

# Topps Tiles

29 November 2016

## Topps Tiles Plc

### Annual Financial Report

#### *Record revenue and further strategic progress*

Topps Tiles Plc (“Topps”, “Topps Tiles” or “the Company”), the UK’s largest tile specialist, announces its annual financial results for the 52 weeks ended 1 October 2016.

#### Highlights

	52 weeks ended 1 October 2016	53 weeks ended 3 October 2015	YoY
Group revenue	£215.0 million	£212.2 million	+1.3%
Like-for-like revenue growth year on year <sup>1</sup>	+4.2%	+5.4%	n/a
Gross margin	61.9%	61.2%	+70bps
Adjusted profit before tax <sup>2</sup>	£22.0 million	£20.4 million	+7.8%
Adjusted earnings per share <sup>3</sup>	8.86p	8.17p	8.4%
Final dividend	2.5p	2.25p	+11.1%
Total dividend	3.5p	3.00p	+16.7%
Cash generated from operations	£29.9 million	£24.2 million	+£5.7 million
Net debt <sup>4</sup>	£24.8 million	£28.4 million	reduced by £3.6 million

#### Statutory Measures

Profit before tax	£20.0 million	£17.0 million	+17.6%
Basic earnings per share	8.05p	6.75p	+19.3%

#### Financial Highlights

- Record sales of £215.0 million (2015: £212.2 million). Like-for-like sales growth of 4.2% (2015: +5.4%)
- Gross margin increased to 61.9% (2015: 61.2%) reflecting further sourcing gains and our focus on a differentiated product offer
- Adjusted profit before tax<sup>2</sup> of £22.0 million, up by 7.8% or 10.0% on a 52 week comparable basis
- Increased final dividend of 2.5 pence per share (2015: 2.25 pence per share), making a total for the year of 3.5 pence per share (2015: 3.00 pence per share), an increase of 16.7%
- Net debt<sup>4</sup> at period end reduced to £24.8 million (2015: £28.4 million)

#### Operational Highlights

- Strategy of “Out Specialising the Specialists” continues to deliver successful results
- Trade increased to 52% of total sales (2015: 50%) driven by growth of the trade loyalty programme and trend for “do it for me”
- Sales benefiting from continued new product development – 12.6% of tile revenues generated from ranges launched in the last 12 months (2015: 9.3%)
- Digitisation of “Rewards +” trade loyalty programme to enhance offer to trade customer base
- Active management of store portfolio – 19 new openings (including 4 rebrands and 2 relocations), 15 closures, and 15 refits completed in the year, c.15 new openings expected in current financial year

## Current Trading and Outlook

- The Group is now trading from 352 stores (2015: 346 stores)
- In the first eight weeks of the new financial period, Group revenues, stated on a like-for-like basis, increased by 0.8% (2015: 3.3%)
- Stable gross margin expected this year, despite significant FX headwinds

Commenting on the results, Matthew Williams, Chief Executive said: "I am pleased to report that Topps has delivered a strong performance for the year, with our unrivalled combination of range, inspiration and convenience resonating with more customers and driving sales to a new record. Sales growth, combined with gross margin improvements and strong cost controls, generated a 10% increase in profits and a 17% increase in dividend.

"Like for like sales in the first eight weeks of the new financial year were ahead by 0.8%. Our proven strategy, well-invested business and market leading position, leave Topps well-placed for further progress in the year ahead."

## Notes

<sup>1</sup> Like-for-like revenues are defined as sales from stores that have been trading for more than 52 weeks.

<sup>2</sup> Adjusted profit before tax excludes several items we have incurred during the period which are not representative of underlying performance, these are set out as follows:

	2016 £m	2015 £m
<b>Adjusted Pre Tax profit</b>	<b>22.0</b>	<b>20.4</b>
<b>Presented on the face of the income statement as non-recurring items:</b>		
- business simplification exceptional costs (as detailed in the financial review)	nil	(2.6)
<b>Presented as part of operating costs within the relevant income statement captions:</b>		
- Restructuring costs including transitional costs relating to prior year business simplification initiatives	(0.4)	(0.2)
- vacant property costs	(0.3)	nil
- stock write off relating to wood category exit	(0.5)	nil
- the impairment of plant, property and equipment	(0.8)	(0.3)
- premium receivable on the early exit of a store	Nil	0.5
- gains relating to the forward currency contracts the Group (defined as Topps Tiles Plc and all its subsidiaries) has in place (per IAS39)	Nil	0.1
- charges for interest against a historic tax liability	nil	(0.9)
<b>Statutory Pre Tax Profit</b>	<b>20.0</b>	<b>17.0</b>

<sup>3</sup> Adjusted for the post tax effect of the items highlighted above.

<sup>4</sup> Net debt is defined as loan facilities drawn down less cash and cash equivalents.

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## STRATEGIC REPORT

*The content of this Strategic Report meets the content requirements of the Strategic Report as set out in s414a of the Companies Act 2006. This Strategic Report and Chairman's Statement contains certain forward-looking statements. These statements are made by the Directors in good faith based on the information available to them up to the time of their approval of this report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.*

## MARKETPLACE

### The UK Tile Market and Performance of the Business

Topps Tiles is the largest tile specialist in the UK retail market. Our primary focus is the domestic market for the renovation, maintenance and improvement of UK homes. In addition, our network of stores across the UK serves an element of the commercial tile market, where our offer is particularly suited to smaller businesses (such as independent retail outlets, coffee shops, restaurants, hair salons and car dealerships) which may not be employing the services of architects and designers.

Due to the highly discretionary nature of our market, consumer confidence remains a key driver of our performance. During 2016 the average level of consumer confidence was -1.3, which compares to +2.0 in 2015. Whilst the decline was modest overall, there was a notable shift in sentiment over the second half of our year, where the average level of consumer confidence was -4.2, compared to +1.5 over the first half (source: GFK). This deterioration in consumer confidence can, we believe, be largely attributed to the uncertainty created by the EU referendum result in June. While consumer confidence has improved from its immediate post-referendum low, the measure remains in a slightly negative position. The further implications for consumer confidence and the subsequent impact on our business remain unclear and we will continue to monitor the economic data available closely.

A further key driver of the customer decision to take on a home improvement project is buying a new home. Housing transactions are therefore a very useful indicator of likely future demand. Having grown steadily from 2013 to early 2015 housing transactions were then relatively flat throughout 2015. During this financial year transactions have grown by around 6% to 1.3m, however, the majority of this growth was triggered by changes to stamp duty in April 2016 which brought forward transactions into February and March. Over the latter part of the year transaction levels have been broadly stable. (Source: HMRC).

We also consider UK house price data to be a useful indicator of the relative health of our market. House prices are a good reflection of the housing market itself and also tend to reflect consumer confidence, as home owners tend to feel more affluent in a rising market. During the year we saw an increase in house prices, with the average price of a house in the UK rising to £206,015, an increase of 5.3% on the previous year (Source: Nationwide).

The annual tile industry report published by MBD covers the whole of the UK tile market (domestic & commercial) and is based on manufacturer and supplier data. Growth of the entire market in 2015 was 8.6% on a value basis with an estimate for volume growth in 2016 of 1.8% (MBD do not provide a value forecast growth estimate).

### Strategy

The business has an overarching goal of profitable sales growth, with an aspirational internal target for delivery in 2020. Our well-established strategy of "Out-Specialising the Specialists" continues to be very effective in delivering this goal.

Our strategy is centred on delivering outstanding value to our customers by focusing specifically on four key areas:

- 1 Range**
- 2 Inspiration**
- 3 Convenience**
- 4 People**

## Range

Topps is the UK's leading specialist tile retailer and offers unrivalled authority in product range. We constantly refresh our range and launch at least one new product every week both in store and online.

Topps works collaboratively with leading tile manufacturers from around the world to ensure its range remains at the forefront of innovation. Areas such as digital inkjet print technology, for example, continue to improve what can be achieved with patterned stone and wood effect tiles. Where we partner with manufacturers to drive innovation by utilising our expert skills and knowledge we are able to develop exclusive products and ranges. Many of these have become top sellers, further reinforcing Topps market leading position.

2016 has seen many of our leading ranges presented in our own brand packaging, in order to further differentiate our offer from that of our competitors.

Our new product development processes enable our buyers to bring successful new products to market faster and more frequently than our competitors. Sales of new tile ranges launched over the last twelve months accounted for 12.6% of our tile sales, demonstrating the continued positive customer reaction to our new product innovation.

During the year we took the decision to exit from the low margin wood flooring category and focus exclusively on our core tiles specialism. Wood flooring has become increasingly commoditised over time and the overall level of return from these lines was significantly below that of our tile offer. Using the space released in store we have been able to launch several new tile ranges, including the XL product range which capitalises on the growing consumer trend for ever larger tiles. In the year ahead we anticipate that this change will be a key contributor to gross margins in the business.

## Inspiration

Providing customers with an inspirational shopping experience continues to be a key aspect of our success. Due to the relatively infrequent purchase cycle, our retail customers require high levels of service and expertise in store. The delivery of best in class customer service is essential in helping our customers make informed choices. We focus on offering friendly, honest and helpful advice without ever being pushy. All of our stores are mystery-shopped once every month and we also monitor each store's Net Promoter Score<sup>1</sup> (NPS) on a monthly basis.

As a specialist business with a total focus on tiles we are ideally placed to respond to the trend for ever more adventurous tiling projects. Our specialist team of advisors can truly inspire our customers and support them with all the expert advice they need to make their project a success.

We launched our biggest ever programme of colleague training during the year and delivered 2,500 days of face to face development for all colleagues.

During the year we launched an interest free credit facility which enables retail customers to deliver their projects to the very highest standards and spread the cost over a period of either 12, 24 or 36 months. Topps is the only specialist tile retailer to offer this service which forms an important new aspect of our unique customer proposition.

The widely reported trend towards "do it for me" over "do it yourself" continues and we are seeing the impact of this in our business. Our retail customers are increasingly choosing to employ the services of a professional fitter and will often transact through them. Even in these scenarios we play an important facilitator role, often introducing homeowners to one of our loyal trade fitters.

We continued to grow the trade loyalty programme we launched in 2014, helping us to extend both our trade customer base and also increase the "share of wallet" from our existing trade customers. Work continues to drive participation levels higher and to boost the rewards available to our most loyal trade customers. For 2017 we are launching a new "Rewards +" loyalty programme which will digitalise the scheme allowing us to integrate it with our Customer Relationship Management system.

Trade sales have continued to increase their share of the sales mix and now account for 52% (2015: 50%) of our total sales.

During the year we launched a personalised digital brochure service. This allows customers to establish a series of preferences and then create a custom brochure which is specific to their tastes. This is emailed to them in a PDF format for them to browse at their leisure. The brochure can be created through our website or in store as

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<sup>1</sup> A full explanation of the NPS methodology and associated scores can be found within the KPIs section of this report.

part of the consultation process. The interaction between customer and colleague is key and this allows us to deliver a more personalised experience.

We continue to invest across our store estate to ensure that our stores are inspirational places to shop. This year we have replaced a range of third party legacy stands with a new flexible merchandising treatment, showcasing directly sourced ranges. This allows us to focus increasingly on own brand and exclusive ranges and also to manage future range changes more efficiently.

## **Convenience**

Convenience across all our shopping channels is a vital element of our customers' decision to shop with us. Our scale, expertise and ability to integrate all of our channels to market seamlessly is an important source of competitive advantage.

### **Stores**

Our stores remain by far our dominant channel with over 99% of our customers visiting a store at some stage in their shopping journey with Topps. We have continued to focus on optimising returns from the existing store estate, adding new locations selectively where we believe strong opportunities exist. We also relocate individual stores where this is supported by a local market opportunity.

Over the last three years Topps has made a significant investment in its store network, including a rebranding of the entire national estate and a series of 'All Stores Improvements' which have significantly improved the quality of store exteriors and in-store environment. During the year in review we opened 17 new core stores and closed four, resulting in a net increase of 13 core stores to bring the total, at year end, to 336 (2015: 323). These new stores have performed well and we remain very satisfied with the return on investment. In addition, we fully refitted 15 stores and made minor improvements in three other stores during the period.

In the year ahead we expect to open a net 15 new stores and fully refit around a further 10 stores, with other minor works undertaken as appropriate. We will continue with our annual programme of all store improvements and are currently trialling a number of initiatives which originated within the Boutique format. If these trials are successful and deliver the required financial payback this could result in an extended programme of all store improvements in 2018 which would require a higher level of investment.

As announced last year, we exited from the Clearance store format during the period, with the remaining stores converted or closed by December 2015.

Our Boutique stores have seen modest growth in numbers over the year with a further two openings, bringing the number of stores trading to 15 (2015: 13). As planned, we invested time in developing a better understanding of the key drivers of their performance and focused on operational improvements. As a result, the performance of Boutique improved over the period and we will look for further growth opportunities in the year ahead.

### **Online**

The ability to research their tile projects online is one of the ways in which we offer customers convenience and strive to provide a consistent experience across all touch points including store visits, online and mobile. Similarly, our online payment facility enables customers who have ordered in store or over the phone to pay remotely.

Research shows that almost all of our customers use our website at some point in their journey, as well as visiting a store. We therefore believe the 'pure play' online market for tiles remains very small.

Our market-leading online tile visualiser continues to be a key tool in engaging and inspiring customers both in stores and at home. During the year we continued to further develop our visualiser; adding new domestic room settings and commercial premises such as restaurants, cafes and hair salons. We have also improved ease of use with quick edit facilities; and introduced a transactional capability.

### **Trade**

While traders are a distinct customer group they are also very important as an alternative channel to market for Topps, with some of our customers being introduced to us through their chosen tile fitter. Of these new customers, a portion will transact directly, with the remainder finding it more convenient to transact through their fitter. We continue to see good growth potential in our trade business as home owners rely increasingly on specialist traders to complete their ever more ambitious tiling projects.

## **People**

As a service-based retail business, our colleagues are critical to our success. In refreshing our strategy this year we have recognised the importance of our colleagues more explicitly by including “People” alongside the three existing customer-facing aspects highlighted above. The People strand of our strategy is split into four areas:

### **Resourcing**

Resourcing is vital in ensuring we always have the right number of colleagues with the right capabilities in place. The rest of our resourcing cycle is then about attracting, selecting and inducting all colleagues to ensure future success.

### **Leadership & Culture**

Sustaining our unique culture and achieving business success is integral with evolving our leadership capability. This year we have improved the focus and development support provided to senior leaders which will continue next year, together with increasing our focus on generating a pipeline of leaders across the business.

### **Performance & Reward**

Topps overall strategy on pay and reward is to deliver market levels of basic pay and market beating levels of reward. This assists us in our constant drive to improve our performance and achieve our goal. To enable this, we implemented a revised performance development review process this year that continues to recognise and reward colleagues for delivering great results whilst ensuring these results are achieved in the right way.

### **Development**

Developing our people to give the best possible service and promoting from within whenever feasible remains a fundamental part of our DNA. This year we have continued to invest in development and have held a record number of 2,500 training days across the business including “natural service training” for all store colleagues and supported over 70 colleagues through various apprenticeship programmes.

## Key Performance Indicators (“KPIs”)

The Board monitors a number of financial and non-financial metrics and KPIs both for the Group and by individual store, including:

	52 weeks to 1 October 2016	53 weeks to 3 October 2015	YoY
<b>Financial KPIs</b>			
Like-for-like sales growth year-on-year	+4.2%	+5.4%	n/a
Total sales growth year-on-year	+1.3%	+8.7%	n/a
Gross margin	61.9%	61.2%	+70bps
Adjusted PBT*	£22.0m	£20.4m	+7.8%
Net debt	£24.8m	£28.4m	£3.6m
Inventory days	115	124	-7.3%
<b>Non-financial KPIs</b>			
Market Share	17.7%	17.0%	+0.7%
Net Promoter Score %	69.4%	73.0%	-3.6%
Colleague turnover	29.5%	31.5%	+2.0%
Carbon emissions per store (Tonnes per annum)	38.3	36.9	+3.8%
Number of stores at year end	351	347	+4

\*Adjusted PBT as defined on page 1

### Notes

- Net Promoter Score is calculated based on customer feedback to the question of how likely they are to recommend Topps Tiles to friends or colleagues. The scores are based on a numerical scale from 0-10 which allows customer to be split into promoters (9-10), passives (7-8) and detractors (0-6). The final score is based on the percentage of promoters minus the percentage of detractors.
- Energy carbon emissions have been compiled in conjunction with our supplier (Opus) and is based on the actual energy consumed multiplied by Environment Agency approved emissions factors. Vehicle emissions have been calculated by our in-house transport team based on mileage covered multiplied by manufacturer quoted emission statistics.
- Market share data is derived from the annual MBD report on the UK tile market (including domestic and commercial markets). Data for 2015 was originally stated at 18.0% but was restated to 17.0% based on the 2016 MBD market report which restated the 2015 market size upwards by around 7%.

The Board receive regular information on these and other metrics for the Group as a whole. This information is reviewed and updated as the Directors feel appropriate.

## FINANCIAL REVIEW

### PROFIT AND LOSS ACCOUNT

#### Revenue

Revenue for the period ended 1 October 2016 increased by 1.3% to £215.0 million (2015: £212.2 million). The trading period was 52 weeks, as opposed to 53 weeks in the prior year, removing the effect of one less week of sales would result in sales growth of 3.3%. Like-for-like store sales increased by 4.2% in the period, which consisted a 4.7% increase in the first half of the financial period and a 3.8% increase in the second half. The decrease in sales performance correlates with the reduction in consumer confidence highlighted in the Market section of this report and also the strategic decision to exit the low margin wood category in the fourth quarter which we estimate impacted sales growth by around 0.75% over the second half.

#### Gross Margin

Overall gross margin increased to 61.9% compared with 61.2% in the previous financial period. Over the first half of the period the gross margin was 61.5%, and we delivered a gross margin of 62.4% in the second half of the period. The nature of the promotional calendar drives a differential between the first and second half gross margin and this performance is typical of normal trading patterns. The longer term outlook for gross margin remains positive, however, given the recent devaluation of sterling and the subsequent impact on our overseas sourcing, our short term focus is to offset these impacts and deliver a broadly stable gross margin in the year ahead.

#### Operating Expenses

Total operating costs have risen from £111.0 million to £112.1 million, an increase of 1.0%. Costs as a percentage of sales were 52.1% compared to 52.3% in the previous period. When one-off adjusting items (detailed below) are excluded, operating costs were £110.1 million (2015: £108.4 million), equivalent to 51.2% of sales (2015: 51.1% of sales).

The movement in adjusted operating costs is explained by the following key items:

- Operating a 52 week year, versus a 53 week year in the prior period has reduced costs by £2.0 million
- Inflation at an average of approximately 1.6% has increased our cost base by around £1.7 million
- The average number of UK stores trading during the financial period was 344 (2015: 341), which generated an increase in costs of approximately £0.9 million
- Investment in additional store labour hours, and the costs associated with the implementation of National Living Wage accounted for £1.1 million of additional costs
- Employee profit share costs have decrease by £0.4 million due to a slightly lower level of financial performance compared to budget
- Depreciation has increased by £0.6 million due to continued higher levels of investment in the store estate
- The remaining elements of the cost base are flat when compared to the prior year

During the period we incurred several charges which we have excluded from our adjusted operating costs as they are not representative of the underlying cost base of the business. These are:

- business restructuring costs including transitional costs relating to prior year business simplification initiatives of £0.4 million (2015: £0.2 million)
- the impairment of plant, property and equipment relating to closed or loss making stores of £0.8 million (2015: £0.3 million)
- vacant property costs of £0.3 million (2015: nil)
- stock write off related to the exit of wood category of £0.5 million (2015: nil)
- In addition, in the prior year we also excluded £2.6 million of exceptional business restructuring costs, and a one-off gain relating to the receipt of a premium for the early exit of a store of £0.5 million

#### Operating Profit

Operating profit for the period was £21.1 million (2015: £18.9 million), representing 9.8% of sales (2015: 8.9%).



Excluding the adjusting items detailed above operating profit was £23.1 million (2015: £21.5 million), representing 10.7% of sales (2015: 10.1%).

### **Other Gains and Losses**

During the period we did not dispose of any freehold property. In the prior period we disposed of one property with no gain.

### **Financing**

The net underlying interest charge for the year was £1.1 million (2015: £1.1 million). The underlying interest charge has remained stable compared to the prior financial period due to a broadly stable net debt position.

In addition to the above charges and gains in the prior period we also provided for £0.9 million of interest against historic outstanding tax liabilities. There have been no further provisions made in the current year and the historic liabilities have now been settled – the majority of which was early in the new financial period.

Net interest cover was 27.4 times (2015: 23.8 times) based on earnings before interest, tax, depreciation and the impairment of plant, property and equipment, excluding the impact of IAS39 in finance charges.

### **Profit Before Tax**

Reported profit before tax was £20.0 million (2015: £17.0 million). The Group profit before tax margin was 9.3% (2015: 8.0%).

Excluding the adjusting items detailed on page 1 profit before tax was £22.0 million (2015: £20.4 million). The Group adjusted profit before tax margin was 10.2% (2015: 9.6%).

### **Tax**

The effective rate of Corporation Tax for the period was 22.3% (2015: 23.2%).

The Group tax rate is higher than the prevailing UK corporation tax rate due to non-deductible expenditure and depreciation on assets not qualifying for capital allowances.

### **Earnings Per Share**

Basic earnings per share were 8.05 pence (2015: 6.75 pence).

Diluted earnings per share were 7.82 pence (2015: 6.73 pence).

Excluding the adjusting items detailed on page 1 adjusted earnings per share were 8.86 pence (2015: 8.17 pence).

### **Dividend and Dividend policy**

The Board considers that a dividend cover of approximately two times earnings is achievable over the medium term and should be sustainable at this level. As a result of the proposed future policy, the dividend for this year has been based on an approximately 2.5x level of cover.

The Board is recommending to shareholders a final dividend of 2.5 pence per share (2015: 2.25 pence per share). This will cost £4.8 million (2015: £4.3 million). The shares will trade ex-dividend on 5 January 2017 and, subject to approval at the Annual General Meeting, the dividend will be payable on 3 February 2017.

This brings the total dividend for the year to 3.5 pence per share (2015: 3.00 pence per share), an increase of 16.7%.

## **BALANCE SHEET**

### **Capital expenditure**

Capital expenditure in the period amounted to £10.5 million (2015: £12.0 million), a decrease of 12.5%.

Key investments are as follows:

- New stores (core format and Boutique) £4.2 million – 19 new openings, including two relocations and four rebrands (2015: £3.3 million)
- Store refits £3.3 million (2015: £3.0 million)
- All stores related strategic initiatives £1.7 million (2015: £0.7 million)
- Other expenditure of £1.1 million (2015: £1.2 million)
- Freehold and leasehold investments £0.2 million (2015: £1.3 million)
- In addition, in the prior year we invested £2.5 million on store rebranding

The Board expects capital expenditure to continue at broadly the same level in the current financial year, subject to any additional investment in freehold opportunities.

At the period end the Group held nine freehold or long leasehold sites, including two warehouses and distribution facilities, with a total carrying value of £16.1 million (2015: nine freehold or long leasehold sites valued at £16.5 million). The carrying value is based on the historic purchase cost and capital expenditure less accumulated depreciation.

### **Property Disposals**

During the period we have not disposed of any freehold property. In the prior year we disposed of one freehold with no gain or loss.

### **Inventory**

Inventory at the period end was £25.7 million (2015: £27.4 million) representing 115 days turnover (2015: 124 days turnover). The absolute level of inventory has fallen due to a focus on working capital and range consolidation, including the exit of the wood category. Days cover has reduced as a result of this and sales growth.

### **Capital Structure and Treasury**

Cash and cash equivalents at the period end were £10.2 million (2015: £16.6 million) with borrowings of £35.0 million (2015: £45.0 million).

This gives the Group a net debt position of £24.8 million (2015: £28.4 million). The Group has previously highlighted an expected cash outflow of c.£4 million which related to legacy tax enquiries and related interest charges. The majority of this was paid post year end resulting in a £2.9 million cash outflow.

### **Cash flow**

Cash generated by operations was £29.9 million, compared to £24.2 million in the prior year period, an increase of £5.7 million.

This increase was generated by the additional profit of the Group and a £1.2 million working capital cash inflow (2015: £1.7 million working capital cash outflow), which generated a £2.9 million incremental cashflow when compared to the prior year period.

### **Current Trading and Market Conditions for the Year Ahead**

2016 was a successful year for Topps and we have delivered good underlying sales and gross margin growth combined with strong cost controls, generating a healthy improvement in profits and earnings per share.

Trading in the first eight weeks of the new financial year has been in line with our expectations, with like for like sales increasing by 0.8% (2015: 3.3%). We are confident that the Group's successful strategy of "Out Specialising the Specialists" has significant further potential and will underpin our progress in the year ahead.

### **Going Concern**

When considering the going concern test the Board review several factors including a detailed review of the above risks and uncertainties, the Group's forecast covenant and cash headroom against lending facilities (which were refinanced in June 2014) and management's current expectations. As a result of this review the Board believes that the Group will continue to meet all of its financial commitments as they fall due and will be able to continue as a going concern. Therefore, the Board considers it appropriate to prepare the financial statements on the going concern basis

### **Long Term Viability**

The Board have also considered the Longer Term Viability ("LTV") of the business in light of updated Corporate Governance requirements. The fuller LTV statement can be found in our Annual Report.

### **Cautionary Statement**

**This Strategic & Operational Review, and Chairman's statement have been prepared solely to provide additional information to shareholders to assess the Group's strategies and the potential for those strategies to succeed. These reports should not be relied on by any other party or for any other purpose.**

**The Strategic and Operational Review and Chairman's statement contains certain forward-looking statements. These statements are made by the Directors in good faith based on the information available to them up to the time of their approval of this report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.**

The Directors, in preparing this Strategic and Operational Review, have complied with s414a of the Companies Act 2006. This Business Review has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are significant to Topps Tiles Plc and to its subsidiary undertakings when viewed as a whole.

## Consolidated Statement of Financial Performance

For the 52 weeks ended 1 October 2016

	Notes	52 weeks ended 1 October 2016 £'000	53 weeks ended 3 October 2015 £'000
<b>Group revenue – continuing operations</b>	3	<b>214,994</b>	212,221
Cost of sales		<b>(81,825)</b>	(82,319)
Gross profit		<b>133,169</b>	129,902
Employee profit sharing		<b>(10,046)</b>	(10,405)
Distribution and selling costs		<b>(77,113)</b>	(76,204)
Other operating expenses		<b>(6,489)</b>	(5,846)
Administrative costs		<b>(13,887)</b>	(13,485)
Sales and marketing costs		<b>(4,561)</b>	(5,079)
<b>Group operating profit before exceptional items</b>		<b>21,073</b>	21,502
Business simplification costs	4	-	(2,619)
<b>Group operating profit</b>		<b>21,073</b>	18,883
Other losses	5	-	(23)
Investment revenue	7	<b>85</b>	242
Finance costs	7	<b>(1,176)</b>	(2,083)
<b>Profit before taxation</b>	5	<b>19,982</b>	17,019
Taxation	8	<b>(4,451)</b>	(3,954)
<b>Profit for the period attributable to equity holders of the company</b>	26	<b>15,531</b>	13,065
<b>Earnings per ordinary share</b>	10		
<b>From continuing operations</b>			
- basic		<b>8.05p</b>	6.75p
- diluted		<b>7.82p</b>	6.73p

## Consolidated statement of comprehensive income

For the 52 weeks ended 1 October 2016

	52 weeks ended 1 October 2016 £'000	53 weeks ended 3 October 2015 £'000
Profit for the period and total comprehensive income	<b>15,531</b>	13,065
Total comprehensive income for the period attributable to equity holders of the parent Company	<b>15,531</b>	13,065

## Consolidated Statement of Financial Position

As at 1 October 2016

	Notes	2016 £'000	2015 £'000
<b>Non-current assets</b>			
Goodwill	11	245	245
Deferred tax asset	19	-	319
Property, plant and equipment	12	51,619	47,094
		<b>51,864</b>	47,658
<b>Current assets</b>			
Inventories		25,667	27,408
Trade and other receivables	14	6,708	8,041
Cash and cash equivalents	15	10,228	16,564
		<b>42,603</b>	52,013
<b>Total assets</b>		<b>94,467</b>	99,671
<b>Current liabilities</b>			
Trade and other payables	16	(33,108)	(33,987)
Current tax liabilities		(4,004)	(5,048)
Provisions	19	(1,448)	(1,736)
		<b>(38,560)</b>	(40,771)
<b>Net current assets</b>		<b>4,043</b>	11,242
<b>Non-current liabilities</b>			
Bank loans	17	(34,807)	(44,692)
Deferred tax liabilities	19	(709)	-
Provisions	19	(2,846)	(3,410)
<b>Total liabilities</b>		<b>(76,922)</b>	(88,873)
<b>Net assets</b>		<b>17,545</b>	10,798
<b>Equity</b>			
Share capital	20	6,539	6,457
Share premium	21	2,473	1,906
Own shares	22	(4,411)	(630)
Merger reserve	23	(399)	(399)
Share based payment reserve	24	4,280	2,820
Capital redemption reserve	25	20,359	20,359
Retained losses	26	(11,296)	(19,715)
<b>Total equity</b>		<b>17,545</b>	10,798

The accompanying notes are an integral part of these financial statements.

The financial statements of Topps Tiles Plc, registered number 3213782, were approved by the board of directors and authorised for issue on 29 November 2016. They were signed on its behalf by:

**M.T.M Williams**  
**R. Parker**  
Directors

**Consolidated Statement of Changes in Equity  
For the 52 weeks ended 1 October 2016**

	Share Capital £'000	Share Premium £'000	Own Shares £000	Merger Reserve £'000	Share- Based Payment Reserve £'000	Capital Redemption Reserve £'000	Retained Losses £'000	Total Equity £'000
Balance at								
27 September 2014	6,455	1,879	(656)	(399)	1,941	20,359	(28,736)	843
Profit and total comprehensive income for the period	-	-	-	-	-	-	13,065	13,065
Issue of share capital	2	27	-	-	-	-	-	29
Dividends	-	-	-	-	-	-	(4,534)	(4,534)
Own shares purchased in the period	-	-	(504)	-	-	-	-	(504)
Own shares issued in the period	-	-	530	-	-	-	-	530
Credit to equity for equity-settled share based payments	-	-	-	-	879	-	-	879
Deferred tax on share- based payment transactions	-	-	-	-	-	-	490	490
Balance at								
3 October 2015	6,457	1,906	(630)	(399)	2,820	20,359	(19,715)	10,798
Profit and total comprehensive income for the period	-	-	-	-	-	-	15,531	15,531
Issue of share capital	82	567	-	-	(7)	-	-	642
Dividends	-	-	-	-	-	-	(6,296)	(6,296)
Own shares purchased in the period	-	-	(4,415)	-	-	-	-	(4,415)
Own shares issued in the period	-	-	634	-	-	-	(634)	-
Credit to equity for equity-settled share based payments	-	-	-	-	1,467	-	448	1,915
Deferred tax on share- based payment transactions	-	-	-	-	-	-	(630)	(630)
<b>Balance at</b>								
<b>1 October 2016</b>	<b>6,539</b>	<b>2,473</b>	<b>(4,411)</b>	<b>(399)</b>	<b>4,280</b>	<b>20,359</b>	<b>(11,296)</b>	<b>17,545</b>

## Consolidated Cash Flow Statement

For the 52 weeks ended 1 October 2016

	<b>52 weeks ended 1 October 2016 £'000</b>	53 weeks ended 3 October 2015 £'000
<b>Cash flow from operating activities</b>		
Profit for the period	15,531	13,065
Taxation	4,451	3,954
Finance costs	1,176	2,083
Investment revenue	(85)	(242)
Other gains on sale of freehold properties	-	23
<b>Group operating profit</b>	<b>21,073</b>	<b>18,883</b>
Adjustments for:		
Depreciation of property, plant and equipment	5,832	5,243
Impairment of property, plant and equipment	152	432
Share option charge	1,701	1,409
Business simplification costs	-	2,619
Decrease/(increase) in trade and other receivables	1,334	(2,125)
Decrease in inventories	1,740	438
Decrease in payables	(1,916)	(2,680)
<b>Cash generated by operations</b>	<b>29,916</b>	<b>24,219</b>
Interest paid	(1,045)	(1,882)
Taxation paid	(4,648)	(3,882)
<i>Net cash from operating activities</i>	<b>24,223</b>	<b>18,455</b>
<b>Investing activities</b>		
Interest received	84	127
Purchase of property, plant and equipment	(10,577)	(12,058)
Proceeds on disposal of property, plant and equipment	-	512
Purchase of own shares	(4,383)	(504)
<i>Net cash used in investment activities</i>	<b>(14,876)</b>	<b>(11,923)</b>
<b>Financing activities</b>		
Dividends paid	(6,296)	(4,534)
Proceeds from issue of share capital	613	29
Loan issue costs	-	(10)
Repayment of bank loans	(10,000)	(5,000)
<i>Net cash used in financing activities</i>	<b>(15,683)</b>	<b>(9,515)</b>
Net decrease in cash and cash equivalents	(6,336)	(2,983)
Cash and cash equivalents at beginning of period	16,564	19,547
<b>Cash and cash equivalents at end of period</b>	<b>10,228</b>	<b>16,564</b>

# Notes to the consolidated Financial Statements

For the 52 weeks ended 1 October 2016

## 1 General information

Topps Tiles Plc is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is given in the Annual Report. The nature of the Group's operations and its principal activity are set out in the Directors' Report.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates.

### Adoption of new and revised standards

In the current period, there were no new or revised standards and interpretations adopted that have a material impact on the financial statements.

#### *Standards not affecting the reported results nor the financial position*

The following new and revised Standards and Interpretations have been adopted in the current year. Their adoption has not had any significant impact on the amounts reported in these financial statements that may impact the accounting for future transactions and arrangements.

Annual Improvements to IFRSs: 2010-12 Cycle

Annual Improvements to IFRSs: 2011-13 Cycle

Aside from those items already identified above, the amendments made to standards under the 2010 improvements to IFRSs have had no impact and will not have any impact on the group.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

IFRS 2 – Classification and Measurement of Share-based Payment Transactions

IFRS 9 – Financial Instruments

IFRS 10 & IAS 28 (amended) – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

IFRS 11 (amended) – Joint Arrangements

IFRS 15 – Revenue from Contracts with Customers

IFRS 16 - Operating Leases

Annual Improvements to IFRSs: 2012-2014 Cycle

IAS 1 & 7 – Disclosure initiative

IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses

IAS 16 and IAS 38 (amended): Clarification of Acceptable Methods of Depreciation and Amortisation

IAS 27 (amended): Equity Method in Separate Financial Statements

IAS 1 – Disclosure initiative

IFRS 16 - Operating Leases, will have a material impact on the Group, with all of its operating leases being recognised on balance sheet with a corresponding right to use asset being recognised on balance sheet. Rental costs in the income statement will be replaced by interest and depreciation charges and will therefore impact the Group's profit. Management are currently reviewing the impact of the change in standard and beyond this the impact can't be further quantified at this stage.

The Directors anticipate that the adoption of the remaining standards and interpretations in future periods will have no material impact on the financial statements of the Group.

IFRS 15 is not expected to have a material impact on the group, however management are currently reviewing the impact of the change in standard and beyond this the impact can't be fully quantified at this stage.



## 2 Accounting policies

The principal accounting policies adopted are set out below.

### a) Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards 'IFRSs'. The financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS regulation. The financial statements have been prepared on the historical cost basis, except for the revaluation of derivative financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

### b) Going concern

When considering the going concern test the Board review several factors including a detailed review of the above risks and uncertainties, the Group's forecast covenant and cash headroom against lending facilities and management's current expectations (see Strategic Report for further details). As a result of this review the Board believes that the Group will continue to meet all of its financial commitments as they fall due and will be able to continue as a going concern. Therefore, the Board considers it appropriate to prepare the financial statements on the going concern basis.

### c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated statement of financial performance from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

### d) Financial period

The accounting period ends on the Saturday which falls closest to 30 September, resulting in financial periods of either 52 or 53 weeks.

Throughout the financial statements, Directors' Report and Business Review, references to 2016 mean at 1 October 2016 or the 52 weeks then ended; references to 2015 mean at 3 October 2015 or the 53 weeks then ended.

### e) Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

e) Goodwill (continued)

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before the date of transition to IFRSs has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date. Goodwill of £15,080,000 written off to reserves under UK GAAP prior to 1998 has not been reinstated and will not be included in determining any subsequent profit or loss on disposal.

f) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

Revenue from the sale of goods is recognised on the collection or delivery of goods, when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

The level of sales returns is closely monitored by management and provided for when management considers them to be significant and deducted from income.

Interest income is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

g) Exceptional items

Items are classed as exceptional where they relate to one-off costs incurred in the period that the directors do not expect to be repeated in the same magnitude on an annual basis, or where the directors consider the separate disclosure to be necessary to understand the Group's performance. The principles applied in identifying exceptional costs are consistent between periods. See note 4 for details of exceptional items in the current period. The Group has not recognised any exceptional items in the current year.

## 2 Accounting Policies (continued)

### h) Property, plant & equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off the cost of assets, less estimated residual value, over their estimated useful lives, on the following bases:

Freehold buildings	2% per annum on cost on a straight-line basis
Short leasehold land and buildings	over the period of the lease, up to 25 years on a straight line basis
Fixtures and fittings	over 10 years, except for the following; 4 years for computer equipment or 5 years for display stands, as appropriate
Motor vehicles	25% per annum on a reducing balance basis

Freehold land is not depreciated.

Residual value is calculated on prices prevailing at the date of acquisition.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the statement of financial performance.

### i) Impairment of tangible assets

At each period end, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future post-tax cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a re-valued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

### j) Inventories

Inventories are stated at the lower of cost and net realisable value and relate solely to finished goods for resale, net of supplier rebates. Cost comprises the purchase price of materials and an attributable proportion of distribution overheads based on normal levels of activity and is valued at standard cost. Net realisable value represents the estimated selling price, less costs to be incurred in marketing, selling and distribution. Provision is made for those items of inventory where the net realisable value is estimated to be lower than cost. The net replacement value of inventories is not considered materially different from that stated in the consolidated statement of financial position.

#### k) Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the statement of financial performance because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, and interests in jointly controlled entities, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted at the balance sheet date. Deferred tax is charged or credited in the statement of financial performance, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

#### l) Foreign currency

The individual financial statements of each Group company are presented in pounds sterling (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in pounds sterling, which is the functional currency of the Company, and the presentational currency for the consolidated financial statements.

Transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of transactions. At each period end, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the statement of financial performance for the period.

Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in statement of financial performance for the period.

Exchange differences are recognised in profit or loss in the period in which they arise except for exchange differences on transactions entered into to hedge certain foreign currency risks (see below under financial instruments/ hedge accounting).

## 2 Accounting Policies (continued)

### m) Leases

Rentals payable under operating leases are charged to income on a straight line basis over the term of the relevant lease even where payments are not made on such a basis, except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed or a provision has been made for an onerous lease. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The Group provides for the unavoidable costs prior to lease termination or sub-lease relating to onerous leases. Dilapidation costs are provided for against all leasehold properties across the entire estate.

### n) Investments

Fixed asset investments are shown at cost less provision for impairment.

### o) Retirement benefit costs

For defined contribution schemes, the amount charged to the statement of financial performance in respect of pension costs is the contributions payable in the period. Differences between contributions payable in the period and contributions actually paid are shown as either accruals or prepayments in the Statement of Financial Position.

### p) Finance costs

Finance costs of debt are recognised in the statement of financial performance over the term of the debt at a constant rate on the carrying amount.

### q) Financial instruments

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

#### *Financial assets at FVTPL*

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A Financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The Directors use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied, such as discounted cash flows and assumptions regarding market volatility.

### *Loans and receivables*

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets and liabilities classified as at FVTPL.

### *Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each Statement of Financial Position date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 50 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

### *Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash within three months and are subject to an insignificant risk of changes in value.

### *Derecognition of financial assets*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

## 2 Accounting Policies (continued)

### *Financial liabilities and equity*

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL. The Group does not have any designated FVTPL liabilities.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of disposal in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss.

### *Other financial liabilities*

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

### *Derecognition of financial liabilities*

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

### *Derivative financial instruments*

The Group's activities expose it to the financial risks of changes in foreign currency exchange rates and interest rates.

The Group uses foreign exchange forward contracts to manage its foreign currency risk. The Group does not hold or issue derivative financial instruments for speculative purposes.

The use of financial derivatives is governed by the Group's policies approved by the board of directors, on the use of financial derivatives.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each period end date. The resulting gain or loss is recognised in profit or loss immediately.

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

### r) Share-based payments

The Group has applied the requirements of IFRS 2 Share-based payments. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 October 2005.

The Group issues equity settled share based payments to certain employees. Equity settled share based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the share based payment is expensed on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. Fair value is measured by use of the Black Scholes model.

r) Share-based payments (continued)

The Group provides employees with the ability to purchase the Group's ordinary shares at 80% of the current market value through the operation of its share save scheme. The Group records an expense, based on its estimate of the 20% discount related to shares expected to vest on a straight line basis over the vesting period.

s) Trade payables

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

t) Operating profit

Operating profit is stated after charging/(crediting) restructuring costs but before property disposals, investment income and finance costs.

u) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

v) Supplier income

Amounts receivable from suppliers are initially held on the balance sheet within the cost of inventory and recognised within the income statement once the contractual terms of the supplier agreements are met and the corresponding inventory has been sold.

Volume rebates and price discounts are recognised in the income statement, as a reduction in cost of sales, in line with the recognition of the sale of a product.

w) Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described above, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The critical judgement, apart from those involving estimations (which are dealt with separately below), that the Directors have made in the process of applying the Group's accounting policies and that has the most significant effect on the amounts recognised in financial statements is the detailed criteria for the recognition of revenue from the sale of goods set out in IAS 18 *Revenue*. In particular the largest judgement is where there are open orders and these goods have not been delivered to the customer, and in these cases the Directors believe the significant risks and rewards of ownership of the goods have not been transferred to the buyer and therefore do not recognise revenue on these orders.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the period end date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period, are discussed below:

Inventory

At the period end there were £1.9 million (2015: £1.9 million) of overheads absorbed into inventory and £0.6 million (2015: £2.0 million) of supplier income (rebates) recognised into the inventory balance. Additionally there were £0.7 million (2015: 0.7 million) of provisions against the net realisable value of inventories.



## 2 Accounting Policies (continued)

### Property provisions

Onerous lease provision - During the period the Group has continued to review the performance of its store portfolio, which has resulted in seven further stores being exited before their lease terms had expired (2015: zero stores). All seven stores exited in advance of their lease terms related to the exit the Topps Clearance format, a decision taken in the 2015 financial year. In respect of the leases in relation to stores exited before lease end dates in prior periods that are still vacant, the Group has provided for what it considers to be the unavoidable costs prior to lease termination or sublease. The Group has further reviewed any trading loss making stores and provided for those leases considered to be onerous. These estimates are based upon available information and knowledge of the property market. The ultimate costs to be incurred in this regard may vary from the estimates.

Dilapidations provision - The Group has estimated its likely dilapidation charges for its store portfolio and provided accordingly. This estimate involves an assessment of average costs per store and the expected exit period for the current portfolio, and is based on management's best estimate, taking into account knowledge of the property market and historical trends. The ultimate costs to be incurred may vary from the estimates.

### Supplier income

The Group has arrangements with a number of its suppliers which award rebates on satisfaction of purchase thresholds or discounts against certain inventory lines. At the period end, the Group has invoiced £nil of rebates (2015: £1.2 million) which are still outstanding in receivables and holds £0.6 million (2015: £2.0 million) of rebates within the inventory balance (as above) and accrued rebates of £1.0 million (2015: £1.4 million). The Group does not recognise the amounts received from suppliers within the income statement until the associated inventories are sold to the customers of the Group. During the period the Group renegotiated a number of supplier rebate agreements, with the effect of the renegotiation being that the Group now receives a lower net price of goods, and lower retrospective rebate receivable. This has significantly reduced the level of rebates held in stock and level of rebates invoiced and not yet received. The overall profit impact on the Group during the period is nil.

### Business simplification provisions

During the prior period the Group announced its intentions to relocate the finance function to its head office in Leicester, resulting in the closure of a support office. Additionally the decision was made to exit the Topps Clearance format in order to focus on the core Topps Tiles brand. During 2016 both of these business simplification initiatives were completed. In the 2016 financial year this simplification work has led to part utilisation of onerous lease and related property provisions and a number of redundancy payments. No such costs have been recognised in the current year.

## 3 Revenue

An analysis of Group revenue is as follows:

	<b>52 weeks ended 1 October 2016 £'000</b>	53 weeks ended 3 October 2015 £'000
Revenue from the sale of goods	<b>214,994</b>	212,221
<b>Total revenue</b>	<b>214,994</b>	212,221

Investment revenue represents bank interest receivable. There are no other gains recognised in respect of loans and receivables.

The Group has one reportable segment in accordance with IFRS 8 – Operating Segments, which is the Topps Tiles stores and online business segment. The Group's board are considered the chief operating decision makers. The Board receives monthly financial information at this level and uses this information to monitor the performance of the Topps Tiles stores and online business segment, allocate resources and make operational

decisions. Internal reporting focuses on the Group as a whole and does not identify any further individual segments. All revenue is derived from sales in the UK and from one class of business.

#### 4 Exceptional items – Business Simplification Costs

During the prior period the Group announced the decision to relocate the finance function to Leicester and exit the Topps Clearance format. Both of these simplification initiatives have been completed during the 2015-16 financial period. This simplification work has led to part utilisation of onerous lease and related property provisions and a number of redundancy payments, all in line with the provision raised in the prior year.

No exceptional items were incurred in the 2016 financial year.

	<b>52 weeks ended 1 October 2016 £'000</b>	53 weeks ended 3 October 2015 £'000
<i>Included in administrative expenses:</i>		
Impairment of property, plant and equipment	-	172
Restructuring costs	-	736
Property related provisions	-	1,711
	<u>-</u>	<u>2,619</u>

#### 5 Profit before taxation

Profit before taxation for the period has been arrived at after charging/(crediting):

	<b>52 weeks ended 1 October 2016 £'000</b>	53 weeks ended 3 October 2015 £'000
Depreciation of property, plant and equipment	<b>5,832</b>	5,243
Impairment of property, plant and equipment*	<b>152</b>	266
Disposal of property, plant and equipment loss	-	23
Property related provisions charged*	<b>719</b>	1,729
Restructuring costs	-	736
Staff costs (see note 6)	<b>53,816</b>	51,530
Operating lease rentals	<b>23,830</b>	23,388
Write down of inventories recognised as an expense	<b>3,971</b>	3,431
Cost of inventories recognised as expense**	<b>78,612</b>	78,152
Net foreign exchange gain**	-	(135)
	<u>-</u>	<u>(135)</u>

During the year the business disposed of zero freehold properties (2015: One freehold property disposal).

\* Included in the prior year amounts above for property related provisions and impairment of property, plant and equipment, are the business simplification costs in note 4.

\*\*In prior year, the directors included foreign exchange gains within investment revenue. In the current year, the directors consider a more appropriate classification to be within cost of sales given the gains relate to the Group's inventory purchases. On the grounds of materiality, no changes have been made to the comparative figures. The current year gain was £225,260. If the prior year gain of £135,000 was included within cost of sales, cost of inventories recognised as an expense would have been £78,017,000.

Analysis of auditor's remuneration is provided below:

	<b>52 weeks ended 1 October 2016 £'000</b>	53 weeks ended 3 October 2015 £'000
Fees payable to the Company's auditor with respect to the Company's annual accounts	41	30
Fees payable to the Company's auditor and their associates for other audit services to the Group:		
Audit of the Company's subsidiaries pursuant to legislation	<b>87</b>	85
Total audit fees	<b>128</b>	115
Other assurance	-	10
Taxation compliance services	<b>70</b>	70
Remuneration Committee advice	-	2
Share plan advice	-	11
Total non audit fees	<b>70</b>	93
Total fees payable to the Company's auditor	<b>198</b>	208

A description of the work of the Audit Committee is set out in the Annual Report and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditor.

## 6 Staff costs

The average monthly number of persons and their full time equivalents employed by the Group in the UK during the accounting period (including executive directors) was:

	<b>52 weeks ended 1 October 2016 Number employed</b>	53 weeks ended 3 October 2015 Number employed
Selling	<b>1,778</b>	1,731
Administration	<b>199</b>	184
	<b>1,977</b>	1,915

	<b>2016 £'000</b>	2015 £'000
Their aggregate remuneration comprised:		
Wages and salaries (including LTIP, see note 28)	<b>48,667</b>	46,844
Social security costs	<b>4,286</b>	3,838
Other pension costs (see note 27b)	<b>863</b>	848
	<b>53,816</b>	51,530

Details of directors' emoluments are disclosed in the Annual Report. The Group considers key management to be the directors only. Employee profit sharing of £10.0 million (2015: £10.4 million) is included in the above and comprises sales commission and bonuses.

## 7 Investment revenue and finance costs

	<b>52 weeks ended 1 October 2016 £'000</b>	53 weeks ended 3 October 2015 £'000
<i>Investment revenue</i>		
Bank interest receivable and similar income	<b>85</b>	107
Fair value gain on forward currency contracts*	-	135
	<b>85</b>	242
<i>Finance costs</i>		
Interest on bank loans and overdrafts	<b>(1,092)</b>	(1,231)
Interest on underpaid tax**	<b>(84)</b>	(852)
	<b>(1,176)</b>	(2,083)

\*In prior year, the directors included foreign exchange gains within investment revenue. In the current year, the directors consider a more appropriate classification to be within cost of sales given the gains relate to the Group's inventory purchases. On the grounds of materiality, no changes have been made to the comparative figures.

\*\*The Group has historically provided for tax on open HMRC enquiries. During 2015/16 financial year a £0.6 million payment was made, and in the first few weeks of the 2016/17 financial year a further payment of £2.9 million was made, all payments being provided for in previous periods. It is believed that these payments resolve the majority of outstanding historic tax issues.

No finance costs are appropriate to be capitalised in the period, or the prior period.

Interest on bank loans and overdrafts represents gains and losses on financial liabilities measured at amortised cost. There are no other gains or losses recognised in respect of financial liabilities measured at amortised cost.

## 8 Taxation

	<b>52 weeks ended 1 October 2016 £'000</b>	53 weeks ended 3 October 2015 £'000
<b>Continuing operations:</b>		
Current tax - charge for the period	<b>3,906</b>	3,946
Current tax - adjustment in respect of previous periods	<b>148</b>	103
Deferred tax – charge for period (note 19)	<b>302</b>	(158)
Deferred tax - adjustment in respect of previous periods (note 19)	<b>95</b>	63
	<b>4,451</b>	3,954

The charge for the period can be reconciled to the profit per the statement of financial performance as follows:

	<b>52 weeks ended 1 October 2016 £'000</b>	53 weeks ended 3 October 2015 £'000
<b>Continuing operations</b>		
Profit before taxation	<b>19,982</b>	17,019
Tax at the UK corporation tax rate of 20.0% (2015: 20.5%)	<b>3,997</b>	3,489
Expenses that are not deductible in determining taxable profit	<b>58</b>	119
Difference between IFRS 2 and corporation tax relief	<b>137</b>	-
Reduction in UK corporation tax rate	<b>(246)</b>	-
Chargeable gain lower than profit on sale of freehold property	<b>-</b>	(2)
Tangible fixed assets which do not qualify for capital allowances	<b>261</b>	182
Adjustment in respect of prior periods	<b>244</b>	166
Tax expense for the period	<b>4,451</b>	3,954

In the period, the Group has recognised a corporation tax credit directly to equity of £448,000 (2015: £8,000) and a deferred tax debit to equity of £630,000 (2015: £485,000) in relation to the Group's share option schemes.

## 9 Dividends

	<b>52 weeks ended 1 October 2016 £'000</b>	53 weeks ended 3 October 2015 £'000
Interim dividend for the period ended 1 October 2016 of £0.01 (2015: £0.0075) per share	<b>1,930</b>	1,447
Proposed final dividend for the period ended 1 October 2016 of £0.025 (2015: £0.0225) per share	<b>4,803</b>	4,358

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

## 10 Earnings per share

The calculation of earnings per share is based on the earnings for the financial period attributable to equity shareholders and the weighted average number of ordinary shares.

	<b>2016 Number of Shares</b>	2015 Number of Shares
Weighted average number of issued shares		
For basic earnings per share	<b>195,063,550</b>	<b>193,683,323</b>

Weighted average impact of treasury shares for basic earnings per share	<b>(2,131,436)</b>	<b>(799,088)</b>
Weighted average number of shares under option	<b>5,769,647</b>	<b>1,234,227</b>
For diluted earnings per share	<b>198,701,761</b>	<b>194,118,462</b>

The calculation of the basic and diluted earnings per share used the denominators as shown above for both basic and diluted earnings per share.

## 11 Goodwill

	<b>£'000</b>
Cost and carrying amount at 27 September 2014, 3 October 2015 and 1 October 2016	<b>245</b>

The balance of goodwill remaining is the carrying value that arose on the acquisition of Surface Coatings Ltd in 1998.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to, selling prices and direct costs during the period. Management estimates discount rates based on the Group's weighted average cost of capital. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market. Discounted cash flows are calculated using a pre-tax rate of 14.2% (2015: 14.4%).

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next five years and extrapolates cash flows for the following five years. The growth rate applied does not exceed the average long-term growth rate for the relevant markets. There are no reasonable changes that would result in the carrying value of goodwill being reduced to its recoverable amount.

As a result of the annual test of impairment of goodwill, no impairment has been identified for the current period.

## 12 Property, plant and equipment

	Land and buildings		Fixtures and fittings	Motor vehicles	Total
	Freehold	Short leasehold			
Cost	£'000	£'000	£'000	£'000	£'000
At 27 September 2014	17,951	1,832	63,459	120	83,362
Additions	1,129	231	10,643	5	12,008
Disposals	(520)	(109)	(1,793)	(67)	(2,489)
At 3 October 2015	18,560	1,954	72,309	58	92,881
Additions	-	93	10,411	5	10,509
Disposals	-	-	(691)	-	(691)
<b>At 1 October 2016</b>	<b>18,560</b>	<b>2,047</b>	<b>82,029</b>	<b>63</b>	<b>102,699</b>

### Accumulated depreciation and impairment

At 27 September 2014	1,767	1,719	38,511	71	42,068
Charge for the period	290	38	4,896	19	5,243
Provision for impairment	-	-	266	-	266
Eliminated on disposals	(11)	(109)	(1,627)	(43)	(1,790)
At 3 October 2015	2,046	1,648	42,046	47	45,787
Charge for the period	289	49	5,482	12	5,832
Provision for impairment	-	-	152	-	152
Eliminated on disposals	-	-	(691)	-	(691)
<b>At 1 October 2016</b>	<b>2,335</b>	<b>1,697</b>	<b>46,989</b>	<b>59</b>	<b>51,080</b>

### Carrying amount

<b>At 1 October 2016</b>	<b>16,225</b>	<b>350</b>	<b>35,040</b>	<b>4</b>	<b>51,619</b>
At 3 October 2015	16,514	306	30,263	11	47,094

Freehold land and buildings include £4,104,000 of freehold land (2015: £4,104,000) on which no depreciation has been charged in the current period. There is no material difference between the carrying and market values.

Cumulative finance costs capitalised in the cost of tangible fixed assets amount to £nil (2015: £nil).

Contractual commitments for the acquisition of property, plant and equipment are detailed in note 27.

During the period, the Group has closed ten stores in the UK. As the fixtures and fittings within these stores cannot be re-used in other locations within the Group, the carrying value of these assets has been fully provided for in the period, with the associated impairment charge of £152,000 (2015: £266,000) included within other operating expenses.

### 13 Subsidiaries

A list of all subsidiaries, including the name, country of incorporation and proportion of ownership interest is given in note 3 to the Company only financial statements.

### 14 Trade and other receivables

	2016 £'000	2015 £'000
<b>Amounts falling due within one year:</b>		
Amounts receivable for the sale of goods	681	712
Allowance for doubtful debts	(33)	(27)
Other debtors and prepayments		
-Rent and rates	4,001	4,808
-Other	2,059	2,548
	<b>6,708</b>	<b>8,041</b>

The Directors consider that the carrying amount of trade and other receivables at 1 October 2016 and 3 October 2015 approximates to their fair value on the basis of discounted cash flow analysis.

#### Credit risk

The Group's principal financial assets are bank balances and cash and trade receivables.

The Group considers that it has no significant concentration of credit risk. The majority of sales in the business are cash based sales in the stores.

Total trade receivables (net of allowances) held by the Group at 1 October 2016 amounted to £0.6 million (2015: £0.7 million). These amounts mainly relate to sundry trade accounts and Tesco Clubcard Scheme generated sales. In relation to these sales, the average credit period taken is 54 days (2015: 51 days) and no interest is charged on the receivables.

Before accepting any new customer, the Group uses an external credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed periodically.

Included in the Group's trade receivable balance are debtors with a carrying amount of £94,000 (2015: £96,000) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

Ageing of past due but not impaired receivables

**2016**

2015

	£'000	£'000
Greater than 60 days	94	96

The allowance for doubtful debts was £33,000 by the end of the period (2015: £27,000). Given the minimal receivable balance, the Directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

The allowance for doubtful debts includes £20,000 relating to individually impaired trade receivables (2015: £27,000) which are due from companies that have been placed into liquidation.

The Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

## 15 Cash and cash equivalents

Cash and cash equivalents comprise cash held by the Group and short term bank deposits (with associated right of set off) net of bank overdrafts, with an original maturity of three months or less. The carrying amount of these assets approximates their fair value. A breakdown of significant bank and cash balances by currency is as follows:

	2016 £'000	2015 £'000
Sterling	8,738	16,519
US Dollar	715	14
Euro	775	31
Total cash and cash equivalents	<u>10,228</u>	<u>16,564</u>

## 16 Other financial liabilities

### Trade and other payables

	2016 £'000	2015 £'000
<b>Amounts falling due within one year</b>		
Trade payables	16,598	15,505
Other payables	3,740	4,940
Accruals and deferred income	12,770	13,542
	<u>33,108</u>	<u>33,987</u>

Trade payables and accruals principally comprise amounts outstanding for trade purchases and on-going costs. The average credit period taken for trade purchases is 49 days (2015: 46 days). No interest is charged on these payables.

The Directors consider that the carrying amount of trade payables at 1 October 2016 and 3 October 2015 approximates to their fair value on the basis of discounted cash flow analysis.

## 17 Bank loans



	<b>2016</b> <b>£'000</b>	2015 £'000
Bank loans (all sterling)	<b>34,691</b>	44,576
The borrowings are repayable as follows:		
On demand or within one year	-	-
In the second year	-	-
In the third to fifth year	<b>35,000</b>	45,000
	<b>35,000</b>	45,000
Less: total unamortised issue costs	<b>(309)</b>	(424)
	<b>34,691</b>	44,576
Issue costs to be amortised within 12 months	<b>116</b>	116
Amount due for settlement after 12 months	<b>34,807</b>	44,692

## 17 Bank loans (continued)

The Directors consider that the carrying amount of the bank loan at 1 October 2016 and 3 October 2015 approximates to its fair value since the amounts relate to floating rate debt.

The average interest rates paid on the loan were as follows:

	<b>2016</b> <b>%</b>	2015 %
Loans	<b>2.19%</b>	2.36

The Group borrowings are arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

The Group is part way through a five year revolving credit facility of £50.0 million, expiring 31 May 2019. As at the financial period end £35.0 million of this facility was drawn (2015: £45.0 million). The loan facility contains financial covenants which are tested on a bi-annual basis. The Group did not breach any covenants in the period.

At 1 October 2016, the Group had available £15 million (2015: £5.0 million) of undrawn committed banking facilities.

## 18 Financial instruments

### Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2015. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 17, cash and cash equivalents disclosed in note 15 and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained losses as disclosed in notes 20 to 26.

The Group is not subject to any externally imposed capital requirements.

### Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2q to the financial statements.

## Categories of financial instruments

	Carrying Value and Fair Value	
	2016 £'000	2015 £'000
<b>Financial assets</b>		
Loans and receivables (including cash and cash equivalents)	10,876	17,249
Fair value through profit and loss	342	117
<b>Financial liabilities</b>		
Amortised cost	51,404	60,197

The Group considers itself to be exposed to risks on financial instruments, including market risk (including currency risk), credit risk, liquidity risk and cash flow interest rate risk.

The Group seeks to mitigate the effects of these risks by using derivative financial instruments to hedge these risk exposures economically. The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

## 18 Financial instruments (continued)

### Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group enters into forward foreign exchange contracts to hedge the exchange rate risk arising on the import of goods.

### Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		Liabilities	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
<b>Euro</b>	781	31	3,032	2,201
<b>US dollar</b>	725	14	1,215	500

### Foreign currency sensitivity analysis

The Group is mainly exposed to the currency of China and Brazil (US dollar currency) and to various European countries (Euro) as a result of inventory purchases. The following table details the Group's sensitivity to a 10% increase and decrease in Sterling against the relevant foreign currencies. 10% represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number below indicates an increase in profit and other equity where Sterling strengthens 10% against the relevant currency.

2016 £000	2015 £000
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Profit or Loss movement on a 10% strengthening in Sterling against the Euro	<b>205</b>	197
Profit or Loss movement on a 10% strengthening in Sterling against the US Dollar	<b>45</b>	44
Profit or Loss movement on a 10% weakening in Sterling against the Euro	<b>(250)</b>	(241)
Profit or Loss movement on a 10% weakening in Sterling against the US Dollar	<b>(55)</b>	(54)

## 18 Financial instruments (continued)

### Currency derivatives

The Group utilises currency derivatives to hedge significant future transactions and cash flows. The Group uses foreign currency forward contracts in the management of its exchange rate exposures. The contracts are denominated in US dollars and Euros.

At the balance sheet date, the total notional amounts of outstanding forward foreign exchange contracts that the Group has committed to are as below:

	<b>2016</b>	2015
	<b>£'000</b>	£'000
Forward foreign exchange contracts	<b>6,125</b>	6,597

These arrangements are designed to address significant exchange exposures for the first half of 2016 and are renewed on a revolving basis as required.

At 1 October 2016 the fair value of the Group's currency derivatives is a gain of £341,917 within prepayments (note 14) (2015: £117,000). These amounts are based on the market value of equivalent instruments at the balance sheet date.

Gains of £225,260 are included in cost of sales (2015: £135,000 gain included in investment revenue) (note 7).. In the prior year, the directors included foreign exchange gains within investment revenue. In the current year, the directors consider a more appropriate classification to be within cost of sales given the gains relate to the Group's inventory purchases. On the grounds of materiality, no changes have been made to the comparative figures.

### Interest rate risk management

The Group is exposed to interest rate risk as entities in the Group borrow funds at floating interest rates. Due to the reduced level of floating rate borrowings and the current low level of interest rates, management have not deemed it necessary to implement measures that would mitigate this risk. The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

### Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 50 basis points increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit would be impacted as follows:

	<b>50 basis points increase in</b>		<b>50 basis points decrease</b>	
	<b>interest rates</b>		<b>in interest rates</b>	
	<b>2016</b>	2015	<b>2016</b>	2015
	<b>£'000</b>	£'000	<b>£'000</b>	£'000
<b>(Loss) or profit</b>	<b>(198)</b>	(231)	<b>198</b>	231

The Group's sensitivity to interest rates mainly relates to the revolving credit facility.

## 18 Financial instruments (continued)

## Credit risk management

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the Group. Management has considered the counterparty risk associated with the cash and derivative balances and do not consider there to be a material risk. The Group has a policy of only dealing with creditworthy counterparties. The Group's exposure to its counterparties is reviewed periodically. Trade receivables are minimal consisting of a number of insurance companies and sundry trade accounts, further information is provided in note 14.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained.

## Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

## Liquidity and interest risk tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows (and on the assumption that the variable interest rate remains constant at the latest fixing level of 1.77413% (2015: 2.28688%)) of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

2016	Less than 1 month £'000	1-3 months £'000	3 months - 1 year £'000	1-5 Years £'000	Total £'000
Non-interest bearing	20,337	-	-	-	20,337
Variable interest rate instruments	59	117	521	36,157	36,854
	<u>20,396</u>	<u>117</u>	<u>521</u>	<u>36,157</u>	<u>36,854</u>
2015	Less than 1 month £'000	1-3 months £'000	3 months - 1 year £'000	1-5 Years £'000	Total £'000
Non-interest bearing	20,444	-	-	-	20,444
Variable interest rate instruments	78	186	792	47,823	48,879
	<u>20,522</u>	<u>186</u>	<u>792</u>	<u>47,823</u>	<u>48,879</u>

The Group is financed through a £50 million (2015 £50 million), revolving credit facility of which £35 million (2015 £45 million) was utilised. At the balance sheet date the total unused amount of financing facilities was £15 million (2015 £5 million). The Group expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

## 18 Financial instruments (continued)

The following table details the Group's liquidity analysis for its derivative financial instruments. The table has been drawn up based on the undiscounted net cash inflows/(outflows) on the derivative instruments that settle on a net basis and the undiscounted gross inflows and (outflows) on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest and foreign currency rates as illustrated by the yield curves existing at the reporting date.

2016	Less than 1 month £'000	1-3 Months £'000	3 months to 1 year £'000	1-5 Years £'000	5+ Years £'000	Total £'000
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Foreign exchange forward contracts payments	(1,179)	(2,435)	(2,511)	-	-	(6,125)
Foreign exchange forward contracts receipts	<u>1,305</u>	<u>2,611</u>	<u>2,567</u>	<u>-</u>	<u>-</u>	<u>6,483</u>
2015	Less than 1 month	1-3 Months	3 months to 1 year	1-5 Years	5+ Years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Foreign exchange forward contracts payments	-	(3,331)	(3,267)	-	-	(6,598)
Foreign exchange forward contracts receipts	<u>-</u>	<u>3,358</u>	<u>3,362</u>	<u>-</u>	<u>-</u>	<u>6,720</u>

### Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.
- The fair values are therefore categorised as Level 2 (2015: Level 2), based on the degree to which the fair value is observable. Level 2 fair value measurements are those derived from inputs other than unadjusted quoted prices in active markets (level 1 categorisation) that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

### 19 Provisions

	<b>2016</b>	2015
	<b>£'000</b>	£'000
Onerous lease provision	<b>1,309</b>	1,368
Business simplification provision	<b>1,181</b>	2,208
Dilapidations provision	<b>1,804</b>	1,569
	<b>4,294</b>	5,145
Current	<b>1,448</b>	1,736
Non-current	<b>2,846</b>	3,409
	<b>4,294</b>	5,145

	<b>Business Simplification provision</b>	<b>Onerous Lease provision</b>	<b>Dilapidations provision</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£,000</b>	<b>£,000</b>
At 3 October 2015	2,208	1,367	1,570	5,145
Created in the year	-	1,284	325	1,609
Utilisation of provision	(1,027)	(1,342)	(91)	(2,460)
Release of provision in the period	-	-	-	-
At 1 October 2016	<b>1,181</b>	<b>1,309</b>	<b>1,804</b>	<b>4,294</b>

The onerous lease provision relates to estimated future unavoidable lease costs in respect of closed, non-trading and loss making stores. The provision is expected to be utilised over the following four financial periods. The dilapidations provision represents management's best estimate of the Group's liability under its property lease arrangements based on past experience and is expected to be utilised over the following six financial periods. The business simplification provision relates to the decision to exit the Topps Clearance format and relocation of the finance function to Leicester, resulting in redundancies and the subsequent closure of nine store locations and one support office (see note 4). The remaining business simplification provision is expected to be utilised over the next 12 months.

The following are the deferred tax liabilities/(assets) recognised by the Group and movements thereon during the current and prior reporting period.

	<b>Accelerated tax depreciation</b>	<b>Share- based payments</b>	<b>Exchange rate differences</b>	<b>Rent free</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
As at 27 September 2014	1,458	(663)	(2)	(532)	261
Charge to income	2	(205)	24	21	(158)
Charge in respect of previous periods	63	-	-	-	63
Impact of rate change	-	-	-	-	-
Credit to equity	-	(485)	-	-	(485)
As at 3 October 2015	1,523	(1,353)	22	(511)	(319)
Charge/ (credit) to income	138	(166)	(22)	511	461
Charge in respect of previous periods	95	-	-	-	95
Impact of rate change	(263)	105	-	-	(158)
Charge to equity	-	630	-	-	630
<b>As at 1 October 2016</b>	<b>1,493</b>	<b>(784)</b>	<b>-</b>	<b>-</b>	<b>709</b>

## 19 Provisions (continued)

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax liability at 1 October 2016 has been calculated based on these rates.

## 20 Called-up share capital

	<b>2016 £'000</b>	2015 £'000
Issued and fully-paid 196,153,770* (2015: 193,700,459*) ordinary shares of 3.33p each (2014: 3.33p)	<b>6,539</b>	6,457
Total	<b>6,539</b>	6,457

During the period the Group issued 2,453,311 (2015: 64,219) ordinary shares with a nominal value of £81,712 (2015: £2,141) under share option schemes for an aggregate cash consideration of £612,500 (2015: £28,733).

\* During the period £4,415,000 (2015: £504,000) shares were purchased by Topps Tiles Employee Benefit Trust on behalf of the Group.

## 21 Share premium

	<b>2016 £'000</b>	2015 £'000
At start of period	<b>1,906</b>	1,879
Premium on issue of new shares	<b>567</b>	27
At end of period	<b>2,473</b>	1,906

## 22 Own shares

	<b>2016</b>	2015
	<b>£'000</b>	£'000
At start of period	<b>(630)</b>	(656)
Acquired in the period	<b>(4,415)</b>	(504)
Disposed of on issue in the period	<b>634</b>	530
	<hr/>	<hr/>
At end of period	<b>(4,411)</b>	(630)
	<hr/> <hr/>	<hr/> <hr/>

A subsidiary of the Group holds 4,038,495 (2015: 799,000) shares with a nominal value of £4,410,863 acquired for an average price of £1.09 per share (2015: £27,000 acquired for an average price of £0.79 per share) and therefore these have been classed as own shares.

### **23 Merger reserve**

	<b>2016</b>	2015
	<b>£'000</b>	£'000
At start and end of period	<b>(399)</b>	(399)
	<hr/> <hr/>	<hr/> <hr/>

The merger reserve arose on pre 2006 acquisitions, the Directors do not consider this to be distributable as at 1 October 2016 (2015: same).

### **24 Share-based payment reserve**

	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
At start of period	<b>2,820</b>	1,941
Credit to equity for equity-settled share based payments	<b>1,460</b>	879
	<hr/>	<hr/>
At end of period	<b>4,280</b>	2,820
	<hr/> <hr/>	<hr/> <hr/>

The share-based payment reserve has arisen on the fair valuation of save as you earn schemes and Long-term incentive plans. The Directors consider this to be distributable as at 1 October 2016 (2015: same).

### **25 Capital redemption reserve**

	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
At start and end of period	<b>20,359</b>	20,359
	<hr/> <hr/>	<hr/> <hr/>

The capital redemption reserve arose on the cancellation of treasury shares and as a result of a share reorganisation in 2006. The Directors do not consider this to be distributable as at 1 October 2016 (2015: same).

### **26 Retained losses**

**£'000**



At 27 September 2014	(28,736)
Dividends (note 9)	(4,534)
Deferred tax on sharesave scheme taken directly to equity	490
Net profit for the period	13,065
At 3 October 2015	(19,715)
Dividends (note 9)	(6,296)
Deferred and current tax on sharesave scheme taken directly to equity	(182)
Own shares issued in the period	(634)
Net profit for the period	15,531
At 1 October 2016	<b>(11,296)</b>

## 27 Financial commitments

### a) Capital commitments

At the end of the period there were capital commitments contracted of £45,000 (2015: £114,000).

### b) Pension arrangements

The Group operates a defined contribution pension scheme for employees. The assets of the schemes are held separately from those of the Group in independently administered funds. The pension cost charge represents contributions payable by the Group to the funds and amounted to £863,000 (2015: £848,000). At the period end, the Group holds outstanding contributions of £136,619 (2015: £152,414).

### c) Lease commitments

Minimum future sublease payments expected to be received under non-cancellable subleases amount to £3,715,000 (2015: £3,093,000).

The Group has entered into non-cancellable operating leases in respect of motor vehicles, equipment and land and buildings.

Minimum lease payments under operating leases recognised as an expense for the period were £23,830,000 (2015: £23,388,000) which includes property service charges of £732,000 (2015: £783,000).

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2016		2015	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
- within 1 year	22,601	1,037	21,868	847
- within 2 - 5 years	71,957	1,363	69,785	797
- after 5 years	51,083	168	54,619	-
	<b>145,641</b>	<b>2,568</b>	146,272	1,644

Operating lease payments primarily represent rentals payable by the Group for certain of its office and store properties. Leases are negotiated for an average term of 10 years and rentals are fixed for an average of 5 years (2015: 5).

## 28 Share-based payments

The Group operates seven share option schemes in relation to Group employees.

### Employee Share Purchase Plans

Employee share purchase plans are open to almost all employees and provide for a purchase price equal to the average market price over the three days prior to the date of grant, less 20%. The shares can be purchased

during a two-week period each financial period. The shares so purchased are generally placed in the employee share savings plan for a 3 or 5 year period.

Movements in share based payment plan options are summarised as follows:

	<b>2016</b>	<b>2016</b>	2015	2015
	<b>Number of</b>	<b>Weighted</b>	Number of	Weighted
	<b>share</b>	<b>average</b>	share	average
	<b>options</b>	<b>exercise</b>	options	exercise
		<b>price</b>		price
		<b>£</b>		<b>£</b>
Outstanding at beginning of period	<b>2,969,105</b>	<b>0.63</b>	2,485,176	0.37
Issued during the period	<b>2,098,318</b>	<b>1.27</b>	887,775	0.98
Expired during the period	<b>(617,982)</b>	<b>1.05</b>	(339,627)	0.31
Exercised during the period	<b>(1,368,826)</b>	<b>0.45</b>	(64,219)	0.29
Outstanding at end of period	<b>3,080,615</b>	<b>1.14</b>	2,969,105	0.63
Exercisable at end of period	<b>8,372</b>	<b>0.43</b>	-	-

The inputs to the Black-Scholes Model for the employee 3 and 5 year Employee Share Purchase Plans issued in the year are as follows:

### **3 year plan**

Weighted average share price	- pence	<b>134.00</b>
Weighted average exercise price	- pence	<b>127.00</b>
Expected volatility	- %	<b>29.01</b>
Expected life	- years	<b>3.00</b>
Risk – free rate of interest	- %	<b>0.71</b>
Dividend yield	- %	<b>2.24</b>

### **5 year plan**

Weighted average share price	- pence	<b>134.00</b>
Weighted average exercise price	- pence	<b>127.00</b>
Expected volatility	- %	<b>43.29</b>
Expected life	- years	<b>5.00</b>
Risk – free rate of interest	- %	<b>1.10</b>
Dividend yield	- %	<b>2.24</b>

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 3 and 5 years (2015: 3 years). The expected risk used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural forces.

## **28 Share-based payments (continued)**

### **Long Term Incentive Plan**

Long Term Incentive Plans have been granted to senior management and have a vesting period of three years. Vesting is subject to achievement of certain performance conditions.

Movements in Long Term Incentive Plan options are summarised as follows:

	<b>2016</b>	<b>2016</b>	2015	2015
	<b>Number of</b>	<b>Weighted</b>	Number of	Weighted
	<b>share</b>	<b>average</b>	share	average
	<b>options</b>	<b>exercise</b>	options	exercise
		<b>price</b>		price
		<b>£</b>		<b>£</b>
Outstanding at beginning of period	<b>5,032,515</b>	-	3,606,203	-
Issued during the period	<b>1,229,100</b>	-	1,446,312	-
Expired during the period	<b>(113,041)</b>	-	(20,000)	-

Exercised during the period	<b>(1,084,485)</b>	-	-	-
Outstanding at end of period	<b>5,064,089</b>	-	5,032,515	-
Exercisable at end of period	<b>988,989</b>	-	-	-

Under the plan a number of share options were granted to senior management. These options will vest in December 2018 subject to the achievement of certain performance criteria.

The total number of share options granted was 1,138,647 (2015: 1,422,348) and the fair value of these options was £1,674,835 (2015: £1,439,000).

The inputs to the Black-Scholes Model are as follows:

Weighted average share price	- pence	<b>154.00</b>
Weighted average exercise price	- pence	<b>nil</b>
Expected volatility	- %	<b>35.48</b>
Expected life	- years	<b>3.00</b>
Risk – free rate of interest	- %	<b>0.89</b>
Dividend yield	- %	<b>1.53</b>

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 3 years. The expected risk used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural forces.

During the financial period, the Group granted 36,665 share options under the existing share option scheme due to vest in December 2016. The fair value of these options was £55,606.

The inputs to the Black-Scholes Model are as follows:

Weighted average share price	- pence	<b>154.00</b>
Weighted average exercise price	- pence	<b>nil</b>
Expected volatility	- %	<b>25.60</b>
Expected life	- years	<b>1.00</b>
Risk – free rate of interest	- %	<b>0.40</b>
Dividend yield	- %	<b>1.53</b>

During the financial period, the Group granted 53,788 share options under the existing share option scheme due to vest in November 2017. The fair value of these options was £80,461.

## **28 Share-based payments (continued)**

The inputs to the Black-Scholes Model are as follows:

Weighted average share price	- pence	<b>154.00</b>
Weighted average exercise price	- pence	<b>nil</b>
Expected volatility	- %	<b>29.16</b>
Expected life	- years	<b>2.00</b>
Risk – free rate of interest	- %	<b>0.65</b>
Dividend yield	- %	<b>1.53</b>

### **2020 Long Term Incentive Plan**

During the financial period, a new five year Long Term Incentive plan was introduced. Under this plan a number of share options were granted to management level employees across the Group. These options will vest in December 2020 subject to the achievement of certain performance criteria.

Movements in 2020 Long Term Incentive Plan options are summarised as follows:

	<b>2016</b>	<b>2016</b>		2015
	<b>Number of</b>	<b>Weighted</b>		Weighted
	<b>share</b>	<b>average</b>	2015	average
	<b>options</b>	<b>exercise</b>	Number of	exercise
		<b>price</b>	share	price
		<b>£</b>	options	£
Outstanding at beginning of period	-	-	-	-
Issued during the period	<b>2,698,244</b>	-	-	-
Expired during the period	<b>(94,497)</b>	-	-	-
Exercised during the period	-	-	-	-
Outstanding at end of period	<b>2,603,747</b>	-	-	-
Exercisable at end of period	-	-	-	-

The total number of share options initially granted was 2,596,994 and the fair value of these options was £3,704,871.

The inputs to the Black-Scholes Model are as follows:

Weighted average share price	- pence	<b>154.00</b>
Weighted average exercise price	- pence	<b>nil</b>
Expected volatility	- %	<b>43.48</b>
Expected life	- years	<b>5.00</b>
Risk – free rate of interest	- %	<b>1.32</b>
Dividend yield	- %	<b>1.53</b>

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 5 years. The expected risk used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural forces.

During the financial period, the Group granted an additional 101,250 share options under the 2020 Long Term Incentive Plan share option scheme due to vest in December 2020. The fair value of these options was £136,826.

## **28 Share-based payments (continued)**

The inputs to the Black-Scholes Model are as follows:

Weighted average share price	- pence	<b>149.00</b>
Weighted average exercise price	- pence	<b>nil</b>
Expected volatility	- %	<b>35.18</b>
Expected life	- years	<b>4.5</b>
Risk – free rate of interest	- %	<b>0.79</b>
Dividend yield	- %	<b>2.18</b>

In total, the Group recognised a total expense of £1,827,021 (2015: £1,409,000) relating to share based payments.

## **29 Related party transactions**

S.K.M. Williams is a related party by virtue of his 10.6% shareholding (20,593,950 ordinary shares) in the Group's issued share capital (2015: 10.6% shareholding of 20,593,952 ordinary shares).

At 1 October 2016 S.K.M. Williams was the landlord of 3 properties leased to Multi Tile Limited, a trading subsidiary of Topps Tiles Plc, for £187,000 (2015: Four properties for £240,000) per annum.

No amounts were outstanding with S.K.M. Williams at 1 October 2016 (2015: £nil). The lease agreements on all properties are operated on commercial arm's length terms.

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. In accordance with the exemption available under IAS24.

The remuneration of the Board of Directors, who are considered key management personnel of the Group was £2.2 million (2015: £3.6 million restated figure) including share based payments of £0.7 million (2015: £2.0 million restated figure). Further information about the remuneration of the individual Directors is provided in the Remuneration Report within the Annual Report.

The Group's defined contribution pension scheme is administered by Legal and General. During the year the Group made contributions of £863,000 (2015: £848,000) and at year end the Group has outstanding contributions of £136,619 (2015: £152,414).

#### Company balance sheet as at 1 October 2016

	Notes	52 weeks ended 1 October 2016 £'000	53 weeks ended 3 October 2015 £'000
<b>Fixed assets</b>			
Investments	3	2,320	493
<b>Current assets</b>			
Debtors due within one year	4	47,615	31,394
Cash at bank and in hand		-	15,179
			46,573
<b>Creditors:</b> Amounts falling due within one year	5	(3,805)	(3,415)
<b>Net current assets</b>		43,810	43,158
<b>Net assets</b>		46,130	43,651
<b>Capital and reserves</b>			
Called-up share capital	6,7	6,539	6,457
Share premium	7	2,473	1,906
Share based payment reserve	7	4,814	3,354
Capital redemption reserve	7	20,359	20,359
Other reserve	7	6,200	6,200
Profit and loss account	7	5,745	5,375
<b>Equity shareholders' funds</b>		46,130	43,651

The financial statements of Topps Tiles Plc, Companies House number 3213782, were approved by the board of directors on 29 November 2016 and signed on its behalf by:

**M T M Williams**  
Director

**R Parker**  
Director

# Notes to the Company Financial Statements

For the 52 weeks ended 1 October 2016

## 1 Basis of accounting

The Company meets the definition of a qualifying entity under FRS 100 'Application of Financial Reporting Requirements' issued by the FRC. Accordingly, in the period ended 3 October 2015, the Company has changed its accounting framework from the previous UK GAAP to Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS101) issued by the Financial Reporting Council (FRC) and has, in doing so, applied the requirements of IFRS 1.6-33 and related appendices. These financial statements have therefore been prepared in accordance with FRS 101.

The prior year financial statements have been restated for material adjustments on adoption of FRS 101 in the current year. For more information, see Note 23 (Transition to FRS 101).

As permitted by FRS 101, the Company has taken advantage of the following disclosure exemptions available under that standard:

- i) The requirements of IFRS 7 Financial Instruments: Disclosures
- ii) The requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
  - a) Paragraph 79(a)(iv) of IAS 1
  - b) Paragraph 73(e) of IAS 16 Property, Plant and Equipment
  - c) Paragraph 118(e) of IAS 38 Intangible Assets
- iii) The requirements of IAS 7 Statement of Cash Flows
- iv) The requirements of IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member
- v) The requirements of paragraphs 10(d), 10(f), and 134 to 136 of IAS 1 Presentation of Financial Statements.
- vi) The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

Where relevant, equivalent disclosures have been given in the group accounts of which the Company's results are included.

Reconciliations to the balance sheet from this transition to FRS 101 are provided in Note 8.

The financial statements have been prepared under the historical cost convention. Comparative data is for the period ended 3 October 2015.

## 2 Profit for the period

As permitted by section 408 of the Companies Act 2006 the Company has elected not to present its own profit and loss account for the period. Topps Tiles Plc reported a profit for the financial period ended 1 October 2016 of £6,666,000 (2015: £98,309,000 Loss).

The auditor's remuneration for services to the company was £41,000 for audit related work (2015: £30,000 for audit related work). Fees relating to non-audit work totalled £nil (2015: £nil), see note 5 to the Group financial statements for further details.

The Company had no employees other than the Directors (2014: same), whose remuneration is detailed on in the Annual Report.

### 3 Fixed asset investments

	<b>Shares £'000</b>
At 3 October 2015	493
Movement in share options granted to employees	<u>1,827</u>
At 1 October 2016	<u>2,320</u>

The Company has investments in the following subsidiaries which affected the profits or net assets of the Group.

<i>Subsidiary undertaking</i>	% of issued shares held	Principal activity
Topalpha Limited*	100%	Property management and investment
Topalpha (Orpington) Limited	100%	Dormant
Topalpha (Warehouse) Limited	100%	Property management and investment and provision of warehousing services
Topalpha (Stoke) Limited	100%	Property management and investment.
Tiles4Less Limited*	100%	Intermediate holding company
Topps Tiles (UK) Limited	100%	Retail and wholesale of ceramic tiles, wood flooring and related products
Topps Tiles Holdings Limited*	100%	Intermediate holding company
Topps Tile Kingdom Limited	100%	Intermediate holding company
Multi Tile Limited	100%	Retail and wholesale of ceramic tiles, wood flooring and related products
Topps Tiles Distribution Ltd	100%	Wholesale and distribution of ceramic tiles, wood flooring and related products.
Multi-Tile Distribution Limited	100%	Intermediate holding company.
Topps Tiles I.P Company Limited	100%	Ownership and management of Group intellectual property.
Topps Tiles Employee Benefit Trust*	100%	Employee benefit trust

\*held directly by Topps Tiles Plc

During the period the Group completed the strike off of six previously dormant entities.

The investments are represented by ordinary shares.

All undertakings are incorporated in Great Britain and are registered and operate in England and Wales.

#### 4 Debtors

	2016 £'000	2015 £'000
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	47,598	30,875
Other debtors	3	3
Prepayments and accrued income	14	516
	<u>47,615</u>	<u>31,394</u>

#### 5 Creditors: Amounts falling due within one year

	2016 £'000	2015 £'000
Bank loans and overdrafts	857	-
Trade and other creditors	12	560
Amounts owed to subsidiary undertakings	72	222
Accruals and deferred income	2,864	2,633
	<u>3,805</u>	<u>3,415</u>

#### 6 Called-up share capital

	2016 £'000	2015 £'000
Issued and fully-paid 196,153,770 (2015: 193,700,459) ordinary shares of 3.33p each (2015: 3.33p)	<u>6,539</u>	<u>6,457</u>

During the period 4,139,000 shares were purchased by Topps Tiles Employee Benefit Trust for £4,415,000 on behalf of the Group (2015: 431,108 shares - £504,000).

During the period the Group issued and allotted 2,453,311 (2015: 64,219) ordinary shares with a nominal value of £81,712 (2015: £2,141) under share option schemes for an aggregate cash consideration of £612,500 (2015: £28,733).

#### 7 Reconciliation of reserves

Company	Share capital £'000	Share premium £'000	Share based payment reserve £'000	Capital redemption reserve £'000	Other reserves £'000	Profit and loss account £'000	Total £'000
At 3 October 2015	6,457	1,906	3,354	20,359	6,200	5,375	43,651
Profit for the period	-	-	-	-	-	6,666	6,666
Dividend paid to equity shareholders	-	-	-	-	-	(6,296)	(6,296)
Issue of new shares	82	567	(7)	-	-	-	642
Credit to equity for equity-settled share based payments	-	-	1,467	-	-	-	1,467
At 1 October 2016	<u>6,539</u>	<u>2,473</u>	<u>4,814</u>	<u>20,359</u>	<u>6,200</u>	<u>5,745</u>	<u>46,130</u>

At 1 October 2016, the Directors consider the other reserve of £6,200,000 to remain non-distributable.

The Directors consider £nil (2015: £nil) of profit and loss account reserves not to be distributable at 1 October 2016.



## 8 Explanation of transition to FRS 101

This is the first year that the Company has presented its financial statements under Financial Reporting Standard 101 (FRS 101) issued by the Financial Reporting Council. The following disclosures are required in the year of transition. The last financial statements under previous UK GAAP were for the year ended 3 October 2015 and the date of transition to FRS 101 was therefore 28 September 2014.

### Reconciliation of balance sheet as at 3 October 2015

	Notes	UK GAAP £'000	Effect of transition £'000	FRS 101 £'000
<b>Fixed assets</b>				
Investments		493	-	493
		<hr/>	<hr/>	<hr/>
<b>Current assets</b>				
Debtors due within one year	a	10,554	20,840	31,394
Debtors due after one year	a	20,840	(20,840)	-
Cash at bank and in hand		15,179	-	15,179
		<hr/>	<hr/>	<hr/>
		46,573	-	46,573
<b>Creditors: Amounts falling due within one year</b>		<hr/>	<hr/>	<hr/>
		(3,415)	-	(3,415)
		<hr/>	<hr/>	<hr/>
<b>Net current assets</b>		43,158	-	43,158
		<hr/>	<hr/>	<hr/>
<b>Net assets</b>		43,651	-	43,651
		<hr/>	<hr/>	<hr/>
<b>Capital and reserves</b>				
Called-up share capital		6,457	-	6,457
Share premium		1,906	-	1,906
Share based payment reserve		3,354	-	3,354
Capital redemption reserve		20,359	-	20,359
Other reserve		6,200	-	6,200
Profit and loss account		5,375	-	5,375
		<hr/>	<hr/>	<hr/>
<b>Equity shareholders' funds</b>		43,651	-	43,651
		<hr/>	<hr/>	<hr/>

Notes:

a – movement represents a reclassification of intercompany receivables, receivable on demand.

**Five year record  
UNAUDITED**

	52 weeks ended 29 Sept 2012 £'000	52 weeks ended 28 September 2013 £'000	52 weeks ended 27 September 2014 £'000	53 weeks ended 3 October 2015 £'000	<b>53 weeks ended 1 October 2016 £'000</b>
Group revenue	177,693	177,849	195,237	212,221	<b>214,994</b>
Group operating profit	15,462	13,845	18,186	18,883	<b>21,072</b>
Profit before taxation	12,493	10,601	16,691	17,019	<b>19,982</b>
Shareholders' funds (deficit)	(17,348)	(10,184)	843	10,798	<b>17,545</b>
Basic earnings per share	5.14p	4.76p	6.49p	6.75p	<b>8.05p</b>
Dividend per share	1.10p	1.25p	1.65p	2.34p	<b>3.25p</b>
Dividend cover	4.68	3.17	3.94	2.88	<b>2.48</b>
Average number of employees	1,654	1,720	1,794	1,915	<b>1,977</b>
Share price (period end)	46.0p	93.0p	105.0p	148.75p	<b>112.25p</b>

All figures quoted are inclusive of continued and discontinued operations.