

Registered number 03639975



REPORT AND ACCOUNTS

Tesco Home Shopping Limited

FEBRUARY 28, 2004



# Tesco Home Shopping Limited

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## DIRECTORS' REPORT

The directors present their annual report together with the accounts for the year ended February 28, 2004.

### Principal activities

The principal activity of the company throughout the year under review was Internet home shopping, and the sale of electrical goods in store.

### Results and dividends

The loss for the financial year before taxation, was £1,532,000 (2003 Loss : £4,265,000).

The directors do not recommend the payment of a dividend (2003 : £Nil).

### Review of the business and future developments

During the year Tesco Home Shopping strengthened its position in the electricals online market and continued to expand its customer offer. By maintaining its competitive pricing and enhancing its electricals range Tesco Home Shopping is on plan to steadily grow sales in the near future.

### Donations

The company made no political contributions during the year. The company made no donations to UK charities.

### Directors and their interests

Name	Position	Appointment date	Resignation date
Andrew Higginson	Non-executive Director	4 December 1998	-
Mike Hawker	Non-executive Director	13 April 2000	-
Jim Skelsey	Non-executive Director	30 November 2000	-
John Browett	Non-executive Director	13 April 2000	22 December 2003
Laura Wade-Gery	Non-executive Director	22 December 2003	-
John Paul O'Reilly	Chief Executive	13 March 2003	-

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the company.

According to the register of directors' interests, no rights to subscribe for shares in or debentures of the company were granted to any of the directors or their immediate families, or exercised by them, during the financial year.

Andrew Higginson is also a director of Tesco PLC, the company's ultimate parent company, and his disclosable interests in Tesco PLC are declared in the financial statements of that company.

## Tesco Home Shopping Limited

### DIRECTORS' REPORT (continued)

For the directors as at 28<sup>th</sup> February 2004, who were not also directors of the ultimate parent company, their interests in the shares of Tesco PLC at the beginning and end of the year are given below:

	Ordinary Shares		2004	Share Options *		2003
	2004	2003		Granted	Exercised	
John Browett	170,587	189,712	821,071	1,625	-	819,446
Laura Wade-Gery	114,897	111,596	276,604	946	36,978	312,636
John-Paul O'Reilly	25,377	12,117	100,605	33,565	880	67,920

\* Executive share option scheme (1984, 1994 and 1996) and savings related share option scheme (1981). Details of these schemes are set out in the annual report and financial statements of Tesco PLC.

Laura Wade-Gery was also appointed as a director of Tesco Mobile Ltd. on 18<sup>th</sup> December 2003.

John Browett was also a director of Tesco Mobile Ltd, but resigned this position on 18<sup>th</sup> December 2003.

### Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

Tesco plc  
Tesco House  
Delamare Road  
Cheshunt  
Hertfordshire  
EN8 9SL

24 December 2004

On behalf of the board



E O'Flynn  
Secretary

## **Tesco Home Shopping Limited**

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### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

## **Tesco Home Shopping Limited**

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### **REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF TESCO HOME SHOPPING LIMITED**

We have audited the financial statements on pages 5 to 14 .

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

#### **Respective responsibilities of directors and auditors**

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

#### **Basis of audit opinion**

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

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

#### **Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at February 28, 2004 and of the loss of the company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*KPMG Audit Inc*

*24 December 2004*

**KPMG Audit Plc**  
Chartered Accountants  
Registered Auditor  
1 The Embankment  
Neville Street  
LEEDS  
LS1 4DW

## Tesco Home Shopping Limited

### PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED FEBRUARY 28, 2004

	Notes	2004 £000	2003 £000
Turnover		13,748	14,473
Cost of sales		(11,056)	(11,977)
Gross profit		2,692	2,496
Distribution costs		(847)	(1,412)
Administrative expenses		(2,405)	(4,314)
Other operating Income		162	240
Operating loss	2	(398)	(2,990)
Loss on ordinary activities before interest and taxation		(398)	(2,990)
Interest payable and similar charges	4	(1,134)	(1,275)
Loss on ordinary activities before taxation		(1,532)	(4,265)
Tax on Loss on ordinary activities	5	340	762
<b>Unrecovered loss for the year</b>	12	(1,192)	(3,503)

All operations are continuing. The historical cost profits and losses are the same as the profits and losses shown above. All profits and losses are recognised in the profit and loss account above.

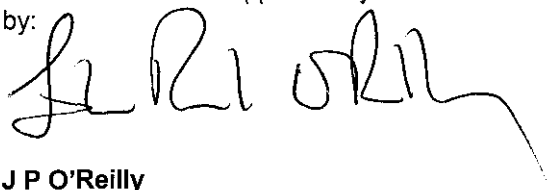
A reconciliation of movements in shareholder's funds is shown on Page 8.

# Tesco Home Shopping Limited

## BALANCE SHEET AT FEBRUARY 28, 2004

	Notes	2004 £000	2003 £000
<b>Current assets:</b>			
Stocks	6	281	192
Debtors	7	1,154	2,476
		<u>1,435</u>	<u>2,668</u>
<b>Creditors:</b> amounts falling due Within one year	8	(3,545)	(4,086)
<b>Net current liabilities</b>		<u>(2,110)</u>	<u>(1,418)</u>
<b>Total assets less current liabilities</b>		<u>(2,110)</u>	<u>(1,418)</u>
<b>Creditors:</b> amounts falling due after more than one year	9	-	(24,500)
<b>Net liabilities</b>		<u><u>(2,110)</u></u>	<u><u>(25,918)</u></u>
<b>Capital and reserves:</b>			
Called up equity share capital	11	26,000	1,000
Profit and loss account	12	(28,110)	(26,918)
<b>Shareholders' deficit – equity</b>		<u><u>(2,110)</u></u>	<u><u>(25,918)</u></u>

The accounts were approved by the board of directors on 24 December 2004, and were signed on its behalf by:



**J P O'Reilly**  
Chief Executive

# Tesco Home Shopping Limited

## CASH FLOW STATEMENT FOR THE YEAR ENDED FEBRUARY 28, 2004

	Note	2004 £000	2003 £000
Cashflow from operating activities	15	(208)	(2,430)
Return on investment & servicing of finance		(1,134)	(1,275)
Taxation		1,972	762
		<hr/> 630	<hr/> (2,943)
Financing:			
Issue of shares		25,000	-
(Repayment)/payment of loans from parent undertakings		(24,500)	2,000
		<hr/> (1,130)	<hr/> (943)
Increase/(decrease) in cash		<hr/> 1,130	<hr/> (943)

## RECONCILIATION OF NET CASHFLOW TO MOVEMENT IN NET DEBT

		2004 £000	2003 £000
Increase/(decrease) in cash	16	1,130	(943)
Cash outflow/(inflow) from decrease/(increase) in debt financing		24,500	(2,000)
		<hr/> 25,630	<hr/> (2,943)
Movement in net debt in the year		25,630	(2,943)
Net debt at brought forward		(26,906)	(23,963)
		<hr/> (1,276)	<hr/> (26,906)
Net debt carried forward		<hr/> 1,276	<hr/> (26,906)



## Tesco Home Shopping Limited

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### RECONCILIATION OF MOVEMENT IN SHAREHOLDER'S FUNDS *For the year ended 28<sup>th</sup> February 2004*

	2004 £000	2003 £000
Loss for the financial year	(1,192)	(3,503)
<b>Decrease in shareholder's funds</b>	<b>(1,192)</b>	<b>(3,503)</b>
New share capital subscribed	25,000	-
Net increase in shareholder's funds	23,808	(3,503)
Opening shareholder's deficit	(25,918)	(22,415)
Closing shareholder's deficit	(2,110)	(25,918)

## NOTES TO THE ACCOUNTS AT FEBRUARY 28, 2004

### 1. Accounting policies

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

#### **Basis of preparation**

The financial statements have been prepared under the historical cost accounting rules and in accordance with applicable Accounting Standards. Both Tesco Plc and Grattan plc, the ultimate parent undertakings have indicated their willingness to continue financial and business support for the foreseeable future.

#### **Value added tax**

The accounting policy is to account for the liability on output VAT at the point at which a sale is recognised.

#### **Stock**

Stocks, which consist of goods for resale, are valued at the lower of purchase price and estimated net realisable value.

#### **Taxation**

Deferred tax is recognised without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

#### **Translation of foreign currencies**

Transactions in foreign currencies are recorded at the rate ruling at the date of transaction. Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. All exchange gains and losses are recognised in the profit and loss account.

#### **Turnover**

Turnover represents the sales value net of VAT, sales discounts and sales returns provision, and are recognised on a net despatch basis.

## Tesco Home Shopping Limited

### NOTES TO THE ACCOUNTS AT FEBRUARY 28, 2004 (continued)

#### 2. Operating Loss

is stated after charging:

	2004 £000	2003 £000
Auditors' remuneration:		
For audit work	23	20
Exchange (gains)	(15)	(29)
	<hr/>	<hr/>

#### 3. Employees and directors

The company does not employ any staff directly but instead utilises seconded staff from its parent. Recharges in respect of employee and director's costs are detailed in note 13. Recharges in respect of director's costs were £81,743 in the year (2003:£137,000).

#### 4. Interest

	2004 £000	2003 £000
Interest payable and other similar charges:		
Bank loans and overdrafts	87	83
Interest payable to parent undertakings	1,047	1,192
	<hr/>	<hr/>
	1,134	1,275
	<hr/>	<hr/>

#### 5. Taxation

	2004 £000	2003 £000
Current year corporation taxation:		
Consortium relief recoverable from Tesco Plc	277	835
Prior year adjustment	63	(73)
	<hr/>	<hr/>
	340	762
	<hr/>	<hr/>

Tax losses of £13,622k are available to carry forward for relief against future profits of the company. The consortium relief recoverable represents Tesco PLC's 60% share of the losses available (after deduction of disallowable items) for relief in the year.

## Tesco Home Shopping Limited

### NOTES TO THE ACCOUNTS AT FEBRUARY 28, 2004 (continued)

#### 6. Stock

	2004 £000	2003 £000
Goods for resale	281	192

#### 7. Debtors

	2004 £000	2003 £000
Trade debtors	505	396
Amounts due from associated undertakings	161	-
Consortium relief recoverable from the parent	269	1,901
Prepayments and accrued income	219	179
	1,154	2,476

#### 8. Creditors: amounts falling due within one year

	2004 £000	2003 £000
Bank overdrafts	1,276	2,406
Trade creditors	831	508
Other creditors	191	387
Amounts owed to parent undertakings	960	357
Accruals and deferred income	287	428
	3,545	4,086

#### 9. Creditors: amounts falling due after more than one year

	2004 £000	2003 £000
Amounts owed to parent undertakings	-	24,500

During the year loans due to parent undertakings were repaid and replaced with the issue of ordinary share capital (note 11)

## Tesco Home Shopping Limited

### NOTES TO THE ACCOUNTS AT FEBRUARY 28, 2004 (continued)

#### 10. Provisions for liabilities and charges

The deferred taxation asset not recognised is as follows:	2004 £000	2003 £000
Taxation on unrelieved losses carried forward	4,086	3,872

A deferred asset has not been recognised to the extent that the transfer of economic benefit in the future is uncertain.

#### 11. Called up equity share capital

	2004 £000	2003 £000
A £1 ordinary shares	10,400	400
B £1 ordinary shares	15,600	600
Authorised share capital	26,000	1,000
A £1 ordinary shares	10,400	400
B £1 ordinary shares	15,600	600
Allotted, called up and fully paid	26,000	1,000

A and B shares carry equal rights. During the year 15 million £1 shares were authorised and issued to Tesco Plc, and 10 million £1 shares were authorised and issued to Grattan Plc.

#### 12. Reserves and shareholders' funds

The Company	Equity share capital £000	Profit & loss Account £000
At March 1, 2003	1,000	(26,918)
Loss for the year	-	(1,192)
Share capital issued	25,000	-
At February 28, 2004	26,000	(28,110)

## Tesco Home Shopping Limited

### NOTES TO THE ACCOUNTS AT FEBRUARY 28, 2004 (continued)

#### 13. Related Parties

During the year, both Grattan Plc and Tesco plc provided a wide range of services to the company including accounting, merchandising, buying, computing, warehousing and distribution. A summary of the transactions and balances are as follows:

	2004		2003	
	Tesco plc £000	Grattan plc £000	Tesco plc £000	Grattan plc £000
<b>Transactions</b>				
Operational charges (including: call centre, warehouse and fixed asset charges)	131	1,776	690	3,188
Wages and salaries of seconded staff	371	260	520	
Stock purchases/(sales) from/to parents	-	7,472	(229)	5,350
Finance charges	615	432	717	
<b>Total transactions</b>	<u>1,117</u>	<u>9,940</u>	<u>1,698</u>	<u>9,237</u>
<b>Payments/(loans) made to/(from) parents</b>	<u>15,287</u>	<u>19,697</u>	<u>(192)</u>	<u>9,133</u>
<b>Balance owing to parents at end of year</b>	<u>215</u>	<u>745</u>	<u>14,385</u>	<u>10,472</u>

All of the transactions were carried out at arm's length and on a commercial basis.

From September 2003 an order taking, processing, delivery and cash collection service was provided to Tesco Mobile Ltd. In consideration for this service Tesco Home Shopping Ltd receives a service charge of £12.50 per unit despatched for Tesco Mobile Ltd. Tesco Home Shopping Ltd has recognised sales of £612,000 (2003: 0) and cost of sales of £199,000 in respect of this service: the outstanding debtor at 28 February 2004 was £161,000 (2003: 0). This agreement was terminated on 7<sup>th</sup> July 2004.

## Tesco Home Shopping Limited

### NOTES TO THE ACCOUNTS AT FEBRUARY 28, 2004 (continued)

**14. Ultimate parent company and parent undertaking of group of which the company is a member**

Tesco Home Shopping Limited is a joint venture, whose ultimate parents are Tesco plc, owning 60% of the allotted share capital, and Grattan Plc owning 40% of the allotted share capital.

The immediate parent company of the smallest group of undertakings for which group accounts are drawn up and of which Tesco Home Shopping Limited is a member, within the Otto Versand GmbH group, is Grattan plc, a company incorporated in Great Britain and registered in England and Wales and within the Tesco plc group is Tesco plc.

The consolidated accounts of both parents are available to the public and are available from:

Tesco plc  
Tesco House  
Delamare Road  
Cheshunt  
Hertfordshire  
EN8 9SL

Grattan plc  
Anchor House  
Ingleby Road  
Bradford  
West Yorkshire  
BD99 2XG

**15. Reconciliation of operating loss to net cash inflow from operating activities**

	2004 £000	2003 £000
Operating loss	(398)	(2,990)
(Increase)/Decrease in stock	(89)	1,421
(Increase)/Decrease in Debtors	(310)	982
Increase/(Decrease) in creditors	589	(1,843)
<b>Net cash (outflow) from operating activities</b>	<b>(208)</b>	<b>(2,430)</b>

**16. Analysis of net debt**

	March 1, 2003 £000	Cash Flow £000	February 28, 2004 £000
Overdraft	(2,406)	1,130	(1,276)
Loan	(24,500)	24,500	-
<b>Net debt</b>	<b>(26,906)</b>	<b>25,630</b>	<b>(1,276)</b>