Registered number
7445750

Habitat Retail Limited
Annual Report and Financial Statements

For the 52 weeks ended 10 March 2018

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Habitat Retail Limited
Strategic report for the 52 weeks ended 10 March 2018

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 and Argos.

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 10 March 2018 ("year").

The Company has been subject to significant change and disruption following the sale of Homebase by Home Retail Group in 2016 and successfully completed the implementation of its new ERP platform during the year along with migration to a single use warehouse and transitioned to a new home delivery partner.

The Company continues to invest in strategic initiatives that drive the future growth of the business. During the year, a further 8 Mini Habitat concessions in Sainsbury's were opened taking the total number to 11 and continued to deliver double digit 'like for like' growth in sales.

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 £8,680,000 (2017: £2,791,000). In the prior year an exceptional item credit of £1,720,000 was received from a landlord as part of a lease renewal agreement, thus, the loss for the financial period before tax decreased to £1,071,000.

The company's parent injected £40,000,000 which was satisfied by the issue of 40,000,000 £1 shares. The purpose was primarily to show the Group's confidence in the future of the company and the brand. At the year-end the Company had net assets of £5,591,000 (2017: net liabilities of £25,323,000).

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 30 and 34 of the Group's 2018 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.

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 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.

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 £44,507,000 (2017: £54,253,000) and gross profit of £15,696,000 (2017: £20,377,000) in the year and a loss on ordinary activities before exceptional items and taxation of £8,680,000 (2017: £2,791,000). The decline in sales and gross margins reflects the closure of the mini Habitats, located in Homebase, during year, and the loss reflects some of the transition costs incurred.

By the order of the Board

R J Mynard
Director
9 October 2018

Habitat Retail Limited
Directors' report for the 52 weeks ended 10 March 2018

The Directors present their report and the audited financial statements of the Company for the 52 Weeks ended 10 March 2018 (the year). The prior financial year's financial statements were for the 54 weeks to 11 March 2017

Registered number

The registered number of the Company is 7445750.

Results and dividends

The loss for the financial period was £8,680,000 (2017: £1,482,000). The Directors do not recommend the payment of a dividend (2017: £nil). The future developments of the business, principal risks and uncertainties and financial risk management are discussed with 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:

C V Askem
I S MacMillan (resigned 8 June 2018)
R J Mynard (appointed 8 June 2018)
There were no other appointments or resignations.

Secretary
A Guthrie (resigned 3 May 2018)
T Fallowfield (appointed 3 May 2018)

Political Donations

During the period, the Company donated £nil (2017: £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 J Sainsbury plc 2018 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 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. The ultimate parent company, J Sainsbury plc has confirmed its present intention to provide financial support such that the Company is able to repay its liabilities as they fall due. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements.

Habitat Retail Limited
Directors' report for the 52 weeks ended 10 March 2018 (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.

Independent Auditors

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

By the order of the Board

R J Mynard
Director
9 October 2018

Independent auditors' report to the members of Habitat Retail Limited

We have audited the financial statements of Habitat Retail Limited for the year ended 10 March 2018 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 20. 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 FRS 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 10 March 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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, 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 8.5
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.

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.

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

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.

Ernst & Young LLP

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

10 October 2018

Habitat Retail Limited
Profit and loss account
For the 52 weeks ended 10 March 2018

	Notes	52 Weeks ended 10 March 2018 £'000	54 Weeks ended 11 March 2017 £'000
Turnover		**44,507**	54,253
Cost of sales		**(28,811)**	(33,876)
Gross profit		**15,696**	20,377
Net operating expenses – before exceptional items	4	**(24,376)**	(23,168)
Operating loss before exceptional items		**(8,680)**	(2,791)
Net operating expenses – exceptional items	6	**-**	1,720
Loss on ordinary activities before taxation		**(8,680)**	(1,071)
Tax on loss of ordinary activities	7	**-**	(411)
Loss for the financial year		**(8,680)**	(1,482)

Statement of comprehensive income
For the 52 weeks ended 10 March 2018

	52 Weeks ended 10 March 2018 £'000	54 Weeks ended 11 March 2017 £'000
Loss for the financial year	**(8,680)**	(1,482)
Items that may be reclassified to profit or loss:		
Other comprehensive income:	**-**	-
Net change in fair value of cash flow hedges:		
- Foreign currency forward exchange contracts	**(406)**	-
Total comprehensive loss for the year attributable to owners of the Company	**(9,086)**	(1,482)

Habitat Retail Limited
Balance sheet
As at 10 March 2018

	Notes	2018	2017
		£'000	£'000
ASSETS			
Fixed Assets			
Other intangible assets	8	**4,672**	3,711
Tangible assets	9	**3,265**	2,461
Total fixed assets		**7,937**	6,172
Current assets			
Stocks	10	**10,688**	10,950
Debtors	11	**2,171**	6,422
Other Financial Assets		**45**	-
Cash at bank		**5,539**	2,007
Total current assets		**18,443**	19,379
Total assets		**26,380**	25,551
LIABILITIES			
Long-term liabilities			
Creditors-amounts falling due after more than one year	12	**(298)**	(406)
Provisions for liabilities	13	**-**	(488)
Total long-term liabilities		**(298)**	(894)
Current liabilities			
Other Financial Liabilities		**(451)**	-
Creditors - amounts falling due within one year	12	**(20,040)**	(49,980)
Total current liabilities		**(20,491)**	(49,980)
Total liabilities		**(20,789)**	(50,874)
Net assets/(liabilities)		**5,591**	(25,323)
Capital and reserves			
Called up share capital	14	**64,500**	24,500
Profit and loss account		**(58,503)**	(49,823)
Hedging reserve		**(406)**	-
Total equity		**5,591**	(25,323)

The financial statements on pages 7 to 20 were approved by the Board of Directors and were signed on their behalf by

R J Mynard
Director
9 October 2018

Registered number
7445750

Habitat Retail Limited
Statement of changes in equity
For the 52 weeks ended 10 March 2018

	Called up share capital £'000	Hedging Reserve £'000	Profit and loss account £'000	Total shareholders' (deficit)/ funds £'000
		Attributable to owners of the Company		
Balance at 11 March 2017	24,500	-	(49,823)	(25,323)
Loss for the financial year		-	(8,680)	(8,680)
Other comprehensive loss		(406)		(406)
Total comprehensive loss for the year		(406)	(8,680)	(9,086)
Transactions with Owners:				
Share capital issued	40,000	-	-	40,000
Balance at 10 March 2018	**64,500**	**(406)**	**(58,503)**	**5,591**

	Called up share capital £'000	Profit and loss account £'000	Total shareholders ' funds £'000
	Attributable to owners of the Company		
Balance at 27 February 2016	24,500	(48,341)	(23,841)
Loss for the financial year	-	(1,482)	(1,482)
Total comprehensive income for the year	-	(1,482)	(1,482)
Balance at 11 March 2017	24,500	(49,823)	(25,323)

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 10 March 2018 (prior financial year 54 weeks to 11 March 2017) and has been changed to align it with that of J Sainsbury plc.

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 it's 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 10 March 2018 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:

2. BASIS OF PREPARATION (continued)

Going Concern
The Company is in a net current 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
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.

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:

- 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 re-measured 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.

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.

4. NET OPERATING EXPENSES

	Notes	52 Weeks ended 10 March 2018 £'000	54 Weeks ended 11 March 2017 £'000
Loss before tax is stated after charging:			
Operating lease rental expense	6	(4,614)	(2,533)
Cost of inventories recognised as an expense in cost of sales		(28,213)	(33,541)
Write down of inventories		(598)	(335)
Depreciation of tangible assets	10	(368)	(291)
Amortisation and impairment of intangible assets	9	(588)	(542)
Auditors' remuneration:			
Fees payable for audit		(13)	(13)

Of the total operating expenses of £24,376,000 (2017: £23,168,000), £13,781,000 (2017: £8,419,000) 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 10 March 2018 £'000	54 Weeks ended 11 March 2017 £'000
Employee costs		
Wages and salaries	(6,310)	(8,259)
Social security costs	(636)	(719)
Other pension costs	(171)	(198)
Termination costs	(124)	-
	(7,241)	(9,176)

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 10 March 2018 £'000	54 Weeks ended 11 March 2017 £'000
Average number of employees		
Stores	154	291
Administration and other	90	84
	244	375

	52 Weeks ended 10 March 2018 £'000	54 Weeks ended 11 March 2017 £'000
Directors' emoluments		
Aggregate emoluments	(381)	(325)

Retirement benefits are accruing to none (2017: none) of the Directors under a defined benefit scheme. During the period none (2017: 1) of the Directors exercised share options, and 1 (2017: 1) director received shares or became entitled to receive shares under long-term incentive schemes.

5. EMPLOYEE COSTS AND EMPLOYEE NUMBERS (continued)

The emoluments of the Company's Directors are paid by other companies within J Sainsbury plc. 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 10 March 2018	54 Weeks ended 11 March 2017
	£'000	£'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).	**(381)**	(325)

Included in the emoluments above is a £8,269 (2017: £33,195) contribution to the defined contribution pension scheme.

The accrued pension per annum of the highest paid director under the defined benefit scheme at 10 March 2018 was £11,803 (2017: £11,803). The highest paid director did not exercise share options or become entitled to receive shares under long-term incentive schemes.

6. EXCEPTIONAL ITEMS

	Notes	52 Weeks ended 10 March 2018	54 Weeks ended 11 March 2017
		£'000	£'000
Compensation from landlord		-	1,720

There were no exceptional items (2017: income of £1,720,000) during the 52 Weeks ended 10 March 2018.

Habitat Retail Limited
Notes to the financial statements
For the 52 weeks ended 10 March 2018 (continued)

7. TAX ON LOSS ON ORDINARY ACTIVITIES

	52 Weeks ended 10 March 2018 £'000	54 Weeks ended 11 March 2017 £'000
Analysis of charge in the year		
Deferred tax:		
Origination and reversal of temporary differences	-	-
Adjustments in respect of prior periods	-	(411)
Rate change impact	-	-
Total deferred tax charge	-	(411)
Total tax charge in the profit and loss account	-	(411)

Factors affecting the tax charge

The effective tax rate for the period of 0.00% (2017:38.4%) is lower than the standard rate of corporation tax in the UK (2017: lower than). The differences are explained below:

	52 Weeks ended 10 March 2018 £'000	54 Weeks ended 11 March 2017 £'000
Loss before taxation	(8,680)	(1,071)
Loss before tax multiplied by the standard rate of corporation tax in the UK	1,654	214
Effects of:		
Expenses not deductible for taxation purposes	(20)	(19)
Adjustments in respect of prior periods	49	(411)
Group relief surrendered for nil consideration	(1,695)	(370)
Transfer pricing adjustments	-	147
Temporary differences not recognised	12	28
Total tax charge in the profit and loss account	-	(411)

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 19.06% (2017: 20%).

Deferred Tax

A deferred tax asset has not been recognised in respect of fixed asset temporary differences of £2,243,495 due to uncertainty regarding the future profitability of the company.

8. OTHER INTANGIBLE ASSETS

	Note	Computer software £'000	Brands £'000	Total £'000
Cost				
At 11 March 2017		6,073	18,047	24,120
Additions		1,549	-	1,549
At 10 March 2018		**7,622**	**18,047**	**25,669**
Accumulated amortisation				
At 11 March 2017		(2,362)	(18,047)	(20,409)
Charge for the period		(588)	-	(588)
At 10 March 2018		**(2,950)**	**(18,047)**	**(20,997)**
Net book value at 10 March 2018		**4,672**	**-**	**4,672**
Net book value at 11 March 2017		3,711	-	3,711

9. TANGIBLE ASSETS

	Short loasehold £'000	Plant & Equipment £'000	Total £'000
Cost			
At 11 March 2017	1,501	2,192	3,693
Additions	71	1,101	1,172
At 10 March 2018	**1,572**	**3,293**	**4,865**
Accumulated depreciation			
At 11 March 2017	(460)	(772)	(1,232)
Charge for the period	(104)	(264)	(368)
At 10 March 2018	**(564)**	**(1,036)**	**(1,600)**
Net book value at 10 March 2018	**1,008**	**2,257**	**3,265**
Net book value at 11 March 2017	1,041	1,420	2,461

10. STOCKS

	2018 £'000	2017 £'000
Finished goods	**10,688**	10,950

11. DEBTORS

	2018 £'000	2017 £'000
Amounts falling due within one year:		
Trade debtors	**286**	710
Amounts owed by group undertakings	**56**	-
Other Receivables	**-**	3,835
Prepayments and accrued income	**1,829**	1,877
	2,171	6,422

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.

12. CREDITORS

	Amounts falling due within one year	**Amounts falling due after one year**	Amounts falling due within one year	Amounts falling due after one year
	2018	**2018**	**2017**	**2017**
	£'000	**£'000**	**£'000**	**£'000**
Trade creditors	**(2,431)**	-	(4,387)	-
Amounts owed to group undertakings	**(14,305)**	-	(36,456)	-
Amounts owed to immediate parent undertaking	-	-	(5,230)	-
Social security costs and other taxes	**(539)**	-	(1,315)	-
Accruals and deferred income	**(2,765)**	**(298)**	(2,592)	(406)
	(20,040)	**(298)**	(49,980)	(406)

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.

13. PROVISIONS FOR LIABILITIES

	Other provisions	**Total**
	£'000	**£'000**
11 March 2017	**(488)**	**(488)**
Released in year	**488**	**488**
10 March 2018	**-**	**-**

Analysed as

	2018	2017
	£'000	£'000
Amounts falling due within one year	-	-
Amounts falling due after more than one year	-	(488)
	-	(488)

The asbestos removal provision has been released because the store is due to be released back to the Landlord and it has been agreed that there is no liability on the Company.

14. CALLED UP SHARE CAPITAL

	2018 £'000	2017 £'000
Allotted, called-up and fully paid:		
64,500,000 (2017: 24,500,000) ordinary shares at £1 (2017: £1) each	**64,500**	24,500

The company's parent injected £40,000,000 which was satisfied by the issue of 40,000,000 £1 shares. The purpose was primarily to show the Group's confidence in the future of the company and the brand.

15. RETIREMENT BENEFITS

The Company also contributes to the Home Retail Group Personal Pension Plan, a defined contribution pension scheme operated by J Sainsbury plc. The cost of the contributions for this scheme for the year is £171,000 (2017: £198,000).

16. OPERATING LEASES

	2018 £'000	2017 £'000
Less than one year	**(2,460)**	(2,445)
Between one and five years	**(3,148)**	(7,496)
More than five years	**-**	(1,982)
Total operating leases	**(5,608)**	(11,923)

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

17. COMMITMENTS

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

18. 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.