Holland & Barrett Retail Limited

Annual report and financial statements

Registered number 2758955

30 September 2017

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Directors and advisors

Directors
C. Keen
L. Garley-Evans
H. Leam
A. Torrance

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 2017.

Principal activities

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 30 September 2017 the Company operates 747 health stores in the UK, 104 worldwide franchise outlets and 607 worldwide store in store concept. Holland & Barrett Group Limited, a fellow group company, operates the Holland & Barrett website.

Acquisition by LetterOne

On 31 August 2017, the group headed by Holland & Barrett International Limited, including the Company, was acquired by LetterOne through its retail division, L1 Retail, for consideration of £1.74 billion.

Business review and results

The results of the Company show sales of £461.4m *(2016: £444.1m)* and a profit before taxation of £81.8m *(2016: £112.8m)* for the year. This includes exceptional items of £18.7m *(2016: £nil)* in respect of the acquisition; excluding this, profit before taxation would have been £100.5m *(2016: £112.8m).* There has been a growth in sales of 3.9% in the year. The increase in the number of new stores has helped in achieving this growth. In the year to 30 September 2017 the company opened a further 32 new stores, 3 new franchises and 554 store in store concept, helping to grow the store network.

The profit and loss account is set out on page 10 and the balance sheet on page 11. Both the activity in the year and the year end financial position of the Company are considered to be strong, and the directors expect that the present level of activity will be sustained for the foreseeable future.

In May 2017, the Company entered into a sale and leaseback agreement for the extension building constructed at the Company's headquarters in Nuneaton.

In the preceding financial year, the Company entered into a $200,000,000 asset based, multi-currency revolving credit facility with Bank of America. The loan was repaid in full as part of LetterOne's acquisition of the group headed by Holland & Barrett International Limited on 31 August 2017.

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.

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.

Strategic report *(continued)*

Strategy *(continued)*

- 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 13 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 17.7m customers signed up and over 12.3m 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.

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.

Strategic report *(continued)*

Key performance indicators

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

	2017	2016
	£000	£000
Turnover	**461,408**	444,127
Gross profit	**295,945**	290,033
Gross profit percentage	**64.1%**	65.3%
Operating profit	**80,374**	108,263
New stores (owned and franchise)	**35**	99
EBITDA before exceptional items*	**115,997**	122,180
EBITDA	**97,149**	122,180

* Adjusted for exceptional items of £18.7m *(£2016: nil)* see (note 8)

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.

C Keen
Chief Financial Officer
27 February 2018

Directors' report

The directors present their report and the audited financial statements of the Company for the year ended 30 September 2017.

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 £48,147,966 *(2016: £158,210,314)* equating to £45.86 *(2016: £150.68)* per ordinary share were paid during the year to Holland & Barrett Holdings Limited as follows:

- 3 October 2016 £19,000,000
- 31 March 2017 £4,863,477
- 31 May 2017 £10,835,131
- 17 August 2017 £13,449,358

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	(resigned 17 November 2017)
C. Keen	
M. Moran	(resigned 30 September 2017)
K. Rowe	(resigned 17 November 2017)
L.Garley-Evans	
H. Leam	(appointed 17 November 2017)
A. Torrance	(appointed 17 November 2017)

Directors' report *(continued)*

Political and charitable donations

The Company made charitable donations to UK based organisations of £189,551 *(2016: £101,375)*. The group also has a charitable company, Healthy Hope Limited, from which donations are made. No political contributions were made during the year *(2016: £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 Annual 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", 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;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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.

The directors 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

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 Company's auditors are unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves 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.

C Keen
Chief Financial Officer

27 February 2018

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

Report on the audit of the financial statements

Opinion

In our opinion, Holland & Barrett Retail Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 30 September 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the Balance Sheet as at 30 September 2017; the Profit and Loss Account, the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below:

Independent auditors' report to the members of Holland & Barrett Retail Limited (continued)

Strategic Report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' report for the year ended 30 September 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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 in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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.

Other required reporting

Companies Act 2006 exception reporting

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 by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

David Teager (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
East Midlands
27 February 2018

Profit and Loss Account
for the year ended 30 September 2017

	Note	**2017** **£000**	2016 £000
Turnover	*2*	**461,408**	444,127
Cost of sales		**(165,463)**	(154,094)
Gross profit		**295,945**	290,033
Distribution costs	*3*	**(180,221)**	(163,695)
Administrative expenses before exceptional items		**(23,206)**	(23,641)
Loss on sale of tangible assets		**(2,099)**	(825)
Other administrative exceptional items	*8*	**(18,738)**	-
	3	**(44,043)**	(24,466)
Impairment of intercompany receivable	*4*	**-**	(1,753)
Other operating income	*7*	**8,693**	8,144
Total operating profit		**80,374**	108,263
Interest receivable and similar income	*9*	**7,128**	7,082
Interest payable and similar charges	*10*	**(5,726)**	(2,522)
Profit before taxation		**81,776**	112,823
Tax on profit	*11*	**(19,251)**	(22,873)
Profit for the financial year		**62,525**	89,950

All activity derives from continuing operations.

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

The notes on pages 13 to 29 form an integral part of these financial statements.

Balance Sheet
as at 30 September 2017

	Note	2017 £000	£000	2016 £000	£000
Fixed assets					
Goodwill and intangible assets	*12*		**35,379**		22,717
Tangible assets	*13*		**116,369**		107,032
Investments	*14*		**-**		-
			151,748		129,749
Current assets					
Stocks	*15*	**95,947**		92,060	
Debtors	*16*	**937,216**		968,560	
Cash at bank and in hand		**28,121**		10,347	
		1,061,284		1,070,967	
Creditors: amounts falling due within one year	*17*	**(873,401)**		(759,037)	
Net current assets			**187,883**		311,930
Total assets less current liabilities			**339,631**		441,679
Creditors: amounts falling due after more than one year	*18*	**(60,123)**		(189,452)	
			(60,123)		(189,452)
Net assets			**279,508**		252,227
Capital and reserves					
Called up share capital	*22*		**1,050**		1,050
Profit and loss account			**278,458**		251,177
Total shareholders' funds			**279,508**		252,227

These financial statements were approved by the board of directors on 27 February 2018 and were signed on its behalf by:

C Keen
Chief Financial Officer

Company registered number: 2758955

The notes on pages 13 to 29 form an integral part of these financial statements.

Statement of Changes in Equity
for the year ended 30 September 2017

	Called up share capital	Profit and loss account	Total Shareholders' funds
	£000	£000	£000
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
Balance as at 1 October 2016	**1,050**	**251,177**	**252,227**
Total comprehensive income for the year			
Profit for the financial year	-	**62,525**	**62,525**
Transactions with owners, recorded directly in equity			
Equity-settled share based payment transactions	-	**12,904**	**12,904**
Dividends	-	**(48,148)**	**(48,148)**
Total contributions by and distributions to owners	-	**(35,244)**	**(35,244)**
Balance as at 30 September 2017	**1,050**	**278,458**	**279,508**

Notes
(forming part of the financial statements)

1 Accounting policies

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

The Company's (registered number 2758955) registered address is Samuel Ryder House, Barling Way, Eliot Park, Nuneaton, Warwickshire, CV10 7RH, which is part of Warwickshire in the UK.

The Company is exempt by virtue of s400 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

The Company's financial statements are prepared in accordance with FRS 102. The accounting policies set out in the notes below have been applied in preparing the financial statements for the year ended 30 September 2017 and the comparative information presented in these financial statements for the year ended 30 September 2016.

The company is included within the consolidated financial statements of Holland & Barrett International Limited. The consolidated financial statements of Holland & 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 & 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 presentational 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 25.

1.3 Measurement convention

The financial statements are prepared on the historical cost basis.

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.

Notes *(continued)*

1 Accounting policies *(continued)*

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

The Company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of 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 assets

Tangible 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 1.16 below.

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 assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

Notes *(continued)*

1 Accounting policies *(continued)*

1.9 Tangible assets (continued)

The estimated useful lives are as follows:

- freehold buildings 25 years
- fixtures and fittings 3 -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 3 -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

Share-based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Company. Prior to 31 August 2017, the Company was party to the The Nature's Bounty Co share based payment plan. 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.

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.

Other operating income - 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)*

1.14 Turnover (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, both of which are recorded within cost of sales:

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.

Notes *(continued)*

1 Accounting policies *(continued)*

1.18 Taxation (continued)

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.

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 is it 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.

1.20 *Dividend distribution*

Interim dividends are recognised in the Company's financial statements when they are paid. Other dividend distributions are recognised in the Company's financial statements in the year in which the dividends are approved in general meeting by the Company's shareholders.

1.21 Exceptional items

Income and expenditure which are significant by virtue of their size or nature and which are considered non-recurring are classified as exceptional items. Such items are included within the appropriate consolidated income statement category but are highlight separately in the financial statements. Exceptional items are excluding from the underlying profit measures used by the Directors to monitor the underlying performance of the Group.

2 Turnover

Analysis of turnover by activity:	**2017** **£000**	2016 £000
Retail sales	**446,790**	431,991
Franchise and wholesale income	**14,618**	12,136
	461,408	444,127

All turnover is generated in the United Kingdom.

Notes *(continued)*

3 Expenses and auditors' remuneration

Included in profit are the following:

	2017 £000	2016 £000
Impairment loss on inventories	**7,034**	7,396
Depreciation of tangible assets	**13,106**	11,326
Amortisation and impairment on intangible assets	**3,669**	2,591
Loss on disposal of fixed assets	**2,099**	825
Foreign exchange losses	**549**	1,749
Operating lease rentals:		
- Plant and machinery	**2,223**	2,163
- Land and buildings	**53,438**	48,909

Auditors' remuneration:

	2017 £000	2016 £000
Audit of these financial statements	**99**	**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 disclosed on a consolidated basis in the consolidated financial statements of Holland & Barrett International Limited.

4 Impairment of intercompany receivable

The charge represents an impairment of receivables due from a fellow group subsidiary in the prior 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 2017	2016
Administration	**385**	371
Retail	**4,432**	4,183
Distribution	**338**	332
	5,155	4,886

The aggregate payroll costs of these persons were as follows:

	2017 £000	2016 £000
Wages and salaries	**66,724**	61,960
Social security costs	**4,748**	4,385
Share based payments (See note 21)	**12,904**	130
Contributions to defined contribution plans	**746**	834
	85,122	67,309

Notes *(continued)*

6 Directors' remuneration

	2017	2016
	£000	£000
Directors' remuneration	**3,381**	3,416
Settlement of share options (see note 21)	**10,736**	
Company contributions to money purchase pension plans	**74**	230
	14,191	3,646

The aggregate of remuneration of the highest paid director was £1,636,000 *(2016: £833,000)*, and company pension contributions of £nil *(2016:£29,000)* were made to a money purchase scheme on his behalf. As at 30 September 2017 retirement benefits were accruing to none *(2016: one)* directors under the group's defined contribution pension scheme.

7 Other operating income

	2017	2016
	£000	£000
Royalties from group undertakings	**8,693**	8,144

8 Exceptional items

	2017	2016
	£000	£000
Settlement of management's equity in Holland & Barrett Group Limited (see note 21)	**14,045**	-
Forfeiture of management's share options (see note 21)	**(1,141)**	-
Acquisition related costs	**5,834**	-
	18,738	-

Exceptional costs of £14,045,000 *(2016: £nil)* relate to the settlement of management equity in Holland & Barrett Group Limited, a fellow subsidiary undertaking (see note 21). Exceptional income of £1,141,000 *(2016: £nil)* arose from the forfeiture of equity instruments held by employees in Alphabet Holding Company, Inc. (see note 21). Exceptional costs of £5,834,000 relate to costs incurred by the Company in respect of the Holland & Barrett Group's acquisition by LetterOne on 31 August 2017.

9 Interest receivable and similar income

	2017	2016
	£000	£000
Interest receivable from group undertakings	**7,040**	6,984
Bank interest	**88**	98
Total interest receivable and similar income	**7,128**	7,082

Notes *(continued)*

10 Interest payable and similar charges

	2017 £000	2016 £000
Interest payable on bank loans	**2,458**	1,189
Interest payable to group undertakings	**1,788**	279
Finance lease liabilities	**1,458**	1,031
Others	**22**	23
Total interest payable and similar charges	**5,726**	2,522

11 Tax on profit

Total tax expense recognised in the profit and loss account

	2017 £000	2017 £000	2016 £000	2016 £000
Current tax				
Current tax on income for the period	**18,269**		19,717	
Adjustments in respect of prior periods	**(1,011)**		561	
Total current tax		**17,258**		20,278
Deferred tax				
Origination and reversal of timing differences	**431**		3,049	
Change in tax rate	**(56)**		(81)	
Adjustments in respect of prior years	**1,618**		(373)	
Total deferred tax		**1,993**		2,595
Total tax		**19,251**		22,873

Reconciliation of effective tax rate

	2017 £000	2016 £000
Profit for the financial year	**62,525**	89,950
Total tax expense in the profit or loss	**19,251**	22,873
Profit excluding taxation	**81,776**	112,823
Tax using the UK corporation tax rate of 19.5% *(2016: 20.0%)*	**15,946**	22,566
Reduction in tax rate on deferred tax balances	**(56)**	(81)
Non-deductible expenses	**3,212**	1,939
Effect of group/other reliefs	**(1,559)**	(1,730)
Transfer pricing adjustments	**-**	(9)
Income not taxable	**(17)**	-
Ineligible depreciation	**1,118**	-
Adjustments in respect to prior years	**607**	188
Total tax expense included in profit or loss	**19,251**	22,873

Notes *(continued)*

11 Tax on profit *(continued)*

Factors affecting current and future tax charges

Reductions in the UK corporation tax rate from 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. An additional reduction to 17% instead of the above change to 18% (effective from 1 April 2020) was substantively enacted on 6 September 2016. These will reduce the company's future current tax charge accordingly. The deferred tax asset at 30 September 2017 has been calculated based on these rates.

12 Goodwill and intangible assets

	Goodwill £000	Software costs £000	Total £000
Cost			
Balance at 1 October 2016	668	27,656	28,324
Additions – internally developed	-	12,766	12,766
Additions – externally purchased	-	6,333	6,333
Disposal	-	(2,768)	(2,768)
Balance at 30 September 2017	668	43,987	44,655
Amortisation and impairment			
Balance at 1 October 2016	358	5,249	5,607
Amortisation for the year	34	3,635	3,669
Balance at 30 September 2017	392	8,884	9,276
Net book value			
At 30 September 2016	310	22,407	22,717
At 30 September 2017	**276**	**35,103**	**35,379**

Amortisation

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

	2017 £000	2016 £000
Administrative expenses	**3,669**	2,591

Notes *(continued)*

13 Tangible assets

	Freehold buildings £000	Fixtures and fittings £000	Total £000
Cost			
Balance at 1 October 2016	37,165	120,374	157,539
Additions	9,202	24,562	33,764
Disposals	(50)	(13,315)	(13,365)
Intergroup transfers	-	3	3
Balance at 30 September 2017	46,317	131,624	177,941
Depreciation and impairment			
Balance at 1 October 2016	1,576	48,931	50,507
Depreciation charge for the year	1,528	11,578	13,106
Disposals	(29)	(2,013)	(2,042)
Intergroup transfers	-	1	1
Balance at 30 September 2017	3,075	58,497	61,572
Net book value			
At 1 October 2016	35,589	71,443	107,032
At 30 September 2017	**43,242**	**73,127**	**116,369**

Leased tangible assets

At 30 September 2017 the net carrying amount of assets under a finance lease was £42,699,000 *(2016: £38,038,000).* The leased asset secures lease obligations (see note 17).

14 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 directly held investments in subsidiaries:

	Country of incorporation	Principal activity	Ordinary shareholding %	
			2017	2016
Neal's Yard Wholefoods Limited	England & Wales	Dormant	**100%**	100%
Holland & Barrett Limited	England & Wales	Dormant	**100%**	100%
Holland & Barrett (South Africa) Pty Limited	South Africa	Dormant	**100%**	100%

Lifecycle Limited was dissolved during the current year.

This information comprises a full listing of the Company's subsidiary undertakings at the balance sheet date.

The registered address of Holland & Barrett (South Africa) Pty Limited is 1 Waterhouse Place, Cape Town 8001, South Africa. The registered address of all companies is Samuel Ryder House, Barling Way, Eliot Park, Nuneaton, Warwickshire, CV10 7RH.

Notes *(continued)*

15 Stocks

	2017 **£000**	2016 £000
Raw materials	**9,661**	8,586
Finished goods	**86,286**	83,474
	95,947	92,060

Raw material and changes in finished goods recognised as cost of sales in the year amounted to £163.4m *(2016: £151.8m)*. The write-down of stocks to net realisable value amounted to £0.6m *(2016: £0.6m)*; the write down is included within cost of sales.

16 Debtors

	2017 **£000**	2016 £000
Amounts falling due within one year:		
Trade debtors	**5,577**	2,515
Amounts owed by group undertakings	**901,921**	942,792
Deferred tax assets (see note 20)	**191**	177
Other debtors	**7,386**	1,167
Prepayments and accrued income	**22,141**	21,909
	937,216	968,560

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

Amounts owed by Holland & Barrett B.V of £28.0m *(2016:£34.4m)* is charged interest at commercial rates. No interest is charged on all other balances owed to other group companies.

Notes *(continued)*

17 Creditors: amounts falling due within one year

	2017 £000	2016 £000
Trade creditors	**60,446**	48,220
Amounts owed to group undertakings	**767,042**	669,885
Other taxation and social security	**6,602**	4,297
Corporation tax payable	**7,253**	10,212
Deferred tax liability (see note 20)	**2,641**	634
Obligations under finance leases (see note 19)	**819**	775
Accruals and deferred income	**28,598**	25,014
	873,401	759,037

Amounts owed to group undertakings (Precision Engineered Limited) of £6.3m *(2016: £nil)* are unsecured and repayable on 30 September 2018. Interest is charged at a commercial rate.

All other 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, Holland & Barrett Limited and L1R HB Finance Limited of £59.2m *(2016: £24.4m)* are charged interest at commercial rates. No interest is charged on all other amounts owed to group undertakings.

18 Creditors: amounts falling after more than one year

	2017 £000	2016 £000
Secured bank loans (see note 19)	**-**	130,010
Obligations under finance leases (see note 19)	**43,265**	34,890
Amounts owed to group undertakings	**-**	6,300
Deferred income	**16,858**	18,252
	60,123	189,452

Amounts owed to group undertakings (Precision Engineered Limited) of £nil *(2016: £6.3m)* were unsecured and repayable on 30 September 2018. Interest is charged at a commercial rate.

Notes *(continued)*

19 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.

	2017	2016
	£000	£000
Creditors falling due within one year		
Finance lease liabilities	**819**	775
Creditors falling due after more than one year		
Secured bank loans	-	130,010
Finance lease liabilities	**43,265**	34,890
	43,265	164,900

Bank loans are secured against the assets of the Company.

Terms and repayment schedule

	Currency	Nominal interest rate	Year of maturity	Repayment schedule	2017	2016
					£000	£000
Secured bank loan (*)	USD	LIBOR + 1.75%	-	-	-	130,010
Finance lease liabilities	GBP	2 - 3%	2042-2045	Monthly	**44,084**	35,665
					44,084	165,675

(*) On 31 August 2017 Holland & Barrett Retail Limited's parent company Holland & Barrett International Limited was acquired by Letter One Retail Limited, and the secured bank loan was repaid in full at this date.

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum lease payments 2017	Minimum lease payments 2016
	£000	£000
Less than one year	**2,482**	1,893
Between one and five years	**10,103**	7,574
In more than five years	**58,435**	44,069
Total gross payments	**71,020**	53,536
Less: finance charges	**(26,936)**	(17,871)
	44,084	35,665

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

Notes *(continued)*

20 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2017	2016	**2017**	2016	**2017**	2016
	£000	£000	**£000**	£000	**£000**	£000
Accelerated capital allowances	**-**	-	**(2,641)**	(634)	**(2,641)**	(634)
Other timing differences	**191**	177	**-**	-	**191**	177
Net tax assets/(liabilities)	**191**	177	**(2,641)**	(634)	**(2,450)**	(457)

21 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 £746,000 *(2016: £834,000)*. Outstanding pension contributions at the balance sheet date were £146,000 *(2016: £85,000)*.

Share based payments

Prior to 31 August 2017, the company was a member of a group share-based payment plan, and it recognised and measured its share-based payment expense on the basis of a reasonable allocation of the expense recognised for the group. All options under this scheme were forfeited during the year resulting in an exceptional income of £1,141,000 (see note 8).

During the year, E and F shares in Holland & Group Limited, a subsidiary of the Group, previously held by selected key employees were purchased by Holland & Barrett International Limited for a total sum of £14,045,000, recognised within exceptional costs (see note 8).

Selected key employees reinvested a total amount of £426,000 through subscription of share capital in L1R HB Holdings Limited, an intermediate parent company. There were no options outstanding as of 30 September 2017.

22 Capital and reserves

Called up share capital

	2017	2016
	£000	£000
Allotted, called up and fully paid		
1,050,000 *(2016: 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

	2017	2016
	£000	£000
Dividends paid of £45.86 *(2016:£150.68)* per ordinary share	**48,148**	158,210

Notes *(continued)*

23 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	Land and buildings		Others	
	2017	2016	**2017**	2016
	£000	£000	**£000**	£000
Less than one year	**54,511**	48,054	**1,251**	1,947
Between one and five years	**181,326**	158,322	**2,616**	5,491
More than five years	**151,434**	141,629	**-**	-
	387,271	348,005	**3,867**	7,438

During the year £55.7m was recognised as an expense in the profit and loss account in respect of operating leases *(2016: £51.0m).*

24 Commitments

Capital commitments

The Company's contractual commitments to purchase tangible assets at the year end were £5.4m *(2016: £10.5m).*

25 Related parties

The Company has transacted in the year with related parties, being subsidiaries and other members of the wider group of The Nature's Bounty Co. prior to 31 August 2017 and with the wider group of Letterone Investment Holdings S.A. with effect from 31 August 2017. 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.

Compensation paid or payable to the Directors of the Company for services rendered are disclosed in note 6.

26 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 assets valuation

The useful economic lives and residual values of tangible 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 assets are impaired and where an indication if 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)*

27 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.

Prior to 31 August 2017, the Company's ultimate parent undertaking and controlling party was The Carlyle Group, a company incorporated in the United States of America. With effect from 31 August 2017, the Company's ultimate parent and controlling party is Letterone Investment Holdings S.A., a company incorporated in Luxembourg.

The largest and only group of publically available financial statements in which the results of the company are consolidated is that prepared by Holland & Barrett International Limited. Copies of Holland & Barrett International Limited's consolidated accounts may be obtained from the registrar of Companies, Companies House, Crown Way, Cardiff.