

Registered number 03639975



DIRECTORS' REPORT AND FINANCIAL STATEMENTS

Tesco Home Shopping Limited

28 FEBRUARY 2006

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## **Tesco Home Shopping Limited**

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### **DIRECTORS' REPORT**

The directors present their directors' report and financial statements for the year ended 28 February 2006.

#### **Principal activities**

The principal activities of the company throughout the year under review were Internet home shopping, and the sale of Electrical goods in store.

#### **Business review and future developments**

During the year Tesco Home Shopping strengthened its position in the electrical online market and continued to expand its customer offer. Results for the year can be found on page 6.

On 29 August 2006 Grattan Plc's 40% stake in Tesco Home Shopping Limited was sold to Tesco Plc.

#### **Results and dividends**

The profit for the financial year before taxation, was £290,000 (2005 Loss : £120,000).

The directors do not recommend the payment of a dividend (2005 : £Nil).

#### **Directors and directors' interests**

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

|                    |                        |                             |
|--------------------|------------------------|-----------------------------|
| Andrew Higginson   | Non-executive Director |                             |
| Mike Hawker        | Non-executive Director | (resigned 7 September 2005) |
| Jim Skelsey        | Non-executive Director | (resigned 30 April 2006)    |
| Laura Wade-Gery    | Chief Executive        | (resigned 20 October 2006)  |
| John Paul O'Reilly | Chief Executive        |                             |

Christopher West was appointed as a Non-executive Director on 1 June 2006 and resigned on 29 August 2006.

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 the company.

For the directors as at 28<sup>th</sup> February 2006, 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:

## Tesco Home Shopping Limited

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|                    | Ordinary Shares |         | 2006    | Share Options * |           | 2005    |
|--------------------|-----------------|---------|---------|-----------------|-----------|---------|
|                    | 2006            | 2005    |         | Granted         | Exercised |         |
| Laura Wade-Gery    | 193,539         | 194,362 | 447,754 | 78,350          | 0         | 369,404 |
| John-Paul O'Reilly | 60,738          | 42,222  | 152,202 | 27,015          | 3,890     | 129,077 |

\* 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.

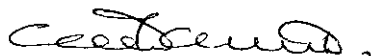
### Political and charitable contributions

The company made no political or charitable contributions during the year.

### 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.

By order of the board



**C O'Connor**  
Secretary

Tesco Plc  
Tesco House  
Delamare Road  
Cheshunt  
Hertfordshire  
EN8 9SL

6 December 2006

## **Tesco Home Shopping Limited**

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### **Statement of directors' responsibilities in respect of the Directors' Report and the financial statements**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to 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 judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its 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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### KPMG Audit Plc

1 The Embankment  
Neville Street  
Leeds  
LS1 4DW

## Independent auditors' report to the members of Tesco Home Shopping Limited

We have audited the financial statements of Tesco Home Shopping Limited for the year ended 28 February 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

### Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities on page 3, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you 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 other transactions is not disclosed.

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

### Basis of audit opinion

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

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

## **Tesco Home Shopping Limited**

### **Independent auditors' report to the members of Tesco Home Shopping Limited** *(continued)*

#### **Opinion**

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 28 February 2006 and of its profit for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

*KPMG Audit Plc*

**KPMG Audit Plc**  
*Chartered Accountants*  
*Registered Auditor*

6 December 2006

# Tesco Home Shopping Limited

## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 28 FEBRUARY 2006

|  | Notes | 2006<br>£000      | 2005<br>£000       |
|--|-------|-------------------|--------------------|
| <b>Turnover</b>                                      |       | 35,583            | 22,197             |
| Cost of sales  | 1     | <u>(28,645)</u>   | <u>(17,856)</u>    |
| <b>Gross profit</b>                                  |       | 6,938             | 4,341              |
| Distribution costs                                   |       | (2,711)           | (1,303)            |
| Administrative expenses                              |       | (3,929)           | (3,097)            |
| Other operating income                               | 2     | 2                 | 24                 |
| <b>Operating profit/(loss)</b>                       |       | <u>300</u>        | <u>(35)</u>        |
| Interest payable and similar charges                 | 4     | <u>(10)</u>       | <u>(85)</u>        |
| Profit/(loss) on ordinary activities before taxation | 2     | 290               | (120)              |
| Tax on profit/(loss) on ordinary activities          | 5     | <u>47</u>         | <u>28</u>          |
| <b>Profit/(loss) for the financial year</b>          | 11    | <u><u>337</u></u> | <u><u>(92)</u></u> |

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 above.

A reconciliation of shareholders' funds is shown on page 9.

# Tesco Home Shopping Limited

## BALANCE SHEET AT 28 FEBRUARY 2006

|   | Notes | 2006<br>£000   | 2005<br>£000   |
|---|-------|----------------|----------------|
| <b>Current assets</b>                                 |       |                |                |
| Stocks  | 6     | 1,430          | 476            |
| Debtors   | 7     | 1,607          | 991            |
|   |       | <u>3,037</u>   | <u>1,467</u>   |
| <b>Creditors: amounts falling due within one year</b> | 8     | (4,902)        | (3,669)        |
| <b>Net liabilities</b>                                |       | <u>(1,865)</u> | <u>(2,202)</u> |
| <b>Capital and reserves</b>                           |       |                |                |
| Called up share capital                               | 10    | 26,000         | 26,000         |
| Profit and loss account                               | 11    | (27,865)       | (28,202)       |
| <b>Shareholders' deficit</b>                          |       | <u>(1,865)</u> | <u>(2,202)</u> |

The accounts were approved by the board of directors on 6<sup>th</sup> December 2006 and were signed on its behalf by:

  
**J P O'Reilly**  
 Chief Executive



# Tesco Home Shopping Limited

## CASH FLOW STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2006

|  | Note | 2006<br>£000 | 2005<br>£000 |
|--|------|--------------|--------------|
| Cashflow from operating activities           | 13   | 308          | (231)        |
| Returns on investment & servicing of finance |      | (10)         | (85)         |
| Taxation                                     |      | 26           | 275          |
|  |      | <hr/>        | <hr/>        |
| Increase/(decrease) in cash                  |      | 324          | (41)         |
|  |      | <hr/>        | <hr/>        |

## RECONCILIATION OF NET CASHFLOW TO MOVEMENT IN NET DEBT

|   |    | 2006<br>£000 | 2005<br>£000 |
|---|----|--------------|--------------|
| Increase/(decrease) in cash in the year | 14 | 324          | (41)         |
|   |    | <hr/>        | <hr/>        |
| Movement in net debt in the year        |    | 324          | (41)         |
| Net debt at the start of the year       |    | (1,317)      | (1,276)      |
|   |    | <hr/>        | <hr/>        |
| Net debt at the end of the year         |    | (993)        | (1,317)      |
|   |    | <hr/>        | <hr/>        |

## Tesco Home Shopping Limited

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### RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

| <i>For the year ended 28 February 2006</i>         | <b>2006<br/>£000</b> | <b>2005<br/>£000</b> |
|--|----------------------|----------------------|
| Profit/(loss) for the financial year               | 337                  | (92)                 |
| Net addition to/(reduction in) shareholders' funds | <u>337</u>           | <u>(92)</u>          |
| Opening shareholders' deficit                      | (2,202)              | (2,110)              |
| Closing shareholders' deficit                      | <u>(1,865)</u>       | <u>(2,202)</u>       |

## **Tesco Home Shopping Limited**

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### **NOTES TO THE FINANCIAL STATEMENTS AT 28 FEBRUARY 2006**

#### **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.

In these financial statements the following new standard has been adopted for the first time:

- FRS 28 'Corresponding Amounts'

FRS 28 'Corresponding Amounts' has had no material effect as it imposes the same requirements for comparatives as hitherto required by the Companies Act 1985.

#### **Basis of preparation**

The financial statements have been prepared under the historical cost accounting rules and in accordance with applicable Accounting Standards. Tesco Plc, the ultimate parent undertaking has indicated their willingness to continue financial and business support for the foreseeable future. The accounting period is for the 52 week period ending 25 February 2006. The comparative period being 52 weeks ended 26 February 2005.

#### **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.

#### **Foreign currencies**

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary 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 is recognised on a net despatch basis.

## Tesco Home Shopping Limited

### NOTES TO THE FINANCIAL STATEMENTS AT 28 FEBRUARY 2006 (continued)

#### 2. Notes to the Profit and Loss account

Profit/(loss) on ordinary activities before taxation is stated after charging:

|                         | 2006<br>£000 | 2005<br>£000 |
|-------------------------|--------------|--------------|
| Auditors' remuneration: |              |              |
| For audit work          | 17           | 17           |

#### 3. Remuneration of directors and staff numbers and costs

The company does not employ any staff directly but instead utilises seconded staff from its parent companies. Recharges in respect of employee and director's costs are detailed in note 12. Recharges in respect of director's costs were £71,204 in the year. (2005: £71,204).

#### 4. Interest payable and similar charges

|   | 2006<br>£000 | 2005<br>£000 |
|---|--------------|--------------|
| Interest payable and similar charges:   |              |              |
| On bank loans and overdrafts            | 10           | 73           |
| Interest payable to parent undertakings | -            | 12           |
|   | 10           | 85           |

#### 5. Taxation

|  | 2006<br>£000 | 2005<br>£000 |
|--|--------------|--------------|
| Current year corporation taxation:                                       |              |              |
| Consortium relief recoverable from Tesco Plc                             | -            | 22           |
| Prior year adjustment  | 47           | 6            |
|  | 47           | 28           |
| Total current tax credit and tax on profit/(loss) on ordinary activities |              |              |

The consortium relief recoverable represents Tesco Plc 60% share of the losses available (after deduction of disallowable items) to relieve in the year.

Tesco Home Shopping Limited is now a wholly owned subsidiary of Tesco Plc. See note 15 for further details.

## Tesco Home Shopping Limited

### NOTES TO THE FINANCIAL STATEMENTS AT 28 FEBRUARY 2006 (continued)

#### *Factors affecting the tax credit for the current period*

The current tax credit for the period is lower (2005: higher) than the standard rate of corporation tax in the UK (30%, 2005 : 30 %). The differences are explained below.

|  | 2006<br>£000 | 2005<br>£000 |
|--|--------------|--------------|
| <i>Current tax reconciliation</i>                        |              |              |
| Profit on ordinary activities before tax                 | 290          | (120)        |
|  | <hr/>        | <hr/>        |
| Current tax at 30 % (2005 : 30 %)                        | 87           | (36)         |
| <i>Effects of:</i>                                       |              |              |
| Current year losses carried forward                      | -            | 14           |
| Utilisation of tax losses brought forward                | (87)         | -            |
| Adjustments to tax charge in respect of previous periods | (47)         | (6)          |
|  | <hr/>        | <hr/>        |
| Total current tax credit (see above)                     | (47)         | (28)         |
|  | <hr/>        | <hr/>        |

#### 6. Stock

|                  | 2006<br>£000 | 2005<br>£000 |
|------------------|--------------|--------------|
| Goods for resale | 1,430        | 476          |
|                  | <hr/>        | <hr/>        |

#### 7. Debtors

|   | 2006<br>£000 | 2005<br>£000 |
|---|--------------|--------------|
| Trade debtors                                 | 755          | 726          |
| Other debtors                                 | 272          | -            |
| Consortium relief recoverable from the parent | 43           | 22           |
| Prepayments and accrued income                | 537          | 243          |
|   | <hr/>        | <hr/>        |
|   | 1,607        | 991          |
|   | <hr/>        | <hr/>        |

# Tesco Home Shopping Limited

## NOTES TO THE FINANCIAL STATEMENTS AT 28 FEBRUARY 2006 (continued)

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

|                                     | 2006<br>£000 | 2005<br>£000 |
|-------------------------------------|--------------|--------------|
| Bank overdraft                      | 993          | 1,317        |
| Trade creditors                     | 2,019        | 581          |
| Amounts owed to parent undertakings | 1,288        | 1,217        |
| Other creditors                     | -            | 6            |
| Accruals and deferred income        | 602          | 548          |
|                                     | <u>4,902</u> | <u>3,669</u> |

### 9. Provisions for liabilities and charges

| The deferred taxation asset not recognised<br>is as follows: | 2006<br>£000 | 2005<br>£000 |
|--|--------------|--------------|
| Taxation on unrelieved losses carried forward                | 4,018        | 4,104        |

A deferred asset has not been recognised due to the uncertainty as to when relief will be obtained. Any future realisation of this would reduce further tax charges.

### 10. Called up share capital

|                                    | 2006<br>£000  | 2005<br>£000  |
|------------------------------------|---------------|---------------|
| A £1 ordinary shares               | 10,400        | 10,400        |
| B £1 ordinary shares               | 15,600        | 15,600        |
| Authorised share capital           | <u>26,000</u> | <u>26,000</u> |
| A £1 ordinary shares               | 10,400        | 10,400        |
| B £1 ordinary shares               | 15,600        | 15,600        |
| Allotted, called up and fully paid | <u>26,000</u> | <u>26,000</u> |

A and B shares carry equal rights.

## Tesco Home Shopping Limited

### NOTES TO THE FINANCIAL STATEMENTS AT 28 FEBRUARY 2006 (continued)

#### 11. Reserves

|                          | Profit & loss<br>Account<br>£000 |
|--------------------------|----------------------------------|
| At beginning of the year | (28,202)                         |
| Profit for the year      | 337                              |
| At end of the year       | <u>(27,865)</u>                  |

#### 12. 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:

|  | 2006                 |                        | 2005                 |                        |
|--|----------------------|------------------------|----------------------|------------------------|
|  | Tesco<br>Plc<br>£000 | Grattan<br>Plc<br>£000 | Tesco<br>Plc<br>£000 | Grattan<br>Plc<br>£000 |
| Transactions   |                      |                        |                      |                        |
| Operational charges (including: call centre,<br>warehouse and fixed asset charges) | (1,056)              | 3,900                  | (505)                | 2,112                  |
| Wages and salaries of seconded staff   | 530                  | 336                    | 535                  | 237                    |
| Stock purchases from parents   | -                    | 19,557                 | -                    | 12,714                 |
| Finance charges  | -                    | -                      | 12                   | -                      |
| <b>Total transactions</b>  | <u>(526)</u>         | <u>23,793</u>          | <u>42</u>            | <u>15,063</u>          |
| <b>Payments made to/(received from) parent<br/>undertakings</b>                    | <u>(443)</u>         | <u>23,654</u>          | <u>404</u>           | <u>14,429</u>          |
| <b>Balance owing to/(from) parent undertakings<br/>at end of year</b>              | <u>(230)</u>         | <u>1,518</u>           | <u>(147)</u>         | <u>1,379</u>           |

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

## Tesco Home Shopping Limited

### NOTES TO THE FINANCIAL STATEMENTS AT 28 FEBRUARY 2006 (continued)

#### 13. Reconciliation of operating profit/(loss) to net cash inflow/(outflow) from operating activities

|  | 2006<br>£000 | 2005<br>£000 |
|--|--------------|--------------|
| Operating profit/(loss)                                    | 300          | (35)         |
| Increase in stock  | (954)        | (195)        |
| Increase in debtors  | (595)        | (84)         |
| Increase in creditors                                      | 1,557        | 83           |
| <b>Net cash inflow/(outflow) from operating activities</b> | <b>308</b>   | <b>(231)</b> |

#### 14. Analysis of net debt

|              | March 1,<br>2005<br>£000 | Cash Flow<br>£000 | February 28,<br>2006<br>£000 |
|--------------|--------------------------|-------------------|------------------------------|
| Overdraft    | (1,317)                  | 324               | (993)                        |
| <b>Total</b> | <b>(1,317)</b>           | <b>324</b>        | <b>(993)</b>                 |

#### 15. Post balance sheet events

On 29 August 2006 Grattan Plc's 40% stake in Tesco Home Shopping Limited was sold to Tesco Plc.

#### 16. Ultimate parent company and parent undertaking of group of which the company is a member

Tesco Home Shopping Limited is now a 100% owned subsidiary of Tesco Plc. See Note 15 for further details.

Tesco Home Shopping Limited was a joint venture, whose ultimate parents were 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 group, was Grattan Plc, a company incorporated in Great Britain and registered in England and Wales and within the Tesco 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