

Stanhope Finance Limited

Registered Number 4288193

Annual Report and Financial Statements

for the period ended 28 June 2007

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Stanhope Finance Limited

Directors and advisors

Directors

R J Ashton
D F Davis
D N Brown

Company secretary

P Parker

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
1 Embankment Place
London
WC2N 6RH

Registered office

Avebury
489-499 Avebury Boulevard
Saxon Gate West
Central Milton Keynes
Buckinghamshire
MK9 2NW

Stanhope Finance Limited

Directors' report

for the period ended 28 June 2007

The directors present their report and the audited financial statements of the Company for the period ended 28 June 2007 (previously year to 31 December 2007).

Principal activity

The Company's ultimate parent undertaking is Home Retail Group plc, and its principal activity was to act as a financing company.

Review of business and future developments

The Company has continued to trade satisfactorily in the period under review and the directors anticipate that the Company will continue to act as a financing company.

On 30 March 2007, the Company's parent Cliffrange plc received notice that a Security holder Redemption Event had occurred and as a result the Perpetual Securities issued by that Company were repaid on 28 June 2007. As part of the unwinding of these arrangements the B series Ordinary shares of this Company were redeemed and new B series Ordinary shares were issued to the Company's parent. In addition the Company changed its accounting reference date and as a consequence the accounting period covered by these financial statements is from 1 January 2007 to 28 June 2007.

The management of business and the execution of the Company's strategy are subject to a number of risks. The key business risks and uncertainties affecting the Company are considered to relate to the ability of the debtor companies to service their interest payments. Further discussion of these risks and uncertainties in the context of the Home Retail group as a whole is provided on page 15 of the group's annual report which does not form part of this report

Key performance indicators ("KPIs")

Given the straightforward nature of the business, the Company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business

Results and dividend

The profit for the financial period was £6.7m (Year ended 31 December 2006: £13.1m), which comprised interest on financing arrangements with fellow group undertakings.

The directors do not recommend the payment of a dividend (Year ended 31 December 2006: £nil).

Directors

The directors holding office during the period and up to the date of signing the financial statements were:

Mrs H J Gal	(resigned 28 June 2007)
R J Ashton	
Mrs J Wirth	(resigned 22 October 2007)
D F Davis	(appointed 22 October 2007)
D N Brown	

Independent auditors

The company has an elective resolution dispensing with the requirement to reappoint auditors annually. PricewaterhouseCoopers LLP will therefore continue in office.

Stanhope Finance Limited

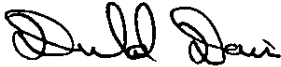
Directors' report

for the period ended 28 June 2007

Disclosure of information to auditors

As at 22 January 2008, so far as each director is aware, there is no relevant audit information of which the Company's auditors are unaware and each director has taken all steps that he ought to have taken as a director in order to make himself aware of that information and to establish that the Company's auditors are aware of that information.

On behalf of the Board

A handwritten signature in black ink, appearing to read 'D F Davis', written in a cursive style.

D F Davis
Director

Stanhope Finance Limited

Statement of directors' responsibilities

The directors are responsible for preparing financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 of the Company 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 UK 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, in which case there should be supporting assumptions or qualifications.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for ensuring that proper accounting records are kept which disclose, with reasonable accuracy at any time, the financial position of the Company and that the Company financial statements comply with the Companies Act 1985. They 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.

On behalf of the Board



D F Davis
Director

Stanhope Finance Limited

Independent auditor's report to the members of Stanhope Finance Limited

We have audited the financial statements of Stanhope Finance Limited for the period ended 28 June 2007, which comprise the profit and loss account, the balance sheet and the related notes. The financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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.

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 consistent with the financial statements.

In addition we report to you 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 are 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.

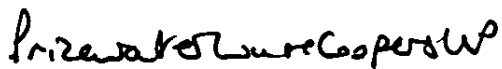
Stanhope Finance Limited

Independent auditors' report to the members of Stanhope Finance Limited (continued)

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 28 June 2007 and of its profit for the period then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Director's Report is consistent with the Financial Statements.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

22 January 2008

Stanhope Finance Limited

Profit and loss account

for the period ended 28 June 2007

	<u>Notes</u>	<u>Period ended</u> <u>28 June</u> <u>2007</u> <u>£m</u>	<u>Year ended</u> <u>31 December</u> <u>2006</u> <u>£m</u>
Interest receivable and similar income	2	18.1	36.2
Interest payable and similar charges	2	<u>(6.0)</u>	<u>(12.2)</u>
Profit on ordinary activities before taxation		12.1	24.0
Taxation	3	<u>(5.4)</u>	<u>(10.9)</u>
Profit for the financial period	10	<u>6.7</u>	<u>13.1</u>

All the above activities are derived from continuing operations.

There are no recognised gains and losses other than the result above.

There is no material difference between the profit on ordinary activities before taxation and the profit for the period stated above and their historical cost equivalents

Stanhope Finance Limited

Balance sheet

at 28 June 2007

	<u>Notes</u>	<u>28 June</u> <u>2007</u> <u>£m</u>	<u>31 December</u> <u>2006</u> <u>£m</u>
Current assets			
Debtors - due within one year	5	43.0	33.7
Debtors - due after more than one year	5	<u>720.5</u>	<u>720.5</u>
		763.5	754.2
Current liabilities			
Creditors - amounts due within one year	6	<u>(280.3)</u>	<u>(277.7)</u>
Net current assets		483.2	476.5
Creditors - amounts due after more than one year	7	<u>-</u>	<u>(0.1)</u>
Net assets		<u>483.2</u>	<u>476.4</u>
 Capital and reserves			
Called up share capital	9	0.4	0.3
Share premium account	10	450.1	450.1
Profit and loss account	10	<u>32.7</u>	<u>26.0</u>
Total equity shareholders' funds	11	<u>483.2</u>	<u>476.4</u>

The financial statements on pages 7 to 15 were approved by the Board of Directors on 22 January 2008 and signed on its behalf by



D N Brown

Director

Stanhope Finance Limited
Notes to the financial statements
for the period ended 28 June 2007

1. Accounting policies

Basis of accounting

The financial statements are prepared on a going concern basis under the historical cost convention, and in accordance with the Companies Act 1985 and applicable UK Generally Accepted Accounting Principles ('UK GAAP').

The Home Retail Group plc consolidated financial statements for the year ended 3 March 2007 contain financial instrument disclosures which comply with FRS25 'Financial Instrument. Disclosure and Presentation'. Consequently the Company has taken advantage of the exemption in FRS25 not to present separate financial instrument disclosures for the Company.

The principal accounting policies, which have been applied on a consistent basis with previous periods, unless otherwise stated, are noted below.

Interest income and expense

The Company recognises interest income and expense on an accruals basis at the appropriate prevailing interest rate. Dividends on equity instruments that are classified as financial liabilities are reported as interest expense.

Inter-group balances

The directors have reviewed the carrying value of group balances and believe that future income streams support these balances.

Dividend distribution

Dividends proposed by the Board of Directors and unpaid at the period end are not recognised in the Financial Statements until they have been approved by the shareholders at the Annual General Meeting. Interim dividends are recognised in the Financial Statements when they are paid.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that gives a residual interest in the assets of the Company after deducting all of its liabilities. A financial liability is a contractual obligation to deliver cash or another financial asset.

Cash flow statement

The Company is a wholly-owned subsidiary of the Home Retail Group plc and is included in the consolidated financial statements of Home Retail Group plc, which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS1 (revised 1996).

Stanhope Finance Limited

Notes to the financial statements (continued)

for the period ended 28 June 2007

2. Net interest receivable

	<u>Period ended 28 June 2007</u>	<u>Year ended 31 December 2006</u>
	<u>£m</u>	<u>£m</u>
Interest receivable on amounts owed by group undertakings	18.1	36.2
Interest payable: Return payable on series A and series B financing securities (note 8)	(6.0)	(12.2)
Net interest receivable	12.1	24.0

3. Taxation

	<u>2007 £m</u>	<u>2006 £m</u>
a) Analysis of tax charge for the period UK corporation tax on profit for the period	(5.4)	(10.9)
b) Factors affecting the tax charge for the period		

The tax charge for the period differs from the standard rate of corporation tax in the UK (30%).
The differences are explained below:

	<u>Period ended 28 June 2007</u>	<u>Year ended 31 December 2006</u>
	<u>£m</u>	<u>£m</u>
Profit on ordinary activities before taxation	12.1	24.0
Profit on ordinary activities before taxation multiplied by the standard rate of corporation tax in the UK 30% (2006 30%)	(3.6)	(7.2)
Effects of: Interest payable not deductible for tax purposes	(1.8)	(3.7)
Taxation charge for the period	(5.4)	(10.9)

4. Profit for the financial period

No directors received any remuneration from the Company during the period ended 28 June 2007 (Year ended 31 December 2006 nil). The company has no employees.
The auditors received remuneration of £5,000 for the period ended 28 June 2007 (Year to 31 December 2006 £5,000) which was paid by the ultimate parent undertaking

Stanhope Finance Limited

Notes to the financial statements (continued)

for the period ended 28 June 2007

5. Debtors

	<u>28 June</u> <u>2007</u> <u>£m</u>	<u>31 December</u> <u>2006</u> <u>£m</u>
Due within one year:		
Interest receivable from group undertakings	6.8	6.9
Amounts owed by group undertakings	<u>36.2</u>	<u>26.8</u>
	43.0	33.7
Due after more than one year:		
Amounts owed by group undertakings	<u>720.5</u>	<u>720.5</u>
	<u>763.5</u>	<u>754.2</u>

Amounts owed by group undertakings due within one year and after more than one year accrue interest at 4.91% per annum (2006: 4.91%).

The amount owed by group undertakings within one year is payable on demand and is unsecured.

The amount due after one year is repayable in January 2009 but may be paid earlier at the request of the holder. The amounts are unsecured but guaranteed by Home Retail Group plc.

6. Creditors – amounts due within one year

	<u>28 June</u> <u>2007</u> <u>£m</u>	<u>31 December</u> <u>2006</u> <u>£m</u>
Borrowings (note 8)	(270.0)	(270.0)
Corporation tax	(8.1)	(5.4)
Amount owed to group undertakings	<u>(2.2)</u>	<u>(2.3)</u>
	<u>(280.3)</u>	<u>(277.7)</u>

7. Creditors – amounts due after one year

	<u>28 June</u> <u>2007</u> <u>£m</u>	<u>31 December</u> <u>2006</u> <u>£m</u>
Borrowings (note 8)	<u>-</u>	<u>(0.1)</u>

The B Series Ordinary shares were redeemed on 28 June 2007 as part of the unwinding arrangements resulting from the Security holder Redemption Event of the Company's immediate parent.

Stanhope Finance Limited

Notes to the financial statements (continued)

for the period ended 28 June 2007

8. Borrowings

	<u>28 June</u> <u>2007</u> <u>£m</u>	<u>31 December</u> <u>2006</u> <u>£m</u>
Series B ordinary shares of £1 each	-	(0.1)
Series A Financing Securities of £1 each	(220 0)	(220 0)
Series B Financing Securities of £1 each	(50.0)	(50.0)
	<u>(270.0)</u>	<u>(270.1)</u>
 Maturity profile of borrowings:		
Within one year	(270 0)	(270.0)
In more than two years, but not more than five years	-	(0.1)
	<u>(270 0)</u>	<u>(270 1)</u>

In June 2007 the Series B ordinary shares were redeemed at their paid up amount due to the Perpetual Securities issued by Cliffrange plc, the Company's immediate parent undertaking, being redeemed in full

On winding up, the holders of the Series A and Series B Financing Securities have priority before all other classes of shares to receive repayment of capital and any arrears of dividends. The shares are redeemable, on any quarterly payment date, at the option of both the holder and the Company. The amount to be repaid includes any appropriate share premium. They are not secured.

The Series A Financing Securities do not carry any voting rights and carry a fixed cumulative preferential return on the subscription amount payable quarterly in arrears on 24 January, 24 April, 24 July, and 24 October. This return rate was reduced from 4.65% to 4.55% on 24 January 2005. The Series B Financing Securities do not carry any voting rights and carry a fixed cumulative preferential return on the subscription amount payable quarterly in arrears on 24 January, 24 April, 24 July, and 24 October. This return rate was increased from 3.75% to 4.55% on 24 January 2005.

9. Called up share capital

	<u>28 June 2007</u>		<u>31 December 2006</u>
	<u>Number</u> <u>of shares</u>	<u>£m</u>	<u>Number</u> <u>of shares</u>
Authorised:			
Series A ordinary shares of £1 each	270,000	0.3	270,000
Series B ordinary shares of £1 each	100,000	0.1	-
		<u>0.4</u>	<u>0.3</u>
 Allotted and fully paid			
Series A ordinary shares of £1 each	270,000	0.3	270,000
Series B Ordinary shares of £1 each	100,000	0.1	-
		<u>0.4</u>	<u>0.3</u>

The Series B ordinary shares ranked equally with the Series A ordinary shares (see note 8). Dividends payable on the Series A and B ordinary shares were apportioned and paid pro rata according to the amounts paid on the shares, including share premium.

On 28 June 2007, the Company's authorised share capital was increased by £100,000 split into 100,000 Series B ordinary shares of £1 each. At this date these shares were allotted to the Company's parent at face value

Stanhope Finance Limited

Notes to the financial statements (continued)

for the period ended 28 June 2007

10. **Reserves**

	<u>Profit and loss account</u> <u>£m</u>	<u>Share premium account</u> <u>£m</u>
At start of period	26.0	450.1
Profit for the period	<u>6.7</u>	<u>-</u>
At end of period	<u>32.7</u>	<u>450.1</u>

11. **Reconciliation of movement in total shareholders' funds**

	<u>28 June 2007</u> <u>£m</u>	<u>31 December 2006</u> <u>£m</u>
Profit for the period	6.7	13.1
Issue of share capital	<u>0.1</u>	<u>-</u>
Net addition to shareholders' funds	6.8	13.1
Opening shareholders' funds	<u>476.4</u>	<u>463.3</u>
Closing shareholders' funds	<u>483.2</u>	<u>476.4</u>

Stanhope Finance Limited

Notes to the financial statements (continued)

for the period ended 28 June 2007

12. Related party transactions

The Company offered finance to its ultimate parent company and other fellow subsidiary undertakings through the provision of inter company loans. Interest income shown in the profit and loss account derives from these loans (see note 2)

Interest income on amounts owed by group undertakings was as follows:

	<u>28</u> <u>June</u> <u>2007</u> <u>£m</u>	<u>31</u> <u>December</u> <u>2006</u> <u>£m</u>
GUS plc	-	6.2
Home Retail Group plc	5.0	2.3
Argos Limited	7.1	14.4
ARG Card Services Limited	2.4	4.9
Homebase Limited	3.6	7.3
Hampden Group Limited	-	1.1
	<u>18.1</u>	<u>36.2</u>

Amounts owed by group undertakings were as follows:

	<u>28</u> <u>June</u> <u>2007</u> <u>£m</u>	<u>31</u> <u>December</u> <u>2006</u> <u>£m</u>
Home Retail Group plc	215.2	205.7
Argos Limited	296.1	296.2
ARG Card Services Limited	100.9	100.9
Homebase Limited	<u>151.3</u>	<u>151.4</u>
	<u>763.5</u>	<u>754.2</u>

Interest payable on amounts owed to group undertakings was as follows:

	<u>28</u> <u>June</u> <u>2007</u> <u>£m</u>	<u>31</u> <u>December</u> <u>2006</u> <u>£m</u>
GUS Holdings Limited	-	8.0
Hampden Group Limited	<u>6.0</u>	<u>4.3</u>
	<u>6.0</u>	<u>12.3</u>

Amount owed to fellow group undertakings is as follows:

	<u>28</u> <u>June</u> <u>2007</u> <u>£m</u>	<u>31</u> <u>December</u> <u>2006</u> <u>£m</u>
Hampden Group Limited – accrued interest	<u>2.2</u>	<u>2.3</u>

The Company is financed in part by Series A and Series B Financing Securities. Both classes of securities were held by Hampden Group Limited at 28 June 2007 and 31 December 2006 (Prior to demerger by GUS Holdings Limited) and details of the amounts outstanding at that date and the interest in respect of the period are given in note 8 and note 2 respectively

Stanhope Finance Limited

Notes to the financial statements (continued)

for the period ended 28 June 2007

13. Ultimate parent undertaking and controlling party

The company's immediate parent company is Cliffrange plc. The Company's ultimate parent company during the period under review was Home Retail Group plc, which is registered in England and Wales. It is the smallest and largest group in which the results of the Company for the period were consolidated. The group financial statements of Home Retail Group plc are available from the Secretary of that company at its registered office, 489-499 Avebury Boulevard, Milton Keynes, MK9 2NW.