

## **HMV Retail Limited**

### **Annual report and financial statements**

For the period ended 31 December 2016

Registered number: 08380689

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**Company information**

<b>Directors</b>	Henry Foster Paul McGowan Ian Topping
<b>Company number</b>	08380689 (England and Wales)
<b>Registered office</b>	7 River Court Brighthouse Business Village Brighthouse Road Middlesbrough TS2 1RT
<b>Independent auditor</b>	Deloitte LLP 2 New Street Square London EC4A 3BZ United Kingdom

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## **Strategic report**

for the period 3 January 2016 to 31 December 2016

The directors present the strategic report together with their directors' report and audited financial statements of HMV Retail Limited ('the company') for the period from 3 January 2016 to 31 December 2016.

The company was incorporated in England and Wales on 29 January 2013 as HUK 38 Limited. The company changed its name on 21 March 2013 to HMV Retail Limited and commenced trading on 5 April 2013.

The directors, in preparing the strategic report, have complied with s414C of the Companies Act 2006.

### **Review of the business**

The principal activity of the company in the period under review was the retail sale of visual and music recordings and entertainment related products in specialised stores. As at 31 December 2016, the company operated 130 stores in the United Kingdom (2015: 128 stores).

The core categories of music and visual continued to account for the majority of revenue during the period, with the remainder of revenue generated from the sale of technology products (mainly headphones, speaker docks and turntables), entertainment related merchandise and computer games.

The cost base of the business continues to be tightly controlled, with a number of property leases having been renegotiated during the year.

### **Key performance indicators**

During the 52 week trading period from 3 January 2016 to 31 December 2016, revenue of £300.8m was achieved, delivering a gross profit of £113.3m. This compares to £325.3m revenue and £119.5m gross profit for the 52 week trading period from 4 January 2015 to 2 January 2016.

Earnings for the period (before finance costs, depreciation, amortisation, non-trading intra-group expense and taxation) were £10.9m, which compares to £11.5m for the 52 week period in the prior year.

After intra-group expense of £8.9m, earnings before finance costs, depreciation, amortisation and taxation (EBITDA) of £2.0m (2015: £1.2m) was achieved, with an overall loss (after finance costs, depreciation, amortisation and taxation) of £8.4m (2015: £8.8m).

As at 31 December 2016, the company had £18.1m (2015: £17.1m) cash in hand, at bank and on short-term deposit, with zero drawn down against the working capital facility provided by HUK 40 Limited (related party financing company) and £4.0m drawn down against the working capital facility provided by PNC. From 3 January 2016 to 31 December 2016, nil cash inflow (2015: £0.2m inflow) had been generated from operating activities, with financing cash inflows of £5.3m (2015: Nil inflow). Purchase of property, plant and equipment, related mainly to new store opening, store layout improvements and new store POS, generated a net cash outflow of £4.2m (2015: £2.2m). As at 31 December 2016 the company had net liabilities of £30.5m (2015: £22.2m).

## Strategic report (continued)

for the period 3 January 2016 to 31 December 2016

### Principal risks and uncertainties

Risk Type	Impact	Risk Mitigation
<b><u>Competitive nature of markets</u></b> HMV operates in highly competitive markets, with the main competitive risk coming from supermarkets and online only retailers.	Potential loss of market share and revenue if unable to compete effectively.	Regular analysis of HMV's position in market, using market share data to inform decisions on ranging and pricing, and regular discussions with suppliers to keep the offer relevant and competitive.
<b><u>Seasonality of business</u></b> HMV's business is highly seasonal, with a large proportion of sales and profit being achieved in the peak Christmas period.	Poor sales performance at Christmas could mean that profit forecast for the year might not be achieved.	Tight control of cost base in place, and catalogue promotions run during quieter trading periods to stimulate demand of higher margin back catalogue outside peak.
<b><u>Reputational</u></b> Negative publicity or loss of customer confidence in HMV.	Damage to reputation could lead to reduced customer loyalty and hence lower revenue.	Staff training and use of third party customer data to understand customer satisfaction levels.
<b><u>Agreements with key suppliers</u></b> HMV is dependent on strong trading relationships with its key suppliers.	Without these strong relationships, HMV would be unable to source a high proportion of the products it stocks, with consequent impact on sales and profit.	Senior management at HMV invest significant time in building and maintaining relationships with key suppliers, including providing regular business updates.
<b><u>Store portfolio</u></b> HMV's property strategy is built around having suitably sized stores in strong locations at appropriate costs.	Without appropriate property arrangements in place, there is a risk of stores generating a negative contribution to the company's operating profit.	Each store lease has been renegotiated since HMV Retail began trading. Senior management hold regular property meetings, reviewing location strategy and store contribution.
<b><u>Major business interruption</u></b> Inability to trade stores or loss of head office/distribution centre capability.	Major interruption could impact the company's ability to trade, with consequent loss of revenue and profit.	The company has a detailed business continuity and serious incident response plan in place in the event of any serious interruption to trade. Contingency plans exist in the event of the loss of head office or distribution facilities.
<b><u>People</u></b> Retaining, motivating and attracting key staff.	Lack of continuity if key staff are not developed and retained.	Regular review of colleague engagement and communication with team regarding business performance.
<b><u>Cyber attacks</u></b> The threat of attack on the company's systems by electronic means.	Potential fraud leading to fines and possible loss of system access and business interruption.	The company is PCI Compliant with full point to point encryption. We work closely with our security partner for risk assessment, penetration testing and incident response planning.

**Strategic report (continued)**


for the period 3 January 2016 to 31 December 2016

**Future developments**

The directors expect the general level of activity to remain broadly consistent with the period in the forthcoming year.

**Approval**

Approved by the Board and signed on its behalf by:



Ian Topping  
Director  
29 June 2017  
7 River Court  
Brighthouse Business Village  
Brighthouse Road  
Middlesbrough  
TS2 1RT

## **Directors' report**

for the period 3 January 2016 to 31 December 2016

Details of principal risks and uncertainties, future developments and events that have occurred after the balance sheet date can be found in the Strategic Report on pages 1, 2 and 3 and form part of this report by cross-reference.

### **Going concern**

The directors have a reasonable expectation that the company has adequate resources to continue its operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual financial statements.

Further details regarding the adoption of the going concern basis can be found in Note 1 (General information and significant accounting policies) to the financial statements.

As at 31 December 2016 the company had net liabilities of £30.5m (2015: £22.2m).

### **Financial risk management objectives and policies**

The company's activities expose it to a number of financial risks including credit risk, liquidity risk and interest rate risk. The company does not use any financial derivatives to manage these risks.

#### **Credit risk**

The company's principal financial assets are bank and cash balances, trade and other receivables.

The company's credit risk is primarily attributable to its trade receivables. An allowance for impairment is made where there is an identified loss event, which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The credit risk on liquid funds is considered to be limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies or related parties.

#### **Liquidity risk**

In order to maintain liquidity and to ensure that sufficient funds are available for meeting the working capital requirements, the company may invest any surplus in short-term bank deposits and utilise short term working capital facilities.

#### **Interest rate risk**

The company's interest rate risk exposure is limited to changes in market interest rates applicable to short-term bank deposits when made.

### **Dividends**

The directors did not recommend a payment of a dividend in the period (2015: £nil).

### **Directors**

The directors in office during the period and to the date of signing the financial statements were as follows:

Henry Foster

Paul McGowan

Ian Topping

**Directors' report (continued)**

for the period 3 January 2016 to 31 December 2016

**Directors' indemnities**

The company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the period and remain in force at the date of this report.

**Disabled employees**

Applications for employment by disabled persons are always fully considered, bearing in mind the 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 that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

**Employee consultation**

The company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the company. This is achieved through formal and informal meetings, the company intranet and regular updates to both store and head office teams.

**Auditor**

Each of the persons who are directors at the date of approval of this report confirm that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to be reappointed for another term and appropriate arrangements are being made for them to be deemed reappointed as auditor in the absence of an Annual General Meeting.

**Approved by the Board and signed on its behalf by:**



Ian Topping  
Director  
29 June 2017  
7 River Court  
Brighthouse Business Village  
Brighthouse Road  
Middlesbrough  
TS2 1RT



## **Directors' responsibilities statement**

for the period 3 January 2016 to 31 December 2016

The directors are responsible for preparing the Annual Report including 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 elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

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.

## **Independent auditor's report to the members of HMV Retail Limited**

We have audited the financial statements of HMV Retail Ltd for the year ended 31 December 2016, which comprises the Statement of comprehensive income, the Statement of financial position, the Statement of changes in equity, the Statement of cash flow and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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.

### **Respective responsibilities of directors and auditor**

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

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Separate opinion in relation to IFRSs as issued by the IASB**

As explained in Note 1 to the financial statements, the company in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the financial statements comply with IFRSs as issued by the IASB.

### **Opinion 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 year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

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 any material misstatements in the Strategic Report and the Directors' Report.

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

## Independent auditor's report to the members of HMV Retail Limited

### Matters on which we are required to report by exception

- We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Richard Howe FCA (Senior Statutory Auditor)  
for and on behalf of  
**Deloitte LLP**  
Statutory Auditor  
London, United Kingdom

29 June 2017

**Statement of comprehensive income**  
Period from 3 January 2016 to 31 December 2016

		Period from 3 January 2016 to 31 December 2016 (52 weeks trading) £'000	Period from 4 January 2015 to 2 January 2016 (52 weeks trading) £'000
	Notes		
Revenue		300,829	325,338
Inventory related expense		(187,575)	(205,797)
Labour and premises expense		(102,307)	(107,828)
<b>Earnings before finance costs, depreciation, amortisation and non-trading intra-group expense</b>		<b>10,947</b>	<b>11,713</b>
Intra-group expense	17	(8,928)	(10,298)
Non-recurring restructuring expense	20	-	(169)
<b>Earnings before finance costs, depreciation, amortisation and taxation</b>		<b>2,019</b>	<b>1,246</b>
Financing expense		(2,150)	(1,960)
<b>(Loss) before impairment, depreciation, amortisation and taxation</b>		<b>(131)</b>	<b>(714)</b>
Depreciation and impairment	5	(6,653)	(6,566)
Amortisation	6	(1,582)	(1,553)
<b>Loss before tax</b>	<b>2</b>	<b>(8,366)</b>	<b>(8,833)</b>
Income tax expense	4	-	-
<b>Loss for the financial period</b>		<b>(8,366)</b>	<b>(8,833)</b>

All the company's activities derived from continuing operations during the above financial period.

There has been no other comprehensive income in both the current year and prior year.

**Statement of financial position**

As at 31 December 2016

		31 December 2016 £'000	2 January 2016 £'000
	Notes		
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	12,907	14,545
Supplier and store intangible	6	1,658	3,240
Other non-current assets	7	257	248
		<u>14,822</u>	<u>18,033</u>
<b>Current assets</b>			
Inventories	8	8,397	9,566
Trade and other receivables	9	13,200	14,492
Cash and cash equivalents	10	18,145	17,085
		<u>39,742</u>	<u>41,143</u>
<b>Total assets</b>		<u>54,564</u>	<u>59,176</u>
<b>Equity and liabilities</b>			
<b>Capital and reserves attributable to the shareholders in the company</b>			
Share capital	11	-	-
Retained deficit	12	(30,544)	(22,178)
<b>Total equity / (deficit)</b>		<u>(30,544)</u>	<u>(22,178)</u>
<b>Non-current liabilities</b>			
Borrowings	13	12,544	8,722
Other non-current liabilities	14	4,848	4,290
<b>Total non-current liabilities</b>		<u>17,392</u>	<u>13,012</u>
<b>Current liabilities</b>			
Borrowings	13	1,490	-
Trade and other payables	15	66,226	68,342
<b>Total current liabilities</b>		<u>67,716</u>	<u>68,342</u>
<b>Total liabilities</b>		<u>85,108</u>	<u>81,354</u>
<b>Total equity and liabilities</b>		<u>54,564</u>	<u>59,176</u>

The financial statements of HMV Retail Limited registered number 08380689 were approved and authorised for issue by the Board of Directors and signed on its behalf by:

  
 Ian Topping  
 Director  
 29 June 2017

The notes on pages 13 to 30 form an integral part of the financial statements.

**Statement of changes in equity**

for the period 3 January 2016 to 31 December 2016

	<b>31 December 2016</b>	<b>2 January 2016</b>
	<b>£'000</b>	<b>£'000</b>
Share capital	-	-
Retained deficit	(22,178)	(13,345)
Total comprehensive loss for the period	(8,366)	(8,833)
<b>Balance</b>	<b><u>(30,544)</u></b>	<b><u>(22,178)</u></b>

The notes on pages 13 to 30 form an integral part of the financial statements.

# Statement of cash flows

for the period 3 January 2016 to 31 December 2016

		Period from 3 January 2016 to 31 December 2016	Period from 4 January 2015 to 2 January 2016
	Notes	£'000	£'000
<b>Cash flows from operating activities</b>			
Net cash flow from operating activities	16	(17)	158
<b>Cash flows from financing activities</b>			
Proceeds from borrowings, net of arrangement fee		36,455	29,083
Repayment of borrowings		(31,143)	(35,300)
Net cash flow from financing activities		5,312	(6,217)
<b>Cash flow from investing activities</b>			
Purchase of property, plant and equipment		(4,242)	(2,231)
Proceeds from disposal of property, plant and equipment		7	6
Net cash used in investing activities		(4,235)	(2,225)
<b>Net increase in cash and cash equivalents</b>			
Cash and cash equivalents at beginning of period		17,085	25,369
Cash and cash equivalents at end of period	10	18,145	17,085
		1,060	(8,284)

## Notes to the financial statements

for the period 3 January 2016 to 31 December 2016

### 1 General information and significant accounting policies

#### General information

HMV Retail Limited is a private limited company incorporated in England and Wales under the Companies Act 2006. The address of the registered office and its principal place of trading is 7 River Court, Brighthouse Business Village, Brighthouse Road, Middlesbrough, TS2 1RT. The principal activity of the company is described in the Strategic report. The company was incorporated in England and Wales on 29 January 2013 as HUK 38 Limited. The company changed its name on 21 March 2013 to HMV Retail Limited and commenced trading on 5 April 2013.

#### Basis of preparation

The financial statements are prepared on the historical cost basis and the accounting policies set out below have been applied. The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies.

#### Significant accounting policies

##### Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, IFRIC Interpretations and the parts of the Companies Act 2006 applicable to companies reporting under IFRSs.

##### Going concern

The directors have a reasonable expectation that the company has adequate resources to continue its operational existence for the foreseeable future. The directors have considered cash flow forecasts for 12 months from the date of this report and reasonable sensitivities thereon. The directors consider that the business has access to sufficient funding from a £32m working capital facility provided by PNC Business Credit to continue in operation if required in addition to the existing £32m working capital facility (see note 14). HUK 40 Limited has provided a written commitment of its intention to provide financial support for at least twelve months from the signing of these financial statements. As at 31 December 2016 the company had net liabilities of £30.5m (2015: £22.2m).

##### Revenue

Revenue represents the value of goods supplied, less discounts given and is recognised when goods are delivered and title has passed. Revenue excludes value added tax ("VAT") and similar sales-related taxes. Revenue is reduced for estimated customer returns.

A loyalty card programme is operated which allows members to accumulate points on purchases and get exclusive offers and other special benefits. The value of points issued is recognised in line with IFRIC 13 as a discount to revenue.



## Notes to the financial statements (continued)

for the period 3 January 2016 to 31 December 2016

### 1 General information and significant accounting policies (continued)

#### Gift cards and vouchers

Revenue from gift cards and gift vouchers sold by the company is recognised on the redemption of the gift voucher or gift card. Monies received represent deferred revenue prior to redemption and are disclosed within accruals. The valuation of the liability is adjusted to release amounts for balances that have passed the expiry date and a percentage of remaining sales based on historical redemption and expiry rates.

#### Interest payable

Interest payable is charged in the income statement as incurred.

#### Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and the applicable effective interest rate.

#### Current and deferred income tax

The current tax payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company liability for current tax is calculated using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it 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. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

#### Supplier and store intangible

The excess of the fair value of the consideration paid over the fair value of the tangible assets acquired and the liabilities assumed upon the business combination is recognised as an intangible asset in the balance sheet. This represents the value of the established HMV store network not covered by the fair value of leased premises as well as the supplier relationships which formed part of the trade and certain assets of HMV Group plc that were acquired out of administration. This asset is being amortised over its useful economic life of 5 years.

#### Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is based on estimated selling prices less further costs to be incurred to disposal. Cost is calculated using the FIFO (first in first out) method. Provision is made for the mark down of obsolete stock, defined as any product that has had no sale for 6 months or more. Shrinkage is provided for on a store by store basis as a percentage of sales. The company has agreements with supplier to hold stock on a consignment basis. No cost in relation to this stock is included in the statement of financial position.

## Notes to the financial statements (continued)

for the period 3 January 2016 to 31 December 2016

### 1 General information and significant accounting policies (continued)

#### Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost. A provision for impairment of trade receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables.

#### Trade payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost.

#### Financial liabilities

Financial liabilities are recognised initially at fair value and subsequently measured at amortised cost.

#### Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement.

Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

#### Foreign currencies

The directors believe Pounds Sterling best represents the functional currency of the company. Therefore the books and records are maintained in Pounds Sterling and, for the purpose of the financial statements, the results and financial position are presented in Pounds Sterling.

Monetary assets and liabilities in foreign currencies are translated into sterling at the rates of exchange at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange at the date of the transaction. Exchange differences are recognised in profit or loss in the period in which they arise.

## **Notes to the financial statements (continued)**

for the period 3 January 2016 to 31 December 2016

### **1 General information and significant accounting policies (continued)**

#### **Business combinations**

Acquisitions of businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the company in exchange for control of the acquiree. Acquisition related costs are recognised in profit and loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRSs. Changes in the fair value of contingent consideration classified as equity are not recognised.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the condition for recognition under IFRS 3 (2008) are recognised at their fair value at the acquisition date.

#### **Provisions**

A provision is recognised when the company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, expected future cash flows are discounted using a current pre-tax rate that reflects the risks specific to the liability. Calculations of these provisions require judgements to be made, which include forecast consumer demand and inventory loss trends.

#### **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 (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Lease premium payments made on the acquisition of stores have been capitalised in the balance sheet and are included in Business properties under Property, plant and equipment. These assets are being depreciated over the life of the relevant lease.

Lease incentives and rent free accruals are held in the balance sheet and amortised over the life of the relevant lease.

Assets held under finance leases are recognised as assets at their fair value, or if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The lease obligation is included as a liability in the statement of financial position. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

#### **Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks and all other cash amounts with maturities of three months or less.

## Notes to the financial statements (continued)

for the period 3 January 2016 to 31 December 2016

### 1 General Information and significant accounting policies (continued)

#### Property, plant and equipment

Property, plant and equipment are stated in the Statement of financial position at cost, being the original purchase price and the costs attributable to bringing the asset to its working condition for its intended use.

Property, plant and equipment are stated at cost less accumulated depreciation, and accumulated impairment losses. Business properties include lease premium payments on the acquisition of stores.

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset as is recognised in the income statement.

Depreciation is provided to write off the costs less estimated residual value of all property, plant and equipment over their expected useful lives at the following annual rates:

Business properties	- over lesser of useful life and the period of lease
Fixtures & fittings	- over lesser of useful life and the period of lease
Store computer & other equipment	- over lesser of useful life and the period of lease
Store POS	- over useful life of 5 years
Head office computer & other equipment	- over useful life of 3 to 5 years

#### Share capital

Ordinary shares are classified as equity. Any incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

## Notes to the financial statements (continued)

for the period 3 January 2016 to 31 December 2016

### 1 General information and significant accounting policies (continued)

#### Critical accounting judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

#### Critical judgements in applying the company's accounting policies

Significant items subject to such assumptions include the useful lives of assets, the measurement and recognition of provisions, the recognition of deferred tax assets and liabilities for potential corporation tax. The most critical accounting policies in determining the financial condition and results of the company are those requiring the greatest degree of subjective or complex judgements. These include:

##### Taxation:

for the purposes of determining the extent to which deferred tax can be recognised the directors have assessed the company's future earnings. In view of the uncertainty about the timing as to the use of the deferred tax asset no provision has been established. The amount of unrecognised deferred tax asset is £4.1m (2015: £2.7m).

##### Impairment of fixed assets and related intangibles:

the review for impairment of fixed assets and related intangibles is based on the level of store contribution. On an annual basis the directors review store contributions and impair the assets and related intangibles for any store with negative contribution unless remedial action has been taken or is planned to be taken. During the year, an impairment of £1.8m (2015: £nil) was recorded.

#### Financial risk management

The company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

Risk management is overseen by the Board of Directors. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

## Notes to the financial statements (continued)

for the period 3 January 2016 to 31 December 2016

### 1 General Information and significant accounting policies (continued)

#### Adoption of new and revised standards

The financial statements are prepared in accordance with applicable International Financial Reporting Standards (IFRSs) as adopted by the EU. The particular accounting policies adopted are described below.

The preparation of financial statements in conformity with IFRS 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, events or actions, actual results ultimately may differ from those estimates.

At the date of authorisation of these financial statements, the following Standards/revisions to Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- IFRS 10, IFRS 12 and IAS 28 (amended) Investment Entities: Applying the Consolidation Exception
- IFRS 10 and IAS 28 (amended) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- IFRS 11 (amended) Accounting for Acquisitions of Interest in Joint Operations
- IFRS 16 Leases
- IAS 1 (amended) Disclosure Initiative
- IAS 16 and IAS 38 (amended) Clarification of Acceptable Methods of Depreciation and Amortisation
- IAS 19 (amended) Defined Benefit Plans: Employee Contributions
- IAS 27 (amended) Equity Method in Separate Financial Statements
- IFRS 2 (amended) Share-based Payments
- IFRS 3 (amended) Business Combinations
- IFRS 8 (amended) Operating Segments
- IFRS 13 (amended) Fair Value Measurement
- IAS 16 (amended) Property, Plant and Equipment
- IAS 24 (amended) Related Party Disclosure
- IAS 38 (amended) Intangible Assets
- IAS 40 (amended) Investment Property
- IFRS 5 (amended) Non-current Assets Held for Sale and Discontinued Operations
- IFRS 7 (amended) Financial Instruments: Disclosures
- IAS 19 (amended) Employee Benefits
- IAS 34 (amended) Interim Financial Reporting

The directors anticipate that the adoption of these Standards/revisions to Standards and Interpretations in future periods will have no material impact on the financial statements of the company with the exception of IFRS 16 Leases which is yet to be assessed.

**Notes to the financial statements (continued)**

for the period 3 January 2016 to 31 December 2016

**2 Loss before tax**

This is stated after charging/(crediting):

	Period from 4 January 2015 to 2 January 2016 (52 weeks trading)	Period from 4 December 2015 to 2 January 2016 (52 weeks trading)
	£'000	£'000
Depreciation	6,653	6,566
Amortisation	1,582	1,553
Loss on disposal of property, plant and equipment	731	195
Write-down of inventories recognised as an expense	99	528
Auditors remuneration:		
Fees payable to the company's auditor for the audit of the company's annual financial statements	81	72
Operating lease charges - land and buildings	27,264	28,611
Foreign exchange differences	-	1

There were no other audit related or non-audit services provided during the period.

## Notes to the financial statements (continued)

for the period 3 January 2016 to 31 December 2016

### 3 Staff costs and average number of employees

The aggregate remuneration comprised:

	Period from 3 January 2015 to 31 December 2016 (52 weeks trading) £'000	Period from 4 January 2015 to 2 January 2016 (52 weeks trading) £'000
Wages and salaries	38,333	38,669
Social security costs	2,553	2,602
Other pension costs	359	342
	<u>41,245</u>	<u>41,613</u>

The average monthly number of employees (including executive directors) during the year was 2,476 (2015: 2,478). This is split between 2,325 sales and store (2015: 2,332) and 151 administration (2015: 147).

During the period, no director received remuneration from the company in respect of their services provided to the company (2015: £nil).



## Notes to the financial statements (continued)

for the period 3 January 2016 to 31 December 2016

### 4 Income tax expense

The tax charge on the loss on ordinary activities for the period was as follows:

	Period from 3 January 2016 to 31 December 2016 (52 weeks trading) £'000	Period from 4 January 2015 to 2 January 2016 (52 weeks trading) £'000
Analysis of charge in period		
Current tax	-	-
Deferred tax	-	-
Income tax expense	-	-

The tax rate used for the 2016 reconciliation above is the corporate tax rate of 20% payable by corporate entities in the UK and on taxable profits under tax law in the UK. The differences are explained below:

	Period from 3 January 2016 to 31 December 2016 (52 weeks trading) £'000	Period from 4 January 2015 to 2 January 2016 (52 weeks trading) £'000
Loss before tax	(8,366)	(8,833)
Tax at the applicable rate of 20% (2015: 20%)	(1,673)	(1,788)
Tax effect of expenses that are not deductible in determining profit	1	650
Non qualifying depreciation	106	98
Effect of capital allowances less than/(in excess of) depreciation	181	512
Movement in short term timing differences	148	209
Tax losses arising in period not recognised	1,237	319
Income tax expense	-	-

No deferred tax asset has been recognised on deductible temporary differences and unused tax losses because in the opinion of the directors it is not probable that sufficient suitable profits will be generated against which the temporary differences can be utilised. The temporary differences are attributable to the following:

	Period from 3 January 2016 to 31 December 2016 £'000	Period from 4 January 2015 to 2 January 2016 £'000
Tax losses (revenue in nature)	8,852	9,903
Accelerated capital allowances	-	-
Short term timing differences	876	3,000

On 15 July 2015, the Chancellor of the Exchequer announced reductions in the rate of UK Corporation Tax to 19% from 1 April 2017 and 18% from 1 April 2020. On 16 March 2016, the Chancellor of the Exchequer announced a further reduction in the rate of UK corporation tax to 17% from 1 April 2020. At the balance sheet date, a rate of 17% was substantively enacted.

# Notes to the financial statements (continued)

for the period 3 January 2016 to 31 December 2016

## 5 Property, plant and equipment

	Business properties £'000	Fixtures & fittings £'000	Computer & other equipment £'000	Total £'000
<b>Cost</b>				
At 4 January 2015	5,892	19,441	2,969	28,302
Additions	159	1,852	220	2,231
Disposals	(18)	(342)	(26)	(386)
<b>Total</b>	<b>6,033</b>	<b>20,951</b>	<b>3,163</b>	<b>30,147</b>
<b>Accumulated Depreciation</b>				
At 4 January 2015	1,479	6,735	1,008	9,222
Depreciation charge	1,208	4,617	741	6,566
Disposals	(5)	(167)	(14)	(186)
<b>Total</b>	<b>2,681</b>	<b>11,185</b>	<b>1,736</b>	<b>15,602</b>
<b>Carrying amount</b>				
At 2 January 2016	3,352	9,766	1,427	14,545
<b>Cost</b>				
At 3 January 2016	6,033	20,951	3,163	30,147
Additions	88	3,425	2,239	5,752
Impairment	(1,161)	(1,371)	(102)	(2,634)
Disposals	(369)	(2,046)	(519)	(2,934)
<b>Total</b>	<b>4,591</b>	<b>20,959</b>	<b>4,781</b>	<b>30,331</b>
<b>Accumulated Depreciation</b>				
At 3 January 2016	2,681	11,184	1,736	15,601
Depreciation charge	824	3,153	886	4,863
Impairment	(334)	(487)	(23)	(844)
Disposals	(160)	(1,718)	(318)	(2,197)
<b>Total</b>	<b>3,011</b>	<b>12,132</b>	<b>2,281</b>	<b>17,423</b>
<b>Carrying amount</b>				
At 31 December 2016	1,580	8,827	2,500	12,907

During the period the company has entered a finance lease for new equipment totalling £1.5m which is included in additions above but excluded from the purchase of property, plant and equipment in the statement of cash flows.

Impairment losses recognised in respect of property, plant and equipment in the year amount to £1.8m.

**Notes to the financial statements (continued)**  
for the period 3 January 2016 to 31 December 2016

**6 Supplier and store Intangible**

	Period from 3 January 2016 to 31 December 2016 £'000	Period from 4 January 2015 to 2 January 2016 £'000
<b>Cost</b>		
Opening balance	9,344	9,344
<b>Total</b>	<b>9,344</b>	<b>9,344</b>
<b>Amortisation</b>		
Opening balance	6,104	4,551
Amortisation charge	1,521	1,553
Impairment	61	-
<b>Total</b>	<b>7,686</b>	<b>6,104</b>
<b>Net book value</b>	<b>1,658</b>	<b>3,240</b>

**7 Other non-current assets**

	31 December 2016 £'000	2 January 2016 £'000
Rent deposits	257	248

These rent deposits represent amounts held under charge in favour of the company's landlords. These deposits are not recoverable until completion of the lease term all of which are more than 1 year.

**8 Inventories**

	31 December 2016 £'000	2 January 2016 £'000
Finished goods held for sale	8,397	9,566

The directors consider that the replacement cost of inventories is not materially different from the cost amount.

The inventory provision as at 31 December 2016 is £1.3m which is the difference between cost of inventory and the net realisable value (2015: £1.8m).

## Notes to the financial statements (continued)

for the period 3 January 2016 to 31 December 2016

### 9 Trade and other receivables

	31 December 2016 £'000	2 January 2016 £'000
Trade receivables	35	650
Prepaid expenses and accrued income	13,165	13,842
<b>Total trade and other receivables</b>	<b>13,200</b>	<b>14,492</b>

The directors consider that the carrying value amount of financial assets recorded at amortised cost in the financial statements approximate their fair value.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

The trade receivable disclosed above does not include any amounts which are past due at the reporting date (2015: £nil).

### 10 Cash and cash equivalents

	31 December 2016 £'000	2 January 2016 £'000
Cash at bank and in hand	18,145	17,085

The credit risk on liquid funds is considered to be limited because the counterparties are banks with an investment grade credit rating assigned by international credit rating agencies.

### 11 Share capital

	Allotted, called up and fully paid 31 December 2016 £	Allotted, called up and fully paid 2 January 2016 £
1 ordinary share of £1	1	1

No shares were issued during the period ended 2 January 2016.

Each share entitles the holder to one vote. The authorised share capital is 1 ordinary £1 share.

**Notes to the financial statements (continued)**

for the period 3 January 2016 to 31 December 2016

**12 Retained deficit**

	31 December 2016 £'000	2 January 2016 £'000
Loss brought forward	(22,178)	(13,345)
Loss for the period	(8,366)	(8,833)
At 31 December 2016	<u>(30,544)</u>	<u>(22,178)</u>

**13 Borrowings**

	31 December 2016 £'000	2 January 2016 £'000
<b>Current:</b>		
PNC Facility	1,000	-
Finance lease liabilities	490	-
	<u>1,490</u>	<u>-</u>
<b>Non-current:</b>		
PNC Facility	3,000	-
Goodmans	8,793	8,793
Arrangement fees	-	(71)
Finance lease liabilities	751	-
	<u>12,544</u>	<u>8,722</u>
<b>Total borrowings</b>	<u>14,034</u>	<u>8,722</u>

	31 December 2016 £'000	2 January 2016 £'000
<b>Gross finance lease liabilities - minimum lease payments</b>		
No later than 1 year	553	-
Later than 1 year and no later than 5 years	789	-
Future finance charge on finance lease liabilities	(101)	-
<b>Present value of finance lease liabilities</b>	<u>1,241</u>	<u>-</u>

	31 December 2016 £'000	2 January 2016 £'000
<b>The present value of finance lease liabilities is as follows:</b>		
No later than 1 year	490	-
Later than 1 year and no later than 5 years	751	-
	<u>1,241</u>	<u>-</u>

The Goodmans long-term borrowings above relates to a loan which is secured by a fixed and floating charge over the assets of the company which matures on 30 June 2019. The loan carries interest rate at 8%.

Since 30 June 2016, a working capital facility has been provided by PNC Business Credit, for a minimum of 36 months. The facility carries interest at between 2.5% and 3.5% plus base rate at the date of drawdown and is repayable at 30 days notice. This is in addition to a working capital facility of £32m which was available from HUK 40 Limited during the period. There was nothing outstanding in relation to this at the period end date (2015: £nil). The facility was repayable on demand and carries interest at 3% plus one month Libor at the date of drawdown.

**Notes to the financial statements (continued)**

for the period 3 January 2016 to 31 December 2016

**14 Other non-current liabilities**

	31 December 2016 £'000	2 January 2016 £'000
Rent free accruals	<u>4,848</u>	<u>4,290</u>

**15 Trade and other payables**

	31 December 2016 £'000	2 January 2016 £'000
<b>Current liabilities</b>		
Trade payables	34,040	38,422
Accruals	13,851	10,804
Deferred revenue	2,608	4,934
Social security and other taxes	6,822	7,145
Other payables	<u>8,905</u>	<u>7,037</u>
<b>Total trade and other payables</b>	<u>66,226</u>	<u>68,342</u>

Trade payables and accruals relate to amounts payable at the balance sheet date for services received during the year and are non-interest bearing. Settlement terms vary from 14 to 75 days.

The company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

The directors consider that the carrying amount of financial liabilities recorded in the financial statements approximate their fair value.

**Notes to the financial statements (continued)**

for the period 3 January 2016 to 31 December 2016

**16 Cash used in operations**

	Period from 3 January 2016 to 31 December 2016 (52 weeks trading) £'000	Period from 4 January 2015 to 2 January 2016 (52 weeks trading) £'000
Loss before tax	(8,366)	(8,833)
Adjusted for:		
- Interest	566	1,257
- Depreciation	6,653	6,566
- Amortisation	1,582	1,553
- Amortisation of lease incentives	(1,949)	(1,728)
- Loss/(Gain) on disposal of property, plant and equipment	731	195
- Change in inventories	1,170	1,601
- Change in trade and other receivables	73	(1,308)
- Change in other non-current assets	-	-
- Change in trade and other payables	(477)	855
Net cash flow from operating activity	<u>(17)</u>	<u>158</u>

# Notes to the financial statements (continued)

for the period 3 January 2016 to 31 December 2016

## 17 Related party transactions

During the period no repayments were made to Goodmans Capital Investments (2015: £6,000,000) against the loan provided, leaving £8,792,605 (2015: £8,792,605) outstanding at 31 December 2016. Interest of £738,130 (2015: £1,093,567) was payable on this loan. No arrangement fees were charged during the period (2015: £Nil).

During the period, HUK 40 Limited provided working capital facilities to the company of £32,000,000 (2015: £32,000,000). Interest of £315,963 (2015: £586,528) was payable on the facility. No arrangement fees were charged during the period (2015: £Nil).

During the period the company made/received payments to/from inter-group companies of £8,928,248 (2015: £10,298,453) in relation to committed licensing agreements, property and other management services. The company was also charged/recharged costs in relation to inventory and the operation of the loyalty scheme.

	In relation to:	31 December 2016 £'000	2 January 2016 £'000
Hilco Profit Recovery Limited	Profit recovery services	197	189
Hilco Property Limited	Property services	438	373
HMV (Brands) Limited	Committed licencing agreements	5,901	2,667
Palm Green Capital Limited	Committed licencing agreements	-	4,604
Retail Agents 260 Limited	Management and property services	-	147
Retail Consultancy Limited	Management and property services	1,462	1,317
Retail Procurement Services Limited	Procurement Services	930	1,001
		<u>8,928</u>	<u>10,298</u>
Hilco Wholesale Limited	Inventory		1
HMV Ecommerce Limited	Inventory	(5,945)	(3,632)
HMV Online Limited	Website services	(9)	(24)
Pure HMV Loyalty Limited	Loyalty scheme operation	745	1,012

At 31 December 2016, the following amounts were owed by/(to) the company:

	In relation to:	31 December 2016 £'000	2 January 2016 £'000
Hilco Profit Recovery Limited	Profit recovery services	2	
Hilco Property Limited	Property services	17	20
HMV (Brands) Limited	Committed licencing agreements	8,588	(83)
Retail Consultancy Limited	Management and property services	799	87
Retail Procurement Services Limited	Procurement services	764	235
HUK 40 Limited	Working capital facility	316	587
HMV Ecommerce Limited	Inventory	765	(86)
HMV Online Limited	Website services	(4)	(24)
Pure HMV Loyalty Limited	Loyalty scheme operation	106	162

Goodmans Capital Investments Limited, HMV (Brands) Limited, Hilco Capital Limited, Hilco Profit Recovery Limited, Hilco Property Limited, Hilco Wholesale Limited, HMV Digital Limited, HMV Online Limited, HMV Ecommerce Limited, HUK 40 Limited, Palm Green Capital Limited, Pure HMV Loyalty Limited, Retail Agents 260 Limited, Retail Consultancy Limited, Retail Procurement Services Limited and Twice2Much Limited are considered related parties by virtue of being commonly controlled by Hilco Trading LLC.



## Notes to the financial statements (continued)

for the period 3 January 2016 to 31 December 2016

### 18 Ultimate parent undertaking and controlling party

The immediate parent undertaking of HMV Retail Limited is HUK 39 Limited, a company incorporated in England and Wales.

The directors consider the ultimate controlling party of the company to be Hilco Trading LLC, a company incorporated in the United States of America.

The largest and smallest group of undertakings for which group financial statements have been drawn up, including the company, is that headed by Hilco Trading, LLC. Copies of the group financial statements can be obtained from that company's registered office, 5 Revere Drive, Suite 206, Northbrook, Illinois, 60062.

### 19 Commitments

The future aggregate minimum lease payments under operating leases are as follows:

	31 December 2016 £'000	2 January 2016 £'000
No later than 1 year	27,889	24,663
Later than 1 year and no later than 5 years	52,368	60,445
	<u>80,257</u>	<u>85,108</u>

### 20 Non-recurring restructuring expense

The company presents non-recurring restructuring expense on the face of the income statement due to the nature and expected infrequency of events giving rise to these costs. They are presented separately to allow users of the accounts to better understand the financial performance in the period. These costs are broken down as follows:

	Period from 3 January 2016 to 31 December 2016 (52 weeks trading) £'000	Period from 4 January 2015 to 2 January 2016 (52 weeks trading) £'000
Store closure expense	-	26
Redundancy and other employment related expense	-	143
<b>Total non-recurring restructuring expense</b>	<u>-</u>	<u>169</u>