

Registered number 03639975



REPORT AND ACCOUNTS

Tesco Home Shopping Limited

FEBRUARY 28, 2005



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Tesco Home Shopping Limited

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended February 28, 2005.

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 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.

Results and dividends

The loss for the financial year before taxation, was £120,000 (2004 Loss : £1,532,000).

The directors do not recommend the payment of a dividend (2004 : £Nil).

Directors and directors' interests

Name	Position	Appointment date	Resignation date
Andrew Higginson	Non-executive Director	4 December 1998	-
Mike Hawker	Non-executive Director	13 April 2000	7 th September 2005
Jim Skelsey	Non-executive Director	30 November 2000	-
Laura Wade- Gery	Chief Executive	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 the company.

For the directors as at 28th February 2005, 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:

DIRECTORS' REPORT (continued)

	Ordinary Shares		2005	Share Options *		2004
	2005	2004		Granted	Exercised	
Laura Wade-Gery	194,362	193,578	369,404	92,800	0	276,604
John-Paul O'Reilly	42,222	45,859	129,077	28,472	0	100,605

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


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


J P O'Reilly
Chief Executive

Tesco House
PO Box
Delamare Road


A.J. SKELSEY
DIRECTOR

Tesco Home Shopping Limited

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 company 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

INDEPENDENT AUDITORS' REPORT 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 the company's affairs as at February 28, 2005 and of its loss 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
LEEDS

14 December 2005

Tesco Home Shopping Limited

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED FEBRUARY 28, 2005

	Notes	2005	2004
		£000	£000
Turnover		22,197	13,748
Cost of sales		(17,856)	(11,056)
Gross profit		4,341	2,692
Distribution costs		(1,303)	(847)
Administrative expenses		(3,097)	(2,405)
Other operating income		24	162
Operating loss		(35)	(398)
Loss on ordinary activities before interest and taxation		(35)	(398)
Interest payable and similar charges	4	(85)	(1,134)
Loss on ordinary activities before taxation	2	(120)	(1,532)
Tax on loss on ordinary activities	5	28	340
Unrecovered Loss for the financial year	11	(92)	(1,192)

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 8.


Tesco Home Shopping Limited

BALANCE SHEET AT FEBRUARY 28, 2005

	Notes	2005 £000	2004 £000
Current assets			
Stocks	6	476	281
Debtors	7	991	1,154
		<u>1,467</u>	<u>1,435</u>
Creditors: amounts falling due within one year	8	(3,669)	(3,545)
Net liabilities		<u>(2,202)</u>	<u>(2,110)</u>
Capital and reserves			
Called up equity share capital	10	26,000	26,000
Profit and loss account	11	(28,202)	(28,110)
Equity shareholders' deficit		<u>(2,202)</u>	<u>(2,110)</u>

The accounts were approved by the board of directors on 14th December and were signed on its behalf by:


J P O'Reilly
Chief Executive


A.J. SKEELSEY
DIRECTOR

Tesco Home Shopping Limited

CASH FLOW STATEMENT FOR THE YEAR ENDED FEBRUARY 28, 2005

	Note	2005 £000	2004 £000
Cashflow from operating activities	14	(231)	(208)
Returns on investment & servicing of finance		(85)	(1,134)
Taxation		275	1,972
		(41)	630
Financing:			
Issue of shares		-	25,000
Repayment of loans from parent undertakings		-	(24,500)
(Decrease)/increase in cash		(41)	1,130
RECONCILIATION OF NET CASHFLOW TO MOVEMENT IN NET DEBT			
		2005 £000	2004 £000
(Decrease)/increase in cash	15	(41)	1,130
Cash outflow from decrease in debt financing		-	24,500
Movement in net debt in the year		(41)	25,630
Net debt brought forward		(1,276)	(26,906)
Net debt carried forward		(1,317)	(1,276)

Tesco Home Shopping Limited

RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

For the year ended 28th February 2005

	2005 £000	2004 £000
Loss for the financial year	(92)	(1,192)
	<hr/>	<hr/>
	(92)	(1,192)
New share capital subscribed	-	25,000
	<hr/>	<hr/>
(Decrease)/increase in shareholders' funds	(92)	23,808
Opening shareholders' deficit	(2,110)	(25,918)
	<hr/>	<hr/>
Closing shareholders' deficit	(2,202)	(2,110)
	<hr/>	<hr/>

NOTES TO THE ACCOUNTS AT FEBRUARY 28, 2005

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 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 are recognised on a net despatch basis.

Tesco Home Shopping Limited

NOTES TO THE ACCOUNTS AT FEBRUARY 28, 2005 (continued)

2. Loss on ordinary activities before taxation is stated after charging:

	2005 £000	2004 £000
Auditors' remuneration:		
For audit work	17	23
For other services	-	-
Exchange (gains)	-	(15)
	<u>17</u>	<u>(15)</u>

3. Employees and directors

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. (2004: £81,743).

4. Interest

	2005 £000	2004 £000
Interest payable and other similar charges:		
Bank loans and overdrafts	73	87
Interest payable to parent undertakings	12	1,047
	<u>85</u>	<u>1,134</u>

5. Taxation

	2005 £000	2004 £000
Current year corporation taxation:		
Consortium relief recoverable from Tesco Plc	22	277
Prior year adjustment	6	63
	<u>28</u>	<u>340</u>

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

NOTES TO THE ACCOUNTS AT FEBRUARY 28, 2005 (continued)

6. Stock

	2005 £000	2004 £000
Goods for resale	476	281

7. Debtors

	2005 £000	2004 £000
Trade debtors	726	505
Amounts due from associated undertakings	-	161
Consortium relief recoverable from the parent	22	269
Prepayments and accrued income	243	219
	991	1,154

8. Creditors: amounts falling due within one year

	2005 £000	2004 £000
Bank overdraft	1,317	1,276
Trade creditors	581	831
Other creditors	6	191
Amounts owed to parent undertakings	1,217	960
Accruals and deferred income	548	287
	3,669	3,545

Tesco Home Shopping Limited

NOTES TO THE ACCOUNTS AT FEBRUARY 28, 2005 (continued)

9. Provisions for liabilities and charges

The deferred taxation asset not recognised is as follows:	2005 £000	2004 £000
Taxation on unrelieved losses carried forward	4,104	4,086

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

10. Called up equity share capital

	2005 £000	2004 £000
A £1 ordinary shares	10,400	10,400
B £1 ordinary shares	15,600	15,600
Authorised share capital	26,000	26,000
A £1 ordinary shares	10,400	10,400
B £1 ordinary shares	15,600	15,600
Allotted, called up and fully paid	26,000	26,000

A and B shares carry equal rights.

11. Reserves

	Profit & loss Account £000
At March 1, 2004	(28,110)
Loss for the year	(92)
At February 28, 2005	(28,202)

Tesco Home Shopping Limited

NOTES TO THE ACCOUNTS AT FEBRUARY 28, 2005 (continued)

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:

	2005		2004	
	Tesco Plc £000	Grattan Plc £000	Tesco Plc £000	Grattan Plc £000
Transactions				
Operational charges (including: call centre, warehouse and fixed asset charges)	(505)	2,112	131	1,776
Wages and salaries of seconded staff	535	237	371	260
Stock purchases from parents	-	12,714	-	7,472
Finance charges	12	-	615	432
Total transactions	42	15,063	1,117	9,940
Payments made to parents	404	14,429	15,287	19,697
Balance owing to/(from) the parents at end of year	(147)	1,379	215	745

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

Tesco Home Shopping Limited

NOTES TO THE ACCOUNTS AT FEBRUARY 28, 2005 (continued)

13. 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 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	Grattan plc
Tesco House	Anchor House
Delamare Road	Ingleby Road
Cheshunt	Bradford
Hertfordshire	West Yorkshire
EN8 9SL	BD99 2XG

14. Reconciliation of operating loss to net cash inflow from operating activities

	2005 £000	2004 £000
Operating loss	(35)	(398)
Increase in stock	(195)	(89)
Increase in debtors	(84)	(310)
Increase in creditors	83	589
Net cash outflow from operating activities	(231)	(208)

15. Analysis of net debt

	March 1, 2004 £000	Cash Flow £000	February 28, 2005 £000
Overdraft	(1,276)	(41)	(1,317)
Total	(1,276)	(41)	(1,317)