1 December 2020

Topps Tiles Plc

Annual Financial Report

A year of challenge and change - emerging stronger and refreshed

Topps Tiles Plc ("Topps", "Topps Tiles" or "the Company"), the UK's largest tile specialist, announces its annual financial results for the 52 weeks ended 26 September 2020.

Strategic and Operational Highlights

- The Group, which is already the UK's leading tile specialist, has set a new market share goal, aiming to account for £1 in every £5 spent on tiles and associated products in the UK by 2025 – "1 in 5 by 2025";
- This will be achieved by serving a broader customer base, with a current focus on enhancing our value credentials in Retail and growing our Commercial business;
- In our Retail business, we have launched a new strategy: "Great Experience, Great Product and Great Value", ensuring the journey for our customers starts and ends with a great service experience - whether in-store or online;
- The world-class customer service delivered by our staff across our 342 stores remains key to our offer and this is bolstered by our recently relaunched website which, during the first national lockdown, saw online sales treble;
- In our Commercial business, we remain committed to our strategy of disrupting the commercial tile market and constructing a new market leader over the medium term;
- Sustainability is becoming a key part of our agenda; we are working with suppliers on high recycled content tiles and investing into energy efficient infrastructure.

Financial Highlights

	52 weeks ended 26 September 2020	52 weeks ended 28 September 2019	YoY
Statutory Measures			
Group revenue	£192.8 million	£219.2 million	(12.0)%
Gross margin	58.5%	61.6%	(3.1)ppts
(Loss) / Profit before tax	£(9.8) million	£12.5 million	n/a
Basic earnings per share	(4.11)p	5.18p	n/a
Final dividend per share	nil	2.30p	n/a
Total dividend per share	nil	3.40p	n/a
Adjusted Measures			
Retail like-for-like revenue year-on-year[1]	(12.5)%	+0.6%	n/a
Adjusted profit before tax[2]	£3.6 million	£16.0 million	(77.5)%
Adjusted earnings per share[3]	1.57p	6.61p	(76.2)%
Adjusted net cash / (debt)[4]	£26.0 million	£(11.3) million	+£37.3 million

Adjusting items are detailed in the notes below – these include the impact of IFRS 16 in 2020, items which are one-off in nature or can fluctuate significantly from year to year (such as some property-related items). In the prior year, adjusting items included trading losses from the Commercial business whilst the business went through an initial two-year phase of investing in growth.

Financial Summary

- Revenue decline of 12.0% (to £192.8 million; 2019: £219.2 million), with retail like-for-like sales decline of 12.5%, predominantly reflecting the impact of the Covid-19 pandemic, including a period of temporary store closures in Q3;
- Strong recovery in retail like-for-like sales in Q4, up 16.5%;

- Adjusted profit before tax of £3.6 million (2019: £16.0 million), with trading losses in Q3 from store closures being partially offset by Government support and improved trading in the final quarter of the year;
- Balance sheet transformed over the period, moving from adjusted net debt of £11.3 million at the beginning of the year to an adjusted net cash position of £26.0 million at year end (before the impact of IFRS 16). The £37.3 million improvement includes a one-off £17.9 million net receipt from the sale and leaseback of our head office and central warehouse buildings as well as a significant focus on cash management as part of Covid-19 response;
- Based on a prudent view of the commercial market following Covid-19, recognised a non-cash impairment of Commercial goodwill, intangible assets and property, plant and equipment of £5.6m under IAS 36;
- After adjusting items (detailed below), including the impact of IFRS 16 and the Commercial impairment, loss before tax on a statutory basis was £9.8 million (2019: profit of £12.5 million);
- No final dividend proposed in light of the challenges faced this year (2019: full year dividend of 3.4 pence per share). Cash dividends paid in this financial period relate to prior year final dividend payment. The Board is keen to re-instate the dividend policy as soon as is appropriate. This should be possible in the new financial year, subject to delivering a positive adjusted EPS.

Navigating Covid-19

- The safety and well-being of our colleagues and customers has been our number one priority throughout the pandemic;
- Retail stores trading in line with Government guidance – over half of Retail sales are to trade customers;
- Support from the UK Government's Job Retention Scheme ceased in early August;
- Named a Top Five retailer for our handling of the crisis by employee review site Glassdoor and Retail Week magazine.

Current Trading and Outlook

- In the first eight weeks of the new financial period, retail like-for-like revenues increased by 19.6% (2019: decrease of 7.2%);
- Retail business benefitting from the current increase in home improvement activity;
- Commercial market remains subdued but activity levels starting to improve.

Commenting on the results, Rob Parker, Chief Executive said:

"In what has been a very challenging year, I am pleased with our response as a business, in the resilience we have shown and, in particular, the strong bounce-back in retail sales delivered since the initial national lockdown. Underpinning all of this have been our exceptional colleagues across the Group, and I would like to thank them all for their hard work and commitment throughout this testing period.

"During the year we have transformed our balance sheet and have accelerated our strategic development, building on our credentials as the UK's leading tile specialist. We are ambitious for the business and have set ourselves a new goal of taking £1 in every £5 spent on tiles and associated products in the UK by 2025.

"It has been a year of challenge and change for Topps but we are emerging stronger and refreshed. Our new financial year has begun strongly, with retail like-for-like sales in the first eight weeks ahead by 19.6%. With our true omni-channel offer, specialist credentials and strong financial footing, Topps is well-positioned for growth as the UK economy begins to recover."

Notes

[1]Retail like-for-like sales revenues are defined as sales from online and stores that have been trading for more than 52 weeks. In 2020 sales in like for like stores was £182.3 million (2019: £209.8 million), with an average of 357 stores included in the weekly calculation.

[2] Adjusted profit before tax excludes the impact of IFRS 16 and several items which are either one-off in nature or fluctuate significantly from year to year (such as some property related items). These are set out as follows:

	2020 £m	**2019 £m**
Adjusted profit before tax	***3.6***	***16.0***
Property		
- *Impairment of property, plant, equipment and movement in onerous lease provision*	*(1.6)*	*(1.8)*
- *Vacant property costs*	*(1.5)*	*(1.1)*
- *Gains on disposal of freehold properties (pre IFRS 16)[5]*	*3.0*	*nil*
	(0.1)	***(2.9)***
Commercial		
- *Costs related to acquisition during the period*	**nil*	**(0.4)*
- *Commercial trading loss*	**n/a*	**(2.0)*
- *Commercial amortisation of intangibles & contingent consideration*	**n/a*	**(0.3)*
- *Commercial impairment of goodwill, intangibles and property, plant and equipment*	**(5.6)*	**nil*
	(5.6)	***(2.7)***
Other		
- *Costs related to business restructure*	*(0.5)*	*nil*
- *Write off of goodwill relating to historic acquisition*	*nil*	*(0.2)*
- *Repayment of historical import duty*	*nil*	*2.3*
	(0.5)	***2.1***
IFRS 16		
IFRS 16 adjustments	*0.4*	*nil*
IFRS 16 – one off adjustment relating to sale and leaseback[5]	*(2.9)*	*nil*
IFRS 16 – one off changes including impairment of closure programme stores	*(4.7)*	*nil*
	(7.2)	***nil***
Statutory (loss) / profit before tax	***(9.8)***	***12.5***

** In the prior year, adjusting items included trading losses from the Commercial business whilst the business went through an initial two-year phase of investing in growth. In the current year, Commercial trading losses are included in adjusted profit. In the current year, we have impaired commercial goodwill, intangibles and property, plant and equipment, recognising the risk of a slower growth profile following the impact of Covid-19 on sectors that the Parkside and Strata businesses serve.*

[3] Adjusted earnings per share is adjusted for the items highlighted above, plus the impact of corporation tax

[4] Adjusted net debt is defined as bank loans, before unamortised issue costs (note 20), less cash and cash equivalents. It excludes lease liabilities under IFRS 16.

[5] Gains on disposal of freehold properties include a £4.0 million gain on the sale of the Group's head office and central warehousing buildings calculated on a pre IFRS 16 basis, the sale and leaseback transaction under IFRS 16 generates a £2.9 million reversal of this gain leaving a net gain of £1.1 million - see note 4 to the accounts.

For further information please contact:

Topps Tiles Plc (1/12/20) 020 7638 9571

Rob Parker, CEO (Thereafter) 0116 282 8000
Stephen Hopson, CFO

Citigate Dewe Rogerson 020 7638 9571

Kevin Smith/Nick Hayns

STRATEGIC REPORT

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

MARKETPLACE

The UK Tile Market

The UK tile market splits into two broad sectors – domestic, accounting for around 55% of the market, and commercial, accounting for the remaining 45% (source: Mintel). The domestic market includes the renovation, maintenance and improvement of residential properties and the commercial market includes commercial building projects in their many and varied forms, as well as new build residential property.

An external survey of the tile market is published by Mintel in September each year. It covers the whole of the UK tile market, based on manufacturer and supplier data. The September 2020 report quotes the 2019 total market at £375.5 million at MSP (manufacturers' selling prices) with a projection for 2020 at £285.8 million, a 23.9% fall. The projected decline in the market this year is largely due to the significant disruption from Covid-19 and any projection of future performance is particularly problematic due to the continued uncertainty the pandemic has caused. Mintel forecasts that the market will rise by around 9% to £310.6 million in 2021 and then recover to £375.5 million in 2022 but these estimates are highly likely to be revised based on the current strong level of demand being seen in the domestic sector.

Domestic Tile Market

Taking on a home improvement project is generally regarded as discretionary spend and therefore consumer confidence is seen as a good indicator of future growth. However, due to the pandemic, there are other factors influencing levels of demand. Following the period of lockdown, there has been a wave of domestic home improvement work, a rediscovery of the love of the home and in some cases, diversion of discretionary spend from other areas such as holidays into home improvement. The market is therefore currently more buoyant than the metrics suggest however the sustainability of this trend is hard to forecast.

During 2020, the average level of consumer confidence was -22.1, which compares to -12.5 in 2019 (source: GFK). Over the first half (excluding March), the index was relatively stable at -11, the second half has been dominated by the effects of Covid-19 with an average level of consumer confidence at -29.3.

A further key driver of the customer decision to take on a home improvement project is buying a new home; housing transactions are therefore a useful indicator of likely future demand. UK housing transactions across the first half were stable, averaging around 1% growth (excluding March). The second half has seen significant disruption as Covid-19 preventative measures specifically impacted the housing market and transactions fell by 31%. Transactions for the financial year were 1.0 million, around 16% below the trend over recent years of approximately 1.2 million (Source: HMRC).

UK housing prices can also be a useful indicator of our market. In a rising market, home owners tend to feel more affluent and are more confident in spending money on their homes. During the year house prices grew slowly, with the average price of a house in the UK at £218,947 (2019: £214,394) (Source: Nationwide). It should be noted, however, that 2020 has been a highly unusual year for economic indicators and the significant restriction in housing transactions detailed above may also mean that the house price data is a less robust indicator for this specific period.

Construction output for private housing repair, maintenance and improvement declined by 18.6% across the period (source: ONS).

Commercial Tile Market

The UK commercial tile market is fragmented and regionalised with only a small number of scale competitors. The smaller competitors tend to specialise in certain sectors of the market – examples being transport, restaurants, automotive, leisure, offices or higher end residential. Our success in this market results from appealing to both designers and architects, with our quality and differentiated offer, and to contractors, who may require more commoditised products, in large quantities, in short timescales, but at lower prices. Although the focus for our commercial business is on customers in the former category, where we can leverage our access to differentiated product through our supplier relationships, the Group's buying advantage and stock holding position also supports volume sales.

The commercial tile market has seen and continues to see significant disruption resulting from Covid-19. During the most intense period of the UK lockdown during the third quarter a number of our construction and refurbishment projects were postponed or starts delayed or cancelled. The long-term nature of many commercial projects means that some of these may now take time to materialise as investment in certain sectors remains constrained. Although data indicates an improvement in new project starts, they remain below FY19 levels and it is likely the commercial market for tiles will remain somewhat subdued for the next 12-18 months. Market performance remains highly varied by sub-sector and by client within each sub-sector and we have seen differing activity levels across retailers, restaurant brands, hotel, construction and developer clients.

Construction output for the private commercial sector declined by 15.4% across the period (source: ONS).

Covid-19

In common with all organisations, the global pandemic has generated an unprecedented level of disruption to our business. Our Retail stores closed from 23 March 2020 and the most significant period of disruption was in our third quarter, from April to June. Whilst stores were closed, we relied on our website (which was relaunched in October 2019) and online sales trebled in this period. We slowly re-opened stores (allowed due to our 'Home and hardware' categorisation) as we developed safe working practices for our colleagues and customers, and gained confidence that we could safely service our customers' needs. One particular highlight during the lockdown period was our ability to maintain supply through the strength of our supplier relationships and the hard work and endeavour of our colleagues working in inventory management, buying and logistics.

Alongside the safety of our colleagues and customers, the key focus of the business in this period was on managing cash and strengthening our financial position. We have emerged stronger as a result, having removed an annualised £4.0 million of operating costs, further rationalised the store estate, monetised £18.1 million of freehold assets through the sale and leaseback of our head office and warehouse facilities and reduced capital expenditure (excluding freehold purchases) by £3.2 million, compared with the prior year. These actions, combined with a much stronger period of trading in our retail business over the final quarter and the timing of year end, put the business in a strong position with adjusted net cash of £26.0 million and available headroom against existing facilities of £75.0 million at the year end.

We estimate that the trading disruption from Covid-19 in the third quarter, including temporary closure of stores, impacted gross profit by approximately £16 million, contributing to our statutory loss in the year. The business used the support provided by the UK Government – principally the Job Retention Scheme and the cessation of retail business rates. During April, when our stores were closed, around 90% of our colleagues were furloughed. As stores re-opened, our use of Government support schemes reduced through to August, when we ceased further claims against the Job Retention Scheme. The total amount of support received from the Government in the financial year was £10.7 million, comprising £5.3 million from the Job Retention Scheme, £4.7 million from the cessation of business rates and £0.7 million of grants. Liquidity has been supported through an additional £10.0 million loan facility through existing lenders and backed by the UK Government Coronavirus Large Business Interruption Loan Scheme ("CLBILS") of which £5.0 million was drawn at year end, as well as £6.0 million of VAT deferrals which we expect to repay during the current financial year.

The risks presented by Covid-19 remain and we are very conscious of the resulting uncertainties that this generates. However, the business is well positioned to deal with these uncertainties and we are confident that our market leading position will strengthen as we continue to respond by making decisions in the best long-term interests of the business. One key lesson from the first national lockdown is how much our customers value our stores and the support of our colleagues, and the Board would like to place on record its thanks and gratitude to all colleagues across the business for their support and endeavour during this period. Topps Tiles has a strong team of talented and capable people and this period has demonstrated that unequivocally.

Core Purpose, Goal & Strategy

The core purpose of the Group is *to inspire customers through our love of tiles*. This gives us a very clear focus on our chosen specialism of tiles (and closely related products) and encourages all of our colleagues to be passionate about the products we sell.

This year we announced a new goal for the business. Based on total market share (including both the domestic and commercial markets) and encompassing tiles, adhesives and grouts - which comprise a material portion of our annual sales - we estimate that our current combined market share in the UK is around 17%. Our new goal is to achieve a 20% share - accounting for £1 in every £5 spent on tiles and associated products in the UK. We believe that we can achieve this target by 2025, requiring us to outperform the market by approximately 3.5% each year over the next five years.

Our strategy to achieve this objective is to broaden our customer base while retaining our specialism in tiles and reputation for high-quality and innovative products. Our Retail business is the clear leader in the UK. This year we have conducted a robust appraisal of a number of aspects of our retail business and identified exciting opportunities for future growth. For example, we will ensure that customers fully appreciate our value credentials - that with our market-beating product range they will always be able to find great products at great prices and truly 'get the look for less'. Our entry into the Commercial tile market in 2017 was a key strategic step, allowing us to approximately double our addressable market whilst maintaining our specialism in tiles. Our continued progress against our Commercial ambitions is explained below.

Our Retail and Commercial businesses are both supported by our Group strategies of "Leading Product" and "Leading People".

Leading Product

Our specialism in tiles is our key source of competitive advantage. We are experts in the ranging, sourcing and procurement of tiles on a global basis and we work with carefully selected partners around the world to develop and produce differentiated products that are innovative, high quality and exclusive. We protect the intellectual property and design assets we create through partner exclusivity and design registration. Ultimately, it is this Group specialism that we leverage through our business units into both the retail and commercial markets.

<u>Progress and Outlook</u>

This year we relied on the strength of our supply chain more than ever before. During the period of peak Covid-19 disruption many of our suppliers were also experiencing disruption and we worked with them very pro-actively to ensure we would have continued access to product. This was further compounded by the period following lockdown when our retail business experienced an exceptionally robust recovery in demand. We believe the strength of our supply chain and strategic relationships with manufacturers have enabled us to stay ahead of our competitors in terms of product availability through this period. Our strategic supplier base accounts for 80% of our purchases (2019: 70%).

In response to the disruption caused by Covid-19 we slowed the flow of new product into our Retail business this year, delivering 32 new product ranges; approximately 35% of these were design-led by us in collaboration with key supply partners. 87% of our retail ranges are either own brand or exclusive to us and this forms a key aspect of our product differential. In addition, we launched a further 11 ranges under our rebranded 'Get The Look For Less' initiative.

This year we have also launched the second of our unique 'collections', which bring a group of tiles and associated products together under one brand that we can present to our customers as a single project solution. Following the launch of Regal® in 2019, Matrix® is a portfolio of small format ceramic wall tiles in 23 colours, two sizes and two finishes, with co-ordinating detailing including tile trims and grouts. The colours have been developed by Topps and are built on design trends and customer insights. The range represents a significant growth opportunity appealing equally to both domestic and commercial clients. Matrix® is advantaged in the market on design, choice, quality and stock availability compared to any of its market rivals.

In our Commercial business, we have continued to leverage the Group's scale to develop strategic supplier relationships; allowing us to build a portfolio of recognised brands and products appealing to the architectural and design sector, often on an exclusive basis. The Commercial business now has access to more than 8,000 products from our global supplier base. Leveraging our scale means more than two-thirds of commercial purchases are through our strategic supplier group and provide us advantaged cost of goods. Leveraging our specialism means we have been very successful at developing bespoke projects for key clients and won sizeable developments across the residential, retail and hospitality sectors.

Technical authority is a further key aspect of differential in our market and we are leaders in this field, working closely with our strategic supplier base to set exacting standards on quality and performance. We have our own in-house technical team to meet the demands of our broader customer base and offer key technical information and on-demand support across all channels through our dedicated in-house testing facilities and quality control.

Leading People

The Group's success is underpinned by nationally-recognised and industry-leading levels of capability and engagement of our colleagues. This ensures excellence in both service to our customers and clients, and to the support provided to store teams by our Leicester support office and field teams. This starts with our Leading People initiative, which encourages colleagues to lead the thinking, lead the pace and for our managers to lead the team.

Progress and Outlook

The Covid-19 pandemic has been central to our engagement with our people this year, with around 90% of our colleagues being furloughed during the period of maximum disruption in the third quarter of our financial year. From early August all of our colleagues had returned to work and we stopped using the Government Job Retention Scheme. Our commitment to our colleagues and their wellbeing and engagement was reflected in being named a Top Five retailer for our handling of the crisis by employee review site Glassdoor and Retail Week magazine. This latest acknowledgment followed a previous award from Glassdoor where we were also named in the top ten Best Employers in the UK (and were the highest-listed retailer).

We have introduced a strong focus on mental health and wellbeing this year, with 24 colleagues across the country trained as Mental Health First Aiders, and 50 more volunteering to join the second phase of training. The business joined the annual 'Time to Talk' day, a campaign run by Time to Change, a social movement that aims to change the way people think and act about mental health. This included encouraging colleagues to reach out to each other through whatever means they can, providing a support network where they feel people may be more vulnerable, as well as online materials to support colleagues and a telephone helpline.

Our consistently high engagement levels were evidenced in our annual colleague survey, MyVoice, which enables all colleagues across the business to have their say on their feelings about leadership, work and wellbeing. In November 2019, 70% of colleagues completed the survey, with 74% of responses strongly agreeing, or agreeing, with positive statements about the Group.

Our investment in our people continues with the development opportunities we provide. A total of 35% of vacancies across the Group are filled internally, enabling us to offer progression within the business as well as retaining the technical skills of store colleagues.

This year we introduced an apprenticeship scheme to enable us to use our contributions to the Apprenticeship Levy to develop our people and business capability. We are working with national specialist partners to provide Level 3 to Level 6 apprenticeship qualifications which are currently developing colleagues in IT, Project Management, Finance, Payroll, HR, Business Administration, Marketing and Customer Service disciplines. Qualifications will soon be available for store colleagues as well as a 'warehouse to wheels' provision which will enable warehouse colleagues to acquire an LGV licence - providing career progression opportunities.

Sustainability

Sustainability is becoming a key part of our agenda. This year we made progress in reducing our impact on the environment across a number of areas, specifically in transport and supply chain, waste and recycling, working with suppliers on innovative products involving high recycled content, and investing in energy efficient infrastructure.

We improved transport efficiency by repatriating more than 1,000 product lines within our 'Essentials' category to our distribution centre in Leicester, removing the need for c.10,000 direct-to-store deliveries by our suppliers every year. We also changed the provider of direct customer orders, which were previously managed from our stores, such that these orders are now fulfilled on shared resource, on vehicles which are largely full from the point of collection to delivery. This increases efficiency and reduces the level of carbon emissions.

In our supply chain, we build long term relationships with suppliers who share our ethical values. All of our suppliers are required to comply with the Topps Responsible Sourcing Code. This code has been designed to be ethical, auditable, and achievable and is in place to promote good working practices with our suppliers. As part of our auditing process, all of our suppliers have to complete a Social and Ethical Self-assessment document to be able to identify if there are any product or geographical risks. We are working closely with Intertek, the leading Quality Assurance experts, who will carry out independent third-party auditing where due diligence mapping has identified any potential risks. To mitigate any additional risk there are also on-going surveillance visits carried out by our buyers, factory agents and members of our technical team to ensure that our products continue to be ethically sourced.

We continue to work with suppliers to increase the level of recycled content used in production and, this year, made a long-term commitment with one supplier to support production of tiles with 98% recycled content. This unique technology has the potential to revolutionise tile production in the future, utilising waste materials and reducing gas consumption. Our first range, Sequel Vibe, has already won several awards for our commercial business Parkside. Our second range Principle™ will launch in early 2021.

We collect waste from across our store network and are working with Biffa Waste Recycling to reduce the level of waste sent to landfill. We also collect damaged tiles from our stores and this year recycled 84% of our tiles, a 32 ppts increase on the previous year.

Our rolling programme of LED lighting installations across the store estate continues, with 100 additional stores due to complete by early 2021. This programme will deliver 1,530 tonnes of annual CO2 savings as well as provide reduced maintenance across the estate.

Retail – Topps Tiles

This year we have launched a new strategy in our retail business - “Great Experience, Great Product and Great Value”. We strive to ensure that the journey for all of our customers starts and ends with a great customer service experience, whether in-store or online, and we complement this with a range of market leading products supported by our Leading Product initiative. Ultimately, these are combined to deliver great value to our customers.

<u>Progress and Outlook</u>

As part of our new strategic retail focus to deliver great value for customers and our new Group market share goal we are keen to ensure we appeal to as broad a range of customers as possible. A thorough analysis of our offer was completed during the year and identified an opportunity to increase our participation in the lower-priced ‘value’ segment. As part of this strategy we have rebranded and relaunched the ‘Get The Look For Less’ part of our offer as well as adding new ranges. This new branding in stores makes it easier for our customers to seek out our lower priced ranges where they wish to do so and ensures that we have a relevant offer for a wider range of customers.

We have also reviewed our range of tile accessory items such as adhesives and grouts and ensured that we are offering our retail customers strong value in these areas. This has resulted in some price reductions and hence investment of gross margin. Sales have responded positively and this initiative has been profit enhancing.

Our digital platform remains a vital part of our overall offer and for many customers our website is the first step on their journey with us. We relaunched our website at the start of this year – this included an all-new design but also a modern platform with greater flexibility and resilience. This served us particularly well during the peak of the Covid-19 disruption. During the period when our Retail stores were closed, our website sales trebled and this provided a vital inflow of cash to the business, and allowed us to continue to service some of our customers’ needs. Subsequently, with the re-opening of our stores, online sales have decreased but remain above the prior year level. We are very focused on offering our customers a true omni-channel experience and our new website has now made this possible – customers can choose which channel they utilise during their journey – and can change seamlessly between them as they wish. Almost all of our customers will use our website at some stage but 90% of our customers will also visit one of our stores.

We have continued to progress our social media activities this year across Instagram, Pinterest and Facebook. We now have 50,000 followers on Instagram, an increase of 44% on the prior year. Engagement in our Facebook retail page has increased by 82% this year, and on Pinterest we have an audience of around 850,000, with impressions double the prior year.

Our colleagues offer our customers a world-class experience within store. The majority of our customers shop infrequently for tiles which means that when they do, they need advice and expertise. Our customer satisfaction scores are very important to us in delivering our strategy and this year we have achieved an overall satisfaction rating of 89% (2019: 86%). This means that 89% of customers who filled in a survey rated us as five out of five, an outstanding performance.

The size of our store portfolio is also a key source of competitive advantage as this makes us very convenient for the majority of the UK population. Over recent years we have identified opportunities to reduce the size of our portfolio without significantly reducing convenience for our customers. This helps us to continue to respond to our customers' changing needs, develop a true omni-channel business and also to drive improvements in return on capital employed. At the period end we had 342 stores (2019: 362 stores), having closed 24 stores during the period and opened 4. We anticipate that there will be further opportunities for modest reductions in the store portfolio and recognise that this approach requires flexibility in our leased portfolio. The average unexpired lease term to the next break opportunity is 3.4 years (2019: 3.8 years); removing stores which are strategically important (where we have proactively taken longer terms to secure our tenure) from that calculation the average unexpired lease term to break falls to 3.3 years (2019: 3.1 years).

Our customer base splits into two distinct but related groups – professional fitters (trade) and homeowners (retail). The two groups are related in that trade provides a vital link to homeowners who prefer to transact through their fitter rather than with us direct. This year we have seen increased demand from our retail customers, especially in the period following the initial Covid-19 lockdown. We attribute this to homeowners having more time to invest in DIY and also concerns about tradespeople entering their homes during the pandemic. It is too early to say to what extent this shift is temporary or structural but the business is equally well positioned to provide for either customer group. Our trade customer base represents 55% of our total sales (2019: 56%) and includes 97,000 (2019: 90,000) registered traders who also participate in our market-leading trade loyalty scheme.

Commercial – Parkside & Strata

The commercial tile market represents around 45% of the overall UK tile market, and with our entry into this market in 2017 we approximately doubled the size of our addressable market whilst maintaining our specialism in tiles and related products. Our entry started with the acquisition of the Parkside business in September 2017 and in April 2019 we purchased the Strata business which was complimentary to Parkside. Our strategy of "Disrupt and Construct" means that we plan to 'disrupt' the existing highly fragmented competitive landscape and put in place the building blocks to 'construct' a new market leader. Our tile expertise, supplier relationships, size and scale as a Group is central to this plan – giving us the resources to recruit a talented sales team, invest in market-leading pricing and access the broadest range of products, often on an exclusive basis.

<u>Progress and Outlook</u>

The first half of the 2020 financial year was a positive period for our Commercial business with sales growing above £4.5m in the first six months and increasing by 246% year on year (including the benefit from acquiring Strata in the prior year) as we successfully executed our strategy. The disruption generated from Covid-19 has been significant in the commercial market and we have seen fewer projects commencing and delays to existing projects. The impact of this was to reduce sales by 18% year on year across the second half. Our buying power and technical expertise in tiles gives us the flexibility to focus on commercial sectors and sub-sectors less affected by Covid-19. Even within hospitality and leisure, areas highly impacted, activity remains and our broad client base and flexibility of supply means we are well placed to service this demand.

Overall sales for the full year were £7.5 million, an increase of 53% (including the benefit from acquiring Strata in the prior year). Trading losses across the year improved slightly to £1.9 million (2019: £2.0 million), excluding £0.3 million (2019: £0.3 million) arising on the amortisation of intangible assets and provision for redemption of non-controlling interest. Our stated desire to move our Commercial business to breakeven has been delayed due to the Covid-19 disruption and a further loss is expected in the year ahead. As covered in the Financial Review, the Board have conducted an impairment review of the goodwill, intangible assets and property, plant and equipment held within the Commercial business. The Board reviewed a range of scenarios but, taking a prudent view and recognising the risk of a slower growth profile following the impact of Covid on sectors that the Parkside and Strata sales teams serve, the Board have decided to impair these assets to a carrying value of zero. The impact on loss before tax of this impairment was £5.6 million.

Notable projects we delivered this year include supplying the tiles for over 11 hotel projects including the Hilton, Hyatt, Marriott and Grosvenor hotel groups. We continue to supply major UK retailers and 2020 has included some exciting work with Harrods that will continue into the new year. We have worked closely with residential building development partners to deliver unique tile designs including the Silk District Whitechapel development where we supplied bespoke tiles for 700 apartments.

Digital interaction is critical to success in the commercial market, with the key customer groups of architects and designers needing to access services digitally. This year we again strengthened our digital offer by launching video consultations, a five-minute sample selector tool, 360 studio tours, and an online colour design lab. Engagement with our partners and clients has risen significantly through the Parkside and Strata websites and social media. We attended over 30 sales events in FY20 and built project pipelines that have more than doubled year on year. The commercial sector is a relationship business and our sales team of 25 people is key to this success.

During the year we integrated the Strata sales support operation into our Parkside business and exited the Strata offices and warehouse in Guildford. Both businesses now operate on the same new systems platform and are supported from our central team in Leicester, as part of the 'construct' side of the strategic plan. This will ensure that our Commercial operations are more efficient and future-proof, and also helps to reduce our cost base significantly.

Our Commercial business remains a key element of our Group strategy and we remain confident in our ability to build a market-leading profitable business over the medium term.

Key Performance Indicators ("KPIs")

The Board monitors a number of financial and non-financial metrics and KPIs both for the Group and by individual store. This information is reviewed and updated as the Directors feel appropriate. Specific measures include:

	52 weeks to 26 September 2020	**52 weeks to 28 September 2019**	**YoY**
Financial KPIs			
Group revenue growth year-on-year	(12.0)%	+1.1%	n/a
Retail like-for-like sales growth year-on-year*	(12.5)%	+0.6%	n/a
Group gross margin	58.5%	61.6%	(3.1)ppts
Adjusted profit before tax*	£3.6m	£16.0m	(77.5)%
Adjusted earnings per share*	1.57 pence	6.61 pence	(76.2)%
Adjusted net cash / (net debt)*	£26.0m	£(11.3)m	+£37.3m
Inventory days	134	134	nil
Non-financial KPIs			
Customer overall satisfaction score	88.5%	86.0%	+2.5 ppts
Colleague turnover	28.8%	36.8%	(8.0) ppts
Carbon emissions per store (tonnes per annum)	24.7	32.0	(22.8)%
Number of retail stores at year end	342	362	(20)

* as defined on page 3

Notes: Customer overall satisfaction scores are calculated from the responses we receive through our TileTalk customer feedback programme. Overall satisfaction (OSAT) is the percentage of customers that score us 5 in the scale of 1 – 5, where 1 is highly dissatisfied, and 5 is highly satisfied. We estimate that this places us in the top three of UK retailers based on published data from the Institute of Customer Service and our own results data. Energy carbon emissions have been compiled in conjunction with our electricity and gas suppliers. This is based on the actual energy consumed multiplied by Environment Agency approved emissions factors. Vehicle emissions have been calculated by our in-house transport team based on mileage covered multiplied by manufacturer quoted emission statistics.

FINANCIAL REVIEW

Adjusted Measures

The Group's management uses adjusted performance measures, to plan for, control and assess the performance of the Group.
Adjusted profit before tax differs from the statutory profit before tax as it excludes the effect of one off or fluctuating items, allowing stakeholders to understand results across years in a more consistent manner. It also excludes the impact of IFRS 16 to enable a more meaningful comparison to the prior year.

For the current year the following items have been excluded:

- Gains from the sale of freehold properties (pre IFRS 16) of £3.0 million (2019: £nil);
- Losses related to movement in property related provisions (including onerous lease movements and provision against fixed assets in loss making stores) of £1.6 million (2019: losses of £1.8 million);
- Vacant property costs of £1.5 million (2019: £1.1 million) for stores closed as part of a portfolio optimisation programme;
- Impairment of Commercial goodwill, intangibles and property, plant and equipment under IAS 36, of £5.6 million (2019: £nil), based on a prudent view of the commercial market following Covid-19;
- One-off costs relating to business reorganisation (across store operations, central functions and the integration of Strata back office support) of £0.5 million (2019: £nil); and
- IFRS 16 related adjustments of £7.2 million (2019: £nil), of which £2.9 million relates to a one-off adjustment connected to the sale and leaseback of freehold properties (see gains note above), £4.7 million relating to one off changes including impairment of closure programme stores and £0.4 million gain relating to ongoing differences to the P&L following the adoption of IFRS 16.

In the prior year we adjusted for a gain relating to repayment of historical import duty from HMRC of £2.3 million, losses from a write off of goodwill relating to a historic acquisition (Surface Coatings Ltd) £0.2 million, losses related to the Commercial business and the purchase of Strata of £2.7 million and, as described above, losses related to movement in property related provisions of £1.8 million and vacant property costs of £1.1 million.

All of the FY20 adjustments other than the costs relating to the business reorganisation and some of the vacant property costs were non-cash.

STATEMENT OF FINANCIAL PERFORMANCE

Revenue

Total revenue for the period ended 26 September 2020 decreased by 12.0% to £192.8 million (2019: £219.2 million). Revenue was materially impacted by temporary store closures in the third quarter as part of our response to the Covid-19 pandemic. In addition, there was a net closure of 20 stores in the year.

Retail like-for-like store sales were 12.5% lower than the prior year, which consisted of a 6.1% decrease in the first half of the financial period and a 18.8% decrease in the second half. Retail like-for-like sales in the final quarter increased 16.5% on the prior year.

Gross Margin

Total gross margin was 58.5%, a decrease from 61.6% in the prior year. 0.3 ppts of the margin decline was due to the changing sales mix between Retail and Commercial, with the balance due to lower margins in Retail.

Gross margin in the retail business decreased from 62.0% in the prior year to 59.2% in the current year, a 2.8 ppt decline. This was driven by an increased focus on pricing competitiveness and changes in product mix (1.0 ppt impact), as well as direct delivery costs, especially web sales delivered direct to our customers during lockdown (0.4 ppts impact) and a higher expense relating to inventory write offs and a higher inventory obsolescence provision (1.4 ppts). The impact of foreign exchange on cost of goods sold this year was immaterial.

For the year ahead, we anticipate that gross margin will be between 59% and 60%.

Operating Expenses

Operating expenses were £118.8 million compared to £121.6 million in FY19 however the year on year change is distorted as a result of the adoption of IFRS 16 and impairment of Commercial assets. On an adjusted basis, operating expenses reduced from £116.1 million to £108.4 million. Commercial operating expenses were included within adjusted items for the first time, increasing adjusted costs by £5.0m when compared to FY19. In addition, within the year the Group benefitted from £10.7 million of government support (see breakdown below). To provide a more meaningful year on year movement, excluding government support as well as Commercial operating expenses, adjusted operating costs would have been £114.1 million, a decrease of 1.7% on the prior year.

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

- Government support of £10.7 million - Job Retention scheme £5.3 million, Rates holiday £4.7 million and local authority Covid-19 grants of £0.7 million;
- Commercial operating costs of £5.0 million were included in adjusted operating costs for the first time;
- The average number of UK stores trading during the financial period was 357 (2019: 366), a 2.5% reduction, which resulted in approximately £1.8 million less cost;
- Inflation at an average of approximately 2.0% increased our cost base by around £2.3 million (excluding regulatory impacts);
- Regulatory cost increases from the National Living Wage, accounted for £0.6 million of additional costs;
- Colleagues have been allowed to roll over unused holiday from FY19 into FY20 due to the Covid-19 pandemic, resulting in an additional holiday pay accrual at year end of £1.9 million;
- Employee profit share costs decreased by £1.5 million, with lower level of financial performance compared to plan;
- Other savings of £3.5 million across the business including £1.7m of savings specifically relating to the national lockdown (employment and property costs) and £1.8m of other savings across other areas including supply chain and marketing.

For the year ahead, we expect the adjusted operating costs excluding IFRS 16 for the business to be between £115 million and £116 million, subject to the level of trading performance.

Financing

Interest on bank loans and overdrafts, net of bank interest receivable, was £0.8 million (2019: £0.9 million). During the period of national lockdown, the Group drew down the full £39 million available on the revolving credit facility and took additional facilities of £10 million (as part of the CLBILS government backed scheme). Following the sale of the Grove Park freehold assets for £18.1 million and very strong focus on liquidity the Group has ended the year in an adjusted net cash position, excluding lease liabilities under IFRS 16.

Net interest cover (calculated as adjusted EBITDA divided by net interest on bank loans, overdrafts and deposits) was 15.7 times (2019: 28.2 times).

IFRS 16 has had the impact of increasing finance costs by £3.0 million, resulting in total net finance costs of £3.8 million (2019: £0.9 million, as reported under IAS 17).

Profit Before Tax

The loss before tax was £9.8 million (2019: £12.5 million profit).

Excluding the adjusting items detailed above, profit before tax was £3.6 million (2019: £16.0 million). The Group adjusted profit before tax margin was 1.9% (2019: 7.5%).

Tax

The effective rate of corporation tax for the period was 18.4% (on a post IFRS 16 basis) (2019: 19.2%).

Earnings Per Share

Basic earnings per share were (4.11) pence (post IFRS 16). Basic earnings per share on a pre IFRS 16 basis were (0.86) pence (2019: 5.18 pence). Diluted earnings per share were (4.11) pence (post IFRS 16). Diluted earnings per share on a pre IFRS 16 basis were (0.86) pence (2019: 5.14 pence). Excluding the adjusting items, adjusted earnings per share were 1.57 pence (2019: 6.61 pence) – both calculated excluding the impact of IFRS 16.

Dividend and Dividend Policy

No final dividend has been proposed in light of the challenges faced this year and the importance of conserving cash, as indicated in the Interim Results (2019: full year dividend 3.4 pence per share). However, the Board is keen to re-instate the dividend policy of remitting approximately half of the adjusted earnings per share back to shareholders as soon as is appropriate. This should be possible in the new financial year, subject to delivering a positive adjusted EPS.

STATEMENT OF FINANCIAL POSITION

Capital Expenditure

Excluding freehold and long leasehold acquisition, capital expenditure in the period amounted to £4.4 million (2019: £7.6 million), a decrease of 42% year on year.

Key investments are as follows:

- New retail stores £1.3 million - four new openings (including three relocations) (2019: £2.7 million)
- All-store improvement programme £0.2 million (2019: £1.8 million)
- LED store improvement programme £0.6 million (2019: nil)
- Central office refurbishment £1.3 million (2019: £0.7 million)
- Group IT developments £0.3 million (2019: £0.7 million)
- Commercial showrooms £nil (2019: £0.6 million)
- Other expenditure £0.7 million (2019: £1.1 million)

In addition, we purchased two freehold properties as described in the Acquisitions & Disposals section below for £2.3 million (2019: £0.2 million).

The Board expects capital expenditure in the year ahead to be between £5 million and £6 million which will cover our core investment plans, including investment of over £1.3 million in a programme to retrofit LED lighting into a further 100 stores which will deliver a significant saving in energy and carbon emissions. Any strategic acquisitions that the Group may consider as part of its growth plans in the commercial tile market would be additional to this guidance.

Acquisitions & Disposals

During the year we entered into a sale and leaseback arrangement for our head office and central warehouse buildings for a price of £18.1 million before costs (£17.9 million net of costs). Following completion, we entered into leases for a combined annual rent of £1.2m over a 20 year period. As a result of this transaction, £13.7 million of non-current assets were derecognised and a right of use asset of £10.5 million and a lease liability of £12.7 million were booked.

We also disposed of our only investment property, an office building, for a consideration of £0.8 million. During the year we purchased the freehold interest in two store properties for £2.3 million to allow the Group to restructure the lease payments. These assets were subsequently reclassified as assets held for sale and, after year end, we entered into sale and leaseback agreements on both sites.

At the period end the Group held five freehold or long leasehold sites, with a total carrying value of £3.1 million (2019: six freehold or long leasehold sites valued at £13.8 million). The carrying value is based on the historic purchase cost and capital expenditure less accumulated depreciation and, in the case of the investment property held at the last year end, at fair value.

Impairment of Commercial assets

Following a review of indicators of impairment under IAS 36, the Board reviewed the recoverable amounts of the goodwill, intangible assets and plant, property and equipment relating to our Commercial business. Specifically, this is in relation to the acquisition of Parkside Ceramics Limited in 2017 and Strata Tiles Limited in 2019, and subsequent capital expenditure relating to these businesses. The Board reviewed a range of scenarios but, taking a prudent view and recognising the risk of a slower growth profile following the impact of Covid on sectors that the Parkside and Strata businesses serve, the Board have decided to impair these assets to a carrying value of zero. The impact on loss before tax of this impairment was £5.6 million.

Inventory

Inventory at the period end was £29.3 million (2019: £30.9 million) representing 134 days turnover (2019: 134 days turnover). The September 2020 year end stock balance does not include any additional stock for future potential import delays in advance of the Brexit deadline (2019: £1.1 million was held in advance of the 31 October 2019 Brexit deadline).

Cash flow

On a statutory basis, net cash from operating activities was £51.0 million, compared to £21.9 million in the prior year period. A significant factor in this change was the adoption of IFRS 16 which replaces lease payments (recorded within operating activities) with a payment of interest (recorded within operating activities) and capital (recorded within financing activities) relating to the lease liability. See the section on IFRS 16 below for more details. To support comparability with prior years, an analysis of free cash flow is presented below which excludes the impact of IFRS 16.

Free cash flow was £41.8 million (2019: £11.5 million), an increase of £30.3 million year on year, analysed in the table below:

	2020	2019
	£m	£m
Cash generated by operations before WC movements	10.4	21.6
Changes in working capital	21.5	4.6
Interest	(0.9)	(0.9)
Tax	(1.0)	(3.4)
	30.0	21.9
Capital expenditure excluding investments	(4.4)	(7.6)
Freehold and leasehold investments	(2.3)	(0.2)
Disposals and other investments	18.5	(2.6)
Free cash flow	41.8	11.5
Dividends	(4.5)	(6.6)
Change in adjusted net cash / (debt)	37.3	4.9
Adjusted net cash / (debt) at end of period	26.0	(11.3)

The working capital inflow was driven by a variety of factors, including the deferral of VAT from the second calendar quarter of 2020 (£6.0 million) as part of the Government's Covid-19 support package which is expected to be repaid from the start of the next tax year, a lower closing inventory (£1.6 million), a holiday pay accrual at year end (£1.9 million) and higher payables at year end due to strong trading in the last quarter (c. £8.0 million) as well as changes in other debtor and creditor balances.

Cash and cash equivalents at the period end were £31.0 million (2019: £18.7 million) with borrowings of £5.0 million (2019: £30.0 million).

Banking Facilities

The Group has a £39.0 million revolving credit facility in place which is committed to July 2022 (2019: £39.0 million). At the year end, none of this was drawn (2019: £30 million was drawn). In addition, the Group has £10 million of credit facilities through the Coronavirus Large Business Interruption Loan Scheme ("CLBILS"). At the year-end, £5 million of this was drawn. At the end of the year, the Group had £44 million of undrawn committed banking facilities.

IFRS 16 'LEASES'

The Group has applied IFRS 16 'Leases' at 29 September 2019 (date of initial application), using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application.

Accounting under IFRS 16

IFRS 16 applies a single 'on balance sheet' approach to lease accounting. Under IFRS 16, leases are accounted for as follows:

- A right-of-use asset is recognised which represents the lessee's contractual right to use the lease asset over the lease term. The right-of-use asset is depreciated on a straight-line basis over the lease term.
- A lease liability is recognised which reflects the lessee's obligation to make payments under the lease term. The lease liability is held at amortised cost, with an associated interest charge. This results in a higher interest expense in the earlier years of the lease term.

IFRS 16 results in the timing of lease expense recognition being accelerated for leases which would be currently accounted for as operating leases. However, the total expense over the life of the lease will be identical under IFRS 16 and IAS 17. IFRS 16 has no economic impact and does not impact the cash flows of the Group.

Statement of Financial Performance impact

The impact of the implementation of IFRS 16 on the Statement of Financial Performance is as follows:

	52 weeks ended 26 September 2020		
	Pre IFRS 16 £m	**Impact of IFRS 16 £m**	**Statutory Results under IFRS 16 £m**
Group revenue	192.8	-	192.8
Cost of sales	(80.0)	-	(80.0)
Gross profit	112.8	-	112.8
Operating costs	(114.6)	(4.2)	(118.8)
Group operating loss	**(1.8)**	**(4.2)**	**(6.0)**
Net finance costs	(0.8)	(3.0)	(3.8)
Loss before taxation	**(2.6)**	**(7.2)**	**(9.8)**

Statement of Financial Position impact

On transition of IFRS 16 on 29 September 2019, the Group recognised additional right-of-use assets of £117.7m, sub-lease assets of £3.5m, lease liabilities of £128.2m and deferred tax assets of £0.7m, as well as a reduction in prepayments, provisions and liabilities. As a result, a transitional adjustment of £3.6m decreased the opening balance of retained earnings.

As at 26 September 2020, adjusted net cash on a pre-IFRS 16 basis was £26.0m. This becomes net debt of £98.1m under IFRS 16 due to the recognition of the lease liabilities which are now on balance sheet.

Our banking covenants are based on a frozen-GAAP basis and therefore the application of IFRS 16 has no impact.

Cash Flow Statement impact

IFRS 16 does not impact the total cash flow during the period. However, under IAS 17 the rental payments were included within operating activities, whereas under IFRS 16 these are treated as financing activities. The £nil impact on the cash flow is shown in the table below:

	52 weeks ended 26 September 2020		
	Pre IFRS 16 £m	**Impact of IFRS 16 £m**	**Statutory Results under IFRS 16 £m**
Net cash from operating activities	30.0	21.0	51.0
Net cash from investing activities	11.8	0.4	12.2
Net cash used in financing activities	(29.5)	(21.4)	(50.9)
Cash flow	**12.3**	**-**	**12.3**

Brexit

Throughout the year, the Board monitored developments and received regular reports on progress from the Group's Brexit Working Group as we prepared for the end of the transition period, following the UK's exit from the European Union. We have implemented the operational changes needed to manage new employment practices and further border formalities and customs procedures for imported products. Robust plans have been put in place to flex delivery schedules to ensure continuity of supply should there be an initial period of disruption at ports of entry. In addition, we have invested in additional short-term stock-holding and warehousing facilities to mitigate any near-term disruption. In addition, the end of the transition period may see the imposition of tariffs on products imported from the EU. With its geographically diverse supplier base and buying power, the Group is well-positioned relative to competitors to mitigate the impact on product costs, prices and margins.

Current Trading and Market Conditions for the Year Ahead

In the first eight weeks of the new financial year, retail trading conditions have remained encouraging against a backdrop of customers diverting discretionary spend away from holidays and other leisure activities into home improvement projects. Against this backdrop retail like-for-like sales have increased by 19.6%. Whilst we expect external events to continue to support investment in the home in the short-term, it is very difficult to predict medium and longer-term trends; we remain confident that our market-leading Retail offer and Commercial growth strategy, along with our supply chain and balance sheet strength, give us a solid platform from which to deliver sustainable long-term growth.

Going Concern

When considering the going concern assertion, the Board reviews several factors including the ability of the Group to meet its banking covenants and operate within its banking facilities based on current financial plans, along with a series of more pessimistic trading scenarios that were deemed severe but plausible. The more pessimistic trading scenarios included a second national lockdown related to the Covid-19 pandemic during the next 12 months that would see our Retail stores closed for up to three months.

The Group took a number of actions to strengthen its liquidity during the Covid-19 pandemic, including accessing a range of support measures put in place by the UK Government, and the sale and leaseback of the Group's head office and central warehouse buildings in Enderby in June 2020. The going concern review also outlined a range of other mitigating actions that could be taken in a severe but plausible trading scenario. These included, but were not limited to, savings on store employee costs, savings on central support costs, and reduction of capital expenditure.

The Group's forecast covenant and cash headroom was reviewed against current lending facilities. These were refinanced in July 2018 and expire in July 2022, with an opportunity to extend in June 2021 for a further year, so a potential full term of five years ending July 2023. In all scenarios, the Board have concluded that there is sufficient covenant headroom and available liquidity for the Group to continue in operational existence for the foreseeable future. The Board therefore continue to adopt the going concern basis in preparing the financial statements.

Long Term Viability

The Board have also considered the Longer Term Viability ("LTV") of the business in light of updated Corporate Governance requirements. Based on this review, the Directors confirm that they have a reasonable expectation that the Group will continue to operate and meet its liabilities, as they fall due, for the next 3 years. The full LTV statement can be found in our Annual Report.

Rob Parker

Chief Executive Officer

Stephen Hopson

Chief Financial Officer

1 December 2020

Consolidated Statement of Financial Performance

FOR THE 52 WEEKS ENDED 26 SEPTEMBER 2020

	Notes	**52 weeks ended 26 September 2020 £'000**	52 weeks ended 28 September 2019 £'000
Group revenue	3	**192,813**	219,197
Cost of sales		**(80,001)**	(84,245)
Gross profit		**112,812**	134,952
Distribution and selling costs		**(80,971)**	(93,138)
Repayment of historical import duty			2,272
Other operating expenses		**(10,105)**	(8,070)
Administrative costs		**(23,178)**	(17,439)
Sales and marketing costs		**(4,587)**	(5,244)
Group operating (loss)/profit		**(6,029)**	13,333
Finance income	6	**101**	15
Finance costs	6	**(3,901)**	(873)
(Loss)/profit before taxation	4	**(9,829)**	12,475
Taxation	7	**1,811**	(2,397)
(Loss)/profit for the period	29	**(8,018)**	10,078
(Loss)/profit is attributable to:			
Owners of Topps Tiles Plc		**(7,966)**	10,119
Non-controlling interests	30	**(52)**	(41)
		(8,018)	10,078

All results relate to continuing operations of the Group.

Earnings per ordinary share:		
- Basic	**(4.11)p**	5.18p
- Diluted	**(4.11)p**	5.14p

Consolidated Statement of Comprehensive Income

FOR THE 52 WEEKS ENDED 26 SEPTEMBER 2020

	52 weeks ended 26 September 2020 £'000	52 weeks ended 28 September 2019 £'000
(Loss)/profit for the period	**(8,018)**	10,078
Total comprehensive income for the period is attributable to:		
Owners of Topps Tiles Plc	**(7,966)**	10,119
Non-controlling interests	**(52)**	(41)
	(8,018)	10,078

The Group has initially applied IFRS 16 'Leases' at 29 September 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application, 29 September 2019 (see note 34). The comparative period is presented under the previous accounting standard, IAS 17 'Leases' and has accordingly not been restated. As such, the results for the 52 week period ended 26 September 2020 are not directly comparable with those reported in the prior period. See note 34 for a reconciliation of the IFRS 16 impact on the financial statements.

Consolidated Statement of Financial Position

AS AT 26 SEPTEMBER 2020

	Notes	2020 £'000	2019 £'000
Non-current assets			
Goodwill	10	**-**	3,104
Intangible assets	11	**916**	2,663
Property, plant and equipment	12a	**27,170**	46,958
Investment properties	12b	**-**	1,233
Other financial assets	14	**2,749**	-
Deferred tax assets	15	**1,406**	-
Right-of-use assets	14	**106,258**	-
		138,499	53,958
Current assets			
Assets classified as held for sale	12c	**1,786**	-
Inventories	16	**29,337**	30,924
Other financial assets	14	**873**	-
Trade and other receivables	17	**3,567**	8,142
Cash and cash equivalents	18	**31,018**	18,747
		66,581	57,813
Total assets		**205,080**	111,771
Current liabilities			
Bank loans	20	**(4,981)**	-
Trade and other payables	19	**(58,446)**	(43,336)
Lease liabilities	14	**(25,520)**	-
Current tax liabilities		**(1,114)**	(2,025)
Provisions	22	**(462)**	(1,235)
		(90,523)	(46,596)
Net current (liabilities)/assets		**(23,942)**	11,217
Non-current liabilities			
Bank loans	20	**-**	(29,884)
Lease liabilities	14	**(98,636)**	-
Deferred tax liabilities	15	**-**	(1,197)
Provisions	22	**(1,867)**	(3,862)
Total liabilities		**(191,026)**	(81,539)
Net assets		**14,054**	30,232
Equity			
Share capital	23	**6,548**	6,548
Share premium	24	**2,492**	2,490
Own shares	25	**(1,483)**	(1,548)
Merger reserve	26	**(399)**	(399)
Share-based payment reserve	27	**3,965**	3,962
Capital redemption reserve	28	**20,359**	20,359
Accumulated losses	29	**(17,400)**	(1,178)
Capital and reserves attributable to owners of Topps Tiles Plc		**14,082**	30,234
Non-controlling interests	30	**(28)**	(2)
Total equity		**14,054**	30,232

The Group has initially applied IFRS 16 'Leases' at 29 September 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application, 29 September 2019 (see note 34).

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 1 December 2020. They were signed on its behalf by:

ROB PARKER
STEPHEN HOPSON
DIRECTORS

Consolidated Statement of Changes in Equity

FOR THE 52 WEEKS ENDED 26 SEPTEMBER 2020

	Share capital £'000	Share premium £'000	Own shares £'000	Merger reserve £'000	Share-based payment reserve £'000	Capital redemption reserve £'000	Accumulated losses £'000	Non-controlling interest £'000	Total equity £'000
Balance at 29 September 2018	**6,548**	**2,490**	**(3,750)**	**(399)**	**3,945**	**20,359**	**(2,530)**	**-**	**26,663**
Profit and total comprehensive income for the period	-	-	-	-	-	-	10,119	(41)	10,078
Dividends	-	-	-	-	-	-	(6,623)	-	(6,623)
Own shares issued in the period	-	-	2,202	-	-	-	(2,202)	-	-
Credit to equity for equity-settled share-based payments	-	-	-	-	17	-	64	-	81
Deferred tax on share-based payment transactions	-	-	-	-	-	-	(6)	-	(6)
Non-controlling interest on business combination	-	-	-	-	-	-	-	39	39
Balance at 28 September 2019	**6,548**	**2,490**	**(1,548)**	**(399)**	**3,962**	**20,359**	**(1,178)**	**(2)**	**30,232**
Impact of change in accounting policy (IFRS 16)	-	-	-	-	-	-	(3,605)	-	(3,605)
Adjusted balance at 29 September 2019*	**6,548**	**2,490**	**(1,548)**	**(399)**	**3,962**	**20,359**	**(4,783)**	**(2)**	**26,627**
Loss and total comprehensive expense for the period	-	-	-	-	-	-	(7,966)	(52)	(8,018)
Dividends	-	-	-	-	-	-	(4,484)	-	(4,484)
Issue of share capital	-	2	-	-	-	-	-	-	2
Own shares issued in the period	-	-	65	-	-	-	(65)	-	-
Credit to equity for equity-settled share-based payments	-	-	-	-	3	-	-	-	3
Deferred tax on share-based payment transactions	-	-	-	-	-	-	(2)	-	(2)
Acquisition of non-controlling interest on business combination	-	-	-	-	-	-	(100)	26	(74)
Balance at 26 September 2020	**6,548**	**2,492**	**(1,483)**	**(399)**	**3,965**	**20,359**	**(17,400)**	**(28)**	**14,054**

* The Group has initially applied IFRS 16 'Leases' at 29 September 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application, 29 September 2019.

Consolidated Cash Flow Statement

FOR THE 52 WEEKS ENDED 26 SEPTEMBER 2020

	52 weeks ended 26 September 2020 £'000	52 weeks ended 28 September 2019 £'000
Cash flow from operating activities		
(Loss)/profit for the period	**(8,018)**	10,078
Taxation	**(1,811)**	2,397
Finance costs	**3,901**	873
Finance income	**(101)**	(15)
Group operating (loss)/profit	**(6,029)**	13,333
Adjustments for:		
Depreciation of property, plant and equipment	**7,145**	7,117
Depreciation of right-of-use assets	**21,080**	-
Amortisation of intangible assets	**477**	245
Loss on disposal of property, plant and equipment	**338**	866
Gain on sublease	**(150)**	-
Impairment charge/(reversal) of property, plant and equipment	**1,155**	(246)
Fair value adjustment for asset held for sale	**558**	-
Impairment of right-of-use assets	**5,411**	-
Impairment of goodwill	**3,104**	245
Impairment of intangible assets	**1,687**	-
Gain on lease disposal	**(388)**	-
Receipt of lease incentives	**173**	-
Decrease in fair value of investment properties	**-**	21
Loss on disposal of investment properties	**483**	-
Share option charge	**3**	17
Decrease in trade and other receivables	**252**	820
Decrease/(increase) in inventories	**1,589**	(681)
Increase in payables	**18,990**	4,412
Cash generated by operations	**55,878**	26,149
Interest paid	**(856)**	(861)
Interest element of lease liabilities paid	**(3,033)**	-
Taxation paid	**(999)**	(3,385)
Net cash from operating activities	**50,990**	21,903
Investing activities		
Interest received	**20**	15
Interest received on sublease assets	**81**	-
Receipt of capital element of sublease assets	**343**	-
Purchase of property, plant and equipment	**(6,290)**	(7,242)
Purchase of intangibles	**(417)**	(563)
Purchase of investment property	**-**	(21)
Proceeds on disposal of property, plant and equipment	**18,552**	185
Acquisition of subsidiary, net of cash acquired	**(74)**	(2,749)
Net cash from / (used in) investment activities	**12,215**	(10,375)
Financing activities		
Payment of capital element of lease liabilities	**(21,452)**	-
Dividends paid	**(4,484)**	(6,623)
Proceeds from issue of share capital	**2**	-
Drawdown of bank loans	**20,000**	5,000
Repayment of bank loans	**(45,000)**	(5,000)
Net cash used in financing activities	**(50,934)**	(6,623)
Net increase in cash and cash equivalents	**12,271**	4,905
Cash and cash equivalents at beginning of period	**18,747**	13,842
Cash and cash equivalents at end of period	**31,018**	18,747

The Group has initially applied IFRS 16 'Leases' at 29 September 2019, using the modified retrospective approach. Under this approach, comparative information is not restated.

Notes to the Financial Statements

1 GENERAL INFORMATION

Topps Tiles Plc is a public company, limited by shares, incorporated and domiciled 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 audited financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates.

ADOPTION OF NEW AND REVISED STANDARDS

In the current period, there were no new or revised standards and interpretations adopted that have a material impact on the financial statements, apart from IFRS 16 (see below). The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

STANDARDS ADOPTED IN CURRENT PERIOD

The following new and revised standards and interpretations have been adopted in the current year. Their adoption has not had any significant impact on the amounts reported in these financial statements that may impact the accounting for future transactions and arrangements, apart from IFRS 16.

Annual Improvements to IFRSs: 2015-17 Cycle (Dec 2017) - Annual Improvements to IFRSs: 2015-17 Cycle - IFRS 3, IFRS 11, IAS 12 and IAS 23 Amendments

Amendments to IFRS 10 and IAS 28 (Sept 2014) - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

IFRIC 23 - Uncertainty over Income Tax Treatments

Amendments to IFRS 9 (Oct 2017) - Prepayment Features with Negative Compensation

Amendments to IAS 28 (Oct 2017) - Long-term Interests in Associates and Joint Ventures

Amendments to IAS 19 – Plan Amendment, Curtailment or Settlement

Amendments to IFRS 3 – Clarification of definition of a business

Amendments to IAS 1 – Amendments regarding the definition of material

Amendments to IAS 8 – Amendments regarding the definition of material

IFRS 16 'Leases'

The new lease accounting standard is now effective for the Group for the first time and it has had a material impact on the Group's financials statements. Further details of IFRS 16 'Leases', including the impact of adoption are included in note 34.

2 ACCOUNTING POLICIES

The principal accounting policies adopted are set out below.

A) BASIS OF ACCOUNTING

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) and IFRS Interpretations Committee (“IFRS IC”) interpretations. 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, and as applied in accordance with the provisions of the Companies Act 2006. The financial statements have been prepared on the historical cost basis, except for the revaluation of derivative financial instruments and investment property. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements.

The Group has applied for the first time IFRS 16 ‘*Leases’.* Refer to Note 34 for details of the impact on transition to this standard.

B) GOING CONCERN

When considering the going concern assertion, the Board reviews several factors including the ability of the Group to meet its banking covenants and operate within its banking facilities based on current financial plans, along with a series of more pessimistic trading scenarios that were deemed severe but plausible. The more pessimistic trading scenarios included a second lock down during the next 12 months that would see our retail stores closed for up to three months.

The Group took a number of actions to strengthen its liquidity during the Covid-19 pandemic. The UK Government put in place a range of support measures for businesses and we accessed all of those available to us. This included utilising the Coronavirus Job Retention Scheme to furlough the c.90% of our colleagues who were unable to work from home, business rates relief for the 2020/21 tax year, VAT deferral and utilising the Coronavirus Large Business Interruption Loan Scheme ("CLBILS"), which facilitates access to finance for medium-sized and larger businesses affected by the coronavirus outbreak. The sale and leaseback of the Group's head office and central warehouse buildings at Enderby was completed in June 2020. The going concern review also outlined a range of other mitigating actions that could be taken in a severe but plausible trading scenario. This included, but was not limited to, savings on store employee costs, savings on central support costs, and reduction of capital expenditure.

The Group’s forecast covenant and cash headroom was reviewed against current lending facilities. These were refinanced in July 2018 and expire in July 2022, with an opportunity to extend in June 2021 for a further year, so a potential full term of five years ending July 2023.

In all scenarios, the Board have concluded that there is sufficient covenant headroom and available liquidity for the Group to continue in operational existence for the foreseeable future. The Board therefore continue to adopt the going concern basis in preparing the financial statements.

C) BUSINESS COMBINATIONS

Acquisition of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquisition and the equity interest issued by the Group in exchange for control of the acquisition. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively; and
- assets that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Contingent consideration is recognised at fair value at the date of acquisition. Subsequent changes in contingent consideration which has been classified as an asset or liability which does not result from a measurement period adjustment is accounted for in accordance with IFRS 9 where the asset or liability is a financial instrument, and in accordance with IAS 37 in all other cases.

D) 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.

E) FINANCIAL PERIOD

There has been a change in accounting policy during the year, from the accounting period ends on the Saturday which falls closest to 30 September resulting in financial periods of either 52 or 53 weeks, to the accounting period is drawn up to a Saturday within 7 days of 30 September resulting in financial periods of either 52 or 53 weeks. There has been no impact on prior period financial statements as a result of this change.

Throughout the financial statements, Directors' Report and Strategic Report, references to 2020 mean "at 26 September 2020" or the 52 weeks then ended; references to 2019 mean "at 28 September 2019" or the 52 weeks then ended.

F) GOODWILL

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

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

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

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

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

G) REVENUE RECOGNITION

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

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

- the Group has satisfied its performance obligations to external customers, being the date goods are collected from store or received by the customers; and
- the customer has obtained controls of the goods being transferred.

These conditions are met, predominantly, at the point of sale. The exceptions to this are for: goods ordered in advance of collection, where revenue is recognised at the point that the goods are collected; sales of goods that result in award credits for customers (see below); and web sales, where revenue is recognised at the point of delivery.

Sales of goods that result in award credits for customers, under the Company's Trader Loyalty Scheme, are accounted for as multiple element revenue transactions and the fair value of the consideration received or receivable is allocated between the goods supplied and the award credits granted. The consideration allocated to the award credits is measured by reference to their fair value being the amount for which the award credits should be sold separately. Such consideration is not recognised as revenue at the time of the initial sale transaction, but is deferred and recognised as revenue when the award credits are redeemed and the Company's performance obligations have been satisfied.

The level of sales returns is closely monitored by management, and as such, the Group holds a sales return provision in the Consolidated Statement of Financial Position to provide for the expected level of returns. The sales value of the expected returns is recognised within Accruals, with the cost value of the goods expected to be returned recognised as a current asset within Inventories.

H) INTANGIBLE ASSETS

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at the fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at costs less accumulated amortisation.

Costs that are directly associated with identifiable software products controlled by the Group, and that will generate economic benefits beyond one year are recognised as intangible assets. These intangible assets are stated at cost less accumulated amortisation and impairment losses, and are amortised over four years.

I) PROPERTY, PLANT & EQUIPMENT

Property, plant and equipment is 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 50 years on a straight-line basis
Fixtures and fittings	over 10 years, except for the following: four years for computer equipment or five years for display stands, as appropriate
Motor vehicles	25% per annum on a reducing balance basis

Freehold land is not depreciated.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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 Consolidated Statement of Financial Performance.

Non-current assets are classified as held for sale if the assets are available for immediate sale in their present condition and the sale is highly probable. After reclassified as held for sale, the assets are measured at the lower of their carrying value and fair value less costs to sell.

J) IMPAIRMENT OF TANGIBLE, INTANGIBLE AND RIGHT-OF-USE ASSETS

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future pre-tax 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 revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

K) INVENTORIES

Inventories are stated at the lower of cost and net realisable value and relate solely to finished goods for resale, net of supplier rebates. Cost is derived using the average cost method and includes an attributable proportion of distribution overheads based on normal levels of activity. 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.

L) 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, 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.

M) FOREIGN CURRENCY

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

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

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

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

N) LEASES

The Group has changed its accounting policy for leases as a result of IFRS 16 ''Leases''. The new policy is detailed below and the impact of the change is described in note 34.

IAS 17

Until 28 September 2019, as a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all the risks and rewards of ownership. Rentals payable under operating leases were charged to the Consolidated Statement of Financial Performance on a straight-line basis over the term of the relevant lease even where payments are not made on such a basis, except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed or a provision has been made for an onerous lease. Contingent rentals arising under operating leases were recognised as an expense in the period in which they are incurred.

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

The Group leases properties from which it no longer trades. These properties are often sublet to third parties. Rents receivable were recognised by offsetting the income against rental costs accounted for within the Consolidated Statement of Financial Performance.

The Group provided for the unavoidable costs prior to lease termination or sub-lease relating to onerous leases. Dilapidation costs were provided for against all leasehold properties across the entire estate. See note 2U and 2Y for details on how these provisions are calculated.

IFRS 16

The following policies apply subsequent to the date of initial application of IFRS 16, 29 September 2019.

Leases in which the Group is a lessee

The Group leases assets which consist of properties, vehicles and equipment. Rental contracts are typically made for fixed periods but may have extension options or break options to maximise operational flexibility. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

At the commencement date of property leases the Group determines the lease term to be the full term of the lease, assuming that any option to break or extend the lease is unlikely to be exercised. The Group considers the lease term to be the non-cancellable period and in assessing this applies the definition of a contract and determines the period for which the contract is enforceable.

Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases.

The Group has elected to take advantage of the following recognition exemptions and account for lease payments as an expense on a straight-line basis over the lease term or another systematic basis for the following two types of leases:

- leases with a lease term of 12 months or less and containing no purchase options – this election is made by class of underlying asset;
- leases where the underlying asset has a low value when new – this election can be made on a lease-by-lease basis.

For leases where the Group has taken short-term lease recognition exemption and there are any changes to the lease term or the lease is modified, the Group accounts for the lease as a new lease.

From 29 September 2019 leases are recognised as a right-of-use asset with a corresponding liability at the date at which the leased asset is available for use by the group. Each lease payment comprises an element of capital and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option;
- payments of penalties for terminating the lease if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee’s incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs;
- restoration costs.

After lease commencement, the Group measures right-of-use assets using a cost model. Under the cost model a right-of-use asset is measured at cost less accumulated depreciation and accumulated impairment.

Subsequent to initial measurement, lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. The lease liability is also remeasured to reflect changes in:

- the lease term (using a revised discount rate);
- the assessment of a purchase option (using a revised discount rate);
- the amounts expected to be payable under residual value guarantees (using an unchanged discount rate);
- future lease payments resulting from a change in an index or a rate used to determine those payments (using an unchanged discount rate).

The remeasurements are matched by adjustments to the right-of-use asset.

Lease modifications may also prompt remeasurement of the lease liability unless they are determined to be separate leases.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The capital element of payments related to leases are presented under cash flow from financing activities in the Consolidated Cash Flow Statement, and the interest element of payments presented under cash flow from operating activities.

Leases in which the Group is a lessor

Lessor accounting remains similar to current accounting under IAS 17. At lease inception, lessors will determine whether each lease is a finance lease or an operating lease. To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is considered to be the case, then the lease is recognised as a finance lease, if not then it is recognised as an operating lease. As part of this assessment, the Group considers certain factors such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the recognition exemption, then it classifies the sub-lease as an operating lease.

The Group has reassessed the classification of sub-leases in which the Group is a lessor. Under IAS 17, the subleases were classified with reference to the underlying asset which resulted in all subleases being classified as operating leases.

On transition to IFRS 16 on 29 September 2019, the Group has reclassified a small number of sub-leases as finance leases, resulting in recognition of a finance lease receivable, being equal to the net investment in the lease. The Group recognises finance income over the lease term of a finance lease, based on a pattern reflecting a constant periodic rate of return on the net investment.

There will be no change to the accounting for the remaining subleases which continue to be accounted for as operating leases, and income from these leases will continue to be recognised on a straight-line basis over the term of the lease.

Sale and leaseback

A sale and leaseback transaction is where the Group sells an asset and immediately reacquires the use of the asset by entering into a lease with the buyer. On entering into a sale and leaseback transaction the Group determines whether the transfer of the assets qualifies as a sale (satisfying a performance obligation in IFRS 15 “Revenue from Contracts with Customers”). Where the transfer is a sale and providing the transaction is on market terms than the previous carrying amount of the underlying asset is split between:

- a right-of-use asset arising from the leaseback (being the proportion of the previous carrying amount of the asset that relates to the rights retained), and
- the rights in the underlying asset retained by the buyer-lessor at the end of the leaseback.

The Group recognises a portion of the total gain or loss on the sale. The amount recognised is calculated by splitting the total gain or loss into:

- an unrecognised amount relating to the rights retained by the seller-lessee, and
- a recognised amount relating to the buyer-lessor’s rights in the underlying asset at the end of the leaseback.

The leaseback itself is then accounted for under IFRS 16.

O) RETIREMENT BENEFIT COSTS
For defined contribution schemes, the amount charged to the statement of financial performance in respect of pension costs is the contributions payable in the period. Differences between contributions payable in the period and contributions actually paid are shown as either accruals or prepayments in the statement of financial position.

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

Q) FINANCIAL INSTRUMENTS
Financial assets and financial liabilities are recognised in the Group’s statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

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

Financial assets are classified into the following specified categories: financial assets “at fair value through profit or loss” (FVTPL), financial assets “at fair value through other comprehensive income” (FVOCI), and financial assets carried at “amortised cost”. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

FINANCIAL ASSETS AT FVTPL
Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. Transactional costs of financial assets carried at FVTPL are expensed in the Consolidated Statement of Financial Performance. 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. Financial assets at FVTPL are subsequently measured at fair value, with net gains and losses, including any interest or dividend income being recognised in profit of loss.

TRADE AND OTHER RECEIVABLES
Trade and other receivables that have fixed or determinable payments that are not quoted in an active market are initially recognised at fair value and then carried at amortised cost, using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

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

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

IMPAIRMENT OF FINANCIAL ASSETS
Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each statement of financial position date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. The Group assesses on a forward-looking basis the expected credit losses associated with its financial assets carried at amortised cost.

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, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for financial assets.

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets. The Group will write off, either partially or in full, the gross carrying amount of a financial asset when there is no realistic prospect of recovery. This is usually the case when it is determined that the debtor does not have the assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

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 of cash balances including credit card receipts and deposits, less bank overdrafts which are repayable on demand where there is a right of offset. All cash equivalents have an original maturity of three months or less.

FINANCIAL LIABILITIES AND EQUITY INSTRUMENTS
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 that are classified as FVTPL relate to derivatives that are not designated and effective as a hedging instrument. Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss.

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

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

DERIVATIVE FINANCIAL INSTRUMENTS
The Group's activities expose it to the financial risks of changes in foreign currency exchange rates.

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

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

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each period end date. The resulting gain or loss is recognised in profit or loss immediately. The fair values are determined by reference to the market prices available from the market on which the instruments involved are traded.

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

R) SHARE-BASED PAYMENTS
The Group has applied the requirements of IFRS 2 Share-based Payments.

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 Sharesave 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 COSTS
Restructuring costs relate to board approved decisions such as business closures or major organisational changes. Operating profit is stated after charging/(crediting) restructuring costs but before investment income and finance costs.

Employee profit sharing costs are classified as distribution and selling costs and administrative costs.

U) PROVISIONS

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

V) SUPPLIER INCOME

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

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

W) INVESTMENT PROPERTIES

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise, including the corresponding tax effect. Investment properties are not depreciated.

The Group obtains independent valuations for its investment properties, and at the end of the reporting period, the fair value of each property is updated, taking into account the most recent independent valuation. The best evidence of fair value is current prices in an active market for similar properties. Where such information is not available the directors consider information for properties of different nature or recent prices of similar properties in less active markets, adjusted to reflect those differences.

Investment properties are derecognised either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of de-recognition.

The Group has no restrictions on the realisability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

X) GOVERNMENT GRANTS

The Group applies IAS 20 'Accounting for Government Grants and Disclosures of Government Assistance' when accounting for government grants. A government grant is not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to it, and that the grant will be received. Government grants are recognised in the Consolidated Statement of Financial Performance on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. The Group has chosen to present government grants netted off against the related expense.

Y) 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.

CRITICAL ACCOUNTING JUDGEMENTS

The key accounting judgements used in the financial statements are as follows:

LEASE TERMS

IFRS 16 defines the lease term as the non-cancellable period of a lease together with the options to extend or terminate a lease, if the lessee were reasonably certain to exercise that option. The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that includes renewal options and break clauses, which can significantly affect the amount of lease liabilities and right-of-use assets recognised.

At the commencement date of a property lease the Group normally determines the lease term to be the full term of the lease, assuming that any option to break or extend the lease is unlikely to be exercised and it is not reasonably certain that the Group will continue in occupation for any period beyond the lease term.

For property leases the key factors that are normally the most relevant are the profitability of the leased store, the future plans of the business, and whether there are any penalties associated with exercising an option.

Leases are regularly reviewed on a lease-by-lease basis and will be revalued if it becomes likely that a break clause or option to extend the lease is exercised.

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:

INCREMENTAL BORROWING RATE

Under IFRS 16, the Group recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The discount rate used to calculate the lease liability is the rate implicit in the lease, if it can be readily determined, or the lessee's incremental borrowing rate if not. The lease liability is initially measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate, adjusted to take into account the risk associated with the length of the lease which ranges between 1 and 20 years. The Group uses the lessee's incremental borrowing rate for all property and equipment leases.

As a result of the significant impact the transition to IFRS 16 has had on the Group's opening balance sheet, the discount rate is considered to be a significant judgement with estimation. The weighted average incremental borrowing rate applied to the lease liabilities on transition was 2.30%, ranging between 2.17% and 3.09% dependent on the length of the lease term.

ONEROUS LEASE PROVISION AND LOSS MAKING STORES / STORE IMPAIRMENT

During the period the Group has continued to review the performance of its store portfolio, which has resulted in thirteen further stores being exited before their lease terms had expired (2019: five stores). In the prior period, in respect of the leases in relation to stores exited before lease end dates in prior periods that are still vacant, the Group provided for what it considered to be the unavoidable costs prior to lease termination or sub-lease. The Group also reviewed any trading loss-making stores and provided for those leases considered to be onerous, and considered whether the net book value of the assets in relation to those stores were impaired. In the current period, as a result of the adoption of IFRS 16, the onerous lease provision and loss-making stores provision have been released, and instead each store is tested for impairment in line with IAS 36. For the prior period, the key estimates involved related to the forecast future cash flows of the stores identified as potentially loss making. These estimates were based upon available information and knowledge of the property market and retail market. For the current period, the key estimates involved relate to the pre-tax discount rate, long-term growth rate, and cashflow forecasts – see note 14 for further details.

INVENTORY PROVISION

The Group provides against the carrying value of the inventories held where it is anticipated that net realisable value (NRV) will be below cost. The key estimate involves an assessment of clearance and discontinued lines, with an anticipated 100% mark down. A 10% change in the volume of lines identified as clearance and discontinued would lead to a change in the provision of £226,000.

3 REVENUE

An analysis of Group revenue is as follows:

	52 weeks ended 26 September 2020 £'000	52 weeks ended 28 September 2019 £'000
Revenue from the sale of goods	**192,813**	219,197
Total revenue	**192,813**	219,197

The Group has one reportable segment in accordance with IFRS 8 - Operating Segments, which encompasses the Topps Tiles Group revenue generated instore and online from retail and commercial customers. The Board receives monthly financial information at this level and uses this information to monitor performance, allocate resources and make operational decisions. All revenue is derived from sales in the UK.

The Group's revenue is driven by the consolidation of individual small value transactions and as a result, Group revenue is not reliant on a major customer or group of customers.

4 (LOSS)/PROFIT BEFORE TAXATION

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

	52 weeks ended 26 September 2020 £'000	52 weeks ended 28 September 2019 £'0000
Depreciation of property, plant and equipment	**7,145**	7,117
Depreciation of right-of-use assets	**21,080**	-
Impairment charge/(reversal) of property, plant and equipment	**1,155**	(246)
Fair value adjustment for asset held for sale	**558**	-
Impairment of right-of-use assets	**5,411**	-
Loss on disposal of property, plant and equipment	**338**	866
Gain on sublease	**(150)**	-
Gain on lease disposal	**(388)**	-
Amortisation of intangibles	**477**	245
Impairment of intangibles	**1,687**	-
Impairment of goodwill	**3,104**	245
Decrease in fair value of investment properties recognised as an expense	**-**	21
Loss on disposal of investment properties	**483**	-
Property related provisions charged	**12**	406
Staff costs (see note 5)	**49,638**	55,440
Operating lease rentals	**-**	26,333
Furlough income received	**(5,228)**	-
Government grants received	**(700)**	-
Repayment of historical import duty	**-**	(2,272)
Exchange losses recognised in profit or loss	**94**	80
Write-down of inventories recognised as an expense	**4,331**	2,633
Cost of inventories recognised as an expense	**75,573**	81,612

During the year the business disposed of three freehold properties (2019: one freehold property). The loss on disposal of property, plant and equipment includes a gain of £1.1m in relation to the sale and leaseback of the Group's head office and central warehouse buildings in June 2020 for cash consideration of £17.9m, net of fees. In connection with the sale, the Group has entered into leases for the properties for a 20-year period following completion. If the profit on the sale of the properties had been accounted for under IAS 17, a profit of £4.0m would have been recognised.

Analysis of the auditors' remuneration is provided below:

	52 weeks ended 26 September 2020 £'000	52 weeks ended 28 September 2019 £'000
Fees payable to the Company's auditors with respect to the Company's annual accounts	**49**	49
Fees payable to the Company's auditors and their associates for other audit services to the Group:		
Audit of the Company's subsidiaries pursuant to legislation	**184**	110
Total audit fees	**233**	159
Audit related assurance services	**0**	20
Total non-audit fees	**0**	20
Total fees payable to the Company's auditors	**233**	179

Audit related assurance services relate to the fee payable for the interim review performed.

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

5 STAFF COSTS

The average monthly number of persons employed by the Group in the UK during the accounting period (including Executive Directors) was:

	52 weeks ended 26 September 2020 Number employed	52 weeks ended 28 September 2019 Number employed
Selling	**1,661**	1,852
Administration	**340**	237
	2,001	2,089

The average monthly number of persons (full-time equivalents) employed by the Group in the UK during the accounting period (including Executive Directors) was:

	52 weeks ended 26 September 2020 Number employed	52 weeks ended 28 September 2019 Number employed
Selling	**1,573**	1,754
Administration	**332**	231
	1,905	1,985

	2020 £'000	2019 £'000
Their aggregate remuneration comprised:		
Wages and salaries (including LTIP, see note 32)	**44,865**	50,153
Social security costs	**3,779**	4,224
Other pension costs (see note 31b)	**994**	1,063
	49,638	55,440

Details of Directors' emoluments are disclosed in the Annual Report. The Group considers key management to be the Directors only. Employee profit sharing of £4.3 million (2019: £5.8 million) is included in the above and comprises sales commission and bonuses.

6 FINANCE INVESTMENT AND FINANCE COSTS

	52 weeks ended 26 September 2020 £'000	52 weeks ended 28 September 2019 £'000
Finance Income		
Bank interest receivable	**20**	15
Interest income from finance lease receivables	**81**	-
	101	15
Finance costs		
Interest on bank loans and overdrafts	**(868)**	(871)
Interest payable on lease liabilities	**(3,033)**	-
Other interest	**-**	(2)
	(3,901)	(873)

No finance costs have been capitalised in the period, or the prior period.

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

7 TAXATION

	52 weeks ended 26 September 2020 £'000	52 weeks ended 28 September 2019 £'000
Current tax - credit for the period	**(48)**	2,602
Current tax - adjustment in respect of previous periods	**134**	(101)
Deferred tax – credit for the period (note 15)	**(2,028)**	(65)
Deferred tax - adjustment in respect of previous periods (note 15)	**42**	(39)
Effect of tax rate change on opening balance	**89**	-
	(1,811)	2,397

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

	52 weeks ended 26 September 2020 £'000	52 weeks ended 28 September 2019 £'000
Continuing operations:		
Loss before taxation	**(9,829)**	12,475
Tax at the UK corporation tax rate of 19.0% (2019: 19.0%)	**(1,868)**	2,370
Expenses that are not deductible in determining taxable profit	**966**	74
Other movements	**(49)**	1
Fixed asset timing differences	**(1,104)**	105
Difference between IFRS 2 and corporation tax relief	**(7)**	14
Increase/(Reduction) in UK corporation tax rate	**91**	(27)
Non-taxable income	**(17)**	-
Tax effect of adjustment in respect of prior periods	**177**	(140)
Tax expense for the period	**(1,811)**	2,397

In the period, the Group has recognised a corporation tax credit directly to equity of £nil (2019: £64,064) and a deferred tax charge to equity of £1,622 (2019: £5,961) in relation to the Group's share option schemes.

In the prior year we disclosed a contingent liability in recognition of a historic tax claim relating to EU loss relief in relation to the closed Dutch business. The Group now recognises that this contingent liability was disclosed in error and the tax liability was fully provided for in the prior year accounts.

8 DIVIDENDS

Amounts recognised as distributions to equity holders in the period:

	52 weeks ended 26 September 2020 £'000	52 weeks ended 28 September 2019 £'000
Final dividend for the period ended 28 September 2019 of £0.023 (2018: £0.023) per share	**4,484**	4,483
Interim dividend for the period ended 26 September 2020 of £0.000 (2019: £0.011) per share	**-**	2,140
	4,484	6,623
Proposed final dividend for the period ended 26 September 2020 of £0.000 (2019: £0.023) per share	**-**	4,483

Due to the ongoing uncertainty in the wider environment, the Directors have not proposed a final dividend for the period ended 26 September 2020.

9 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.

	52 weeks ended 26 September 2020	52 weeks ended 28 September 2019
Weighted average number of issued shares for basic earnings per share	**196,443,323**	196,441,003
Weighted average impact of treasury shares for basic earnings per share	**(1,472,264)**	(1,762,806)
Total weighted average number of shares for basic earnings per share	**194,971,059**	194,678,197
Weighted average number of shares under option	**-**	1,545,658
For diluted earnings per share	**194,971,059**	196,223,855

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 number of potentially exercisable shares were 1,758,101 but not included as they were anti-dilutive.

10 GOODWILL

	£'000
Cost	
At 30 September 2018	1,461
Acquisition of Strata Tiles Limited	1,888
At 28 September 2019	3,349
At 26 September 2020	**3,349**
Accumulated impairment losses	
At 30 September 2018	-
Impairment losses in the period	245
At 28 September 2019	245
Impairment losses in the period	3,104
At 26 September 2020	**3,349**
Carrying amount	
At 26 September 2020	**-**
At 28 September 2019	3,104

The balance of goodwill remaining has been written down to £nil in the period. The carrying value held in the prior period arose on the acquisition of Parkside Ceramics Limited in 2017 and Strata Tiles Limited in 2019. The prior period balance related to two Cash Generating Units (CGUs). Goodwill of £1,216,000 (Parkside Ceramics Limited) related to one CGU, with the balance of £1,888,000 (Strata Tiles Limited) relating to another CGU.

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

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 years. The growth rate applied does not exceed the average long-term growth rate for the relevant markets.

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 of 1.5% 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 16.5% (2019: 14.8%).

11 INTANGIBLE ASSETS

	Brand £'000	Customer relationships £'000	Software £000	Total £'000
Cost				
At 29 September 2018	229	200	-	429
Additions	-	-	563	563
Acquired on business combination	835	842	-	1,677
Transferred from property, plant and equipment	-	-	457	457
At 28 September 2019	**1,064**	**1,042**	**1,020**	**3,126**
Additions	-	-	417	417
At 26 September 2020	**1,064**	**1,042**	**1,437**	**3,543**
Accumulated amortisation and impairment				
At 29 September 2018	23	67	-	90
Amortisation charge for the period	64	117	64	245
Transferred from property, plant and equipment	-	-	128	128
At 28 September 2019	87	184	192	463
Amortisation charge for the period	106	167	204	477
Impairment charge in the period	871	691	125	1,687
At 26 September 2020	**1,064**	**1,042**	**521**	**2,627**
Carrying amount				
At 26 September 2020	**-**	**-**	**916**	**916**
At 28 September 2019	977	858	828	2,663

The brand and customer relationships additions occurred on the acquisition of Parkside Ceramics Limited on 31 August 2017 and the acquisition of Strata Tiles Limited on 18 April 2019. These balances have been written down to £nil in the period.

The brands are amortised over their estimated useful life of 10 years. Customer relationships are amortised over their estimated useful lives of 3, 5 and 10 years. Software is amortised over its estimated useful life of 4 years. Amortisation is included within administrative costs within the Consolidated Statement of Financial Performance.

12a PROPERTY, PLANT AND EQUIPMENT

	Land and buildings				
	Freehold and long leasehold £'000	**Short leasehold £'000**	**Fixtures and fittings £'000**	**Motor vehicles £'000**	**Total £'000**
Cost					
At 29 September 2018	15,507	1,604	95,127	75	112,313
Additions	-	313	6,929	-	7,242
Disposals	(155)	(94)	(9,616)	(1)	(9,866)
Transferred to intangibles	-	-	(457)	-	(457)
Acquisition of subsidiary undertakings	-	-	14	-	14
At 28 September 2019	15,352	1,823	91,997	74	109,246
Additions	2,651	57	3,433	-	6,141
Disposals	(14,047)	(314)	(8,627)	(2)	(22,990)
Reclassified to assets held for sale (note 12c)	(2,344)	-	-	-	(2,344)
At 26 September 2020	**1,612**	**1,566**	**86,803**	**72**	**90,053**
Accumulated depreciation					
At 29 September 2018	2,552	1,130	60,619	59	64,360
Charge for the period	230	89	6,792	6	7,117
Reversal of impairment	-	-	(246)	-	(246)
Eliminated on disposals	(21)	(91)	(8,702)	(1)	(8,815)
Transferred to intangibles	-	-	(128)	-	(128)
At 28 September 2019	2,761	1,128	58,335	64	62,288
Impact of change in accounting policy (IFRS 16)	-	-	93	-	93
At 29 September 2019	2,761	1,128	58,428	64	62,381
Charge for the period	164	113	6,865	3	7,145
Provision of impairment	-	109	1,046	-	1,155
Eliminated on disposals	(2,657)	(263)	(4,876)	(2)	(7,798)
At 26 September 2020	**268**	**1,087**	**61,463**	**65**	**62,883**
Carrying amount					
At 26 September 2020	**1,344**	**479**	**25,340**	**7**	**27,170**
At 28 September 2019	12,591	695	33,662	10	46,958

Land with a net book value of £4,104,000 included within land and buildings was disposed in the period.

Cumulative finance costs capitalised in the cost of tangible fixed assets amount to £nil (2019: £nil). Contractual commitments for the acquisition of property, plant and equipment are detailed in note 31.

During the period, the Group has continued to review the performance of its store portfolio and as the fixtures and fittings within these stores cannot be reused in other locations, the Group have provided for the net book value of the assets in relation to the sixteen stores (2019: seven) that are impaired. The carrying value of these assets has been fully provided for in the period, with an increase in the provision of £1,155,000 in the period (2019: £246,000 decrease in the provision) included within other operating expenses.

All assets classified as property, plant and equipment are UK based.

12b INVESTMENT PROPERTIES

At fair value	**£'000**
At 29 September 2018	1,233
Additions	21
Fair value adjustment	(21)
At 28 September 2019	1,233
Disposal	(1,233)
At 26 September 2020	**-**

On 11 May 2020, the Group completed the sale of its only investment property for a cash consideration of £750,000, to support the ongoing liquidity of the Group as the Covid-19 pandemic unfolded. The investment property was carried at fair value, and a fair value adjustment of £nil (2019: £21,000 loss) was recognised in the Consolidated Statement of Financial Performance in the period.

12c ASSETS CLASSIFIED AS HELD FOR SALE

	52 weeks ended 26 September 2020 £'000	52 weeks ended 28 September 2019 £'000
Freehold properties reclassified from property, plant and equipment	**2,344**	-
Fair value adjustment for asset held for sale	**(558)**	-
Assets classified as held for sale	**1,786**	-

Two freehold properties were purchased in the year and subsequently reclassified as held for sale on 1 August 2020 in accordance with IFRS 5 – Non-current Assets Held For Sale and Discontinued Operations. The sale of both properties has been completed shortly after the reporting period. Both properties are measured at the lower of their carrying amounts and fair value less costs to sell, resulting in a write down of £558,000 in the Statement of Financial Performance.

13 SUBSIDIARIES

A list of all subsidiaries, including the name, country of incorporation and proportion of ownership interest is given in note 4 to the Company only financial statements.

14 LEASES

As a lessee

Right-of-use assets included in the Consolidated Statement of Financial Position at 26 September 2020 were as follows:

	Land and buildings £'000	Equipment £'000	Total £'000
At transition: 29 September 2019	113,878	3,818	117,696
Additions	17,779	541	18,320
Disposals	(3,267)	-	(3,267)
Depreciation	(19,591)	(1,489)	(21,080)
Impairment	(5,411)	-	(5,411)
At 26 September 2020	**103,388**	**2,870**	**106,258**

Lease liabilities included in the Consolidated Statement of Financial Position at 26 September 2020 were as follows:

	Land and buildings £'000	Equipment £'000	Total £'000
At transition: 29 September 2019	(124,414)	(3,831)	(128,245)
Additions	(20,803)	(528)	(21,331)
Disposals	3,934	35	3,969
Interest	(2,960)	(73)	(3,033)
Repayment of lease liabilities	22,958	1,526	24,484
At 26 September 2020	**(121,285)**	**(2,871)**	**(124,156)**

The maturity analysis of the lease liabilities is as follows:

	52 weeks ended 26 September 2020 £'000	52 weeks ended 28 September 2019 £'000
Current	**(25,520)**	-
Non-current	**(98,636)**	-
	(124,156)	-

The remaining contractual maturities of the lease liabilities, which are gross and undiscounted, are as follows:

	52 weeks ended 26 September 2020 £'000	52 weeks ended 28 September 2019 £'000
Less than one year	**26,810**	-
One to five years	**68,449**	-
More than five years	**52,274**	-
Total undiscounted lease liability	**147,533**	-

The following amounts have been recognised in the Consolidated Statement of Financial Performance:

	Land and buildings £'000	Equipment £'000	Total £'000
Depreciation of right-of-use assets	19,591	1,489	**21,080**
Impairment of right-of-use assets	5,411	-	**5,411**
Interest expense	2,960	73	**3,033**
Expenses relating to short-term leases	93	98	**191**
Holdover lease expense	928	-	**928**
Gain from sale and leaseback	(1,134)	-	**(1,134)**

The total cash outflow for leases during the financial period was £24.5m.

As a lessor

Lease income from lease contracts in which the Group acts as a lessor is as below:

	Total £'000
Lease income (from operating leases)	**193**
Finance income (from finance leases)	**81**

The Group leases out a small number of properties, some of which are classified as operating leases, as they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets.

The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date:

	52 weeks ended 26 September 2020 £'000	52 weeks ended 28 September 2019 £'000
Less than one year	**111**	577
One to five years	**82**	1,919
More than five years	**-**	1,652
Total undiscounted lease payments receivable	**193**	4,148

Some of the properties that the Group leases out have been reclassified as a finance lease on transition to IFRS 16. These are shown as Other financial assets on the Consolidated Statement of Financial Position.

The following table sets out a maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the reporting date:

	52 weeks ended 26 September 2020 £'000	52 weeks ended 28 September 2019 £'000
Less than one year	**948**	-
One to five years	**1,686**	-
More than five years	**1,350**	-
Total undiscounted lease payments receivable	**3,984**	-
Less: unearned finance income	**(362)**	-
Present value of minimum lease payments receivable	**3,622**	-
Current	**873**	-
Non-current	**2,749**	-
	3,622	-

Impairment

At the end of the financial year the carrying value of assets, including right-of-use lease assets, was assessed against their recoverable amount determined by reference to their value-in-use. Assets and expected cashflows were assessed at the lowest identifiable level of Cash Generating Unit ("CGU") where the expected cash inflows and outflows of each CGU were expected to be independent of those incurred by other CGUs. Individual retail stores are considered to be separate CGUs.

The value-in-use calculations require the application of a number of assumptions.

The key assumptions used in the estimation of recoverable amounts are set out below:

Assumption	**Value**	**Sensitivity**
Pre-tax discount rate	This is calculated by reference to the weighted average cost of capital of the Group. At the year-end, the pre-tax discount rate applied to forecast cashflows was 13.4%.	An increase in pre-tax discount rate of 500bps at year-end would result in an increase in value of impairments of £0.2m.
Long-term growth rate	This is the average growth rate used to extrapolate cashflows beyond the budget period. At the year-end, a long-term growth rate of 1.5% was applied.	The impairment calculations are not materially sensitive to movements in long-term growth rate.
Cashflow forecasts	Cashflows are derived from extrapolation of trading performance of identified CGUs. Key assumptions include: - expected year-on-year growth in cash contributions for stores; and - expected cashflows associated with the replacement of leased assets expected to be incurred on the maturity of lease terms for existing leases.	CGU cashflows are expected to grow in each year up to perpetuity. A reduction of 200bps to the forecast cashflow growth rates would lead to an increase in impairment for the year of £0.1m. A 20% increase in expected cashflows associated with the replacement of leased assets at the end of lease terms would increase impairments for the period by £0.2m.

15 DEFERRED TAX LIABILITIES/(ASSETS)

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

	Property related items £'000	**Accelerated tax depreciation £'000**	**Share-based payments £'000**	**Stock provisions £'000**	**Intangible assets £'000**	**Total £'000**
As at 29 September 2018	-	1,258	(269)	(38)	66	1,017
Recognised on acquisition of subsidiary	-	-	-	(7)	285	278
(Credit)/charge to income	-	(182)	139	11	(33)	(65)
(Credit)/charge in respect of previous periods	-	(58)	-	27	(8)	(39)
Charge to equity	-	-	6	-	-	6
As at 28 September 2019	**-**	**1,018**	**(124)**	**(7)**	**310**	**1,197**
Impact of change in accounting policy (IFRS 16)	(706)	-	-	-	-	(706)
Adjusted balance at 29 September 2019	(706)	1,018	(124)	(7)	310	491
(Credit)/charge to income	(70)	(1,646)	34	-	(348)	(2,030)
(Credit)/charge in respect of previous periods		42	-	-	-	42
Effect of tax rate change on opening balance	107	(56)	-	-	38	89
Charge to equity	-	-	2	-	-	2
As at 26 September 2020	**(669)**	**(642)**	**(88)**	**(7)**	**-**	**(1,406)**

A UK corporation rate of 19% (effective 1 April 2020) was substantively enacted on 17 March 2020, reversing the previously enacted reduction in the rate from 19% to 17%. This will increase the company's future current tax charge accordingly. The deferred tax asset/liability at 30 September 2020 has been calculated at 19% (2019: 17%).

16 INVENTORIES

	52 weeks ended 26 September 2020 £'000	52 weeks ended 28 September 2019 £'000
Goods for resale	**29,337**	30,924

Goods for resale includes a net realisable value provision of £2,261,000 (2019: £767,000). Write-downs of inventories to net realisable value amounted to £4,332,000 (2019: £2,633,000) and were recognised as an expense during the period, included within cost of sales in the Consolidated Statement of Financial Performance.

17 TRADE AND OTHER RECEIVABLES

	2020 **£'000**	2019 £'000
Amounts falling due within one year:		
Amounts receivable for the sale of goods	**2,139**	1,310
Allowance for expected credit losses	**(155)**	(26)
Other debtors and prepayments		
- Rent and rates	**124**	4,435
- Other	**1,459**	2,423
	3,567	8,142

The Directors consider that the carrying amount of trade and other receivables at 26 September 2020 and 28 September 2019 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 expected credit losses / doubtful debts) held by the Group at 26 September 2020 amounted to £2.1 million (2019: £1.3 million). These amounts mainly relate to sundry trade account generated sales. In relation to these sales, the average credit period taken is 58 days (2019: 58 days) and no interest is charged on the receivables.

The Group will write off, either partially or in full, the gross carrying amount of a financial asset when there is no realistic prospect of recovery. This is usually the case when it is determined that the debtor does not have the assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

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

Included in the Group's trade receivable balance are debtors with a carrying amount of £nil (2019: £nil) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

Ageing of past due but not impaired receivables:

	2020 **£'000**	2019 £'000
Greater than 60 days	**-**	-

The allowance for expected credit losses / allowance for doubtful debts was £155,000 by the end of the period (2019: £26,000). Given the minimal receivable balance, the Directors believe that there is no further credit provision required in excess of the allowance for expected credit losses / allowance for doubtful debts.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables and accrued income.

The allowance for expected credit losses / allowance for doubtful debts includes £nil relating to individually impaired trade receivables (2019: £12,000) which are due from companies that have been placed into liquidation.

18 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits net of bank overdrafts, where there is a right of offset, 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:

	2020 £'000	2019 £'000
Sterling	**28,862**	18,049
US dollar	**1,701**	183
Euro	**456**	515
Total cash and cash equivalents	**31,018**	18,747

Cash and cash equivalents are in the scope of the expected credit loss model under IFRS 9, however balances are held with recognised financial institutions and therefore the expected impairment loss is considered to be minimal.

19 TRADE AND OTHER PAYABLES

	2020 £'000	2019 £'000
Amounts falling due within one year		
Trade payables	**22,450**	17,394
Other payables	**14,761**	7,142
Accruals	**15,543**	14,622
Deferred income	**1,039**	1,013
Contract liabilities	**4,653**	3,165
	58,446	43,336

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 63 days (2019: 58 days). No interest is charged on these payables.

The Directors consider that the carrying amount of trade payables at 26 September 2020 and 28 September 2019 approximates to their fair value on the basis of discounted cash flow analysis.

Accruals includes provisions for customer returns of £1,129,000 (2019: £1,078,000).

Deferred income relates to consideration for trader loyalty points earned but not yet redeemed. The value of deferred income as at 28 September 2019 that was recognised as revenue for the 52 weeks ended 26 September 2020 was £755,000.

Contract liabilities relate to deposits received from customers for orders not yet fulfilled. The value of contract liabilities as at 28 September 2019 that was recognised as revenue for the 52 weeks ended 26 September 2020 was £3,052,000.

20 BANK LOANS

	2020 £'000	2019 £'000
Bank loans (all sterling)	**4,866**	29,762

	2020 £'000	2019 £'000
The borrowings are repayable as follows:		
On demand or within one year	**5,000**	-
In the second year	**-**	-
In the third to fifth year	**-**	30,000
	5,000	30,000
Less: total unamortised issue costs	**(134)**	(238)
	4,866	29,762
Issue costs to be amortised within 12 months	**115**	122
Amount due for settlement after 12 months	**-**	29,884
Amount due for settlement within 12 months	**4,981**	-

The Directors consider that the carrying amount of the bank loan at 26 September 2020 and 28 September 2019 approximates to its fair value since the amounts relate to floating rate debt.

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

	2020 %	2019 %
Loans	**2.11**	2.36

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

The following is a reconciliation of changes in financial liabilities to movement in cash from financing activities:

	Lease liabilities £'000	Current borrowings £'000	Non-current borrowings £'000	Unamortised issue costs £'000
As at 30 September 2018	-	-	30,000	-
Repayment of bank loan	-	-	(5,000)	-
Drawdown of bank loan	-	-	5,000	-
Issue costs incurred in the year	-	-	-	(102)
Amortisation of issue costs	-	-	-	98
As at 28 September 2019	-	-	30,000	(238)
Impact of adoption of IFRS 16	128,245	-	-	-
As at 29 September 2019	128,245	-	30,000	(238)
Repayment of bank loan	-	(1,000)	(44,000)	-
Drawdown of bank loan	-	6,000	14,000	-
Repayment of lease liabilities	(24,484)	-	-	-
Additions/disposals of lease liabilities	17,362	-	-	-
Interest accrued on lease liabilities	3,033	-	-	-
Issue costs incurred in the year	-	-	-	(22)
Amortisation of issue costs	-	-	-	126
As at 26 September 2020	**124,156**	**5,000**	**-**	**(134)**

The Group has a revolving credit facility to 29 June 2022 of £39.0 million. As at the financial period end, £nil of this was drawn (2019: £30.0 million). The loan facility contains financial covenants which are tested on a bi-annual basis. In light of Covid-19 the September 2020 covenants have been removed and the March 2021 covenants relaxed. The Group did not breach any covenants in the period.

During the year the Group utilised the Coronavirus Large Business Interruption Loan Scheme ("CLBILS"), which facilitates access to finance for medium-sized and larger businesses affected by the coronavirus outbreak. The Group has a credit facility to 21 June 2021 of £10.0 million. As at the financial period end, £5.0 million of this was drawn.

At 26 September 2020, the Group had available £44.0 million (2019: £9.0 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 2019. 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 accumulated losses as disclosed in notes 23 to 29.

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 2020 £'000
Financial assets	
Amortised cost (including cash and cash equivalents)	**36,624**
Fair value through profit and loss	**23**
Financial liabilities	
Amortised cost	**182,011**

	Carrying value and fair value 2019 £'000
Financial assets	
Loans and receivables (including cash and cash equivalents)	20,031
Fair value through profit and loss	89
Financial liabilities	
Amortised cost	69,042

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 RISK

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

FOREIGN CURRENCY RISK MANAGEMENT

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

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

	Assets		**Liabilities**	
	2020 £'000	2019 £'000	**2020 £'000**	2019 £'000
Euro	**456**	636	**5,891**	3,157
US dollar	**1,701**	421	**608**	360

FOREIGN CURRENCY SENSITIVITY ANALYSIS

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

	2020 £'000	2019 £'000
Profit or loss movement on a 10% strengthening in sterling against the euro	**494**	229
Profit or loss movement on a 10% strengthening in sterling against the US dollar	**99**	6
Profit or loss movement on a 10% weakening in sterling against the euro	**(604)**	(280)
Profit or loss movement on a 10% weakening in sterling against the US dollar	**(121)**	(7)

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:

	2020 £'000	2019 £'000
Forward foreign exchange contracts	**3,575**	10,600

These arrangements are designed to address significant exchange exposures for the first half of 2021 and are renewed on a revolving basis as required.

At 26 September 2020 the fair value of the Group's currency derivatives is a gain of £23,417 within other debtors and prepayments (note 17) (2019: gain of £88,514 within other debtors and prepayments (note 17)).

Gains of £65,097 have been included in cost of sales during the period (2019: £99,957 gain).

INTEREST RATE RISK MANAGEMENT

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

INTEREST RATE SENSITIVITY ANALYSIS

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

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

	50 basis points increase in interest rates		**50 basis points decrease in interest rates**	
	2020 £'000	2019 £'000	**2020 £'000**	2019 £'000
(Loss) or profit	**(146)**	(143)	**146**	143

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

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 have 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. 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. Trade receivables are minimal, consisting of a number of 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 expected credit losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained.

LIQUIDITY RISK MANAGEMENT

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

LIQUIDITY AND INTEREST RISK TABLES

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows (and on the assumption that the variable interest rate remains constant at the latest fixing level of 2.11% (2019: 2.36%) 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.

2020	**Less than 1 month £'000**	**1-3 months £'000**	**3 months to 1 year £'000**	**1-5 years £'000**	**5+ years £'000**	**Total £'000**
Non-interest bearing	**52,754**	**-**	**-**	**-**	**-**	**52,754**
Lease liabilities	**2,134**	**6,541**	**18,134**	**68,449**	**52,274**	**147,532**
Variable interest rate instruments	**22**	**44**	**5,182**	**149**	**-**	**5,397**

2019	Less than 1 month £'000	1-3 months £'000	3 months to 1 year £'000	1-5 years £'000	5+ years £'000	Total £'000
Non-interest bearing	39,158	-	-	-	-	39,158
Lease liabilities	-	-	-	-	-	-
Variable interest rate instruments	59	119	539	31,251	-	31,968

The Group is financed through a £39.0 million (2019: £39.0 million) revolving credit facility, of which £nil (2019: £30.0 million) was utilised. At the balance sheet date, the total unused amount of financing facilities was £39.0 million (2019: £9.0 million).

The Group received a Coronavirus Large Business Interruption Loan Scheme of £10.0 million, of which only £5.0 million was utilised, the amount unused was £5.0 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.

2020	**Less than 1 month £'000**	**1-3 months £'000**	**3 months to 1 year £'000**	**1-5 years £'000**	**5+ years £'000**	**Total £'000**
Foreign exchange forward contracts payments	**(1,091)**	**(1,436)**	**(1,048)**	**-**	**-**	**(3,575)**
Foreign exchange forward contracts receipts	**1,098**	**1,441**	**1,059**	**-**	**-**	**3,598**

2019	Less than 1 month £'000	1-3 months £'000	3 months to 1 year £'000	1-5 years £'000	5+ years £'000	Total £'000
Foreign exchange forward contracts payments	(1,397)	(3,161)	(6,042)	-	-	(10,600)
Foreign exchange forward contracts receipts	1,458	3,226	6,005	-	-	10,689

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

The fair values are therefore categorised as Level 2 (2019: 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

	2020 **£'000**	2019 £'000
Onerous lease provision	**-**	2,990
Dilapidations provision	**2,209**	2,008
Redemption liability	**120**	99
	2,329	5,097
Current	**462**	1,235
Non-current	**1,867**	3,862
	2,329	5,097

	Onerous lease provision £'000	Dilapidations provision £'000	Redemption liability £'000	Total £'000
At 28 September 2019	2,990	2,008	99	5,097
Impact of change in accounting policy (IFRS 16)	(2,589)	-	-	(2,589)
Adjusted balance at 29 September 2019	401	2,008	99	2,508
Created in the year	-	413	96	509
Utilisation of provision	-	(212)	-	(212)
Release of provision in the period	(401)	-	(75)	(476)
At 26 September 2020	**-**	**2,209**	**120**	**2,329**

In 2019, prior to the adoption of IFRS 16, the onerous lease provision related to the estimated future unavoidable costs in respect of closed, non-trading and loss-making stores. This provision was expected to be utilised over the lease term of the various properties (with the majority being less than 4 years). Under IFRS 16, right-of-use assets are recognised on balance sheet and are depreciated and subject to impairment which replaces the need for an onerous lease provision. On the adoption of IFRS 16 on 29 September 2019, £2,589,000 of onerous lease obligations for rental costs were released and impairments have been recognised against the related right-of-use assets (refer to note 34 which shows the impact of IFRS 16 being adopted).

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 lease term of the various properties (average of 10 years which includes an estimation of future renewals after the current leases end).

The discount rate used to calculate the present value of property provisions is 6% (2019: 5%). A 10% reduction in discount rate would lead to an increase in property provisions of £53,000 (2019: £80,000).

Provisions include £120,000 redemption liability in relation to the purchase of Strata Tiles Limited, payable in 2021, and therefore have been classed as current. The liability is valued at amortised cost based on forecast attainment of performance conditions associated with the payment of the liability.

23 SHARE CAPITAL

	2020 Shares	2019 Shares	2020 £'000	2019 £'000
Allotted, issued and fully paid ordinary shares of 3.33p (2019: 3.33p)				
At the start of the period	**196,440,971**	196,440,971	**6,548**	6,548
Issued in the period	**2,352**	-	**-**	-
At the end of the period	**196,443,323**	196,440,971	**6,548**	6,548

During the period the Group issued 2,352 (2019: nil) ordinary shares with a nominal value of £78 (2019: £nil) under share option schemes for an aggregate cash consideration of £2,100 (2019: £nil).

The authorised share capital of the Group is £8,000,000 (2019: £8,000,000), which consists of 240,000,000 ordinary shares (2019: 240,000,000).

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

24 SHARE PREMIUM

	2020 £'000	2019 £'000
At start of the period	**2,490**	2,490
Premium on issue of new shares	**2**	-
At end of the period	**2,492**	2,490

25 OWN SHARES

	2020 £'000	2019 £'000
At start of the period	**(1,548)**	(3,750)
Disposed of on issue in the period	**65**	2,202
At end of the period	**(1,483)**	(1,548)

A subsidiary of the Group holds 1,470,517 (2019: 1,518,694) shares with a nominal value of £1,482,487 acquired for an average price of £1.01 per share (2019: £1,547,603 acquired for an average price of £1.02 per share) and therefore these have been classed as own shares. These shares are held in an employee benefit trust.

26 MERGER RESERVE

	2020 £'000	2019 £'000
At start and end of the period	**(399)**	(399)

The merger reserve arose on pre-2006 acquisitions. The Directors do not consider this to be distributable as at 26 September 2020 (2019: same).

27 SHARE-BASED PAYMENT RESERVE

	2020 £'000	2019 £'000
At start of the period	**3,962**	3,945
Credit to equity for equity-settled share-based payments	**3**	17
At end of the period	**3,965**	3,962

The share-based payment reserve has arisen on the fair valuation of save-as-you-earn schemes and long-term incentive plans. The Directors consider this to be distributable as at 26 September 2020 (2019: same).

28 CAPITAL REDEMPTION RESERVE

	2020 £'000	2019 £'000
At start and end of the 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. The Directors do not consider this to be distributable as at 26 September 2020 (2019: same).

29 ACCUMULATED LOSSES

	£'000
At 30 September 2018	(2,530)
Dividends	(6,623)
Deferred and current tax on Sharesave scheme taken directly to equity	58
Own shares issued in the period	(2,202)
Net profit for the period attributable to owners of Topps Tiles Plc	10,119
At 28 September 2019	(1,178)
Impact of change in accounting policy (IFRS 16)	(3,605)
Adjusted balance at 29 September 2019*	(4,783)
Dividends	(4,484)
Deferred and current tax on Sharesave scheme taken directly to equity	(2)
Own shares issued in the period	(65)
Acquisition of non-controlling interest on business combination	(100)
Net loss for the period attributable to owners of Topps Tiles Plc	(7,966)
At 26 September 2020	**(17,400)**

* The Group has initially applied IFRS 16 'Leases' at 29 September 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application, 29 September 2019.

30 NON-CONTROLLING INTEREST

	2020 £'000	2019 £'000
At start of the period	**(2)**	-
Non-controlling interest on business combination	**-**	39
Net loss for the period distributable to non-controlling interests	**(52)**	(41)
Acquisition of non-controlling interests during the year	**26**	
At end of the period	**(28)**	(2)

31 FINANCIAL COMMITMENTS

A) CAPITAL COMMITMENTS

At the end of the period there were capital commitments contracted of £nil (2019: £nil).

B) PENSION ARRANGEMENTS

The Group operates a defined contribution pension scheme for employees. The assets of the schemes are held separately from those of the Group in independently administered funds. The pension cost charge represents contributions payable by the Group to the funds and amounted to £994,000 (2019: £1,063,000). At the period end, the Group holds outstanding contributions of £216,673 (2019: £221,115).

C) LEASE COMMITMENTS

Prior to the adoption of IFRS 16, the Group had entered into non-cancellable operating leases in respect of motor vehicles, equipment and land and buildings. The operating lease payments primarily represented rentals payable by the Group for certain of its office and store properties. Those leases were negotiated for an average term of ten years and rentals were fixed for an average of five years.

On adoption of IFRS 16, the Group recognised liabilities in relation to these leases which had previously been classified as operating leases under the principles of IAS 17.

A reconciliation of differences between the operating lease commitments disclosed under the prior standard and the lease liabilities recognised in the Consolidated Statement of Financial Position at 29 September 2019 is found in note 34.

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:

	2020		2019	
	Land and buildings £'000	**Other £'000**	Land and buildings £'000	Other £'000
- Within 1 year	**23**	**-**	23,037	1,745
- Within 2-5 years	**-**	**-**	72,606	2,563
- After 5 years	**-**	**-**	38,311	-
	23	**-**	133,954	4,308

32 SHARE-BASED PAYMENTS

The Group operates three (2019: three) share option schemes in relation to Group employees; these are the employee share purchase plans, the 2013 Long Term Incentive Plan and the 2020 Long Term Incentive Plan.

EMPLOYEE SHARE PURCHASE PLANS

Employee share purchase plans are open to almost all employees and there no specific vesting conditions other than the requirement for continued employee service. The share plans provide for a purchase price equal to the average market price over the three days prior to the date of grant, less 20%. The shares can be purchased during a two-week period each financial period. The shares purchased are generally placed in the employee share savings plan for a three or five year period.

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

	2020		2019	
	Number of share options	**Weighted average exercise price £**	Number of share options	Weighted average exercise price £
Outstanding at beginning of the period	4,752,154	0.61	3,868,716	0.78
Issued during the period	1,634,712	0.60	3,195,674	0.51
Expired during the period	(169,344)	1.27	(356,341)	0.92
Forfeited during the period	(1,878,431)	0.59	(1,953,543)	0.73
Exercised during the period	-	-	(2,352)	0.51
Outstanding at end of the period	4,339,091	0.59	4,752,154	0.61
Exercisable at end of the period	440,975	0.70	169,344	1.27

During the financial period, the Group granted 1,634,712 share options under the existing share option scheme due to vest in April 2023 with a fair value of £357,773.

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

Three-year plan		
Weighted average share price	— pence	76.00
Weighted average exercise price	— pence	60.35
Expected volatility	— %	31.24
Expected life	— years	3.20
Risk-free rate of interest	— %	0.39
Dividend yield	— %	1.45

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous three years (2019: three years).

The weighted average remaining contractual life of the share options outstanding at the end of the period is 1.93 years (2019: 2.38 years).

The exercise price for share options under the share save scheme range from 43 pence to 127 pence.

The weighted average share price at the date of exercise of options exercised during the year ended 26 September 2020 is nil pence (2019: 69 pence).

2013 LONG TERM INCENTIVE PLAN

Long Term Incentive Plans have been granted to senior management and have a vesting period of three years. Vesting is subject to achievement of certain performance conditions which are detailed in the Remuneration Report.

Movements in the 2013 Long Term Incentive Plan options are summarised as follows:

	2020		2019	
	Number of share options	**Weighted average exercise price £**	Number of share options	Weighted average exercise price £
Outstanding at beginning of the period	**7,791,387**	**-**	7,973,849	-
Issued during the period	**2,110,791**	**-**	2,885,557	-
Forfeited during the period	**(3,236,692)**	**-**	(1,496,684)	-
Exercised during the period	**(48,177)**	**-**	(1,571,336)	-
Outstanding at end of the period	**6,617,309**	**-**	7,791,387	-
Exercisable at end of the period	**903,188**	**-**	951,365	-

During the financial period, the Group granted 2,110,791 share options under the existing share option scheme due to vest in December 2022 with a fair value of £1,517,173.

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

Weighted average share price	— pence	75.00
Weighted average exercise price	— pence	Nil
Expected volatility	— %	31.08
Expected life	— years	2.92
Risk-free rate of interest	— %	0.55
Dividend yield	— %	1.47

Expected volatility for the additional share options was determined by calculating the historical volatility of the Group's share price over the previous one, two and three years (2019: one, two and three years).

The weighted average remaining contractual life of share options outstanding at the end of the period is 7.64 years (2019: 7.96 years).

The weighted average share price at the date of exercise of options exercised during the year ended 26 September 2020 is 67.09 pence (2019: 64.78 pence).

2020 LONG TERM INCENTIVE PLAN

Under the plan a number of share options were granted to management level employees across the Group. These options were due to vest in December 2020 subject to the achievement of certain performance criteria, however these have not been met.

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

	2020		2019	
	Number of share options	**Weighted average exercise price £**	Number of share options	Weighted average exercise price £
Outstanding at beginning of the period	**2,402,648**	**-**	2,656,830	-
Forfeited during the period	**(513,205)**	**-**	(254,182)	-
Outstanding at end of the period	**1,889,443**	**-**	2,402,648	-

The weighted average remaining contractual life of share options outstanding at the end of the period is 5.62 years (2019: 6.68 years)

In total, the Group recognised a total expense of £3,290 (2019: £17,069 income) relating to share-based payments.

33 RELATED PARTY TRANSACTIONS

S.K.M. Williams is a related party by virtue of his close family relationship with key management, with a 10.1% shareholding (19,660,278 ordinary shares) in the Group's issued share capital (2019: 10.5% shareholding of 20,593,950 ordinary shares).

At 26 September 2020, S.K.M. Williams was the landlord of one property leased to Multi Tile Limited, a trading subsidiary of Topps Tiles Plc, for £59,000 (2019: two properties for £122,000) per annum.

No amounts were outstanding with S.K.M. Williams at 26 September 2020 (2019: £nil). The lease agreements on all properties are operated on commercial arm's length terms.

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note, in accordance with the exemption available under IAS 24.

The remuneration of the Board of Directors, who are considered key management personnel of the Group, was £1.0 million (2019: £1.2 million) including share-based payments of £nil (2019: £nil million). Further information about the remuneration of the individual Directors is provided in the Remuneration Report in the Annual Report.

The Group's defined contribution pension scheme is administered by Legal and General. During the year the Group made contributions of £994,000 (2019: £1,063,000) and at year end the Group has outstanding contributions of £216,673 (2019: £221,115).

34 ADOPTION OF IFRS 16 'LEASES'

This note explains the impact of the adoption of IFRS 16 'Leases' on the Group's financial statements. IFRS 16 was issued in January 2016 and has been endorsed by the EU. The standard specifies how to recognise, measure, present and disclose leases and replaces IAS 17 'Leases' and IFRIC 4 'Determining whether an arrangement contains a lease'.

The Group adopted IFRS 16 from 29 September 2019 using a modified retrospective transition approach, as described in paragraph C5(b) of the standard, under which the cumulative effect of initial application is recognised as an adjustment to the opening balance of retained earnings at 29 September 2019. The comparative information presented for the 52 weeks ended 28 September 2019 has not been restated and therefore continues to be shown under IAS 17. For all periods prior to 29 September 2019, the Group classified all of its leases as operating leases under IAS 17. Operating lease rental payments were recognised as an expense in the Consolidated Statement of Financial Performance on a straight-line basis over the lease term.

Lease liabilities

On adoption of IFRS 16, the Group recognised liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 'Leases'. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 29 September 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 29 September 2019 was 2.30%. The lease liabilities recognised on 29 September 2019 were as follows:

	29 September 2019 £'000
Current lease liabilities	**23,637**
Non-current lease liabilities	**104,608**
	128,245

Right-of-use assets

The associated right-of-use assets for the Group's property and equipment leases were measured at either:

- The carrying amount as if IFRS 16 had been applied since the commencement date, but discounted using the incremental borrowing rate at the date of initial application. The Group has applied this to a small number of property leases where it was possible to obtain sufficient historical data.
- An amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the Consolidated Statement of Financial Position immediately before the date of initial application. The Group has applied this methodology to the majority of its property leases and equipment leases.

On transition the Group have performed an impairment review under IAS 36, recognising an impairment totalling £4.6m to the right-of-use assets through retained earnings. The recognised right-of-use assets on transition relate to the following types of assets:

	29 September 2019 £'000
Property	**113,878**
Vehicles, plant and equipment	**3,818**
	117,696

Adjustments to Statement of Financial Position items

The opening balance sheet position as at 29 September 2019 has been restated on transition to IFRS 16. The Group recognised additional right-of-use assets, sub-lease assets, lease liabilities and deferred tax assets, as well as a reduction in prepayments, provisions and liabilities, recognising the difference as an adjustment to the opening balance of retained earnings. The impact on transition is summarised below. Comparative periods have not been restated.

	28 September 2019 (reported) IAS 17	IFRS 16 transition adjustments	29 September 2019 IFRS 16
	£'000	£'000	£'000
Non-current assets			
Goodwill	3,104	-	3,104
Intangible assets	2,663	-	2,663
Property, plant and equipment	46,958	(93)	46,865
Investment properties	1,233	-	1,233
Other financial assets	-	3,108	3,108
Deferred tax assets	-	706	706
Right-of-use assets	-	117,696	117,696
	53,958	121,417	175,375
Current assets			
Inventories	30,924	-	30,924
Other financial assets	-	342	342
Trade and other receivables	8,142	(4,264)	3,878
Cash and cash equivalents	18,747	-	18,747
	57,813	(3,922)	53,891
Total assets	111,771	117,495	229,266
Current liabilities			
Trade and other payables	(43,336)	4,556	(38,780)
Lease liabilities	-	(23,637)	(23,637)
Current tax liabilities	(2,025)	-	(2,025)
Provisions	(1,235)	806	(429)
Total current liabilities	(46,596)	(18,275)	(64,871)
Net current assets/(liabilities)	11,217	(22,197)	(10,980)
Non-current liabilities			
Bank loans	(29,884)	-	(29,884)
Lease liabilities	-	(104,608)	(104,608)
Deferred tax liabilities	(1,197)	-	(1,197)
Provisions	(3,862)	1,783	(2,079)
Total liabilities	(81,539)	(121,100)	(202,639)
Net assets	30,232	(3,605)	26,627
Equity			
Share capital	6,548	-	6,548
Share premium	2,490	-	2,490
Own shares	(1,548)	-	(1,548)
Merger reserve	(399)	-	(399)
Share-based payment reserve	3,962	-	3,962
Capital redemption reserve	20,359	-	20,359
Accumulated losses	(1,178)	(3,605)	(4,783)
Capital and reserves attributable to owners of Topps Tiles Plc	30,234	(3,605)	26,629
Non-controlling interests	(2)	-	(2)
Total equity	30,232	(3,605)	26,627

IFRS 16 requires derecognition of the onerous lease provision. The Group's property provisions have been adjusted to reflect this, with an associated adjustment to retained earnings on transition.

Under IFRS 16, balances such as rent prepayments/accruals, rent free incentives and landlord contributions are reflected in either the right-of-use asset or the lease liability, and therefore have been derecognised on transition.

The table below shows a reconciliation from the total operating lease commitment as disclosed at 28 September 2019 to the total lease liabilities recognised in the accounts immediately after transition:

	29 September 2019 £'000
Operating lease commitment at 28 September 2019	138,262
Recognition exemption for short-term leases	(107)
Adjustments as a result of a different treatment of leases as a result of IFRS 16	2,336
Impact of discounting	(12,246)
At 26 September 2020	**128,245**

Statement of Financial Performance impact for the period

The impact on the Statement of Financial Performance was as follows:

	52 weeks ended 26 September 2020		
	Presented under IAS 17	**Impact of IFRS 16**	**Presented under IFRS 16**
	£'000	**£'000**	**£'000**
Group revenue	192,813	-	192,813
Cost of sales	(80,001)	-	(80,001)
Gross profit	112,812	-	112,812
Operating costs	(114,546)	(4,295)	(118,841)
Group operating loss	**(1,734)**	**(4,295)**	**(6,029)**
Net finance costs	(848)	(2,952)	(3,800)
Loss before taxation	**(2,582)**	**(7,247)**	**(9,829)**

There is no cash flow impact as a result of adoption of IFRS 16, except for a recategorisation between cash flow from operating activities, investing activities and financing activities. Lease payments/receipts and interest payments/receipts are shown separately on the Statement of Cash Flows.

Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate for portfolios of leases with reasonably similar characteristics;
- accounting for low value operating leases and operating leases with a remaining lease term of less than 12 months as at 29 September 2019 on a straight line basis as an expense without recognising a right-of-use asset or a lease liability;
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease;
- on transition, no recognition of initial direct costs incurred in entering the lease within the value of the right-of-use asset.

The Group has also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 'Leases' and IFRIC 4 'Determining whether an arrangement contains a lease'.

Significant areas of judgement and estimation

The application of IFRS 16 requires significant judgement and estimation, particularly around the calculation of the incremental borrowing rate and determining the lease term when there are options to extend or terminate early – see note 2Y.

Company Balance Sheet

AS AT 26 SEPTEMBER 2020

	Notes	2020 £'000	Restated 2019 £'000
Non-current assets			
Investments	4	**2,005**	7,154
Right-of-use assets	8	**647**	-
Current assets			
Debtors	5	**142,814**	134,622*
Cash at bank and in hand		**11,618**	5,929
Creditors: amounts falling due within one year	6	**(89,013)**	(80,633)*
Provisions	7	**(120)**	-
Net current assets		**65,299**	59,918
Non-current liabilities			
Lease liabilities	8	**(169)**	-
Provisions	7	**-**	(99)
Total liabilities		**(89,302)**	(80,732)
Net assets		**67,782**	66,973
Capital and reserves			
Called-up share capital	9	**6,548**	6,548
Share premium account		**2,492**	2,490
Share-based payment reserve		**4,499**	4,496
Capital redemption reserve		**20,359**	20,359
Other reserve	10	**6,200**	6,200
Profit and loss account		**27,684**	26,880
Equity shareholders' funds		**67,782**	66,973

*Refer to notes 5 and 6 for further details of the restatement of balances as at 28 September 2019.

The Company made a profit after tax for the financial period ended 26 September 2020 of £5,287,000 (2019: £10,009,000).

The Company has initially applied IFRS 16 'Leases' at 29 September 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application, 29 September 2019 (see note 11).

The financial statements of Topps Tiles Plc, Companies House number 3213782, were approved by the Board of Directors on 1 December 2020 and signed on its behalf by:

ROB PARKER
STEPHEN HOPSON
DIRECTORS

Company Statement of Changes in Equity

FOR THE 52 WEEKS ENDED 26 SEPTEMBER 2020

Company	Share capital £'000	Share premium £'000	Share-based payment reserve £'000	Capital redemption reserve £'000	Other reserves £'000	Profit and loss account £'000	Total £'000
Balance at 30 September 2018	**6,548**	**2,490**	**4,479**	**20,359**	**6,200**	**23,494**	**63,570**
Profit for the period	-	-	-	-	-	10,009	10,009
Dividend paid to equity shareholders	-	-	-	-	-	(6,623)	(6,623)
Credit to equity for equity-settled share-based payments	-	-	17	-	-	-	17
Balance at 28 September 2019	**6,548**	**2,490**	**4,496**	**20,359**	**6,200**	**26,880**	**66,973**
Impact of change in accounting policy (IFRS 16)	-	-	-	-	-	1	1
Adjusted balance at 29 September 2019*	**6,548**	**2,490**	**4,496**	**20,359**	**6,200**	**26,881**	**66,974**
Profit for the period	-	-	-	-	-	5,287	5,287
Dividend paid to equity shareholders	-	-	-	-	-	(4,484)	(4,484)
Issue of new shares	-	2	-	-	-	-	2
Credit to equity for equity-settled share-based payments	-	-	3	-	-	-	3
Balance at 26 September 2020	**6,548**	**2,492**	**4,499**	**20,359**	**6,200**	**27,684**	**67,782**

The other reserves comprise an unrealised gain arising on the disposal of certain trademarks to a subsidiary company. At 26 September 2020, the Directors consider the other reserve of £6,200,000 to remain non-distributable.

The Directors consider £nil (2019: £nil) of profit and loss account reserves to be not distributable at 26 September 2020.

* The Company has initially applied IFRS 16 'Leases' at 29 September 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application, 29 September 2019.

Notes to the Company Financial Statements

FOR THE 52 WEEKS ENDED 26 SEPTEMBER 2020

1 GENERAL INFORMATION AND BASIS OF ACCOUNTING

Topps Tiles Plc is a private limited company, limited by shares, incorporated and domiciled in the United Kingdom under the Companies Act 2006. The address of the registered office is given in the Annual Report.

The financial statements of Topps Tiles Plc have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) issued by the Financial Reporting Council (FRC).

During the year, IFRS 16 was adopted in line with the requirements of accounting standards. Further detailed of IFRS 16 'Leases', including the impact of adoption are included in note 11.

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

i) The requirements of IFRS 7 Financial Instruments: Disclosures

ii) The requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:

  a) Paragraph 79(a)(iv) of IAS 1

  b) Paragraph 73(e) of IAS 16 Property, Plant and Equipment

iii) The requirements of IAS 7 Statement of Cash Flows

iv) The requirements of IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member

v) The requirements of paragraphs 10(d), 10(f), and 134 to 136 of IAS 1 Presentation of Financial Statements

vi) The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

Where relevant, equivalent disclosures have been given in the Group financial statements of which the Company's results are included.

The financial statements have been prepared under the historical cost convention. Comparative data is for the period ended 28 September 2019.

2 ACCOUNTING POLICIES

The principal accounting policies adopted are set out below.

A) GOING CONCERN

When considering the going concern assertion, the Board reviews several factors including the ability of the Group to meet its banking covenants and operate within its banking facilities based on current financial plans, along with a series of more pessimistic trading scenarios that were deemed severe but plausible. The more pessimistic trading scenarios included a second lock down during the next 12 months that would see our retail stores closed for up to three months.

The Group took a number of actions to strengthen its liquidity during the Covid-19 pandemic. The UK Government put in place a range of support measures for businesses and we accessed all of those available to us. This included utilising the Coronavirus Job Retention Scheme to furlough the c.90% of our colleagues who were unable to work from home, business rates relief for the 2020/21 tax year, VAT deferral and utilising the Coronavirus Large Business Interruption Loan Scheme ("CLBILS"), which facilitates access to finance for medium-sized and larger businesses affected by the coronavirus outbreak. The sale and leaseback of the Group's head office and central warehouse buildings at Enderby was completed in June 2020. The going concern review also outlined a range of other mitigating actions that could be taken in a severe but plausible trading scenario. This included, but was not limited to, savings on store employee costs, savings on central support costs, and reduction of capital expenditure.

The Group's forecast covenant and cash headroom was reviewed against current lending facilities. These were refinanced in July 2018 and expire in July 2022, with an opportunity to extend at the end of the first and second years for a further year, so a potential full term of five years ending July 2023.

In all scenarios, the Board have concluded that there is sufficient covenant headroom and available liquidity for the Company to continue in operational existence for the foreseeable future. The Board therefore continue to adopt the going concern basis in preparing the financial statements.

B) FINANCIAL PERIOD

There has been a change in accounting policy during the year, from the accounting period ends on the Saturday which falls closest to 30 September resulting in financial periods of either 52 or 53 weeks, to the accounting period is drawn up to a Saturday within 7 days of 30 September resulting in financial periods of either 52 or 53 weeks. There has been no impact on prior period financial statements as a result of this change.

Throughout the financial statements, Directors' Report and Strategic Report, references to 2020 mean "at 26 September 2020" or the 52 weeks then ended; references to 2019 mean "at 28 September 2019" or the 52 weeks then ended.

C) TAXATION

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 Company intends to settle its current tax assets and liabilities on a net basis.

D) INVESTMENTS

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

E) FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised in the Company's statement of financial position when the Company 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), financial assets "at fair value through other comprehensive income" (FVOCI), and financial assets carried at "amortised cost". The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

TRADE AND OTHER RECEIVABLES

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

EFFECTIVE INTEREST METHOD

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

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

IMPAIRMENT OF FINANCIAL ASSETS

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each statement of financial position date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. The Company assesses on a forward-looking basis the expected credit losses associated with its financial assets carried at amortised cost.

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 Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables. The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for financial assets.

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets. The Company will write off, either partially or in full, the gross carrying amount of a financial asset when there is no realistic prospect of recovery. This is usually the case when it is determined that the debtor does not have the assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

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 Company 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 Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

FINANCIAL LIABILITIES AND EQUITY INSTRUMENTS

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 Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Financial liabilities that are classified as FVTPL relate to derivatives that is not designated and effective as a hedging instrument. Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss.

OTHER FINANCIAL LIABILITIES

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

DERECOGNITION OF FINANCIAL LIABILITIES

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

F) DIVIDENDS

Dividends payable are recorded in the financial statements in the year in which they are approved by the Company's shareholders.

G) FINANCE INCOME AND FINANCE COSTS

Interest receivable or payable is recognised on accrual basis.

H) SHARE-BASED PAYMENTS

The Company has applied the requirements of IFRS 2 Share-based Payments.

The Company 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 Company's estimate of shares that will eventually vest. Fair value is measured by use of the Black-Scholes model.

The Company provides employees with the ability to purchase the Company's ordinary shares at 80% of the current market value through the operation of its Sharesave scheme. The Company 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.

I) LEASES

The Company has changed its accounting policy for leases as a result of IFRS 16 ‘‘Leases’’. The new policy is detailed below and the impact of the change is described in note 11.

Until 28 September 2019, as a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all the risks and rewards of ownership. Rentals payable under operating leases were charged to the profit and loss account on a straight-line basis over the term of the relevant lease even where payments are not made on such a basis, except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed or a provision has been made for an onerous lease. Contingent rentals arising under operating leases were recognised as an expense in the period in which they are incurred.

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

The following policies apply subsequent to the date of initial application of IFRS 16, 29 September 2019.

Leases in which the Company is a lessee

The Company leases assets which consist of vehicles and equipment. Rental contracts are typically made for fixed periods but may have extension options or break options to maximise operational flexibility. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

The Company now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

At the commencement date of property leases the Company determines the lease term to be the full term of the lease, assuming that any option to break or extend the lease is unlikely to be exercised. The Company considers the lease term to be the non-cancellable period and in assessing this applies the definition of a contract and determines the period for which the contract is enforceable.

Under IFRS 16, the Company recognises right-of-use assets and lease liabilities for most leases.

The Company has elected to take advantage of the following recognition exemptions and account for lease payments as an expense on a straight-line basis over the lease term or another systematic basis for the following two types of leases:

- leases with a lease term of 12 months or less and containing no purchase options – this election is made by class of underlying asset;
- leases where the underlying asset has a low value when new – this election can be made on a lease-by-lease basis.

For leases where the Company has taken short-term lease recognition exemption and there are any changes to the lease term or the lease is modified, the Company accounts for the lease as a new lease.

From 29 September 2019 leases are recognised as a right-of-use asset with a corresponding liability at the date at which the leased asset is available for use by the Company. Each lease payment comprises an element of capital and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option;
- payments of penalties for terminating the lease if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs;
- restoration costs.

After lease commencement, the Company measures right-of-use assets using a cost model. Under the cost model a right-of-use asset is measured at cost less accumulated depreciation and accumulated impairment.

Subsequent to initial measurement, lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. The lease liability is also remeasured to reflect changes in:

- the lease term (using a revised discount rate);
- the assessment of a purchase option (using a revised discount rate);
- the amounts expected to be payable under residual value guarantees (using an unchanged discount rate);
- future lease payments resulting from a change in an index or a rate used to determine those payments (using an unchanged discount rate).

The remeasurements are matched by adjustments to the right-of-use asset.

Lease modifications may also prompt remeasurement of the lease liability unless they are determined to be separate leases.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

J) CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company'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.

CRITICAL JUDGEMENTS IN APPLYING THE COMPANY'S ACCOUNTING POLICIES

The Directors have concluded that there are no critical areas of accounting judgement in the application of the Company's accounting policies in the current period.

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:

INCREMENTAL BORROWING RATE

Under IFRS 16, the Company recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The lease liability is initially measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate, adjusted to take into account the risk associated with the length of the lease. The Company has therefore made a judgement to determine the incremental borrowing rate used. As a result of the significant impact the transition to IFRS 16 has had on the Company's opening balance sheet, the discount rate is considered to be a significant judgement.

RECOVERABILITY OF INTERCOMPANY BALANCES

The Directors consider that the recoverability of intercompany balances is a key source of estimation uncertainty. The company makes an estimate of the recoverable amount of amounts receivable to group undertakings by performing an annual review of net assets and cashflows for those group companies, and have concluded all intercompany receivables remain recoverable at the period end.

The Company considers whether investments in subsidiary undertakings are impaired. Where an indication of impairment is identified the estimation of recoverable value requires estimation of the recoverable value of the cash generating units (CGUs).

3 PROFIT FOR THE PERIOD

As permitted by section 408 of the Companies Act 2006 the Company has elected not to present its own profit and loss account for the period. Topps Tiles Plc reported a profit for the financial period ended 26 September 2020 of £5,287,000 (2019: £10,009,000).

The auditors' remuneration for services to the Company was £49,000 for audit-related work (2019: £49,000 for audit-related work). Fees relating to non-audit work totalled £nil (2019: £nil); see note 4 to the Group financial statements for further details.

The Company had no employees other than the Directors (2019: same), whose remuneration is detailed in the Annual Report.

4 INVESTMENTS

	£'000
Cost at 30 September 2018	**3,420**
Acquisition of subsidiary	3,717
Movement in share options granted to employees	17
Cost at 28 September 2019	**7,154**
Acquisition of subsidiary	75
Movement in share options granted to employees	3
Impairment of investments in subsidiaries	(5,227)
Cost at 26 September 2020	**2,005**

During the year investments in Parkside Ceramics Limited of £1,435,000 and in Strata Tiles Limited of £3,792,000 have been written down to £nil.

The following were subsidiaries that the Company has investments in, both as at 26 September 2020 and 28 September 2019:

Subsidiary undertaking	**% of issued shares held**	**Principal activity**
Topalpha Limited*	100%	Property management and investment
Topalpha (Warehouse) Limited	100%	Property management and investment and provision of warehousing services
Topalpha (Stoke) Limited	100%	Property management and investment
Tiles4less Limited*	100%	Intermediate holding company
Topps Tiles (UK) Limited	100%	Retail and wholesale of ceramic tiles, wood flooring and related products
Topps Tiles Holdings Limited*	100%	Intermediate holding company
Topps Tile Kingdom Limited	100%	Intermediate holding company
Multi Tile Limited	100%	Retail and wholesale of ceramic tiles, wood flooring and related products
Topps Tiles Distribution Ltd	100%	Wholesale and distribution of ceramic tiles, wood flooring and related products
Multi-Tile Distribution Limited	100%	Intermediate holding company
Topps Tiles I.P Company Limited	100%	Ownership and management of Group intellectual property
Topps Tiles Employee Benefit Trust*	100%	Employee benefit trust
Strata Tiles Limited*	90%	Architectural ceramic sales and distribution
Parkside Ceramics Limited*	100%	Commercial distribution of ceramic and porcelain tiles, natural stone and related products

* Held directly by Topps Tiles Plc

The investments are represented by ordinary shares.

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

The registered address of all of the above entities (excluding Strata Tiles Limited and Parkside Ceramics Limited) is Thorpe Way, Grove Park, Enderby, Leicestershire, LE19 1SU, United Kingdom.

The registered address of Strata Tiles Limited and Parkside Ceramics Limited is Barnsdale Way, Enderby, Leicestershire, England, LE19 1SN.

5 DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2020 £'000	Restated 2019 £'000
Amounts owed by subsidiary undertakings	**140,418**	133,275
Prepayments	**48**	27
Other debtors	**2,348**	1,320
	142,814	134,622

The 2019 amounts owed by subsidiary undertakings have been restated by £8,000 and other debtors by £1,282,000, a net change of £1,290,000, to correct a previous misallocation of balances owed across the Group entities. There is no overall change in net assets as a result of this restatement.

Amounts owed by subsidiary undertakings are interest free, repayable on demand and not subject to any security.

6 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2020 £'000	Restated 2019 £'000
Trade and other creditors	**9,393**	5,722
Amounts owed to subsidiary undertakings	**76,188**	70,308
Accruals	**2,952**	4,603
Lease liabilities	**480**	-
	89,013	80,633

The 2019 trade creditors and other creditors have been restated by £5,565,000, amounts owed to subsidiary undertakings have been restated by £7,910,000 and accruals have been restated by £3,635,000, a net change of £1,290,000, to correct a previous misallocation of balances due across the Group entities. There is no overall change in net assets as a result of this restatement.

Amounts owed to subsidiary undertakings are interest free, repayable on demand and not subject to any security.

7 PROVISIONS

Provisions include £120,000 redemption liability in relation to the purchase of Strata Tiles Limited, payable in 2021, and therefore have been classed as current. The liability is valued at fair value based on forecast attainment of performance conditions associated with the payment of the liability. The movement in year includes a net provision increase of £21,000 (2019: £99,000).

8 LEASES

As a lessee

Right-of-use assets included in the Balance Sheet at 26 September 2020 were as follows:

	Equipment £'000
At transition: 29 September 2019	1,114
Additions	86
Depreciation	(553)
At 26 September 2020	**647**

Lease liabilities included in the Balance Sheet at 26 September 2020 were as follows:

	Equipment £'000
At transition: 29 September 2019	(1,106)
Additions	(87)
Interest	(19)
Repayment of lease liabilities	563
At 26 September 2020	**(649)**

The maturity analysis of the lease liabilities is as follows:

	2020 £'000	2019 £'000
Current	**(480)**	-
Non-current	**(169)**	-
	(649)	-

The remaining contractual maturities of the lease liabilities, which are gross and undiscounted, are as follows:

	2020 £'000	2019 £'000
Less than one year	**482**	-
One to five years	**174**	-
More than five years	**-**	-
Total undiscounted lease liability	**656**	-

The following amounts have been recognised in the profit and loss account:

	Equipment £'000
Depreciation of right-of-use assets	553
Interest expense	19

The total cash outflow for leases during the financial period was £563,000.

9 CALLED-UP SHARE CAPITAL

	2020 £'000	2019 £'000
Allotted, issued and fully paid 196,443,323 (2019: 196,440,971) ordinary shares of 3.33p each (2019: 3.33p)	**6,548**	6,548

During the period nil shares were purchased by Topps Tiles Employee Benefit Trust on behalf of the Group (2019: nil).

During the period the Group issued and allotted 2,352 (2019: nil) ordinary shares with a nominal value of £78 (2019: £nil) under share option schemes for an aggregate cash consideration of £2,100 (2019: £nil).

10 OTHER RESERVES

The other reserves comprise an unrealised gain arising on the disposal of certain trademarks to a subsidiary company.

11 ADOPTION OF IFRS 16 'LEASES'

This note explains the impact of the adoption of IFRS 16 'Leases' on the Company's financial statements. IFRS 16 was issued in January 2016 and has been endorsed by the EU. The standard specifies how to recognise, measure, present and disclose leases and replaces IAS 17 'Leases' and IFRIC 4 'Determining whether an arrangement contains a lease'.

The Company adopted IFRS 16 from 29 September 2019 using a modified retrospective transition approach, as described in paragraph C5(b) of the standard, under which the cumulative effect of initial application is recognised as an adjustment to the opening balance of retained earnings at 29 September 2019. The comparative information presented for the 52 weeks ended 28 September 2019 has not been restated and therefore continues to be shown under IAS 17. For all periods prior to 29 September 2019, the Company classified all of its leases as operating leases under IAS 17. Operating lease rental payments were recognised as an expense in the profit and loss account on a straight-line basis over the lease term.

Lease liabilities

On adoption of IFRS 16, the Company recognised liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 'Leases'. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 29 September 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 29 September 2019 was 2.23%. The lease liabilities recognised on 29 September 2019 were as follows:

	29 September 2019 £'000
Current lease liabilities	**480**
Non-current lease liabilities	**626**
	1,106

Right-of-use assets

The associated right-of-use assets for the Company's equipment leases were measured at either:

- The carrying amount as if IFRS 16 had been applied since the commencement date, but discounted using the incremental borrowing rate at the date of initial application. The Company has applied this to a small number of leases where it was possible to obtain sufficient historical data.
- An amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the Balance Sheet immediately before the date of initial application. The Company has applied this methodology to the majority of its leases.

The recognised right-of-use assets on transition relate to the following types of assets:

	29 September 2019 £'000
Vehicles, plant and equipment	**1,114**
	1,114

Adjustments to Balance Sheet items

The opening balance sheet position as at 29 September 2019 has been restated on transition to IFRS 16. The Company recognised additional right-of-use assets, and lease liabilities, recognising the difference as an adjustment to the opening balance of retained earnings. The impact on transition is summarised below. Comparative periods have not been restated.

	28 September 2019 (reported) IAS 17 £'000	IFRS 16 transition adjustments £'000	29 September 2019 IFRS 16 £'000
Non-current assets			
Investments	7,154	-	7,154
Right-of-use assets	-	1,114	1,114
Current assets			
Debtors	134,622	-	134,622
Cash at bank and in hand	5,929	-	5,929
Creditors: amounts falling due within one year	(80,633)	(487)	(81,120)
Net current assets	59,918	(487)	59,431
Non-current liabilities			
Lease liabilities	-	(626)	(626)
Provisions	(99)	-	(99)
Total liabilities	(80,732)	(1,113)	(81,845)
Net assets	66,973	1	66,974
Capital and reserves			
Called-up share capital	6,548	-	6,548
Share premium account	2,490	-	2,490
Share-based payment reserve	4,496	-	4,496
Capital redemption reserve	20,359	-	20,359
Other reserve	6,200	-	6,200
Profit and loss account	26,880	1	26,881
Equity shareholders' funds	66,973	1	66,974

Under IFRS 16, balances such as rent prepayments/accruals are reflected in either the right-of-use asset or the lease liability, and therefore have been derecognised on transition.

The table below shows a reconciliation from the total operating lease commitment as disclosed at 28 September 2019 to the total lease liabilities recognised in the accounts immediately after transition:

	29 September 2019 £'000
Operating lease commitment at 28 September 2019	-
Adjustments as a result of a different treatment of leases as a result of IFRS 16	1,138
Impact of discounting	(32)
At 26 September 2020	**1,106**

Practical expedients applied

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- the use of a single discount rate for portfolios of leases with reasonably similar characteristics;
- accounting for low value operating leases and operating leases with a remaining lease term of less than 12 months as at 29 September 2019 on straight line basis as an expense without recognising a right-of-use asset or a lease liability;
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease;
- on transition, no recognition of initial direct costs incurred in entering the lease within the value of the right-of-use asset.

The Company has also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date the Company relied on its assessment made applying IAS 17 'Leases' and IFRIC 4 'Determining whether an arrangement contains a lease'.

Significant areas of judgement

The application of IFRS 16 requires significant judgement and estimation, particularly around the calculation of the incremental borrowing rate – see note 2J.

Discount rate

The discount rate used to calculate the lease liability is the rate implicit in the lease, if it can be readily determined, or the lessee's incremental borrowing rate if not. The Company uses the lessee's incremental borrowing rate for all equipment leases. The Company applies judgement in determining the appropriate discount rate used to calculate the lease liability. As mentioned above, the Company applies a single discount rate to all leases with similar characteristics, which is an option permitted by the standard. This rate is calculated based on the Revolving Credit Facility rate adjusted for a factor based on the lease term.

Five Year Record

UNAUDITED

	52 weeks ended 1 October 2016 £'000	52 weeks ended 30 September 2017 £'000	52 weeks ended 29 September 2018 £'000	52 weeks ended 28 September 2019 £'000	**52 weeks ended 26 September 2020 £'000**
Group revenue	214,994	211,848	216,887	219,197	**192,813**
Group operating profit	21,073	17,889	13,735	13,333	**(6,029)**
Profit before taxation	19,982	16,999	12,688	12,475	**(9,829)**
Shareholders' funds	17,545	23,553	26,663	30,232	**14,054**
Basic earnings per share	8.05p	6.98p	5.00p	5.18p	**(4.11)p**
Dividend per share	3.50p	3.40p	3.40p	3.40p	**Nil**
Dividend cover	2.30x	2.05x	1.47x	1.52x	**Nil**
Average number of employees	1,977	2,030	2,114	2,089	**2,001**
Share price (period end)	112.25p	75.50p	62.90p	66.60p	**51.40p**

All figures quoted are inclusive of continued and discontinued operations.