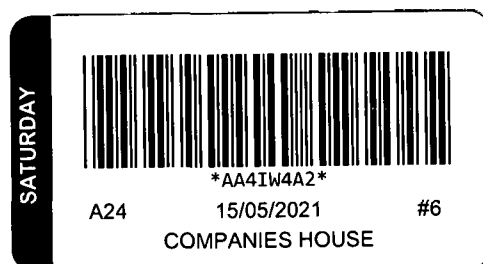


Registered number
7445750

Habitat Retail Limited
Annual Report and Financial Statements

For the 52 weeks ended
7 March 2020



Habitat Retail Limited
Annual Report and Financial Statements
For the 52 weeks ended 7 March 2020

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Habitat Retail Limited

Strategic report for the 52 weeks ended 7 March 2020

Principal activities

Habitat Retail Limited (the "Company") offers a range of 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 customers a choice of convenient ways to shop across its website (www.habitat.co.uk), flagship London stores, regional showrooms and Mini Habitat concessions in Sainsbury's supermarkets.

In addition, the Company earns royalties on the sales of Habitat branded products sold through other channels by other businesses operated by the J Sainsbury plc Group.

Review of the business and future developments

A review of the Company's business is contained in the Profit and loss account, Balance sheet and notes to the financial statements. They reflect the Company's performance for the 52 weeks ended 7 March 2020 ("year").

The results and dividends are discussed on page 3.

Company performance and position

The loss for the financial period before exceptional items was £10,457,000 (2019: £12,620,000). At the year-end the Company had net liabilities of £33,372,000 (2019: net liabilities £6,968,000).

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 36 to 47 of the Group's 2020 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 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.

Impact of COVID-19

The COVID-19 outbreak has developed rapidly in 2020, with a significant number of infections across many countries. Management has exercised significant judgement when determining whether any adjustments are required to the financial statements as at 7 March 2020.

The conditions that existed at the balance sheet date were that a disease, present in a number of countries globally, was in existence. It had stabilised in China, however had caused a level of uncertainty in the market. The UK response to the outbreak was still minor and day-to-day life in the UK where the Company operates was unchanged. Despite the lockdown in China, a UK lockdown and subsequent economic impact was not readily apparent at this stage. As a result, none of the conditions at the balance sheet date indicated that any adjustments would be required to the Company's financial statements.

The subsequent rise in infections in the UK, significant market movements and global lockdowns occurred after the year-end date, but do not provide additional information about conditions that existed at the balance sheet date. In particular, it was on 11 March that the World Health Organisation declared the virus a pandemic, and from 16 March that the UK Government announced major government-backed loans. It is also this date that day-to-day life in the UK began to be impacted through announced social distancing measures, with additional, stay at home measures being enforced even later. The scale of these Government interventions and impact on daily life in the UK were not apparent at the balance sheet and therefore represent non-adjusting events to the Company. Given the significance of these events, additional disclosures are included in note 18 of the financial statements.

Habitat Retail Limited

Strategic report for the 52 weeks ended 7 March 2020 (continued)

Market risk- foreign exchange risk

The Company is subject to foreign exchange risk arising from various currency exposures, primarily with respect to US Dollar and the Euro.

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 within the 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.

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.

Impact of COVID-19

The COVID-19 outbreak has developed rapidly in 2020, with a significant number of infections across many countries. Management has exercised significant judgement when determining whether any adjustments are required to the financial statements as at 7 March 2020.

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Key performance indicators (KPIs)

KPIs used to manage the business include sales, gross margin and profitability. The Company has generated sales of £46,851,000 (2019: £43,430,000) and gross profit of £16,550,000 (2019: £13,781,000) in the year and a loss on ordinary activities before taxation of £26,685,000 (2019: £12,620,000).

By the order of the Board



SJPearson (May 13, 2021 18:22 GMT+1)

S J Pearson
Director
13 May 2021

Habitat Retail Limited

Directors' report for the 52 weeks ended 7 March 2020

The Directors present their report and the audited financial statements of the Company for the 52 Weeks ended 7 March 2020 ("year"). The prior financial year's financial statements were for the 52 weeks to 9 March 2019.

Registered number

The registered number of the Company is 7445750.

Results and dividends

The loss for the financial period was £26,685,000 (2019: £12,620,000). The Directors do not recommend the payment of a dividend (2019: £nil). The future developments of the business, principal risks and uncertainties and financial risk management are discussed within the Strategic report on pages 1 and 2.

Directors

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

M Luck (appointed 16 December 2020)
B M Richardson (appointed 16 December 2020)
C V Askem (resigned 6 December 2019)
C L Catlin (resigned 6 December 2019)
D W Clark (appointed 24 January 2020, resigned 16 December 2020)
N P M A Mills-Hicks (appointed 6 December 2019, resigned 31 January 2021)
S J Pearson (appointed 6 December 2019)
J R Brown (appointed 6 December 2019, resigned 29 May 2020)

There were no other appointments or resignations.

Secretary

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

Sainsbury's Corporate Secretary Limited (appointed 7 May 2021)
J Foo (appointed 14 June 2019, resigned 7 May 2021)
T Fallowfield (resigned 14 June 2019)

Directors' liability insurance and third-party indemnification provisions

The Directors are indemnified to the extent permitted by the Articles of Association of the Company in respect of all losses arising out of or in connection with the execution of their powers, duties and responsibilities. The ultimate parent company purchased and maintained Directors' and Officers' liability insurance throughout 2019/20, which was renewed for 2020/21. The insurance covers all Directors and Officers of companies in the Group. Neither the indemnities nor insurance provide cover in the event that the Director or Officer is proved to have acted fraudulently.

Political Donations

During the period, the Company donated £nil (2019: £nil) to political organisations.

Employees

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that views are considered 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. Communication with all employees continues through newsletters, briefing groups and the distribution of the J Sainsbury plc 2020 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.

Habitat Retail Limited

Directors' report for the 52 weeks ended 7 March 2020 (continued)

Going Concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Further information is included within note 2 of the financial statements.

Post-balance sheet events

The COVID-19 pandemic has developed rapidly in 2020, with a significant number of infections across many countries. As detailed in note 2 it has been concluded that none of the conditions at the balance sheet date indicated that any adjustments would be required to the Company's financial statements.

As a part of Group Strategy to bring Argos and Habitat brands together Argos Limited purchased Habitat Limited trade, assets and liabilities on the 5 February 2021. Prior to sale the ultimate parent HRG UK Limited issued a loan to Habitat Limited to repay the remaining loan balance with Argos and to re capitalise Habitat Limited via issuing 33,610,000 ordinary shares of £1 each to HRG UK Limited. The shares are issued as fully paid in consideration for the release and discharge of outstanding loan with HRG UK Limited. Habitat's brand is well known and loved by the customers and by bringing the brands together the company can offer home and furniture products to a wider range of customers at more affordable prices both instore and online.

Further information is provided in note 2 and note 18.

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 enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Habitat Retail Limited
Directors' report for the 52 weeks ended 7 March 2020 (continued)

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.

Independent Auditors

Ernst & Young LLP have indicated their willingness to continue in office.

By the order of the Board



SJPearson (May 13, 2021 18:22 GMT+1)

S J Pearson
Director
13 May 2021

Independent auditors' report to the members of Habitat Retail Limited

Opinion

We have audited the financial statements of Habitat Retail Limited for the 52 weeks ended 7 March 2020 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 1 to 18. 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".

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 7 March 2020 and of its loss for the year 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

We draw attention to Notes 2 and 18 of the financial statements, which describes the economic disruption the company is facing as a result of COVID-19 which is impacting consumer demand. Our opinion is not modified in respect of this matter.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report set out on pages 1 to 5, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

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

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the Strategic report and Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or Directors' report.

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of 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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

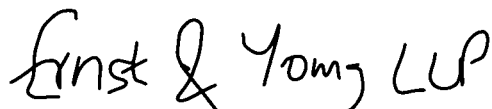
Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Ben Marles (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

14 May 2021

Habitat Retail Limited
Profit and loss account
For the 52 weeks ended 7 March 2020

	Notes	52 Weeks ended 7 March 2020 £'000	52 Weeks ended 9 March 2019 £'000
Turnover		46,851	43,430
Cost of sales		(30,301)	(29,649)
Gross profit		16,550	13,781
Net operating expenses- before exceptional items	4	(27,007)	(26,401)
Operating loss before exceptional items		(10,457)	(12,620)
Net operating expenses -exceptional items	6	(15,804)	-
Operating loss after exceptional items		(26,261)	-
Finance Charges	8	(424)	-
Loss on ordinary activities before taxation		(26,685)	(12,620)
Tax on loss on ordinary activities	7	-	-
Loss for the financial year		(26,685)	(12,620)

Statement of comprehensive income
For the 52 weeks ended 7 March 2020

	52 Weeks ended 7 March 2020 £'000	52 Weeks ended 9 March 2019 £'000
Loss for the financial year	(26,685)	(12,620)
Other comprehensive income		
Items that may be reclassified to profit or loss:		
Net change in fair value of cash flow hedges:		
- Foreign currency forward exchange contracts	281	61
Total comprehensive loss for the year attributable to owners of the Company	(26,404)	(12,599)

Habitat Retail Limited
Balance sheet
As at 7 March 2020

	Notes	2020 £'000	2019 £'000
ASSETS			
Fixed Assets			
Other intangible assets	9	-	4,835
Tangible assets	10	1,980	4,619
Right-of-use asset	11	738	-
Total fixed assets		2,718	9,454
Current assets			
Stocks	12	11,799	13,372
Debtors and other assets	13	1,988	2,830
Other Financial Assets		239	275
Cash at bank		5,526	3,856
Total current assets		19,552	20,333
Total assets		22,270	29,787
LIABILITIES			
Long-term liabilities			
Lease liability	11	(8,811)	-
Creditors - amounts falling due after more than one year	14	-	(371)
Total long-term liabilities		(8,811)	(371)
Current liabilities			
Other Financial Liabilities		(302)	(620)
Lease liability	11	(2,033)	-
Creditors - amounts falling due within one year	14	(44,496)	(35,764)
Total current liabilities		(46,831)	(36,384)
Total liabilities		(55,642)	(36,755)
Net liabilities		(33,372)	(6,968)
Capital and reserves			
Called up share capital	15	64,500	64,500
Profit and loss account		(97,808)	(71,123)
Hedging reserve		(64)	(345)
Total equity		(33,372)	(6,968)

The financial statements on pages 8 to 23 were approved by the Board of Directors and were signed on their behalf by



B M Richardson
Director
13 May 2021

Registered number

7445750

Habitat Retail Limited
Statement of changes in equity
For the 52 weeks ended 7 March 2020

	Called up share capital £'000	Attributable to owners of the Company		
		Hedging Reserve £'000	Profit and loss account £'000	Total shareholders' deficit £'000
Balance at 9 March 2019	64,500	(345)	(71,123)	(6,968)
Loss for the financial year	-	-	(26,685)	(26,685)
Other comprehensive income	-	281	-	281
Total comprehensive loss for the year	-	281	(26,685)	(26,404)
Balance at 7 March 2020	64,500	(64)	(97,808)	(33,372)

	Called up share capital £'000	Attributable to owners of the Company		
		Hedging Reserve £'000	Profit and loss account £'000	Total shareholders' funds/(deficit) £'000
Balance at 10 March 2018	64,500	(406)	(58,503)	5,591
Loss for the financial year	-	-	(12,620)	(12,620)
Other comprehensive income	-	61	-	61
Total comprehensive loss for the year	-	61	(12,620)	(12,599)
Balance at 9 March 2019	64,500	(345)	(71,123)	(6,968)

Habitat Retail Limited
Notes to the financial statements
For the 52 weeks ended 7 March 2020

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 Company is a part of J Sainsbury plc group.

The financial year represents the 52 Weeks to 7 March 2020 (prior financial year 52 weeks to 9 March 2019).

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. 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 17 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).

Impact of COVID-19

The COVID-19 outbreak has developed rapidly in 2020, with a significant number of infections across many countries. Management has exercised significant judgement when determining whether any adjustments are required to the financial statements as at 7 March 2020.

The conditions that existed at the balance sheet date were that a disease, present in a number of countries globally, was in existence. It had stabilised in China, however had caused a level of uncertainty in the market. The UK response to the outbreak was still minor and day-to-day life in the UK where the Group operates was unchanged. Despite the lockdown in China, a UK lockdown and subsequent economic impact was not readily apparent at this stage. As a result, none of the conditions at the balance sheet date indicated that any adjustments would be required to the Group's financial statements.

The subsequent rise in infections in the UK, significant market movements and global lockdowns occurred after the year-end date, but do not provide additional information about conditions that existed at the balance sheet date. In particular, it was on 11 March that the World Health Organisation declared the virus a pandemic, and from 16 March that the UK Government announced major government-backed loans. It is also this date that day-to-day life in the UK began to be impacted through announced social distancing measures, with additional, stay at home measures being enforced even later. The scale of these Government interventions and impact on daily life in the UK were not apparent at the balance sheet and therefore represent non-adjusting events to the Group. Given the significance of these events, additional disclosures are included in note 18 of the financial statements.

Habitat Retail Limited
Notes to the financial statements
For the 52 weeks ended 7 March 2020 (continued)

2. BASIS OF PREPARATION (continued)

Changes in accounting standards

The Company considered the following amendments to published standards that are effective for the Company for the financial year beginning 10 March 2019 and concluded that, with the exception of IFRS 16 'Leases', they are either not relevant to the Company or they do not have a significant impact on the Company's financial statements other than disclosures. These standards and interpretations have been endorsed by the European Union.

- IFRS 16 'Leases'
- IFRIC Interpretation 23 'Uncertainty over Income Tax Treatments'
- Amendments to IFRS 9 'Financial Instruments' on prepayment features with negative compensation
- Amendments to IAS 19 'Employee Benefits' on plan amendments, curtailments or settlements
- Amendments to IAS 28 'Investments in Associates and Joint Ventures' on long term interests in associates and joint ventures
- Annual Improvements Cycle 2015-2017 (issued in December 2017)

IFRS 16 Leases

IFRS 16 supersedes IAS17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC-15 'Operating Lease-Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

The Company adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 10 March 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application.

The effect of adoption IFRS 16 as at 10 March 2019 (increase/(decrease)) is, as follows:

	10 March 2019 £'000
Assets	
Right of use asset	14,937
Prepayments	(64)
	<u>14,873</u>
Liabilities	
Lease liabilities	(1,316)
Current liabilities	<u>(1,316)</u>
Lease liabilities	(14,108)
Accruals and deferred income	551
Non-Current liabilities	<u>(13,557)</u>
Net Assets	<u>-</u>
Equity	
Retained earnings	-
Total Equity	<u>-</u>

Reconciliation from previously reported operating lease commitments:

	£'000
Operating lease commitment as previously reported gross	(3,677)
Effect of Discount	3,311
Effect of extension/break period	<u>(15,058)</u>
Net impact of IFRS 16 on lease liability	<u>(15,424)</u>

Habitat Retail Limited
Notes to the financial statements
For the 52 weeks ended 7 March 2020 (continued)

2. BASIS OF PREPARATION (continued)

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.

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

The Company is in a net liability position and is dependent on support from J Sainsbury plc providing financial assistance if required to support the going concern assumption.

Impairment of assets

At each reporting date, the Company reviews the carrying amounts of its property, plant and equipment (PPE), right-of-use assets, and finite-lived intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset, being the higher of its fair value less costs to dispose and its value in use, is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount and an impairment loss is recognised immediately in the income statement.

Where there has been a change in the estimates used to determine the recoverable amount and an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, not to exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or cash-generating unit in prior years. An impairment loss reversal is recognised immediately in the income statement.

Stock 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 stock. 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.

Habitat Retail Limited
Notes to the financial statements
For the 52 weeks ended 7 March 2020 (continued)

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

A summary of the more important accounting policies is set out below.

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.

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.

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:

- 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.

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any subsequent remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial costs incurred, and lease payments made at or before the commencement date less any incentives received.

The recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Habitat Retail Limited
Notes to the financial statements
For the 52 weeks ended 7 March 2020 (continued)

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease and are measured at the present to be made over the lease term, discounted using the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease (a break clause), if it is reasonably certain not to be exercised.

The lease payments include fixed payments, including in-substance fixed payments, less any lease incentives receivable. Agreements which contain both lease and non-lease components are reviewed, and non-lease components such as cleaning and maintenance services are excluded from the lease payments used to measure the lease liabilities.

After the commencement date of the lease, the lease liability is subsequently measured at amortised cost using the effective interest rate method. The carrying amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured when there is a change in the future lease payments due to a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the low-value asset recognition exemption to groups of underlying leases that are considered uniformly low value (i.e. below £5,000). Lease payments on short-term leases and leases of low-value assets are expensed to the profit and loss account, as well as costs relating to variable lease payments dependent on performance of usage and 'out of contract' payments.

Impairment of non-financial assets

At each reporting date, the Company reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset, being the higher of its fair value less costs to dispose and its value in use, is estimated in order to determine the extent of the impairment loss.

Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit ('CGU') to which the asset belongs. Non-store assets, including depots and IT assets, are reviewed separately.

Any impairment loss is recognised in the profit and loss account in the year in which it occurs. Where an impairment loss, other than an impairment loss on goodwill, subsequently reverses due to a change in the original estimate, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, or its original carrying value less notional accumulated depreciation if lower.

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

Stock is stated at the lower of cost and net realisable value. The cost basis in use within the Company are general retail goods valued on a standard cost or weighted average basis which approximates to actual cost. Commercial income received in respect of specific stock is treated as a reduction in the cost of this stock. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Cost includes all direct expenditure and other appropriate costs incurred in bringing stock to their present location and condition.

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 re-measured at amortised cost.

Habitat Retail Limited
Notes to the financial statements
For the 52 weeks ended 7 March 2020 (continued)

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

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.

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.

Provision for liabilities

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.

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 in the balance sheet.

Non-GAAP financial information

Exceptional items

Items which are both non-recurring and material in either size or nature are presented as exceptional items within the profit and loss account. The separate reporting of exceptional items helps provide a better indication of underlying performance of the company. Examples of items which may be recorded as exceptional items are impairment charges and restructuring costs.

Habitat Retail Limited
Notes to the financial statements
For the 52 weeks ended 7 March 2020 (continued)

4. NET OPERATING EXPENSES

		52 Weeks ended 7 March 2020 £'000	52 Weeks ended 9 March 2019 £'000
	Notes		
Loss before tax is stated after charging:			
Cost of inventories recognised as an expense in cost of sales		(29,197)	(28,383)
Write down of inventories		(1,104)	(1,266)
Depreciation of tangible assets	10	(526)	(515)
Impairment of tangible assets	10	(1,973)	-
Amortisation of intangible assets	9	(1,057)	(952)
Impairment of intangible assets	9	(4,973)	-
Depreciation of right of use asset	11	(1,770)	-
Impairment of right of use asset	11	(8,858)	-
Auditors' remuneration:			
Fees payable for audit		(20)	(35)

Of the total operating expenses of £27,007,000 (2019: £26,401,000), £16,024,000 (2019: £16,167,000) 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

The colleagues who work in the Habitat business are employed by other companies in the J Sainsbury plc group, namely Argos Limited and Sainsbury's Supermarkets Limited. A full recharge of their employment costs is made to the Company.

This amounted to £6,851,000 in the period for an average of 173 colleagues (2019: £6,880,000 for an average of 227 colleagues).

	52 Weeks ended 7 March 2020 £'000	52 Weeks ended 9 March 2019 £'000
Directors' emoluments		
Aggregate emoluments	-	(364)

Retirement benefits are accruing to none (2019: none) of the Directors under a defined benefit scheme. During the year none (2019: none) of the Directors exercised share options, and no (2019: 1) Director received shares or became entitled to receive shares under long-term incentive schemes.

6.EXCEPTIONAL ITEM

Property strategy programme

The Company identified an impairment indicator following the Group's Capital Markets Day in September 2019 triggering an impairment charge of £15.8 million relating to unprofitable and marginally profitable sites for which the cash flows no longer support the carrying amount. An impairment charge of £4.97 million has been recognised on intangible assets, £1.97 million on property, plant and equipment, and right-of-use assets £8.86 million.

Habitat Retail Limited
Notes to the financial statements
For the 52 weeks ended 7 March 2020 (continued)

7. TAX ON LOSS ON ORDINARY ACTIVITIES

	52 Weeks ended 7 March 2020 £'000	52 Weeks ended 9 March 2019 £'000
Analysis of charge in the year		
Deferred tax:		
Origination and reversal of temporary differences	-	-
Adjustments in respect of prior periods	-	-
Rate change impact	-	-
Total deferred tax charge	-	-
Total tax charge in the profit and loss account	-	-

Factors affecting the tax charge

The income tax expense for the year is based on the United Kingdom statutory rate of corporation tax for the period of 19.0% (2019: 19.0%)
The effective tax rate for the period of nil (2019: nil) is lower than the standard rate of corporation tax in the UK (2019: lower than). The differences are explained below:

	52 Weeks ended 7 March 2020 £'000	52 Weeks ended 9 March 2019 £'000
Loss before taxation	(26,685)	(12,620)
Loss before tax multiplied by the standard rate of corporation tax in the UK	5,070	2,398
Effects of:		
Expenses not deductible for taxation purposes	(42)	(19)
Adjustments in respect of prior periods	(11)	(2)
Group relief surrendered for nil consideration	(4,656)	(2,245)
Rate change impact	(17)	-
Impairment of fixed assets	(209)	-
Temporary differences not recognised	(135)	(132)
Total tax charge in the profit and loss account	-	-

Deferred Tax

A deferred tax asset has not been recognised in respect of fixed asset temporary differences of £3,797,299 (2019: £3,280,602) due to uncertainty regarding the future profitability of the Company.

Habitat Retail Limited
Notes to the financial statements
For the 52 weeks ended 7 March 2020 (continued)

8. FINANCE CHARGE

The finance charge comprises the interest on leases £424,000 (2019: £nil) incurred as a result of the adoption of IFRS16.

9. OTHER INTANGIBLE ASSETS

	Computer software £'000	Brands £'000	Total £'000
Cost			
At 9 March 2019	8,737	18,047	26,784
Additions	1,195	-	1,195
Disposals	(382)	-	(382)
At 7 March 2020	9,550	18,047	27,597
Accumulated amortisation			
At 9 March 2019	(3,902)	(18,047)	(21,949)
Charge for the period	(1,057)	-	(1,057)
Impairment	(4,973)	-	(4,973)
Disposals	382	-	382
At 7 March 2020	(9,550)	(18,047)	(27,597)
Net book value at 7 March 2020	-	-	-
Net book value at 9 March 2019	4,835	-	4,835

Computer software assets were fully impaired at the year-end.

10. TANGIBLE ASSETS

	Short leasehold £'000	Plant & Equipment £'000	Total £'000
Cost			
At 9 March 2019	3,103	3,541	6,644
Additions	-	24	24
Disposals	(24)	(544)	(568)
At 7 March 2020	3,079	3,021	6,100
Accumulated depreciation			
At 9 March 2019	(720)	(1,305)	(2,025)
Charge for the period	(193)	(333)	(526)
Impairment	(1,102)	(871)	(1,973)
Disposals	-	404	404
At 7 March 2020	(2,015)	(2,105)	(4,120)
Net book value at 7 March 2020	1,064	916	1,980
Net book value at 9 March 2019	2,383	2,236	4,619

Habitat Retail Limited
Notes to the financial statements
For the 52 weeks ended 7 March 2020 (continued)

11. RIGHT OF USE ASSETS AND LEASES

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period.

	Land & Buildings	Total
	£'000	£'000
At 10 March 2019	14,937	14,937
Adjustment to leases	(3,571)	(3,571)
Depreciation charge	(1,770)	(1,770)
Impairment charge	(8,858)	(8,858)
At 7 March 2020	738	738

Subsequent to transition, at the J Sainsbury plc Capital Markets Day in September 2019, the Group announced an intention to rationalise a number of stores and exercise lease breaks which had not been assumed in the transition valuation. Therefore, this change in assumption has been recognised in these accounts as a modification to the lease values in the year to 7 March 2020.

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	£'000
At 10 March 2019	(15,424)
Additions	3,571
Interest expense	(424)
Payments	1,433
At 7 March 2020	(10,844)
Current	(2,033)
Non-current	(8,811)
Total Lease Liabilities	(10,844)

The following are the amounts recognised in profit or loss:

	£'000
Depreciation of right-of-use assets	1,770
Interest on lease liabilities	424
Impairment of ROU asset	8,858
Expenses relating to short term leases	426
Total amount recognised in profit or loss	11,478

Habitat Retail Limited
Notes to the financial statements
For the 52 weeks ended 7 March 2020 (continued)

11. RIGHT OF USE ASSETS AND LEASES (continued)

Lease maturity analysis:

	2020
	£'000
Contractual undiscounted cash flows	
Less than one year	(2,358)
One to five years	(5,554)
More than five years	(5,495)
Total undiscounted lease liability	(13,407)
Lease liabilities included in the statement of financial position	(10,844)
Current	(2,033)
Non-current	(8,811)
	£'000
Operating lease commitments gross reported at 9 March 2019	3,677
Effect of discount	(3,311)
Effect of extension / break periods	15,058
Net impact of IFRS 16 on lease liability at transition	15,424

During the period, the Company revised the IFRS 16 policy assumption in respect of lease breaks, in that following the Group Property Strategy Day, the assumption was changed so that leases would be terminated at the first future break clause. This brought the assumption back in line with the assumption used in calculating the Operating lease commitment in prior years.

12. STOCKS

	2020	2019
	£'000	£'000
Finished goods	11,799	13,372

Habitat Retail Limited
Notes to the financial statements
For the 52 weeks ended 7 March 2020 (continued)

13. DEBTORS AND OTHER ASSETS

	2020 £'000	2019 £'000
<i>Amounts falling due within one year:</i>		
Trade debtors	77	847
Amounts owed by group undertakings	138	67
Vat and other taxes	167	-
Prepayments and accrued income	1,606	1,916
Total	1,988	2,830

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.

14. CREDITORS

	Amounts falling due within one year 2020 £'000	Amounts falling due after one year 2020 £'000	Amounts falling due within one year 2019 £'000	Amounts falling due after one year 2019 £'000
Trade creditors	(2,855)	-	(5,642)	-
Amounts owed to group undertakings	(37,948)	-	(27,182)	-
Other taxes	-	-	(506)	-
Accruals and deferred income	(3,693)	-	(2,434)	(371)
Total	(44,496)	-	(35,764)	(371)

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.

15. CALLED UP SHARE CAPITAL

	2020 £'000	2019 £'000
<i>Allotted, called-up and fully paid:</i>		
64,500,000 (2019: 64,500,000) ordinary shares at £1 (2019: £1) each	64,500	64,500

16. COMMITMENTS

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

Habitat Retail Limited
Notes to the financial statements
For the 52 weeks ended 7 March 2020 (continued)

17. 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 J Sainsbury 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 J Sainsbury plc. Copies of these financial statements are available from its registered office at J Sainsbury plc, 33, Holborn, London, EC1N 2HT.

18. POST BALANCE SHEET EVENTS

As a part of Group Strategy to bring Argos and Habitat brands together Argos Limited purchased Habitat Limited trade, assets and liabilities on the 5 February 2021. Prior to sale the ultimate parent Home Retail Group (UK) Limited issued a loan to Habitat Limited to repay the remaining loan balance with Argos and to re capitalise Habitat Limited via issuing 33,610,000 ordinary shares of £1 each to Home Retail Group (UK) Limited. The shares are issued as fully paid in consideration for the release and discharge of outstanding loan with Home Retail Group (UK) Limited. Habitat's brand is well known and loved by the customers and by bringing the brands together the company can offer home and furniture products to a wider range of customers at more affordable prices both instore and online.

COVID-19

The COVID-19 pandemic has developed rapidly in 2020, with a significant number of infections across many countries. As detailed in note 2 it has been concluded that none of the conditions at the balance sheet date indicated that any adjustments would be required to the Company's financial statements. However, given the significance of these events, further disclosure is provided below indicating where there may be material changes in the Company's judgements and estimates impacting the balance sheet as at 7 March 2020.