RNS Number : 8792T
Topps Tiles PLC
26 November 2013

Topps Tiles Plc

Annual Financial Report

Topps Tiles Plc ("Topps", "Topps Tiles" or "the Group"), the UK's largest tile and wood flooring specialist with 327 stores, announces its annual financial results for the 52 weeks ended 28 September 2013.

Highlights

	52 weeks ended 28 September 2013	52 weeks ended 29 September 2012
Group revenue	£177.8 million	£177.7 million
Like-for-like revenue[1]	-0.5%	-0.7%
Gross margin	60.2%	60.0%
Adjusted profit before tax[2t]	£13.0 million	£12.8 million
Adjusted earnings per share[3]	5.44p	5.11p
Profit before tax	£10.6 million	£12.5 million
Basic earnings per share	4.76p	5.14p
Final dividend	1.00p	0.75p
Total dividend	1.50p	1.25p

Notes
[1] Like-for-like revenues are defined as sales from stores that have been trading for more than 52 weeks
[2] Adjusted profit before tax excludes several items we have incurred during the period which are not representative of underlying performance, these are: the impairment of plant, property and equipment of £0.6 million (2012: £0.5 million), business restructuring costs of £0.2 million (2012: £0.4 million), an increase in property related provisions of £0.9 million (2012: £0.2 million), property disposal gain of £0.1 million (2012: £1.6 million), £0.2 million gain relating to the interest rate derivatives and forward currency contracts the Group (defined as Topps Tiles Plc and all its subsidiaries) has in place (per IAS39) (2012: £0.8 million charge), and a £1.0 million charge for interest against potential historic tax charges
[3] Adjusted for the post tax effect of items highlighted above

- Market share increased to 28.5% (2012: 27%) reflecting our successful strategy of providing an inspirational shopping experience, unrivalled product range authority and multi-channel convenience
- Self-help initiatives and careful cost control have helped the business perform well in a tough market - delivering modest growth in sales and adjusted profit before tax
- Further development of online capability and sustained marketing expenditure to drive store footfall and build greater brand consideration
- Gross margin increased to 60.2% (2012: 60.0%) reflecting further supply chain efficiencies and proactive management of cost base
- Increased final dividend of 1.0 pence per share (2012: 0.75 pence per share), making a total for the year of 1.5 pence per share (20% increase)
- Net debt (defined as loan facilities drawn down less cash and cash equivalents) at period end of £36.6 million (2012: £45.6 million), with £10 million of undrawn banking facilities (2012: £15 million)

Current Trading and Outlook

- The Group is now trading from 327 stores (2012: 324 stores)
- In the first eight weeks of the new financial period, Group revenues, stated on a like-for-like basis, increased by 7.4% (2012: 1.0%)
- Trial of Topps Tiles Boutique, a new small store format to commence in second quarter

Commenting on the results, Matthew Williams, Chief Executive said: "We have successfully achieved our primary goal of growing profitable market share this year. We have delivered this by growing sales through self-help measures and retaining a tight control on all costs resulting in an increase in adjusted pre tax profits. Our strategy remains focussed on providing an inspirational shopping experience and unrivalled product range authority, coupled with exceptional multi-channel convenience.

"We have made a strong start to the new financial year, with like for like sales ahead by 7.4% on a like-for-like basis in the first eight weeks. While it is too early to confirm that this is a sustained trend, we are encouraged by this performance. Shareholders can be confident that, as market leader, Topps remains well positioned to continue to grow profitable market share and capitalise on any further improvement in the UK housing market and consumer confidence in 2014."

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CHAIRMAN'S STATEMENT

"We continue to invest in our business to ensure we can further grow our market share and as the market leader are in the strongest position to benefit from any improvements in the housing market. Trading was tough during parts of this year but the resilience of our business model, developed and proven over the last fifty years, enabled us to increase sales and underlying profitability."

Topps Fifty Years On

This year Topps Tiles celebrated fifty years of successful trading. Our position as Britain's number one tile retailer is a tribute to the business philosophy and approach developed by its founders.

From the outset the founders recognised that the key to success was an outstanding range of tiles and associated products at prices to suit all pockets coupled with excellent and knowledgeable customer service. The soundness of this approach was vindicated again this year as we further increased our share of the UK tile market from 27% to 28.5%.

We marked our 50th anniversary year by holding a series of events, including a lunch for fifty of our longest serving employees, some of whom had been with Topps for over forty years. They were addressed by Stuart Williams, one of Topps founding fathers, who reminded everyone just how far the business had come from its origins in Sale near Manchester to the market leading publicly quoted multi-channel tile retailer of today. On behalf of the Board I would like to record our deep appreciation to everyone who, over the last fifty years, has contributed towards building Topps in to the successful business it is today.

Our Business Year
The period since the start of the financial crisis in 2007 has been a challenging one during which we have faced a contracting market. So in our 50th year it gives me great pleasure to be able to report that both sales and adjusted profit before tax have grown when compared to the previous year. Whilst modest, sales increased to £177.8 million and adjusted profit before tax grew to £13.0 million. This year marks our first increase in adjusted pre tax profits since 2007.

Strategy
The Board conducted a detailed review of the company's strategy this year and has identified a series of key initiatives to move Topps' business forward over the next three years. In doing so we confirmed a clear overriding goal for the organisation to work to - the pursuit of profitable market share. Specifically, we have set ourselves the target of capturing one in every three pounds spent in the UK domestic tile market. The Board is fully aligned behind this goal and the strategy to deliver it and has ensured that the resources are in place to fulfill this ambition.

Further evidence to support this approach is confirmed by our current success in growing our market share which I have highlighted above. I am very confident that our overall direction of travel - inspiring our customers, providing exceptional levels of service and a market beating product range, all delivered through unrivalled levels of shopping convenience, is the most appropriate strategy to deliver our goal.

Corporate Governance
With the advent of new statutory reporting and disclosure arrangements we have taken the opportunity to review our Governance procedures. Although the new reporting regime officially applies to Topps for its next reporting year we have adopted its principal requirements early, including the addition of a Strategic and Operational Review. This significantly improves the information available on the company's strategy, business model, remuneration, outlook, risk and uncertainties, carbon reporting, and diversity. The Board has also taken careful note of the Corporate Governance Code 2012 and has ensured that these accounts have been prepared on a fair, balanced and reasonable basis.

In addition, we have objectively assessed the Board's performance and I will ensure that the business remains compliant with best corporate governance practice for a company of our size.

Dividend
The business has further built on the secure financial footing which we reported on last year. In addition to a small increase in underlying earnings we have also reduced net debt and settled a significant outstanding liability in the form of an interest rate derivative. The underlying cash generation from the business remains strong, supporting the continuation of our progressive dividend policy. A final payment of 1.0 pence per share (2012: 0.75 pence per share) is being recommended to shareholders. This will bring the total dividend for the year to 1.5 pence per share (2012: 1.25 pence per share), an increase of 20%.

The Future for Topps Tiles
I remain very confident that Topps is well positioned to continue to grow profitable market share and further strengthen its position as the UK market leader. Our market leading position also means we are well placed to capitalise on any improvements in UK consumer confidence and the housing market. We have started the new year with a very encouraging trading performance and whilst it is too soon to confirm this as a sustained trend it serves as an important reminder of the levels of sales growth that are possible following several years of subdued consumer spending.

One of the key attributes Topps brings to the market is an innovative approach to its business and I believe this has been true for each of the last 50 years. As we look forward I am confident that this will continue well into the next half century of tile retailing.

Michael Jack
Chairman

STRATEGIC & OPERATIONAL REVIEW

The content of this Strategic and Operational Review meets the content requirements of the Strategic Report as set out in s414a of the Companies Act 2006. This 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.

Strategy

The primary goal for the business remains to take profitable market share and I am pleased to report that this year we have again been successful in this regard. Our focus on self-help measures and a tight control of all costs proved to be well founded in a market which remained challenging. These measures have enabled us to grow our share of the domestic non-contract market for tiles from 27% to 28.5% and achieve a small but important step forward in adjusted pre tax profits compared to last year.

Our strategy remains resolutely focused on being the UK's leading tile specialist, delivering an unbeatable combination of service and outstanding value to our customers. This year, we have been able to maintain sales by countering market driven declines in footfall with increases in customer conversion rates and average transaction value ("ATV"), by inspiring our customers to make their home improvement projects the very best they can be.

This progress was coupled with a good performance on margin and costs where we sought to drive more efficiency into the business. The response from the organisation as a whole to this challenge has been very encouraging.

Increasing profitable market share remains our goal for the years ahead and we are also adding some clearly defined longer term ambition by targeting a one third share of the UK tile market. The strategy for achieving this focuses on pushing into three key areas within our specialism:

1. Providing an inspirational shopping experience
2. Range authority
3. Multi-channel convenience

Providing an inspirational shopping experience

Tiles are a relatively permanent decorative floor and wall covering that our retail customers shop for infrequently and a product category in which there are no widely recognisable brands. This means that our customers need lots of help, guidance and assistance when buying tiles and this is why we are fanatical about providing market leading levels of service. We focus on offering friendly, honest, and helpful advice without ever being pushy. We mystery shop every one of our stores once every month, we also monitor every store's Net Promoter Score[1] (NPS) each quarter. Annually we conduct an independent survey of our customers' satisfaction levels. We are very proud of the results we have already achieved during the year (see KPI chart) and are determined to drive service levels yet higher in the year ahead.

One of the fascinating developments within our market is that as our customers have moved home less often over the last five years their tiling projects have become more adventurous and ambitious as they have become less concerned about the tastes of the next potential buyer of their home. At Topps we have been delighted to help them achieve these results. Inspiring our customers in this way remains a key focus for the business.

The increased complexity of these tiling projects has meant that many more of our customers are employing a professional fitter to install the product. Our strong relationships with fitters, nationwide, has meant that we have been able to facilitate this for them. Sales through the trade (fitters) now

represent 45% of total sales and growing our base of active accounts and driving loyalty of this group to Topps remains a key focus.

We have also worked hard on making sure that the environment within all of our stores is an inspirational place to shop. This year we took the most successful elements trialled in our 'lab store' in Milton Keynes - such as the "Inspiration Station" and "mosaic walls" - and rolled them out to all stores. We believe moving the entire estate forward in this way is an important step in inspiring our customers with their home improvement projects. To this end, we have significant plans in place for further improvements to all stores in the year ahead. We will be strengthening the leadership of the merchandising team to ensure we have the expertise in place to realise these plans and lead the market in this regard.

Online, content and usability have been a real focus during the year. To ensure we replicate the inspirational in-store experience online we have invested in improved photography to better showcase our products and to bring them to life for our customers. Our improved online expertise has ensured our customers can navigate our website with ease as evidenced in the recent favourable result in the Sitemorse usability survey.

[1] A full explanation of the NPS methodology can be found within the KPIs section of this report

Range authority

Topps position as the leading tile specialist is grounded in its ability to offer its customers the widest range of tiles in the market.

Our customers tastes are changing and they are choosing a wider variety of tiles than ever before and becoming increasingly adventurous in their choice and use of colour and design. In responding to these trends we have sourced our ranges from leading tile manufacturers around the world. Currently we are offering a sector leading range of over 4,500 items, which we regularlyextend and update to stay ahead of the competition. In addition to this, we work with core suppliers on exclusive designs and own brand or exclusive accessory products. Our diverse product sourcing strategy is also a key driver of our competitive advantage. We have a specialist team of buyers who shop all over the world so we are able to bring new products to the market faster and more frequently than our competitors, launching a new product range almost every week of the year. We strengthened our commercial teams significantly during the year and plan to continue to invest in this area.

Multi-channel convenience

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

Stores

Our stores remain by far our most dominant channel with over 99% of our customers visiting a store at some stage in their shopping journey with us. Customers tell us that this is because of the tactile nature of the product, the market leading service levels on offer and stock availability. We have continued to focus on optimising returns from the existing store estate, adding new stores selectively where we believe strong opportunities exist. We also target tactical relocations of individual stores where this is supported by a local market opportunity. In the last 12 months we opened 18 new stores and closed 15 (of which one was a relocation), resulting in a net increase of three stores to bring the total, at year end, to 328. These new stores have performed well and we remain very satisfied with the return on investment. In the year ahead we have plans in place to increase the store estate by a net 5 new units.

While there remain many parts of the country with the potential for Topps to expand its store network, availability of suitable sites can be a constraint on growth. To address this, we have developed a new smaller store format which will offer a sub-set of the Topps range with very high levels of in-store service. The new format, which is to be branded Topps Tiles Boutique, could present the opportunity to significantly increase the rate of new store openings. We will commence a trial of this new format during the second quarter.

We have continued to invest in the existing store estate. In addition to the improvements made to all stores mentioned above, we have carried out a programme during the year which saw us refit 12

stores. We intend to further progress our programme by fully refitting a record 15 stores in the year ahead and 20 in 2014/15.

Finally, we have now concluded the successful conversion of the Tile Clearing House units, with the remaining 12 stores being rebranded as Topps Tiles Clearance Centres during the period, bringing all stores under the main Topps brand.

Online

Online has been growing strongly in importance as a channel over the last few years to the extent that now more than 70% of our customers use our website at some stage of their shopping journey. However, while the website is an increasingly vital source of pre-purchase research and inspiration, less than 1% of our customers use online as their only channel and, consequently, we believe the 'pure play' online market for tiles remains very small. Our ability to combine domination of the online channel with the skilled advice and convenience available through a physical store presence gives us a significant competitive advantage over pure play online retailers of tiles.

We boosted our expertise in online significantly in the period and this is already delivering excellent results with strong growth in visitors and closer tie-in with our stores. In addition, Toppstiles.co.uk now has a mobile site enabling customers to access our online site from their tablets and smart phones.

Telephone Ordering

Despite the prominence of online as a complimentary channel to our stores, customers still place great value on the ability to talk to stores and the support office to arrange orders, get advice and pay. The seamless integration of all of these channels is crucial to maximising customer convenience.

Trade Customers

Whilst tradesmen are a separate and very particular customer group they are becoming increasingly important as an alternative channel to market for us with some of our customers being introduced to Topps through their chosen tile fitter. Of these new customers, a portion will transact directly with us, with the remainder finding it more convenient to transact through their fitter, such that we may never deal with those end consumers directly. Our strategy is focussed on offering maximum convenience to all of our customers, regardless of how they choose to shop with us.

Colleague Engagement

It is imperative that all of our people have a clear understanding of the organisations goals and the strategic plan to attain them. We invest significant time and effort in communicating and engaging all of our colleagues in our plans for the business. During the year we held two manager roadshow events at our HQ; the main event attended by almost two thirds of our people and the interim update attended by all of our store managers. These events are also fully supported by our Board. As always, our product lab attracted the most attention with all colleagues keen to see the strong new product development we have coming in the year ahead. On top of this we regularly update our people on the company's progress via email, our radio station, Tiles FM and in-house magazine, Quartile.

Marketing

As market leader, Topps Tiles has strong overall levels of brand awareness. As we seek to again grow our market share, our marketing strategy is focused on further broadening our customer base by persuading new customers to consider Topps first - either online or through a store visit. Our customer communications are increasingly focussed on the breadth of our range and styles available as this is the principal driver of both consideration and ultimately the purchase decision. The successful 'Be Surprised' campaign emphasised our new product development initiatives which have delivered an impressive collection of cutting edge designer tiles at amazing value.

Most recently, Topps Tiles completed a national TV advertising campaign in support of the 'Up to a 1/3 off' promotion which complimented the successful ITV Daybreak weather sponsorship which ran throughout 2013. Increased investment in consumer PR resource will ensure we build on our existing coverage in home interest magazines, online and in national and local press.

The use of internal and market data is increasingly important in driving marketing effectiveness in the digital multichannel world. Topps is working in partnership with Experian to leverage these rich internal data and external information sources.

Trade direct communications were up-weighted this year. The greater use of our trader database has meant we are targeting these messages more effectively and we have seen a strong reaction to this marketing activity, supported by the many new trade products and improved deals on offer.

The UK Tile Market and Future Performance of the Business

The UK tile market is fundamental to the success of our business and is, to a degree, dependent on several macro-economic drivers. Topps serves the domestic tile market with the result that all of our products go into the refurbishment of existing UK housing stock. As such our market is discretionary in nature - the vast majority of expenditure is driven by a customer choosing to improve their home, with very little related to essential maintenance. As a result this puts a particular emphasis on consumer confidence as a key driver to our market and Topps' performance.

In addition one of the key influencers in customers taking on a home improvement project is their purchase of a home - housing transactions are therefore also a very useful indicator of likely future demand. Currently housing transactions are improving slowly but remain at low levels by historic standards. From 1.7 million transactions in 2007, the market declined to around 750,000 in 2009. Over the last year the market has been growing at around 5% p.a. and is now at just below 1 million transactions. Long run averages suggest that between 1.2 million and 1.3 million transactions per annum is a sustainable level of activity and as such this represents a positive opportunity for Topps.

We also consider UK house price data as a useful indicator of the relative health of our market as we believe it reflects elements of both consumer and housing market confidence. Historically housing transactions and house prices have moved in the same direction (albeit at different rates). Increasing house prices are also an important influence on consumer confidence as home owners tend to feel more affluent in a rising market.

Financial Objectives

In addition to the key operational objectives highlighted in the Strategy summary above the business maintains a strict financial discipline, including:

- Primary focus on increasing revenues and cash generation, maintaining tight cost control and ptimising gross margins
- Maximising earnings per share and shareholder returns, including bi-annual review of our dividend policy
- Maintaining a capital structure which enables an appropriate balance of financial flexibility and capital efficiency

Progress against both our operational and financial objectives is discussed throughout this report and, where appropriate measures are utilised, these are included in the Key Performance Indicators section.

Key Performance Indicators ("KPIs")

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

	52 weeks to 28 September 2013	**52 weeks to 29 September 2012**
Financial KPIs		
Like-for-like sales growth year-on-year	-0.5%	-0.7%
Total sales growth year-on-year	+0.1%	+1.3%
Gross margin	60.2%	60.0%
Adjusted PBT*	£13.0m	£12.8m

Net debt	£36.6m	£45.6m
Inventory days	135	133
Non-financial KPIs		
Market Share	28.5%	27%
Net Promoter Score %	93.0%	90.6%
Carbon emissions per store (Tonnes per annum)	46.9	n/a
Total employees at period end date	1,718	1,740
Employee turnover	27.5%	23.8%
Number of stores at year end	328	325

*Adjusted PBT as defined on page 1

Note - 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.

The Directors 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.

Corporate Social Responsibility

Topps has a long standing Corporate Social Responsibility (CSR) agenda covering Community & Charity, Environment and Our People. The full detail of our current CSR activities is detailed in our Annual Report and Accounts. We take the impact of our business on our environment extremely seriously and have included a range of environmental metrics within the Directors Section of our Annual Report and Accounts.

Human Rights

We are also very mindful of human rights issues within our organisation. The key area that would impact our business is across our supply chain. All of our directly employed colleagues are based in the UK and covered by UK employment law, with which we are fully compliant. Within our supply chain we source from factories in many countries around the world. Our specialist team of buyers and their agents personally inspect factory facilities to satisfy themselves with regard to working conditions before new suppliers are engaged. We also have commercial agreements in place that require our suppliers to be fully compliant with local laws and we pay particular attention to labour standards and factory conditions. No issues have been raised during the year.

Diversity

The Board reviews the balance of skills, knowledge and experience on the Board regularly. Its policy with regard to gender is such that it will continue to make changes to its composition irrespective of gender or any form of discrimination and to appoint the best candidate to the post.

Our workforce at period end date comprises:

	2013		2012	
	Male	Female	Male	Female

Directors	5	1	5	1
Senior Managers	13	1	13	1
Other Employees	1407	291	1432	288
Total Employees	**1425**	**293**	**1450**	**290**

Equal Opportunities

At Topps Tiles we are committed to equal opportunities and ensure that we hire on potential, promote on talent and reward on success.

We aim to promote equality of opportunity in employment regardless of age, gender, colour, ethnic or national origin, culture, religion or other philosophical belief, disability, marital or civil partnership status, political affiliation, sexual identity or sexual orientation.

Risks and Uncertainties

The Board conducts a continuing review of key risks and uncertainties. During the year the audit committee have met with senior management and discussed the key strategic risks, the likelihood and impact of these occurring and mitigants we have in place.

UK economy & consumer confidence		
Risk The economy may deteriorate and impact on consumer confidence.	**Impact** Consumers need to feel confident to invest money into their homes. In the event of a significant reduction in house prices, housing transactions or consumer confidence we would expect this to adversely impact on business performance.	**Mitigation** Our strategy is focused on taking an ever greater share of our market and we believe the business is sufficiently robust to withstand short term trading pressures. Longer term we consider that the UK housing market remains attractive and we believe there remains significant upside from a sustained economic recovery. In addition the business model has proved its ability to withstand short term trading pressures on several occasions in recent years.
Appropriate business strategy		
Risk Our business strategy will not be successfully delivered.	**Impact** Without a clear company goal and a well understood strategy to deliver the risk is that the business loses focus and fails to deliver its objectives.	**Mitigation** Strategy is reviewed annually, updated as required and approved by the Board. Bi-annual communication events ensure around two thirds of all colleagues are directly briefed by the Executive and regular updates are provides to all colleagues on our progress towards our goals. The Board review progress on key strategic initiatives at each meeting.
Threat of new entrants		
Risk New entrants may seek to erode our market share.	**Impact** Lower sales and profitability.	**Mitigation** We constantly review our competitor set but at the same time we are clear on what differentiates Topps from its competitors. Exceptional customer service, market leading product offer and

		unrivalled multi-channel convenience are the key elements of our business which, whilst imitated, have never effectively been replicated.
Loss of key personnel		
Risk The loss of key individuals could impact on the ability of the business to deliver its objectives.	**Impact** Increased competition also introduces the risk of increased colleague turnover and the resulting loss of knowledge, disruption and associated costs.	**Mitigation** Colleague turnover is monitored closely (and is included in the KPIs section of this report). We also conduct an annual colleague survey to gauge the views of our people across the business. Pay and benefits are benchmarked to ensure we are rewarding our people in line with their contribution to the business. In addition we have a detailed succession plan for each key executive.
Loss of key performing stores		
Risk The loss of key performing stores which contribute a material amount of group earnings.	**Impact** Loss of a multiple number of top performing stores could cause a material impact on the company's profitability.	**Mitigation** We conduct regular reviews of all stores profitability and for our most profitable units security of tenure is key. We review lease terms where appropriate and will pro-actively re-gear leases to ensure we always have at least several years of security. Given our geographic coverage it is also likely that if a key performing store did close we would migrate some sales into neighbouring stores.
Loss of a key supplier		
Risk The loss of a key supplier could impact on our ability to trade.	**Impact** The loss of a key supplier would potentially lead to disruption in supply of key selling products leading to loss of sales and profits.	**Mitigation** Our supply chain is diverse and due to our scale we can source products directly from manufacturers anywhere in the world. For most products we sell there is an alternative available. If there was not, this would affect the entire market place and accordingly should not lead to a loss of competitiveness.
Financing		
Risk The Group has a £65 million revolving credit facility in place which expires in May 2015. The loan facility contains financial covenants which are tested on a bi-annual basis. The key risks would be either not negotiating new facilities in advance of expiry or breaching a loan covenant which would	**Impact** The most likely impact of not being able to renew the loan facility would be the requirement to raise additional funding from shareholders. The impact of breaching a loan covenant would likely be financial in terms of additional charges and fees. At its worst it would also mean the loan	**Mitigation** The loan is provided by 3 banks - HSBC, RBS and Barclays which is in itself a mitigant. Loan renewal discussions are conducted well in advance in order to allow sufficient time to cater for different negotiation scenarios and would include both existing and new banks to gauge interest. Loan covenants are measured

have an adverse impact on the Group's financing position.	would be repayable which would be likely to result in a fundraising.	monthly and reported to the board. The company planning model is updated several times a year and gives good forward visibility. Any potential issues would be dealt with well in advance by pro-active discussions with lenders.

The Directors will continue to monitor all of the key risks and uncertainties and the Board will take appropriate actions to mitigate these risks and their potential outcomes.

Going concern

Based on a detailed review of the above risks and uncertainties and management's current expectations 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 also considers it appropriate to prepare the financial statements on the going concern basis.

Current trading and market conditions for year ahead

Sales over the final three months of our financial year gave us encouragement for the year ahead. In addition, consumer confidence and housing market data including mortgage approvals have started to move in a positive direction. We are just beginning to see these dynamics impact on our market and we have had a positive start to the new financial year with like for like sales over the last eight weeks increasing by 7.4%. While it is too early to ascertain whether this will be a sustained trend shareholders can be confident that our business remains well positioned to continue to grow profitable market share and further capitalise on any improvements in consumer confidence and increased levels of discretionary expenditure.

FINANCIAL REVIEW

PROFIT AND LOSS ACCOUNT

Revenue
Revenue for the period ended 28 September 2013 increased by 0.1% to £177.8 million (2012: £177.7 million). Like-for-like store sales decreased by 0.5% in the period, which consisted of a 0.2% decrease in the first half of the financial period and a 0.7% decrease in the second half.

Gross margin
Overall gross margin was 60.2% compared with 60.0% in the previous financial period. At the interim stage of this period gross margin was 59.8%, and we recorded a gross margin of 60.5% in the second half of the period. The environment in which we operate continues to be highly competitive and we have been active this year in working with our key suppliers to ensure we are able to offer our customers the very best value for money. By utilising our scale as the largest specialist retailer of tiles in the UK we have been able to enhance customer value at the same time as also generating improved returns.

Operating expenses
Total operating costs have risen from £91.1 million to £93.2 million, an increase of 2.3%. Costs as a percentage of sales were 52.4% compared to 51.3% in the previous period. When adjusting items (detailed below) are excluded, operating costs were £91.5 million (2012: £90.0 million), equivalent to 51.4% of sales (2012: 50.6% of sales).

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

- Inflation at an average of approximately 1.5% has increased our cost base by around £1.2 million

- The average number of UK stores trading during the financial period was 321 (2012: 320), which would imply a 0.3% increase in store costs, generating approximately £0.2 million of additional costs
- Employee profit share costs have increased by £0.2 million.
- Store costs are broadly flat on an underlying basis once the above factors are taken into account
- 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 charges relate to impairments of plant, property and equipment of £0.6 million (2012: £0.5 million), business restructuring costs of £0.2 million (2012: £0.4 million), and an increase in property related provisions of £0.9 million (2012: £0.2 million). Property related provisions are driven by providing forward for four years the expected costs of loss making or closed stores. Any change to the property provisions would be driven by either a change in the number of stores impacted or a change in the forward period provided for.

Operating profit

Operating profit for the period was £13.8 million (2012: £15.5 million).

Operating profit as a percentage of sales was 7.8% (2012: 8.7%).

Excluding the adjusting items detailed above operating profit was £15.6 million (2012: £16.6 million).

Other gains and losses

During the period we disposed of one freehold property at the carrying value of the investment and also recognised a further gain of £0.1 million relating to a previous disposal of the Fenton warehouse. In the prior year we disposed of three freehold properties generating a gain of £1.6 million.

Financing

The net cash interest charge for the year was £2.5 million (2012: £3.8 million), excluding the impact of revaluations, cancellation of derivative instruments and a one off charge against historical tax charges. The underlying interest charge has fallen compared to the prior financial period due to a decision to cancel the remaining element of the interest rate derivatives the company had in place. The impact of this cancellation is a saving of c.£1.25 million per annum until February 2017 and the cash cost of the cancellation was £5.9 million (2012: £6.7 million). As this cost had been previously charged to the company's income statement in the form of a "marked to market" transaction it is effectively offset by a reversal of the historical charge, detailed in the following section.

The cancellation of the interest rate derivatives and current forward currency contracts gave rise to a "marked to market" revaluation as required by IAS39 "Financial Instruments: Recognition and Measurement". This revaluation has generated a fair value (non cash) gain of £6.1 million (2012: £5.9 million gain). The combined net gain for the year is therefore £0.2 million (2012: £0.8 million charge). Due to the nature of the underlying financial instruments, IAS39 does not allow hedge accounting to be applied to these losses and hence any gains or losses against these derivatives is applied directly to the income statement rather than being offset against balance sheet reserves.

One-off charges also include £1.0 million against a possible interest charge on outstanding tax payments. £0.9 million of this cost had previously been charged against tax and as a consequence there is an offsetting impact included within the Group's tax computation for the year.

Net interest cover was 7.4 times (2012: 5.3 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 is £10.6 million (2012: £12.5 million).

The group profit before tax margin was 6.0% (2012: 7.0%)

Excluding the adjusting items detailed on page 1 profit before tax is £13.0 million (2012: £12.8 million).

Tax

The effective rate of Corporation Tax for the period was 13.8% (2012: 21.8% (continuing operations)). This includes the effect of a release of £0.9 million relating to historical corporation tax provisions no longer required.

The underlying rate, excluding prior year adjustments, is 25.3%. This is slightly higher than the UK expected rate due to non-deductible expenditure and depreciation on assets not qualifying for capital allowances.

Earnings per Share

Basic earnings per share were 4.76 pence (2012: 5.14 pence - continued and discontinued operations).

Diluted earnings per share were 4.73 pence (2012: 5.09 pence - continued and discontinued operations).

Dividend and dividend policy

Whilst we have continued to experience some fluctuations in consumer confidence which impacts performance in our market the Board are keen to recognise the progress the business has made this year. Both sales and adjusted profit before tax have improved year on year, albeit modestly, which the Board consider a strong result in the context of the trading patterns we experienced during the second and third quarters of the year. We have also seen a solid improvement in the net debt position which once again highlights the strong cash generation of our business. We strongly believe that it is appropriate to continue to reward our shareholders through a progressive dividend policy. To this end we are recommending to shareholders a final dividend of 1.0 pence per share (2012: 0.75 pence per share). This will cost £1.9 million (2012: £1.4 million). The shares will become ex dividend on 23 December 2013 and, subject to approval at the Annual General Meeting, the dividend will be payable on 31 January 2014.

This brings the total dividend for the year to 1.5 pence per share (2012: 1.25 pence per share), an increase of 20%.

BALANCE SHEET

Capital expenditure

Capital expenditure in the period amounted to £5.5 million (2012: £6.1 million), a decrease of 9.8%. Capital expenditure includes the cost of 15 new openings, two conversions, one relocation and 12 partial store refits at a cost of £4.2 million (2012: £5.2 million). The remaining expenditure primarily consists of investment in a new IT system of £1.1 million (2012: £0.4 million). There have been no freehold purchases in the period (2012: £0.5 million).

At the period end the Group held six freehold or long leasehold sites including two warehouses and distribution facilities with a total carrying value of £13.6 million (2012: seven freehold or long leasehold valued at £14.2 million).

Property Disposals

During the period we disposed of one freehold property and generated proceeds of £0.4 million (2012: three properties generated £5.4million).

Inventory

Inventory at the period end was £26.2 million (2012: £25.9 million) representing 135 days turnover (2012: 133 days turnover). This small increase in stockholding is driven by an increase in the number of stores trading at year end of 328 (2012: 325).

Capital structure and treasury
Cash and cash equivalents at the period end were £18.4 million (2012: £14.4 million) with repayable borrowings at £55.0 million (2012: £60.0 million).

This gives the Group a net debt position of £36.6 million (2012: £45.6 million).

Cash flow
Cash generated by operations was £28.2 million, compared to £19.7 million last period.

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.

Directors' Responsibility Statement

We confirm to the best of our knowledge:

- the Financial Statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the strategic report, which is incorporated into the Directors' Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face and a fair, balanced and reasonable view of the business.

ANNUAL GENERAL MEETING

The Annual General Meeting for the period to 28 September 2013 will be held on 24 January 2014 at 10.00am at Topps Tiles Plc, Thorpe Way, Grove Park, Enderby, Leicestershire LE19 1SU.

Matt Williams **Rob Parker**

Chief Executive Officer	Chief Financial Officer

26 November 2013

Consolidated Statement of Financial Performance
For the 52 weeks ended 28 September 2013

	Notes	**52 weeks ended 28 September 2013 £'000**	Restated* 52 weeks ended 29 September 2012 £'000
Group revenue - continuing operations	3	**177,849**	177,693
Cost of sales		**(70,826)**	(71,144)
Gross profit		**107,023**	106,549
Employee profit sharing		**(6,251)**	(6,023)
Distribution and selling costs *		**(68,483)**	(66,734)
Other operating expenses		**(4,656)**	(4,755)
Administrative costs *		**(10,025)**	(9,482)
Sales and marketing costs *		**(3,763)**	(4,093)
Group operating profit		**13,845**	15,462
Other gains	6	**109**	1,624
Investment revenue	7	**170**	152
Finance costs	7	**(3,733)**	(4,108)
Fair value gain/(loss) on interest rate derivatives	7	**210**	(637)
Profit before taxation	4	**10,601**	12,493
Taxation	8	**(1,457)**	(2,724)
Profit for the period attributable to equity holders of the company	26	**9,144**	9,769
Earnings per ordinary share	10		
From continuing operations			
- basic		**4.76p**	5.14p
- diluted		**4.73p**	5.09p

Consolidated statement of comprehensive income
For the 52 weeks ended 28 September 2013

	52 weeks ended 28 September 2013 £'000	52 weeks ended 29 September 2012 £'000
Profit for the period	**9,144**	9,769
Total comprehensive income for the period attributable to equity holders of the parent Company	**9,144**	9,769

***During the period the Group reviewed its internal reporting structure and reclassified certain departments' expenditure into a more appropriate operating cost caption. The comparative figures have been restated to reflect this.**

Consolidated Statement of Financial Position

As at 28 September 2013

	Notes	**2013 £'000**	2012 £'000
Non-current assets			
Goodwill	11	**245**	245
Property, plant and equipment	12	**35,348**	35,016
Deferred tax asset	19	**-**	139
		35,593	35,400
Current assets			
Inventories		**26,196**	25,917
Trade and other receivables	14	**7,711**	7,085
Cash and cash equivalents	15	**18,443**	14,442
		52,350	47,444
Total assets		**87,943**	82,844
Current liabilities			
Trade and other payables	16	**(35,929)**	(26,099)
Current tax liabilities		**(3,734)**	(5,809)
Provisions	19	**(1,014)**	(820)
		(40,677)	(32,728)
Net current assets		**11,673**	14,716
Non-current liabilities			
Bank loans	17	**(54,820)**	(59,555)
Derivative financial instruments	18	**-**	(6,107)
Deferred tax liabilities	19	**(426)**	-
Provisions	19	**(2,204)**	(1,802)
Total liabilities		**(98,127)**	(100,192)
Net liabilities		**(10,184)**	(17,348)
Equity			
Share capital	20	**6,404**	6,395
Share premium	21	**1,492**	1,481
Own shares	22	**(10)**	(4)
Merger reserve	23	**(399)**	(399)
Share based payment reserve	24	**649**	566
Capital redemption reserve	25	**20,359**	20,359
Retained earnings	26	**(38,679)**	(45,746)
Total deficit attributable to equity holders of the parent		**(10,184)**	(17,348)

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 26 November 2013. 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 28 September 2013

	Share Capital £'000	Share Premium £'000	Own Shares £000	Merger Reserve £'000	Share-Based Payment Reserve £'000	Capital Redemption Reserve £'000	Retained Earnings £'000	Total Equity £'000
Balance at 1 October 2011	6,279	1,022	(4)	(399)	543	20,359	(53,262)	(25,462)
Profit and total comprehensive income for the period	-	-	-	-	-	-	9,769	9,769
Issue of share capital	116	459	-	-	-	-	-	575
Dividends	-	-	-	-	-	-	(2,087)	(2,087)
Credit to equity for equity-settled share based payments	-	-	-	-	23	-	-	23
Deferred tax on share-based payment transactions	-	-	-	-	-	-	(166)	(166)
Balance at 29 September 2012	6,395	1,481	(4)	(399)	566	20,359	(45,746)	(17,348)
Profit and total comprehensive income for the period	-	-	-	-	-	-	9,144	9,144
Issue of share capital	9	11	-	-	-	-	-	20
Dividends	-	-	-	-	-	-	(2,396)	(2,396)
Own shares purchased in the period	-	-	(6)	-	-	-	-	(6)
Credit to equity for equity-settled share based payments	-	-	-	-	83	-	-	83
Deferred tax on share-based payment transactions	-	-	-	-	-	-	319	319
Balance at 28 September 2013	**6,404**	**1,492**	**(10)**	**(399)**	**649**	**20,359**	**(38,679)**	**(10,184)**

Consolidated Cash Flow Statement
For the 52 weeks ended 28 September 2013

	52 weeks ended 28	52 weeks ended 29

	September 2013 £'000	September 2012 £'000
Cash flow from operating activities		
Profit for the period	**9,144**	9,769
Taxation	**1,457**	2,724
Fair value (gain)/ loss on interest rate derivatives	**(210)**	637
Finance costs	**3,733**	4,108
Investment revenue	**(170)**	(152)
Other gains	**(109)**	(1,624)
Group operating profit	**13,845**	15,462
Adjustments for:		
Depreciation of property, plant and equipment	**4,258**	3,988
Impairment of property, plant and equipment	**553**	525
Share option charge	**83**	23
(Increase)/decrease in trade and other receivables	**(486)**	62
Increase in inventories	**(279)**	(2,117)
Increase in payables	**10,209**	1,782
Cash generated by operations	**28,183**	19,725
Interest paid	**(3,265)**	(3,145)
Taxation paid	**(2,649)**	(2,161)
Net cash from operating activities	**22,269**	14,419
Investing activities		
Interest received	**199**	266
Purchase of property, plant & equipment	**(5,586)**	(6,522)
Proceeds on disposal of property, plant & equipment	**398**	5,419
Net cash used in investment activities	**(4,989)**	(837)
Financing activities		
Dividends paid	**(2,396)**	(2,087)
Proceeds from issue of share capital	**14**	575
Settlement of interest rate hedge	**(5,897)**	(6,716)
Repayment of bank loans	**(5,000)**	-
Net cash used in financing activities	**(13,279)**	(8,228)
Net increase in cash and cash equivalents	**4,001**	5,354
Cash and cash equivalents at beginning of period	**14,442**	9,088
Cash and cash equivalents at end of period	**18,443**	14,442

Notes to the Financial Statements

For the 52 weeks ended 28 September 2013

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 in the Annual Report.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in note 18.

Adoption of new and revised standards

In the current period, the following new and revised standards and interpretations have been adopted and may affect the future amounts reported in the financial statements:

Amendment to IFRS 1 Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters. The amendment clarifies the required level of disclosure around credit risk and collateral held and provides relief from disclosures of renegotiated financial assets. The impact of this amendment has been to reduce the level of disclosure provided on collateral that the entity holds as security on financial assets that are past, due or impaired.

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.

Amendments to IAS 32- Classification of Rights Issues. Under the amendment, rights issues of instruments issued to acquire a fixed number of an entity's own non-derivative equity instrument for a fixed amount in any currency and which otherwise meet the definition of equity are classified as equity.

Improvements to IFRSs 2010. 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.

Improvements to IFRSs 2010. Aside from those items already identified above, the amendments made to standards under the 2010 improvements to IFRSs have had no 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 7 (amended): Disclosures- Transfers of Financial Assets
IFRS 9 - Financial Instruments
IFRS 10 - Consolidated Financial Statements
IFRS 11 - Joint Arrangements
IFRS 12 - Disclosure of Interests in Other Entities
IFRS 13 - Fair Value Measurement
IAS 1 - (amended): Presentation of Items of Other Comprehensive Income
IAS 12 (amended): Deferred Tax: Recovery of Underlying Assets
IAS 19 (revised): Employee Benefits
IAS 27 (revised): Separate Financial Statements

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

2 Accounting policies

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 the assets.

b) Going concern

Based on a detailed review of the risks and uncertainties discussed within the Strategic and Operational Review, and management's current expectations 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.

The current economic climate creates a degree of uncertainty in the outlook which when combined with the financial covenants included in our loan facilities, has led the Board to conduct a detailed review of a number of different trading scenarios, including reasonably possible downsides, as well as possible mitigating actions, should they be required.

Based on this analysis the Board has concluded that the company would be able to fully meet all of its financial commitments for the foreseeable future and therefore consider it appropriate to prepare the financial statements on the going concern basis.

The principal accounting policies adopted are set out below.

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 2013 mean at 28 September 2013 or the 52 weeks then ended; references to 2012 mean at 29 September 2012 or the 52 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.

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 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.

Revenue for the Tesco Clubcard scheme is recognised on a gross profit basis as services are provided on an agency basis.

Sales returns are provided for based on past experience 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.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefit will flow to the Group and the amount of income can be measured reliably).

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.

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 or over 4 years per annum 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.

Assets held in the course of construction for production, supply or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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 and intangible assets excluding goodwill

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. An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

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. 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 the currency of the primary economic environment in which it operates (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); and

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

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. 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.

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 balance sheet.

p) Finance costs

Finance costs which are directly attributable to the construction of tangible fixed assets are capitalised as part of the cost of those assets. The commencement of capitalisation begins when both finance costs and expenditures for the asset are being incurred and activities that are necessary to get the asset ready for use are in progress. Capitalisation ceases when substantially all the activities that are necessary to get the asset ready for use are complete.

All other 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. The Group has no designated FVTPL financial assets.

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 43 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.

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 and interest rate swap contracts to manage these exposures. 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.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

An embedded derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and 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.

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 restructuring costs but before property disposals, investment income, finance costs and fair value movement in derivative contracts.

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) 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* and, in particular, whether the Group has transferred to the buyer the significant risks and rewards of ownership of the goods. The Group only recognises revenue where this is the case.

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:

Impairment of property, plant and equipment

During the period, the Group has closed 12 stores in the UK, including five before their lease end dates. 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. Additional impairments have been made for stores which are identified for conversion during the next financial period and for loss-making stores.

Onerous lease provisions

During the period the Group has continued to review the performance of its store portfolio, which has resulted in two further stores being exited before their lease terms had expired (2012: nil stores). 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.

3 Revenue

An analysis of Group revenue is as follows:

	52 weeks ended 28 September 2013 £'000	52 weeks ended 29 September 2012 £'000
Revenue from the sale of goods	**177,849**	177,693
Investment revenue	**170**	152
Total revenue	**178,019**	177,845

Interest receivable represents gains on loans and receivables. There are no other gains recognised in respect of loans and receivables.

4 Profit before taxation

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

	52 weeks ended 28 September 2013 £'000	52 weeks Ended 29 September 2012 £'000
Depreciation of property, plant and equipment	4,258	3,988
Impairment of property, plant and equipment	553	525
Disposal of property, plant and equipment gain	(109)	(1,624)
Property related provisions	927	208
Staff costs (see note 5)	43,123	42,801
Operating lease rentals	20,629	19,295
Write down of inventories recognised as an expense	2,807	2,594
Cost of inventories recognised as expense	68,019	68,550
Net foreign exchange gain	(11)	(30)

Analysis of auditor's remuneration is provided below:

	52 Weeks ended 28 September 2013 £'000	52 weeks ended 29 September 2012 £'000
Fees payable to the Company's auditor with respect to the Company's annual accounts	50	40
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	110	108
Total audit fees	160	148
Audit related assurance services	5	-

Taxation compliance services	73	70
Other services	8	-
Total non audit fees	86	70
	246	218

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.

5 Staff costs

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

	52 weeks ended 28 September 2013 Number employed	52 weeks ended 29 September 2012 Number employed
Selling	**1,556**	1,488
Administration	**164**	166
	1,720	1,654

	2013 £'000	2012 £'000
Their aggregate remuneration comprised:		
Wages and salaries (including LTIP, see note 28)	**39,447**	39,148
Social security costs	**3,466**	3,478
Other pension costs (see note 27b)	**210**	175
	43,123	42,801

Details of directors' emoluments are disclosed in the Annual Report. Employee profit sharing of £6.2 million (2012: £6.0 million) is included in the above and comprises sales commission and bonuses.

6 Other gains

Other gains in 2013 relate to the sale of one freehold property (2012: 3 freehold properties).

7 Investment revenue, finance costs and fair value loss on interest rate derivatives

	52 weeks ended 28 September 2013 £'000	52 weeks ended 29 September 2012 £'000
Investment revenue		
Bank interest receivable and similar income	**170**	152
	170	152

Finance costs

Interest on bank loans and overdrafts	**(2,200)**	(3,119)
Interest on interest rate derivatives	**(506)**	(821)
Interest on underpaid tax*	**(1,000)**	-
Fair value loss on forward currency contracts	**(27)**	(168)
	(3,733)	(4,108)

he Group has historically provided for tax on open HMRC enquiries, some of which have now been resolved. As a result, some historic tax payments have been reallocated between periods which, whilst leading to a net reduction in the overall level of provision required, has required a reallocation of provision from corporation tax payable to cover interest which may become due on underpaid tax in earlier periods. In the event that additional tax is ultimately due in those earlier periods, it is estimated that £1 million of late payment interest would fall due.

Held for trading assets and liabilities

Interest rate swaps gain/(loss)	**210**	(637)
Forward currency contracts losses	**(27)**	(168)
	183	(805)

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

	52 weeks ended 28 September 2013	52 weeks ended 29 September 2012
Continuing operations:	**£'000**	£'000
Current tax - charge for the period	**1,799**	2,573
Current tax - adjustment in respect of previous periods	**(1,226)**	(139)
Deferred tax - effect of reduction in UK corporation tax rate	**-**	48
Deferred tax - charge for period (note 19)	**875**	661
Deferred tax - adjustment in respect of previous periods (note 19)	**9**	(419)
	1,457	2,724

Corporation tax in the UK is calculated at 23.5% (2012: 25%) of the estimated assessable profit for the period.

Finance Act 2013 included provision to reduce the rate of corporation tax to 21% with effect from 1 April 2014 and 20% from 1 April 2015.

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

Continuing operations	52 weeks ended 28 September 2013 £'000	52 weeks ended 29 September 2012 £'000
Profit before taxation	**10,601**	12,493
Tax at the UK corporation tax rate of 23.5% (2012: 25%)	**2,491**	3,123
Tax effect of expenses that are not deductible in determining taxable profit	**16**	59
Tax effect of chargeable gain lower than profit on sale of freehold property	**(56)**	(159)
Tax effect of tangible fixed assets which do not qualify for capital allowances	**222**	259
Tax effect of adjustment in respect of prior periods	**(1,216)**	(558)
Tax expense for the period	**1,457**	2,724

9 Dividends

	52 weeks ended 28 September 2013 £'000	52 weeks ended 29 September 2012 £'000
Interim dividend for the period ended 28 September 2013 of £0.005 (2012: £0.005) per share	958	958
Proposed final dividend for the period ended 28 September 2013 of £0.01 (2012: £0.0075) per share	1,921	1,438

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.

	2013 Number of Shares	2012 Number of Shares
Weighted average number of shares		
For basic earnings per share	**192,012,412**	190,006,223
Weighted average number of shares under option	**1,351,853**	1,749,687
For diluted earnings per share	**193,364,265**	191,755,910

The calculation of the basic and diluted earnings per share used the denominators as shown above for both basic and diluted earnings per share. The adjusted earnings figure is based on the following data (as detailed in the Financial Review section of this report):

From continuing operations	**52 weeks ended 28 September 2013 £'000**	52 weeks ended 29 September 2012 £'000
Profit after tax for the period	**9,144**	9,769
Post tax effect of:		
Impairment of property, plant and equipment	**553**	525
Property disposal gain	**(109)**	(1,624)
Interest rate derivative (gain)/charge	**(161)**	478
Fair value loss on foreign currency forward contracts	**21**	126
Restructuring costs	**177**	288
Interest on corporation tax	**115**	-
Property related provisions	**709**	155
Adjusted profit after tax for the period	**10,449**	9,717

11 Goodwill

	£'000
Cost and carrying amount at 1 October 2011, 29 September 2012 and 28 September 2013	**245**

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 post-tax rate of 13.0% (2012: 10.9%).

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.

The accounting judgements and sources of estimation uncertainty involved in assessing any impairment loss are referred to in note 2 to the financial statements.

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	
Short	**and**	**Motor**

Cost	Freehold £'000	leasehold £'000	fittings £'000	vehicles £'000	Total £'000
At 1 October 2011	19,705	1,842	50,266	90	71,903
Additions	528	-	5,591	-	6,119
Disposals	(4,432)	-	(2,823)	-	(7,255)
At 29 September 2012	15,801	1,842	53,034	90	70,767
Additions	70	-	5,358	121	5,549
Disposals	(511)	-	(2,042)	(45)	(2,598)
At 28 September 2013	**15,360**	**1,842**	**56,350**	**166**	**73,718**
Accumulated depreciation and impairment					
At 1 October 2011	1,915	1,537	31,206	24	34,682
Charge for the period	290	74	3,599	25	3,988
Provision for impairment	65	-	460	-	525
Eliminated on disposals	(638)	-	(2,806)	-	(3,444)
At 29 September 2012	1,632	1,611	32,459	49	35,751
Charge for the period	227	67	3,925	39	4,258
Provision for impairment	-	-	550	3	553
Eliminated on disposals	(240)	-	(1,925)	(27)	(2,192)
At 28 September 2013	**1,619**	**1,678**	**35,009**	**64**	**38,370**
Carrying amount At 28 September 2013	**13,741**	**164**	**21,341**	**102**	**35,348**
At 29 September 2012	14,169	231	20,575	41	35,016

Freehold land and buildings include £4,104,000 of freehold land (2012: £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 (2012: £nil).

Contractual commitments for the acquisition of property, plant and equipment are detailed in note 29.

During the period, the Group has closed 12 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 included within other operating expenses.

13 Subsidiaries

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

14 Trade and other receivables

	2013 £'000	2012 £'000
Amounts falling due within one year:		
Amounts receivable for the sale of goods	**714**	750
Allowance for doubtful debts	**(59)**	(104)
Other debtors and prepayments		
-Rent and rates	**5,072**	5,090
-Other	**1,984**	1,349
	7,711	7,085

The Directors consider that the carrying amount of trade and other receivables at 28 September 2013 and 29 September 2012 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 28 September 2013 amounted to £0.7million (2012: £0.6 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 62 days (2012: 58 days) and no interest is charged on the receivables. Trade receivables between 60 days and 120 days are provided for based on estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience.

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. Of the trade receivables balance at the end of the year, £161,000 (2012: £176,000) is due from Tesco Plc, the Group's largest customer.

Included in the Group's trade receivable balance are debtors with a carrying amount of £ 36,000 (2012: £211,000) 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. The average age of these receivables is 98 days (2012: 197 days)

Ageing of past due but not impaired receivables

	2013	2012
	£'000	£'000
60 - 120 days	**7**	80
121 - 200 days	**20**	55
Greater than 200 days	**9**	76

The allowance for doubtful debts was £59,000 by the end of the period (2012: £104,000). 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 £59,000 relating to individually impaired trade receivables (2012: £104,000) 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:

	2013	2012
	£'000	£'000
Sterling	**18,369**	14,023
US Dollar	**27**	254
Euro	**47**	165
Total cash and cash equivalents	**18,443**	14,442

16 Other financial liabilities

Trade and other payables

	2013 £'000	2012 £'000
Amounts falling due within one year		
Trade payables	**18,244**	12,916
Other payables	**5,506**	3,331
Accruals and deferred income	**12,179**	9,852
	35,929	26,099

Trade payables and accruals principally comprise amounts outstanding for trade purchases and on-going costs. The average credit period taken for trade purchases is 59 days (2012: 43 days). No interest is charged on these payables.

The Directors consider that the carrying amount of trade payables at 28 September 2013 and 29 September 2012 approximates to their fair value on the basis of discounted cash flow analysis.

17 Bank loans

	2013 £'000	2012 £'000
Bank loans (all sterling)	**54,555**	59,289

The borrowings are repayable as follows:

	2013	2012
On demand or within one year	**-**	-
In the second year	**-**	-
In the third to fifth year	**55,000**	60,000
	55,000	60,000
Less: total unamortised issue costs	**(445)**	(711)
	54,555	59,289
Issue costs to be amortised within 12 months	**265**	266
Amount due for settlement after 12 months	**54,820**	59,555

The Directors consider that the carrying amount of the bank loan at 28 September 2013 and 29 September 2012 approximates to its fair value since the amounts relate to floating rate debt.

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

	2013 %	2012 %
Loans	**3.30**	4.54

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

During the period the Group cancelled £10.0 million of its committed revolving credit facility, leaving a remaining facility of £65.0 million, expiring in May 2015. As at the financial period end £55.0 million of this facility was drawn, with a further £10.0 million of undrawn financing available. The loan facility contains financial covenants which are tested on a bi-annual basis.

At 28 September 2013, the Group had available £10 million (2012: £15 million) of undrawn committed banking facilities.

18 Financial instruments

Financial liabilities held for trading were reclassified in the prior period in order to more appropriately reflect the requirements of IAS1. Classification as non-current liabilities ensures the instrument mirrors the cash flows of the loan facility, which it is in place to hedge against.

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 2012. 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 earnings 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	
	2013	2012
	£'000	£'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**19,098**	15,088
Financial liabilities		
Held for trading	**-**	6,107
Fair value through profit and loss	**129**	102
Amortised cost	**72,935**	72,369

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.

Market risks

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 a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk, including:

- forward foreign exchange contracts to hedge the exchange rate risk arising on the import of goods from South America and China; and
- interest rate swaps and collars to mitigate the risk of movements in interest rates.

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**	
	2013	2012	**2013**	2012
	£'000	£'000	**£'000**	£'000
Euro	**47**	177	**801**	1,253
US dollar	**135**	254	**-**	434

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.

	2013	2012
	£000	£000
Profit or Loss movement on a 10% strengthening in Sterling against the Euro	**68**	98
Profit or Loss movement on a 10% strengthening in Sterling against the US Dollar	**(12)**	16
Profit or Loss movement on a 10% weakening in Sterling against the Euro	**(84)**	(120)
Profit or Loss movement on a 10% weakening in Sterling against the US Dollar	**15**	(20)

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:

	2013	2012
	£'000	£'000
Forward foreign exchange contracts	**4,828**	5,132

These arrangements are designed to address significant exchange exposures for the first half of 2013 and are renewed on a revolving basis as required.

At 28 September 2013 the fair value of the Group's currency derivatives is a £129,000 liability within accruals and deferred income (note 16) (2012: a liability of £102,000). These amounts are based on market value of equivalent instruments at the balance sheet date.

Losses of £27,000 are included in finance costs (note 7) (2012: £168,000 loss).

Interest rate risk management

The Group is exposed to interest rate risk as entities in the Group borrow funds at floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings, by the use of interest rate swap contracts and collars. 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 analyses below have 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:

	50 basis points increase in interest rates		**50 basis points decrease in interest rates**	
	2013	2012	**2013**	2012
	£'000	£'000	**£'000**	£'000
(Loss) or profit	**(187)**	723	**187**	(441)

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

Interest rate derivatives

The Group used interest rate derivatives to manage its exposure to interest rate movements on its bank borrowings.

The Group's interest rate derivative comprised of a 10 year cancellable collar with a notional value of £30 million (2012: £30 million) with a cap of 5.6% and a floor of 4.49%, the interest rate within this range is LIBOR less 0.4%. Where LIBOR falls below the floor the interest rate resets to a fixed level of 5.55%.

The fair value liability of the swaps entered into at 28 September 2013 is estimated at £nil (2012: £6,107,000). An amount of £ 210,000 has been credited to the statement of financial performance in the period (2012: £637,000 charge) to reflect the fair value gain.

On 30 April 2013 the Group settled the 10 year cancellable collar, for a consideration of £5,897,000.

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 reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in note 17 is a description of additional undrawn facilities that the Group has at its disposal to reduce liquidity risk further.

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 3.01688% (2012: 3.54658%)) 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.

2013	**Less than 1 month**	**1-3 months**	**3 months to 1 year**	**1-5 Years**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Non-interest bearing	**35,929**	**-**	**-**	**-**	**35,929**
Variable interest rate instruments	**5,131**	**289**	**1,254**	**51,130**	**57,804**

2012	Less than 1 month	1-3 months	3 months to 1 year	1-5 Years	Total
	£'000	£'000	£'000	£'000	£'000
Non-interest bearing	26,099	-	-	-	26,099
Variable interest rate instruments	197	379	1,742	63,888	66,206

The Group is financed through a £65 million (2012 £75 million), revolving credit facility of which £55 million (2012 £65 million) was utilised. In the current period the total unused amount of financing facilities was £10 million (2012 £15 million) at the balance sheet date. The Group expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

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.

2013	**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	**-**	**(1,956)**	**(2,872)**	**-**	**-**	**(4,828)**

Foreign exchange forward contracts receipts	**-**	**1,878**	**2,819**	**-**	**-**	**4,697**

2012	Less than 1 month	1-3 Months	3 months to 1 year	1-5 Years	5+ Years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Interest rate swaps payments	**-**	**(364)**	**(1,103)**	**(3,883)**	**-**	**(5,350)**
Foreign exchange forward contracts payments	**-**	**(3,296)**	**(1,836)**	**-**	**-**	**(5,132)**
Foreign exchange forward contracts receipts	**-**	**3,199**	**1,839**	**-**	**-**	**5,038**

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.
- Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.
- Interest rate collars are measured using applicable yield curves derived from quoted interest rates and market volatilities.

The fair values are therefore categorised as 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

	2013	2012
	£'000	£'000
Onerous lease provision	**1,973**	1,080
Dilapidations provision	**1,245**	1,542
	3,218	2,622
Current	**1,014**	820
Non-current	**2,204**	1,802
	3,218	2,622

	Onerous lease provision	**Dilapidations provision**	**Total**

	£000	£000	£000
At 29 September 2012	1,080	1,542	2,622
Additional provision in the period	1,400	81	1,481
Utilisation of provision	(150)	(181)	(331)
Release of provision in the period	(357)	(197)	(554)
At 28 September 2013	**1,973**	**1,245**	**3,218**

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 seven financial periods.

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

	Accelerated Tax depreciation	**Other short term timing differences**	**Share Based payments**	**Exchange Rate differences**	**Interest Rate hedging**	**Rent free**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
As at 1 October 2011	1,847	(42)	(308)	17	(2,074)	(35)	(595)
(Credit)/charge to income	(9)	(14)	(23)	(39)	845	(99)	661
Charge/(credit) in respect of previous periods	28	-	-	-	-	(447)	(419
Impact of rate change	(147)	2	25	(1)	166	3	48
Charge to equity	-	-	166	-	-	-	166
As at 29 September 2012	1,719	(54)	(140)	(23)	(1,063)	(578)	(139)
(Credit)/charge to income	(155)	31	(19)	(5)	1,061	(38)	875
Charge in respect of previous periods	9	-	-	-	-	-	9
Credit to equity	-	-	(319)	-	-	-	(319)
As at 28 September 2013	**1,573**	**(23)**	**(478)**	**(28)**	**(2)**	**(616)**	**426**

Finance Act 2013 included provision to reduce the rate of corporation tax to 21% with effect from 1 April 2014 and 20% from 1 April 2015. If the deferred tax assets and liabilities of the group were all to reverse after 1 April 2015, the effect of the reduction to 20% would be to reduce the net deferred tax liability by £56,000.

20 Called-up share capital

	2013 £'000	2012 £'000
Authorised 240,000,000 (2012: 240,000,000) ordinary shares of 3.33p each (2012: 3.33p)	**8,000**	8,000

Authorised 37,000,000 (2012: 37,000,000) redeemable B shares of £0.54 each	**19,980**	19,980
Authorised 124,890,948 (2012: 124,890,948) irredeemable C shares of £0.001 each	**125**	125
	28,105	28,105
Issued and fully-paid 192,127,669* (2012: 191,852,710) ordinary shares of 3.33p each (2012: 3.33p)	**6,404**	6,395
Total	**6,404**	6,395

During the period the Group issued 274,959 (2012: 3,486,908) ordinary shares with a nominal value of £9,156 (2012: £116,229) under share option schemes for an aggregate cash consideration of £20,307 (2012: £575,340).

* During the period 191,000 (£6,000) shares were purchased by Topps Tiles Employee Benefit Trust on behalf of the Directors and Senior Management Team. These have not been paid for at the balance sheet date.

21 Share premium

	2013	2012
	£'000	£'000
At start of period	**1,481**	1,022
Premium on issue of new shares	**11**	459
At end of period	**1,492**	1,481

22 Own shares

	2013	2012
	£'000	£'000
At start of period	**(4)**	(4)
Issued in the period	**(6)**	-
At end of period	**(10)**	(4)

A subsidiary of the Group holds 313,000 (2012: 122,000) shares with a nominal value of £10,000 (2012: £4,000) and therefore these have been classed as own shares.

23 Merger reserve

	2013	2012
	£'000	£'000
At start and end of period	(399)	(399)

24 Share-based payment reserve

	2013	2012
	£'000	£'000
At start of period	**566**	543
Credit to equity for equity-settled share based payments	**83**	23
At end of period	**649**	566

25 Capital redemption reserve

	2013	2012
	£'000	£'000
At start and end of period	**20,359**	20,359

The capital redemption reserve arose on the cancellation of treasury shares and as a result of a share reorganisation in 2006.

26 Retained earnings

	£'000
At 1 October 2011	(53,262)
Dividends (note 9)	(2,087)
Deferred tax on sharesave scheme taken directly to equity	(166)
Net profit for the period	9,769
At 29 September 2012	(45,746)
Dividends (note 9)	(2,396)
Deferred tax on sharesave scheme taken directly to equity	319
Net profit for the period	9,144
At 28 September 2013	**(38,679)**

27 Financial commitments

a) Capital commitments

At the end of the period there were capital commitments contracted of £200,000 (2012: £300,000).

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 £210,000 (2012: £175,000). At the period end there are were no outstanding contributions (2012: same).

c) Lease commitments

Minimum future sublease payments expected to be received under non-cancellable subleases amount to £2,238,000.

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 £20,629,000 which includes property service charges of £707,000 (2012: £19,295,000 including property service charges of £591,000).

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:

	2013		2012	
	Land and buildings	**Other**	Land and buildings	Other
	£'000	**£'000**	£'000	£'000
- within 1 year	**20,270**	**1,321**	19,335	1,025
- within 2 - 5 years	**67,540**	**953**	63,334	1,160
- after 5 years	**65,884**	**-**	65,646	25
	153,694	**2,274**	148,315	2,210

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 15 years and rentals are fixed for an average of 5 years (2012: 5).

28 Share-based payments

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

Equity settled share option scheme

Options are exercisable at the middle market closing price for the working day prior to the date of grant and are exercisable 3 years from the date of grant if the employee is still employed by the Group at that date.
Details of the share options outstanding during the period are as follows:

Date of grant	**Option price**	**Exercisable period**	**No. of options outstanding**	
			2013	2012
26 January 2001	**54p**	**7 Years**	**-**	-
12 February 2002	**54p**	**7 Years**	**-**	-
			-	-

Movements in share options are summarised as follows:

	2013 Number of Share options	**2013 Weighted Average Exercise price**	**2012 Number of Share options**	**2012 Weighted Average Exercise price**
		£		**£**
Outstanding at beginning of period	**-**	**-**	40,779	0.54
Exercised during the period	**-**	**-**	-	-
Expired during the period	**-**	**-**	(40,779)	(0.54)
Outstanding at end of period	**-**	**-**	-	-
Exercisable at end of period	**-**	**-**	-	-

Other share based payment plans

Employee share purchase plans are open to almost all employees and provide for a purchase price equal to the daily average market price on 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:

	2013 Number of Share options	**2013 Weighted Average Exercise price £**	2012 Number of Share options	2012 Weighted Average Exercise price £
Outstanding at beginning of period	**1,972,894**	**0.32**	6,229,563	0.25
Issued during the period	**2,029,575**	**0.43**	-	-
Expired during the period	**(553,079)**	**0.46**	(769,761)	0.48
Exercised during the period	**(96,966)**	**0.17**	(3,486,908)	0.17
Outstanding at end of period	**3,352,424**	**0.37**	1,972,894	0.32
Exercisable at end of period	**3,352,424**	**0.37**	1,972,894	0.32

The inputs to the Black-Scholes Model for the above 3 and 5 year plans are as follows:

		2013	2012
Weighted average share price	- pence	**45.9**	39.8
Weighted average exercise price	- pence	**36.7**	31.8
Expected volatility (3 & 5 years)	- %	**48.1 and 63.6**	47.3 and 70.6
Expected life	- years	**3 or 5**	3 or 5
Risk - free rate of interest	- %	**0.34**	0.2
Dividend yield	- %	**3.18**	4.09

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 3 or 5 years (2012: 3 or 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.

Deferred bonus long-term incentive plan

During the financial period ended 29 September 2012 an award was made under the deferred bonus long term incentive plan (LTIP) for the Senior Management Team. Under this bonus scheme 25% of the award (net of tax) is deferred in the form of shares for a two year period, with a matching share award (on a gross basis) that vests at the end of two years subject to the achievement of performance conditions relating to continuing employment within the business and EBITDA earnings growth measured over the two year period.

This scheme was replaced in January 2013 when a new Long Term Incentive Plan was approved by shareholders and as such there will be no further awards under this scheme.

The total number of shares awarded was 191,084, and the fair value of these deferred shares as at 28 September 2013 was £81,000 (2012: £95,000).

The total number of matching shares that are expected to be awarded, subject to fulfilment of the performance conditions is 363,614 and the fair value of these matching shares as at 28 September 2013 was £163,000 (2012: nil). No options were granted or exercised during the period (2012: None). There were no options outstanding at 28 September 2013.

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

2013	2012

		2013	2012
Weighted average share price	- pence	**50.5**	49.7
Weighted average exercise price	- pence	**-**	-
Expected volatility	- %	**43.8**	53.4
Expected life	- years	**2**	2
Risk - free rate of interest	- %	**0.3**	0.2

Expected volatility was determined by calculating the historical volatility of the Group's share price over the 2011/12 and 2012/13 financial periods (2012: 2010/11 and 2011/12 financial period). 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.

Management Options

During the period members of the Management team were granted share options that are due to vest in October 2015, subject to the fulfilment of criteria. The number of shares that are expected to be awarded is 290,000 and the fair value of these shares as at 28 September 2013 was £138,000.

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

		2013	2012
Weighted average share price	- pence	**55.0**	-
Weighted average exercise price	- pence	**-**	-
Expected volatility	- %	**48.1**	-
Expected life	- years	**3**	-
Risk - free rate of interest	- %	**0.54**	-

Expected volatility was determined by calculating the historical volatility of the Group's share price over the 2010/11, 2011/12 and 2012/13 financial periods. 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.

In total, the Group recognised a total expense of £83,000 (2012: £23,000 expense) relating to share based payments.

29 Related party transactions

S.K.M. Williams had the non-statutory role of President (resigned March 2012), advising on property matters and is a related party by virtue of his 10.7% shareholding (20,593,950 ordinary shares) in the Group's issued share capital (2012: 10.7% shareholding of 20,593,950 ordinary shares).

At 28 September 2013 S.K.M. Williams was the landlord of four properties leased to Multi Tile Limited, a trading subsidiary of Topps Tiles Plc, for £208,000 (2012: four properties for £178,000) per annum.

No amounts were outstanding with S.K.M. Williams at 28 September 2013 (2012: £nil).The lease agreements on all properties are operated on commercial arm's length terms. His salary for the period in his role as President was £nil (2012: £24,000).

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 £1.1 million (2012: £1.5 million) as well as share based payments of £44,000 (2012: £65,000). Further information about the remuneration of the individual Directors is provided in the Remuneration Report in the Annual Report.

Company balance sheet as at 28 September 2013

	Notes	**52 weeks ended 2013 £'000**	52 weeks Ended 2012 £'000
Fixed assets			
Investments	3	**2,959**	2,920
Current assets			
Debtors due within one year	4	**3,156**	35
Debtors due after one year	4	**123,200**	221,200
Cash at bank and in hand		**14,784**	20,270
		141,140	241,505
Creditors: Amounts falling due within one year	5	**(1,387)**	(1,139)
Net current assets		**139,753**	240,366
Net assets		**142,712**	243,286
Capital and reserves			
Called-up share capital	6,7	**6,404**	6,395
Share premium	7	**1,492**	1,481
Share based payment reserve	7	**649**	532
Capital redemption reserve	7	**20,359**	20,359
Other reserve	7	**6,200**	6,200
Profit and loss account	7	**107,608**	208,319
Equity shareholders' funds		**142,712**	243,286

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

M T M Williams
Director

R Parker
Director

1 Basis of accounting

The separate financial statements of the Company are presented as required by the Companies Act 2006. They have been prepared under the historical cost convention and in accordance with United Kingdom Accounting Standards and law.

Based on a detailed review of the risks and uncertainties discussed within the Strategic and Operational Review, and management's current expectations the Board believes that the Company will continue to meet all of its financial commitments as they fall due and will be able to continue as a going concern.

The current economic climate creates a degree of uncertainty in the outlook which when combined with the financial covenants included in our loan facilities, has led the Board to conduct a detailed review of a number of different trading scenarios, including reasonably possible downsides, as well as possible mitigating actions, should they be required.

Based on this analysis the Board has concluded that the Company would be able to fully meet all of its financial commitments for the foreseeable future and therefore consider it appropriate to prepare the financial statements on the going concern basis.

There have been no changes to the principal accounting policies in the period, all of which have been applied consistently throughout the period and the preceding period.

The Company issues equity settled share based payments to certain employees. Equity settled share based payments are measured at fair value at the date of grant. The charge added to the cost of investment in those subsidiaries whose employees receive the benefit of the share options is £39,000 (2012: £8,000 credit). In respect of the deferred long term bonus incentive plan, the share based payment charge within the Company is £nil (2012: £57,000).

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

The Company has taken advantage of the exemption in FRS 8 from disclosing transactions with other members of the Group and the exemption in FRS 29 for making disclosures relating to financial instruments.

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 retained loss for the financial period ended 28 September 2013 of £100,711,000 (2012: £5,047,000). Following a review of the projected cash flows relating to this company and its subsidiaries an impairment of £98,000,000 has been recognised against the intercompany receivable.

The auditor's remuneration for services to the company was £50,000 for audit related work (2012: £40,000 for audit related work). Fees relating to non-audit work totalled £nil (2012: £nil), see note 4 to the Group financial statements for further details.

The Company had no other employees other than the Directors (2012: same), whose remuneration is detailed in the Annual Report.

3 Fixed asset investments

	Shares
	£'000
At 29 September 2012	2,920
Movement in share options granted to employees	39
At 28 September 2013	**2,959**

The Company has investments in the following subsidiaries which principally affected the profits or net assets of the Group. To avoid a statement of excessive length, details of investments which are not significant have been omitted.

Subsidiary undertaking	% of issued shares held	Principal activity
Topalpha Limited*	100%	Property management and investment
Multi Tile Limited	100%	Retail and wholesale of ceramic tiles, wood flooring and related products
Topps Tiles Holdings	100%	Intermediate holding company.
Topps Tiles (UK) 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.

*held directly by Topps Tiles Plc

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

	2013	2012
	£'000	£'000
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	**2,977**	-
Other debtors	**166**	22
Prepayments and accrued income	**13**	13
	3,156	35
Amounts falling due after one year:		
Amounts owed by subsidiary undertaking	**123,200**	221,200

Following a review of the projected cash flows relating to this company and its subsidiaries an impairment of £98,000,000 has been recognised against the intercompany receivable.

In respect of the deferred bonus share award, a deferred tax asset has not been recognised as it is probable that there will be insufficient suitable profits arising when the shares are awarded against which to relieve the deduction.

5 Creditors: Amounts falling due within one year

	2013	2012
	£'000	£'000
Trade and other creditors	**17**	16
Amounts owed to subsidiary undertakings	**251**	130
Accruals and deferred income	**1,119**	993
	1,387	1,139

6 Called-up share capital

	2013	2012
	£'000	£'000

Authorised 240,000,000 (2012: 240,000,000) ordinary shares of 3.33p each (2012: 3.33p)	**8,000**	8,000
Authorised 37,000,000 (2012: 37,000,000) redeemable B shares of £0.54 each	**19,980**	19,980
Authorised 124,890,948 (2012: 124,890,948) irredeemable C shares of £0.001 each	**125**	125
	28,105	28,105
Issued and fully-paid 192,127,669 (2012: 191,852,710) ordinary shares of 3.33p each (2012: 3.33p)	**6,404**	6,395

* During the period 191,000 (£6,000) shares were purchased by Topps Tiles Employee Benefit Trust on behalf of the Directors and Senior Management Team. These have not been paid for at the balance sheet date.

During the period the Group allotted 274,959 (2012: 3,486,908) ordinary shares with a nominal value of £ 9,56 (2012: £116,230) under share option schemes for an aggregate cash consideration of £20,307 (2012: £575,340).

7 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 29 September 2012	6,395	1,481	532	20,359	6,200	208,319	243,286
Loss for the period	-	-	-	-	-	(98,315)	(98,315)
Dividend paid to equity shareholders	-	-	-	-	-	(2,396)	(2,396)
Issue of new shares	9	11	-	-	-	-	20
Credit to equity for equity-settled share based payments	-	-	117	-	-	-	117
At 28 September 2013	**6,404**	**1,492**	**649**	**20,359**	**6,200**	**107,608**	**142,712**

At 28 September 2013, the Directors consider the other reserve of £6,200,000 to remain non distributable.

The Directors consider £105,106,000 (2012: £203,106,000) of profit and loss account reserves not to be distributable at 28 September 2013. This arose on an unrealised gain on the intragroup disposal of subsidiary companies, an impairment has been recognised against the related intercompany balance this period.

Five year record
UNAUDITED

	52 weeks ended 26 September 2009 £'000	53 weeks ended 2 October 2010 £'000	52 weeks Ended 1October 2011 £'000	52 weeks ended 29September 2012 £'000	**52 weeks Ended 28 September 2013 £'000**
Group revenue	186,061	183,420	175,525	177,693	**177,849**
Group operating profit	16,425	20,899	13,980	15,462	**13,845**
Profit before taxation	4,904	13,397	7,908	12,493	**10,601**
Shareholders' deficit	(53,282)	(28,530)	(25,462)	(17,348)	**(10,184)**
Basic earnings per share	1.00p	5.37p	3.04p	5.14p	**4.76p**
Dividend per share	-	-	1.50p	1.10p	**1.25p**
Dividend cover	-	-	1.92	4.68	**3.17**
Average number of employees	1,625	1,615	1,661	1,654	**1,720**
Share price (period end)	94.41p	60.0p	34.0p	46.0p	**93.0p**

All figures quoted are inclusive of continued and discontinued operations.

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