29 November 2011

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 321 stores, announces its annual financial results for the 52 weeks ended 1 October 2011.

Highlights

	52 weeks ended 1 October 2011	53 weeks ended 2 October 2010
Group revenue	£175.5 million	£182.4 million
Like-for-like revenue	-2.0%	+1.7%
Gross margin	59.6%	58.7%
Operating profit	£14.0 million	£19.9 million
Adjusted operating profit[1]	£18.2 million	£21.1 million
Profit before tax	£7.9 million	£12.4 million
Adjusted profit before tax[2]	£13.9 million	£16.3 million
Basic earnings per share	3.04p	5.37p
Adjusted earnings per share[3]	5.50p	6.18p
Final dividend	0.6p	1.0p
Total dividend	1.1p	1.0p

Notes

[1] 2011 adjusted operating profit is adjusted for exceptional items being the impairment of plant, property and equipment of £1.1 million (2010: £0.8 million), an inventory charge of £1.3 million (2010: £nil), and an increase in property related provisions of £1.9 million (2010: £0.4 million)

[2] 2011 adjusted profit before tax is adjusted for the effect of exceptional items above plus:
- write off of remaining 2006 loan fees of £0.2 million (2010: £nil)
- property disposal gain of £nil (2010: £0.1 million)
- £1.6 million (non cash) charge relating to the interest rate derivatives that the Group has in place (per IAS39) (2010: £2.8 million)

[3] Adjusted for the post tax effect of exceptional 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
- Market share increased to 26% (2010: 25%)
- Continued evolution of the Topps Tiles brand to broaden its consumer appeal, with increased focus on higher end customers and trade accounts
- Further prudent development of store estate, with 14 net new Topps Tiles stores opened, including 12 new locations and five Tile Clearing House stores converted to the more profitable Topps format
- New warehouse now fully operational, facilitating greater direct sourcing and underpinning further growth in gross margin
- Further development of online capability and sustained marketing expenditure to drive store footfall and build greater brand awareness
- Gross margin increased to 59.6% (2010: 58.7%) reflecting further supply chain efficiencies and proactive management of cost base
- Final dividend of 0.6p per share (2010: 1 pence per share)
- Net debt of £50.9 million at period end (2010: £49.1 million), with £15 million of undrawn banking facilities (2010: £5 million)

Please note this report has been prepared for the 52 weeks ended 1 October 2011 and the comparative period was prepared for the 53 weeks ended 2 October 2010. With the exception of the Group like-for-like revenue measure which is comparable, the reported figures are presented on this basis and are not entirely comparable. The impact of the additional week in 2010 was to increase revenue by £3.6 million and operating profit by £0.4 million. Like-for-like revenues are defined as sales from stores that have been trading for more than 52 weeks.

Current Trading and Outlook

- The Group is now trading from 321 stores (2010: 312 stores in the UK)
- In the first 7 weeks of the new financial period, Group revenues, which are on a like-for-like basis, decreased by 6.9%

Commenting on the results, Matthew Williams, Chief Executive said: "With very challenging trading conditions persisting throughout the second half of our financial period, our focus has been on strengthening our market leading position. We further upgraded and expanded our store estate, continued the evolution of the Topps Tiles offer and supported this with new marketing initiatives in-store, on television and online. In addition, we made some significant infrastructure investments across the business which will benefit our future performance."

"Looking ahead, we expect economic conditions will remain difficult in 2012, with consumer budgets again under pressure. Our response will be to take further cost out of the business, grow margin and maximise sales opportunities, whilst making operational improvements that will position the business for future growth as economic conditions improve."

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CHAIRMAN'S STATEMENT

"Topps has maintained its position as Britain'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

Our expectation for the year was that it would again be tough for retailers in our sector and that proved to be the case. Nevertheless, we were encouraged by our first half performance, which saw overall revenues grow by 1.8% on a like-for-like basis. However, as we progressed through the second half the combined effects of a deteriorating economic outlook, stagnation in the housing market and falls in domestic purchasing power further undermined consumer confidence. Inevitably this has had a negative impact on our business and like for like revenues were down 2.0%. Total revenue for the financial period was £175.5 million with adjusted profit before tax[2] of £13.9 million, down from £16.3 million in the prior period. Notwithstanding this difficult trading backdrop our gross margin remained robust at 59.6% (2010: 58.7%).

In our previous Annual Report we committed ourselves to prudent cost management, further investment in key infrastructure and a targeted growth in our store estate. Good progress has been made against all of these objectives, enabling the Group to:

- Grow the store estate to 320 by the period end, up from 312
- Convert 5 Tile Clearing House sites to the more profitable Topps format
- Complete our new warehouse, enabling a longer term shift towards more direct sourcing, thereby enhancing margins
- Commence the implementation of a new IT system
- Build greater awareness of the Topps brand through national TV campaigns

Our People and their contribution

A keen focus on the demands of the customer is at the heart of any successful retail business. Feedback from our rigorous "mystery shop" monitoring has confirmed that Topps is now in the top ten per cent of retailers in Europe when it comes to levels of customer service. This result validates our policy of continuous "on the job" staff training. Such a result could not have been achieved without the hard work and commitment of everyone who works at Topps, either in store or as part of our support functions. Our staff have also demonstrated their community spirit through their unerring support of the Help the Heroes campaign. On behalf of the Board, I would like to thank them all for their remarkable contribution to the business, and the wider community, across the entire year.

Corporate governance

This year Barry Bester, our chairman since 2003, and co-founder of the business, brought his time with Topps to a close. After twenty six years of dedicated commitment to the business, he announced in May that he wished to pursue his other business interests. Stuart Williams, co-founder and company president has also announced his intention to conclude his formal involvement with the Group. Together Stuart and Barry formed a partnership which helped to take Topps from a private business, with just a few stores, to today's publicly quoted enterprise with 321 outlets nationally. We owe both of them a deep debt of gratitude for all they have done to help develop Topps into Britain's Number one tile retailer.

The Board recognise the need to recruit additional independent non-executive directors to bring the Board into line with corporate governance best practice. This process is well advanced and we expect to be in a position to make an announcement early in 2012.

Dividend

Last year we announced the resumption of dividend payments. Although trading has been tough in this financial period, prudent financial management has enabled the Board to recommend to shareholders a final dividend of 0.6p per share. This will cost £1.1 million. Subject to approval at the Annual General Meeting the dividend will be payable on 31st January 2012 to all shareholders on the register as at 30th December 2011. This bring the total dividend for the year to 1.1 pence per share (2010: 1.0 pence per share), an increase of 10%.

Our Future
Looking ahead, we recognise that economic conditions will remain difficult in 2012, with consumer budgets again under pressure. However, we will remain focused on maintaining our market leading position safeguarding our margins and looking at further ways in which cost can be taken out of the business.

At store level our product presentation will be enhanced to enable us to continue the theme of inspiring customers' home improvement plans. We will also invest in staff training and development to ensure a continuity of well qualified staff, trained to deliver Topps' outstanding customer service. Our online presence will be developed so that customers can more easily choose the tile that is just right for them. We will also continue to look for opportunities to open a limited number of new stores in those parts of the country where we are under-represented. All of these initiatives will be supported by sustained marketing spend, with improved targeting, to ensure that our message of great prices, unparalleled product ranges, and superb service is communicated to both our retail and trade customers alike.

Michael Jack
Chairman

CHIEF EXECUTIVE'S STATEMENT

Our focus during the period has been 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, continued the evolution of the Topps Tiles offer and supported this with new marketing initiatives in-store, on television and online. In addition, we made some significant infrastructure investments across the business, which will benefit our future performance.

Prudent management of all costs remained a key focus. In addition we also reviewed a number of our retail processes to both further improve our proposition to customers and enhance financial performance.

The economic environment has continued to be challenging and, in particular, we saw a slowing in customer numbers during the second half of our financial period. That said, the business remains financially well positioned and the strong operational progress made during the year will enable us to continue to progress our growth plans.

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 26% (2010: 25%) (source: 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. Against this background we believe there is potential for up to 400 Topps Tiles stores in the UK.

Store Development and Expansion

With a continuing backdrop of challenging trading conditions our focus has been on optimising returns from the existing store estate by adding new stores selectively and targeting tactical re-sites of individual stores where this is supported by the local market opportunity.

Over recent years our store expansion strategy was realigned to reflect the deterioration in the economic environment. In the 2009/10 financial period we returned to growth in store numbers and this activity accelerated in the period under review. In the last 12 months we opened 15 new stores and closed 7 stores (of which 3 were relocations), resulting in a net increase of 8 stores and completing the financial period with 320 stores. New store openings have performed well and we are very satisfied with the return on investment. in the year ahead we have plans in place to increase the size of the business by approximately 5 new stores.

We have continued with our programme of converting Tile Clearing House stores into the more profitable Topps Tiles format and have completed 5 in the financial period. Trading results from these conversions have been pleasing and a further 15 are planned for the year ahead. This will leave 16 Tile Clearing House stores which will function as clearance units for the Topps stores.

Our improved and expanded website was re-launched during the period. The response has been very encouraging, with record numbers of people visiting the site and staying on line for longer periods than ever before. Our online presence is now an increasingly important factor in driving store footfall as a growing number of customers undertake the research phase of their project online before visiting our stores. To help them with this process we have introduced more inspirational room set photography, a greater variety of design ideas and a completely new market-leading interactive "visualiser". This enables customers to choose from our extensive range of wall and floor tiles and model them into a variety of different room settings. We have also improved the site navigation and checkout procedures as well as updating the visual presentation to mirror the latest in-store experience. While we expect the primary role of the website to remain as a customer research tool, it is also playing a growing role as a direct sales channel, with online revenues now representing around 1.5% of sales (2010: 1%). We expect this to continue to grow and play an ever increasing role in our customer offer.

Infrastructure

During the period we completed the construction of our second warehousing facility at our Leicestershire headquarters at a cost of c.£3 million. This warehouse is now fully operational and will form a key part of our logistics strategy over the coming years, giving us the operational capacity for up to 400 stores. In particular, the additional capacity will allow us to source more products direct from the manufacturer, decreasing the proportion sourced via third party distributors and delivering a gross margin benefit.

During the next financial period we will be implementing a new enterprise-wide information technology system of which the majority of the implementation will occur in the second half. This new system, which will add much greater functionality across a range of disciplines, will be a key enabler for a number of new processes and customer initiatives. The total cost of the system implementation will be approximately £1 million, the majority of which has been spent in this financial period.

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.

Over the course of the last year we have changed the way we measure customer satisfaction and adopted the Net Promoter Scoring system. The 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 we have scored 88.1% against this measure and consider this a very clear endorsement of our customer service ethic. The measure used for 2010 is not directly comparable.

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. Greater emphasis has also been given to 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 increased our level of marketing expenditure by approximately £1 million in order to drive footfall and increase our market share. Television advertising and sponsorship has proved to be the most effective way to build consumer awareness of the Topps brand. In the early part of the period we ran a national weather sponsorship campaign with ITV and subsequent TV campaigns across a variety of national terrestrial and digital channels have also been successful in driving store footfall. To complement this we will continue to communicate the inspirational range through home interest magazines and PR. We are planning to sustain a similar level of marketing expenditure in the year ahead. A trade-focused campaign will run in parallel with the consumer campaign, in line with our strategy of securing a greater proportion of trade project spend.

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 £160,000 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 and this 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. During the year we rolled-out new programmes to equip all store staff with the product and technical knowledge to support our "customer inspiration" agenda, as well as specialist sales skills training. The initial

results from this programme have been encouraging, with a greater consistency of standards already evident across the store estate.

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 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, which are on a like-for-like basis, decreased by 6.9%.

Looking ahead, we expect economic conditions will remain difficult in 2012, with domestic budgets again under pressure. Our response will be to take further cost out of the business, grow margin and maximise sales opportunities, while making operational improvements that will position the business for future growth as economic conditions improve.

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 a specialist tile and wood flooring retailer with 320 outlets across the UK, and is the country's largest retailer of its kind with a 26% market share. The Group operates two retail brands, Topps Tiles ("Topps") and Tile Clearing House ("TCH"). Topps is the UK's leading branded tile retailer, with 289 stores, offering wall and floor tiles, natural stone, laminate, solid wood flooring and a comprehensive range of associated products such as under-floor heating, adhesives and grouts. TCH is a discount retail format, comprising a further 31 stores with a mini warehouse design and a "when it's gone it's gone" style customer offer.

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 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

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
- Ongoing supplier tendering and benchmarking of non-stock suppliers
- Managing the Group's exposure to fluctuations in foreign exchange rates
- 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. Our most recent trading period demonstrated the fragility of UK consumer confidence and provides further re-enforcement that our current strategy and objectives are 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, such as increased marketing expenditure. 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 for the Group and by individual store, including:

	52 weeks to 1 October 2011	53 weeks to 2 October 2010
Financial KPIs		
Like-for-like sales growth year-on-year	**-2.0%**	+1.7%
Total sales growth year-on-year	**-3.8%**	+2.0%
Gross margin	**59.6%**	58.7%
Adjusted PBT*	**£13.9m**	£16.3m
Net debt	**£50.9m**	£49.1m
Stock days	**123**	121
Non-financial KPIs		
Market Share	**26%**	25%
Net Promoter Score %	**88.1%**	n/a
Customer satisfaction %	**n/a**	97.6%
Number of stores	**320**	312

*Adjusted PBT as defined on page 1

Note - Net Promoter Score is a new measure we have adopted in favour of customer satisfaction ratings. The 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 less 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 most recent trading period demonstrated the fragility of UK consumer confidence, which in turn has had a direct impact on our sales performance. Over the first half of our financial period we demonstrated an encouraging trend of steady growth in like-for-like sales. During the second half, and in particular the final quarter, we saw a significant reduction in revenues when compared to the prior period. Over the financial period as a whole we have seen a sales decline of 2.0% on a like-for-like basis. During the current trading period, reflecting the first seven weeks of our new financial period, we have seen like-for-like sales decline by 6.9%, providing clear evidence of the current economic climate and the weakness in consumer confidence. The Board believes the business is well positioned to deal with these challenges, continuing to generate healthy profits and remaining cash generative. Furthermore we believe the business is well positioned to take advantage of the likely retraction in the competitive base across our core markets.

Balancing our longer term investment needs against the uncertain economic outlook
During the financial period the Board monitored both the Group performance and the macro economy closely and considered that a return to investing in key areas of growth for the business was appropriate. This strategy has resulted in an overall increase in the number of stores and the completion of a new warehousing facility which is key to our future plans. The Board intends to continue with the cautious expansionary approach we outlined to shareholders over the last two years and intends to target approximately five new store openings over the next 12 months. We will also continue to invest in older parts of the store estate through a programme of minor store improvements and plan to convert a further 15 TCH stores to the Topps brand, a strategy which has demonstrated positive results over the last 12 months.

Appropriate Capital Structure
During the period the Group successfully re-financed its loan facilities and now 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.

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 minimise 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 and most recent trading period creates a degree of uncertainty in the outlook and our forecasts are sensitive to relatively small changes in sales and margin assumptions. This uncertainty, 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 and possible mitigating actions, should they be required. Mitigating actions would include further cost reductions, working capital management, reduced investment, freehold property disposal and possible review of dividend policy.

Based on this analysis the Board has concluded that in the event that the level of like-for-like sales highlighted in the current trading section of the CEO's report were to continue for the whole of the financial period ending 29 September 2012, some form of mitigating action would be required but once taken into account the Group would fully meet all of its future financial commitments. The Board, therefore, considers it appropriate to prepare the financial statements on the going concern basis.

FINANCIAL REVIEW

PROFIT AND LOSS ACCOUNT

Please note this report has been prepared for the 52 weeks ended 1 October 2011 and the comparative period was prepared for the 53 weeks ended 2 October 2010. With the exception of the Group like-for-like revenue measure, which is comparable, the reported figures are presented on this basis and are not entirely comparable. The impact of the additional week in the prior period was to increase revenue by £3.6 million and operating profit by £0.4 million.

Revenue

Revenue for the period ended 1 October 2011 decreased by 3.8% to £175.5 million (2010: £182.4 million). Like-for-like store sales decreased by 2.0% in the period, which consisted of a 1.8% increase in the first half of the financial period and a 5.8% decrease in the second half.

Gross margin

Overall gross margin was 59.6% compared with 58.7% 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 59.5% in the second half of the period. The second half includes an exceptional charge against inventory of £1.3 million relating to a change in our in-store practices which means we no longer consider display inventory to be suitable for sale. Adjusting for this, the underlying margin in the second half period would be 61.0% and 60.3% for the period as a whole, demonstrating an encouraging level of improvement. The environment we operate in continues to be a highly competitive one and we are able to utilise our scale to ensure that we can offer customers outstanding value and also generate 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 increased from £87.3 million to £90.6 million, an increase of 3.8%. Costs as a percentage of sales were 51.6% compared to 47.8% in the previous period. When adjusted for exceptional items, detailed below, operating costs were £87.7 million (2010: £86.1 million), equivalent to 50.0% of sales (2010: 47.2% of sales).

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

- This financial period was one week shorter than the previous financial period, which is equivalent to a saving of approximately £1.7 million
- Inflation at an average of approximately 2% has increased our cost base by around £1.8 million
- The average number of UK stores trading during the financial period was 313 (2010: 310), which would imply a 1.0% increase in store costs, generating approximately £0.7 million of additional costs
- We have made additional investments in marketing, increasing spend by approximately £1.0 million
- Business performance has been below the level of internal targets which has meant a reduced level of rewards for staff. Employee profit share costs have decreased by £0.3 million.
- 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 categorised as exceptional due to their nature. These charges relate to impairments of plant, property & equipment of £1.1 million (2010: £0.8 million), an inventory charge of £1.3 million (2010: £nil), and an increase in property related provisions of £1.9 million (2010: £0.4 million).

Operating profit

Operating profit for the period was £14.0 million (2010: £19.9 million).

Operating profit as a percentage of sales was 8.0% (2010: 10.9%).

When adjusted for the exceptional items detailed on page 1 operating profit was £18.2 million (2010: £21.1 million).

Other gains and losses

There were no other gains and losses during the period (2010: £0.1 million gain relating to disposal of freehold property).

Financing

The net cash interest charge for the year was £4.4 million (2010: £4.8 million), excluding the impact of revaluations of derivative instruments. Whilst the interest charge has fallen compared to the prior year we have only seen limited benefit from the very low interest rates that prevail in the market. This is due to a series of interest rate derivatives we have in place which negate the majority of any impact from interest rate movements.

The interest rate derivatives give 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) charge of £1.6 million (2010: £2.8 million). Due to the nature of the underlying financial instruments, IAS39 does not allow hedge accounting to be applied to these losses and hence this charge is being applied direct to the income statement rather than offset against balance sheet reserves.

Following the financial period end the Board has decided to close out 50% of the interest rate derivatives. This will have the effect of reducing the Group's annual interest charge moving forwards by approximately £1.25 million (at current LIBOR rates) but will increase net debt by £6.2 million from April 2012.

Net interest cover was 4.3 times (2010: 5.1 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 £7.9 million (2010: £12.4 million).

Group profit before tax margin was 4.5% (2010: 6.8%)

When adjusted for the exceptional and non-cash items detailed on page 1 profit before tax is £13.9 million (2010: £16.3 million).

Tax

The effective rate of Corporation Tax for the period was 27.7% (2010: 31.5% (continuing operations)).

The effective rate of Corporation Tax has been increased from the basic rate by non deductible expenditure and depreciation on assets not qualifying for capital allowances. This has been offset by a prior year credit reflecting the release of certain provisions held against known tax risks as they have been reduced or settled.

Earnings per Share

Basic earnings per share were 3.04 pence (2010: 5.37 pence – continued and discontinued operations).

Diluted earnings per share were 2.97 pence (2010: 5.26 pence - continued and discontinued operations).

Dividend and dividend policy

Last year we announced the resumption of dividend payments. Although trading has been tough in this financial period, prudent financial management has enabled the Board to recommend to shareholders a final dividend of 0.6p per share. This will cost £1.1 million. Subject to approval at the Annual General Meeting the dividend will be payable on 31st January 2012 to all shareholders on the register as at 30th December 2011.

BALANCE SHEET

Capital expenditure

Capital expenditure in the period amounted to £10.8 million (2010: £4.9 million), an increase of 123%, reflecting the increased level of investment in infrastructure that we highlighted in our previous Annual Report. Capital expenditure includes the cost of 12 new openings, 5 conversions, 3 relocations and a 12 refits at a cost of £5.3 million. In addition to this we purchased the freehold on one existing store at a cost of £1.6 million Other capital expenditure includes the building of a new warehousing facility at a cost of £3.1 million and £0.8 million on a new IT system, which will go live in 2012.

At the period end the Group held eight freehold or long leasehold sites including three warehouse and distribution facilities with a total net book value of £17.8 million (2010: six freehold or long leasehold valued at £13.4 million).

Inventory
Inventory at the period end was £23.8 million (2010: £24.9 million) representing 123 days turnover (2010: 121 days turnover). We have continued our focus on improving working capital efficiencies and have also recognised a one off charge against display inventories. As a result we have realised a reduction in stockholding over the period.

Capital structure and treasury
Cash and cash equivalents at the period end were £9.1 million (2010: £41.9 million) with repayable borrowings at £60.0 million (2010: £91.0 million).

This gives the Group a net debt position of £50.9 million compared to £49.1 million as at 2 October 2010.

Cash flow
Cash generated by operations was £20.7 million, compared to £19.8 million last period.

Directors' Responsibility Statement

We confirm to the best of our knowledge:

1. 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
2. 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 1 October 2011 will be held on 10 January 2012 at 10.30am at Topps Tiles Plc, Thorpe Way, Grove Park, Enderby, Leicestershire LE19 1SU.

Matt Williams	**Rob Parker**
Chief Executive Officer	Finance Director

28 November 2011

Consolidated statement of financial performance
For the 52 weeks ended 1 October 2011

	Notes	**52 weeks ended 1 October 2011 £'000**	53 weeks ended 2 October 2010 £'000
Group revenue – continuing operations	3 & 4	**175,525**	182,406
Cost of sales		**(70,904)**	(75,254)
Gross profit		**104,621**	107,152
Employee profit sharing		**(6,638)**	(6,902)
Distribution costs		**(65,883)**	(64,492)
Other operating expenses		**(6,393)**	(5,452)
Administrative costs		**(6,624)**	(7,044)
Sales and marketing costs		**(5,103)**	(3,385)
Group operating profit before exceptional items		**18,174**	21,093
Impairment of plant, property and equipment	5	**(1,051)**	(815)
Write off of display inventories	5	**(1,281)**	-
Property related provisions	5	**(1,862)**	(401)
Group operating profit	4	**13,980**	19,877
Other gains	4,8	**-**	100
Investment revenue	4,9	**356**	453
Finance costs	4,9	**(4,798)**	(5,275)
Fair value loss on interest rate derivatives	4,9	**(1,630)**	(2,780)
Profit before taxation	4,6	**7,908**	12,375
Taxation	4,10	**(2,194)**	(3,903)
Profit for the period from continuing operations		**5,714**	8,472
Discontinued operations			
Profit for the period from discontinued operations	11	**-**	1,502
Profit for the period attributable to equity holders of the company	30	**5,714**	9,974
Earnings per ordinary share	13		
From continuing operations			
- basic		**3.04p**	4.56p
- diluted		**2.97p**	4.46p
From continuing and discontinued operations			
- basic		**3.04p**	5.37p
- diluted		**2.97p**	5.26p

Consolidated statement of comprehensive income
For the 52 weeks ended 1 October 2011

	52 weeks ended 1 October 2011 £'000	53 weeks ended 2 October 2010 £'000
Profit for the period	**5,714**	9,974
Total comprehensive income for the period attributable to equity holders of the parent Company	**5,714**	9,974

Consolidated statement of financial position
As at 1 October 2011

	Notes	**52 weeks ended 1 October 2011 £'000**	53 weeks ended 2 October 2010 £'000
Non-current assets			
Goodwill	14	**245**	245
Property, plant and equipment	15	**37,221**	31,639
		37,466	31,884
Current assets			
Inventories		**23,800**	24,874
Trade and other receivables	17	**7,261**	7,594
Deferred tax asset	22	**595**	-
Cash and cash equivalents	18	**9,088**	41,879
		40,744	74,347
Total assets		**78,210**	106,231
Current liabilities			
Trade and other payables	19	**(24,105)**	(25,588)
Derivative financial instruments	21	**(12,186)**	(10,557)
Bank loans	20	**-**	(7,250)
Current tax liabilities		**(5,537)**	(6,181)
Provisions	22	**(1,075)**	-
		(42,903)	(49,576)
Net current (liabilities) / assets		**(2,159)**	24,771
Non current liabilities			
Bank loans	20	**(59,289)**	(83,466)
Deferred tax liabilities	22	**-**	(422)
Provisions	22	**(1,480)**	(1,297)
Total liabilities		**(103,672)**	(134,761)
Net liabilities		**(25,462)**	(28,530)
Equity			
Share capital	23	**6,279**	6,273
Share premium	24	**1,022**	1,001
Own shares	25	**(4)**	-
Merger reserve	26	**(399)**	(399)
Share based payment reserve	27	**543**	367
Capital redemption reserve	28	**20,359**	20,359
Retained earnings	30	**(53,262)**	(56,131)
Total deficit attributable to equity holders of the parent		**(25,462)**	(28,530)

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

The financial statements of Topps Tiles Plc, registered number 3213782, were approved by the board of directors and authorised for issue on 29 November 2011. They were signed on its behalf by:

M.T.M Williams
R. Parker
Directors

Consolidated statement of changes in equity
For the 52 weeks ended 1 October 2011

	Equity attributable to equity holders of the parent								
	Share Capital £'000	**Share Premium £'000**	**Own Shares £000**	**Merger Reserve £'000**	**Share-Based Payment Reserve £'000**	**Capital Redemption Reserve £'000**	**Foreign Exchange Reserve £'000**	**Retained Earnings £'000**	**Total Equity £'000**
Balance at 26 September 2009	5,703	1,001	-	240	240	20,359	336	(81,161)	(53,282)
Profit and total comprehensive income for the period	-	-	-	-	-	-	-	9,974	9,974
Shares issued in respect of placing and open offer	570	14,296	-	-	-	-	-	-	14,866
Transfer to retained earnings	-	(14,296)	-	-	-	-	-	14,296	-
Credit to equity for equity-settled share based payments	-	-	-	-	127	-	-	-	127
Deferred tax on share-based payment transactions	-	-	-	-	-	-	-	121	121
Release of reserve on disposal of subsidiary	-	-	-	(639)	-	-	(336)	639	(336)
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)**

Consolidated cash flow statement

For the 52 weeks ended 1 October 2011

	52 weeks ended 1 October 2011 £'000	53 weeks ended 2 October 2010 £'000
Cash flow from operating activities		
Profit for the period	**5,714**	9,974
Profit for the period from discontinued operations	**-**	(1,502)
Taxation	**2,194**	3,903
Fair value on interest rate derivatives	**1,630**	2,780
Finance costs	**4,798**	5,275
Investment revenue	**(356)**	(453)
Other gains	**-**	(100)
Group operating profit	**13,980**	19,877
Adjustments for:		
Depreciation of property, plant and equipment	**4,128**	4,040
Impairment of property, plant and equipment	**1,051**	815
Property related provisions	**1,862**	401
Write off of display inventories	**1,281**	-
Share option charge	**176**	127
Decrease / (increase) in trade and other receivables	**337**	(3,351)
(Increase) / decrease in inventories	**(207)**	1,853
Decrease in payables	**(1,888)**	(3,991)
Cash generated by operations	**20,720**	19,771
Interest paid	**(4,795)**	(5,308)
Taxation paid	**(3,883)**	(4,112)
Net cash from operating activities	**12,042**	10,351
Investing activities		
Interest received	**616**	107
Purchase of property, plant & equipment	**(10,535)**	(4,292)
Proceeds on disposal of property, plant & equipment	**5**	949
Net cash used in investment activities	**(9,914)**	(3,236)
Financing activities		
Dividends paid	**(2,817)**	-
Proceeds from issue of share capital	**23**	14,874
New loans	**60,000**	-
Loan issue costs	**(1,125)**	-
Repayment of bank loans	**(91,000)**	(7,500)
Net cash (used in) / from financing activities	**(34,919)**	7,374
Net (decrease) / increase in cash and cash equivalents	**(32,791)**	14,489
Cash and cash equivalents at beginning of period	**41,879**	27,270
Effect of foreign exchange rate changes	**-**	120
Cash and cash equivalents at end of period	**9,088**	41,879

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 21.

Adoption of new and revised standards
In the current period, the following new and revised standards and interpretations have been adopted and have affected or may affect in the future the amounts reported in the financial statements.

IFRS 3 (revised 2008) 'Business Combinations'. Following an amendment to IFRS 3 all acquisition costs are charged to the statement of financial performance for all business combinations acquired after 1 July 2009.

IFRIC 17 'Distributions of Non-cash Assets to Users'. The interpretation provides guidance on when an entity should recognise a non-cash dividend payable, how to measure the dividend payable and how to account for any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable when the payable is settled.

The following amendments were made as part of Improvements to IFRSs (2009):

Amendments to IFRS 2 'Share-based Payments'. IFRS 2 has been amended following the issue of IFRS 3 (2008). This has clarified the accounting for share-based payment transactions between group entities.

Amendments to IAS 17 'Leases'. IAS 17 has been amended such that it may be possible to clarify a lease of land as a finance lease if it meets the criteria for that classification under IAS 17.

Amendments to IAS 39 'Financial Instruments Recognition and Measurement'. IAS 39 has been amended to state that option contracts between an acquirer and a selling shareholder to buy or sell an acquiree that will result in a business combination at a future acquisition date are not excluded from the scope of this standard.

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:

IAS 24 (revised 2009) *Related Party Disclosures*
IFRS 7 (revised 2010) *Disclosures – Transfers of Financial Assets*
Improvements to IFRSs (2010)

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 has a reasonable expectation 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 and most recent trading period creates a degree of uncertainty in the outlook and our forecasts are sensitive to relatively small changes in sales and margin assumptions. This uncertainty, 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 and possible mitigating actions, should they be required. Mitigating actions would include further cost reductions, working capital management, reduced investment, freehold property disposal and possible review of dividend policy.

Based on this analysis the board have concluded that in the event that the level of like-for-like sales highlighted in the current trading section of the CEO's report were to continue for the whole of the financial period ending 29 September 2012, some form of mitigating actions would be required but once taken into account the Group would fully meet all of its future financial commitments. The Board, therefore, considers 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 2011 mean at 1 October 2011 or the 52 weeks then ended; references to 2010 mean at 2 October 2010 or the 53 weeks then ended.

e) Goodwill

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

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

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 is not 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

The Group has identified certain items as exceptional where they relate to one-off costs incurred in the period that they do not expect to be repeated on an annual basis, or where 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 cash flows are discounted to their present value using a pre-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 re-valued 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 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.

Inventories written down and expensed in the year amounted to £2,292,000 (2010: £2,493,000). Additionally £1,281,000 has been written off in relation to display inventories.

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 foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

- 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.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operation are translated at exchange rates prevailing at period end dates. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case the exchange rates at the dates of transactions are used. Exchange differences arising are recognised in other comprehensive income and accumulated in equity, in the Group's foreign exchange reserve. Such differences are recognised as income or expense in the period in which the operation is disposed of.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, loss of joint control over a jointly controlled entity that includes a foreign operation, or loss of significant influence over an associate that includes a foreign operation), all of the accumulated exchange differences in respect of that operation attributable to the Group are reclassified to profit or loss.

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 39 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 differences 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 4 stores in the UK, including some before their lease end dates. As the fixtures and fittings within these stores cannot be re-used in other locations within the Group, the carrying value of these assets has been fully provided for in the period. Additional impairments have been made for stores which are identified for conversion during the next financial period and for loss-making stores.

Onerous lease provisions

During the period the Group has continued to review the performance of its store portfolio, which has resulted in no further stores being exited before their lease term has expired (2010: 8 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 1 October 2011 £'000	53 weeks ended 2 October 2010 £'000
Topps Tiles	**162,932**	165,068
Tile Clearing House	**12,593**	17,338
Revenue from the sale of goods	**175,525**	182,406
Interest receivable	**316**	457
Fair value gain on forward currency contracts	**40**	-
Total revenue	**175,881**	182,863

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. These segments comprise (a) Topps Tiles retail operations in the UK; (b) TCH retail operations in the UK; and (c) the Topps Floorstore operation in Holland, which was disposed of on 22 December 2009.

Segment result represents the profit / (loss) earned by each segment without allocation of the central administration costs including Directors' salaries, other gains and losses, investment income, finance costs, fair value loss on interest rate derivatives and income tax expense.

Revenues from major products and services and information about major customers
The Group's principal activity, being a 'specialist tile and woodflooring retailer', is reported in the segments shown below and due to its wide product offering the disclosure of revenues from major products is not appropriate. As the Group's revenue is derived from sales to the general public, it has no reliance on any individual major customer.

Geographical segments
The Group's reporting format is by business segment. Although the Group operated in two geographic segments, the UK and Holland, during the previous period, neither the revenue from sales to external customers nor the value of net assets within Holland represented more than 10 per cent of Group totals.

The following is an analysis of the Group's revenue and results by reportable segment:

52 weeks ended 1 October 2011	Topps £'000	TCH £'000	Consolidated £'000
Revenue	162,932	12,593	175,525
Segment result	15,218	30	15,248
Central administration costs			(1,268)
Operating profit			13,980
Investment revenues			356
Finance costs			(4,798)
Fair value loss on interest rate derivatives			(1,630)
Profit before tax			7,908
Tax			(2,194)
Profit after tax			5,714

Other information

	Topps £'000	TCH £'000	Head office/ distribution centre £'000	Consolidated £'000
Capital additions	6,031	66	4,727	10,824
Depreciation	2,811	899	418	4,128
Impairment losses recognised	275	695	81	1,051
Balance sheet Segment assets	125,086	5,077	-	130,163
Unallocated corporate assets	-	-	(51,953)	(51,953)
Consolidated total assets	125,086	5,077	(51,953)	78,210
Segment liabilities	(19,676)	(5,357)	-	(25,033)
Unallocated corporate liabilities	-	-	(78,639)	(78,639)
Consolidated total liabilities	(19,676)	(5,357)	(78,639)	(103,672)

Unallocated corporate assets include the Group's overdraft, which in the statement of financial position is presented net within cash and cash equivalents due to a legal right of off-set between Group entities.

Unallocated corporate liabilities comprise bank loans, derivatives, corporation and deferred tax liabilities and sundry head office creditors.

53 weeks ended 2 October 2010	Topps £'000	TCH £'000	Topps Floorstore £'000	Discontinued operations £'000	Consolidate £'000
Revenue	165,068	17,338	1,014	(1,014)	182,406
Segment result	20,276	964	1,022	(1,022)	21,240
Central administration costs					(1,363)
Operating profit					19,877
Other gains and losses					100
Investment revenues					453
Finance costs					(5,275)
Fair value loss on interest rate derivatives					(2,780)
Profit before tax					12,375
Tax					(3,903)
					8,472
Profit for the period from discontinued operations					1,502
Profit after tax and discontinued operations					9,974

Other information

	Topps £'000	TCH £'000	Topps Floorstore £'000	Head office/ distribution centre £'000	Discontinued operations £'000	Consolidated £'000
Capital additions	2,986	836	-	1,031	-	4,853
Depreciation	2,704	952	3	384	(3)	4,040
Impairment losses recognised	374	441	48	-	(48)	815
Balance sheet						
Segment assets	113,223	8,268	-	-		121,491
Unallocated corporate assets	-	-	-	(15,260)		(15,260)
Consolidated total assets	113,223	8,268	-	(15,260)		106,231
Segment liabilities	(20,824)	(5,707)	-	-		(26,531)
Unallocated corporate liabilities	-	-	-	(108,230)		(108,230)
Consolidated total liabilities	(20,824)	(5,707)	-	(108,230)		(134,761)

5 Exceptional items

During 2011, 9 stores (2010: 9) 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 the provision held for future dilapidation costs resulting in a charge of £1,862,000 (2010: £401,000). Additionally an assessment of the carrying value of display inventories has been performed leading to a write off of £1,281,000.

	52 weeks ended 1 October 2011 £'000	53 weeks ended 2 October 2010 £'000
Included in cost of sales:		
Write off of display inventories	**1,281**	-
Included in administrative expenses:		
Property related provisions	**1,862**	401
Impairment of property, plant and equipment	**1,051**	815
	4,194	1,216

6 Profit before taxation

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

	52 weeks ended 1 October 2011 £'000	53 weeks ended 2 October 2010 £'000
Depreciation of property, plant and equipment	**4,128**	4,040
Impairment of property, plant and equipment	**1,051**	815
Disposal of property, plant and equipment	**58**	-
Property related provisions	**1,862**	401
Staff costs (see note 7)	**42,216**	40,152
Operating lease rentals	**20,881**	20,861
Write down of inventories recognised as an expense	**2,292**	2,493
Write off of display inventories	**1,281**	-
Cost of inventories recognised as expense	**67,331**	72,761
Net foreign exchange (gain)/loss	**(84)**	17

Analysis of auditor's remuneration is provided below:

	52 weeks ended 1 October 2011 £'000	53 weeks ended 2 October 2010 £'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	**104**	**105**
Total audit fees	**144**	**145**
Tax services:		
compliance services	**34**	**47**
advisory services	**75**	**21**
Total non audit fees	**109**	**68**
	253	**213**

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 1 October 2011 Number employed	53 weeks ended 2 October 2010 Number employed
Selling	**1,467**	1,441
Administration	**194**	174
	1,661	1,615

	2011 £'000	2010 £'000
Their aggregate remuneration comprised:		
Wages and salaries (including LTIP, see note 32)	**38,410**	36,541
Social security costs	**3,657**	3,430
Other pension costs (see note 31b)	**149**	181
	42,216	40,152

Details of directors' emoluments are disclosed in the Annual Report. Employee profit sharing of £6.6 million (2010: £6.9 million) is included in the above and comprises sales commission and bonuses.

8 Other gains

Other gains in the previous period relate to the sale of one freehold property.

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

	52 weeks ended 1 October 2011 £'000	53 weeks ended 2 October 2010 £'000
Investment revenue		
Bank interest receivable and similar income	**316**	457
Fair value gain/(loss) on forward currency contracts	**40**	(4)
	356	453
Finance costs		
Interest on bank loans and overdrafts	**(4,798)**	(5,275)

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 £2,075,000 (2010: £2,678,000). 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 £1,590,000 (2010: £2,784,000), which include fair value losses on interest rate swaps of £1,630,000 (2010: £2,780,000) and fair value gains on forward currency contracts of £40,000 (2010: £4,000 loss).

10 Taxation

Continuing operations:	**52 weeks ended 1 October 2011 £'000**	53 weeks ended 2 October 2010 £'000
Current tax - charge for the year	**3,620**	5,276
Current tax - adjustment in respect of previous periods	**(381)**	(39)
Deferred tax - effect of reduction in UK corporation tax rate	**168**	(31)
Deferred tax - credit for year (note 22)	**(1,097)**	(1,246)
Deferred tax - adjustment in respect of previous periods (note 22)	**(116)**	(57)
	2,194	3,903

Corporation tax in the UK is calculated at 27% (2010: 28%) 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 1 October 2011 £'000**	53 weeks ended 2 October 2010 £'000
Profit before taxation	**7,908**	12,375
Tax at the UK corporation tax rate of 27% (2010: 28%)	**2,135**	3,465
Tax effect of expenses that are not deductible in determining taxable profit	**262**	173
Tax effect of chargeable gain lower than profit on sale of freehold property	**-**	(28)
Tax effect of tangible fixed assets which do not qualify for capital allowances	**294**	389
Tax effect of adjustment in respect of prior periods	**(497)**	(96)
Tax expense for the period	**2,194**	3,903

Discontinued operations:	**2011 £'000**	2010 £'000
Current tax – adjustment in respect of previous periods	-	(480)
	-	(480)

11 Discontinued operations

On 18 December 2009, the Group announced that it was withdrawing funding to the Dutch operation, which resulted in Topps Retail BV being placed into administration on 22 December 2009. The transaction was completed on 22 December 2009, on which date control of Topps Retail BV passed to the administrator and is therefore accounted as a disposal in the consolidated financial statements.

The results of the discontinued operations, which have been included in the consolidated statement of financial performance, were as follows:

	52 weeks ended 1 October 2011 £'000	Period ended 22 December 2009 £'000
Revenue	-	1,014
Expenses	-	(1,329)
Loss before tax	-	(315)
Attributable tax expense	-	-
	-	(315)
Profit on disposal of discontinued operations	-	1,337
	-	1,022
Attributable tax expense	-	480
Net profit attributable to discontinued operations (attributable to owners of the Company)	-	1,502

During the year Topps Retail BV received £nil (2010: received £204,000) from the group's net operating cash flows, paid £nil (2010: £nil) in respect of investing activities and paid £nil (2010: £nil) in respect of financing activities.

In the previous period a profit of £1,337,000 arose on the disposal of Topps Retail BV, being the proceeds of disposal (£nil) net of the carrying amount of the subsidiary's assets and liabilities. Further detail is provided in the table below.

The effect of discontinued operations on segment results is disclosed in note 4.

The net liabilities of Topps Retail BV at the date of disposal are detailed below:

	22 December 2009 £'000
Property, plant and equipment	44
Inventories	596
Trade receivables	26
Current tax receivables	7
Trade payables	(773)
Sundry payables	(293)
Bank overdraft	(316)
Onerous lease provision	(340)
Foreign exchange reserve	(288)
	(1,337)
Total consideration	-
Gain on disposal	1,337

12 Dividends

	2011 £'000	2010 £'000
Interim dividend for the 26 week period ended 26 April 2011 of £0.005 (2010: £nil) per share	**942**	-
Proposed final dividend for the 52 week period ended 1 October 2011 of £0.006 (2010: £0.01) per share	**1,129**	1,882

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.

13 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.

	2011 Number of Shares	2010 Number of Shares
Weighted average number of shares		
For basic earnings per share	**188,271,731**	185,643,741
Weighted average number of shares under option	**3,873,411**	4,123,000
For diluted earnings per share	**192,145,142**	189,766,741

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 and discontinued operations	**52 weeks ended 1 October 2011 £'000**	53 weeks ended 2 October 2010 £'000
Profit after tax for the period	**5,714**	9,974
Post tax effect of:		
Impairment of property, plant and equipment	**1,051**	863
Interest rate derivative charge	**1,190**	2,001
Fair value gain on foreign currency forward contracts	**(29)**	-
Property disposal gain	**-**	(100)
Loan issue cost write off	**133**	-
Property related provisions	**1,360**	(977)
Display inventory write off	**935**	-
Adjusted profit after tax for the period	**10,354**	11,761

From continuing operations	**2011 £'000**	2010 £'000
Profit after tax for the period	**5,714**	8,472
Post tax effect of:		
Impairment of property, plant and equipment	**1,051**	815
Interest rate derivative charge	**1,190**	2,001
Fair value gain on foreign currency forward contracts	**(29)**	-
Property disposal gain	**-**	(100)
Loan issue cost write off	**133**	-
Property related provisions	**1,360**	289
Display inventory write off	**935**	-
Adjusted profit after tax for the period	**10,354**	11,477

From discontinued operations	**52 weeks ended 1 October 2011**	53 weeks ended 2 October 2010
Basic	-	0.81p
Diluted	-	0.79p

14 Goodwill

	£'000
Cost and carrying amount at 26 September 2009 and 2 October 2010 and 1 October 2011	**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. Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units that are expecting to benefit from that business combination. Before recognition of any impairment losses, the carrying amount of goodwill has been allocated to the TCH segment.

The recoverable amounts are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to, selling prices and direct costs during the period. Management estimates discount rates based on the Group's weighted average cost of capital. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market. Discounted cash flows are calculated using a pre-tax rate of 7.0% (2010: 7.2%).

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. The Group has conducted a sensitivity analysis on the impairment tests of TCH's carrying value. 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.

15 Property, plant and equipment

	Land and buildings		Fixtures		
		Short	and	Motor	
	Freehold	leasehold	fittings	Vehicles	Total
Cost	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
At 26 September 2009	14,854	1,842	43,719	206	60,621
Additions	1,002	-	3,832	19	4,853
Disposals	(850)	-	-	(202)	(1,052)
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**
Accumulated depreciation and impairment					
At 26 September 2009	1,378	1,270	25,285	104	28,037
Charge for the period	213	113	3,702	15	4,043
Provision for impairment	-	66	749	-	815
Eliminated on disposals	-	-	-	(112)	(112)
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**
Carrying amount					
At 1 October 2011	**17,790**	**305**	**19,060**	**66**	**37,221**
At 2 October 2010	13,415	393	17,815	16	31,639

Freehold land and buildings include £4,104,000 of freehold land (2010: £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 (2010: £nil).

Contractual commitments for the acquisition of property, plant and equipment are detailed in note 31.

During the period, the Group has closed 9 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.

16 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.

17 Trade and other receivables

	2011 £'000	2010 £'000
Amounts falling due within one year:		
Amounts receivable for the sale of goods	**661**	523
Allowance for doubtful debts	**(104)**	(103)
Other debtors and prepayments		
- Rent and rates	**5,053**	5,503
- Other	**1,651**	1,671
	7,261	7,594

The Directors consider that the carrying amount of trade and other receivables at 1 October 2011 and 2 October 2010 approximates to their fair value on the basis of discounted cash flow analysis.

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

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

Total trade receivables (net of allowances) held by the Group at 1 October 2011 amounted to £0.6 million (2010: £0.4 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 41 days (2010: 39 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, £105,000 (2010: £100,000) is due from Independent Inspections and £105,000 (2010: £104,000) 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 £131,000 (2010: £110,000) 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 168 days (2010: 124 days), however this ageing is distorted by 4 accounts totalling £11,000 (2010: £19,000) which are overdue by 299 days (2010: 202 days).

Ageing of past due but not impaired receivables

	2011 £'000	2010 £'000
60 – 120 days	**63**	91
121 – 202 days	**68**	19

The allowance for doubtful debts was £104,000 by the end of the period (2010: £103,000). 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 (2010: £103,000) 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.

18 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:

	2011 **£'000**	2010 £'000
Sterling	**7,607**	41,109
US Dollar	**715**	331
Euro	**766**	439
Total cash and cash equivalents	**9,088**	41,879

19 Other financial liabilities

Trade and other payables

	2011 **£'000**	2010 £'000
Amounts falling due within one year		
Trade payables	**11,316**	12,489
Other payables	**3,419**	3,406
Accruals and deferred income	**9,370**	9,693
	24,105	25,588

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 38 days (2010: 41 days). No interest is charged on these payables.

The Directors consider that the carrying amount of trade payables at 1 October 2011 and 2 October 2010 approximates to their fair value on the basis of discounted cash flow analysis.

20 Bank loans

	2011 **£'000**	2010 £'000
Bank loans (all sterling)	**59,024**	90,716

The borrowings are repayable as follows:

On demand or within one year	**-**	7,500
In the second year	**-**	7,500
In the third to fifth year	**60,000**	76,000
	60,000	91,000
Less: Total unamortised issue costs	**(976)**	(284)
	59,024	90,716
Less: amount due for settlement within 12 months (shown under current liabilities)	**-**	(7,500)
Issue costs to be amortised within 12 months	**265**	250
Amount due for settlement after 12 months	**59,289**	83,466

The Directors consider that the carrying amount of the bank loan at 1 October 2011 and 2 October 2010 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:

	2011	2010
	%	%
Loans	**3.11**	2.67

The Group borrowings are arranged at floating rates, thus exposing the Group to cash flow interest rate risk. Whilst the interest charge on the loan has fallen compared to the prior period, the Group has seen limited benefit due to the interest rate derivatives which negate the majority of any impact on the interest rate movement.

During the period the Group successfully re-financed its loan facilities and now 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 1 October 2011, the Group had available £15 million (2010: £5 million) of undrawn committed banking facilities.

21 Financial instruments

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2010. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 20, cash and cash equivalents disclosed in note 18 and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 23 to 30.

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	
	2011	2010
	£'000	£'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**16,349**	49,473
Financial liabilities		
Held for trading	**12,186**	10,557
Amortised cost	**83,394**	116,304

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**	
	2011	2010	**2011**	2010
	£'000	£'000	**£'000**	£'000
Euro	**766**	439	**1,027**	1,129
US dollar	**715**	331	**128**	329

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.

	2011	2010
	£000	£000
Profit or Loss movement on a 10% strengthening in Sterling against the Euro	**24**	63
Profit or Loss movement on a 10% strengthening in Sterling against the US Dollar	**(53)**	-
Profit or Loss movement on a 10% weakening in Sterling against the Euro	**(29)**	(77)
Profit or Loss movement on a 10% weakening in Sterling against the US Dollar	**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:

	2011	2010
	£'000	£'000
Forward foreign exchange contracts	**4,778**	4,356

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 1 October 2011 the fair value of the Group's currency derivatives is a £70,000 asset within other debtors and prepayments (note 17) (2010: an asset of £22,000). These amounts are based on market value of equivalent instruments at the balance sheet date.
Gains of £40,000 are included in investment revenues (note 9) (2010: losses of £4,000).

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**	
	2011	2010	**2011**	2010
	£'000	£'000	**£'000**	£'000
Profit or (loss)	**1,553**	1,443	**(1,280)**	(1,385)

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 derivatives comprise;

- 5 year interest rate cap with a notional value of £20 million (2010: £20 million) with interest capped at 6%
- 5 year interest rate swap with a notional value of £20 million (2010: £20 million) paying interest at a fixed rate of 5.63%
- 10 year cancellable collar with a notional value of £20 million (2010: £60 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 1 October 2011 is estimated at £12,186,000 (2010: £10,557,000). Amounts of £1,630,000 have been charged to the statement of financial performance in the period (2010: £2,780,000).

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 will be settled on 2 April 2011 for a consideration of £6,240,000.

Credit risk management
Credit risk refers to the risk that a counterparty 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 17.

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 20 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 3.42009 % (2010: 2.74665%)) 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.

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**	**68,257**

2010	Less than 1 month	1-3 months	3 months to 1 year	1-5 Years	Total
	£'000	£'000	£'000	£'000	£'000
Non-interest bearing	25,588	-	-	-	25,588
Variable interest rate instruments	630	418	9,290	84,266	94,604

The Group is now financed through a £75 million (£60 million utilised) revolving credit facility. In the previous period the total unused amount of financing facilities was £5 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.

2011	**Less than 1 month**	**1-3 Months**	**3 months to 1 year**	**1-5 Years**	**5+ Years**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Interest rate swaps payments	**(476)**	**(119)**	**(7,95)**	**(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**

2010	Less than 1 month	1-3 Months	3 months to 1 year	1-5 Years	5+ Years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Interest rate swaps payments	-	(603)	(1,572)	(6,606)	(2,331)	(11,112)
Foreign exchange forward contracts payments	-	(1,933)	(2,423)	-	-	(4,356)
Foreign exchange forward contracts receipts	-	1,928	2,450	-	-	4,378

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).

22 Provisions

	2011	2010
	£'000	£'000
Onerous lease provision	**1,097**	823
Dilapidations provision	**1,458**	474
	2,555	1,297
Current	**1,075**	-
Non-current	**1,480**	1,297
	2,555	1,297

	Onerous lease Provision	**Dilapidations provision**	**Total**
	£000	**£000**	**£000**
At 2 October 2010	823	474	1,297
Additional provision in the year	**748**	**1,114**	**1,862**
Utilisation of provision	**(474)**	**(121)**	**(595)**
Release of provision in the year	**-**	**(9)**	**(9)**
At 1 October 2011	**1,097**	**1,458**	**2,555**

The onerous lease provision relates to estimated future unavoidable lease costs in respect of closed, non-trading and loss making stores. The provision is expected to be utilised over the following four financial periods. The dilapidations provision represents management's best estimate of the Group's liability under its property lease arrangements based on past experience and is expected to be utilised over the following seven financial periods.

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

	Accelerated tax depreciation	**Other short term timing differences**	**Share-based payments**	**Exchange rate differences**	**Interest Rate Hedging**	**Rent free**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
As at 26 September 2009	2,421	-	(213)	9	(263)	(77)	1,877
Credit to income	(86)	(53)	(11)	(1)	(1,174)	22	(1,303)
Impact of rate change	(138)	2	-	-	106	(1)	(31)
Credit to equity	-	-	(121)	-	-	-	(121)
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	-	-	-	-8
As at 1 October 2011	**1,847**	**(42)**	**(308)**	**17**	**(2,074)**	**(35)**	**(595)**

The Government announced in March 2011 that it intended to reduce the rate of corporation tax from 28% to 23% by 1 April 2014, and the Finance Act 2011, which was substantively enacted in July 2011, included provisions to reduce the rate of corporation tax to 25% with effect from 1 April 2012. Accordingly, deferred tax balances have been revalued to the lower rate of 25% in these accounts, which has resulted in a debit to the income statement of £23,000.

23 Called-up share capital

	2011 £'000	2010 £'000
Authorised 240,000,000 (2010: 240,000,000) ordinary shares of 3.33p each (2010: 3.33p)	**8,000**	8,000
Authorised 37,000,000 (2010: 37,000,000) redeemable B shares of £0.54 each	**19,980**	19,980
Authorised 124,890,948 (2010: 124,890,948) irredeemable C shares of £0.001 each	**125**	125
	28,105	28,105
Issued and fully-paid 188,365,802* (2010: 188,202,323) ordinary shares of 3.33p each (2010: 3.33p)	**6,279**	6,273
Total	**6,279**	6,273

In the previous period the Group issued 17,109,302 shares as part of a placing and open offer on 27 November 2009. The issue increased the number of shares from 171,093,021 to 188,202,323. Under the arrangements of the placing, the Company issued shares in exchange for shares in Tail Finance Jersey Limited. No share premium was ultimately recorded in the Company's financial statements through the operation of the merger relief provisions of the Companies Act 2006. The subsequent redemption of these shares gave rise to distributable profits of £14.3 million which were transferred to retained earnings.

During the period the Group issued 163,479 (2010: none) ordinary shares with a nominal value of £5,449 (2010: £nil) under share option schemes for an aggregate cash consideration of £26,694 (2010: £nil).

* During the 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.

24 Share premium

	2011 **£'000**	2010 £'000
At start of period	**1,001**	1,001
Premium on issue of new shares	**21**	-
Shares issued in respect of placing and open offer	-	14,296
Transfer to retained earnings	-	(14,296)
At end of period	**1,022**	1,001

25 Own shares

	2011 **£'000**	2010 £'000
At start of period	**-**	-
Issued in the period	**(4)**	-
At end of period	**(4)**	-

During the period, a subsidiary of the Group purchased 122,000 with a nominal value of £4,000, which have been classified as own shares.

26 Merger reserve

	2011 **£'000**	2010 £'000
At start of period	**(399)**	240
Release of reserve on disposal of subsidiary	**-**	(639)
At end of period	**(399)**	(399)

27 Share-based payment reserve

	2011 **£'000**	2010 £'000
At start of period	**367**	240
Credit to equity for equity-settled share based payments	**176**	127
At end of period	**543**	367

28 Capital redemption reserve

	2011 **£'000**	2010 £'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.

29 Foreign exchange reserve

	2011 **£'000**	2010 £'000
At start of period	**-**	336
Release of reserve on disposal of subsidiary	**-**	(336)
At end of period	**-**	-

30 Retained earnings

	£'000
At 27 September 2009	(81,161)
Release from Merger reserve on disposal of subsidiary	639
Transfer from the share premium account	14,296
Deferred tax on sharesave scheme taken directly to equity	121
Net profit for the period	9,974
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)**

The transfer from the share premium account in the previous period arose from the firm placing and open offer in November 2009. Within these arrangements, the Company issued shares in exchange for ordinary shares and redeemable preference shares in Tail Finance Jersey Limited. No share premium was ultimately recorded in the Company financial statements through the operation of the merger relief provisions of the Companies Act 2006.

The realised gain was taken after the deduction of transaction costs of £0.5 million, principally as a result of commissions and professional charges.

The subsequent redemption of these shares gave rise to distributable profits of £14.3 million which were transferred to retained earnings.

31 Financial commitments

a) Capital commitments
At the end of the period there were capital commitments contracted of £300,000 (2010: £nil).

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 £149,000 (2010: £181,000).

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

Minimum lease payments under operating leases recognised as an expense for the period were £20,881,000 which includes property service charges of £699,000 (2010: £20,861,000 including property service charges of £649,000).

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:

	2011		2010	
	Land and buildings £'000	**Other £'000**	Land and buildings £'000	Other £'000
- within 1 year	**18,401**	**1,156**	17,908	1,014
- within 2 - 5 years	**61,188**	**1,738**	58,796	1,922
- after 5 years	**66,485**	**39**	63,027	80
	146,074	**2,933**	139,731	3,016

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 (2010: same).

32 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**	
			2011	2010
26 January 2001	**54p**	**7 Years**	**-**	78,020
12 February 2002	**54p**	**7 Years**	**40,779**	40,779
			40,779	118,799

Movements in share options are summarised as follows:

	2011 number of share options	**2011 weighted average exercise price £**	**2010 number of share options**	**2010 weighted average exercise price £**
Outstanding at beginning of period	**118,799**	**0.54**	122,299	0.54
Exercised during the period	**(41,520)**	**0.54**	-	-
Expired during the period	**(36,500)**	**0.54**	(3,500)	0.54
Outstanding at end of period	**40,779**	**0.54**	118,799	0.54
Exercisable at end of period	**40,779**	**0.54**	118,799	0.54

The options outstanding at 1 October 2011 had a weighted averaged exercise price of 54 pence (2010: 54 pence) and a weighted average remaining contractual life of one year (2010: one year).

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:

	2011 number of share options	**2011 weighted average exercise price**	2010 number of share options	2010 weighted average exercise price
Outstanding at beginning of period	**5,452,947**	**19p**	5,974,783	19p
Issued during the period	**1,259,204**	**64p**	-	-
Expired during the period	**(482,588)**	**46p**	-	-
Exercised during the period	**-**	**-**	(521,836)	19p
Outstanding at end of period	**6,229,563**	**25p**	5,452,947	19p
Exercisable at end of period	**6,229,563**	**25p**	5,452,947	19p

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

		2011	2010
Weighted average share price	- pence	**31.5**	22.6
Weighted average exercise price	- pence	**25.2**	18.1
Expected volatility	- %	**74.1 and 67.9**	32.4
Expected life	- years	**3 or 5**	3 or 5
Risk – free rate of interest	- %	**0.7**	0.8
Dividend Yield	- %	**5.37**	5.04

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 3 or 5 years (2010: same). 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) 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 1 October 2011 was £73,000 (2010: £79,000).

The total number of matching shares that are expected to be awarded, subject to fulfilment of the performance conditions is 229,378, and the fair value of these matching shares as at 1 October 2011 was £131,000. No options were granted or exercised during the period (2010: 351,337). The options outstanding at 1 October 2011 had a weighted average exercise price of £0.69 and a weighted average remaining contractual life of 1 year. During the period, matching shares concerning the 2010 bonus award were recognised as an expense. This amounted to £66,000 (2010: nil).

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

		2011	2010
Weighted average share price	- pence	**65.8**	60.0
Weighted average exercise price	- pence	**-**	-
Expected volatility	- %	**45.3**	81.6
Expected life	- years	**2**	2
Risk – free rate of interest	- %	**0.6**	0.8
Dividend Yield	- %	**0**	0

Expected volatility was determined by calculating the historical volatility of the Group's share price over the 2009/10 and 2010/11 financial periods (2010: 2008/09 and 2009/10 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 £176,000 (2010: £127,000 expense) relating to share based payments.

33 Related party transactions

S.K.M. Williams has the non-statutory role of President, advising on property matters and is a related party by virtue of his 10.6% shareholding (19,903,950 ordinary shares) in the Group's issued share capital (2010: 10.6% shareholding of 19,903,950 ordinary shares).

At 1 October 2011 S.K.M. Williams was the landlord of three properties leased to Multi Tile Limited, a trading subsidiary of Topps Tiles Plc, for £136,000 (2010: £134,000) per annum.

No amounts were outstanding with S.K.M. Williams at 1 October 2011 (2010: £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 £41,000 (2010: £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 exemption available under IAS24.

The remuneration of the Board of Directors, who are considered key management personnel of the Group was £1.1million (2010: £1.3 million) as well as share based payments of nil (2010: £0.1 million). Further information about the remuneration of the individual Directors is provided in the Remuneration Report in the Annual Report.

34 Events after the balance sheet date

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 will be settled on 2 April 2012 for a consideration of £6,240,000.

This will have the effect of reducing the Group's annual interest charge moving forwards by approximately £1.25 million (at current LIBOR rates).