

Registration Number  
00533033

**HHGL Limited**  
(formerly Homebase Limited)

**Annual Report and Financial Statements**

For the year ended  
28 February 2017



**HHGL Limited**  
**Annual Report and Financial Statements**  
**For the year ended 28 February 2017**

**Contents**

**Pages**

<u>Strategic report</u>	<u>1 - 2</u>
<u>Directors' report</u>	<u>3- 4</u>
<u>Independent auditor's report</u>	<u>5</u>
<u>Income statement</u>	<u>6</u>
<u>Statement of comprehensive income</u>	<u>7</u>
<u>Balance sheet</u>	<u>8</u>
<u>Statement of changes in equity</u>	<u>9</u>
<u>Notes to the financial statements</u>	<u>10- 28</u>

**HHGL Limited**  
**Strategic report for the period 28 February 2016 to 28 February 2017 ("year")**

**Principal activities**

The principal trading activity of HHGL Limited (formerly Homebase Limited) (the "Company") is the retailing of home improvement and garden products predominantly from Homebase stores within Great Britain.

**Review of the business and future developments**

The results are discussed on page 3.

The Company changed its name to HHGL Limited from Homebase Limited on 23 December 2016.

The Company sells home improvement and garden products predominately from Homebase stores and online in Great Britain. The Company generated sales of £1,177,114,000 (2016: £1,360,112,000) in the year. During the year the company made operating losses of £139,459,000 (2016: £43,299,000 profit). During the year, the Company focused on full separation of the business from its former owner (Home Retail Group Plc) and the reset of Homebase stores. Trading across the year was steady, despite significant disruption resulting from the extraction of Homebase from Home Retail Group and significant work to start repositioning the business. Trading volumes were in line with the prior year, after adjusting for the store closures instigated by the previous owner and the exit of the Habitat and Argos ranges and other non-core home improvement categories.

The Company had net liabilities at the year end of £84,013,000 (2016: net assets of £50,142,000).

The Company acquired one new freehold site during the year, Colchester, which was purchased by an indirect subsidiary of the Company, Lexden (BH) Limited.

In addition to creating a Bunnings branded business in the UK and Ireland, management are committed to improving the underlying Homebase brand through its transition.

**Principal risks and uncertainties**

The principal risks and uncertainties affecting the Company relate to volatility in ongoing retail market conditions, competition and UK consumer confidence, especially in light of Brexit negotiations. The Company is also undergoing a significant amount of transformational change following the acquisition. Wesfarmers Limited ("Wesfarmers") (the ultimate parent company) has confirmed in writing that it is prepared to continue funding the working capital requirements of the Company during this transition year.

**Financial risk management**

Wesfarmers operates a centralised treasury function which, along with senior management and the Board of directors, is responsible for managing the market risk (foreign exchange and interest rate), credit risk and liquidity risk associated with the Company's activities. Wesfarmers operates a structured risk management process which identifies, evaluates and prioritises risks and uncertainties.

*Foreign exchange risk*

The Company is subject to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and Euro. The US dollar exchange risk is hedged using forward foreign exchange contracts transacted via Wesfarmers treasury which match a portion of the Company's committed future inventory purchases. The Company is also subject to foreign exchange risk with respect to Euro denominated intercompany balances and transactions with its Irish subsidiary. Gains or losses arising from movements in the Euro exchange rate are taken through profit or loss in the year to which they relate.

*Interest rate risk*

At the end of the financial year the Company had no external interest bearing debt instruments or loans. The Company did have an intercompany loan with Bunnings (UK&I) Holdings Limited.

The Company's principal financial assets are stock, cash, trade debtors, other debtors and investments.

*Credit Risk*

The Company's credit risk is primarily attributable to its liquid funds and derivative financial instruments, however, the credit risk is limited because the counterparties used by Wesfarmers treasury are banks with strong credit ratings. The Company has no other significant concentration of credit risk.

The Company monitors its receivable balances on an ongoing basis with any provision for impairments made as required.

The Company's treasury transactions are managed centrally by the Wesfarmers treasury function. Wesfarmers exposure to credit risk with regard to treasury transactions is managed by dealing only with banks and financial institutions with strong credit ratings. Dealing activity is closely controlled and counterparty positions are monitored on a regular basis.

*Liquidity risk*

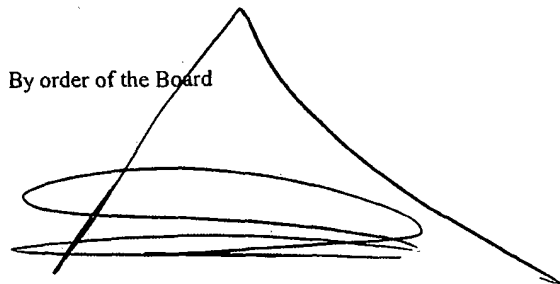
The Company's liquidity risk is managed centrally by the Wesfarmers treasury function, along with senior management and the Board of directors.

**HHGL Limited**  
**Strategic report for the year ended 28 February 2017 (continued)**

**Key performance indicators**

	<b>2017</b>	2016
No. of stores	<b>236</b>	241
Sales decline	<b>13.5%</b>	3.5%
LFL (decline)/growth	<b>(5.8)%</b>	5.3%
Operating (loss)/profit after exceptional items	<b>£(139.5)m</b>	£43.3m

By order of the Board

A large, stylized handwritten signature in black ink, appearing to be 'P J C Davis', written over a series of horizontal lines.

P J C Davis  
Director

Date: 29/11/2017

## **HHGL Limited**

### **Directors' report for the year ended 28 February 2017**

The directors present their report and the audited financial statements of the Company for the year from 28 February 2016 to 28 February 2017 (the "year").

#### **Registered number**

The registered number of the Company is 00533033.

#### **Results and dividends**

The loss for the financial year was £127,914,000 (2016: £32,185,000 profit). The future developments and principal risks and uncertainties are discussed within the Strategic report on pages 1 to 2.

#### **Directors**

The directors of the Company who were in office during the year and up to the date of signing the financial statements were:

- P J C Davis
- R J Boys
- D F Davis (resigned 31 May 2016)

#### **Company Secretary**

A G Secretarial Limited.

#### **Statement of Directors' Responsibilities**

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable laws and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101).

Under company law the directors must not approve the financial statements unless they are satisfied 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 year.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### **Directors' liability insurance and third party indemnification provisions**

During the year and up to the date of approval of the financial statements the Company maintained liability insurance for its directors.

#### **Employees**

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that views are taken into account when decisions are made that are likely to affect their interests. In addition, meetings are held to ensure that all employees are aware of the financial and economic performance of their business units and of the Company as a whole. Communication with all employees continues through in-house news updates, briefing groups and the distribution of the Wesfarmers Group results.

## **HHGL Limited**

### **Directors' report for the year ended 28 February 2017 (continued)**

#### **Disabled persons**

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Company continues and the appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

#### **Disclosure of information to auditors**

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

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

This confirmation is given and should be interpreted in accordance with the provisions of Section 418(2) of the Companies Act 2006.

#### **Auditors**

In accordance with s485 of the Companies Act 2006, a resolution to appoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

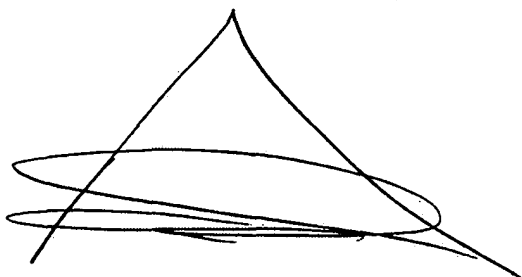
#### **Going Concern**

The directors have a reasonable expectation that the Company have adequate resources to continue in operational existence for the foreseeable future and they have received a letter of support from Wesfarmers Limited, the ultimate parent company. Thus they continue to adopt the going concern basis in preparing the annual financial statements.

#### **Subsequent events**

There have been no subsequent events that would require an adjustment or disclosure to the financial statements.

By order of the Board

A handwritten signature in black ink, appearing to be 'P J C Davis', written over a series of horizontal lines that serve as a guide.

P J C Davis  
Director

Date: 29/11/2017

Registered office:  
Witan Gate House  
500- 600 Witan Gate  
Milton Keynes  
MK9 1BA

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

### **Report on the financial statements**

We have audited the financial statements of HHGL Limited for the year from 28 February 2016 to 28 February 2017 which comprise the Income statement, the Statement of Comprehensive Income, the Balance Sheet and the Statement of Changes in Equity and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

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

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

As explained more fully in the Directors' Responsibilities Statement set out on page 3, 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 Strategic Report, the Directors' Report and the Financial Statements 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 28 February 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

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

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

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

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

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.

*Ernst & Young LLP*

Peter McIver (Senior Statutory Auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
1 More London Riverside, London, SE1 2AF

**HHGL Limited**  
**Income statement**  
**For the year ended 28 February 2017**

		Year ended 28 February 2017 £'000	Year ended 27 February 2016 £'000
	Notes		
<b>Turnover</b>		<b>1,177,114</b>	<b>1,360,112</b>
Cost of sales		<u>( 729,489)</u>	<u>( 760,332)</u>
<b>Gross profit</b>		<b>447,625</b>	<b>599,780</b>
Net operating expenses	4	( 587,084)	( 566,853)
<b>Operating (loss)/profit before exceptional items</b>		<u>( 139,459)</u>	<u>32,927</u>
Net operating income - exceptional items	4	-	9,334
<b>Operating (loss)/profit</b>		<u>( 139,459)</u>	<u>42,261</u>
Income from shares in group undertakings		-	1,038
<b>(Loss)/profit on ordinary activities before interest and taxation</b>		<u>( 139,459)</u>	<u>43,299</u>
Interest receivable and similar income	6	12	26
Interest payable and similar charges	6	( 5,743)	( 10,501)
Net interest payable and similar charges	6	<u>( 5,731)</u>	<u>( 10,475)</u>
<b>(Loss)/Profit on ordinary activities before taxation</b>		<u>( 145,190)</u>	<u>32,824</u>
Tax credit/(charge)	7	17,276	( 639)
<b>(Loss)/Profit for the financial year</b>		<u>( 127,914)</u>	<u>32,185</u>

All amounts relate to continuing activities.



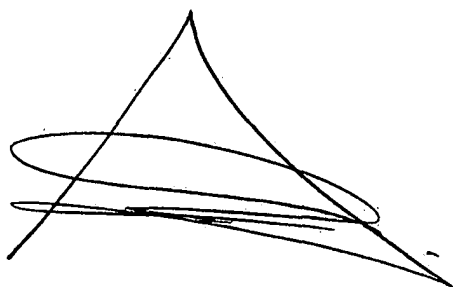
**HHGL Limited**  
**Statement of comprehensive income**  
**For the year ended 28 February 2017**

		<b>Year ended 28 February 2017 £'000</b>	<b>Year ended 27 February 2016 £'000</b>
	<b>Notes</b>		
<b>(Loss)/Profit for the financial year</b>		<b>( 127,914)</b>	<b>32,185</b>
<b>Items that may be reclassified to profit or loss account</b>			
Net change in fair value of cash flow hedges - foreign currency forward exchange contracts		-	7,444
Net change in fair value of cash flow hedges transferred to inventory - foreign currency forward exchange contracts		( 7,424)	( 3,657)
Tax credit/(charge) in respect of items that will be or have been reclassified	7	1,334	( 600)
<b>Other comprehensive (loss)/income for the financial year, net of tax</b>		<b>( 6,090)</b>	<b>3,187</b>
<b>Total comprehensive (loss)/income for the financial year attributable to the owners of the Company</b>		<b>( 134,004)</b>	<b>35,372</b>

**HHGL Limited**  
**Balance Sheet**  
**As at 28 February 2017**

		<b>28 February</b>	<b>27 February</b>
		<b>2017</b>	<b>2016</b>
		<b>£'000</b>	<b>£'000</b>
<b>ASSETS</b>	<b>Notes</b>		
<b>Non-current assets</b>			
Intangible assets	8	34,079	41,879
Tangible assets	9	109,216	125,204
Investments in subsidiaries	10	9,096	-
Deferred tax asset	12	27,679	-
<b>Total non-current assets</b>		<b>180,070</b>	<b>167,083</b>
<b>Current assets</b>			
Stock	11	323,106	220,384
Debtors	12	66,291	87,978
Other financial assets	17	-	10,490
Cash at bank and in hand	13	17,771	21,514
<b>Total current assets</b>		<b>407,168</b>	<b>340,366</b>
<b>Total assets</b>		<b>587,238</b>	<b>507,449</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Creditors - amounts falling due after more than one year	14	( 316,727)	( 23,449)
Provisions for liabilities	15	( 66,949)	( 59,566)
<b>Total Non-current liabilities</b>		<b>( 383,676)</b>	<b>( 83,015)</b>
<b>Current liabilities</b>			
Creditors - amounts falling due within one year	14	( 270,507)	( 352,433)
Provisions for liabilities	15	( 17,068)	( 21,718)
Other financial liabilities	17	-	( 141)
<b>Total current liabilities</b>		<b>( 287,575)</b>	<b>( 374,292)</b>
<b>Total liabilities</b>		<b>( 671,252)</b>	<b>( 457,307)</b>
<b>Net (liabilities)/assets</b>		<b>( 84,014)</b>	<b>50,142</b>
<b>Capital and reserves</b>			
Called up share capital	19	13,190	13,190
Retained earnings		( 97,203)	30,862
Hedging reserve		-	6,090
<b>Total shareholders' (deficit)/funds</b>		<b>( 84,013)</b>	<b>50,142</b>

The financial statements of HHGL Limited (registration number 00533033) on pages 6 to 28 were approved by the Board of Directors and were signed on their behalf by:



P J C Davis  
Director

Date: 29/11/2017

**HHGL Limited**  
**Statement of changes in equity**  
**For the year ended 28 February 2017**

	Attributable to owners of the Company			
	Called up share capital	Retained earnings	Hedging reserve	Total shareholders' funds/(deficit)
	£'000	£'000	£'000	£'000
Balance at 28 February 2016	13,190	30,862	6,090	50,142
Loss for the financial year	-	( 127,914)	-	( 127,914)
Other comprehensive loss for the year	-	-	( 6,090)	( 6,090)
<b>Total comprehensive loss for the year</b>	-	( 127,914)	( 6,090)	( 134,004)
Tax charge related to share based compensation	-	( 151)	-	( 151)
<b>Total transactions with owners, recognised in equity</b>	-	( 151)	-	( 151)
<b>Balance at 28 February 2017</b>	<b>13,190</b>	<b>( 97,203)</b>	<b>-</b>	<b>( 84,013)</b>

	Attributable to owners of the Company			
	Called up share capital	Retained earnings	Hedging reserve	Total shareholders' funds
	£'000	£'000	£'000	£'000
Balance at 1 March 2015	472,579	( 55,470)	2,903	420,012
Profit for the financial year	-	32,185	-	32,185
Other comprehensive income for the year	-	-	3,187	3,187
<b>Total comprehensive income for the year</b>	-	32,185	3,187	35,372
Share issue	255	-	-	255
Capital reduction	( 459,644)	459,644	-	-
Dividend paid	-	( 404,174)	-	( 404,174)
Tax charge related to share based compensation	-	( 1,323)	-	( 1,323)
<b>Total transactions with owners, recognised in equity</b>	<b>( 459,389)</b>	<b>54,147</b>	<b>-</b>	<b>( 405,242)</b>
<b>Balance at 27 February 2016</b>	<b>13,190</b>	<b>30,862</b>	<b>6,090</b>	<b>50,142</b>

**HHGL Limited**  
**Notes to the financial statements**  
**For the year ended 28 February 2017**

**1. General information**

HHGL Limited ("the Company") is a private limited company incorporated and domiciled in the United Kingdom under the Companies Act 2006. The Company's registered address is Witan Gate House, 500-600 Witan Gate, Milton Keynes, MK9 1BA.

The financial year represents the year from 28 February 2016 to 28 February 2017 (prior financial year 52 weeks to 27 February 2016).

**2. Basis of preparation**

The financial statements are presented in sterling, rounded to the nearest thousand pounds (£'000) except where otherwise indicated. They are prepared on a going concern basis and under the historical cost convention modified for the revaluation of share-based payments. The principal accounting policies applied in the preparation of these financial statements are set out in note 3. Unless otherwise stated, these policies have been consistently applied to all the years presented.

These financial statements have been prepared in accordance with United Kingdom Accounting Standards, in particular, Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and the Companies Act 2006 (the Act) as applicable to companies using FRS 101. FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in the standard which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS.

The Company is a qualifying entity for the purposes of FRS 101. Note 24 gives details of the Company's ultimate parent and from where its consolidated financial statements prepared in accordance with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board ("AASB") and International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The Company has adopted the intermediate parent exemption under section 401 of the Companies Act 2006, whereby it is not required to prepare consolidated financial statements as the Company and all of its subsidiary undertakings are included in the consolidated financial statements of Wesfarmers, prepared under Australian GAAP. The Group financial statements of Wesfarmers are available at [www.Wesfarmers.com.au](http://www.Wesfarmers.com.au).

The key disclosure exemptions adopted by the Company in accordance with FRS 101 are as follows:

- IAS 7 Statement of cash flows
- IFRS 2 Share-based payments;
- IFRS 7 Financial Instrument disclosures;
- IAS 1 – Information on management of capital;
- IAS 24 disclosure of key management personnel compensation and for related party transactions entered into between two or more members of a group; and the
- requirement to present roll-forward reconciliations in respect of share capital (IAS 1), property, plant and equipment (IAS 16), and intangible assets (IAS 38).

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

The preparation of financial statements in conformity with FRS 101 requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. The critical accounting policies of the Company are described in further detail below.

**Changes in accounting standards**

There are no new standards, amendments to existing standards or interpretations which were effective for the first time during the year ended 28 February 2017 that had a material impact on the Company.

**HHGL Limited**  
**Notes to the financial statements (continued)**  
**For the year ended 28 February 2017**

**2. Basis of preparation (continued)**

**Going concern**

This report has been prepared on a going concern basis, which assumes the continuity of normal business activity and the realisation of assets and settlement of liabilities in the normal course of business. The Company had net current assets of £119,593,000 (2016: £43,637,000 net current liabilities) at the year end. It made a loss after tax of £127,914,000 (2016 (£32,185,000 profit). Wesfarmers (the ultimate parent entity) has confirmed in writing that it continues to support the underlying trade of the HHGL Limited. The directors therefore have a reasonable expectation that the Company will have adequate resources to continue in operational existence for the foreseeable future.

**Critical accounting estimates and assumptions**

The preparation of consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised and in any future years affected.

The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain accounts within the next annual reporting year can be found in the following notes:

*Taxes*

Significant judgement is required in determining the provision for income taxes as there are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognises liabilities based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the results for the year and the respective income tax and deferred tax provisions in the year in which such determination is made. Deferred tax assets are recognised for tax loss carry-forwards and other temporary differences to the extent that the realisation of the related tax benefit through future taxable profits is probable.

*Impairment of assets*

Assets are subject to impairment reviews whenever changes in events or circumstances indicate that an impairment may have occurred. If such an indicator exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash generating unit ("CGU") to which the asset belongs. In the case of store assets, a CGU represents a single store.

Assets (or CGUs) are written down to their recoverable amount, which is the higher of fair value less costs to dispose and value-in-use. Value-in-use is calculated by discounting the expected cash flows from the asset at an appropriate discount rate for the risks associated with that asset. This includes estimates of both the expected cash flows and an appropriate discount rate which use management's assumptions and estimates of the future performance of the asset. Differences between expectations and the actual cash flows will result in differences in the level of impairment required.

A previously recognised impairment loss is reversed if there has been a significant change in the underlying assumptions used to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined, net of amortisation or depreciation, if no impairment loss had been recognised in prior years.

*Stock provisions*

Stock is carried at the lower of cost and net realisable value which requires the estimation of the eventual sales price of goods to customers in the future. Net realisable value takes into account slow moving, obsolete and defective stock. Any difference between the expected and the actual sales price achieved will be accounted for in the year in which the sale is made.

*Provisions*

Provisions have been estimated for property (including onerous leases), insurance, restructuring and other liabilities. These provisions represent the best estimate of the liability at the balance sheet date, the actual liability being dependent on future events such as trading conditions at a particular store or the incidence of insurance claims against the Company. Expectations will be revised each year until the actual liability arises, with any difference accounted for in the year in which the revision is made.

**HHGL Limited**  
**Notes to the financial statements (continued)**  
**For the year ended 28 February 2017**

**3. Summary of principal accounting policies**

**Turnover**

Turnover comprises the fair value of the consideration received or receivable for the sale of goods and services to external customers, net of value added tax and discounts. Turnover is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of turnover can be measured reliably. Turnover on goods to be delivered is recognised when the customer receives delivery of the goods. Commissions receivable on the sale of services for which the Company acts as agents are included within turnover. All turnover arises in Great Britain.

**Expenses**

***Recognition and measurement***

Information relating to the recognition and measurement of employee benefits and occupancy-related expenses can be seen in the relevant notes below. Details relating to the recognition and measurement of amortisation and depreciation can be found in notes 8 and 9 respectively.

***Finance costs***

Finance costs comprise interest expense on borrowings and the unwinding of the discount on provisions.

**Foreign currencies**

Transactions in foreign currencies are recorded at the exchange rate prevailing on the date of the transaction. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rate prevailing at the balance sheet date. Translation differences on monetary items are taken to profit or loss. Translation differences on non-monetary items are reported as part of the fair value gain or loss and are included in either equity or profit or loss as appropriate.

**Income tax**

Income tax expense comprises current and deferred tax. Current and deferred tax are recognised in the combined statement of comprehensive income except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

**Current tax**

Current tax is the expected tax recoverable from or payable to the taxation authorities based on the current year's taxable income, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

**Deferred tax**

Deferred tax is recognised in respect of all temporary differences using the full liability balance sheet method.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

**Value added tax**

Revenue, expenses and assets are recognised net of the amount of value added tax ("VAT"), except where the amount of VAT incurred is not recoverable from Her Majesty's Revenue and Customs ("HMRC"). In these circumstances, the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of VAT included. The net amount of VAT recoverable from, or payable to, HMRC is included as a current asset or liability in the Balance Sheet.

Commitments and contingencies are disclosed net of the amount of VAT recoverable from, or payable to HMRC.

**HHGL Limited**  
**Notes to the financial statements (continued)**  
**For the year ended 28 February 2017**

**3. Summary of principal accounting policies (continued)**

**Other intangible assets**

Certain costs incurred in the developmental phase of an internal project are capitalised as intangible assets provided that a number of criteria are satisfied. These include the technical feasibility of completing the asset so that it is available for use or sale, the availability of adequate resources to complete the development and how the asset will generate probable future economic benefit.

The cost of other intangible assets with finite useful economic lives is amortised over that year. The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If impaired, they are written down to the higher of fair value less costs to dispose and value-in-use.

Impairment losses recognised in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. There were no reversals of impairment during the year.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring into use the specific software. Computer software licenses are held at cost and are amortised on a straight-line basis over three to five years. Costs that are directly associated with the production of identifiable and unique software products controlled by the Company, and that will generate economic benefits beyond one year, are recognised as intangible assets. Computer software development costs recognised as assets are amortised on a straight-line basis over three to five years. Costs associated with maintaining computer software programs are recognised as an expense as incurred.

The residual values and useful lives of assets are reviewed and adjusted if appropriate, at each balance sheet date.

**Tangible assets**

Tangible assets are held at cost, being the purchase price and other costs directly attributable to bringing the asset into use, as well as costs of dismantling and removing items and restoring the site on which they are located, less accumulated depreciation and any impairment in value. An impairment charge is recognised where the carrying value of the asset (or CGU to which the asset belongs) exceeds its recoverable amount, being the higher of the asset's fair value less costs to dispose and its value-in-use. Value-in-use calculations are performed using cash flow projections discounted at a rate taking account of the specific risks inherent within the Company's business.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income/ expense" in the consolidated statement of comprehensive income.

**Subsequent costs**

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the entity and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day repairs and maintenance of property, plant and equipment are recognised in profit and loss as incurred.

Depreciation is charged on a straight-line basis as follows:

- freehold properties are depreciated over 20 and 40 years;
- leasehold premises are depreciated over the year of the lease;
- plant and equipment is depreciated over 3 - 20 years according to the estimated useful life of the asset;
- land and assets in the course of construction are not depreciated.

The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each balance sheet date.

## **HHGL Limited**

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

**For the year ended 28 February 2017**

#### **3. Summary of principal accounting policies (continued)**

##### **Investments**

Investments are included in the balance sheet at their cost of acquisition. Where appropriate, a provision is made for any impairment in their value.

##### **Debtors**

###### **Recognition and measurement**

Debtors are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment. A provision for impairment of debtors is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the debtors. The amount of the provision is recognised in the balance sheet, with the cost of unrecoverable trade debtors recognised in profit or loss immediately. Trade receivables are shown gross of VAT.

Receivable balances are monitored on an ongoing basis and the Company's exposure to bad debts is not significant. With respect to trade receivables that are neither impaired nor past due, there are no indications as of the reporting date that the debtors will not meet their payment obligations.

##### **Stock**

###### **Recognition and measurement**

Stock is stated at the lower of cost and net realisable value. The cost base in use within the Company are general retail goods valued on a weighted average basis which approximates to actual cost. Supplier income received in respect of specific stock is treated as a reduction in the cost of this inventory. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

The Company legally owns consignment stocks held at the retail outlets of two Group companies, Hampden Group Limited and HHGL (ROI) Limited (formerly Homebase House and Garden Centre Limited). Ownership of this consignment stock passes from the Company to Hampden Group Limited and HHGL (ROI) Limited when the stock is sold to customers. This consignment stock is recognised in the balance sheets of Hampden Group Limited and HHGL (ROI) Limited as they bear the risks and rewards of ownership of the stock. This consignment stock is therefore not included in the Company's stock shown in the balance sheet.

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

Cash and cash equivalents comprise cash balances and deposits with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of cash management are included as a component of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

##### **Creditors**

Current trade and other payables are payables which are expected to be settled within 12 months of the balance date, are inclusive of VAT (where applicable) and are classified as current liabilities. A payable is recognised when the Company has an unconditional obligation to pay a debt at a time subsequent to the date on which the transaction that created the obligation was conducted. Trade and other payables are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition payables are measured at amortised cost using the effective interest rate method. Trade payables are shown gross of VAT.

##### **Operating leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the year of the lease. Incentives from lessors are recognised as a liability when received and released to the income statement through a systematic reduction of the charge over the life of the lease.



**HHGL Limited**  
**Notes to the financial statements (continued)**  
**For the year ended 28 February 2017**

**3. Summary of principal accounting policies (continued)**

**Provisions**

***Recognition and measurement***

Provisions are recognised when:

- the Company has a present legal or constructive obligation as a result of past events;
- it is more likely than not that an outflow of resources will be required to settle the obligation; and
- the amount has been reliably estimated.

***Future operating losses***

Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense. Where the Company expects a provision to be reimbursed, the reimbursement is recognised as a separate asset when the reimbursement is virtually certain.

Provisions are made for property provisions, including onerous lease contracts for stores that have closed or where a decision to close has been announced, and for those stores where the projected future trading revenue is insufficient to cover the lower of exit cost or value-in-use. Provisions for other costs and income on store closures are recognised where such an outflow or inflow is likely.

Provisions are also made for the estimated costs of insurance claims incurred by the Company but not settled at the balance sheet date, restructuring costs, warranties and other liabilities.

**Pensions and post retirement benefits**

The Company contributes to the defined contribution Homebase Personal Pension Plan. The scheme is funded by contributions partly from the employee and partly from the Company at rates determined in accordance with the Scheme rules. The cost of these are charged to profit or loss during the year in which contributions are payable.

**Financial instruments**

The Company holds financial instruments for the following purposes:

*Financing* : to raise finance for the Company's operations or to invest surplus funds. The principal types of instruments used include: cash and share issues.

*Operational* : the Company's activities generate financial instruments, including cash, trade receivables and trade payables.

*Risk management* : to reduce risks arising from the financial instruments described above, forward exchange contracts are entered into by Wesfarmers on behalf of the Company.

The Company classifies its financial instruments in the following categories: financial assets and financial liabilities at fair value through the profit and 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.

**Non-derivative assets**

Non-derivative financial assets comprise trade and other receivables, cash and cash equivalents.

Receivables and cash deposits are initially recognised on the date that they are originated. All other financial assets are recognised initially on the date at which the Company becomes a party to the contractual provisions of the instrument.

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivable. Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment, and are included in current assets.

**HHGL Limited**  
**Notes to the financial statements (continued)**  
**For the year ended 28 February 2017**

**3. Summary of principal accounting policies (continued)**

**Non-derivative assets (continued)**

A financial asset is derecognised when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

***Non-derivative financial assets and liabilities at fair value through the profit and loss***

Financial assets and liabilities at fair value through profit or loss are so designated by management on initial recognition. Derivatives are generally designated as hedges. Financial assets and liabilities at fair value through profit or loss are initially recorded at fair value with gains or losses arising from changes in their fair value presented in profit or loss. 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.

Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, there is a legal right to offset the amounts and intends to either settle on a net basis or to realise the asset and settle the liability simultaneously.

At the end of each reporting year, it is assessed whether there is any objective evidence that an item in the Company's financial assets might be impaired by considering factors such as debtor's financial problems and breaches of contract terms. An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Losses are recognised in profit and loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. If a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit and loss.

**Non-derivative financial liabilities**

Non-derivative financial liabilities comprise trade and other payables. All financial liabilities are recognised initially when the contractual provisions of the instrument apply. A financial liability is derecognised when its contractual obligations are discharged, cancelled or expire. Financial assets and liabilities are offset and the net amount presented in the Balance Sheet when, and only when, there is both a legal right to offset the amounts and the intention either to settle on a net basis or to realise the asset and settle the liability simultaneously.

**Accounting for derivative financial instruments and hedging activities**

***Derivative assets and liabilities***

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured to fair value. The method of recognising any re-measurement gain or loss depends on the nature of the item being hedged. For hedging instruments, any hedge ineffectiveness is recognised directly in the income statement in the year in which it is incurred. This was immaterial in the current year.

***Hedge accounting***

At the start of a hedge relationship, the Company formally designates and documents the hedge relationship, including the risk management strategy for undertaking the hedge. This includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness. Hedge accounting is only applied where effective tests are met on a prospective basis.

For the purposes of hedge accounting, hedges are classified as cash flow hedges when the Company hedges a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions. A hedge of the foreign currency risk of a firm commitment is accounted for as a cash flow hedge.

Hedge accounting will be discontinued prospectively only when the hedging relationship, or part of the hedging relationship no longer qualifies for hedge accounting, which includes where there has been a change to the risk management objective and strategy for undertaking the hedge and instances when the hedging instrument expires or is sold, terminated or exercised. For this purpose, the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such a replacement or rollover is consistent with our documented risk management objective.

**HHGL Limited**  
**Notes to the financial statements (continued)**  
**For the year ended 28 February 2017**

**3. Summary of principal accounting policies (continued)**

***Hedge accounting (continued)***

***Cash flow hedges***

The cash flow hedges are intended to hedge the foreign currency exposures of the future purchases of stock. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. Any gain or loss relating to the ineffective portion would be recognised immediately in profit or loss. The hedged cash flow is expected to occur up to 9 months into the future and will be transferred to profit or loss via the stock carrying value as applicable.

**Financial risks**

***Liquidity risk***

Responsibility for managing liquidity risk lies with Wesfarmers treasury in consultation with senior management and the Board of directors, who assess the Company's short, medium and long term funding and liquidity requirements. The Company's ultimate UK parent, Bunnings (UK & I) Holdings Limited, manages liquidity risk within the Company's subsidiaries, by drawing down on external facilities when necessary and is determined through monitoring the Company's forecast and actual cash flows.

***Foreign currency risk***

The Company operates within Great Britain. It is exposed to foreign currency risk from purchases in currencies other than the British pound, including those in Euros, American dollar and Australian dollar.

The Company hedges foreign exchange exposures for firm commitments relating to purchases or when highly probable forecast transactions have been identified. The hedging instrument must be in the same currency as the hedged item. The Company does not speculate on future currency movements.

The objective of the Company's policy on foreign exchange hedging is to protect the Company from adverse currency fluctuations. Hedging is implemented to protect competitive position and to provide greater certainty of earnings due to protection from sudden currency movements.

***Credit risk***

The Company aims to mitigate the risk that its counterparties will default on their obligations, resulting in a financial loss to the Company, by dealing with creditworthy counterparties. The Company is exposed to credit risk primarily through its receivables balances with customers. However, due to the nature of the way the Company trades, receivables balances due from customers are not usually significant.

Customers who wish to trade on credit terms are subject to credit verification procedures, including an assessment of their independent credit rating, financial position, past experience and industry reputation. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant.

The carrying amount of financial assets recorded in the financial statements, net of any allowance for impairment, represents the Company's maximum exposure to credit risk.

**HHGL Limited**  
**Notes to the financial statements (continued)**  
**For the year ended 28 February 2017**

**3. Summary of principal accounting policies (continued)**

**Fair value estimation**

The fair value of financial instruments traded in organised active financial markets is based on quoted market prices at the close of business on the balance sheet date. The quoted market price used for financial assets held by the Company is the current bid price; the appropriate quoted market price for financial liabilities is the current offer price. The fair value of financial instruments for which there is no quoted market price is determined by a variety of methods incorporating assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date. The nominal value less estimated credit adjustments of trade debtors and creditors are assumed to approximate to their fair values. The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

**Share-based payments**

The ultimate parent provides benefits to employees (including executive directors) of the Group through share-based incentives. Employees are paid for their services or incentivised for their performance in part through shares or rights over shares in Wesfarmers Limited. The expense arising from these transactions is shown in note 5.

Share-based payments are equity-settled.

The cost of equity-settled transactions with employees is measured using their fair value at the date at which they are granted. In determining the fair value, no account is taken of any performance conditions other than those linked to the price of the shares of Wesfarmers Limited (market conditions).

The cost of equity-settled transactions is recognised over the year in which any performance conditions (excluding market conditions) are met, ending on the date on which the employees become fully entitled to the award (vesting date). The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects the extent to which the vesting year has expired and the proportion of the awards that are expected to ultimately vest. No expense is recognised for awards that do not ultimately vest due to a performance condition not being met. The expense is recognised in full if the awards do not vest (or are not exercised) due to a market condition not being met.

Where the terms of an equity-settled award are modified, as a minimum, an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described above.

**Commercial income**

Commercial income is recognised as a deduction from cost of sales, based on the expected entitlement that has been earned up to the balance sheet date. The Company only recognises income where there is documented evidence of an agreement with a supplier. The types of commercial income recognised by the Company are:

**Marketing and advertising income.** Marketing and advertising income is recognised once agreed with a supplier and over the year set out in the specific agreement.

**Volume-based rebates.** Income is recognised through the year based on forecasts for expected sales or purchase volumes, informed by current performance, trends and the terms of the supplier agreement. Income is invoiced throughout the year in accordance with the specific supplier terms. The majority of those arrangements run for one financial year.

**HHGL Limited**  
**Notes to the financial statements (continued)**  
**For the year ended 28 February 2017**

**4. Net operating expenses**

	Year ended 28 February 2017 £'000	Year ended 27 February 2016 £'000
<b>Expenses by function</b>		
Selling costs	( 485,824)	( 447,077)
Administrative expenses	( 101,260)	( 110,442)
<b>Net operating expenses</b>	<b>( 587,084)</b>	<b>( 557,519)</b>
	Year ended 28 February 2017 £'000	Year ended 27 February 2016 £'000
Profit/(loss) on ordinary activities before taxation is stated after (charging)/crediting:		
Operating lease rentals:		
- Plant and equipment	( 1,103)	( 597)
- Property	( 146,433)	( 144,856)
Rents receivable	( 2,691)	2,831
Cost of stocks recognised as an expense in cost of sales	( 692,929)	( 663,442)
Write down of stock	( 32,325)	( 13,392)
Loss on sale of tangible assets	( 6,530)	( 202)
Depreciation of tangible assets (note 9)	( 20,279)	( 22,072)
Amortisation of intangible assets (note 8)	( 12,417)	( 11,065)
Property provision (charge)/release * (note 15)	( 7,937)	875
Restructuring provision (charge)/release * (note 15)	( 9,239)	103
Impairment of investment in subsidiary undertaking *	-	( 648)
Provision against amounts owed by group undertaking *	-	( 4,310)
Payment to Home Retail Group Pension scheme *	-	( 26,000)
Gain on disposal of freehold property *	-	39,314
Auditors' remuneration:		
Company audit	( 240)	( 185)
Fee payable to the auditors for audit of other group companies	( 11)	( 10)

No non-audit fees were incurred in the year

\*Classified as exceptional income/(expenses) in the prior year under Home Retail Group Plc ownership. The more significant items relate to proceeds from the disposal of the Battersea freehold site (£39,314,000), payment to Home Retail Group pension scheme as part of sale completion terms (£26,000,000) and provision against amounts owed by a subsidiary undertaking in Ireland, HHGL (ROI) Limited (formerly Homebase House and Garden Centre Limited) (£4,310,000).

**5. Employee costs and employee numbers**

	Year ended 28 February 2017 £'000	Year ended 27 February 2016 £'000
<b>Employee costs</b>		
Wages and salaries	( 168,598)	( 164,484)
Social security costs	( 10,810)	( 10,878)
Other pension costs	( 2,870)	( 3,053)
Share-based payments	( 594)	( 1,395)
	<b>( 182,872)</b>	<b>( 179,810)</b>

# HHGL Limited

## Notes to the financial statements (continued)

For the year ended 28 February 2017

### 5. Employee costs and employee numbers (continued)

The monthly average number of persons employed by the Company during the year, including directors and those employed on a part-time basis, was made up as follows:

	Year ended 28 February 2017 Number of employees	Year ended 28 February 2017 Full time equivalent	Year ended 27 February 2016 Number of employees	Year ended 27 February 2016 Full time equivalent
<b>Average number of employees</b>				
Stores	11,043	5,835	12,235	5,988
Administration and other	856	842	889	873
	<u>11,899</u>	<u>6,677</u>	<u>13,124</u>	<u>6,861</u>

	Year ended 28 February 2017 £'000	Year ended 27 February 2016 £'000
<b>Directors' emoluments</b>		
Aggregate emoluments	<u>(2,290)</u>	<u>(1,171)</u>

	Year ended 28 February 2017 £'000	Year ended 27 February 2016 £'000
<b>Highest paid director</b>		

Aggregate emoluments and benefits (excluding gains on exercise of share options and value of shares received under long-term incentive schemes).	<u>(1,156)</u>	<u>(571)</u>
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During the year the highest paid director became entitled to receive shares under the Wesfarmers share award scheme.

### 6. Net interest payable and similar charges

	Year ended 28 February 2017 £'000	Year ended 27 February 2016 £'000
<b>Interest receivable and similar income</b>		
Bank deposit interest and similar income	<u>12</u>	<u>26</u>
<b>Total interest receivable and similar income</b>	<u>12</u>	<u>26</u>
<b>Interest payable and similar charges</b>		
Interest to group undertakings	(2,663)	(4,290)
Bank and other interest	(4)	(1)
Unwinding of discounts	(3,076)	(4,514)
Financing fair value remeasurements - net exchange losses	-	(1,696)
<b>Total interest payable and similar charges</b>	<u>(5,743)</u>	<u>(10,501)</u>
<b>Net interest payable and similar charges</b>	<u>(5,731)</u>	<u>(10,475)</u>

# **HHGL Limited**

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

**For the year ended 28 February 2017**

### **7. Tax on (loss)/profit on ordinary activities**

	Year ended 28 February 2017 £'000	Year ended 27 February 2016 £'000
<b>Analysis of tax (charge)/credit in the year</b>		
<b>Current tax:</b>		
UK corporation tax	-	( 647)
Adjustment in respect of previous years	-	4,876
<b>Total current tax (charge)/credit</b>	-	4,229
<b>Deferred tax:</b>		
Origination and reversal of temporary differences	26,546	( 2,055)
Adjustments in respect of previous years	( 5,037)	( 1,750)
Rate change impact	( 4,233)	( 1,063)
<b>Total deferred tax credit/(charge) (note 18)</b>	17,276	( 4,868)
<b>Total tax credit/(charge) in the income statement</b>	17,276	( 639)
	Year ended 28 February 2017 £'000	Year ended 27 February 2016 £'000
<b>Tax included in other comprehensive income</b>		
<b>Items that may be reclassified subsequently to profit and loss</b>		
Cash flow hedges	1,482	( 748)
Rate change impact	( 148)	148
<b>Total tax charge in other comprehensive income (note 18)</b>	1,334	( 600)

### **Factors affecting the tax charge**

The effective tax rate for the year of 11.9% (2016: 1.9%), is lower (2016: lower) than the standard rate of corporation tax in the UK of 20% (2016: 20.08%). The differences are explained below:

	Year ended 28 February 2017 £'000	Year ended 27 February 2016 £'000
Profit on ordinary activities before taxation	(145,190)	32,824
Profit before tax multiplied by the standard rate of corporation tax in the UK (rates above).	29,038	(6,590)
Effects of:		
Expenses not deductible for taxation purposes	(1,296)	4,889
Transfer pricing adjustments	(32)	(5,310)
Adjustment in respect of previous years	(5,037)	3,126
Rate change impact	(4,233)	(1,063)
Loss relief surrendered by group companies for £nil consideration	(1,164)	4,310
<b>Total tax (charge)/credit in the income statement</b>	17,276	(639)

**HHGL Limited**  
**Notes to the financial statements (continued)**  
**For the year ended 28 February 2017**

**7. Tax on profit on ordinary activities (continued)**

**Factors that may affect future tax charges**

The income tax expense for the year is based on the United Kingdom statutory rate of corporation tax for the year of 20% (2016: 20.08%). The impact of the changes in statutory rates relates to the reduction of the UK corporation tax rate from 20% to 19% from 1 April 2017 and 17% from 1 April 2020. This change resulted in a deferred tax charge of £4,337,000 to the income statement and a charge of £148,000 to the statement of comprehensive income.

**8. Other intangible assets**

	<b>Computer software £'000</b>
<b>Cost</b>	
At 28 February 2016	79,926
Additions	4,617
<b>At 28 February 2017</b>	<b>84,543</b>
<b>Accumulated amortisation</b>	
At 28 February 2016	( 38,047)
Charge for the year	( 12,417)
<b>At 28 February 2017</b>	<b>( 50,464)</b>
<b>Net book value at 28 February 2017</b>	<b>34,079</b>
Assets in the course of construction included above at 28 February 2017	4,428
Net book value at 27 February 2016	41,879
Assets in the course of construction included above at 27 February 2016	6,718

**9. Tangible assets**

	<b>Freehold properties £'000</b>	<b>Short leasehold properties £'000</b>	<b>Plant and equipment £'000</b>	<b>Total £'000</b>
<b>Cost</b>				
At 28 February 2016	33,375	139,731	409,739	582,845
Additions	-	1,434	12,066	13,500
Disposals	-	( 3,255)	( 7,765)	( 11,020)
Impairment release	-	( 1,547)	( 4,641)	( 6,188)
<b>At 28 February 2017</b>	<b>33,375</b>	<b>136,363</b>	<b>409,399</b>	<b>579,137</b>
<b>Accumulated depreciation</b>				
At 28 February 2016	( 25,234)	( 108,262)	( 324,145)	( 457,641)
Charge for the year	( 300)	( 4,289)	( 15,690)	( 20,279)
Disposals	-	695	3,124	3,819
Impairment release	-	954	3,226	4,180
<b>At 28 February 2017</b>	<b>( 25,534)</b>	<b>( 110,902)</b>	<b>( 333,485)</b>	<b>( 469,921)</b>
<b>Net book value at 28 February 2017</b>	<b>7,841</b>	<b>25,461</b>	<b>75,914</b>	<b>109,216</b>
Assets in the course of construction included above at 28 February 2017	-	579	11,811	12,390
Net book value at 27 February 2016	8,141	31,469	85,594	125,204
Assets in the course of construction included above at 27 February 2016	-	504	3,145	3,649



**HHGL Limited**  
**Notes to the financial statements (continued)**  
**For the year ended 28 February 2017**

**10. Investments in subsidiaries**

	£'000
<b>Cost</b>	
At 28 February 2016	22,188
Additions	9,096
<b>At 28 February 2017</b>	<b>31,284</b>
<b>Impairment</b>	
At 28 February 2016	( 22,188)
Exceptional charge	
<b>At 28 February 2017</b>	<b>( 22,188)</b>
<b>Net book value at 28 February 2017</b>	<b>9,096</b>
Net book value at 28 February 2016	-

The principal subsidiary undertaking is HHGL (ROI) Limited which is a trading company incorporated in the Republic of Ireland (ROI) and its activity is the retailing of home improvement and garden products within the ROI. During the year the Company subscribed for 9,153,786 shares in HHGL (ROI) Limited at par value of €1.26.

**Investment in subsidiaries**

Company Name	Address of the undertaking	Direct/Indirect subsidiary	Class and proportion of shares held	nominal
HHGL (ROI) Limited (Formerly Homebase House and Garden Centre Limited)	Riverside One, Sir John Rogerson's Quay, Dublin 2. DO2X5767, Ireland	Direct	Ordinary	84.63%*
Index Limited	~ address noted below	Direct	Ordinary	100%
Texas Services Limited	~ address noted below	Direct	Ordinary	100%
Homebase Spend & Save Limited	~ address noted below	Direct	Ordinary	100%
Focal Point (Lighting) Limited	~ address noted below	Direct	Ordinary	100%
MI Home Limited	~ address noted below	Direct	Ordinary	100%
Modern Interiors Limited	~ address noted below	Direct	Ordinary	100%
Texas (NI) Limited	21 Arthur Street, Belfast, BT1 4GA	Direct	Ordinary	100%
Homebase (NI) Limited	21 Arthur Street, Belfast, BT1 4GA	Direct	Ordinary	100%
Lexden BH (Colchester) Limited	~ address noted below	Direct	Ordinary	100%
Lexden BH Limited	44, Esplanade, St. Helier, Jersey, JE4 9WG	Indirect	Ordinary	100%

\* The remaining 15.37% of the ordinary shares in HHGL (ROI) Limited are held by Hampden Group Limited, a parent company of the Company.

~Unless otherwise stated, the registered address for the above companies is Witan Gate House, 500-600 Witan Gate, Milton Keynes, MK9 1BA.

<b>11. Stock</b>	<b>28 February 2017</b>	<b>27 February 2016</b>
	<b>£'000</b>	<b>£'000</b>
Finished goods	<b>323,106</b>	<b>220,384</b>

Trading stock excludes £18,882,000 (2016: £11,126,000) of consignment stock, which is legally owned by the Company but which is held by Hampden Group Limited and HHGL (ROI) Limited. This consignment stock is shown in the financial statements of these other Group companies as they bear substantially all of the risks and rewards of trading this stock through their retail stores. Ownership of this stock passes from the Company to Hampden Group Limited and HHGL (ROI) Limited when these companies sell the stock.

**HHGL Limited**  
**Notes to the financial statements (continued)**  
**For the year ended 28 February 2017**

<b>12. Debtors</b>	<b>28 February 2017 £'000</b>	<b>27 February 2016 £'000</b>
<b>Amounts falling due after more than one year:</b>		
Deferred tax (note 18)	27,679	9,711
<b>Amounts falling due within one year:</b>		
Trade debtors	4,658	3,083
Less provision for impairment of debtors	(314)	(314)
	4,344	2,769
Amounts owed by group undertakings	22,749	585
Other debtors	24,857	59,240
Prepayments and accrued income	14,341	15,673
	<u>93,970</u>	<u>87,978</u>

The current amounts owed by group undertakings are non-interest bearing, not repayable on demand and include a provision of £13,808,000 (2016: £13,808,000) against amounts receivable from the Company's directly held subsidiary in Ireland, HHGL (ROI) Limited, following an impairment review in the prior year.

<b>13. Cash at bank and in hand</b>	<b>28 February 2017 £'000</b>	<b>27 February 2016 £'000</b>
Cash at bank and in hand	<u>17,771</u>	<u>21,514</u>

**14. Creditors**

	<b>Amounts falling due within one year 28 February 2017 £'000</b>	<b>Amounts falling due after more than one year 28 February 2017 £'000</b>	<b>Amounts falling due within one year 27 February 2016 £'000</b>	<b>Amounts falling due after more than one year 27 February 2016 £'000</b>
Trade creditors	(139,806)	-	(187,363)	-
Amounts owed to group undertakings	(32,663)	(292,630)	(2)	-
Social security costs and other taxes	(3,737)	-	(27,799)	-
Accruals and deferred income	(62,171)	(23,254)	(92,574)	(23,449)
Deferred tax liability	-	(843)	-	-
Other creditors	(32,130)	-	(44,695)	-
	<u>(270,507)</u>	<u>(316,727)</u>	<u>(352,433)</u>	<u>(23,449)</u>

Trade and other creditors are non-interest bearing and the fair values are not considered to differ materially from the recognised book values. Amounts owed to group undertakings include interest charged at 1.3% per annum.

**15. Provisions for liabilities**

	<b>Property £'000</b>	<b>Restructuring £'000</b>	<b>Insurance and other £'000</b>	<b>Deferred tax (note 18) £'000</b>	<b>Total £'000</b>
At 28 February 2016	(75,651)	(176)	(4,123)	(1,334)	(81,284)
Charged to the income statement (note 4)	(7,937)	(9,239)	12	-	(17,164)
Utilised during the year	7,182	9,415	338	-	16,935
Transfer from Deferred tax assets (note 18)	-	-	-	1,334	1,334
Discount unwind	(3,838)	-	-	-	(3,838)
<b>At 28 February 2017</b>	<u>(80,244)</u>	<u>-</u>	<u>(3,773)</u>	<u>-</u>	<u>(84,017)</u>

**HHGL Limited**  
**Notes to the financial statements (continued)**  
**For the year ended 28 February 2017**

**15. Provisions for liabilities (continued)**

Analysed as	28 February 2017 £'000	27 February 2016 £'000
Amounts falling due within one year	(17,068)	(21,718)
Amounts falling due after more than one year	(66,949)	(59,566)
	<u>(84,017)</u>	<u>(81,284)</u>

Property provisions comprise obligations on onerous leases together with other costs or income associated with store closures. In respect of onerous leases, provision is made for onerous lease contracts on stores that have either closed, or for trading stores which have been highlighted as unsuitable for future store investment and therefore projected future trading revenue is insufficient to cover the costs of operating the store on an ongoing basis, in which case the lower of the lease exit cost and the net cost of running the store to the end of the lease term is provided (a "value-in-use" calculation). Where the value-in-use calculation is lower, the provision is based on the present value of expected future cash flows relating to rents, rates and other property costs to the end of the lease terms net of expected trading or sublet income. The value-in-use calculations estimate discrete store cash flows in line with long term inflation estimates. The assumptions behind the value-in-use calculations are inherently uncertain and, whilst they are based on management's best estimate of future trading conditions, the actual outcome could be materially different to the provision. The key assumptions included in the calculations are the discount rates and the long term cash flow growth rates.

A provision is made for the estimated costs of insurance claims incurred by the Company but not settled at the balance sheet date, including the costs of claims that have arisen but have not yet been reported to the Company. The estimated cost of claims includes expenses to be incurred in settling claims. The majority of this provision is expected to be utilised within one year.

**16. Post-employment benefits**

During the year the Company contributed to the Homebase Personal Pension Plan, a defined contribution pension plan operated by the Company for employees of the Company. Both the Company and the employees pay contributions into an independently administered fund. The cost of providing these benefits, recognised in profit or loss, comprises the amount of the contributions payable to the scheme in respect of the year.

The cost of the contributions to the scheme for the year were £2,870,000 (2016: £3,053,000).

Outstanding pension contributions at the balance sheet date were £349,000 (2016: £426,000).

**17. Other financial assets and liabilities**

	Current 28 February 2017 £'000	Current 27 February 2016 £'000
<b>Total other financial assets:</b>		
Forward foreign exchange contracts - cash flow hedges	-	10,490
<b>Total other financial liabilities:</b>		
Forward foreign exchange contracts - cash flow hedges	-	(141)

**Forward foreign exchange contracts**

Hedge accounting for the Company's forward foreign exchange contracts transitioned to be managed by Wesfarmers during the year, in line with the Wesfarmers treasury and Accounting policy.

**HHGL Limited**  
**Notes to the financial statements (continued)**  
**For the year ended 28 February 2017**

**18. Deferred tax**

The movements on the net deferred tax account are as follows:

	28 February 2017 £'000	27 February 2016 £'000
Opening deferred tax asset	8,377	15,813
Income statement credit/(charge)	21,509	(3,805)
Rate change impact	(4,233)	(1,063)
Deferred tax credited/(charged) to statement of comprehensive income	1,334	(600)
Deferred tax charged to equity	(151)	(1,968)
<b>Closing deferred tax asset</b>	<b>26,836</b>	<b>8,377</b>

The deferred tax amounts recognised are as follows:

	28 February 2017 £'000	27 February 2016 £'000
<b>Deferred tax assets:</b>		
- Deferred tax asset to be recovered after more than one year	27,679	9,711
<b>Deferred tax liabilities:</b>		
- Deferred tax liability to be settled after more than one year	(843)	(1,334)
<b>Net deferred tax asset</b>	<b>26,836</b>	<b>8,377</b>

The closing deferred tax has been calculated at the enacted rate of 17% (2016: 18%), which differs from the UK corporation tax rate applied to the current year profits at 20%.

The movement in deferred tax assets and liabilities during the year is as follows:

	Share options £'000	Asset provisions £'000	Accelerated tax depreciation £'000	Tax losses £'000	Total £'000
<b>Deferred tax assets:</b>					
At 1 March 2015	2,354	2,790	11,403	-	16,547
Income statement charge	(147)	(1,191)	(2,467)	-	(3,805)
Rate change impact	(8)	(160)	(895)	-	(1,063)
Deferred tax charged to statement of changes in equity	(1,968)	-	-	-	(1,968)
At 28 February 2016	231	1,439	8,041	-	9,711
Income statement credit	(80)	(928)	799	21,718	21,509
Rate change impact	-	42	(1,017)	(3,258)	(4,233)
Deferred tax charged to statement of changes in equity	(151)	-	-	-	(151)
<b>At 28 February 2017</b>	<b>-</b>	<b>553</b>	<b>7,823</b>	<b>18,460</b>	<b>26,836</b>

	<b>Other temporary differences £'000</b>
<b>Deferred tax liabilities:</b>	
At 1 March 2015	(734)
Transfer to deferred tax assets	(600)
At 27 February 2016	(1,334)
Deferred tax charged to statement of comprehensive income	1,482
Rate change impact	(148)
<b>At 28 February 2017</b>	<b>-</b>

Deferred tax assets are recognised for tax loss carry-forwards and other temporary differences to the extent that temporary differences can be utilised either through future profits generated by the Company or through being made available via group relief.

**HHGL Limited**  
**Notes to the financial statements (continued)**  
**For the year ended 28 February 2017**

<b>19. Called up share capital</b>	<b>28 February 2017</b>	<b>27 February 2016</b>
	<b>£'000</b>	<b>£'000</b>
<b>Authorised:</b>		
1,000,000,000 (2016: 1,000,000,000) ordinary shares at £1 each	<b>1,000,000</b>	<b>1,000,000</b>
<b>Allotted, called-up and fully paid:</b>		
13,189,752 (2016: 13,189,752) ordinary shares at £1 each	<b>13,190</b>	<b>13,190</b>

**20. Share-based payments arrangements**

The ultimate parent, Wesfarmers, provides benefits to employees of the Company through the Wesfarmers Employee Share Acquisition Plan (WESAP). The WESAP was introduced in October 2009 and under the plan, all eligible employees are invited to acquire fully-paid ordinary shares in Wesfarmers Limited. The share are granted as an award, subject to the Wesfarmers Group performance and approval by the Wesfarmers Board. Eligibility for an award of shares is dependent upon an in-service year with a participating division, being a permanent employee with some allocations subject to forward looking performance hurdles. The expense arising from these transactions is shown in note 5.

**21. Operating leases**

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

	<b>28 February 2017</b>		<b>27 February 2016</b>	
	<b>Land and buildings</b>	<b>Equipment and vehicles</b>	<b>Land and buildings</b>	<b>Equipment and vehicles</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Less than one year	( 141,256)	( 1,504)	( 141,362)	-
Between one and five years	( 486,766)	( 2,832)	( 502,172)	-
More than five years	( 496,323)	-	( 510,030)	-
<b>Total operating leases</b>	<b>( 1,124,345)</b>	<b>( 4,336)</b>	<b>( 1,153,564)</b>	<b>-</b>

**HHGL Limited**  
**Notes to the financial statements (continued)**  
**For the year ended 28 February 2017**

**22. Capital commitments**

Capital expenditure for which contracts have been placed:	28 February 2017 £'000	27 February 2016 £'000
Tangible assets	<u>11,708</u>	<u>218</u>
	<u>11,708</u>	<u>218</u>

**23. Contingent Liabilities**

Counter indemnities have been entered into by the Company relating to bank guarantee facilities of £3,000,000 (2016: £3,000,000) provided to the Company.

**24. Ultimate parent undertakings**

The Company's immediate parent undertaking is Homebase Card Handling Services Limited, a company registered in England and Wales, by virtue of its 100% shareholding in the Company.

The Company's ultimate parent and controlling party is Wesfarmers, a company registered in Australia. Wesfarmers is the largest group of undertakings for which group financial statements were prepared, the most recent statements have been drawn up to 30 June 2017. Copies of Wesfarmers Limited 2017 Annual Report for the year ended 30 June 2017 are available from its registered office at Level 14, Brookfield Place Tower 2, 123 St Georges Terrace, Perth, Western Australia 6000 or online at [www.wesfarmers.com.au](http://www.wesfarmers.com.au).