# HMV Retail Limited

## Annual report and financial statements

For the period ended 3 January 2015

Registered number 08380689

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## Company information

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

## Contents

## Strategic report

for the period 29 December 2013 to 3 January 2015

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 29 December 2013 to 3 January 2015

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 3 January 2015, the company operated 129 stores in the United Kingdom (2013 141 stores)

During the period, relationships with key suppliers have been consolidated, with further improvements to product ranges and in-stock positions 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 and speaker docks), 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 53 week trading period from 29 December 2013 to 3 January 2015, revenue of £365 7m was achieved, delivering a gross profit of £129 5m This compares to £311 3m revenue and £108 9m gross profit for the 39 week trading period from 5 April 2013 to 28 December 2013

Earnings for the period (before finance costs, depreciation, amortisation, non-trading intra-group expense and taxation) were £15 2m, which compares to £16 8m for the 39 week period in the prior year, due to having a seasonal loss making period at the start of 2014 (compared to a non-trading period in 2013)

After non-trading intra-group expense of £11 9m and non-recurring restructuring expense of £1 2m, earnings before finance costs, depreciation, amortisation and taxation (EBITDA) of £2 1m (2013 £2 7m) was achieved, with an overall loss (after finance costs, depreciation, amortisation and taxation) of £8 5m (2013 £4 9m)

As at 3 January 2015, the company had £25 4m (2013 £30 5m) 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) From 29 December 2013 to 3 January 2015, £1 2m net cash inflow (2013 £55 8m inflow) had been generated from operating activities, with a further £4m financing cash inflow (2013 £2 3m inflow) Purchase of property, plant and equipment, related mainly to new store openings and store layout improvements, generated a net cash outflow of £5 9m (2013 £5 9m). As at 3 January 2015 the company had net liabilities of £13 3m (2013 £4 9m)

## Strategic report (continued)
for the period 29 December 2013 to 3 January 2015

**Principal risks and uncertainties**

| Risk Type | Impact | Risk Mitigation |
|---|---|---|
| <u>Competitive nature of markets</u><br>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 our offer relevant and competitive |
| <u>Seasonality of business</u><br>HMV's business is highly seasonal, with the majority 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 |
| <u>Reputational</u><br>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 |
| <u>Agreements with key suppliers</u><br>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 |
| <u>Store portfolio</u><br>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 |
| <u>Major business interruption</u><br>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 |
| <u>People</u><br>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 |

## Strategic report (continued)

for the period 29 December 2013 to 3 January 2015

### 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
28 July 2015
7 River Court
Brighouse Business Village
Brighouse Road
Middlesbrough
TS2 1RT

## Directors' report
for the period 29 December 2013 to 3 January 2015

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 in 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 polices) to the financial statements.

### 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

*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

*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 (2013 £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 29 December to 3 January 2015

### 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
28 July 2015
7 River Court
Brighouse Business Village
Brighouse Road
Middlesbrough
TS2 1RT

## Directors' responsibilities statement
for the period 29 December 2013 to 3 January 2015

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 Limited for the 53 week period from 29 December 2013 to 3 January 2015, which comprise the Statement of comprehensive income, the Statement of financial position, the Statement of changes in equity, the Cash flow statement 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 Statement of directors' responsibility, 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 3 January 2015 and of its loss for the period 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

**Opinion on other matter prescribed by the Companies Act 2006**

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

## 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 ACA (Senior Statutory Auditor)
for and on behalf of
**Deloitte LLP**
Chartered Accountants and Statutory Auditor
London, United Kingdom

28 July 2015

## Statement of comprehensive income

Period from 29 December 2013 to 3 January 2015

| | Notes | Period from 29 December 2013 to 3 January 2015 (53 weeks trading) £'000 | Period from 29 January 2013 to 28 December 2013 (39 weeks trading) £'000 |
|---|---|---|---|
| **Revenue** | | 365,746 | 311,278 |
| Inventory related expense | | (236,210) | (202,356) |
| Labour and premises expense | | (114,297) | (92,135) |
| **Earnings before finance costs, depreciation, amortisation and non-trading intra-group expense** | | 15,239 | 16,787 |
| Non-trading intra-group expense | | (11,905) | (9,896) |
| Non-recurring restructuring expense | 2 | (1,203) | (4,174) |
| **Earnings before finance costs, depreciation, amortisation and taxation** | | 2,131 | 2,717 |
| Financing expense | | (1,964) | (2,305) |
| **Earnings before depreciation, amortisation and taxation** | | 167 | 412 |
| Depreciation | 6 | (5,469) | (3,904) |
| Amortisation | 7 | (3,149) | (1,402) |
| **Loss before tax** | 3 | (8,451) | (4,894) |
| Income tax expense | 5 | - | - |
| **Loss for the financial period** | | (8,451) | (4,894) |

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

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

## Statement of changes in equity
for the period 29 December 2013 to 3 January 2015

| | 3 January 2015 | 28 December 2013 |
|---|---|---|
| | £'000 | £'000 |
| Share Capital | - | - |
| Retained Deficit | (4,894) | - |
| Total comprehensive loss for the period | (8,451) | (4,894) |
| **Balance** | (13,345) | (4,894) |

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

## Statement of financial position

As at 3 January 2015

| | Notes | 03 January 2015 £'000 | 28 December 2013 £'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non current assets** | | | |
| Property, plant and equipment | 6 | 19,080 | 20,567 |
| Supplier and store intangible | 7 | 4,793 | 7,942 |
| Other non-current assets | 8 | 248 | 88 |
| | | 24,121 | 28,597 |
| **Current assets** | | | |
| Inventories | 9 | 11,167 | 25,930 |
| Trade and other receivables | 10 | 13,184 | 21,671 |
| Cash and cash equivalents | 11 | 25,369 | 30,494 |
| | | 49,720 | 78,095 |
| **Total assets** | | 73,841 | 106,692 |
| **Equity and liabilities** | | | |
| **Capital and reserves attributable to the shareholders in the company** | | | |
| Share capital | 12 | - | - |
| Retained deficit | 13 | (13,345) | (4,894) |
| **Total equity** | | (13,345) | (4,894) |
| **Non-current liabilities** | | | |
| Borrowings | 14 | 14,939 | 15,388 |
| Other non-current liabilities | 15 | 3,555 | 1,250 |
| **Total non-current liabilities** | | 18,494 | 16,638 |
| **Current liabilities** | | | |
| Trade and other payables | 16 | 68,693 | 94,948 |
| **Total current liabilities** | | 68,693 | 94,948 |
| **Total liabilities** | | 87,187 | 111,586 |
| **Total equity and liabilities** | | 73,841 | 106,692 |

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
28 July 2015

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

## Statement of cash flows

for the period 29 December 2013 to 3 January 2015

| | Notes | Period from 29 December 2013 to 3 January 2015 £'000 | Period from 29 January 2013 to 28 December 2013 £'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net cash flow from operating activities | 17 | 1,238 | 55,754 |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings, net of arrangement fee | | 36,868 | 24,131 |
| Repayment of borrowings | | (32,899) | (21,795) |
| Net cash flow from financing activities | | 3,968 | 2,336 |
| **Cash flow from investing activities** | | | |
| Purchase of property, plant and equipment | | (5,924) | (5,946) |
| Acquisition of trade and certain assets, net of cash acquired | | (4,417) | (21,679) |
| Proceeds from disposal of property, plant and equipment | | 11 | 29 |
| Net cash used in investing activities | | (10,330) | (27,596) |
| **Net increase in cash and cash equivalents** | | | |
| Cash and cash equivalents at beginning of period | | 30,494 | - |
| **Cash and cash equivalents at end of period** | 11 | 25,369 | 30,494 |
| | | (5,125) | 30,494 |

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

# Notes to the financial statements

for the period 29 December 2013 to 3 January 2015

## 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, Brighouse Business Village, Brighouse 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 HUK 40 Limited to continue in operation if required HUK 40 Limited, which is a subsidiary of Hilco Trading LLC, has provided a written commitment of its intention to provide financial support for at least twelve months from the signing of these accounts

### 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

for the period 29 December 2013 to 3 January 2015

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 that are unlikely to be redeemed based on historical redemption

**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 substantially 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 the life of the related leases

**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

## Notes to the financial statements
for the period 29 December 2013 to 3 January 2015

**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
for the period 29 December 2013 to 3 January 2015

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

**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
for the penod 29 December 2013 to 3 January 2015

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 |
| 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

for the period 29 December 2013 to 3 January 2015

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 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

Significant items subject to such assumptions and estimates 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, including the assessment of future earnings to determine the extent to which deferred tax can be recognised and the assessment of qualifying deductions,
- The valuation of inventory in respect of any obsolescence provision required These are assessed based on the cost of each stock item compared to its net realisable value, and
- The valuation of intangible assets, principally supplier and store intangible This is sensitive to the assessment of the fair values of assets and liabilities arising from the acquisition The directors have estimated that the useful economic life of this asset is 5 years, with the amortisation calculation being carried out on a store by store basis and accelerated in the case of store closures or resites where trading space has reduced
- The recognition of supplier rebates, including marketing support and sales-related retro discounts. These are recognised only when the income has been received, or the company has a contractual entitlement to the income

**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 foreign exchange risk, 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

for the period 29 December 2013 to 3 January 2015

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
- IFRIC 21 Levies
- 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
- IAS 1 (amended) Disclosure Initiative
- IAS 16 and IAS 38 (amended) Clarification of Acceptable Methods of Depreciation and Amortization
- IAS 19 (amended) Defined Benefit Plans Employee Contributions
- IAS 27 (amended) Equity Method in Separate Financial Statements

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

## Notes to the financial statements
for the period 29 December 2013 to 3 January 2015

### 2 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 These costs were incurred as a result of restructuring the store property portfolio 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 29 December 2013 to 3 January 2015 (53 weeks trading) £'000 | Period from 29 January 2013 to 28 December 2013 (39 weeks trading) £'000 |
|---|---|---|
| Store closure expense | 68 | 731 |
| Redundancy and other employment related expense | 871 | 2,966 |
| Property restructuring expense | 264 | 477 |
| **Total non-recurring restructuring expense** | **1,203** | **4,174** |

### 3 Loss before tax

(a) This is stated after charging/(crediting)

| | Period from 29 December 2013 to 3 January 2015 (53 weeks trading) £'000 | Period from 29 January 2013 to 28 December 2013 (39 weeks trading) £'000 |
|---|---|---|
| Depreciation | 5,469 | 3,904 |
| Amortisation | 3,149 | 1,402 |
| Gain on disposal of property, plant and equipment | 432 | (5) |
| Write-down of inventories recognised as an expense | 2,520 | 3,592 |
| Auditors remuneration | | |
| Fees payable to the company's auditor for the audit of the company's annual accounts | 73 | 78 |
| Operating lease charges - land and buildings | 30,752 | 28,282 |
| Foreign exchange differences | 2 | 2 |

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

## Notes to the financial statements
for the penod 29 December 2013 to 3 January 2015

**4 Staff costs and average number of employees**

The aggregate remuneration compnsed

| | Period from 29 December 2013 to 3 January 2015 (53 weeks trading) £'000 | Penod from 29 January 2013 to 28 December 2013 (39 weeks trading) £'000 |
|---|---|---|
| Wages and salanes | 39,984 | 32,318 |
| Social secunty costs | 2,701 | 2,324 |
| Other pension costs | 358 | 226 |
| | 43,043 | 34,868 |

The average monthly number of employees (including executive directors) dunng the year was 2,561 (2013 2,833) This is split between 2,422 sales and store (2013 2,688) and 139 administration (2013 145)

Dunng the period, no director received remuneration from the company

# Notes to the financial statements

for the period 29 December 2013 to 3 January 2015

## 5 Income tax expense

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

| | Period from 29 December 2013 to 3 January 2015 (53 weeks trading) £'000 | Period from 29 January 2013 to 28 December 2013 (39 weeks trading) £'000 |
|---|---|---|
| Analysis of charge in period | | |
| Current Tax | - | - |
| Deferred Tax | - | - |
| Income tax expense | - | - |
| | - | - |

The tax rate used for the 2015 reconciliation above is the corporate tax rate of 21% payable by corporate entities in the UK and on taxable profits under tax law in the UK The differences are explained below

| | Period from 29 December 2013 to 3 January 2015 (53 weeks trading) £'000 | Period from 29 January 2013 to 28 December 2013 (39 weeks trading) £'000 |
|---|---|---|
| Loss before tax | (8,451) | (4,894) |
| Tax at the applicable rate of 21% (2013 23%) | (1,775) | (1,126) |
| Tax effect of expenses that are not deductible in determining profit | 17 | 61 |
| Non qualifying depreciation | 167 | 524 |
| Effect of capital allowances less than/(in excess of) depreciation | 203 | 26 |
| Movement in short term timing differences | 232 | 53 |
| Tax losses arising in period not recognised | 1,156 | 462 |
| 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 29 December 2013 to 3 January 2015 £ | Period from 29 January 2013 to 28 December 2013 £ |
|---|---|---|
| Tax losses (revenue in nature) | 7,443,156 | 2,009,000 |
| Accelerated capital allowances | - | 115,000 |
| Short term timing differences | 1,966,710 | 228,000 |

## Notes to the financial statements
for the penod 29 December 2013 to 3 January 2015

### 6 Property, plant and equipment

| | Business properties £'000 | Fixtures & fittings £'000 | Computer & other equipment £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 29 December 2013 | 6,294 | 16,123 | 2,052 | 24,469 |
| Additions* | (392) | 3,898 | 918 | 4,424 |
| Disposals | (11) | (580) | (1) | (591) |
| **Total** | 5,892 | 19,441 | 2,969 | 28,302 |
| **Accumulated Depreciation** | | | | |
| At 29 December 2013 | 419 | 3,155 | 328 | 3,902 |
| Depreciation charge | 1,061 | 3,727 | 681 | 5,469 |
| Disposals | (1) | (147) | (1) | (149) |
| **Total** | 1,479 | 6,735 | 1,009 | 9,222 |
| **Carrying amount** | | | | |
| At 3 January 2015 | 4,412 | 12,707 | 1,961 | 19,080 |
| At 28 December 2013 | 5,875 | 12,968 | 1,724 | 20,567 |

* Included in this number is the reversal of an accrual in relation to a lease premium of £1 5m

### 7 Supplier and store Intangible

| | £'000 |
|---|---|
| **Cost** | |
| Opening Balance at 29th December 2013 | 9,344 |
| **Total** | 9,344 |
| **Amortisation** | |
| Opening Balance at 29th December 2013 | 1,402 |
| Amortisation Charge | 3,149 |
| **Total** | 4,551 |
| Net book value at 3 January 2015 | 4,793 |
| At 28 December 2013 | 7,942 |

## Notes to the financial statements

for the period 29 December 2013 to 3 January 2015

### 8 Other non-current assets

| | 3 January 2015 £'000 | 28 December 2013 £'000 |
|---|---|---|
| Rent deposits | 248 | 88 |

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

### 9 Inventories

| | 3 January 2015 £'000 | 28 December 2013 £'000 |
|---|---|---|
| Finished good held for sale | 11,167 | 25,930 |

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

The inventory provision as at 3 January 2015 is £2 1m which is the difference between cost of inventory and the net realisable value (2013 £4 9m)

### 10 Trade and other receivables

| | 3 January 2015 £'000 | 28 December 2013 £'000 |
|---|---|---|
| Trade receivables | 767 | 878 |
| Prepaid expenses and accrued income | 2,313 | 3,350 |
| Other receivables | 10,104 | 17,443 |
| **Total trade and other receivables** | 13,184 | 21,671 |

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 (2013 £nil)

## Notes to the financial statements
for the period 29 December 2013 to 3 January 2015

### 11 Cash and cash equivalents

| | 3 January 2015 £'000 | 28 December 2013 £'000 |
|---|---|---|
| Cash at bank and in hand | 25,369 | 30,494 |

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

### 12 Share capital

| | Allotted, called up and fully paid 3 January 2015 £ | Allotted, called up and fully paid 28 December 2013 £ |
|---|---|---|
| 1 ordinary share of £1 | 1 | 1 |

No shares were issued during the period ended 3 January 2015

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

### 13 Retained deficit

| | 3 January 2015 £'000 | 28 December 2013 £'000 |
|---|---|---|
| Loss brought forward | (4,894) | - |
| Loss for the period | (8,451) | (4,894) |
| At 3 January 2015 | (13,345) | (4,894) |

# Notes to the financial statements
for the penod 29 December 2013 to 3 January 2015

## 14 Borrowings

| | Total £'000 |
|---|---|
| **Long-term borrowings** | |
| At 29th December 2013 | 16,025 |
| Additional borrowings in penod | 4,417 |
| **At 3 January 2015** | 20,442 |
| **Repayments** | |
| At 29th December 2013 | - |
| Repaid in period | (5,149) |
| **At 3 January 2015** | (5,149) |
| **Arrangement fee** | |
| At 29th December 2013 | (637) |
| Expensed in period | 283 |
| **At 3 January 2015** | (354) |
| **Carrying value at 3 January 2015** | 14,939 |
| **At 28 December 2013** | 15,388 |

The long-term borrowings above relate to a single loan which is secured by a fixed charge over the assets of the company which matures on 5 April 2017 The loan carries interest rate at 8%

The company also has a working capital facility available There was nothing outstanding in relation to this at the period end date (2013 £nil) The facility is repayable on demand and carries interest at 3% plus one month LIBOR at the date of drawdown

## Notes to the financial statements

for the penod 29 December 2013 to 3 January 2015

### 15 Other non-current liabilities

| | 3 January 2015 £'000 | 28 December 2013 £'000 |
|---|---|---|
| Rent free accruals | 3,555 | 1,250 |

### 16 Trade and other payables

| | 3 January 2015 £'000 | 28 December 2013 £'000 |
|---|---|---|
| **Current liabilities** | | |
| Trade payables | 41,144 | 52,286 |
| Accruals | 10,350 | 15,167 |
| Deferred revenue | 4,740 | 4,376 |
| Deferred contingent consideration | - | 5,917 |
| Social secunty and other taxes | 7,571 | 10,849 |
| Other payables | 4,888 | 6,353 |
| **Total trade and other payables** | 68,693 | 94,948 |

Trade payables and accruals relate to amounts payable at the balance sheet date for services received dunng 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
for the period 29 December 2013 to 3 January 2015

### 17 Cash used in operations

| | Period from 29 December 2013 to 3 January 2015 (53 weeks trading) £'000 | Period from 29 January 2013 to 28 December 2013 (39 weeks trading) £'000 |
|---|---|---|
| Loss before tax | (8,451) | (4,894) |
| Adjusted for | | |
| - Interest | 1,864 | 2,305 |
| - Depreciation | 5,469 | 3,904 |
| - Amortisation | 3,149 | 1,402 |
| - Amortisation of lease incentives | (1,334) | (326) |
| - Loss/(gain) on disposal of property, plant and equipment | 432 | (5) |
| - Change in inventories | 14,763 | (14,901) |
| - Change in trade and other receivables | 8,487 | (21,671) |
| - Change in other non-current assets | (160) | (88) |
| - Change in trade and other payables | (23,081) | 90,028 |
| Net cash flow from operating activity | 1,238 | 55,754 |

# Notes to the financial statements

for the period 29 December 2013 to 3 January 2015

## 18 Related party transactions

During the period repayments were made to Goodmans Capital Investments of £2,546,489 (2013 £nil) against a loan provided in the prior financial period leaving £15,292,605 (2013 £17,839,094) outstanding at 3 January 2015 Interest of £1,102,746 (2013 £863,964) was payable on this loan No arrangement fees were charged during the period (2013 £849,481)

During the period, HUK 40 Limited provided working capital facilities to the company of £32,000,000 (2013· £25,000,000) Interest of £574,516 (2013 £230,574) was payable on the facility No arrangement fees were charged during the period (2013 £1,000,000)

During the period the company was charged/ (recharged) costs in relation to operation of the loyalty scheme, committed licencing agreements, inventory, property and other management services as follows

| | In relation to | 3 January 2015 | 28 December 2013 |
|---|---|---|---|
| | | £'000 | £'000 |
| Hilco Property Limited | Property services | 1,054 | 1,155 |
| Hilco Wholesale Limited | Inventory | 448 | - |
| HMV Online Limited | Website services | 200 | - |
| Palm Green Capital Limited | Committed licencing agreements | 8,247 | 7,004 |
| Pure HMV Loyalty Limited | Loyalty scheme operation | 966 | 119 |
| Retail Agents 260 Limited | Management and property services | 1,423 | 1,575 |
| Retail Procurement Services Limited | Procurement services | 1,464 | 129 |

At 3 January 2015, the following amounts were owed by/(to) the company

| | In relation to | 3 January 2015 | 28 December 2013 |
|---|---|---|---|
| | | £'000 | £'000 |
| Hilco Property Limited | Property services | - | 530 |
| HMV Online Limited | Website services | 200 | - |
| HUK 40 Limited | Working capital facility | 805 | 231 |
| Palm Green Capital Limited | Committed licencing agreements | 2,426 | 7,004 |
| Pure HMV Loyalty Limited | Loyalty scheme operation | 219 | 79 |
| Retail Agents 260 Limited | Management and property services | 371 | 1,575 |
| Retail Procurement Services Limited | Procurement services | (2,379) | 129 |

Goodmans Capital Investments Limited, Hilco Capital Limited, Hilco Profit Recovery Limited, Hilco Property Limited, Hilco Wholesale Limited, HMV Digital Limited, HMV Online Limited, HUK 40 Limited, Palm Green Capital Limited, Pure HMV Loyalty Limited, Retail Agents 260 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

for the period 29 December 2013 to 3 January 2015

### 19 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 accounts 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

### 20 Commitments

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

| | 3 January 2015<br>£'000 | 28 December 2013<br>£'000 |
|---|---|---|
| No later than 1 year | 27,372 | 12,176 |
| Later than 1 year and no later than 5 years | 69,488 | 38,251 |
| | 96,860 | 50,427 |