HOMEBASE LIMITED

REPORT AND FINANCIAL STATEMENTS

For the 52 week period ended 1st March 2008

Company No. 533033

HOMEBASE LIMITED

REPORT OF THE DIRECTORS FOR THE PERIOD ENDED 1st MARCH 2008

The directors present their report and the audited financial statements of the Company for the 52 week period from 4th March 2007 to 1st March 2008.

Principal Activity

The principal activity of the Company is the retailing of home enhancement, DIY and garden centre products within Great Britain.

Holding Company

The Company's ultimate and controlling party is Home Retail Group plc ('the Group').

Period end date

These financial statements have been drawn up to 1st March 2008 which is the nearest Saturday to the Company's accounting reference date.

Business Review and Future Developments

The DIY 'sheds' market has seen flat sales over the year, with a decline in sales excluding net new space. The Company's like for like sales performance declined by 4.1% (2007: 1.4% decline), driven by exposure to the seasonal market which suffered from adverse weather conditions in the May to August period, with non-seasonal categories generally stable. A more difficult overall environment in the second half of the year saw like for like sales soften. Despite these increasingly challenging trading conditions, the Company has performed well operationally and there were good performances in kitchens and within areas of homewares and decorating. In addition, improvements in stock management procedures in the first half, together with ongoing supply chain initiatives with foreign exchange benefits, resulted in gross margins being strongly ahead in the year.

In October 2007, the Company acquired 27 leasehold stores from Focus DIY, for a purchase price of £39,590k in cash. This acquisition has resulted in Goodwill of £43,771k being capitalised. In addition, integration costs of £9,118k for these Focus stores have been incurred and this has resulted in an exceptional charge to the profit and loss account.

The Company continues to add space through new stores. During the period the Company opened a net 7 new stores (2007: 13) excluding stores acquired from Focus DIY. Of the newly opened stores, the majority were in the successful smaller format consisting of less than 25,000 square feet internal ground floor area and typically feature an 8,000 to 10,000 square foot mezzanine floor. These smaller stores are significantly differentiated, remain authoritative across the broader home enhancement market, and are designed to provide an unrivalled customer offer in smaller catchments. The acquired Focus DIY stores will add further new space leverage. At the year end, the Company had already relaunched 12 of the acquired stores; the remaining 9 of the net 21 stores to be integrated will be opened in early 2008/09. The Company's total number of stores at the period end was 310 (2007: 291). Further store portfolio investment opportunities exist and trials to test a low cost refurbishment continue to produce the required sales uplifts; these plans will be further developed once the Focus DIY conversion programme and 2008 peak trading season are completed.

The Company continues to invest in the development of the customer offer:

- The national roll-out of the installation service has been the key driver of the performance in kitchens. Customer satisfaction and recommendation levels continue to be very high. Some 600 kitchen displays in around 100 stores will be refreshed in the new financial year.

- Ongoing range reviews also continue to drive category performances. Key range developments that supported a good performance in homewares included textiles, cookshop and home accessory areas, while wider ranges of tiling, flooring and lighting have also recently been developed. The rolling programme of range reviews will continue throughout the new financial year.

- A single 'Furniture and Home' catalogue has been made available in all stores. Its increased 232 pages present over 1,500 furniture lines and a further 800 home-related accessories.

The Company also completed a relaunch of www.homebase.co.uk in March 2008. Significant improvements include enhanced navigation and search, better promotional capabilities and improved 'how to' and buyer guides. There are now over 10,000 Homebase products to research from home, with around a third of these available for home delivery.

Business Review and Future Developments (continued)

The Company has also made further operational improvements through the ongoing '300 to 1' programme of driving consistency of the store operations leading to reduced costs whilst improving service. The Company also completed the relocation of its national distribution centre for small items and high value products to a new 350,000 square feet site at Wellingborough.

The Company will continue to leverage the purchasing scale of the Home Retail Group to maximise synergies and reduce costs. In addition, the Company will embark on further multi-channel opportunities to support growth and this includes further development of the Company's website. There are plans to open a net 5 new stores in 2008/09.

Post Balance Sheet Events

During the first half of the 2008/09 financial year, the trading environment has become increasingly challenging for our customers and many retailers are experiencing reduced sales as customers spend more cautiously. Since the start of 2008/09 financial year, trading has become increasingly volatile and like-for-like sales have continued to decline. As a result of this retail downturn, management has undertaken an impairment review of the Company's fixed assets and a review of the potential liabilities for onerous lease contracts. Following this review, an exceptional onerous lease provision of £58,900k will be charged to the 2008/09 Financial Statements. This exceptional charge has not been reflected in the Financial Statements for the period ended 1st March 2008. Further details are provided in Note 25 (Post Balance Sheet Events).

An impairment review has been carried out during 2008/09 by the Company's subsidiary, Homebase House and Garden Centre Limited which trades in the Republic of Ireland (ROI), and this was undertaken as a result of the downturn in the trading environment in the ROI since the start of 2008/09. The outcome of this review is an exceptional charge within Homebase House and Garden Centre Limited's financial statements which has resulted in Homebase House and Garden Centre Limited's Total Shareholders Funds becoming negative as at the date of the signing of the Company's financial statements. To remedy this situation the ultimate parent company of the Company's subsidiary, Home Retail Group plc, has confirmed its intention to provide financial support for the continuing operation of the Company's subsidiary so as to enable it to meet its liabilities as they fall due and carry on its business without significant curtailment of its operations. As a consequence, a provision will be made in the Company's Financial Statements for 2008/09 for the diminution in value of its investment in Homebase House and Garden Centre Limited. Further details are provided in Note 25.

The purchase of a number of the stores acquired from Focus DIY was reviewed by the Office of Fair Trading (OFT) to determine whether there were any local or national competition concerns as a result of the purchase. On 15th April 2008, the OFT have ruled that all stores have been cleared subject to undertakings agreed with regard to one store, which gave concerns of competitive overlap. The financial impact of the OFT ruling has not been recognised in these financial statements. Further details are provided in Note 25.

Principal Risks and Uncertainties

The Company manages its risk at a Group level, rather than at an individual business unit level. For this reason, the Company's directors believe that a discussion of its risks would not be appropriate for an understanding of the development, performance or position of the business. The principal risks and uncertainties of Homebase, which include those of the Company, are discussed on pages 50-51 and 67-68 in the Home Retail Group's annual report for 2008 which does not form part of this report.

Key Performance Indicators

The Group manages its operations on a divisional basis. For this reason, the Company's directors believe that further key performance indicators for the Company are not necessary or appropriate for an understanding of the development, performance or position of the business. The performance of Homebase, which includes the Company is discussed on pages 33 and 37 within Home Retail Group's annual report for 2008 which does not form part of this report.

Results and Dividends

The Company's profit after taxation for the period is £37,165k (2007: £6,579k) which will be transferred to reserves. No dividends were paid during the period and no final dividend is proposed (2007: £nil).

Directors

The directors who held office during the period and up to the date of signing the financial statements were:

R Ashton	
E Brazil	
T Duddy	
N Fuller	(resigned 10th January 2008)
P Loft	
M Sibbald	(resigned 19th April 2007)
M Thompson	
N Gresham	(appointed 10th January 2008)

Related Party Transactions

No director had, during or at the end of the period, any interest in any contract of significance to the Company's business.

Supplier Payments

For all trade creditors, it is the Company's policy to:

- agree and confirm the terms of payment at the commencement of business with that supplier;
- pay in accordance with its contractual and other legal obligations; and
- continually review the payment procedures and liaise with suppliers as a means of eliminating difficulties and maintain a good working relationship.

At the period end, the average number of days credit taken by the Company was 68 days (2007: 55 days) based on the ratio of trade creditors at the end of the period to the amounts invoiced during the period by trade creditors.

Financial Instruments

The Company is exposed to fluctuations in currency exchange rates on purchases of merchandise products from overseas. The Company's risk management objective is to mitigate the short term fluctuations in exchange rate through effective forecasting of foreign exchange requirements and appropriate hedging policies. The Company uses forward foreign exchange contracts to hedge this risk exposure.

Donations

Charitable donations during the period amounted to £70k (2007: £77k). There were no political donations (2007: £nil).

Employment Policies

The Company is committed to ensuring that:

- all employees receive fair and equal treatment irrespective of gender, ethnic origin, age, nationality, marital status, religion, sexuality or disability;
- the working environment is conducive to achievement and free from sexual harassment and intimidation;
- disabled persons, whether registered or not, have equal opportunities when applying for vacancies, with due regard to their aptitudes and abilities. In addition to complying with legislative requirements, procedures ensure that disabled employees are fairly treated and that new training and career development needs are carefully managed. For those employees becoming disabled during the course of their employment, every effort is made, whether through retraining or redeployment, to provide an opportunity for them to remain within the Company; and
- the assessment of training needs and provision of appropriate training is delivered to its employees.

The Company also has a process for communicating and consulting with employees through newsletters and briefing groups, and includes making employees aware of the financial and economic performance of the Company.

The Group has in place several employee share schemes, including a savings related share option scheme for employees of the Group and this encourages involvement of the employees in the Company.

Statement of Directors' Responsibilities in Respect of the Annual Report and Financial Statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to 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 those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that 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 1985. 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.

Disclosure of Information to Auditors

Each person who is a director at the date of approval of this report confirms that:

- So far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware; and
- They have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent Auditors

The Company passed an elective resolution dispensing with the requirement to re-appoint auditors annually. PricewaterhouseCoopers LLP will therefore continue in office.

By order of the board.

P A Parker
Company Secretary
17th December 2008
Avebury
489 - 499 Avebury Boulevard
Milton Keynes
MK9 2NW

HOMEBASE LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HOMEBASE LIMITED

We have audited the financial statements of Homebase Limited for the period ended 1st March 2008 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective Responsibilities of Directors and Auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Report of the Directors is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Report of the Directors and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 1st March 2008 and of its profit for the period then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the Directors is consistent with the financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

18 Dec 2008

HOMEBASE LIMITED

PROFIT AND LOSS ACCOUNT
For the period ended 1st March 2008

	Note	Period to 1st March 2008 Before Exceptional Items £'000	Period to 1st March 2008 Exceptional Items (note 3) £'000	Period to 1st March 2008 Total £'000	Restated Period to 3rd March 2007 Before Exceptional Items £'000	Restated Period to 3rd March 2007 Exceptional Items (note 3) £'000	Restated Period to 3rd March 2007 Total £'000
Turnover	2	1,480,895	-	1,480,895	1,508,548	-	1,508,548
Cost of sales	1	(756,790)	-	(756,790)	(808,191)*	-	(808,191)*
Gross profit		724,105	-	724,105	700,357	-	700,357
Selling costs	1	(599,517)	(9,118)	(608,635)	(585,941)*	-	(585,941)*
Administrative expenses	1	(85,695)	-	(85,695)	(80,952)*	-	(80,952)*
Operating profit / (loss)	4	38,893	(9,118)	29,775	33,464		33,464
Profit / (loss) on sale of properties		-	3,241	3,241	-	(753)	(753)
Profit / (loss) on ordinary activities before interest		38,893	(5,877)	33,016	33,464	(753)	32,711
Net interest receivable	7	1,670	-	1,670	221	-	221
Other finance costs	7	(2,137)	-	(2,137)	(2,328)	-	(2,328)
Profit /(loss) on ordinary activities before taxation		38,426	(5,877)	32,549	31,357	(753)	30,604
Tax credit/(charge) on profit on ordinary activities	8			4,616			(24,025)
Profit for the financial period				37,165			6,579

The notes on pages 9 to 30 form an integral part of these financial statements.

All transactions relate to continuing operations.

There are no material differences between the profit / (loss) on ordinary activities before taxation and the profit for financial period stated above and their historical cost equivalents.

* Restated, note 1

HOMEBASE LIMITED

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the period ended 1st March 2008

	Note	2008 £'000	2007 £'000
Profit for the financial period		37,165	6,579
Current period gain / (loss) on revaluation of derivatives	19	70	(272)
Taxation (charge) / credit on revaluation of derivatives	8,19	(16)	82
Total recognised gains relating to the period		37,219	6,389

HOMEBASE LIMITED

BALANCE SHEET as at 1st March 2008

	Note	2008 £'000	2008 £'000	2007 £'000	2007 £'000
Fixed assets					
Intangible assets	9	43,308		-	
Tangible assets	10	351,519		327,679	
Investments	11	2,508		2,508	
			397,335		330,187
Current assets					
Stocks	12	247,173		225,905	
Debtors	13	581,609		526,024	
Cash at bank and in hand		7,147		14,118	
			835,929		766,047
Creditors: amounts falling due within one year	14		(564,530)		(478,549)
Net current assets			271,399		287,498
Total assets less current liabilities			668,734		617,685
Creditors: amounts falling due after more than one year	15		(14,672)		(8,746)
Provisions for liabilities	16		(63,892)		(55,988)
Net assets			590,170		552,951
Capital and reserves					
Called up share capital	18		472,579		472,579
Other reserves	19		165		111
Profit and loss account	19		117,426		80,261
Total shareholders' funds	20		590,170		552,951

The notes on pages 9 to 30 form an integral part of these financial statements.

The financial statements on pages 6 to 30 were approved by the Board of Directors on 17th December 2008 and signed on its behalf by:

N Gresham
Director

HOMEBASE LIMITED

Notes to the financial statements
For the period ended 1st March 2008

1. Accounting policies

Basis of the Financial Statements

The financial statements are prepared on a going concern basis, under the historical cost convention and in accordance with the Companies Act 1985 and applicable UK accounting standards. The principal accounting policies, which have been applied consistently throughout the periods, are summarised below.

During the year an amendment to FRS 3 - Reporting Financial Performance, became effective and has been adopted by the Company. There is no impact on the financial statements arising from the adoption of this amendment.

Turnover

Turnover is recognised when the significant risks and rewards of ownership of the goods have been provided or delivered to the buyer and the amount of revenue can be measured reliably which is generally when goods are delivered to the customer.

Turnover consists solely of sales less trade discounts, excluding value added tax, through retail outlets and the Homebase e-commerce web site. Turnover excludes rental and other income (which is included in cost of sales and administration expenses respectively).

Discounts include the costs of promotions and the Homebase Spend & Save scheme. The Homebase Spend & Save scheme is a points based scheme which accrues to customers based on their spend in Homebase retail stores. These points are converted to vouchers that entitle the customer to sales discounts. Points and vouchers redeemable are reflected at fair value to the customer.

Cost of Sales, Selling Costs and Administrative Expenses

During the period, the allocation of costs between Cost of Sales, Selling Costs and Administrative Expenses was reviewed and as a result, Cost of Sales, Selling Costs and Administrative Expenses for the prior period ended 3rd March 2007 shown in the Profit and Loss Account have been restated to reflect a new classification. The impact of this reallocation on the previously reported costs for 2007 has been to increase Cost of Sales by £1,434k, to increase Selling Costs by £176,420k, and to reduce Administrative Expenses by £177,854k. The most significant change has been the reclassification of certain store expenses including store rental costs from Administrative Expenses to Selling Costs. This new classification of costs is considered the most appropriate.

Share Based Incentives

The company participates in the Home Retail Group plc share based payment arrangements. In accordance with FRS 20 – Share Based Payments, the fair value of equity settled share based payments to employees is determined at the date of grant and is expensed on a straight line basis over the vesting period based on Home Retail Group plc's estimate of shares or options that will eventually vest. The vesting estimate is revised at each balance sheet date. Non-market conditions are included in the vesting estimate. In the case of options granted, fair value is measured at the date of grant using whichever of the Black Scholes, Monte Carlo model and closing market price is most relevant. Market based performance conditions are included in the fair value measurement on grant date and are not revisited for actual performance.

Intangible Fixed Assets

Goodwill, which is the excess of the fair value of the consideration given over the fair value of the identifiable net assets, that has arisen on acquisitions is amortised on a straight line basis over 20 years. This is the period over which the directors estimate that the value of the underlying business is expected to exceed the value of the underlying assets and property leases.

A first year impairment review of the carrying value of the goodwill will be undertaken by management in the period ended 28th February 2009. Thereafter impairment tests will be undertaken by management on an exception basis if adverse events indicate that the amortised carrying value of the goodwill may not be recoverable.

1. Accounting Policies (continued)

Business Combination

Acquisition accounting has been used to reflect the purchase of the 27 Focus DIY stores. Fair values have been attributed to the identifiable assets and liabilities arising at the date of acquisition and gives rise to goodwill which is treated as an Intangible Fixed Asset in the balance sheet.

Deferred Income

Deferred income arises from rent incentives which have been provided by certain landlords of the Company's leasehold properties at the inception of the lease. This deferred income is released on a straight line basis to the profit and loss account over the period from the date of receipt of the rent incentive to the date of the subsequent rent review.

Tangible Fixed Assets

Freehold land is not depreciated. Freehold buildings and leasehold buildings with more than 50 years unexpired are depreciated on a straight-line basis at the rate of 2% per annum.

Leasehold properties with less than 50 years unexpired are depreciated to write off their book value in equal annual instalments over the unexpired period of the lease.

Fixtures and equipment (including computer software) are depreciated in equal annual instalments to write off their costs over their estimated useful economic lives, which do not exceed 10 years, commencing when they are brought into use.

Certain tenants' fixtures which have been capitalised as part of leasehold properties, and premiums paid by the Company in respect of such properties, are depreciated in equal annual instalments over the estimated useful economic lives of the assets, which do not exceed the period of the lease.

Impairment reviews are undertaken by management when there is an indication that the tangible fixed assets might be impaired. Impairment in the value of fixed assets, which are stated at historic cost, is charged to the profit and loss account.

Foreign Currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rates ruling at the date of the transactions. Exchange differences are taken to the profit and loss account. If foreign currency liabilities are hedged using forward contracts, the underlying foreign currency transactions and balances are translated into sterling at the corresponding forward contract rate.

Financial Instruments

The Company classifies its financial instruments in the following categories: financial assets at fair value through profit or loss, and loans and receivables. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition and re-evaluates this position at every reporting date.

Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss are so designated by management on initial recognition. Derivatives are so designated unless they are designated as hedges. Items in this category are classified as current assets or current liabilities if they are expected to be realised within 12 months of the balance sheet date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

1. Accounting Policies (continued)

Accounting for derivative financial instruments and hedging activities

Derivatives are recognised at fair value on the date a contract is entered into and are subsequently re-measured at their fair value by discounting future cash flows using market rates at the balance sheet date.

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company designates certain derivatives as cash flow hedges which are hedges of highly probable forecast transactions.

The Company documents the relationship between hedging instruments and hedged items at the hedge inception, as well as its risk management objective and strategy for undertaking various hedge transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transaction are highly effective in offsetting changes in fair values or cash flows of hedged items. Movements on the hedging reserve in equity are shown in the Company statement of total recognised gains and losses.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account.

Amounts accumulated in equity are recycled in the profit and loss account in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However when the forecast transaction that is hedged results in the recognition of a non-financial asset or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the profit and loss account. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the profit and loss account.

Software Costs

Costs incurred in acquiring and developing computer software for internal use are capitalised as tangible fixed assets, where the software supports a significant business system and the expenditure leads to the creation of an identifiable durable asset. Computer software assets are depreciated over their expected useful economic lives, which do not exceed 10 years, and are regularly reviewed for impairment by management.

Pension Costs

The Company contributes to the defined contribution Home Retail Group Stakeholder Pension Scheme. Contributions to this defined contribution scheme are charged in the profit and loss account in the period in which they are due. The assets of the scheme are held separately from those of the Company and the Group in an independently administered fund.

For certain employees, the Company contributes to the defined benefit Home Retail Group Pension Scheme (formerly Argos Limited Pension Scheme). This scheme is closed to the majority of new employees. The assets of the scheme are administered by trustees and are separate from the Company and the Home Retail Group.

The Company's participation in the Home Retail Group defined benefit scheme falls within the multi-employer scheme exemptions permitted within FRS 17 – Retirement Benefits. The Company's participation in this defined benefit scheme has therefore been accounted for as if it were a defined contribution scheme, and contributions have been charged in the profit and loss account in the period in which they are due.

Finance Leases

Where the Company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over the estimated useful economic life or the term of the lease whichever is shorter. Further instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments.

1. Accounting Policies (continued)

Operating Leases

Costs in respect of operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Onerous Lease Costs

When a leasehold property ceases to be used in the business, or a commitment is entered into which would cause this to occur, provision is made to the extent that the recoverable amount of the interest in the property is expected to be insufficient to cover future obligations relating to the lease.

Deferred Tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured in an undiscounted basis.

Fixed Asset Investments

The fixed asset investments in subsidiary companies are accounted for at cost less provision for diminution in value where appropriate. Impairment reviews are undertaken by management when there is an indication that the fixed asset investment might be impaired.

Stocks

Stocks represent goods held for resale and are stated at the lower of cost and net realisable value. Cost is calculated on a weighted average basis which approximates to actual costs. Cost comprises of expenditure directly incurred on purchasing stock and for directly imported goods, cost also includes shipping and duty. Net realisable value is the estimated selling price in the normal course of business less applicable variable selling costs. Net realisable value of stocks includes provisions for slow moving, obsolete and defective goods, and stock shrinkage.

Consolidated Financial Statements

These financial statements contain information about Homebase Limited as an individual company and do not contain consolidated financial information as the parent of a group. The Company is exempt under section 228(1) of the Companies Act 1985 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its ultimate parent, Home Retail Group plc, a company incorporated in England, which are publicly available.

Cash Flow Statement and Related Party Transactions

The Company is a wholly owned subsidiary of Home Retail Group plc, and is included within the consolidated financial statements of Home Retail Group plc, which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 (revised 1996) – Cash Flow Statements.

The Company is exempt under the terms of paragraph 3 (c) of FRS 8 – Related Party Disclosures, from disclosing related party transactions with entities that are part of, or investees of the Home Retail Group plc.

2. Turnover

Turnover, which is stated net of value added tax, represents sales through retail stores and the Homebase e-Commerce web site. Turnover is attributable to the retailing of home enhancement, DIY and garden centre products and relates to sales within Great Britain only.

3. Exceptional items

Exceptional (costs) / income are detailed as follows:

	2008 £'000	2007 £'000
Focus DIY acquisition integration costs	(9,118)	-
Profit / (loss) on sale of properties	3,241	(753)
	(5,877)	(753)
This is classified in the profit and loss account as follows:		
Selling expenses	(9,118)	-
Profit/(loss) on sale of properties	3,241	(753)

The Focus DIY acquisition integration costs principally relate to lease rental expenditure and labour costs for the assembled workforce for the period between taking ownership of the store leases and the reopening of the stores under the Homebase brand.

During the period, the Company disposed of 5 stores (2007: 2 stores) resulting in a profit on disposal of £3,241k (2007: £753k loss).

The tax effect of the exceptional items has been to increase the Tax credit on profits on ordinary activities by £2,100k (2007: £nil).

4. Operating Profit

Operating profit is stated after charging/(crediting):	2008 £'000	2007 £'000
Depreciation on tangible fixed assets:		
Owned assets	58,073	63,750
Leased assets	496	1,144
Amortisation of goodwill – administrative expenses	463	-
Operating lease rentals:		
Plant and machinery	5,243	3,900
Property	184,129	175,321
Loss on disposal of tangible fixed assets	559	869
Auditors' remuneration:		
Fee payable to Company auditors for the audit of the Company	197	216
Other services	1	1
Rents receivable	(3,913)	(2,840)

PricewaterhouseCoopers LLP's remuneration for other services during the period relates to fees for subscriptions.

5. Directors' Emoluments

	2008 £'000	2007 £'000
Aggregate emoluments	1,216	1,169
Aggregate amounts (excluding shares) receivable under long term incentive schemes	-	-

T Duddy and R Ashton are directors of Home Retail Group plc, the Company's ultimate holding company. E Brazil, and M Thompson are also directors of Argos Limited, and M Sibbald was also a director of Argos Limited. It is not possible to calculate a meaningful allocation of the emoluments of the Home Retail Group plc and Argos Limited directors to subsidiaries. Consequently, no emoluments relating to these have been apportioned or recharged to the Company.

Excluding the directors of Home Retail Group plc and Argos Limited, retirement benefits are accruing to 2 directors (2007: 2) under a defined benefit scheme.

During the period, excluding the directors of Home Retail Group plc and Argos Limited, no director (2007: 2) exercised share options in the ultimate holding company, and no director (2007: 1) received shares under long-term incentive schemes.

	2008 £'000	2007 £'000
Highest paid director:		
Aggregate emoluments and benefits (excluding gains on exercise of share options and value of shares received under long-term incentive schemes)	923	875
Accrued pension under defined benefit scheme at end of period	111	93

The highest paid director did not exercise share options nor receive shares under long term incentive schemes during the period.

6. Staff Costs and Employee Information

	2008 £'000	2007 £'000
Wages and salaries	206,540	205,387
Social security costs	15,408	14,758
Other pension costs (note 22)	3,789	3,670
Employee share based payments	2,606	1,715
	228,343	225,530

Staff costs include directors' emoluments.

The average number of employees during the period was as follows:

	2008 Number	2007 Number
Office, management and directors	1,102	1,048
Stores	17,125	16,537
	18,227	17,585
Full time equivalent	10,617	10,433

6. Staff Costs and Employee Information (continued)

Share Based Payment Arrangements

The Company participates in a number of share-based payment schemes operated by its ultimate parent, Home Retail Group plc (the 'Group'). These can be analysed into three categories, being those rolled over from old GUS plc schemes as a result of the demerger of the Group from GUS plc on 11th October 2006, incentive schemes specifically related to the demerger ("Demerger Incentive Schemes") and new Home Retail Group plc schemes subsequent to the demerger.

Prior to the demerger, a number of employees participated in old GUS plc share-based payment schemes. As part of the demerger, some of these schemes had early vesting with vesting occurring prior to completion of the demerger, while others were modified by rolling them over to become Home Retail Group plc share-based payment schemes. Specifically, all executive share option schemes in operation following the demerger from GUS plc were rolled over from a GUS plc share option arrangement to a Home Retail Group plc arrangement. Furthermore, certain share grant schemes (namely co-investment and performance share plan) which originally operated as GUS plc share grant schemes, have been rolled over as Home Retail Group plc share grant schemes. Under FRS 20, these changes have been treated as modifications to the schemes and hence revalued as at the demerger date.

a) Summary of the total cost in the Company of share-based compensation in respect of Ordinary shares in Home Retail Group plc

	2008	2007
	£'000	£'000
Share option awards	1,916	1,627
Share grant awards	690	88
Total expense recognised (all equity settled)	2,606	1,715

Notes to the financial statements (continued)
For the period ended 1st March 2008

6. Staff Costs and Employee Information – Share Based Payment Arrangements (continued)

b) Options in respect of the ordinary shares of Home Retail Group

During the period ended 1st March 2008, the Company had two option arrangements with employees. The details of these arrangements are as follows:

(i) Summary of arrangements

Arrangements	**The 1998 approved and non-approved executive share option schemes (rolled over GUS plc schemes)**	**Savings related share option schemes (new Home Retail Group plc schemes)**
Nature of arrangement	Grant of options (modified scheme)	'Sharesave' scheme
Vesting conditions		
-Service period	3 years	3 or 5 years
-Performance/Other	EPS growth performance condition[1]	Saving obligation over the vesting period
Expected outcome of meeting performance criteria (at grant date)	100%	n/a
Maximum term	10 years	3.5 or 5.5 years
Method of settlement	Share distribution	Share distribution
Expected departures (at grant date)	5%	3 years - 15% 5 years - 25%
Option exercise price calculation	Market price over the 3 dealing days preceding grant	20% discount to market price over the 3 dealing days preceding grant

[1]The performance condition for the Executive Share Option Scheme requires EPS compound annual growth to exceed compound annual retail price inflation by 4% per annum over a continuous three year period. This is not a market-based performance condition as defined by FRS 20.

6. Staff Costs and Employee Information – Share Based Payments Arrangements (continued)

(ii) Information relating to option valuation techniques

The Company uses the Black Scholes model to determine an appropriate value of the option grants. Where a scheme has been modified, a revaluation is performed at the date of modification. Any increase in fair value is charged to the profit and loss account over the remaining life of the scheme.

The estimated fair values and the inputs into the Back-Scholes model are as follows:

Options granted in the financial period ended 1st March 2008	The Home Retail Group Sharesave Scheme
	Home Retail Group plc shares
Weighted average:	
Fair value (£)	1.35
Share price on grant date (£)	4.70
Exercise price (£)	3.79
Expected volatility	24.3%
Expected dividend yield	3.1%
Risk free interest rate	5.4%
Expected option life to exercise	3.8 years

Options granted in the financial period ended 3rd March 2007	The 1998 Approved and Non-Approved Executive Share Option Schemes	
	Home Retail Group plc	GUS plc
Weighted average:		
Fair value (£)	0.97	2.06
Share price on grant date (£)	4.17	9.35
Exercise price (£)	3.88	9.26
Expected volatility	26.6%	29.4%
Expected dividend yield	3.0%	3.5%
Risk free interest rate	4.8%	4.7%
Expected option life to exercise	4 years	4 years

Expected volatility for Home Retail Group plc shares - calculated as an average over the expected life. As limited historical volatility exists for Home Retail Group, an average of volatilities has been calculated from comparator companies.

Expected volatility for GUS plc - calculated as an average over the expected life. Volatility in the first year is assumed to be the same as implied volatility on grant date. Volatility for year 4 and beyond is assumed to remain at the long run (10 year observed volatility). Linear interpolation is assumed for years 2 and 3.

Notes to the financial statements (continued)
For the period ended 1st March 2008

6. Staff Costs and Employee Information – Share Based Payments Arrangements (continued)

(iii) Reconciliation of movement in the number of share options

	Number of options	Weighted average exercise price £
Outstanding at 4th March 2007	2,866,504	3.71
New grants	2,332,815	3.79
Forfeitures	(445,084)	3.78
Exercised options	(139,982)	3.29
Expired options	(26,317)	3.70
Outstanding at 1st March 2008	**4,587,936**	**3.76**
Exercisable at 1st March 2008	**48,844**	**3.35**

The weighted average share price for share options exercised during the year was £4.44

	Number of options	Weighted average exercise price £
Outstanding at 1st April 2006 (GUS plc shares)	3,233,060	6.85
New grants	548,782	9.26
Forfeitures	(314,528)	6.41
Exercised options	(1,059,356)	6.08
Expired options	(61,518)	6.16
Outstanding at demerger date (GUS plc shares)	2,346,440	7.84
Rollover adjustment to Home Retail Group plc shares	4,040,108	3.47
Forfeitures	(363,044)	2.99
Exercised options	(810,560)	2.83
Outstanding at 3rd March 2007 (Home Retail Group plc shares)	2,866,504	3.71
Exercisable at 3rd March 2007 (Home Retail Group plc shares)	88,165	3.08

The weighted average share price for share options exercised following the demerger was £4.17

	2008	2007
Number of options	4,587,936	2,866,504
Weighted average share price	£3.76	£3.71
Weighted average remaining lives:		
- Expected years	2.4	2.7
- Contractual years	6.0	8.6
Range of exercise prices	£2.83 - £3.88	£2.83 - £3.88

Notes to the financial statements (continued)
For the period ended 1st March 2008

6. Staff Costs and Employee Information – Share Based Payment Arrangements (continued)

c) Share awards in respect of the ordinary shares of Home Retail Group plc
(i) Summary of arrangements – rolled over from old GUS plc schemes

Arrangements Nature of arrangement	**Performance share plan** Grant of shares	**Co-investment plan – matching shares** Grant of shares[1]
Vesting conditions		
-Service period	3 years	4 years[3]
-Performance	Distribution percentage determined by ranking total shareholder return relative to a comparator group	Benchmark operating profit of the Home Retail Group assessed against specific targets
Expected outcome of meeting performance criteria (at grant date)	60%[2]	100%
Maximum term	3 years	6 years
Method of settlement	Share distribution	Share distribution
Expected departures (at grant date)	5%	7%

(ii) Summary of arrangements – demerger incentive schemes

Arrangements Nature of arrangement	**Performance share plan** Grant of shares	**Re-investment plan – matching shares** Grant of shares[1]	**Long-term incentive plan – matching shares** Grant of shares[1]	**Share incentive plan** Grant of shares
Vesting conditions:				
-Service period	3 years	A 3-part scheme running over 3,4 and 5 years	3 years[3]	3 years
-Performance	n/a	a) Time vesting b) Total shareholder return c) Return on invested capital	n/a	n/a
Expected outcome of meeting performance criteria (at grant date)	n/a	a) 100% b) 51% c) 100%	n/a	n/a
Maximum term	3 years	4, 5, & 6 years	5 years	5 years
Method of settlement	Share distribution	Share distribution	Share distribution	Share distribution
Expected departures (at grant date)	10%	0%	10%	30%

Notes to the financial statements (continued)
For the period ended 1st March 2008

6. Staff Costs and Employee Information – Share Based Payment Arrangements (continued)

(iii) Summary of arrangements – new Home Retail Group plc schemes

Arrangements Nature of arrangement	**Performance share plan** Grant of shares	**Co-investment plan – matching shares (period ended 3 March 2007)** Grant of shares[1]	**Co-investment plan – matching shares (period ended 1 March 2008)** Grant of shares[1]
Vesting conditions:			
-Service period	3 years	4 years[3]	4 years[3]
-Performance	Distribution percentage determined by ranking total shareholder return relative to a comparator group	Benchmark operating profit of the Home Retail Group assessed against specific targets	a) Benchmark operating profit of the Home Retail Group assessed against specific targets in year 1 b) EPS growth in years 2-4 c) Return on invested capital in years 2-4
Expected outcome of meeting performance criteria (at grant date)	51%[2]	100%	50%
Maximum term	3 years	6 years	6 years
Method of settlement	Share distribution	Share distribution	Share distribution
Expected departures (at grant date)	10%	0%	0%

[1] The Matching Shares are a nil consideration option and have been classified as an award of shares because the nature of the award is the same.

[2] The Performance Share Plan and Re-investment Plan - The total shareholder return performance condition is considered a 'Market-based' performance condition under FRS 20. These schemes have been valued using a Monte-Carlo simulation with historic volatilities and correlations measured over the three-year period preceding valuation.

[3] The grant date for the Co-investment plan and the Long-term incentive plan is the start of the financial year in which performance is assessed. This may be up to one year before the quantity of shares award is determined. The underlying value of the award is known at grant date, subject to the outcome of the performance condition. The value of awarded shares reflects the performance outcome at the date of issue to participants.

6. Staff Costs and Employee Information – Share Based Payment Arrangements (continued)

(iv) Information relating to share grant valuation techniques

The value of awards is determined as the observed market closing rate on the date awarded grants are issued to participants. For the co-investment scheme, this occurs after the first year of performance is assessed. The performance share plan's and the re-investment plan's market-based performance condition is included in the fair value measurement on grant date and is not revised for actual performance.

Under the share awards, participants have an entitlement to dividend distributions from the issue date until point of vesting. The observed market rate on the day of valuation is considered inclusive of future dividend distributions.

There were 838,253 ordinary share awards (2007: 136,579) granted during the period with a weighted average fair value of £2.89 (2007: £3.19). This information relates to the Homebase Group (which includes employees of the Company, Hampden Group Limited and Homebase House and Garden Centre Limited).

7. Net Interest Receivable and Other Finance Costs

	2008 £'000	2007 £'000
Interest payable		
Bank interest	-	(3)
Other interest	(435)	(263)
Finance lease interest	(1)	(38)
	(436)	(304)
Interest receivable		
Bank deposits	2,043	457
Other interest	63	68
	2,106	525
Net interest receivable	1,670	221
Other finance costs		
Unwinding of discount in provisions (note 16)	(2,137)	(2,328)

8. Tax on Profit on Ordinary Activities

The taxation charge for the period is:

	2008 £'000	2007 £'000
United Kingdom corporation taxation at 30% (2007: 30%)	14,485	17,430
Adjustment in respect of previous periods	(21,440)	1,209
Total current tax	(6,955)	18,639
Deferred tax (note 17)		
Origination and reversal of timing differences	2,329	(1,584)
Adjustment in respect of previous periods	762	6,970
Effect of decreased tax rate to 28%	(752)	-
	2,339	5,386
Tax (credit) / charge on profit on ordinary activities	(4,616)	24,025

Tax on recognised losses not included in the profit and loss account

	2008 £'000	2007 £'000
UK corporation tax at 30%		
Current tax charge / (credit) on revaluation of derivatives	16	(82)

The difference between the current tax charge and the standard rate of corporation tax in the UK (30%) is explained below:

	2008 £'000	2007 £'000
Profit on ordinary activities before tax	32,549	30,604
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2007: 30%)	9,765	9,181
Effects of:		
Adjustment in respect of previous periods	(21,440)	1,209
Expenses not deductible for tax purposes	7,049	6,665
Capital allowances (in excess of) / less than depreciation	(2,329)	1,584
Current tax (credit) / charge for the period	(6,955)	18,639

Notes to the financial statements (continued)
For the period ended 1st March 2008

9. Intangible Fixed Assets

	Goodwill £'000
Cost	
At 4th March 2007	-
Additions (note 26)	43,771
At 1st March 2008	43,771
Accumulated Amortisation	
At 4th March 2007	-
Charged in the period	463
At 1st March 2008	463
Net book value:	
At 1st March 2008	43,308
At 4th March 2007	-

The Goodwill arising on the acquisition of the Focus DIY stores is being amortised on a straight line basis over 20 years. This is the period over which the directors estimate that the value of the underlying business is expected to exceed the values of the underlying assets and leasehold properties acquired. The amortisation charge is included within Administrative expenses in the Profit and Loss Account.

10. Tangible Fixed Assets

	Land and buildings £'000	Fixtures and equipment £'000	Total £'000
Cost			
At 4th March 2007	244,780	418,091	662,871
Acquisitions (note 26)	1,054	429	1,483
Additions	21,703	60,913	82,616
Disposals	(4,076)	(10,050)	(14,126)
At 1st March 2008	263,461	469,383	732,844
Accumulated depreciation			
At 4th March 2007	125,738	209,454	335,192
Charged in the period	8,502	50,067	58,569
Disposals	(3,428)	(9,008)	(12,436)
At 1st March 2008	130,812	250,513	381,325
Net book value:			
At 1st March 2008	132,649	218,870	351,519
At 3rd March 2007	119,042	208,637	327,679

The net book value of land and buildings comprise:

	2008 £'000	2007 £'000
Freehold	47,721	46,359
Short leasehold	84,928	72,683
	132,649	119,042

The net book value of land for which no depreciation has been provided is £32,659k (2007: £28,867k

Notes to the financial statements (continued)
For the period ended 1st March 2008

10. Tangible Fixed Assets (continued)

Assets held under finance leases, capitalised and included in fixtures and equipment:

	2008 £'000	2007 £'000
Cost	5,611	5,611
Accumulated depreciation	(5,611)	(5,115)
Net book value	-	496

11. Fixed Asset Investments

Shares in subsidiary undertaking	2008 £'000
At 4th March 2007	2,508
Additions in the period	-
At 1st March 2008	2,508

The fixed asset investments are stated at cost. At the balance sheet date there is no provision for impairment.

The principal subsidiary undertaking is Homebase House and Garden Centre Limited which is a trading company incorporated in the Republic of Ireland (ROI) and its activity is the retailing of home enhancement, DIY and garden centre products within the ROI. The Company owns 100% of the issued ordinary share capital of Homebase House and Garden Centre Limited, and was acquired on 24th August 2006 as part of the demerger of GUS plc into Home Retail Group plc and Experian Group Limited.

The Company also owns 100% of the issued ordinary share capital of the following dormant companies: Index Limited, Texas Services Limited, Homebase Spend & Save Limited, Focal Point (Lighting) Limited, Mi Home Limited, and Modern Interiors Limited. All of these six companies are incorporated in England and Wales.

In addition the company owns 100% of the issued ordinary share capital of two other dormant companies; Homebase (NI) Limited and Texas (NI) Limited. These two companies, which are registered in Northern Ireland, were acquired on 24th August 2006 as part of the group restructuring.

As at the balance sheet date, the directors believe that the book values of the fixed asset investments are supported by their underlying net assets. However, as a result of the downturn in the retail trading environment since the start of the 2008/09 financial period, an impairment review was carried out in September 2008. As a result, the Company's fixed asset investment in Homebase House and Garden Centre Limited has become impaired during 2008/09. Further details are provided in note 25 (Post Balance Sheet Event).

12. Stocks

	2008 £'000	2007 £'000
Goods for resale	247,173	225,905

The difference between the purchase price of stocks and their replacement cost is not material.

Trading stock on 1st March 2008 excludes £14,045k (2007: £11,358k) of consignment stock, which is legally owned by the Company but which is held by Hampden Group Limited and Homebase House and Garden Centre Limited. This consignment stock is shown in the financial statements of these other group companies as they bear substantially all the risks and rewards of trading this stock through their retail stores.

Notes to the financial statements (continued)
For the period ended 1st March 2008

13. Debtors

	2008 £'000	2007 £'000
Amounts falling due within one year:		
Trade debtors	5,838	5,045
Amounts due from group undertakings	506,907	491,452
Other debtors	32,712	9,513
Corporation tax	13,911	-
Prepayments and accrued income	22,241	20,014
	581,609	526,024

Amounts owed by group undertakings are unsecured, interest free and have no fixed date of repayment

Financial assets and liabilities

Financial assets and liabilities are held at fair value. Other debtors above include financial assets of £558k (2007: £98k).

	2008 £'000	2007 £'000
Derivative financial instruments:		
Forward foreign currency contracts	558	98

The fair value of foreign currency contracts is based on a comparison of the contractual and period end exchange rates.

14. Creditors: Amounts Falling Due Within One Year

	2008 £'000	2007 £'000
Bank loans and overdrafts	50,876	-
Trade creditors	141,044	122,650
Amounts due to group undertakings	170,129	158,626
Obligations under finance leases	-	161
Corporation tax	-	9,283
Other taxation and social security	19,732	18,256
Other creditors	27,642	19,161
Accruals and deferred income	155,107	150,412
	564,530	478,549

Amounts due to group undertakings are unsecured, interest free and repayable on demand.

15. Creditors: Amounts Falling Due After More Than One Year

	2008 £'000	2007 £'000
Accruals and deferred income	14,672	8,746

16. Provisions for Liabilities

	Onerous leases	Other	Deferred Tax (note 17)	Total
	£'000	£'000	£'000	£'000
As at 4th March 2007	38,768	9,073	8,147	55,988
Acquisitions (note 26)	2,540	2,392	-	4,932
Profit and loss account	7,830	515	2,339	10,684
Statement of total recognised gains and losses	-	-	16	16
Utilised in the period	(3,752)	(6,113)	-	(9,865)
Unwinding of discount (note 7)	2,075	62	-	2,137
As at 1st March 2008	47,461	5,929	10,502	63,892

The provision of £47,461k for onerous lease costs covers potential future liabilities for onerous lease contracts for all stores that have either closed, or where the Company has announced its decision to close or where the rentals for the full term of the lease cannot be fully recovered (in present value terms) from the future cash flows from trading the store. The provision for onerous leases on closed and trading stores is based on the present value of expected future cash outflows relating to rent, rates and other property costs to the end of the lease terms net of known sublet income where appropriate, using a discount rate of 5.5% (2007: 5.5%). Due to the uncertainty relating to the timing of disposals or subletting of these properties, estimates have been included in the assessment of the provision requirement. These costs are anticipated to crystallise over the remaining terms of the relevant leases.

Other provisions in the current period include a provision for the obligation to reinstate stores to their original configuration at the end of their lease terms and a provision for dilapidations. Due to the uncertainty relating to the amounts to be paid for dilapidations and their timing, estimates have been made in the assessment of the provision required. These costs are anticipated to crystallise over the remaining term of the relevant leases.

17. Deferred Taxation

The deferred tax liability comprises:

	2008	2007
	£'000	£'000
Timing differences between depreciation and capital allowances	12,102	9,440
Other timing differences	(1,600)	(1,293)
Deferred tax liability	10502	8,147

	£'000
Deferred tax liability at 4th March 2007	8,147
Adjustment in respect of previous periods	762
Effect of decreased tax rate to 28%	(752)
Amount charged to profit and loss account	2,329
Amount charged to statement of total recognised gains and losses	16
Deferred tax liability at 1st March 2008	10,502

Based on current capital investment plans, the Company expects to continue to be able to claim capital allowances in excess of depreciation in future periods.

Notes to the financial statements (continued)
For the period ended 1st March 2008

18. Called Up Share Capital

	£'000
Authorised	
1,000,000,000 ordinary shares of £1 each at 1st March 2008 and 4th March 2007	1,000,000
Allotted and fully paid	
472,579,474 ordinary shares of £1 each at 1st March 2008 and 4th March 2007	472,579

19. Reserves

	Other Reserves £'000	Profit and loss Account £'000
As at 4th March 2007	111	80,261
Fair value gains (see below)	54	-
Profit for the financial period	-	37,165
As at 1st March 2008	165	117,426

Other Reserves relate to FRS 26 – Financial Instruments, which has resulted in a gain of £54k (2007: £190k loss) to the profit and loss reserve with the fair value of a derivative instrument being placed on the balance sheet.

20. Reconciliation of Movement in Shareholders' Funds

	2008 £'000	2007 £'000
Net increase in shareholders' funds	37,219	6,389
Opening shareholders' funds	552,951	546,562
Closing shareholders' funds	590,170	552,951

21. Capital Commitments

Amounts contracted for in respect of capital expenditure but not provided for in the financial statements amount to £10,823k (2007: £10,203k).

22. Pension Costs

The Company contributes to the Home Retail Group Stakeholder Pension Scheme, a defined contribution pension plan operated by Home Retail Group plc for employees of the group.

Certain employees of the Company participate in the defined benefit Home Retail Group Pension Scheme (formerly Argos Limited Pension Scheme). This defined benefit scheme is closed to the majority of new employees. The assets of this scheme are held by independently administered funds. The contributions to this defined benefit scheme are based on actuarial valuations, carried out by Watson Wyatt LLP, an independent actuary. The last actuarial valuation of the defined benefit Home Retail Group Pension Scheme was undertaken on 31st March 2006. Valuations are normally undertaken every three years. The Company is unable to identify its share of the underlying assets and liabilities in this scheme on a consistent and reasonable basis and therefore the membership of the defined benefit Home Retail Group Pension Scheme falls within the multi-employer scheme exemption of FRS 17 – Retirement Benefits. The contributions to the defined benefit scheme are therefore accounted for as if they were made to a defined contribution scheme. Further details of the defined benefit Home Retail Group Pension Scheme can be found in the financial statements of Argos Limited.

The total pension contribution costs were £3,789k for the period ended 1st March 2008 (2007: £3,670k).

Outstanding pension contributions at the balance sheet date were £nil (2007: £261k)

23. Contingent Liabilities and Other Financial Commitments

At 1st March 2008, the Company had annual commitments under non-cancellable operating leases as set out below:

	2008 £'000	2007 £'000
Land and buildings		
Leases which expire:		
Within one year	97	920
Between two to five years	15,618	15,139
After five years	182,798	164,780
	198,513	180,839
Other leases		
Leases which expire:		
Within one year	289	300
Between two to five years	1,495	1,388
	1,784	1,688

The Company participates in cash pooling arrangements with other Home Retail Group companies. The Company's bank account balances in these arrangements are pledged to guarantee borrowings by other companies in the pool.

Several counter indemnities have been entered into by the Company relating to bank guarantee and letters of credit facilities provided to the Company.

24. Acquisition

On 11th October 2007, the Company acquired a number of leasehold stores together with an assembled workforce from Focus DIY for a total cash consideration of £39,590k. The total adjustments required to the book values of the assets and liabilities acquired in order to present the net amounts of the acquisition at fair values was £2,354k details of which are set out together with the resultant amount of goodwill arising.

	Book Value £'000	Fair Value Adjustments £'000	Provisional Fair Value £'000
Tangible fixed assets	-	1,483	1,483
Debtors	-	1,619	1,619
Creditors	-	(524)	(524)
Provisions			
- Vacant property	-	(2,540)	(2,540)
- Dilapidations	-	(2,392)	(2,392)
Net assets acquired	-	(2,354)	(2,354)
Goodwill			43,771
Consideration including fees and other expenses of £1,827k			41,417
Consideration satisfied by: Cash			41,417

24. Acquisition (continued)

At acquisition, the business had a book value of assets of £nil. The fair value adjustments contain some provisional amounts which will be finalised in the 2009 financial statements.
Fair value adjustments in respect of fixed assets comprise valuation of fixtures and fittings within the buildings. The revaluation of the market rent benefit arising from the differential between market rate and actual rates is capitalised and amortised in debtors. Outstanding creditors reflect rent reviews in respect of 4 stores at the acquisition date. A provisional adjustment of £2,392k has been made for remediation of dilapidations of the newly acquired stores. The adjustment in respect of vacant property is due to 1 store where overlaps exist with the existing business. No deferred tax has been recognised on fair value adjustments on non-monetary fixed assets as there is no intention to sell the assets concerned. This goodwill represents the synergies, assembled workforce and future growth potential of the business acquired.
Details of revenues generated from these stores have not been disclosed as only certain of the stores were re-branded and trading prior to the period end, and consequently the revenue generated is not material in the context of these financial statements.

25. Post Balance Sheet Events

During the first half of 2008/09, the trading environment has become increasingly challenging for our customers, and many retailers are experiencing reduced sales as customers spend more cautiously. Since the start of the 2008/09 financial year, trading has become increasingly volatile and like-for-like sales have continued to decline. As a result of this retail downturn, management has undertaken an impairment review of the Company's fixed assets and a review of the potential liabilities for onerous lease contracts. From this review, and on the basis of the whole of the Company being one Income Generating Unit, there is no fixed asset impairment. However, an exceptional onerous lease provision of £58,9000k will be charged in the Financial Statements for the period 2008/09. This provision covers potential liabilities for onerous lease contracts for stores that have either closed or where projected future trading revenue is insufficient to cover the lower of exit cost or value-in-use. The provision is based on the present value of expected future cash flows, discounted at 5.8%, relating to rents, rates and other property costs to the end of the lease terms, net of expected income. This exceptional charge of £58,9000k has not been reflected in these Financial Statements for the period ended 1st March 2008.

The Company has also reviewed the carrying value of its investment in its principal subsidiary undertaking, Homebase House and Garden Centre Limited, which is a trading company incorporated in the Republic of Ireland (ROI). With the downturn in the trading environment in the ROI during 2008/09, an impairment review of the assets of Homebase House and Garden Centre Limited was undertaken. As a result, an exceptional fixed asset impairment and onerous lease charge of €22,3000k will be charged in the 2008/09 Financial Statements of Homebase House and Garden Centre Limited and this has resulted in Homebase House and Garden Centre Limited's Total Shareholders Funds becoming negative as at the date of the signing of the Company's financial statements. To remedy this situation the ultimate parent company of the Company's subsidiary, Home Retail Group plc, has confirmed its intention to provide financial support for the continuing operation of the Company's subsidiary so as to enable it to meet its liabilities as they fall due and carry on its business without significant curtailment of its operations. As a consequence, the Company's carrying value of its investment in Homebase House and Garden Centre Limited has become impaired as at the date of signing the Company's financial statements. The Company will make a provision for the diminution in the value of the Company's investment in its subsidiary in the Financial Statements for the period 2008/09.

In October 2007, the Company acquired 27 leasehold stores from Focus DIY, for a purchase price of £39,590k. The purchase of a number of these stores was reviewed by the Office of Fair Trading (OFT) to determine whether there were any local or national competition concerns as a result of the purchase. On the 15th April 2008, the OFT have ruled that all the stores have been cleared subject to undertakings agreed with regard to one store, which gave concerns of competitive overlap. These undertakings mean that the original plans for this one store will now have to change and this Focus site will be offered to other DIY retailers. The financial impact of the OFT ruling in respect of this site has not been recognised in these financial statements.

26. Ultimate Parent Company and Controlling Party

The immediate parent undertaking is Homebase Card Handling Services Limited, a company incorporated in England.
The ultimate parent company and controlling party is Home Retail Group plc, a company registered in the UK, which is the parent undertaking of the smallest and largest group to consolidate the Company's financial statements.
Copies of the Home Retail Group plc financial statements, which include the Company, may be obtained from the Group Secretary, Home Retail Group plc, Avebury, 489-499 Avebury Boulevard, Milton Keynes, MK9 2NW or from the Group's internet site at www.homeretailgroup.com.