Registered number: 00533033

HHGL LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE 52 WEEKS ENDED 29 DECEMBER 2019

HHGL LIMITED

COMPANY INFORMATION

Directors	D G McGloughlin A C Coleman
Company secretary	S Tudor
Registered number	00533033
Registered office	500-600 Witan Gate House Milton Keynes MK9 1BA

HHGL LIMITED

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STRATEGIC REPORT
FOR THE 52 WEEKS ENDED 29 DECEMBER 2019

Introduction

The Directors present the Strategic report together with their Directors' report and the audited financial statements of HHGL Limited (the "Company") for the 52 weeks from 31 December 2018 to 29 December 2019 ("period"). The comparative period is the 26 weeks and one day from 1 July 2018 to 30 December 2018 ("26 weeks")

HHGL Limited is an indirect subsidiary of Homebase (UK & I) Holdings Limited (the "Group") and is the primary Homebase trading company in Great Britain.

Business review

Financial headlines:

HHGL Limited made an EBITDA profit of £4.1m in the period (26 weeks to 30 December 2018: £31.1m EBITDA loss). A reconciliation of EBITDA to the operating loss is shown on page 16.

Like for like sales were up 2.6 per cent on an annualised basis and gross margin rate was up 2.8 per cent in the year as customers responded well to new ranges, and improvements to both in store and online shopping experiences.

Nearly all of the 146 stores at year end are profitable at a contribution level, before the allocation of central costs. 31 stores closed during the period.

There has been a significant reduction in the cost base of over £180m in the past 12 months with cost reductions exceeding targets across all areas laying the foundation for sustainable growth.

At year end the Company had a positive net cash balance of £16.2m and no debt (30 December 2018: £18.6m, consisting of cash £31.3m less debt of £12.7m). During the period the Company invested £18m in capital projects and repaid £12.7m of loans in full to be debt free at year end.

Key performance drivers in 2019

Building on its strong heritage, Homebase has refreshed and expanded its product ranges in home furniture, decorating, kitchens and garden, as well as investing in new products and services, which has created a solid foundation for future growth.

Sales growth has come from new and expanded ranges and better shop keeping. By working with leading brands and product developers over 3,000 new products have been introduced to help customers create the latest home trends. Across the Group popular items such as a £60 Occasional Chair sold out online within just three weeks, with over £1.6m of sales since its launch in July 2019.

Acquiring Bathstore assets in July 2019 as part of an acquisition and concession partnerships strategy has significantly enhanced Homebase's range and offer, with 47 Bathstore concessions now open in Homebase stores. Partnerships with other leading brands continues to complement Homebase's range of home furnishing, decorating and gardening products, and provide everything customers need for home and garden projects under one roof.

In 2019 £9.8m was invested in stores in the UK with a focus on the in store experience, including 51 refurbishments, to create brand new inspirational kitchen showrooms, Bathstore concessions and home furnishing departments.

Homebase has invested in its digital channels to make it easier for customers to shop. Hundreds of improvements were made to the website over the year, leading to sales increasing by over 50%, with more than half of customers starting their shopping journey online.

Business review (continued)

The strong financial performance in the year has allowed HHGL Limited to end the Company Voluntary Arrangement it entered into in August 2018, further details are given in the Directors report.

Plans for 2020

As detailed in the post balance sheet event note in the Directors' Report, 2020 has been disrupted by the impact of COVID 19. However, actions taken such as strong cost control and responding quickly to changing customer needs, whilst trading safely in the stores and digital channels, have allowed HHGL Limited to remain focused on the strategic objectives for growth and these remain on track. HHGL Limited will continue to invest to deliver on the turnaround plan. Key pillars for growth include:

- Continued development of the team in 2020 with all team members trained in Homebase's new customer service programme. The programme will give the teams the skills and knowledge they need to inspire and advise customers at every stage of their journey. Homebase will also have more City & Guilds accredited specialists in key areas of garden and decorating, supported by leading suppliers;

- Expanding the Homebase product range to be a single destination for home and garden projects – from smaller home improvements and garden projects through to bigger makeovers such as kitchens and bathrooms;

- Opening further concessions with leading brands to bring partnerships that complement Homebase's market leading ranges in decorating and garden;

- New store formats that build on Homebase's strength in decorating, two smaller high street stores are being trialled in Cheadle and Sutton. These stores are called DECORATE by Homebase and provide everything customers need to bring their decorating projects to life, from the perfect paint colour and brushes, to flooring and tiling;

- Investing in Homebase's digital channels to build a trusted marketplace where customers can shop from an additional 18,000 products and the launch of new delivery options allows Homebase to meet rapidly changing customer needs.

Key performance indicators

	52 weeks to 29 December 2019	26 weeks to 30 December 2018
Sales £M's	776	458
Gross margin percentage	46%	43%
Number of stores at period end	146	177

Going Concern

The board have undertaken a thorough assessment of the Company's financial forecasts, including the impact of COVID-19 in the UK. After modelling a severe downside scenario, detailed below, that includes reducing discretionary spend, where appropriate utilising government support for furloughed team members and deferring VAT and tax payments, the board have concluded that it is appropriate to adopt the going concern basis in the preparation of these accounts.

The Company is funded by its operating profits, working capital improvements and Group debt facilities provided by Wells Fargo. The Wells Fargo facility was put in place on 9 November 2018 and runs for 3 years to November 2021. The facility has a small number of covenants and requirements that the Group must comply with. These covenants are all linked to the underlying performance of Homebase and its cash generation. The available facility is £95m at its maximum in our peak trading months and is more than adequate to fund the working capital needs of the Group over the coming 12 months. The maximum utilisation in 2019 was just under £70m. In addition to the £95m Wells Fargo facility, the Group have a further £25m standby debt facility with its shareholder, which is currently undrawn.

At 29 December 2019 the Company had net liabilities of £548m due to accumulated from losses in prior years. At period end the Company has a cash surplus of £16m and was not using either of its debt facilities. Homebase (UK & I) Holdings Limited does not expect the loans made to be repaid until the Company is in a position to do so. It has become clear that COVID-19 has introduced a significant degree of economic uncertainty for the retail sector and the Company and the Group, impacting on its ability to generate revenue and profit.

On 26 March 2020 the Company decided to temporarily close its stores in Great Britain. Whilst Homebase was classed as an essential retailer by the UK government and was not required to close, the Company committed to only re-opening when a safe shopping environment for both customers and team members could be provided. Stores started to re open on 25 April 2020. In all stores the Company have implemented strict social distancing measures and PPE to ensure a safe working and shopping environment. Whilst stores were closed, the Company was able to continue to trade through their Homebase online website.

The board have reviewed the evolving situation relating to COVID-19 and have modelled a 'downside' scenario for a period of 12 months from the date of signing these financial statements. The assumptions in the downside scenario include estimates of the impact of:

- Sales volumes as low as negative 50% on an LFL basis at certain points in the forecast year ahead;
- A slow recovery to sales with flat LFL sales only being achieved in the final month of the year;
- A material reduction in the sale of big ticket items such as kitchens and bathrooms;
- A reduction in margins as a result of the need to clear lines that have not sold through owing to the closure and low sale periods.

This 'downside' case, whilst considered to be very prudent with sales forecasts lower than current levels of sales being experienced, potentially impacts the Company's ability to generate revenue, profit and cash flow. The board have therefore taken immediate actions to reduce costs and optimise the Company's cash flow and liquidity:

- Reduced capital and investment expenditure;
- Tightly managed stock purchases and stock turn, reflecting the store sales;
- Further tightened discretionary spend;
- Used government support by furloughing team members, taking advantage of business rate relief schemes and deferring VAT and tax payments.

As part of the 'downside' case, the impact on the debt facilities covenant, which is a trading cashflow covenant, was also reviewed. Although the headroom on the covenant drops, it does not breach in this scenario. Unprecedented uncertainty still exists in respect of the potential future impact of COVID-19 and if outcomes are significantly worse than in the 'downside' scenario, the board would need to consider what additional mitigating actions were needed. The facility specifies the covenant amounts up to June 2021 and thereafter the amounts will be specified by Wells Fargo based on the future budgeted projections of the Company. At present, even in the downside scenario prepared by the board it does not envisage utilising these facilities after June 2021.

Going concern (continued)

The board, after reviewing all the information available to them, consider the Company to have enough financing available at the date of approval of this report, and are therefore satisfied that it is appropriate to adopt the going concern basis in preparing the Financial Accounts.

Corporate Goverance statement - s172(1) Companies Act 2006

The Company believe that stakeholder engagement is a key element of delivering a sustainable Homebase business. Through monthly meetings the board have identified several key stakeholders and their priorities, helping shape the strategic direction of Homebase.

Decisions and actions taken are with the best interest of our team, customers, suppliers, communities and investors in mind. Below are the key stakeholders of the Company, how they have shaped our actions and the key decisions the board have made during the year.

Our Team - Our team make it happen

Our team are the window into the business for our customers and are critically important in ensuring that our customers understand and experience the Homebase brand, culture and values. Homebase employs over 6,600 team members across the Group and they are key to success. Homebase invest heavily in team training and upskilling to ensure that our team has the knowledge and skills to advise customers at every stage of their journey. Homebase have also introduced a new Customer Services Programme, to support team members across all parts of the Homebase business to better serve our customers. The Homebase performance is positively influenced by their commitment, diversity, engagement and open feedback to other team members and the board.

Examples of engagement with our team

- Weekly team huddles and conference calls lead by senior team leaders and board members;
- Quarterly business updates;
- Bi annual team member engagement surveys;
- Events to celebrate success such as team lunches and personal messages from the board and senior Managers;
- Annual company conference and board roadshows to engage with the management team in every store;
- Apprenticeship Scheme.

Team priorities

From listening to our team, Homebase understand what is important to them. Some of the most important priorities for our team members are:

- Feeling valued and proud of how the company conducts its business;
- Having access to training and career opportunities;
- Feeling safe and respected in the workplace;
- A good rewards and benefits package;
- Knowing Homebase has a strong focus on environmental and social responsibility.

Board engagement

At the Store Support Centres the board hold regular huddles to discuss the progress of Homebase and invite questions from the team on anything the team feel is important.

The board visit stores on a regular basis with not all visits announced in advance. During visits board members hold a huddle to update store team members on Homebase's progress and invite the team to ask questions.

The board work closely with team members across the company to find ways to reduce complexity, making the business simpler and allowing all team members to focus on serving customers better.

Corporate Governance statement - s172(1) Companies Act 2006 (continued)

Customers - Inspiring customers to create a home they love

Customers are at the heart of everything Homebase does, helping every customer to create a home they love. Homebase aims to inspire customers with our new and continually expanded product ranges and deliver an in store experience that allows them to tap into our teams' expertise right across the store from smaller home improvements and garden projects through to bigger makeovers such as kitchens and bathrooms. The aim is to bring all this together to make Homebase the go to place for the inspiration, expertise and products customers need to turn ideas into reality, taking their home and garden projects from start to finish.

Engagement with our customers

- Regular listening groups;
- Brand building and inspiration through advertising and sponsorship of carefully selected TV programmes which align to the Homebase home and garden ranges;
- Inspiring our customers by providing creative product placement in key decorative, garden and lifestyle media;
- Project ideas and inspiration delivered creatively through the website, social media channels and emails;
- In store our team of helpful experts many of whom are City & Guilds accredited in gardening and kitchen design.

Customer priorities

From listening to our customers, Homebase understand what is important to them. Some of the most important priorities for our customers are:

- Availability of trusted brands and product innovation;
- Product quality;
- Range and value;
- Friendly shopping experience;
- Knowledgeable team members and environmental commitment.

Board engagement

Customer engagement is important, and feedback is discussed as a core part of regular board updates. In addition to this, senior managers regularly present to board members in relation to market trends and changing customer needs and trends.

Suppliers - In partnership with our suppliers

Homebase strongly believe in partnerships and work with a wide range of suppliers including goods for resale, logistics, landlords and operational services. Our suppliers also play an important role in developing our product offer as well as training our team, to ensure our teams are confident and well informed to advise customers on our products.

Homebase also work with a range of concession partners to complement the in house range of home and garden products. Partnerships with leading brands play a key part in our vision to provide everything customers need for home and garden projects under one roof.

Engagement with our suppliers

- Bi annual supplier conferences based around company performance and future priorities;
- Continuous collaboration between suppliers and Homebase around products, design and store experiences;
- Reviews with suppliers on sales performance and product suitability, supporting the businesses to grow together;
- Review and approval of supplier contracts with engagement from Procurement and Global Sourcing Teams;
- Bi monthly company performance updates.

Corporate Governance statement - s172(1) Companies Act 2006 (continued)

Supplier Priorities

From listening to our suppliers, Homebase understand what is important to them. Some of the most important priorities for our suppliers are:

- Prompt and fair payments;
- Sales growth and increased product offering;
- Strong in store and online product execution with good availability;
- Homebase's brand strength;
- Support and collaboration with access to senior management.

Board engagement

The board receive updates on suppliers, when considering key priorities, business continuity plans and key partnerships. Within the year regular reports were received on how the company's preparations were progressing for leaving the EU and how suppliers were supporting this transition. The board regularly engage with suppliers from as many territories as possible. Trips are also taken to buying shows to meet suppliers and understand their new products and innovations to allow us to grow together.

In the communities

Supporting our communities is very important to all our team members. Homebase are committed to building positive relationships and working with the community to give back and support where possible. This includes regular fundraisers for our charity partners Macmillan Cancer Support and the Irish Cancer Society, and working with local hospitals, schools and community groups to donate both products and team time. Homebase thinks carefully about sustainability and the impact it has on the environment. Homebase knows that this issue is close to many of our customers' and team members hearts and works with all suppliers to review operational process with a focus on environmental friendliness and sustainability, as well as introducing a strong range of eco friendly alternatives.

Engagement with our communities

- Team member volunteering and involvement with local community project;
- Partnership with Macmillan Cancer Support, the Irish Cancer Society, Greenfingers and Groundworks;
- Publishing policies on modern slavery, ethical sourcing and sustainability.

Community priorities

From working in, and with, the community Homebase understand what is important to them. Some of the main priorities for the communities Homebase work in are:

- Job prospects;
- Helping provide long term employment opportunities for those that live in the area around our stores;
- Local and international operational impact on the environment;
- Working with suppliers to ensure Homebase can ethically and sustainably source products.

Board engagement

The board receive regular reports of fundraising efforts and actively supports and encourages team members in their efforts to support our team member chosen charity partner.

The board has regular reviews to maintain the safety of our operations and ensure our community is safe.

Corporate Governance statement - s172(1) Companies Act 2006 (continued)

Investors

Access to both short term and long term capital is critical to Homebase's performance, supporting our strategic direction, stock builds and store investments. The board is committed to maintaining good two way communications with investors to help plan for future business growth, contextualise business performance and maximise the value of their knowledge and experience in support of those plans.

Our Investor stakeholder group includes all parties that are interested in the financial success and sustainability of the business, as the Company continues to implement its turnaround plan.

Examples of engagement with our investors

- Monthly updates;
- Financial performance report;
- Review of strategic decisions;
- Annual presentation of strategic plans and budgets alongside quarterly reforecasts;
- Communication programme, ensuring business performance and vision is clearly laid out for a financial and business audience.

Investor priorities

From listening to our investors, Homebase understand what is important to them. Some of the main priorities to our investors are:

- Homebase's financial performance and cash generation in the short, medium and long term;
- Confidence in the board's leadership, business turnaround plan and vision;
- Delivery of company strategy;
- Having a collaborative and transparent communication process.

Board engagement

The board receive regular updates from the Director of Finance on the performance of the Company.

The board meet and engage with investors in formal monthly meetings to review performance and ensure the business remains on course to meet its strategic goals.

The board provide regular updates to our bankers in the form of formal financial reporting against agreed financial targets as well regularly discussing the overall performance and strategic direction of the company.

Key decisions made in the year

Principal decisions in 2019

Overview

The board define 'key decisions' as decisions and discussions, which are material or strategic to Homebase, and those that are significant to any of our stakeholder groups. The board consider the following to be examples of key decisions made during 2019.

Key Decisions

Bathstore and kitchens investment

During the year the board decided to invest in the Bathrooms and Kitchens division. In July 2019 Homebase acquired assets from Bathstore and entered an agreement for use of the Bathstore brand. Following the purchase, the board decided to invest £10m in 49 Homebase stores in order to launch Bathstore concessions and update the kitchen showrooms in these stores. The decision was made in order to accelerate growth in this key division of the business.

Corporate Governance statement - s172(1) Companies Act 2006 (continued)

Digital development

In the final quarter of the year the board decided to accelerate the investment in the digital platform. In 2018 Homebase agreed an investment programme to improve the online experience for our customers. Following the success of this investment and significant sales growth, the board decided to further invest in the digital platform. The investment will drive traffic, with improved search engine optimisation and will drive conversion and average order value by improving the navigation and functionality on the site.

Property

The board developed its property strategy following the decision in 2018 to enter into a CVA. The major decisions surrounding property deals were to secure long term leases at the right rents on stores that historically made little or no contribution. In addition to these negotiations, stores were closed where they were at the end of their lease and not deemed a core part of the portfolio. The board continues to engage positively with landlords to develop its property portfolio and expects further lease extensions in the coming year.

Principal risks and uncertainties

The Company's principal risks and uncertainties are congruent with those of Homebase, in that they are aligned with any risks associated with the success of the continuing trade of the Homebase business. The Company uses various financial instruments which include cash, trade debtors, trade creditors and amounts due to Group undertakings that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Company's operations. The existence of these financial instruments exposes the Company to a number of financial risks, which are described in more detail below.

Financial risk management

Responsibility for managing financial risk lies with the Directors, in consultation with senior management of the Company, who assess the Group's short, medium and long term funding and liquidity requirements.

Foreign exchange risk

The Company is exposed to translation and transaction foreign exchange risk. Transaction risk is managed at a Group level with any materially mismatched cash flows being considered for hedging. Similarly, the Group holds financial liabilities in currencies other than sterling and should material mismatches be forecast, the position is assessed.

Interest rate risk

The Company finances its operations through free cash and loans from external parties and other related companies. It's interest rate risk exposure is limited to changes in market interest rates applicable to short-term loans.

Credit risk

The Company's principal financial assets are bank and cash balances, trade and other receivables. The credit risk on liquid funds is considered to be limited as the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Liquidity and cash flow risk

The Company seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. The Group has funding facilities of up to £120m, which expire in November 2021.

Principal risks and uncertainties (continued)

UK exit from the European Union

The Directors have considered the risks associated with a disorderly UK exit from the European Union at the end of the current transition period and are working with suppliers, hauliers and team members to mitigate any impact. The key risk to the business would be the disruption to the supply chain in respect of horticultural products from mainland Europe.

COVID 19 risk

The COVID 19 pandemic in 2020 has introduced a significant degree of economic uncertainty for the Company. The associated risk and actions taken by the Company to address this are described below in the post balance sheet events note in the Directors' Report.

Competitor risk

Increased competition from traditional retailers and new digital entrants could have a negative impact on sales and profitability. As mentioned above the Company has invested significantly in stores, digital operations and new ranges to ensure that the proposition remains attractive to customers and helps maintain and grow market share.

This report was approved by the board on 28-9-2020 and signed on its behalf.

A C Coleman
Director

DIRECTORS' REPORT
FOR THE 52 WEEKS ENDED 29 DECEMBER 2019

The Directors present their report and the financial statements for the 52 weeks ended 29 December 2019.

Directors' responsibilities statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

- select suitable accounting policies for the Company's financial statements and then apply them consistently;
- make judgments and accounting 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.

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 to 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.

Results and dividends

HHGL Limited made an EBITDA profit of £4.1m in the period (26 weeks to 30 December 2018: £31.1m EBITDA loss). A reconciliation of EBITDA to the operating loss is shown on page 16. No dividends were declared during the period (December 2018: £Nil)

Directors

The Directors who served during the 52 weeks were:

D G McGloughlin
A C Coleman

Health and safety of team members

The well being of the Company's team members is safeguarded through strict adherence to health and safety standards. The Safety, Health and Welfare at Work Act 1989 imposes certain requirements on employers and the Company has taken the necessary action to ensure compliance with the Act, including the adoption of a Safety Statement.

Team member involvement

Consultation with team members has continued at all levels, with the aim of ensuring that their views are considered when decisions are made that are likely to affect their interests. In addition, team huddles are held to ensure that all team members are aware of the financial and economic performance of their business units and of the Company as a whole. Communication with all team members continues through in house news updates, briefing huddles and other forums designed to both inform team members and allow for feedback and questions on the Company performance and plans.

Disabled team members

Applications for team member roles by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of team members becoming disabled every effort is made to ensure that their employment with the Company continues and the appropriate adjustment to duties 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.

Qualifying third party indemnity provisions

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

Disclosure of information to auditors

Each of the persons who are Directors at the time when this Directors' Report is approved has confirmed that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the Director has taken all the steps that ought to have been taken as a Director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Post balance sheet events

On 27 February 2020 the Company sought creditors' approval of a proposed Material Variation to the Company Voluntary Arrangement (CVA) entered into in August 2018. The variation was passed by electronic voting with the decision date being 17 March 2020. Approval of the Material Variation was met with 99.8% of all creditors who voted, voting in favour. The main variation to the CVA allowed the Company to take steps to end the voluntary arrangement early.

The additional steps which were required for full implementation and early end of the CVA have now been completed to the Supervisors' satisfaction and they filed a notice of full implementation of the CVA dated 23 June 2020 and have vacated office. The Company is consequently no longer in a CVA. This will not have an impact on the financial results for the period ended 27 December 2020.

COVID-19 in 2020 has introduced a significant degree of economic uncertainty for the Company and the world economy. On 26 March 2020 the Company decided to temporarily close its stores. Whilst Homebase was classed as an essential retailer by the government and was not required to close the Company committed to only re-opening when a safe shopping environment for both customers and team members could be provided.

Stores in the UK started to re-open on 25 April 2020. In all stores the Company have implemented strict social distancing measures and PPE to ensure a safe working and shopping environment.

Post balance sheet events (continued)

Whilst stores were closed, the Company was able to continue to trade through the Homebase online website and continued to work closely with suppliers to ensure products were available for customers to purchase. At the point of signing these financial statements the length of the recovery period is hard to quantify and sales forecast for the next 12 months are made with a lower level of certainty than usual, with the latest forecasts made based on lower sales year to date and continued expected disruption. The impact of tightening existing restrictions or the imposition of a further lockdown later in the year could have a material impact on the forecasts of the Company.

The Company believe that by implementing cost saving measures, making use of government support and being able to trade across stores and online in a safe way, debt levels are expected to be in line with the 2020 budget expectations by the end of the year. Management have also updated the Company's impairment and onerous lease models using revised forecast data and have determined that the impact is not material.

The Directors consider COVID-19 to be a non-adjusting event, but it could have a material impact on the Company's turnover and results for the year ending 31 December 2020. In addition, the Company's ability to recover outstanding trade receivables from customers could be negatively impacted by COVID-19, and other assets could need to be tested for impairment.

On 21 August 2020 the Company entered into a contract to replace its digital platform. This decision will reduce the life of some existing digital assets and will result in assets with a book value of £5.3m being fully written down in 2020.

There are no other post balance sheet events that would require an adjustment or disclosure to the financial statements.

Auditors

Under section 487(2) of the Companies Act 2006, Ernst and Young LLP will be deemed to have been reappointed as auditors 28 days after these financial statements were sent to members or 28 days after the latest date prescribed for filing the accounts with the registrar, whichever is earlier.

This report was approved by the board on 28·9·2020 and signed on its behalf.

A C Coleman
Director

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HHGL LIMITED

Opinion

We have audited the financial statements of HHGL Limited (the 'Company') for the 52 weeks ended 29 December 2019, which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 28, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 29 December 2019 and of its loss for the 52 weeks then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United Kingdom, including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter - Effects of COVID-19

We draw attention to Notes 2.1 and 27 of the financial statements, which describe th economic disruption the Company is facing in respect of COVID-19 which is impacting customer demand. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Annual Report, other than the financial statements and our Auditors' Report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

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

- the information given in the Strategic Report and the Directors' Report for the financial 52 weeks for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Directors' Responsibilities Statement on page 10, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditors' Report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditors' Report.

Use of our report

This report is made solely to the Company's members 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 Auditors' 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 for our audit work, for this report, or for the opinions we have formed.

Ernst + Young

Peter McIver (Senior Statutory Auditor)

for and on behalf of
Ernst and Young LLP

London
SE1 2AF
Date: 28 September 2020

STATEMENT OF COMPREHENSIVE INCOME
FOR THE 52 WEEKS ENDED 29 DECEMBER 2019

	Note	**52 weeks ended 29 December 2019 £000**	*26 weeks ended 30 December 2018 £000*
Turnover	4	**775,779**	*458,077*
Cost of sales		**(417,634)**	*(261,136)*
Gross profit		**358,145**	*196,941*
Distribution costs		**(40,772)**	*(30,705)*
Administrative expenses		**(323,287)**	*(202,068)*
Operating loss	5	**(5,914)**	*(35,832)*
Exceptional (expenses)/income	12	**(4,011)**	*25,447*
Loss before interest		**(9,925)**	*(10,385)*
Interest receivable and similar income	9	**1**	*19*
Interest payable and expenses	10	**(9,184)**	*(4,326)*
Loss before tax		**(19,108)**	*(14,692)*
Tax on loss	11	**-**	*-*
Loss for the financial period		**(19,108)**	*(14,692)*
Total comprehensive expense for the period		**(19,108)**	*(14,692)*

. **EBITDA information**

	52 weeks to 29 December 2019 £000	**26 weeks to 30 December 2018 £000**
EBITDA gain/(loss) before exceptional items	**4,092**	**(31,133)**
Depreciation and amortisation of fixed assets	**(10,006)**	**(4,699)**
Exceptional items	**(4,011)**	**25,447**
Operating loss before interest and tax	**(9,925)**	**(10,385)**

HHGL LIMITED
REGISTERED NUMBER:00533033

BALANCE SHEET
AS AT 29 DECEMBER 2019

	Note		29 December 2019 £000		30 December 2018 £000
Fixed assets					
Intangible assets	13		**13,127**		*16,156*
Tangible assets	14		**22,327**		*12,266*
Investments	15		**842**		*842*
			36,296		*29,264*
Current assets					
Stocks	16	**132,340**		*168,683*	
Debtors: amounts falling due within one year	17	**36,807**		*29,932*	
Cash at bank and in hand	18	**16,229**		*31,347*	
		185,376		*229,962*	
Creditors: amounts falling due within one year	19	**(125,535)**		*(137,656)*	
Net current assets			**59,841**		*92,306*
Total assets less current liabilities			**96,137**		*121,570*
Creditors: amounts falling due after more than one year	20		**(623,570)**		*(621,665)*
Provisions for liabilities					
Other provisions		**(20,961)**		*(29,191)*	
			(20,961)		*(29,191)*
Net liabilities			**(548,394)**		*(529,286)*
Capital and reserves					
Called up share capital	22		**13,190**		*13,190*
Profit and loss account			**(561,584)**		*(542,476)*
			(548,394)		*(529,286)*

The financial statements were approved and authorised for issue by the board and were signed on its behalf on
28-9-2020

A C Coleman
Director

The notes on pages 19 to 41 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE 52 WEEKS ENDED 29 DECEMBER 2019

	Called up share capital	Profit and loss account	Total equity
	£000	£000	£000
At 31 December 2018	13,190	(542,476)	(529,286)
Comprehensive expense for the period			
Loss for the 52 weeks	-	(19,108)	(19,108)
At 29 December 2019	13,190	(561,584)	(548,394)

STATEMENT OF CHANGES IN EQUITY
FOR THE 52 WEEKS ENDED 30 DECEMBER 2018

	Called up share capital	Profit and loss account	Total equity
	£000	£000	£000
At 1 July 2018	13,190	(527,784)	(514,594)
Comprehensive expense for the period			
Loss for the 26 weeks	-	(14,692)	(14,692)
At 30 December 2018	13,190	(542,476)	(529,286)

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.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies (see note 3).

The Company has taken advantage of the exemption afforded by FRS 102.33.1A not to disclose transactions between wholly owned members of the group. The Company is a qualifying entity as defined by FRS 102 and has taken advantage of thefollowing exemptions available to qualifying entities which are relevant to its financial statements:

- the requirement to prepare a cash flow statement;
- the disclosure requirements of Section 26 paragraphs 26.18 (b), 26.19 to 26.21 and 26.23

Going concern

The board have undertaken a thorough assessment of the Company's financial forecasts, including the impact of COVID-19 in Great Britain. After modelling a severe downside scenario, detailed below, that includes reducing discretionary spend, where appropriate utilising government support for furloughed team members and deferring VAT and tax payments, the board have concluded that it is appropriate to adopt the going concern basis in the preparation of these accounts.

The Company is funded by its operating profits, working capital improvements and Group debt facilities provided by Wells Fargo. The Wells Fargo facility was put in place on 9 November 2018 and runs for 3 years to November 2021. The facility has a small number of covenants and requirements that the Group must comply with. These covenants are all linked to the underlying performance of Homebase and its cash generation. The available facility is £95m at its maximum in our peak trading months and is more than adequate to fund the working capital needs of the Group over the coming 12 months. The maximum utilisation in 2019 was just under £70m. In addition to the £95m Wells Fargo facility, the Group have a further £25m standby debt facility with its shareholder, which is currently undrawn.

At 29 December 2019 the Company had net liabilities of £548m accumulated from losses in prior years. At period end the Company has a cash surplus of £16m and was not using either of its debt facilities. Homebase (UK & I) Holdings Limited does not expect the loans made to be repaid until the Company is in a position to do so. It has become clear that COVID-19 has introduced a significant degree of economic uncertainty for the retail sector and the Company and the Group, impacting on its ability to generate revenue and profit.

On 26 March 2020 the Company decided to temporarily close its stores in Great Britain. Whilst Homebase was classed as an essential retailer by the UK government and was not required to close, the Company committed to only re-opening when a safe shopping environment for both customers and team members could be provided. Stores started to re open on 25 April 2020. In all stores the Company have implemented strict social distancing measures and PPE to ensure a safe working and shopping environment. Whilst stores were closed, the Company was able to continue to trade through their Homebase online website.

2. Accounting policies (continued)

2.1 Basis of preparation of financial statements (continued)

The board have reviewed the evolving situation relating to COVID-19 and have modelled a 'downside' scenario for a period of 12 months from the date of signing these financial statements. The assumptions in the downside scenario include estimates of the impact of:

- Sales volumes as low as negative 50% on an LFL basis at certain points in the forecast year ahead;
- A slow recovery to sales with flat LFL sales only being achieved in the final month of the year;
- A material reduction in the sale of big ticket items such as kitchens and bathrooms;
- A reduction in margins as a result of the need to clear lines that have not sold through owing to the closure and low sale periods.

This 'downside' case, whilst considered to be very prudent with sales forecasts lower than current levels of sales being experienced, potentially impacts the Company's ability to generate revenue, profit and cash flow. The board have therefore taken immediate actions to reduce costs and optimise the Company's cash flow and liquidity:

- Reduced capital and investment expenditure;
- Tightly managed stock purchases and stock turn, reflecting the store sales;
- Further tightened discretionary spend;
- Used government support by furloughing team members, taking advantage of business rate relief schemes and deferring VAT and tax payments.

As part of the 'downside' case, the impact on the facilities covenant, which is a trading cashflow covenant, was also reviewed. Although the headroom on the covenant drops, it does not breach in this scenario. Unprecedented uncertainty still exists in respect of the potential future impact of COVID-19 and if outcomes are significantly worse than in the 'downside' scenario, the board would need to consider what additional mitigating actions were needed. The facility specifies the covenant amounts up to June 2021 and thereafter the amounts will be specified by Wells Fargo based on the future budgeted projections of the Company. At present, even in the downside scenario prepared by the board it does not envisage utilising these facilities after June 2021.

The board, after reviewing all the information available to them, consider the Company to have enough financing available at the date of approval of this report, and are therefore satisfied that it is appropriate to adopt the going concern basis in preparing the Financial Accounts.

The key principal accounting polices applied by the Group are described in sections 2.2 to 2.22

2.2 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is GBP.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

2. Accounting policies (continued)

2.2 Foreign currency translation (continued)

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income except when deferred in other comprehensive income as qualifying cash flow hedges.

2.3 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when all of the following conditions are satisfied:

- the Company has transferred the significant risks and rewards of ownership to the buyer;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the Company will receive the consideration due under the transaction; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Concession income represents income received from concessions operated by third parties at Homebase stores and is included within turnover.

2.4 Operating leases: the Company as lessee

Rentals paid under operating leases are charged to the Statement of Comprehensive Income on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the lease term, unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

2.5 Interest income

Interest income is recognised in the Statement of Comprehensive Income using the effective interest method.

2.6 Finance costs

Finance costs are charged to the Statement of Comprehensive Income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

2.7 Borrowing costs

All borrowing costs are recognised in the Statement of Comprehensive Income in the 52 weeks in which they are incurred.

2. Accounting policies (continued)

2.8 Pensions

Defined contribution pension plan

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in the Statement of Comprehensive Income when they fall due. Amounts not paid are shown in accruals as a liability in the Balance Sheet. The assets of the plan are held separately from the Company in independently administered funds.

2.9 Taxation

Tax is recognised in the Statement of Comprehensive Income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the Company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Balance Sheet date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

2.10 Exceptional items

Exceptional items are transactions that fall within the ordinary activities of the Company but are presented separately due to their size or incidence.

2. Accounting policies (continued)

2.11 Intangible assets

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

At each reporting date the Company assesses whether there is any indication of impairment. Intangibles are included in the carrying value of cash generating units ("CGUs")in the impairment test and if such indication exists, the recoverable amount of the CGU is determined which is the higher of its fair value less costs to sell and its value in use. An impairment loss is recognised where the carrying amount exceeds the recoverable amount.

All intangible assets are considered to have a finite useful life. If a reliable estimate of the useful life cannot be made, the useful life shall not exceed ten years.

Goodwill acquired in a business combination is initially measured at cost. Cost is measured as the cost of the business combination minus the net fair value of the acquired and identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

2.12 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Store assets are subject to impairment reviews whenever changes in events or circumstances indicate that an impairment may have occurred. Store assets (or CGU to which those assets belong) are written down to the higher of fair value less costs to sell and value in use. The cash flows for the business are extrapolated using a long term growth rate beyond the three year plan of 2% and are discounted using a discount rate of 18% to calculate the value in use. Following an impairment review in June 2018 store assets were impaired by £101.4m. There has been no reversal of impairment since then.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight line method.

Depreciation is provided on the following basis:

Freehold property	depreciated over 20 and 40 years
Plant and machinery	depreciated over 3 20 years according to the estimated useful life of the relevant asset
Leasehold properties	depreciated over the period of the lease

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Consolidated Profit and Loss Account.

2.13 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

2. Accounting policies (continued)

2.14 Bathstore asset purchase

In July 2019 the Company purchased assets from the Bathstore administrator. It also entered into a transition agreement for the transfer of team members and other services over the following 16 weeks, including the short term rental of a number of Bathstore stores trading through a subsidiary company, Homebase Rooms Limited. The Company leases the right to use the Bathstore brand and website. At period end Homebase Rooms Limited had 26 stores trading under the Bathstore name and the Company operated 47 Bathstore concessions from Homebase stores in the UK.

2.15 Stock

Stock is stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a weighted average basis.

At each balance sheet date, stock is assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in profit or loss.

The Company legally owns consignment stocks held at the retail outlets of two Group companies, Hampden Group Limited and HHGL (ROI) 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

2.16 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

2.17 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

2.18 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

2.19 Provisions for liabilities

Provisions are made where an event has taken place that gives the Company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the Statement of Comprehensive Income in the year that the Company becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet.

2. Accounting policies (continued)

2.20 Onerous leases

Where the unavoidable costs of a lease exceed the economic benefit expected to be received from it, a provision is made for the present value of the obligations under the lease.

2.21 Financial instruments

The Company only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of Comprehensive Income.

Derivatives, including foreign exchange forward and option contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or income as appropriate. The Company does not currently apply hedge accounting for foreign exchange derivatives.

2.22 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 such 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 - recognised once agreed with a supplier and over the period set out in the specific agreement.

Volume based rebates, ad hoc rebates and settlement discounts from suppliers - recognised through the period 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 calendar year.

3. Judgments in applying accounting policies and key sources of estimation uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities and potentially the disclosure of contingent liabilities. The resulting accounting estimates, which are based on management's judgement at the date of the financial statements, will, by definition, seldom equal the related actual results. The estimates and underlying assumptions are reviewed on an ongoing basis, with revisions recognised in the period in which the estimates are revised and future periods where appropriate. The following judgements or estimates have had the most significant effect on amounts recognised in the financial statements:

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.

Assets 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.The cash flows for the business are extrapolated using a long term growth rate beyond the three year plan of 2% and are discounted using a discount rate of 18% to calculate the value in use. 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.

Provisions

Provisions have been estimated for property, 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, including expected costs or income associated with store closures. Expectations will be revised each period until the actual liability arises, with any difference accounted for in the period in which the revision is made.

The warranty provision is to cover the estimated expected value of future claims under warranties offered by group companies which generally cover the product for a defined period.

Stock

Judgement is applied when estimating the impact on the carrying value of stock of factors such as slow-moving items, shrinkage and obsolescence. Stock levels and eventual sale price are regularly measured and assessed throughout the year to support the estimate of the carrying value of stock, being the lower of cost or net realisable value.

4. Turnover

An analysis of turnover by class of business is as follows:

	52 weeks ended 29 December 2019 £000	*26 weeks ended 30 December 2018 £000*
Sale of home improvement and garden products in Great Britain	**775,779**	*458,077*
	775,779	*458,077*

5. Operating loss

The operating loss is stated after charging:

	52 weeks ended 29 December 2019 £000	*26 weeks ended 30 December 2018 £000*
Cost of stocks recognised as an expense in cost of sales	**461,070**	*279,063*
Write down of stock	**20,493**	*13,803*
Gain on disposal of tangible assets	**169**	*14,317*
Depreciation of tangible assets	**2,693**	*1,248*
Amortisation of intangible assets	**7,313**	*3,451*
Other operating lease rentals	**77,203**	*60,919*

6. Auditors' remuneration

	52 weeks ended 29 December 2019 £000	*26 weeks ended 30 December 2018 £000*
Fees payable to the Company's auditor	**570**	*200*

7. Team members

	52 weeks ended 29 December 2019 £000	*26 weeks ended 30 December 2018 £000*
Wages and salaries	131,102	*83,570*
Social security costs	8,487	*6,504*
Cost of defined contribution scheme	2,880	*1,520*
Team member costs	**142,469**	*91,594*

The average monthly number of team members, including the Directors, during the 52 weeks was as follows:

	52 weeks ended 29 December 2019 No.	*26 weeks ended 30 December 2018 No.*
Stores	6,280	*8,903*
Administration and other	594	*701*
	6,874	*9,604*

8. Directors' remuneration

	52 weeks ended 29 December 2019 £000	*26 weeks ended 30 December 2018 £000*
Directors' emoluments	2,418	*1,366*
	2,418	*1,366*

The highest paid Director received remuneration of £1.242m (26 weeks to 30 December 2018: £0.707m). During the period the Directors bought shares in the Group parent company at market value.

9. Interest receivable

	52 weeks ended 29 December 2019 £000	*26 weeks ended 30 December 2018 £000*
Other interest receivable	1	*19*
	1	*19*

10. Interest payable and similar expenses

	52 weeks ended 29 December 2019 £000	*26 weeks ended 30 December 2018 £000*
Bank interest payable	1,521	*211*
Unwinding of discounts on provisions	9	*112*
Loans from group undertakings	7,654	*4,003*
	9,184	*4,326*

11. Taxation

	52 weeks ended 29 December 2019 £000	*26 weeks ended 30 December 2018 £000*
Total current tax	-	-
Deferred tax		
Total deferred tax	-	-
Taxation on profit on ordinary activities	-	-

11. Taxation (continued)

Factors affecting tax charge for the period

The tax assessed for the period is lower than *(2018 - lower than)* the standard rate of corporation tax in the UK of 19.0% *(2018 - 19.0%)*. The differences are explained below:

	52 weeks ended 29 December 2019 £000	*26 weeks ended 30 December 2018 £000*
Loss on ordinary activities before tax	**(19,108)**	*(14,692)*
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.0% (2018 - 19.0%)	**(3,631)**	*(2,791)*
Effects of:		
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	**1,946**	*310*
Losses and deferred tax not recognised	**1,685**	*2,481*
Total tax charge for the period	**-**	*-*

Factors that may affect future tax charges

The income tax expense for the period is based on the United Kingdom statutory rate of corporation tax for the period of 19.0% (2018: 19.0%).

12. Exceptional items

	52 weeks ended 29 December 2019 £000	*26 weeks ended 30 December 2018 £000*
Property and store closure related	**(4,880)**	*41,186*
CVA related costs	**-**	*(26,425)*
Net gain on sale of freehold properties	**-**	*13,408*
Other non-recurring income/(charge)	**2,826**	*(1,090)*
Impairment of investment in subsidiary	**-**	*(4,793)*
Provision against amounts due from group undertakings	**(1,957)**	*3,161*
	(4,011)	*25,447*

During the period further provisions for onerous leases and store closure costs were incurred and treated as an exceptional charge. In addition certain credits of a non-recurring nature were treated as exceptional and £2m was also been provided for amounts due from other group companies considered to be impaired (note 17).

13. Intangible assets

	Computer software £000
Cost	
At 31 December 2018	**62,282**
Additions	**4,287**
Disposals	**(57)**
At 29 December 2019	**66,512**
Amortisation	
At 31 December 2018	**46,126**
Charge for the 52 weeks	**7,313**
On disposals	**(54)**
At 29 December 2019	**53,385**
Net book value	
At 29 December 2019	**13,127**
At 30 December 2018	*16,156*

14. Tangible fixed assets

	Freehold property £000	Short-term leasehold property £000	Plant and machinery £000	Total £000
Cost or valuation				
At 31 December 2018	1,828	149,939	354,148	505,915
Additions	-	1,856	11,512	13,368
Disposals	-	(27,471)	(51,704)	(79,175)
At 29 December 2019	1,828	124,324	313,956	440,108
Depreciation				
At 31 December 2018	611	138,890	354,148	493,649
Charge for the 52 weeks on owned assets	37	1,275	1,381	2,693
Disposals	-	(26,857)	(51,704)	(78,561)
At 29 December 2019	648	113,308	303,825	417,781
Net book value				
At 29 December 2019	1,180	11,016	10,131	22,327
At 30 December 2018	*1,217*	*11,049*	-	*12,266*

There was no reversal of impairment previously provided for.

15. Fixed asset investments

	Investments in subsidiary companies £000
Cost or valuation	
At 31 December 2018	**31,284**
At 29 December 2019	**31,284**
Impairment	
At 31 December 2018	**30,442**
At 29 December 2019	**30,442**
Net book value	
At 29 December 2019	**842**
At 30 December 2018	*842*

Subsidiary undertakings

The following were subsidiary undertakings of the Company:

Name	Registered office	Class of shares	Holding
HHGL (ROI) Limited	Riverside One, Sir John Rogerson's Quay, Dublin 2. DO2X5767, Ireland	Ordinary	94.2%%
Lexden BH (Colchester) Limited	Witan Gate House, 500-600 Witan Gate, Milton Keynes, MK9 1BA	Ordinary	100%
Homebase Rooms Limited	Witan Gate House, 500-600 Witan Gate, Milton Keynes, MK9 1BA	Ordinary	100%
Lexden BH Limited	44, Esplanade, St. Helier, Jersey, JE4 9WG	Ordinary	100%

16. Stock

	29 December 2019 £000	*30 December 2018 £000*
Finished goods for resale	**132,340**	*168,683*
	132,340	*168,683*

Trading stock excludes £14.4m (30 December 2018: £14.8m) 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.

Stock written-down in the period and provided for amounted to £20.5m (26 weeks to 30 December 2018: £13.8m).

17. Debtors

	29 December 2019 £000	*30 December 2018 £000*
Trade debtors	**1,189**	*5,422*
Amounts owed by group undertakings	**8,065**	*8,065*
Other debtors	**12,702**	*4,177*
Prepayments and accrued income	**14,851**	*12,268*
	36,807	*29,932*

The current amounts owed by group undertakings are non-interest bearing, not repayable on demand. Amounts owed by group undertakings include a provision of £43m (30 December 2018: £41m) against amounts receivable following an impairment review. The increase of £2m is shown as an exceptional charge in the statement of comprehensive income (note 12).

18. Cash and cash equivalents

	29 December 2019 £000	*30 December (Restated) 2018 £000*
Cash at bank and in hand	**16,229**	*31,347*
	16,229	*31,347*

Under the terms of the asset based lending facility provided by Wells Fargo Capital Finance a number of bank accounts operate with restrictions. They are also subject to fixed and floating charges with Barclays Bank PLC. £5.7m of the balance has restricted availability under the current bank funding arrangements. In addition, £21.6m of trade related payments made over the period end in the comparative period have been reclassified from trade creditors and accruals to Cash at bank due to a classification error in the prior year presentation, consistent with the treatment in the Group accounts of Homebase (UK & I) Holdings Limited.

19. Creditors: Amounts falling due within one year

	29 December 2019 £000	*30 December (Restated) 2018 £000*
Bank loans	**-**	*12,701*
Trade creditors	**73,387**	*62,767*
Amounts owed to group undertakings	**3,043**	*2,623*
Other creditors	**15,040**	*35,512*
Accruals and deferred income	**33,325**	*24,053*
Financial instruments	**740**	*-*
	125,535	*137,656*

19. Creditors: Amounts falling due within one year (continued)

Bank loans

On 9 November 2018 the Group secured an asset based lending facility of up to £95m with Wells Fargo Capital Finance. The facility is for 3 years and is provided against stock and credit card receivables with an interest rate of 2.5% per annum above the 30 LIBOR rate on amounts draw down and 0.35% on the remaining undrawn amount. At the balance sheet date, the amount drawn down on the facility and outstanding was £nil (30 December 2018: £12.7m).

The facility contains a financial covenant linked to trading cash flow and EBITDA. A number of indemnities have also been provided and the facility is secured against Company assets in the form of fixed and floating charges secured on the tangible assets, shares and certain intellectual property assets of the Company.

On 1 November 2018 the Group secured a £25m standby facility from Ark Finco UK Limited, a subsidiary of Ark UK Holdings Limited. This facility is for 3 years and carries an interest rate of 2% plus LIBOR on the first £5m drawn down, 4.75% plus LIBOR on amounts drawn down above this and 0.9% on undrawn amounts. There were no drawings on these facilities at the year end. These facilities are also secured by fixed and floating charges over the assets, investments and intellectual property assets of the Company.

Financial instruments

During the 52 weeks the Company entered into a number of forward foreign currency and foreign currency options primarily to acquire US dollars to fund the settlement of US dollar trade payments at certain rates. Currency contracts and options outstanding at period end have been fair valued using market rates and movements in fair value taken to profit and loss.

Fair values at period end were: forward foreign currency contracts £0.2m and foreign currency options £0.6m. There were no outstanding contracts at 30 December 2018.

The forward currency contracts fix at an average US dollar rate of 1.29 and all expire within the next 6 months. Their notional amounts at period end were $13.8m.

The option contracts expire over the next 6 months with notional amount of $40m and an average strike price of US dollar 1.25.

Prior year adjustment - reclassification of balances

£39.9m of trading related accruals has been reclassified from accruals and deferred income to trade creditors in the comparative due to a classification error in the prior year presentation. In addition, £21.6m of trade related payments made over the period end in the comparative period have been reclassified from trade creditors and accruals to Cash at bank due to a classification error in the prior year presentation.

20. Creditors: Amounts falling due after more than one year

	29 December 2019 £000	*30 December 2018 £000*
Amounts owed to group undertakings	**610,919**	*603,153*
Accruals and deferred income	**12,651**	*18,512*
	623,570	*621,665*

21. Provisions

	Property £000	Other £000	Total £000
At 31 December 2018	20,825	8,366	29,191
Charged/(released) to profit or loss	5,278	(1,093)	4,185
Utilised in 52 weeks	(9,793)	(2,622)	(12,415)
At 29 December 2019	**16,310**	**4,651**	**20,961**

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 where 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 majority of this provision is expected to be utilised over the period to 2025.

Other provisions include provision for the estimated cost of warranties given on certain products sold and not settled at the balance sheet date including the cost of claims that have arisen but not yet been reported to the Company, a provision for customer returns based on recent and expected run rates and a provision for annual leave. The majority of these provisions are expected to be utilised over the period to 2025.

22. Share capital

	29 December 2019 £000	*30 December 2018 £000*
Allotted, called up and fully paid		
13,189,752 *(2018 - 13,189,752)* Ordinary shares of £1.00 each	13,190	*13,190*

23. Contingent liabilities

At year end counter indemnities had been entered into by the Company relating to bank guarantee facilities of £2.7m (30 December 2018: £2.5m) provided to the Company. These are not expected to result in a material liability to the Company.

24. Pension commitments

During the period 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 these contributions are charged to the income statement during the period in which they are payable.

The cost of the contributions to the scheme for the period were £2.9m (26 weeks to December 2018: £1.5m).

25. Commitments

At 29 December 2019 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	29 December 2019 £000	*30 December 2018 £000*
Operating leases		
Not later than 1 year	**71,866**	*82,398*
Later than 1 year and not later than 5 years	**253,726**	*302,655*
Later than 5 years	**192,113**	*301,542*
	517,705	*686,595*

	29 December 2019 £000	*30 December 2018 £000*
IT commitments		
Not later than 1 year	**11,775**	*10,718*
Later than 1 year and not later than 5 years	**9,666**	*14,284*
	21,441	*25,002*

26. Related party transactions

The Company has taken advantage of the exemptions in Section 33.1a of FRS102 and has not disclosed transactions with wholly owned members of the Group under Ark UK Group Limited. The Directors are not aware of any related party transactions that are required to be disclosed that are not otherwise disclosed in the financial statements.

During the period 25 key management personnel, excluding the Directors, received £6.8m in remuneration and benefits (26 weeks to 30 December 2018: £4m) . The Directors remuneration is disclosed in note 8.

27. Post balance sheet events

On 27 February 2020 the Company sought creditors' approval of a proposed Material Variation to the Company Voluntary Arrangement (CVA) entered into in August 2018. The variation was passed by electronic voting with the decision date being 17 March 2020. Approval of the Material Variation was met with 99.8% of all creditors who voted, voting in favour. The main variation to the CVA allowed the Company to take steps to end the voluntary arrangement early.

The additional steps which were required for full implementation and early end of the CVA have now been completed to the Supervisors' satisfaction and they filed a notice of full implementation of the CVA dated 23 June 2020 and have vacated office. The Company is consequently no longer in a CVA. This will not have an impact on the financial results for the period ended 27 December 2020.

COVID-19 in 2020 has introduced a significant degree of economic uncertainty for the Company and the world economy. On 26 March 2020 the Company decided to temporarily close its stores. Whilst Homebase was classed as an essential retailer by the government and was not required to close the Company committed to only re-opening when a safe shopping environment for both customers and team members could be provided.

Stores in the UK started to re-open on 25 April 2020. In all stores the Company have implemented strict social distancing measures and PPE to ensure a safe working and shopping environment.

Whilst stores were closed, the Company was able to continue to trade through the Homebase online website and continued to work closely with suppliers to ensure products were available for customers to purchase. At the point of signing these financial statements the length of the recovery period is hard to quantify and sales forecast for the next 12 months are made with a lower level of certainty than usual, with the latest forecasts made based on lower sales year to date and continued expected disruption. The impact of tightening existing restrictions or the imposition of a further lockdown later in the year could have a material impact on the forecasts of the Company.

The Company believe that by implementing cost saving measures, making use of government support and being able to trade across stores and online in a safe way, debt levels are expected to be in line with the 2020 budget expectations by the end of the year. Management have also updated the Company's impairment and onerous lease models using revised forecast data and have determined that the impact is not material.

The Directors consider COVID-19 to be a non-adjusting event, but it could have a material impact on the company's turnover and results for the year ending 27 December 2020. In addition, the Company's ability to recover outstanding trade receivables from customers could be negatively impacted by COVID-19, and other assets could need to be tested for impairment.

On 21 August 2020 the Company entered into a contract to replace its digital platform. This decision will reduce the life of some existing digital assets and will result in assets with a book value of £5.3m being fully written down in 2020.

There are no other post balance sheet events that would require an adjustment or disclosure to the financial statements.

28. Controlling party

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 ultimate controlling party is considered to be Paul McGowan, who is also Executive Chairman of Hilco Capital Limited. The registered office of Homebase Card Handling Services Limited is Witan Gate House, 500-600 Witan Gate, Milton Keynes, MK9 1BA.

The smallest Group of undertakings for which Group financial statements have been drawn up will be that headed by Homebase (UK & I) Holdings Limited at 29 December 2019, a company registered in England and Wales. The largest Group of undertakings for which Group financial statements will be drawn up will be that headed by Ark UK Group Limited, a company registered in England and Wales, and the first time the HHGL Limited financial statements will appear in those Group financial statements will be those produced for 29 December 2019.