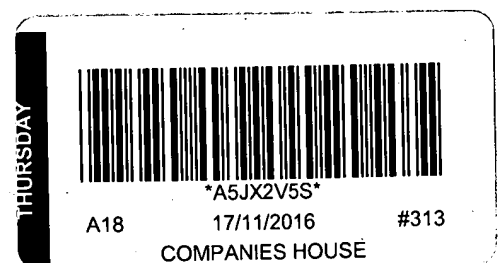


Registered number
7445750

Habitat Retail Limited
Annual Report and Financial Statements

For the 52 weeks ended
27 February 2016



Habitat Retail Limited
Annual Report and Financial Statements
For the 52 weeks ended 27 February 2016

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Habitat Retail Limited

Strategic report for the 52 weeks ended 27 February 2016

Principal activities

Habitat Retail Limited (the "Company") offers a range of over 4,000 products for the home. The Company's brand is recognised for its unique heritage, with the majority of its products designed in-house by Habitat. Its products cover multiple categories across furniture, upholstery and home accessories. The company has a broad multi-channel proposition offering the full brand experience across its three flagship London stores and website (www.habitat.co.uk). At the year end, the Company operated 84 concession stores within Homebase stores and earns royalties on these sales as well as Habitat branded products sold through other channels by other businesses operated by Home Retail Group (the "Group").

Review of the business and future developments

A review of the Company's business is contained in the income statement, balance sheet and notes to the financial statements. They reflect the Company's performance for the year ended 27 February 2016.

The Company has continued its strategy to build its brand consideration and awareness and this has been reflected in the 15% growth in turnover to £35.0m seen during the year as well as investing for future growth across the business. During the year the Company has replatformed its website providing an environment to support the strategy for this channel. In addition a refurbishment of the Tottenham Court Road store was carried out to provide a full flagship omni-channel customer experience.

Following the sale of Homebase to Wesfarmers on 27 February 2016, the operating model for the concessions changed. The Company entered into a closure programme for its concession estate over a period of six months. During this period the Company receives the full financial benefit from sales generated; consequently a purchase of stock previously held by Homebase was made at the start of the new financial year to support this change in operating model.

The directors are satisfied with the financial results for the year. The results and dividends are discussed on page 3.

Company performance and position

The loss for the financial period before exceptional items was £5,666, 000 (2015: £6,637,000). An exceptional items charge of £12,467,000 has been incurred in relation to the impairment of Habitat brand intangibles and goodwill which occurs directly as a result of the sale of Homebase and subsequent closure of Habitat concessions in Homebase over approximately the next 6 months. As a result the loss for the financial period increased to £17,664,000. At the year-end the Company had net liabilities of £23,841,000 (2015: net liabilities of £6,177,000).

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 of Directors for the Group carries out regular strategic reviews including the assessment of competitor activity, customer buying patterns and market trends.

The principal risks and uncertainties of the Group, which includes the Company, are discussed on pages 22 and 23 of the Group's 2016 annual report, which does not form part of this report. The Company is a part of the 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, the Group's structured risk management process.

Financial risk management

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 risk 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 has no exposure to interest rate fluctuations as the Company had no external borrowings from banks or other financial institutions at any point during the period and all amounts receivable and payable to group are non-interest bearing.

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.

Habitat Retail Limited

Strategic report for the 52 weeks ended 27 February 2016 (continued)

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.

Liquidity risk

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

Key performance indicators (KPIs)

KPIs used to manage the business include sales, gross margin and profitability. The Company has generated sales of £34,971,000 (2015: £30,449,000) and gross profit of £13,588,000 (2015: £11,505,000) in the year and a loss on ordinary activities before exceptional items and taxation of £5,666,000 (2015: £6,637,000).

By the order of the Board



D P Hamilton
Company Secretary
1 September 2016

Habitat Retail Limited

Directors' report for the 52 weeks ended 27 February 2016

The directors present their report and the audited financial statements of the Company for the 52 weeks ended 27 February 2016 (the year).

Registered number

The registered number of the Company is 7445750.

Results and dividends

The loss for the financial period was £17,664,000 (2015: £6,659,000). The directors do not recommend the payment of a dividend (2015: £nil). The future developments of the business, principal risks and uncertainties and financial risk management are discussed with the Strategic report on page 1.

Directors

The directors that held office during the year and up to the date of approval of the financial statements were as follows:

C V Askem
G F Ball (resigned 23 July 2015)
D N Brown
C L Catlin (resigned 22 May 2015)
P B Loft (resigned 30 April 2015)
M S Willis (appointed 22 May 2015)
There were no other appointments or resignations.

Political Donations

During the period the Company donated £nil (2015: £nil) to political organisations.

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 2016 results. The involvement of employees in the Company's performance is also encouraged through the Group's employee share schemes.

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.

Going Concern

The Company is in a net current liability position and therefore consistent with recent years the company relies upon Argos Limited for financial assistance, if required, to support the going concern assumption. However, given the ultimate controlling party of the Company will change, the decision to provide continuing support may not remain within Home Retail Group plc or the Directors' control.

For this reason the Directors believe there is a material uncertainty which may cast significant doubt over the Company's ability to continue as a going concern. The financial statements do not include any adjustments that would result if the company was unable to continue as a going concern.

Habitat Retail Limited

Directors' report for the 52 weeks ended 27 February 2016 (continued)

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic report and 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.

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 the Group 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 the group 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 year and up to the date of approval of the financial statements, the Company maintained liability insurance for its directors. The Group also maintains third party indemnification provisions for certain directors, under which the Group has agreed to indemnify those 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 Group 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 the order of the Board



D P Hamilton
Company Secretary
1 September 2016

Habitat Retail Limited

Independent auditors' report to the members of Habitat Retail Limited

Report on the financial statements

Our opinion

In our opinion, Habitat Retail Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 27 February 2016 and of its loss for the 52 week period (the "period") 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.

Emphasis of matter - going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 2 to the financial statements concerning the company's ability to continue as a going concern. The company remains dependent on financial support from Argos Limited, a fellow group undertaking. As announced publicly by Home Retail Group plc in April 2016, the Board of Home Retail Group plc accepted an offer from J Sainsbury to acquire 100% of its' share capital in a transaction that is expected to complete during 2016. As a result it is expected that the ultimate controlling party of Habitat Retail Limited will change, the current intentions of the potential new owners are not known, and the decision to provide continuing support is not within the current directors' control.

These conditions, along with the other matters explained in note 2 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include any adjustments that would result if the company was unable to continue as a going concern.

What we have audited

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the Balance Sheet as at 27 February 2016;
- the Profit and Loss Account and Statement of Comprehensive Income for the period then ended;
- the Statement of Changes in Equity for the period then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). 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 (the "Annual Report") to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on other matter prescribed by the Companies Act 2006

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

Habitat Retail Limited

Independent auditors' report to the members of Habitat Retail Limited (continued)

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 4, 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) ("ISAs (UK & 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 parent 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.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Jon Gilpin (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Milton Keynes
1 September 2016

Habitat Retail Limited
Profit and loss account
For the 52 weeks ended 27 February 2016

	Notes	52 weeks ended 27 February 2016 £'000	52 weeks ended 28 February 2015 £'000
Turnover		34,971	30,449
Cost of sales		(21,383)	(18,944)
Gross profit		13,588	11,505
Net operating expenses – before exceptional items	4	(19,254)	(18,142)
Operating loss before exceptional items		(5,666)	(6,637)
Net operating expenses – exceptional items	6	(12,467)	-
Loss on ordinary activities before taxation		(18,133)	(6,637)
Tax on loss of ordinary activities	7	469	(22)
Loss for the financial year		(17,664)	(6,659)

Statement of comprehensive income
For the 52 weeks ended 27 February 2016

	52 weeks ended 27 February 2016 £'000	52 weeks ended 28 February 2015 £'000
Loss for the financial year	(17,664)	(6,659)
Other comprehensive income for the year, net of tax	-	-
Total comprehensive expense for the year attributable to owners of the Company	(17,664)	(6,659)

Habitat Retail Limited
Balance sheet
As at 27 February 2016

	Notes	2016 £'000	2015 £'000
ASSETS			
Fixed Assets			
Goodwill	8	-	2,844
Other intangible assets	9	1,788	12,334
Tangible assets	10	2,398	1,307
Total fixed assets		4,186	16,485
Current assets			
Stocks	11	5,529	5,021
Debtors	12	7,093	46,911
Total current assets		12,622	51,932
Total assets		16,808	68,417
LIABILITIES			
Long-term liabilities			
Provisions for liabilities	14	(488)	(554)
Total long-term liabilities		(488)	(554)
Current liabilities			
Creditors - amounts falling due within one year	13	(40,161)	(74,040)
Total current liabilities		(40,161)	(74,040)
Total liabilities		(40,649)	(74,594)
Net liabilities		(23,841)	(6,177)
Capital and reserves			
Called up share capital	16	24,500	24,500
Profit and loss account		(48,341)	(30,677)
Total shareholders' (deficit)		(23,841)	(6,177)

The financial statements on pages 7 to 22 were approved by the Board of Directors and were signed on their behalf by



M S Willis
Director
1 September 2016

Registered number
7445750

Habitat Retail Limited
Statement of changes in equity
For the 52 weeks ended 27 February 2016

	Attributable to owners of the Company		
	Called up share capital £'000	Profit and loss account £'000	Total shareholders' (deficit)/ funds £'000
Balance at 28 February 2015	24,500	(30,677)	(6,177)
Loss for the financial year	-	(17,664)	(17,664)
Total comprehensive income for the year	-	(17,664)	(17,664)
Balance at 27 February 2016	24,500	(48,341)	(23,841)

	Attributable to owners of the Company		
	Called up share capital £'000	Profit and loss account £'000	Total shareholders' funds £'000
Balance at 2 March 2014	24,500	(24,018)	482
Loss for the financial year	-	(6,659)	(6,659)
Total comprehensive income for the year	-	(6,659)	(6,659)
Balance at 28 February 2015	24,500	(30,677)	(6,177)

Habitat Retail Limited
Notes to the financial statements
For the 52 weeks ended 27 February 2016

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 year represents the 52 weeks to 27 February 2016 (prior financial year 52 weeks to 28 February 2015).

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) as applicable to companies using FRS 101. 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 20 gives details of the Company's ultimate parent and from where its consolidated financial statements prepared in accordance with IFRS may be obtained.

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).

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.

Changes in accounting standards

There are no new standards, amendments to existing standards or interpretations which are effective for the first time during the year ended 27 February 2016 that 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:

Going concern

As set out in the Directors report on page 3, on 1 April 2016, the Boards of Home Retail Group plc and J Sainsbury plc announced that they had reached agreement on the terms of a recommended offer from J Sainsbury plc to acquire the entire issued and to be issued share capital of Home Retail Group plc, of which the Company is a wholly owned subsidiary. It is expected that the acquisition will complete during 2016.

Habitat Retail Limited
Notes to the financial statements
For the 52 weeks ended 27 February 2016 (continued)

2. BASIS OF PREPARATION (continued)

The Company is in a net current liability position and therefore consistent with recent years the company dependent on support from Argos Limited providing financial assistance if required to support the going concern assumption. However, given the ultimate controlling party of the Company will change, the decision to provide continuing support may not remain within Home Retail Group plc or the Directors' control. For this reason the Directors believe there is a material uncertainty which may cast significant doubt over the Company's ability to continue as a going concern. The financial statements do not include any adjustments that would result if the company was unable to continue as a going concern.

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 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.

Habitat Retail Limited
Notes to the financial statements
For the 52 weeks ended 27 February 2016 (continued)

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

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.

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.

Tangible assets

Tangible assets 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 to 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.

Stocks

Stocks 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.

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 tax

Current tax is 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.

Habitat Retail Limited
Notes to the financial statements
For the 52 weeks ended 27 February 2016 (continued)

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.

Provision for liabilities

Provisions are recognised when:

- the Group 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 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. Loans and receivables comprise trade and other debtors, cash at bank and in hand and current asset investments in the balance sheet.

Habitat Retail Limited
Notes to the financial statements
For the 52 weeks ended 27 February 2016 (continued)

4. NET OPERATING EXPENSES

		52 weeks ended 27 February 2016 £'000	52 weeks ended 28 February 2015 £'000
	Notes		
Loss before tax is stated after charging:			
Operating lease rental expense		(2,538)	(2,276)
Cost of inventories recognised as an expense in cost of sales		(21,071)	(18,722)
Write down of inventories		(311)	(222)
Depreciation of tangible assets	10	(244)	(229)
Amortisation and impairment of intangible assets	9	(11,916)	(2,259)
Auditors' remuneration:			
Fees payable for audit		(12)	(11)

Of the total operating expenses of £19,254,000 (2015: £18,142,000), £7,038,000 (2015: £6,957,000) relates to administrative costs and the remaining are selling costs. The amortisation of intangibles is included within the total operating costs.

5. EMPLOYEE COSTS AND EMPLOYEE NUMBERS

		52 weeks ended 27 February 2016 £'000	52 weeks ended 28 February 2015 £'000
Employee costs			
Wages and salaries		(5,934)	(6,079)
Social security costs		(579)	(526)
Other pension costs		(171)	(157)
		(6,684)	(6,762)

The monthly 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 27 February 2016 £'000	52 weeks ended 28 February 2015 £'000
Average number of employees			
Stores		111	129
Administration and other		86	95
		197	224

		52 weeks ended 27 February 2016 £'000	52 weeks ended 28 February 2015 £'000
Directors' emoluments			
Aggregate emoluments		(306)	(302)

Retirement benefits are accruing to none (2015: none) of the directors under a defined benefit scheme. During the period one (2015: none) of the directors exercised share options, and 1 (2015: 1) director received shares or became entitled to receive shares under long-term incentive schemes.

Habitat Retail Limited
Notes to the financial statements
For the 52 weeks ended 27 February 2016 (continued)

5. EMPLOYEE COSTS AND EMPLOYEE NUMBERS (continued)

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. The services to the Company for all directors except C V Askem formed only a minimal part of their services to this and other group companies and consequently none of their remuneration, including any share based payments charge, has been apportioned or recharged to this Company.

	52 weeks ended 27 February 2016 £'000	52 weeks ended 28 February 2015 £'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).	(306)	(302)

Included in the emoluments above is a £32,082 (2015: £28,335) contribution to the defined contribution pension scheme.

The accrued pension per annum of the highest paid director under the defined benefit scheme at 27 February 2016 was £11,574 (2015: £11,487). The highest paid director exercised share options (2015: none) and received shares or became entitled to receive shares under long-term incentive schemes.

6. EXCEPTIONAL ITEMS

	Notes	52 weeks ended 27 February 2016 £'000	52 weeks ended 28 February 2015 £'000
Goodwill impairment	9	(9,623)	-
Brand intangible impairment	8	(2,844)	-
		(12,467)	-

Exceptional charges totalling £12,467,000 (2015: £nil) were incurred during the 52 weeks ended 27 February 2016. These charges relate to the impairment of Habitat goodwill of £9,623,000 and brand intangibles of £2,844,000 which occurs directly as a result of the sale of Homebase and subsequent closure of Habitat concessions in Homebase over approximately the next 6 months.

Habitat Retail Limited
Notes to the financial statements
For the 52 weeks ended 27 February 2016 (continued)

7. TAX ON LOSS ON ORDINARY ACTIVITIES

	52 weeks ended 27 February 2016 £'000	52 weeks ended 28 February 2015 £'000
Analysis of charge in the year		
Deferred tax:		
Origination and reversal of temporary differences	495	(19)
Adjustments in respect of prior periods	20	(3)
Rate change impact	(46)	-
Total deferred tax charge (note 15)	469	(22)
Total tax charge in the profit and loss account	469	(22)

Factors affecting the tax charge

The effective tax rate for the period of (2.59%) (2015: 0.34%) is lower than the standard rate of corporation tax in the UK of 20.08% (2015: 21.17%). The differences are explained below:

	52 weeks ended 27 February 2016 £'000	52 weeks ended 28 February 2015 £'000
Loss before taxation	(18,133)	(6,637)
Loss before tax multiplied by the standard rate of corporation tax in the UK	3,641	1,405
Effects of:		
Expenses not deductible for taxation purposes	26	31
Adjustments in respect of prior periods	20	(3)
Rate change impact	(46)	-
Group relief surrendered for nil consideration	(3,172)	(1,455)
Total tax charge in the profit and loss account	469	(22)

The income tax expense for the year is based on the United Kingdom statutory rate of corporation tax for the period of 20.08% (2015: 21.17%). The impact of the changes in statutory rates relates to the reduction of the UK corporation tax rate from 20% to 19% from 1 April 2017 and 18% from 1 April 2020. This change has resulted in a deferred tax charge of £45,680 to the income statement. The 2016 Budget announced that corporation tax would be reduced further from 1 April 2020 to 17%, this differs from the substantively enacted rate of 18%. The estimated impact of this is a deferred tax charge of £22,840 to the income

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 20.08% (2015: 21.17%). With effect from 1 April 2016 the statutory tax rate is 20.0%.

Habitat Retail Limited
Notes to the financial statements
For the 52 weeks ended 27 February 2016 (continued)

8. GOODWILL

	Note	Goodwill £'000
Cost		
At 29 February 2015		2,844
Impairment		
Charge for the period	6	(2,844)
Net book value		
At 27 February 2016		-

The carrying value of Habitat goodwill was reviewed in light of the sale of Homebase. An impairment charge of £2,844,000 has been recognised, which fully writes down the Habitat goodwill. This has been directly as a result of the sale of Homebase and subsequent closure of Habitat concessions in Homebase over approximately the next 6 months.

Habitat Retail Limited
Notes to the financial statements
For the 52 weeks ended 27 February 2016 (continued)

9. OTHER INTANGIBLE ASSETS

	Note	Computer software £'000	Brands £'000	Total £'000
Cost				
At 1 March 2015		2,238	18,047	20,285
Additions		1,370	-	1,370
At 27 February 2016		3,608	18,047	21,655
Accumulated amortisation				
At 1 March 2015		(1,332)	(6,619)	(7,951)
Charge for the period		(488)	(1,805)	(2,293)
Impairment	6	-	(9,623)	(9,623)
At 27 February 2016		(1,820)	(18,047)	(19,867)
Net book value at 27 February 2016		1,788	-	1,788
Net book value at 28 February 2015		906	11,428	12,334

The impairment of Habitat brand intangibles has arisen directly as a result of the sale of Homebase and subsequent closure of Habitat concessions in Homebase over approximately the next 6 months.

10. TANGIBLE ASSETS

	Short leasehold £'000	Plant & Equipment £'000	Total £'000
Cost			
At 1 March 2015	1,186	843	2,029
Additions	-	1,335	1,335
At 27 February 2016	1,186	2,178	3,364
Accumulated depreciation			
At 1 March 2015	(286)	(436)	(722)
Charge for the period	(77)	(167)	(244)
At 27 February 2016	(363)	(603)	(966)
Net book value at 27 February 2016	823	1,575	2,398
Net book value at 28 February 2015	900	407	1,307

11. STOCKS

	2016 £'000	2015 £'000
Finished goods	5,529	5,021

Habitat Retail Limited
Notes to the financial statements
For the 52 weeks ended 27 February 2016 (continued)

12. DEBTORS

	2016 £'000	2015 £'000
Amounts falling due after more than one year:		
Deferred tax	411	8
Amounts falling due within one year:		
Trade debtors	527	613
Amounts owed by group undertakings	4,221	44,325
Prepayments and accrued income	1,934	1,965
	7,093	46,911

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 balances owed by group undertakings are trading in nature, non-interest bearing and repayable on demand.

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

13. CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	2016 £'000	2015 £'000
Amounts falling due within one year:		
Trade creditors	(2,678)	(2,050)
Amounts owed to group undertakings	(26,862)	(61,828)
Amounts owed to immediate parent undertaking	(5,230)	(5,230)
Social security costs and other taxes	(1,811)	(1,495)
Accruals and deferred income	(3,580)	(3,437)
	(40,161)	(74,040)

Trade 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.

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

Habitat Retail Limited
Notes to the financial statements
For the 52 weeks ended 27 February 2016 (continued)

14. PROVISIONS FOR LIABILITIES

	Other provisions £'000	Deferred tax £'000	Total £'000
At 1 March 2015	(488)	(66)	(554)
Transfer to deferred tax assets	-	66	66
At 27 February 2016	(488)	-	(488)
Analysed as		2016 £'000	2015 £'000
Amounts falling due within one year		-	-
Amounts falling due after more than one year		(488)	(554)
		(488)	(554)

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:

	2016 £'000	2015 £'000
Opening net deferred tax liability	(58)	(36)
Charged to the profit and loss account	469	(22)
Closing net deferred tax assets/(liability)	411	(58)

The deferred tax amounts recognised are as follows:

	2016 £'000	2015 £'000
Deferred tax assets:		
- Deferred tax asset to be recovered after more than one year	411	8
Deferred tax liabilities:		
- Deferred tax liability to be settled after more than one year	-	(66)
Net deferred tax asset/(liability)	411	(58)

Closing deferred tax has been calculated at the enacted rate of 19% (2015: 20%), this differs from the UK corporation tax rate applied to the current year adjusted profits at 20.08% (2015: 21.17%).

Habitat Retail Limited
Notes to the financial statements
For the 52 weeks ended 27 February 2016 (continued)

15. DEFERRED TAX (continued)

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:

	Accelerated tax depreciation £'000	Total £'000
Deferred tax assets:		
At 1 March 2015	8	8
Transferred from deferred tax liabilities	(66)	(66)
Charged to the profit and loss account	515	515
Rate change impact	(46)	(46)
At 27 February 2016	411	411

	Accelerated tax depreciation £'000	Total £'000
Deferred tax liabilities:		
At 1 March 2015	(66)	(66)
Transferred to deferred tax assets	66	66
At 27 February 2016	-	-

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. CALLED UP SHARE CAPITAL

	2016 £'000	2015 £'000
Allotted, called-up and fully paid:		
24,500,000 (2015: 24,500,000) ordinary shares at £1 (2015: £1) each	24,500	24,500

17. RETIREMENT BENEFITS

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 this scheme for the year is £171,000 (2015: £157,000).

Habitat Retail Limited
Notes to the financial statements
For the 52 weeks ended 27 February 2016 (continued)

18. OPERATING LEASES

	2016 £'000	2015 £'000
Less than one year	(1,852)	(2,005)
Between one and five years	(5,918)	(6,505)
More than five years	(309)	(1,557)
Total operating leases	(8,079)	(10,067)

The Company leases three retail stores and a head office under non-cancellable operating lease agreements.

19. COMMITMENTS

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

20. 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 parent 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.

21. POST BALANCE SHEET EVENT

Following the sale of Homebase to Wesfarmers on 27 February 2016, the operating model for the concessions changed. The Company entered into a closure programme for its concession estate over a period of six months. During this period the Company receives the full financial benefit from sales generated; consequently a purchase of stock previously held by Homebase was made at the start of the new financial year to support this change in operating model.

On 1 April 2016 the Board of Home Retail Group Plc, the ultimate parent company of this company, recommended an offer from J Sainsbury plc for the acquisition of Home Retail Group plc and its subsidiaries.