Registration Number
NI 0011639

Hampden Group Limited

Report and Financial Statements

For the 6 months ended
30 December 2018

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Report and Financial Statements for the Period to 30 December 2018

Hampden Group Limited is the Northern Ireland trading company of the Homebase (UK&I) Holdings Limited Group, whose overview, strategic highlights and improved current trading are shown below.

<u>Delivery of Turnaround Plan on Track with Improvement in Performance</u>

Overview

- Following the sale of Homebase (UK & I) Holdings Limited ("Homebase") in June 2018, the management team has executed a comprehensive turnaround plan to restructure the business.
- Significant progress has been made to deliver financial and operational stability, creating a strong platform for the future.

Operational and strategic highlights

Cost reduction

- Delivered a reduction of the fixed cost base of approximately £100m through the following measures:
  - Store Support Centre (Head Office) Restructure; Reduced head count by 38% and reorganised operations to remove complexity, increase productivity and simplify the business.
  - Company Voluntary Arrangement ("CVA"); Closed 47 significantly loss-making stores and secured rent reductions on an additional 70 stores.
  - Streamlined distribution network; Closed two out of six distribution centres to reflect the requirements of a smaller store network and improved stock management.
- Secured an asset-based lending facility of up to £95m from Wells Fargo Capital Finance to support working capital requirements.

Improved shop keeping and in-store experience

- Responding to strong customer demand by enhancing its kitchen and lighting offer, as well as reintroducing popular ranges such as furniture and soft furnishings.
- Brought back complementary in-store concessions, with partnerships announced with Tapi, Silentnight and Ponden Home.
- Enhanced team member training programmes, with the number of team members till trained more than doubling, with 95% now qualified. Over three quarters of the team are now trained to take customer orders and able to mix paint.
- Laid the foundations to rebuild the digital offer, with early initiatives generating a double digit increase in traffic to the Homebase website.

Outlook and current trading

The successful delivery of the first phase of the turnaround plan has had a positive impact on performance and the momentum has continued into 2019.

Management are confident a solid platform for future growth is now in place and the business is well positioned as it enters the key Spring and Summer trading period.

Financial overview for period 1 July 2018 to 30 December 2018

The business has delivered a much stronger performance during the six months to 30 December 2018, with EBITDA losses declining by nearly £140m. Gross Profit, which increased by 21.8%, benefitted from improved margin performance driven by significant improvements in both stock loss and the overall quality of stock.

	6 months to 30 December 2018* (£'m)	**6 months to 31 December 2017* (£'m)**	**% Change**
Turnover	497.8	515.6	(3.5)%
Gross Profit	217.1	178.3	21.8%
Operating loss pre - exceptionals	(35.3)	(187.3)	81.2%
EBITDA loss pre - exceptionals	(33.0)	(172.3)	80.8%
Exceptionals**	27.1	-	
Operating loss post exceptionals	(8.3)	(187.3)	95.6%

**Due to changes in the ownership and to the company's year-end reporting date, it is not possible to provide an audited year-on-year comparison. As a result, figures provided for the period 1 July 2017 to 31 December 2017 are from the unaudited management accounts.*
***Net exceptional gains of £27.1m during the period reflect the profit on the sale of a freehold store and the writeback of provisions made on leasehold property.*

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Hampden Group Limited
Strategic report for the 6 months to 30 December 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 6 month period 1 July 2018 to 30 December 2018 ("December 2018"). The comparative period is the 16 month period 1 March 2017 to 30 June 2018 ("June 2018").

Review of the business and future developments

In the period the Company generated sales of £19,305,000 (June 2018: £62,942,000) and reported a loss of £10,356,000 (June 2018: £262,334,000 loss) which included an exceptional charge of £10,527,000 for the impairment of its investment in subsidiaries. After considerable change over the past two years for the Group businesses in the UK and the Republic of Ireland, the outlook for the Group is now much improved. On the 14th August 2018, HHGL Limited, an indirect subsidiary and the primary trading company in Great Britain, proposed a Company Voluntary Arrangement (CVA), with its creditors, the terms of which were ratified on 31 August 2018. The CVA resulted in the closure of 47 stores in Great Britain and resulted in rent reductions in a further 70 stores. The CVA allowed the Group to secure working capital facilities to fund the turnaround of the business. In November 2018 facilities totalling up to £120,000,000 were secured with Wells Fargo Capital Finance and Ark Finco UK Limited, a subsidiary of the Company's ultimate parent company. The reshaping and refinancing of the business that occurred in the period to 30 December 2018 have enabled the directors of the business to set a budget at approaching breakeven EBITDA for the 2019 financial year.

The Company had net assets at the period end of £59,716,000 (June 2018: £70,072,000).

Key performance indicators (KPI's)	**6 months to 30 December 2018**	16 months to 30 June 2018
No. of stores	**9**	9
Gross margin	**47.4%**	36.3%

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 taken to reverse the performance and return the business to profitability, as well as looking at current forecast performance.

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.

In the six months to 30 December 2018 the strategy outlined in the June 2018 strategic report has continued to be implemented. Business performance has stabilised with the implementation of cost reduction plans, improved instore and online retail experience and reintroduced ranges that customers expect from Homebase. The 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 has helped facilitate the ongoing changes which include:

- Eliminating everyday low pricing and returning to promotions and offers
- Continuing the stock reduction strategy
- Implementing considerable changes to the stores with "Better Shop Keeping", focusing on retail basics, improving the availability of products and training team members to deliver great service.

On the 14th August 2018 a subsidiary company, HHGL Limited, proposed a Company Voluntary Arrangement (CVA), with its creditors, the terms of which were ratified on 31 August 2018. The CVA resulted in the closure of 47 stores and resulted in rent reductions in a further 70 stores. The CVA allowed the Group to secure working capital facilities to fund the turnaround of the business. In November 2018 facilities totalling up to £120,000,000 were secured with Wells Fargo Capital Finance and Ark Finco UK Limited, a subsidiary of the Company's ultimate parent company. The facilities will allow the business to invest in new ranges, 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 cash flow and EBITDA performance.

The directors have set a budget for 2019 which as a result of sales growth, the cost reduction strategy and the smaller store estate approaches break even EBITDA for the year. At the time of writing the group is performing in line with the 2019 budget. The impact of the turnaround strategy and the change in performance has given the directors a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future thus, 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 consultation 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. 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 6 months ended 30 December 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 £10,356,000 (June 2018: £262,334,000 loss). 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
- A C Coleman

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 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 6 months ended 30 December 2018 (continued)

Disabled persons

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

Disclosure of information to auditors

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

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

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

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

Auditors

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

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

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

On behalf of the Board

A C Coleman
Director

Date: 24 June 2019

Registered Office
21 Arthur Street
Belfast
Northern Ireland
BT1 4GA
Registered Number: NI 011639

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 December 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 26, 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 December 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 3, 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.

PAMcIver

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 and statement of comprehensive income
For the 6 months ended 30 December 2018

Income Statement

	Notes	6 months to December 2018 £'000	16 months to June 2018 £'000
Turnover	4	19,305	62,942
Cost of sales		(10,151)	(40,067)
Gross profit		9,154	22,875
Distribution costs		(1,146)	(4,328)
Administrative expenses	5	(7,818)	(27,115)
Operating loss before exceptional items		190	(8,568)
Net operating expenses - exceptional items	6	(10,527)	(253,709)
Operating loss before interest and taxation		(10,337)	(262,277)
Interest expense and similar charges	8	(19)	(241)
Loss before taxation		(10,356)	(262,518)
Tax on loss	9	-	(61)
Loss for the financial period		(10,356)	(262,579)

All amounts relate to continuing activities.

Statement of comprehensive income

	Notes	6 months to December 2018 £'000	16 months to June 2018 £'000
Loss for the financial period		(10,356)	(262,579)
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of the net defined benefit pension obligation	17	-	3,670
Tax (charge) in respect of items not reclassified	9	-	(983)
Other comprehensive income for the period, net of tax		-	2,687
Total comprehensive expense for the financial period		(10,356)	(7,341)

Hampden Group Limited
Balance Sheet
As at 30 December 2018

ASSETS	Notes	**December £'000 2018**	**June £'000 2018**
Non-current assets			
Tangible assets	10	87	-
Investments	11	77,755	88,282
Total non-current assets		77,842	88,282
Current assets			
Stock	12	6,849	6,259
Debtors	13	690	887
Cash at bank and in hand	14	959	594
Total current assets		8,498	7,740
Total assets		86,340	96,022
LIABILITIES			
Non-current liabilities			
Creditors: amounts falling due after more than one year	15	(1,606)	(1,786)
Provisions for liabilities	16	(1,963)	(3,010)
Total non-current liabilities		(3,569)	(4,796)
Current liabilities			
Creditors: amounts falling due within one year	15	(21,614)	(20,156)
Provisions for liabilities	16	(1,441)	(998)
Total current liabilities		(23,055)	(21,154)
Total liabilities		(26,624)	(25,950)
Net assets		59,716	70,072
Capital and reserves			
Called up share capital	19	33,350	33,350
Retained earnings		26,366	36,722
Total shareholders' funds		59,716	70,072

The financial statements on pages 7 to 25 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 6 months ended 30 December 2018

	Attributable to owners of the Company		
	Called up share capital	**Retained earnings**	**Total shareholders' funds**
	£'000	**£'000**	**£'000**
Balance at 1 July 2018	**33,350**	**36,722**	**70,072**
Profit for the financial period	-	**(10,356)**	**(10,356)**
Total comprehensive income for the financial period	**-**	**(10,356)**	**(10,356)**
Balance at 30 December 2018	**33,350**	**26,366**	**59,716**

	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 year	-	(259,892)	(259,892)
Balance at 30 June 2018	33,350	36,722	70,072

Hampden Group Limited
Notes to the financial statements
For the 6 months ended 30 December 2018

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 July 2018 to 30 December 2018.

2. Basis of preparation

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 Companies Act 2006.

The preparation of financial statements in compliance with FRS102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies (see note 3).

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.

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 taken to reverse the performance and return the business to profitability, as well as looking at current forecast performance.

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.

In the six months to 30 December 2018 the strategy outlined in the June 2018 strategic report has continued to be implemented. Business performance has stabilised with the implementation of cost reduction plans, improved instore and online retail experience and reintroduced ranges that customers expect from Homebase. The 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 has helped facilitate the ongoing changes which include:

- Eliminating everyday low pricing and returning to promotions and offers
- Continuing the stock reduction strategy
- Implementing considerable changes to the stores with "Better Shop Keeping", focusing on retail basics, improving the availability of products and training team members to deliver great service.

Going concern (continued)

On the 14th August 2018 the Company proposed a Company Voluntary Arrangement (CVA), with its creditors, the terms of which were ratified on 31 August 2018. The CVA resulted in the closure of 47 stores and resulted in rent reductions in a further 70 stores. The CVA allowed the Group to secure working capital facilities to fund the turnaround of the business. In November 2018 facilities totalling up to £120,000,000 were secured with Wells Fargo Capital Finance and Ark Finco UK Limited, a subsidiary of the Company's ultimate parent company. The facilities will allow the business to invest in new ranges, 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 cash flow and EBITDA performance.

The directors have set a budget for 2019 which as a result of sales growth, the cost reduction strategy and the smaller store estate approaches break even EBITDA for the year. At the time of writing the group is performing in line with the 2019 budget. The impact of the turnaround strategy and the change in performance has given the directors a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future thus, 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.

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).

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

Pension and post-employment benefits (continued)

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.

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 the Statement of comprehensive

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.

3. Summary of principal accounting policies (continued)

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 original terms of the debtors. The amount of the provision is recognised in the Balance sheet, with the cost of unrecoverable trade debtors recognised in the Income statement immediately. Trade receivables are shown gross of VAT.

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 stock, 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.

3. Summary of principal accounting policies (continued)

Creditors

Current trade and other payables which are expected to be settled within 12 months of the Balance sheet 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.

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 December 2018 the scheme was in surplus due to an £8,000,000 contribution in the prior period from Wesfarmers Limited, the 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.

Financial instruments (continued)

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 and 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 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.

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 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

	December 2018 £'000	June 2018 £'000
Sale of home improvement and garden products	19,305	62,942

5. Net operating expenses

	December 2018 £'000	June 2018 £'000
Profit/(loss) before taxation is stated after (charging)/crediting:		
Operating lease rentals:		
Property	#REF!	(7,555)
Cost of stocks recognised as an expense in cost of sales	(11,021)	(37,480)
Write down of stock	(373)	(2,270)
Depreciation of tangible assets (note 10)	(10)	(267)
Auditors' remuneration:		
Company audit	(11)	(11)

No non-audit fees were incurred by the Company in the period (June 2018: Nil)

6. Exceptional items

	December 2018 £'000	June 2018 £'000
Release of onerous lease provision	-	(417)
Impairment of investments in subsidiaries	(10,527)	(252,306)
Impairment of tangible assets	-	(986)
	(10,527)	(253,709)

Following a review of the store estate in the prior period 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. There has been no release of impairment in the current period.

7. Employee costs and employee numbers

	December 2018 £'000	June 2018 £'000
Employee costs		
Wages and salaries	(2,073)	(6,454)
Social security costs	(185)	(383)
Other pension costs	(30)	(63)
	(2,288)	(6,900)

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 December 2018	Number of employees June 2018
Average number of employees		
Stores	355	394
	355	394

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	**December 2018 £'000**	June 2018 £'000
Interest payable and similar charges		
Unwinding of discounts in provisions (note 16)	**(19)**	(126)
Net interest expense on retirement benefit obligations (note 17)	-	(115)
Total interest payable and similar charges	**(19)**	(241)

9. Tax on profit/(loss)	**December 2018 £'000**	June 2018 £'000
Analysis of charge in the period		
Total current tax charge	-	(61)

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

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

Factors affecting the tax charge

The effective tax rate for the period of 0% (June 2018: 1%), is lower (2018: lower) than the standard rate of corporation tax in the UK of 19.06% (June 2018: 19.06%). The differences are explained below:

	December 2018 £'000	June 2018 £'000
Loss before taxation	**(10,356)**	(262,518)
Loss before taxation multiplied by the standard rate of corporation tax in the UK (see above)	**1,974**	50,036
Effects of:		
Expenses not deductible for taxation purposes	**(2,019)**	(48,090)
Adjustment in respect of previous years	-	-
Effect of change in tax rate	-	-
Derecognition of opening DTA	-	-
Loss relief surrendered by group companies for £nil consideration	**(52)**	(61)
Losses not recognised	-	(1,946)
Total tax charge in the income statement	-	(61)

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% (June 2018: 19.06%).

10. Tangible assets

	Short leasehold properties £'000	Plant & equipment £'000	Total £'000
Cost			
At 1 July 2018	5,895	16,989	22,884
Additions	86	11	97
Disposals	-	-	-
At 30 December 2018	**5,981**	**17,000**	**22,981**
Accumulated depreciation			
At 1 July 2018	(5,895)	(16,989)	(22,884)
Charge for the period	(9)	(1)	(10)
Disposals	-	-	-
Impairment	-	-	-
At 30 December 2018	**(5,904)**	**(16,990)**	**(22,894)**
Net book value at 30 December 2018	**77**	**10**	**87**
Net book value at 30 June 2018	-	-	-

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 prior financial period being impaired by an additional £986,000. This is shown as an exceptional charge in the prior period.

11. Investments

	Subsidiaries £'000
Cost	
At 1 July 2018	340,588
At 30 December 2018	**340,588**
Accumulated impairment	
At 1 July 2018	(252,306)
Charge for period	(10,527)
At 30 December 2018	**(262,833)**
Net book value at 30 December 2018	**77,755**
Net book value at 30 June 2018	88,282

Following an investment impairment review the investment in subsiidaries was impaired by a further £10,527,000 in the period. A full list of subsidiary undertakings at 30 December 2018 is provided in note 25.

12. Stock

	December 2018 £'000	June 2018 £'000
Finished goods	6,849	6,259

Trading stock at period end represents consignment stock of £6,849,000 (June 2018: £6,259,000) 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 £373,000 (June 2018: £2,270,000)

13. Debtors

	December 2018 £'000	June 2018 £'000
Other debtors	180	411
Prepayments and accrued income	510	476
Total debtors	690	887

14. Cash at bank and in hand

	December 2018 £'000	June 2018 £'000
Cash at bank and in hand	959	594

15. Creditors

	Amounts falling due within one year 30 December 2018 £'000	Amounts falling due after more than one year 30 December 2018 £'000	Amounts falling due within one year 28 February 2017 £'000	Amounts falling due after more than one year 28 February 2017 £'000
Amounts owed to group undertakings	(20,691)	-	(19,024)	-
Accruals and deferred income	(774)	(1,606)	(1,070)	(1,786)
Other creditors	(149)	-	(62)	-
	(21,614)	(1,606)	(20,156)	(1,786)

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 £'000	Insurance and Other £'000	Total £'000
At 1 July 2018	(3,914)	(94)	(4,008)
Transfer from accruals	-	(62)	(62)
Charged to the income statement	(5)	(37)	(42)
Utilised during the period	692	35	727
Discount unwind	(19)	-	(19)
At 30 December 2018	(3,246)	(158)	(3,404)

Analysed as

	December 2018 £'000	June 2018 £'000
Amounts falling due within one year	(1,441)	(998)
Amounts falling due after more than one year	(1,963)	(3,010)
	(3,404)	(4,008)

16. Provisions for liabilities (continued)

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.

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 December 2018 the scheme was in surplus due to an £8,000,000 contribution in the prior period from Wesfarmers Limited, the 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 December 2018 to take account of the requirements of FRS102 to measure the defined benefit obligation of the scheme at 30 December 2018.

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.

17. Post-employment benefits (continued)

Defined benefit scheme (continued)

The amounts recognised in the balance sheet are determined as follows:

	December 2018 £'000	June 2018 £'000
Fair value of scheme assets	**25,056**	22,185
Present value of funded scheme liabilities	**(16,577)**	(16,734)
Gain/(deficit) in funded scheme	**8,479**	5,451
Scheme surplus not recognised as being available to the Company	**(8,479)**	(5,451)
Retirement benefit obligations recognised in the balance sheet	**-**	-

The net charge referred to above is recognised in the following line items in the income statement:

	December 2018 £'000	June 2018 £'000
Past service cost (credit)	**(132)**	-
Administrative expenses	**(80)**	-
Net interest on the defined benefit (asset) liability (note 8)	-	(115)
Total net charge recognised in the income statement	**(212)**	(115)

The principal actuarial assumptions used to calculate the present value of the defined benefit liabilities were as follows:

	December 2018 %	June 2018 %
Discount rate	**2.80**	2.70
Inflation assumption RPI	**3.40**	3.05
Inflation assumption CPI	**2.40**	2.05
Pension increases:		
• RPI capped at 5% pa	**3.20**	2.95
• RPI capped at 5% pa (subject to a minimum of 3%)	**3.75**	3.60

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

	Increase / decrease in assumptions	December 2018 Indicative effect on scheme liabilities £'000	June 2018 Indicative effect on scheme liabilities £'000
Rate of price inflation	0.25%	**+/- 500**	+/- 500
Rate of increase for pensions in payment	0.25%	**+/- 200**	+/- 200
Rate of increase for deferred pensions	0.25%	**+/- 300**	+/- 300
Discount rate	0.25%	**-/+ 850**	-/+ 900
Life expectancy	1 year	**+ 500**	+ 500

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 (June 2018: 22.4)
- 24.3 years at age 65 for a female currently aged 65 (June 2018: 24.3)
- 23.7 years at age 65 for a male currently aged 50 (June 2018: 23.7)
- 25.7 years at age 65 for a female currently aged 50 (June 2018: 25.7)

17. Post-employment benefits (continued)

Defined benefit scheme (continued)

The major categories of scheme assets are as follows:	December 2018 £'000	June 2018 £'000
Market value of scheme assets:		
Equities	-	4,601
Diversified growth fund	-	5,479
Index-linked government	22,429	9,641
Cash and cash equivalents	289	158
Value of Guaranteed Annuity	300	300
With-profits fund	2,038	2,006
Fair value of scheme assets	25,056	22,185

Changes in the present value of the defined benefit liabilities are as follows:	December 2018 £'000
Opening defined benefit liabilities	(16,734)
Interest expense	(220)
Actuarial gains/(losses)	(388)
Past service cost (credit)	(132)
Benefits paid	897
Closing defined benefit liabilities	(16,577)

Changes in the market value of the scheme assets are as follows:	December 2018 £'000
Opening fair value of scheme assets	22,185
Interest income	310
Return on scheme assets excluding interest income	683
Contributions paid by a former ultimate parent	2,855
Benefits paid	(897)
Scheme administration expenses	(80)
Closing fair value of scheme assets	25,056

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 (June 2018: £ nil).

18. Deferred tax

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

The deferred tax amounts recognised are as follows:	December 2018 £'000	June 2018 £'000
Deferred tax assets:		
Deferred tax asset to be recovered after more than one year	-	-

18. Deferred tax (continued)

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

	December 2018 £'000	June 2018 £'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:

	December 2018 Land and buildings £'000	June 2018 Land and buildings £'000
Less than one year	(4,780)	(4,715)
Between one and five years	(19,119)	(18,861)
More than five years	(19,154)	(21,511)
Total	(43,053)	(45,087)

21. Capital commitments

Capital expenditure for which contracts have been placed:

	December 2018 £'000	June 2018 £'000
Tangible assets	-	-

22. 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 (June 2018: €900,000). The remaining life of this guaranteed lease is 1.5 years.

23. 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 December 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 30 December 2018.

Hampden Group Limited
Notes to the financial statements (continued)
For the 6 months ended 30 December 2018

24. 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.

During the period key management personnel were remunerated by the parent company, HHGL Limited, and an estimated £155,000 of costs apportioned to the Company using Group sales participation as a basis.

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.

25. 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
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

25. Subsidiary undertakings (continued)

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

26. Post balance sheet events

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