

REGISTERED NUMBER: 0045618

MISSOURI TOPCO LIMITED

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

13 WEEKS ENDED 27 AUGUST 2016

Missouri Topco Limited

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Missouri Topco Limited

Results of operations for the 13 weeks ended 27 August 2016

Revenue (including exceptional items)

Revenue (including exceptional items) decreased by 6.2% to £245.5m in the 13 week period ended 27 August 2016 and decreased by 3.7% to £495.6m in the 26 week period ended 27 August 2016 (13 week period ended 29 August 2015: £261.7m; 26 week period ended 29 August 2015: £514.8m; 52 week period ended 27 February 2016: £1,061.4m).

Exceptional revenue of £nil occurred in the 13 week period ended 27 August 2016 and the 26 week period ended 27 August 2016 (13 week period ended 29 August 2015: £nil; 26 week period ended 29 August 2015: £nil; 52 week period ended 27 February 2016: £4.5m).

Cost of sales and gross profit (including exceptional items)

Cost of sales (including exceptional items) decreased by 12.1% to £222.9m in the 13 week period ended 27 August 2016 and decreased by 7.7% to £448.3m in the 26 week period ended 27 August 2016 (13 week period ended 29 August 2015: £253.7m; 26 week period ended 29 August 2015: £485.7m; 52 week period ended 27 February 2016: £979.6m).

Exceptional items of £nil were incurred in the 13 week period ended 27 August 2016 and the 26 week period ended 27 August 2016 (13 week period ended 29 August 2015: £nil; 26 week period ended 29 August 2015: £nil; 52 week period ended 27 February 2016: £9.7m).

Gross profit increased by 182.5% to £22.6m in the 13 week period ended 27 August 2016 and increased by 62.5% to £47.3m in the 26 week period ended 27 August 2016 (13 week period ended 29 August 2015: £8.0m; 26 week period ended 29 August 2015: £29.1m; 52 week period ended 27 February 2016: £81.8m).

Gross profit as a percentage of revenue increased to 9.2% in the 13 weeks ended 27 August 2016 and increased to 9.5% in the 26 weeks ended 27 August 2016 (13 week period ended 29 August 2015: 3.1%; 26 week period ended 29 August 2015: 5.7%; 52 week period ended 27 February 2016: 7.7%).

Administrative expenses (including exceptional items)

Administrative expenses (including exceptional items) decreased by £1.0m to £14.6m in the 13 week period ended 27 August 2016 and decreased by £1.9m to £30.4m in the 26 week period ended 27 August 2016 (13 week period ended 29 August 2015: £15.6m; 26 week period ended 29 August 2015: £32.3m; 52 week period ended 27 February 2016: £64.9m).

Exceptional items of £0.2m were incurred in the 13 week period ended 27 August 2016 and the 26 week period ended 27 August 2016 (13 week period ended 29 August 2015: £2.2m; 26 week period ended 29 August 2015: £2.6m; 52 week period ended 27 February 2016: £4.2m).

Operating profit (pre exceptional items)

Operating profit pre exceptional items increased by £13.6m to £8.2m in the 13 week period ended 27 August 2016 and increased by £17.7m to £17.1m in the 26 week period ended 27 August 2016 (13 week period ended 29 August 2015: £5.4m loss; 26 week period ended 29 August 2015: £0.6m loss; 52 week period ended 27 February 2016: £26.3m).

Net finance costs

Net finance costs decreased by £0.1m to £9.6m in the 13 week period ended 27 August 2016 and increased by £0.1m to £19.4m in the 26 week period ended 27 August 2016 (13 week period ended 29 August 2015: £9.7m; 26 week period ended 29 August 2015: £19.3m; 52 week period ended 27 February 2016: £39.0m).

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Results of operations for the 13 weeks ended 27 August 2016 (continued)

Taxation

Taxation in the 13 week period ended 27 August 2016 and the 26 week period ended 27 August 2016 was £0.1m charge (13 week period ended 29 August 2015: £1.4m charge ; 26 week period ended 29 August 2015: £nil; 52 week period ended 27 February 2016: £3.5m credit).

Loss for the period

The loss in the 13 week period ended 27 August 2016 was £1.7m and the loss in the 26 week period ended 27 August 2016 was £2.6m (13 week period ended 29 August 2015: £18.7m loss; 26 week period ended 29 August 2015: £22.5m loss; 52 week period ended 27 February 2016: £18.6m loss).

Cash flow

Cash flows from operating activities increased by £18.9m to £35.7m in the 13 week period ended 27 August 2016 and increased by £19.3m to £40.3m in the 26 week period ended 27 August 2016 (13 week period ended 29 August 2015: £16.8m; 26 week period ended 29 August 2015: £21.0m; 52 week period ended 27 February 2016: £52.0m).

Net cash used in investing activities was £5.2m in the 13 week period ended 27 August 2016; £11.7m in the 26 week period ended 27 August 2016 (13 week period ended 29 August 2015: £6.1m; 26 week period ended 29 August 2015: £19.2m; 52 week period ended 27 February 2016: £32.6m).

Net cash used in financing activities was £nil in the 13 week period ended 27 August 2016 and the 26 week period ended 27 August 2016 (13 week period ended 29 August 2015: £0.4m generated; 26 week period ended 29 August 2015: £0.4m generated; 52 week period ended 27 February 2016: £0.4m cash generated).

Cash increased by £29.3m in the 13 week period ended 27 August 2016 and increased by £8.6m in the 26 week period ended 27 August 2016 (13 week period ended 29 August 2015: £10.9m increase; 26 week period ended 29 August 2015: £16.6m decrease; 52 weeks ended 27 February 2016: £19.0m decrease). The cash balance as at 27 August 2016 was £83.1m.

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Condensed consolidated income statement

	Note	13 weeks ended 27 August 2016 £'m	13 weeks ended 29 August 2015 £'m	26 weeks ended 27 August 2016 £'m	26 weeks ended 29 August 2015 £'m	52 weeks ended 27 February 2016 £'m
Revenue (including exceptional items)	3	245.5	261.7	495.6	514.8	1,061.4
Cost of sales (including exceptional items)	3	(222.9)	(253.7)	(448.3)	(485.7)	(979.6)
Gross profit	3	22.6	8.0	47.3	29.1	81.8
Administrative expenses (including exceptional items)	3	(14.6)	(15.6)	(30.4)	(32.3)	(64.9)
Operating profit (including exceptional items)	3	8.0	(7.6)	16.9	(3.2)	16.9
Operating profit pre exceptional items		8.2	(5.4)	17.1	(0.6)	26.3
Exceptional items – revenue	13	-	-	-	-	4.5
Exceptional items – cost of sales	13	-	-	-	-	(9.7)
Exceptional items – administrative expenses	13	(0.2)	(2.2)	(0.2)	(2.6)	(4.2)
Operating profit		8.0	(7.6)	16.9	(3.2)	16.9
Finance costs		(9.8)	(9.8)	(19.7)	(19.5)	(39.3)
Finance income		0.2	0.1	0.3	0.2	0.3
Net finance costs		(9.6)	(9.7)	(19.4)	(19.3)	(39.0)
Loss before income tax and exceptional items		(1.4)	(15.1)	(2.3)	(19.9)	(12.7)
Total exceptional items	13	(0.2)	(2.2)	(0.2)	(2.6)	(9.4)
Loss before income tax		(1.6)	(17.3)	(2.5)	(22.5)	(22.1)
Income tax	5	(0.1)	(1.4)	(0.1)	-	3.5
Loss for the period		(1.7)	(18.7)	(2.6)	(22.5)	(18.6)
Attributable to:						
Equity holders of the parent		(1.6)	(18.5)	(2.3)	(22.3)	(18.0)
Non controlling interest		(0.1)	(0.2)	(0.3)	(0.2)	(0.6)
Loss for the period		(1.7)	(18.7)	(2.6)	(22.5)	(18.6)

The notes on pages 9 to 19 form an integral part of this condensed consolidated interim financial information.

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Statement of comprehensive income

	13 weeks ended 27 August 2016 £'m	13 weeks ended 29 August 2015 £'m	26 weeks ended 27 August 2016 £'m	26 weeks ended 29 August 2015 £'m	52 weeks ended 27 February 2016 £'m
Loss for the period	(1.7)	(18.7)	(2.6)	(22.5)	(18.6)
Other comprehensive income:					
Cash flow hedges	35.2	(4.3)	(5.7)	(0.9)	46.0
Income tax element of cash flow hedges	(6.9)	0.9	1.1	0.2	(8.9)
Total other comprehensive (expenditure)/ income, net of income tax	28.3	(3.4)	(4.6)	(0.7)	37.1
Total comprehensive (expenditure)/ income	26.6	(22.1)	(7.2)	(23.2)	18.5

The notes on pages 9 to 19 form an integral part of this condensed consolidated interim financial information.

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Condensed consolidated balance sheet

	Note	27 August 2016 £'m	29 August 2015 £'m	27 February 2016 £'m
Assets				
Property, plant and equipment		171.6	176.3	174.5
Intangible assets		27.5	25.5	26.5
Financial assets – derivative financial instruments	7	24.2	7.4	27.0
Total non-current assets		223.3	209.2	228.0
Inventories – goods for resale		128.2	157.0	131.3
Trade and other receivables		31.4	30.5	27.9
Financial assets – derivative financial instruments	7	51.2	18.9	47.6
Current income tax assets		1.4	-	0.5
Cash and cash equivalents		83.1	76.9	74.5
Total current assets		295.3	283.3	281.8
Total assets		518.6	492.5	509.8
Liabilities				
Financial liabilities – derivative financial instruments	7	-	(0.1)	-
Trade and other payables		(165.3)	(173.6)	(150.3)
Current income tax liabilities		-	(1.3)	-
Provisions for other liabilities and charges	8	(0.6)	(3.2)	(0.6)
Total current liabilities		(165.9)	(178.2)	(150.9)
Financial liabilities – borrowings	6	(488.5)	(487.3)	(488.0)
Financial liabilities – derivative financial instruments	7	(1.8)	(1.5)	-
Trade and other payables		(43.1)	(46.2)	(43.5)
Deferred income tax liabilities		(16.1)	(10.8)	(17.1)
Provisions for other liabilities and charges	8	(1.7)	(2.1)	(2.0)
Total non-current liabilities		(551.2)	(547.9)	(550.6)
Total liabilities		(717.1)	(726.1)	(701.5)
Net liabilities		(198.5)	(233.6)	(191.7)
Shareholders' deficit				
Share capital		17.3	17.3	17.3
Share premium		385.6	385.6	385.6
Merger reserve		(774.3)	(774.3)	(774.3)
Hedge reserve		51.4	18.2	56.0
Capital redemption reserve		5.7	5.7	5.7
Warrant reserve		3.1	3.1	3.1
Non-controlling interest		(0.4)	0.2	(0.2)
Retained earnings		113.1	110.6	115.1
Total shareholders' deficit		(198.5)	(233.6)	(191.7)

The notes on pages 9 to 19 form an integral part of this condensed consolidated interim financial information.

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Condensed consolidated cash flow statement

	Note	13 weeks ended 27 August 2016 £'m	13 weeks ended 29 August 2015 £'m	26 weeks ended 27 August 2016 £'m	26 weeks ended 29 August 2015 £'m	52 weeks ended 27 February 2016 £'m
Cash flows from operating activities						
Cash generated	9	35.7	16.8	40.3	21.0	52.0
Interest paid		(0.3)	(0.2)	(19.1)	(18.8)	(37.7)
Income tax paid		(0.9)	-	(0.9)	-	(1.1)
Net cash generated from/ (used in) operating activities		34.5	16.6	20.3	2.2	13.2
Cash flows from investing activities						
Purchases of property, plant and equipment		(3.2)	(2.3)	(7.5)	(13.1)	(22.2)
Purchases of intangible assets		(2.2)	(3.9)	(4.5)	(6.3)	(10.7)
Interest received		0.2	0.1	0.3	0.2	0.3
Net cash used in investing activities		(5.2)	(6.1)	(11.7)	(19.2)	(32.6)
Cash flows from financing activities						
Issued Share Capital		-	0.4	-	0.4	0.4
Net cash generated from financing activities		-	0.4	-	0.4	0.4
Net increase/ (decrease) in cash and cash equivalents		29.3	10.9	8.6	(16.6)	(19.0)
Cash and cash equivalents at the beginning of the period		53.8	66.0	74.5	93.5	93.5
Cash and cash equivalents at the end of the period		83.1	76.9	83.1	76.9	74.5

The notes on pages 9 to 19 form an integral part of this condensed consolidated interim financial information.

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Condensed consolidated 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	Non-controlling interest £'m	Retained earnings £'m	Total equity £'m
As at 1 March 2015	17.3	385.6	(774.3)	18.9	5.7	3.1	-	132.6	(211.1)
Comprehensive expenditure									
Loss for the period	-	-	-	-	-	-	-	(22.3)	(22.3)
Total loss for the period	-	-	-	-	-	-	-	(22.3)	(22.3)
Other comprehensive income									
Cash flow hedges									
- fair value gain in the period	-	-	-	0.5	-	-	-	-	0.5
- transfers to inventory	-	-	-	(1.4)	-	-	-	-	(1.4)
- tax element of cash flow hedges	-	-	-	0.2	-	-	-	-	0.2
Total cash flow hedges, net of tax	-	-	-	(0.7)	-	-	-	-	(0.7)
Total other comprehensive income, net of tax	-	-	-	(0.7)	-	-	-	-	(0.7)
Transactions with owners									
Fair value charge for subscription for 'B' shares	-	-	-	-	-	-	-	0.3	0.3
Total transactions with owners	-	-	-	-	-	-	-	0.3	0.3
Non-controlling interest	-	-	-	-	-	-	0.2	-	0.2
As at 29 August 2015	17.3	385.6	(774.3)	18.2	5.7	3.1	0.2	110.6	(233.6)

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Condensed consolidated statement of changes in shareholders' equity (continued)

Group	Share capital £'m	Share premium £'m	Merger reserve £'m	Hedge reserve £'m	Capital redemption reserve £'m	Warrant reserve £'m	Non-controlling interest £'m	Retained earnings £'m	Total equity £'m
As at 28 February 2016	17.3	385.6	(774.3)	56.0	5.7	3.1	(0.2)	115.1	(191.7)
Comprehensive expenditure									
Loss for the period	-	-	-	-	-	-	-	(2.3)	(2.3)
Total loss for the period	-	-	-	-	-	-	-	(2.3)	(2.3)
Other comprehensive income									
Cash flow hedges									
- fair value gain in the period	-	-	-	(1.1)	-	-	-	-	(1.1)
- transfers to inventory	-	-	-	(4.6)	-	-	-	-	(4.6)
- tax element of cash flow hedges	-	-	-	1.1	-	-	-	-	1.1
Total cash flow hedges, net of tax	-	-	-	(4.6)	-	-	-	-	(4.6)
Total other comprehensive income, net of tax	-	-	-	(4.6)	-	-	-	-	(4.6)
Transactions with owners									
Fair value charge for subscription for 'B' shares	-	-	-	-	-	-	-	0.3	0.3
Total transactions with owners	-	-	-	-	-	-	-	0.3	0.3
Non-controlling interest	-	-	-	-	-	-	(0.2)	-	(0.2)
As at 27 August 2016	17.3	385.6	(774.3)	51.4	5.7	3.1	(0.4)	113.1	(198.5)

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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 Perimeter Road, Knowsley Industrial Park, Liverpool, L33 7SZ.

These condensed consolidated interim financial statements were approved for issue on 10 October 2016.

2. Summary of accounting policies

Basis of preparation

These condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the 52 weeks ended 27 February 2016, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and IFRIC interpretations.

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the 52 weeks ended 27 February 2016, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

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

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

New standards, amendments to standards or interpretations

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- IFRS 16 Leases
- Amendments to IFRS 2 Share-based payments
- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses

The Group intends to adopt the new standards and amendments no later than their applicable date, subject to endorsement by the EU. Management are currently considering the impact of IFRS 16 leases.

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Notes to the financial statements (continued)

3. Operating profit

	13 weeks ended 27 August 2016 £'m	13 weeks ended 29 August 2015 £'m	26 weeks ended 27 August 2016 £'m	26 weeks ended 29 August 2015 £'m	52 weeks ended 27 February 2016 £'m
Revenue - pre exceptional items	245.5	261.7	495.6	514.8	1,056.9
Exceptional items - revenue	-	-	-	-	4.5
Total revenue	245.5	261.7	495.6	514.8	1,061.4
Cost of goods sold - pre exceptional items	(130.4)	(159.0)	(256.5)	(288.8)	(577.4)
Exceptional items - cost of goods sold	-	-	-	-	(9.1)
Selling expenses - pre exceptional items	(81.4)	(81.8)	(167.9)	(169.8)	(336.7)
Exceptional items - selling costs	-	-	-	-	(0.6)
Distribution expenses	(11.1)	(12.9)	(23.9)	(27.1)	(55.8)
Total cost of sales	(222.9)	(253.7)	(448.3)	(485.7)	(979.6)
Gross profit	22.6	8.0	47.3	29.1	81.8
Administrative expenses - pre exceptional	(14.4)	(13.4)	(30.2)	(29.7)	(60.7)
Exceptional items - administrative expenses	(0.2)	(2.2)	(0.2)	(2.6)	(4.2)
Administrative expenses	(14.6)	(15.6)	(30.4)	(32.3)	(64.9)
Operating profit	8.0	(7.6)	16.9	(3.2)	16.9

Further details of prior period exceptional items are given in note 13.

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Notes to the financial statements (continued)

4. Segment Reporting

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. This set of condensed consolidated interim financial statements is therefore presented as a single reportable segment.

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. This can be reconciled to statutory operating profit as follows:

	13 weeks ended 27 August 2016 £'m	13 weeks ended 29 August 2015 £'m	26 weeks ended 27 August 2016 £'m	26 weeks ended 29 August 2015 £'m	52 weeks ended 27 February 2016 £'m
Operating profit	8.0	(7.6)	16.9	(3.2)	16.9
Depreciation and amortisation	7.2	7.7	14.5	15.3	29.9
Exceptional items	0.2	2.2	0.2	2.6	9.4
EBITDA	15.4	2.3	31.6	14.7	56.2

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.

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Notes to the financial statements (continued)

5. Income tax

Income tax for the 13 week period ended 27 August 2016 is charged at 6.3% and for the 26 week period ended 27 August 2016 is charged at 4.0% (13 weeks ended 29 August 2015: 8.1% charge; 26 weeks ended 29 August 2015: 0%; 52 weeks ended 27 February 2016: 15.8% credit) of profit representing the best estimate of the effective annual income tax rate expected for the full year, applied to the pre-tax loss for the 13 week and 26 week periods.

The effective annual income tax rate of 26.0% for the period is higher than the standard rate of corporation tax in the UK of 20.0% at the end of August 2016 (August 2015: 20.09%, February 2016: 20.09%). The key reconciling items relate to non-deductible expenses. The rate of corporation tax is based on a weighted average rate. The standard rate of corporation tax reduced from 21% to 20% on 1 April 2015 (23% to 21% on 1 April 2014).

6. Financial liabilities – borrowings

	27 August 2016	29 August 2015	27 February 2016
	£'m	£'m	£'m
Non-current			
First Lien Secured Notes (net of £2.3m issue costs (Aug 2015: £3.3m; February 2016 £2.7m))	(339.7)	(338.8)	(339.3)
Second Lien Secured Notes (net of £1.2m issue costs (Aug 2015: £1.5m; February 2015 £1.3m))	(148.8)	(148.5)	(148.7)
	(488.5)	(487.3)	(488.0)

Borrowings are all denominated in sterling as at 27 August 2016. The Group had no short term borrowings during any of the reported periods.

Issue costs of £5.2m were incurred in relation to the First Lien Secured Notes and the Second Lien Secured Notes and are being amortised over the terms of the facilities.

A proportion of the Second Lien Secured Notes are held by shareholders of the Company.

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Notes to the financial statements (continued)

6. Financial liabilities – borrowings (continued)

Maturity of Secured Notes

	27 August 2016 £'m	29 August 2015 £'m	27 February 2016 £'m
Less than one year	-	-	-
One to five years	492.0	492.0	492.0
	492.0	492.0	492.0
Issue costs	(3.5)	(4.7)	(4.0)
	488.5	487.3	488.0
Current	-	-	-
Non-current	488.5	487.3	488.0
	488.5	487.3	488.0

Borrowing facilities

At 27 August 2016 the table below reflects the usage of the Revolving Credit Facilities (RCF). These facilities are subject to an annual review and incur fees at market rates.

	27 August 2016 £'m	29 August 2015 £'m	27 February 2016 £'m
Letters of credit	2.1	0.2	1.0
Guarantees	8.3	8.3	8.3
Unused	39.6	41.5	40.7
Total available	50.0	50.0	50.0

An unlimited guarantee under a composite accounting agreement operates for all Group company bank accounts. Group bank facilities are secured by fixed and floating charges on the assets of the guarantor group. Notes in issue as disclosed are guaranteed by the assets of the guarantor group.

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Notes to the financial statements (continued)

7. Derivative financial instruments

Forward foreign exchange contracts

The total principal value of forward foreign exchange contracts at 27 August 2016 is £612.8m (29 August 2015: £552.1m; 27 February 2016: £553.2m).

The net fair value of gains as at 27 August 2016 on open forward foreign exchange contracts that hedge the foreign currency risk of purchases are £73.6m (29 August 2015: gains of £24.7m; 27 February 2016: gains of £74.6m). These are transferred at their current fair value as an inventory based adjustment on receipt of the underlying inventory.

8. Provisions for other liabilities and charges

	Onerous contracts £'m	Dilapidations provision £'m	Total £'m
At 28 February 2016	(2.5)	(0.1)	(2.6)
Utilised in the period	0.2	0.1	0.3
At 27 August 2016	(2.3)	-	(2.3)

	27 August 2016 £'m	29 August 2015 £'m	27 February 2016 £'m
Analysis of total provisions:			
Non-current	(1.7)	(2.1)	(2.0)
Current	(0.6)	(3.2)	(0.6)
	(2.3)	(5.3)	(2.6)

During a previous period a lease previously assigned to another retailer was 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 lease was onerous and this was treated as exceptional in nature and is being released over the remaining life of the lease.

During a previous period, the Group established a provision for anticipated future dilapidations costs, this was fully utilised within the current 26 week period ended 27 August 2016.

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Notes to the financial statements (continued)

9. Cash flow from operating activities

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

	13 weeks ended 27 August 2016 £'m	13 weeks ended 29 August 2015 £'m	26 weeks ended 27 August 2016 £'m	26 weeks ended 29 August 2015 £'m	52 weeks ended 27 February 2016 £'m
Cash generated from operations					
Operating profit	8.0	(7.6)	16.9	(3.2)	16.9
Adjustments for:					
Depreciation	5.6	5.8	11.2	11.6	22.9
Amortisation of intangibles	1.6	1.9	3.3	3.7	7.0
Non cash exceptional items	-	1.7	-	1.7	2.1
Share based compensation charge	0.2	0.2	0.3	0.3	0.5
Hedge accounting	0.1	0.1	0.2	-	0.2
Operating cash flows before movements in working capital	15.5	2.1	31.9	14.1	49.6
Movements in working capital:					
(Increase)/ decrease in inventories	(1.9)	14.9	0.8	(16.8)	11.1
(Increase)/ decrease in trade and other receivables	(3.2)	(4.6)	(3.6)	(4.2)	(1.8)
Increase/ (decrease) in trade and other payables	25.3	4.4	11.2	27.9	(6.9)
Net cash flows from operating activities	35.7	16.8	40.3	21.0	52.0

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Notes to the financial statements (continued)

10. Reconciliation of net debt

Net funds incorporate notes in issue, less cash and cash equivalents.

	Net debt at 28 February 2016	Cash movements	Non cash movements	Net debt at 27 August 2016
	£'m	£'m	£'m	£'m
Cash and cash equivalents	74.5	8.6	-	83.1
Debt due after 1 year	(488.0)	-	(0.5)	(488.5)
	(413.5)	8.6	(0.5)	(405.4)

11. Contingent liabilities

An unlimited guarantee under a composite accounting agreement operates for all group company bank accounts. Group bank facilities as disclosed in note 6 are secured by fixed and floating charges over the assets of the guarantor group. Notes in issue as disclosed in note 6 are guaranteed by the assets of the guarantor group.

12. Related party transactions

In a previous period, the Group leased a building in London from a company associated with the Hargreaves family. This is no longer a related party because the lease has now expired.

During the period the Group leased its head office from a company associated with the Hargreaves family. The rental expenditure incurred in the 13 week period ended 27 August 2016 was £0.5m and the 26 week period ended 27 August 2016 was £1.0m (13 weeks ended 29 August 2015: £0.5m 26 weeks ended 29 August 2015: £1.0m; 52 weeks ended 27 February 2016: £2.0m) of which £nil was prepaid at 27 August 2016 (29 August 2015: £nil; 27 February 2016: £nil).

In a previous period, the Group leased the northern distribution centre from a company associated with the Hargreaves family. The lease is no longer with a related party.

The Group purchased from and provided IT services to a company associated with the Hargreaves family. The expenditure incurred during the 13 week period ended 27 August 2016 was £0.9m and during the 26 week period ended 27 August 2016 was £1.7m (13 weeks ending 29 August 2015: £1.0m; 26 weeks ending 29 August 2015: £2.0m; 52 weeks ended 27 February 2016: £5.3m) of which £nil was outstanding at 27 August 2016 (29 August 2015: £nil; 27 February 2016: £nil). The services provided during the 13 week period ended 27 August 2016 totalled £0.3m and the 26 week period ended 27 August 2016 totalled £0.5m (13 weeks ending 29 August 2015: £nil; 26 weeks ending 29 August 2015: £nil; 52 weeks ended 27 February 2016: £0.6m) of which £0.1m was outstanding as a debtor at 27 August 2016 (29 August 2015: £nil; 27 February 2016: £0.1m debtor).

In a previous period, the Group used the sourcing agency services of a company associated with the Hargreaves family. This company is no longer a related party.

The Group purchased clothing for resale from companies associated with the Hargreaves family. Purchases during the 13 week period ended 27 August 2016 were £0.4m and the 26 week period ended 27 August 2016 were £1.1m (13 weeks ending 29 August 2015: £0.3m; 26 weeks ending 29 August 2015: £1.2m; 52 weeks ended 27 February 2016: £1.5m) of which £0.1m was outstanding at 27 August 2016 (29 August 2015: £0.2m; 27 February 2016: £0.1m).

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Notes to the financial statements (continued)

12. Related party transactions (continued)

The Group used the clothing design services of companies associated with the Hargreaves family. The expenditure incurred during the 13 week period ended 27 August 2016 was £0.6m and the 26 week period ended 27 August 2016 was £1.1m (13 weeks ending 29 August 2015: £0.4m; 26 weeks ending 29 August 2015: £0.6m; 52 weeks ended 27 February 2016: £1.2m) of which £nil was outstanding at 27 August 2016 (29 August 2015: £0.1m outstanding; 27 February 2016: £0.5m prepayment).

During the 13 week period ended 27 August 2016 a member of the Hargreaves family was paid £nil for consultancy services provided to the Group; £0.1m in the 26 week period ended 27 August 2016 (13 weeks ending 29 August 2015: £nil; 26 weeks ending 29 August 2015: £nil; 52 weeks ended 27 February 2016: £nil).

The Group incurred costs relating to the Hargreaves family and associated companies. The expenditure incurred during the 13 week period ended 27 August 2016 was £nil and the 26 week period ended 27 August 2016 was £0.1m (13 weeks ending 29 August 2015: £nil; 26 weeks ending 29 August 2015: £0.1m; 52 weeks ended 27 February 2016: £0.2m) of which £0.1m was outstanding at 27 August 2016 (29 August 2015: £0.1m; 27 February 2016: £0.1m).

In the 52 weeks ended 27 February 2016 the Group settled start up costs of £0.9m relating to Matalan Direct to a company associated with a Director of Matalan Direct, a subsidiary within the Group. The Group also purchased IT services from this company. The expenditure incurred during the 13 week and 26 week periods ended 27 August 2016 was £nil (13 weeks and 26 weeks ending 29 August 2015: £nil; 52 weeks ended 27 February 2016: £0.2m).

All of the above transactions have taken place at levels not materially different to commercial terms.

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Notes to the financial statements (continued)

13. Exceptional items

Exceptional items are comprised as follows:

	13 weeks ended 27 August 2016 £'m	13 weeks ended 29 August 2015 £'m	26 weeks ended 27 August 2016 £'m	26 weeks ended 29 August 2015 £'m	52 weeks ended 27 February 2016 £'m
Closure of SportingPro division - revenue	-	-	-	-	3.6
Proceeds from sale of inventories to wholesale customer	-	-	-	-	0.9
Exceptional items - revenue	-	-	-	-	4.5
Closure of SportingPro division - cost of goods sold	-	-	-	-	(4.3)
Closure of SportingPro division - selling costs	-	-	-	-	(0.6)
Cost of inventories sold to wholesale customer	-	-	-	-	(4.8)
Exceptional items - cost of sales	-	-	-	-	(9.7)
Restructuring costs	(0.2)	-	(0.2)	(0.4)	(0.8)
Onerous contract provision	-	(0.1)	-	(0.1)	(0.1)
Variation of lease costs	-	-	-	-	(0.3)
Head office and distribution centre relocation - onerous contract provision	-	-	-	-	(0.1)
Dilapidations	-	-	-	-	(0.3)
Closure of SportingPro division - administrative costs	-	(2.1)	-	(2.1)	(2.6)
Exceptional items - administrative expenses	(0.2)	(2.2)	(0.2)	(2.6)	(4.2)
Total exceptional items	(0.2)	(2.2)	(0.2)	(2.6)	(9.4)

Closure of SportingPro division

The Group closed the SportingPro division during the 52 weeks ended 27 February 2016 and the costs incurred and income received following the closure were treated as exceptional. This included revenue of £3.6m, cost of goods sold of £4.3m, selling costs of £0.6m and administrative costs of £2.6m including £0.3m of termination payments. At 29 August 2015 £2.1m of administrative costs had been incurred in relation to closing this division.

Sale of inventories to wholesale customer

During the 52 weeks ended 27 February 2016, the company incurred significant disruption to its supply chain for the northern store estate following the transition to its new distribution centre in Liverpool. As a result of these issues, a significant volume of seasonal product was trapped in the distribution centre and could not be despatched before the end of season sale event. Consequently, this product was sold to a wholesale customer for £0.9m. The cost of inventories sold through this channel was £4.8m.

Restructuring costs

Restructuring costs of £0.2m were incurred in the 13 week and 26 week period ended 27 August 2016 (13 week period 29 August 2015: £nil; 26 week period 29 August 2015: £0.4m; 52 week period ended 27 February 2016: £0.8m).

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Notes to the financial statements (continued)

13. Exceptional items (continued)

Onerous contract provision

A lease previously assigned to another retailer was 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 lease was onerous and this was treated as exceptional in nature. It is reviewed annually to ensure the carrying value is correct.

In the 13 weeks and 26 weeks to 29 August 2015 and the 52 weeks ended 27 February 2016, there was a £0.1m charge to exceptional items relating to a true-up of actual costs incurred during that year following the completion of those contracts. As the initial provision on these properties was created through exceptional items, the final true up was also recognised as exceptional.

Variation of lease costs

During the 52 weeks ended 27 February 2016, the Group paid £0.3m to vary the lease on a property which had previously been included in the onerous lease provision. As the initial provision on this property was created through exceptional items, the costs to vary this lease were also recognised as exceptional.

Head office and distribution centre relocation - onerous contract provision

In a prior period a provision was recognised for properties no longer used by the business following the move to the new head office and distribution centre. This provision was treated as exceptional. This was reviewed at the end of the 52 weeks ended 27 February 2016 and a further £0.1m was provided.

Dilapidations

During a prior period, the Group established a provision for anticipated future dilapidations costs in relation to the closure of the old head office and distribution centre. In the 52 weeks ended 27 February 2016 the charge was increased by £0.3m following surveys conducted.