21 May 2019

Topps Tiles Plc
(“Topps Tiles”, “the Group” or “the Company”)

UNAUDITED INTERIM REPORT FOR THE 26 WEEKS ENDED 30 MARCH 2019

Resilient trading performance against a challenging consumer backdrop; consolidating market leadership position; good progress made in growing commercial operations

HIGHLIGHTS

Topps Tiles Plc, the UK’s largest tile specialist, announces its interim results for the 26 weeks ended 30 March 2019.

	26 weeks ended 30 March 2019	**26 weeks ended 31 March 2018**	**YoY**
Statutory Measures			
Group revenue	**£110.3 million**	£110.5 million	(0.2)%
Gross margin	**61.2%**	60.3%	+90bps
Profit before tax	**£5.2 million**	£6.4 million	(18.8)%
Basic earnings per share	**2.03p**	2.67p	(24.0)%
Interim dividend per share	**1.1p**	1.1p	nil
Adjusted Measures			
Adjusted Group revenue[2]	**£109.0 million**	£109.6 million	(0.5)%
Like-for-like revenue growth year-on-year[3]	**+0.2%**	+0.6%	
Adjusted gross margin[4]	**61.4%**	60.5%	+90bps
Adjusted profit before tax[5]	**£8.0 million**	£7.2 million	+11.1%
Adjusted earnings per share[6]	**3.15p**	3.01p	+4.7%
Net debt[1]	**£18.0 million**	£25.1 million	£7.1 million
Free cash flow[7]	**£2.7 million**	£6.8 million	£(4.1) million

Adjusting items are detailed in the notes below. These include trading losses from the Parkside 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

- First half like-for-like sales grew by 0.2% (2018: +0.6%);
- Adjusted gross margin of 61.4% (2018: 60.5%) reflects continued benefits of scale and sourcing;
- Adjusted profit before tax of £8.0 million (2018: £7.2 million), the year on year increase being due to higher gross profit and a reduced adjusted cost base;
- Parkside commercial business generated a £1.0 million trading loss (2018: £0.4 million trading loss) - which has been excluded from adjusted numbers while we invest in growth (FY18 and FY19);
- When adjusting items (detailed below) are taken into account, the profit before tax on a statutory basis was £5.2 million (2018: £6.4 million);
- Net debt reduced by £7.1 million year-on-year to £18.0 million; and,
- Interim dividend maintained at 1.1p (2018: 1.1p) with full year dividend planned to be paid at a level of approximately 2x cover.

Strategic & Operational Summary

Group

- The UK's leading tile specialist with a core purpose to *inspire customers through our love of tiles;*
- Competitive advantage generated from our specialist focus - having the best products available for our customers and the very best customer service;
- Buying scale and expertise across both retail and commercial businesses:
  - 20 new ranges launched during H1 including an outdoor porcelain tile range;
  - 90% of our tile range is own brand or exclusive to the Group in the UK; and,
- Our "Leading People" strategy is focussed on colleague engagement and capability.

Retail Business

- Strategy of "Out Specialising the Specialists" remains our key focus in the retail tile market;
- Consumer behaviour is changing such that almost all customers, on a typical shopping journey with us, now utilise both our stores and our website;
- New "Tile Talk" customer feedback system launched, overall satisfaction score of 86% - putting us in the top five of all UK retailers;
- Trade continues to be an important route to market for us – c.99,000 active members now on our Trade Rewards+ loyalty programme (2018: 70,000);
- Continued investment into store estate – half way through a three year programme – in the last 18 months 180 stores have received mini refits, which includes a Design Advice area; and,
- Nationwide store presence critical but our portfolio flexibility is also important in responding to changing consumer needs over time - average unexpired lease term of just over three years excluding strategically important stores.

Commercial Business

- Entry into commercial market has approximately doubled the size of the Group's addressable UK market whilst maintaining our specialism in tiles;
- Strategy is to disrupt the commercial tile market and construct a new market leader over the medium term;
- Commercial sales over first half have grown by around three times;
- Development of commercial infrastructure on track;
- Flagship design studio opened in March in Clerkenwell, London; and,
- Acquisition of Strata Tiles in April 2019 – key transaction providing further commercial market penetration.

Current Trading and Outlook

- Like for like sales over the seven weeks to 18 May 2019 increased by 1.2% (2018: decreased by 0.2%).

Commenting on the results, Matthew Williams, Chief Executive said:

"The Group has delivered a resilient first half performance as we continue to consolidate our position as the UK's leading tile specialist. Against a consumer backdrop which remains challenging, our trading performance was robust, underpinned by further gains in market share.

"Our commercial tile business continues to grow rapidly, with first half sales more than tripling year-on-year. Expansion of the commercial division was accelerated by the acquisition of Strata Tiles in April. Strata is highly complementary to our existing Parkside commercial business and, together, the two brands provide the Group with a strong base for further expansion into this large and attractive market segment.

"The Group has made an encouraging start to the second half, with trading in the period to date continuing the positive trend seen in Q2. While we are retaining a prudent view of market conditions for the remainder of the year, we remain confident in our ability to continue to extend our market leading position."

Notes

[1] *Net debt is defined as bank loans, before amortised issue costs (note 6) and less cash and cash equivalents.*
[2] *Adjusted revenues are defined as total Group revenues excluding Parkside*
[3] *Like-for-like sales revenues are defined as sales from online and stores that have been trading for more than 52 weeks.*
[4] *Adjusted gross margin is defined as Group gross margin excluding Parkside*
[5] *Adjusted profit before tax excludes several items that we have incurred during the period in order to give users of the accounts additional information around performance trends. These are items which are either one off in nature or can fluctuate significantly from year to year (such as some property related items). These are set out as follows:*

	2019 £m	***2018 £m***
Adjusted Pre Tax Profit	***8.0***	*7.2*
- *Vacant property costs*	***(0.1)***	*(0.2)*
- *Non recurring property provision movements*	***(1.7)***	*(0.4)*
- *Gains or losses on disposal of freehold of long leasehold properties*	***-***	*0.2*
- *Parkside trading loss*	***(1.0)***	*(0.4)*
Statutory Pre Tax Profit	***5.2***	***6.4***

[6] *Adjusted for the post tax effect of the above items*
[7] *Free cash flow is defined as net cash generated from operating activities less investing activities*

For further information please contact:

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A copy of this announcement can be found on our website www.toppstilesplc.com

UNAUDITED INTERIM REPORT

Topps Tiles is the largest tile specialist in the UK. The majority of our revenues are generated from the retail market for the renovation, maintenance and improvement of UK homes, where the Group remains the clear market leader. In 2017 the Group announced a more explicit focus on the commercial tile market – which represents approximately 45% of the overall UK market for tiles, and which has therefore approximately doubled the size of the Group's addressable market. In August 2017 Topps acquired Parkside, a small business with a foothold in the commercial segment which we have subsequently invested in and grown. In April 2019 we acquired Strata Tiles Ltd as a further addition to our commercial activities. These two businesses now form the core of our Commercial activities.

Within our retail business, our successful strategy of "Out Specialising the Specialists" remains at the heart of what we do. This is focussed on offering customers outstanding value for money through an industry-leading product range, world class customer service and multichannel convenience. The UK market continues to provide a challenging trading backdrop but we remain well positioned to exploit our market leadership position.

The Board wishes to extend its gratitude to all of our teams across the Group for their continued hard work and dedication.

Financial Review

Income Statement

Overall Group revenues for the first half decreased by 0.2% to £110.3 million (2018: £110.5 million).

On an adjusted basis, excluding Parkside, Group revenues decreased by 0.5% to £109.0 million. The reduction was driven primarily by a reduction in the average number of stores trading from 372 in the prior year period to 362 in this period. Over the same period like-for-like revenues increased by 0.2%. We estimate that the effect of severe weather conditions in the prior year and a later Easter in 2019 increased like-for-like sales over the half by around 0.8% or £0.9 million. The key macro indicators for the retail segment of our market are consumer confidence, house prices and housing transactions. These measures were broadly stable in the first half when compared to the prior year and we estimate the UK tile market was in modest decline across this period.

Gross margin for the period was 61.2% (2018: 60.3%). On an adjusted basis, gross margin was 61.4% which is a 90bps increase over the prior period. This reflects continued benefits of scale and sourcing and we expect this trend to continue into the second half with a full year adjusted gross margin of approximately 61.5% to 62.0% (2018: 61.3%).

Operating costs were £61.9 million, compared to £59.8 million over the same period in the prior year. On an adjusted basis (excluding items as defined in the highlights section) operating costs were £58.5 million, compared to £58.7 million in the prior year. The principal drivers of changes in adjusted operating costs are as follows:

- There was a decrease in the number of stores trading (an average of 362 stores vs 372 in the prior year) which generated a reduction of £1.2 million;
- An increase in marketing costs of £0.4 million related to the Q1 TV advertising campaign;
- Employee profit share decreased by £0.7 million with challenging trading in the current year being compared to higher levels of payments in the prior year;
- Inflation accounted for an increase of £0.8 million, and;
- Other cost increases relate to National Living Wage and apprenticeship levy of £0.4 million and higher depreciation of £0.1 million.

We anticipate adjusted operating costs for the full year will be approximately £116 million to £117 million (2018: £114.6 million).

During the period we had no changes to freehold properties. In the prior year we disposed of one freehold property and recognised a gain of £0.2 million.

The net interest charge for the Group was £0.4 million (2018: £0.5 million).

Adjusted profit before tax was £8.0 million (2018: £7.2 million), representing an increase of 11.1% year-on-year.

A number of items have been excluded from adjusted profit before tax. These include trading losses from the Parkside 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). Adjustments of particular note in the period included a £1.0 million (2018: £0.4 million) trading loss from our Parkside commercial business and £1.7 million of non-recurring property provision movements. The property provision movements are non-cash and relate to a number of closures in the period. These closures are utilising the flexibility we have in our portfolio and create a more efficient portfolio, maximising shareholder returns over the longer term.

When adjusting items are included, the statutory measure of profit before tax for the Group was £5.2 million (2018: £6.4 million), representing a decrease of 18.8% year-on-year.

The effective tax rate for the 26 weeks to 30 March 2019 was 23.6% (2018: 19.1%) which is consistent with the prior full year rate of 23.9%.

Basic earnings per share were 2.03p (2018: 2.67p). Adjusting for the post tax impact of the items detailed in note 5 in the highlights section the adjusted basic earnings per share were 3.15p (2018: 3.01p), an increase of 4.7%.

Capital Expenditure

Capital expenditure in the period amounted to £3.6 million (2018: £2.0 million). The majority of this expenditure related to seven new store or showroom openings, all store improvements in 39 stores and refurbishment of our central office and warehouse facility. Our plans for the second half of our financial year are expected to be broadly similar.

We anticipate full year capital expenditure of c.£7.0 million (2018: £7.9 million).

During the period we had no changes to freehold properties. In the prior year we disposed of one freehold property for proceeds of £1.0 million.

The Group currently owns six freehold or long leasehold sites (2018: eight), including one warehouse and distribution facility, with a total net book value of £14.1 million (2018: £15.5 million).

Cash Generation

Net cash generated from operating activities over the period was £6.2 million, compared to £7.8 million in the prior year period, a decrease of £1.6 million. The decrease was driven by an increase in working capital outflow due to additional inventory in anticipation of Brexit supply chain disruption, and higher tax payments.

Free cash flow was £2.7 million, compared to £6.8 million in the prior year period, a decrease of £4.1 million. The decrease was comprised of the movement in operational cash flow detailed above, plus a £1.6 million increase in capital expenditure and the impact of £1.0 million income in the prior period resulting from a freehold property disposal.

In addition to the above movements dividends accounted for £4.5 million cash outflow (2018: £4.4 million) resulting in a net movement in cash of a £1.8 million outflow (2018: £2.4 million inflow).

At the period end cash and cash equivalents for the Group were £12.0 million (2018: £9.9 million) and borrowings were £30.0 million (2018: £35.0 million), giving a net debt position of £18.0 million (2018: £25.1 million).

We anticipate that net debt at the year end will be in the range of £12m to £14m.

Banking Facilities

The Group has a £35.0 million (2018: £50.0 million) revolving credit facility in place which is committed to July 2021 plus a £15.0 million accordion facility which can be drawn on to fund further growth of the business. In April 2019, £4.0 million of the accordion was utilised to fund the purchase of Strata Tiles Ltd, thereby increasing the facility to £39.0 million.

Inventory

At the period end the Group had £33.2 million of inventories (2018: £31.2 million) which represented 154 days cover (2018: 135 days). The increase in inventory over the first half relates to the previously announced additional densities of key selling lines in the event of supply chain disruption immediately post the UK leaving the EU. The business expects to deliver a reduction in inventory in the second half as this additional product is sold through.

Key Performance Indicators

As set out in our most recent annual report, we monitor our performance in implementing our strategy with reference to a clearly defined set of key performance indicators ("KPIs"). These KPIs are applied on a Group-wide basis. Our performance in the 26 weeks ended 30 March 2019 is set out in the table below. The source of data and calculation methods are consistent with those used in the 2018 annual report.

Results for the 26 weeks ended 30 March 2019
Highlights

Financial KPIs	26 weeks to 30 March 2019	26 weeks to 31 March 2018
Like-for-like adjusted revenue year-on-year	**+0.2%**	+0.6%
Adjusted gross margin *	**61.4%**	60.5%
Adjusted profit before tax *	**£8.0m**	£7.2m
Net debt	**£18.0m**	£25.1m
Adjusted earnings per share *	**3.15p**	3.01p
Inventory days	**154**	135

Non-Financial KPIs	26 weeks to 30 March 2019	26 weeks to 31 March 2018
Net Promoter Score **	**71%**	68%
Overall customer satisfaction ***	**86%**	n/a
Colleague turnover	**39.2%**	36.2%
Retail stores at period end	**361**	375

* As explained above in notes 1-6
** Net Promoter Score is calculated based on customer feedback to the question of how likely they are to recommend Topps Tiles to friends or colleagues. The scores are based on a numerical scale from 0-10 which allows customer to be split into promoters (9 -10), passives (7-8) and detractors (0-6). The final score is based on the percentage of promoters minus the percentage of detractors.
*** Overall customer satisfaction score is defined the % of our customers that have scored us 5 on the scale of 1 – 5 where 1 is highly dissatisfied and 5 is highly satisfied.

Dividend

In the prior year the Board communicated its intention to declare interim dividends at a rate of one third of the prior year full year dividend. On that basis the Board is declaring an interim dividend of 1.1 pence per share (2018: 1.1 pence per share). The shares will trade ex-dividend on 6 June 2019 and the dividend will be paid on 12 July 2019 to shareholders on the register at 7 June 2019. The company previously indicated a target of two times dividend cover and expects to achieve this for the current financial year.

Strategic Update

The primary goal for the business is to generate profitable sales growth from our core specialism in tiles. As the UK's leading tile specialist, our aim is to differentiate ourselves from our competitors by having the best products available for our customers and the very best customer service to support them.

Our strategy is focussed on four key areas – Product, People, Retail and Commercial.

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. We work carefully with preferred partners around the world to deliver an unrivalled pace of new and differentiated products that are innovative, high quality and exclusive. We protect robustly the intellectual property and design assets we create through partner exclusivity and design registration and, if necessary, legal enforcement. Ultimately, it is this Group specialism that we leverage through our business units.

<u>Progress and Outlook</u>

Our iterative cycle of product introduction excites our colleagues, inspires our customers and sets us apart from our competitors in all market segments. In the period we launched 20 new ranges including an outdoor porcelain range, which provides an alternative to paving. Over 50% of our new ranges were developed through collaboration between our buying teams and our leading suppliers. In addition, we grew our commercial product portfolio significantly, including collaborations such as Arrange™ by Tom Pigeon and national exclusivity with key Italian design brand, 14oraitaliana. Our commercial sales teams now have access to over 3,000 additional product options to satisfy the needs of their customer. Our focus on leveraging our buying scale and advantage means that over 70% of all Parkside product is sourced through preferred Group suppliers, optimising cost, quality and availability and providing material gross profit improvements to be realised in 2019. Continued investment in technical capability means we lead the market in in-house testing capabilities.

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 absolutely key.

<u>Progress and Outlook</u>

Colleague engagement in the business remains at the highest level we have seen since we started formally measuring this key metric four years ago. We have plans to launch a new system to allow us to increase both the quality and frequency of our measurement and engagement with the introduction of regular "pulse" surveys.

We are investing in improvements in our HR and payroll technology in order to improve efficiency, ways of working, risk management and colleague engagement.

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. At a senior level we are focussed on leadership capability and how we manage change. We are developing new processes for performance management which will reflect a more modern and flexible approach.

Retail
Our Topps Tiles 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 a truly inspirational experience – both online and in store.

Progress and Outlook

The majority of our customers will utilise our website as the first step of their shopping journey with us – often as part of the research phase. We continue to invest in our digital capability and our website is ranked in the top 25 for UK retailers. The integration between all channels continues, with growing confidence in the direct linkage between online traffic and store footfall. Social media is increasingly important, both for the research phase of a project and also the sharing of the completed project, and we regularly receive 1.2 million views per month on Pinterest. We are working with multiple social media influencers who have a combined reach of c.3.3 million people.

The business continues to be well-invested. Over the first half we have continued the roll-out of our all store improvement programme which includes the introduction of new merchandising initiatives such as a design advice area in all of our stores over a three-year programme (concluding in 2020). The majority of our customers shop infrequently for tiles which means that when they do they need the high levels of advice and expertise that our colleagues provide resulting in world class customer service in store. During the first half we launched a new customer feedback system, "Tile Talk", which has resulted in an overall satisfaction score of 86%, placing us within the top 5 of UK retailers.

The size of our store portfolio is also a key source of competitive advantage, making us very convenient for the majority of the UK population. At the period end we had 361 stores (2018: 375 stores), having opened six and closed 13 during the first half. We expect to see continued movement in the portfolio through active management based on openings, closures and relocations - optimising size of the portfolio for the UK to reflect changing customer needs over time. Critically, the average unexpired lease term to the next break opportunity is 3.9 years (2018: 4.3 years), however, when removing those 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: 3.7 years) – the portfolio flexibility this provides is a key strength of the business.

Our trade customers provide a vital link to those homeowners who prefer to transact through their fitter rather than with us direct. We have a trade loyalty scheme which leads our market place – with 99,000 traders now registered and earning points (2018: 70,000). We have also recently launched a trade credit scheme which we believe will further extend our appeal to larger traders.

Commercial
Historically the Group had a very small representation in the commercial market through 'walk in' sales made in its retail stores. In 2017 we identified commercial as an opportunity for expansion and profitable growth and acquired the Parkside business, almost doubling the Group's addressable market. Our strategy of "disrupt and construct" means that we plan to disrupt the existing competitive landscape whilst constructing the foundations of a new market leader – leveraging the size and scale of the Group is central to this plan. We are confident that the commercial market continues to present an excellent opportunity for profitable growth of the Group.

Progress and Outlook

2019 has been a period of investment and growth at Parkside and we have made excellent progress against our strategic aims. During the first half of our financial year, underlying sales from our Parkside business have grown by around three times and we have opened our flagship design studio in Clerkenwell at the heart of London's architectural and design community.

During 2019 we have been busy establishing our presence and growing our potential order book. As planned, we are investing in the short term to build scale. Unlike the domestic market, commercial projects often take well over a year to progress from the design and planning stage through the tile specification phase and then on to construction and fitting. Over the first half the trading loss was £1.0 million; we expect the full year loss to be in the region of £1.5 million. These losses have been viewed as a longer term investment and as such have been excluded from the adjusted financial position of the Group for this year.

In April 2019 the Group acquired Strata Tiles Ltd – a recognised and respected specialist supplier of tiles to the commercial market. To the year ended March 2018, Strata generated turnover of £4.8 million and a profit before tax of £0.7 million. This acquisition is an important step in building both scale and our specialist credentials in the commercial tile market. Parkside and Strata will continue to be run as separate brands under a common management structure and, whilst there is limited cross over in terms of existing customer base, we expect the Group's buying scale to bring significant benefit to Strata.

Risks and Uncertainties

The Board continues to monitor the key risks and uncertainties of the Group and does not consider that there has been any material change to those documented in the 2018 Annual Report and Accounts. The key risks include: Brexit (from a perspective of general economic and consumer confidence, foreign exchange rate fluctuation, and supply chain disruption), appropriate business strategy, threat from competitors, attracting and retaining talent, store portfolio, loss of a key supplier, financing, cyber security, major reputational damage, and fitter availability.

Board Composition

The Board comprises an Independent Non-Executive Chairman, three Independent Non-Executive Directors and two Executive Directors. As such the composition is fully compliant with the UK Corporate Governance Code.

Going Concern

Based on a detailed review, the Board believes the Group will continue to operate within its loan facility covenants, and meet all of its financial commitments as they fall due. On this basis the Board considers that the Group will be able to continue as a going concern for a period of at least 12 months and has prepared the financial statements on this basis.

Current Trading & Outlook

We continue to strengthen our position as the UK's leading tile specialist. In our core retail business, our proven strategy of "Out Specialising the Specialists" is supporting further gains in market share. In addition, we further strengthened our position in the commercial tile market with the acquisition of Strata Tiles, accelerating our plan to build a leading position in the commercial sector over the medium term.

We have made an encouraging start to the second half, with like-for-like sales in the first seven weeks increasing by 1.2% (2018: decrease of 0.2%).

Matthew Williams
Chief Executive Officer
21 May 2019

Rob Parker
Chief Financial Officer

RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

(a) the condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting';

(b) the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and

(c) the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

By order of the Board,

Matthew Williams	**Rob Parker**
Chief Executive Officer	*Chief Financial Officer*

21 May 2019

Cautionary statement

This Interim Management Report ("IMR") has been prepared solely to provide additional information to shareholders to assess the Group's strategies and the potential for those strategies to succeed. The IMR should not be relied on by any other party or for any other purpose.

The IMR 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 but 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.

This interim management report has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are significant to Topps Tiles Plc and its subsidiary undertakings when viewed as a whole.

Independent review report to Topps Tiles Plc

Report on the interim report

Our conclusion

We have reviewed Topps Tiles Plc's interim report (the "interim financial statements") in the Unaudited Interim Report of Topps Tiles Plc for the 26 week period ended 30 March 2019. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements comprise:

- the condensed consolidated statement of financial position as at 30 March 2019;
- the condensed consolidated statement of financial performance for the period then ended;
- the condensed statement of cash flows for the period then ended;
- the condensed consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the Unaudited Interim Report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The Unaudited Interim Report, including the interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Unaudited Interim Report in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the Unaudited Interim Report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What a review of interim financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the Unaudited Interim Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
East Midlands
21 May 2019

Condensed Consolidated Statement of Financial Performance
for the 26 weeks ended 30 March 2019

	Note	**26 weeks ended 30 March 2019 £'000 (Unaudited)**	26 weeks ended 31 March 2018 £'000 (Unaudited)	52 weeks ended 29 September 2018 £'000 (Audited)
Group revenue - continuing operations		**110,346**	110,544	216,887
Cost of sales		**(42,852)**	(43,861)	(84,464)
Gross profit		**67,494**	66,683	132,423
Employee profit sharing		**(2,818)**	(3,537)	(6,268)
Distribution and selling costs		**(43,058)**	(41,853)	(82,572)
Other operating expenses		**(5,295)**	(3,656)	(9,480)
Administrative costs		**(7,579)**	(8,219)	(15,575)
Sales and marketing costs		**(3,160)**	(2,584)	(4,793)
Group operating profit		**5,584**	6,834	13,735
Net finance costs		**(416)**	(462)	(1,047)
Profit before taxation		**5,168**	6,372	12,688
Taxation	3	**(1,220)**	(1,220)	(3,029)
Profit for the period attributable to equity holders of the parent company		**3,948**	5,152	9,659
Earnings per ordinary share from continuing operations				
-basic	5	**2.03p**	2.67p	5.00p
-diluted	5	**2.01p**	2.63p	4.93p

There are no other recognised gains and losses for the current and preceding financial periods other than the results shown above. Accordingly a separate Condensed Consolidated Statement of Comprehensive Income has not been prepared.

Condensed Consolidated Statement of Financial Position

as at 30 March 2019

	Note	**30 March 2019 £'000 (Unaudited)**	31 March 2018 £'000 (Unaudited)	29 September 2018 £'000 (Audited)
Non-current assets				
Goodwill		**1,461**	1,096	1,461
Intangible assets		**548**	429	339
Property, plant and equipment		**46,861**	52,046	47,953
Investment properties		**1,233**	-	1,233
		50,103	53,571	50,986
Current assets				
Inventories		**33,183**	31,226	30,154
Trade and other receivables		**8,635**	6,653	8,712
Cash and cash equivalents		**12,030**	9,901	13,842
		53,848	47,780	52,708
Total assets		**103,951**	101,351	103,694
Current liabilities				
Trade and other payables		**(39,640)**	(33,392)	(38,648)
Current tax liabilities		**(2,251)**	(2,406)	(2,923)
Provisions		**(1,424)**	(1,215)	(1,197)
Total current liabilities		**(43,315)**	(37,013)	(42,768)
Net current assets		**10,533**	10,767	9,940
Non-current liabilities				
Bank loans	6	**(29,894)**	(34,980)	(29,851)
Deferred tax liabilities		**(1,057)**	(990)	(1,017)
Provisions for liabilities and charges		**(3,426)**	(4,049)	(3,395)
Total liabilities		**(77,692)**	(77,032)	(77,031)
Net assets		**26,259**	24,319	26,663
Equity				
Share capital	10	**6,548**	6,548	6,548
Share premium		**2,490**	2,490	2,490
Own shares		**(1,548)**	(4,411)	(3,750)
Merger reserve		**(399)**	(399)	(399)
Share-based payment reserve		**4,070**	3,999	3,945
Capital redemption reserve		**20,359**	20,359	20,359
Accumulated losses		**(5,261)**	(4,267)	(2,530)
Total funds attributable to equity holders of the parent		**26,259**	24,319	26,663

Condensed Consolidated Statement of Changes in Equity
For the 26 weeks ended 30 March 2019

	Equity attributable to equity holders of the parent							
	Share capital £'000	**Share premium £'000**	**Own shares £'000**	**Merger reserve £'000**	**Share-based payment reserve £'000**	**Capital redemption reserve £'000**	**Retained earnings £'000**	**Total equity £'000**
Balance at 29 September 2018 (Audited)	6,548	2,490	(3,750)	(399)	3,945	20,359	(2,530)	26,663
Profit and total comprehensive income for the period	-	-	-	-	-	-	3,948	3,948
Issue of share capital	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	(4,483)	(4,483)
Own shares issued in the period	-	-	2,202	-	-	-	(2,202)	-
Credit to equity for equity-settled share based payments	-	-	-	-	125	-	-	125
Deferred tax on share-based payment transactions	-	-	-	-	-	-	6	6
Balance at 30 March 2019 (Unaudited)	**6,548**	**2,490**	**(1,548)**	**(399)**	**4,070**	**20,359**	**(5,261)**	**26,259**

For the 26 weeks ended 31 March 2018

	Equity attributable to equity holders of the parent							
	Share capital £'000	Share premium £'000	Own shares £'000	Merger reserve £'000	Share-based payment reserve £'000	Capital redemption reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 30 September 2017 (Audited)	6,548	2,487	(4,411)	(399)	3,921	20,359	(4,952)	23,553
Profit and total comprehensive income for the period	-	-	-	-	-	-	5,152	5,152
Issue of share capital	-	3	-	-	-	-	-	3
Dividends	-	-	-	-	-	-	(4,439)	(4,439)
Credit to equity for equity-settled share based payments	-	-	-	-	78	-	-	78
Deferred tax on share-based payment transactions	-	-	-	-	-	-	(28)	(28)
Balance at 31 March 2018 (Unaudited)	**6,548**	**2,490**	**(4,411)**	**(399)**	**3,999**	**20,359**	**(4,267)**	**24,319**

For the 52 weeks ended 29 September 2018

	Equity attributable to equity holders of the parent							
	Share capital £'000	Share premium £'000	Own shares £'000	Merger reserve £'000	Share-based payment reserve £'000	Capital redemption reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 30 September 2017 (Audited)	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	-	12	36
Deferred tax on share-based payment transactions	-	-	-	-	-	-	(22)	(22)
Balance at 29 September 2018 (Audited)	**6,548**	**2,490**	**(3,750)**	**(399)**	**3,945**	**20,359**	**(2,530)**	**26,663**

Condensed Statement of Cash Flows
for the 26 weeks ended 30 March 2019

	26 weeks ended 30 March 2019 £'000 (Unaudited)	26 weeks ended 31 March 2018 £'000 (Unaudited)	52 weeks ended 29 September 2018 £'000 (Audited)
Cash flow from operating activities			
Profit for the period	**3,948**	5,152	9,659
Taxation	**1,220**	1,220	3,029
Finance costs	**425**	471	1,072
Investment revenue	**(9)**	(9)	(25)
Group operating profit	**5,584**	6,834	13,735
Adjustments for:			
Depreciation of property, plant and equipment	**3,574**	3,473	6,983
Amortisation of intangible assets	**45**	-	90
(Gain)/loss on disposal of property, plant and equipment	**851**	(245)	537
Decrease in fair value of investment properties	**-**	-	1,651
Share option charge/(credit)	**125**	78	24
(Increase)/decrease in trade and other receivables	**77**	(151)	(2,241)
Increase in inventories	**(3,029)**	(1,724)	(652)
Increase in payables	**1,261**	1,175	5,419
Cash generated by operations	**8,488**	9,440	25,546
Interest paid	**(393)**	(383)	(1,109)
Taxation paid	**(1,846)**	(1,298)	(2,543)
Net cash from operating activities	**6,249**	7,759	21,894
Investing activities			
Interest received	**9**	9	25
Purchase of property, plant, equipment and intangibles	**(3,587)**	(1,977)	(5,052)
Purchase of investment property	**-**	-	(2,884)
Proceeds on disposal of property, plant and equipment	**-**	1,045	3,921
Net cash used in investment activities	**(3,578)**	(923)	(3,990)
Financing activities			
Dividends paid	**(4,483)**	(4,439)	(6,566)
Proceeds from issue of share capital	**-**	3	3
Repayment of bank loans	**-**	-	(5,000)
Net cash generated (used in) / from financing activities	**(4,483)**	(4,436)	(11,563)
Net increase/(decrease) in cash and cash equivalents	**(1,812)**	2,400	6,341
Cash and cash equivalents at beginning of period	**13,842**	7,501	7,501
Cash and cash equivalents at end of period	**12,030**	9,901	13,842

1. General information

The interim report was approved by the Board on 21 May 2019. The financial information for the 26 weeks ended 30 March 2019 has been reviewed by the company's new auditor PwC. Their report is included within this announcement. The financial information for the 52 week period ended 29 September 2018 has been based on information in the audited financial statements for that period.

The comparative figures for the 52 week period ended 29 September 2018 are an abridged version of the Group's full financial statements and, together with other financial information contained in these interim results, do not constitute statutory financial statements of the Group as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that 52 week period has been delivered to the Registrar of Companies. The auditor has reported on those accounts: their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under s498 (2) or (3) of the Companies Act 2006.

This condensed set of consolidated financial statements has been prepared for the 26 weeks ended 30 March 2019 and the comparative period has been prepared for the 26 weeks ended 31 March 2018.

Basis of preparation and accounting policies

The annual financial statements of Topps Tiles Plc are prepared in accordance with IFRSs as adopted by the European Union. The unaudited condensed consolidated set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting', as adopted by the European Union. With the exception of amendments to revenue, receivables and financial asset policies as a result of IFRS 9 and 15 (described below), the same accounting policies, presentation and methods of computation are followed in the condensed set of financial statements as applied in the Group's latest annual audited financial statements.

New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period. The impact of the adoption of these standards is detailed below.

The Group has adopted IFRS 9 'Financial Instruments' for the first time in the current financial year. IFRS 9 replaces IAS 39 which relates to the recognition, classification, measurement and impairment of financial assets and liabilities and hedge accounting. The adoption of IFRS 9 had no impact on the Group's retained earnings at 30 September 2018 or the interim consolidated financial information at 30 March 2019.

The Group has adopted IFRS 15 'Revenue from contracts with customers' for the first time in the current financial year, which resulted in the reclassification of amounts recognised in the financial statements. None of the adjustments impacted the Group's retained earnings. Provisions for customer returns were previously presented on a net basis, as part of accruals and deferred income. 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 (£1.1m as at 30 March 2019) are included in trade and other payables. Subsequently assets for the value of goods expected to be returned are included in inventories (£0.4m as at 30 March 2019). There is no change to the Group's revenue recognition under IFRS 15. The Group has adopted IFRS 15 using the cumulative effect method, where we have recognised the cumulative effect of applying the new standard at the date of initial application.

New accounting standards not yet adopted

At the Statement of Financial Position date, there are a number of new standards and amendments to existing standards in issue but not yet effective. None of these are expected to have a significant effect on the financial statements of the Group, except IFRS 16 detailed below.

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.

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 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 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 Group has a project team working to determine the effect of this new Standard on its existing lease portfolio of approximately 370 property leases and other contracts and implement the processes and systems necessary to comply with its requirements. Given the complexities of IFRS 16 and the material sensitivity to key assumptions, such as discount rates, it is not yet practicable to fully quantify the effect of IFRS 16 on the financial statements of the Group. The Group will continue to monitor the practical interpretation of the new leasing standard within the retail sector prior to full implementation.

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.

Going concern

Based on a detailed review of the risks and uncertainties contained within the risks and uncertainties section above, the financial facilities available to the Group, management’s latest revised forecasts and a range of sensitised scenarios the Board believe the Group will continue to meet all of its financial commitments as they fall due and will be able to continue as a going concern. The Board, therefore, consider it appropriate to prepare the financial statements on a going concern basis.

2. Business segments

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

3. Taxation

	26 weeks ended 30 March 2019 £'000 (Unaudited)	26 weeks ended 31 March 2018 £'000 (Unaudited)	52 weeks ended 29 September 2018 £'000 (Audited)
Current tax - charge for the period	**1,174**	1,330	3,115
Current tax - adjustment in respect of previous periods	**-**	-	(11)
Deferred tax – (credit) /charge for the period	**46**	(110)	(94)
Deferred tax - adjustment in respect of previous periods	**-**	-	19
	1,220	1,220	3,029

4. Interim dividend

An interim dividend of 1.10p (2018: 1.10p) per ordinary share has been declared payable on 12 July 2019 to shareholders on the register at 7 June 2019; in accordance with IFRS the dividend will be recorded in the financial statements in the second half of the period. A final dividend of 2.30p per ordinary share was approved and paid in the period, in relation to the 52 week period ended 29 September 2018.

5. Earnings per share

Basic earnings per share for the 26 weeks ended 30 March 2019 were 2.03p (2018: 2.67p) having been calculated on earnings (after deducting taxation) of £3,948,000 (2018: £5,152,000) and on ordinary shares of 194,432,705 (2018: 192,856,555), being the weighted average of ordinary shares in issue during the period.

Diluted earnings per share for the 26 weeks ended 30 March 2019 were 2.01p (2018: 2.63p) having been calculated on earnings (after deducting taxation) of £3,948,000 (2018: £5,152,000) and on ordinary shares of 196,086,530 (2018: 195,973,163), being the weighted average of ordinary shares in issue during the period.

Adjusted earnings per share for the 26 weeks ended 30 March 2019 were 3.15p (2018: 3.01p) having been calculated on adjusted earnings after tax of £6,123,000 (2018: £5,804,000) being earnings (after deducting taxation) of £3,948,000 adjusted for the post-tax impact of the following items: gain on disposal of a freehold property of £nil (2018: £198,000), a net charge in relation to property related provisions of £689,000 (2018: £488,000), impairment of property plant and equipment of £678,000 (2018: £nil) and the trading loss for the period in relation to Parkside Ceramics Ltd of £808,000 (2018: £362,000). The trading loss in relation to Parkside Ceramics Ltd has been classified as an adjusting item as we go through an initial two year phase of investing in growth, and as such the Board do not consider this to be representative of underlying business performance.

6. Bank loans

	26 weeks ended 30 March 2019 £'000 (Unaudited)	26 weeks ended 31 March 2018 £'000 (Unaudited)	52 weeks ended 29 September 2018 £'000 (Audited)
Bank loans (all sterling)	**29,809**	34,864	29,766
The borrowings are repayable as follows:			
On demand or within one year	**-**	-	-
In the third to fifth year	**30,000**	35,000	30,000
	30,000	35,000	30,000
Less: total unamortised issue costs	**(191)**	(136)	(234)
	29,809	34,864	29,766
Issue costs to be amortised within 12 months	**85**	116	85
Amount due for settlement after 12 months	**29,894**	34,980	29,851

The Group has in place a £35.0 million committed revolving credit facility, expiring 29 June 2021. The Group also has an Accordion Option for £15.0 million. As at 30 March 2019, £30.0 million of this facility was drawn (2018: £30.0 million). The loan facility contains financial covenants which are tested on a biannual basis.

7. Financial instruments

The Group has the following financials instruments which are categorised as fair value through profit and loss:

	Carrying value and fair value		
	26 weeks ended 30 March 2019 £'000 (Unaudited)	26 weeks ended 31 March 2018 £'000 (Unaudited)	52 weeks ended 29 September 2018 £'000 (Audited)
Financial assets			
Fair value through profit and loss	**-**	-	168
Financial liabilities			
Fair value through profit and loss	**255**	299	-

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).

At 30 March 2019 the fair value of the Group's currency derivatives is a loss of £254,913 within trade and other payables (2018: £298,518 loss). These amounts are based on the market value of equivalent instruments at the balance sheet date.

Losses of £422,611 are included in cost of sales (2018: £174,372 loss).

8. 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.

9. Events after the balance sheet date

On 18 April 2019, the Group announced the acquisition of 80% of the issued share capital of Strata Tiles Ltd, a supplier of tiles to the commercial market. The acquisition also involves the grant of put and call options relating to the purchase by the Group of the remaining 20% of the issued shares in Strata, which are exercisable in 2021.

Consideration for the acquisition was financed from the Group's existing bank facilities. The consideration was paid in cash, with £3.3m (plus a £0.4m closing adjustment) being paid on completion of the initial acquisition of 80% of the issued share capital. Up to a further £2m will be paid on completion of the acquisition of the remaining 20% of the issued share capital, being subject to performance targets over a two-year period.

The Board expects the acquisition of Strata to be accretive to earnings in the current year and beyond.

The financial effects of the above transaction have not been brought to account at 30 March 2019. The operating results and assets and liabilities of the company will be brought to account from 18 April 2019.

10. Share capital

The issued share capital of the Group as at 30 March 2019 amounted to £6,548,000 (31 March 2018: £6,548,000). The Group did not issue any shares during the period, therefore the number of shares remains at 196,440,971.

11. Seasonality of sales

Historically there has not been any material seasonal difference in sales between the first and second half of the reporting period, with approximately 50% of annual sales arising in the period from October to March.

12. Related party transactions

S.K.M Williams is a related party by virtue of his 10.5% shareholding (20,343,950 ordinary shares) in the Group’s issued share capital (2018: 10.5% shareholding of 20,343,950 ordinary shares).

At 30 March 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 £114,000) per annum.

No amounts were outstanding with S.K.M. Williams at 30 March 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 IAS24.