

Registered number: 00533033

## HHGL LIMITED

### ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE PERIOD ENDED 26 DECEMBER 2021

8/6/23

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## HHGL LIMITED

### COMPANY INFORMATION

<b>Directors</b>	D G McGloughlin A C Coleman
<b>Company secretary</b>	S Tudor (resigned 31.08.22)
<b>Registered number</b>	00533033
<b>Registered office</b>	Witan Gate House 500-600 Witan Gate Milton Keynes MK9 1BA United Kingdom
<b>Independent auditors</b>	Ernst & Young LLP 400 Capability Green Luton LU1 3LU Bedfordshire United Kingdom

## HHGL LIMITED

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## HHGL LIMITED

### GROUP STRATEGIC REPORT FOR THE PERIOD ENDED 26 DECEMBER 2021

#### Introduction

The Directors present the Group Strategic Report together with their Directors' Report and the audited financial statements of HHGL Limited (the "Company") together with its subsidiaries, together referred to as the "HHGL Group" for the 52 weeks from 28 December 2020 to 26 December 2021 ("period"). HHGL Group was part of the Ark UK Group Limited group at the date of signing and is referred to as "Group" in these financial statements.

#### Principal activity

The principal activity of the HHGL Group is the retailing of home improvement and garden centre products in Great Britain and the Republic of Ireland. The principal activity of the Company is the retailing of home improvement and garden centre products in Great Britain. The Company is registered in England and Wales, registration number 00533033.

#### Business review

##### Financial headlines:

The HHGL Group has delivered an EBITDA profit before exceptionals of £63.6m in the period, compared to £80.3m (unaudited) in 2020. A reconciliation of EBITDA to the operating profit is shown on page 20.

The early stages of FY23 have seen sales fall below 2022 performance as unseasonable weather has impacted sales, a trend that has reversed in the most recent months, with sales above 2022 performance as shoppers return to their gardens.

##### Key performance drivers:

In 2021, for the first time in six years, Homebase opened and developed new stores. Three new stores were opened – Cheltenham, Abingdon and Bradford – with inspirational layouts to help and inspire customers across their home and garden projects. In addition, Homebase continued its strategy from previous years and introduced new products and new partnerships. In May 2021, Homebase returned to the high street with a new format store in Walton-on-Thames providing showroom style inspiration and launched a partnership with Next, opening eight spring/summer pop up garden centres in Next stores across the country.

Team members continued to be prioritised, with Homebase working alongside other retailers to lobby for better staff protection via the ShopKind initiative. As part of Homebase's commitment to working with the communities around its stores Homebase hired over 250 young people through the Kickstart scheme, working in partnership with The Princes Trust, of which 92 were offered permanent jobs at the end of their Kickstart training.

Team training and support remains integral, with team members undertaking over 25,000 hours of training alongside other development opportunities.

As COVID-19 continued into 2021, like most businesses, Homebase had to continue to adapt and respond to ever changing legislation regarding retail stores and lockdown measures. Despite there being no precedent for the impact of the pandemic Homebase's priority remained the safety of its team and customers and stores were only kept open if the Board were happy it was safe to do so.

Having successfully launched over 100 Bathstore concessions in Homebase stores, 2021 saw the closure of the standalone Bathstore stores with the final store in Guildford closing in 2022. Both the Bathstore and Homebase brands continued to invest in their digital propositions as new websites were launched, giving customers greater choice and making online shopping and kitchen and bathroom design easier. At the end of 2021, a new partnership with AO was announced as Homebase's appliance partner.

Homebase extended its partnership with Hearst to include new kitchen ranges, new homeware and furniture, a Christmas collection, Country Living outdoor structures, and the ele-ment(s) bathroom furniture range by House Beautiful. The Country Living Kitchen range was the winner of Best Brand Licensed Homeware at the Bella Brand and Lifestyle Awards.

To support local communities and the environment, Homebase extended its biodiversity pledge and made a commitment to be peat-free across all compost by spring 2024. All new stores highlight this commitment to biodiversity, with wildflower gardens, insect hotels and helpful point of sale to educate customers. Homebase were part of Together Coalition's #BillionSeedsChallenge, donating seeds, planting wildflowers in local communities and teamed up with Arla to create the Bee Road to help pollinators find safe passage. Passionate about helping those in need feel safe in their homes, Homebase extended its partnership with Macmillan Cancer Support to raise money for home related grants.

## HHGL LIMITED

### GROUP STRATEGIC REPORT (CONTINUED) FOR THE PERIOD ENDED 26 DECEMBER 2021

#### Business review (continued)

The Homebase team pulled together to really drive success and help reinforce its position as the helpful home and garden experts through new products, team support and celebration and investment in technology such as new till systems and new websites to improve the in-store and online experience for customers across all channels.

Specific community/sustainability goals and achievements:

#### Biodiversity & Sustainability

Homebase has:

- Created homes for wildlife in new stores;
- Committed to no longer selling own brand peat compost by 2022 and is trialling peat-free with growers with the goal of being completely peat-free across all compost by spring 2024;
- Teamed up with likeminded brands on biodiversity campaigns, including Arla's Bee Road and the Together Coalition's #BillionSeedChallenge to help plant more biodiverse spaces; and
- Made small sustainable changes to work towards creating a lasting impact – helping customers make their gardens 'greener' and create a home for all.

#### Customer & Community

Homebase has:

- Raised over £45,000 for Macmillan Home Related grants since extending its partnership in August 2021, helping those living with cancer;
- Set up a Charity Champion network to support with engaging teams to reach its fundraising target of £500,000 by 2024. Charity Champions share best practice, ideas and drive forward fundraising efforts;
- Committed to launching donations at till points in 2022, making it even easier for customers to donate to Macmillan Cancer Support; and
- Empowered teams to support and 'give back' to their local communities by offering a helping hand with projects and product donations and discounts.

#### Financial key performance indicators

HHGL Group	(Unaudited)	
	2021	2020
Sales £M's	788.2	792.3
Gross margin percentage	48.4%	49.6%
Operating profit before exceptionals £M's	63.7	56.0
EBITDA before exceptional items £M's	63.6	80.3
Number of Homebase stores at period end	145	143
Number of Bathstore stores at period end	1	15
Number of Decorate stores at period end	2	2

#### Going concern

The financial statements have been prepared on a going concern basis.

In the year ended 26 December 2021, the HHGL Group (HHGL Limited, HHGL (ROI) Limited, Homebase Rooms Limited) generated a profit after tax for the financial year of £30.0m and saw a cash outflow of £7.9m closing with cash in the bank and in hand of £76.8m.

Cash for the HHGL Group is managed at the Homebase Group level (HHGL Limited, Hampden Group Limited, HHGL (ROI) Limited, Homebase Rooms Limited, & Ark Finco UK Limited). Thus, in forming their going concern assessment, the Directors have considered the Homebase Group's cash flow forecasts and liquidity under a range of potential scenarios from the date of approval of these financial statements to 30th June 2024, comprising:

- A base case forecast reflecting a further year of subdued demand which assumes no sales growth on the level of trading experienced in FY22
- A severe but plausible downside forecast designed to test the resilience of the business against shocks to it. This scenario is considered unlikely by the Directors.

## HHGL LIMITED

### GROUP STRATEGIC REPORT (CONTINUED) FOR THE PERIOD ENDED 26 DECEMBER 2021

#### Going concern (continued)

The HHGL Group is financed by facilities from its parent Homebase (UK&I) Holdings Limited which is in turn funded through a bank facility with Wells Fargo, and a separate facility from Ark Finco BVI Limited who share the same ultimate controlling party as the HHGL Group. These facilities comprise an asset-based lending facility of up to £95m with Wells Fargo Capital Finance and an additional £55m revolving credit facility with the HHGL Group's parent company, which are in place until December 2024. In addition, there is a long-term intercompany loan in place between Homebase (UK&I) Holdings Limited and HHGL. In January 2022, HHGL Group drew down on the facility provided by its parent Homebase (UK&I) Holdings Limited with Wells Fargo to enable a repayment of £132m on the long-term intercompany loan balance.

At the date of signing these financial statements, headroom on the facilities is £20m. Levels of borrowings have already peaked in 2023 and are expected to reduce further over the coming months now the spring/summer season is here as the high level of seasonal stock sells through.

2022 proved challenging with consumer confidence low as the economy continued to gradually recover from COVID-19 and was further impacted by the invasion of Ukraine in February 2022 which had a significant impact on already rising inflation in the UK further impacting consumer confidence. Whilst the cost-of-living crisis continues to be an ongoing challenge across the UK and Ireland, the Directors believe the business remains resilient and well placed to manage the Homebase Group's working capital and funding needs.

As a result of 2022 performance, in September 2022 the Homebase Group did not meet the rolling 12-month EBITDA financial condition on its facility with Wells Fargo. This was resolved through a drawdown of the already available loan facility from Homebase (UK&I) Holdings Limited. Following this, it was agreed to increase the size of the Homebase (UK&I) Holdings Limited loan facility so that the working capital needs for 2023 and beyond would be met. The Homebase (UK&I) Holdings Limited facility limit was increased to £55m on 20 December 2022, which took place with full support of Wells Fargo, whose facility remains in place on existing terms. Given the levels of headroom expected to be in place across the going concern period, the Directors do not expect the covenant associated with the Wells Fargo Loan facility (note 20) to be tested in the period through to June 2024.

The Directors prepared their base case cashflow forecast below the internally budgeted targets for the year. This forecast assumes that 2023 and 2024 will continue to show subdued demand, with sales flat against 2022 performance.

The Directors have also forecasted the cash flows of the Homebase Group under the severe but plausible downside scenario as noted above, which assumes a prolonged decline in sales, as compared to the base case. Further opportunities not included in the cash flow forecasts are also available such as reducing discretionary spend, as well as reducing non-committed capital expenditure were a prolonged downside to occur. Despite 2023 seeing an unseasonably wet March and early April faced by all retailers resulting in sales declining, the business has confidence in delivering in line with the base case scenario across the going concern period and following the return to more normal weather we have seen positive year on year growth.

Both the base case, and severe but plausible downside scenario cash flow forecasts prepared by the Directors assume that the HHGL Group would require the use of only existing facilities provided by Wells Fargo Capital, and Homebase (UK & I) Holdings limited. These facilities in turn are provided to the HHGL Group's parent Homebase (UK&I) Holdings Limited by Wells Fargo and Ark Finco BVI Limited. The HHGL Group may also require further funding from Ark Finco BVI Limited were trading to consistently perform below the levels of the plausible downside. At the date of signing these financial statements, the HHGL Group has only drawn down those funds required to meet its liquidity needs.

The Directors have taken the appropriate steps to assure themselves of both the ability and intention of the primary shareholder to provide sufficient support offered for the going concern assessment period to 30 June 2024 to allow the HHGL Group and Company to meet their liabilities as they fall due. However, the ability of the shareholder to provide sufficient funds represents a material uncertainty until such funding has been received and this casts significant doubt on the HHGL Group and Company's ability to continue as a going concern.

The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern and the accounts have been prepared on a going concern basis. The material uncertainty relates solely to the funds required to maintain sufficient liquidity, which given they have not been fully drawn, cannot be considered certain until received. Based on enquiries, knowledge of the primary shareholder's funding ability and evidence of previous history of funds being provided promptly as and when called, and the receipt of a letter of comfort from Ark Finco BVI Limited that further funds are available, the Directors are confident that the shareholder can and will provide sufficient funds in order to meet the HHGL Group's and Company's (HHGL Limited) liabilities when they fall due throughout the going concern period to 30 June 2024.

## HHGL LIMITED

### GROUP STRATEGIC REPORT (CONTINUED) FOR THE PERIOD ENDED 26 DECEMBER 2021

#### Corporate governance statement

For the year ended 26 December 2021 HHGL Limited and its subsidiaries are subject to the Companies (Miscellaneous Reporting) Regulations 2018 and have applied the Wates Corporate Governance Principles for Large Private Companies.

##### Principle 1 – Purpose and leadership

Homebase was founded in 1979 and is a home improvement and garden centre retailer with stores across the United Kingdom and Republic of Ireland. Homebase's purpose, as approved by the board in 2019, is to "inspire customers to create a home they love" with the key values of "inspiring, easy and together". The board ensures that Homebase's values and strategy are regularly communicated to team members through bi-annual roadshows, annual conferences and regular updates and team huddles.

Homebase is committed to corporate responsibility and ethically sourcing products it sells in its stores and publishes on its website policies on timber sourcing and sustainability, its supplier ethical code of conduct and its modern slavery statements. Homebase promotes community engagement and is proud to support Macmillan Cancer Support as its charity partner. Homebase promotes a wide-ranging health and safety programme called "Homesafe" ensuring all customers and team safety requirements are the highest priority.

Homebase's shareholder is actively engaged in the strategy of Homebase and encourages the promotion of its values and purpose.

##### Principle 2 – Board Composition

The board is made up of the Chairman, Managing Director and Chief Financial Officer and three representatives from the shareholder. The Chairman brings experience of working with Homebase's shareholder as well as other retailers which helps to create a good balance of skills and experience on the board.

The day-to-day operations of Homebase are controlled by the Homebase board made up of the Chief Executive Officer, Chief Financial Officer, Commercial Director, Finance Director, Operations Director, together with the Chairman. The wider senior leadership team reflects a broad range of skills and experience with a good gender balance.

The board have equal voting rights and all Directors have access to the appropriate external independent advisors for advice. The board is fully involved in the running of Homebase and ensuring the delivery of its strategy.

##### Principle 3 – Director Responsibilities

The board meets on a monthly basis to discuss a formal schedule of matters that include health & safety, risk, compliance, major investments, corporate governance, financial performance, strategy and operations. If there are any potential conflicts, these would be raised and appropriate safeguards put in place.

##### Principle 4 – Opportunity and Risk

At regular intervals the board identifies and assesses future opportunities which align with the HHGL Group's strategy.

The board has overall responsibility for Homebase's approach to strategic decision making and the effective management of risk. The 'Health, Safety and Risk' committee meets regularly and considers current and emerging risks and ensures they are monitored and/or mitigated in an appropriate and timely way. Risk is dealt with in each monthly board meeting with any areas of particular concern being discussed and appropriate actions agreed by the board.

##### Principle 5 – Remuneration

Homebase regularly reviews the pay and remuneration of team members in comparable roles. Remuneration for senior executives is directly linked to performance both at an individual and Group level and is designed to incentivise the delivery of the Homebase strategy, drive the right long-term behaviours and attract and retain the right calibre of individuals.

The board review remuneration policy and recommendations throughout the year, including the level of any annual pay increases and design of employee incentives schemes. Any out-of-cycle pay increases are signed off by a board member.

##### Principle 6 – Stakeholder Relationships and Engagement

Homebase has a good relationship with its stakeholders as can be seen in the Section 172 statement.

## HHGL LIMITED

### GROUP STRATEGIC REPORT (CONTINUED) FOR THE PERIOD ENDED 26 DECEMBER 2021

#### Section 172 statement

The Group believe that stakeholder engagement is key to delivering a sustainable Homebase business, that delivers long-term value for key stakeholder groups, team members, suppliers, communities and investors. Through regular engagement with each group, the board have identified key priorities, which are discussed regularly during monthly board meetings and used as the foundation to shape the strategic direction of Homebase, as well as guiding decisions and actions taken by the Group.

#### Team members

Team members are the window into Homebase for customers and are critically important in ensuring that customers understand and experience the Homebase brand, culture and values. Homebase employs over 5,000 team members across Great Britain and the Republic of Ireland, and they are key to business success. Homebase continues to invest in team member training and upskilling to ensure they have the knowledge and skills to advise, inspire and support customers at every stage of their journey, whether they start shopping with Homebase online or in-store. In 2021 Homebase continued to build on the 'You are the Difference' customer services programme, initiated in 2020, and supported 336 team members through a City & Guilds qualification, to help improve knowledge and better serve customers. Homebase also launched two new City & Guilds accredited courses in 2021 supporting team members to become experts within garden, decorating, kitchen and bathroom areas. 'Retail Basics' and 'LEAD' programmes were launched to build on this focus on supporting the customer and further developing the Homebase leaders. This was coupled with Homebase welcoming new starters through Kickstart, the government apprentice scheme. Business performance is positively influenced by team member commitment, diversity, engagement and open feedback to other team members and the board.

Homebase's internal communications platform, 'Yammer', demonstrates a commitment to team-first communication, to regularly share updated information and celebrate examples of best practice, and sharing updates with the latest news.

#### Examples of engagement with team members

- Weekly team huddles and conference calls lead by senior team leaders and board members;
- Regular informal listening groups;
- Monthly business updates;
- Bi-annual engagement surveys to understand how to make Homebase an even better place to work;
- Events to celebrate success including personal thank yous from the board and senior managers; and
- Annual conference to engage with team members across stores and Store Support Centre.

#### Team priorities

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

- Feeling valued and proud of how the Group conducts its business;
- Having access to training and career opportunities;
- Making it easier to do a great job and focus on what makes a difference;
- Feeling safe and respected in the workplace;
- A good rewards and benefits package; and
- Knowing Homebase has a strong focus on environmental and social responsibility.

#### Board engagement

The board hold monthly huddles to discuss the progress of Homebase and invite questions from the team. Board members visit stores on a weekly 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 Group to find ways to reduce complexity, making Homebase easier to succeed in and allowing all team members to focus on serving customers better. In 2021, a new design tool was launched to support kitchen and bathroom consultations, new customer payment methods have been added both online and in-store and POS marketing has been streamlined to reduce the number of changes required.

#### Customers

Customers are at the heart of everything Homebase does, using its expertise to help them create a home they love. Homebase inspires customers with new and continually expanded product ranges and deliver both an in-store and digital experience that allows them to tap into the team's expertise. Homebase is 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.



## HHGL LIMITED

### GROUP STRATEGIC REPORT (CONTINUED) FOR THE PERIOD ENDED 26 DECEMBER 2021

#### Section 172 statement (continued)

The three new stores that were opened over the course of the year were designed and laid out to inspire customers and to make their shopping journey as easy as possible. These changes were based on feedback and insights from customers and team members.

#### Engagement with customers

- Creation of the Listening Lab – a regular chance to check in with customers and understand their priorities;
- Brand building and inspiration through developing inspiring partnerships with House Beautiful and Country Living;
- Inspiring 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 team of helpful experts many of whom are City & Guilds accredited in gardening and kitchen design;
- Deep dive into customer experience in-store and online to ensure we are creating the best shopping environments; and
- Detailed customer journey mapping by category.

#### Customer priorities

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

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

#### Board engagement

Customer feedback is central to Homebase's offering to ensure it continues to align with customer priorities, behaviours and shopping habits. This information sits at the heart of the decision-making process when making investment decisions. Feedback is received live every day by every store, with summaries provided on a weekly and monthly basis to the board. This feedback is reviewed at board meetings alongside presentations on one off customer listening groups and other insight work.

#### Suppliers

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

#### Engagement with suppliers

- Supplier updates based around performance and future priorities;
- Continuous collaboration with suppliers around products, design and store experience;
- Reviews with suppliers on sales performance and product suitability, supporting mutual growth;
- Review and approval of supplier contracts with engagement from procurement and global sourcing teams; and
- Frequent performance updates shared across the year.

#### Supplier priorities

From listening to suppliers, Homebase understand what is important to them. Some of the most important priorities for 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; and
- Support and collaboration with access to senior management.

## HHGL LIMITED

### GROUP STRATEGIC REPORT (CONTINUED) FOR THE PERIOD ENDED 26 DECEMBER 2021

#### Section 172 statement (continued)

##### Board engagement

The board receive updates on suppliers, when considering key priorities, business continuity plans and partnerships. Within the year, regular reports were received on how preparations were progressing for leaving the EU and how suppliers were supporting this transition. *This hard work led to a relatively smooth exit from the EU with continuity of supply ensured.* 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 the partnership to grow together.

##### In the communities

Supporting the community is very important to all team members and Homebase is committed to building positive relationships and working with the community to give back and support where possible. This includes regular fundraisers for its charity partner, Macmillan Cancer Support, and working with local hospitals, schools and community groups to donate both products and team members' time. Homebase thinks carefully about sustainability and the impact it has on the environment. Knowing that this issue is close to many customers' and team members' hearts, Homebase work 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. 2020 marked the launch of Britain's very first 'Green Aisle', showcasing energy efficient and eco-friendly products in one place.

The team has formed an ESG Committee, tasked with formalising priorities and commitments across key areas. The Committee is led by a Board director, with inputs from across the business including representatives from Legal, People, Global Sourcing, Communications and Community teams.

##### Engagement with the communities

- Team member volunteering and involvement with local community projects;
- Partnership with Macmillan Cancer Support, Greenfingers and Groundworks; and
- 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:

- Helping provide long term employment opportunities for those that live in the area around Homebase stores;
- Local and international operational impact on the environment; and
- 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. The board has regular reviews to maintain the safety of the Company operations and ensure the community is safe.

#### Investors

Access to both short-term and long-term capital is critical to Homebase's performance, supporting the strategic direction, stock builds and store investments. The board is committed to maintaining good two-way communication 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.

The investor stakeholder group includes all parties that are interested in the financial success and sustainability of the Group as it embarks on its growth plans.

##### Examples of engagement with investors

- Formal weekly and monthly updates;
- Financial performance report;
- Review of strategic decisions;
- Annual presentation of strategic plans and budgets alongside quarterly reforecasts; and
- Ensuring Homebase performance and vision is clearly laid out for a financial and business audience.

## HHGL LIMITED

### GROUP STRATEGIC REPORT (CONTINUED) FOR THE PERIOD ENDED 26 DECEMBER 2021

#### Section 172 statement (continued)

##### Investor priorities

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

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

##### Board engagement

The board receive regular updates from the Finance Director on the performance of the Group. The board provide regular updates to the banks in the form of formal financial reporting against agreed financial targets as well as regularly discussing the overall performance and strategic direction of the Group.

#### Key decisions made in the year

##### Principal decisions in 2021

##### 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 the stakeholder groups. The board consider the following to be the key decisions made during 2021.

##### Response to COVID-19 pandemic

As 2021 began, COVID-19 restrictions again required the Group to remain agile and responsive to the risks and uncertainties that arose, adapting in real time. Team members and customers were at the heart of the decisions made. The board met regularly to not only ensure that compliance in operating countries but also to ensure the safety of team members and customers. During the year, all full service Homebase stores could remain open under 'essential retailer' status however certain departments were closed at times with the board only reopening them when regulations changed, and the board considered it appropriate.

The pandemic also caused supply and logistics issues during the year, this resulted in some delayed manufacture as a result of lockdowns in China as well as disruption to shipping as a result of high international demand and reduced supply on key routes. As a result of the disruption the board have been more closely involved with ranging decisions, how and when to ship stock and ensuring that all parts of the supply chain have the support, they need to get stock to store when customers want it.

##### Banking Facilities

The Group loan with Wells Fargo, an asset based loan on the value of inventory in the group and receivables due to it, was extended on 20 December 2021 on existing terms, full details of which are set out in note 20. The Group also renewed its "shareholder loan" facility with Ark Finco during the year on the same terms as the previous agreement. Group financing facilities at the end of 2021 are very similar in structure to the previous facilities and are designed to fund the day to day working capital needs of the business.

##### Property

The Board embarked on expanding the store network with three new Homebase stores opening in 2021. These stores were in locations where the brand was underrepresented due to store closures in recent years. In addition to the full Homebase stores, a trial small format store was opened in Walton-on-Thames and eight pop-up garden centre concessions were opened in Next. These openings were to allow trade in towns and locations where the brand was underrepresented and to test and understand how customers would respond to small format operations.

## HHGL LIMITED

### GROUP STRATEGIC REPORT (CONTINUED) FOR THE PERIOD ENDED 26 DECEMBER 2021

#### Principal risks and uncertainties

The Group's principal risks and uncertainties are associated with the success of the continuing trade of the Homebase business.

The Group 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 Group's operations. The existence of these financial instruments exposes the Group 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 Group, who assess the Group's short, medium and long term funding and liquidity requirements.

#### Foreign exchange risk

The Group 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 Group finances its operations through free cash and loans from external parties and other related companies. The Group's interest rate risk exposure is limited to changes in market interest rates applicable to short term loans, however none are currently in existence.

#### Credit risk

The Group'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 Group 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 £135m with the option to increase to this to £150m for seasonal peaks to ensure access to liquidity should it be required. Loan covenants are not tested on the facility provided £10m of headroom is maintained.

#### UK Exit from the European Union

The Directors and senior management continue to work with suppliers and closely monitor the supply chain following the exit from the European Union. The risk to the business has been carefully managed, and to the large extent mitigated, but it remains an area that is closely monitored.

#### COVID-19 risk

COVID-19 and the uncertainty that this brought in 2021 was navigated with the safety of team members and customers at the heart of business decisions. Business decisions continued to focus on the safety of team members and customers.

#### Global market uncertainty and inflation

Global markets have been severely impacted by the war in Ukraine in 2022, most noticeably wholesale prices in the energy market have seen significant increases affecting all parts of the UK and Irish economies and all parts of the supply chain whether a producer, retailer or consumer. Homebase has invested in low energy consuming lighting across its operating sites in previous years and will benefit from this investment but is not immune from the increases in its cost base and the degree of uncertainty in consumer confidence as prices and inflation increase. The board are monitoring developments closely and have initiated a number of actions based on revised forecasts of future trading to continue to focus the business on cost mitigations, minimising the impact of rising costs.

**HHGL LIMITED**

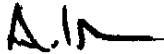
**GROUP STRATEGIC REPORT (CONTINUED)  
FOR THE PERIOD ENDED 26 DECEMBER 2021**

**Principal risks and uncertainties (continued)**

**Competitor risk**

Heightened competition from traditional retailers and new digital entrants could have a negative impact on sales and profitability. As mentioned above, the Group has invested significantly in stores, a ground breaking digital partnership with a world class partner, THG, 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 26 May 2023 and signed on its behalf.



**A C Coleman**  
Director

## HHGL LIMITED

### DIRECTORS' REPORT FOR THE PERIOD ENDED 26 DECEMBER 2021

The Directors present their report and the financial statements for the period ended 26 December 2021.

#### Directors' responsibilities statement

The Directors are responsible for preparing the Group Strategic Report, the Directors' Report and the consolidated 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 HHGL Group and Company financial statements in accordance with 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 HHGL Group and the Company and of the profit or loss of the HHGL Group and the Company for that period.

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;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in FRS 102 is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the HHGL Group and Company financial position and financial performance;
- in respect of the consolidated financial statements, state whether UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the consolidated financial statements on the going concern basis unless it is inappropriate to presume that the Company and/ or the HHGL Group will continue in business;
- state that the consolidated financial statements, prepared in accordance with UK-adopted international accounting standards give a true and fair view of the assets, liabilities, financial position and profit of the parent Company and undertakings included in the consolidation taken as a whole;
- state that the annual report, including the strategic report, includes a fair review of the development and performance of the business and the position of the Company and undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- state that they consider the annual report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company and HHGL Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the HHGL Group 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 the HHGL Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a strategic report, directors' report, corporate governance statement, section 172 statement that comply with that law and those regulations. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

#### Results and dividends

The HHGL Group has delivered an EBITDA profit before exceptionals of £63.6m in the period, compared to £80.3m (unaudited) in 2020. A reconciliation of EBITDA to the operating profit is shown on page 20.

No dividend was declared in the period (2020: £Nil).

## HHGL LIMITED

### DIRECTORS' REPORT (CONTINUED) FOR THE PERIOD ENDED 26 DECEMBER 2021

#### Directors and secretary

The Directors who served during the period were:

D G McGloughlin  
A C Coleman

Secretary:

S Tudor (resigned 31.08.22)

#### 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 Group continues and the appropriate adjustment to duties is arranged. It is the policy of the Group 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.

#### Streamlined Energy & Carbon Reporting (SECR)

HHGL Limited is the only company in the HHGL Group that meets the SECR reporting requirement. The total number of sites contributing the Company's energy and carbon use throughout the reporting period is highlighted below.

- 135 stores (includes stores that closed during the period and new stores)
- Three regional distribution centres
- One office

## HHGL LIMITED

### DIRECTORS' REPORT (CONTINUED) FOR THE PERIOD ENDED 26 DECEMBER 2021

#### Streamlined Energy & Carbon Reporting (SECR) (continued)

##### Summary Results

The table below shows the total UK energy consumption and greenhouse gas emissions for period 1 Jan 2021 to 31 Dec 2021, together with an intensity metric.

Energy Use	Energy (kWh)
Electricity	39,294,493
Natural Gas	20,027,568
Diesel	78,408
Fuel for onsite transport	637,110
Fuel for business travel	339,118
<b>TOTAL</b>	<b>60,376,697</b>

Greenhouse Gas Emissions	Emissions (tCO <sub>2</sub> e)
Electricity	9,161
Natural Gas	4,080
Diesel	20
Fuel for onsite transport	147
Fuel for business travel	84
Refrigerant Gas	18
<b>TOTAL</b>	<b>13,510</b>

Intensity Metric	Emissions per floor area (tCO <sub>2</sub> e/m <sup>2</sup> )
Scope 1	0.0167
Scope 2	0.0358
Scope 3	0.0003
<b>TOTAL</b>	<b>0.0528</b>

##### Energy Efficiency Initiatives

The following energy intensity initiatives have been implemented across the organisations within the HHGL Group including HHGL Limited to reduce their impact on the environment and improve efficiency during the reporting period:

- Most UK sites are managed by automatic building management systems which ensures energy consumption is kept under control
- Installation of new controllers on some stores
- Installation of new and efficient lighting on some DCs
- Regular monitoring of energy on all sites. Any inefficiencies are raised by the energy management team and are investigated and resolved by the facility management team
- Weekly reporting of energy consumption information directly to sites to raise energy awareness and support reductions in energy consumption
- Dali lighting integration to BMS for daylight harvesting



# HHGL LIMITED

## DIRECTORS' REPORT (CONTINUED) FOR THE PERIOD ENDED 26 DECEMBER 2021

### Streamlined Energy & Carbon Reporting (SECR) (continued)

#### Comparison to Previous Reporting Period

The table below shows total energy consumption, greenhouse gas emissions and intensity metric for the current reporting period in comparison to the previous reporting period.

Energy Use	Energy (kWh)	Energy (kWh)	Difference (%)
Electricity	41,699,678	39,294,493	-6%
Natural Gas	30,447,790	20,027,568	-34%
Diesel	89,298	78,408	-12%
Fuel for onsite transport	670,734	637,110	-5%
Fuel for business travel	2,076,661	339,118	-84%
<b>TOTAL</b>	<b>74,984,161</b>	<b>60,376,696</b>	<b>-19%</b>

Greenhouse Gas Emissions	Emissions (tCO2e)	Emissions (tCO2e)	Difference (%)
Electricity	9,722	9,161	-6%
Natural Gas	6,203	4,080	-34%
Diesel	23	20	-13%
Fuel for onsite transport	154	147	-5%
Fuel for business travel	514	84	-84%
Refrigerant Gas	58	18	-68%
<b>TOTAL</b>	<b>16,674</b>	<b>13,511</b>	<b>-19%</b>

Intensity Metric	Emissions per floor area (tCO2e/m2)	Emissions per floor area (tCO2e/m2)	Difference (%)
Scope 1	0.0248	0.0167	-33%
Scope 2	0.0400	0.0358	-10%
Scope 3	0.0019	0.0003	-83%
<b>TOTAL</b>	<b>0.0600</b>	<b>0.0528</b>	<b>-12%</b>

#### Energy and Carbon Reporting Methodology

This energy and carbon report has been prepared by Energy & Technical Services Ltd in line with the Greenhouse Gas Protocol Corporate Standard. The boundaries of the energy and carbon footprint are based on a financial-control approach, and are the same as the boundaries for financial reporting. The reporting year is 1 Jan 2021 to 31 Dec 2021.

The site energy footprint includes all electricity, gas, gas oil, LPG and diesel (for back-up generators) consumed at HHGL Limited sites. This data is based on meter readings and billing data. Where data was unavailable or missing, estimates based on previous years consumption figures have been used. Transport data includes onsite transport (LPG for forklifts) and offsite transport (fuel spend / mileage claims for business travel). LPG data for forklifts has been estimated based on previous years consumption data. Fuel spend / mileage claims are based on fleet manager report.

Refrigerant gas data is based on Climatic reports for the reporting period.

The carbon footprint includes Scope 1 (direct) emissions from the combustion of gas and diesel in offices; fuel used in company cars, and fugitive emissions of refrigerant gas from air-conditioning units. The Scope 2 (indirect) emissions arise from the production of purchased electricity. Scope 3 emissions arise from fuel used in employee-owned vehicles. Energy conversion and emissions factors have been based on the UK Government Conversion Factors for Company Reporting of Greenhouse Gas Emissions.

Fugitive emissions have been estimated based on the Simplified Material Balance method.

## HHGL LIMITED

### DIRECTORS' REPORT (CONTINUED) FOR THE PERIOD ENDED 26 DECEMBER 2021

#### 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 and the Group'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 and the Group's auditors are aware of that information.

#### Post balance sheet events

Since 26 December 2021 the HHGL Group has opened two new stores in Coventry and Chester and closed eight stores in Kendal, Richmond, Sutton, Cheadle, Limerick, Dublin Naas, Chelmsford and Guildford.

In January 2022 the Company made a partial repayment of its intercompany loan with Homebase (UK&I) Holdings Limited, the parent company, amounting to £132m.

As a result of 2022 performance, in September 2022 the Homebase Group did not meet the rolling 12-month EBITDA financial condition on its facility with Wells Fargo. This was resolved through a drawdown of the already available loan facility from Homebase (UK&I) Holdings Limited. Following this, it was agreed to increase the size of the Homebase (UK&I) Holdings Limited loan facility so that the working capital needs for 2023 and beyond would be met. The Homebase (UK&I) Holdings Limited facility limit was increased to £55m on 20 December 2022, which took place with full support of Wells Fargo, whose facility remains in place on existing terms. The Homebase Group has since placed a voluntary access block on a portion of the Wells Fargo Loan facility which subsequently removes the requirement for the covenants attached to the facility to be tested in the going concern period.

In December 2022 management performed the annual impairment review of fixed assets which has resulted in a further impairment charge of c.£17.5m which will be recognised in the 2022 financial statements. The impairment charge arises due to a reduction in forecast performance driven by the economic impact of the by the invasion of Ukraine in February 2022 which had a significant impact on already rising inflation in the UK further impacting consumer confidence. Given this is post the balance sheet date it is not deemed appropriate to recognise the impairment charge in these accounts.

At the date of signing the accounts, a wider Group corporate simplification exercise is planned and if performed will remove eight intermediate holding companies from the Group structure to improve transparency and reduce administrative costs going forward. As part of the simplification process, the Company will become a direct subsidiary of the ultimate parent. The ultimate ownership of the Group will not change as a result of the simplification exercise. Loan facilities provided by Homebase (UK&I) Holdings Limited to the Group will be assigned to Ark Finco UK Limited (another Group company), and will continue to be provided to the Group on existing terms.

#### Auditors

The auditors, Ernst & Young LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 26 May 2023 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 parent company') and its subsidiaries (the 'group') for the 52-week period ended 26 December 2021 which comprise the Consolidated Profit and Loss Account, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated and Company Statement of Changes in Equity, the Consolidated Statement of Cash Flows, and the related notes 1 to 31, 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 FRS 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 Group's and of the parent Company's affairs as at 26 December 2021 and of the Group's profit for the 52-week period 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 Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC'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.

### Other Matter

The corresponding consolidated financial statements for the period ended 27 December 2020 are unaudited.

### Material uncertainty related to going concern

We draw attention to note 2.3 in the financial statements, which indicates that the HHGL Group (HHGL Limited, HHGL (ROI) Limited, and Homebase Rooms Limited) and Company (HHGL Limited) is required to draw down additional funds under its standby loan facility provided by Homebase (UK&I) Holdings Limited, in order to meet the HHGL Group and Company's liabilities as and when they fall due throughout the going concern period to 30 June 2024. Homebase (UK & I) Holdings Limited is in turn funded by Ark Finco UK Limited, which is ultimately funded by Ark Finco BVI Limited. Ark Finco BVI Limited is a company registered in the British Virgin Islands and shares the same ultimate controlling party as the HHGL Group. Although the directors believe that financial support from the ultimate controlling party is expected to be forthcoming, the availability of sufficient funding from the ultimate controlling party to the HHGL Group remains uncertain until received. As stated in note 2.3, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's and HHGL Group's ability to continue as a going concern. In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our opinion is not modified in respect of this matter.

To evaluate the directors' assessment of the HHGL Group and Company's ability to continue to adopt the going concern basis of accounting we performed the following procedures:

- We note that the going concern assessment had been undertaken on a group basis incorporating cashflows and considerations for HHGL Limited, Hampden Group Limited, HHGL (ROI) Limited, Homebase Rooms Limited, and Ark Finco UK Limited (together "the Homebase Group" or "group") to enable the directors to assess cashflows controlled directly or indirectly by the Company.
- In conjunction with our walkthrough of the company's financial close process, we confirmed our understanding of management's going concern assessment process and also engaged with management early to ensure all key risk factors were identified were considered in their assessment.
- We increased time spent by the audit engagement partner and senior team members directing and supervising the audit procedures on going concern, in particular in assessing the going concern model and assumptions.
- We reviewed all borrowing facility agreements that the group has entered, in order to assess the current financing facilities available to the group, and to identify financial covenants that the group is required to comply with. We also considered the group's ability to utilise these borrowing facilities.

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HHGL LIMITED (CONTINUED)

- We obtained management's base case and severe but plausible downside cash forecasts prepared for the group covering the period to 30 June 2024.
- We tested the key assumptions included in each modelled scenario for the cash forecasts and we have considered the impact of the current macro-economic pressures including the cost-of-living crisis, high energy prices, interest rates inflation and the impact upon consumer spending. We challenged these assumptions with reference to third party market analyst reports and industry expert forecasts. We also utilised internal EY Retail specialists to assess that the assumptions management have made in its cash flow forecasts are reasonable.
- We used our EY Strategy and Transaction team to support our review of the cash flow models for clerical accuracy and consistency along with supporting us in modelling further sensitivity analysis on management's cash flows and corresponding working capital assumptions informed by historical performance.
- We reviewed the sensitivity analysis prepared by management in their assessment and developed an independent more severe stress test scenario with the assistance of sector specialists, which considered the impact of the Homebase Group's trading performance in March and April 2023 being below the directors forecasted severe but plausible downside scenario, and May 2023 expected to be in line with the base case forecast.
- We considered the likelihood of management's ability to execute feasible mitigating actions available to respond to the downside scenario based on our understanding of the Group and the sector, including whether those mitigating actions were controllable by management.
- We considered the ability and sufficiency of the shareholder support to the Homebase Group.
- We reviewed and assessed the adequacy of the disclosures within the financial statements relating to the Directors assessment of the going concern basis of preparation.

The ability of the Company, and the HHGL Group, to continue as a going concern for the review period is dependent upon the continued support of the ultimate controlling party, its ability to provide this support, and the sufficiency of such support to the Company and the Group.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's and Group's ability to continue as a going concern.

### Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

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

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the 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 Group Strategic Report and the Directors' Report for the financial 52-week period for which the financial statements are prepared is consistent with the financial statements; and
- the Group Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HHGL LIMITED (CONTINUED)**

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

In the light of the knowledge and understanding of the Group and the parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Group 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 by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company 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 set out on page 11, 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 group's and the parent 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 group or the parent 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 auditor's 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.

### **Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud**

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management. Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are those that relate to the reporting framework (FRS 102 and the Companies Act 2006 and the International Stock Exchange Listing Regulations) and the relevant direct and indirect tax compliance regulation in the United Kingdom and the Republic of Ireland. In addition, the Group has to comply with laws and regulations relating to its domestic and overseas operations, including but not limited to furlough scheme rules, health and safety and data protection.
- We understood how the Group is complying with those frameworks by making enquiries of management and those responsible for legal and compliance procedures to understand how the Group maintains and communicates its policies and procedures in these areas. We corroborated our enquiries through our review of board minutes, correspondence with relevant authorities and supporting documentation, as well as consideration of the results of our audit procedures across the Group to either corroborate or provide contrary evidence which was then followed up;

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HHGL LIMITED (CONTINUED)

- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by meeting with management within various parts of the business to understand where they considered there was susceptibility to fraud. We also considered performance targets and their propensity to influence the efforts made by the management to manage revenue and earnings. Where this risk of management override was considered to be higher, we performed audit procedures to address the identified fraud risk. These procedures included incorporating data analytics into our testing of manual journals and testing of revenue recognition. We tested specific transactions back to source documentation ensuring appropriate authorisation and correct posting of the transactions which provided us with reasonable assurance that the financial statements are free from fraud or error; and
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved journal entry testing, with a focus on journals meeting our defined risk criteria based on our understanding of the business and enquiries of the management.

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

### Use of our report

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.

*Ernst & Young LLP*

Anup Sodhi (Senior Statutory Auditor)

for and on behalf of  
**Ernst & Young LLP**

400 Capability Green  
Luton  
LU1 3LU  
Bedfordshire  
United Kingdom

Date: *26 May 2023*

# HHGL LIMITED

## CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE PERIOD ENDED 26 DECEMBER 2021

		Period ended 26 December 2021 £000	(Unaudited) Period ended 27 December 2020 £000
	Note		
Turnover	4	788,219	792,347
Cost of sales		(407,047)	(399,597)
<b>Gross profit</b>		<b>381,172</b>	<b>392,750</b>
Distribution costs		(44,304)	(43,879)
Administrative expenses		(283,771)	(295,469)
Other operating income	5	2,168	10,174
<b>Operating profit</b>	6	<b>55,265</b>	<b>63,576</b>
Exceptional income/(charges)		8,434	(7,613)
<b>Profit before interest and tax</b>		<b>63,699</b>	<b>55,963</b>
Interest receivable and similar income	10	-	1
Interest payable and similar expenses	11	(8,054)	(8,987)
<b>Profit before tax</b>		<b>55,645</b>	<b>46,977</b>
Tax on profit (charge)/income	12	(25,653)	22,428
<b>Profit for the financial period</b>		<b>29,992</b>	<b>69,405</b>
<b>Profit for the period attributable to:</b>			
Non-controlling interests		61	328
Owners of the parent		29,931	69,077
		<b>29,992</b>	<b>69,405</b>

### EBITDA information

EBITDA profit before exceptional items	63,620	80,264
Depreciation and amortisation charge on fixed assets	(8,355)	(16,688)
Exceptional items income/(charge)	8,434	(7,613)

### Profit before interest and tax

	Period ended 26 December 2021 £000	(Unaudited) Period ended 27 December 2020 £000
	63,699	55,963

# HHGL LIMITED

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED 26 DECEMBER 2021

	Period ended 26 December 2021 £000	<i>(Unaudited)</i> Period ended 27 December 2020 £000
Profit for the financial period	29,992	69,405
<b>Total comprehensive income for the period</b>	<b>29,992</b>	<b>69,405</b>
<b>Profit for the period attributable to:</b>		
Non-controlling interest	61	328
Owners of the parent Company	29,931	69,077
	<b>29,992</b>	<b>69,405</b>



**HHGL LIMITED**  
**REGISTERED NUMBER:00533033**

**CONSOLIDATED BALANCE SHEET**  
**AS AT 26 DECEMBER 2021**

		26 December 2021 £000	(Unaudited) 27 December 2020 £000
	Note		
<b>Fixed assets</b>			
Intangible assets	14	8,729	7,104
Tangible assets	15	39,475	44,760
		<u>48,204</u>	<u>51,864</u>
<b>Current assets</b>			
Stocks	17	168,749	113,303
Debtors: amounts falling due after more than one year	18	-	24,425
Debtors: amounts falling due within one year	18	26,683	27,670
Cash at bank and in hand	19	76,758	84,618
		<u>272,190</u>	<u>250,016</u>
Creditors: amounts falling due within one year	20	(145,750)	(157,292)
<b>Net current assets</b>		<u>126,440</u>	<u>92,724</u>
<b>Total assets less current liabilities</b>		<u>174,644</u>	<u>144,588</u>
Creditors: amounts falling due after more than one year	21	(616,309)	(609,221)
<b>Provisions for liabilities</b>			
Other provisions	23	(10,007)	(17,031)
		<u>(10,007)</u>	<u>(17,031)</u>
<b>Net liabilities</b>		<u>(451,672)</u>	<u>(481,664)</u>
<b>Capital and reserves</b>			
Called up share capital		13,190	13,190
Foreign exchange reserve	25	(1,345)	(1,345)
Profit and loss account	25	(463,144)	(493,075)
<b>Equity attributable to owners of the parent Company</b>		<u>(451,299)</u>	<u>(481,230)</u>
Non-controlling interests	25	(373)	(434)
		<u>(451,672)</u>	<u>(481,664)</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 26 May 2023



**A C Coleman**  
Director

The notes on pages 27 to 51 form part of these financial statements.

**HHGL LIMITED**  
**REGISTERED NUMBER:00533033**

**COMPANY BALANCE SHEET**  
**AS AT 26 DECEMBER 2021**

	Note	26 December 2021 £000	27 December 2020 £000
<b>Fixed assets</b>			
Intangible assets	14	8,729	7,104
Tangible assets	15	38,927	36,655
Investments	16	842	842
		<b>48,498</b>	<b>44,601</b>
<b>Current assets</b>			
Stocks	17	161,579	106,976
Debtors: amounts falling due after more than one year	18	-	24,425
Debtors: amounts falling due within one year	18	25,694	34,539
Cash at bank and in hand	19	74,887	83,009
		<b>262,160</b>	<b>248,949</b>
Creditors: amounts falling due within one year	20	(141,609)	(153,653)
<b>Net current assets</b>		<b>120,551</b>	<b>95,296</b>
<b>Total assets less current liabilities</b>		<b>169,049</b>	<b>139,897</b>
Creditors: amounts falling due after more than one year	21	(614,830)	(607,678)
<b>Provisions for liabilities</b>			
Other provisions	23	(8,709)	(13,654)
		<b>(8,709)</b>	<b>(13,654)</b>
<b>Net liabilities</b>		<b>(454,490)</b>	<b>(481,435)</b>
<b>Capital and reserves</b>			
Called up share capital		13,190	13,190
Profit and loss account	25	(467,680)	(494,625)
		<b>(454,490)</b>	<b>(481,435)</b>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 26 May 2023



**A C Coleman**  
Director

The notes on pages 27 to 51 form part of these financial statements.

# HHGL LIMITED

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 26 DECEMBER 2021

	Called up share capital	Foreign exchange reserve	Profit and loss account	Equity attributable to owners of parent Company	Non- controlling interests	Total equity
	£000	£000	£000	£000	£000	£000
At 28 December 2020	13,190	(1,345)	(493,075)	(481,230)	(434)	(481,664)
<b>Comprehensive income for the period</b>						
Profit for the period	-	-	29,931	29,931	-	29,931
Non-controlling interest	-	-	-	-	61	61
<b>At 26 December 2021</b>	<b>13,190</b>	<b>(1,345)</b>	<b>(463,144)</b>	<b>(451,299)</b>	<b>(373)</b>	<b>(451,672)</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 27 DECEMBER 2020

	(Unaudited) Called up share capital	(Unaudited) Foreign exchange reserve	(Unaudited) Profit and loss account	(Unaudited) Equity attributable to owners of parent Company	(Unaudited) Non- controlling interests	(Unaudited) Total equity
	£000	£000	£000	£000	£000	£000
At 30 December 2019	13,190	(1,345)	(562,152)	(550,307)	(762)	(551,069)
<b>Comprehensive income for the period</b>						
Profit for the period	-	-	69,077	69,077	-	69,077
Non-controlling interest	-	-	-	-	328	328
<b>At 27 December 2020</b>	<b>13,190</b>	<b>(1,345)</b>	<b>(493,075)</b>	<b>(481,230)</b>	<b>(434)</b>	<b>(481,664)</b>

**HHGL LIMITED**

**COMPANY STATEMENT OF CHANGES IN EQUITY  
FOR THE PERIOD ENDED 26 DECEMBER 2021**

	Called up share capital £000	Profit and loss account £000	Total equity £000
At 28 December 2020	13,190	(494,625)	(481,435)
<b>Comprehensive income for the period</b>			
Profit for the period	-	26,945	26,945
<b>At 26 December 2021</b>	<b>13,190</b>	<b>(467,680)</b>	<b>(454,490)</b>

**COMPANY STATEMENT OF CHANGES IN EQUITY  
FOR THE PERIOD ENDED 27 DECEMBER 2020**

	Called up share capital £000	Profit and loss account £000	Total equity £000
At 30 December 2019	13,190	(561,584)	(548,394)
<b>Comprehensive income for the period</b>			
Profit for the period	-	66,959	66,959
<b>At 27 December 2020</b>	<b>13,190</b>	<b>(494,625)</b>	<b>(481,435)</b>

HHGL LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE PERIOD ENDED 26 DECEMBER 2021

	26 December 2021 £000	(Unaudited) 27 December 2020 £000
<b>Cash flows from operating activities</b>		
Profit before tax	55,645	46,977
<b>Adjustments for:</b>		
Depreciation of tangible and intangible assets	8,355	16,687
Tangible fixed asset impairment charge	963	239
Impairments adjustment of tangible fixed assets disposed of	(1,224)	-
(Gain)/loss on tangible assets disposed of	(5,471)	612
Increase(decrease) in stocks	(55,446)	26,975
Decrease in debtors	987	4,551
(Decrease)/increase in creditors	(4,454)	34,172
Decrease in provisions	(7,024)	(4,297)
Corporation tax (paid)	(2,867)	(3,781)
Non-cash items added back	2,360	(2,137)
<b>Net cash generated from operating activities</b>	<b>(8,176)</b>	<b>119,998</b>
<b>Cash flows from investing activities</b>		
Purchase of fixed assets	(15,264)	(25,847)
Sale of fixed assets	16,305	41
<b>Net cash from investing activities</b>	<b>1,041</b>	<b>(25,806)</b>
<b>Cash flows from financing activities</b>		
Part repayment of intercompany loan	-	(25,000)
Interest paid	(725)	(1,393)
<b>Net cash used in financing activities</b>	<b>(725)</b>	<b>(26,393)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(7,860)</b>	<b>67,799</b>
Cash and cash equivalents at beginning of period	84,618	16,819
<b>Cash and cash equivalents at the end of period</b>	<b>76,758</b>	<b>84,618</b>
<b>Cash and cash equivalents at the end of period comprise:</b>		
Cash at bank and in hand	76,758	84,618
	<b>76,758</b>	<b>84,618</b>

## HHGL LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 26 DECEMBER 2021

#### 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 Company and its subsidiaries, referred to as the "HHGL Group", together form these consolidated accounts. The HHGL Group was part of the Ark UK Group Limited group at the date of signing and is referred to as "Group" in these financial statements.

#### 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 HHGL Group management to exercise judgement in applying the Group's accounting policies (see note 3).

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own Profit and Loss Account in these financial statements.

The financial statements and notes are disclosed in rounded thousands of GBP pounds.

Consolidated accounts have been prepared for HHGL Limited for the period ended 26 December 2021 whereas for the period ended 27 December 2020 only accounts for the Company were prepared, as such prior period values for the HHGL Group are unaudited. In the prior period the Company's results were included in the consolidated accounts of Homebase (UK & I) Holdings Limited.

Additionally, the HHGL Group and Company have taken advantage of the following FRS102 exemption available to qualifying entities which are relevant to its financial statements:

- the disclosure requirements of Section 26 paragraphs 26.18 (b), 26.19 to 26.21 and 26.23
- the disclosure requirements of Section 33.1a of FRS102.

##### 2.2 Basis of consolidation

The consolidated financial statements present the results of the Company and its own subsidiaries ("the HHGL Group") as if they form a single entity. Intercompany transactions and balances between HHGL Group companies are therefore eliminated in full.

The consolidated financial statements incorporate the results of business combinations using the purchase method. In the Balance Sheet, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the Consolidated Profit and Loss Account from the date on which control is obtained. They are deconsolidated from the date control ceases.

##### 2.3 Going concern

The financial statements have been prepared on a going concern basis.

In the year ended 26 December 2021, the HHGL Group (HHGL Limited, HHGL (ROI) Limited, Homebase Rooms Limited) generated a profit after tax for the financial year of £30.0m and saw a cash outflow of £7.9m closing with cash in the bank and in hand of £76.8m.

Cash for the HHGL Group is managed at the Homebase Group level (HHGL Limited, Hampden Group Limited, HHGL (ROI) Limited, Homebase Rooms Limited, & Ark Finco UK Limited). Thus, in forming their going concern assessment, the Directors have considered the Homebase Group's cash flow forecasts and liquidity under a range of potential scenarios from the date of approval of these financial statements to 30th June 2024, comprising:

- A base case forecast reflecting a further year of subdued demand which assumes no sales growth on the level of trading experienced in FY22
- A severe but plausible downside forecast designed to test the resilience of the business against shocks to it. This scenario is considered unlikely by the Directors.

## HHGL LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 26 DECEMBER 2021

#### 2. Accounting policies (continued)

##### 2.3 Going concern (continued)

The HHGL Group is financed by facilities from its parent Homebase (UK&I) Holdings Limited which is in turn funded through a bank facility with Wells Fargo, and a separate facility from Ark Finco BVI Limited who share the same ultimate controlling party as the HHGL Group. These facilities comprise an asset-based lending facility of up to £95m with Wells Fargo Capital Finance and an additional £55m revolving credit facility with the HHGL Group's parent company, which are in place until December 2024. In addition, there is a long-term intercompany loan in place between Homebase (UK&I) Holdings Limited and HHGL. In January 2022, HHGL Group drew down on the facility provided by its parent Homebase (UK&I) Holdings Limited with Wells Fargo to enable a repayment of £132m on the long-term intercompany loan balance.

At the date of signing these financial statements, headroom on the facilities is £20m. Levels of borrowings have already peaked in 2023 and are expected to reduce further over the coming months now the spring/summer season is here as the high level of seasonal stock sells through.

2022 proved challenging with consumer confidence low as the economy continued to gradually recover from COVID-19 and was further impacted by the invasion of Ukraine in February 2022 which had a significant impact on already rising inflation in the UK further impacting consumer confidence. Whilst the cost-of-living crisis continues to be an ongoing challenge across the UK and Ireland, the Directors believe the business remains resilient and well placed to manage the Homebase Group's working capital and funding needs.

As a result of 2022 performance, in September 2022 the Homebase Group did not meet the rolling 12-month EBITDA financial condition on its facility with Wells Fargo. This was resolved through a drawdown of the already available loan facility from Homebase (UK&I) Holdings Limited. Following this, it was agreed to increase the size of the Homebase (UK&I) Holdings Limited loan facility so that the working capital needs for 2023 and beyond would be met. The Homebase (UK&I) Holdings Limited facility limit was increased to £55m on 20 December 2022, which took place with full support of Wells Fargo, whose facility remains in place on existing terms. Given the levels of headroom expected to be in place across the going concern period, the Directors do not expect the covenant associated with the Wells Fargo Loan facility (note 20) to be tested in the period through to June 2024.

The Directors prepared their base case cashflow forecast below the internally budgeted targets for the year. This forecast assumes that 2023 and 2024 will continue to show subdued demand, with sales flat against 2022 performance.

The Directors have also forecasted the cash flows of the Homebase Group under the severe but plausible downside scenario as noted above, which assumes a prolonged decline in sales, as compared to the base case. Further opportunities not included in the cash flow forecasts are also available such as reducing discretionary spend, as well as reducing non-committed capital expenditure were a prolonged downside to occur. Despite 2023 seeing an unseasonably wet March and early April faced by all retailers resulting in sales declining, the business has confidence in delivering in line with the base case scenario across the going concern period and following the return to more normal weather we have seen positive year on year growth.

Both the base case, and severe but plausible downside scenario cash flow forecasts prepared by the Directors assume that the HHGL Group would require the use of only existing facilities provided by Wells Fargo Capital, and Homebase (UK & I) Holdings limited. These facilities in turn are provided to the HHGL Group's parent Homebase (UK&I) Holdings Limited by Wells Fargo and Ark Finco BVI Limited. The HHGL Group may also require further funding from Ark Finco BVI Limited were trading to consistently perform below the levels of the plausible downside. At the date of signing these financial statements, the HHGL Group has only drawn down those funds required to meet its liquidity needs.

The Directors have taken the appropriate steps to assure themselves of both the ability and intention of the primary shareholder to provide sufficient support offered for the going concern assessment period to 30 June 2024 to allow the HHGL Group and Company to meet their liabilities as they fall due. However, the ability of the shareholder to provide sufficient funds represents a material uncertainty until such funding has been received and this casts significant doubt on the HHGL Group and Company's ability to continue as a going concern.

## HHGL LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 26 DECEMBER 2021

#### 2. Accounting policies (continued)

##### 2.3 Going concern (continued)

The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern and the accounts have been prepared on a going concern basis. The material uncertainty relates solely to the funds required to maintain sufficient liquidity, which given they have not been fully drawn, cannot be considered certain until received. Based on enquiries, knowledge of the primary shareholder's funding ability and evidence of previous history of funds being provided promptly as and when called, and the receipt of a letter of comfort from Ark Finco BVI Limited that further funds are available, the Directors are confident that the shareholder can and will provide sufficient funds in order to meet the HHGL Group's and Company's (HHGL Limited) liabilities when they fall due throughout the going concern period to 30 June 2024.

##### 2.4 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.

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 profit or loss except when deferred in other comprehensive income as qualifying cash flow hedges.

On consolidation, the results of The Republic of Ireland are translated into Sterling at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations are translated at the rate ruling at the reporting date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised in other comprehensive income.

##### 2.5 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group 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 Group has transferred the significant risks and rewards of ownership to the buyer;
- the Group 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 Group 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.

The Group sells products which are delivered directly to customers by suppliers and for these sales has determined that it acts as a principal and recognises revenue as the gross amount of consideration to which it expects to be entitled.



## HHGL LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 26 DECEMBER 2021

#### 2. Accounting policies (continued)

##### 2.6 Transfer pricing

A transfer pricing policy for subsidiaries identified as limited risk distributors within the Group are based on a target operating margin percentage.

##### 2.7 Operating leases

Rentals paid under operating leases are charged to profit or loss 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.

##### 2.8 Government grants - furlough

Grants are accounted under the accruals model as permitted by FRS 102. Grants relating to expenditure on tangible fixed assets are credited to profit or loss at the same rate as the depreciation on the assets to which the grant relates. The deferred element of grants is included in creditors as deferred income.

Grants of a revenue nature are recognised in the Consolidated Profit and Loss Account in the same period as the related expenditure.

##### 2.9 Interest income

Interest income is recognised in profit or loss using the effective interest method.

##### 2.10 Finance costs

Finance costs are charged to profit or loss 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.

##### 2.11 Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

##### 2.12 Pensions

###### Defined contribution pension plan

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

The contributions are recognised as an expense in profit or loss 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 Group in independently administered funds.

## HHGL LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 26 DECEMBER 2021

#### 2. Accounting policies (continued)

##### 2.13 Current and deferred taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss 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 and the Group operate and generate 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;
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met; and
- Where they relate to timing differences in respect of interests in subsidiaries, associates, branches and joint ventures and the Group can control the reversal of the timing differences and such reversal is not considered probable in the foreseeable future.

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.

##### 2.14 Exceptional items

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

##### 2.15 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. If such indication exists, the recoverable amount of the asset 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.

##### 2.16 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.*

## HHGL LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 26 DECEMBER 2021

#### 2. Accounting policies (continued)

##### 2.16 Tangible fixed assets (continued)

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

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 profit or loss.

##### 2.17 Impairment of fixed assets and goodwill

Assets that are subject to depreciation or amortisation are assessed at each balance sheet date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash-generating unit to which the asset has been allocated) is tested for impairment. An impairment loss is recognised for the amount by which the assets carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an assets (or CGU's) fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets that have been previously impaired are reviewed at each balance sheet date to assess whether there is any indication that the impairment losses recognised in prior periods may no longer exist or may have decreased.

The cash flows for the business are extrapolated using a long-term growth rate of 2% and are discounted using a discount rate of 18% to calculate the value-in-use. Fixed assets were impaired by £1m in the current period less £1.2m reversed due to the disposal of previously impaired assets.

##### 2.18 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

##### 2.19 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 and for imported stock includes amounts for freight and duty. Adjustments are also made to the cost of stock to reflect the significant and on-going fluctuations in global freight rates.

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.

##### 2.20 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.

Long term debtors are receivable balances which are both due and expected to be received at a time more than 12 months from the balance sheet date. Where intercompany balances are issued as payable on demand, but are not expected to be received in the 12 months following the balance sheet date, these have been recorded as long term debtors in line with the requirements of FRS 102.

## HHGL LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 26 DECEMBER 2021

#### 2. Accounting policies (continued)

##### 2.21 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.

In the Consolidated Statement of Cash Flows, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Group's cash management.

##### 2.22 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.

Long term creditors are payable balances which are both due and expected to be received at a time more than 12 months from the balance sheet date.

##### 2.23 Provisions for liabilities

Provisions are made where an event has taken place that gives the Group 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 profit or loss in the year that the Group 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.

##### 2.24 Financial instruments

The Group 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 ordinary shares.

Financial assets and liabilities are offset and the net amount reported in the Balance Sheet when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Derivatives, including interest rate swaps and forward foreign exchange 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 interest rate and foreign exchange derivatives.

##### 2.25 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 Group only recognises such income where there is documented evidence of an agreement with a supplier. The types of commercial income recognised by the Group are:

Marketing, ad hoc and advertising income - recognised once agreed with a supplier and over the period set out in the specific agreement.

Volume based rebates and settlement discounts from suppliers - recognised through the period based on sales volumes, informed by current performance. Income is invoiced throughout the year in accordance with the specific supplier terms. The majority of those arrangements run for one calendar year.

## HHGL LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 26 DECEMBER 2021

#### 2. Accounting policies (continued)

##### 2.26 Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting.

##### 2.27 Share based payments

All share based payments have been treated as equity settled.

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

The preparation of consolidated 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 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, warranties 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.

## HHGL LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 26 DECEMBER 2021

#### 3. Judgements in applying accounting policies (continued)

##### Judgements in applying accounting policies and key sources of estimation uncertainty (continued)

###### Impairment of intercompany financial assets

Intercompany balances are accounted for under the scope of FRS102.11. The Company performs an annual impairment review over intercompany balances which assesses the ability of each entity to pay balances based on their net assets at the balance sheet date. Intercompany financial assets are impaired such that they are not higher than the net assets of the entity owing the balance. Should the indebted entity improve its net asset position, the impairment may subsequently be reversed such that it is deemed probable that the value can be recovered.

#### 4. Turnover

	Period ended 26 December 2021 £000	(Unaudited) Period ended 27 December 2020 £000
Sale of home improvement and garden products in the Great Britain and Republic of Ireland	788,219	792,347
	<u>788,219</u>	<u>792,347</u>

Includes £50.1m (€58.1m) (2020: £46.9m (€52.8m)) of sales in the Republic of Ireland. Turnover is shown net of returns and includes concession income from third party concessions.

#### 5. Other operating income

	Period ended 26 December 2021 £000	(Unaudited) Period ended 27 December 2020 £000
Government grants receivable	2,168	10,174
	<u>2,168</u>	<u>10,174</u>

In the current and prior periods the HHGL Group received assistance from the UK and the Republic of Ireland governments in respect of, respectively, the job retention and wage subsistence schemes as a consequence of COVID-19. Additionally in the prior period, government grants were received in respect of Bathstore stores which have now closed.

# HHGL LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 26 DECEMBER 2021

### 6. Operating profit

The operating profit is stated after charging:

	Period ended 26 December 2021 £000	(Unaudited) Period ended 27 December 2020 £000
Costs of stocks recognised as an expense	396,905	384,271
Exchange differences	936	990
Fixed asset impairment charge (note 15)	963	-
Fixed asset impairment release (note 15)	(1,224)	-
Depreciation charge	5,210	4,198
Amortisation charge	3,145	12,490
(Gain)/loss on disposal of property, plant & equipment	(5,471)	612
Other operating lease rentals	72,844	76,463
Write-down of stock	9,204	15,326

### 7. Auditors' remuneration

	Period ended 26 December 2021 £000	(Unaudited) Period ended 27 December 2020 £000
Fees payable to the Company's auditors for the audit of the consolidated and parent Company's financial statements	635	633

### 8. Employees

Staff costs were as follows:

	(Unaudited)			
	Group 26 December 2021 £000	Group 27 December 2020 £000	Company 26 December 2021 £000	Company 27 December 2020 £000
Wages and salaries	110,935	120,091	105,081	113,633
Social security costs	7,867	8,250	7,254	7,626
Cost of defined contribution scheme	2,764	2,789	2,715	2,724
	121,566	131,130	115,050	123,983

# HHGL LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 26 DECEMBER 2021

### 8. Employees (continued)

The average monthly number of employees, including the Directors, during the period was as follows:

	(Unaudited)			
	Group Period ended 26 December 2021 No.	Group Period ended 27 December 2020 No.	Company Period ended 26 December 2021 No.	Company Period ended 27 December 2020 No.
Stores	4,590	5,265	4,285	4,889
Administration and others	488	569	488	569
	<u>5,078</u>	<u>5,834</u>	<u>4,773</u>	<u>5,458</u>

### 9. Directors' remuneration

	Period ended 26 December 2021 £000	(Unaudited) Period ended 27 December 2020 £000
Remuneration	2,499	2,706
Pension contributions	86	75
	<u>2,585</u>	<u>2,781</u>

The highest paid Director received total remuneration of £1.33m (2020: £1.41m) and pension contributions of £0.01m (2020: £0.006m) were made by the HHGL Group on their behalf.

### 10. Interest receivable

	Period ended 26 December 2021 £000	(Unaudited) Period ended 27 December 2020 £000
Other interest receivable	-	1
	<u>-</u>	<u>1</u>



# HHGL LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 26 DECEMBER 2021

### 11. Interest payable and similar expenses

	Period ended 26 December 2021 £000	(Unaudited) Period ended 27 December 2020 £000
Bank interest payable	725	1,393
Loan from Homebase (UK & I) Holdings Limited	7,329	7,594
	<u>8,054</u>	<u>8,987</u>

### 12. Taxation

	Period ended 26 December 2021 £000	(Unaudited) Period ended 27 December 2020 £000
<b>Corporation tax</b>		
Current tax on profits for the year	1,228	1,997
	<u>1,228</u>	<u>1,997</u>
<b>Total current tax</b>	<u>1,228</u>	<u>1,997</u>
<b>Deferred tax</b>		
Origination and reversal of timing differences	24,425	(24,425)
<b>Total deferred tax</b>	<u>24,425</u>	<u>(24,425)</u>
<b>Taxation on profit/(loss) on ordinary activities</b>	<u>25,653</u>	<u>(22,428)</u>

# HHGL LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 26 DECEMBER 2021

### 12. Taxation (continued)

#### Factors affecting tax charge for the period

The tax assessed for the period is higher than (2020 - lower than) the standard rate of corporation tax in the UK of 19% (2020 - 19%). The differences are explained below:

	Period ended 26 December 2021 £000	(Unaudited) Period ended 27 December 2020 £000
Profit on ordinary activities before tax	55,645	46,977
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2020 - 19%)	10,573	8,926
<b>Effects of:</b>		
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	(904)	8
Effect of change in tax rate	(14)	-
Losses and deferred tax not recognised	(1,160)	-
Reversal of timing differences	(7,189)	-
(Recognition/derecognition of deferred tax balances)	24,425	(29,661)
Income not taxable	-	(1,699)
Loss relief surrendered by group companies for £nil consideration	(78)	-
<b>Total tax charge for the period</b>	<b>25,653</b>	<b>(22,428)</b>

#### 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% (2020: 19%). On 3 March 2021 the UK government announced that from 1 April 2023 the UK corporation tax rate will be increased to 25% as part of changes introduced in the Finance Act 2021, given Royal Assent on 10 June 2021.

# HHGL LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 26 DECEMBER 2021

### 13. Exceptional items

	Period ended 26 December 2021 £000	(Unaudited) Period ended 27 December 2020 £000
Property and store related (charges)/income	15	(159)
Fixed asset impairment charge	(963)	(223)
Restructure and redundancy costs	-	(4,089)
Gain on sale of freehold property	6,741	-
Other non-recurring income/(charges)	2,641	(3,142)
	<b>8,434</b>	<b>(7,613)</b>

Exceptional items are transactions that fall within the ordinary activities of the HHGL Group but are presented separately due to their size or incidence. During the period the HHGL Group had a number of property and store related transactions it considered exceptional including the release of onerous lease provisions due to improvements in store trading and further store closure costs primarily relating to the closure of the Bathstore stores. Two freehold properties were also sold for a gain of £6.7m and there were other non recurring costs and income of a net £2.6m credit which includes the receipt of £4m from lease surrender premiums less £0.7m for refinancing and corporate restructuring as well as legal costs of £0.7m. The HHGL Group also decided to take an impairment charge of £1m on its tangible assets following a review of trading at the same stores.

### 14. Intangible assets

#### Company

	Computer software £000
<b>Cost</b>	
At 28 December 2020	72,963
Additions	4,770
At 26 December 2021	77,733
<b>Amortisation</b>	
At 28 December 2020	65,859
Charge for the period on owned assets	3,145
At 26 December 2021	69,004
<b>Net book value</b>	
At 26 December 2021	8,729
At 27 December 2020	7,104

HHGL LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 26 DECEMBER 2021

15. Tangible fixed assets

Group

	Freehold property £000	Short-term leasehold property £000	Plant and machinery £000	Total £000
<b>Cost or valuation</b>				
At 28 December 2020	12,433	125,603	318,003	456,039
Additions	-	6,560	3,934	10,494
Disposals	(12,433)	(1,314)	(2,317)	(16,064)
At 26 December 2021	-	130,849	319,620	450,469
<b>Depreciation</b>				
At 28 December 2020	3,265	107,726	300,288	411,279
Charge for the period on owned assets	-	1,252	3,958	5,210
Disposals	(2,041)	(1,065)	(2,128)	(5,234)
Impairment charge	(1,224)	517	446	(261)
At 26 December 2021	-	108,430	302,564	410,994
<b>Net book value</b>				
At 26 December 2021	-	22,419	17,056	39,475
At 27 December 2020 (unaudited)	9,168	17,877	17,715	44,760

Freehold property with a net book value of £9.2m was disposed of during the period. The Company decided to take an impairment charge of £1m on store assets following an impairment review based on estimates of future trading and the number of stores expected to be trading at a loss.

In December 2022 management performed the annual impairment review of fixed assets which has resulted in a further impairment charge of c.£17.5m for HHGL Limited and £0.2m for HHGL (ROI) Limited which will be recognised in the 2022 financial statements. The impairment charge arises due to a reduction in forecast performance driven by the economic impact of the Russia-Ukrainian war which began on 24 February 2022. Given this is post the balance sheet date it is not deemed appropriate to recognise the impairment charge.

# HHGL LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 26 DECEMBER 2021

### 15. Tangible fixed assets (continued)

#### Company

	Freehold property £000	Short-term leasehold property £000	Plant and machinery £000	Total £000
<b>Cost or valuation</b>				
At 28 December 2020	1,828	120,066	300,968	422,862
Additions	-	6,472	3,661	10,133
Transfers intra group	-	13	101	114
Disposals	(1,828)	(1,173)	(2,315)	(5,316)
At 26 December 2021	-	125,378	302,415	427,793
<b>Depreciation</b>				
At 28 December 2020	685	102,467	283,054	386,206
Charge for the period on owned assets	204	1,375	4,001	5,580
Transfers intra group	-	13	45	58
Disposals	(889)	(924)	(2,128)	(3,941)
Impairment charge	-	517	446	963
At 26 December 2021	-	103,448	285,418	388,866
<b>Net book value</b>				
At 26 December 2021	-	21,930	16,997	38,927
At 27 December 2020	1,143	17,599	17,913	36,655

Freehold property with a net book value of £1.8m was disposed of during the period. The Company decided to take an impairment charge of £1m on store assets following an impairment review based on estimates of future trading and the number of stores expected to be trading at a loss.

In December 2022 management performed the annual impairment review of fixed assets which has resulted in a further impairment charge of c.£17.5m which will be recognised in the 2022 financial statements. The impairment charge arises due to a reduction in forecast performance driven by the economic impact of the Russia-Ukrainian war which began on 24 February 2022. Given this is post the balance sheet date it is not deemed appropriate to recognise the impairment charge.

# HHGL LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 26 DECEMBER 2021

### 16. Fixed asset investments

#### Company

	Investments in subsidiary companies £000
<b>Cost or valuation</b>	
At 28 December 2020	31,284
At 26 December 2021	31,284
<b>Impairment</b>	
At 28 December 2020	30,442
At 26 December 2021	30,442
<b>Net book value</b>	
At 26 December 2021	842
At 27 December 2020	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, Ireland	Ordinary	94.2%
Homebase Rooms Limited	Witan Gate House, 500- 600 Witan Gate, Milton Keynes, MK9 1BA	Ordinary	100%

# HHGL LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 26 DECEMBER 2021

### 17. Stocks

	(Unaudited)			
	Group	Group	Company	Company
	26 December	27 December	26 December	27 December
	2021	2020	2021	2020
	£000	£000	£000	£000
Finished goods and goods for resale	168,749	113,303	161,579	106,976
	<u>168,749</u>	<u>113,303</u>	<u>161,579</u>	<u>106,976</u>

Company trading stock excludes £13.3m (2020: £11.3m) of stock, which is legally owned by the Company but which is held by Hampden Group Limited, a related party at year end (note 29), and HHGL (ROI) Limited, a direct subsidiary. This 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 on delivery of the stock.

Stock written-down in the period and provided for amounted to £9.2m (2020: £15.3m). A number of indemnities have also been provided as part of the financing facility with Wells Fargo described in note 20 and the facility is secured against Group assets including stock in the form of fixed and floating charges.

### 18. Debtors

	(Unaudited)			
	Group	Group	Company	Company
	26 December	27 December	26 December	27 December
	2021	2020	2021	2020
	£000	£000	£000	£000
<b>Due after more than one year</b>				
Deferred tax asset	-	24,425	-	24,425
	<u>-</u>	<u>24,425</u>	<u>-</u>	<u>24,425</u>

The Directors are no longer recognising a deferred tax asset relating to unused tax losses and accelerated capital allowances due to the uncertainty of these being utilised against future profits.

	(Unaudited)			
	Group	Group	Company	Company
	26 December	27 December	26 December	27 December
	2021	2020	2021	2020
	£000	£000	£000	£000
<b>Due within one year</b>				
Trade debtors	1,464	1,130	1,464	1,130
Amounts owed by group undertakings	-	-	-	8,065
Other debtors	15,221	15,670	14,830	15,044
Prepayments and accrued income	9,980	10,870	9,382	10,300
Financial instruments	18	-	18	-
	<u>26,683</u>	<u>27,670</u>	<u>25,694</u>	<u>34,539</u>

The current amounts owed by direct subsidiaries of the HHGL Group and other related parties at year end (note 29) are unsecured, non-interest bearing and not repayable on demand. Amounts owed by these undertakings are fully provided for and £29m has been provided (2020: £31.5m) against amounts receivable following an impairment review. £10.9m of this relates to Hampden Group Limited, a Group subsidiary and related party to HHGL Group.

# HHGL LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 26 DECEMBER 2021

### 19. Cash and cash equivalents

	<i>(Unaudited)</i>			
	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
	<b>26 December</b>	<b>27 December</b>	<b>26 December</b>	<b>27 December</b>
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Cash at bank and in hand	76,758	84,618	74,887	83,009
	<u>76,758</u>	<u>84,618</u>	<u>74,887</u>	<u>83,009</u>

Under the terms of the asset-based lending facility provided by Wells Fargo Capital Finance a number of Company bank accounts for sales receivables operate as blocked accounts within the terms of the financing agreement. In addition, at 26 December 2021 £2.9m (2020: £5.8m) of the balance was held on account by credit card acquirers.

### 20. Creditors: Amounts falling due within one year

	<i>(Unaudited)</i>			
	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
	<b>26 December</b>	<b>27 December</b>	<b>26 December</b>	<b>27 December</b>
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Trade creditors	87,637	80,927	87,637	80,927
Amounts owed to group undertakings	-	809	-	3,367
Other creditors	15,067	26,503	12,916	22,988
Accruals and deferred income	43,046	47,841	41,056	45,159
Financial instruments	-	1,212	-	1,212
	<u>145,750</u>	<u>157,292</u>	<u>141,609</u>	<u>153,653</u>



## HHGL LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 26 DECEMBER 2021

#### Creditors: Amounts falling due within one year (continued)

##### Bank loans

In November 2018 the Group secured an asset-based lending facility of up to £95m with Wells Fargo Capital Finance. The facility ran for three years to November 2021 and was 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.

On 20 December 2021 the Group secured a three year extension to the asset based lending facility with Wells Fargo Capital Finance, originally signed in November 2018. The facility is for £80m with the option to increase this to £95m for seasonal peaks and is provided against stock and credit card receivables with an interest rate of 1.85% per annum above the daily SONIA rate on amounts draw down and 0.325% on the remaining undrawn amount. At the balance sheet date, the amount drawn down on the facility and outstanding was £Nil (2020: £Nil).

The facility contains a financial covenant linked to trading cash flow and EBITDA. Covenants are not tested on the facility provided £10m of headroom is maintained. A number of indemnities have also been provided and the facility is secured against Group assets in the form of fixed and floating charges secured on the tangible assets, shares and certain intellectual property assets of the Group.

On 21 October 2021 the Company also secured a three year extension to the £25m standby facility with its parent (note 29) originally signed in November 2018. This carries an interest rate of 2% plus Bank of England base rate on the first £5m drawn-down, 4.75% plus Bank of England base rate on amounts drawn-down above this and 0.75% 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.

The standby facility limit was increased to £55m on 20 December 2022, which took place with full support of Wells Fargo, whose facility remains in place on existing terms (note 30). As at the date of signing, and for 12 months following the signing of the accounts sufficient headroom will be maintained so that the covenant will not require testing.

##### 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 £0.1m (2020: £0.8m). The forward currency contracts fix at an average US dollar rate of 1.34 (2020: 1.33) and all expire within 3 months of year end. Their notional amounts at period end were \$57.5m (2020: \$34.3m).

#### 21. Creditors: Amounts falling due after more than one year

	<i>(Unaudited)</i>			
	<b>Group</b>	<i>Group</i>	<b>Company</b>	<i>Company</i>
	<b>26 December</b>	<i>27 December</i>	<b>26 December</b>	<i>27 December</i>
	<b>2021</b>	<i>2020</i>	<b>2021</b>	<i>2020</i>
	<b>£000</b>	<i>£000</i>	<b>£000</b>	<i>£000</i>
Amounts owed to group undertakings	<b>600,074</b>	593,512	<b>600,074</b>	593,512
Accruals and deferred income	<b>16,235</b>	15,709	<b>14,756</b>	14,166
	<b>616,309</b>	609,221	<b>614,830</b>	607,678

The amount owed to the parent company (note 29) remains due and payable. In January 2022 £132m of this was repaid.

# HHGL LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 26 DECEMBER 2021

### 22. Deferred taxation

#### Group

	2021 £000
At beginning of year	24,425
Charged to profit or loss	(24,425)
<b>At end of year</b>	<b>-</b>

#### Company

	2021 £000
At beginning of year	24,425
Charged to profit or loss	(24,425)
<b>At end of year</b>	<b>-</b>

The deferred tax asset is made up as follows:

	(Unaudited)			
	Group 26 December 2021 £000	Group 27 December 2020 £000	Company 26 December 2021 £000	Company 27 December 2020 £000
Tax losses carried forward	-	24,425	-	24,425
	<b>-</b>	<b>24,425</b>	<b>-</b>	<b>24,425</b>

The HHGL Group has unrecognised deferred tax of £104.5m relating to trading losses and allowances on fixed assets. These are not expected to reverse in 2022.

### 23. Provisions

#### Group

	Property provision £000	Other provision £000	Total £000
At 28 December 2020	11,624	5,407	17,031
Charged to profit or loss	1,860	(1,215)	645
Utilised in period	(5,384)	-	(5,384)
Released in period	(2,285)	-	(2,285)
<b>At 26 December 2021</b>	<b>5,815</b>	<b>4,192</b>	<b>10,007</b>

# HHGL LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 26 DECEMBER 2021

### Company

	Property provision £000	Other provision £000	Total £000
At 28 December 2020	8,594	5,060	13,654
Charged to profit or loss	943	(1,251)	(308)
Utilised in period	(4,068)	-	(4,068)
Released in period	(569)	-	(569)
<b>At 26 December 2021</b>	<b>4,900</b>	<b>3,809</b>	<b>8,709</b>

Property provisions comprise of 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 2026.

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 2026.

### 24. Share capital

	26 December 2021 £000	27 December 2020 £000
<b>Alloted, called up and fully paid</b>		
13,189,752 (2020: 13,189,752) Ordinary shares of £1 each	13,190	13,190
	<b>13,190</b>	<b>13,190</b>

### 25. Reserves

#### Foreign exchange reserve

Foreign currency consolidation translation differences arising from the consolidation of subsidiary companies with functional currencies other than GBP.

#### Non-controlling interests

5.8% of the equity of of HHGL (ROI) Limited is owned by a related party, Hampden Group Limited.

#### Profit and loss account

The profit for the period for the Company of £26.9m arises from the retailing activity in Great Britain.

## HHGL LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 26 DECEMBER 2021

#### 26. Contingent liabilities

Counter indemnities relating to a bank guarantee facility of £2.7m (2020: £2.7m) have been entered into by the Group. These are not expected to result in a material liability to the HHGL Group.

Cross guarantees for £95m are in place with a number of subsidiaries to support the loan facility extension provided by Wells Fargo (note 20).

#### 27. Pension commitments

The Group operates a Defined contribution scheme.

Companies and team members pay contributions into independently administered funds. 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 period. Contributions of £0.4m (2020: £0.4m) were payable to the scheme at period end and included within creditors due within 1 year.

#### 28. Commitments under operating leases

At 26 December 2021 the HHGL Group and the Company had future minimum lease payments due under non-cancellable operating leases for each of the following periods:

	<i>(Unaudited)</i>			
	<b>Group</b>	<i>Group</i>	<b>Company</b>	<i>Company</i>
	<b>26 December</b>	<i>27 December</i>	<b>26 December</b>	<i>27 December</i>
	<b>2021</b>	<i>2020</i>	<b>2021</b>	<i>2020</i>
	<b>£000</b>	<i>£000</i>	<b>£000</b>	<i>£000</i>
Not later than 1 year	74,798	74,282	70,116	68,390
Later than 1 year and not later than 5 years	266,582	268,148	251,535	249,457
Later than 5 years	194,221	192,098	187,249	182,223
<b>Property leases</b>	<b>535,601</b>	<i>534,528</i>	<b>508,900</b>	<i>500,070</i>

	<i>(Unaudited)</i>			
	<b>Group</b>	<i>Group</i>	<b>Company</b>	<i>Company</i>
	<b>26 December</b>	<i>27 December</i>	<b>26 December</b>	<i>27 December</i>
	<b>2021</b>	<i>2020</i>	<b>2021</b>	<i>2020</i>
	<b>£000</b>	<i>£000</i>	<b>£000</b>	<i>£000</i>
Not later than 1 year	11,711	13,169	11,711	13,169
Later than 1 year and not later than 5 years	9,523	13,757	9,523	13,757
<b>IT lease commitments</b>	<b>21,234</b>	<i>26,926</i>	<b>21,234</b>	<i>26,926</i>

## HHGL LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 26 DECEMBER 2021

#### 29. 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 subsidiary undertakings. 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 17 (2020: 22) key management personnel received £6.5m in remuneration and benefits (2020: £8m), excluding directors remuneration disclosed in note 8. During the period the Company paid £7.3m (2020: £7.6m) of loan interest to its parent company on the long-term intercompany loan (note 11).

In addition, the HHGL Group had the following transactions with parties related by virtue of common control:

		<i>(Unaudited)</i>	
		26	27
		December	December
		2021	2020
		£000	£000
Related party transactions:	In relation to:		
Moores Furniture Group Limited	Stock purchases	5,713	5,172
Hilco Property Limited	Property consultant services	-	2,304
Denby Pottery Company Limited	Stock purchases	6	58
HB Brands Limited	Brand ownership charges	375	732
Hilco Capital Limited	Retail consultancy fees	3,102	8,653
Hilco Profit Recovery Limited	Profit recovery services	4	-
Hampden Group Limited	Stock purchases and services	46,045	41,307
Hampden Group Limited	Repayment of loan balance	(50,989)	(46,851)
Related party balances:			
Moores Furniture Group Limited	Stock purchases	875	670
Denby Pottery Company Limited	Stock purchases	0	2
Hampden Group Limited	Intercompany balance	10,864	14,655
Hampden Group Limited	Consignment stock	6,120	4,936
Homebase (UK & I) Holdings Limited	Intercompany balance	600,074	593,512

#### 30. Post balance sheet events

Since 26 December 2021 the HHGL Group has opened two new stores in Coventry and Chester and closed eight stores in Kendal, Richmond, Sutton, Cheadle, Limerick, Dublin Naas, Chelmsford and Guildford.

In January 2022 the Company made a partial repayment of its intercompany loan with Homebase (UK&I) Holdings Limited, the parent company, amounting to £132m.

As a result of 2022, performance, in September 2022 the Homebase Group did not meet the rolling 12-month EBITDA financial condition on its facility with Wells Fargo. This was resolved through a drawdown of the already available loan facility from Homebase (UK&I) Holdings Limited. Following this, it was agreed to increase the size of the Homebase (UK&I) Holdings Limited loan facility so that the working capital needs for 2023 and beyond would be met. The Homebase (UK&I) Holdings Limited facility limit was increased to £55m on 20 December 2022, which took place with full support of Wells Fargo, whose facility remains in place on existing terms. The Homebase Group has since placed a voluntary access block on a portion of the Wells Fargo Loan facility which subsequently removes the requirement for the covenants attached to the facility to be tested in the going concern period.

In December 2022 management performed the annual impairment review of fixed assets which has resulted in a further impairment charge of c.£17.5m which will be recognised in the 2022 financial statements. The impairment charge arises due to a reduction in forecast performance driven by the economic impact of the by the invasion of Ukraine in February 2022 which had a significant impact on already rising inflation in the UK further impacting consumer confidence. Given this is post the balance sheet date it is not deemed appropriate to recognise the impairment charge in these accounts.

## HHGL LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 26 DECEMBER 2021

**30. Post balance sheet events (continued)**

At the date of signing the accounts, a wider Group corporate simplification exercise is planned, if performed, will remove *eight intermediate holding companies from the Group structure to improve transparency and reduce administrative costs going forward*. As part of the simplification process, the Company will become a direct subsidiary of the ultimate parent. The ultimate ownership of the Group will not change as a result of the simplification exercise. Loan facilities provided by Homebase (UK&I) Holdings Limited to the Group will be assigned to Ark Finco UK Limited (another Group company), and will continue to be provided to the Group on existing terms.

**31. Controlling party**

At the date of signing the accounts, the Company's immediate parent undertaking is Homebase (UK & I) Holdings 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.