

Habitat Retail Limited (Formerly Hackremco (no. 2606) Limited)

Annual Report and Financial Statements

For the 67 weeks ended
3 March 2012



Habitat Retail Limited
Annual Report and Financial Statements
3 March 2012

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Habitat Retail Limited

Directors' report for the 67 weeks ended 3 March 2012

The directors present their report and the audited financial statements of the Company for the 67 weeks ended 3 March 2012 (the period). The Company's name upon incorporation on 19 November 2010 was Hackremco (no 2606) Limited. On 24 June 2011, the Company's name was changed to Habitat Retail Limited.

Registered number

The registered number of the Company is 7445750.

Principal activities

The Company is a retailer of over 4,000 general merchandise products for the home, available across all stores and the website www.habitat.co.uk. Customers can purchase products through the chain of 3 London stores, online and over the phone, with the option of picking them up from a store or having them delivered to their home.

Review of the business and future developments

The Company was incorporated on 19 November 2010 and these accounts represent the period from incorporation to 3 March 2012. On 24 June 2011, the Company principally acquired the exclusive rights to the Habitat brand along with its brand designs and intellectual property in the UK and the Republic of Ireland, the Habitat UK website, three of its London stores and a share trading stock, for a total purchase price of £24.5m.

The Company's brand is recognised for its unique heritage, with its products designed and manufactured in-house by Habitat. It sells furniture and home accessories from three Central London showrooms, online and over the telephone.

The Company is a part of Home Retail Group plc. During 2012, the Company is intending to introduce Habitat branded products into other businesses operated by Home Retail Group.

Results and dividends

The loss for the period was £6,849,000. The directors do not recommend the payment of a dividend.

Principal risks and uncertainties

Performance in the retail industry is affected by general economic conditions and sector specific factors such as range and stock availability, number and location of stores, competitive activity and price fluctuations. The board carries out regular strategic reviews including the assessment of competitor activity, customer buying patterns and market trends.

The principal risks and uncertainties of Home Retail Group plc, which includes the Company, are discussed on page 30 of Home Retail Group's 2012 annual report, which does not form part of this report. The Company is a part of Home Retail Group, so most of the risks detailed in that report are relevant to the Company, and are managed by the directors on a basis consistent with, and as part of, Home Retail Group's structured risk management process.

The financial risk management policies of the Company are disclosed in note 4 to the financial statements.

Key performance indicators

KPIs used to manage the business include sales, gross margin and profitability. The Company has generated sales of £11,745,000 and gross profit of £5,008,000 in the year. Operating expenses, which include exceptional items of £2,315,000, have resulted in a loss before tax of £6,887,000.

Habitat Retail Limited
Directors' report for the 67 weeks ended 3 March 2012 (continued)

Directors

The directors that held office during the period were as follows

C V Askem	(Appointed 28/10/11)
G F Ball	(Appointed 27/06/11)
D N Brown	(Appointed 23/06/11)
R G Lockwood	(Appointed 23/06/11)
P B Loft	(Appointed 27/06/11)

There were no other appointments or resignations after the period end

Going concern

After making enquiries, the directors have formed a judgement at the time of approving the financial statements that there is a reasonable expectation that the Company has access to adequate resources to continue in operational existence for the foreseeable future. For this reason, they have adopted the going concern basis in preparing the financial statements

Charitable and Political Donations

During the period the Company donated £nil to charitable and political organisations

Creditor Payment Policy

For all trade creditors, it is the Company's policy to

- Agree and confirm the terms of payment at the commencement of business with that supplier,
- Pay suppliers in accordance with applicable terms, and
- Continually review the payment procedures and liaise with suppliers as a means of eliminating difficulties and maintaining a good working relationship

Employees

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that views are taken into account when decisions are made that are likely to affect their interests. In addition, meetings are held to ensure that all employees are aware of the financial and economic performance of their business units and of the Company as a whole. Communication with all employees continues through newsletters, briefing groups and the distribution of the Home Retail Group plc 2012 results

Disabled Persons

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Company continues and the appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability

Habitat Retail Limited
Directors' report for the 67 weeks ended 3 March 2012 (continued)

Statement of Directors' Responsibilities

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable laws and regulations

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they 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 those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable IFRSs as adopted by the European Union 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 adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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.

Directors liability insurance and third party indemnification provisions

During the period the Company maintained liability insurance and third party indemnification provisions for its directors under which the Company has agreed to indemnify the directors to the extent permitted by law in respect of all liabilities to third parties arising out of, or in connection with, the execution of their powers, duties and responsibilities as directors of the Company and any of its associated companies. These indemnities are Qualifying Third Party Indemnity Provisions as defined in Section 234 of the Companies Act 2006 and copies are available for inspection at the registered office of the Company during business hours on any weekday except public holidays.

Disclosure of information to auditors

Each person who is a director at the date of approval of this report confirms that

- a) so far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware, and
- b) the directors have taken all steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418(2) of the Companies Act 2006.

By order of the board



P A Parker
Company Secretary

13 August 2012

Habitat Retail Limited

Independent auditors' report to the members of Habitat Retail Limited

We have audited the financial statements of Habitat Retail Limited for the 67 weeks ended 3 March 2012 which comprise the income statement, the statement of comprehensive income, the balance sheet, the statement of changes in equity, the statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 3 March 2012 and of its loss and cash flows for the 67 weeks then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.

Neil Grimes

Neil Grimes (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

Date 13 August 2012

Habitat Retail Limited
Income statement
For the 67 weeks ended 3 March 2012

	Notes	67 weeks ended 3 March 2012 £'000
Revenue		11,745
Cost of sales		(6,737)
Gross profit		5,008
Net operating expenses - before exceptional items	5	(9,580)
Net operating expenses - exceptional items	5	<u>(2,315)</u>
Loss before tax		(6,887)
Taxation	7	<u>38</u>
Loss for the year attributable to equity holders of the Company		<u>(6,849)</u>

Statement of comprehensive income
For the 67 weeks ended 3 March 2012

	67 weeks ended 3 March 2012 £'000
Loss for the year attributable to equity holders of the Company	(6,849)
Other comprehensive income for the year, net of tax	<u>-</u>
Total comprehensive income for the year attributable to equity holders of the Company	<u>(6,849)</u>

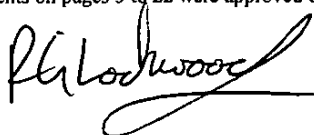
Habitat Retail Limited
Balance sheet
As at 3 March 2012

	Notes	2012 £'000
ASSETS		
Non-current assets		
Goodwill	8	2,844
Other intangible assets	9	18,290
Property, plant & equipment	10	1,649
Deferred tax assets	17	62
Total non-current assets		22,845
Current assets		
Inventories	11	5,051
Trade and other receivables	12	4,294
Cash and cash equivalents	13	1,553
Total current assets		10,898
Total assets		33,743
LIABILITIES		
Non-current liabilities		
Provisions	15	(500)
Deferred tax liabilities	16	(24)
Total non-current liabilities		(524)
Current liabilities		
Trade and other payables	14	(15,568)
Total current liabilities		(15,568)
Total liabilities		(16,092)
Net assets		17,651
EQUITY		
Share capital	17	24,500
Retained earnings		(6,849)
Total equity		17,651

The financial statements on pages 5 to 22 were approved by the Board of Directors and were signed on their behalf by

R G Lockwood
Director

13 August 2012



Habitat Retail Limited
Statement of changes in equity
For the 67 weeks ended 3 March 2012

	Attributable to equity holders of the Company		
	Share capital £'000	Retained earnings £'000	Total £'000
Balance at 19 November 2010	-	-	-
Loss for the financial year	-	(6,849)	(6,849)
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	(6,849)	(6,849)
Transactions with owners			
Issue of ordinary share capital	24,500	-	24,500
Total transactions with owners	24,500	-	24,500
Balance at 3 March 2012	24,500	(6,849)	17,651

Habitat Retail Limited
Statement of cash flows
For the 67 weeks ended 3 March 2012

	Notes	67 weeks ended 3 March 2012 £'000
Cash flows from operating activities		
Cash generated from operations	21	1,553
Net cash flow from operating activities		<u>1,553</u>
Cash flows from investing activities		
Issue of shares	22	24,500
Acquisition of business	22	(24,500)
Net cash flow from investing activities		<u>-</u>
Net increase in cash and cash equivalents		<u>1,553</u>
Movement in cash and cash equivalents		
Cash and cash equivalents at the beginning of the period		-
Net increase in cash and cash equivalents		1,553
Cash and cash equivalents at the end of the period	13	<u>1,553</u>

Habitat Retail Limited
Notes to the financial statements
For the 67 weeks ended 3 March 2012

1 General information

Habitat Retail Limited (the Company) is a private limited company incorporated and domiciled in the United Kingdom under the Companies Act 2006. The Company's registered address is Avebury, 489-499 Avebury Boulevard, Milton Keynes, MK9 2NW.

The financial period represents the 67 weeks to 3 March 2012.

Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and International Financial Reporting Interpretations Committee Interpretations ("IFRICs") as adopted by the European Union. They also comply with those parts of the Companies Act 2006 applicable to companies reporting under IFRSs.

2 Basis of preparation

The financial statements are presented in sterling, rounded to the nearest thousand. They are prepared, under the historic cost convention. The principal accounting policies applied in the preparation of these financial statements are set out in note 3. Unless otherwise stated, these policies have been consistently applied throughout the period.

The Company is a wholly owned subsidiary of Argos Holdings Limited, 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 consolidated financial statements under the terms of section 400 of the Companies Act 2006.

The Company's operations at the balance sheet date consist of one class of business, which is retailing within the United Kingdom.

Changes in accounting standards

At the balance sheet date a number of new standards were in issue but not yet effective:

- IFRS 9 – 'Financial Instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities,
- IFRS 13 – 'Fair Value Measurement' provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs.

The Company has not early-adopted any of these new standards. The Company will assess their full impact in due course. There are no other new standards, amendments to existing standards or interpretations that are not yet effective that would be expected to have a material impact on the Company.

Critical accounting estimates and assumptions

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities. The resulting accounting estimates, which are based on management's best judgement at the date of the financial statements, will, by definition, seldom equal the related actual results. The estimates and underlying assumptions are reviewed on an ongoing basis, with revisions recognised in the period in which the estimates are revised and future periods where appropriate. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Goodwill

Goodwill is allocated to one cash-generating unit (CGU), that being the business as a whole. The Company is required to assess whether goodwill has suffered any impairment loss on an annual basis, based on the recoverable amount, being the higher of the CGU's fair value less costs to sell and its value-in-use. The value-in-use calculations require the use of estimates in relation to future cash flows and suitable discount rates. Actual outcomes could vary from these estimates.

Habitat Retail Limited
Notes to the financial statements (continued)
For the 67 weeks ended 3 March 2012

2 Basis of preparation (continued)

Impairment of assets

Assets are subject to impairment reviews whenever changes in events or circumstances indicate that an impairment may have occurred. Assets are written down to the higher of fair value less costs to sell and value-in-use. Value-in-use is calculated by discounting the expected cash flows from the asset at an appropriate discount rate for the risks associated with that asset. This includes estimates of both the expected cash flows and an appropriate discount rate which use management's assumptions and estimates of the future performance of the asset. Differences between expectations and the actual cash flows will result in differences in the level of impairment required. Store assets are assessed for impairment at the individual store level.

A previously recognised impairment loss is reversed if there has been a significant change in the underlying assumptions used to determine the recoverable amount, however not to an amount higher than the carrying amount that would have been determined, net of amortisation or depreciation, if no impairment loss had been recognised in prior years.

Inventory provisions

Inventory is carried at the lower of cost and net realisable value which requires the estimation of the eventual sales price of goods to customers in the future. Net realisable value takes into account slow moving, obsolete and defective inventory. Any difference between the expected and the actual sales price achieved will be accounted for in the period in which the sale is made.

Provisions

Provisions have been estimated for legal claims. These provisions represent the best estimate of the liability at the balance sheet date, the actual liability being dependent on future events such as the outcome of a claim. Expectations will be revised each period until the actual liability arises, with any difference accounted for in the period in which the revision is made.

3 Summary of principal accounting policies

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services to external customers, net of value added tax, rebates, discounts and returns. Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably. Revenue on goods to be delivered is recognised when the customer receives delivery of the goods. The Company operates a variety of sales promotion schemes that give rise to goods being sold at a discount to the standard retail price. Revenue is shown net of value added tax, returns and discounts. Commissions receivable on the sale of services for which the Company acts as agents are included within revenue. A provision for estimated returns is made representing the profit on goods sold during the period which will be returned and refunded after the period end.

Goodwill

Goodwill is the excess of the fair value of the consideration payable for an acquisition of a business over the fair value of the identifiable net assets acquired at the date of acquisition. Fair values are attributed to the identifiable assets, liabilities and contingent liabilities that existed at the date of acquisition, reflecting their condition at that date. Goodwill is stated at cost less any provision for impairment. Goodwill is not amortised and is tested at least annually for impairment. An impairment charge is recognised where the carrying value of goodwill exceeds its recoverable amount, being the higher of its fair value less costs to sell and its value-in-use. Value-in-use calculations are performed using cash flow projections discounted at a rate taking account of the specific risks inherent within the Company.

Other intangible assets

The cost of other intangible assets with finite useful economic lives is amortised over that period. The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If impaired, they are written down to the higher of fair value less costs to sell and value-in-use.

Certain costs incurred in the developmental phase of an internal project are capitalised as intangible assets provided that a number of criteria are satisfied. These include the technical feasibility of completing the asset so that it is available for use or sale, the availability of adequate resources to complete the development and how the asset will generate probable future economic benefit.

Brands

Acquired brands have a finite useful life and are initially recognised at their fair value at the date of acquisition and subsequently held at cost less accumulated amortisation. Amortisation is calculated to spread the cost of the brands over their estimated useful lives of 10 years on a straight line basis. This amortisation method reflects the pattern in which the asset's future economic benefits are expected to be consumed.

Habitat Retail Limited
Notes to the financial statements (continued)
For the 67 weeks ended 3 March 2012

3 Summary of principal accounting policies (continued)

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Computer software licences are held at cost and are amortised on a straight-line basis over three to five years. Costs that are directly associated with the production of identifiable and unique software products controlled by the Company, and that will generate economic benefits beyond one year, are recognised as intangible assets. Computer software development costs recognised as assets are amortised on a straight-line basis over three to five years. Costs associated with maintaining computer software programs are recognised as an expense as incurred.

The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each balance sheet date.

Property, plant and equipment

Property, plant and equipment are held at cost being the purchase price and other costs directly attributable to bringing the asset into use less accumulated depreciation and any impairment in value. An impairment charge is recognised where the carrying value of the asset exceeds its recoverable amount, being the higher of the asset's fair value less costs to sell and its value-in-use. Value-in-use calculations are performed using cash flow projections discounted at a rate taking account of the specific risks inherent within the Company's business.

Depreciation is charged on a straight-line basis as follows:

- freehold properties are depreciated over 50 years,
- leasehold premises are depreciated over the period of the lease,
- plant, vehicles and equipment are depreciated over 2 - 10 years according to the estimated life of the asset,
- land is not depreciated, and
- assets under the course of construction are not depreciated.

The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each balance sheet date.

Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is recognised in the balance sheet, with the cost of unrecoverable trade receivables recognised in the income statement immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. The cost bases in use within the Company are general retail goods valued on a standard cost or weighted average basis which approximates to actual cost. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Costs of inventory include the transfer from equity of any gains or losses on qualifying cash flow hedges relating to their purchase.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are classified as current liabilities if payment is due within one year. They are recognised initially at fair value and subsequently remeasured at amortised cost.

Current and non-current tax

Current tax and non-current tax are based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Habitat Retail Limited
Notes to the financial statements (continued)
For the 67 weeks ended 3 March 2012

3 Summary of principal accounting policies (continued)

Deferred taxation

Deferred tax is provided in full on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. However, if the deferred taxation arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognised to the extent that temporary differences can be utilised either through future profits generated by the Company or through being made available via group relief.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Provisions

Provisions are recognised when

- the Company has a present legal or constructive obligation as a result of past events,
- it is more likely than not that an outflow of resources will be required to settle the obligation, and
- the amount has been reliably estimated.

Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense. Where the Company expects a provision to be reimbursed, the reimbursement is recognised as a separate asset when the reimbursement is certain.

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. Incentives from lessors are recognised as a systematic reduction of the charge over the life of the lease.

Financial instruments

The Company classifies its financial instruments in the following categories: financial assets and financial liabilities at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivable. Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Loans and receivables comprise trade and other receivables, cash and cash equivalents and current asset investments in the balance sheet.

Habitat Retail Limited
Notes to the financial statements (continued)
For the 67 weeks ended 3 March 2012

4. Financial risk management

Financial risk factors

Home Retail Group (the Group) operates a centralised treasury function which is responsible for managing the market risk (foreign exchange and interest rate risk), credit risk and liquidity risks associated with the Group's activities. These activities include those of the Company. The Group operates a structured risk management process which identifies, evaluates and prioritises risks and uncertainties.

The Group's treasury function seeks to reduce exposures to foreign exchange, interest rate and other financial risks, and to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. Policies and procedures are subject to review and approval by the Group's Board of Directors as well as subject to internal audit review.

Market risk - foreign exchange risk

The Company is not subject to foreign exchange risk factors.

Market risk - interest rate risk

The Company's income and operating cash flows are considered to be substantially independent of changes in market interest rates.

The Company's cash and borrowing requirements are managed centrally by the Group's treasury function in order to manage the net interest income/expense for the Group as a whole. As a result, the Group's interest rate risk arises from the variance in market rate when deposits are made. The principal objective of the Group's interest rate risk management is to manage the trade-off between obtaining the most beneficial effective rates of interest whilst minimising the impact of interest rate volatility on profits before tax.

The Company had no external borrowings from banks or other financial institutions at any point during the period.

Credit risk

The Company has no significant concentrations of credit risk. Sales to retail customers are made in cash, via major debit and credit cards or via other Group or third party operated financial products.

The Company's exposure to credit risk with regard to treasury transactions is managed by dealing only with major banks and financial institutions. Dealing activity is closely controlled and counterparty positions are monitored on a regular basis. Foreign exchange counterparty limits are set for each organisation on a scale based on credit rating and maturity period.

Group policy is that cash is only deposited with major banks and financial institutions that satisfy the Group's credit requirements. These credit requirements are assessed by reference to published credit ratings and the extent of UK Government investment, and are applied in combination to determine both the maximum amount and the maximum duration of cash deposits. A minimum credit rating of at least AA- (Standard & Poor's) or Aa3 (Moody's) is required, unless the UK Government has a significant investment, in which case a minimum credit rating of at least A+ (Standard & Poor's) or A1 (Moody's) is required.

Each deposit made by the Group during the period was compliant with the policy that was effective at the date the deposit was made. Where a term deposit has been made and the counterparty ratings have subsequently reduced, each relevant position has been reviewed and any decision to maintain a position until the normal maturity date has been approved by the Board.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings as follows:

Cash and term deposits

As at 3 March 2012 cash and short-term cash deposits of £1,553,000 were invested in banks with a credit rating of AAA (Standard & Poor's).

Habitat Retail Limited
Notes to the financial statements (continued)
For the 67 weeks ended 3 March 2012

4 Financial risk management (continued)

Liquidity risk

Cash flow forecasts are produced regularly by the business to assist management in identifying future liquidity requirements

The Group manages its cash and committed borrowing facilities to maintain liquidity and funding flexibility. Liquidity is achieved through arranging funding ahead of requirements and maintaining sufficient undrawn committed facilities to meet short-term needs. At 3 March 2012, the Group had an undrawn committed borrowing facility available of £700m, £685m of which does not expire until July 2013. This facility includes a covenant for the consolidated Group related to adjusted benchmark earnings before interest, tax, depreciation, amortisation and rent. It is in place to enable the Group to finance its working capital requirements and for general corporate purposes, should the need arise. The Group has not drawn down on the facility and has been in compliance with the requirements of the covenant throughout the period.

The tables below analyse the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	At 3 March 2012				Total £'000
	Less than 3 months £'000	3 - 6 months £'000	6 - 12 months £'000	More than 12 months £'000	
Trade payables	(948)	-	-	-	(948)
Amounts owed to group undertakings	-	-	-	-	-
- repayable on demand	(12,663)	-	-	-	(12,663)
Other payables	(75)	-	-	-	(75)
	<u>(13,686)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(13,686)</u>

Capital risk management

The Company is not subject to any externally imposed capital requirements.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal and efficient capital structure. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. The Group finances its operations through a combination of retained profits, operating property leases and borrowing facilities where necessary.

5 Net operating expenses

	67 weeks ended 3 March 2012 £'000
Profit before tax is stated after (charging)/crediting	
Operating lease rental expense	(1,509)
Cost of inventories recognised as an expense in cost of sales	(6,487)
Write down of inventories	(250)
Depreciation of property, plant and equipment	(72)
Amortisation of intangible assets	(1,294)
Auditors' remuneration	
Company audit	<u>(11)</u>

Exceptional items

During the period the Company incurred exceptional costs of £2,315,000 in respect of its acquisition of the Habitat brand, along with its brand designs, intellectual property in the UK and the Republic of Ireland, the Habitat UK website, three of its London stores and a share of trading stock.

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6 Employee benefit costs and employee numbers

	67 weeks ended 3 March 2012 £'000
Employee costs	
Wages and salaries	(2,297)
Social security costs	(211)
Post-employment benefits	(45)
	<u>(2,553)</u>

The average number of persons employed by the Company during the period including directors and those employed on a part-time basis, was made up as follows

	67 weeks ended 3 March 2012 £'000
Average number of employees	
Stores	149
Administration and other	67
	<u>216</u>

	67 weeks ended 3 March 2012 £'000
Directors' emoluments	
Aggregate emoluments	<u>(79)</u>

Retirement benefits are accruing to 5 directors under a defined benefit scheme. During the period no director exercised share options, and 2 directors received shares or became entitled to receive shares under long-term incentive schemes.

The emoluments of the Company's directors are paid by other companies within Home Retail Group. The amount disclosed represents the element of those emoluments that has been apportioned and recharged for the services to the Company.

	67 weeks ended 3 March 2012	
	Costs borne by Company	Costs borne by related party
	£000s	£000s
Key management compensation		
Short-term employee benefits	(79)	-
Post-employment benefits	(12)	-
Share-based payments	-	(25)
	<u>(91)</u>	<u>(25)</u>

The key management personnel of the Company comprise members of the Company's Board of Directors.

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Notes to the financial statements (continued)
For the 67 weeks ended 3 March 2012

7 Taxation

	67 weeks ended 3 March 2012 £'000
Analysis of charge in the period	
Current tax	
UK corporation tax	-
Adjustment in respect of previous years	-
Total current tax credit	<u>-</u>
Deferred tax	
Origination and reversal of temporary differences	<u>38</u>
Total deferred tax credit (note 17)	<u>38</u>
Total tax credit in income statement	<u>38</u>

Factors affecting the tax charge

The effective tax rate for the period of (0.6%) is lower than the standard rate of corporation tax in the UK of 26.0%. The differences are explained below

	67 weeks ended 3 March 2012 £'000
Loss before tax	<u>(6,887)</u>
Loss before tax multiplied by the standard rate of corporation tax in the UK	1,802
Effects of	
Group relief surrendered for nil consideration	<u>(1,764)</u>
Total tax credit in income statement	<u>38</u>

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8 Goodwill

	Goodwill £'000
Cost	
At 19 November 2010	-
Additions (note 22)	<u>2,844</u>
At 3 March 2012	<u>2,844</u>
Impairment	
At 19 November 2010 and 3 March 2012	-
Net book value	
At 3 March 2012	<u>2,844</u>

Goodwill is allocated to one cash-generating unit, that being at the business as a whole. Recoverable amounts are determined as being the higher of its fair value less costs to sell and its value-in-use. These calculations use cash flow projections based on financial plans approved by management looking forward five years. Cash flows are extrapolated using a long-term growth rate beyond the five-year plan period. There are a significant number of inter-connected assumptions that underpin the value-in-use calculations which are:

- a long-term growth rate of 2.0%, which has been used to extrapolate cash flows beyond the five-year plan period, and
- a post-tax discount rate of 8.5%, which equates to a pre-tax rate of approximately 11.4%, has been estimated taking account of the specific risks inherent within the business and has been applied to the cash flow projections.

As a result of the value-in-use calculations as at 3 March 2012 no impairment charge is required against the carrying value of goodwill. Management believes that no reasonably possible change in any of the key assumptions detailed above would cause the carrying value of the business segment to exceed its recoverable amount.

9. Other intangible assets

	Computer software £'000	Brands £'000	Total £'000
Cost			
At 19 November 2010	-	-	-
Acquired through business combination	526	18,047	18,573
Additions	1,011	-	1,011
Disposals	-	-	-
At 3 March 2012	<u>1,537</u>	<u>18,047</u>	<u>19,584</u>
Accumulated amortisation			
At 19 November 2010	-	-	-
Charge for the period	(90)	(1,204)	(1,294)
Disposals	-	-	-
At 3 March 2012	<u>(90)</u>	<u>(1,204)</u>	<u>(1,294)</u>
Net book value at 3 March 2012	<u>1,447</u>	<u>16,843</u>	<u>18,290</u>

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10 Property, plant and equipment

	Short leasehold £'000	Plant & Equipment £'000	Total £'000
Cost			
At 19 November 2010	-	-	-
Acquired through business combination	1,175	245	1,420
Additions	-	301	301
At 3 March 2012	1,175	546	1,721
Accumulated depreciation			
At 19 November 2010	-	-	-
Charge for the period	(51)	(21)	(72)
At 3 March 2012	(51)	(21)	(72)
Net book value at 3 March 2012	1,124	525	1,649

11 Inventories	2012 £'000
Goods for resale	5,051

12 Trade and other receivables

	Current 2012 £'000	Non-current 2012 £'000
Trade receivables	598	-
Less provision for impairment of receivables	-	-
	598	-
Amounts owed by group undertakings	801	-
Other receivables	1,447	-
Prepayments and accrued income	1,448	-
	4,294	-

The carrying values of current trade and other receivables are a reasonable approximation of their fair values due to their short-term nature. There is no concentration of credit risk with respect to trade receivables, as the Company has a broad customer base. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Company does not hold any collateral as security.

As at 3 March 2012, trade receivables of £nil were past due but not impaired.

No balances owed by group undertakings are past due. The non-trading balances owed by group undertakings are unsecured, repayable on demand and with the majority of loans having interest linked to LIBOR.

The other classes within trade and other receivables do not contain impaired assets.

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For the 67 weeks ended 3 March 2012

13 Cash and cash equivalents

	2012 £'000
Cash and cash equivalents	1,553
	<u>1,553</u>

14 Trade and other payables

	Current 2012 £'000	Non-current 2012 £'000
Trade payables	(948)	-
Amounts owed to group undertakings	(6,037)	-
Amounts owed to immediate parent undertaking	(6,626)	-
Accruals and deferred income	(1,882)	-
Other payables	(75)	-
	<u>(15,568)</u>	<u>-</u>

Trade and other payables are non-interest bearing and the fair values are not considered to differ materially from the recognised book values. Long-term payables have been discounted where the time value of money is material.

Other amounts owed to group undertakings at the year end are unsecured, repayable on demand and non-interest bearing.

15. Provisions

	Other provisions £'000	Total £'000
At 19 November 2010	-	-
Acquired through business combination	(500)	(500)
At 3 March 2012	<u>(500)</u>	<u>(500)</u>

	2012 £'000
Analysed as	
Current	-
Non-current	<u>(500)</u>
	<u>(500)</u>

A provision has been made for the removal of asbestos from one of the Company's stores.

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Notes to the financial statements (continued)
For the 67 weeks ended 3 March 2012

16 Deferred tax

The movements on the net deferred tax account are as follows

	2012 £'000
Opening deferred tax asset	-
Income statement credit	38
Closing deferred tax asset	<u>38</u>

The deferred tax amounts recognised are as follows

	2012 £'000
Deferred tax assets	
- Deferred tax asset to be recovered after more than one year	62
Deferred tax liabilities	
- Deferred tax liability to be settled after more than one year	<u>(24)</u>
Net deferred tax asset	<u>38</u>

Closing deferred tax has been calculated at the enacted rate of 25.0%, which differs from the recently announced rate of 24.0%. The proposed reduction in the main rate of corporation tax by 1% per year to 22% is expected to be enacted separately each year, the impact of the future rate reductions on the net deferred tax asset are not material for each future year at the balance sheet date. The Company will assess the impact of the reduction in rate in line with its accounting policy in respect of deferred tax at each balance sheet date.

The movement in deferred tax assets and liabilities during the year is as follows

	Asset provisions £'000	Accelerated tax depreciation £'000	Total £'000
Deferred tax assets			
At 26 February 2011	-	-	-
Income statement credit	62	-	62
At 3 March 2012	<u>62</u>	<u>-</u>	<u>62</u>
Deferred tax liabilities			
At 26 February 2011	-	-	-
Income statement charge	-	(24)	(24)
At 3 March 2012	<u>-</u>	<u>(24)</u>	<u>(24)</u>

Deferred tax assets are recognised for tax loss carry-forwards and other temporary differences to the extent that temporary differences can be utilised either through future profits generated by the Company or through being made available via group relief.

17 Share capital

	2012 £'000
Authorised	
24,500,000 ordinary shares at £1 each	<u>24,500</u>
Allotted, called-up and fully paid	
24,500,000 ordinary shares at £1 each	<u>24,500</u>

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18 Pension Costs

Employees of Habitat Retail Limited are members of The Home Retail Group Pension Scheme, a defined benefit pension scheme operated by Argos Limited, the assets of which are held separately from those of the Company in independently administered funds. The Home Retail Group Pension Scheme is closed to all new employees. The cost of contributions payable in the period has been recognised in the income statement. An actuarial valuation of the Home Retail Group Pension Scheme was undertaken on 31 March 2009, further details of which can be found in the financial statements of Argos Limited.

The Company also contributes to the Home Retail Group Money Purchase Plan, a defined contribution pension scheme operated by Home Retail Group plc.

The cost of the contributions for all schemes for the year is £45,000.

19 Operating leases

Future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2012 £'000
Less than one year	2,360
Between one and five years	7,933
More than five years	5,326
Total operating leases	15,619

The Company leases three retail stores under non-cancellable operating lease agreements.

20 Commitments

The Company had no capital commitments at the year-end.

21 Notes to the statement of cash flows

	67 weeks ended 3 March 2012 £'000
Cash generated from operations	
Profit before tax	(6,887)
Adjustment for	
Taxation	-
Operating profit	(6,887)
Loss on sale of property, plant and equipment	
Depreciation and amortisation	1,366
Increase in inventories	(5,051)
Increase in receivables	(4,294)
Increase in payables	15,919
Increase in provisions	500
Cash generated from operations	1,553

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Notes to the financial statements (continued)
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22 Business combination

The Company forms a part of Home Retail Group (the Group). On 24 June 2011, the Group announced it had agreed to purchase the exclusive rights to the Habitat brand, its brand designs and intellectual property in the UK and the Republic of Ireland, along with the Habitat UK website, three of its London stores and a share of trading stock, for a total purchase price of £24.5m. The Group considers the acquisition to be a significant addition to the existing portfolio of own brands and expects to leverage the Group's multi-channel strength to develop the online proposition. Goodwill of £2,844,000 has been recognised on this transaction, which represents the synergies, assembled workforce and future growth potential of the business acquired.

	67 weeks ended 3 March 2012 £'000
Recognised amounts of identifiable assets acquired and liabilities assumed	
Other intangible assets - brands	18,047
Other intangible assets - computer software	526
Property, plant and equipment	1,420
Working capital	2,163
Provisions	(500)
Total identifiable net assets	21,656
Goodwill	2,844
Total cash consideration paid	24,500

23 Related party transactions

	2012 £'000
Transactions with immediate parent company	
Settlement of liabilities by immediate parent company on behalf of the entity	6,626
Amounts owed to immediate parent company	(6,626)
Transactions with other group related parties	
Receipt of recharged costs	(285)
Sale of goods	209
Commission payable	(42)
Receipt of debts by other related party on behalf of the entity	(8,589)
Settlement of liabilities by other related parties on behalf of the entity	13,993
Amounts owed by other related parties - gross	801
Less: provision for impairment of receivables	-
Amounts owed by other related parties - net	<u>801</u>
Amounts owed to other related parties	(6,037)

24 Ultimate parent undertakings

The Company's immediate parent undertaking is Home Retail Group (UK) Limited, a company registered in England and Wales, by virtue of its 100% shareholding in the Company.

The Company's ultimate and controlling party is Home Retail Group plc, a company registered in England and Wales. The largest and smallest group of undertakings for which group financial statements have been prepared was that of Home Retail Group plc. Copies of these financial statements are available from its registered office at Avebury, 489-499 Avebury Boulevard, Milton Keynes, MK9 2NW.