26 November 2019

Topps Tiles Plc

Annual Financial Report

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 28 September 2019.

Highlights

	52 weeks ended 28 September 2019	52 weeks ended 29 September 2018	YoY
Statutory Measures			
Group revenue	£219.2 million	£216.9 million	+1.1%
Gross margin	61.6%	61.1%	+50bps
Profit before tax	£12.5 million	£12.7 million	(1.6)%
Basic earnings per share	5.18p	5.00p	+3.6%
Final dividend per share	2.30p	2.30p	nil
Total dividend per share	3.40p	3.40p	nil
Net cash from operating activities	£21.9 million	£21.9 million	nil
Adjusted Measures			
Adjusted Group revenue[1]	£214.3 million	£214.8 million	(0.2)%
Like-for-like revenue year-on-year[2]	+0.6%	0.0%	n/a
Adjusted gross margin[3]	62.0%	61.3%	+70bps
Adjusted profit before tax[4]	£16.0 million	£16.0 million	nil
Adjusted earnings per share[5]	6.61p	6.64p	(0.5)%
Net debt[6]	£11.3 million	£16.2 million	+£4.9 million

Adjusting items are detailed in the notes below and in the adjusted measures section of the financial review. These include trading losses from the Commercial business while we go through an initial two year phase of investing in growth, plus other items which are either one-off in nature, or can fluctuate significantly from year to year (such as some property related items).

Financial Summary

- Adjusted revenues broadly flat at £214.3 million (2018: £214.8 million) and like-for-like sales growth of 0.6%;
- Adjusted profit before tax of £16.0 million (2018: £16.0 million), with growth in gross margin offsetting inflationary cost pressures;
- Net debt reduced by £4.9 million year-on-year to £11.3 million due to continued cash generation and year end timing related working capital benefits;
- Final dividend maintained at 2.3 pence per share (2018: 2.3 pence per share), making a total for the year of 3.4 pence per share (2018: 3.4 pence per share);
- Statutory profit before tax of £12.5 million (2018: £12.7 million), details of the adjusting items can be found in the table below.

Strategic & Operational Summary

<u>Group</u>

- The UK's leading tile specialist with a core purpose to *inspire customers through our love of tiles;*
- Leading Product strategy is focused on delivering competitive advantage through our specialist focus, buying scale and expertise across both retail and commercial businesses:
  - 86% of tile ranges are own brand or exclusive to Topps;
  - 40 new ranges launched during the year with over one third developed in-house;
  - 70% of Group purchases now made through our core supplier group.
- Leading People is about ensuring we have the best people in each of our respective market places and achieving this through excellent leadership of our people;
- Colleague engagement is key to our customer service ethic – development of colleagues and internal succession are key areas of focus.

Retail

- Strategy of "Out-specialising the Specialists" remains our key focus;
- Customer overall satisfaction rating of 86% - we estimate this ranks us #3 within the UK retail sector (source: Institute of Customer Service and Topps data);
- New omni-channel website launched at the start of October - digital experience and social media presence continues to grow in importance; new 'Virtual Tiler' tool providing enhanced inspiration for customers and linking further the in-store and online experience;
- Almost all of our customers come to store and experience the world class specialist service provided by colleagues in our 362 retail stores (2018: 368 stores) – continued review of portfolio and existing lease flexibility is key;
- Continued rapid growth in our Trade Rewards+ loyalty programme for professional tile fitters - now over 90,000 active members (2018: 72,000).

Commercial

- Strategy of disrupting the commercial tile market and constructing a new market leader over the medium term;
- Entry into commercial tile market has approximately doubled the size of the Group's addressable UK market whilst allowing us to leverage our tile expertise and scale;
- Sales of £4.9 million (+133% YoY or 81% excluding Strata) and a trading loss of £2.0 million (2018: £1.0 million), plus a non-trading loss of £0.3 million (2018: £0.1 million) for amortisation of intangibles and redemption payments for non-controlling share, with a target of broadly breakeven for FY20 (excluding amortisation and redemption payments for non-controlling share).

Current Trading and Outlook

- In line with our past experience, consumer demand has weakened further since the UK General Election was called in late October;
- In the first eight weeks of the new financial period, retail like-for-like revenues decreased by 7.2% (2018: decrease of 1.9%);
- A reduction in political uncertainty will be key to the short term outlook improving.

Commenting on the results, Matthew Williams, CEO said:
"This has been another year of strategic progress for Topps, with a resilient sales performance in our retail business and significant development in our commercial operations. In Retail, our strategy of 'Out-specialising the Specialists' enabled us to deliver like-for-like sales growth and further enhance our market-leading gross margins in tough market conditions. In Commercial, we saw significant year-on-year sales growth as we continue to invest in constructing a market-leader over the medium term.

"At the start of the new financial year, trading conditions have become more challenging, with consumer demand weakening further since the General Election was called in late October. Against this backdrop of heightened political and economic uncertainty, like-for-like sales in the first eight weeks have declined. Whilst we expect external events will continue to weigh on consumer confidence for the immediate future, we remain confident that our market-leading retail offer and growing commercial operations give us a strong platform from which to deliver sustainable growth over the medium and long term."

Notes

[1] Adjusted revenues are defined as total Group revenues excluding Commercial revenue of £4.9 million (2018 £2.1 million).
[2] Like-for-like sales revenues are defined as sales from online and stores that have been trading for more than 52 weeks. In 2019 sales in like for like stores was £209.8 million (2018: £208.6 million), with an average of 354 stores included in the weekly calculation.
[3] Adjusted gross margin is defined as Group gross margin excluding Commercial gross margin of £2.0 million (2018 £0.8 million).
[4] Adjusted profit before tax excludes 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:

	2019 £m	***2018 £m***
Adjusted Profit before tax	***16.0***	***16.0***
Property		
- Impairment of property, plant, equipment and movement in onerous lease provision	*(1.8)*	*(2.2)*
- Vacant property costs	*(1.1)*	*(0.2)*
- Gains on disposal of freehold or long leasehold properties	*nil*	*0.7*
	(2.9)	***(1.7)***
Commercial		
- Costs related to acquisition during the period	*(0.4)*	*nil*
- Commercial trading loss	*(2.0)*	*(1.0)*
- Commercial amortisation of intangibles & redemption payments for non-controlling share	*(0.3)*	*(0.1)*
	(2.7)	***(1.1)***
Other		
- Historical adjustment to refunds provision	*nil*	*(0.5)*
- Write off of goodwill relating to historic acquisition	*(0.2)*	*nil*
- Repayment of historical import duty	*2.3*	*nil*
	2.1	***(0.5)***
Statutory Profit before tax	***12.5***	***12.7***

[5] Adjusted earnings per share is adjusted for all of the items highlighted above, including the offsetting tax impacts of these items of £0.7 million (2018 £0.3 million), plus the impact of corporation tax of £2.4 million (2018 £3.0 million).
[6] Net debt is defined as bank loans, before unamortised issue costs (note 18) and less cash and cash equivalents.

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STRATEGIC REPORT

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

MARKETPLACE

The UK Tile Market and Performance of the Business

The UK tile market is valued at £372m per annum at manufacturers selling prices (source: MBD), or approximately £700 million at retail selling prices. The market splits into two broad sectors – domestic, accounting for around 55% of the market and commercial, accounting for the remaining 45%. 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.

The annual tile industry report published by MBD covers the whole of the UK tile market (domestic and commercial) and is based on manufacturer and supplier data. In 2018 the total market was flat on a value basis, with 2% growth in volume.

The Board has previously recognised that Brexit could have a number of implications for the Group – we continue to monitor and plan for any adverse impacts.

Domestic Tile Market
Due to the discretionary nature of domestic market spending, consumer confidence remains a key driver of its performance. During 2019, the average level of consumer confidence was -12.5, which compares to -9.3 in 2018 (source: GFK). The index has been relatively stable across the year, averaging -12.8 over the first half and -12.2 over the second. The consumer confidence index has remained negative since the EU referendum result in June 2016 and we will continue to monitor this measure closely during the UK's exit from the EU.

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. Housing transactions across the UK have been quite stable since the summer of 2017 and during 2019 they have remained broadly flat at around 1.2m (Source: HMRC).

We also consider UK house price data to be a useful indicator of the relative health of our market. House prices are both a good reflection of the housing market itself and also tend to reflect consumer confidence, as home owners tend to feel more affluent in a rising market. During the year house prices have been stable, with the average price of a house in the UK at £215,352 (2018: £214,922) (Source: Nationwide).

Commercial Tile Market
Construction output for the private commercial sector declined by 2.6% across the period (source: ONS). We believe this to be a good proxy for the commercial tile market, with evidence of overall price deflation in construction as a whole and general project delays as investments and purchasing confidence declined.

The UK commercial tile market is quite fragmented and regionalised with only a very 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 high end residential. Our success in this market results both from appealing to designers and architects through our differentiated offer, and to contractors who may require more commoditised products, in large quantities, but at lower prices. Although the focus for our commercial business is on customers in the former category, where we can leverage our tile specialism and design credentials, the Groups buying advantage also enables volume sales.

Strategy

The Group business has an overarching goal to profitably grow sales and we aim to achieve this by putting our customers at the heart of what we do. In 2017, we identified an opportunity to expand into the commercial tile market. As a result, we acquired the Parkside business and have made good progress investing in and growing revenues. During 2019, we further expanded our commercial operations through the acquisition of Strata Tiles. Whilst the commercial business currently only accounts for approximately 2% of our turnover, we consider it to be a key aspect of our future growth plans as it doubles the size of the Group's addressable market in the UK. Our retail business, Topps Tiles, continues to successfully operate from a position of strength as the market leader and we have continued to refine and hone our customer offer. Both business units are supported by our Group strategies of "Leading Product" and "Leading People".

Leading Product
The Group's core purpose is to *inspire customers through our love of tiles* and this objective is reflected in our "Leading Product" initiative. 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.

Progress and Outlook

Our pace and iterative cycle of product introduction continues to set us apart from our competitors. During the year we launched over 40 new product ranges and we are proud that more than a third of our new tile ranges were design-led by us in collaboration with selected key supply partners. 86% of our tile ranges are either own brand or exclusive to us and this forms an important aspect of our differential. Importantly, 70% of our purchases are now through our core supplier group, a key metric of our drive to leverage our buying scale and advantage and benefit those partners that are aligned to our strategic ambitions.

Innovation in design and, more recently, in manufacturing technology, makes it an exciting period for the ceramic industry and as specialists we are focused on embracing new opportunities to deliver the best possible products and projects for our customers. For example, we further extended our outdoor product offer with the addition of our exclusive 20mm porcelain tile range Everscape™, and more recently launched Aquabase™, a range of unique porcelain shower trays, which are designed to co-ordinate and contrast with many of our other tile ranges in the latest on-trend looks. In the year ahead, we will increase the level of in-house developed products across all categories.

In Commercial, we have focused on supporting our sales teams with an extended product range in order that they can be highly competitive in this established sector. Both Parkside and Strata now have access to over 7,000 tile products from a global supply base. Within the period we were pleased to strengthen our offer by securing exclusive partnerships with several Italian tile brands which are highly recognised within the architectural and design community.

Technical authority is increasingly important in our market and we aim to be leaders in this field. We have invested over recent years to build our own in-house technical team to meet the demands of our now broader customer base and to set us apart from our competitors. We are able to offer key technical information through in-house testing, on-demand support and ensuring high levels of product quality at all times.

Leading People

The Group's success is underpinned by industry-leading levels of customer service and this is reflected in our "Leading People" initiative. This means that we are very focussed on our colleagues that deliver this service, with their capability and engagement levels being critical.

Progress and Outlook

This year we launched a new colleague initiative called "Leading People". This is based around us having the leading people in each of our respective markets and we believe we will achieve this by having the very best leadership of our people. Leading People is about Leading the Thinking, Leading the Pace and Leading the Team. We are developing a range of materials to help all colleagues understand our expectations of them and to help them develop and grow within this framework.

Our online Learning Management System, "theHub", continues to be our primary vehicle for delivery of Learning & Development activity; it is very well utilised with the majority of colleagues logging on at least once every month. During the year we launched a new personal performance review process which encourages colleagues and managers to have a regular dialogue specifically tailored to the needs of both the business and our colleagues.

Colleague engagement in the business is high and we have now launched a new colleague engagement survey. This allows us to tailor questions to specific topics and build a long term view of colleague engagement. The new system also allows a mid-year "pulse" survey which provides a helpful interim update on progress against key initiatives.

Internal succession is very important to us. As an example, when we recruit at a store management level, 58% (2018: 60%) of these roles are filled internally. This allows for excellent opportunities for colleague progression and also allows us to retain the strong technical skill sets that all store colleagues learn.

We are also investing in improvements in our HR and payroll technology in order to improve efficiency, ways of working, risk management and colleague engagement, and we expect this system to go live in the current financial year.

Retail – Topps Tiles

Our retail strategy for the domestic market of "Out-specialising the Specialists" continues to be very effective. This strategy is focused on providing both our retail and trade customers with a truly inspirational experience – both online and in store.

Progress and Outlook

The majority of home owners will utilise our website as the first step of their shopping journey with us – often as part of the research phase. This year we took a significant step forwards with the launch of our new website, which, has been based around an enhanced user experience, including omni-channel technology capability which will unlock further functionality over time. Whilst we know that our website is very important for customers when they are starting their journey with us, we also know that our stores represent a vital part of their journey – with 90% of our customers visiting a store as part of their purchase. As customers' needs change so too does the way we invest to attract them.

Our marketing spend is increasingly focused on digital mediums, and in particular in driving traffic to our website. We are also collaborating more than ever with social media influencers – people who have a natural fit with our customer offer and who can help us reach out to an ever-larger potential customer base. During the period we have been focused on social media impressions and, in particular, building our Instagram presence by creating a community of influencers and traders with an interior design focus; as a result we now have 37,000 followers on Instagram (FY18: 16,000). Total social media impressions for the year increased by 96% to 12.7 million (FY18: 6.5 million).

This year we have introduced a new service into stores, 'Virtual Tiler', which allows colleagues to work with the customer to help them design a 3D visualisation of their project with their chosen tiles. Virtual Tiler complements our existing visualiser and the innovative grout and trim visualiser on the new website, and, together, they are a major source of inspiration for customers and a key tool for colleagues to utilise in stores.

Our colleagues offer our customers a world-class experience within store. Our all-store improvement initiative is now two years into a three-year programme. This includes a number of new merchandising initiatives such as implementing design advice areas in stores. These areas establish a space in store for colleagues to interact with customers in a more consultative way, allowing them to really understand their needs and provide bespoke design solutions. The majority of our customers shop infrequently for tiles which means that when they do, they need lots of advice and expertise. Our customer satisfaction scores are very important to us and during the year we launched our new customer feedback system, "Tile Talk". We have achieved an overall satisfaction rating of 86%, which we estimate places us within the top three of UK retailers (source: Institute of Customer Service and Topps data).

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. At the period end we had 362 stores (2018: 368 stores) and we expect to see continued movement in the portfolio through active portfolio management based on openings, closures and relocations. We anticipate that the total number of retail stores will reduce by approximately 10 in the current year due to a programme of continued portfolio optimisation. The optimum size of the portfolio for the UK will continue to be reviewed based on changing customer needs over time. Critically, the average unexpired lease term to the next break opportunity is 3.8 years (2018: 4.1 years) and if we remove stores which are strategically important (where we have proactively taken longer terms to secure our tenure) the average unexpired lease term to break falls to 3.1 years (2018: 3.4 years) - the flexibility this provides is a key strength of the business.

Our trade customer base represents 56% of our total sales (2018: 56%). Trade provides a vital link to those homeowners who prefer to transact through their fitter rather than with us direct. The UK consumer remains very dependent on the "Do It For Me" trend and hence our trade customer base is key to our continued success. We focus very hard on ensuring we offer our trade customers a compelling overall offer and our trade loyalty scheme leads our market place – with 90,000 traders registered and earning points over the preceding 12 months (2018: 72,000).

Commercial – Parkside & Strata

The commercial tile market represents around 45% of the overall UK tile market, hence our entry into this market approximately doubles our addressable market. Historically, the Group had a very small representation in this part of the market through commercial sales made in its retail stores, but in 2017 we identified commercial as an opportunity for expansion and profitable growth and acquired the Parkside business. Our strategy of "Disrupt and Construct" means that we plan to disrupt the existing competitive landscape and, over time, construct a new market leader. Our tile expertise, size and scale as a Group is central to this plan – giving us the resources to recruit a talented sales team and invest in market leading pricing.

<u>Progress and Outlook</u>

2019 was a year of learning, development and growth for Parkside. We have built a sales team of 19 people with approximately 400 years of combined tile sales experience, delivered a sales increase of 81% and developed a very encouraging pipeline of potential future sales. Feedback from customers has been very positive with both the quality and friendliness of our sales teams and our access to exclusive and differentiated ranges seen as key strengths. We have expanded our network of design studios with openings in the Clerkenwell district of London and the Cotswolds, bringing the total to four. These meeting and event spaces enable designers, architects and contractors to directly experience the vast range of product possibilities we offer.

During the period we further strengthened our position in the commercial tile market through the acquisition of Strata Tiles. Strata Tiles is a commercial tile business with a specialist focus in transport, retail and living spaces and an experienced team of nine sales people working across the industry.

Overall Commercial sales performance was strong during the period with total revenues growing by 133% to £4.9 million and an encouraging future pipeline of prospects which continues to build. Trading losses for the commercial business have been £2.0 million (excluding £0.3 million arising on the amortisation of intangible assets and provision for redemption of non-controlling interest). In line with previously announced strategy, these losses have been treated as a longer term investment and as such have been excluded from the adjusted financial results of the Group for this year. With effect from the 53 week period ended 3 October 2020 Commercial will be no longer be excluded from our adjusted financial results and our expectation is that we will trade at broadly breakeven in that period (excluding amortisation of intangibles and redemption of non-controlling interest). We remain open to further growth through acquisition and will continue to review such opportunities as they arise.

Board

As announced on 5 November 2019, Matthew Williams will step down from his position as CEO with effect from 29 November 2019, remaining as an advisor to the business until May 2020. He will be succeeded by Rob Parker, currently CFO.

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 28 September 2019	**52 weeks to 29 September 2018**	**YoY**
Financial KPIs			
Adjusted Group revenue growth year-on-year*	(0.2)%	+1.5%	n/a
Like-for-like sales growth year-on-year*	+0.6%	0.0%	n/a
Adjusted gross margin*	62.0%	61.3%	+70bps
Adjusted profit before tax*	£16.0m	£16.0m	nil
Adjusted earnings per share*	6.61 pence	6.64 pence	(0.5)%
Net debt*	£11.3m	£16.2m	+£4.9m
Inventory days	134	130	(4)
Non-financial KPIs			
Customer overall satisfaction score	86.0%	n/a	n/a
Colleague turnover	36.8%	37.2%	+0.4%
Carbon emissions per store (tonnes per annum)	31.9	31.1	(2.6)%
Number of retail stores at year end	362	368	(6)

* 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 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. The programme was introduced in October 2018 and hence there is no prior year comparator for this measure.
- 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 Group revenue and gross margin differ from statutory by the exclusion of the commercial business, to allow the Group to understand Topps Tiles retail performance on a more comparable basis.

Adjusted profit before tax differs from the statutory profit before tax as it excludes the effect of one off or fluctuating items, allowing the Group to understand results across periods in a more consistent manner.

For the current period the following items have been excluded:

- Losses relating to the commercial business of £2.3 million (2018: £1.1 million) - recognising that 2018 and 2019 will be two years of investment in longer term growth. The commercial loss is comprised of £2.0 million from trading and a £0.3 million impairment of intangible assets and provision for redemption payments for non-controlling share;
- One-off deal costs related to the purchase of the Strata business of £0.4 million;
- Losses related to movement in property related provisions (including onerous lease movements and provision against fixed assets in loss making stores) of £1.8 million (2018: £2.2 million);
- Vacant property costs of £1.1 million (2018: £0.2 million) for stores closed as part of a portfolio optimisation programme;
- Gain relating to repayment of historical import duty from HMRC of £2.3 million; and
- Losses from a write off of goodwill relating to a historical acquisition (Surface Coatings Ltd) £0.2 million.

In the prior year a gain from the disposal of four freehold properties of £0.7 million and a loss of £0.5 million relating to a historical adjustment to the refunds provision, were also excluded.

PROFIT AND LOSS ACCOUNT

Revenue

Total revenue for the period ended 28 September 2019 increased by 1.1% to £219.2 million (2018: £216.9 million).

Adjusted revenue decreased by 0.2% to £214.3 million (2018: £214.8 million). Like-for-like store sales were 0.6% higher than the prior year, which consisted of a 0.2% increase in the first half of the financial period and a 0.9% increase in the second half. We believe that the sales performance represents an outperformance of our market and is an endorsement of our strategy.

Gross Margin

Total gross margin was 61.6%, an increase from 61.1% in the prior year.

Adjusted gross margin (for our retail business) increased to 62.0% compared with 61.3% in the previous financial period. Over the first half of the period adjusted gross margin was 61.4%, and we delivered a gross margin of 62.7% in the second half of the period. Gross margin includes a £0.5 million gain (20 bps) from the reclassification of other income from operating costs. In addition, there has been a benefit from sourcing gains and new ranges with improved margins. Over the year foreign exchange had a modest impact (10bps adverse movement) with a minor benefit in the first half offset in the second half. For the year ahead we anticipate that gross margin in our retail business will be broadly flat, but continued growth of the commercial business which operates at a lower level will dilute total gross margin by around 100 bps.

Operating Expenses

Total operating costs increased from £118.7 million to £121.6 million, an increase of 2.4%. Costs as a percentage of sales were 55.5% compared to 54.7% in the prior period. When adjusting items (detailed above) are excluded, operating costs were £116.1 million (2018: £114.6 million), an increase of 1.3%. Adjusted costs as a percentage of adjusted sales were 54.2% compared to 53.4% in the previous period.

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

- The average number of UK stores trading during the financial period was 366 (2018: 372), which generated a reduction in costs of approximately £1.5 million;
- Inflation at an average of approximately 1.4% increased our cost base by around £1.7 million (excluding regulatory impacts);
- Regulatory cost impacts, including the National Living Wage, accounted for £0.5 million of additional costs;
- Depreciation increased by £0.2 million due to higher levels of investment in the store estate over recent years;
- Supply chain costs increased by £0.3 million partially due to additional off site facilities for stock as a result of Brexit contingency planning;
- Reclassification of £0.5 million of other income from operating costs into gross margin;
- Employee profit share costs decreased by £0.5 million, with lower level of financial performance compared to plan; and
- Other cost increases of £0.3 million across a number of cost lines.

For the year ahead we expect the adjusted operating costs for the business to be between £122 million and £123 million. This includes between £5.5 million and £6.0 million of costs relating to the inclusion of the commercial business due to this no longer being treated as an adjusting item.

Financing
Net finance costs for the period were £0.9 million (2018: £1.0 million). The reduction recognises changes to the principle debt which continued to fall over the year.

Net interest cover was 28.2 times (2018: 23.0 times) based on profit before interest and tax of £13.3m (2018: £13.7m), adjusted for depreciation and amortisation of £7.4 million (2018: £7.1 million) and adjusting items of £3.5 million (2018: £3.3 million).

Profit Before Tax
Profit before tax (PBT) was £12.5 million (2018: £12.7 million). The Group PBT margin was 5.7% (2018: 5.9%).

Excluding the adjusting items detailed above, PBT was £16.0 million (2018: £16.0 million). The Group adjusted PBT margin was 7.5% (2018: 7.4%).

Tax
The effective rate of corporation tax for the period was 19.2% (2018: 23.9%).

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

Earnings Per Share
Basic earnings per share were 5.18 pence (2018: 5.00 pence).

Diluted earnings per share were 5.14 pence (2018: 4.93 pence).

Excluding the adjusting items detailed on page three adjusted earnings per share were 6.61 pence (2018: 6.64 pence).

Dividend and Dividend Policy
The Board has previously indicated that it intended to pursue a dividend cover policy and that it would target approximately two times as a sustainable level and over the period we are in line with this at a cover of 1.94x the adjusted earnings per share (2018: 1.95x).

The Board is recommending to shareholders a final dividend of 2.3 pence per share (2018: 2.3 pence per share). This will cost £4.4 million (2018: £4.4 million). The shares will trade ex-dividend on 19 December 2019 and, subject to approval at the Annual General Meeting, the dividend will be payable on 31 January 2020.

This will maintain the total dividend for the year at 3.4 pence per share (2018: 3.4 pence per share).

The policy for the interim dividend is to pay one third of the prior full year dividend.

BALANCE SHEET

Capital Expenditure
Capital expenditure on tangible/intangible assets and investment properties in the period amounted to £7.8 million (2018: £7.9 million), a decrease of 1.3%.

Key investments are as follows:
- New retail stores and store improvements £4.5 million - 12 new openings (including two relocations) (2018: £3.3 million)
- Commercial showrooms £0.6 million (2018: £0.4 million)
- Freehold and investment property purchases £0.2 million (2018: £3.1 million)
- Central office refurbishment, IT and other expenditure £2.5 million (2018: £1.1 million)

The Board expects capital expenditure in the year ahead to be between £6 million and £7 million which will cover our core investment plans. In addition, we are considering investing in a programme to retrofit LED lighting into all stores at a cost of between £2.5 million and £3.0 million 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.

At the period end the Group held five freehold or long leasehold sites, including two warehouse and distribution facilities and an office building, with a total carrying value of £13.8 million (2018: six freehold or long leasehold sites valued at £14.2 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 a fair value adjustment.

Acquisitions & Disposals
During the year we disposed of one freehold property for a consideration of £0.2 million.

During the prior period we acquired one freehold property for a consideration of £2.9 million and disposed of four freehold properties for a consideration of £3.9 million.

Intangible Assets & Goodwill
During the year Topps acquired 80% of the Strata commercial tiles business, which has resulted in a goodwill value of £1.9 million. The Strata acquisition also resulted in intangible assets of £1.7 million, which have been amortised by £0.1m in the period to a new carrying value of £1.6 million.

At the period end Parkside goodwill was £1.2 million (2018: £1.2 million). Intangible assets, relating to the Parkside business, were amortised by £0.1 million to a new holding value of £0.3 million (2018: £0.3 million).
In the previous year the Topps retail business held goodwill relating to historic acquisitions of £0.2 million, which was written off during the period.

Inventory
Inventory at the period end was £30.9 million (2018: £30.2 million) representing 134 days turnover (2018: 130 days turnover). The September 2019 year end stock balance includes £1.1 million of stock built up in advance of the previously proposed 31 October 2019 Brexit deadline, as a precaution against the risk of potential delays getting stock through ports during November.

Capital Structure and Treasury
Cash and cash equivalents at the period end were £18.7 million (2018: £13.8 million) with borrowings of £30.0 million (2018: £30.0 million) before unamortised issue costs.

This gives the Group a net debt position of £11.3 million (2018: £16.2 million).

Cash flow
Cash generated from operations was £21.9 million, compared to £21.9 million in the prior year period, being flat year on year. Improvements in working capital of £2.0 million were driven by the financial calendar with year-end falling before payroll payments were made in FY19, whilst in FY18 payroll payments had been made. Working capital gains were offset by reduced cash flow from operating activities (including interest) (£1.2 million lower than prior year), and higher tax payments (£0.8 million higher than the prior year).

Free cash flow was £11.5 million (2018: £17.9 million), a reduction of £6.4 million year on year. This reduction was driven by lower proceeds from disposals of properties of £3.5 million. FY19 also includes the £2.7 million cash outflow for acquisition of the Strata business.

IFRS 16 – Leases
IFRS 16 will be adopted by the Group in the period ending 3 October 2020. The standard will have a material impact on the financials statements of the Group due to the large number of property leases it holds as well as leases relating to machinery and vehicles.

Based on the lease portfolio at the transition date of 29 September 2019, the Group will recognise a right-of-use asset in the region of £125m, with a corresponding lease liability in the region of £130m.

For the period ending 3 October 2020, the Group expects a reduction in Profit before taxation in the region of £1m, as a result of the adoption of IFRS 16.

Current Trading and Market Conditions for the Year Ahead
Consumer demand has weakened further since the UK General Election was called in late October. In the first eight weeks of the new financial year, retail like-for-like sales have declined by 7.2%. A reduction in political uncertainty will be key to the short term outlook but we remain confident that our market-leading retail offer and rapidly-growing commercial operations gives us a solid platform from which to deliver sustainable growth over the medium term.

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

Matthew Williams
Chief Executive Officer

Rob Parker
Chief Financial Officer

26 November 2019

Consolidated Statement of Financial Performance

FOR THE 52 WEEKS ENDED 28 SEPTEMBER 2019

	Notes	**52 weeks ended 28 September 2019 £'000**	52 weeks ended 29 September 2018 £'000
Group revenue - continuing operations	3	**219,197**	216,887
Cost of sales		**(84,245)**	(84,464)
Gross profit		**134,952**	132,423
Distribution and selling costs		**(93,138)**	(88,348)*
Repayment of historical import duty	5	**2,272**	-
Other operating expenses		**(8,070)**	(9,480)
Administrative costs		**(17,439)**	(16,067)*
Sales and marketing costs		**(5,244)**	(4,793)
Group operating profit		**13,333**	13,735
Finance income	7	**15**	25
Finance costs	7	**(873)**	(1,072)
Profit before taxation	5	**12,475**	12,688
Taxation	8	**(2,397)**	(3,029)
Profit for the period	27	**10,078**	9,659
Profit is attributable to:			
Owners of Topps Tiles Plc		10,119	9,659
Non-controlling interests	28	(41)	-
		10,078	9,659
Earnings per ordinary share from continuing operations:			
- Basic		**5.18p**	5.00p
- Diluted		**5.14p**	4.93p

* Distribution and selling costs and administrative costs are now inclusive of employee profit sharing costs, which were separately identified in the prior period financial statements. The prior period has been adjusted to be comparable. The Group have reviewed its accounting policy and have reclassified employee profit sharing costs of £5,153,000 (2018: £5,776,000) to distribution and selling costs, and £617,000 (2018: £492,000) to administrative costs.

Consolidated Statement of Comprehensive Income

FOR THE 52 WEEKS ENDED 28 SEPTEMBER 2019

	52 weeks ended 28 September 2019 £'000	52 weeks ended 29 September 2018 £'000
Profit for the period	**10,078**	9,659
Total comprehensible income for the period is attributable to:		
Owners of Topps Tiles Plc	**10,119**	9,659
Non-controlling interests	**(41)**	-
	10,078	9,659

Consolidated Statement of Financial Position

AS AT 28 SEPTEMBER 2019

	Notes	**2019 £'000**	2018 £'000
Non-current assets			
Goodwill	11	**3,104**	1,461
Intangible assets	12	**2,663**	339
Property, plant and equipment	13a	**46,958**	47,953
Investment properties	13b	**1,233**	1,233
		53,958	50,986
Current assets			
Inventories		**30,924**	30,154
Trade and other receivables	15	**8,142**	8,712
Cash and cash equivalents	16	**18,747**	13,842
		57,813	52,708
Total assets		**111,771**	103,694
Current liabilities			
Trade and other payables	17	**(43,336)**	(38,648)
Current tax liabilities		**(2,025)**	(2,923)
Provisions	20	**(1,235)**	(1,197)
		(46,596)	(42,768)
Net current assets		**11,217**	9,940
Non-current liabilities			
Bank loans	18	**(29,884)**	(29,851)
Deferred tax liabilities	20	**(1,197)**	(1,017)
Provisions	20	**(3,862)**	(3,395)
Total liabilities		**(81,539)**	(77,031)
Net assets		**30,232**	26,663
Equity			
Share capital	21	**6,548**	6,548
Share premium	22	**2,490**	2,490
Own shares	23	**(1,548)**	(3,750)
Merger reserve	24	**(399)**	(399)
Share-based payment reserve	25	**3,962**	3,945
Capital redemption reserve	26	**20,359**	20,359
Accumulated losses	27	**(1,178)**	(2,530)
Capital and reserves attributable to owners of Topps Tiles Plc		**30,234**	26,663
Non-controlling interests	28	**(2)**	-
Total equity		**30,232**	26,663

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

The financial statements of Topps Tiles Plc, registered number 3213782, were approved by the Board of Directors and authorised for issue on 26 November 2019. They were signed on its behalf by:

MATTHEW WILLIAMS
ROB PARKER
DIRECTORS

Consolidated Statement of Changes in Equity

FOR THE 52 WEEKS ENDED 28 SEPTEMBER 2019

	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 1 October 2017	6,548	2,487	(4,411)	(399)	3,921	20,359	(4,952)	-	23,553
Profit and total comprehensive income for the period	-	-	-	-	-	-	9,659	-	9,659
Issue of share capital	-	3	-	-	-	-	-	-	3
Dividends	-	-	-	-	-	-	(6,566)	-	(6,566)
Own shares issued in the period	-	-	661	-	-	-	(661)	-	-
Credit to equity for equity-settled share-based payments	-	-	-	-	24	-	11	-	35
Deferred tax on share-based payment transactions	-	-	-	-	-	-	(21)	-	(21)
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**

Consolidated Cash Flow Statement

FOR THE 52 WEEKS ENDED 28 SEPTEMBER 2019

	52 weeks ended 28 September 2019 £'000	52 weeks ended 29 September 2018 £'000
Cash flow from operating activities		
Profit for the period	**10,078**	9,659
Taxation	**2,397**	3,029
Finance costs	**873**	1,072
Finance income	**(15)**	(25)
Group operating profit	**13,333**	13,735
Adjustments for:		
Depreciation of property, plant and equipment	**7,117**	6,983
Amortisation of intangible assets	**245**	90
Loss /(gain) on disposal of property, plant and equipment	**866**	(421)
Impairment (reversal)/charge of property, plant and equipment	**(246)**	958
Impairment of goodwill	**245**	-
Decrease in fair value of investment properties	**21**	1,651
Share option charge	**17**	24
Decrease/(increase) in trade and other receivables	**820**	(2,241)
Increase in inventories	**(681)**	(652)
Increase in payables	**4,412**	5,419
Cash generated by operations	**26,149**	25,546
Interest paid	**(861)**	(1,109)
Taxation paid	**(3,385)**	(2,543)
Net cash from operating activities	**21,903**	21,894
Investing activities		
Interest received	**15**	25
Purchase of property, plant and equipment	**(7,242)**	(5,052)
Addition of intangibles	**(563)**	-
Purchase of investment property	**(21)**	(2,884)
Proceeds on disposal of property, plant and equipment	**185**	3,921
Acquisition of subsidiary, net of cash acquired	**(2,749)**	-
Net cash used in investment activities	**(10,375)**	(3,990)
Financing activities		
Dividends paid	**(6,623)**	(6,566)
Proceeds from issue of share capital	**-**	3
Drawdown of bank loans	**5,000**	-
Repayment of bank loans	**(5,000)**	(5,000)
Net cash used in financing activities	**(6,623)**	(11,563)
Net increase in cash and cash equivalents	**4,905**	6,341
Cash and cash equivalents at beginning of period	**13,842**	7,501
Cash and cash equivalents at end of period	**18,747**	13,842

Notes to the Financial Statements

FOR THE 52 WEEKS ENDED 28 SEPTEMBER 2019

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 9 and IFRS 15 (see below).

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 9 and IFRS 15.

Amendments to IFRS 2 (Jun 2016) - Classification and Measurement of Share-based Payment Transactions

Annual Improvements to IFRSs: 2014-16 Cycle (Dec 2016) - Annual Improvements to IFRSs: 2014-16 Cycle - IFRS 1 and IAS 28 Amendments

Amendments to IAS 40 (Dec 2016) - Transfers of Investment Property

IFRIC 22 - Foreign Currency Transactions and Advance Consideration

IFRS 9 "Financial Instruments"

The Group has adopted IFRS 9 "Financial Instruments" for the first time in the current financial year, with a date of initial application of 30 September 2018. The standard is applicable to financial assets and financial liabilities, and covers the classification and measurement of financial assets and financial liabilities. The standard also revises the requirements for when hedge accounting can be applied and introduces a new impairment model for financial assets.

The Group applied IFRS 9 using the modified retrospective method, without adjusting prior periods. The adoption of IFRS 9 had no material impact on the Group's retained earnings at 30 September 2018. There were no changes to the carrying amounts of assets and liabilities on transition to IFRS 9.

(a) Classification and measurement of financial assets

IFRS 9 contains two principal classification categories for financial assets: measured at amortised cost or measured at fair value (through profit or loss or through other comprehensive income). 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. Under IFRS 9, investments in equity instruments that do not have a quoted price in an active market for an identical instrument are now measured at fair value rather than at cost.

On 30 September 2018 the Group reassessed the classification and measurement of financial assets of the business and has classified its financial instruments into the appropriate IFRS 9 categories:

Financial Assets	**Classification (IAS 39)**	**Classification (IFRS 9)**
Derivative financial instruments (not designated as hedging instruments)	Fair value through profit and loss	Fair value through profit and loss
Trade and other receivables	Loans and receivables	Amortised cost
Cash and cash equivalents	Loans and receivables	Amortised cost

Upon adoption of IFRS 9, gains and losses for assets measured at fair value will continue to be recorded in profit or loss. All of the classification changes above only impact disclosure in the Notes to the Financial Statements. The accounting policies for financial assets in Note 2 have been updated for changes arising from IFRS 9.

(b) Classification and measurement of financial liabilities

For financial liabilities, the classification and measurement requirements under IFRS 9 are similar to those under IAS 39, and no changes were noted on transition.

(c) Impairment

IFRS 9 also introduced a forward-looking expected credit loss model for recognising provisions in respect of financial assets and receivables. This results in greater judgement due to the need to factor in forward looking information when estimating the appropriate amount of provisions. The Group considers the probability of a default occurring over the life of its trade receivables on initial recognition of those assets. This, in theory, could result in earlier recognition of credit losses, than the incurred loss model of IAS 39.

The Group has updated its accounting policy for the establishment of provisions against trade receivables to reflect the lifetime expected credit loss, consistent with the simplified approach under IFRS 9. The impact of using the expected credit loss model on the consolidated financial statements of the Group is immaterial at the transition date.

(d) Hedge accounting

The Group does not account for derivatives under hedge accounting and therefore, the updated IFRS 9 requirements in relation to hedge accounting do not impact the Group.

IFRS 15 "Revenue from contracts with customers"

The Group has adopted IFRS 15 "Revenue from Contracts with Customers" for the first time in the current financial year, with a date of initial application of 30 September 2018. The standard establishes a principles-based approach for revenue recognition and is based on the concept of recognising revenue for performance obligations only when they are satisfied and the control of goods or services is transferred. In doing so, the standard applies a five-step approach to the timing of revenue recognition and applies to all contracts with customers, except those in the scope of other standards.

Based on the nature of the Group's revenue streams with the recognition of revenue at the point of sale and the absence of significant judgement required in determining the timing of transfer of control, the adoption of IFRS 15 does not have a material impact on the timing or nature of the Group's revenue recognition.

The standard has been applied using the modified retrospective method of adoption, without adjusting prior periods. Under this approach the cumulative effect of applying the new standard is recognised at the date of initial application. The Group has considered the following in assessing the impact of the new standard:

(a) Sale of goods

The Group's contracts with customers for the sale of goods generally include one performance obligation. The Group has concluded that revenue from the sale of goods should be recognised at the point in time when control of the asset is transferred to the customer. This does not represent a change to the Group's accounting policy and therefore, the adoption of IFRS 15 does not have an impact on the timing of revenue recognition.

(b) Principal versus agent consideration

Management has established that the Group acts as a principal for all types of products and thus should recognise revenue in the gross amount of consideration to which it expects to be entitled. The Group already recognised revenue on a gross basis, therefore the Group's revenue recognition is unchanged in this regard.

(c) Right of return

The Group currently estimates the expected level of returns, and as such holds a sales return provision in the Consolidated Statement of Financial Position to provide for these.

Prior to IFRS 15, provisions for customer returns were presented on a net basis, as part of Accruals within Trade and other payables. Following the adoption of IFRS 15, they are now shown on a gross basis and liabilities for the full amount expected to be refunded to customers are included in Accruals within Trade and other payables. Subsequently assets for the value of goods expected to be returned are included in Inventories. The net adjustment on adoption is a £0.4m increase in the value of Inventories and Accruals.

None of the adjustments impacted the Group's profit, retained earnings, net assets or cash flows.

A summary of the impact on the Group Statement of Financial Position as at 28 September 2019 is shown below:

	Balances pre IFRS 15 adjustments £'000	IFRS 15 adjustments £'000	As reported £'000
Current assets			
Inventories	30,526	398	**30,924**
Current liabilities			
Trade and other payables	(42,938)	(398)	**(43,336)**
Net assets	30,232	-	**30,232**

Within trade and other payables, £3,165,000 (2018: £3,963,000) relating to customer deposits has been reclassified from trade payables to contract liabilities as a result of the adoption of IFRS 15 (see note 17).

(a) Disclosure of disaggregation of revenue

IFRS 15 requires the disaggregation of revenue from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Management has considered how information about the entity's revenue has been presented for other purposes such as internal management accounts and investor presentations. Based on this, revenue has been disaggregated between the Retail and Commercial businesses (please refer to note 3). However, management has concluded that since customers access the Group's products across multiple channels and often their journey involves more than one channel, any further disaggregation of revenue would not be appropriate.

STANDARDS NOT ADOPTED IN CURRENT PERIOD

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU). Apart from IFRS 16, the Directors anticipate that the adoption of the remaining standards and interpretations in future periods will have no material impact on the financial statements of the Group.

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"

IFRS 16 "Leases" was issued in January 2016 to replace IAS 17 "Leases" and has been endorsed by the EU. The standard is effective for accounting periods beginning on or after 1 January 2019 and will be adopted by the Group in the period ending 3 October 2020.

The standard will have a material impact on the financials statements of the Group due to the large number of property leases it holds as well as leases relating to machinery and vehicles.

All of the Group's operating leases, apart from those leases captured under the low value and short term lease exemptions, will be recognised on the Consolidated Statement of Financial Position, which will give rise to the recognition of an asset representing the right to use the leased item and an obligation for future lease payables. Lease costs will be recognised in the form of depreciation of the right to use asset and interest on the lease liability, resulting in a higher interest expense in the earlier years of the lease term. The total expense recognised in the Consolidated Statement of Financial Performance over the life of the lease will be unaffected by the new standard. However, IFRS 16 will result in the timing of lease expense recognition being accelerated for leases which would be currently accounted for as operating leases. Rental costs will be replaced by interest and depreciation charges and therefore, IFRS 16 will impact the Group's profit each period.

The implementation of IFRS 16 has no impact on cash flows generated, but will impact the presentation of the Consolidated Cash Flow Statement, with an increase in net cash from operating activities being offset by an increase in net cash used in financing activities.

Material judgements are required in identifying and accounting for leases. The most significant judgement areas are expected to be around the determination of the lease term and discount rate. The lease term includes extension periods where it is reasonably certain that a lease extension option will be exercised or that a lease termination option will not be exercised. The discount rate should best represent the rate implicit in the lease or the incremental borrowing rate in order to determine the present value of future lease commitments. The Group intends to apply a single discount rate to all leases with similar characteristics, which is an option permitted by the standard. This rate will be calculated based on the Revolving Credit Facility rate adjusted for a factor based on the lease term.

The Group has invested in a new property management system to prepare for the adoption of the new standard and has a project team working to determine the effect of this new standard on its existing lease portfolio of 362 property leases and other contracts and implement the processes and systems necessary to comply with its requirements. The Group intends to apply the modified retrospective approach on transition and will not restate the comparative information. Under this transition route, any difference between asset and liability is recognised in opening retained earnings at the transition date. The lease liability is calculated using a discount rate at the date of transition, rather than at the lease commencement date.

In order to estimate the impact on the Consolidated Statement of Financial Position for the year ending 3 October 2020, the lease portfolio at transition date, of 29 September 2019, has been used. On transition, the Group will recognise a right-of-use asset in the region of £125m, with a corresponding lease liability in the region of £130m.

For the period ending 3 October 2020, the Group expects a reduction in Profit before taxation in the region of £1.0m, as a result of the adoption of IFRS 16. In order to illustrate the likely impact of transitioning to IFRS 16 on the Consolidated Statement of Financial Performance, we have set out a proforma unaudited reconciliation using financials from the Consolidated Statement of Financial Performance for the period ended 28 September 2019.

Proforma Consolidated Statement of Financial Performance	Pre IFRS 16 for the period ended 28 September 2019 £'m	Remove estimated rent £'m	Include estimated depreciation £'m	Include estimated financing cost £'m	Post IFRS 16 estimated £'m
Group revenue	219.2	-	-	-	219.2
Gross profit	135.0	-	-	-	135.0
Operating costs	(121.7)	25.0	(23.4)	-	(120.1)
Group operating profit	**13.3**	**25.0**	**(23.4)**	**-**	**14.9**
Finance costs / Investment revenue	(0.8)	-	-	(2.6)	(3.4)
Profit before taxation	**12.5**	**25.0**	**(23.4)**	**(2.6)**	**11.5**

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 15 *"Revenue from contracts with customers"* and IFRS 9 *"Financial Instruments".* Refer to Note 1 for details of the impact on transition to these standards.

B) GOING CONCERN

When considering the going concern assertion, the Board reviews several factors including a detailed review of the above risks and uncertainties, the Group's forecast covenant and cash headroom against lending facilities, and management's current expectations. Further details of the assumptions, sensitivities and procedures performed are given in the Strategic Report. As a result of this review the Board believes that the Group will continue to meet all of its financial commitments as they fall due and will be able to continue as a going concern. Therefore, the Board considers it appropriate to prepare the financial statements on the going concern basis.

C) 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 on 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 the 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

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

Throughout the financial statements, Directors' Report and Strategic Report, references to 2019 mean "at 28 September 2019" or the 52 weeks then ended; references to 2018 mean "at 29 September 2018" 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.

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

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.

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

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a 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 comprises the average purchase price of materials and an attributable proportion of distribution overheads based on normal levels of activity and is valued at standard cost. Net realisable value represents the estimated selling price, less costs to be incurred in marketing, selling and distribution. Provision is made for those items of inventory where the net realisable value is estimated to be lower than cost. The net replacement value of inventories is not considered materially different from that stated in the consolidated statement of financial position.

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

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

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

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

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.

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

FINANCIAL LIABILITIES AND EQUITY 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.

The accounting policy for employee profit sharing costs has been revised, with costs now reclassified to distribution and selling costs and administrative costs. There is no impact on earnings per share.

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) CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

The Directors have concluded that there are no critical areas of accounting judgement in the application of the Group'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:

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 five further stores being exited before its lease terms had expired (2018: six stores). In respect of the leases in relation to stores exited before lease end dates in prior periods that are still vacant, the Group has provided for what it considers to be the unavoidable costs prior to lease termination or sub-lease. The Group has further reviewed any trading loss-making stores and provided for those leases considered to be onerous, and have considered whether the net book value of the assets in relation to those stores are impaired. The key estimates involved relate to the forecast future cash flows of the stores identified as potentially loss making. These estimates are based upon available information and knowledge of the property market and retail market. A 10% change in the forecast future cash flows of the stores identified as potentially loss making would lead to a change in the provision of £27,000.

DILAPIDATIONS PROVISION

The Group has estimated its likely dilapidation charges for its store portfolio and provided accordingly. The key estimate involves an assessment of the percentage of store leases expected to renew or exit at the end of the current lease contract, and is based on management's best estimate, taking into account knowledge of the property market and historical trends. A 10% change in the percentage of properties expected to exit at the end of the current lease contract would lead to a change in the provision of £62,000.

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 £77,000.

3 REVENUE

An analysis of Group revenue is as follows:

	52 weeks ended 28 September 2019 £'000	52 weeks ended 29 September 2018 £'000
Revenue from the sale of goods	**219,197**	216,887
Total revenue	**219,197**	216,887

The Group has one reportable segment in accordance with IFRS 8 - Operating Segments, which is the Topps Tiles stores and online business segment. The Group's Board is considered the chief operating decision maker. The Board receives monthly financial information at this level and uses this information to monitor the performance of the Topps Tiles stores and online business segment, allocate resources and make operational decisions. Internal reporting focuses on the Group as a whole and does not identify any further individual segments. All revenue is derived from sales in the UK and is from one class of business.

IFRS 15 requires the disaggregation of revenue from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The total Group revenue for the period includes £214,346,000 revenue from the Retail business and £4,851,000 revenue from the Commercial business, being the recent acquisitions of Parkside Ceramics Limited and Strata Tiles Limited. As noted above, the business is not regarded as having more than one operating segment.

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 ACQUISITION OF SUBSIDIARIES

Topps Tiles Plc acquired 80% of the issued share capital of Strata Tiles Limited (“Strata”) on 18 April 2019, a company supplying tiles for commercial design projects. The acquisition also involves the grant of a put and call option relating to the purchase by the Group of the remaining 20% of the issued shares in Strata, which is exercisable in 2021.

The acquisition of Strata will add additional scale to the Group's fast-growing commercial business as it seeks to build a leading position in the commercial tile market. Strata is expected to benefit from the Group's competitive advantage as the UK's leading tile specialist, particularly its product range and buying scale.

The Group performed a purchase price allocation exercise on Strata Tiles Limited to restate assets and liabilities at their provisional fair value. Separately identifiable intangible assets were recognised in relation to the Strata Tiles brand and customer relationships.

The Group incurred £432,863 of costs in relation to acquisition activity during the year of acquisition, which were recognised in the Consolidated Statement of Financial Performance.

The fair value of the net assets acquired and liabilities assumed at the acquisition date, under acquisition method of accounting, were:

	Provisional Fair value of net assets required £’000
Property, plant and equipment	14
Inventories	90
Trade and other receivables	247
Trade and other payables	(758)
Corporation tax	(49)
Deferred tax	(278)
Cash and cash equivalents	968
Brand	835
Customer relationships	842
Provisions	(43)
Non-controlling interest	(39)
Fair value of assets acquired	1,829
Cash consideration	3,717
Total consideration	3,717
Goodwill	1,888

The net cash outflow in the cash flow statement in the year of acquisition was as follows:

	£’000
Cash consideration	3,717
Cash acquired	(968)
Net cash outflow in the cash flow statement	**2,749**

Since the date of control, the following amounts have been included within the Group’s financial statements for the period:

	£’000
Revenue	1,075
Loss before tax	(203)

Had the acquisition been included from the start of the period, £3,379,000 of revenue and £142,000 of loss before tax would have been included in the Group’s financial statements in the period.

There were no contingent liabilities acquired as a result of the above transaction.

5 PROFIT BEFORE TAXATION

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

	52 weeks ended 28 September 2019 £'000	52 weeks ended 29 September 2018 £'000
Depreciation of property, plant and equipment	**7,117**	6,983
Impairment (reversal)/charge of property, plant and equipment	**(246)**	958
Loss/(gain) on disposal of property, plant and equipment	**866**	(421)
Amortisation of intangibles	**245**	90
Impairment of goodwill	**245**	-
Decrease in fair value of investment properties recognised as an expense	**21**	1,651
Property related provisions charged/(credited)	**406**	(723)
Staff costs (see note 6)	**55,440**	54,909
Operating lease rentals	**26,333**	25,489
Repayment of historical import duty	**(2,272)**	-
Exchange losses/(gains) recognised in profit or loss	**80**	(262)
Write-down of inventories recognised as an expense	**2,633**	3,031
Cost of inventories recognised as an expense	**81,612**	81,433

During the year the business disposed of one freehold property (2018: four freehold properties).

The gain of £2,272,000 relates to repayment of import duty paid to HMRC, specifically relating to additional duty on products arriving into the EU from China relating to the period 2015 to 2017. We originally recorded duty paid on a cautious basis, reflecting the uncertainty of recovering the overpayment. As this settlement has been agreed and confirmed during this financial year, this has been accounted for as a change in accounting estimate in the current period.

Analysis of the auditors' remuneration is provided below:

	52 weeks ended 28 September 2019 £'000	52 weeks ended 29 September 2018 £'000
Fees payable to the Company's auditors with respect to the Company's annual accounts	**49**	40
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	**110**	90
Total audit fees	**159**	130
Audit related assurance services	**20**	30
Total non-audit fees	**20**	30
Total fees payable to the Company's auditors	**179**	160

Audit related assurance services relate to the fee payable for the interim review performed. The 2018 fees relate to the Group's former auditors.

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.

6 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 28 September 2019 Number employed	52 weeks ended 29 September 2018 Number employed
Selling	**1,852**	1,900
Administration	**237**	214
	2,089	2,114

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 29 September 2019 Number employed	52 weeks ended 29 September 2018 Number employed
Selling	**1,754**	1,792
Administration	**231**	208
	1,985	2,000

	2019 £'000	2018 £'000
Their aggregate remuneration comprised:		
Wages and salaries (including LTIP, see note 30)	**50,153**	49,782
Social security costs	**4,224**	4,209
Other pension costs (see note 29b)	**1,063**	918
	55,440	54,909

Details of Directors' emoluments are disclosed in the Annual Report. The Group considers key management to be the Directors only. Employee profit sharing of £5.8 million (2018: £6.3 million) is included in the above and comprises sales commission and bonuses.

7 FINANCE INVESTMENT AND FINANCE COSTS

	52 weeks ended 28 September 2019 £'000	52 weeks ended 29 September 2018 £'000
Finance Income		
Bank interest receivable	**15**	25
	15	25
Finance costs		
Interest on bank loans and overdrafts	**(871)**	(1,028)
Other interest	**(2)**	(44)
	(873)	(1,072)

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.

8 TAXATION

	52 weeks ended 28 September 2019 £'000	52 weeks ended 29 September 2018 £'000
Current tax - charge for the period	**2,602**	3,115
Current tax - adjustment in respect of previous periods	**(101)**	(11)
Deferred tax – credit for the period (note 20)	**(65)**	(94)
Deferred tax - adjustment in respect of previous periods (note 20)	**(39)**	19
	2,397	3,029

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

	52 weeks ended 28 September 2019 £'000	52 weeks ended 29 September 2018 £'000
Continuing operations:		
Profit before taxation	**12,475**	12,688
Tax at the UK corporation tax rate of 19.0% (2018: 19.0%)	**2,370**	2,411
Expenses that are not deductible in determining taxable profit	**74**	55
Chargeable gains	**1**	77
Difference between IFRS 2 and corporation tax relief	**14**	48
Reduction in UK corporation tax rate	**(27)**	21
Non-taxable income relating to goodwill revaluation	**-**	(22)
Tangible fixed assets which do not qualify for capital allowances	**105**	431
Tax effect of adjustment in respect of prior periods	**(140)**	8
Tax expense for the period	**2,397**	3,029

In the period, the Group has recognised a corporation tax credit directly to equity of £64,064 (2018: £11,899) and a deferred tax debit to equity of £5,961 (2018: £21,184) in relation to the Group's share option schemes.

9 DIVIDENDS

Amounts recognised as distributions to equity holders in the period:

	52 weeks ended 28 September 2019 £'000	52 weeks ended 29 September 2018 £'000
Final dividend for the period ended 29 September 2018 of £0.023 (2017: £0.023) per share	**4,483**	4,439
Interim dividend for the period ended 29 September 2019 of £0.011 (2018: £0.011) per share	**2,140**	2,127
	6,623	6,566

Proposed final dividend for the period ended 28 September 2019 of £0.023 (2018: £0.023) per share	**4,483**	4,447

The proposed final dividend for the period ended 28 September 2019 is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

10 EARNINGS PER SHARE

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

	52 weeks ended 28 September 2019	52 weeks ended 29 September 2018
Weighted average number of issued shares for basic earnings per share	**196,441,003**	196,439,403
Weighted average impact of treasury shares for basic earnings per share	**(1,762,806)**	(3,292,316)
Total weighted average number of shares for basic earnings per share	**194,678,197**	193,147,087
Weighted average number of shares under option	**1,545,658**	2,746,297
For diluted earnings per share	**196,223,855**	195,893,384

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

11 GOODWILL

	£'000
Cost	
At 1 October 2017	1,461
At 29 September 2018	1,461
Acquisition of Strata Tiles Limited (note 4)	1,888
At 28 September 2019	**3,349**
Accumulated impairment losses	
At 1 October 2017	-
At 29 September 2018	-
Impairment losses in the period	245
At 28 September 2019	**245**
Carrying amount	
At 28 September 2019	**3,104**
At 29 September 2018	1,461

The balance of goodwill remaining is the carrying value that arose on the acquisition of Parkside Ceramics Limited in 2017 and Strata Tiles Limited in 2019. The balance relates to two (2018: two) Cash Generating Units (CGUs). Goodwill of £1,216,000 (Parkside Ceramics Limited) relates 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 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 1.3% are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market. Discounted cash flows are calculated using a pre-tax rate of 14.8% (2018: 14.3%).

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. There are no reasonable changes that would result in the carrying value of goodwill being reduced to its recoverable amount.

An impairment of £245,000 in relation to Surface Coatings Limited has been identified in the current period as a result of the annual test for impairment. This reduces the carrying amount to nil.

12 INTANGIBLE ASSETS

	Brand £'000	Customer relationships £'000	Software £000	Total £'000
Cost				
At 1 October 2017	229	200	-	429
Additions	-	-	-	-
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**
Accumulated amortisation and impairment				
At 1 October 2017	-	-	-	-
Amortisation charge for the period	23	67	-	90
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**
Carrying amount				
At 28 September 2019	**977**	**858**	**828**	**2,663**
At 29 September 2018	206	133	-	339

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.

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. Amortisation is included within administrative costs within the Consolidated Statement of Financial Performance.

Of the additions to software, £457,000 was transferred from property, plant and equipment additions and £128,000 of accumulated depreciation has been transferred to amortisation (Note 13a).

13a 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 1 October 2017	18,988	1,449	91,651	126	112,214
Additions	-	160	4,892	-	5,052
Disposals	(3,481)	(5)	(1,416)	(51)	(4,953)
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**
Accumulated depreciation					
At 1 October 2017	2,536	1,070	54,182	84	57,872
Charge for the period	267	62	6,644	10	6,983
Provision for impairment	-	-	958	-	958
Eliminated on disposals	(251)	(2)	(1,165)	(35)	(1,453)
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**
Carrying amount					
At 28 September 2019	**12,591**	**695**	**33,662**	**10**	**46,958**
At 29 September 2018	12,955	474	34,508	16	47,953

Freehold land and buildings includes £4,104,000 of freehold land (2018: £4,104,000) on which no depreciation has been charged in the current period. There is no material difference between the carrying and market values.

Cumulative finance costs capitalised in the cost of tangible fixed assets amount to £nil (2018: £nil). Contractual commitments for the acquisition of property, plant and equipment are detailed in note 29.

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 seven stores (2018: eleven) that are impaired. The carrying value of these assets has been fully provided for in the period, with a reduction in the provision of £246,000 in the period (2018: £958,000 increase in provision) included within other operating expenses.

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

13b INVESTMENT PROPERTIES

At fair value	**£'000**
At 1 October 2017	-
Additions	2,884
Fair value adjustment	(1,651)
At 29 September 2018	1,233
Additions	21
Fair value adjustment	(21)
At 28 September 2019	**1,233**

Investment properties relate to one freehold office building that is not occupied by the Group, and is UK based. The property was purchased to allow the Group to exit an onerous lease. The investment property is carried at fair value, and a fair value adjustment of £21,000 (2018: £1,651,000 loss) was recognised in the Consolidated Statement of Financial Performance in the period.

Since acquisition, the investment property has remained vacant, and as such there are no other amounts recognised in the Consolidated Statement of Financial Performance in relation to rental income or other direct operating expenses.

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.

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.

14 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.

15 TRADE AND OTHER RECEIVABLES

	2019 £'000	2018 £'000
Amounts falling due within one year:		
Amounts receivable for the sale of goods	**1,310**	899
Allowance for expected credit losses (calculated under IFRS 9)	**(26)**	-
Allowance for doubtful debts (calculated under IAS 39)	**-**	(24)
Other debtors and prepayments		
- Rent and rates	**4,435**	4,530
- Other	**2,423**	3,307
	8,142	8,712

The Directors consider that the carrying amount of trade and other receivables at 28 September 2019 and 29 September 2018 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 28 September 2019 amounted to £1.3 million (2018: £0.9 million). These amounts mainly relate to sundry trade account generated sales. In relation to these sales, the average credit period taken is 58 days (2018: 48 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 (2018: £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:

	2019 £'000	2018 £'000
Greater than 60 days	**-**	-

The allowance for expected credit losses / allowance for doubtful debts was £26,000 by the end of the period (2018: £24,000). 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 £12,000 relating to individually impaired trade receivables (2018: £10,000) which are due from companies that have been placed into liquidation.

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

16 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:

	2019 £'000	2018 £'000
Sterling	**18,049**	11,349
US dollar	**183**	1,819
Euro	**515**	674
Total cash and cash equivalents	**18,747**	13,842

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.

17 TRADE AND OTHER PAYABLES

	2019 £'000	Restated 2018 £'000
Amounts falling due within one year		
Trade payables	**17,394**	16,828
Other payables	**7,142**	4,172
Accruals	**14,622**	12,449
Deferred income	**1,013**	1,236
Contract liabilities	**3,165**	3,963
	43,336	38,648

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The 2018 amounts have been restated to reclassify customer deposits from trade payables to contract liabilities as a result of the adoption of IFRS 15. The average credit period taken for trade purchases is 58 days (2018: 59 days). No interest is charged on these payables.

The Directors consider that the carrying amount of trade payables at 28 September 2019 and 29 September 2018 approximates to their fair value on the basis of discounted cash flow analysis.

Accruals includes provisions for customer returns of £1,078,000 (2018: £679,000). Prior to IFRS 15, provisions for customer returns were presented on a net basis, including assets for the value of goods expected to be returned. Following the adoption of IFRS 15, they are now shown on a gross basis, with the asset element included in Inventories. See Note 1 for full impact of the transition to IFRS 15.

18 BANK LOANS

	2019 **£'000**	2018 £'000
Bank loans (all sterling)	**29,762**	29,766

	2019 **£'000**	2018 £'000
The borrowings are repayable as follows:		
On demand or within one year	**-**	-
In the second year	**-**	-
In the third to fifth year	**30,000**	30,000
	30,000	30,000
Less: total unamortised issue costs	**(238)**	(234)
	29,762	29,766
Issue costs to be amortised within 12 months	**122**	85
Amount due for settlement after 12 months	**29,884**	29,851

The Directors consider that the carrying amount of the bank loan at 28 September 2019 and 29 September 2018 approximates to its fair value since the amounts relate to floating rate debt.

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

	2019 **%**	2018 %
Loans	**2.36**	2.27

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:

	Long term borrowings £'000	**Unamortised issue costs £'000**
As at 1 October 2017	35,000	(193)
Repayment of bank loan	(5,000)	-
Issue costs incurred in the year	-	(255)
Amortisation of issue costs	-	214
As at 29 September 2018	30,000	(234)
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)**

During the year the Group extended its revolving credit facility from 29 June 2021 to 29 June 2022 and increased the facility from £35.0 million to £39.0 million. As at the financial period end, £30.0million of this was drawn (2018: £30.0 million). The loan facility contains financial covenants which are tested on a bi-annual basis. The Group did not breach any covenants in the period.

At 28 September 2019, the Group had available £9.0 million (2018: £5.0 million) of undrawn committed banking facilities.

19 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 2018. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 18, cash and cash equivalents disclosed in note 16 and equity attributable to equity holders of the parent, comprising issued capital, reserves and accumulated losses as disclosed in notes 21 to 27.

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

	Carrying value and fair value 2018 £'000
Financial assets	
Loans and receivables (including cash and cash equivalents)	14,717
Fair value through profit and loss	168
Financial liabilities	
Amortised cost	63,300

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**	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000
Euro	**636**	686	**3,157**	3,891
US dollar	**421**	1,822	**360**	1,453

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.

	2019 £'000	2018 £'000
Profit or loss movement on a 10% strengthening in sterling against the euro	**229**	291
Profit or loss movement on a 10% strengthening in sterling against the US dollar	**6**	34
Profit or loss movement on a 10% weakening in sterling against the euro	**(280)**	(356)
Profit or loss movement on a 10% weakening in sterling against the US dollar	**(7)**	(41)

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:

	2019 £'000	2018 £'000
Forward foreign exchange contracts	**10,600**	10,582

These arrangements are designed to address significant exchange exposures for the first half of 2019 and are renewed on a revolving basis as required.

At 29 September 2019 the fair value of the Group's currency derivatives is a gain of £88,514 within other debtors and prepayments (note 15) (2018: gain of £167,699 within other debtors and prepayments (note 15)).

Gains of £99,957 have been included in cost of sales during the period (2018: £291,845 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	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
(Loss) or profit	**(143)**	(164)	**143**	164

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 15.

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 2.36% (2018: 2.27%) 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.

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

2018 Restated	Less than 1 month £'000	1-3 months £'000	3 months to 1 year £'000	1-5 years £'000	Total £'000
Non-interest bearing	33,449	-	-	-	33,449
Variable interest rate instruments	74	151	30,377	-	30,602

The Group is financed through a £39 million (2018: £35 million) revolving credit facility, of which £30 million (2018: £30 million) was utilised. At the balance sheet date the total unused amount of financing facilities was £9 million (2018: £5 million). The Group expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets. The 2018 amounts have been restated to reclass customer deposits from trade payables to contract liabilities as a result of the adoption of IFRS 15 (see note 17).

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.

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**

2018	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	(1,885)	(3,945)	(4,752)	-	-	(10,582)
Foreign exchange forward contracts receipts	1,969	4,016	4,764	-	-	10,749

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 (2018: 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).

20 PROVISIONS

	2019 £'000	2018 £'000
Onerous lease provision	**2,990**	1,777
Business simplification provision	**-**	128
Dilapidations provision	**2,008**	2,687
Redemption liability	**99**	-
	5,097	4,592
Current	**1,235**	1,197
Non-current	**3,862**	3,395
	5,097	4,592

	Business simplification provision £'000	Onerous lease provision £'000	Dilapidations provision £'000	Redemption liability £'000	Total £'000
At 30 September 2018	128	1,777	2,687	-	4,592
Created in the year	-	2,270	-	99	2,369
Utilisation of provision	(128)	(812)	(309)	-	(1,249)
Release of provision in the period	-	(245)	(370)	-	(615)
At 28 September 2019	**-**	**2,990**	**2,008**	**99**	**5,097**

The onerous lease provision relates to estimated future unavoidable lease costs in respect of closed, non-trading and loss-making stores. The provision is expected to be utilised over the lease term of the various properties (with the majority being less than 4 years). 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 12 years which includes an estimation of renewals). The business simplification provision related to the decision to exit the Topps Clearance format and relocation of the finance function to Leicester, resulting in redundancies and the subsequent closure of nine store locations and one support office. The discount rate used to calculate the present value of property provisions is 5% (2018: 5%). A 10% reduction in discount rate would lead to an increase in property provisions of £80,000 (2018: £60,000).

The movements in the onerous lease provision are shown within "Impairment of property, plant and equipment and movement in onerous lease provision" in the Highlights section of the Annual Report.

Provisions include £99,000 redemption liability in relation to the purchase of Strata Tiles Limited, payable in 2021, and therefore have been classed as non-current. The liability is valued at fair value based on forecast attainment of performance conditions associated with the payment of the liability.

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

	Accelerated tax depreciation £'000	**Share-based payments £'000**	**Stock provisions £'000**	**Intangible assets £'000**	**Total £'000**
As at 1 October 2017	1,481	(445)	(38)	73	1,071
(Credit)/charge to income	(242)	155	-	(7)	(94)
Charge in respect of previous periods	19	-	-	-	19
Charge to equity	-	21	-	-	21
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**

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2017 (on 6 September 2016). These include reductions to the main rate to reduce the rate to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

21 SHARE CAPITAL

	2019 Shares	2018 Shares	2019 £'000	2018 £'000
Allotted, issued and fully paid ordinary shares of 3.33p (2018: 3.33p)				
At the start of the period	**196,440,971**	196,437,298	**6,548**	6,548
Issued in the period	**-**	3,673	**-**	-
At the end of the period	**196,440,971**	196,440,971	**6,548**	6,548

During the period the Group issued nil (2018: 3,673) ordinary shares with a nominal value of £nil (2018: £122) under share option schemes for an aggregate cash consideration of £nil (2018: £3,560).

The authorised share capital of the Group is £8,000,000 (2018: £8,000,000), which consists of 240,000,000 ordinary shares (2018: 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.

22 SHARE PREMIUM

	2019 £'000	2018 £'000
At start of the period	**2,490**	2,487
Premium on issue of new shares	**-**	3
At end of the period	**2,490**	2,490

23 OWN SHARES

	2019 £'000	2018 £'000
At start of the period	**(3,750)**	(4,411)
Disposed of on issue in the period	**2,202**	661
At end of the period	**(1,548)**	(3,750)

A subsidiary of the Group holds 1,518,694 (2018: 3,090,030) shares with a nominal value of £1,547,603 acquired for an average price of £1.02 per share (2018: £3,749,570 acquired for an average price of £1.21 per share) and therefore these have been classed as own shares.

24 MERGER RESERVE

	2019 £'000	2018 £'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 28 September 2019 (2018: same).

25 SHARE-BASED PAYMENT RESERVE

	2019 £'000	2018 £'000
At start of the period	**3,945**	3,921
Credit to equity for equity-settled share-based payments	**17**	24
At end of the period	**3,962**	3,945

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 28 September 2019 (2018: same).

26 CAPITAL REDEMPTION RESERVE

	2019 £'000	2018 £'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 28 September 2019 (2018: same).

27 ACCUMULATED LOSSES

	£'000
At 1 October 2017	(4,952)
Dividends	(6,566)
Deferred and current tax on Sharesave scheme taken directly to equity	(10)
Own shares issued in the period	(661)
Net profit for the period	9,659
At 29 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)**

28 NON-CONTROLLING INTEREST

	2019 £'000	2018 £'000
At start of the period	**-**	-
Non-controlling interest on business combination	**39**	-
Net loss for the period distributable to non-controlling interests	**(41)**	-
At end of the period	**(2)**	-

29 FINANCIAL COMMITMENTS

A) CAPITAL COMMITMENTS

At the end of the period there were capital commitments contracted of £nil (2018: £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 £1,063,000 (2018: £918,000). At the period end, the Group holds outstanding contributions of £221,115 (2018: £143,485).

C) LEASE COMMITMENTS

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

Minimum lease payments under operating leases recognised as an expense for the period were £26,333,430 (2018: £25,489,488) which includes property service charges of £954,713 (2018: £911,000).

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

	2019		2018	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
- Within 1 year	**23,037**	**1,745**	23,116	1,572
- Within 2-5 years	**72,606**	**2,563**	75,500	2,775
- After 5 years	**38,311**	**-**	44,756	15
	133,954	**4,308**	143,372	4,362

Operating lease payments primarily represent rentals payable by the Group for certain of its office and store properties. Leases are negotiated for an average term of ten years (2018: ten) and rentals are fixed for an average of five years (2018: five).

Minimum future sub lease payments	2019	2018
- Within 1 year	**577**	452
- Within 2-5 years	**1,919**	1,306
- After 5 years	**1,652**	428
	4,148	2,186

30 SHARE-BASED PAYMENTS

The Group operates three (2018: three) share option schemes in relation to Group employees, being the SAYE scheme, 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:

	2019		2018	
	Number of share options	**Weighted average exercise price £**	Number of share options	Restated Weighted average exercise price £
Outstanding at beginning of the period	3,868,716	0.78	3,533,394	0.91
Issued during the period	3,195,674	0.51	2,130,588	0.64
Expired during the period	(356,341)	0.92	(375,174)	0.98
Forfeited during the period	(1,953,543)	0.73	(1,416,419)	0.83
Exercised during the period	(2,352)	0.51	(3,673)	0.98
Outstanding at end of the period	4,752,154	0.61	3,868,716	0.78
Exercisable at end of the period	169,344	1.27	353,507	0.92

The number of share options outstanding as at the beginning of the period has been restated from 3,876,308 to 3,868,716 to adjust for 7,592 share options which were forfeited in 2018 but were reported as shares under option as at the period ending 29 September 2018.

The 2018 movement in the number of options have been restated so that the number of options which were disclosed as expired during the previous reporting period have been restated so that the number forfeited during the period is separately disclosed. This more accurately meets the requirements of IFRS 2.45(b) based on the conditions related to those movements. This has also caused a restatement to the average weighted price of the expired options.

During the financial period, the Group granted 3,195,674 share options under the existing share option scheme due to vest in April 2022 with a fair value of £446,052.

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	64.70
Weighted average exercise price	— pence	51.00
Expected volatility	— %	30.69
Expected life	— years	3.20
Risk-free rate of interest	— %	0.82
Dividend yield	— %	5.26

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous three years (2018: three years).

The weighted average remaining contractual life of the share options outstanding at the end of the period is 2.38 years (2018: 2.30 years).

The exercise price for share options under the share save scheme range from 47 pence to 127 pence.

The weighted average share price at the date of exercise of options exercised during the year ended 28 September 2019 is 69 pence (2018: 88.5 pence).

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:

	2019 Number of share options	**2019** Weighted average exercise price £	2018 Number of share options	2018 Weighted average exercise price £
Outstanding at beginning of the period	**7,973,849**	**-**	6,433,257	-
Issued during the period	**2,885,557**	**-**	3,099,142	-
Forfeited during the period	**(1,496,684)**	**-**	(610,085)	-
Exercised during the period	**(1,571,336)**	**-**	(948,465)	-
Outstanding at end of the period	**7,791,386**	**-**	7,973,849	-
Exercisable at end of the period	**951,365**	**-**	2,526,034	-

During the financial period, the Group granted 14,497 share options under the existing share option scheme due to vest in December 2018 with a fair value of £8,819.

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

Weighted average share price	— pence	64.00
Weighted average exercise price	— pence	nil
Expected volatility	— %	28.35
Expected life	— years	1.00
Risk-free rate of interest	— %	0.72
Dividend yield	— %	5.31

During the financial period, the Group granted 53,000 share options under the existing share option scheme due to vest in December 2020. 40,599 of these shares were granted in December 2018 with a fair value of £23,415.

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

Weighted average share price	— pence	64.0
Weighted average exercise price	— pence	nil
Expected volatility	— %	31.20
Expected life	— years	2.00
Risk-free rate of interest	— %	0.74
Dividend yield	— %	5.31

The Group granted 12,401 in June 2019 with a fair value of £7,618.

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

Weighted average share price	— pence	66.20
Weighted average exercise price	— pence	nil
Expected volatility	— %	28.48
Expected life	— years	1.50
Risk-free rate of interest	— %	0.62
Dividend yield	— %	5.14

During the financial period, the Group granted 2,818,060 share options under the existing share option scheme due to vest in December 2021.

The Group granted 2,811,140 of these shares in December 2018 with a fair value of £1,537,441.

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

Weighted average share price	— pence	64.00
Weighted average exercise price	— pence	nil
Expected volatility	— %	30.91
Expected life	— years	3.00
Risk-free rate of interest	— %	0.78
Dividend yield	— %	5.31

The Group granted 6,920 share options in June 2019 with a fair value of £4,038.

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

Weighted average share price	— pence	66.20
Weighted average exercise price	— pence	nil
Expected volatility	— %	30.64
Expected life	— years	2.5
Risk-free rate of interest	— %	0.59
Dividend yield	— %	5.14

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 (2017: three and five years).

The weighted average remaining contractual life of share options outstanding at the end of the period is 7.96 years (2018: 7.52 years).

The weighted average share price at the date of exercise of options exercised during the year ended 28 September 2019 is 64.78 pence (2018: 76.73 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 will vest in December 2020 subject to the achievement of certain performance criteria which are detailed in the Remuneration Report.

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

	2019		2018	
	Number of share options	**Weighted average exercise price £**	Number of share options	Weighted average exercise price £
Outstanding at beginning of the period	**2,656,830**	**-**	3,061,262	-
Forfeited during the period	**(254,182)**	**-**	(404,432)	-
Outstanding at end of the period	**2,402,648**	**-**	2,656,830	-

The weighted average remaining contractual life of share options outstanding at the end of the period is 6.68 years (2018: 7.64 years)

In total, the Group recognised a total expense of £17,069 (2018: £23,531 expense) relating to share-based payments.

31 CONTINGENT LIABILITIES

The group have an open tax enquiry with HMRC, dating back to 2009 relating to EU loss relief in relation to the closed Dutch retail business. Historically the Group, supported by external professional advice, had been of the opinion that the prospect of needing to settle on this matter was remote. HMRC have recently hardened their stance, and given updated professional advice received, the Directors believe that it is possible, and not probable, that the claim will be settled and therefore has been disclosed as a contingent liability. The potential undiscounted amount of the total payments that the Group could be required to make if there was an adverse decision related to this matter is approximately £0.9m.

32 RELATED PARTY TRANSACTIONS

S.K.M. Williams is a related party by virtue of his close family relationship with key management, with a 10.5% shareholding (20,593,950 ordinary shares) in the Group's issued share capital (2018: 10.5% shareholding of 20,593,950 ordinary shares).

At 28 September 2019, S.K.M. Williams was the landlord of two properties leased to Multi Tile Limited, a trading subsidiary of Topps Tiles Plc, for £122,000 (2018: two properties for £119,000) per annum.

No amounts were outstanding with S.K.M. Williams at 28 September 2019 (2018: £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 £1.2 million (2018: £1.1 million) including share-based payments of £nil (2018: £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 £1,063,000 (2018: £918,000) and at year end the Group has outstanding contributions of £221,115 (2018: £143,485).

Company Balance Sheet

AS AT 28 SEPTEMBER 2019

	Notes	2019 £'000	Restated (see notes 5 and 6) 2018 £'000
Fixed assets			
Investments	4	**7,154**	3,420
Current assets			
Debtors	5	**133,332**	112,782
Cash at bank and in hand		**5,929**	-
Creditors: amounts falling due within one year	6	**(79,343)**	(52,632)
Net current assets		**59,918**	60,150
Non-current liabilities			
Provisions		**(99)**	-
Total liabilities		**(79,442)**	(52,632)
Net assets		**66,973**	63,570
Capital and reserves			
Called-up share capital	7	**6,548**	6,548
Share premium account		**2,490**	2,490
Share-based payment reserve		**4,496**	4,479
Capital redemption reserve		**20,359**	20,359
Other reserve	8	**6,200**	6,200
Profit and loss account		**26,880**	23,494
Equity shareholders' funds		**66,973**	63,570

The Company made a profit after tax for the financial period ended 28 September 2019 of £10,009,000 (2018: £15,792,000).

The financial statements of Topps Tiles Plc, Companies House number 3213782, were approved by the Board of Directors on 26 November 2019 and signed on its behalf by:

MATTHEW WILLIAMS
ROB PARKER
DIRECTORS

Company Statement of Changes in Equity

FOR THE 52 WEEKS ENDED 28 SEPTEMBER 2019

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 1 October 2017	6,548	2,487	4,455	20,359	6,200	14,268	54,317
Profit for the period	-	-	-	-	-	15,792	15,792
Dividend paid to equity shareholders	-	-	-	-	-	(6,566)	(6,566)
Issue of new shares	-	3	-	-	-	-	3
Credit to equity for equity-settled share-based payments	-	-	24	-	-	-	24
Balance at 29 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**

The other reserves comprise an unrealised gain arising on the disposal of certain trademarks to a subsidiary company. At 28 September 2019, the Directors consider the other reserve of £6,200,000 to remain non-distributable.

The Directors consider £nil (2018: £nil) of profit and loss account reserves to be not distributable at 28 September 2019.

Notes to the Company Financial Statements
FOR THE 52 WEEKS ENDED 28 SEPTEMBER 2019

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 9 and IFRS 15 were adopted in line with the requirements of accounting standards. Both standards did not have a material impact on the financial statements of the Company.

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 29 September 2018.

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 a detailed review of the above risks and uncertainties, and management's current expectations. Further details of the assumptions, sensitivities and procedures performed are given in the Strategic Report. As a result of this review the Board believes that the Company will continue to meet all of its financial commitments as they fall due and will be able to continue as a going concern for the foreseeable future. Therefore, the Board considers it appropriate to prepare the financial statements on the going concern basis.

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

Throughout the financial statements, Directors' Report and Strategic Report, references to 2019 mean "at 28 September 2019" or the 52 weeks then ended; references to 2018 mean "at 29 September 2018" 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 and receivable are only included in the financial statements in the year that they have been formally and irrevocable agreed, this is usually by reference to the board resolution agreeing the payment on the dividend.

G) FINANCE INCOME AND FINANCE COSTS

Interest receivable or payable is recognised on accrual basis.

H) SHARE-BASED PAYMENTS

The Group 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) 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.

The Company considers the judgement as to whether investments or balances owed by 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)

The Directors have concluded that there are no other critical areas of accounting judgement or any key sources of estimation uncertainty in the application of the Company's accounting policies in the current period.

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 28 September 2019 of £10,009,000 (2018: £15,792,000).

The auditors' remuneration for services to the Company was £49,000 for audit-related work (2018: £40,000 for audit-related work). Fees relating to non-audit work totalled £nil (2018: £nil); see note 5 to the Group financial statements for further details.

The Company had no employees other than the Directors (2018: same), whose remuneration is detailed in the Annual Report.

4 INVESTMENTS

	Restated £'000
Cost at 1 October 2017*	6,113
Movement in share options granted to employees	24
Cost at 29 September 2018	**6,137**
Acquisition of subsidiary	3,717
Movement in share options granted to employees	17
Cost at 28 September 2019	**9,871**
Impairment at 1 October 2017*, at 29 September 2018* and at 28 September 2019	(2,717)
Net book value at 28 September 2019	**7,154**
Net book value at 29 September 2018	**3,420**

*The opening figures have been restated to present the gross cost of investment in subsidiaries and provisions for impairment separately. There was no impact on the net investment value.

The following were subsidiaries that the Company has investments in, both as at 28 September 2019 and 29 September 2018, with the exception of Strata Tiles Limited as the company was acquired on 18 April 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*	80%	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 Parkside Ceramics Limited) is Thorpe Way, Grove Park, Enderby, Leicestershire, LE19 1SU, United Kingdom.

The registered address of Parkside Ceramics Limited is Parkside Barnsdale Way, Enderby, Leicester, England, LE19 1SN.

5 DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2019 £'000	Restated 2018 £'000
Amounts owed by subsidiary undertakings	**133,267**	112,505
Prepayments	**27**	277
Other debtors	**38**	-
	133,332	112,782

The 2018 amounts have been restated by £36,828,000 to reflect gross rather than net intercompany balances by counterparty. 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

	2019 £'000	Restated 2018 £'000
Bank loans and overdrafts	**-**	14,706
Trade and other creditors	**157**	-
Amounts owed to subsidiary undertakings	**78,218**	36,892
Accruals	**968**	1,034
	79,343	52,632

The 2018 amounts have been restated by £36,828,000 to reflect gross rather than net intercompany balances by counterparty. 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 CALLED-UP SHARE CAPITAL

	2019 £'000	2018 £'000
Allotted, issued and fully paid 196,440,971 (2018: 196,440,971) ordinary shares of 3.33p each (2018: 3.33p)	**6,548**	6,548

During the period nil shares were purchased by Topps Tiles Employee Benefit Trust on behalf of the Group (2018: nil).

During the period the Group issued and allotted nil (2018: 3,673) ordinary shares with a nominal value of £nil (2018: £122) under share option schemes for an aggregate cash consideration of £nil (2018: £3,560).

8 OTHER RESERVES

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

Five Year Record

UNAUDITED

	53 weeks ended 3 October 2015 £'000	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**
Group revenue	212,221	214,994	211,848	216,887	**219,197**
Group operating profit	18,883	21,073	17,889	13,735	**13,333**
Profit before taxation	17,019	19,982	16,999	12,688	**12,475**
Shareholders' funds	10,798	17,545	23,553	26,663	**30,232**
Basic earnings per share	6.75p	8.05p	6.98p	5.00p	**5.18p**
Dividend per share	2.34p	3.50p	3.40p	3.40p	**3.40p**
Dividend cover	2.88x	2.30x	2.05x	1.47x	**1.52x**
Average number of employees	1,915	1,977	2,030	2,114	**2,089**
Share price (period end)	148.75p	112.25p	75.50p	62.90p	**66.60p**

All figures quoted are inclusive of continued and discontinued operations.