

**REGISTERED NUMBER: 05974909**

**MATALAN GROUP LIMITED**

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

**52 WEEKS ENDED 26 FEBRUARY 2011**



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## **MATALAN GROUP LIMITED**

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**MATALAN GROUP LIMITED**

**DIRECTORS AND ADVISERS**

**DIRECTORS**

J N Mills (Chairman)

A K McGeorge (resigned 1 November 2010)

P J T Gilbert

D H Davies (appointed 26 March 2010 and resigned 6 April 2010)

**COMPANY SECRETARY**

P J T Gilbert

**REGISTERED OFFICE**

Gillibrands Road

Skelmersdale

West Lancashire

WN8 9TB

**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

M2 3DL

## **MATALAN GROUP LIMITED**

### **DIRECTORS' REPORT FOR THE 52 WEEKS ENDED 26 FEBRUARY 2011**

The directors present their report and the audited financial statements of the company for the 52 weeks ended 26 February 2011

#### **DIRECTORS**

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

#### **REFINANCING**

On 30 March 2010 the Matalan group completed a refinancing of existing debt and issue of new bonds. The existing debt was repaid and new Senior secured floating rate facilities of £250.0m, over 6 years at 5% above LIBOR, were put in place together with new unsecured fixed rate Senior notes of £225.0m, over 7 years at a fixed rate of 9 5/8%. The new debt was raised and bonds were issued by Matalan Finance plc in this refinancing exercise. On 30 March 2010, as part of this refinancing exercise, the company repaid its debt of £8.3m and accelerated the amortisation of £2.5m of outstanding issue costs associated with that debt.

#### **PRINCIPAL ACTIVITIES**

The principal activity of the company is that of a holding company of Matalan Finance plc and its subsidiary companies and the company expects to continue as such going forward.

#### **RESULTS**

The profit for the period was £242.0m (2010: £nil) as a result of two intercompany dividends received from Matalan Finance plc. The company has net assets of £447.0m (2010: £440.5m).

#### **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 company's finance department.

The risks below are the principle risks that may impact the company achieving its strategic objectives.

**Interest Rate Risk** – fluctuating interest rates could have an impact on cashflows and profit. On 30 March 2010 the company repaid its debt and is therefore no longer exposed to this risk.

#### **DIVIDENDS**

The company paid an intercompany dividend of £235.5m to Missouri Topco Limited on 6 April 2010 (2010: £nil).

#### **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.

## **MATALAN GROUP LIMITED**

### **DIRECTORS' REPORT (CONTINUED)**

#### **DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS**

The directors are responsible for preparing 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 the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 profit or loss of the company for that period.

In preparing these financial statements the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

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

#### **DISCLOSURE OF INFORMATION TO AUDITORS**

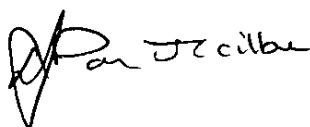
For all persons who are directors at the time of the approval of the directors' report and financial statements

- a) so far as each director is aware, there is no relevant audit information of which the company'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 company's Auditors are aware of that information.

#### **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



P J T Gilbert  
**Director**  
18 May 2011

## **MATALAN GROUP LIMITED**

### **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MATALAN GROUP LIMITED**

We have audited the financial statements of Matalan Group Limited for the 52 weeks ended 26 February 2011 which comprise the Income Statement, the Balance Sheet, the 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 (IFRSs) as adopted by the European Union.

### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

As explained more fully in the Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit 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 opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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 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.

### **OPINION ON FINANCIAL STATEMENTS**

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 26 February 2011 and of its profit for the 52 weeks then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006**

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


**MATALAN GROUP LIMITED**

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MATALAN GROUP LIMITED  
(CONTINUED)**

**MATTERS ON WHICH WE REPORT BY EXCPETION**

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

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



John Cowling (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Manchester  
18 May 2011

# MATALAN GROUP LIMITED

## INCOME STATEMENT

	Notes	52 weeks ended 26 February 2011 £'m	52 weeks ended 27 February 2010 £'m
<b>Operating result</b>		-	-
Finance costs	7	(0.1)	(1.9)
Exceptional refinancing costs	7, 20	(2.5)	-
Finance income	7	0.1	1.9
<b>Net finance costs</b>	7	(2.5)	-
Income from shares in group undertakings	15	244.5	-
<b>Profit before taxation</b>	8	242.0	-
Taxation	9	-	-
<b>Profit for the period</b>		242.0	-

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

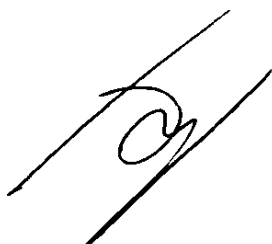


# MATALAN GROUP LIMITED

## BALANCE SHEET

	Notes	2011 £'m	2010 £'m
<b>Assets</b>			
Investments	11	437.4	437.4
<b>Total non-current assets</b>		<b>437.4</b>	<b>437.4</b>
Receivables	12	55.1	46.1
Current tax asset		0.5	0.5
<b>Total current assets</b>		<b>55.6</b>	<b>46.6</b>
<b>Total assets</b>		<b>493.0</b>	<b>484.0</b>
<b>Liabilities</b>			
Payables	13	(46.0)	(37.7)
<b>Total current liabilities</b>		<b>(46.0)</b>	<b>(37.7)</b>
Financial liabilities – borrowings	14	-	(5.8)
<b>Total non-current liabilities</b>		<b>-</b>	<b>(5.8)</b>
<b>Total liabilities</b>		<b>(46.0)</b>	<b>(43.5)</b>
<b>Net assets</b>		<b>447.0</b>	<b>440.5</b>
<b>Capital and reserves</b>			
Share capital	16	21.9	21.9
Share premium		415.5	415.5
Warrant reserve	16	3.1	3.1
Retained earnings		6.5	-
<b>Total shareholders' equity</b>		<b>447.0</b>	<b>440.5</b>

The financial statements on pages 6 to 18 were approved by the board of directors on 18 May 2011 and signed on its behalf by



J N Mills  
Director

Matalan Group Limited  
Registered number 05974909

**MATALAN GROUP LIMITED****STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

	Share capital £'m	Share premium £'m	Warrant reserve £'m	Retained earnings £'m	Total equity £'m
As at 1 March 2009	21.9	415.5	3.1	-	440.5
<b>Comprehensive income</b>					
Profit for the period	-	-	-	-	-
<b>As at 27 February 2010</b>	<b>21.9</b>	<b>415.5</b>	<b>3.1</b>	<b>-</b>	<b>440.5</b>
As at 28 February 2010	21.9	415.5	3.1	-	440.5
<b>Comprehensive income</b>					
Profit for the period	-	-	-	242.0	242.0
<b>Transactions with owners</b>					
Dividends paid to shareholders (note 10)	-	-	-	(235.5)	(235.5)
<b>As at 26 February 2011</b>	<b>21.9</b>	<b>415.5</b>	<b>3.1</b>	<b>6.5</b>	<b>447.0</b>

# **MATALAN GROUP LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **1. General information**

The company is a private limited liability company and is incorporated and domiciled in the UK. The address of its registered office is Gillibrands Road, Skelmersdale, West Lancashire, WN8 9TB.

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared on the going concern basis under the historical cost convention as modified by financial assets and financial liabilities 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 or complexity, or where assumptions and estimates are significant to the financial statements.

The financial statements contain information about Matalan Group Limited as an individual company and do not contain consolidated financial information as the parent of the group. The company is exempt under section 401 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its ultimate parent, Missouri Topco Limited, a company incorporated in Guernsey.

### **2. Summary of accounting policies**

#### **New standards, amendments to standards or interpretations**

The following new and amended standards and interpretations are mandatory for the first time for financial periods beginning on or after 28 February 2010 but are not currently relevant to the company (although they may affect the accounting for future transactions and events).

- IFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations'
- IFRS 3 (revised), 'Business combinations', and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates', and IAS 31, 'Interests in joint ventures'
- IFRIC 17, 'Distribution of non-cash assets to owners'
- IFRIC 18, 'Transfers of assets from customers'
- IFRIC 9, 'Reassessment of embedded derivatives and IAS 39, Financial instruments: Recognition and measurement'
- IFRIC 16, 'Hedges of a net investment in a foreign operation'
- IAS 1 (amendment), 'Presentation of financial statements'
- IAS 36 (amendment), 'Impairment of assets'
- IFRS 2 (amendments), 'Group cash-settled share-based payment transactions'

The following new standards, amendments and interpretations have been issued but are not effective for financial periods beginning on or after 28 February 2010 and have not been early adopted by the company.

- IFRS 9, 'Financial instruments', issued in November 2009

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## **MATALAN GROUP LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

#### **2. Summary of accounting policies (continued)**

- Revised IAS 24 (revised), 'Related party disclosures'
- 'Classification of rights issues' (amendment to IAS 32)
- IFRIC 19, Extinguishing financial liabilities with equity instruments'
- 'Prepayments of a minimum funding requirement' (amendments to IFRIC 14)

#### **Finance income**

Finance income is recognised on a time-proportioned basis using the effective interest method

#### **Current taxation**

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.

#### **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. Investments are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

#### **Borrowings**

Payment In Kind (PIK) notes are recognised initially at fair value less attributable transaction 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 over the period of the borrowings on an effective interest basis. The fair values of other receivables, loans and other payables with a maturity of less than one year are assumed to approximate to their book values due to the cash based nature of the items. Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

#### **Dividends**

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

#### **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 company'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.

## **MATALAN GROUP LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

#### **2. Summary of accounting policies (continued)**

##### **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 the borrowings.

##### **Share capital**

Ordinary shares are classified as equity.

##### **Receivables**

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

##### **Payables**

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

#### **3. Financial risk management**

The financial risk management of the company is managed by group. The company's activities expose it to market risk (including fair value interest rate risk and cash flow interest rate 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 uses derivative financial instruments to hedge certain risk exposures.

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

##### ***Market risk***

##### ***Cashflow and fair value interest rate risk***

The company has no interest bearing assets.

The company's interest rate risk arises from long term borrowings. Borrowings issued at variable rates expose the company to cash flow interest rate risk. Borrowings issued at fixed rates expose the company to fair value interest rate risk. The company manages its cash flow interest rate risk at a group level by using floating-to-fixed interest rate swaps and an interest rate cap. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates.

On the 30 March 2010, the Matalan group completed a refinancing of existing secured debt and issue of senior notes. As part of this refinancing exercise, the debt held by Matalan Group Limited was repaid with the new debt raised being held elsewhere in the Matalan group. The company is therefore no longer exposed to any financial risk with regard to interest rate fluctuations.

## MATALAN GROUP 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 26 February 2011, 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.

#### 5. Directors' emoluments

The directors' remuneration for their services to the company has been borne by another group company.

#### 6. Employee information

There were no employees during the period (2010: none).

#### 7. Finance income and costs

	2011 £'m	2010 £'m
Interest PIK notes	(0.1)	(1.1)
Warrant costs	-	(0.6)
Amortisation of debt costs	-	(0.2)
<b>Finance costs</b>	<b>(0.1)</b>	<b>(1.9)</b>
<b>Exceptional refinancing costs</b>	<b>(2.5)</b>	<b>-</b>
Loan interest and other finance costs recharged to group companies	0.1	1.9
<b>Finance income</b>	<b>0.1</b>	<b>1.9</b>
<b>Net finance costs</b>	<b>(2.5)</b>	<b>-</b>

#### 8. Result before taxation

The audit fee for the company amounting to £9,000 (2010: £9,000) is borne by a fellow group company. The total fee for the group is £0.1m (2010: £0.1m).

# MATALAN GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 9. Taxation

#### Analysis of (charge) / credit in the period

	2011 £'m	2010 £'m
<b>Current taxation</b>		
UK corporation taxation – current period	-	-
<b>Deferred taxation</b>		
Origination and reversal of temporary differences	-	-
Effect of change in rate of taxation	-	-
Adjustment in respect of prior periods	-	-
<b>Total taxation (charge) / credit</b>	-	-

The company taxation charge for the period is lower than (2010 the same as) the rate of corporation taxation at 28% (2010 28%)

The differences are explained below

	2011 £'m	2010 £'m
Profit before taxation	242.0	-
Profit before taxation multiplied by the rate of corporation taxation in the UK of 28% (2010 28%)	(67.8)	-
Effects of		
Non taxable income	68.5	-
Permanent differences	-	0.5
Group relief surrendered	(0.7)	(0.5)
<b>Total taxation charge in the period</b>	-	-

### 10. Dividends

	2011 £'m	2010 £'m
Amounts recognised as distributions to equity shareholders in the period		
Dividend of £235.5m paid to Missouri Topco Limited (2010 £nil)	235.5	-
	235.5	-

# MATALAN GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 11. Investments

	Investment in subsidiary £'m
<b>Cost and net book value</b>	
At 1 March 2009	437.4
Investment in subsidiary undertaking	-
<b>At 27 February 2010</b>	<b>437.4</b>
At 28 February 2010	437.4
Investment in subsidiary undertaking	-
<b>At 26 February 2011</b>	<b>437.4</b>

The company holds 100% of the ordinary share capital of Matalan Finance plc. The principal activity of Matalan Finance plc is to act as a holding company and it is incorporated in England and Wales. The directors believe that the book value of the investment is supported by the underlying net assets and the future discounted cash flows of the trading subsidiaries of the investment. The investment has a coterminous year end with the company.

The company also has an indirect interest in the following subsidiary companies

Name	Principal activity	Country of incorporation	% interest held and voting rights
Matalan Limited	Holding company	England and Wales	100
Matalan Retail Limited	Retail	England and Wales	100
Jonmar Limited	Property	England and Wales	100
Matalan Travel Limited	Travel services	England and Wales	100
Matalan Investments Limited	Holding company	England and Wales	100
HP01 Nominees Limited	Distribution	England and Wales	100
Matalan Holding Company Limited	Holding Company	England and Wales	100

### 12. Receivables - current

	2011 £'m	2010 £'m
Amounts owed by group undertakings	55.1	46.1

### 13. Payables - current

	2010 £'m	2010 £'m
Amounts owed to group undertakings	(46.0)	(37.7)



# MATALAN GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 14. Financial liabilities – borrowings

	2011 £'m	2010 £'m
<b>Non current</b>		
PIK notes (net of £nil (2010 £2.5m) of issue costs)	-	(5.8)

Bank borrowings are all denominated in sterling and bear interest rates based on LIBOR. The company had no short-term borrowings during the period (2010 £nil).

On 30 March 2010, the Matalan group completed a refinancing of existing debt and issue of new bonds. The existing debt was repaid and new Senior secured floating rate facilities of £250.0m, over 6 years at 5% above LIBOR, were put in place together with new unsecured fixed rate Senior notes of £225.0m, over 7 years at a fixed rate of 9 5/8%. The new debt and bonds raised in this refinancing exercise are held by Matalan Finance plc. On 30 March 2010, as part of this refinancing exercise, the company repaid its debt of £8.3m and accelerated the amortisation of £2.5m of outstanding issue costs associated with that debt (refer to note 15).

### Maturity of PIK notes

	2011 £'m	2010 £'m
Five to ten years	-	(8.3)
Issue costs	-	2.5
	-	(5.8)
<b>Current</b>	-	-
<b>Non current</b>	-	(5.8)
	-	(5.8)

## MATALAN GROUP LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 15. Refinancing

On 30 March 2010 the Matalan group completed a refinancing of existing debt and issue of new bonds. The existing debt was repaid and new Senior secured floating rate facilities of £250 0m, over 6 years at 5% above LIBOR, were put in place together with new unsecured fixed rate Senior notes of £225 0m, over 7 years at a fixed rate of 9 5/8%. The new debt and bonds were issued by Matalan Finance plc.

Prior to the completion of the refinancing exercise, the company received a dividend of £9 0m from Matalan Finance plc on 18 March 2010 (being 4 12p per 10p A ordinary share).

On 30 March 2010, the company repaid its debt of £8.3m and accelerated the amortisation of £2 5m of outstanding issue costs associated with that debt. This cost has been treated as exceptional in the period (refer to note 20). Additional costs of £14 9m associated with this refinancing have been expensed as exceptional items elsewhere in the group.

Following the completion of the refinancing exercise, on 1 April 2010 the company received an intercompany dividend of £235 5m from Matalan Finance plc and on 6 April 2010 the company paid an intercompany dividend of £235 5m to Missouri Topco Limited. On 1 April 2010, 60,000 (20%) of Missouri Topco Limited's 'B' shares were acquired for £12 0m through the Employee Benefit Trust from employees and on 7 April 2010 Missouri Topco Limited bought back 21% of the Missouri Topco Limited's 'A' shares for £233 2m.

#### 16. Share capital and reserves

##### Ordinary share capital

	10p 'A' ordinary shares Number	Total Value £'m
<b>Allotted, called up and fully paid</b>		
At 26 February 2011 and 27 February 2010	218,688,223	21 9

##### Reserves

###### 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 have been 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 £2, expected volatility 40%, expected term of 5 years, expected dividend yield of nil and risk free interest rate of 5.66%. The volatility assumption of 40% is 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 and is included within the total exceptional refinancing charge in the current period of £2 5m (refer to note 20). The warrants have not yet been exercised.

## MATALAN GROUP LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 17. Cash flows from operating activities

There have been no cash flows in the company in the current or prior year and hence no cash flow statements have been prepared

On arrangement of the PIK notes and all subsequent transactions in relation to these facilities, the cash was transferred directly to or from another group company and did not directly flow through this company

#### 18. Contingent liabilities

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

#### 19. 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

	2011 £'m	2010 £'m
Transactions with parent company		
Dividend paid	(235.5)	-
	(235.5)	-
Transactions with subsidiary undertakings		
Funds borrowed	-	0.2
Dividends received	244.5	-
Repayment of PIK notes	(8.4)	-
Voluntary repayment of PIK notes	-	(13.4)
PIK note interest	0.1	1.1
Warrant costs recharged	-	0.6
	236.2	(11.5)
Amounts owed to parent	(235.5)	-
Amounts due from other group undertakings	244.6	8.4

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.

Net liabilities settled by other group companies under the cash pooling arrangement

	2011 £'m	2010 £'m
Transactions with subsidiary undertakings		
Voluntary repayment of PIK notes	-	(13.4)
Repayment of PIK notes	(8.4)	-
	(8.4)	(13.4)

The company considers the Hargreaves family to be the ultimate controlling party

## MATALAN GROUP LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 19. Related party transactions (continued)

Key management includes the directors of the company. The compensation paid or payable to key management for employee services to the company has been borne by another group company (refer to note 6)

#### 20. Exceptional items

	2011 £'m	2010 £'m
Refinancing costs	(2.5)	-
<b>Exceptional items – finance costs</b>	<b>(2.5)</b>	<b>-</b>
<b>Total exceptional items</b>	<b>(2.5)</b>	<b>-</b>

#### Refinancing costs

The £2.5m exceptional refinancing cost expensed within net finance costs relates to the write off of unamortised issue costs associated with the previous PIK notes facilities.

#### 21. Ultimate parent company

The directors regard Missouri Topco Limited, a company registered in Guernsey, as the immediate parent company. According to the register kept by the company, Missouri Topco Limited has a 100% interest in the equity capital of Matalan Group Limited at 26 February 2011.

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

Missouri Topco Limited is the parent undertaking of the largest and smallest group of undertakings to consolidate these financial statements at 26 February 2011. The consolidated financial statements of Missouri Topco Limited are available from Matalan, Gillibrands Road, Skelmersdale, West Lancashire, WN8 9TB.