Registration Number
NI 0011639

Hampden Group Limited

Report and Financial Statements

For the 16 months ended
30 June 2018

unaudited

Hampden Group Limited

Annual Report and Financial Statements for the year to 30 June 2018

Hampden Group Limited is the Northern Ireland trading company of the Homebase (UK&I) Holdings Limited Group, whose overview and turnaround plan summary are shown below.

Implementation of Turnaround Plan on Track Following Challenging 2016-2018

Overview

- The following set of accounts covers the period during which Wesfarmers Limited ("Wesfarmers") was the ultimate parent company of Homebase (UK & I) Holdings Limited ("Homebase").
- The combined accounts for 28 February 2016 to 30 June 2017 and 1 July 2017 to 30 June 2018 show total losses before tax and interest in the Group of £(837.0)m for the period. The key contributors to the total losses during the period were:
    - £(415.3)m operating losses
    - £(345.2)m acquisition write off
    - £(104.2)m fixed asset write off
    - £27.2m of provision adjustments and restructuring costs.

Summary of Turnaround Plan

- Following the sale of Homebase, the management team has executed a comprehensive turnaround plan to restructure the business, focusing on the fixed cost base, rebuilding the range and offer and improving the customer experience.
- Significant progress has been made to deliver financial and operational stability, putting Homebase on course to return to profitability.
- An update on Homebase performance following the change in ownership and implementation of the turnaround plan can be found in the **Homebase (UK & I) Holdings Limited accounts for the period 1 July 2018 to 30 December 2018.**

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Hampden Group Limited
Report and Financial Statements
For the 16 months ended 30 June 2018

Contents

Hampden Group Limited
Strategic report for the 16 months to 30 June 2018

The directors present the Strategic report together with their Directors report and the audited financial statements of Hampden Group Limited (the "Company") for the 16 month period 1 March 2017 to 30 June 2018 ("2018"). The comparative period is the year 1 March 2016 to 28 February 2017 ("2017").

Review of the business and future developments

In the period the Company generated sales of £62,942,000 (2017: £44,614,000) and reported a loss of £262,579,000 (2017: £5,445,000 profit). Trading for the year remained challenging as the business continued the implementation of the Bunnings strategic plan. In February 2018 Wesfarmers, the former ultimate parent company, initiated a review of that strategy following a significant decline in sales and greater than expected losses across the Homebase network as non-core categories and concessions were exited and the business was impacted by significant change and disruption caused by the rapid repositioning of the business under the Bunnings plan. In June 2018, following the review, Bunnings sold Homebase (UK & I) Holdings Limited, a parent company ("Group"), and the Homebase business to Ark UK Holdings Limited, a UK company. The Group also announced a restructuring of the Store Support Centre operated by a subsidiary, HHGL Limited, to reflect the expected reduction in the number of stores and also position the business to achieve its turnaround plan.

The Company had net assets at the period end of £70,072,000 (2017: £329,964,000).

Key performance indicators (KPI's)	**16 months to 30 June 2018**	12 months to 28 February 2017
No. of stores	**9**	9
Gross margin	**36.7%**	35.1%

Going Concern

When considering the going concern basis for preparation of the accounts, the directors and senior management in the Group have considered both the reasons for the losses made in the Group and the actions needed to reverse the performance and return the business to profitability.

In the year to June 2018 the performance of the Group and the strategy followed by the then management and shareholders resulted in an unsustainable loss which if there had been no change of strategy, the Group would have required further significant investment from a parent company.

Between January and June 2018 there was a change of strategic direction, which resulted in considerable changes to management– including replacing all of the executive directors, a comprehensive strategic review of the company and a change of ownership to Ark UK Holdings Limited, a company that is supported by Hilco Capital, a turn-around specialist with experience of dealing with companies requiring deep turnaround and considerable strategic changes.

Strategic changes that have taken place since the new management and shareholders took over have included:

- Eliminating the strategy of every day low pricing and returning to promotions and offers
- Embarking on a stock reduction strategy
- Implementing considerable changes to the way stores operate by "Better Shop Keeping", Focusing on the basics, improving the availability of products and training our team members to deliver great service

- Working to deliver quick and efficient changes and develop a management plan for 2018-21 which:
  - o Closes loss making stores and renegotiates rents via a Company Voluntary Arrangement.
  - o Reduces costs in the business to reflect its smaller store estate and inefficiencies that had developed during the previous ownership.
  - o Reintroduces ranges that had proved popular with Homebase's core customers in the past such as home furnishings, furniture and kitchens.
  - o Lays a path to approaching EBITDA breakeven in 2019 and profitability thereafter.

The development of the plan and evidence of the actions already being taken allowed for the acquisition of the business on 10 June 2018 by Ark UK Holdings Limited.

The initial implementation of the turnaround plan has resulted in sales stabilising and considerable reductions in the cost base allowing the business to secure working capital debt facilities from its shareholders and Wells Fargo Bank. The facilities at their maximum total £25,000,000 from the shareholders and £95,000,000 from Wells Fargo. The facilities last for 3 years from November 2018 and provide the business with sufficient working capital to fund the turnaround plan and provide capital for investment in stock, the store estate and digital infrastructure. As is usual with this type of bank facility there are covenants that the group must abide by, the most significant of which relates to trading cashflow and EBITDA performance.

Going concern (continued)

Given the substantial changes in the business in the last 12 months, Homebase is a considerably different business and the directors believe that the Group is on track to break even at EBITDA level in the calendar year 2019. The directors have a reasonable expectation therefore that the Group and Company have adequate resources to continue to operate for the foreseeable future, at the date of signing, they continue to adopt the going concern basis in preparing these financial statements.

Principal risks and uncertainties

The principal risks and uncertainties affecting the Company relate to volatility in retail market conditions, competition and UK consumer confidence especially in light of on-going Brexit negotiations. The Company will continue to experience a significant amount of transformational change as it rebuilds the Homebase brand.

Financial risk management

Responsibility for managing financial risk lies with the directors, in consulatation with senior management of the wider group, who assess the Company's short, medium and long term funding and liquidity requirements.

Foreign exchange risk

The Company is exposed to translation and transaction foreign exchange risk through the purchase of stock from overseas suppliers, recharged to the Company via its subsidiary, HHGL Limited. Transaction risk is managed at a group level with any materially mismatched cash flows being considered for hedging.

Interest rate risk

The Company has no significant interest rate risk.

Credit risk

The Company has no significant concentration of credit risk.

Liquidity 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. As noted under Subsequent events on page 4, following the acquisition by Ark UK Holdings Limited in June 2018 the Group secured 3 year funding facilities of up to £120,000,000 in November 2018 to support the working capital requirements of the business.

UK exit from the European Union

The directors have considered the risks associated with a disorderly UK exit from the European Union and are working with suppliers, hauliers and team members to mitigate the impact that this would have on the business. The key risk to the business would be the disruption to the supply chain in respect of horticultural products from mainland Europe. The extensions to the exit date have reduced the impact from a disorderly exit and have given the Group further time to plan for either a disorderly or orderly transition period.

On behalf of the Board

A C Coleman
Director

Date: 24 June 2019

Hampden Group Limited
Directors' report for the 16 months ended 30 June 2018

Principal activities

The principal trading activity of Hampden Group Limited ("the Company") is the retailing of home improvement and garden products from Homebase stores within Northern Ireland. The Company is also an investment holding company for a number of subsidiary undertakings which include the indirectly held Homebase retail businesses in Great Britain and the Republic of Ireland.

Registered number

The registered number of the Company is NI 0011639.

Results and dividends

The loss for the financial period was £262,579,000 (2017 financial year: £5,445,000 profit). Future development, financial risk management and principal risks and uncertainties that are relevant to the Company's business are considered within the Strategic Report on page 1.

Directors

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

- D G McGloughlin (appointed 22 December 2017)
- A C Coleman (appointed 15 December 2017)
- P J C Davis (resigned 8 February 2018)
- R J Boys (resigned 15 December 2017)
- D J Haydon (appointed 22 December 2017, resigned 11 June 2018)

Company Secretary

S Tudor (appointed 3 January)

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards and applicable law (United Kingdom Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that 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;
- state whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Directors' liability insurance and third party indemnification provisions

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

Employees

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

Hampden Group Limited

Directors' report for the 16 months ended 30 June 2018

Disabled persons

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

Disclosure of information to auditors

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

a) so far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware, and

b) the directors have taken all steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

Auditors

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

Modern Slavery Act

A statement on the Company's response to the Modern Slavery Act can be found on the Homebase website www.homebase.co.uk\statements & policies.

Subsequent events

On 14 August 2018, HHGL Limited, a subsidiary and the principal Group trading entity in Great Britain, entered into a Company Voluntary Arrangement ("CVA") with its creditors, the terms of which were ratified at the company's creditors meeting on 31 August 2018, with the aim to close 42 stores and seek a reduction in rental costs of between 25 per cent and 90 per cent on a further 70 stores. At the time of signing these financial statements those closures and rental reductions have been substantially enacted and savings achieved in rental and operational costs which should lead to the company approaching breaking even at EBITDA level in 2019. The Store Support Centre was restructured to reflect the reduced number of stores and also position the business to achieve its turnaround plan. On 22 November the Group secured an asset-based lending facility of up to £95,000,000 with Wells Fargo Capital Finance and on 1 November 2018 the Group secured £25,000,000 from Ark Finco UK Limited, a subsidiary of Ark UK Holdings Limited. These facilities are secured by fixed and floating charges over the assets of the Company and other Group company assets.

On behalf of the Board

A.C.L

A C Coleman
Director

Date: 24 June 2019

Registered Office
21 Arthur Street
Belfast
Northern Ireland
BT1 4GA

Independent auditor's report to the members of Hampden Group Limited

Opinion

We have audited the financial statements of Hampden Group Limited for the period ended 30 June 2018 which comprise the Income statement, the Statement of comprehensive income, the Balance sheet, the Statement of changes in equity and the related notes 1 to 25, 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 Company's affairs as at 30 June 2018 and of its loss for the 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 below. We are independent of the Company 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.

Conclusions relating to going concern

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

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

Other information

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

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

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

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

Independent auditor's report to the members of Hampden Group Limited (continued)

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's 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.
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.

PMcIver

Peter McIver (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

Date : 24 June 2019

Hampden Group Limited
Income statement
For the 16 months ended 30 June 2018

	Notes	16 months to 30 June 2018 £'000	12 months to 28 February 2017 £'000
Turnover	4	**62,943**	44,614
Cost of sales		**(40,067)**	(28,935)
Gross profit		**22,875**	15,679
Net operating expenses	5	**(31,443)**	(9,408)
Operating (loss)/profit before exceptional items		**(8,568)**	6,271
Net operating expenses - exceptional items (note 6)	6	**(253,709)**	-
Operating (loss)/profit before interest and taxation		**(262,277)**	6,271
Interest receivable and similar income	8	**(241)**	(772)
(Loss)/profit before taxation		**(262,518)**	5,499
Tax on (loss)/profit	9	**(61)**	(54)
(Loss)/profit for the financial period/year		**(262,579)**	5,445

All amounts relate to continuing activities.

Hampden Group Limited
Statement of comprehensive income
For the 16 months ended 30 June 2018

	Notes	**16 months to 30 June 2018 £'000**	12 months to 28 February 2017 £'000
(Loss)/profit for the financial period/year		**(262,579)**	5,445
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of the net defined benefit pension obligation	17	**3,670**	(3,646)
Tax (charge)/credit in respect of items not reclassified	9	**(983)**	598
Other comprehensive income/(expense) for the period, net of tax		**2,687**	(3,048)
Total comprehensive (expense)/income for the financial period/year		**(259,892)**	2,397

Hampden Group Limited
Balance Sheet
As at 30 June 2018

	Notes	30 June 2018 £'000	28 February 2017 £'000
ASSETS			
Non-current assets			
Tangible assets	10	-	776
Investments	11	88,282	340,588
Total non-current assets		88,282	341,364
Current assets			
Stock	12	6,259	8,396
Debtors	13	887	2,313
Cash at bank and in hand	14	594	432
Total current assets		7,740	11,141
Total assets		96,022	352,505
LIABILITIES			
Non-current liabilities			
Creditors: amounts falling due after more than one year	15	(1,786)	(2,006)
Provisions for liabilities	16	(3,010)	(3,468)
Pension liabilities	17	-	(4,180)
Total non-current liabilities		(4,796)	(9,654)
Current liabilities			
Creditors: amounts falling due within one year	15	(20,156)	(12,339)
Provisions for liabilities	16	(998)	(548)
Total current liabilities		(21,154)	(12,887)
Total liabilities		(25,950)	(22,541)
Net assets		70,072	329,964
Capital and reserves			
Called up share capital	19	33,350	33,350
Retained earnings		36,722	296,614
Total shareholders' funds		70,072	329,964

The financial statements on pages 7 to 27 were approved by the Board of Directors and were signed on their behalf by:

A Coleman
Director

Date: 24 June 2019

Hampden Group Limited
Statement of changes in equity
For the 16 months ended 30 June 2018

	Attributable to owners of the Company		
	Called up share capital	**Retained earnings**	**Total shareholders' funds**
	£'000	**£'000**	**£'000**
Balance at 28 February 2017	**33,350**	**296,614**	**329,964**
Loss for the financial period	-	**(262,579)**	**(262,579)**
Other comprehensive income for the period	-	**2,687**	**2,687**
Total comprehensive expense for the financial period	-	**(259,892)**	**(259,892)**
Balance at 30 June 2018	**33,350**	**36,722**	**70,072**

	Attributable to owners of the Company		
	Called up share capital	Retained earnings	Total shareholders' funds
	£'000	£'000	£'000
Balance at 28 February 2016	33,350	294,217	327,567
Profit for the financial year	-	5,445	5,445
Other comprehensive loss for the year	-	(3,048)	(3,048)
Total comprehensive income for the financial year	-	2,397	2,397
Balance at 28 February 2017	33,350	296,614	329,964

1. General information

Hampden Group Limited ("the Company") is a private limited company incorporated and domiciled in Northern Ireland under the Companies (Northern Ireland) Order 1986. The Company's registered address is 21 Arthur Street, Belfast, BT1 4GA.

The financial period represents the period from 1 March 2017 to 30 June 2018 (prior financial year: 52 weeks to 28 February 2017).

2. Basis of preparation

Impact of first time adoption of FRS 102 and basis for non-consolidation

The Company's financial statements were previously prepared under Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101).

As permitted by UK company law and regulations, the directors have decided to prepare the Company's current period financial statements in accordance with FRS 102, the Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland. The date of transition is 28 February 2016, being the beginning of the earliest period for which the Company is providing full comparative information. The Company has not previously reported under FRS 102.

The transition to FRS 102 has not resulted in any significant changes to the accounting policies previously applied by the Company or any numerical adjustments to the financial statements. Accordingly, no transition reconciliations of equity and profit or loss are provided.

As was previously the case under FRS 101, the preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires the directors to exercise judgement in applying the Company's accounting policies. Details of the significant judgements in applying accounting policies and the key sources of estimation uncertainty are set out below.

The financial statements, which are prepared on a going concern basis, are presented in pounds sterling and rounded to the nearest thousand.

The Company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements in respect of the group of which it is parent as it is included in the consolidated financial statements of Homebase (UK & I) Holdings Limited, its immediate parent.

FRS 102 – reduced disclosure exemptions for subsidiaries

As referred to above, the Company's immediate parent undertaking, Homebase (UK & I) Holdings Limited, prepares publicly available consolidated financial statements, which include the Company, and give a true and fair view of the assets, liabilities, financial position and profit or loss of the group it heads. These can be obtained from Companies House, Crown Way, Cardiff, CF14 3UZ.

Accordingly, as the Company meets the FRS 102 definition of a qualifying entity, it has decided to take advantage of certain disclosure exemptions available to such entities in preparing these financial statements. Details of the exemptions taken are as follows:

- No cash flow statement has been presented for the Company;
- Those financial instrument disclosure exemptions that are listed in paragraph 1.12 (c) of FRS 102 that would otherwise be relevant to the Company, as equivalent disclosures have been provided in respect of the group as a whole in the consolidated financial statements referred to above;

A summary of the principal accounting policies, that have been consistently applied, are set out in note 3.

2. Basis of preparation (continued)

Going concern

When considering the going concern basis for preparation of the accounts, the directors and senior management in the Group have considered both the reasons for the losses made in the Group and the actions needed to reverse the performance and return the business to profitability.

In the year to June 2018 the performance of the Group and the strategy followed by the then management and shareholders resulted in an unsustainable loss which if there had been no change of strategy, the Group would have required further significant investment from a parent company.

Between January and June 2018 there was a change of strategic direction, which resulted in considerable changes to management– including replacing all of the executive directors, a comprehensive strategic review of the company and a change of ownership to Ark UK Holdings Limited, a company that is supported by Hilco Capital, a turn-around specialist with experience of dealing with companies requiring deep turnaround and considerable strategic changes.

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Given the substantial changes in the business in the last 12 months, Homebase is a considerably different business and the directors believe that the Group is on track to break even at EBITDA level in the calendar year 2019. The directors have a reasonable expectation therefore that the Group and Company have adequate resources to continue to operate for the foreseeable future, at the date of signing, they continue to adopt the going concern basis in preparing these financial statements.

Judgements in applying accounting policies and key sources of estimation uncertainty

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

Taxes

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

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

Impairment of assets

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

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

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

Pension and post-employment benefits

The present value of the defined benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the defined benefit obligations and net pension costs include the expected long-term rate of return on the relevant plan assets and the discount rate. Any changes in these assumptions may impact the amounts disclosed in the Company's balance sheet and income statement.

The expected return on plan assets is calculated by reference to the plan investments at the period-end and is a weighted average of the expected returns on each main asset type (based on market yields available on these asset types at the period-end).

The Company determines the appropriate discount rate at the end of each period. This is the interest rate used to determine the present value of estimated future cash outflows expected to be required to settle the defined benefit obligations. In determining the appropriate discount rate, the Company considers the market yields of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity consistent with the estimated average term of the related pension liability. Other key assumptions for defined benefit obligations and pension costs are based in part on market conditions at the relevant period-ends and additional information is disclosed in note 17.

Stock provisions

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.

Provisions

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

3. Summary of principal accounting policies

Turnover

Turnover comprises the fair value of the consideration received or receivable for the sale of goods and services to external customers, net of value added tax ('VAT'), discounts and returns. Turnover is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of turnover can be measured reliably. Turnover on goods to be delivered is recognised when the customer receives delivery of the goods. Commissions receivable on the sale of services are included within turnover.

Foreign currencies

Transactions in foreign currencies are recorded at the exchange rate prevailing on the date of the transaction. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rate prevailing at the balance sheet date. Translation differences on monetary items are taken to the income statement.

3. Summary of principal accounting policies (continued)

Income tax

Income tax expense comprises current and deferred tax. Current and deferred tax amounts are recognised in the income statement, except to the extent that they relate to items recognised as other comprehensive income, in which case they are recognised in other comprehensive income.

Current tax

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

Deferred tax

Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority.

Deferred tax is recognised in respect of all timing difference that have originated but not reversed by the balance sheet date, except:

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

- Any deferred tax balances are reversed if and when all conditions for retaining associated tax balances have been met.

Tangible assets

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

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

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

Subsequent costs

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

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

- leasehold premises are depreciated over the period of the lease or the useful life of the lease, whichever is shorter;
- plant and equipment is depreciated over 3 - 20 years according to the estimated useful life of the relevant asset;

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

Investments

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

Debtors

Debtors are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment. A provision for impairment of debtors is established when there is objective evidence that the Company will not be able to collect all amounts due according to the

3. Summary of principal accounting policies (continued)

Debtors (continued)

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

Stock

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

The stocks held at the Company's retail outlets are consignment stocks that are legally owned by HHGL Limited, a subsidiary of the Company. However the Company bears the risks and rewards of ownership of the stock and accordingly, consignment stocks, and the associated creditor, are recognised in the Company's balance sheet until the time of such sale. Ownership of this consignment stock passes from HHGL Limited to the Company when the stock is sold by the Company

Cash at bank and in hand

Cash at bank and in hand relates to cash balances held by the Company's retail outlets.

Creditors

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

Operating leases

Leases entered into by the Company where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. Incentives from lessors are recognised as a systematic reduction of the charge over the life of the relevant lease.

Provisions

Provisions are recognised when:

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

Future operating losses and onerous lease

Provisions are not recognised for future operating losses. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense. Where the Group expects a provision to be reimbursed, the anticipated reimbursement amount is recognised as a separate asset if the likelihood of reimbursement is assessed as being virtually certain.

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

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

3. Summary of principal accounting policies (continued)

Pensions and post-retirement benefits

The Company has a defined benefit pension scheme, closed to new entrants in 2004 and closed to the accrual of future service benefits on 31 January 2014. The defined benefit obligations are calculated by independent actuaries using the projected-unit credit method. The present value of the defined benefit obligations is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability. The amount recognised in the balance sheet in respect of the defined benefit pension plan is the present value of the defined benefit obligations at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised past service costs. At 30 June the scheme was in surplus due to an £8,000,000 contribution from Wesfarmers Limited, a previous ultimate parent company. The Group does not recognise this surplus as being available to the Group. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the consolidated statement of comprehensive income. The Group is working with the scheme trustees and advisors and are considering a full buy-out of the scheme by a third-party whilst maintaining members benefits in full.

The Company contributes to the defined contribution Homebase Personal Pension Plan which is operated by HHGL Limited, its subsidiary. The scheme is funded by contributions partly from the employee and partly from the Company at rates determined in accordance with the Scheme rules. The cost of these contributions are charged to the income statement during the period in which they are payable.

Financial instruments

The Company holds financial instruments for the following purposes:

Financing: to raise finance for the Company's operations or to invest surplus funds. The principal types of instruments used include: cash, asset-backed loans and loans from fellow group undertakings.

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

Risk management: to reduce risks arising from the financial instruments described above, the entering into forward exchange contracts is considered by the Company where appropriate.

The Company classifies its financial instruments in the following categories: financial assets and financial liabilities at fair value through profit and loss and loans and receivables. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

Non-derivative financial instruments

Non-derivative financial instruments comprise intercompany loans, trade and other receivables, cash and cash equivalents. All loans are initially recognised at fair value, less directly attributable transaction costs. After initial recognition, where applicable, interest-bearing loans are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised.

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

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

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

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

3. Summary of principal accounting policies (continued)

The nominal value less estimated credit adjustments of short term trade debtors and creditors are assumed to approximate to their fair values. The fair value of any long term financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

Exceptional items

Items which are both material, in either size or nature, and non-recurring are presented as exceptional items within the income statement. The separate reporting of exceptional items helps provide a better indication of underlying performance of the Group. Examples of items which may be recorded as exceptional items are property provisions including onerous leases, impairment charges and restructuring costs.

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

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

4. Turnover	**2018**	2017
	£'000	£'000
Sale of home improvement and garden products	**62,943**	44,614

5. Net operating expenses	**2018**	2017
	£'000	£'000
Expenses by function		
Selling costs	**(22,571)**	(8,311)
Administrative expenses	**(8,872)**	(1,097)
	(31,443)	(9,408)

	2018	2017
(Loss)/profit before taxation is stated after (charging)/crediting:	**£'000**	£'000
Operating lease rentals:		
Plant and equipment	**-**	(3)
Property	**(7,555)**	(4,499)
Cost of stocks recognised as an expense in cost of sales	**(37,480)**	(26,562)
Write down of stock	**(2,270)**	(1,239)
Depreciation of tangible assets (note 10)	**(267)**	(203)
Auditors' remuneration:		
Company audit	**(11)**	(11)

No non-audit fees were incurred by the Company in the period (2107: Nil)

6. Exceptional items	**2018**	2017
	£'000	£'000
Restructuring costs	**-**	(354)
Charge to onerous lease provision	**(417)**	-
Impairment of investments in subsidiaries	**(252,306)**	-
Impairment of tangible assets	**(986)**	-
	(253,709)	(354)

Following a review of the store estate a further provision of £417,000 has been provided for onerous leases and £986,000 charged for tangible asset impairment, both shown as exceptional items in the income statement. In addition, as part of that impairment review, investments in subsidiaries were impaired by £252,306,000

7. Employee costs and employee numbers

	2018 £'000	2017 £'000
Employee costs		
Wages and salaries	(6,454)	(4,361)
Social security costs	(383)	(205)
Other pension costs	(63)	(73)
	(6,900)	(4,639)

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

	Number of employees 2018	Number of employees 2017
Average number of employees		
Stores	394	405
Administration and other	-	5
	394	410

No emoluments were paid to the directors for their services to the Company (2017: nil). The remuneration paid by other group companies for their services as directors of this company has been apportioned as £nil.

8. Interest payable and similar charges

	2018 £'000	2017 £'000
Interest payable and similar charges		
Unwinding of discounts in provisions (note 16)	(126)	(743)
Net interest expense on retirement benefit obligations (note 17)	(115)	(29)
Total interest payable and similar charges	(241)	(772)

9. Tax on (loss)/profit

	2018 £'000	2017 £'000
Analysis of charge in the period		
Total current tax charge	-	-

	2018 £'000	2017 £'000
Deferred tax:		
Movement in timing differences	(61)	(64)
Adjustments in respect of previous years	-	7
Effect of change in tax rate	-	3
Total deferred tax charge (note 18)	(61)	(54)
Total tax charge in the income statement	(61)	(54)

	2018 £'000	2017 £'000
Tax included in other comprehensive income		
Post-employment benefit obligations credit/(charge)	(983)	598
Total tax (charge)/credit in other comprehensive income	(983)	598

9. Tax on (loss)/profit (continued)

Factors affecting the tax charge

The effective tax rate for the period of -3.7% (2017: 1%), is lower (2017: lower) than the standard rate of corporation tax in the UK of 19.06% (2017: 20%). The differences are explained below:

	2018 £'000	2017 £'000
(Loss)/profit before taxation	(262,518)	5,499
(Loss)/profit before taxation multiplied by the standard rate of corporation tax in the UK (see above)	50,036	(1,100)
Effects of:		
Expenses not deductible for taxation purposes	(48,090)	(9)
Adjustment in respect of previous years	-	7
Effect of change in tax rate	-	3
Derecognition of opening DTA	(61)	-
Loss relief surrendered by group companies for £nil consideration	-	1,045
Losses not recognised	(1,946)	0
Total tax charge in the income statement	**(61)**	(54)

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 19.06% (2017: 20%).

10. Tangible assets

	Short leasehold properties £'000	Plant & equipment £'000	Total £'000
Cost			
At 1 March 2017	5,895	16,852	22,747
Additions	-	477	477
Disposals	-	(340)	(340)
At 30 June 2018	**5,895**	**16,989**	**22,884**
Accumulated depreciation			
At 1 March 2017	(5,895)	(16,076)	(21,971)
Charge for the period	-	(267)	(267)
Disposals	-	340	340
Impairment	-	(986)	(986)
At 30 June 2018	**(5,895)**	**(16,989)**	**(22,884)**
Net book value at 30 June 2018	-	-	-
Net book value at 28 February 2017	-	776	776

Store assets are subject to immediate reviews whenever changes in events or circumstances indicate that an impairment may have occurred. Store assets (or CGU to which those assets belong) are written down to the higher of fair value less costs to sell and value-in-use. The cash flows for the business are extrapolated using a long-term growth rate beyond the three year plan of 2% and are discounted using a discount rate of 18% to calculate the value-in-use. Following the acquisition by Ark UK Holdings Limited an impairment review was carried out resulting in store assets in the financial period being impaired by an additional £986,000. This is shown as an exceptional charge in the financial period.

11. Investments

	Subsidiaries £'000
Cost	
At 1 March 2017	340,588
At 30 June 2018	**340,588**
Accumulated impairment	
At 1 March 2017	-
Charge for period	(252,306)
At 30 June 2018	**(252,306)**
Net book value at 30 June 2018	**88,282**
Net book value at 28 February 2017	340,588

A full list of subsidiary undertakings at 30 June 2018 is provided in note 24. Following an impairment review at period end the investment value in subsidiaries was impaired by £252,306,000 and charged to the income statement as an exceptional item (note 6).

12. Stock

	2018 £'000	2017 £'000
Finished goods	6,259	8,396

Trading stock on 30 June 2018 represents consignment stock of £6,259,000 (2017: £8,396,000) which is legally owned by HHGL Limited, a subsidiary of the Company. The Company bears substantially all of the risks and rewards of trading this stock. Ownership of the consignment stocks passes from HHGL Limited to the Company when the Company sells the stock.

Stock written-down in the year amounted to £2,270,000 (2017: £1,239,000)

13. Debtors

	2018 £'000	2017 £'000
Amounts falling due after more than one year:		
Deferred tax (note 18)	-	1,044
Amounts falling due within one year:		
Trade debtors	-	2
Less provision for impairment of debtors	-	-
	-	2
Other debtors	411	136
Prepayments and accrued income	476	1,131
Total debtors	**887**	2,313

14. Cash at bank and in hand

	2018 £'000	2017 £'000
Cash at bank and in hand	594	432

15. Creditors

	Amounts falling due within one year	**Amounts falling due after more than one year**	Amounts falling due within one year	Amounts falling due after more than one year
	30 June 2018	**30 June 2018**	28 February 2017	28 February 2017
	£'000	**£'000**	£'000	£'000
Amounts owed to group undertakings	**(19,024)**	**-**	(10,966)	-
Accruals and deferred income	**(1,070)**	**(1,786)**	(1,343)	(2,006)
Other creditors	**(62)**	**-**	(30)	-
	(20,156)	**(1,786)**	(12,339)	(2,006)

Long-term creditors have been discounted where the time value of money is material.
Amounts owed to group undertakings at the period end are unsecured, repayable on demand and non-interest bearing.

16. Provisions for liabilities

	Property	**Insurance**	**Other**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
At 1 March 2017	**(3,922)**	**(64)**	**(30)**	**(4,016)**
Charged to the income statement	**(3)**	**-**	**-**	**(3)**
Onereous lease charge to exceptionals in the income statement (note	**(417)**			**(417)**
Utilised during the period	**554**	**-**	**-**	**554**
Discount unwind	**(126)**	**-**	**-**	**(126)**
At 30 June 2018	**(3,914)**	**(64)**	**(30)**	**(4,008)**

Analysed as

	2018	2017
	£'000	£'000
Amounts falling due within one year	**(998)**	(548)
Amounts falling due after more than one year	**(3,010)**	(3,468)
	(4,008)	(4,016)

Property provisions comprise obligations on onerous leases together with other costs or income associated with store closures. In respect of onerous leases, provision is made for onerous lease contracts on stores that have either closed, or for trading stores where projected future trading revenue is insufficient to cover the costs of operating the store on an ongoing basis, in which case the lower of the lease exit cost and the net cost of running the store to the end of the lease term is provided. 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 2023.

The restructuring provision relates to the announced restructuring of the Store Support Centre which is expected to be completed by the end of 2018.

Other provisions include provision for the estimated cost of warranties given on certain products sold and insurance liability claims not settled at the balance sheet date including the cost of claims that have arisen but not yet been reported to the Group as well as a provision for customer returns based on recent and expected run-rates. The majority of this provision is expected to be utilised over the period to 2019.

17. Post-employment benefits

Pension arrangements for employees are operated through a defined benefit scheme (the Hampden Group plc Pension Scheme) and a defined contribution scheme (the Homebase Personal Pension Plan). The defined benefit scheme has been closed to new entrants since 2004, and was closed to the accrual of future service benefits on 31 January 2014.

Defined contribution scheme

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

17. Post-employment benefits (continued)

Defined benefit scheme

The Company has a defined benefit pension scheme, closed to new entrants in 2004 and closed to the accrual of future service benefits on 31 January 2014. The defined benefit obligations are calculated by independent actuaries using the projected-unit credit method. The present value of the defined benefit obligations is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability. The amount recognised in the balance sheet in respect of the defined benefit pension plan is the present value of the defined benefit obligations at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised past service costs. At 30 June the scheme was in surplus due to an £8,000,000 contribution from Wesfarmers Limited, a previous ultimate parent company. The Group does not recognise this surplus as being available to the Group. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the consolidated statement of comprehensive income. The Group is working with the scheme trustees and advisors and are considering a full buy-out of the scheme by a third-party whilst maintaining members benefits in full.

The valuation used for FRS102 has been based on the most recent actuarial funding valuations and has been updated by KPMG LLP as at 30 June 2018 to take account of the requirements of FRS102 to measure the defined benefit obligation of the scheme at 30 June 2018.

The movements during the period in the net obligation recognised in the balance sheet were as follows:

	30 June 2018 £'000	28 February 2017 £'000
Opening deficit in the scheme	**(4,180)**	(1,005)
Total net charge recognised in the income statement	**(115)**	(29)
Actuarial gain/(loss) recognised in the other comprehensive income - gross of deferred tax	**3,670**	(3,646)
Contributions paid by employer in the period	**625**	500
Surplus/(deficit) in the scheme at 30 June 2018 and 28 February 2017	**-**	(4,180)

The Company's defined benefit scheme closed to the accrual of future service benefits on 31 January 2014. As a result, all previously active members of the scheme are now treated as deferred members. The effect of the closure is that these members are no longer entitled to pension benefits linked to future salary increases. This amounted to a change in benefit accruing to those members and resulted in a one-off reduction in the ultimate liabilities in respect of these individuals.

The amounts recognised in the balance sheet are determined as follows:	**30 June 2018 £'000**	28 February 2017 £'000
Fair value of scheme assets	**22,185**	15,747
Present value of funded scheme liabilities	**(16,734)**	(19,927)
Gain/(deficit) in funded scheme	**5,451**	(4,180)
Scheme surplus not recognised as being available to the Company	**(5,451)**	-
Retirement benefit obligations recognised in the balance sheet	**-**	(4,180)

The weighted average duration of the defined benefit obligation at 30 June 2018 is approximately 22 years (2017: 24 years).

The defined benefit obligation at 30 June 2018 can be approximately attributed to the scheme members as follows: Active members 0% (2017: 0%); deferred members 78% (2017: 89%); pensioner members 22% (2017: 11%). All benefits are vested at 30 June 2018 (unchanged from 28 February 2017).

An allowance was made in 2018 for a Guaranteed Annuity Rate (GAR) policy held by the scheme. This GAR policy has been allowed for by writing up the asset value, and the fair value of scheme assets shown above includes the additional value that the GAR Policy provides the scheme. At the period end, the value of the GAR Policy is £300,000 (2017: £2,000,000).

The amounts recognised in the income statement were as follows:	**30 June 2018 £'000**	28 February 2017 £'000
Interest expense on retirement benefit obligations	**(115)**	(29)
Total net charge recognised in the income statement	**(115)**	(29)

17. Post-employment benefits (continued)

Contributions to the Company's defined contribution pension arrangements are in addition to those set out in this note and are charged directly to the income statement.

The net charge referred to above is recognised in the following line items in the income statement:	**30 June 2018 £'000**	28 February 2017 £'000
Selling costs	-	-
Administrative expenses	-	-
Interest payable and similar charges (note 8)	**(115)**	(29)
Total net charge recognised in the income statement	**(115)**	(29)

Analysis of the amounts recognised in other comprehensive income:	**30 June 2018 £'000**	28 February 2017 £'000
Return on scheme assets excluding interest income	**(1,779)**	1,474
Actuarial gains arising from changes in demographic assumptions	**491**	-
Actuarial gain/(loss) arising from changes in financial assumptions	**984**	(5,120)
Experience gains on liabilities	**1,425**	-
Contributions paid directly to the scheme from Wesfarmers, the previous ultimate parent company	**8,000**	-
Surplus on scheme not recognised as available to the Company	**(5,451)**	-
Actuarial gain/(loss) recognised in other comprehensive income	**3,670**	(3,646)

The principal actuarial assumptions used to calculate the present value of the defined benefit liabilities were as follows:	**2018 %**	2017 %
Discount rate	**2.70**	2.60
Inflation assumption RPI	**3.05**	3.20
Inflation assumption CPI	**2.05**	2.20
Pension increases:		
• RPI capped at 5% pa	**2.95**	3.00
• RPI capped at 5% pa (subject to a minimum of 3%)	**3.60**	3.65

The demographic assumptions include an allowance for cash commutation of pension benefits by members in retirement.

The impact of changing material assumptions on the present value of the defined benefit liabilities is as follows:

		2018	2017
	Increase / decrease in assumptions	**Indicative effect on scheme liabilities £'000**	Indicative effect on scheme liabilities £'000
Rate of price inflation	0.25%	**+/- 500**	+/- 700
Rate of increase for pensions in payment	0.25%	**+/- 200**	+/- 200
Rate of increase for deferred pensions	0.25%	**+/- 300**	+/- 500
Discount rate	0.25%	**-/+ 900**	-/+ 1,200
Life expectancy	1 year	**+ 500**	+ 600

The above sensitivities are applied to adjust the defined benefit obligations at the end of the reporting period. Whilst the analysis does not take account of the full distribution of cashflows expected under the scheme, it does provide an approximation to the sensitivity of the assumptions shown.

The discount rate is based on yields on high quality corporate bonds of equivalent currency and term to the defined benefit obligation, or a suitable proxy.

17. Post-employment benefits (continued)

Based on these assumptions, the average expectation of life on retirement in normal health is assumed to be:

- 22.4 years at age 65 for a male currently aged 65 (2017: 22.8)
- 24.3 years at age 65 for a female currently aged 65 (2017: 24.9)
- 23.7 years at age 65 for a male currently aged 50 (2017: 24.4)
- 25.7 years at age 65 for a female currently aged 50 (2017: 26.7)

The major categories of scheme assets are as follows:

	30 June 2018			28 February 2017		
	Fair value of quoted assets	**Fair value of unquoted assets**	**Percentage of scheme assets**	Fair value of quoted assets	Fair value of unquoted assets	Percentage of scheme assets
	£'000	**£'000**	**%**	£'000	£'000	%
Market value of scheme assets:						
Equities	**4,601**	**-**	**21**	4,117	-	26
Diversified growth fund	**5,479**	**-**	**25**	5,702	-	36
Index-linked government bonds	**9,641**	**-**	**43**	1,644	-	11
Cash and cash equivalents	**158**	**-**	**1**	361	-	2
Value of Guaranteed Annuity Rate policy	**-**	**300**	**1**	-	2,000	13
With-profits fund	**-**	**2,006**	**9**	-	1,923	12
Fair value of scheme assets	**19,879**	**2,306**	**100**	11,824	3,923	100

Investment strategy

Investment risk is managed by diversifying the assets across asset classes whose return patterns are not highly correlated.

Changes in the present value of the defined benefit liabilities are as follows:

	2018	2017
	£'000	£'000
Opening defined benefit liabilities	**(19,927)**	(14,996)
Interest expense	**(664)**	(549)
Actuarial gains/(losses) arising from changes in financial assumptions	**984**	(5,120)
Actuarial gains arising from changes in demographic assumptions	**491**	-
Experience gains on liabilities	**1,425**	-
Benefits paid	**957**	738
Closing defined benefit liabilities	**(16,734)**	(19,927)

Changes in the market value of the scheme assets are as follows:

	2018	2017
	£'000	£'000
Opening fair value of scheme assets	**15,747**	13,991
Interest income	**549**	520
Return on scheme assets excluding interest income	**(1,779)**	1,474
Contributions paid by the Company	**8,625**	500
Benefits paid	**(957)**	(738)
Closing fair value of scheme assets	**22,185**	15,747

The pension scheme assets include neither assets arising from the Company's own financial instruments, nor any property occupied by, or used by, the Company (2017: £ nil).

The actual return on scheme assets was a loss of £1,230,000 (2017: £1,994,000 gain)

Risks

The Company is exposed to a number of risks in relation to its defined benefit scheme, the most significant ones being longevity risk, interest rate risk, market (investment) risk and currency risk.

18. Deferred tax

The movements on the deferred tax account are as follows:	**30 June 2018**	28 February 2017
	£'000	£'000
Opening deferred tax assets	**1,044**	500
Income statement charge	**(61)**	(54)
Deferred tax (charged)/credited to other comprehensive income	**(983)**	598
Closing deferred tax assets	**-**	1,044

The deferred tax amounts recognised are as follows:	**30 June 2018**	28 February 2017
	£'000	£'000
Deferred tax assets:		
Deferred tax asset to be recovered after more than one year	-	1,044

The closing deferred tax balance has been calculated at the enacted rate of 19.06% (2017: 18%) which differs from the UK corporation tax rate applied to the current period adjusted profits at 20%.

The movement in deferred tax assets during the period is as follows:

	Asset provision	**Accelerated tax depreciation**	**Other timing differences**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Deferred tax assets:				
At 28 February 2016	1	318	181	500
Income statement credit/(charge)		37	(94)	(57)
Deferred tax charged to other comprehensive income	-	-	729	729
Rate change impact	-	(23)	(105)	(128)
At 1 March 2017	1	332	711	1,044
Income statement credit/ (charge)	(1)	(332)	272	(61)
Deferred tax charged to other comprehensive income	-	-	(983)	(983)
Rate change impact	-	-	-	-
At 30 June 2018	-	-	-	-

Deferred tax assets are recognised for tax loss carry-forwards and other timing differences to the extent that there is an expectation that these will be capable of being utilised either against future taxable profits generated by the Company, or through being made available via group relief.

19. Called up share capital

	30 June 2018	28 February 2017
	£'000	£'000
Allotted, called-up and fully paid:		
333,500,520 ordinary shares at 10p each	33,350	33,350

20. Operating leases

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

	30 June 2018 Land and buildings £'000	30 June 2018 Equipment and vehicles £'000	28 February 2017 Land and buildings £'000	28 February 2017 Equipment and vehicles £'000
Less than one year	(4,715)	-	(4,715)	(15)
Between one and five years	(18,861)	-	(18,862)	(12)
More than five years	(21,511)	-	(24,627)	-
Total	**(45,087)**	-	(48,204)	(27)

21. Contingent liabilities

The Company has guaranteed the lease obligation on a store owned by its indirectly held subsidiary undertaking, HHGL Limited. The annual lease payments made by HHGL Limited and which have been guaranteed by the Company amount to €900,000 (2017: €900,000). The remaining life of this guaranteed lease is 2.1 years.

22. Controlling party information

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. The registered office of Homebase (UK & I) Holdings Limited is 80 New Bond Street, London. W1S 1SB.

The smallest Group of undertakings for which Group financial statements have been drawn up will be that headed by Homebase (UK & I) Holdings Limited at 30 June 2018. The largest Group of undertakings for which Group financial statements will be drawn up will be that headed by Ark UK Holdings Limited and the first time the Hampden Group Limited financial statements will appear in those Group financial statements will be those produced for 31 December 2018.

23. Related party transactions

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

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.

24. Subsidiary undertakings

Undertaking	Registered address of the undertaking (All England unless otherwise stated)	Direct/indirect holding	Percentage of ordinary shares held
Homebase Group Limited	Witan Gate House, 500 - 600 Witan Gate, Milton Keynes, MK9 1BA	Direct	100
Fifthgrange Limited	Witan Gate House, 500 - 600 Witan Gate, Milton Keynes, MK9 1BA	Indirect	100
Iconford Limited	Witan Gate House, 500 - 600 Witan Gate, Milton Keynes, MK9 1BA	Indirect	100
Beddington House (No.4) Limited	Witan Gate House, 500 - 600 Witan Gate, Milton Keynes, MK9 1BA	Indirect	100
Homebase Card Handling Services Limited	Witan Gate House, 500 - 600 Witan Gate, Milton Keynes, MK9 1BA	Indirect	100
HHGL Limited (formerly Homebase Limited)	Witan Gate House, 500 - 600 Witan Gate, Milton Keynes, MK9 1BA	Indirect	100
HHGL (ROI) Limited (formerly Homebase House and Garden Centre Limited)	Riverside One, Sir John Rogerson's Quay, Dublin 2. DO2X576	Direct	5.8

Hampden Group Limited
Notes to the financial statements (continued)
For the 16 months ended 30 June 2018

24. Subsidiary undertakings (continued)

HHGL (ROI) Limited (formerly Homebase House and Garden Centre Limited)	Riverside One, Sir John Rogerson's Quay, Dublin 2. DO2X576	Indirect	94.2
Index Limited	Witan Gate House, 500 - 600 Witan Gate, Milton Keynes, MK9 1BA	Indirect	100
Texas Services Limited	Witan Gate House, 500 - 600 Witan Gate, Milton Keynes, MK9 1BA	Indirect	100
Homebase Spend & Save Limited	Witan Gate House, 500 - 600 Witan Gate, Milton Keynes, MK9 1BA	Indirect	100
Focal Point (Lighting) Limited	Witan Gate House, 500 - 600 Witan Gate, Milton Keynes, MK9 1BA	Indirect	100
MI Home Limited	Witan Gate House, 500 - 600 Witan Gate, Milton Keynes, MK9 1BA	Indirect	100
Modern Interiors Limited	Witan Gate House, 500 - 600 Witan Gate, Milton Keynes, MK9 1BA	Indirect	100
Texas (NI) Limited	21 Arthur Street, Belfast, Northern Ireland, BT1 4GA	Indirect	100
Homebase (NI) Limited	21 Arthur Street, Belfast, Northern Ireland, BT1 4GA	Indirect	100
Homebase Group (2000) Limited	Witan Gate House, 500 - 600 Witan Gate, Milton Keynes, MK9 1BA	Indirect	100
Beddington House Holdings Limited	Witan Gate House, 500 - 600 Witan Gate, Milton Keynes, MK9 1BA	Indirect	100
Homebase Holdings Limited	Witan Gate House, 500 - 600 Witan Gate, Milton Keynes, MK9 1BA	Indirect	100
Home Charm Group Limited	Witan Gate House, 500 - 600 Witan Gate, Milton Keynes, MK9 1BA	Indirect	100
Home Charm Group Trustees Limited	Witan Gate House, 500 - 600 Witan Gate, Milton Keynes, MK9 1BA	Indirect	100
Homebase Direct Limited	Witan Gate House, 500 - 600 Witan Gate, Milton Keynes, MK9 1BA	Indirect	100
Texas Homecare (Northern Ireland) Limited	21 Arthur Street, Belfast, Northern Ireland, BT1 4GA	Indirect	100
Texas Homecare Installation Services Limited	Witan Gate House, 500 - 600 Witan Gate, Milton Keynes, MK9 1BA	Indirect	100
Texas Installations Limited	Witan Gate House, 500 - 600 Witan Gate, Milton Keynes, MK9 1BA	Indirect	100
Texas Homecare Limited	Witan Gate House, 500 - 600 Witan Gate, Milton Keynes, MK9 1BA	Indirect	100
Quickinstant Limited	Witan Gate House, 500 - 600 Witan Gate, Milton Keynes, MK9 1BA	Indirect	100
Sandfords Limited	Witan Gate House, 500 - 600 Witan Gate, Milton Keynes, MK9 1BA	Indirect	100
Trend Decor Limited	Witan Gate House, 500 - 600 Witan Gate, Milton Keynes, MK9 1BA	Indirect	100
Lexden BH (Colchester) Limited	Witan Gate House, 500 - 600 Witan Gate, Milton Keynes, MK9 1BA	Indirect	100
Lexden BH Limited	44 Esplanade, St. Helier, Jersey, JE4 9WG	Indirect	100

25. Post balance sheet events

On 14 August 2018 HHGL Limited, an indirect subsidiary of the Company trading in Great Britain, entered into a Company Voluntary Arrangement ("CVA") with its creditors, the terms of which were ratified at the company's creditors meeting on 31 August 2018, with the aim to close 42 stores and seek a reduction in rental costs of between 25 per cent and 90 per cent on a further 70 stores. At the time of signing these financial statements 47 stores have closed and rental reductions have been substantially enacted and savings achieved in rental and operational costs which should lead to an estimated £220 million reduction in operating lease commitments for HHGL Limited.

The Store Support Centre for the Group, based in England, was restructured to reflect the reduced number of stores and also position the business to achieve its turnaround plan.

In October 2018 the High Court delivered a judgement on the Guaranteed Minimum Pension equalisation ("GMP"). KPMG LLP, the actuary for the Hampden Group Limited defined benefit pension scheme have reviewed the implications of the judgement on the scheme and estimated that a plan amendment may be required to the defined benefit obligation of £132,000. The Group is working with the scheme trustees and advisors and are considering a full buy-out of the scheme by a third-party whilst maintaining members benefits in full.

In November 2018 the Group secured an asset-based lending facility of up to £95,000,000 with Wells Fargo Capital Finance and a facility of up to £25,000,000 from its shareholders. This facility is secured by a fixed and floating charge over the assets of the Company and other Group subsidiary company assets.