

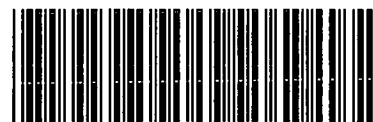
REGISTERED NUMBER: 01274137

HPO1 NOMINEES LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE 52 WEEKS ENDED 26 FEBRUARY 2022

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HP01 NOMINEES LIMITED

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HPO1 NOMINEES LIMITED

DIRECTORS AND ADVISERS

Directors

S M Hill
J R Brown

Company Secretary

W G Lodder

Registered Office

Perimeter Road
Knowsley Industrial Park
Liverpool
L33 7SZ

Independent Auditor

KPMG LLP
Statutory Auditor
1 St Peter's Square
Manchester
M2 3AE

Solicitor

Clifford Chance LLP
10 Upper Bank Street
London
E14 5JJ

Banker

Lloyds Bank plc
King Street
Manchester
M2 4LQ

HPO1 NOMINEES LIMITED

STRATEGIC REPORT FOR THE PERIOD ENDED 26 FEBRUARY 2022

The directors present their annual strategic report and the audited financial statements for the 52 weeks ended 26 February 2022.

Review of business

The Company continues to provide warehouse and distribution services to other group companies.

Results

The profit for the period was £429k (2021: £372k) and the Company has net assets of £9,064k (2021: £8,635k).

Principal risks and uncertainties

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

The principal risk facing the company is the recoverability of its investment and intercompany receivables. Its risks mirror those of the wider Matalan group headed by Missouri Topco Limited (the Group).

The risks below are the principal risks that may impact the Group (and therefore the Company) achieving its strategic objectives:

COVID-19 – the COVID-19 pandemic and the UK government restrictions in response meant that the financial year began whilst under a national lockdown at which time all stores selling items deemed to be non-essential were mandated to close. As lockdown restrictions were eased across the four UK nations, Matalan was able to implement a staggered re-opening of its store estate across April 2021.

Nevertheless, despite no further government mandated lockdowns being introduced in the UK, the 52 weeks to 26 February 2022 were punctuated by a number of market and economic disruptions caused by the COVID-19 pandemic. International shipping was severely impacted by the pandemic leading to worldwide supply-chain delays, whilst the rise in the Omicron variant in Winter 2021 led to extremely high infection levels severely impacting everyday life.

Throughout the pandemic, the Board took decisive actions to mitigate the risk and to manage the impact of COVID-19 on the Matalan business. These actions were implemented to significantly reduce costs and to enhance liquidity and included reductions in stock commitment, renegotiation of supplier payment terms, negotiated rent deferrals with our store landlords, and participation in the government's business rates holiday, Job Retention Scheme, and HMRC time to pay arrangements.

Since the ending of nationwide restrictions, the business has bounced back strongly reflecting the resilience of the business, the strategic advantage of Matalan's offering within the market, and the strength of the group strategy. This has enabled the business to unwind many of the mitigating actions taken in response to the COVID-19 pandemic, including settlement of its HMRC time to pay arrangements, unwinding of a number of supplier term extensions, and repayment of significant sums of deferred rent in line with negotiated agreements with our store landlords.

At the time of writing, the entire Matalan store estate is fully open with no further government restrictions in response to COVID-19 currently envisaged.

Nevertheless, COVID-19 could potentially cause risks to materialise or come closer to materialising in any of the following risk areas.

HPO1 NOMINEES LIMITED

STRATEGIC REPORT (CONTINUED)

Principal risks and uncertainties (continued)

Foreign Exchange Risk – the Group, being the group of companies headed by Missouri Topco Limited of which the Company is part of, and therefore the Company, is exposed to the risk of fluctuating foreign exchange rates. 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 IFRS 9. The Group has a treasury policy in place which limits how much can be purchased on a rolling 30-month basis. In accordance with this policy, the Group does not hold or issue derivative financial instruments for speculative or trading purposes.

The principal currency with which the exposure lies is US Dollar. The exchange rates between the US Dollar and other world currencies have fluctuated significantly in recent years and may continue to do so in the future.

By order of the board



S Hill
Director
Perimeter Road,
Knowsley Industrial Park
Liverpool
L33 7SZ
13 October 2022

HPO1 NOMINEES LIMITED

DIRECTORS' REPORT FOR THE PERIOD ENDED 26 FEBRUARY 2022

The directors present their report for the period ended 26 February 2022.

Directors

The directors of the Company who served during the period and up to the date of signing the financial statements are listed on page 1.

Principal activities

The principal activity of the Company is the provision of warehouse and distribution services to other group companies. The Company expects to continue as such going forward.

Results

The profit for the period was £429k (2021: £372k) arising from the management fee charged by the Company to Matalan Retail Limited for the management of the Corby Distribution Centre. The Company has net assets of £9,064k (2021: £8,635k).

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

Details regarding the going concern status of the Company are included in note 2.3.

Political donations

The Company did not make any political donations in the current or prior period.

Dividends

The Company did not issue a dividend in the current or prior period.

Other Information

An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial year have been included in the Strategic Report on Page 2.

HPO1 NOMINEES LIMITED

DIRECTORS' REPORT (CONTINUED)

Disclosure of information to the auditor

The directors who held office at the time of the approval of this directors' report confirm that:

- a) so far as they are each aware, there is no relevant audit information of which the Company's Auditor is unaware; and
- b) each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

Independent auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board



S Hill
Director
Perimeter Road
Knowsley Industrial Park
Liverpool
L33 7SZ
13 October 2022

HPO1 NOMINEES LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK-adopted international accounting standards and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the Company's profit or loss for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with UK-adopted international accounting standards;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HPO1 NOMINEES LIMITED

Opinion

We have audited the financial statements of HPO1 Nominees Limited ("the Company") for the 52 week period ended 26 February 2022 which comprise the Income Statement, the Statement of Financial Position, the Statement of Changes in Shareholders' Equity, the Statement of Cash Flows, and related notes, including the accounting policies in note 2.

In our opinion:

- the financial statements give a true and fair view of the state of the Company's affairs as at 26 February 2022 and of the Company's profit for the period then ended;
- the financial statements have been properly prepared in accordance with UK-adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Material uncertainty relating to going concern

We draw attention to note 2.3 to the financial statements which indicates that the ability of the Company to continue as a going concern is dependent on the intentions of the new owners following a possible change in ownership of the Matalan Group. These events and conditions along with the other matters explained in note 2.3, constitute a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Going concern basis of preparation

The directors have prepared the financial statements on the going concern basis. As stated above, they have concluded that a material uncertainty related to going concern exists.

Our conclusion based on our financial statements audit work: we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- enquiring of directors and other management as to the Company's policies and procedures to prevent and detect fraud as well as enquiring whether management have knowledge of any actual, suspected or alleged fraud;
- reading minutes of meetings of those charged with governance; and
- using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HPO1 NOMINEES LIMITED (CONTINUED)

As required by auditing standards, and taking into account possible pressures to misstate performance and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because there is limited opportunity to commit fraud.

We did not identify any additional fraud risks.

We also performed procedures including:

- identifying journal entries and other adjustments to test based on risk criteria and comparing any identified entries to supporting documentation; and
- incorporating an element of unpredictability in our audit procedures.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general sector experience and through discussion with the directors and other management (as required by auditing standards), and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, employment law, and certain aspects of company legislation recognising the nature of the Company's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remains a higher risk of non-detection of fraud, as this may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HPO1 NOMINEES LIMITED (CONTINUED)

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 6, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HPO1 NOMINEES LIMITED
(CONTINUED)**

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



**Andrew Reddington (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor**

Chartered Accountants

1 St Peter's Square

Manchester

M2 3AE

13 October 2022

HPO1 NOMINEES LIMITED**INCOME STATEMENT**

	Note	52 weeks ended 26 February 2022 £'000	52 weeks ended 27 February 2021 £'000
Revenue		11,967	10,232
Cost of sales		(11,448)	(9,712)
Gross profit		519	520
Administrative expenses		-	(44)
Operating profit		519	476
Profit before income tax	6	519	476
Income tax charge	7	(90)	(104)
Profit for the period		429	372

The Company has no other comprehensive income/ (expenditure) other than the profit for the period.

HPO1 NOMINEES LIMITED

STATEMENT OF FINANCIAL POSITION AS AT 26 FEBRUARY 2022

	Note	2022 £'000	2021 £'000
Non current assets			
Property, plant and equipment	8	7,027	7,328
Intangible assets	9	-	7
Total non current assets		7,027	7,335
Current assets			
Receivables	10	2,963	1,973
Total current assets		2,963	1,973
Total assets		9,990	9,308
Current liabilities			
Payables	11	(192)	(29)
Total current liabilities		(192)	(29)
Non current liabilities			
Deferred income tax liabilities	7	(734)	(644)
Total non current liabilities		(734)	(644)
Total liabilities		(926)	(673)
Net assets		9,064	8,635
Capital and reserves			
Share capital	12	10	10
Retained earnings		9,054	8,625
Total shareholders' equity		9,064	8,635

The financial statements on pages 11 to 27 were approved by the board of directors on 13 October 2022 and signed on its behalf by:



S Hill
Director

HPO1 Nominees Limited
Registered number: 01274137

HPO1 NOMINEES LIMITED

STATEMENT OF CASH FLOWS

	Note	52 weeks ended 26 February 2022 £'000	52 weeks ended 27 February 2021 £'000
Profit after tax		429	372
Adjustments for:			
Tax	7	90	104
Depreciation	8	542	534
Amortisation	9	7	14
Operating cash flows before movements in working capital		1,068	1,024
Movements in working capital:			
Increase in receivables		(990)	(841)
Increase/ (decrease) in payables		163	(53)
Working capital movements		(827)	(894)
Net cash generated from operating activities		241	130
Cash flows from investing activities			
Purchase of property, plant and equipment and intangibles	8	(241)	(130)
Net cash used in investing activities		(241)	(130)
Net decrease in cash and cash equivalents		-	-
Cash and cash equivalents at the beginning of the period		-	-
Cash and cash equivalents at the end of the period		-	-

HPO1 NOMINEES LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital £'000	Retained Earnings £'000	Total equity £'000
As at 1 March 2020	10	8,253	8,263
Comprehensive income			
Profit for the period	-	372	372
As at 27 February 2021	10	8,625	8,635
As at 28 February 2021	10	8,625	8,635
Comprehensive income			
Profit for the period	-	429	429
As at 26 February 2022	10	9,054	9,064

HPO1 NOMINEES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. General information

The Company is a private limited liability company and is incorporated and domiciled in England in the UK. The Company is limited by shares. The financial statements are presented in sterling, which is the Company's functional currency. All amounts presented in the financial statements have been rounded to the nearest £'000, unless otherwise stated. The address of its registered office is Perimeter Road, Knowsley Industrial Park, Liverpool, L33 7SZ.

2. Summary of significant accounting policies

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

2.1 Basis of preparation

These financial statements have been prepared and approved by the directors in accordance with UK-adopted International Accounting Standards ("UK-adopted IFRSs"). The financial statements have been prepared on a going concern basis under the historical cost convention.

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 or complexity, or where assumptions and estimates are significant to the financial statements.

2.2 New standards, amendments to standards or interpretations

The Company has adopted the following IFRSs in these financial statements:

- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform has been adopted from 1 March 2020. This has been applied retrospectively to hedging relationships that existed at 1 March 2020 or were designated thereafter and that are directly affected by interest rate benchmark reform. These amendments also apply to any gain or loss accumulated in the cash flow hedging reserve that existed at 1 March 2020.
- Interest Rate Benchmark Reform — Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)
- Reference to the Conceptual Framework (Amendments to IFRS 3)
- Annual Improvements to IFRS Standards 2018–2020

These do not have a material impact on the Company's financial statements.

2.3 Going concern

The financial statements have been prepared on a going concern basis which the directors of the company consider to be appropriate for the following reasons.

The company has net current assets of £2,771k (2021: £1,944k) and net assets of £9,064k (2021: £8,635k).

The Company is however reliant on trade with other entities under common ownership of Missouri Topco Limited to continue as a going concern. The directors of the Company have reviewed Missouri Topco Limited Group cashflow forecasts in order to inform the board's conclusions as to the ability of the Matalan Group and therefore the Company to have sufficient headroom to meet its liabilities as they fall due, and to allow it to operate as a going concern over a period of 12 months from the approval of the financial statements.

HPO1 NOMINEES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued)

2.3 Going concern (continued)

The COVID-19 pandemic and the UK government restrictions in response meant that the financial year began whilst under a national lockdown, with the staggered re-opening of stores across April 2021. Since the ending of these nationwide restrictions, the business has bounced back strongly reflecting the resilience of the business, the strategic advantage of Matalan's offering within the market, and the strength of the group strategy.

During the financial year the Group recovered strongly, with in-store customer demand remaining high and Online sales continuing to be strong following a very disrupted prior year and start to the current year. This has enabled the business to unwind many of the mitigating actions taken in response to the COVID-19 pandemic, including settlement of its HMRC time to pay arrangements, unwinding of a number of supplier term extensions, and repayment of significant sums of deferred rent in line with negotiated agreements with our store landlords.

In the 52 weeks to 26 February 2022, the wider Matalan Group continued to meet all active covenants having successfully agreed a suspension of the net leverage ratio covenant testing in its Revolving Facility Agreement for the second and third quarters of the financial year ending February 2022.

Whilst the threat of further severe COVID-19 measures has now receded, the Group continues to operate against a challenging economic backdrop caused in part by the rise in Cost of Living and in part by the economic uncertainty caused by the war in Ukraine, the recent mini budget, and the subsequent exchange rates and interest rates fluctuations.

As part of the directors' going concern assessment, we have therefore considered the potential impact of these factors on both inflation and consumer confidence. We believe the steps taken by management to shelter the business from rising costs, along with the Group's strategic position as a value retailer, will help the business manage these challenges.

The directors have assessed the Group cashflow forecasts in order to inform the board's conclusions as to the ability of the Group to have sufficient headroom to meet its liabilities as they fall due, and to allow it to operate as a going concern over a period of 12 months from the approval of the financial statements. In response to these factors noted above, the Group has also considered a severe but plausible downside that business performance is significantly weaker than planned.

Having done this assessment, and taken into account the facilities now available to the Group, the board has concluded that, subject to a successful debt refinancing or revision involving a potential change in ownership as outlined below, the Matalan Group and therefore the Company has the liquidity it requires and will continue to have sufficient headroom to meet its liabilities in full over the next 12 months from the date of approval of these financial statements.

The Matalan Group has a number of significant facilities maturing within the next twelve months. Post year end, the group has been able to successfully repay the 1.5 Lien Secured Notes of £27.7m and CLBILS of £16.7m at their maturity date in July 2022, and to replace its RCF facility with a new super-senior loan facility of £60.0m. This near term refinancing exercise has given the business a stable platform to evaluate options with our investor base regarding the First Lien Secured Notes of £350.0m maturing in January 2023, the Second Lien Secured Notes of £80.0m maturing in January 2024, and the Shareholder Notes of £50.0m maturing in July 2024.

HPO1 NOMINEES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued)

2.3 Going concern (continued)

On 26 September 2022 the business announced that it has secured an agreement with over a majority of its First Lien Secured noteholders on the key terms of a comprehensive recapitalisation which addresses its forthcoming First Lien bond maturity. The agreed transaction (which is documented in a framework agreement) provides for a process to enable:

- a strategic sales process of the Group which would encompass settlement or refinancing of the outstanding First Lien Secured Debt; and
- an extension of the maturity of the existing First Lien Secured Debt for a six-month period from January 2023 to facilitate this strategic sales process.

In support of this process, an ad hoc group of First Lien Secured noteholders (the “AHG”), representing over a majority of the First Lien Secured debt, has offered to provide £200m of senior secured, stapled financing to interested parties. Furthermore, the AHG has committed to support Matalan’s intent to extend the maturity of the First Lien Secured Notes of £350m maturing in January 2023 by 6 months to facilitate the sales process. This extension requires the support of 90% of the First Lien noteholders by value.

To mitigate the uncertainty within a strategic sales process, in the event of an undesirable outcome from the process, the AHG has committed to an alternative recapitalisation transaction (if required) which provides a positive outcome in all scenarios for Matalan and for the benefit of our employees, customers, suppliers and other stakeholders. This alternative recapitalisation would result in a material reduction of Matalan’s First Lien Secured debt and an extension of the maturity of the remaining First Lien Secured debt from January 2023 to September 2027. The directors believe the support of the AHG as agreed in the Framework Agreement provides Matalan with the requisite consents to progress and as appropriate implement the alternative recapitalisation transaction set out here.

In the directors’ opinion, Matalan has a unique and attractive position in its chosen markets which will lead to significant levels of interest from prospective strategic and financial buyers. However, at this stage there can be no assurance of the outcome of the sales process or the intentions for the business of any potential third-party buyer, due to the risk inherent in any sales process. On the basis of a successful strategic sales process or the alternative recapitalisation transaction, the group will be sold or pass ownership as a going concern. However, the potential change in ownership and unknown intentions of any future owners represents a material uncertainty that may cast significant doubt on the Matalan Group’s and therefore the Company’s ability to continue as a going concern, and to realise its assets and discharge its liabilities in the normal course of business.

Taking all of the above matters into account, the directors believe it is reasonable to anticipate that the group’s forthcoming debt maturity will be addressed either through the strategic sales process or alternative recapitalisation transaction, and have therefore concluded that it remains appropriate to adopt the going concern basis in the preparation of these financial statements. The Company financial statements therefore do not include any adjustments that would result from the basis of preparation being inappropriate.

2.4 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 26 February 2022, the Company 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.

HPO1 NOMINEES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued)

2.5 Revenue

Revenue, which is net of returns and excludes value added tax and trade discounts, represents the value of services supplied, recognised on an accruals basis. All revenue is within the United Kingdom and is derived from continuing operations.

2.6 Intangible assets

Software, licenses and IT consultancy are capitalised as intangible assets where they are not an integral part of the related hardware at purchases cost and amortised to the income statement on a straight line basis over their estimated useful economic life, which is generally 3 to 10 years.

2.7 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 lives of each component of an item of property, plant and equipment. The estimated useful lives are as follows:

Alterations to leasehold premises	shorter of remaining life and 25 years
Fixtures, fittings and equipment	3 – 10 years
Motor and commercial 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 disposal are determined by comparing the proceeds with the carrying amount and are recognised net in the income statement.

2.8 Assets under construction

Assets that are not yet in use are classified as 'assets under construction'. When the related asset is brought into use the asset will be transferred out of this classification and depreciation or amortisation will commence based on the estimated useful life as defined by the accounting policies specified above.

2.9 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.

2.10 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 financial statements and the amounts used for tax purposes. Temporary differences not provided include 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 income 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 tax assets are reduced to the extent it is no longer probable that the related income tax benefit will be realised.

HPO1 NOMINEES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued)

2.10 Deferred income tax (continued)

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.

2.11 Share capital

Ordinary shares are classified as equity.

2.12 Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.13 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

2.14 Payables

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

2.15 Impairment

The Company recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost, debt investments measured at FVOCI.

The Company measures loss allowances at an amount equal to lifetime ECL, except for other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition which are measured as 12-month ECL.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL. Trade receivables with significant financing component are measured using the general model described above.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

The Company considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Company considers this to be Baa3 or higher per rating agency Moody's or BBB- or higher per rating agency S&P.

HPO1 NOMINEES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued)

2.15 Impairment (continued)

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Write-offs

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

2.16 Intra-group financial instruments

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

3. Financial risk management

The financial risk management of the Company is managed by the Group. The Company's activities expose it to a variety of financial risks: credit risk and liquidity risk. The Company's risk management is managed by the Group programme that focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

The Group, and therefore the Company, is exposed to the risk of fluctuating exchange rates. 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 IFRS 9. The Group has a treasury policy in place which limits how much can be purchased on a rolling 30-month basis. In accordance with this policy, the Group does not hold or issue derivative financial instruments for speculative or trading purposes.

The exchange rates between the US dollar and other world currencies have fluctuated significantly in recent years and may continue to do so in the future.

HPO1 NOMINEES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Financial risk management (continued)

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.

3.1 Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions and committed transactions. Banks and financial institutions are approved by the Board on a case by case basis, taking into account credit rating and investment criteria.

Management does not expect any losses from non-performance by counterparties. The main counterparties dealt with in the period by the Group include Lloyds Bank plc and Barclays Bank plc.

The majority of receivables held by the Company are inter-company balances. Therefore, the credit risk of the Company is significantly reduced as these balances are supported by the Group.

3.2 Liquidity risk

Liquidity risk is managed on a group basis.

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 and cash and cash equivalents 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 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 inter-company receivables / payables.

Financial assets

	Fair value through profit or loss		Amortised cost	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Amounts owed by group undertakings	-	-	2,901	1,915
Total financial assets	-	-	2,901	1,915

Financial liabilities	Fair value through profit or loss		Amortised cost	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Accruals	-	-	(192)	(29)
Total financial liabilities	-	-	(192)	(29)

HPO1 NOMINEES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Directors' emoluments

The directors of HPO1 Nominees Limited did not receive any remuneration for their services to the Company in the current or prior year. The total remuneration for the directors for their services to the Group is disclosed below:

	2022 £'m	2021 £'m
Aggregate emoluments and fees (including benefits in kind)	1.7	2.4
	<u>1.7</u>	<u>2.4</u>

Amounts paid to the highest paid director:

	2022 £'m	2021 £'m
Aggregate emoluments	0.6	0.8
	<u>0.6</u>	<u>0.8</u>

5. Employee information

The Company had no employees during the period (2021: none).

6. Profit before income tax

	2022 £'000	2021 £'000
Profit before income tax is stated after charging:		
Depreciation of property, plant and equipment	542	534
Amortisation of intangible assets	7	14

The audit fee for the Company amounting to £2,000 (2021: £2,000) is borne by a fellow group company. The total fee for the Group is £0.3m (2021: £0.3m). A detailed breakdown of all audit and non-audit fees payable to the auditor can be found in the financial statements of Missouri Topco Limited.

HPO1 NOMINEES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. Income tax

Analysis of the income tax charge in the period:

	2022 £'000	2021 £'000
Current income tax		
UK corporation tax	-	-
Deferred income tax		
Originating and reversal of timing differences	39	41
Effect of change in income tax rates	167	64
Adjustment in respect of prior periods	(116)	(1)
Total income tax expense	90	104

The income tax expense for the period is lower than (2021: higher than) the standard rate of corporation tax in the UK of 19% (2021: 19%). The rate of corporation tax is based on a weighted average rate. A UK corporation tax rate of 19% (effective 1 April 2020) was substantially enacted on 17 March 2020, reversing the previously enacted reduction in the rate from 19% to 17%. On 24 May 2021 the increase in the corporation tax rate to 25% announced in the March 2021 Budget was substantively enacted (effective from 1 April 2023). This will increase the company's future current tax charge accordingly. The deferred tax asset at 26 February 2022 has been calculated based on 25% (2021: 19%).

	2022 £'000	2021 £'000
Profit before income tax	519	476
Profit before tax multiplied by the standard rate of corporation tax in the UK of 19% (2021: 19%)	99	90
Effects of:		
Expenses not deductible for tax purposes	15	35
Change in rate of deferred tax income	176	64
Group relief received for nil payment	(84)	(84)
Adjustments to tax in respect of prior periods	(116)	(1)
Total income tax expense	90	104

Deferred income tax

Deferred income tax is calculated in full on temporary differences on assets and liabilities using a tax rate of 25% (2021: 19%). On 24 May 2021 the increase in the corporation tax rate to 25% announced in the March 2021 Budget was substantively enacted (effective from 1 April 2023).

HPO1 NOMINEES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. Income tax (continued)

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

	£'000
As at 1 March 2020	(540)
Debited to the income statement in the period	(104)
As at 27 February 2021	(644)
As at 28 February 2021	(644)
Debited to the income statement in the period	(90)
As at 26 February 2022	(734)

The deferred income tax liability, which is attributable to capital allowances in excess of depreciation, is expected to be payable after more than one year.

8. Property, plant and equipment

	Alterations to leasehold premises £'000	Motor and commercial vehicles £'000	Fixtures, fittings and equipment £'000	Total £'000
Cost				
At 1 March 2020	16,224	42	10,230	26,496
Additions	130	-	-	130
At 27 February 2021	16,354	42	10,230	26,626
At 28 February 2021	16,354	42	10,230	26,626
Additions	213	-	28	241
At 26 February 2022	16,567	42	10,258	26,867
Accumulated depreciation				
At 1 March 2020	9,880	38	8,846	18,764
Charge for the period	327	1	206	534
At 27 February 2021	10,207	39	9,052	19,298
At 28 February 2021	10,207	39	9,052	19,298
Charge for the period	333	1	208	542
At 26 February 2022	10,540	40	9,260	19,840
Net book value at 26 February 2022	6,027	2	998	7,027
Net book value at 27 February 2021	6,147	3	1,178	7,328
Net book value at 29 February 2020	6,344	4	1,384	7,732

Depreciation is charged to cost of sales in the income statement.

HPO1 NOMINEES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. Intangible assets

	Software, licenses and IT consultancy £'000
Cost	
At 1 March 2020	8,048
At 27 February 2021	8,048
At 28 February 2021	8,048
At 26 February 2022	8,048
Accumulated amortisation	
At 1 March 2020	8,027
Charge for the period	14
At 27 February 2021	8,041
At 28 February 2021	8,041
Charge for the period	7
At 26 February 2022	8,048
Net book value At 26 February 2022	-
Net book value at 27 February 2021	7
Net book value at 29 February 2020	21

Amortisation is charged to administrative expenses in the income statement.

10. Receivables

	2022 £'000	2021 £'000
Amounts owed by group undertakings	2,901	1,915
Prepayments and accrued income	62	58
	2,963	1,973

11. Payables - current

	2022 £'000	2021 £'000
Accruals	(192)	(29)
	(192)	(29)

HPO1 NOMINEES LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****12. Share capital**

	2022	2021
	£'000	£'000
Issued and fully paid		
10,000 (2021: 10,000) ordinary shares of £1 each	10	10

13. Contingent liabilities

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

14. Related party transactions

The Company has a related party relationship with other group undertakings, its parent Company and with its directors and executive officers. During the financial period the Company entered into transactions, in the ordinary course of business, with other related parties as follows:

	2022	2021
	£'000	£'000
Transactions with fellow group undertakings:		
Fixed assets paid by other group undertakings	(124)	(130)
Operating expenses paid by other group undertakings	(10,857)	(9,252)
Management fee owed by other group undertakings	11,967	10,232
	986	850
Amounts owed by parent	10	10
Amounts owed by group undertakings	2,891	1,905

The Company has entered into a 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 inter-company receivables/payables.

Liabilities settled by other group companies on behalf of the Company under the cash pooling arrangement are as follows:

	2022	2021
	£'000	£'000
Fixed assets paid by other group undertakings	(124)	(130)
Operating expenses paid by other group undertakings	(10,847)	(9,252)
	(10,971)	(9,382)

At the reporting date, the Directors of the Company and immediate relatives indirectly controlled 100% of the voting shares of the Company. The Company considers the Hargreaves family to be the ultimate controlling party. Key management is the directors of the Company. The directors' remuneration for their services to the Company has been borne by a fellow group company, as disclosed in note 4.

HPO1 NOMINEES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15. Ultimate parent company

The directors regard Matalan Limited, a company registered in England and Wales, as the immediate parent company. According to the register kept by the Company, Matalan Limited has a 100% interest in the equity capital of HPO1 Nominees Limited at 26 February 2022. The company's registered address is Matalan Limited, Perimeter Road, Knowsley Industrial Park, Liverpool, L33 7SZ. The directors regard Missouri Topco Limited, a company registered in Guernsey, as the ultimate parent company. The company's registered address is Missouri Topco Limited, 1st Floor, Tudor House, Le Bordage, St Peter Port, Guernsey, GY1 1DB. The Company regards the Hargreaves family as the ultimate controlling party throughout the period.

Missouri Topco is the parent undertaking of the largest and smallest group of undertakings to consolidate these financial statements at 26 February 2022. The consolidated financial statements of Missouri Topco Limited are available from Matalan, Perimeter Road, Knowsley Industrial Park, Liverpool, L33 7SZ.

16. Post Balance Sheet Events

Post year end, the Group has successfully repaid the 1.5 Lien Secured Notes of £27.7m and CLBILS of £16.7m at their maturity date in July 2022, and replaced its RCF facility with a new super-senior loan facility of £60.0m. The facility, which was fully drawn post year end, is for a 12 to 18 month period, with the drawdown amount being dependent on sufficient collateral coverage within the assets of the Group. This near term refinancing exercise has given the business a stable platform to evaluate options with our investor base regarding the First Lien Secured Notes of £350.0m maturing in January 2023, the Second Lien Secured Notes of £80.0m maturing in January 2024, and the Shareholder Notes of £50.0m maturing in July 2024.

On 26 September 2022 the business announced that it has secured an agreement with over a majority of its First Lien Secured noteholders on the key terms of a comprehensive recapitalisation which addresses its forthcoming First Lien bond maturity. See note 2.3 for the details of the agreement.