Habitat Retail Limited

Annual Report and Financial Statements

For the 52 weeks ended
2 March 2013

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Habitat Retail Limited
Directors' report for the 52 weeks ended 2 March 2013

The directors present their report and the audited financial statements of the Company for the 52 weeks ended 2 March 2013

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 its 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 The Company also earns royalties on Habitat branded products sold by other businesses operated by Home Retail Group

Review of the business and future developments

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 the year, the Company introduced Habitat branded products into other businesses operated by Home Retail Group

Results and dividends

The loss for the period was £9,275,000 (2012 £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 2013 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

Financial risk management

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

Financial risk management (continued)

The Group's cash management policy, which was updated and approved by the Board of Directors during the year, requires
- for a term deposit of up to £50m for up to 3 months a bank must have a minimum long-term rating of A- or better,
- for an additional 3 month term deposit of up to £50m, or a term deposit of up to £50m for a period of up to 12 months, a bank must have a minimum long-term rating of A+, or a minimum rating of A if the UK Government holds a minimum shareholding of 25%,
- for instant access on demand accounts of up to £50m a bank must have a minimum short-term rating of B,
- for instant access on demand accounts of up to £100m a bank must have a minimum short-term rating of A-1, and
- for a deposit of up to £100m in a money market fund, the fund must have a long-term rating of AAA

Each deposit made by the Group during the year 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

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, and facilities are in place for this purpose At 2 March 2013, the Group had an undrawn committed borrowing facility available of £685m which had a contractual maturity date in July 2013 This facility, which was unsecured, included a covenant related to adjusted benchmark earnings before interest, tax, depreciation, amortisation and rent The Group had not drawn down on the facility and had been in compliance with the requirements of the covenant throughout the year Subsequent to the year-end, the Company has agreed a new unsecured, committed borrowing facility of £165m that will expire in March 2016 This new facility includes the covenant noted above and also includes a covenant related to net balance sheet debt As a result of agreeing this new facility, the £685m facility that existed at 2 March 2013 was cancelled prior to its contractual maturity date

Key performance indicators (KPI's)

KPI's used to manage the business include sales, gross margin and profitability The Company has generated sales of £23,552,000 and gross profit of £10,294,000 in the year Operating expenses have resulted in a loss before tax of £9,206,000

Directors

The directors that held office during the period were as follows

C V Askem
G F Ball
D N Brown
R G Lockwood
P B Loft

P Parker resigned as Company Secretary on 28 June 2013 and P A McKelvey replaced him on this date 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 2013 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

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101)

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 these 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 United Kingdom Accounting Standards, including FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements,

- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of 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

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 McKelvey
Company Secretary

14/8/13

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 year ended 2 March 2013 which comprise the Profit and Loss account , the Statement of comprehensive income, the Balance Sheet, the Statement of changes in equity and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 Reduced Disclosure Framework

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 In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

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 2 March 2013 and of its loss for the 52 weeks then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, 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

Edward Lunt (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
Date 14/8/13

Habitat Retail Limited
Profit and loss account
For the 52 weeks ended 2 March 2013

	Notes	52 weeks ended 2 March 2013 £'000	67 weeks ended 3 March 2012 £'000
Turnover		**23,552**	11,745
Cost of sales		**(15,974)**	(6,737)
Gross profit		**7,578**	5,008
Net operating expenses - before exceptional items	4	**(16,784)**	(9,580)
Net operating expenses - exceptional items	4	**-**	(2,315)
Loss before tax		**(9,206)**	(6,887)
Taxation	6	**(69)**	38
Loss for the year attributable to equity holders of the Company		**(9,275)**	(6,849)

Statement of comprehensive income
For the 52 weeks ended 2 March 2013

	52 weeks ended 2 March 2013 £'000	67 weeks ended 3 March 2012 £'000
Loss for the year attributable to equity holders of the Company	**(9,275)**	(6,849)
Other comprehensive income for the year, net of tax	**-**	-
Total comprehensive income for the year attributable to equity holders of the Company	**(9,275)**	(6,849)

Habitat Retail Limited
Balance sheet
As at 2 March 2013

	Notes	2013	2012
ASSETS		**£'000**	£'000
Fixed Assets			
Goodwill	7	**2,844**	2,844
Other intangible assets	8	**16,304**	18,290
Property, plant and equipment	9	**1,633**	1,649
Total fixed assets		**20,781**	22,783
Current assets			
Stock	10	**5,346**	5,051
Trade and other debtors	11	**16,122**	4,356
Cash at bank and in hand	12	**-**	1,553
Total current assets		**21,468**	10,960
Total assets		**42,249**	33,743
LIABILITIES			
Long-term liabilities			
Provisions	14	**(542)**	(524)
Total long-term liabilities		**(542)**	(524)
Current liabilities			
Trade and other creditors	13	**(33,331)**	(15,568)
Total current liabilities		**(33,331)**	(15,568)
Total liabilities		**(33,873)**	(16,092)
Net assets		**8,376**	17,651
Capital and reserves			
Called up share capital	16	**24,500**	24,500
Profit and loss reserve		**(16,124)**	(6,849)
Total shareholder's funds		**8,376**	17,651

The financial statements on pages 5 to 20 were approved by the Board of Directors and were signed on their behalf by

R G Lockwood
Director

14/8/13

Habitat Retail Limited
Statement of changes in equity
For the 52 weeks ended 2 March 2013

	Attributable to equity holders of the Company		
	Share capital £'000	**Profit and loss reserve £'000**	**Total £'000**
Balance at 3 March 2012	24,500	(6,849)	17,651
Loss for the financial year	-	(9,275)	(9,275)
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	(9,275)	(9,275)
Transactions with owners			
Issue of ordinary share capital	-	-	-
Total transactions with owners	-	-	-
Balance at 2 March 2013	**24,500**	**(16,124)**	**8,376**

	Attributable to equity holders of the Company		
	Share capital £'000	Profit and loss reserve £'000	Total £'000
Balance at 19 November 2010	-	-	-
Loss for the financial period	-	(6,849)	(6,849)
Other comprehensive income	-	-	-
Total comprehensive income for the period	-	(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
Notes to the financial statements
For the 52 weeks ended 2 March 2013

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 52 weeks to 2 March 2013 (prior period 67 weeks from incorporation to 3 March 2012)

2 Basis of preparation

The financial statements are presented in sterling, rounded to the nearest thousand They are prepared on a going concern basis and under the historic cost convention modified for the revaluation of certain financial instruments, share-based payments and post-employment benefits 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 to all the periods presented

These financial statements have been prepared in accordance with United Kingdom Accounting Standards, in particular, Financial reporting Standard 101 Reduced Disclosure Framework (FRS 101) and the Companies Act 2006 (the Act) FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in the standard which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS

The Company is a qualifying entity for the purposes of FRS 101 Note 21 gives details of the Company's ultimate parent and from where its consolidated financial statements prepared in accordance with IFRS may be obtained

These are the first financial statements of the Company prepared in accordance with FRS 101 The Company's date of transition to FRS 101 is 4 March 2012 The Company has notified its shareholders in writing about, and they do not object to, the use of the disclosure exemptions used by the Company in these financial statements

FRS 101 sets out amendments to EU-adopted IFRS that are necessary to achieve compliance with the Act and related Regulations The impact of these amendments to the Company's previously adopted accounting policies in accordance with EU-adopted IFRS was not material on the shareholders' equity as at the date of transition and as at 2 March 2013 and on the profit or loss for the year ended 2 March 2013

The key disclosure exemptions adopted by the Company in accordance with FRS 101 are as follows

- Statement of cash flows

- IFRS 2 Share-based payments, IFRS 7 Financial Instrument disclosures IAS 1 – Information on management of capital, IAS 8 disclosures in respect of new standards and interpretations that have been issued but which are not yet effective, IAS 24 disclosure of key management personnel compensation and for related party transactions entered into between two or more members of a group, the requirement to present roll-forward reconciliations in respect of share capital (IAS 1), property, plant and equipment (IAS 16), intangible assets (IAS 38)

The financial statements have been prepared under the historical cost convention A summary of the more important accounting policies is set out below

The preparation of financial statements in conformity with FRS 101 requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates The critical accounting policies of the Company are described in further detail below

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

2 Basis of preparation (continued)

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

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

Turnover

Turnover 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 expected returns Turnover is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of Turnover can be measured reliably Turnover 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 Commissions receivable on the sale of services for which the Company acts as agents are included within Turnover

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

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 ten 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

Debtors

Trade debtors are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment A provision for impairment of trade debtors 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 debtors The amount of the provision is recognised in the balance sheet, with the cost of unrecoverable trade debtors recognised in the profit and loss account immediately

Stock

Stock 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

Cash at bank and in hand

Cash at bank and in hand 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 creditors

Trade creditors 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 profit and loss account 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

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 profit and loss account 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 debtors 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 Loans and receivables comprise trade and other debtors, cash at bank and in hand and current asset investments in the balance sheet

4 Net operating expenses

	52 weeks ended 2 March 2013 £'000	67 weeks ended 3 March 2012 £'000
Loss before tax is stated after charging		
Operating lease rental expense	(2,295)	(1,509)
Cost of inventories recognised as an expense in cost of sales	(15,666)	(6,487)
Write down of inventories	(308)	(250)
Depreciation of property, plant and equipment	(205)	(72)
Amortisation of intangible assets	(2,193)	(1,294)
Auditors' remuneration		
Company audit	(11)	(11)

Exceptional items

No exceptional items were incurred during the year During the prior 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

5 Employee costs and employee numbers

	52 weeks ended 2 March 2013 £'000	67 weeks ended 3 March 2012 £'000
Employee costs		
Wages and salaries	(5,576)	(2,297)
Social security costs	(482)	(211)
Pension costs	(190)	(45)
	(6,248)	(2,553)

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

	52 weeks ended 2 March 2013	67 weeks ended 3 March 2012
Average number of employees		
Stores	146	149
Administration and other	67	67
	213	216

	52 weeks ended 2 March 2013 £'000	67 weeks ended 3 March 2012 £'000
Directors' emoluments		
Aggregate emoluments	(260)	(79)

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

5 Employee costs and employee numbers (continued)

	52 weeks ended 2 March 2013 £'000	67 weeks ended 3 March 2012 £'000
Highest paid director		
Aggregate emoluments and benefits (excluding gains on exercise of share options and value of shares received under long-term incentive schemes)	(260)	(79)

The accrued pension per annum of the highest paid director under the defined benefit scheme at 2 March 2013 was £38,000 (2012 £12,000) The highest paid director did not exercise any share options (2012 none) and received no shares nor became entitled to receive shares under long-term incentive schemes

6 Taxation

	52 weeks ended 2 March 2013 £'000	67 weeks ended 3 March 2012 £'000
Analysis of charge in the period		
Deferred tax		
Origination and reversal of temporary differences	(28)	38
Adjustment in respect of previous periods	(41)	-
Rate change impact	-	-
Total deferred tax credit (note 15)	(69)	38
Total tax (charge)/credit in the profit and loss account	(69)	38

Factors affecting the tax charge

The effective tax rate for the period of 0 75% (2012 -0 55%) is lower than the standard rate of corporation tax in the UK of 24 17% (2012 26 0%) The differences are explained below

	52 weeks ended 2 March 2013 £'000	67 weeks ended 3 March 2012 £'000
Loss before tax	(9,206)	(6,887)
Loss before tax multiplied by the standard rate of corporation tax in the UK	2,225	1,802
Effects of		
Expenses not deductible for taxation purposes	52	-
Adjustment in respect of previous years	(41)	-
Group relief surrendered for nil consideration	(2,305)	(1,764)
Total tax (charge)/credit in profit and loss account	(69)	38

6 Taxation (continued)

Factors that may affect future tax charges
The income tax expense for the year is based on the United Kingdom statutory rate of corporation tax for the period of 24 0% (2012 26 0%) The impact of the changes in statutory rates relates to the reduction of the UK corporation tax rate from 24 0% to 23 0% from 1 April 2013, the substantively enacted rate, which differs from the recently announced rate of 21 0% from 1 April 2014 and 20 0% from 1 April 2015 This change has resulted in a deferred tax charge arising from the reduction in the balance sheet carrying value of the net deferred tax asset to reflect the enacted rate of tax at which those assets are expected to reverse

7 Goodwill

	Goodwill £'000
Cost	
At 3 March 2012 and 2 March 2013	2,844
Impairment	
At 3 March 2012 and 2 March 2013	-
Net book value	
At 3 March 2012 and 2 March 2013	**2,844**

Goodwill represents the excess of the fair value of the consideration paid to acquire new businesses over the fair value of the separately identifiable and separable net assets at the date of the acquisition

The directors have concluded that the goodwill should not be amortised as it has an indefinite useful economic life The goodwill is considered to have an indefinite durability that can be demonstrated, and its value can be readily measured and can be valued on a discounted cash flow basis An annual impairment review is carried out

The non-amortisation of goodwill constitutes a departure from the Companies Act 2006, for the overriding purpose of giving a true and fair view of the company's results

Goodwill is allocated to one cash-generating unit, that being the business as a whole The recoverable amount has been determined based on a value-in-use calculation This calculation uses cash flow projections based on financial plans approved by management looking forward five years Operating losses of £9,206k (2012 £6,849k) have been adjusted into the plan period The five year projections for the business have been prepared with regard to the following key assumptions

• sales growth, based on projections which take account of, among other things, the effect of sales initiatives and changes to the store portfolio of the business,
• gross margins, based on recent experience, which have been adjusted for factors such as the impact of changes to product costs and margin improvement initiatives, including sourcing benefits and changes to product mix or range, and
• costs, based upon the existing cost base, expected levels of cost inflation and anticipated cost saving initiatives

Cash flows are extrapolated using a long-term growth rate beyond the five-year plan period The key assumptions are
• a long-term growth rate of 2 0% (2012 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% (2012 8 5%), which equates to a pre-tax rate of approximately 11 0% (2012 11 4%), has been estimated taking account of the specific risks inherent within the business and has been applied to the cash flow projections

The results of the Company's impairment tests are dependent upon estimates and judgements made by management, particularly in relation to the key assumptions described above The values attributed to these key assumptions over the five-year plan period are

	52 weeks ended 2 March 2013	67 weeks ended 3 March 2012
Compound annual increase in sales	11 1%	11 2%
Compound annual increase in gross margin rate on retail sales	0 4%	0 3%
Compound annual increase in operating costs	2 2%	1 6%
Long-term growth rate beyond 5 years	2 0%	2 0%
Post-tax discount rate	8 5%	8 5%

7 Goodwill (continued)

At 2 March 2013, the excess in the estimated recoverable amount of the business, calculated on a value-in-use basis, over its carrying value was £20,080,000 (2012 £5,334,000) A sensitivity analysis has been performed on each of the above assumptions used for assessing the recoverable amount of the business, with other variables held constant, and as a result, management has concluded that reasonably possible changes in the assumptions could cause the carrying value of the business segment to exceed its recoverable amount The amounts by which the above assumptions would need to change to cause the carrying value of the business to exceed its recoverable amount are

	52 weeks ended 2 March 2013	
	In isolation	**Including mitigating actions**
	%	**%**
Decrease in the compound annual growth rate in sales	(2 4%)	(2 6%)
Decrease in the compound annual growth rate in gross margin rate	(2 4%)	(2 9%)
Increase in the compound annual growth rate in operating costs	2 5%	2 5%
Decrease in the long-term growth rate beyond 5 years	(5 2%)	n/a

	67 weeks ended 3 March 2012	
	In isolation	Including mitigating actions
	%	%
Decrease in the compound annual growth rate in sales	(1 8%)	(1 9%)
Decrease in the compound annual growth rate in gross margin rate	(1 6%)	(1 9%)
Increase in the compound annual growth rate in operating costs	1 5%	1 5%
Decrease in the long-term growth rate beyond 5 years	(0 8%)	n/a

No sensitivity to the discount rate assumption has been disclosed as management believes that no reasonably possible change in this assumption would generate a different outcome to the impairment tests as performed

The mitigating actions included in the above analysis reflect the estimated impact of management actions expected to be taken in the event of these sensitivities arising

8 Other intangible assets

	Computer software £'000	**Brands £'000**	**Total £'000**
Cost			
At 3 March 2012	1,537	18,047	19,584
Acquired through business combination			
Additions	207	-	207
Disposals			
At 2 March 2013	**1,744**	**18,047**	**19,791**
Accumulated amortisation			
At 3 March 2012	(90)	(1,204)	(1,294)
Charge for the period	(388)	(1,805)	(2,193)
Disposals			
At 2 March 2013	**(478)**	**(3,009)**	**(3,487)**
Net book value at 2 March 2013	**1,266**	**15,038**	**16,304**

9 Property, plant and equipment

	Short leasehold £'000	Plant & Equipment £'000	Total £'000
Cost			
At 3 March 2012	1 175	546	1 721
Additions	11	178	189
At 2 March 2013	**1,186**	**724**	**1,910**
Accumulated depreciation			
At 3 March 2012	(51)	(21)	(72)
Charge for the period	(77)	(128)	(205)
At 2 March 2013	**(128)**	**(149)**	**(277)**
Net book value at 2 March 2013	**1,058**	**575**	**1,633**

10 Stock

	2013 £'000	2012 £'000
Finished goods	**5,346**	5,051

11 Trade and other debtors

	2013 £'000	2012 £'000
Amounts falling due after more than one year		
Deferred tax	**11**	62
Amounts falling due within one year		
Trade debtors	**1,180**	598
Less provision for impairment of debtors	-	-
	1,180	598
Amounts owed by group undertakings	**13,061**	801
Other debtors	**1**	1 447
Prepayments and accrued income	**1,869**	1 448
	16,122	4 356

The carrying values of current trade and other debtors 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 debtors 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 debtor mentioned above The Company does not hold any collateral as security

The non-trading balances owed by group undertakings are unsecured repayable on demand and with the majority of loans having interest linked to LIBOR

Further details of the deferred tax can be found in note 15

12 Cash at bank and in hand

	2013 £'000	2012 £'000
Cash at bank and in hand	-	1 553
	-	1 553

13 Trade and other creditors

	2013 £'000	2012 £'000
Amounts falling due within one year		
Trade creditors	(1,401)	(948)
Amounts owed to group undertakings	(22,395)	(6 037)
Amounts owed to immediate parent undertaking	(5,230)	(6 626)
Social security costs and other taxes	(1,251)	-
Accruals and deferred income	(3,054)	(1,882)
Other creditors	-	(75)
	(33,331)	(15 568)

Trade and other creditors are non-interest bearing and the fair values are not considered to differ materially from the recognised book values Long-term creditors 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

Further details of the deferred tax can be found in note 15

14 Provisions

	Other provisions £'000	Deferred tax £'000	Total £'000
At 3 March 2012	(500)	(24)	(524)
Charged to the profit and loss account	-	(18)	(18)
At 2 March 2013	(500)	(42)	(542)

Analysed as	2013 £'000	2012 £'000
Amounts falling due within one year	-	-
Amounts falling due after more than one year	(542)	(524)
	(542)	(524)

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

15 Deferred tax

The movements on the net deferred tax account are as follows

	2013 £'000	2012 £'000
Opening net deferred tax asset	38	-
Profit and loss account (charge)/credit	(69)	38
Closing net deferred tax (liability)/asset	**(31)**	38

The deferred tax amounts recognised are as follows

	2013 £'000	2012 £'000
Deferred tax assets		
- Deferred tax asset to be recovered after more than one year	11	62
Deferred tax liabilities		
- Deferred tax liability to be settled after more than one year	(42)	(24)
Net deferred tax (liability)/asset	**(31)**	38

Closing deferred tax has been calculated at the enacted rate of 23% (2012 25%) this differs from the UK corporation tax rate applied to the current year adjusted profits at 24%

The proposed reductions in the main rate of corporation tax by 2% to 21% from 1 April 2014 and by a further 1% to 20% from 1 April 2015 are not yet enacted the impact of these rate reductions on net deferred tax assets are not material for each future year at the balance sheet date The Group will assess the impact of the reduction in the 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, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows

	Asset provisions £'000	Accelerated tax depreciation £'000	Total £'000
Deferred tax assets			
At 3 March 2012	62	-	62
Profit and loss account charge	(51)	-	(51)
At 2 March 2013	**11**	**-**	**11**

	Asset provisions £'000	Accelerated tax depreciation £'000	Total £'000
Deferred tax liabilities			
At 3 March 2012	-	(24)	(24)
Profit and loss account charge	-	(18)	(18)
At 2 March 2013	**-**	**(42)**	**(42)**

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

16 Share capital	**2013**	2012
	£'000	£'000
Allotted, called-up and fully paid		
24,500,000 (2012 24,500,000) ordinary shares at £1 (2012 £1) each	**24,500**	24,500

17 Retirement benefits

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 profit and loss account An actuarial valuation of the Home Retail Group Pension Scheme was undertaken on 31 March 2012, further details of which can be found in the financial statements of Argos Limited

The Company also contributes to the Home Retail Group Personal Pension Plan, a defined contribution pension scheme operated by Home Retail Group plc

The cost of the contributions for all schemes for the year is £190,000

18 Operating leases

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

	2013	2012
	£'000	£'000
Less than one year	**(2,497)**	(2,360)
Between one and five years	**(6,698)**	(7,933)
More than five years	**(4,072)**	(5,326)
Total operating leases	**(13,267)**	(15,619)

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

19 Commitments

The Company had no capital commitments at the year-end or the prior year-end

20 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

	52 weeks ended 2 March 2013 £'000	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

21 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