Topps Tiles

27th November 2012

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 324 stores, announces its annual financial results for the 52 weeks ended 29 September 2012.

Highlights

	52 weeks ended 29 September 2012	52 weeks ended 1 October 2011
Group revenue	£177.7 million	£175.5 million
Like-for-like revenue[1]	-0.7%	-2.0%
Gross margin	60.0%	59.6%
Operating profit	£15.5 million	£14.0 million
Adjusted operating profit[2]	£16.6 million	£18.2 million
Profit before tax	£12.5 million	£7.9 million
Adjusted profit before tax[3]	£12.8 million	£13.9 million
Basic earnings per share	5.14p	3.04p
Adjusted earnings per share[4]	5.11p	5.50p
Final dividend	0.75p	0.6p
Total dividend	1.25p	1.1p

Notes

[1] Like-for-like revenues are defined as sales from stores that have been trading for more than 52 weeks

[2] 2012 adjusted operating profit excludes several items we have incurred during the period due to their nature, these are: the impairment of plant, property and equipment of £0.5 million (2011: £1.1 million), business restructuring costs of £0.4 million (2011: nil), an increase in property related provisions of £0.2 million (2011: £1.9 million), 2011 also included an inventory charge of £1.3 million for which there is no equivalent charge this year.

[3] 2012 adjusted profit before tax is adjusted for the effect of the items above plus:

- property disposal gain of £1.6 million (2011: nil)
- £0.8 million charge 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) (2011: £1.6 million charge)

[4] Adjusted for the post tax effect of items highlighted above

- Focus on strengthening our market leading position by improving customer service, enhancing the product range and maximising sales opportunities in a tough retail environment
- Significantly improved second half performance, with like for like sales increased by 3.5% (2011 H2: -5.8%) and adjusted profit before tax of £7.2 million (2011: £6.9 million)
- Market share increased to 27% (2011: 26%) reflecting successful strategy of inspiring customers' home improvement projects and increased focus on trade customers
- Targeted development of store estate, with net 5 new Topps Tiles stores opened, including 13 new locations and 10 Tile Clearing House stores converted to the more profitable Topps format
- Further development of online capability and sustained marketing expenditure to drive store footfall and build greater brand awareness
- Gross margin increased to 60.0% (2011: 59.6%) reflecting further supply chain efficiencies and proactive management of cost base
- Increased final dividend of 0.75 pence per share (2011: 0.6 pence per share), making a total for the year of 1.25 pence per share (13.6% increase)
- Net debt (defined as loan facilities drawn down less cash and cash equivalents) of £45.6 million at period end (2011: £50.9 million), with £15 million of undrawn banking facilities (2011: £15 million)

Current Trading and Outlook

- The Group is now trading from 324 stores (2011: 321 stores)
- In the first seven weeks of the new financial period, Group revenues, stated on a like-for-like basis, increased by 1.0%

Commenting on the results, Matthew Williams, Chief Executive said: "Following a challenging start to our financial year we were encouraged by the progress in the second half, particularly considering the context of a tough retail environment. Like-for-like sales grew in both quarter three and quarter four and we also grew total revenues year on year. We have continued to move forward as a business and strengthen our market leading position - evolving our customer offer, delivering world class customer service, expanding our store estate, investing in infrastructure, and reducing net debt."

"Looking ahead, we recognise that economic conditions are likely to remain uncertain throughout 2013. However I believe, that we are operating in an environment where customers value Topps unique blend of outstanding product range, affordability, industry leading customer service and locational convenience. These key differentiators provide us with a platform to achieve both further growth and market share gains as we consolidate our position as the UK's number one tile retailer."

For further information please contact:

Topps Tiles Plc (27/11/12) 020 7638 9571
Matthew Williams, CEO (Thereafter) 0116 282 8000
Rob Parker, CFO

Citigate Dewe Rogerson 020 7638 9571
Kevin Smith/Lindsay Noton

CHAIRMAN'S STATEMENT

"Topps has maintained its position as the UK's number one tile retailer by giving its customers inspiration for their home improvement projects, outstanding value for money and exceptional levels of service"

Our Business

It's reassuring to be able to report that, despite the continued tough retail climate, during the last twelve months Topps has both maintained its market leading position and delivered an overall increase in year on year sales for the first time since 2007. To achieve this we adopted a strategy which, at its core, focused on inspiring our customers, in their quest to enhance their homes and on improving the way we met the needs of our exacting trade customers. This approach enabled us to move from a position where like-for-like sales declined by 4.7% in the first half of our financial period to like-for-like growth of 3.5% during the second half.

The final trading results do however reflect the stagnating performance of the economy, a continuing low level of housing transactions and a lack of overall consumer confidence. Total revenue was £177.7 million (2011: £175.5 million) and with gross margin increased to 60.0% (2011 59.6%) we were able to deliver an adjusted profit before tax of £12.8 million as well as reducing our net debt. Although this result was down from last year's adjusted profit before tax of £13.9 million it was in line with market expectations and our internal projections.

In our previous annual report we committed ourselves to prudent cost management, further investment in key infrastructure, and achieving our target for growing the store estate. Good progress has been made on these targets enabling us to;

- Deliver an underlying cost increase of just 2.5%, c.£2 million lower than inflationary and store space growth
- Grow the overall store estate to 325 stores at year end (2011: 320) whilst simultaneously closing unprofitable units
- Enhance the overall appearance of our stores
- Convert 10 Tile Clearing House sites to the more profitable Topps format
- Fully integrate our second Grove Park warehouse to enable more direct sourcing of product and thus secure additional margin gains
- Further develop the awareness of Topps, as a brand, through national television advertising campaigns
- Increase our share of the tile market by a further 1% to 27%

Meeting the needs of our customers

These results could not have been achieved in the current retail environment if Topps had not maintained its absolute focus on the needs of our customers. Our objective of inspiring our customers whilst giving them top quality advice and guidance has once again resulted in Topps being rated in the top ten percent of European Retailers when it comes to levels of customer satisfaction. This result is not only a tribute to the quality of our staff but it also underscores the importance we attach to our continuous on the job staff training and the development of our company apprenticeship scheme.

On behalf of the Board I would like to thank every one of our employees for the personal contribution they have made in helping to maintain Topps's position as the UK's number one tile retailer.

Our people have also demonstrated their appreciation of the wider responsibilities that a business like Topps has by again making "Help for Heroes" the company's chosen charity. Their fund raising efforts have been inspiring and have included everything from local cake sales to climbing Mount Kilimanjaro.

Corporate Governance

This year we strengthened the depth and independence of the Board with the appointment of two new Non-Executive Directors. In December 2011 Claire Tiney joined the Board, bringing with her a wealth of human resources experience gained from a retail career spent with Marks and Spencer, Mothercare, Woolworths and McArthur Glen. In January 2012, Andy King, currently CEO of Nottcuts and formerly with Boots and Bodyshop also joined the Board. His arrival has brought to Topps strong strategic marketing and general management experience gained from his comprehensive retailing career.

These appointments have enabled us to further strengthen the Board's committee structure. Alan White has now been appointed Senior Independent Director and chair of the Audit Committee. Claire Tiney has taken on the chair of the Remuneration Committee. Andy King has been appointed as chair of the Nominations Committee and, in addition, has accepted responsibility for reviewing the company's Environmental and Corporate Social Responsibility policies.

During the year, we also said goodbye to a very long serving member of our Board, when in April, Nick Ounstead announced that he was to retire. During his fifteen years with the business Nick made an outstanding contribution to Topps, helping us move from a small unquoted business to today's position as the UK's number one tile retailer. On behalf of the Board I would like to record our sincere appreciation for all he did for Topps and send him our very best wishes for the future.

Dividend

This year's trading, and particularly our second half performance, has reinforced the Board's view that the business is on a secure financial footing. In pursuit of our progressive dividend policy, we will be recommending to shareholders a final dividend of 0.75 pence per share (2011: 0.6 pence per share). This will cost £1.4 million (2011: £1.1 million). The shares will trade ex dividend on 24 December 2012 and, subject to approval at the Annual General Meeting, the dividend will be payable on 31 January 2013. This brings the total dividend for the year to 1.25 pence per share (2011: 1.1 pence per share), an increase of 13.6%.

Our Future

Our results for the year have confirmed that in spite of challenging economic conditions Topps' fundamental retail formula is sound. We recognise, however, that if we are to continue to grow our share of the market in this retail environment, innovative thinking will be required. In June we unveiled some new approaches to the marketing of our products in our Lab Store at Milton Keynes. We are continuing to evaluate these new approaches and they will help set the tone for the future appearance of our stores.

The commercial success of these new initiatives will be greatly assisted if UK economic policy can deliver a sustained improvement in consumer confidence. In addition, the success of any of the initiatives designed to stimulate the market for houses and their refurbishment will be of considerable value to the business.

For our part we will continue to inspire our customers' home improvement plans whilst at the same time investing in our people – our greatest strength and most important asset. We also recognise the increasingly important role being played in retailing by on-line and so we plan to further develop our web presence in order to make it even easier for our customers to research their purchases and find the combination of tiles and wood flooring that is just right for them.

By combining all these elements in a package that offers unrivalled in-store service, unparalleled ranges, industry leading technical advice and great value for money for both our trade and retail customers, we will have a strong platform upon which to build our success in the new financial year.

Michael Jack
Chairman

CHIEF EXECUTIVE'S STATEMENT

We started this year knowing that the economic outlook would be challenging for businesses dependent on consumer confidence and discretionary spending. This cautious approach proved well founded as we experienced a decline in revenues during the first half. I am very pleased, however, with the way in which the business, and specifically our store colleagues, responded - arresting the decline and then returning the business to both like-for-like sales growth during the second half and overall sales growth across the year.

We maintained our focus on strengthening our market leading position by continuing to deliver outstanding service and excellent value, high quality products to our customers. We further upgraded and expanded our store estate, strengthened our offer and supported this with new marketing initiatives in-store, on television and on-line. In addition, we have seen the first benefits of our investments in both stores and supply chain infrastructure.

We remain focused on maintaining an efficient cost base but also recognise a continuing need to invest in key areas of the business as we move forwards. We have maintained our investment in marketing over the last year and will continue to ensure that our stores are sufficiently resourced to continue to offer the high standards of customer service we pride ourselves on.

The Market

Topps has seen its position as the UK's leading tile retailer strengthen further during the period, with our share of the non-contract tile market growing to 27% (2011: 26%) (source: Market and Business Development "MBD"). Our unwavering focus on offering our customers outstanding service and value enabled the Group to, once again, outperform the market.

Tile consumption in the UK continues to be low in comparison to the rest of Europe (roughly one third of the demand experienced in Northern Europe, source: MBD). However, long term growth, based on projections of an increase in housing stock and consumer usage of tiles, remains attractive.

Store Development and Expansion

We have continued to focus on optimising returns from the existing store estate, adding new stores selectively where we believe strong opportunities exist and targeting tactical relocations of individual stores where this is supported by the local market opportunity.

In the last 12 months we opened 13 new stores and closed eight stores (of which one was a relocation), resulting in a net increase of five stores to bring the total at year end to 325 stores. These new stores have performed well and we remain very encouraged with the return on investment. In the year ahead we have plans in place to increase the estate by a further five new stores.

We have continued to invest across all parts of our store estate and this year have progressed a programme of "light touch" refits – spending around £20,000 per store on a range of minor improvements such as store signage, counters, floors, lighting, etc. 18 stores have benefitted from the programme this year and we intend to continue this into 2013.

We converted 10 further Tile Clearing House stores to the more profitable Topps Tiles format. Trading results from these conversions have been strong, on average generating c.25% more sales post the conversion.

We have continued to improve our on-line presence and see our website as very much a way of driving additional footfall to stores. We know increasing numbers of customers are undertaking the research phase of their project on-line but prior to actual purchase. However, most of our customers tell us that they still prefer to visit our store, physically see the products they are interested in and benefit from our expert in-store advice before they buy. To help them with this process we have focused our on-line efforts on incorporating more inspirational room set photography, a greater variety of design ideas and the integration of our market-leading interactive "visualiser" into the on-line experience. This enables customers to choose from our extensive range of wall and floor tiles and model them into a variety of different room settings.

Customer Service

As the UK's leading tile specialist, the provision of exceptional levels of customer service is a key differentiator of the Topps Tiles brand.

We measure customer satisfaction based on the "Net Promoter" scoring system. The net promoter score is calculated based on customers' 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 customers to be split into promoters (9 -10), passives (7-8) and detractors (0-6). The final score is based on the percentage of promoters less the percentage of detractors, thereby creating a possible range of -100% to +100%. Over the financial period our Net Promoter Score has averaged 90.6% (2011: 88.1%) – well within the top 10% of European retailers when it comes to customer service quality, which we consider to be a very clear endorsement of our customer service ethic.

Product Offer

We continue to lead the market with our wide range of products to suit all tastes. We offer a core range of c.1,500 items which are available in stock to take away and a further c.3,000 items which are available to order on short lead times.

Our customers are choosing a wider variety of tiles than we have seen previously and are becoming increasingly adventurous in their tastes through greater use of colour and larger format tiles. Maintaining innovation in our product range is a key driver of success and on average we refresh around 20% of our core range each year.

Our diverse product sourcing strategy is also a key driver of our business – we have a specialist team of buyers who are able to shop all over the world, and, combined with our operational flexibility, are able to bring product to market quicker than our competitors.

We have also reviewed our wood flooring offer and have completely relaunched the range from October 2012 featuring a broad offer that will cater for all our customers needs.

Marketing, Advertising and Sponsorship

The evolution of the Topps Tiles brand continued during the period, in line with our greater emphasis on inspiring customers and reaching beyond our traditional customer base. Our product brochures and in-store merchandising have been repositioned to reflect customers' increased focus on style as the principal driver in their purchase decision. This approach also provides consistency with our improved consumer website. More emphasis has also been placed on promoting the breadth of our ranges, with a greater focus on being able to attract high end customers, as well as retaining those attracted by our traditional value message.

Over the course of the last financial period we have continued to invest around 2% of sales in marketing expenditure with the objectives of driving footfall and increasing market share. Television advertising and sponsorship has proved to be the most effective way to build consumer awareness of the Topps brand. This year we resumed our previously successful weather sponsorship and have featured on both Daybreak and Channel 4 News. We have also continued our campaign of communicating our inspirational agenda through home interest magazines and PR. Our trade specific campaigns have included a Talksport radio campaign and increased use of direct mail and email and these initiatives have been successful in increasing our overall share of trade business.

Community

Topps' commitment to its local communities through sponsorship and charitable activity remains strong. We aim to make positive contributions to those communities served by our stores, working closely with them to promote our primary aim of being a 'good neighbour'.

We currently sponsor over 300 youth football teams nationwide, providing the teams with support, new kits and equipment.

Our work for the charity Help for Heroes, which we have been supporting since 2008, has gone from strength to strength and we have already helped to raise over £200,000 for this very worthy cause. We also work with the British Association of Modern Mosaic ('BAMM'), sponsoring two national competitions and supporting the promotion of mosaic art in schools and community groups countrywide.

Staff Development
Our people are fundamental to fulfilling our key objective of delivering excellent customer service which remains as important as ever. We continue to invest in their professional development through a sophisticated in store e-learning system, which is developed and administered in-house, providing new courses and regular updates. In addition to this, under the Government's vocational educational initiative we have seen in excess of 700 colleagues successfully achieve nationally recognised qualifications in retail skills and retail management skills. All our staff are incentivised with competitive benefit packages and performance based rewards, and we encourage internal promotion. We anticipate that staffing levels will increase in the coming year in line with the progressive expansion of the store base.

Current Trading and Outlook
In the first seven weeks of the new financial period Group revenues increased by 1.0% on a like-for-like basis.

Looking ahead, whilst we recognise that there are a number of uncertainties facing our customers, we also believe that by continuing to deliver our core qualities of excellent customer service, great inspirational product ranges and outstanding overall value for money we can continue to deliver our primary goal of increasing market share and maximising returns for our shareholders.

Matthew Williams
Chief Executive Officer

BUSINESS REVIEW

Cautionary statement

This Business Review, Chairman's statement and Chief Executive'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 Business Review, Chairman's statement and Chief Executive'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 Business Review, have complied with s417 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.

Nature, Objectives and Strategies of the Business

Topps Tiles is the UK's leading specialist tile retailer with a 27% market share. As a true specialist, the Topps offer covers a wide range and includes wall and floor tiles, natural stone, laminate flooring, solid wood flooring and a comprehensive range of associated products such as under-floor heating, adhesives and grouts

The Group strategy is focused on delivering outstanding value and service to our customers. The key elements to the success of this strategy are the friendly professionalism and expertise of our staff, store locations, product choice and availability.

Key operational objectives:

- Deliver outstanding value for money and service to ensure customers always "return and recommend"
- Maintain and extend our market leading position
- Manage the store estate prudently, opening new stores where opportunities arise that complement the existing estate and review of the existing store portfolio to ensure we are keeping track with consumer shopping patterns and that our cost base is as efficient as possible
- Continued evolution of the in-store customer offer to maintain our competitive advantage
- Further development of the e-commerce offering to maintain leading edge customer service
- Ensure our business model continues to address the particular requirements of both retail and trade customers

Key financial objectives:

- Primary focus on increasing revenues and cash generation, maintaining tight cost control and optimising 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 these objectives is discussed throughout this report and, where appropriate measures are utilised, these are included in the Key Performance Indicators section.

Operational review

Our primary objectives continue to be focused on optimising returns from the existing estate, careful management of our cost base and improving our financial flexibility. Whilst our most recent trading period offers some encouragement, we continue to be cautious in our outlook and believe that our current strategy and objectives are therefore appropriate for the business at the present time.

Over the financial period we have maintained our focus on cost control and have only seen increases in costs resulting from inflationary factors, one off items or where we have decided that additional investment was appropriate. Further detail of expenditure is provided within the Financial Review.

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 29 September 2012	52 weeks to 1 October 2011
Financial KPIs		
Like-for-like sales growth year-on-year	**-0.7%**	-2.0%
Total sales growth year-on-year	**+1.3%**	-3.8%
Gross margin	**60.0%**	59.6%
Adjusted PBT*	**£12.8m**	£13.9m
Net debt	**£45.6m**	£50.9m
Inventory days	**133**	123
Non-financial KPIs		
Market Share	**27%**	26%
Net Promoter Score %	**90.6%**	88.1%
Number of stores	**325**	320

*Adjusted PBT as defined on page 1

Note - Net Promoter Score is calculated based on customers 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.

Risks and Uncertainties
The Board conducts a continuing review of key risks and uncertainties. The Board's primary focus when reviewing these risks and uncertainties over the last 12 months has included:

- The continuing challenges of the UK economy and the subsequent business impact
- Balancing our longer term investment needs against the uncertain economic outlook
- Ensuring that the Group's capital structure remains appropriate and that future funding requirements are accessible

UK Economy
The business has made good progress this year. Having started from a position of weak consumer confidence and declining revenues the business has returned to growth over the second half of the financial period and we have been successful in our goal of growing our market share. The Board believes that the economic climate will remain uncertain and as a result consumer confidence could also be impacted.

The Board believes the business is well positioned to deal with these challenges and will continue to generate healthy profits whilst remaining cash generative.

Balancing our longer term investment needs against the uncertain economic outlook
Having made some larger infrastructure investments in the previous financial period the Board considered that a reduction to an ongoing level of investment in this period was appropriate. We have invested £6.1 million, the majority of which is for either new stores, refits or store improvement works. The Board intends to continue with this cautious expansionary approach and we will continue to open new stores where strong trading locations become available. We will also continue to invest in older parts of the store estate through a programme of minor store improvements.

Appropriate Capital Structure
The Group has a £75.0 million committed revolving credit facility in place which expires in May 2015. As at the financial period end £60.0 million of this facility was drawn, with a further £15.0 million of undrawn financing available. The business also had £14.4 million in cash balances as at the financial period end, resulting in a net debt position of £45.6 million. The loan facility contains financial covenants which are tested on a bi-annual basis.

Other Key Risks
In addition to the above, the Board considers other key risks including its relationship with key suppliers, the potential threat of new competitors, the risk of failure of key information technology systems, possible impacts on costs of sourcing due to weakness of sterling in comparison to the Euro and US Dollar currencies, loss of key personnel and the development of substitute products. The Board's response to these risks is articulated throughout this report and includes:

- Continuing improvement in our existing retail operations, including regular review of our product offer and customer service to ensure that we are maximising the opportunity to deliver sales
- Careful management of costs across all areas of the business with increases in expenditure only in areas that the Board decides are appropriate in order to either drive short term gains or generate longer term strategic benefits
- Tight management of cash and continued reduction in net debt to improve financial flexibility
- Continuing review of the Group's global sourcing strategy to enable us to deliver greater value for money whilst maintaining returns and minimising the risk of over reliance on any individual supplier

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.

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 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 future financial commitments and therefore considers it appropriate to prepare the financial statements on the going concern basis.

FINANCIAL REVIEW

PROFIT AND LOSS ACCOUNT

Revenue
Revenue for the period ended 29 September 2012 increased by 1.3% to £177.7 million (2011: £175.5 million). Like-for-like store sales decreased by 0.7% in the period, which consisted of a 4.7% decrease in the first half of the financial period and a 3.5% increase in the second half.

Gross margin
Overall gross margin was 60.0% compared with 59.6% in the previous financial period. At the interim stage of this period gross margin was 59.7%, and we have recorded a gross margin of 60.3% in the second half of the period. The environment in which we operate continues to be a highly competitive one and we are able to utilise our scale to ensure that we can offer customers outstanding value whilst also generating increasing levels of returns. Continued improvement in the efficiency of our supply chain and further vertical integration have been the key drivers of the improvements over the financial period. We will continue to invest margin in a controlled way to drive transaction volume where we consider it appropriate to do so.

Operating expenses
Total operating costs have risen from £90.6 million to £91.1 million, an increase of 0.5%. Costs as a percentage of sales were 51.3% compared to 51.6% in the previous period. When adjusting items, detailed below, are excluded operating costs were £90.0 million (2011: £87.7 million), equivalent to 50.6% of sales (2011: 50.0% of sales).

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

- Inflation at an average of approximately 2% has increased our cost base by around £1.7 million
- The average number of UK stores trading during the financial period was 320 (2011: 313), which would imply a 2.2% increase in store costs, generating approximately £1.7 million of additional costs
- Additional costs following the opening or our second warehouse account for a £0.7 million increase year on year
- Employee profit share costs have decreased by £0.6 million.
- Stores costs have fallen by c.£1.5 million on an underlying basis due to a variety of cost saving initiatives
- The remaining elements of the cost base are broadly flat when compared to the prior year

During the period we have incurred several charges which we have excluded from our adjusted operating costs due to their nature. These charges relate to impairments of plant, property and equipment of £0.5 million (2011: £1.1 million), business restructuring costs of £0.4 million (2011: £nil), and an increase in property related provisions of £0.2 million (2011: £1.9 million). 2011 also included an inventory charge of £1.3 million for which there is no equivalent charge this year.

Operating profit
Operating profit for the period was £15.5 million (2011: £14.0 million).

Operating profit as a percentage of sales was 8.7% (2011: 8.0%).

Excluding the adjusting items detailed on page 1 operating profit was £16.6 million (2011: £18.2 million).

Other gains and losses
During the period we disposed of three freehold properties giving rise to a gain of £1.6 million (2011: £nil).

Financing
The net cash interest charge for the year was £3.8 million (2011: £4.4 million), excluding the impact of revaluations and cancellation of derivative instruments. The underlying interest charge has fallen compared to the prior financial period due to a decision to cancel 50% 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 for five years and the cash cost of the cancellation was £6.7 million (2011: £nil). 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 remaining interest rate derivatives and 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 £5.9 million (2011: £1.6 million charge), primarily driven by the partial cancellation of the derivative, detailed in the previous section. The combined net charge for the year is therefore £0.8 million (2011: £1.6 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.

Net interest cover was 5.3 times (2011: 4.3 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 £12.5 million (2011: £7.9 million).

Group profit before tax margin was 7.0% (2011: 4.5%)

Excluding the adjusting items detailed on page 1 profit before tax is £12.8 million (2011: £13.9 million).

Tax
The effective rate of Corporation Tax for the period was 21.8% (2011: 27.7% (continuing operations).

The effective rate of Corporation Tax is lower than the UK expected rate for the year of 25% due to prior year adjustments. The underlying rate, excluding prior year adjustments, is 26.3%. 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 5.14 pence (2011: 3.04 pence – continued and discontinued operations).

Diluted earnings per share were 5.09 pence (2011: 2.97 pence - continued and discontinued operations).

Dividend and dividend policy
Trading across the year, and in particular the second half, gives the Board confidence that the business is on a secure financial footing. 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 0.75 pence per share (2011: 0.6 pence per share). This will cost £1.4 million (2011: £1.1 million). The shares will become ex dividend on 24th December 2012 and, subject to approval at the Annual General Meeting, the dividend will be payable on 31st January 2013.

This brings the total dividend for the year to 1.25 pence per share (2011: 1.1 pence per share), an increase of 13.6%.

BALANCE SHEET

Capital expenditure
Capital expenditure in the period amounted to £6.1 million (2011: £10.8 million), a decrease of 43.5%. The previous financial period included an investment of £3.1 million in a second warehouse at our central office location in Leicester, whereas this years expenditure is more reflective of the planned future level of expenditure. Capital expenditure includes the cost of 12 new openings, 10 conversions, one relocation and 18 partial store refits at a cost of £5.2 million (2011: £5.3 million). The remaining expenditure includes the purchase of two freehold stores at a cost of £0.5 million (2011: £1.6 million) and £0.4 million towards the implementation of a new IT system (2011: £0.8 million).

At the period end the Group held seven freehold or long leasehold sites including two warehouses and distribution facilities with a total carrying value of £14.2 million (2011: eight freehold or long leasehold valued at £17.8 million).

Property Disposals
During the period we disposed of three freehold properties, generating proceeds of £5.4 million (2011: nil).

Inventory
Inventory at the period end was £25.9 million (2011: £23.8 million) representing 133 days turnover (2011: 123 days turnover). This increase in stockholding is driven by the combination of an increase in the number of stores and the new warehousing facility we have opened which is allowing us to drive gross margin improvements.

Capital structure and treasury
Cash and cash equivalents at the period end were £14.4 million (2011: £9.1 million) with repayable borrowings at £60.0 million (2011: £60.0 million).

This gives the Group a net debt position of £45.6 million (2011: £50.9 million).

Cash flow
Cash generated by operations was £19.7 million, compared to £20.7 million last period.

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 business review, 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.

After making enquiries, the Directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason the Directors continue to adopt the going concern basis in preparing the financial statements.

ANNUAL GENERAL MEETING

The Annual General Meeting for the period to 29 September 2012 will be held on 23 January 2013 at 10.30am at Topps Tiles Plc, Thorpe Way, Grove Park, Enderby, Leicestershire LE19 1SU.

Matt Williams
Chief Executive Officer

Rob Parker
Chief Financial Officer

Consolidated statement of financial performance
For the 52 weeks ended 29 September 2012

	Notes	**52 weeks ended 29 September 2012 £'000**	52 weeks ended 1 October 2011 £'000
Group revenue – continuing operations	3	**177,693**	175,525
Cost of sales		**(71,144)**	(70,904)
Gross profit		**106,549**	104,621
Employee profit sharing		**(6,023)**	(6,638)
Distribution and selling costs		**(67,618)**	(65,883)
Other operating expenses		**(4,755)**	(6,393)
Administrative costs		**(7,231)**	(6,624)
Sales and marketing costs		**(5,460)**	(5,103)
Group operating profit before exceptional items		**15,462**	18,174
Impairment of plant, property and equipment	5	**-**	(1,051)
Write off of display inventories	5	**-**	(1,281)
Property related provisions	5	**-**	(1,862)
Group operating profit		**15,462**	13,980
Other gains	8	**1,624**	-
Investment revenue	9	**152**	356
Finance costs	9	**(4,108)**	(4,798)
Fair value (loss) on interest rate derivatives	9	**(637)**	(1,630)
Profit before taxation	6	**12,493**	7,908
Taxation	10	**(2,724)**	(2,194)
Profit for the period attributable to equity holders of the company	28	**9,769**	5,714
Earnings per ordinary share	12		
From continuing operations			
- basic		**5.14p**	3.04p
- diluted		**5.09p**	2.97p

Consolidated statement of comprehensive income
For the 52 weeks ended 29 September 2012

	52 weeks ended 29 September 2012 £'000	52 weeks ended 1 October 2011 £'000
Profit for the period	**9,769**	5,714
Total comprehensive income for the period attributable to equity holders of the parent Company	**9,769**	5,714

Consolidated statement of financial position
As at 29 September 2012

	Notes	**52 weeks ended 29 September 2012 £'000**	*52 weeks ended 1 October 2011 £'000
Non-current assets			
Goodwill	13	**245**	245
Property, plant and equipment	14	**35,016**	37,221
Deferred tax asset	21	**139**	595
		35,400	38,061
Current assets			
Inventories		**25,917**	23,800
Trade and other receivables	16	**7,085**	7,261
Cash and cash equivalents	17	**14,442**	9,088
		47,444	40,149
Total assets		**82,844**	78,210
Current liabilities			
Trade and other payables	18	**(26,099)**	(24,105)
Current tax liabilities		**(5,809)**	(5,537)
Provisions	21	**(820)**	(1,075)
		(32,728)	(30,717)
Net current assets		**14,716**	9,432
Non-current liabilities			
Bank loans	19	**(59,555)**	(59,289)
Derivative financial instruments	20	**(6,107)**	(12,186)
Provisions	21	**(1,802)**	(1,480)
Total liabilities		**(100,192)**	(103,672)
Net liabilities		**(17,348)**	(25,462)
Equity			
Share capital	22	**6,395**	6,279
Share premium	23	**1,481**	1,022
Own shares	24	**(4)**	(4)
Merger reserve	25	**(399)**	(399)
Share based payment reserve	26	**566**	543
Capital redemption reserve	27	**20,359**	20,359
Retained earnings	28	**(45,746)**	(53,262)
Total deficit attributable to equity holders of the parent		**(17,348)**	(25,462)

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

*The prior period balance sheet has been represented in order that the classification of financial instruments better reflect the requirements of IAS 1 see note 20 for further detail.

The financial statements of Topps Tiles Plc, registered number 3213782, were approved by the board of directors and authorised for issue on 27 November 2012. 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 29 September 2012

	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 2 October 2010	6,273	1,001	-	(399)	367	20,359	(56,131)	(28,530)
Profit and total comprehensive income for the period	-	-	-	-	-	-	5,714	5,714
Issue of share capital	6	21	-	-	-	-	-	27
Dividends	-	-	-	-	-	-	(2,817)	(2,817)
Own shares purchased in the period	-	-	(4)	-	-	-	-	(4)
Credit to equity for equity-settled share based payments	-	-	-	-	176	-	-	176
Deferred tax on share-based payment transactions	-	-	-	-	-	-	(28)	(28)
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)**

Consolidated cash flow statement
For the 52 weeks ended 29 September 2012

	52 weeks ended 29 September 2012 £'000	52 weeks ended 1 October 2011 £'000
Cash flow from operating activities		
Profit for the period	**9,769**	5,714
Taxation	**2,724**	2,194
Fair value loss on interest rate derivatives	**637**	1,630
Finance costs	**4,108**	4,798
Investment revenue	**(152)**	(356)
Other gains	**(1,624)**	-
Group operating profit	**15,462**	13,980
Adjustments for:		
Depreciation of property, plant and equipment	**3,988**	4,128
Impairment of property, plant and equipment	**525**	1,051
Property related provisions	**-**	1,862
Write off of display inventories	**-**	1,281
Share option charge	**23**	176
Decrease in trade and other receivables	**62**	337
Increase in inventories	**(2,117)**	(207)
Increase/(decrease) in payables	**1,782**	(1,888)
Cash generated by operations	**19,725**	20,720
Interest paid	**(3,145)**	(4,795)
Taxation paid	**(2,161)**	(3,883)
Net cash from operating activities	**14,419**	12,042
Investing activities		
Interest received	**266**	616
Purchase of property, plant & equipment	**(6,522)**	(10,535)
Proceeds on disposal of property, plant & equipment	**5,419**	5
Net cash used in investment activities	**(837)**	(9,914)
Financing activities		
Dividends paid	**(2,087)**	(2,817)
Proceeds from issue of share capital	**575**	23
New loans	**-**	60,000
Partial settlement of interest rate hedge	**(6,716)**	-
Loan issue costs	**-**	(1,125)
Repayment of bank loans	**-**	(91,000)
Net cash used in financing activities	**(8,228)**	(34,919)
Net increase/(decrease) in cash and cash equivalents	**5,354**	(32,791)
Cash and cash equivalents at beginning of period	**9,088**	41,879
Cash and cash equivalents at end of period	**14,442**	9,088

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 20.

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 provides a limited exemption for first-time adopters from providing comparative fair-value hierarchy disclosures under IFRS 7.

IAS 24 (2009) Related Party Disclosures. The revised Standard has a new, clearer definition of a related party, with inconsistencies under the previous definition having been removed.

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 9 Financial Instruments. IFRS 9 will impact both the measurement and disclosures of Financial Instruments.

FRS 10 Consolidated Financial Statements.

IFRS 13 Fair Value Measurement IFRS 13 will impact the measurement of fair value for certain assets and liabilities as well as the associated disclosures.

IAS 1 (amended) Presentation of Items of Other Comprehensive Income.

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 Business 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 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 2012 mean at 29 September 2012 or the 52 weeks then ended; references to 2011 mean at 1 October 2011 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

In the prior period The Group identified certain items as exceptional where they related 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 at 25% per annum on a reducing balance basis 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 presentation 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 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 balance sheet 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. Fair value is determined in the manner described in note 2v.

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 balance sheet 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. Fair value is determined in the manner described in note 2v.

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 primarily 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 and finance costs.

u) Provisions

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

v) 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 8 stores in the UK, including one before its lease end date. 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 one further store being exited before its lease term has expired (2011: 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.

Fair value of derivatives and other financial instruments

As described above, 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.

Tax

The Directors are aware of the material impact that corporation tax has on the Group accounts and therefore they ensure that the Group continues to provide at a sufficient level for both current and deferred tax liabilities.

3 Revenue

An analysis of Group revenue is as follows:

	52 weeks ended 29 September 2012 £'000	52 weeks ended 1 October 2011 £'000
Revenue from the sale of goods	**177,693**	175,525
Interest receivable	**152**	316
Fair value gain on forward currency contracts	**-**	40
Total revenue	**177,845**	175,881

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

4 Business segments

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Executive to allocate resources to the segments and to assess their performance. As there is one segment, being the operation of retail stores in the UK, and the Chief Executive bases decisions on the performance of the Group as a whole, separate operating segments have not been identified.

In 2011, information was provided to the Chief Executive concerning the TCH and Topps business units. Over time a number of TCH stores have been converted to Topps units and there are only 17 TCH stores still operating within the Group. Therefore the TCH business unit is no longer a material segment, and because strategic decisions by the Chief Executive are made on the basis of the combined Group, no separate segment information has been provided for TCH this year.

5 Exceptional items

During the prior period the Group incurred charges which were deemed exceptional due to their magnitude. In the current period similar types of costs have been incurred but based on their limited magnitude are not deemed exceptional.

In the prior period 9 stores were closed or converted and the Group conducted an impairment review of the fixed assets held by its loss-making stores resulting in an impairment of property, plant and equipment totalling £1,051,000. The Group also reviewed its potential exposure to future lease commitments pertaining to closed stores and future dilapidation costs resulting in a charge of £1,862,000. Additionally an assessment of the carrying value of display inventories lead to a write off of £1,281,000.

	52 weeks ended 29 September 2012 £'000	52 weeks ended 1 October 2011 £'000
Included in cost of sales:		
Write off of display inventories	**-**	1,281
Included in administrative expenses:		
Property related provisions	**-**	1,862
Impairment of property, plant and equipment	**-**	1,051
	-	4,194

6 Profit before taxation

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

	52 weeks ended 29 September 2012 £'000	52 weeks ended 1 October 2011 £'000
Depreciation of property, plant and equipment	**3,988**	4,128
Impairment of property, plant and equipment	**525**	1,051
Disposal of property, plant and equipment (gain)/loss	**(1,624)**	58
Property related provisions	**208**	1,862
Staff costs (see note 7)	**42,801**	42,216
Operating lease rentals	**19,295**	20,881
Write down of inventories recognised as an expense	**2,594**	2,292
Write off of display inventories	**-**	1,281
Cost of inventories recognised as expense	**68,550**	67,331
Net foreign exchange (gain)	**(30)**	(84)

Analysis of auditor's remuneration is provided below:

	52 weeks ended 29 September 2012 £'000	52 weeks ended 1 October 2011 £'000
Fees payable to the Company's auditor with respect to the Company's annual accounts	40	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	108	104
Total audit fees	148	144
Tax services:		
compliance services	52	34
advisory services	-	75
Total non audit fees	52	109
	200	253

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.

7 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 29 September 2012 Number employed	52 weeks ended 1 October 2011 Number employed
Selling	**1,488**	1,467
Administration	**166**	194
	1,654	1,661

	2012 £'000	2011 £'000
Their aggregate remuneration comprised:		
Wages and salaries (including LTIP, see note 30)	**39,148**	38,410
Social security costs	**3,478**	3,657
Other pension costs (see note 29b)	**175**	149
	42,801	42,216

Details of directors' emoluments are disclosed in the Annual Report. Employee profit sharing of £6.0 million (2011: £6.6 million) is included in the above and comprises sales commission and bonuses.

8 Other gains

Other gains in 2012 relate to the sale of three freehold properties.

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

	52 weeks ended 29 September 2012 £'000	52 weeks ended 1 October 2011 £'000
Investment revenue		
Bank interest receivable and similar income	**152**	316
Fair value gain on forward currency contracts	**-**	40
	152	356
Finance costs		
Interest on bank loans and overdrafts	**(3,940)**	(4,798)
Fair value loss on forward currency contracts	**(168)**	-
	(4,108)	(4,798)

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, including interest charges levied, together with interest paid on the interest rate derivatives of £821,000 (2011: £2,075,000). There are no other gains or losses recognised in respect of financial liabilities measured at amortised cost. Net losses from the movement in fair value on held for trading assets and liabilities (derivative instruments) were £805,000 (2011: £1,590,000 losses), which include fair value losses on interest rate swaps of £637,000 (2011: £1,630,000) and fair value losses on forward currency contracts of £168,000 (2011: £40,000 gains).

10 Taxation

	52 weeks ended 29 September 2012 £'000	52 weeks ended 1 October 2011 £'000
Continuing operations:		
Current tax - charge for the period	**2,573**	3,620
Current tax - adjustment in respect of previous periods	**(139)**	(381)
Deferred tax - effect of reduction in UK corporation tax rate	**48**	168
Deferred tax – charge/(credit) for period (note 22)	**661**	(1,097)
Deferred tax - adjustment in respect of previous periods (note 22)	**(419)**	(116)
	2,724	2,194

Corporation tax in the UK is calculated at 25% (2011: 27%) of the estimated assessable profit for the period. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

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

Continuing operations	**52 weeks ended 29 September 2012 £'000**	52 weeks ended 1 October 2011 £'000
Profit before taxation	**12,493**	7,908
Tax at the UK corporation tax rate of 25% (2011: 27%)	**3,123**	2,135
Tax effect of expenses that are not deductible in determining taxable profit	**59**	262
Tax effect of chargeable gain lower than profit on sale of freehold property	**(159)**	-
Tax effect of tangible fixed assets which do not qualify for capital allowances	**259**	294
Tax effect of adjustment in respect of prior periods	**(558)**	(497)
Tax expense for the period	**2,724**	2,194

11 Dividends

	2012 £'000	2011 £'000
Interim dividend for the 52 week period ended 29 September 2012 of £0.005 (2011: £0.005) per share	**958**	942
Proposed final dividend for the 52 week period ended 29 September 2012 of £0.0075 (2011: £0.006) per share	**1,439**	1,129

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.

12 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.

	2012 Number of Shares	2011 Number of Shares
Weighted average number of shares		
For basic earnings per share	**190,006,223**	188,271,731
Weighted average number of shares under option	**1,749,687**	3,873,411
For diluted earnings per share	**191,755,910**	192,145,142

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:

From continuing operations	2012 £'000	2011 £'000
Profit after tax for the period	**9,769**	5,714
Post tax effect of:		
Impairment of property, plant and equipment	**525**	1,051
Property disposal gain	**(1,624)**	-
Interest rate derivative charge	**478**	1,190
Fair value loss/(gain) on foreign currency forward contracts	**126**	(29)
Restructuring costs	**288**	-
Loan issue cost write off	**-**	133
Display inventory write off	**-**	935
Property related provisions	**155**	1,360
Adjusted profit after tax for the period	**9,717**	10,354

13 Goodwill

	£'000
Cost and carrying amount at 2 October 2010 and 1 October 2011 and 29 September 2012	**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 10.9% (2011: 8.4%).

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

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.

14 Property, plant and equipment

	Land and buildings		Fixtures		
		Short	and	Motor	
	Freehold	leasehold	fittings	vehicles	Total
Cost	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
At 2 October 2010	15,006	1,842	47,551	23	64,422
Additions	4,699	-	6,058	67	10,824
Disposals	-	-	(3,343)	-	(3,343)
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**
Accumulated depreciation and impairment					
At 2 October 2010	1,591	1,449	29,736	7	32,783
Charge for the period	243	88	3,780	17	4,128
Provision for impairment	81	-	970	-	1,051
Eliminated on disposals	-	-	(3,280)	-	(3,280)
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**
Carrying amount					
At 29 September 2012	**14,169**	**231**	**20,575**	**41**	**35,016**
At 1 October 2011	17,790	305	19,060	66	37,221

Freehold land and buildings include £4,104,000 of freehold land (2011: £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 (2011: £nil).

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

During the period, the Group has closed 8 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.

15 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.

16 Trade and other receivables

	2012	2011
	£'000	£'000
Amounts falling due within one year:		
Amounts receivable for the sale of goods	**750**	661
Allowance for doubtful debts	**(104)**	(104)
Other debtors and prepayments		
-Rent and rates	**5,090**	5,053
-Other	**1,349**	1,651
	7,085	7,261

The Directors consider that the carrying amount of trade and other receivables at 29 September 2012 and 1 October 2011 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 29 September 2012 amounted to £0.6million (2011: £0.6 million). These amounts mainly relate to insurance generated sales, sundry trade accounts and Tesco Clubcard Scheme generated sales. In relation to these sales, the average credit period taken is 58 days (2011: 41 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, £69,000 (2011: £105,000) is due from Independent Inspections and £176,000 (2011: £105,000) is due from Tesco Plc, the Group's two largest customers.

Included in the Group's trade receivable balance are debtors with a carrying amount of £211,000 (2011: £131,000) 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 197 days (2011: 168 days), however this ageing is distorted by 6 accounts totalling £76,000 (2011: £nil) which are overdue by 305 days (2011: 299 days).

Ageing of past due but not impaired receivables

	2012	2011
	£'000	£'000
60 – 120 days	**80**	63
121 – 200 days	**55**	68
Greater than 200 days	**76**	-

The allowance for doubtful debts was £104,000 by the end of the period (2011: £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 £104,000 relating to individually impaired trade receivables (2011: £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.

17 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:

	2012 **£'000**	2011 £'000
Sterling	**14,023**	7,607
US Dollar	**254**	715
Euro	**165**	766
Total cash and cash equivalents	**14,442**	9,088

18 Other financial liabilities

Trade and other payables

	2012 **£'000**	2011 £'000
Amounts falling due within one year		
Trade payables	**12,916**	11,316
Other payables	**3,331**	3,419
Accruals and deferred income	**9,852**	9,370
	26,099	24,105

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 43 days (2011: 38 days). No interest is charged on these payables.

The Directors consider that the carrying amount of trade payables at 29 September 2012 and 1 October 2011 approximates to their fair value on the basis of discounted cash flow analysis.

19 Bank loans

	2012 **£'000**	2011 £'000
Bank loans (all sterling)	**59,289**	59,024
The borrowings are repayable as follows:		
On demand or within one year	**-**	-
In the second year	**-**	-
In the third to fifth year	**60,000**	60,000
	60,000	60,000
Less: Total unamortised issue costs	**(711)**	(976)
	59,289	59,024
Issue costs to be amortised within 12 months	**266**	265
Amount due for settlement after 12 months	**59,555**	59,289

The Directors consider that the carrying amount of the bank loan at 29 September 2012 and 1 October 2011 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:

	2012	2011
	%	%
Loans	4.54	3.11

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

The Group has in place a £75.0 million committed revolving credit facility, expiring in May 2015. As at the financial period end £60.0 million of this facility was drawn, with a further £15.0 million of undrawn financing available. The loan facility contains financial covenants which are tested on a bi-annual basis.

At 29 September 2012, the Group had available £15 million (2011: £15 million) of undrawn committed banking facilities.

20 Financial instruments

Financial liabilities held for trading have been reclassified in the current year 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. Prior period comparative amounts have been reclassified on the same basis, which has reduced prior period current liabilities by £12.2 million, with no overall impact on net liabilities.

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 2011. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 19, cash and cash equivalents disclosed in note 17 and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 22 to 28.

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	
	2012	2011
	£'000	£'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**15,088**	9,645
Financial liabilities		
Held for trading	**6,107**	12,186
Fair value through profit and loss	**102**	-
Amortised cost	**85,552**	83,394

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**	
	2012	2011	**2012**	2011
	£'000	£'000	**£'000**	£'000
Euro	**177**	766	**1,253**	1,027
US dollar	**254**	715	**434**	128

Foreign currency sensitivity analysis

The Group is mainly exposed to the currency of China and Brazil (US dollar currency) and from 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. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number below indicates an increase in profit and other equity where Sterling strengthens 10% against the relevant currency.

	2012 **£000**	2011 £000
Profit or Loss movement on a 10% strengthening in Sterling against the Euro	**98**	24
Profit or Loss movement on a 10% strengthening in Sterling against the US Dollar	**16**	(53)
Profit or Loss movement on a 10% weakening in Sterling against the Euro	**(120)**	(29)
Profit or Loss movement on a 10% weakening in Sterling against the US Dollar	**(20)**	65

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:

	2012 **£'000**	2011 £'000
Forward foreign exchange contracts	**5,132**	4,778

These arrangements are designed to address significant exchange exposures for the first half of 2012 and are renewed on a revolving basis as required.

At 29 September 2012 the fair value of the Group's currency derivatives is a £102,000 liability within accruals and deferred income (note 19) (2011: an asset of £70,000). These amounts are based on market value of equivalent instruments at the balance sheet date.

Losses of £168,000 are included in finance costs (note 9) (2011: £40,000 gain).

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	
	2012	2011	**2012**	2011
	£'000	£'000	**£'000**	£'000
Profit or (loss)	**723**	1,553	**(441)**	(1,280)

The Group's sensitivity to interest rates mainly relates to the interest rate derivatives.

Interest rate derivatives

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

The Group's interest rate derivative comprises of a 10 year cancellable collar with a notional value of £30 million (2011: £20 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 29 September 2012 is estimated at £6,107,000 (2011: £12,186,000). An amount of £637,000 has been charged to the statement of financial performance in the period (2011: £1,630,000) to reflect the fair value loss.

On 27 October 2011 the Group settled the 5 year interest rate swap for a consideration of £476,000, additionally on 1 November 2011 the Group entered into a legally binding agreement committing it to a partial trade termination amounting to 50% of the 10 year cancellable collar, which was settled on 3 April 2012 for a consideration of £6,240,000.

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 16.

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 19 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 3.54658% (2011: 3.42009%)) 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.

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**

2011	Less than 1 month	1-3 months	3 months to 1 year	1-5 Years	Total
	£'000	£'000	£'000	£'000	£'000
Non-interest bearing	24,105	-	-	-	24,105
Variable interest rate instruments	-	555	1,107	66,595	68,258

The Group is financed through a £75 million (£60 million utilised) revolving credit facility. In the current and prior periods the total unused amount of financing facilities was £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.

2012	**Less than 1 month £'000**	**1-3 Months £'000**	**3 months to 1 year £'000**	**1-5 Years £'000**	**5+ Years £'000**	**Total £'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**

2011	Less than 1 month £'000	1-3 Months £'000	3 months to 1 year £'000	1-5 Years £'000	5+ Years £'000	Total £'000
Interest rate swaps payments	(476)	(119)	(795)	(11,704)	(688)	(13,782)
Foreign exchange forward contracts payments	-	(2,356)	(2,422)	-	-	(4,778)
Foreign exchange forward contracts receipts	-	2,399	2,449	-	-	4,848

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).

21 Provisions

	2012	2011
	£'000	£'000
Onerous lease provision	**1,080**	1,097
Dilapidations provision	**1,542**	1,458
	2,622	2,555

	2012	2011
Current	**820**	1,075
Non-current	**1,802**	1,480
	2,622	2,555

	Onerous lease Provision	**Dilapidations provision**	**Total**
	£000	**£000**	**£000**
At 1 October 2011	1,097	1,458	2,555
Additional provision in the year	657	249	906
Utilisation of provision	(391)	(165)	(556)
Release of provision in the year	(283)	-	(283)
At 29 September 2012	**1,080**	**1,542**	**2,622**

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 eight 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 2 October 2010	2,197	(51)	(345)	8	(1,331)	(56)	422
(Credit)/Charge to income	(204)	7	9	10	(909)	19	(1,068)
Impact of rate change	(146)	2	-	(1)	166	2	23
Charge to equity	-	-	28	-	-	-	28
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
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)**

The Government announced in March 2012 that it intends to further reduce the rate of corporation tax to 22% by 1 April 2014, and the Finance Act 2012, which was substantively enacted in July 2012, included provisions to reduce the rate of corporation tax to 23% with effect from 1 April 2013. Accordingly, deferred tax balances have been revalued to the lower rate of 23% in these accounts, which has resulted in a charge to the income statement of £48,000.

22 Called-up share capital

	2012 £'000	2011 £'000
Authorised 240,000,000 (2011: 240,000,000) ordinary shares of 3.33p each (2011: 3.33p)	**8,000**	8,000
Authorised 37,000,000 (2011: 37,000,000) redeemable B shares of £0.54 each	**19,980**	19,980
Authorised 124,890,948 (2011: 124,890,948) irredeemable C shares of £0.001 each	**125**	125
	28,105	28,105
Issued and fully-paid 191,852,710 (2011: 188,365,802*) ordinary shares of 3.33p each (2011: 3.33p)	**6,395**	6,279
Total	**6,395**	6,279

During the period the Group issued 3,486,908 (2011: 163,479) ordinary shares with a nominal value of £116,229 (2011: £5,449) under share option schemes for an aggregate cash consideration of £575,340 (2011: £26,694).

* During the previous period 122,000 (£4,000) 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.

23 Share premium

	2012 £'000	2011 £'000
At start of period	**1,022**	1,001
Premium on issue of new shares	**459**	21
At end of period	**1,481**	1,022

24 Own shares

	2012 £'000	2011 £'000
At start of period	**(4)**	-
Issued in the period	**-**	(4)
At end of period	**(4)**	(4)

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

25 Merger reserve

	2012 £'000	2011 £'000
At start and end of period	**(399)**	(399)

26 Share-based payment reserve

	2012 £'000	2011 £'000
At start of period	**543**	367
Credit to equity for equity-settled share based payments	**23**	176
At end of period	**566**	543

27 Capital redemption reserve

	2012 £'000	2011 £'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.

28 Retained earnings

	£'000
At 2 October 2010	(56,131)
Dividends (note 12)	(2,817)
Deferred tax on sharesave scheme taken directly to equity	(28)
Net profit for the period	5,714
At 1 October 2011	(53,262)
Dividends (note 12)	(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)**

29 Financial commitments

a) Capital commitments

At the end of the period there were capital commitments contracted of £300,000 (2011: £300,000).

b) Pension arrangements

The Group operates separate defined contribution pension schemes 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 £175,000 (2011: £149,000).

c) Lease commitments

Minimum future sublease payments expected to be received under non-cancellable subleases amount to £1,805,000.

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 £19,295,000 which includes property service charges of £591,000 (2011: £20,881,000 including property service charges of £699,000).

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:

	2012		2011	
	Land and buildings £'000	**Other £'000**	Land and buildings £'000	Other £'000
- within 1 year	**19,335**	**1,025**	18,401	1,156
- within 2 - 5 years	**63,334**	**1,160**	61,188	1,738
- after 5 years	**65,646**	**25**	66,485	39
	148,315	**2,210**	146,074	2,933

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 (2011: 5).

30 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 2012**	2011
26 January 2001	**54p**	**7 Years**	**-**	-
12 February 2002	**54p**	**7 Years**	**-**	40,779
			-	40,779

Movements in share options are summarised as follows:

	2012 number of share options	2012 weighted average exercise price £	2011 number of share options	2011 weighted average exercise price £
Outstanding at beginning of period	**40,779**	**0.54**	118,799	0.54
Exercised during the period	**-**	**-**	(41,520)	0.54
Expired during the period	**(40,779)**	**0.54**	(36,500)	0.54
Outstanding at end of period	**-**	**-**	40,779	0.54
Exercisable at end of period	**-**	**-**	40,779	0.54

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:

	2012 number of share options	2012 weighted average exercise price £	2011 number of share options	2011 weighted average exercise price £
Outstanding at beginning of period	**6,229,563**	**0.25**	5,452,947	0.19
Issued during the period	**-**	**-**	1,259,204	0.64
Expired during the period	**(769,761)**	**0.48**	(482,588)	0.46
Exercised during the period	**(3,486,908)**	**0.17**	-	-
Outstanding at end of period	**1,972,894**	**0.32**	6,229,563	0.25
Exercisable at end of period	**1,972,894**	**0.32**	6,229,563	0.25

The inputs to the Black-Scholes Model for the above two schemes are as follows:

		2012	2011
Weighted average share price	- pence	**39.8**	31.5
Weighted average exercise price	- pence	**31.8**	25.2
Expected volatility (3 & 5 years)	- %	**47.3 and 70.6**	74.1 and 67.9
Expected life	- years	**3 or 5**	3 or 5
Risk – free rate of interest	- %	**0.2**	0.7
Dividend Yield	- %	**4.09**	5.37

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 3 or 5 years (2011: 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

At the AGM in January 2010 a new deferred bonus long term incentive plan (LTIP) for the senior management team was approved by shareholders. Under this long term incentive plan a proportion of the annual bonus is deferred in the form of shares for a two year period with a matching share award that vests at the end of two years subject to the achievement of performance conditions. 25% of the annual bonus has been deferred into shares, on a net basis, for a two year period, with a further match on a gross basis which vests two years later subject to the achievement of performance conditions relating to continued employment in the business and EBITDA earnings growth measured over the two year period.

For the period ended 2 October 2010 it was determined that a bonus be paid equivalent to 50% of basic salary for Executive Directors and the members of the Senior Management Team. 25% of the annual bonus was deferred under the deferred bonus long term incentive plan. The total number of shares due to be awarded was 121,959, and the fair value of these deferred shares as at 29 September 2012 was £73,000 (2011: £73,000).

The total number of matching shares that are expected to be awarded, subject to fulfilment of the performance conditions is nil, and the fair value of these matching shares as at 29 September 2012 was £nil. No options were granted or exercised during the period (2011 : None). There were no options outstanding at 29 September 2012.

During the period, matching shares concerning the 2011 bonus award were recognised as a credit. This amounted to £66,000 (2011: £66,000 expense).

A new deferred bonus long term incentive plan (LTIP) has been proposed for the Senior Management Team, to run from October 2012 to October 2014. Under this long term incentive plan 25% of the annual bonus (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.

For the period ended 29 September 2012 it was determined that a bonus be paid equivalent to 44.4% of basic salary for Executive Directors and the members of the Senior Management Team. 25% of the annual bonus was deferred under the deferred bonus long term incentive plan. The total number of shares due to be awarded was 191,084, and the fair value of these deferred shares as at 29 September 2012 was £95,000 (2011: £nil).

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

		2012	2011
Weighted average share price	- pence	49.7	65.8
Weighted average exercise price	- pence	-	-
Expected volatility	- %	53.4	45.3
Expected life	- years	2	2
Risk – free rate of interest	- %	0.2	0.6

Expected volatility was determined by calculating the historical volatility of the Group's share price over the 2010/11 and 2011/12 financial periods (2011: 2009/10 and 2010/11 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.

In total, the Group recognised a total expense of £23,000 (2011: £176,000 expense) relating to share based payments.

31 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 10.8% shareholding (20,953,950 ordinary shares) in the Group's issued share capital (2011: 10.6% shareholding of 19,903,950 ordinary shares).

At 29 September 2012 S.K.M. Williams was the landlord of four properties leased to Multi Tile Limited, a trading subsidiary of Topps Tiles Plc, for £178,000 (2011: three properties for £136,000) per annum.

No amounts were outstanding with S.K.M. Williams at 29 September 2012 (2011: £nil).

The lease agreements on all properties are operated on commercial arm's length terms. His salary for the year in his role as President was £24,000 (2011: £41,000).

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 £1.5 million (2011: £1.1 million) as well as share based payments of £65,000 (2011: £nil). Further information about the remuneration of the individual Directors is provided in the Remuneration Report in the Annual Report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TOPPS TILES PLC

We have audited the parent company financial statements of Topps Tiles Plc for the period ended 29 September 2012, which comprise the Company balance sheet and the related notes 1 to 7. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the parent company's affairs as at 29 September 2012;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial period for which the financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter
We have reported separately on the group financial statements of Topps Tiles Plc for the period ended 29 September 2012.

Timothy Edge (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Manchester, United Kingdom

Company balance sheet as at 29 September 2012

	Notes	**2012 £'000**	2011 £'000
Fixed assets			
Investments	3	**2,920**	2,928
Current assets			
Debtors due within one year	4	**35**	38
Debtors due after one year	4	**221,200**	221,200
Cash at bank and in hand		**20,270**	24,157
		241,505	245,395
Creditors: Amounts falling due within one year	5	**(1,139)**	(615)
Net current assets		**240,366**	244,780
Net assets		**243,286**	247,708
Capital and reserves			
Called-up share capital	6,7	**6,395**	6,279
Share premium	7	**1,481**	1,022
Share based payment reserve	7	**532**	482
Capital redemption reserve	7	**20,359**	20,359
Other reserve	7	**6,200**	6,200
Profit and loss account	7	**208,319**	213,366
Equity shareholders' funds		**243,286**	247,708

The financial statements of Topps Tiles Plc, Companies House number 3213782, were approved by the board of directors on 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 Business 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 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 future financial commitments 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 credit added to the cost of investment in those subsidiaries whose employees receive the benefit of the share options is £8,000 (2011: £127,000). In respect of the deferred long term bonus incentive plan, the share based payment charge within the Company is £57,000 in respect of the matching share award (2011: £32,000 in respect of the deferred share award).

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 year

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 29 September 2012 of £5,047,000 (2011: £4,858,000).

The auditor's remuneration for services to the company was £40,000 for audit related work (2011: £40,000 for audit related work). Fees relating to non-audit work totalled £nil (2011: £nil), see note 6 to the Group financial statements for further details.

The Company had no other employees other than the Directors (2011: same), whose remuneration is detailed in the Annual Report.

3 Fixed asset investments

	Shares £'000
At 1 October 2011	2,928
Movement in share options granted to employees	(8)
At 29 September 2012	**2,920**

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

	2012	2011
	£'000	£'000
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	**-**	4
Other debtors	**22**	28
Prepayments and accrued income	**13**	6
	35	38
Amounts falling due after one year:		
Amounts owed by subsidiary undertaking	**221,200**	221,200

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

	2012	2011
	£'000	£'000
Trade and other creditors	**16**	49
Amounts owed to subsidiary undertakings	**130**	292
Accruals and deferred income	**993**	274
	1,139	615

6 Called-up share capital

	2012 £'000	2011 £'000
Authorised 240,000,000 (2011: 240,000,000) ordinary shares of 3.33p each (2011: 3.33p)	**8,000**	8,000
Authorised 37,000,000 (2011: 37,000,000) redeemable B shares of £0.54 each	**19,980**	19,980
Authorised 124,890,948 (2011: 124,890,948) irredeemable C shares of £0.001 each	**125**	125
	28,105	28,105
Issued and fully-paid 191,852,710 (2011: 188,365,802*) ordinary shares of 3.33p each (2011: 3.33p)	**6,395**	6,279

* During the prior period 122,000 (£4,000) 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 3,486,908 (2011: 163,479) ordinary shares with a nominal value of £116,230 (2011: £5,449) under share option schemes for an aggregate cash consideration of £575,340 (2011: £26,694).

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 1 October 2011	6,279	1,022	482	20,359	6,200	213,366	247,708
Loss for the period	-	-	-	-	-	(5,047)	(5,047)
Issue of new shares	116	459	-	-	-	-	575
Credit to equity for equity-settled share based payments	-	-	50	-	-	-	50
At 29 September 2012	**6,395**	**1,481**	**532**	**20,359**	**6,200**	**208,319**	**243,286**

At 29 September 2012, the Directors consider the other reserve of £6,200,000 to remain non distributable.

The Directors consider £203,106,000 of profit and loss account reserves not to be distributable at 29 September 2012. This arose on an unrealised gain on the intragroup disposal of subsidiary companies.

Five year record
UNAUDITED

	52 weeks ended 27 September 2008	52 weeks ended 26 September 2009	53 weeks ended 2 October 2010	52 weeks ended 1 October 2011	**52 weeks ended 29 September 2012**
	£'000	£'000	£'000	£'000	**£'000**
Group revenue	208,084	186,061	183,420	175,525	**177,693**
Group operating profit	34,620	16,425	20,899	13,980	**15,462**
Profit before taxation	27,723	4,904	13,397	7,908	**12,493**
Shareholders' deficit	(55,113)	(53,282)	(28,530)	(25,462)	**(17,348)**
Basic earnings per share	9.56p	1.00p	5.37p	3.04p	**5.14p**
Dividend per share	3.00p	-	-	1.50p	**1.10p**
Dividend cover	3.19	-	-	1.92	**4.68**
Average number of employees	1,743	1,625	1,615	1,661	**1,654**
Share price (period end)	58.25p	94.41p	60.0p	34.0p	**46.0p**

All figures quoted are inclusive of continued and discontinued operations.