borrows from banks at variable rates of interest. Interest rate exposure from variable rate debt is hedged by financial derivative instruments where the Board considers that interest rate rises are expected to occur in the medium term. The principal purpose of the Group's hedging arrangements is to protect the Group against adverse interest rate movements and to retain some opportunity to benefit from falls in short term interest rates. The Group does not use hedging arrangements to speculate on interest rate movements. Derivative instruments used by the Board could comprise interest rate swaps, floors and collars.

The Group's treasury policies are designed to ensure that sufficient committed loan facilities are available to support current and future business requirements. Cash and loan management is a core feature of the Board's business model and two year rolling cash flow forecasts, updated on a monthly basis, are controlled by the Executive Directors to manage these requirements.

Liquidity risk

Note 1 to the financial statements refers to liquidity risks associated with the financing arrangements of the Group and note 26 provides details of capital commitments.

Market risk

Market risk that affects the Group is the risk that changes in market prices, such as interest rates, foreign currency rates and equity prices, will affect the Group's income or the value of its holdings of financial instruments. The objective of the Group's market risk management is to manage and control market risk exposures within acceptable parameters, while seeking to optimise returns to shareholders.

The Group buys derivatives for its financial liabilities, and also incurs financial liabilities, in order to manage market risks. The Group does not enter into hedge contracts on a speculative or trading basis.

Equity price risk arises generally from available-for-sale equity securities held within the Liberty Retail Plc pension scheme. These investments are held to meet the funded and unfunded portion of the Group's defined benefit pension obligations. Group Management monitors the mix of debt and equity securities in this investment portfolio using pro-active third party advice. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by the Trustees of the pension scheme, in conjunction with Senior Executives of the Group. The investment portfolio of the pension scheme at its most recent year end of 2 June 2008 totalled £16.0 million and the current value of pension scheme liabilities, which are valued principally by reference to investment bond yields, totalled £18.9 million.

The primary goal of the Group's available-for-sale equity securities investment strategy is to maximise investment returns commensurate with acceptable levels of risk, in order to meet as much as possible the Group's defined scheme pension obligations. Management is assisted in this regard by professional external advisors.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2008

21. FINANCIAL INSTRUMENTS (continued)

Interest rate risk

The Group's variable rate borrowings are exposed to a risk of change in cash flows due to changes in interest rates. The Group may hold financial instruments to hedge financial risk on finance drawn for its operations, or for the temporary investment of short-term funds, and to manage the interest rate risks arising from its operations and sources of finance. In addition, various financial amounts – for example trade debtors and trade creditors – arise directly from the Group's normal trading operations.

Currency risk

Substantially all Group revenue is denominated in Sterling, the Group's functional currency. The Group is currently mainly exposed to currency risk on sales and purchases that are denominated in Euros and US dollars. Payments in Euros accounted for 14% (2007: 9%) and payments in US dollars accounted for 3% (2007: 1%) of total payments in the year to 31 December 2008. The Group uses forward exchange contracts to hedge its currency risk, most of which have a maturity of less than one year from the balance sheet date. The Group does not have any loans taken out by any Group entities, in any currency other than Sterling.

As over 91% (2007: 96%) of the Group's gross assets are denominated in Sterling, the Group did not have a material exposure to foreign currency risk at 31 December 2008 or at the previous year end. The remaining 9% (2007: 4%) of Group assets are denominated in Japanese Yen. Accordingly, strengthening of Sterling against the Yen would not have had a material effect on the Group at 31 December 2008 or at the previous year end.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The risk to the Group arises principally from the Group's receivables from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the general default risk in the principal sectors in which the Group operates, has less of an influence on credit risk. The Group maintains credit insurance which protects against any bad debt that may arise, with an excess of £1,000 payable per claim.

For many years, losses from impairment of the Group's customer receivables have been minimal and this continued during the year ended 31 December 2008. Customers that are graded as high risk are placed on a restricted customer list, and future sales are only made on a restricted basis.

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:

	31 December 2008 £'000	31 December 2007 £'000
Trade receivables	**7,772**	5,073
Deposits	**–**	4,050
Cash and cash equivalents	**1,931**	246
Secured bank loans	**(14,633)**	(13,000)
Bank overdraft	**(28)**	–
	(4,958)	(3,631)

Notes to the Consolidated Financial Statements

for the year ended 31 December 2008

21. FINANCIAL INSTRUMENTS (continued)

Exposure to credit risk (continued)

The ageing of trade receivables at 31 December 2008 was as follows:-

	Gross 31 December 2008 £'000	**Impairment provision 31 December 2008 £'000**	Gross 31 December 2007 £'000	Impairment provision 31 December 2007 £'000
Not overdue	**4,210**	**–**	1,113	–
0-30 days overdue	**695**	**–**	2,199	–
31-120 days overdue	**2,628**	**(67)**	1,408	(51)
120 days to one year overdue	**359**	**(93)**	333	(25)
More than one year overdue	**94**	**(54)**	120	(24)
	7,986	**(214)**	5,173	(100)

The impairment provision at 31 December 2008 of £214,000 relates to debts mainly from overseas customers that are not covered by insurance.

Based on historic default rates, the Board believes that no material amount of impairment allowance is necessary in respect of trade receivables not past due or past due by up to 30 days. The majority of the balance relates to customers that have good financial track records with the Group.

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2008 £'000	2007 £'000
Balance at start of year	**(100)**	(92)
Impairment loss provided	**(114)**	(8)
Balance at end of year	**(214)**	(100)

The allowance account in respect of trade receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable and is written off against the financial asset directly.

Determination of fair values

The following tables show the carrying amounts and fair values of the Group's financial instruments at 31 December 2008 and at the previous year end. The carrying amounts are included in the Group balance sheet. The fair values of the financial instruments are the amounts at which the instruments could be exchanged in a current transaction between willing parties.

	2008 £'000	2007 £'000
Balance at start of year	**–**	–
Forward extendable plus Euro contract	**341**	–
Balance at end of year	**341**	–

The carrying amounts of financial assets and liabilities, together with their fair values at 31 December 2008 and at the previous year end, were as follows:-

	31 December 2008		31 December 2007	
	Carrying amount £'000	**Fair value £'000**	Carrying amount £'000	Fair Value £'000
Amounts due to related party	**(7,548)**	**(7,548)**	(299)	(299)
Trade and other receivables	**10,108**	**10,108**	6,812	6,812
Deposits	**–**	**–**	4,050	4,050
Cash and cash equivalents	**1,903**	**1,903**	246	246
Secured bank loan and overdraft	**(14,633)**	**(14,633)**	(13,000)	(13,000)
Trade and other payables	**(9,349)**	**(9,349)**	(7,829)	(7,829)
	(19,519)	**(19,519)**	(10,020)	(10,020)

Notes to the Consolidated Financial Statements

for the year ended 31 December 2008

22. SHARE CAPITAL

	2008 £'000	2007 £'000
Authorised		
30,000,000 ordinary shares of 25p each	**7,500**	7,500
400,000 6% cumulative non-redeemable preference shares of £1 each	**400**	400
	7,900	7,900
Allotted, called up and fully paid		
22,602,808 ordinary shares of 25p each	**5,651**	5,651
385,000 6% cumulative non-redeemable preference shares of £1 each	**385**	385
	6,036	6,036

Dividends on ordinary shares

No dividends were declared during the year ended 31 December 2008. Holders of ordinary shares are entitled to receive dividends per share as declared from time to time and are entitled to one vote per share at Shareholder meetings of the Company.

6% cumulative non-redeemable preference shares

The Company's preference shares are non-redeemable and have a right of preferential return of capital in the event of a winding up of the Company. They include no contractual obligation to pay dividends. At 31 December 2008, the preference shares are in arrears of dividend of £196,000 (2007: £173,000), and accordingly they have the same voting rights as the ordinary shares until the arrears are paid.

Share options

In May 2003 the Company established the Liberty Plc Executive Share Option Scheme 2003 ("the Option Scheme") after Shareholder approval. The Option Scheme enables the Board to grant options over shares to certain employees (including Directors) which are exercisable between three and ten years after the date of grant. The exercise of options granted under the Option Scheme are subject to the achievement of certain performance criteria that are established at the date of grant of the options. The options granted under the scheme are summarised below:

Date of grant	At 1 January 2008 and 31 December 2008	Weighted average exercise price per share pence	Exercisable from	Expiry date
27 March 2003	372,093	215p	26 March 2006	24 March 2013
19 December 2003	–	215p	18 December 2006	16 December 2013
26 September 2005	283,636	275p	25 September 2008	24 September 2015
30 March 2006	207,272	262.5p	29 March 2009	27 March 2016
11 May 2006	427,184	257.5p	10 May 2009	8 May 2016
Outstanding	1,290,185	249.9p		

All the options over shares listed above are not capable of being exercised, either due to the owners of the options leaving the Group, or because the related performance criteria have not been met.

Unissued share capital

At 24 April 2009, being the date of approval of these financial statements, the authorised but unissued and unreserved ordinary share capital amounted to 6,107,007 shares, representing 27% of the issued ordinary share capital of the Company. At the same date, the unissued non-equity share capital was 15,000 6% cumulative non-redeemable £1 preference shares. Both classes of share are available for issue by the Company.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2008

23. RECONCILIATION OF MOVEMENT ON CAPITAL AND RESERVES

	Share capital £'000	Merger reserve £'000	Revaluation reserve £'000	Translation reserve £'000	Retained earnings £'000	Total £'000	Minority interest £'000	Total equity £'000
Balance at 1 January 2007	**6,036**	**61,503**	**12,600**	**(39)**	**(30,600)**	**49,500**	**1,641**	**51,141**
Foreign exchange translation differences for foreign operations	–	–	–	82	–	82	–	82
Revaluation of property, plant and equipment	–	–	(2,312)	–	–	(2,312)	–	(2,312)
Defined benefit pension scheme actuarial gains, net of tax	–	–	–	–	754	754	–	754
Loss for the year	–	–	–	–	(7,107)	(7,107)	360	(6,747)
Share based payments	–	–	–	–	124	124	–	124
Acquisition of minority interest	–	–	–	–	(83)	(83)	(1,423)	(1,506)
Balance at 31 December 2007	**6,036**	**61,503[2]**	**10,288[2]**	**43[1]**	**(36,912)[1]**	**40,958**	**578**	**41,536**
Foreign exchange translation differences for foreign operations	–	–	–	1,070	–	1,070	–	1,070
Revaluation of property, plant and equipment	–	–	(3,520)	–	–	(3,520)	–	(3,520)
Defined benefit pension scheme actuarial gains, net of tax	–	–	–	–	(2,019)	(2,019)	–	(2,019)
Loss for the year	–	–	–	–	(7,424)	(7,424)	192	(7,232)
Balance at 31 December 2008	**6,036**	**61,503[2]**	**6,768[2]**	**1,113[1]**	**(46,355)[1]**	**29,065**	**770**	**29,835**

[1] Disclosed as 'Retained earnings' in consolidated balance sheet.

[2] Disclosed as 'Other Reserves' at 31 December 2008 totalling £68,271,000 (2007: £71,791,000) in consolidated balance sheet.

Translation reserve

The translation reserve represents the movement on the translation of assets and liabilities held or recorded in foreign currencies other than Sterling at the balance sheet date. Exchange differences arising in the ordinary course of trading are included in the Income Statement.

Merger Reserve

This arose when the Company acquired its subsidiaries in 2000 at a premium to the nominal value of the shares issued on acquisition.

Revaluation Reserve

Freehold property is included in the Consolidated Balance Sheet at its market value at the Balance Sheet date, on the basis of an annual external valuation. Surpluses or deficits arising on valuation are transferred to the revaluation reserve to the extent that a credit balance exists in the valuation reserve in respect of the property concerned.

Minority Interests

This represents the 9½% preference shares in the Company's wholly owned subsidiary Liberty Retail Plc.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2008

24. RELATED PARTY BALANCES AND TRANSACTIONS

Trade and other receivables (note 14)	**31 December 2008 £'000**	31 December 2007 £'000
Amounts due from related parties		
Wholly owned subsidiaries of a fellow subsidiary, MWB Business Exchange Plc	**12**	3
	12	3
Trade and other payables (note 16)		
Amounts due to related parties within one year		
MWB Group Holdings Plc		
Loan	**6,543**	–
Other	**1,005**	299
	7,548	299
Related party transactions during the year		
Wholly owned subsidiaries of MWB Group Holdings Plc for administrative fees paid during the year	**56**	75

25. EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF LIBERTY PLC IN PENCE PER SHARE

The Equity attributable to shareholders of Liberty plc in pence per share is calculated by dividing the Equity attributable to shareholders of Liberty plc at each year end by the number of ordinary shares in issue at such year end. They are calculated as follows:-

		31 December 2008	31 December 2007
Equity attributable to shareholders of Liberty plc per consolidated balance sheet on page 27 of the financial statements	£'000	**29,065**	40,958
Number of ordinary shares in issue at year end	'000	**22,603**	22,603
Equity attributable to shareholders of Liberty Plc in pence per share	Pence	**129p**	181p

Notes to the Consolidated Financial Statements

for the year ended 31 December 2008

26. COMMITMENTS AND GUARANTEES

Capital commitments

	31 December 2008 £'000	31 December 2007 £'000
Authorised but not contracted	**1,816**	880
Contracted but not provided	**–**	208
	1,816	1,088

Capital commitments will be financed from available cash and cash equivalents of £1.9m in note 15 and undrawn bank facilities totalling £0.4m in note 18.

Operating lease commitments

Non-cancellable operating lease commitments of the Group relate to land and buildings. These expire in years subsequent to 31 December 2008 and involve total payments in future years as follow:-

	31 December 2008 £'000	31 December 2007 £'000
Within one year	**29**	5
Between two and five years	**181**	278
After more than five years	**932**	815
	1,142	1,098

Parent Company Balance Sheet

at 31 December 2008

	Notes	**31 December 2008 £'000**	31 December 2007 £'000
Fixed Assets			
Investment in subsidiary undertakings	*28*	**9,174**	9,174
Creditors: amounts falling due within one year	*29*	**(217)**	(217)
Total assets less current liabilities		**8,957**	8,957
Creditors: amounts falling due after more than one year	*30*	**(2,944)**	(2,944)
Net assets		**6,013**	6,013
Capital and reserves			
Called up share capital		**6,036**	6,036
Profit and loss account		**(23)**	(23)
Total Shareholders' funds		**6,013**	6,013

The notes on pages 57 and 58 form part of these financial statements. Approved by the Board of Directors on 24 April 2009 and signed on its behalf by:

Richard Balfour-Lynn
Chairman

Geoffroy de La Bourdonnaye
Chief Executive

Notes to the Parent Company Financial Statements

27. ACCOUNTING POLICIES FOR PARENT COMPANY FINANCIAL STATEMENTS

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

Basis of preparation

The financial statements have been prepared on a going concern basis in the manner disclosed in Note 1 to the Consolidated Financial Statements.

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

Under Financial Reporting Standard 1, the Company is exempt from the requirement to prepare a cash flow statement on the grounds that the consolidated cash flow statement included in these published financial statements, includes the cash flow of the Company.

The Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties).

Investment in subsidiary undertakings

The interest of the Company in the shares of subsidiary undertakings is stated at cost less any provision for impairment. The carrying values of fixed asset investments are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable. An impairment is recognised by comparing the carrying amount to the higher of the recoverable amount and value in use.

28. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

	31 December 2008 £'000	31 December 2007 £'000
Investment in subsidiary undertakings	**9,174**	9,174

The results of all subsidiary undertakings of the Company have been included in the financial statements. A full list of subsidiary undertakings is included with the Company's Annual Return. The material subsidiary undertakings of the Company at 31 December 2008, all of which are engaged in retail operations or related activities, or act as intermediary holding companies for such operations, were incorporated and operate in England and Wales, and which are all wholly owned unless stated below, were as follows:

Name of undertaking	Classes of issued share capital held by the Group	Immediate holding company in the Group
Liberty Retail Plc	Ordinary & 6% Preference	Liberty Plc
Liberty Japan Co. Limited*	Ordinary	Liberty Investment Limited
Liberty Fabric Limited	Ordinary	Liberty Retail Plc
Retail Stores Property Holdings Limited	Ordinary	Liberty (Regent and Tudor) Holdings Limited
Liberty of London Limited	Ordinary	Liberty Plc

* Incorporated and operates in Japan

29. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 December 2008 £'000	31 December 2007 £'000
Accruals and deferred income	**217**	217

Notes to the Parent Company Financial Statements

30. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	31 December 2008 £'000	31 December 2007 £'000
Other creditors	**2,944**	2,944

31. REMUNERATION OF DIRECTORS

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Remuneration as Executives	**495**	587
Payments for loss of office	**209**	1,662
Pension contributions	**4**	22
	708	2,271

The aggregate emoluments of the highest paid director were £340,000 in the year ended 31 December 2008 (year ended 31 December 2007: £194,000). There were no payments to defined contribution pension schemes in respect of Directors (2007: three Directors).

32. IMMEDIATE AND ULTIMATE HOLDING COMPANY

The Company's immediate parent is MWB Retail Stores Shareholder Limited, a company registered in England and Wales and which owns 68.3% of the Company's issued ordinary share capital. Consolidated financial statements are not produced by MWB Retail Stores Shareholder Limited. The Company's ultimate holding company is MWB Group Holdings Plc, which is registered in England and Wales and listed on the London Stock Exchange.

The only group in which the results of the Company are consolidated is that headed by MWB Group Holdings Plc. These consolidated financial statements of Liberty Plc are available to the public and may be obtained from its company secretary, Filex Services Limited at the Company's registered office of 179 Great Portland Street, London W1W 5LS.

Liberty Plc

(Incorporated and registered in England and Wales with registered number 3967671)

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Liberty Plc will be held on 18 June 2009 at the offices of Liberty Plc, 210-220 Regent Street, London W1B 5AH, commencing at 2.00pm, for the following purposes:

As Ordinary business, to consider and, if thought fit, pass the following resolutions which will be proposed as Ordinary Resolutions:

1. To adopt the financial statements of the Company for the year ended 31 December 2008, together with the Report of the Directors and the Report of the Auditors thereon.
2. To elect as a Director, P. Harris who retires in accordance with Article 79 of the Company's Articles of Association having been appointed a Director during the year.
3. To re-elect as a Director, J. Peggie who retires in accordance with Article 79 of the Company's Articles of Association.
4. To re-elect as a Director, J. W. Harrison who retires in accordance with Article 79 of the Company's Articles of Association.
5. To re-appoint KPMG Audit Plc to hold office as Auditors of the Company until the conclusion of the next Annual General Meeting at which financial statements for the Company are presented and to authorise the Directors to agree their remuneration.

As Special Business, to consider and, if thought fit, pass the following resolutions which will be proposed as Special Resolutions:–

6. THAT:

   the Directors be and they are hereby generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985) up to an aggregate nominal amount of £1,825,000 provided that this authority shall expire on the date of the next Annual General Meeting of the Company after the passing of this Resolution save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired;

7. The Directors be and they are hereby empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of the said Act) for cash pursuant to the authority conferred by paragraph (a) above as if Section 89 (1) of the said Act did not apply to any such allotment PROVIDED THAT this power shall be limited to:

   (i) the allotment of equity securities in connection with a rights issue in favour of holders of ordinary shares pro rata to their then existing shareholdings; and

   (ii) the allotment (otherwise than under sub-paragraph (i) above) of equity securities up to an aggregate nominal value of £280,000.

   and shall expire on the date of the next Annual General Meeting of the Company after passing of this Resolution save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry in pursuance of such an offer or agreement and the Directors may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

8. That the amended Article 73 of the Articles of Association in the form initialled by the Chairman of the meeting for the purposes of identification be adopted and included in the Articles of Association of the Company.
9. That in accordance with Section 239 of the Companies Act 2006, any conduct of the Directors that has arisen or may arise from or in connection with any Director acting as a Trustee of the Liberty Retail Plc Pension Scheme be and hereby is ratified, approved and confirmed.

By Order of the Board

Filex Services Limited
Secretary
19 May 2009

Registered Office:
179 Great Portland Street
London W1W 5LS

Note relating to Notice of Annual General Meeting
Commentary on the resolutions proposed at the Annual General Meeting is included on pages 18 and 19 of the Report of the Directors.

Notice of Annual General Meeting

Notes relating to voting entitlements and proxy form

1. A form of proxy is enclosed for your use. Further copies of the form of proxy may be obtained from the registered office of the Company.
2. Shareholders included on the register of shareholders (in relation to shares held in CREST, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001) at 6.00p.m. on 16 June 2009 will be entitled to attend and vote at the Annual General Meeting in respect of the number of shares registered in their name at that time. Changes to the register of members after that time will be disregarded in determining the rights of any person to attend or vote at the meeting.
3. A Member entitled to attend and vote at the Meeting convened by this Notice is entitled to appoint one or more proxies to attend, speak and vote in his or her stead. A proxy need not be a member of the Company. If a member wishes his proxy to speak on his behalf at the Meeting, he or she will need to appoint his own choice of proxy (who is not the Chairman) and give instructions directly to the proxy. The completion and return of a form of proxy will enable a shareholder to vote at the Annual General Meeting without having to be present at the General Meeting, but will not preclude him or her from attending the General Meeting and voting in person if he or she should subsequently decide to do so.
4. A member may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. A member may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, please sign and date the form of proxy and attach a schedule listing the names and addresses (in block letters) of all your proxies, the number of shares in respect of which each proxy is appointed (which, in aggregate, should not exceed the number of shares held by you) and indicating how you wish each proxy to vote or abstain from voting. If you wish to appoint the Chairman as one of your multiple proxies, insert “Chairman of the Meeting” in the box which is used to identify the name of the proxy on the relevant proxy card.
5. To be valid, the enclosed form of proxy must be lodged with the Company’s Registrars, Capita Registrars, not later than 48 hours before the time appointed for the holding of the General Meeting or at any adjournment thereof.
6. To appoint a proxy or to give or amend an instruction to a previously appointed proxy via the CREST system, the CREST message must be received by the issuer’s agent RA1 0. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer’s agent is able to retrieve the message. After this time any change of instructions to a proxy appointed through CREST should be communicated to the proxy by other means. CREST Personal Members or other CREST sponsored members, and those CREST Members who have appointed voting service providers, should contact their CREST sponsor or voting service providers for assistance with appointing proxies via CREST. For further information on CREST procedures, limitations and system timings, please refer to the CREST Manual. In all cases, for a proxy form via CREST to be valid, the CREST Voting Service Information must be received by the Company’s Registrars no later than 48 hours before the time appointed for the holding of the General Meeting. Liberty Plc may treat as invalid a proxy appointment sent by CREST in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
7. Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a “Nominated Person”) may, under an agreement between him/her and the Shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she, under any such agreement, has a right to give instructions to the Shareholder as to the exercise of voting rights.
8. The statement of the rights of Shareholders in relation to the appointment of proxies does not apply to Nominated Persons. The rights described in this regard can only be exercised by Shareholders of the Company.
9. In order to facilitate voting by corporate representatives at the Annual General Meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the chairman of the meeting as its corporate representative to vote on a poll in accordance with the directions of the all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the chairman and the chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives (www.icsa.org.uk) for further details of this procedure. The guidance includes a sample form of appointment letter if the chairman of the meeting is being appointed as described in (i) above.
10. In the case of joint registered holders, the signature of one holder will be accepted and the vote of the senior who tenders a vote, whether in person of proxy, shall be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority shall be determined by the order in which the names stand on the register of members in respect of the relevant joint holding.
11. The following documents will be available for inspection at the Company’s registered office, 30 City Road, London EC1Y 2AG during normal business hours on any weekday (Saturdays and public holidays excepted) from the date of this Notice until the date of the Annual General Meeting and at the place of the Annual General Meeting for 15 minutes prior to and during the Meeting:

    (i) the register of Directors’ interests in the shares of the Company;

    (ii) copies of service contracts of the Executive Directors and Letters of Appointment of the Non-Executive Directors of the Company; and

    (iii) The Articles of Association of the Company.

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Liberty Plc

210 Regent Street
London W1B 5AH
Tel: 020 7734 1234