

REGISTERED NUMBER: 00045618

MISSOURI TOPCO LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

52 WEEKS ENDED 25 FEBRUARY 2012

MISSOURI TOPCO LIMITED

CONTENTS

	Pages
Directors and advisers	1
Directors' report	2
Independent Auditors' report to the members of Missouri Topco Limited	11
Income statements	13
Statement of comprehensive income	14
Balance sheets	15
Cash flow statement	16
Statement of changes in shareholders' equity	17
Notes to the financial statements	20

MISSOURI TOPCO LIMITED

DIRECTORS AND ADVISERS

Directors

J N Mills (Chairman)

P J T Gilbert

D Blackhurst (appointed 9 May 2011)

Non-executive directors

A K McGeorge (appointed as Non-Executive Director 4 January 2011 and resigned 30 April 2011)

Company secretary

J N Mills

Registered office

3rd Floor

Natwest House

Le Truchot

St Peter Port

Guernsey

GY1 1WD

Independent Auditors

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

101 Barbirolli Square

Lower Mosley Street

Manchester

M2 3PW

Solicitors

DLA Piper LLP

101 Barbirolli Square

Lower Mosley Street

Manchester

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GY1 2JJ

Banker

Lloyds TSB Bank Plc

King Street

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MISSOURI TOPCO LIMITED

DIRECTORS' REPORT FOR THE 52 WEEKS ENDED 25 FEBRUARY 2012

The directors present their report and the audited consolidated financial statements for the 52 weeks ended 25 February 2012.

DIRECTORS

The company's directors who served during the period up to the date of signing the financial statements are noted on page 1.

REFINANCING

On 11 April 2011, the group completed an issue of £250.0m Senior secured notes, over 5 years at a fixed rate of 8 7/8%. The existing Senior secured facilities of £231.0m were repaid on 12 April 2011. The unsecured fixed rate Senior notes of £225.0m issued in March 2010, over 7 years at a fixed rate of 9 5/8%, are still in issue.

PRINCIPAL ACTIVITIES

The principal activity of Missouri Topco Limited is that of a holding company.

The principal activities of the group are the sale of clothing and homewares through out-of-town retail outlets, primarily through the Matalan fascia.

REVIEW OF BUSINESS

Overview

Trading conditions in the UK retail market were very challenging during the period and are likely to remain so for the foreseeable future. Despite this, the group delivered robust revenue growth and strong cash position in the period. Christmas trading significantly improved compared to last year. This was a direct result of our strong seasonal product offering, the positive response to our Christmas TV advertising campaign and the weather impact in last year's results. Trading in December showed a Like-For-Like (LFL) sales increase of 9.9%. The business also achieved its best sales week ever during this period, beating our previous record set in 2005.

We maintained cost base efficiency (excluding exceptional items) whilst at the same time allowing for additional investment in other selective key areas. This provides a strong platform from which to grow. We will continue to manage our cost base tightly going forward.

Our cash performance during the period has remained strong, reflecting management's ongoing focus to maximise cash balances.

Our growth strategy is focused on the following key areas:

- Initiatives to drive like for like sales and margin growth
- Controlled expansion of the store portfolio
- More progressive exploitation of online and multichannel opportunities
- Investment in customer recruitment and retention

MISSOURI TOPCO LIMITED

DIRECTORS' REPORT (CONTINUED)

We opened 3 new stores during the 52 weeks ended 25 February 2012: Trowbridge, Crawley and Newtownards. We also relocated our Scunthorpe store and reopened our Grimsby store.

We plan to continue our selective store roll-out plan and are planning on opening 3 new stores in the 52 weeks ending 23 February 2013, concentrating on opening stores in larger catchment areas where we have historically not had a presence. 2 of these 3 stores opened in March 2012 (Ipswich and Camberley). The third store (Dunfermline) is expected to open in June 2012.

We launched a transactional website in November 2008. Our online offer commenced with a subset of the full store product range but focused primarily on the more fashionable products from within our ladieswear range. Our online offering, whilst remaining focused on selected product lines, has now been extended to all departments. During the period our online channel has achieved over 100% revenue growth and now represents 4 times our average store in revenue terms. We will continue to focus on and develop our online sales channel in the coming year and to improve our online shopping experience for our customers.

We continue to work with a franchise partner in the Middle East. They now have 7 franchise stores based in Dubai, Jordan, Abu Dhabi and Fujairah.

Financial Performance

Against a very challenging market and economic backdrop, Matalan delivered a robust performance. Sales for the period were £1,117.5m (2011: £1,096.5m), a 1.9% increase compared to the previous period, which is an encouraging result in the current climate.

We continue to focus on improving margins and lowering costs, however, over the course of the year our margins have been impacted by four key factors: higher input prices (primarily cotton prices and wages), promotional markdown, the January 2011 VAT increase and lower currency gains. Conscious of the tough economic climate, we took the decision to protect our customers and not fully pass on the increase in input prices. Consequently, we have delivered robust sales growth from a growing customer base. However, this has resulted in a gross profit of £116.7m (2011: £175.5m) which reflects a decrease of 33.5% compared to the previous period.

Administrative expenses, pre exceptional items, are comparable to the previous period at £54.9m (2011: £54.5m). We consider maintaining a broadly flat cost base in an increasingly inflationary economy to be an achievement. We continue to focus heavily on our controllable costs and the effectiveness of our cost base.

Exceptional items, included within administrative expenses, of £4.0m were incurred (2011: £6.4m). £2.4m of the £4.0m recognised relates to the recognition of an onerous lease provision in relation to a building no longer used by the group.

Operating profit, pre exceptional items, of £61.8m (2011: £121.0m) was a 48.9% decrease on the prior period largely driven by the tough trading conditions and increased margin pressures.

Net finance costs, excluding exceptional items, of £47.4m (2011: £41.6m) are higher than last period due to the refinancing exercise that happened in April 2011 whereby total debt increased from £456.0m to £475.0m. Total net debt in the period increased from £356.5m to £364.2m.

Refinancing exceptional items of £8.3m (2011: £11.3m) were incurred and are shown within net finance costs. These exceptional refinancing costs relate to the acceleration of the amortisation of the outstanding

MISSOURI TOPCO LIMITED

DIRECTORS' REPORT (CONTINUED)

loan issue costs of the Senior debt facilities repaid as part of the April 2011 refinancing exercise and the costs incurred in relation to the termination of the interest rate swaps held by the group.

In February 2012 the group renegotiated its Revolving Credit Facility (RCF) whereby an agreement was made to cancel £20m of committed facilities the directors' considered to be unnecessary. The group is confident that sufficient levels of liquidity remain in the business from cash balances and the remaining £30m RCF. The group has complied with RCF covenants throughout the year and the new covenants negotiated in February 2012 allow the business sufficient headroom.

Additions to property, plant and equipment of £17.8m (2011: £22.4m) and intangible assets of £4.3m (2011: £9.1m) during the period reflect the group's ongoing investment in the existing store portfolio and IT systems. We continue to invest in our IT systems to ensure that they are fit for purpose, particularly with regard to merchandising capabilities.

Management consider EBITDA (earnings before interest, tax, depreciation and amortisation) before exceptional items to be the main financial KPI (key performance indicator) for the business. EBITDA before exceptional items of £91.1m (2011: £153.6m) in the current financial period shows 40.7% decrease compared to the prior period, largely reflecting the challenging trading conditions and increased margin pressures.

Business Review

We are continuing to make strong progress across a range of key growth initiatives:

Sourcing and Supply chain

We source the majority of our products directly from manufacturers, predominantly based in the Far East and Turkey. We believe that our direct relationship with our suppliers allows us to negotiate better prices for our products whilst at the same time ensuring high levels of quality. This allows us to preserve our reputation for offering outstanding value and quality to customers.

During the year we have undertaken a strategic review of our supply chain. Through this exercise we have identified a number of areas to improve that will increase stock availability and improve the efficiency of our product distribution. Specific initiatives will be implemented with the aim of improving our terms of trade, optimise the prices of the goods we buy, reduce lead times and minimise failure costs.

During the coming year we will begin the re-design of our supply chain. This will include how, when and where stock arrives into and flows through the business. We are also insourcing the Wincanton warehouse and transport teams.

MISSOURI TOPCO LIMITED

DIRECTORS' REPORT (CONTINUED)

Product ranging and price architecture

We have continued to build on the significant improvements made to our product ranges which continue to offer fantastic value across a broad 'Good, Better, Best' price architecture, delivering greater real choice to our customers. This has enabled most product categories to deliver performance improvements.

Stores

We have substantially completed the refurbishment programme which we started after the Take Private Transaction in 2006. This has resulted in an improved shopping experience for our customers and a better working environment for our staff and we continue to be proud of the improved retail execution standards in our stores. In addition, our improved point of sale and shop fit continue to deliver a more consistent and appealing shopping environment.

We believe that a controlled store portfolio expansion program is appropriate given the current climate. We opened 3 stores in the current financial period bringing our total number of stores to 214, comprising 209 full-price stores and 5 clearance stores, and plan to open 3 new stores in the coming financial period, 2 of which were opened in March 2012.

Marketing

Through the Matalan card, our unique customer card that offers customers a range of benefits including exclusive promotional discounts on our merchandise, we maintain one of the largest transactional databases of any UK retailer. We hold transactional details of approximately 11 million active customers which we use for direct marketing. The transactional nature of the database enables us to identify our customer demographics, spending patterns and to tailor our direct marketing accordingly. During the period, through the use of this database we were able to identify and reward our most loyal customers with additional offers through the introduction of the 'Black card'. We believe that there are further benefits to be gained by better utilising our customer database to target a greater share of our customers' total spending through tailored marketing and further development of the Matalan card program.

Following the success of our TV campaign last year, we launched Spring/ Summer and Christmas TV campaigns this year. These campaigns, together with our wider, multi-channel marketing campaigns, have led to many new customers registering with us and raise the profile of our brand significantly.

We believe that our loyal customer base is responsible for our high conversion rate. Our offer appeals to a broad section of the UK population, although our typical customer is female, aged 30+, who visits Matalan to purchase products for herself, her family and her home. Our customers are fashion conscious but less demanding of leading-edge 'fast fashion'. Our more flexible buying plan will cater for our more fashion conscious customers by allowing us to be more responsive to fashion trends.

Matalan continues to support the "Matalan Sporting Promise" (a partnership between Matalan and the Youth Sport Trust to bring professional sports trainers into schools across the UK) which was launched last year. We are sponsoring a training program in primary and secondary schools, resulting in the Matalan name and brand being broadcast to parents and teachers around the country. This program contributes toward the UK's promise to the International Olympic Committee of ensuring a "sporting ethos" in the UK.

MISSOURI TOPCO LIMITED

DIRECTORS' REPORT (CONTINUED)

E-commerce

Online sales represent a significant opportunity for future growth. Starting from a platform offering a range of limited ladieswear in November 2008, we have grown our online business, with its sales now representing 4 times our average store. Our online offering, whilst remaining focused on selected product lines, has now extended to all departments. With online, we target more fashion conscious customers and so ensure the product lines included within our online offering are relevant to this customer base. This has led to significantly higher average basket values for Matalan online compared to our stores. We continue to enhance the online shopping experience and actively market the website to our database of customers and we are confident that this will help to drive future sales growth. Online growth is complementary to our store based business as it seeks to gain a greater share of spend from those customers currently already spending online. Many of these customers may be new to Matalan.

Outlook

Given the uncertainty surrounding the condition of and prospects for the UK economy, we are cautious about the outlook for consumer spending and confidence. We expect the trading conditions to continue to be challenging with consumers subject to increasing pressures on their disposable income. In addition, we will continue to experience input price pressures (from cotton prices and wages) which we expect to dilute margins into the first half of the coming financial year. We expect these pressures to ease into the second half of the coming financial year. Committed product volumes are now much tighter and there is more flexibility around open to buy, both of which should ease some of the pressures on promotional markdown despite the outlook for the competitive environment remaining tough.

Though remaining cautious we believe that Matalan is well placed to meet these challenges as the UK consumer continues to embrace the relevance of Matalan's brand and offer. Customers are continuing to respond well to our strategy of offering more real choice in a pleasant shopping environment and the outstanding value that we offer.

We believe there is significant scope for LFL sales growth and this will be complemented by a carefully controlled new store opening program and online growth. Overseas growth will be limited to our franchise partner for the foreseeable future and will consequently remain modest.

We have identified a number of initiatives to support us in further improving the effectiveness of our merchandising processes through improved supply chain, inventory management and believe that these initiatives collectively will allow us to increase sales while significantly reducing permanent markdowns and therefore improve our margins.

Our team of highly committed and motivated employees remain integral to our success and we continue to look forward to the future with great enthusiasm and confidence.

MISSOURI TOPCO LIMITED

DIRECTORS' REPORT (CONTINUED)

RISK MANAGEMENT

The responsibility of monitoring financial risk management and treasury responsibilities and procedures lie with the board of directors. The policies set by the board of directors are implemented by the group's finance department.

The risks below are the principal risks that may impact the group achieving its strategic objectives.

Economic Conditions - the group operates in a highly competitive industry. The outlook for the UK and global economy, consumer confidence and spending patterns may impact our ability to deliver growth.

The board of directors reviews performance and ensures that management is focused on key priorities and cost control to mitigate this risk.

Brand & Reputation - failure to meet our customer and/or stakeholder expectations impacts the Matalan brand, customer loyalty and market share.

The group has an ethical sourcing policy and works closely with customers to understand how to best meet their needs.

Suppliers or Third Parties - failure of a key supplier or third party would impact the service that the group can provide to its customers. Sustained supplier cost price increases as a result of rising raw material costs, labour costs, and transport costs would place pressure on margins.

The group manages its exposure by working closely with its suppliers and third parties to ensure it can offer the best value to its customers. The group monitors the stability of its supply base closely and works with suppliers and third parties to identify any issues on a timely basis.

Liquidity Risk - any impact on available cash and liquidity could have a material effect on the business and its result.

The group actively maintains a mixture of long-term and short-term debt finance, which is designed to ensure that the group has access to sufficient available funds for ongoing working capital needs as well as planned capital investment and expansion. The amount of debt finance required is monitored and reviewed at least annually by the board of directors.

Foreign Exchange Risk - The group is exposed to risk of fluctuating foreign exchange rates as a result of its overseas purchases. The principal currency with which this exposure lies is US dollar.

The group uses forward foreign exchange contracts in order to manage its exposure to foreign exchange risk and wherever possible these are hedge accounted under IAS 39. The group has a treasury policy in place which limits how much can be purchased on a rolling 12 month basis. In accordance with this policy, the group does not hold or issue derivative financial instruments for speculative or trading purposes.

Interest Rate Risk - fluctuating interest rates could have an impact on cashflows and profit.

The group has long term interest bearing debt liabilities which are subject to fixed rates of interest. This fixed rate debt structure has significantly lowered interest rate risk faced by the group (refer to note 21).

MISSOURI TOPCO LIMITED

DIRECTORS' REPORT (CONTINUED)

DIVIDENDS

No dividend has been paid by the company in the period.

RESULTS

The results for the period are shown in the statement of comprehensive income.

DIRECTORS' INDEMNITIES

During the period and up to the date of signing the financial statements, the company maintained third party indemnity insurance for its directors and officers as defined by Section 234 of the Companies Act 2006.

GOING CONCERN

After reviewing the group's and company's budget for the next financial year, and other long term plans, the directors are satisfied that, at the time of approving the financial statements, it is appropriate to adopt the going concern basis in preparing the financial statements.

The group balance sheet shows a net liability position as a result of the decision to adopt merger accounting to reflect the change in ownership of Matalan in 2007, which resulted in the creation of a merger reserve in equity rather than acquisition goodwill. The accounts of Matalan Retail Limited, the principal subsidiary of the group, show the profitability and balance sheet strength of the trading group.

The group completed an issue of Senior secured notes on 11 April 2011 (refer to note 18).

The group completed a renegotiation of its RCF on 23 February 2012.

EMPLOYEES

Information on matters of concern to employees is given through information bulletins and reports. Monthly meetings are held with head office employees which seek to achieve a common awareness on the part of all employees of the financial and economic factors affecting the group's performance.

In addition, in March 2012, the company asked employees to complete a questionnaire to get feedback on their view of the company. This assists management in maintaining effective employee relations.

The group's policy is to recruit disabled workers for those vacancies that they are able to fill. Arrangements are made, wherever possible, for retraining employees who become disabled, to enable them to perform work identified as appropriate to their aptitudes and abilities.

DONATIONS

During the period the group made charitable donations of £73,560 (2011: £378,243). Individual donations include £46,000 to Breast Cancer Campaign Trading Ltd, £20,100 to The Retail Trust and £5,000 to the England Netball Team.

MISSOURI TOPCO LIMITED

DIRECTORS' REPORT (CONTINUED)

CREDITOR PAYMENT POLICY

UK suppliers are paid at the end of the month following invoice or to the specific terms agreed with the supplier. Foreign suppliers are paid on average within 32 days (2011: 37 days) of the receipt of invoice or delivery confirmation.

It is the group's policy to ensure the suppliers are aware of the company's terms of payment and that terms of payment are agreed at the commencement of business with each supplier. Payments are made in accordance with the payment terms and conditions agreed. Trade creditor days at 25 February 2012 were 38 days (2011: 38 days) based on average daily purchases.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The directors are responsible for preparing financial statements for each financial year which give a true and fair view, in accordance with applicable Guernsey law and International Financial Reporting Standards, of the state of affairs of the company and the group and of the profit or loss of the company and the group for that period.

In preparing those financial statements the directors are required to:

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

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with The Companies (Guernsey) Law, 2008. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

DISCLOSURE OF INFORMATION TO AUDITORS

For all persons who are directors at the time of the approval of the directors' report and financial statements:

- a) so far as each director is aware, there is no relevant audit information of which the group's Auditors are unaware, and
- b) each director has taken all the steps necessary as a director in order to make himself aware of any relevant audit information and to establish that the group's Auditors are aware of that information.

MISSOURI TOPCO LIMITED

DIRECTORS' REPORT (CONTINUED)

INDEPENDENT AUDITORS

The Auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the next annual general meeting.

On behalf of the Board

A handwritten signature in black ink, appearing to read 'P J T Gilbert', written in a cursive style.

P J T Gilbert
Director
16 May 2012

MISSOURI TOPCO LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MISSOURI TOPCO LIMITED

We have audited the group and parent company financial statements of Missouri Topco Limited for the period ended 25 February 2012 which comprise the group and parent company Income Statements, the group Statement of Comprehensive Income, the group and parent company Balance Sheets, the group Cash Flow Statement, the group and parent company Statement of Changes in Shareholders' Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities for the Financial Statements the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 262 of The Companies (Guernsey) Law, 2008 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Basis of audit opinion

In our opinion the financial statements:

- give a true and fair view of the state of the group's and parent company's affairs as at 25 February 2012 and of the group's profit and the parent company's result and cash flows for the period then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been properly prepared in accordance with the requirements of The Companies (Guernsey) Law, 2008.

MISSOURI TOPCO LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MISSOURI TOPCO LIMITED (CONTINUED)

Opinion on other matter

In our opinion the information given in the Directors' Report for the financial period for which financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where The Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- proper 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
- we have not received all the information and explanations we require for our audit.

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
16 May 2012

MISSOURI TOPCO LIMITED

INCOME STATEMENTS

	Note	Group		Company	
		52 weeks ended 25 February 2012 £'m	52 weeks ended 26 February 2011 £'m	52 weeks ended 25 February 2012 £'m	52 weeks ended 26 February 2011 £'m
Continuing operations					
Revenue	5	1,117.5	1,096.5	-	-
Cost of sales	5	(1,000.8)	(921.0)	-	-
Gross profit	5	116.7	175.5	-	-
Administrative expenses (including exceptional items)	5	(58.9)	(60.9)	-	-
Operating profit	5	57.8	114.6	-	-
Operating profit pre exceptional items		61.8	121.0	-	-
Exceptional items	30	(4.0)	(6.4)	-	-
Operating profit		57.8	114.6	-	-
Finance costs	6	(48.0)	(43.1)	-	-
Exceptional refinancing costs	6, 30	(8.3)	(11.3)	-	-
Finance income	6	0.6	1.5	-	-
Net finance costs		(55.7)	(52.9)	-	-
Income from shares in group undertakings		-	-	-	235.5
Profit before income tax	10	2.1	61.7	-	235.5
Income tax credit/(expense)	11	0.9	(20.8)	-	-
Profit for the period from continuing operations		3.0	40.9	-	235.5
Loss for the period from discontinued operations	32	-	(0.2)	-	-
Profit for the period		3.0	40.7	-	235.5

MISSOURI TOPCO LIMITED

STATEMENT OF COMPREHENSIVE INCOME

Group	52 weeks ended 25 February 2012 £'m	52 weeks ended 26 February 2011 £'m
Profit for the period from continuing operations	3.0	40.9
Loss for the period from discontinued operations	-	(0.2)
Other comprehensive income/(expenditure):		
Cash flow hedges	15.3	(31.6)
Tax element of cash flow hedges	(4.1)	8.8
Other comprehensive income/(expenditure) for the period, net of tax	11.2	(22.8)
Total comprehensive income for the period	14.2	17.9

The company has no other comprehensive income other than profit for the period.

MISSOURI TOPCO LIMITED

BALANCE SHEETS

	Note	Group		Company	
		2012 £'m	2011 £'m	2012 £'m	2011 £'m
Assets					
Property, plant and equipment	12	160.0	164.8	-	-
Intangible assets	13	20.0	22.4	-	-
Investments	14	-	-	457.0	454.7
Deferred income tax asset	11	0.5	5.9	-	-
Financial assets - derivative financial instruments	21	0.7	-	-	-
Total non-current assets		181.2	193.1	457.0	454.7
Inventories - goods for resale	15	131.8	120.0	-	-
Trade and other receivables	16	19.7	17.5	30.0	30.0
Financial assets - derivative financial instruments	21	2.7	1.3	-	-
Cash and cash equivalents	17	96.2	83.1	-	-
Total current assets		250.4	221.9	30.0	30.0
Total assets		431.6	415.0	487.0	484.7
Liabilities					
Financial liabilities – borrowings	18	-	(15.9)	-	-
Financial liabilities – derivative financial instruments	21	(1.2)	(18.2)	-	-
Trade and other payables	19	(157.7)	(152.8)	(59.4)	(59.4)
Current income tax liabilities		(2.6)	(12.3)	-	-
Provisions for other liabilities and charges	22	(1.3)	(0.7)	-	-
Total current liabilities		(162.8)	(199.9)	(59.4)	(59.4)
Financial liabilities – borrowings	18	(460.4)	(423.7)	-	-
Financial liabilities – derivative financial instruments	21	-	(2.5)	-	-
Trade and other payables	20	(41.6)	(38.8)	-	-
Deferred income tax liabilities	11	(14.4)	(15.0)	-	-
Provisions for other liabilities and charges	22	(4.5)	(3.7)	-	-
Total non-current liabilities		(520.9)	(483.7)	-	-
Total liabilities		(683.7)	(683.6)	(59.4)	(59.4)
Net (liabilities) / assets		(252.1)	(268.6)	427.6	425.3
Shareholders' (deficit)/equity					
Share capital	23	17.3	17.3	17.3	17.3
Share premium		385.6	385.6	385.6	385.6
Hedge reserve		1.6	(9.6)	-	-
Merger reserve		(774.3)	(774.3)	-	-
Warrant reserve		3.1	3.1	-	-
Capital redemption reserve		5.7	5.7	4.6	4.6
Retained earnings		108.9	103.6	20.1	17.8
Total shareholders' (deficit)/ equity		(252.1)	(268.6)	427.6	425.3

The financial statements on pages 13 to 53 were approved by the Board of Directors on 16 May 2012 and signed on its behalf by:



D Blackhurst
Director



P J T Gilbert
Director

Missouri Topco Limited
Registered number: 00045618

MISSOURI TOPCO LIMITED

CASH FLOW STATEMENT

	Note	Group	
		2012	2011
		£'m	£'m
Cash flows from operating activities			
Cash generated from continuing operations	24	76.8	140.2
Interest paid		(38.6)	(30.2)
Tax paid		(8.1)	(32.1)
Cash generated from discontinued operations		-	(1.8)
Net cash generated from operating activities		30.1	76.1
Cash flows from investing activities			
Purchases of property, plant and equipment		(17.9)	(22.7)
Proceeds from sale of property, plant and equipment		1.2	0.1
Purchases of intangible assets		(4.3)	(10.3)
Cash received on sale of subsidiaries		-	10.0
Interest received		0.6	0.5
Net cash used in investing activities		(20.4)	(22.4)
Cash flows from financing activities			
Repayment of Senior loan facilities		-	(19.0)
Repayment of previous facilities		(231.0)	(259.9)
'A' share buy back		-	(233.2)
Warrant fees charge		-	(1.8)
Proceeds from borrowings		250.0	475.0
Fees associated with refinancing		(15.6)	(19.6)
Purchase of 'B' shares through the EBT		-	(12.0)
Share premium associated with 'B' shares		-	0.1
Net cash generated from /(used) in financing activities		3.4	(70.4)
Net increase/(decrease) in cash and cash equivalents		13.1	(16.7)
Cash and cash equivalents at the beginning of the period		83.1	99.8
Cash and cash equivalents at the end of the period		96.2	83.1

The company had no cash flows in 2012 (2011: none)

The £15.6m 'Fees associated with refinancing' incurred in the current period includes £4.7m in relation to the termination of the interest rate swaps (see note 21) and £10.5m in relation to issue costs associated with the April 2011 refinancing exercise. £0.3m of costs associated with the February 2012 RCF renegotiation and £0.1m of other costs have also been incurred.

MISSOURI TOPCO LIMITED

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Group	Share capital £'m	Share premium £'m	Merger reserve £'m	Hedge reserve £'m	Capital redemption reserve £'m	Warrant reserve £'m	Retained earnings £'m	Total equity £'m
As at 28 February 2010	21.9	385.5	(774.3)	13.2	1.1	3.1	304.6	(44.9)
Comprehensive income								
Profit for the period from continuing operations	-	-	-	-	-	-	40.9	40.9
Loss for the period from discontinued operations	-	-	-	-	-	-	(0.2)	(0.2)
Total profit for the period	-	-	-	-	-	-	40.7	40.7
Other comprehensive expenditure								
Cash flow hedges								
- fair value loss in the period	-	-	-	(34.7)	-	-	-	(34.7)
- transfers to inventory	-	-	-	3.1	-	-	-	3.1
- tax element of cash flow hedges	-	-	-	8.8	-	-	-	8.8
Total cash flow hedges, net of tax	-	-	-	(22.8)	-	-	-	(22.8)
Total other comprehensive expenditure, net of tax	-	-	-	(22.8)	-	-	-	(22.8)
Transactions with owners								
Purchase of 'B' shares through the EBT	-	-	-	-	-	-	(12.0)	(12.0)
Share premium associated with 'B' shares	-	0.1	-	-	-	-	-	0.1
'A' share buy back	(4.6)	-	-	-	4.6	-	(233.2)	(233.2)
Warrant fees charge	-	-	-	-	-	-	(1.8)	(1.8)
Fair value charge for subscription for 'B' shares	-	-	-	-	-	-	5.3	5.3
Total transactions with owners	(4.6)	0.1	-	-	4.6	-	(241.7)	(241.6)
As at 26 February 2011	17.3	385.6	(774.3)	(9.6)	5.7	3.1	103.6	(268.6)

MISSOURI TOPCO LIMITED

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Group	Share capital £'m	Share premium £'m	Merger reserve £'m	Hedge reserve £'m	Capital redemption reserve £'m	Warrant reserve £'m	Retained earnings £'m	Total equity £'m
As at 27 February 2011	17.3	385.6	(774.3)	(9.6)	5.7	3.1	103.6	(268.6)
Comprehensive income								
Profit for the period from continuing operations	-	-	-	-	-	-	3.0	3.0
Total profit for the period	-	-	-	-	-	-	3.0	3.0
Other comprehensive income								
Cash flow hedges								
- fair value gain in the period	-	-	-	15.8	-	-	-	15.8
- transfers to inventory	-	-	-	(0.5)	-	-	-	(0.5)
- tax element of cash flow hedges	-	-	-	(4.1)	-	-	-	(4.1)
Total cash flow hedges, net of tax	-	-	-	11.2	-	-	-	11.2
Total other comprehensive income, net of tax	-	-	-	11.2	-	-	-	11.2
Transactions with owners								
Fair value charge for subscription for 'B' shares	-	-	-	-	-	-	2.3	2.3
Total transactions with owners	-	-	-	-	-	-	2.3	2.3
As at 25 February 2012	17.3	385.6	(774.3)	1.6	5.7	3.1	108.9	(252.1)

MISSOURI TOPCO LIMITED

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Company	Share capital £'m	Share premium £'m	Capital redemption reserve £'m	Retained earnings £'m	Total equity £'m
As at 28 February 2010	21.9	385.5	-	12.0	419.4
Comprehensive income					
Profit for the period	-	-	-	235.5	235.5
Total other comprehensive income	-	-	-	235.5	235.5
Transactions with owners					
Share premium associated with 'B' shares	-	0.1	-	-	0.1
'A' share buy back	(4.6)	-	4.6	(233.2)	(233.2)
Warrant fees charge	-	-	-	(1.8)	(1.8)
Fair value charge to group undertakings for subscription for 'B' shares	-	-	-	5.3	5.3
Total transactions with owners	(4.6)	0.1	4.6	(229.7)	(229.6)
As at 26 February 2011	17.3	385.6	4.6	17.8	425.3
As at 27 February 2011	17.3	385.6	4.6	17.8	425.3
Comprehensive income					
Result for the period	-	-	-	-	-
Total comprehensive income	-	-	-	-	-
Transactions with owners					
Fair value charge to group undertakings for subscription for 'B' shares	-	-	-	2.3	2.3
Total transactions with owners	-	-	-	2.3	2.3
As at 25 February 2012	17.3	385.6	4.6	20.1	427.6

MISSOURI TOPCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. General information

The company is incorporated and domiciled in Guernsey. All subsidiary companies are incorporated and domiciled in the UK. The company is limited by shares. The financial statements are presented in sterling, which is the group's functional and presentational currency. The group's principal place of business is Gillibrands Road, Skelmersdale, West Lancashire, WN8 9TB.

2. Summary of accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and IFRIC interpretations. The financial statements have been prepared on the going concern basis under the historical cost convention as modified by financial assets and financial liabilities (including derivative instruments) which are recognised at fair value through the income statement.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. There are no areas involving a higher degree of judgement of complexity, or where assumptions and estimates are significant to the financial statements.

New standards, amendments to standards or interpretations

There are no new IFRSs or IFRIC interpretations that are effective for the first time for the financial year that would be expected to have a material impact on the company.

At the date of authorisation of these financial statements, the IASB and IFRIC have issued new or amended standards and interpretations which were in issue but not effective for the financial year and not early adopted:

- IFRS 7, 'Financial instruments - disclosures' (effective 1 January 2013)
- IFRS 9, 'Financial instruments' (effective 1 January 2015)
- IFRS 10, 'Consolidated financial statements' (effective 1 January 2013)
- IFRS 12, 'Disclosures of interests in other entities' (effective 1 January 2013)
- IFRS 13, 'Fair value measurement' (effective 1 January 2013)
- IAS 19 (revised 2011), 'Employee benefits' (effective 1 July 2012)
- IAS 27 (revised 2011), 'Separate financial statements' (effective 1 January 2013)
- IAS32 'Financial instruments - presentation' (effective 1 January 2014)
- Amendment to IAS 12, 'Income taxes' on deferred tax (effective 1 January 2012)
- Amendment to IAS 1, 'Presentation of financial statements' on other comprehensive income (effective 1 July 2012)

The company intends to adopt the new standards and amendments no later than their applicable date, subject to endorsement by the EU. The company has yet to assess the full impact of adopting these new standards and amendments.

MISSOURI TOPCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Summary of accounting policies (continued)

Going concern

After reviewing the group's and company's budget for the next financial period and other long term plans, the directors are satisfied that, at the time of approving the financial statements, it is appropriate to adopt the going concern basis in preparing the financial statements.

The group balance sheet shows a net liability position as a result of the requirement to apply merger accounting to reflect the change in ownership of Matalan, which resulted in the creation of a merger reserve in equity rather than acquisition goodwill. The accounts of Matalan Retail Limited, the principal subsidiary of the group, show the profitability and balance sheet strength of the trading group.

Basis of consolidation

Missouri Topco Limited, the ultimate parent company of Matalan Group Limited is 100% owned by the Hargreaves family. This group reconstruction, which took place in 2007, has been accounted for using merger accounting principles as the controlling interests of the company have remained unchanged.

Subsidiaries are all entities over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

MISSOURI TOPCO LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Summary of accounting policies (continued)

Revenue

Revenue, which excludes value added tax and trade discounts, represents the value of goods sold through retail shops and online.

Retail revenue, which is net of returns, is recognised in the financial statements when the risks and rewards of ownership have passed to the customer at the point of sale. Sale of goods online are recognised when goods are despatched and title has passed.

Finance income

Finance income is recognised on a time apportion basis using the effective interest method.

Intangible assets

(a) Computer software

Software and associated costs are capitalised as intangible assets where it is not an integral part of the related hardware at purchase cost and amortised in the income statement to administrative expenses on a straight line basis over its estimated useful life which is generally 3 to 5 years.

(b) Brands

Purchased brands are capitalised at historical cost as intangible assets and amortised over its estimated useful life which is generally 5 years.

Property, plant and equipment

Items of property, plant and equipment are stated at purchase cost or deemed purchase cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is charged to the income statement on a straight line basis over the estimated useful economic lives of each component of an item of property, plant and equipment. The estimated useful lives are as follows:

Alterations to leasehold premises	25 years
Fixtures, fittings and IT hardware	3 – 10 years
Motor vehicles	3 – 5 years

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised net in the income statement.

Depreciation of property, plant and equipment is charged to cost of sales and administrative expenses in the income statement.

MISSOURI TOPCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Summary of accounting policies (continued)

Investments

Investments in subsidiaries are stated at cost, where cost is the aggregate nominal value of the relevant number of the company's shares and the fair value of any other consideration given to acquire the share capital of the subsidiary undertakings.

The net book value of investments in subsidiaries is increased by the fair value of employee services for those employees of those subsidiaries receiving share based payments granted by this company, in accordance with IFRS 2 "Share based payments" with a corresponding credit to equity.

Foreign currency transactions

Transactions in foreign currencies are translated into sterling at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates ruling at the balance sheet date. Foreign exchange differences arising on translation are dealt with in the income statement except when deferred in equity as qualifying cash flow hedges.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on purchase cost on a first in, first out basis and includes appropriate overheads and direct expenditure incurred in the normal course of business in bringing them to their present location and condition. Net realisable value is the price at which inventories can be sold in the normal course of business after deducting costs of realisation. Provisions are made as appropriate for obsolescence, markdown and shrinkage. Costs of inventories include the transfer from equity of any gains or losses on qualifying cash flow hedges relating to the purchase of goods for resale. It is assumed that control of stock purchased from overseas passes once the goods are received into the UK port and inventories are recognised at this point.

Operating leases

Costs in respect of operating leases are charged to the income statement on a straight-line basis over the lease term.

Lease incentives to enter into new operating leases are deferred and released to the income statement on a straight-line basis over the lease term.

Current and non-current deferred income arises from rent free period and reverse premium incentives received on property leases which are held on the balance sheet and released to the income statement on a straight line basis over the lease term.

Current income tax

Current income tax charge is calculated on the basis of the tax laws enacted at the balance sheet date in the UK. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected.

MISSOURI TOPCO LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Summary of accounting policies (continued)

Deferred income tax

Deferred income tax is provided in full using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the tax bases of assets and liabilities. The following temporary differences are not provided for: goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred income tax provided is based on the expected manner of realisation or settlement of carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date and that are expected to apply when the related deferred tax liability is settled or asset is realised.

A deferred income tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred income tax assets are reduced to the extent it is no longer probable that the related tax benefit will be realised.

Deferred income tax is charged or credited to the income statement when the liability is settled or the asset is realised. Deferred income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised directly in equity.

Derivative financial instruments

The group uses forward foreign currency contracts to manage its exposure to fluctuating interest and foreign exchange rates. In accordance with its Treasury policy, the group does not hold or issue derivative financial instruments for speculative or trading purposes. These instruments are initially recognised and measured at fair value on the date the contracts are entered into and subsequently re-measured at their fair value at the balance sheet date. The fair value is calculated using mathematical models and is based upon the duration of the derivative instrument together with quoted market data including foreign exchange rates at the balance sheet date.

The method of recognising the resulting gain or loss is dependant upon whether the derivative is designated as an effective hedging instrument and the nature of the item being hedged. The group accounts for those derivative financial instruments used to manage its exposure to foreign exchange risk on highly probable foreign currency stock purchases as cashflow hedges under IAS 39. At inception of a contract the group documents the relationship between the hedging instrument and the hedged item as well as its risk management objective and strategy for undertaking various hedging transactions. The group also documents its assessment of the effectiveness at inception and on an ongoing basis to ensure that the instrument remains an effective hedge of the transaction. The assessment of effectiveness is re-performed at each quarter end to ensure that the hedge remains highly effective.

The effective portion of the changes in fair value of cashflow hedges is recognised in equity. On completion of the forecast purchase transaction, the effective part of any gain or loss previously deferred in equity is recognised as part of the carrying amount of the underlying non-financial asset. The effective gain or loss is recognised in cost of sales in the income statement in the same period during which the underlying asset affects the income statement.

If the hedge transaction is no longer expected to take place, then the cumulative unrealised gain or loss is recognised immediately in the income statement. Where a hedge no longer meets the effectiveness criteria, the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Cumulative gains or losses remain in equity and are then recognised when transactions are ultimately recognised in the income statement.

Derivatives are deemed to be current unless the financial instrument is due to mature more than 12 months after the balance sheet date then they are deemed to be non-current.

MISSOURI TOPCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Summary of accounting policies (continued)

Borrowings

Interest bearing bank borrowings are recognised initially at fair value less attributable issue costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement within finance costs over the period of the borrowings on an effective interest basis. The fair values of trade and other receivables, loans and overdrafts and trade and other payables with a maturity of less than one year are assumed to approximate to their book values. Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

Impairment of non-financial assets

Non financial assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Dividends

Final dividends payable to the group's shareholders are recognised in the group's financial statements in the period in which the dividends are approved by the group's shareholders. Interim dividends payable are recognised in the period in which the dividends are paid.

Termination benefits

Termination benefits are payable when employment is terminated by the group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits when it is demonstrably committed to the termination of the employment of current employees according to a detailed formal plan without possibility of withdrawal. These benefits are disclosed in the financial statements where material.

Exceptional items

Items that are material in size and/or non-recurring in nature are presented as exceptional items in the income statement. The directors are of the opinion that the separate recording of exceptional items provides helpful information about the group's underlying business performance. Events which may give rise to the classification of items as exceptional include restructuring of businesses, gains or losses on the disposal or impairment of assets and other significant non recurring gains or losses.

Share based payments

At the date of acquisition Missouri Topco Limited, the group's ultimate parent, entered into agreements with selected individuals which enabled them to subscribe for 300,000 of the B shares in that company. These agreements were considered to be within the scope of IFRS 2 "Share Based Payments".

The agreements provide that B shareholders would participate in the increase in fair value of the group from the date of merger with Matalan plc and until either a specified exit event or liquidation occurs. The agreements were treated as a share based payment transaction in accordance with IFRS 2. The fair value

MISSOURI TOPCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Summary of accounting policies (continued)

of the subscription agreement was valued at the date of the agreement using a Black Scholes model and spread across the expected term of the agreement. The resulting charge is accounted for as an employee expense with a corresponding increase in equity. The shares covered by the subscription agreements have all now been fully paid up and issued.

Warrants

Warrants issued to subscribe for 'A' ordinary shares in the company are valued at fair value at the date of grant. Fair value is calculated using a Black Scholes model. Where warrants are issued in conjunction with debt financing, they are treated as an attributable transaction cost of the related debt, accordingly their cost is treated as a deduction in borrowings and is amortised in the income statement as a finance cost over the term of borrowings.

Share capital policy

Ordinary shares are classified as equity.

Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement within 'selling and marketing costs'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'selling and marketing costs' in the income statement.

Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Current and non-current deferred income arises from rent free period and reverse premium incentives received on property leases which are held on the balance sheet and released to the income statement over the lease term.

Provisions

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that the group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

MISSOURI TOPCO LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Financial risk management

3.1 Financial risk factors

The group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance. The group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by the group treasury department under policies approved by the board of directors. Group treasury identifies, evaluates and hedges financial risks.

(a) Market risk

(i) Foreign exchange risk

The group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, the Euro and the Hong Kong Dollar.

Group policy requires all group companies to manage their foreign exchange risk against their functional currency. The functional currency of all group companies is sterling. The group companies are required to substantially hedge their foreign exchange risk exposure with group treasury. To manage their foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, entities in the group use forward contracts, transacted with group treasury. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

The group hedges future seasons' purchases denominated in US dollars. The group treasury's risk management policy is to hedge circa 90% (of forecast purchases within 12 months) and circa 40% (of purchases over 12 months) of anticipated cash flows in respect of the purchase of inventory in each major foreign currency. Approximately 100% (2011: 100%) of projected purchases in each major currency qualify as 'highly probable' forecast transactions for hedge accounting purposes.

At 25 February 2012, if sterling had weakened/strengthened by 10% against the US dollar with all other variables held constant, post-tax profit for the year would have been £1.2m (2011: £0.3m) higher/lower, mainly as a result of foreign exchange gains/losses on translation of US dollar – denominated stock commitments.

MISSOURI TOPCO LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Financial risk management (continued)

(ii) Cash flow and fair value interest rate risk

As the group has no significant interest-bearing assets, the group's income and operating cash flows are substantially independent of changes in market interest rates. The effective rate of interest applicable to the group's cash balances in the year is 0.89% (2011: 0.87%).

The group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the group to cash flow interest rate risk. Borrowings issued at fixed rates expose the group to fair value interest rate risk.

On 11 April 2011, the group completed a refinancing exercise whereby the existing Senior secured facilities (subject to a fluctuating rate of interest based on LIBOR) were repaid and Senior secured notes were issued at a fixed rate of interest. The unsecured Senior notes, also issued at a fixed rate of interest in March 2010, are still in issue. This exercise therefore significantly reduces the group's exposure to interest rate risk.

In the prior period, the group managed its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Group policy is to maintain a minimum of 60% of its borrowings in fixed rate instruments using interest rate swaps to achieve this when necessary. As part of the April 2011 refinancing exercise, the interest rate swaps held by the group were terminated.

The impact on profit or loss of a 10 basis-point shift in LIBOR with all other variables held constant would be a maximum increase/decrease of £0.1m (2011: £0.2m).

During 2011 and 2012, the group's borrowings at fixed and variable rates were denominated in sterling.

(b) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are dealt with in relation to placing cash deposits.

If wholesale customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. Management monitors the utilisation of credit limits regularly.

Sales to retail customers are settled in cash or using major credit cards (it is company policy not to accept cheques).

No credit limits were exceeded during the reporting period and management does not expect any losses from non-performance by counterparties. The main counterparties dealt with in the period include Lloyds TSB plc, The Royal Bank of Scotland plc and Barclays Bank plc.

The ageing of receivables has not been disclosed as receivables are not deemed to be material to the group.

MISSOURI TOPCO LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Financial risk management (continued)

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, group treasury aims to maintain flexibility in funding by keeping committed credit lines available.

Management monitors rolling forecasts of the group's liquidity reserve comprising borrowing facilities (note 18) and cash and cash equivalents (note 17) on the basis of expected cash flow. This is generally carried out at a local level in the operating companies of the group in accordance with practice and limits set by the group. In addition, the group's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these.

The table below analyses the group's financial liabilities before issue costs into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year £'m	Between 1 and 2 years £'m	Between 2 and 5 years £'m	Over 5 years £'m
At 26 February 2011				
Borrowings (before deduction of £16.4m issue costs)	(18.0)	(18.0)	(54.0)	(366.0)
Derivative financial instruments	(18.2)	(2.5)	-	-
Trade and other payables	(152.8)	(2.7)	(9.4)	(26.7)
Provisions for other liabilities and charges	(0.7)	(0.6)	(1.2)	(1.9)
	(189.7)	(23.8)	(64.6)	(394.6)
At 25 February 2012				
Borrowings (before deduction of £14.6m issue costs)	-	-	(250.0)	(225.0)
Derivative financial instruments	(1.2)	-	-	-
Trade and other payables	(157.7)	(3.1)	(10.9)	(27.6)
Provisions for other liabilities and charges	(1.3)	(1.1)	(2.1)	(1.3)
	(160.2)	(4.2)	(263.0)	(253.9)

MISSOURI TOPCO LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Financial risk management (continued)

The table below analyses the gross value of the group's derivative financial instruments which will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

	Less than 1 year £'m	Between 1 and 2 years £'m	Between 2 and 5 years £'m	Over 5 years £'m
At 26 February 2011				
Cash flow hedges:				
Inflows	1.3	-	-	-
Outflows	(18.2)	(2.5)	-	-
	(16.9)	(2.5)	-	-
At 25 February 2012				
Cash flow hedges:				
Inflows	2.7	0.7	-	-
Outflows	(1.2)	-	-	-
	1.5	0.7	-	-

3.2 Capital risk management

The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with others in the industry, the group monitors capital on the basis of a gearing ratio. This ratio is calculated as net debt divided by adjusted total capital.

Net debt is calculated as total borrowings less cash and cash equivalents. Adjusted total capital is calculated as 'equity' as shown in the consolidated balance sheet and excluding the merger reserve.

Group net debt	2012	2011
	£'m	£'m
Total borrowings (net of issue costs)	460.4	439.6
Less: Cash and cash equivalents	(96.2)	(83.1)
Net debt	364.2	356.5
Adjusted total capital	522.2	505.7
Gearing ratio	70%	70%

The gearing ratio excludes the creation of a merger reserve and the group considers this a more appropriate measure to be used as it takes account of underlying assets and equity generated in the course of business. The gearing ratio remains consistent with 2011. The group was required to meet specific bank covenants, interest cover and debt cover, during the year. The group has complied with bank covenants throughout the year and the new covenants negotiated in February 2012 allow the business sufficient headroom.

MISSOURI TOPCO LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Financial risk management (continued)

3.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is derived from prices)

Level 3 – Inputs for the asset or liability that are not based on observable market data (that is unobservable inputs)

The following represents the group's assets and liabilities that are measured at fair value at 25 February 2012:

	Level 1 £'m	Level 2 £'m	Level 3 £'m	Total £'m
Assets				
Cash flow hedges	-	3.4	-	3.4
Total assets	-	3.4	-	3.4
Liabilities				
Cash flow hedges	-	(1.2)	-	(1.2)
Total liabilities	-	(1.2)	-	(1.2)

The following represents the group's assets and liabilities that are measured at fair value at 26 February 2011:

	Level 1 £'m	Level 2 £'m	Level 3 £'m	Total £'m
Assets				
Cash flow hedges	-	1.3	-	1.3
Total assets	-	1.3	-	1.3
Liabilities				
Cash flow hedges	-	(14.8)	-	(14.8)
Interest rate swap	-	(5.9)	-	(5.9)
Total liabilities	-	(20.7)	-	(20.7)

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques.

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on the valuation provided by the counter party with which the contracts are held.

The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date by reference to contract rate and the market forward exchange rates at the balance sheet date.

MISSOURI TOPCO LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Estimates and judgements applied will affect the reported values of assets, liabilities, revenues and expenses in the financial statements. Accounting estimates will, by definition, seldom equal the related actual results.

As at the 25 February 2012, the group has not applied any estimates or assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

5. Operating profit

	2012	2011
	£'m	£'m
Revenue	1,117.5	1,096.5
Cost of goods sold	(647.5)	(569.0)
Selling expenses	(315.0)	(314.4)
Distribution expenses	(38.3)	(37.6)
Total cost of sales	(1,000.8)	(921.0)
Gross profit	116.7	175.5
Administrative expenses pre exceptional items	(54.9)	(54.5)
Exceptional items (note 30)	(4.0)	(6.4)
Administrative expenses	(58.9)	(60.9)
Operating profit	57.8	114.6

MISSOURI TOPCO LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. Net finance costs

	Group	
	2012	2011
	£'m	£'m
Finance costs and similar charges:		
Interest payable on loans	(2.0)	(18.9)
Interest payable on notes	(41.7)	(20.0)
Amortisation of finance costs:		
Debt costs	(0.3)	(2.1)
Notes costs	(3.0)	(1.0)
Interest payable on bank borrowings	(1.0)	(1.1)
Finance costs	(48.0)	(43.1)
Exceptional refinancing costs	(8.3)	(11.3)
Finance income:		
Fair value gains – interest rate swaps held at fair value through the income statement	-	1.0
Interest receivable on short term cash deposits	0.6	0.5
Finance income	0.6	1.5
Net finance costs	(55.7)	(52.9)

MISSOURI TOPCO LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. Directors' emoluments

The remuneration paid to the directors of Missouri Topco Limited, as part of their service contract with Matalan Retail Limited, was:

	2012	2011
	£'m	£'m
Aggregate emoluments and fees (including benefits in kind)	1.0	0.8
Performance bonuses and other emoluments	1.8	5.8
	2.8	6.6

No directors have benefits accruing under defined benefit or defined contribution pension schemes. Under arrangements for selected individuals to subscribe for equity settled 'B' shares, charges have been made to the income statement of £1.8m (2011: £4.8m) in respect of directors. £1.8m (2011: £2.3m) of this amount is included in performance bonuses and other emoluments above. The remaining £2.5m of the prior year charge represents an acceleration of the charge following the March 2010 refinancing exercise and the resignation of Alistair McGeorge as a director of the board. This £2.5m is included in prior year exceptional items (refer to note 30).

Amounts paid to the highest paid director:

	2012	2011
	£'m	£'m
Aggregate emoluments	0.5	0.3
Performance bonuses and other emoluments	0.6	2.5
	1.1	2.8

8. Employee information

The average monthly number of persons (including executive directors) employed during the period was:

	2012	2011
	Number	Number
By function		
Selling and distribution	15,231	15,497
Administration	627	647
	15,858	16,144

	2012	2011
	£'m	£'m
Staff costs (for the above persons)		
Wages and salaries	131.3	128.3
Social security costs	6.3	6.2
Share based compensation charge	2.3	5.3
Termination payments	1.1	0.8
	141.0	140.6

The figures given above include directors who are considered the key management of the group.

The company does not have any employees (2011: none).

MISSOURI TOPCO LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. Segment reporting

IFRS 8 Operating Segments requires that the segments should be reported on the same basis as the internal reporting information that is provided to the chief operating decision-maker. The group adopts this policy and the chief operating decision-maker has been identified as the Board of Directors. The Directors consider there to be one operating and reportable segment, being that of the sale of clothing and homewares through out of town retail outlets, primarily through the Matalan fascia, in the United Kingdom.

Internal reports reviewed regularly by the Board provide information to allow the chief operating decision-maker to allocate resources and make decisions about the operations. The internal reporting focuses on the group as a whole and does not identify individual segments.

The chief operating decision maker relies primarily on EBITDA before exceptional items to assess the performance of the group and make decisions about resources to be allocated to the segment. EBITDA before exceptional items for the period was £91.1m (2011: £153.6m). This can be reconciled to statutory operating profit as follows:

	2012	2011
	£'m	£'m
Operating profit	57.8	114.6
Depreciation and amortisation	29.3	32.6
Exceptional items	4.0	6.4
EBITDA	91.1	153.6

The performance of the group is subject to seasonal peaks. The group traditionally performs well during the late spring and early summer and over the Christmas season.

Whilst the e-commerce business represents a significant opportunity for future growth within the group, it does not yet represent a significant portion of the operating results of the group. E-commerce is therefore not reported as a separate operating segment by the group for internal or external reporting purposes.

MISSOURI TOPCO LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. Profit before income tax

	Group	
	2012	2011
	£'m	£'m
Profit on continuing ordinary activities before tax is stated after charging /(crediting):		
Cost of inventories recognised as an expense (included in cost of sales)	669.2	599.2
Depreciation charge for the period on property, plant and equipment	22.6	25.3
Amortisation of intangible assets	6.7	7.3
Exceptional items (note 30)	4.0	6.4
Foreign exchange differences	(19.4)	(32.9)
Fees payable to the group's Auditor:		
for the audit of the parent company and consolidated financial statements and subsidiary companies	0.1	0.1
for non-audit services	0.2	0.4
Gain on disposal of property, plant and equipment	1.2	0.1
Operating lease rentals payable	92.3	91.6

The audit fee for the company amounting to £2,000 (2011: £2,000) is borne by a fellow group company. The total group fee is £0.1m (2011: £0.1m).

Fees paid to the Auditors during the period for non-audit services are as follows:

	Group	
	2012	2011
	£'m	£'m
Services in relation to refinancing	0.2	0.4
	0.2	0.4

MISSOURI TOPCO LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. Income tax (credit)/expense

Analysis of (credit)/expense in the period

	Group	
	2012	2011
	£'m	£'m
Continuing operations		
Current income tax		
UK corporation tax – current year	2.4	21.1
UK corporation tax – prior year	(4.0)	0.4
	(1.6)	21.5
Deferred income tax		
Deferred income tax relating to the origination and reversal of temporary differences	1.6	(0.7)
Effect of change in income tax rates	(1.0)	(0.5)
Adjustment in respect of prior periods	0.1	0.5
	0.7	(0.7)
Total income tax (credit)/expense from continuing operations	(0.9)	20.8

The company has been granted exemption from Guernsey Income Tax under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989 and hence will be liable only for a payment of a Guernsey exemption fee at a fixed rate of £600 per annum.

The group income tax charge for the period is lower than (2011: higher than) the rate of corporation tax of 26.17% (2011: 28%). The rate of corporation tax is based on a weighted average rate. The standard rate of Corporation Tax reduced from 28% to 26% on 1 April 2011.

The differences are explained below:

	Group	
	2012	2011
	£'m	£'m
Profit on ordinary activities before income tax	2.1	61.7
Profit on ordinary activities multiplied by the rate of corporation tax of 26.17% (2011: 28%)	0.6	17.3
Effects of:		
Non deductible expenses	2.7	3.0
Adjustments to income tax in respect of prior periods	(3.9)	0.9
Origination and reversal of temporary differences	-	(1.0)
Change in rate of income tax on deferred income tax	(1.0)	(0.5)
Depreciation in excess of capital allowances	-	1.1
Deferred income tax not recognised	0.7	-
Total income tax (credit)/expense in the period from continuing operations	(0.9)	20.8

MISSOURI TOPCO LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. Income tax (credit)/expense (continued)

Deferred income tax

Deferred income tax is calculated in full on temporary differences on assets and liabilities using a tax rate of 25% (2011: 27%).

The movement on the deferred income tax account is shown below:

	Group	
	2012	2011
	£'m	£'m
At the beginning of the period	(9.1)	(18.6)
Taken to equity:		
- hedge reserve	(4.1)	8.8
Taken to income statement:		
- prior year movement	(0.1)	(0.5)
- depreciation in advance of capital allowances	-	1.1
- other temporary differences	(1.6)	(0.4)
- change in rate of income tax	1.0	0.5
At the end of the period	(13.9)	(9.1)

Deferred income tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

Deferred income tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2012	2011	2012	2011	2012	2011
	£'m	£'m	£'m	£'m	£'m	£'m
Property, plant and equipment	-	-	(12.0)	(13.0)	(12.0)	(13.0)
Rolled over capital gain	-	-	(1.8)	(2.0)	(1.8)	(2.0)
Short-term temporary differences	0.5	2.4	-	-	0.5	2.4
Financial derivatives	-	3.5	(0.6)	-	(0.6)	3.5
Net deferred income tax assets/(liabilities)	0.5	5.9	(14.4)	(15.0)	(13.9)	(9.1)

In his budget of 21 March 2012, the Chancellor of the Exchequer announced certain tax changes. The proposals included phased reductions in the corporation tax rate. The rate reduced to 24% from 1 April 2012 and further reductions were proposed to 23% effective from 1 April 2013 and to 22% effective from 1 April 2014.

As at 26 February 2012, the above proposals had not been substantively enacted. A rate change to 25% from 1 March 2012 had previously been substantively enacted and it is this rate which is reflected in the disclosure of the deferred income tax. The estimated effect of the proposed reduction in the income tax rate from 25% to 22% on the company's deferred income tax liability is to reduce the liability by £1.7m.

A deferred income tax asset of £0.7m in relation to losses has not been recognised on the basis that there is uncertainty regarding its future recoverability.

MISSOURI TOPCO LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. Income tax (credit)/expense (continued)

The movement in deferred income tax assets and liabilities during the period, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets

	Financial derivatives £'m	Short term temporary differences £'m	Total £'m
At 28 February 2010	-	2.8	2.8
Expensed to the income statement	-	(0.4)	(0.4)
Taken directly to equity	3.5	-	3.5
At 26 February 2011	3.5	2.4	5.9
At 27 February 2011	3.5	2.4	5.9
Expensed to the income statement	-	(1.9)	(1.9)
Taken directly to equity	(3.5)	-	(3.5)
At 25 February 2012	-	0.5	0.5

The directors consider it probable that there will be sufficient taxable profits in the future such as to recognise the deferred income tax asset.

Deferred income tax liabilities

	Accelerated tax depreciation £'m	Rolled over capital gain £'m	Financial derivatives £'m	Total £'m
At 28 February 2010	(14.1)	(2.0)	(5.3)	(21.4)
Credited to the income statement	1.1	-	-	1.1
Taken directly to equity	-	-	5.3	5.3
At 26 February 2011	(13.0)	(2.0)	-	(15.0)
At 27 February 2011	(13.0)	(2.0)	-	(15.0)
Credited to the income statement	1.0	0.2	-	1.2
Taken directly to equity	-	-	(0.6)	(0.6)
At 25 February 2012	(12.0)	(1.8)	(0.6)	(14.4)

MISSOURI TOPCO LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. Property, plant and equipment

Group

	Alterations to leasehold premises £'m	Motor vehicles £'m	Fixtures, fittings and IT hardware £'m	Total £'m
Cost				
At 28 February 2010	140.8	1.4	193.2	335.4
Additions	8.2	0.1	14.1	22.4
Disposals	(0.8)	-	(4.3)	(5.1)
Wolsey Limited disposals	(1.3)	-	(0.8)	(2.1)
At 26 February 2011	146.9	1.5	202.2	350.6
At 27 February 2011	146.9	1.5	202.2	350.6
Additions	6.5	-	11.3	17.8
Disposals	-	-	(3.3)	(3.3)
At 25 February 2012	153.4	1.5	210.2	365.1
Accumulated depreciation				
At 28 February 2010	51.3	1.3	114.4	167.0
Charge for the period	6.9	-	18.4	25.3
Eliminated in respect of disposals	(0.8)	-	(4.3)	(5.1)
Eliminated in respect of the Wolsey Limited disposal	(0.8)	-	(0.6)	(1.4)
At 26 February 2011	56.6	1.3	127.9	185.8
At 27 February 2011	56.6	1.3	127.9	185.8
Charge for the period	6.4	0.1	16.1	22.6
Eliminated in respect of disposals	-	-	(3.3)	(3.3)
At 25 February 2012	63.0	1.4	140.7	205.1
Net book value				
At 25 February 2012	90.4	0.1	69.5	160.0
Net book value				
At 26 February 2011	90.3	0.2	74.3	164.8
Net book value				
At 27 February 2010	89.5	0.1	78.8	168.4

Depreciation of property, plant and equipment is charged to cost of sales and administrative expenses in the income statement.

The company has no property, plant and equipment.

MISSOURI TOPCO LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. Intangible assets

Group

	Brands £'m	Computer software and associated costs £'m	Total £'m
Cost			
At 28 February 2010	1.7	58.2	59.9
Additions	-	9.1	9.1
At 26 February 2011	1.7	67.3	69.0
At 27 February 2011	1.7	67.3	69.0
Additions	-	4.3	4.3
At 25 February 2012	1.7	71.6	73.3
Aggregate amortisation			
At 28 February 2010	1.7	37.6	39.3
Charge for the period	-	7.3	7.3
At 26 February 2011	1.7	44.9	46.6
At 27 February 2011	1.7	44.9	46.6
Charge for the period	-	6.7	6.7
At 25 February 2012	1.7	51.6	53.3
Net book value			
At 25 February 2012	-	20.0	20.0
Net book value			
At 26 February 2011	-	22.4	22.4
Net book value			
At 27 February 2010	-	20.6	20.6

Amortisation of intangible assets is charged to administrative expenses in the income statement.

The company has no intangible assets.

MISSOURI TOPCO LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14. Investments

Company

	Investment in subsidiaries £'m
Cost and net book value	
At 28 February 2010	449.4
Fair value charge to group undertakings for subscription for 'B' shares	5.3
At 26 February 2011	454.7
At 27 February 2011	454.7
Fair value charge to group undertakings for subscription for 'B' shares	2.3
At 25 February 2012	457.0

A list of principal subsidiary undertakings is given in note 31.

The directors believe that the book value of investments is supported by their underlying net assets and the future discounted cash flows of the trading subsidiaries of the investment.

The investment is wholly owned and has a coterminous period end with the company.

15. Inventories

	Group	
	2012	2011
	£'m	£'m
Finished goods	131.8	120.0
	131.8	120.0

The cost of inventories recognised as an expense and included in 'cost of sales' amounted to £669.2m (2011: £599.2m). During the period the group has written down £nil (2011: £nil) of inventories. No amounts have been written back during the current or prior periods.

The company has no inventories.

16. Trade and other receivables

	Group	
	2012	2011
	£'m	£'m
Trade receivables	4.4	2.9
Prepayments and accrued income	15.3	14.6
	19.7	17.5

The company is owed £30.0m by group undertakings at period end (2011: £30m).

MISSOURI TOPCO LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17. Cash and cash equivalents

	Group	
	2012	2011
	£'m	£'m
Cash at bank and in hand	96.2	83.1

The company has no cash and cash equivalents.

The effective interest rate on short-term deposits entered into in the financial period was 0.89% (2011: 0.87%) and these deposits have an average maturity period of 1 day (2011: 1 day). All short-term deposits had matured at 25 February 2012 (2011: all). The group's cash and cash equivalents are denominated in sterling.

18. Financial liabilities – borrowings

	Group	
	2012	2011
	£'m	£'m
Current		
Senior facilities (net of £nil issue costs (February 2011: £2.1m))	-	(15.9)
	-	(15.9)
Non current		
Senior facilities (net of £nil issue costs (February 2011: £7.3m))	-	(205.7)
Unsecured notes (net of £5.9m issue costs (February 2011: £7.0m))	(219.1)	(218.0)
Secured notes (net of £8.7m issue costs)	(241.3)	-
	(460.4)	(423.7)

The company has no financial liabilities.

Bank borrowings are all denominated in sterling at 25 February 2012. The group had no short-term borrowings during the period (2011: £nil).

On 11 April 2011, the group completed an issue of £250.0m Senior secured notes, over 5 years at a fixed rate of 8 7/8%. The existing Senior secured facilities of £231.0m, that were subject to a floating rate of interest based on LIBOR, were repaid on 12 April 2011. The unsecured fixed rate Senior notes of £225.0m issued in March 2010, over 7 years at a fixed rate of 9 5/8%, are still in issue.

Bank loan amounts include rolled up interest charges as appropriate to the instrument and also include an element of borrowing costs in accordance with IAS39. Average interest rates on bank loans during the period were 7.3% (2011: 5.6%).

During the period, £8.0m of finance costs associated with the April 2011 refinancing exercise have been expensed as exceptional items (2011: £11.3m of finance costs associated with the March 2010 refinancing exercise). An additional £0.3m (2011: £nil) was incurred in relation to the RCF renegotiation (refer to note 30).

MISSOURI TOPCO LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18. Financial liabilities - borrowings (continued)

During the period, fees of £10.5m associated with the refinancing were incurred and will be amortised over the terms of the facilities.

Maturity of bank loans, Senior facilities, Senior notes and secured notes

	Group	
	2012	2011
	£'m	£'m
Less than one year	-	18.0
One to five years	250.0	72.0
Five to ten years	225.0	366.0
	475.0	456.0
Unamortised issue costs	(14.6)	(16.4)
	460.4	439.6
Current	-	15.9
Non current	460.4	423.7
	460.4	439.6

Borrowing facilities

At 25 February 2012 the table below reflects the usage of the RCF. These facilities are subject to an annual review and incur fees at market rates.

	Group	
	2012	2011
	£'m	£'m
Letters of credit	1.5	0.9
Guarantees	8.6	8.6
Unused	19.9	40.5
	30.0	50.0

An unlimited guarantee under a composite accounting agreement operates for all group company bank accounts. Group bank loans and overdraft are secured by fixed and floating charges on all assets of the group.

In February 2012 the group renegotiated its RCF whereby an agreement was made to cancel £20m of committed facilities the directors' considered to be unnecessary.

MISSOURI TOPCO LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19. Trade and other payables - current

	Group	
	2012	2011
	£'m	£'m
Trade payables	(80.4)	(80.6)
Other tax and social security payable	(25.0)	(20.4)
Other creditors	(5.1)	(5.0)
Accruals	(42.9)	(43.0)
Deferred income	(4.0)	(3.5)
Dividends payable	(0.3)	(0.3)
	(157.7)	(152.8)

The company owes group undertakings £59.4m at the period end (2011: £59.4m).

20. Trade and other payables – non-current

	Group	
	2012	2011
	£'m	£'m
Accruals and deferred income	(41.6)	(38.8)

The company has no non-current trade and other payables.

21. Derivative financial instruments

Group	2012		2011	
	Assets	Liabilities	Assets	Liabilities
	£'m	£'m	£'m	£'m
Forward foreign exchange contracts	3.4	(1.2)	1.3	(14.8)
Interest rate swaps	-	-	-	(5.9)
Total	3.4	(1.2)	1.3	(20.7)
Less non-current portion:				
Forward foreign exchange contracts	0.7	-	-	2.5
Interest rate swaps	-	-	-	-
Non-current portion	0.7	-	-	2.5
Current portion	2.7	(1.2)	1.3	(18.2)

The company has no derivative financial instruments.

The ineffective portion recognised in the income statement that arises from cash flow hedges amounts to £nil (2011: £nil).

MISSOURI TOPCO LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21. Derivative financial instruments (continued)

Forward foreign exchange contracts

The total principal value of forward foreign exchange contracts at 25 February 2012 was £429.7m (26 February 2011: £448.6m).

The total principal value of forward foreign exchange contracts is due to mature as follows:

	2012	2011
	£'m	£'m
Maturing within one year	367.3	347.5
Maturing between one to two years	62.4	101.1
	429.7	448.6

The net fair value of gains as at 25 February 2012 on open forward foreign exchange contracts that hedge the foreign currency risk of purchases are £2.2m (2011: losses of £13.5m). These are transferred at their current fair value as an inventory based adjustment on receipt of the underlying inventory.

The fair value of open forward foreign exchange contracts is due to mature as follows:

	2012	2011
	£'m	£'m
Maturing within one year	1.5	(11.0)
Maturing between one to two years	0.7	(2.5)
	2.2	(13.5)

Interest rate swap

During prior years the group has entered into interest rate swaps which were executed to partially hedge the group's interest rate exposure against unfavourable movements in LIBOR. The directors did not seek to apply hedge accounting under IAS39 to these derivatives, consequently the changes in their fair value at each period end was recognised in the income statement.

During the 52 week period ended 27 February 2010 the holders of the interest rate swap defaulted on the contract. We continue to be in dispute with the holders of this instrument. New floating to fixed rate swaps were then entered into during the 52 week period ended 27 February 2010. These had an initial notional principal of £238.3m which was being amortised over the period of the swaps. The start dates were 28 August 2009 and the final maturity date was to be 31 March 2013. The weighted average fixed rate payable under these swaps was 3.16%.

During the 52 week period ended 26 February 2011, the group entered into basis swaps to align the interest rate swaps with expected cash flows. The basis swaps had an initial notional amount of £198.4m which was being amortised over the period of the swaps. The contract start dates were 31 August 2010 and the final maturity date was to be 31 August 2012. The group was paying three month LIBOR and was receiving one month LIBOR plus 0.1805%.

On 11 April 2011, the group completed a refinancing of existing debt and issue of Senior secured notes. The interest rate swaps entered into during the 52 week period ending 27 February 2010 and basis swaps entered into during the 52 week period ending 26 February 2011 were terminated as part of this exercise resulting in the group making settlement payments of £4.7m. This is included within 'Fees associated with refinancing' in the cashflow statement. The fair value of the interest rate swaps in place as at 26 February 2011 was a £5.9m loss. The directors based their assessment of the fair value of these derivatives on the market valuation provided by independent third parties.

MISSOURI TOPCO LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22. Provisions for other liabilities and charges

Group	Onerous contracts £m
At 27 February 2011	(4.4)
Utilised in the period	1.0
Charged to the income statement as an exceptional item – see note 30	(2.4)
At 25 February 2012	(5.8)

	2012 £'m	2011 £'m
Analysis of total provisions:		
Non-current	(4.5)	(3.7)
Current	(1.3)	(0.7)
	(5.8)	(4.4)

Two leases previously assigned to another retailer were returned to the company in 2009 on privity of contract after they entered administration. A provision was created at that time to recognise that the leases were onerous and this was treated as exceptional in nature. In the prior period, one of these leases was assigned to another retailer resulting in a £1.5m release of this provision. This release was also treated as exceptional for consistency (refer to note 30). During the current period a provision for an onerous lease was recognised on a property no longer used by the business. This provision has been treated as exceptional and will be released over the remaining life of the lease.

23. Share capital and reserves

Ordinary share capital

Group and company

	10p 'A' ordinary shares Number		10 p 'B' ordinary shares Number		5p 'B1' ordinary shares Number		5p 'B2' ordinary shares Number	
	Total value £'m		Total value £'m		Total value £'m		Total value £'m	
Allotted, called up and fully paid								
At 27 February 2010	218,688,222	21.9	300,000	-	-	-	-	
At 26 February 2011	172,763,695	17.3	204,000	-	96,000	-	96,000	
At 25 February 2012	172,763,695	17.3	204,000	-	96,000	-	96,000	

MISSOURI TOPCO LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23. Share capital and reserves (continued)

Reserves

Merger reserve

In accordance with merger accounting principles, the shares issued in connection with the scheme of arrangement to Matalan Finance plc created the merger reserve at the time of issue.

Hedge reserve

The hedge reserve of a £1.6m gain (2011: £9.6m loss) comprises the effective portion of the cumulative net change in fair value of qualifying cash flow hedging instruments relating to hedged transactions, which have not yet occurred.

Capital redemption reserve

The capital redemption reserve of £5.7m (2011: £5.7m) comprises the cost over the nominal value of the company's ordinary 10p shares purchased at market value and then cancelled in 2011 (£1.1m) and the value of the 'A' shares repurchased in 2011 (£4.6m).

Warrant reserve

Warrants to subscribe for 0.75% of the issued 'A' ordinary shares in the company were granted on 22 December 2006. The warrants have an exercise price of 10p per share. The warrants are exercisable on the earlier of a change in control of the group, repayment of the PIK debt and liquidation. The fair value of the warrants as valued at the date of grant using a Black Scholes model and spread across the expected term, with the resulting charge accounted for as a finance cost. The key inputs into the valuation were: fair value at grant date of £2, expected volatility of 40%, expected term of 5 years, expected dividend yield of nil and a risk free interest rate of 5.66%. The volatility assumption of 40% was based upon historic volatility data. The fair value of the total number of warrants was calculated at £3.1m. The remaining unamortised charge was accelerated when the PIK debt was repaid on 30 March 2010. £1.1m was charged to exceptional refinancing costs during 2011. The warrants have not yet been exercised.

B share subscription agreement

Agreements to subscribe for 300,000 B shares in the company were agreed with selected individuals at the date of acquisition. The agreements provide that B shareholders will participate in the increase in fair value of the group from the date of merger with Matalan plc and until either a specified exit event or liquidation occurs. The agreements have been treated as a share based payment transaction in accordance with IFRS 2. The fair value of the subscription agreement has been valued at the date of the agreement using a Black Scholes model and spread across the expected term of the agreement, with the resulting charge accounted for as an employee expense. The key inputs into the valuation were: expected volatility of 40%, expected term of 5 years, expected dividend yield of nil and risk free interest rate of 5.66%. The volatility assumption of 40% was based upon historic volatility data. The fair value of each subscription was calculated at £38.45 per share.

The charge in the period was £2.3m (2011: £5.3m). The charge in the current period included £nil (2011: £2.5m) of exceptional charges (refer to note 30).

The full disclosures required under IFRS 2 have not been included as the value of these employee benefits is not deemed to be material to the group.

MISSOURI TOPCO LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24. Cash flows from operating activities

Reconciliation of operating profit to net cash inflow from operating activities:

	Group	
	2012	2011
	£'m	£'m
Cash generated from continuing operations		
Operating profit	57.8	114.6
Adjustments for:		
Depreciation	22.6	25.3
Amortisation of intangibles	6.7	7.3
Profit on disposal of property, plant and equipment	(1.2)	-
Non cash exceptional items	2.4	(1.4)
Share based compensation charge	2.3	5.3
Hedge accounting	(0.1)	0.1
Operating cash flows before movements in working capital	90.5	151.2
Movements in working capital		
Increase in inventories	(11.8)	(13.4)
Increase in trade and other receivables	(2.2)	(2.0)
Increase in trade and other payables	0.3	4.4
Net cash flows from operating activities	76.8	140.2

Share based compensation charge

£nil non cash share based compensation charge (2011: £2.5m of the £5.3m) relates to non cash exceptional items.

25. Reconciliation of net debt

Net debt incorporates borrowings (together with related fair value movements of derivatives on the debt), less cash and cash equivalents.

	Net debt at 27 February 2011	Cashflows	Non cash movements	Net debt at 25 February 2012
	£'m	£'m	£'m	£'m
Cash and cash equivalents	83.1	13.1	-	96.2
Debt due within 1 year	(15.9)	18.0	(2.1)	-
Debt due after 1 year	(423.7)	(26.5)	(10.2)	(460.4)
	(356.5)	4.6	(12.3)	(364.2)

MISSOURI TOPCO LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26. Operating lease commitments

Group

At 25 February 2012 the group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2012	2011
	£'m	£'m
Expiring within one year	1.0	1.1
Expiring between two and five years inclusive	28.0	12.1
Expiring in over five years	1,217.2	1,286.5
	1,246.2	1,299.7

The company leases various retail outlets, offices and warehouses under non-cancellable operating lease agreements. Average remaining lease terms are 13 years, and the majority of lease agreements are renewable at the end of the lease period at market rate.

The company had no operating lease commitments during the period (2011: £nil).

27. Capital commitments

The capital expenditure for the group that has been contracted for but not provided at 25 February 2012 was £1.0m (2011: £0.7m). The company has no capital commitments at 25 February 2012 (2011: £nil).

28. Contingent liabilities

An unlimited guarantee under a composite accounting agreement operates for all group company bank accounts. Group bank loans and overdrafts as disclosed in note 18 are secured by fixed and floating charges on all the assets of the group.

MISSOURI TOPCO LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29. Related party transactions

The company has a related party relationship with other group undertakings and with its directors and executive officers. The company has recharged fees to other group companies to the value of £nil (2011: £0.4m). The balance of the related transactions outstanding at 25 February 2012 is £29.4m (2011: £29.4m).

The company is party to a group cash pooling arrangement with other group companies. The company does not settle transactions in cash, instead amounts are settled by other group companies on its behalf with a corresponding adjustment to intercompany receivables/ payables.

The company received a dividend of £235.5m in the prior year from Matalan Group Limited as part of the March 2010 refinancing exercise.

The company considers the Hargreaves family to be the ultimate controlling party. During the period a member of the Hargreaves family was paid £0.2m by the group as a compensation for overseas sourcing and buying services provided to the group (2011: £0.3m).

Key management is the directors of the company. The compensation paid or payable to key management for employee services is included in note 7.

The group continues to lease a building in London from a company associated with the Hargreaves family. A portion of the building continues to be leased to three companies associated with the Hargreaves family. The rental paid in the period was £0.7m (2011: £0.7m). The rental income in the period was £0.2m (2011: £0.2m). There are no material amounts outstanding/due as at 25 February 2012 (2011: £nil). During the period, the ladies buying team previously housed in this building was relocated to head office in Skelmersdale. The group has no further current use for this building nor does it expect to for the remainder of the lease term. Therefore, during the period a provision was recognised in relation to the onerous element of this lease. This provision has been treated as exceptional in nature (refer to note 30).

During the period the company has leased a new distribution centre from a company associated with the Hargreaves family. The rental paid to date is £0.4m. These transactions have taken place at levels not materially different to commercial terms.

30. Exceptional items

Exceptional items are comprised as follows:

	2012	2011
	£'m	£'m
Restructuring costs	(1.5)	(0.9)
Onerous contract provision	(2.4)	1.9
Refinancing costs	(0.1)	(6.1)
Acceleration of IFRS 2 charge	-	(1.2)
Wolsey Limited disposal costs	-	(0.1)
Exceptional items – administrative expenses	(4.0)	(6.4)
Refinancing costs	(8.3)	(11.3)
Exceptional items – finance costs	(8.3)	(11.3)
Total exceptional items	(12.3)	(17.7)

MISSOURI TOPCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30. Exceptional items (continued)

Restructuring costs

Restructuring costs of £1.5m (2011: £0.9m) have been incurred in the year.

Onerous contract provision

During the period a provision for an onerous lease was recognised on a property no longer used by the business. This provision has been treated as exceptional.

Two leases previously assigned to another retailer were returned to the company in 2009 on privity of contract after they entered administration. A provision was created at that time to recognise that the leases were onerous and this was treated as exceptional in nature. In the previous period, one of these leases had been assigned to another retailer resulting in a £1.5m release of this provision. This release was also treated as exceptional for consistency.

Also in the prior period, £0.4m of the remaining Lee Cooper provision was released to the income statement. The Lee Cooper provision had been created in 2007 to take account of the onerous element of the supply agreement that the group had entered into as a condition of the sale of the Lee Cooper business.

Refinancing costs

£0.1m of refinancing costs have been expensed as exceptional items within administrative expenses during the period. In the prior period, £6.1m of costs associated with the March 2010 refinancing were expensed as exceptional items within administrative expenses. This included a £1.3m acceleration of IFRS 2 charges.

During the period, £8.0m of finance costs associated with the April 2011 refinancing exercise have been expensed as exceptional items within net finance costs (2011: £11.3m of finance costs associated with the March 2010 refinancing exercise). An additional £0.3m (2011: £nil) was incurred in relation to the RCF renegotiation.

Acceleration of IFRS 2 charge

In the prior period, an acceleration of the IFRS 2 charge resulted from the resignation of Alistair McGeorge as a director of the board on 1 November 2010.

Wolsey Limited disposal costs

Costs amounting to £0.1m were incurred in the prior period as part of the Wolsey Limited disposal process.

MISSOURI TOPCO LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31. Principal subsidiary companies and ultimate controlling party

	Principal activity	Country of incorporation
UK companies		
Matalan Finance plc	Holding company	England and Wales
Matalan Group Limited	Holding company	England and Wales
Matalan Limited	Holding company	England and Wales
Matalan Retail Limited	Retail	England and Wales
Jonmar Limited	Property	England and Wales
Matalan Holding Company Limited	Holding company	England and Wales
Matalan Investments Limited	Holding company	England and Wales
Matalan Travel Limited	Travel services	England and Wales
HP01 Nominees Limited	Distribution	England and Wales

All of the above companies are wholly owned with 100% ordinary share capital being held. Except for Matalan Group Limited, which is a wholly owned subsidiary of Missouri Topco Limited, all other companies are held via subsidiary undertakings.

The directors regard the Hargreaves family as the ultimate controlling party throughout the period.

32. Discontinued operations

In the prior period, Wolsey Limited, a wholly owned group subsidiary, was disposed of on 20 October 2010. This disposal was documented as a permitted disposal in our financing documents and the proceeds were used to prepay bank debt.

Wolsey Limited's results have been disclosed under discontinued operations in the prior periods reported in this document.

	2012	2011
	£'m	£'m
Revenue	-	6.7
Profit before tax	-	0.6
Tax	-	(0.2)
Profit for the period	-	0.4
Loss of sale of Wolsey Limited	-	(0.6)
(Loss) / Profit for the period from discontinued operations	-	(0.2)