

Holland & Barrett Retail Limited

Annual report and financial statements

Registered number 2758955

30 September 2016



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Directors and advisors

Directors

P. Aldis
C. Keen
M. Moran
K. Rowe
L. Garley-Evans

Company secretary

L. Garley-Evans

Registered office

Samuel Ryder House
Barling Way
Eliot Park
Nuneaton
Warwickshire
CV10 7RH

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Donington Court
Pegasus Business Park
Castle Donington
East Midlands
DE74 2UZ

Strategic Report

The directors present their strategic report on the Company for the year ended 30 September 2016.

Principal activities

Company

Holland & Barrett Retail Limited (“the Company”) packages, markets, retails, and wholesales a broad line of nutritional supplement products, including vitamins, minerals and herbal remedies, sports powders and drinks, as well as health food products which range from chilled and frozen to fruits, nuts, snacks and other items. In addition to this, the Company also earns income from overseas franchise operations.

As at 30th September 2016 the Company operates 715 health stores in the UK and 154 worldwide franchise outlets. Holland & Barrett Group Limited, a fellow group company, operates the Holland & Barrett website.

Business review and results

Company

The results of the Company show a profit on ordinary activities before taxation of £112.8m (2015: £128.1m) for the year and sales of £444.1m (2015: £424.7m). There has been a growth in sales of 4.6% in the year. The increase in the number of new stores has helped in achieving this growth. In the year to 30 September 2016 the company opened a further 27 new stores and 72 new franchises, helping to grow the store network.

Both the activity in the year and the year end financial position of the Company are considered to be extremely strong.

In March 2016, the Company entered in to a sale and leaseback agreement for land and property in Nuneaton, in order to facilitate expansion of the company’s headquarters.

In addition, on 5 May 2016, the company entered into a \$200,000,000 asset based, multi-currency revolving credit facility with Bank of America. This facility was part of a wider global refinancing program undertaken by the Company’s parent undertaking, The Nature’s Bounty Co. £138.2m was initially drawn in GBP Sterling and £8.2m was subsequently repaid in the year. The loan is repayable in 2021.

Transition to FRS 102

These are the Company’s first financial statements prepared in accordance with FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*. In the transition to FRS 102 from old UK GAAP, the Company has made measurement and recognition adjustments. An explanation of how the transition to FRS 102 has affected financial position and financial performance of the Company is provided in note 26 of these financial statements.

Business environment

The health store market is highly fragmented. There are estimated to be more than 1,000 independent health stores operating in the UK. Furthermore, there is increasing competition from the national supermarket chains and other retailers, such as chemists, drugstores and internet traders. The Company has differentiated itself from its mass market competitors by developing a specialist reputation, whilst at the same time offering high quality products at a low, value price.

Strategic report (continued)

Strategy

The Company is consistently delivering on its overriding objective which is to achieve attractive and sustainable rates of growth and returns through a combination of strategic acquisition and organic growth.

The key elements to the Company's strategy for growth are:

- **Our associates**

The calibre and training of our associates is paramount to the success of the Holland & Barrett model. The company invests heavily in its Natural Health Academy, which delivers the most comprehensive and well developed product training programs within the industry. This ensures that staff are able to offer the best possible customer service.

- **New products**

The Company has consistently been among the first in the industry to introduce innovative products in response to new studies, research and consumer preferences. Given the changing nature of consumer demand for new products and the continued publicity about the importance of nutritional supplements, the directors believe that the Company will continue to maintain its core customer base and attract new customers through its ability to respond rapidly to consumer demand. The wide range of products ensures that we continue to address the broad church of customers that are seeking a Healthy lifestyle.

- **New stores**

The Company continues its strategy of selectively expanding the number of stores located throughout the UK. The Company operates franchises in 10 countries and is continuing to open up new territories.

- **Promotions and marketing**

The Company runs regular promotional activity to give greater value to our customers. In conjunction with this, there is aggressive marketing of high quality, value-oriented products. The company also operates a "Rewards for Life" loyalty program with over 15.0m customers signed up and over 10.1m activated users. The program enables us to better service the Customers' needs as well as deliver additional value to them by way of quarterly coupons.

- **Technology**

The Company is continuing to invest in new technologies to make it a truly omni channel business.

As a result, the directors remain confident that the current level of performance will be maintained or improved in the future.

Strategic report (continued)

Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks. Risks are formally reviewed by the Board and appropriate processes put in place to monitor and mitigate them.

The key business risks affecting the Company are set out below:

- **Associates** - The Company's performance is highly dependent upon retaining and recruiting high calibre associates. The resignation of key individuals and the inability to recruit retail staff with the necessary experience and skills could adversely impact upon the Company's results. To mitigate these issues, the Company has implemented incentive schemes designed to retain key individuals and has created a training academy for the development of its retail staff.
- **Legislation** - The industry and the products sold by the Company are increasingly subject to regulation, much of which applies throughout the European Union. The Company devotes considerable resources to campaigning in respect of proposed legislative changes, ensuring that products are safe and consumer choices are preserved. The Company also ensures that it is at the forefront of the industry when new legislation is introduced.
- **Competition** - The Company operates in a highly competitive market, particularly in respect of price. In order to mitigate this, market prices are monitored on an on-going basis and regular promotional activity is undertaken. There is also a continual evaluation of product range and space management.


Key performance indicators

Management consider a broad range of retail metrics when operating the business. The key performance measures are detailed below:

	2016 £000	2015 £000
Turnover	444,127	424,662
Gross profit	290,033	279,770
Gross profit percentage	65.3 %	65.8 %
Operating profit	108,263	122,748
New stores (owned and franchise)	99	53

The Company also monitors the average footfall per store, average items per basket and the average transaction value on a regular basis.

Approved by the Board of Directors and signed on behalf of the Board.


P Aldis
Chief Executive Officer

24 May 2017

Directors' report

The directors present their report and the audited financial statements of the Company for the year ended 30 September 2016.

Future developments

The objective of the Company's management team is to continue to produce market leading performance within the brand, through expansion in the UK store estate; development of the H&B brand online (reported in Holland & Barrett Group Limited's financial statements) and the further development of international markets through franchising.

The Company will continue to strive to remain the industry leader in introducing innovative products in response to new studies, research and consumer preferences thus ensuring the wide range of products offered continue to address evolving customer demand.

Financial risk management

The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. The main financial risk arises from currency and interest bearing loans.

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and the Euro. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Company's management team and directors continually monitor the position of the Company.

The Company's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk. The Company maintain a mixture of variable and fixed rate borrowings and continually monitors the position.

Dividend

Dividends of £158,210,314 (2015: £42,175,033) equating to £150.68 (2015: £40.17) per ordinary share were paid during the year to Holland & Barrett Holdings Limited as follows:

- 5 May 2016 £138,210,314
- 29 September 2016 £20,000,000

Directors

The directors who held office during the year and up to the date of signing of the financial statements, unless otherwise stated, were as follows:

P. Aldis
R. Craddock (retired 30 September 2016)
L. Hardy (resigned 19 August 2016)
C. Keen
M. Kendrick (retired 30 September 2016)
C. McMenemie (resigned 29 February 2016)
M. Moran
K. Rowe
L. Garley-Evans (appointed 30 September 2016)

Post balance sheet event

Dividends of £19,000,000 were approved by the directors and paid to Holland & Barrett Holdings Limited on 3 October 2016.

Directors' report (continued)

Political and charitable donations

The Company made charitable donations to UK based organisations of £101,375 (2015: £107,236). The group also has a charitable company, Healthy Hope Limited, from which donations are made. No political contributions were made during the year (2015: £nil).

Employees

The Company has developed and maintained arrangements whereby employees are consulted and provided with information about current activities and progress within the group and with training to improve the operational efficiency of the Company.

The Company supports the employment of disabled people wherever possible, through recruitment, by retention of those who become disabled during their employment and generally through training, career development and promotion, having regard to their particular aptitudes and abilities.

It is Company policy to provide equal opportunities without regard to race or national origin, sex or sexual orientation, religion or religious beliefs or disability status.

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of their business units and of the Company as a whole. Communication with all employees continues through the in-house newspaper and newsletters, briefing groups and the distribution of the annual report.

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising Financial Reporting Standard 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland (FRS 102), and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 102 used in the preparation of financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' report *(continued)*

Statement of disclosure of information to auditors

In accordance with Section 418 of the Companies Act 2006, in the case of each director in office at the date the Directors' Report is approved:

(a) so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

(b) he/she has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

Approved by the Board of Directors and signed on behalf of the Board.

P Aldis
Chief Executive Officer

24 May 2017

Independent auditors' report to the members of Holland and Barrett Retail Limited

Report on the financial statements

Our opinion

In our opinion, Holland and Barrett Retail Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 30 September 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the annual report and financial statements (the "Annual Report"), comprise:

- the balance sheet as at 30 September 2016;
- the profit and loss account for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the Strategic Report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.
- we have no exceptions to report arising from this responsibility.

Auditors' report (*continued*)

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



David Teager (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
East Midlands

24 May 2017

Profit and Loss Account
for the year ended 30 September 2016

	<i>Note</i>	2016	2015
		£000	(restated) £000
Turnover	2	444,127	424,662
Cost of sales		(154,094)	(144,892)
		<hr/>	<hr/>
Gross profit		290,033	279,770
Distribution costs	3	(163,695)	(149,167)
Administrative expenses	3	(24,466)	(22,173)
Impairment of intercompany receivable	4	(1,753)	-
Other operating income	7	8,144	14,318
		<hr/>	<hr/>
Operating profit		108,263	122,748
Other interest receivable and similar income	8	7,082	6,001
Interest payable and similar charges	9	(2,522)	(598)
		<hr/>	<hr/>
Profit on ordinary activities before taxation		112,823	128,151
Tax on profit on ordinary activities	10	(22,873)	(21,302)
		<hr/>	<hr/>
Profit for the financial year		89,950	106,849
		<hr/>	<hr/>

All activity derives from continuing operations.

The Company has no recognised gains and losses other than those above and therefore no separate statement of other comprehensive income has been presented.

For details on the restatement of 2015 comparatives, refer to note 27.

There is no material difference between the profit on ordinary activities before taxation and the profit for the financial years stated above and their historical cost equivalents.

The notes on pages 13 to 30 form an integral part of these financial statements.

Balance Sheet
as at 30 September 2016

	Note	2016	2015 (restated)
		£000	£000
Fixed assets			
Goodwill and intangible assets	11	22,717	13,971
Tangible assets	12	107,032	92,449
Investments	13	-	-
		<u>129,749</u>	<u>106,420</u>
Current assets			
Stocks	14	92,060	88,334
Debtors	15	968,560	759,229
Cash at bank and in hand		10,347	17,096
		<u>1,070,967</u>	<u>864,659</u>
Creditors: amounts falling due within one year	16	<u>(759,037)</u>	<u>(596,927)</u>
Net current assets		<u>311,930</u>	<u>267,732</u>
Total assets less current liabilities		<u>441,679</u>	<u>374,152</u>
Creditors: amounts falling due after more than one year	17	<u>(189,452)</u>	<u>(53,665)</u>
		<u>(189,452)</u>	<u>(53,665)</u>
Net assets		<u>252,227</u>	<u>320,487</u>
Capital and reserves			
Called up share capital	21	1,050	1,050
Profit and loss account		251,177	319,437
Total shareholders' funds		<u>252,227</u>	<u>320,487</u>

For details on the restatement of 2015 comparatives, refer to note 27.

These financial statements were approved by the board of directors on 24 May 2017 and were signed on its behalf by:



C Keen
Chief Financial Officer

Company registered number: 2758955

The notes on pages 13 to 30 form an integral part of these financial statements.

Statement of Changes in Equity
for the year ended 30 September 2015

	Called up share capital	Profit and loss account	Total Shareholders' funds
	£000	£000	£000
Balance as at 1 October 2014	1,050	254,763	255,813
Total comprehensive income for the year			
Profit for the financial year	-	106,849	106,849
Transactions with owners, recorded directly in equity			
Equity-settled share based payment transactions	-	156	156
Re-charge from ultimate parent undertaking in respect of share based payments	-	(156)	(156)
Dividends	-	(42,175)	(42,175)
Total contributions by and distributions to owners	-	(42,175)	(42,175)
Balance as at 30 September 2015	1,050	319,437	320,487
Balance as at 1 October 2015	1,050	319,437	320,487
Total comprehensive income for the year			
Profit for the financial year	-	89,950	89,950
Transactions with owners, recorded directly in equity			
Equity-settled share based payment transactions	-	130	130
Re-charge from ultimate parent undertaking in respect of share based payments	-	(130)	(130)
Dividends	-	(158,210)	(158,210)
Total contributions by and distributions to owners	-	(158,210)	(158,210)
Balance as at 30 September 2016	1,050	251,177	252,227

Notes

(forming part of the financial statements)

1 Accounting policies

Holland & Barrett Retail Limited (the "Company") is a company limited by shares and incorporated and domiciled in the UK.

The Company is exempt by virtue of s401 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

1.1 Statement of compliance

These financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland ("*FRS 102*") as issued in August 2014. The amendments to FRS 102 issued in July 2015 and effective immediately have been applied.

1.2 Basis of preparation

In the transition to FRS 102 from old UK GAAP, the Company has made measurement and recognition adjustments. An explanation of how the transition to FRS 102 has affected financial position and financial performance of the Company is provided in note 27.

FRS 102 grants certain first-time adoption exemptions from the full requirements of FRS 102. The following exemptions have been taken in these financial statements:

- Business combinations – Business combinations that took place prior to 1 October 2014 have not been restated.

The company is included within the consolidated financial statements of Holland and Barrett International Limited. The consolidated financial statements of Holland and Barrett International Limited are prepared in accordance with EU-IFRS and are publically available. In these financial statements, the company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the period;
- Cash Flow Statement and related notes; and
- Key Management Personnel compensation.

As the consolidated financial statements of Holland and Barrett International Limited include the equivalent disclosures, the Company has also taken the exemptions under FRS 102 available in respect of the following disclosures:

- Certain disclosures required by FRS 102.26 *Share Based Payments*; and,
- The disclosures required by FRS 102.11 *Basic Financial Instruments* and FRS 102.12 *Other Financial Instrument Issues* in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements. The Company's presentation and functional currency is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 24.

1.3 Measurement convention

The financial statements are prepared on the historical cost basis.

Notes (continued)

1 Accounting policies (continued)

1.4 Going concern

Having regard to the current financial position and future plans for the business, the directors do not believe that a material uncertainty exists that may cast significant doubt about the ability of the company to continue as a going concern. Thus, the directors continue to adopt the going concern basis of accounting in preparing the annual financial statements.

1.5 Foreign currency

Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the profit and loss account.

1.6 Classification of financial instruments issued by the Company

Ordinary share capital issued by the Company is classified as equity.

1.7 Basic financial instruments

Financial assets

Basic financial assets include trade and other debtors, cash and bank balances and amounts owed by group undertakings recognised initially at transaction price. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Financial liabilities

Basic financial liabilities include trade and other payables and amounts owed to group undertakings recognised initially at transaction price. Subsequent to initial recognition they are measured at amortised cost using the effective interest method. Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

Interest-bearing borrowings classified as basic financial instrument are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method.

Investments in subsidiaries

These are separate financial statements of the company. Investments in subsidiaries are carried at cost less impairment.

1.8 Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing location and condition. In the case of manufactured stocks and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

1.9 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases. Leased assets acquired by way of finance lease are stated on initial recognition at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, including any incremental costs directly attributable to negotiating and arranging the lease. At initial recognition a finance lease liability is recognised equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The present value of the minimum lease payments is calculated using the interest rate implicit in the lease. Lease payments are accounted for as described at 1.13 below.

The company assesses at each reporting date whether tangible fixed assets (including those leased under a finance lease) are impaired.

Notes (continued)

1 Accounting policies (continued)

1.9 Tangible fixed assets (continued)

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are as follows:

- freehold buildings 25 years
- fixtures and fittings 5 -10 years

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits.

Assets in the course of construction are stated at cost and are not depreciated until they are ready for use.

1.10 Business combinations

Business combinations are accounted for using the purchase method as at the acquisition date, which is the date on which control is transferred to the company.

At the acquisition date, the company recognises goodwill at the acquisition date as:

- the fair value of the consideration (excluding contingent consideration) transferred; plus
- estimated amount of contingent consideration (see below); plus
- the fair value of the equity instruments issued; plus
- directly attributable transaction costs; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities and contingent liabilities assumed.

FRS 102.35 grants certain exemptions from the full requirements of FRS 102 in the transition period. The Company elected not to restate business combinations that took place prior to 1 October 2014. In respect of acquisitions prior to 1 October 2014, goodwill is included on the basis of its deemed cost, which represents the amount recorded under old UK GAAP. Intangible assets previously included in goodwill, are not recognised separately.

1.11 Goodwill and intangible assets

Goodwill

Goodwill is stated at cost less any accumulated amortisation and accumulated impairment losses.

Other intangible assets

Other intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and less accumulated impairment losses.

Amortisation

Amortisation is charged to the profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- software costs 5 -10 years

The basis for choosing these useful lives is based on its useful economic life.

Goodwill is amortised on a straight line basis over its useful life. Goodwill has no residual value. The finite useful life of goodwill is estimated to be 10 – 20 years

The company reviews the amortisation period and method when events and circumstances indicate that the useful life may have changed since the last reporting date.

Goodwill and other intangible assets are tested for impairment in accordance with Section 27 Impairment of assets when there is an indication that goodwill or an intangible asset may be impaired.

Notes (continued)

1 Accounting policies (continued)

1.12 Impairment excluding stocks, and deferred tax assets

Financial assets

Financial assets are assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than stocks and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater 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 that cannot be tested individually 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"). An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. An impairment loss is reversed if and only if the reasons for the impairment have ceased to apply.

1.13 Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

Share-based payment transactions

Where the Company is part of a group share-based payment plan, it recognises and measures its share-based payment expense on the basis of a reasonable allocation of the expense recognised for the group. Amounts recharged by the parent are recognised as a recharge liability with a corresponding debit to equity. Further information can be found in the consolidated accounts of The Nature's Bounty Co.

1.14 Turnover

All turnover originates from United Kingdom operations.

Retail sales

The Company operates retail stores for the sale of health food products. Turnover represents sales to external customers at invoiced amounts less value added tax or local taxes and discounts. Turnover is recognised at the point of sale or despatch of the goods.

Franchise income

In certain locations the Company has franchised its brand to third parties. Royalties and fees charged for the use of the rights granted by the agreement and related services are recognised as revenue as the rights are used and the services are provided.

Notes (continued)

1 Accounting policies (continued)

Deferred income

The Group operates a loyalty programme where customers accumulate points for purchases made which entitle them to discounts on future purchases. The reward points are recognised as a separately identifiable component of the initial sale transaction, by allocating the fair value of the consideration received between the award points and the other components of the sale such that the reward points are initially recognised as deferred income at their fair value. Revenue from the reward points is recognised when the points are redeemed.

1.15 Commercial income

There are two types of commercial income recognised by the company;

Volume based rebates

Income is earned by achieving volume or spend targets set by the supplier over a specific period of time. Income is recognised through the year based on actual sale performance and the terms of the supplier agreements. Income is invoiced throughout the year in accordance with the specific supplier terms. Income is recognised as a reduction to the cost of goods sold.

Marketing and advertising funding

Income is earned in respect of in-store point of sale marketing and promotions. Income is invoiced throughout the year in accordance with the specific supplier terms. Income is recognised as a reduction to the cost of goods sold during the promotional period.

1.16 Leases

Operating lease

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

Finance lease

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability using the rate implicit in the lease. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

1.17 Interest receivable and interest payable

Interest payable and similar charges include interest payable and finance charges on finance leases recognised in profit or loss as they accrue using the effective interest method.

Other interest receivable and similar income include interest receivable on funds invested recognised in profit or loss as they accrue using the effective interest method.

1.18 Taxation

Tax on the profit or loss for the year comprises current and deferred tax recognised in the profit and loss account.

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

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Notes (continued)

1 Accounting policies (continued)

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

1.19 Sale and leaseback

Where a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, the seller-lessee recognises any profit or loss immediately. Where the sale price is below fair value, the seller-lessee shall recognise any profit or loss immediately unless the loss is compensated for by future lease payments at below market price. In that case the seller-lessee shall defer and amortise such loss in proportion to the lease payments over the period for which the asset is expected to be used. Where the sale price is above fair value, the seller-lessee shall defer the excess over fair value and amortise it over the period for which the asset is expected to be used.

2 Turnover

	2016 £000	2015 £000
<i>Analysis of turnover by activity:</i>		
Retail sales	431,991	408,696
Franchise and wholesale income	12,136	15,966
	<u>444,127</u>	<u>424,662</u>

All turnover is generated in the United Kingdom.

3 Expenses and auditors' remuneration

Included in profit/loss are the following:

	2016 £000	2015 £000
Impairment loss on inventories	7,396	6,040
Depreciation of tangible fixed assets	11,326	8,745
Amortisation and impairment on intangible assets	2,591	1,728
Loss on disposal of fixed assets	825	882
Foreign exchange losses	1,749	965
Operating lease rentals:		
- Plant and machinery	2,163	1,906
- Land and buildings	48,909	44,523
	<u>64,533</u>	<u>57,981</u>

Auditors' remuneration:

	2016 £000	2015 £000
Audit of these financial statements	78	78

Amounts receivable by the Company's auditors and its associates in respect of services to the Company and its associates, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis in the consolidated financial statements of Holland and Barrett International Limited.

Notes (continued)

4 Impairment of intercompany receivable

The charge represents an impairment of intercompany receivables due from a fellow group subsidiary in the year.

5 Staff numbers and costs

The monthly average number of persons employed by the Company (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2016	2015
Administration	371	352
Retail	4,183	3,647
Distribution	332	322
	<u>4,886</u>	<u>4,321</u>

The aggregate payroll costs of these persons were as follows:

	2016 £000	2015 £000
Wages and salaries	61,960	56,415
Social security costs	4,385	4,090
Share based payments (See note 19)	130	156
Contributions to defined contribution plans	834	687
	<u>67,309</u>	<u>61,348</u>

6 Directors' remuneration

	2016 £000	2015 £000
Directors' remuneration	3,416	2,514
Company contributions to money purchase pension plans	230	267
	<u>3,646</u>	<u>2,781</u>

The aggregate of remuneration of the highest paid director was £833,000 (2015: £684,000), and company pension contributions of £29,000 (2015: £40,000) were made to a money purchase scheme on his behalf.

As at 30 September 2016 retirement benefits were accruing to one (2015: one) directors under the group's defined contribution pension scheme. During the year no (2015: no) directors exercised share options in The Nature's Bounty Co.

7 Other operating income

	2016 £000	2015 £000
Royalties from group undertakings	<u>8,144</u>	<u>14,318</u>

Notes (continued)

8 Other interest receivable and similar income

	2016 £000	2015 £000
Interest receivable from group undertakings	6,984	5,776
Bank interest	98	225
	<hr/>	<hr/>
Total interest receivable and similar income	7,082	6,001
	<hr/>	<hr/>

9 Interest payable and similar charges

	2016 £000	2015 £000
Interest payable on bank loans	1,189	-
Interest payable to group undertakings	279	366
Finance leases	1,031	185
Others	23	47
	<hr/>	<hr/>
Total interest payable and similar charges	2,522	598
	<hr/>	<hr/>

Notes (continued)

10 Tax on profit on ordinary activities

Total tax expense recognised in the profit and loss account

	2016 £000	2016 £000	2015 £000	2015 £000
<i>Current tax</i>				
Current tax on income for the period	19,717		23,563	
Adjustments in respect of prior periods	561		(942)	
	<hr/>		<hr/>	
Total current tax		20,278		22,621
<i>Deferred tax</i>				
Origination and reversal of timing differences	3,049		(841)	
Change in tax rate	(81)		-	
Adjustments in respect of prior years	(373)		(217)	
FRS 102 transition	-		(261)	
	<hr/>		<hr/>	
Total deferred tax		2,595		(1,319)
		<hr/>		<hr/>
Total tax		22,873		21,302
		<hr/>		<hr/>

Reconciliation of effective tax rate

	2016 £000	2015 £000
Profit for the financial year	89,950	106,849
Total tax expense in the profit or loss	22,873	21,302
	<hr/>	<hr/>
Profit excluding taxation	112,823	128,151
Tax using the UK corporation tax rate of 20.0 % (2015: 20.5%)	22,566	26,271
Reduction in tax rate on deferred tax balances	(81)	24
Non-deductible expenses	1,939	171
Effect of group/other reliefs	(1,730)	(3,105)
Transfer pricing adjustments	(9)	1
Gain on sale of property held over	-	(900)
Adjustments in respect of prior years	188	(1,160)
	<hr/>	<hr/>
Total tax expense included in profit or loss	22,873	21,302
	<hr/>	<hr/>

Factors affecting current and future tax charges

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2015 (on 26 October 2015) and Finance Bill 2016 (on 7 September 2016). These include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

Notes (continued)

11 Goodwill and intangible assets

	Goodwill £000	Software costs £000	Total £000
Cost			
Balance at 1 October 2015 (restated)	668	16,319	16,987
Additions – internally developed	-	6,940	6,940
Additions – externally purchased	-	4,243	4,243
Intergroup transfers	-	154	154
	<hr/>	<hr/>	<hr/>
Balance at 30 September 2016	668	27,656	28,324
	<hr/>	<hr/>	<hr/>
Amortisation and impairment			
Balance at 1 October 2015	325	2,691	3,016
Amortisation for the year	33	2,558	2,591
	<hr/>	<hr/>	<hr/>
Balance at 30 September 2016	358	5,249	5,607
	<hr/>	<hr/>	<hr/>
Net book value			
At 30 September 2015	343	13,628	13,971
	<hr/>	<hr/>	<hr/>
At 30 September 2016	310	22,407	22,717
	<hr/>	<hr/>	<hr/>

Amortisation

The amortisation, charge is recognised in the following line items in the profit and loss account:

	2016 £000	2015 £000
Distribution costs	2,591	1,728
	<hr/>	<hr/>

For details on the restatement of 2015 comparatives, refer to note 27.

Notes (continued)

12 Tangible fixed assets

	Freehold land and buildings £000	Fixtures and fittings £000	Total £000
Cost			
Balance at 1 October 2015	36,570	97,828	134,398
Additions	5,279	25,467	30,746
Disposals	(4,684)	(3,000)	(7,684)
Intergroup transfers	-	79	79
	<hr/>	<hr/>	<hr/>
Balance at 30 September 2016	37,165	120,374	157,539
	<hr/>	<hr/>	<hr/>
Depreciation and impairment			
Balance at 1 October 2015	1,163	40,786	41,949
Depreciation charge for the year	1,221	10,105	11,326
Disposals	(808)	(1,979)	(2,787)
Intergroup transfers	-	19	19
	<hr/>	<hr/>	<hr/>
Balance at 30 September 2016	1,576	48,931	50,507
	<hr/>	<hr/>	<hr/>
Net book value			
At 1 October 2015	35,407	57,042	92,449
	<hr/>	<hr/>	<hr/>
At 30 September 2016	35,589	71,443	107,032
	<hr/>	<hr/>	<hr/>

Included within freehold land and buildings is land of £Nil (2015: £925,000) which is not depreciated.

Leased plant and machinery

At 30 September 2016 the net carrying amount of freehold buildings leased under a finance lease was £38,038,000 (2015: £31,182,000). The leased asset secures lease obligations (see note 17).

13 Investments

Company

Shares in
group
undertakings
£000

Cost and net book value

At the beginning and end of the year

The Company has the following investments in subsidiaries:

	Country of incorporation	Class of shares held	Ownership 2016 %	Ownership 2015 %
Holland & Barrett (South Africa) Limited (*)	United Kingdom	Ordinary	100%	100%
Lifecycle Limited (*)	United Kingdom	Ordinary	100%	100%
Neal's Yard Wholefoods Limited (*)	United Kingdom	Ordinary	100%	100%
Beaumont Health Stores Limited (*)	United Kingdom	Ordinary	100%	100%
Holland & Barrett Limited (*)	United Kingdom	Ordinary	100%	100%
Hillstart Limited	United Kingdom	Ordinary	100%	100%
Nature's Way Limited (UK)	United Kingdom	Ordinary	100%	100%

(*) – Directly held by Holland & Barrett Retail Limited.

Subsequent to the year end, Beaumont Health Stores Limited, Hillstart Limited and Nature's Way Limited (UK) have been struck off.

Notes (continued)

14 Stocks

	2016 £000	2015 £000
Raw materials	8,586	9,045
Finished goods	83,474	79,289
	<u>92,060</u>	<u>88,334</u>

Raw material and changes in finished goods recognised as cost of sales in the year amounted to £151.8m (2015: £145.0m). The write-down of stocks to net realisable value amounted to £565,000 (2015: £278,000); the write down is included within cost of sales.

15 Debtors

	2016 £000	2015 (restated) £000
<i>Amounts falling due within one year:</i>		
Trade debtors	2,515	7,908
Amounts owed by group undertakings	942,792	732,495
Deferred tax assets (see note 18)	177	2,138
Prepayments and accrued income	21,909	16,688
Reclaimable VAT	1,167	-
	<u>968,560</u>	<u>759,229</u>

Amounts owed by group undertakings are unsecured, have no fixed date of repayment and are repayable on demand. Amounts owed by Nature's Bounty Company Limited, Holland & Barrett B.V. and Vita Health Products Inc. of £44.0m (2015: £32.1m) are charged interest at commercial rates, whilst no interest is charged to other group companies.

For details on the restatement of 2015 comparatives, refer to note 27.

Notes (continued)

16 Creditors: amounts falling due within one year

	2016	2015 (restated)
	£000	£000
Trade creditors	48,220	51,850
Amounts owed to group undertakings	669,885	494,292
Other taxation and social security	3,099	7,888
Corporation tax payable	10,212	12,548
Deferred tax liability (see note 18)	634	-
Other creditors	755	1,109
Obligations under finance leases (see note 17)	775	659
Accruals and deferred income	25,457	28,581
	<u>759,037</u>	<u>596,927</u>

Amounts owed to group undertakings are unsecured, have no fixed date of repayment and are repayable on demand.

Amounts owed to Health & Diet Centres Limited and Holland & Barrett Limited of £24.4m (2015: £24.9m) are charged interest at commercial rates, whilst no interest is charged by other group undertakings.

Outstanding pension contributions at the balance sheet date were £85,000 (2015: £85,000).

17 Creditors: amounts falling after more than one year

	2016	2015 (restated)
	£000	£000
Secured bank loans (see note 17)	130,010	-
Obligations under finance leases (see note 17)	34,890	30,594
Amounts owed to group undertakings	6,300	6,300
Deferred income	18,252	16,771
	<u>189,452</u>	<u>53,665</u>

Amounts owed to group undertakings are unsecured and have no fixed date of repayment. Interest is charged on the above amount of £6.3m (2015: £6.3m) owed to Precision Engineered Limited at a commercial rate.

For details on the restatement of 2015 comparatives, refer to note 27.

Notes (continued)

18 Interest bearing loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost.

	2016 £000	2015 £000
Creditors falling due within one year		
Finance lease liabilities	775	659
Creditors falling due after more than one year		
Secured bank loans	130,010	-
Finance lease liabilities	34,890	30,594
	164,900	30,594

Bank loans are secured against the assets of the Company.

Terms and repayment schedule

	Currency	Nominal interest rate	Year of maturity	Repayment schedule	2016 £000	2015 £000
Secured bank loan	USD	LIBOR + 1.75%	2021	Upon maturity	130,010	-
Finance lease liabilities	GBP	2.5 - 3%	2045	Monthly	35,665	31,253
					165,675	31,253

On 5th May 2016 Holland and Barrett Retail Limited entered into a \$200,000,000 (£138.2m) asset based revolving credit facility with Bank of America. This facility was part of a wider global refinancing program undertaken by the company's parent undertaking, The Nature's Bounty Co. £8.2m was subsequently repaid, during the year.

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum lease payments 2016 £000	Minimum lease payments 2015 £000
Less than one year	1,893	1,587
Between one and five years	7,574	6,349
In more than five years	44,069	39,376
Total gross payments	53,536	47,312
Less: finance charges	(17,871)	(16,059)
	35,665	31,253

Finance leases are secured on the assets to which they relate to.

Notes (continued)

19 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2016	2015	2016	2015	2016	2015
	£000	£000	£000	£000	£000	£000
Accelerated capital allowances	-	465	-	-	-	465
Other timing differences	177	1,673	(634)	-	(457)	1,673
	<u>177</u>	<u>2,138</u>	<u>(634)</u>	<u>-</u>	<u>(457)</u>	<u>2,138</u>
Net tax assets/(liabilities)	177	2,138	(634)	-	(457)	2,138

20 Employee benefits

Defined contribution plans

The Company operates a number of defined contribution pension plans.

The total expense relating to these plans in the current year was £834,000 (2015: £687,000).

Share based payments

The company is a member of a group share-based payment plan, and it recognises and measures its share-based payment expense on the basis of a reasonable allocation of the expense recognised for the group. During the year the company recognised a charge to £130,000 (2015: £156,000) to the profit and loss in respect of equity settled share based payments.

21 Capital and reserves

Called up share capital

	2016	2015
	£000	£000
<i>Allotted, called up and fully paid</i>		
1,050,000 ordinary shares of £1 each	1,050	1,050

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Dividends

	2016	2015
	£000	£000
Dividends paid of £150.68 (2015: £40.17) per ordinary share	158,210	42,175

Notes (continued)

22 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	Land and buildings		Others	
	2016	2015	2016	2015
	£000	£000	£000	£000
Less than one year	48,054	44,629	1,947	488
Between one and five years	158,322	148,712	5,491	56
More than five years	141,629	133,054	-	-
	<u>348,005</u>	<u>326,395</u>	<u>7,438</u>	<u>544</u>

During the year £51.0m was recognised as an expense in the profit and loss account in respect of operating leases (2015: £46.4m).

23 Commitments

Capital commitments

The Company's contractual commitments to purchase tangible fixed assets at the year-end were £10.5m (2015: £18.8m).

24 Related parties

The Company has transacted in the year with related parties (being subsidiaries and other members of the wider Nature's Bounty Co. group). As all such related parties transacted with are wholly owned members of the wider group, the Company has taken advantage of FRS 102 33.11 from disclosing transactions with such fellow Group members.

25 Accounting estimates and judgements

The key assumptions concerning the areas of uncertainty at the balance sheet date which have a significant risk of causing a material adjustment to carrying amounts are:

Recoverability of amounts owed by group undertakings

The recoverability of amounts owed by group undertakings are assessed at each balance sheet date based upon forecast cash flows of the businesses. Provisions are made where recoverability is not deemed probable.

Valuation of stock

The Company has a formal policy for making provisions for stock to ensure they are stated at the lower of cost and net realisable value.

Tangible fixed assets valuation

The useful economic lives and residual values of tangible fixed assets are estimated based on economic utilisation and physical condition of the assets and are amended when necessary, resulting in changes to the annual depreciation charge. The Company considers whether tangible fixed assets are impaired and where an indication of impairment is identified the company performs impairment tests based on fair value less costs to sell or a value in use calculation. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction in similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The amount and timing of the cash flows and the discount rate used in the model require management's judgement.

Notes (continued)

26 Ultimate parent company and parent company of larger group

The immediate parent undertaking is Holland & Barrett Holdings Limited, a company incorporated in England and Wales. The Company's ultimate parent undertaking and controlling party is The Carlyle Group, a company incorporated in the United States of America.

The only group of publically available financial statements in which the results of the company are consolidated is that prepared by Holland and Barrett International Limited and incorporated in the UK.

Copies of Holland and Barrett International Limited's consolidated accounts may be obtained from the registrar of Companies, Companies House, Crown Way, Cardiff.

27 Explanation of transition to FRS 102 from old UK GAAP

As stated in note 1, these are the Company's first financial statements prepared in accordance with FRS 102.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 30 September 2016 and the comparative information presented in these financial statements for the year ended 30 September 2015.

In preparing its FRS 102 balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to FRS 102 has affected the Company's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

Reconciliation of profit and equity from old GAAP to FRS 102

	Note	Profit for the year ended 30 September 2015 £000	Equity as at 30 September 2015 £000	Equity as at 1 October 2014 £000
Amount under old GAAP		107,893	326,567	260,849
Lease incentives	a	(1,305)	(7,600)	(6,295)
Lease incentives – associated deferred tax asset	a	261	1,520	1,259
Amount under FRS 102		106,849	320,487	255,813

Notes to the reconciliation of profit and equity

- a) Lease incentives spread over the lease term rather than the period to the first market rent review.

Other Adjustments arising on transition to FRS 102

In addition to the transition adjustments identified above which affect profit for the financial year the following adjustments have arisen which have had no effect on net equity or profit and loss account but which have affected the presentation of these items on the balance sheet. The main items are:

- 1) Software costs with a net book value of £13.6m as at 30 September 2015 (2014: £14.7m) have been reclassified from tangible fixed assets to intangible fixed assets.

Notes (continued)

27 Explanation of transition to FRS 102 from old UK GAAP (continued)

Correction of prior period

In addition to the transition adjustments identified above which affect profit for the financial year the following prior period adjustments have arisen which have had no effect on net equity or net profit but which have affected the presentation of these items in both the balance sheet and profit and loss account. The main items are:

- 1) Incorrect recognition of prepaid rent and rates which has resulted in the overstatement of prepayments, as at 30 September 2015, by £8.1m with a corresponding overstatement of trade creditors. There is no net impact on reported profit for the year ended 30 September 2015.
- 2) Incorrect recognition of lease incentives which has resulted in the overstatement of prepayments, as at 30 September 2015, by £2.9m with a corresponding overstatement of other creditors. There is no net impact on reported profit for the year ended 30 September 2015.
- 3) A review of the commercial income of £17.6m has identified that it is more accurately disclosed within cost of sales rather than distribution costs.
- 4) A review of the royalty income of £14.3m has identified that it is more accurately disclosed within other operating income than other interest and similar income.