



Tesco Home Shopping Limited

Directors' report and financial statements

Registered Number 36349975

29 February 2000



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Directors' report

The directors present their annual report and the audited financial statements for the period from 29 September 1998 to 29 February 2000. The company was incorporated as Broomco (1660) Limited on 29 September 1998 and changed its name to Tesco Home Shopping Limited on 11 February 1999.

Principal activities

The principal activity of the company throughout the period under review was catalogue home shopping.

Business review

The company reported a loss before exceptional items, interest and taxation of £10,163,000 (after exceptional items, interest and taxation of £9,893,000).

Tesco Home Shopping was set up on a trial basis in February 1999 with the scope of developing a non-food business in the UK through home shopping channels. The trial year aimed to enable the shareholders to evaluate the nature and size of the business opportunity based on the perceived competitive strengths of the Tesco name, the Tesco Clubcard database and the efficient Grattan operation. The business started trading in March 1999.

The first year has seen the launch of catalogues in four markets; namely Baby & Toddler, Kids, Home and Gift. In addition to the catalogue launches, a transactional web-site has been launched for the Home, Gift and Baby & Toddler ranges.

Year 2000

As is well known, many computer and digital storage systems express dates using only the last two digits of the year and will thus require modification or replacement to accommodate the year 2000 and beyond in order to avoid malfunctions and resulting widespread commercial disruption.

To the date of signing this report, we have encountered no problems arising from the year 2000 issue, either arising from our own computer systems or those of our suppliers and customers. We will continue to monitor this issue for the time being.

The costs already incurred in addressing this issue have not been significant and no further costs are anticipated.

Proposed dividend

The directors do not recommend the payment of a dividend.

Directors' report *(continued)*

Political and charitable contributions

The company made no political contributions during the period. Donations to UK charities amounted to £1,122.

Directors and directors' interests

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

Name	Position	Appointment date	Resignation date
DLA Nominees Limited	First Director	29 September 1998	4 December 1998
DLA Secretarial Services Limited	First Director	29 September 1998	4 December 1998
Paul Mancey	Chief Executive	4 December 1998	-
Derek Oldham	<i>Executive Operations and Finance Director</i>	4 December 1998	-
Peter Lomas	Non-executive Chairman	18 January 2000	-
Nick Allen	Non-executive Director	4 December 1998	25 February 2000
John Gildersleeve	Non-executive Director	4 December 1998	-
Andrew Higginson	Non-executive Director	4 December 1998	-
Steve Bullas	Non-executive Director	6 May 1999	29 June 1999
Walter Blackwood	Non-executive Director	29 June 1999	-

Peter Lomas was first appointed a Non-executive director on 4 December 1998 and Non-executive Chairman on 11 February 1999. He resigned as both a Non-executive Director and Non-executive Chairman on 6 May 1999 and was re-appointed as both Non-executive Chairman and Non-executive Director on 18 January 2000.

None of the directors who held office at the end of the financial period 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 period. The interests of the directors in the shares of other group companies are shown in the financial statements of the two parent companies.

Auditors

KPMG Audit Plc were appointed as first auditors to the company. 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

Matthew Gaunt
Secretary



ShIPLEY Wharf
Wharf Street
ShIPLEY
West Yorkshire
BD17 7DW
13 April 2000

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period 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.

Report of the auditors, KPMG Audit Plc, to the members of Tesco Home Shopping Limited

We have audited the financial statements on pages 5 to 16.

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. 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 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 the company's affairs as at 29 February 2000 and of its loss for the 17 month period then ended and have been properly prepared in accordance with the Companies Act 1985.



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

3 August 2000

Profit and loss account

for the 17 month period ended 29 February 2000

	<i>Note</i>	17 months ended 29 February 2000		
		Before exceptional items £000	Exceptional items £000	After exceptional items £000
Turnover		11,800	-	11,800
Cost of sales		(10,766)	-	(10,766)
Gross profit		1,034	-	1,034
Distribution costs	2	(1,890)	(8)	(1,898)
Administrative expenses	2	(9,881)	(1,374)	(11,255)
Other operating income		574	-	574
Operating loss		(10,163)	(1,382)	(11,545)
Other interest receivable and similar income	5	37	-	37
Interest payable and similar charges	6	(285)	-	(285)
Loss on ordinary activities before taxation	3	(10,411)	(1,382)	(11,793)
Tax on loss on ordinary activities	7	1,631	269	1,900
Unrecovered loss for the period		(8,780)	(1,113)	(9,893)

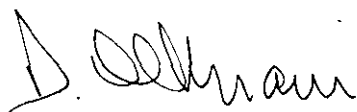
All operations are continuing. The historical cost profits and losses are the same as the profits and losses shown above. All profits and losses are recognised.

Balance sheet
At 29 February 2000

	<i>Note</i>	2000 £000	£000
Current assets			
Stocks	8		3,881
Debtors	9		2,997
			<hr/>
			6,878
Creditors: amounts falling due within one year	10		(5,771)
			<hr/>
Net current assets			1,107
			<hr/>
Creditors: amounts falling due after more than one year	11		10,000
Capital and reserves			
Called up equity share capital	13	1,000	
Profit and loss account	14	(9,893)	
		<hr/>	
Deficit on equity shareholders' funds			(8,893)
			<hr/>
			1,107
			<hr/>

These financial statements were approved by the board of directors on 13 April 2000 and were signed on its behalf by:

Derek Oldham
Operations Director



Cash flow statement

for the 17 month period ended 29 February 2000

	<i>Note</i>	17 months ended 29 February 2000	£000
Cash outflow from operating activities	<i>17</i>		(12,856)
Returns on investments and servicing of finance			
Interest received		37	
Interest paid		(251)	
		<hr/>	(214)
Cash outflow before financing			(13,070)
Financing			
Issue of shares		1,000	
Loans from parent undertakings		10,000	
		<hr/>	11,000
Decrease in cash in the period	<i>18</i>		<hr/> <hr/> (2,070)

Reconciliation of movements in shareholders' funds
for the 17 month period ended 29 February 2000

	17 months ended 29 February 2000 £000
Loss for the financial period	(9,893)
New share capital subscribed	1,000
	<hr/>
Decrease in shareholders' funds	(8,893)
Opening shareholders' funds	-
	<hr/>
Closing deficit on shareholders' funds	(8,893)
	<hr/> <hr/>

Notes

(forming part of the financial statements)

1 Accounting policies

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

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules. Both Tesco plc and Otto Versand (GmbH and Co.) have indicated their willingness to continue financial and business support for the foreseeable future.

Fixed assets and depreciation

The company does not own any fixed assets. It utilises the fixed assets of its immediate shareholders and is recharged appropriately under the terms of the joint venture agreement.

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 using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Stocks

Stocks are stated at the lower of cost and net realisable value.

Taxation

The charge for taxation is based on the profit or loss for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

The company operates consortium relief to the extent of the shareholdings of its immediate parent companies. As such, an element of the taxable losses may be purchased by the immediate parent companies in the foreseeable future.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers.

Marketing costs

The costs incurred in the production and marketing of the company's catalogues are taken to the profit and loss account over the life of the season to which the catalogues relate.

Notes (continued)

2 Exceptional costs

The exceptional costs shown on the face of the profit and loss account are non-recurring items which are not expected to form part of the on-going costs of the business. They comprise of:

	£'000
Training	115
IT development	947
Parent staff costs	135
Other	185
	<hr/>
Taxation	1,382 (269)
	<hr/>
Total	1,113
	<hr/> <hr/>

3 Loss on ordinary activities before taxation

17 months ended
29 February 2000
£000

Loss on ordinary activities before taxation is stated after charging:

Auditors' remuneration:

Audit	25
Other services	10

after crediting:

Exchange gains	73
	<hr/> <hr/>

Notes (continued)

4 Employees and directors

The company does not employ any employees directly but instead relies on seconded staff from its parents. Recharges in respect of employee and directors' costs are detailed in note 15. Recharges in respect of directors' costs were £191,500 in the period.

5 Other interest receivable and similar income

	17 months ended 29 February 2000 £000
Bank interest receivable	37
	<hr/>

6 Interest payable and similar charges

	17 months ended 29 February 2000 £000
On bank loans and overdrafts	46
Interest payable to parent undertakings	239
	<hr/>
	285
	<hr/>

Notes (continued)

7 Taxation

17 months ended
29 February 2000
£000

UK corporation tax credit at 30%.	1,900
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Tax losses of approximately £4,200,000 are available to carry forward.

8 Stocks

2000
£000

Goods for resale	3,881
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9 Debtors

2000
£000

Consortium relief recoverable from parent undertaking	1,900
Other debtors	468
Prepayments and accrued income	629
	2,997

10 Creditors: amounts falling due within one year

2000
£000

Bank overdrafts	2,070
Payments received on account	55
Trade creditors	1,458
Amounts owed to parent undertakings	1,279
Accruals and deferred income	909
	5,771

Notes (continued)

11 Creditors: amounts falling due after more than one year

	2000 £000
Amounts owed to parent undertakings	10,000
	<u>10,000</u>

The amounts owed to parent undertakings due after one year do not have fixed repayment terms. Interest is paid at base rate plus 1% per annum.

12 Provisions for liabilities and charges

The deferred taxation assets not recognised are as follows:

	2000 £000
Difference between accumulated depreciation and amortisation and capital allowances	215
Taxation on unrelieved losses carried forward	1,268
	<u>1,483</u>
Total	<u>1,483</u>

13 Called up equity share capital

	Authorised, allotted, called up and fully paid £000
A £1 ordinary shares	400
B £1 ordinary shares	600
	<u>1,000</u>
	<u>1,000</u>

A and B shares carry equal rights.

Notes (continued)

13 Called up equity share capital (continued)

The following movements in shares have occurred in the period. All shares are £1 ordinary shares.

Authorised

	Ordinary	A ordinary	B ordinary
Issued on incorporation	1,000	-	-
11 February 1999 – issue of additional shares	999,000	-	-
11 February 1999 – division of shares	(1,000,000)	400,000	600,000
	<hr/>	<hr/>	<hr/>
At end of period	-	400,000	600,000
	<hr/>	<hr/>	<hr/>

Allotted, called up and fully paid

Issued on incorporation	2	-	-
11 February 1999 – division of shares	(2)	400,000	600,000
	<hr/>	<hr/>	<hr/>
At end of period	-	400,000	600,000
	<hr/>	<hr/>	<hr/>

14 Reserves

	Profit and loss account £000
At beginning of period	-
Unrecovered loss for the period	(9,893)
	<hr/>
At end of period	(9,893)
	<hr/>

Notes (continued)

15 Related parties

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

	Tesco plc £000	Grattan plc £000
Transactions		
Operational charges (including: call centre, warehouse)	680	8,493
Wages and salaries of seconded staff	336	581
Stock purchases/(sales) from/to parent undertakings net of costs	1,401	(110)
Finance charges	140	99
	<hr/>	<hr/>
	2,557	9,063
Exceptional costs	80	1,011
	<hr/>	<hr/>
Total transactions	2,637	10,074
	<hr/> <hr/>	<hr/> <hr/>
Payments made to parent undertakings	2,145	9,287
	<hr/> <hr/>	<hr/> <hr/>
Balance owing to the parent undertakings at end of period	(492)	(787)
	<hr/> <hr/>	<hr/> <hr/>

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

Notes (continued)

16 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 Otto Versand (GmbH and Co.) a company incorporated and registered in Germany 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, is 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	Otto Versand (GmbH and Co.)
Tesco House	C/o Grattan plc
Delamare Road	Anchor House
Cheshunt	Ingleby Road
Hertfordshire	Bradford
EN8 9SL	West Yorkshire
	BD99 2XG

17 Reconciliation of operating loss to net cash flow from operating activities

	17 months ended 29 February 2000 £000
Operating loss	(11,545)
Increase in stocks	(3,881)
Increase in debtors	(1,097)
Increase in creditors	3,667
	<hr/>
Net cash outflow from operating activities	(12,856) <hr/> <hr/>

18 Analysis of net debt

	At beginning of period £000	Cash flow £000	Other non-cash changes £000	At end of period £000
Net debt - overdrafts	-	(2,070)	-	(2,070)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>