We're with you every step you take...
At Topps Tiles we believe that our commitment to our customers, staff and shareholders is second to none.

It is our policy to provide customer service that is honest, helpful, knowledgeable, but never pushy. We pride ourselves on the warm welcome we extend to anyone who enters one of our many stores. Our staff are on hand to help our customers plan their projects, however large or small, and will advise on all aspects to help them achieve their goals. If they have any queries when they return home and start their job, we do our best to answer them.

We sponsor over 150 local football teams around the country and provide computer equipment to a number of schools as part of our initiative to build local brand awareness.

We value all of our friendly, hardworking employees and have set up incentive and profit-sharing schemes as a way of recognising the invaluable contribution they have made to our success story.

It is our intention to increase shareholder value through a combination of continuing strong financial performance and our ability to grow market share in an expanding market.

OUR STAFF CAN ADVISE ON ALL ASPECTS OF PREPARATION TO HELP OUR CUSTOMERS ACHIEVE THE **PERFECT RESULT**
...every step you

profits up 22.3%

OUR COMBINATION OF BUYING POWER, KEEN PRICING AND LOW OVERHEADS MEANS WE CAN SQUEEZE EVERY LAST DROP OF PROFITABILITY FROM OUR OPERATIONS
WE ARE DELIGHTED to report another year of significant growth, the fifth since flotation. The Group continues to grow strongly and enjoys a dominant position in an expanding market sector. More new stores, a growing brand awareness and a strong performance by staff have combined to drive the business forward.
### Summary of Results and Financial Highlights

<table>
<thead>
<tr>
<th></th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
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<tbody>
<tr>
<td><strong>Turnover £m</strong></td>
<td>31.3</td>
<td>43.0</td>
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<td><strong>Gross profit £m</strong></td>
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<td>13.1</td>
</tr>
<tr>
<td><strong>Basic earnings per share pence</strong></td>
<td>7.1</td>
<td>9.9</td>
<td>13.1</td>
<td>14.8</td>
<td>17.9</td>
</tr>
</tbody>
</table>

*Note: +22% and +24% indicate percentage increase from the previous year.*
TILE CLEARING HOUSE (TCH)
Tile Clearing House has become a tile brand in its own right, targeted at a different sector of the market to Topps. Its customers in the main are jobbing builders, small contractors and bulk purchasers. It offers a smaller separate product range including end of line, discontinued and job lots, but with greater stock levels.

Tile Clearing House stores operate from less prominent locations than Topps, mainly in trade areas, but where the two brands trade next to each other, both perform well. In 2002, the number of stores increased from 26 to 32.

TOPPS TILES
Topps Tiles sells ceramic wall and floor tiles and laminate and wood flooring for domestic and business use.

Operating from 139 stores nationwide Topps Tiles is by far the UK’s biggest specialist ceramic tile group.

With our dedication to offering excellent value for money and customer service we believe we can continue to grow our dominance in the UK market.

OUR TWO BRANDS ARE DISTINCTLY DIFFERENT BUT FIT PERFECTLY TO PROVIDE A SEAMLESS SERVICE
Service has always been our top priority at Topps Tiles Plc - we’re here to help our customers at every stage, the loyal staff who help make us the UK’s largest ceramic tile retailer, the communities around our many stores, and the shareholders who invest in us.

SERVING OUR CUSTOMERS
Across both brands it is our policy to provide customer service that is honest, helpful, knowledgeable, but never pushy. We pride ourselves on the warm welcome we extend to all customers who enter our many stores.

SERVING OUR STAFF
We now employ over 1,100 staff across the Group. We encourage participation in the Group’s success through employee share option schemes. We also incentivise staff through store bonus schemes, which this period has generated over £2.8 million in profit sharing for staff.

SERVING OUR SHAREHOLDERS
Since the Group was listed on the London Stock Exchange in 1997, Earnings per share has consistently grown from 4.2p in 1997 to 17.9p in 2002.
We continue to build on the proven appeal of the ‘Topps Tiles’ and ‘Tile Clearing House’ formats which provide a secure foundation for the successful future expansion of the Company.

We are delighted to report another excellent period of trading for Topps Tiles Plc. Profit before tax was £11.516 million (2001 - £9.414 million) from a turnover of £91.026 million (2001 - £74.642 million).

The Company has now achieved double digit growth in both sales and pre tax profits every period since its public listing in June 1997.

A growth of 11.3% in like for like sales was recorded for the 52 week period, demonstrating the underlying strength of the ceramic tile market and the enduring appeal to consumers of our product and service offer.

Our balance sheet remains robust with no net borrowings at the period end and cash balances of £5.142 million (2001 - £2.206 million).

The Company continues to be cash generative even with significant investment in new stores and refurbishment of older stores.

The board is committed to maintaining an efficient capital structure, and therefore, at the next Annual General Meeting we shall seek shareholder approval for authority to increase the authorised share capital and to buy back a proportion of our shares if appropriate.

OUR THOROUGH PLANNING AND RESEARCH HELPS ENSURE CONSISTENT PROGRESS AND GOOD RESULTS
**Dividend**

The board is recommending a final dividend of 5.80 pence per share, which together with the interim dividend of 1.35 pence per share, brings the total dividend for the period to 7.15 pence, an increase of 43.0% over the previous period. The dividend will be paid on 1 November 2002 to all shareholders on the register as at 4 October 2002.

**The Board**

We announced in September that Nicholas Ounstead was appointed Chief Operating Officer. Nicholas has made a smooth transition to this role whilst continuing to oversee customer services and marketing functions. We are confident that we have in place a strong and experienced management team to drive the business forward.

**Outlook**

We continue to build on the proven appeal of the ‘Topps Tiles’ and ‘Tile Clearing House’ formats which provide a secure foundation for the successful future expansion of the Company.

We are confident, given the growth opportunities in our market, that we can continue to produce the strong financial performances of the past and grow our market share.

**Barry Bester,**

Chief Executive

**Stuart Williams,**

Chairman
OPERATIONS REVIEW

This period has seen continued improvements to our core operations and new initiatives are developing well.

We started the period with 147 stores (121 Topps and 26 Tile Clearing House) trading and ended with 171 (139 Topps and 32 Tile Clearing House) a net increase of 24. During the period we actually opened 26 new outlets comprising, 19 Topps Tiles and 7 Tile Clearing Houses, refitted 23 stores including our Floorstore concept and closed 2 older stores. Whilst early sales figures within the MFI stores were encouraging, the venture did not perform to our expectations. We therefore withdrew our presence in November 2001. The trading losses and exit costs which were all incurred in the first half of the period totalled £0.156 million. During the year we opened a concession store within the Harris Carpet chain which has performed well, we will continue to explore similar opportunities in the forthcoming period.

Gross margin continued to improve and was up a full one percentage point on last period and has increased more than seven percentage points over the last five periods. With an increasing mix of products being supplied through our own warehouse, margin should continue to improve. New suppliers have been enlisted from lower cost sources outside of the EU to ensure a continued competitive supply.

The Tile Clearing House brand performed well, taking advantage of sites that are not suitable for the Topps Tiles brand. Its customers, in the main, are jobbing builders, small contractors and bulk purchasers and its product offer, which includes end of lines, discontinued tiles and job lots, is distinctive and does not overlap with that of the Topps Tiles stores. It acts as a complement to the Topps Tiles brand and appeals to a different sector of customers.

The Group recently entered a 50/50 joint venture with a Dutch Group. The venture comprises five well established laminate and wood flooring stores plus our pilot store. We plan to introduce laminate and wood flooring to the Sliedrecht store and ceramic tiles to the five laminate and wood flooring stores. The management of the joint venture resides with our Dutch co-investor. The long experience of our Dutch co-investor in the laminate and wood market will enable us to benefit from buying synergies for these products in our UK operation.

Stock days have continued to fall as we roll out our new core range into the business and now stands at 175, compared with 187 last year. This reduction has been achieved through greater focus on the product range assisted by the new I.T. systems which are now fully operational.

The Market

Our market in the UK for tiles continues to grow and is estimated to increase in volume in 2002 to 30.1 million square metres*. This growth is forecast to continue, reaching 34.8 million by 2006*. The reason for the sustained growth can be attributed to the increased awareness of tiles as a major part of home decoration, not only as a functional product used in traditional wet areas such as kitchens and bathrooms, but also for their aesthetic value throughout the home. The areas where ceramic tiles are now used in increasing numbers has expanded to include conservatories, hallways and cloakrooms and has benefited from consumers extending their homes to have bigger kitchens as well as second bathrooms and shower-rooms. It is also being driven by the
Introduction of under floor heating systems which are more commonplace in other EU countries where use of ceramic floor tiles is up to six times greater than the UK. Consumer interest is fuelled by the extensive media coverage of home improvement television programmes and by increased tourism to countries which have greater tile usage.

**Current trading and prospects**
Total sales in the first six weeks of 2002/2003 increased by 18.2%, compared with the corresponding period last year with like for like sales increasing by 8.1%. The outlook for the ceramic tiles and laminate and wood flooring market remains positive and is forecast to grow steadily over the next four years. We are now well on the way with our expansion plans for 2002/2003 with 24 new stores, planned advancing us towards our target of 350 stores across the UK.

**Nicholas Ounstead** Chief Operating Officer

*source MSI ceramic tiles UK, June 2002*
FINANCIAL REVIEW

The core of the business has shown even stronger growth...
........................................... an increase of 31.0%.

PROFIT AND LOSS ACCOUNT

Turnover
During the period, overall turnover increased by 22.0% to £91.026 million from £74.642 million last period. Like for like sales increased by 11.3%, with new stores contributing a further 10.7% increase.

Gross Margin
Overall gross margin was 56.0% compared to 55.0% last period and an interim figure of 55.6%. In the second half of the period gross margin increased to 56.5%, resulting in an increase of 1.0% for the full period.

Operating Expenses
Costs as a percentage of sales were 43.2% compared to 42.1% last period. However this period has included the pilot scheme costs for both MFI and Holland which represented £0.524 million (2001 - £Nil) whilst last period’s costs were net of profits on disposal of fixed assets of £0.344 million. Taking these elements into account gives 2002 figures of 42.6% compared to 42.6% in 2001.

Profit Before Tax
We have achieved an overall increase of 22.3% to £11.516 million compared to £9.414 million last period. The core of the business actually demonstrated even stronger growth after taking into account pilot schemes at MFI and Holland which showed a total loss of £0.369 million. Therefore, the comparable operating core business showed £11.885 million compared to £9.070 million (excluding profit on disposal of fixed assets of £0.344 million) last period, an increase of 31.0%.

Taxation
We continue to fully provide for deferred taxation in line with FRS19. The effective rate of corporation tax is 30.2% (2001 - 30.5%).

Earnings and Dividends
Our Earnings per share has grown to 17.9 pence compared to 14.8 pence last period, an increase of 20.9%. The board is recommending a final dividend of 5.80 pence per share which will give a total dividend for the period of 7.15 pence compared to 5.00 pence last period, an increase of 43.0%. This gives a dividend cover of 2.5 times compared to 2.9 times in 2001.
We are confident in reducing the cover, as the business has demonstrated over a number of periods its ability to generate cash and it has now matured to a stage where the board considers the change to be appropriate.

BALANCE SHEET

Fixed Assets
Capital expenditure in the period amounted to £3.9 million. This reflects the cost of acquiring two freehold/development sites for £0.6 million, the opening of 26 new stores costing £1.7 million and the refurbishment of a further 23 stores at a cost of £0.9 million. We have also continued to update our Electronic Point of
Sale system at a cost of £0.4 million and during the period five freehold properties were sold which resulted in gross proceeds of £2.8 million. The Group currently has seven freehold and two development sites with a net book value of £2.1 million.

Stock
Stock days have reduced to 175 days compared to 187 days last period. At the interim announcement stock days were 177 days and the trend of improvement reflects the continued efforts to achieve efficiencies in our stock management which is now benefiting from the investment in the I.T. systems.

Gearing
Cash reserves at the period end were £5.142 million and borrowings were £0.746 million giving the Group a net funds position at the period end of £4.396 million.

OTHER MATTERS
Joint venture in Holland
On the 10 June 2002 the Group entered a joint venture with a Dutch Flooring Company. The joint venture comprises five well established laminate and wood flooring stores and our pilot store. The Group owns 50% in the joint venture with the remaining 50% held by the Dutch Management team.

Accounting period end date change
The Group intends to change its accounting period end date, from the nearest Saturday to 31 May, to the nearest Saturday to 30 September. This change will take effect in the accounting period 2002/03 and therefore this period will report 16 months trading resulting in interim announcements to 30 November 2002 (6 months), 29 March 2003 (4 months) and the period end of 27 September 2003.

Annual General Meeting
The A.G.M. for the period to 1 June 2002 will be held on 8 October 2002. This is a month later than last period’s A.G.M. due to the proposed period end date change to 30 September. The next A.G.M. will then be held in early January 2004, 15 months after this period’s A.G.M.

Change of Auditors
In the UK, an agreement for the partners and personnel of Arthur Andersen to join Deloitte & Touche has recently been concluded. As a consequence of this, the board has concluded that it is now appropriate to propose a resolution at the Annual General Meeting to appoint Deloitte & Touche as auditors to the Group for the ensuing period.

Andrew Liggett Finance Director
Our success has been founded on four crucial cornerstones:

1. CUSTOMER SERVICE
Customer service is a subject we take very seriously. All staff attend an induction course at our own training centre where they learn our friendly and helpful approach to customer service, along with product range and technical knowledge. Being able to offer correct advice and assistance is crucial to gaining customer confidence.

In-store, we have a wide range of services to help customers choose the right product and achieve the best results.

For our customers’ convenience, most of our stores trade 7 days-a-week from 8.00am to 6.00pm with a number of larger stores open until 8.00pm.

2. STORE LOCATIONS
Our stores in the main are not located on traditional high streets or retail parks, but in less expensive yet highly visible locations on or close to busy roads. Our average store size is around 6,500 square feet and virtually all have on-site parking areas.
3. STOCK AVAILABILITY
Each store has a huge number of lines in stock, with replenishments arriving twice a week from our central warehouses. 80% of our products are imported directly from factories in Spain, Italy, Portugal and other countries around the world. Long-standing relationships with our suppliers, ensure we maintain excellent stock availability.

4. STORE LAYOUT
All stores are clearly identified with bright, eye-catching exterior signage bearing the Topps Tiles or Tile Clearing House branding. Store interiors are laid out in a mini-warehouse style with a huge choice of products merchandised with colourful displays and informative point-of-sale.

The stores are customer-friendly with product and pricing information clearly displayed.

97.9% OF CUSTOMERS SURVEYED EXPRESSED OVERALL LEVELS OF SATISFACTION AS BEING GOOD TO EXCELLENT
Our two complementary brands have reported strong performances both in terms of increased turnover and market share.

The Group continues to grow its market share and is now estimated to have over 15% of the UK non-contract market for ceramic tiles. Consumers' appetite for ceramic tiles has grown steadily over the past 20 years and is forecast to grow by a further 15% over the next four years*. The demand for laminate and wood flooring is growing quickly as consumer tastes change to reflect that of our European neighbours’ preference for hard floor surfaces. We believe that the health and hygiene characteristics of these products will have a direct benefit to future growth in sales and to take advantage of this move we have opened seven Floorstores using space already in the business. These stores have a separate entrance and are in effect a specialist mini warehouse offering a much larger range of laminate and wood flooring products than a standard Topps store, initial results are encouraging. The Group is well placed to take advantage of this growing market with many initiatives to improve merchandising and marketing activities. We are also piloting a Tile Studio concept within several Topps stores offering an extended up market range of tiles and natural stone to service this sector of the market.

*source MSI ceramic tiles UK, June 2002
We have a policy of building local brand awareness of Topps Tiles and Tile Clearing House through involvement with young people.

Probably our most well-known community project is our youth sports sponsorship, providing new kits and equipment to juniors in each town where we have a presence. This has made Topps Tiles one of the biggest supporters of youth football in Britain.

As well as sport, there’s education, via our product catalogue, schools can win valuable computer equipment. Since the scheme started, a number of schools have benefited nationwide.

Another worthy cause is the National Asthma Campaign (NAC). This is our third year of support for the charity, which aims to conquer this respiratory disorder affecting over one million children in the UK. The NAC was the natural choice of charity for Topps to adopt, as our products help to reduce the levels of house dust mites which are one of the triggers of asthma attacks. In addition to a cheque for £16,000 donated by Topps, our staff contributed greatly to the cause this year by holding sponsored events which raised a considerable sum.

TOPPS TILES CONTRIBUTES EQUIPMENT TO LOCAL SCHOOLS THROUGH COMPETITIONS IN OUR PRODUCT CATALOGUE
TOP LEFT:
Topps Tiles is one of the biggest supporters of youth football in Britain, providing new kits and equipment to junior teams local to every one of our stores.

TOP RIGHT:
Topps Tiles supports the National Asthma Campaign, a natural choice, as our products help to reduce levels of dust mites, one of the triggers of asthma attacks.

BOTTOM LEFT:
Area manager Neil Curtis, presenting a new computer to Annie Walton and her Head teacher, Tony Gill at Hadrian Primary School, South Shields.
BUSINESS OPPORTUNITIES

We are constantly looking for new ways to develop the business, without compromising on our principles of tight cost management and the ability to maintain strong margins.

The non contract ceramic tile market remains buoyant and is forecast to increase 15% to 34.8 million square metres in the next four years*. Home improvements are more popular than ever before with DIY forecast to be one of the fastest growing retail sectors.

Adding a second WC has become more popular for many homeowners, along with shower rooms and conservatories. This offers real opportunities to increase tile sales while demand for wood flooring is also flourishing. The number of rooms where tiles are usually found has expanded from traditional ‘wet’ areas such as bathrooms and kitchens and now includes hallways, cloakrooms and dining rooms.

Fashionable, with a long design life, low maintenance and more hygienic than traditional floor coverings, ceramic tiles and wood flooring adds value to homes. As the demand for them grows, the Group is well placed to take advantage of this increased demand.

*source MSI ceramic tiles UK, June 2002
This year we have decided to conclude our business review by answering some questions frequently put to us by analysts and shareholders regarding the Group’s business, financial position and strategy.

**What would be the effect of a downturn in the housing market?**
We have always maintained that the business is not directly linked to the ‘ups’ and ‘downs’ of the housing market. We are more the replacement market. Although people will decide not to move home they may instead improve their existing home and that is why historically the Company has not seen sharp increases in sales when the housing market is booming and vice versa.

**How difficult is it to find suitable store locations?**
Our ideal store location is on a busy main road with some parking available or a first generation retail park. Our store ‘model’ is flexible enough to accommodate anything from a 4,000sq ft unit to a 15,000sq ft unit. This flexibility coupled with the location requirement means that we are finding plenty of suitable sites at acceptable rent levels. We are planning to open a further 24 stores in 2002/2003.

**How many stores can the business have in the UK?**
Our previously stated objective was to have 250 stores in the UK. However we have seen two changes that have influenced our thinking. The first being the success of our second brand Tile Clearing House which can trade very well alongside Topps Tiles stores and secondly the success of our trials of Topps Tiles stores in smaller population areas. These two changes mean that we are restating our store target for the UK to over 350 stores, of which, 100 will be Tile Clearing House.
**Why does the business carry so much stock?**
We believe one of our key strengths and a barrier to entry of our business is stock availability. When customers order from our stores they are usually looking for a ‘cash and carry’ service as they will already have planned the ‘project’ before buying the tiles. To be told that they may take six weeks to arrive can be very disappointing. We therefore set out to provide a ‘cash and carry’ service and if this is not achievable we carry stocks at our central warehouse which means we can usually fulfil the order within days.

**How sensitive is the business to currency changes?**
80% of our product range is imported, therefore we are exposed to currency fluctuations. Our main currency requirement is the Euro, although by far the majority of our payments are actually made in Sterling. In order to manage this exposure we have adopted a policy of buying currency forward on a rolling 6 to 12 months, monthly contract basis which therefore gives us a known cost base for setting retail prices.

**Will Earnings per share (EPS) continue to grow?**
We have seen EPS grow from 4.2p per share in 1997 (when the business floated) to 17.9p per share this year; by any standards this is tremendous growth. However we do believe that the business can continue to develop and grow substantially from its current position and although nothing in business can be taken for granted, our continuous strive for improvement coupled with the future growth potential should see the business achieve its objectives.

**Is the business cash generative?**
99% of our sales are for cash or cash equivalents. With the business on such a fast growth rate it demands plenty of resources to maintain the momentum, from capital expenditure on new stores, existing stores and freehold purchases (this totalled £3.9 million in 2001/2002) to stock requirements for new stores (they have around £0.1 million of stock per store). In addition to this we have maintained our strong dividend policy. All of this is funded out of our cash generation from operating activities. The business is highly cash generative!
EXECUTIVE DIRECTORS

1. **Stuart Williams** F.C.A. Chairman (aged 58)
   Secretary of Audit Committee
   Stuart Williams, a Chartered Accountant, was a founder shareholder and Director of Topps Tiles in 1984. He became Executive Deputy Chairman and shareholder of Multi-Tile in 1987 with responsibility for restructuring the Group and introducing turnover and profit-related incentive schemes. His principal responsibilities are those of Group Strategy, property and legal matters. In addition, he is editor of the Company’s in-house magazine and is responsible for the suggestion scheme.

2. **Barry Bester** Chief Executive (aged 45)
   Barry Bester was a founder shareholder and Director of Topps Tiles in 1984. As Chief Executive he has overall responsibility for the day-to-day operations of the business, with particular emphasis on sales and store management. He is also responsible for new business development.

3. **Nicholas Ounstead** Chief Operating Officer (aged 41)
   Nicholas Ounstead joined Topps Tiles in April 1997. Prior to this he was Marketing Director at Bellegrove Ceramics Plc which is a major supplier to DIY chains and independent retailers. In September 2001 he was appointed Chief Operating Officer whilst continuing to oversee customer services and marketing. Nicholas is also Chairman of the Health and Safety Committee.

4. **Andrew Liggett** F.C.M.A. Finance Director (aged 40)
   Andrew Liggett joined Topps Tiles in 1995 as Finance Director. Prior to joining the Group, he worked for Gold Crown Group Limited where he was employed for 10 years, initially as management accountant and then as Finance Director. He is responsible for the accounting, financial control, company secretarial matters, treasury and administration.

NON-EXECUTIVE DIRECTORS

5. **Alan Mcintosh** C.A.
   Senior Non-Executive Director (aged 34)
   Chairman of Audit Committee
   Alan Mcintosh qualified as a Chartered Accountant with Deloitte & Touche and subsequently joined the corporate finance department of Hill Samuel. He is currently the Finance Director of Punch Group Ltd, the largest independent pub company in the UK. He is also a Director of Wellington Pub Company Plc and Chairman of the technology group, Capital Management and Investment Plc. He joined the board of Topps Tiles in 1997.

6. **Victor Watson** C.B.E.
   Non-Executive Director (aged 73)
   Member of Audit Committee
   Victor Watson is Chairman of Black i Limited and Chairman of Business Link Leeds Ltd. He is also the former Chairman of Waddington Plc. He joined the board of Topps Tiles in 1997.

7. **Rt. Hon Michael Jack** Privy Councillor, MP
   Non-Executive Director (aged 56)
   Member of Audit Committee
   Michael Jack’s business career has seen him in management capacities with Proctor & Gamble and Marks & Spencer. In 1987 he became MP for Fylde and by 1990 had begun a ministerial career that saw him serve in the DSS, Home Office, MAFF and finally the Treasury as Financial Secretary. Since that time he has maintained strong business links via his consultancy work. He joined the board of Topps Tiles in 1999.
DIRECTORS & ADVISORS

DIRECTORS
S.K.M. Williams  F.C.A.
B.F.J. Bester
A. Liggett  F.C.M.A.
N.D. Ounstead
W.A. McIntosh  C.A.
V.H. Watson  C.B.E.
The RT. Hon. J.M. Jack,  Privy Counsellor, MP
 Chairman
Chief Executive
Finance Director
Chief Operating Officer
Senior Non-Executive Director
Non-Executive Director

SECRETARY
A. Liggett  F.C.M.A.

REGISTERED NUMBER
3213782

REGISTERED OFFICE
Rushworth House
Wilmslow Road
Handforth
Wilmslow
Cheshire SK9 3HJ

AUDITORS
Arthur Andersen
Bank House
9 Charlotte Street
Manchester M1 4EU

BANKERS
HSBC Bank Plc
56 Queen Street
Cardiff CF10 2PX

REGISTRARS
Capita IRG Plc
Balfour House
390 - 398 High Road
Ilford
Essex IG1 1BR

SOLICITORS
TLT Solicitors
Bush House
72 Prince Street
Bristol BS99 7JZ

Sinclair Abson Smith
30 Greek Street
Bank House
Stockport SK3 8AD

STOCKBROKERS
HSBC Investment Bank Plc
St Vintners Place
68 Upper Thames Street
London EC4 3BJ
The directors present their report on the affairs of the Group, together with the financial statements and auditors’ report for the period ended 1 June 2002.

**PRINCIPAL ACTIVITY AND BUSINESS REVIEW**
The principal activity of the Group comprises the retail and wholesale distribution of ceramic tiles, wood flooring and related products.

Details of the Group’s performance during the period and expected future developments are contained in the Joint Statement by the Chairman and Chief Executive and the Operations and Financial Reviews on pages 4 to 9 of the report and financial statements.

**RESULTS AND DIVIDENDS**
The audited financial statements for the period ended 1 June 2002 are set out on pages 29 to 51. The Group’s profit for the period, after taxation was £8,039,000 (2001 - £6,547,000).

An interim dividend of 1.35p per share, £606,000, was paid on 28 February 2002.

The directors recommend a final dividend of 5.80p per share, £2,609,000 making a total of 7.15p per share, £3,215,000 (2001 - total dividend 5.0p per share, £2,240,000). Subject to approval by the shareholders at the Annual General Meeting, to be held on 8 October 2002, the final dividend will be paid on 1 November 2002, to shareholders on the register at the close of business on 4 October 2002.

**DIRECTORS**
The directors of the Company are as follows:

S.K.M. Williams  
B.F.J. Bester  
A. Liggett  
N.D. Ounstead  
W.A. McIntosh  
V.H. Watson  
J.M. Jack

Their interests in the shares of the Company are set out in note 4(c) to the financial statements.

**SHARE CAPITAL**
Details of the Company’s authorised and issued share capital are shown in note 18 to the financial statements.

**SUPPLIER PAYMENT POLICY**
The Group’s policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensuring that suppliers are made aware of the terms of payment and that both parties abide by those terms.

The effect of the Group’s negotiated payment policy is that trade creditors at the period end represented 50 days purchases (2001 - 66 days).

**CHARITABLE AND POLITICAL CONTRIBUTIONS**
During the period the Group made charitable donations of £16,000 to “The National Asthma Campaign”. The Group made no political contributions.

**SUBSTANTIAL SHAREHOLDINGS**
In addition to the directors’ shareholdings noted on page 36, on 1 June 2002 the Company had been notified, in accordance with sections 198 to 208 of the Companies Act 1985, of the following interests in 3% or more of its issued share capital.

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<tr>
<th>Shareholders</th>
<th>Number</th>
<th>% held</th>
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<td>Littledown Nominees Limited</td>
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<tr>
<td>HSBC Global Custody Nominee (UK) Limited</td>
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<td>9.8%</td>
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<tr>
<td>Chase Nominees Limited</td>
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<td>Stanlife Nominees Limited</td>
<td>3,012,964</td>
<td>6.7%</td>
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<tr>
<td>Arnold and S. Bleichroeder Inc.</td>
<td>1,991,443</td>
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<tr>
<td>Vidacos Nominees Limited</td>
<td>1,774,349</td>
<td>3.9%</td>
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</table>
DISABLED EMPLOYEES
Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

EMPLOYEE CONSULTATION
The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through formal and informal meetings and the Company magazine. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

SHARE OPTION SCHEMES
The directors recognise the importance of motivating employees and believe that one of the most effective incentives is increased employee participation in the Company through share ownership.

This has been achieved through the introduction of a number of employee sharesave, share bonus, approved and unapproved share option schemes, since the flotation in 1997.

During the year the Company issued 275,000 options to employees via further sharesave, share bonus, approved and unapproved share option schemes, bringing the total of options held by employees, excluding directors, to 1,625,000 (2001 - 1,526,000).

The directors will continue to incentivise employees through additional employee share option schemes in the forthcoming financial period.

AUDITORS
The directors will place a resolution before the Annual General Meeting to appoint Deloitte & Touche as auditors for the ensuing period.

Rushworth House By order of the Board,
Wilmslow Road
Handforth
Wilmslow
Cheshire
SK9 3HJ Secretary
22 July 2002 A. Liggett
In June 1998 the Hampel Committee and the London Stock Exchange published the Combined Code on corporate governance. This combines the Cadbury Code on corporate governance, the Greenbury Code on directors’ remuneration and new requirements arising from the findings of the Hampel Committee.

**STATEMENT OF COMPLIANCE WITH THE CODE OF BEST PRACTICE**

The Company has complied throughout the period with the Provisions of the Code of Best Practice set out in section 1 of the Combined Code except for code provisions A1.2, A1.3, A5.1 and A6.1. The board considers this non-compliance with the Combined Code to be justified in view of the size of the Group and in this respect supports the recommendations of the City Group for Smaller Companies. The Company complies with all other provisions of the code.

Code provision D.3.1 requires the members of the audit committee to be named in the report and financial statements. Mr. W.A. McIntosh (Chairman), Mr. V.H. Watson and Mr. J.M. Jack have served on the committee throughout the period.

**STATEMENT ABOUT APPLYING THE PRINCIPLES OF GOOD GOVERNANCE**

The Company has applied the Principles of Good Governance set out in section 1 of the Combined Code by complying with the Code of Best Practice as reported above. Further explanation of how the Principles have been applied in connection with directors’ remuneration is set out in the Remuneration Report.

**DIALOGUE WITH INSTITUTIONAL SHAREHOLDERS**

The directors seek to build on a mutual understanding of objectives between the Company and its institutional shareholders by making annual presentations and communicating regularly throughout the year.

**MAINTENANCE OF A SOUND SYSTEM OF INTERNAL CONTROL**

The board has applied principle D.2 of the Combined Code by establishing a continuous process for identifying, evaluating and managing the significant risks the Group faces. The board regularly reviews the process, which has been put in place from the start of the period to the date of the approval of this report and which is in accordance with Internal Control: Guidance for Directors on the Combined Code published in September 1999. The board is responsible for the Group’s system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

In compliance with provision D.2.1 of the Combined Code, the board continuously reviews the effectiveness of the Group’s system of internal control. The board’s monitoring covers all controls, including financial, operational and compliance controls and risk management. It is based principally on reviewing reports from management to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied and indicate a need for more extensive monitoring. The board has also performed a specific assessment for the purposes of this annual report. This assessment considers all significant aspects of internal control arising during the period covered by the report including the work of internal audit. The audit committee assists the board in discharging its review responsibilities.
As well as complying with the provisions of the Code as disclosed in the Company’s corporate governance statement, the Company has applied the Principles of Good Governance relating to directors’ remuneration as described below.

**REMUNERATION COMMITTEE**
The remuneration committee is comprised solely of the three non-executive directors.

**STATEMENT OF REMUNERATION POLICY AND DETAILS OF REMUNERATION**
The Company’s policy on executive director remuneration is as follows:

The remuneration of executive directors is determined by the remuneration committee, whose aim is to reward executive directors competitively. The emoluments of directors comprise a basic salary, executive share options and normal employment benefits including corporate contributions towards a pension entitlement.

The remuneration of non-executive directors is determined by the board as a whole, based on outside advice and review of current practices in other companies.

**Pensions**
The details of the corporate pension arrangements are explained in note 22(b).

**Service contracts**
New service contracts have been entered into by the executive directors on 1 June 2002 for a period of 16 months which will bring the contracts in line with the extended accounting period in 2003.

**Share incentives**
The share option scheme comprises two parts, the Topps Tiles Plc approved Executive Share Option Scheme and the Topps Tiles Plc unapproved Executive Share Option Scheme. The scheme is administered and the grant of options supervised by the remuneration committee. The exercise of options will normally be conditional on the achievement of a specified performance target determined by the remuneration committee, who will have regard to guidelines on share option schemes issued by institutional investors.

Options may normally only be granted within 42 days of the announcement by the Company of its interim or final results each period, with the exercise price being not less than the middle market quotation averaged over the three dealing days immediately preceding the date of the grant.

Full details of the remuneration packages of individual directors and information on share options are set out in notes 4(b) and 4(c) to the financial statements.
FINANCIAL STATEMENTS, INCLUDING ADOPTION OF GOING CONCERN BASIS

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

In preparing the financial statements the directors are required to select suitable accounting policies and then apply them consistently; make judgements and estimates that are reasonable and prudent; and state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

OTHER MATTERS

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.
INDEPENDENT AUDITORS’ REPORT

TO THE SHAREHOLDERS OF TOPPS TILES PLC
We have audited the financial statements of Topps Tiles Plc for the period ended 1 June 2002 which comprise the Profit and loss account, Balance sheets, Cash flow statement and the related notes numbered 1 to 23. These financial statements have been prepared under the accounting policies set out therein.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS
The directors’ responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors’ Responsibilities. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors’ Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors’ remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the Corporate Governance Statement reflects the Company’s compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if they do not. We are not required to consider whether the board’s statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group’s corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Joint Statement by the Chairman and the Chief Executive, Operations and Financial Reviews, Directors’ Report, Corporate Governance Statement, Remuneration Report, Statement of Directors’ Responsibilities and Five Year Record. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION
We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION
In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group at 1 June 2002 and of the Group’s profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen
Chartered Accountants and Registered Auditors

Bank House
9 Charlotte Street
Manchester
M1 4EU

22 July 2002
### CONSOLIDATED PROFIT & LOSS ACCOUNT

**for the period ended 1 June 2002**

<table>
<thead>
<tr>
<th>Notes</th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£’000</td>
<td>£’000</td>
</tr>
<tr>
<td><strong>Turnover</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>91,026</td>
</tr>
<tr>
<td>Cost of sales</td>
<td></td>
<td>(40,029)</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td></td>
<td>50,997</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>3</td>
<td>(2,859)</td>
</tr>
<tr>
<td>- employee profit sharing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- other operating expenses</td>
<td></td>
<td>(36,478)</td>
</tr>
<tr>
<td><strong>Operating profit</strong></td>
<td></td>
<td>11,660</td>
</tr>
<tr>
<td>Finance charges (net)</td>
<td>5</td>
<td>(144)</td>
</tr>
<tr>
<td><strong>Profit on ordinary activities before taxation</strong></td>
<td>6</td>
<td>11,516</td>
</tr>
<tr>
<td>Tax on profit on ordinary activities</td>
<td>7</td>
<td>(3,477)</td>
</tr>
<tr>
<td><strong>Profit on ordinary activities after taxation</strong></td>
<td></td>
<td>8,039</td>
</tr>
<tr>
<td>Dividends</td>
<td>8</td>
<td>(3,208)</td>
</tr>
<tr>
<td><strong>Retained profit for the financial period</strong></td>
<td>19</td>
<td>4,831</td>
</tr>
<tr>
<td><strong>Earnings per ordinary share</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- basic</td>
<td>9</td>
<td>17.9p</td>
</tr>
<tr>
<td>- diluted</td>
<td>9</td>
<td>17.8p</td>
</tr>
</tbody>
</table>

All activity has arisen from continuing operations.

There are no recognised gains or losses in either period other than the profit for the financial period.

A statement of movements on reserves is given in note 19.

The accompanying notes are an integral part of this consolidated profit and loss account.
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£’000</td>
<td>£’000</td>
<td>£’000</td>
<td>£’000</td>
</tr>
<tr>
<td><strong>Fixed assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goodwill</td>
<td>10</td>
<td>285</td>
<td>302</td>
<td>-</td>
</tr>
<tr>
<td>Tangible assets</td>
<td>11</td>
<td>15,044</td>
<td>16,236</td>
<td>-</td>
</tr>
<tr>
<td>Investments</td>
<td>12</td>
<td>-</td>
<td>-</td>
<td>14,640</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>14,652</td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stocks</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debtors</td>
<td>13</td>
<td>3,802</td>
<td>4,678</td>
<td>10,801</td>
</tr>
<tr>
<td>Cash at bank and in hand</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Creditors:</strong> Amounts falling due within one year</td>
<td>14</td>
<td>(17,935)</td>
<td>(18,707)</td>
<td>(2,777)</td>
</tr>
<tr>
<td><strong>Net current assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>10,028</td>
<td>5,470</td>
<td>8,486</td>
<td>8,137</td>
</tr>
<tr>
<td><strong>Total assets less current liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>25,357</td>
<td>22,008</td>
<td>23,126</td>
<td>22,789</td>
</tr>
<tr>
<td><strong>Creditors:</strong> Amounts falling due after more than one year</td>
<td>15</td>
<td>(526)</td>
<td>(2,446)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Provisions for liabilities and charges</strong></td>
<td>17</td>
<td>(1,007)</td>
<td>(893)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Net assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>23,824</td>
<td>18,669</td>
<td>23,126</td>
<td>22,789</td>
</tr>
<tr>
<td><strong>Capital and reserves</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Called-up share capital</td>
<td>18</td>
<td>5,623</td>
<td>5,601</td>
<td>5,623</td>
</tr>
<tr>
<td>Share premium account</td>
<td>19</td>
<td>1,307</td>
<td>1,005</td>
<td>1,307</td>
</tr>
<tr>
<td>Merger reserve</td>
<td>19</td>
<td>(399)</td>
<td>(399)</td>
<td>-</td>
</tr>
<tr>
<td>Special reserve</td>
<td>19</td>
<td>-</td>
<td>-</td>
<td>14,917</td>
</tr>
<tr>
<td>Profit and loss account</td>
<td>19</td>
<td>17,293</td>
<td>12,462</td>
<td>1,279</td>
</tr>
<tr>
<td><strong>Equity shareholders’ funds</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>23,824</td>
<td>18,669</td>
<td>23,126</td>
<td>22,789</td>
</tr>
</tbody>
</table>

The financial statements on pages 29 to 51 were approved by the board of directors on 22 July 2002 and signed on its behalf by:

**S.K.M Williams**
**B.F.J. Bester**
Directors
22 July 2002

The accompanying notes are an integral part of these balance sheets.
CONSOLIDATED CASH FLOW STATEMENT
for the period ended 1 June 2002

<table>
<thead>
<tr>
<th>Notes</th>
<th>2002 £’000</th>
<th>2001 £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net cash inflow from operating activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>21(a)</td>
<td>10,426</td>
<td>11,019</td>
</tr>
<tr>
<td>Returns on investments and servicing of finance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>21(b)</td>
<td>(163)</td>
<td>(245)</td>
</tr>
<tr>
<td>Taxation</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(3,005)</td>
<td>(2,849)</td>
</tr>
<tr>
<td>Capital expenditure and financial investment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>21(c)</td>
<td>(163)</td>
<td>(4,820)</td>
</tr>
<tr>
<td>Equity dividends paid</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(2,323)</td>
<td>(1,934)</td>
</tr>
<tr>
<td><strong>Cash inflow before financing</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>4,772</td>
<td>1,171</td>
</tr>
<tr>
<td>Financing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>21(d)</td>
<td>(1,836)</td>
<td>600</td>
</tr>
<tr>
<td><strong>Increase in cash in the period</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>21(e)</td>
<td>2,936</td>
<td>1,771</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of this consolidated cash flow statement.
1. **Accounting policies**

The principal accounting policies are summarised below. They have all been applied consistently throughout the period and the preceding period:

   a) *Basis of accounting*
   
   The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

   b) *Basis of consolidation*
   
   The Group financial statements consolidate the financial statements of Topps Tiles Plc and its subsidiary undertakings made up to 1 June 2002. The financial statements of Topalpha Limited have been consolidated using merger accounting principles. In all other cases, subsidiary undertakings have been accounted for using acquisition accounting principles.

   The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed. No profit and loss account is presented for Topps Tiles Plc, as permitted by s230 of the Companies Act 1985. The Company’s profit after tax for the period, determined in accordance with the Act, was £3,221,000 (2001 - £3,194,000).

   c) *Financial period*
   
   The accounting period ends on the Saturday which falls closest to 31 May, resulting in financial periods of either 52 or 53 weeks.

   d) *Goodwill*
   
   Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which is twenty years. Provision is made for any impairment.

   Goodwill arising on acquisitions in the period ended 30 May 1998 and earlier periods was written off to reserves in accordance with the accounting standard then in force. As permitted by the current accounting standard the goodwill previously written off to reserves has not been reinstated on the balance sheet. On disposal or closure of a previously acquired business, the attributable amount of goodwill previously written off to reserves is included in determining the profit or loss on disposal.

   e) *Turnover*
   
   Turnover comprises the net amount receivable in respect of sales during the period to third parties and excludes value added tax.
1 Accounting policies (continued)

f) Tangible fixed assets
Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Costs are only those costs that are directly attributable to bringing the asset into working condition for its intended use. Depreciation is provided to write off the cost of tangible assets, less estimated residual value, over their estimated useful lives as follows:

- Freehold buildings: 2% per annum on cost
- Short leasehold land and buildings: over the period of the lease, up to 25 years
- Fixtures and fittings: over 10 years or at 25% per annum on reducing balance basis as appropriate
- Motor vehicles: 25% per annum on reducing balance

Residual value is calculated on prices prevailing at the date of acquisition.

g) Stocks
Stocks are stated at the lower of cost and net realisable value. Cost includes materials and an attributable proportion of distribution overheads based on normal levels of activity. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal.

h) Taxation
UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group’s taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

i) Foreign currency
Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction, or if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date, or if appropriate at the forward contract rate.

Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.
1 Accounting policies (continued)

j) Leases
Assets held under finance leases and hire purchase contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives.

Rentals under operating leases are charged on a straight line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

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

l) Pension costs
For defined contribution schemes, the amount charged to the profit and loss account in respect of pension costs is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

m) Derivative financial instruments
The Group uses derivative financial instruments to reduce exposure to foreign exchange risk. The Group does not hold or issue derivative financial instruments for speculative purposes.

For a forward foreign exchange contract to be treated as a hedge, the instrument must be related to actual foreign currency assets or liabilities or to a probable commitment. It must involve the same currency or similar currencies as the hedged item and must also reduce the risk of foreign currency exchange movements on the Group’s operations. Gains and losses arising on these contracts are deferred and recognised in the profit and loss account, only when the hedged transaction has itself been reflected in the Group’s financial statements.

If an instrument ceases to be accounted for as a hedge, for example, because the underlying hedged position is eliminated, the instrument is marked to market and any resulting profit or loss recognised at that time.
1 Accounting policies (continued)

n) Finance costs

Finance costs of debt are recognised in the profit and loss account over the term of the debt at a constant rate on the carrying amount. Finance costs which are directly attributable to the construction of tangible fixed assets are capitalised as part of the cost of those assets. The commencement of capitalisation begins when both finance costs and expenditures for the asset are being incurred and activities that are necessary to get the asset ready for use are in progress. Capitalisation ceases when substantially all the activities that are necessary to get the asset ready for use are complete.

2 Turnover

Turnover and profit before taxation are attributable to one activity, the retail and wholesale distribution of ceramic tiles, wood flooring and related products, and arises predominantly within the UK.

3 Operating expenses

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£’000</td>
<td>£’000</td>
</tr>
<tr>
<td>Distribution costs</td>
<td>28,808</td>
<td>23,545</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>7,670</td>
<td>5,642</td>
</tr>
<tr>
<td>Employee profit sharing</td>
<td>2,859</td>
<td>2,266</td>
</tr>
<tr>
<td></td>
<td>39,337</td>
<td>31,453</td>
</tr>
</tbody>
</table>

4 Staff costs

a) Staff costs

The average monthly number of employees (including executive directors) was:

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Selling</td>
<td>936</td>
<td>800</td>
</tr>
<tr>
<td>Administration</td>
<td>134</td>
<td>141</td>
</tr>
<tr>
<td></td>
<td>1,070</td>
<td>941</td>
</tr>
</tbody>
</table>

Their aggregate remuneration comprised:

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£’000</td>
<td>£’000</td>
</tr>
<tr>
<td>Wages and salaries</td>
<td>17,304</td>
<td>12,741</td>
</tr>
<tr>
<td>Social security costs</td>
<td>1,323</td>
<td>1,169</td>
</tr>
<tr>
<td>Other pension costs (note 22(b))</td>
<td>169</td>
<td>129</td>
</tr>
<tr>
<td></td>
<td>18,796</td>
<td>14,039</td>
</tr>
</tbody>
</table>
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
1 June 2002

4  Staff costs (continued)
   b) Directors’ emoluments
The emoluments of the directors of the Company are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Fees</th>
<th>Basic salary</th>
<th>Taxable benefits</th>
<th>Money purchase pension contributions</th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£’000</td>
<td>£’000</td>
<td>£’000</td>
<td></td>
<td>£’000</td>
<td>£’000</td>
</tr>
<tr>
<td>Executive</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>S.K.M. Williams</td>
<td>-</td>
<td>150</td>
<td>15</td>
<td></td>
<td>165</td>
<td>138</td>
</tr>
<tr>
<td>B.F.J. Bester</td>
<td>-</td>
<td>150</td>
<td>9</td>
<td>6</td>
<td>165</td>
<td>159</td>
</tr>
<tr>
<td>A. Liggett</td>
<td>-</td>
<td>150</td>
<td>14</td>
<td>5</td>
<td>169</td>
<td>138</td>
</tr>
<tr>
<td>N.D. Ounstead</td>
<td>-</td>
<td>140</td>
<td>12</td>
<td>4</td>
<td>156</td>
<td>104</td>
</tr>
<tr>
<td>Non-executive</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>W.A. McIntosh</td>
<td>15</td>
<td>-</td>
<td>-</td>
<td></td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>V.H. Watson</td>
<td>15</td>
<td>-</td>
<td>-</td>
<td></td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>J.M. Jack</td>
<td>-</td>
<td>15</td>
<td>-</td>
<td></td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Aggregate emoluments</td>
<td>30</td>
<td>605</td>
<td>50</td>
<td>15</td>
<td>700</td>
<td>584</td>
</tr>
</tbody>
</table>

c) Directors’ interests
The directors had the following interests in the shares of the Company:

<table>
<thead>
<tr>
<th>Share options:</th>
<th>1 June 2002</th>
<th>2 June 2001</th>
<th>Ordinary shares of 12.5p each start and end of period</th>
</tr>
</thead>
<tbody>
<tr>
<td>S.K.M. Williams</td>
<td>5,775,720</td>
<td>5,827,720</td>
<td>-</td>
</tr>
<tr>
<td>B.F.J. Bester</td>
<td>5,757,720</td>
<td>5,757,720</td>
<td>-</td>
</tr>
<tr>
<td>A. Liggett</td>
<td>500,300</td>
<td>500,300</td>
<td>300,000</td>
</tr>
<tr>
<td>N.D. Ounstead</td>
<td>98,700</td>
<td>98,700</td>
<td>225,000</td>
</tr>
<tr>
<td>W.A. McIntosh</td>
<td>467,000</td>
<td>467,000</td>
<td>-</td>
</tr>
<tr>
<td>V.H. Watson</td>
<td>37,200</td>
<td>37,200</td>
<td>-</td>
</tr>
<tr>
<td>J.M. Jack</td>
<td>3,000</td>
<td>3,000</td>
<td>-</td>
</tr>
</tbody>
</table>
4 Staff costs (continued)

c) Directors’ interests (continued)
Unexercised options have an exercise price of 301p, are exercisable from 6 September 2003 and expire on 5 September 2007.

The market price of the Company’s shares at the end of the period was 274.0p per share and ranged during the period from 178.5p to 328.5p per share.

There have been no changes in the directors’ interests in share options subsequent to the end of the period.

5 Finance charges (net)

\begin{tabular}{llll}
\hline
\textit{Investment income} & 2002 & 2001 \\
£’000 & £’000 \\
\hline
Interest receivable and similar income & 57 & 84 \\
\hline
\textit{Interest payable and similar charges} & & & \\
Bank loans and overdrafts & 213 & 307 \\
Hire purchase contracts & 7 & 14 \\
Less interest costs capitalised & (19) & (14) \\
\hline
& 201 & 307 \\
\textit{Finance charges (net)} & 144 & 223 \\
\hline
\end{tabular}

Finance costs have been capitalised based on a capitalisation rate of 5.5% which is the weighted average of rates applicable to the Group’s general borrowings outstanding during the period.
### 6 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging (crediting):

<table>
<thead>
<tr>
<th></th>
<th>2002 £’000</th>
<th>2001 £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation and amounts written off tangible fixed assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- owned</td>
<td>1,826</td>
<td>1,435</td>
</tr>
<tr>
<td>- held under finance leases and hire purchase contracts</td>
<td>86</td>
<td>39</td>
</tr>
<tr>
<td>Amortisation of goodwill</td>
<td>17</td>
<td>18</td>
</tr>
<tr>
<td>Profit on disposal of tangible fixed assets</td>
<td>-</td>
<td>(344)</td>
</tr>
<tr>
<td>Operating lease rentals</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- plant and machinery</td>
<td>366</td>
<td>391</td>
</tr>
<tr>
<td>- other</td>
<td>7,862</td>
<td>6,657</td>
</tr>
<tr>
<td>Remuneration to auditors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- audit</td>
<td>40</td>
<td>35</td>
</tr>
<tr>
<td>- other</td>
<td>24</td>
<td>20</td>
</tr>
</tbody>
</table>
7 Tax on profit on ordinary activities

The tax charge comprises:

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current tax</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>UK corporation tax</td>
<td>3,396</td>
<td>2,639</td>
</tr>
<tr>
<td>Adjustments in respect of prior periods</td>
<td>(33)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total current tax</strong></td>
<td>3,363</td>
<td>2,639</td>
</tr>
<tr>
<td><strong>Deferred tax</strong> - Origination and reversal of timing differences (note 17)</td>
<td>114</td>
<td>228</td>
</tr>
<tr>
<td><strong>Total tax on profit on ordinary activities</strong></td>
<td>3,477</td>
<td>2,867</td>
</tr>
</tbody>
</table>

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Profit on ordinary activities before tax</strong></td>
<td>11,516</td>
<td>9,414</td>
</tr>
<tr>
<td>Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (2001 - 30%)</td>
<td>3,455</td>
<td>2,824</td>
</tr>
<tr>
<td><strong>Effects of:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expenses not deductible for tax purposes</td>
<td>(85)</td>
<td>(77)</td>
</tr>
<tr>
<td>Capital allowances in excess of depreciation</td>
<td>(114)</td>
<td>(228)</td>
</tr>
<tr>
<td>Depreciation on tangible fixed assets which do not qualify for capital allowances</td>
<td>149</td>
<td>130</td>
</tr>
<tr>
<td>Accounting profit in excess of chargeable gains on sale of freehold property</td>
<td>(9)</td>
<td>(10)</td>
</tr>
<tr>
<td>Adjustments to tax charge in respect of prior periods</td>
<td>(33)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Current tax charge for period</strong></td>
<td>3,363</td>
<td>2,639</td>
</tr>
</tbody>
</table>

The Group earns its profits primarily in the UK, therefore the tax rate used on the profit on ordinary activities is the standard rate for UK corporation tax, currently 30%.
8 Dividends

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Over) under provision in respect of prior period final dividend</td>
<td>(7)</td>
<td>5</td>
</tr>
<tr>
<td>Interim paid of 1.35p (2001 - 1.15p) per ordinary share</td>
<td>606</td>
<td>515</td>
</tr>
<tr>
<td>Final proposed of 5.80p (2001 - 3.85p) per ordinary share</td>
<td>2,609</td>
<td>1,725</td>
</tr>
<tr>
<td>Total 7.15p (2001 - 5.00p) per ordinary share</td>
<td>3,208</td>
<td>2,245</td>
</tr>
</tbody>
</table>

9 Earnings per share

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

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of shares</td>
<td>44,865,992</td>
<td>44,218,175</td>
</tr>
<tr>
<td>Weighted average number of shares under option</td>
<td>691,761</td>
<td>2,802,600</td>
</tr>
<tr>
<td>Number of shares that would have been issued at fair value</td>
<td>(466,524)</td>
<td>(2,219,604)</td>
</tr>
<tr>
<td>For diluted earnings per share</td>
<td>45,091,229</td>
<td>44,801,171</td>
</tr>
</tbody>
</table>

10 Goodwill

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Group&lt;br&gt;Cost&lt;br&gt;Beginning and end of period</td>
<td>338</td>
</tr>
<tr>
<td>Amortisation&lt;br&gt;Beginning of period</td>
<td>36</td>
</tr>
<tr>
<td>Charge for the period</td>
<td>17</td>
</tr>
<tr>
<td>End of period</td>
<td>53</td>
</tr>
<tr>
<td>Net book value&lt;br&gt;Beginning of period</td>
<td>302</td>
</tr>
<tr>
<td>End of period</td>
<td>285</td>
</tr>
</tbody>
</table>
## 11 Tangible fixed assets

<table>
<thead>
<tr>
<th>Group</th>
<th>Land and buildings</th>
<th>Fixtures and fittings</th>
<th>Motor vehicles</th>
<th>Total £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Freehold £’000</td>
<td>Short leasehold £’000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beginning of period</td>
<td>4,402</td>
<td>1,093</td>
<td>13,462</td>
<td>317</td>
</tr>
<tr>
<td>Additions</td>
<td>578</td>
<td>5</td>
<td>3,031</td>
<td>359</td>
</tr>
<tr>
<td>Disposals</td>
<td>(2,801)</td>
<td>-</td>
<td>(370)</td>
<td>(281)</td>
</tr>
<tr>
<td>End of period</td>
<td>2,179</td>
<td>1,098</td>
<td>16,123</td>
<td>395</td>
</tr>
</tbody>
</table>

### Depreciation

<table>
<thead>
<tr>
<th></th>
<th>Land and buildings</th>
<th>Fixtures and fittings</th>
<th>Motor vehicles</th>
<th>Total £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning of period</td>
<td>121</td>
<td>339</td>
<td>2,565</td>
<td>13</td>
</tr>
<tr>
<td>Charge for the period</td>
<td>59</td>
<td>140</td>
<td>1,628</td>
<td>85</td>
</tr>
<tr>
<td>Disposals</td>
<td>(83)</td>
<td>-</td>
<td>(26)</td>
<td>(90)</td>
</tr>
<tr>
<td>End of period</td>
<td>97</td>
<td>479</td>
<td>4,167</td>
<td>8</td>
</tr>
</tbody>
</table>

### Net book value

<table>
<thead>
<tr>
<th></th>
<th>Land and buildings</th>
<th>Fixtures and fittings</th>
<th>Motor vehicles</th>
<th>Total £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning of period</td>
<td>4,281</td>
<td>754</td>
<td>10,897</td>
<td>304</td>
</tr>
<tr>
<td>End of period</td>
<td>2,082</td>
<td>619</td>
<td>11,956</td>
<td>387</td>
</tr>
</tbody>
</table>

The net book value of tangible fixed assets includes £Nil (2001 - £505,000) in respect of fixtures and fittings held under hire purchase contracts.

Cumulative finance costs capitalised included in the cost of tangible fixed assets amount to £19,000 (2001 - £85,000) for the Group.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
1 June 2002

12 Fixed asset investments

<table>
<thead>
<tr>
<th>Cost</th>
<th>Company £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning and end of period</td>
<td>14,652</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Amounts written off</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning of period</td>
<td>-</td>
</tr>
<tr>
<td>Written off</td>
<td>12</td>
</tr>
<tr>
<td>End of period</td>
<td>12</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Net book value</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning of period</td>
<td>14,652</td>
</tr>
<tr>
<td>End of period</td>
<td>14,640</td>
</tr>
</tbody>
</table>

The Company and the Group have investments in the following subsidiary undertakings, which principally affected the profits or net assets of the Group. To avoid a statement of excessive length, details of investments which are not significant have been omitted.

<table>
<thead>
<tr>
<th>% of issued ordinary shares held</th>
<th>Principal activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Topalpha Limited</td>
<td>100%</td>
</tr>
<tr>
<td>Multi-Tile Limited</td>
<td>100%</td>
</tr>
</tbody>
</table>

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

13 Debtors

<table>
<thead>
<tr>
<th>Accounts</th>
<th>Group</th>
<th>Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>£’000</td>
<td>£’000</td>
<td>£’000</td>
</tr>
<tr>
<td>Amounts falling due within one year:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade debtors</td>
<td>773</td>
<td>619</td>
</tr>
<tr>
<td>Amounts owed by subsidiary undertakings</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other debtors</td>
<td>1,515</td>
<td>2,473</td>
</tr>
<tr>
<td>Prepayments and accrued income</td>
<td>1,514</td>
<td>1,586</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3,802</strong></td>
<td><strong>4,678</strong></td>
</tr>
</tbody>
</table>
### Creditors: Amounts falling due within one year

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£’000</td>
<td>£’000</td>
<td>£’000</td>
<td>£’000</td>
</tr>
<tr>
<td>Obligations under hire purchase contracts</td>
<td>-</td>
<td>175</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Bank loans (note 16(c))</td>
<td>220</td>
<td>285</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Trade creditors</td>
<td>9,912</td>
<td>10,799</td>
<td>25</td>
<td>19</td>
</tr>
<tr>
<td>Other creditors</td>
<td>1,555</td>
<td>3,235</td>
<td>6</td>
<td>2,083</td>
</tr>
<tr>
<td>Corporation tax</td>
<td>1,847</td>
<td>1,488</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Proposed dividend</td>
<td>2,609</td>
<td>1,725</td>
<td>2,609</td>
<td>1,725</td>
</tr>
<tr>
<td>Accruals and deferred income</td>
<td>1,792</td>
<td>1,000</td>
<td>131</td>
<td>24</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>17,935</strong></td>
<td><strong>18,707</strong></td>
<td><strong>2,777</strong></td>
<td><strong>3,858</strong></td>
</tr>
</tbody>
</table>

### Creditors: Amounts falling due after more than one year

<table>
<thead>
<tr>
<th></th>
<th>Group 2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£’000</td>
<td>£’000</td>
</tr>
<tr>
<td>Obligations under hire purchase contracts</td>
<td>-</td>
<td>9</td>
</tr>
<tr>
<td>Bank loans (note 16(c))</td>
<td>526</td>
<td>2,437</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>526</strong></td>
<td><strong>2,446</strong></td>
</tr>
</tbody>
</table>
16 Derivatives and other financial instruments
The Group holds financial instruments to finance its operations, and to manage interest rate and currency risks arising from its operations.

Consequently the main risks arising from the Group’s operations are liquidity risk, interest rate risk and currency risk.

Liquidity risk
The Group’s objective is to maintain continuity of funding through the use of retained profits and medium to long term borrowings. The maturity profile of the Group’s borrowings are detailed in section (c) of this note.

Interest rate risk
The Group’s objective is to manage the exposure to interest rate fluctuations whilst trying to minimise the cost of capital of the Group. Given the recent underlying downward trend in long term interest rates, the board has chosen not to adopt any fixed rates, as it believes that interest rates will continue to fall in the foreseeable future.

Currency risk
The Group has transactional currency exposures which arise from purchases by subsidiary undertakings in currencies other than the functional currency of the Group. The Group’s policy is to periodically use forward contracts to hedge those transactions to eliminate any significant currency exposure. The frequency and amount hedged is decided by the board and depends upon the magnitude of the exposure and volatility of the currency involved.

The numerical disclosures in this note deal with financial assets and financial liabilities as defined in Financial Reporting Standard 13 “Derivatives and other financial instruments: Disclosures” (FRS 13). Certain financial assets such as investments in subsidiary and associated companies are excluded from the scope of these disclosures.

As permitted by FRS 13, short term debtors and creditors have been excluded from the disclosures, other than the currency disclosures.

a) Interest rate profile
The Group has no financial assets other than sterling cash deposits of £5,142,000 (2001 - £2,206,000) which are part of the financing arrangements of the Group. The sterling cash deposits comprise deposits placed on money market at call.
16 Derivatives and other financial instruments (continued)

a) Interest rate profile (continued)

The interest rate profile of the Group’s financial liabilities is as follows:

<table>
<thead>
<tr>
<th></th>
<th>2002 £’000</th>
<th>2001 £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Sterling - Borrowings</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loan 1</td>
<td>488</td>
<td>627</td>
</tr>
<tr>
<td>Loan 2</td>
<td>258</td>
<td>324</td>
</tr>
<tr>
<td>Loan 3</td>
<td>-</td>
<td>1,771</td>
</tr>
<tr>
<td>Total</td>
<td>746</td>
<td>2,722</td>
</tr>
</tbody>
</table>

The interest rate on floating rate financial liabilities indicates the excess over bank base rate.

Loans 1 and 2 are secured by fixed charges over the Group’s freehold property and by floating charges over all other assets of the Group.

b) Currency exposures

The table below shows the Group’s currency exposures; in other words, those transactional exposures that give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise monetary liabilities of the Group that are not denominated in the functional currency of the Group. As at 1 June 2002 these exposures were as follows:

<table>
<thead>
<tr>
<th>Net foreign currency monetary liabilities</th>
<th>2002 £’000</th>
<th>2001 £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Euro</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sterling</td>
<td>-</td>
<td>104</td>
</tr>
</tbody>
</table>

The amounts shown in the tables above take into account the effect of forward contracts entered into to manage these currency exposures.
16 Derivatives and other financial instruments (continued)

c) Maturity of financial liabilities
The maturity profile of the Group’s financial liabilities was as follows:

<table>
<thead>
<tr>
<th></th>
<th>Hire purchase contracts</th>
<th>Loans 2001</th>
<th>Loans 2002</th>
<th>Total 2001</th>
<th>Total 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>In one year or less</td>
<td>220</td>
<td>175</td>
<td>285</td>
<td>460</td>
<td></td>
</tr>
<tr>
<td>In more than one year but not more than two years</td>
<td>220</td>
<td>9</td>
<td>292</td>
<td>301</td>
<td></td>
</tr>
<tr>
<td>In more than two years but not more than five years</td>
<td>306</td>
<td>-</td>
<td>849</td>
<td>849</td>
<td></td>
</tr>
<tr>
<td>In more than five years</td>
<td>-</td>
<td>-</td>
<td>1,296</td>
<td>1,296</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>746</td>
<td>184</td>
<td>2,722</td>
<td>2,906</td>
<td></td>
</tr>
</tbody>
</table>

d) Borrowing facilities
The Group had undrawn committed borrowing facilities, in respect of which all conditions precedent had been met, as follows:

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expiring in one year or less</td>
<td>2,000</td>
<td>2,000</td>
</tr>
<tr>
<td>Expiring in more than two years</td>
<td>7,100</td>
<td>8,061</td>
</tr>
<tr>
<td>End of period</td>
<td>9,100</td>
<td>10,061</td>
</tr>
</tbody>
</table>

e) Fair values
There is no material difference between the fair value and book value of the Group’s financial assets and liabilities at either period end.

17 Provisions for liabilities and charges

<table>
<thead>
<tr>
<th></th>
<th>2002 £’000</th>
<th>2001 £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred taxation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beginning of period</td>
<td>893</td>
<td>665</td>
</tr>
<tr>
<td>Charged to profit and loss account</td>
<td>114</td>
<td>228</td>
</tr>
<tr>
<td>End of period</td>
<td>1,007</td>
<td>893</td>
</tr>
</tbody>
</table>

The deferred taxation represents a full provision for the excess of capital allowances over book depreciation of fixed assets.
18 Called-up share capital

Ordinary shares of 12.5p each:

Authorised

<table>
<thead>
<tr>
<th></th>
<th>Number of shares</th>
<th>2002</th>
<th>Number of Shares</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning and end of period</td>
<td>56,600,000</td>
<td>7,075</td>
<td>56,600,000</td>
<td>7,075</td>
</tr>
</tbody>
</table>

Alotted, called-up and fully-paid

<table>
<thead>
<tr>
<th></th>
<th>Number of shares</th>
<th>2002</th>
<th>Number of Shares</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning of period</td>
<td>44,805,018</td>
<td>5,601</td>
<td>42,476,258</td>
<td>5,309</td>
</tr>
<tr>
<td>Issued in the period</td>
<td>175,747</td>
<td>22</td>
<td>2,328,760</td>
<td>292</td>
</tr>
<tr>
<td>End of period</td>
<td>44,980,765</td>
<td>5,623</td>
<td>44,805,018</td>
<td>5,601</td>
</tr>
</tbody>
</table>

During the period, the Company allotted 175,747 (2001 - 2,328,760) ordinary shares with a nominal value of £22,000 (2001 - £292,000) under share option schemes for an aggregate cash consideration of £324,000 (2001 - £1,196,000).

19 Reserves

Group

<table>
<thead>
<tr>
<th></th>
<th>Merger reserve £’000</th>
<th>Share premium account £’000</th>
<th>Profit and loss account £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning of period</td>
<td>(399)</td>
<td>1,005</td>
<td>12,462</td>
</tr>
<tr>
<td>Premium on issue of new shares</td>
<td>-</td>
<td>302</td>
<td>-</td>
</tr>
<tr>
<td>Retained profit for the period</td>
<td>-</td>
<td>-</td>
<td>4,831</td>
</tr>
<tr>
<td>End of period</td>
<td>(399)</td>
<td>1,307</td>
<td>17,293</td>
</tr>
</tbody>
</table>

Company

<table>
<thead>
<tr>
<th></th>
<th>Special reserve £’000</th>
<th>Share premium account £’000</th>
<th>Profit and loss account £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning of period</td>
<td>14,917</td>
<td>1,005</td>
<td>1,266</td>
</tr>
<tr>
<td>Premium on issue of new shares</td>
<td>-</td>
<td>302</td>
<td>-</td>
</tr>
<tr>
<td>Retained profit for the period</td>
<td>-</td>
<td>-</td>
<td>13</td>
</tr>
<tr>
<td>End of period</td>
<td>14,917</td>
<td>1,307</td>
<td>1,279</td>
</tr>
</tbody>
</table>
## 20 Reconciliation of movements in Group equity shareholders’ funds

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£’000</td>
<td>£’000</td>
</tr>
<tr>
<td>Profit for the period</td>
<td>8,039</td>
<td>6,547</td>
</tr>
<tr>
<td>Dividends paid and proposed</td>
<td>(3,208)</td>
<td>(2,245)</td>
</tr>
<tr>
<td>Issue of shares (net of expenses)</td>
<td>324</td>
<td>1,185</td>
</tr>
<tr>
<td>Net additions to shareholders’ funds</td>
<td>5,155</td>
<td>5,487</td>
</tr>
<tr>
<td>Opening equity shareholders’ funds</td>
<td>18,669</td>
<td>13,182</td>
</tr>
<tr>
<td>Closing equity shareholders’ funds</td>
<td>23,824</td>
<td>18,669</td>
</tr>
</tbody>
</table>

## 21a) Reconciliation of operating profit to operating cash flows

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£’000</td>
<td>£’000</td>
</tr>
<tr>
<td>Operating profit</td>
<td>11,660</td>
<td>9,637</td>
</tr>
<tr>
<td>Depreciation</td>
<td>1,912</td>
<td>1,474</td>
</tr>
<tr>
<td>Profit on disposal of fixed assets</td>
<td>-</td>
<td>(344)</td>
</tr>
<tr>
<td>Goodwill amortisation</td>
<td>17</td>
<td>18</td>
</tr>
<tr>
<td>Increase in stocks</td>
<td>(1,726)</td>
<td>(1,345)</td>
</tr>
<tr>
<td>Decrease (increase) in debtors</td>
<td>338</td>
<td>(1,113)</td>
</tr>
<tr>
<td>(Decrease) increase in creditors</td>
<td>(1,775)</td>
<td>2,692</td>
</tr>
<tr>
<td>Net cash inflow from operating activities</td>
<td>10,426</td>
<td>11,019</td>
</tr>
</tbody>
</table>

## 21b) Returns on investments and servicing of finance

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£’000</td>
<td>£’000</td>
</tr>
<tr>
<td>Interest received</td>
<td>57</td>
<td>84</td>
</tr>
<tr>
<td>Interest paid</td>
<td>(213)</td>
<td>(315)</td>
</tr>
<tr>
<td>Interest element of hire purchase rentals</td>
<td>(7)</td>
<td>(14)</td>
</tr>
<tr>
<td>Net cash outflow from returns on investments and servicing of finance</td>
<td>(163)</td>
<td>(245)</td>
</tr>
</tbody>
</table>
### 21c) Capital expenditure and financial investment

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase of tangible fixed assets</td>
<td>(3,954)</td>
<td>(5,143)</td>
</tr>
<tr>
<td>Sale proceeds of tangible fixed assets</td>
<td>3,791</td>
<td>323</td>
</tr>
<tr>
<td><strong>Net cash outflow from capital expenditure and financial investment</strong></td>
<td>(163)</td>
<td>(4,820)</td>
</tr>
</tbody>
</table>

### 21d) Financing

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from issue of ordinary share capital</td>
<td>324</td>
<td>1,196</td>
</tr>
<tr>
<td>Expenses in connection with issue of share capital</td>
<td>-</td>
<td>(11)</td>
</tr>
<tr>
<td>New loans</td>
<td>-</td>
<td>603</td>
</tr>
<tr>
<td>Repayment of loans</td>
<td>(1,976)</td>
<td>(863)</td>
</tr>
<tr>
<td>Capital element of hire purchase rentals</td>
<td>(184)</td>
<td>(325)</td>
</tr>
<tr>
<td><strong>Net cash (outflow) inflow from financing</strong></td>
<td>(1,836)</td>
<td>600</td>
</tr>
</tbody>
</table>
### 21e) Analysis and reconciliation of net funds

<table>
<thead>
<tr>
<th></th>
<th>2001 £’000</th>
<th>Cashflow £’000</th>
<th>2002 £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash at bank and in hand</td>
<td>2,206</td>
<td>2,936</td>
<td>5,142</td>
</tr>
<tr>
<td>Debt due within one year</td>
<td>(285)</td>
<td>65</td>
<td>(220)</td>
</tr>
<tr>
<td>Debt due after one year</td>
<td>(2,437)</td>
<td>1,911</td>
<td>(526)</td>
</tr>
<tr>
<td>Obligations under hire purchase contracts</td>
<td>(184)</td>
<td>184</td>
<td>-</td>
</tr>
<tr>
<td><strong>Net (debt) funds</strong></td>
<td>(700)</td>
<td>5,096</td>
<td>4,396</td>
</tr>
</tbody>
</table>

#### Increase in cash in the period

<table>
<thead>
<tr>
<th></th>
<th>2002 £’000</th>
<th>2001 £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Increase in cash in the period</strong></td>
<td>2,936</td>
<td>1,771</td>
</tr>
<tr>
<td>Cash outflow from decrease in debt and hire purchase contracts</td>
<td>2,160</td>
<td>585</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2002 £’000</th>
<th>2001 £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in net funds from cash flows</td>
<td>5,096</td>
<td>2,356</td>
</tr>
<tr>
<td>New hire purchase contracts</td>
<td>-</td>
<td>(234)</td>
</tr>
</tbody>
</table>

**Movement in net funds in the period**

<table>
<thead>
<tr>
<th></th>
<th>2002 £’000</th>
<th>2001 £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Movement in net funds in the period</strong></td>
<td>5,096</td>
<td>2,122</td>
</tr>
<tr>
<td>Net debt start of period</td>
<td>(700)</td>
<td>(2,822)</td>
</tr>
</tbody>
</table>

**Net funds (debt) end of period**

<table>
<thead>
<tr>
<th></th>
<th>2002 £’000</th>
<th>2001 £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net funds (debt) end of period</strong></td>
<td>4,396</td>
<td>(700)</td>
</tr>
</tbody>
</table>
22 Financial commitments

a) Capital commitments
At the end of the period there were no capital commitments contracted but not provided for (2001 - £Nil).

b) Pension arrangements
The Group operates separate defined contribution pension schemes for employees and directors. 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 £169,000 (2001 - £129,000).

c) Lease commitments
Annual commitments under non-cancellable operating leases are as follows:

<table>
<thead>
<tr>
<th>Group</th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Land and buildings</td>
<td>Other</td>
</tr>
<tr>
<td></td>
<td>£'000</td>
<td>£'000</td>
</tr>
<tr>
<td>Operating leases which expire:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- within one year</td>
<td>837</td>
<td>103</td>
</tr>
<tr>
<td>- between two and five years</td>
<td>1,389</td>
<td>287</td>
</tr>
<tr>
<td>- after five years</td>
<td>5,913</td>
<td>22</td>
</tr>
<tr>
<td></td>
<td>8,139</td>
<td>412</td>
</tr>
</tbody>
</table>

23 Post balance sheet events
On 10 June 2002 the Company acquired 50% of the ordinary shares in Topps Holding BV for a cash consideration of £493,000.
FIVE YEAR RECORD
1 June 2002

<table>
<thead>
<tr>
<th></th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover (£’000)</td>
<td>31,274</td>
<td>42,996</td>
<td>62,614</td>
<td>74,642</td>
<td>91,026</td>
</tr>
<tr>
<td>Operating profit</td>
<td>4,282</td>
<td>6,091</td>
<td>8,249</td>
<td>9,637</td>
<td>11,660</td>
</tr>
<tr>
<td>Profit before taxation</td>
<td>4,127</td>
<td>5,828</td>
<td>8,018</td>
<td>9,414</td>
<td>11,516</td>
</tr>
<tr>
<td>Shareholders’ funds</td>
<td>4,166</td>
<td>9,338</td>
<td>13,182</td>
<td>18,669</td>
<td>23,824</td>
</tr>
<tr>
<td>Basic earnings per share(^1)</td>
<td>7.1p</td>
<td>9.9p</td>
<td>13.1p</td>
<td>14.8p</td>
<td>17.9p</td>
</tr>
<tr>
<td>Dividend per share(^1)</td>
<td>2.40p</td>
<td>3.20p</td>
<td>4.30p</td>
<td>5.00p</td>
<td>7.15p</td>
</tr>
<tr>
<td>Dividend cover</td>
<td>3.0</td>
<td>3.0</td>
<td>3.0</td>
<td>2.9</td>
<td>2.5</td>
</tr>
<tr>
<td>Average number of employees</td>
<td>397</td>
<td>585</td>
<td>779</td>
<td>941</td>
<td>1,070</td>
</tr>
<tr>
<td>Share price (period end)(^1)</td>
<td>193p</td>
<td>212p</td>
<td>271p</td>
<td>330p</td>
<td>274p</td>
</tr>
</tbody>
</table>

Notes
1. Adjusted for subdivision of share capital.
NOTICE IS HEREBY GIVEN that the Annual General Meeting of Topps Tiles Plc (the “Company”) will be held at Unit D, Mortimer Road Industrial Estate, Narborough, Leicester, LE9 5GA on 8 October 2002 at 10.30am for the following purposes:

**Ordinary Business**
1. to receive and adopt the report of the directors and the financial statements for the period ended 1 June 2002 and the report of the auditors thereon;
2. to declare a final dividend of 5.80 pence per ordinary share on the ordinary shares for the period;
3. to re-elect Barry Bester as a director of the Company;
4. to re-elect Andrew Liggett as a director of the Company;
5. to re-elect Rt. Hon Michael Jack as a director of the Company;
6. to re-elect Victor Watson as a director of the Company;
7. to appoint Deloitte & Touche as auditors and to authorise the directors to fix their remuneration;

**Special Business**
To consider and, if thought fit, pass the resolutions set out below which, in the case of Resolutions 8 and 9 will be proposed as Ordinary Resolutions and, in the case of Resolutions 10 and 11, will be proposed as Special Resolutions:

8. THAT the authorised share capital of the Company be increased from £7,075,000 to £8,000,000 by the creation of 7,400,000 new ordinary shares of 12.5 pence each, such shares having the rights and privileges and being subject to the restrictions as set out in the Articles of Association of the Company.

9. THAT the directors be and they are generally and unconditionally authorised for the purposes of and pursuant to section 80(1) of the Companies Act 1985 (the "Act") to exercise all the powers of the Company to allot relevant securities (as defined in section 80(2) of the Act) up to an aggregate nominal amount of £1,874,198.50 provided that this authority shall expire 5 years from the date of the passing of this resolution (unless previously revoked, varied or extended by the Company in general meeting) save that the Company may, before such expiry, make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities pursuant to any such offer or agreement as if the authority conferred hereby had not expired and so that this authority shall be in substitution for all previous authorities conferred upon the directors pursuant to section 80 of the Act but without prejudice to the allotment of any relevant securities already made or to be made pursuant to such authorities.
10. THAT subject to and conditional on the passing of Resolution 9 set out above, the directors be and they are empowered, pursuant to Section 95 of the Act, to allot equity securities (as defined in section 94 of the Act) for cash pursuant to the authority conferred by Resolution 9 above (as varied from time to time by the Company in general meeting) as if section 89(1) of the Act did not apply to any such allotment provided that this power shall be limited to:

a) the allotment of equity securities in connection with a rights issue; and

b) the allotment (otherwise pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal amount of £281,130,

and shall expire on the earlier of the conclusion of the next Annual General Meeting of the Company and the date falling 15 months after the date of the passing of this resolution (unless previously revoked, varied or extended by the Company in general meeting), except that the Company may before the expiry of any power contained in this resolution make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred by this Resolution had not expired.

In this resolution 9

(a) “rights issue” means an offer of equity securities open for acceptance for a period fixed by the directors to holders of ordinary shares on the register on a fixed record date in proportion to their respective holdings of such shares or in accordance with the rights attached to them (but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or in relation to legal or practical problems under the laws of, or the requirements of any regulatory body or any stock exchange in any territory);

(b) the nominal amount of any securities should be taken to be, in the case of a right to subscribe for or convert any securities into shares of the Company, the nominal amount of the shares which may be allotted pursuant to such right; and

(c) words of expressions defined in or for the purposes of sections 89-96 inclusive of the Act shall bear the same meanings.

11. THAT the Company be generally and unconditionally authorised to make market purchases (within the meaning of section 163(3) of the Act) of its own ordinary shares of 12.5p each in the capital of the Company (“ordinary shares”) provided that:

(a) the maximum number of ordinary shares hereby authorised to be purchased is 4,947,884;

(b) the minimum price, exclusive of any expenses, which may be paid for an ordinary share is 12.5p;

(c) the maximum price, exclusive of any expenses, which may be paid for an ordinary share is an amount equal to 105 per cent of the average of the middle market quotations for an ordinary share derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the date on which such ordinary share is contracted to be purchased;
(d) the authority hereby conferred shall expire on the earlier of 7 April 2004 and the close of the next Annual General Meeting of the Company;

(e) the Company may make a contract for the purchase of ordinary shares under this authority before the expiry of this authority which would or might require to be executed wholly or partly after the expiry of such authority, and may make purchases of ordinary shares in pursuance of such a contract as if such authority had not expired.

Notes

(i) This notice has been sent to all ordinary shareholders who are entitled to attend or be represented at the meeting.

(ii) A member entitled to attend and vote at the AGM may appoint a proxy or proxies to attend on a poll vote and, on a poll, vote on his or her behalf. A proxy need not be a member of the Company. To be valid, a form of proxy and any power or authority under which it is signed, must be lodged with the Company’s Registrars, Capita IRG Plc, Balfour House, 390/398 High Road, Ilford, Essex, IG1 1BR, no later than 48 hours before the time of the AGM.

(iii) A proxy is not entitled to speak at the meeting except to demand a poll, and may vote only when a poll is taken.

(iv) A form of proxy is enclosed and instructions for use are shown on the form. The fact that shareholders may have completed forms of proxy will not prevent them from attending and voting in person should they afterwards decide to do so.

(v) As permitted by Regulation 41 of the Uncertified Securities Regulations 2001, only those shareholders who are registered on the Company’s share register at 8.00am on 7 October 2002 shall be entitled to attend the AGM and to vote in respect of the number of shares registered in their names at that time. Changes to entries on the share register after 8.00am on 7 October 2002 shall be disregarded in determining the rights of any person to attend and/or vote at the AGM.

(vi) The following documents are available for inspection by members of the registered office of the Company on weekdays (except Bank Holidays) during the normal business hours and at the place of the meeting but not less than 15 minutes prior to and during the meeting:-

(a) the register of directors’ interests required to be kept under section 325 of the Act; and

(b) copies of the directors’ service contracts.

Andrew Liggett
Secretary
22 July 2002

Registered Office:
Rushworth House
Wilmslow Road
Handforth
Wilmslow
Cheshire SK9 3HJ
Registered No. 3213782
EXPLANATORY NOTES TO THE NOTICE OF ANNUAL GENERAL MEETING

The Annual General Meeting of the Company this year will be held at the Company’s premises at Unit D, Mortimer Road Industrial Estate, Narborough, Leicester, LE9 5GA, on 8 October 2002 at 10.30am.

Four of the resolutions are to be taken at this year’s AGM as special business. By way of explanation of these and certain of the other resolutions:

**Resolution 2 – Final Dividend**
A final dividend of 5.80p per ordinary share is recommended by the directors for payment to shareholders on the register of members of the Company at the close of business on 4 October 2002. Subject to approval by the ordinary shareholders at the AGM, the dividend will be paid on 1st November 2002. An interim dividend of 1.35p per ordinary share was paid on 28th February 2002.

**Resolutions 3, 4, 5 and 6 – Re-election of Directors**
Barry Bester, Andrew Liggett, Rt. Hon Michael Jack and Victor Watson are the directors retiring by rotation this year and they offer themselves for re-election. All members of the board of directors submit themselves for re-election at least every 3 years with the exception of Victor Watson who at the age of 73 retires and offers himself for re-election annually. Brief biographical details about the directors standing for re-election appear on page 21 of the annual report and financial statements.

**Resolution 7 – Appointment of Auditors**
In the UK, an agreement for the partners and personnel of the Company’s existing auditor, Arthur Andersen, to join Deloitte & Touche has recently been concluded. As a consequence of this, the board has concluded that it is now appropriate to propose a resolution at the AGM to appoint Deloitte & Touche as auditors to the Group for the ensuing year in place of Arthur Andersen and to authorise the directors to fix their remuneration.

**Resolutions 8, 9 and 10 – Increase of Authorised Share Capital, Appointment of Authority to Issue Shares and the Dis-application of Statutory Rights of Pre-emption**
In order to ensure that the authorised share capital of the Company is sufficient to cover the number of shares it is proposed by resolution 9 to authorise the directors to allot, it will be necessary to increase the current authorised share capital of £7,075,000 to £8,000,000 by the creation of 7,400,000 new ordinary shares. The increase in authorised share capital of the Company proposed by Resolution 8 presents an increase of just over 13%.

The right of the directors to allot further shares in the capital of the Company requires in most cases the prior authorisation of the shareholders in general meeting under section 80 of the Companies Act 1985 (“the Act”). Resolution 9 will be put to members as special business to authorise the directors to allot ordinary shares with a nominal value of £1,874,198.50 out of the Company’s unissued share capital representing approximately 33.3% of the Company’s current issued share capital.

The current issued share capital of the Company, is 44,980,765 ordinary shares which differs from that set out in the Annual Report for 2001 by the amount of 175,747 ordinary shares. This is a result of the issue of shares pursuant to options exercised under the Company’s share option schemes during the course of the year. The authority shall expire five years from the date of passing this resolution.
Resolution 10 will seek to obtain power under section 95 of the Act to enable the directors to allot, for cash, shares with an aggregate nominal value of £281,130 equal to approximately 5% of the Company’s current issued share capital without being required first to offer such securities to existing shareholders. The Company will thereby be given greater flexibility when considering future opportunities but the interests of existing shareholders will be protected as, except in the case of a rights issue or the allotment of shares under the Company’s share option schemes, the proportionate interests of shareholders cannot, without their consent, be reduced by the issue for cash of new shares representing more than 5% of the current issued share capital. Save for the issue of shares pursuant to options granted under the Company’s share option schemes, the directors have no present intention to allot any part of the unissued share capital of the Company or, without the prior approval of the Company in general meeting, to make any issue which would effectively alter the control of the Company or the nature of its business. This authority will expire immediately following the AGM next following the resolution or, if earlier, 15 months following the resolution being passed.

Resolution 11 – Authority to Purchase Ordinary Shares
At the AGM, ordinary shareholders are being invited under resolution 11 to grant authority to the Company to make market purchases of its ordinary shares. It is proposed such authority shall expire on 7 April 2004 or if earlier the conclusion of the AGM to be held in 2004.

This authority will be limited to the purchase of not more than 11% of the ordinary shares currently in issue. This is less than the maximum of 14.9% of the ordinary share capital currently in issue which is permitted before a tender or partial offer to all shareholders is required to be made to perform any share buy-back. The maximum price payable under this authority will be 105% of the average of the middle market quotations of an ordinary share for the five business days before the relevant purchase and the minimum price will be 12.5p per ordinary share.

The directors have no current intention of exercising the authority to purchase the Company’s own shares. In considering whether or not to purchase ordinary shares under the market purchase authority, the directors will take into account cash resources, the effect on gearing and other investment opportunities before exercising the authority. In addition, the Company will only exercise the authority to make such a purchase in the market when the directors consider it is in the best interests of the shareholders generally to do so and it should result in an increase in earnings per ordinary share.

As at 22 July 2002, there were options to subscribe for 2,150,228 equity shares outstanding under various schemes representing approximately 4.78% of the current issued share capital of the Company. If the authority sought by resolution 11 was exercised in full, the number of outstanding options would represent approximately 5.37% of the issued share capital following the repurchase of shares.
THE TEAM

People are our business...
Our aim is to achieve consistent high levels of customer service and this is reflected by the commitment shown by all our employees.

Aamer Hameed
Aaron Bloomfield
Abdulkadir Kulmie
Adam Coates
Adam Elden
Adam Hughes
Adam Laidlaw
Adam Lucas
Adam McVinnie
Adam Mills
Adam Osborn
Adam Shewan
Adam Taylor
Adam Thompson
Adrian McCourt
Adrian McGothigan
Adrian Munday
Adrian Pickup
Adrian Wild
Aidan Ward
Aileen Crossley
Ajit Ashani
Akommil Ali
Alan Abbott
Alan Allsopp
Alan Clark

Andrew Anthony
Andrew Bosley
Andrew Bradshaw
Andrew Carlisle
Andrew Clay
Andrew Collins
Andrew Curtis
Andrew Endersby
Andrew Faulkner
Andrew Hampshire-Bird
Andrew Hanson
Andrew Hill
Andrew Jones
Andrew Keirle
Andrew Lidgett
Andrew McLaurin
Andrew Monks
Andrew Moore
Andrew Moore
Andrew Parnell
Andrew Press
Andrew Smith
Andrew Thomas
Andrew Ward
Andrew Waterfield
Andrew Williams
Andrew Willis
Andrew Withers
Angela Harrison
Angela Tremelling
Anita Parsfield
Ankur Jindal
Anna Timney
Anne Day
Anne Lloyd
Anne McCabe
Anne Stevens

Annette Harris
Anthony Christopher
Anthony Cottrell
Anthony Cox
Anthony Eaton
Anthony Gilbert
Anthony Grimshaw
Anthony Houghton
Anthony Kerr
Anthony Linsell
Anthony Matthews
Anthony Molyneux
Anthony Moulds
Anthony Warner
Antony Beazer
Antony Plant
Antony Zawadski
Arnold Harrison
Ashley Flint
Ashley Jordan
Ashley O'Loughlin
Asvin Shah
Augustus Slater
Barbara Dormer
Barbara Edge
Barrie Taylor
Barry Best
Barry Price
Barry Squires
Ben Armitage
Ben English
Ben Fielding
Ben Fitzgerald
Ben Henfrey
Ben Whiting
Ben Woollins
Benjamin Andrews

Benjamin Cripps
Benjamin Hammond
Benjamin Marland
Benjamin Mills
Benjamin Rowlands
Bernard Cope
Bertil Boyles
Brad Crosthwaite
Brant Wells
Brenda Bowles
Brendan Lumb
Brendan Roberts
Brendon Williams
Brett Hall
Brian Adams
Brian Dewey
Brian Fisher
Brian Glover
Brian Henderson
Brian Richards
Brian Young
Bruce Fielding
Bryan Hartley
Byron Coles
Carina Lowe
Carl Bebbington
Carl Bradbury
Carl Dicks
Carl Dyke
Carl Fraser
Carl Kerr
Carl Sheppard
Carl Towey
Carol Lakin
Carol Sudlow
Caroline Bennett
Caroline Gordon
THE TEAM (CONTINUED)

Geoffrey Toms
Geoffrey Webster
George Wilson
Geraldine Plumptree
Gerard Duffy
Gerard Mallon
Gerry Lazaro
Gerry West
Gillian Grace
Gillian Gray
Glenis Shirley
Glen Fordyce
Glyn Draycott
Glyn Rogers
Gordon Dwyer
Gordon Kerr
Graham Brophy
Graham Chapman
Graham White
Gregg Wall
Gurjinder Rai

Ian Bloomfield
Ian Chance
Ian Fairfield
Ian Hobson
Ian Jones
Ian Jones
Ian Lightowlers
Ian Marshall
Ian Mathers
Ian McInteer
Ian McLean
Ian McNamara
Ian Mathers
Ian McInteer
Ian McLean
Ian McNamara
Ian Pennington
Ian Reavely
Ian Smith
Ian Wintertburn
Imran Ashraf
Imran Khan
Inderjeet Jutlay
Irfan Razaq
Ivan Frampton
Ivar Jensen
Jacqueline Byrne
Jacqueline MacGillivrath
Jagadesh Varsani
Jaimie Evans
James Allington
James Bott
James Carpenter
James Coles
James Eastham
James Edge
James Edwards
James Gaving
James Gentleman
James Hardy
James Hazeltine
James Koroma
James Maggs
James Manders
James Mcguigan
James Mercer
James Metcalf
James Moores
James Myatt
James Paterson
James Patson
James Phipps
James Richards
James Robertson
James Ryder
James Sawyer
Jamie Bannister
Jamie Brewer
Jamie Turner
Jamie Wilkie
Jane Ladow
Janet Burgess
Janet Lockyer
Janet Riley
Janice Millett
Jasbinder Pal
Jason Collins
Jason Doe
Jason Evans
Jason Hewan
Jason Marlow
Jason Martin
Jason Meadows
Jason Moore
Jason Morley
Jason Pratt
Jason Schofield
Jason Smith
Javeed Parkar
Jawed Iqbal
Jayantilal Patel
Jayawthe Weerasinge
Jayesh Dhokia
Jayesh Kalidas
Jayson Warden
Jennifer Donlan
Jenny Seabrook
Jeremy Harris
Jessica Merryweather
Jeten Varsani
Jethu Miah
Jitinder Bhatowa
Joanne Smith
Jodie Smith
Jody Donald
Joe Cox
Joe Lucas
Johanna Asher
John Anderson
John Coles
John Collier
John Darcey
John Daulton
John Davidson
John Davies
John Doodson
John Douglas
John Forden
John Gallagher
John Herr
John Hickey
John Kelleher
John Kent
John Killicoat
John MacRae
John McKenna
John Moat
John Reilly
John Russell
John Smith
John Smith
John Stanton
John Sutton
John Thompson
John Tyrrell
Johnathon Cox
Jon Oliver
Jon Potts
Jon Utah
Jonathan Coombs
Jonathan Hargreaves
Jonathan Kirtley
Jonathan Pilling
Jonathan Whitehead
Jonathan Clapton
Jonathon Parmenter
Jonathon Perkins
Jonathon Sheerin
Joseph Bentley
Joseph Quinn
Josephine Hilldrup
Joyce Davies
Judy Prescott
Juginder Gill
Juile Moorhead
Julian Lloyd
Julian Tulk
Julie Cox
Julianne Addinall
Justin Roberts
Kalpesh Shah
Karen Lakin
Karen March
Karen Nicholson
Karen Pritchard
Karen Ross
Karen Sutcliffe
Karl Brooks
Karl Creese
Karl Cumberbatch
Karl Jackson
Karl Madge
Karl Robbins-Mones
Karl Sisson
Karl Vallance
Karl Winship
Kate Harvey
Kathryn Bell
Kathryn Robinson
Kathryn Rowley
Katie Howe
Katrina Pennington
Keiron Birch
Keith Dooley
Keith Earl
Keith Rudkin
Kelly Ellison
Kelly Evans
THE TEAM (CONTINUED)

Neil Curtis
Neil Hendy
Neil Homan
Neil Kelly
Neil Ketnor
Neil McQuire
Neil Potkin
Neil Worthington
Neville Howgate
Nicholas Bradshaw
Nicholas Carter
Nicholas Deary
Nicholas Lawrence
Nicholas Ounstead
Nicholas Salisbury-Jones
Nicholas Withers
Nicola Acres
Nicola Dearden
Nicola West
Nicolas Wassell
Nigel Barugh
Nigel Bayliss
Nigel Fleming
Nigel Slaughter
Nikki Brown
Nikolai Nikoloff
Nilesh Dahya
Nina Abbotts
Nita Blackwell
Nitesh Dhokia

Okan Ozgu
Owen Rawlinson

Pamela Brydon
Patricia Croft
Patricia Squires

Patricia Walker
Patrick McLaughlin
Paul Anderson
Paul Bainbridge
Paul Bourne
Paul Burkett
Paul Carter
Paul Chapman
Paul Coffey
Paul Collins
Paul Copeland
Paul Cunliffe
Paul Danbury
Paul Daubney
Paul Davies
Paul Davis
Paul Ferguson
Paul Gatehouse
Paul Gill
Paul Glover
Paul Griffiths
Paul Groombridge
Paul Halliwell
Paul Hammond
Paul Irving
Paul Kemp
Paul Lathrope
Paul Laverty
Paul Leafor
Paul Liggett
Paul Marlow
Paul Martin
Paul McCullock
Paul Nicholls
Paul Peacock
Paul Pratley
Paul Revell
Paul Robinson
Paul Ruddle
Paul Savage
Paul Sutton
Paul Thornecroft
Paul Williams
Paul Williams
Paul Woolnough
Paul Wright
Paula Budsworth
Pauline Grenfell
Penny Hook
Peter Byrne
Peter Charters
Peter Davey
Peter Davidson
Peter Fallows
Peter Johnson
Peter Manning
Peter Smith
Peter Sumner
Peter Wright
Phil Peacock
Philip Hawkeswood
Philip Kelly
Philip Maher
Philip McCarney
Philip Meakin
Philip Tomlin
Phillip Dunn
Phillip Fitz gibbons
Phillip Hunt
Phillip Johnstone
Pratik Narayan
Pratik Parekh
Pritum Assani
Raj Surani
Rajan Mehta
Rajiv Vadgama
Rebecca Bailey
Rebecca Jacques
Rebecca Oblein
Reedwan Desai
Rex Ogden
Rhonda Partridge
Richard Ball
Richard Barnes
Richard Beckham
Richard Bickers
Richard Brookfield
Richard Carter
Richard Clark
Richard Diedrick
Richard Gallagher
Richard Hamblen
Richard Harris
Richard Homan
Richard Hutcheson
Richard Lee
Richard Mauto
Richard Scott
Richard Smallman
Richard Smith
Richard Whitmore
Ricky Ship
Ricky Stevens
Robert Bellenie
Robert Cairns
Robert Carvey
Robert Cruickshank
Robert Davis
Robert Dock
Robert Exley
Robert Hadley
Robert Hodgson
Robert Moss
Robert Myers
Robert Rayner
Robert Tenn
Robert Trigg
Robert Waldon
Robert Wright
Roberto Di-Leva
Robin Holt
Rodney Sanders
Roger Bailey
Ronald Daniels
Ronald Emmanuel
Ronald George
Ronald Perrott
Rory McGoldrick
Rosina Taylor
Roy Haddon
Roy Harlow
Roy Peasland
Russell Adgey
Ryan Mark
Ryan Mason
Sagren Naidoo
Sam Jandu
Samantha Cato
Samantha Sayer
Samuel Wray
Sandra Lloyd - Hughes
Sandra Robinson
Sanel Sahbaz
Sarah Earthey
Sarah Jones
Sarah Pimm
Sarah Ratcliffe
Satyan Meisuria
Schumone Groener
Scott Arundell
Scott Cockle
Scott Hickman
Scott Humphston
Scott Meadows
Scott Picken
Scott Porter
Scott Slaughter
Scott Smith
Scott Walker
Scott Williams
Sean Mcclafferty
Sean Wixen
Sebastean Fender
Shahid Mahmood
Shane Billson
Shane Malone
Shane Wood
Shanor Ali
Sharon Muir
Shaun Butcher
Shaun Hayes
Sheila Robertson
Sheila Whetton
Sherief Madkour Aly
Shirley Girdler
Simon Benn
Simon Dover
Russell Adgey
Simon Farr
Simon Fullaway
Simon Green
CROYDON

DAGENHAM

EDMONTON

FULHAM*

GATWICK

GUNNERSBURY

HARLOW

HARLOW

ILFORD

MAIDSTONE

MITCHAM

NEW SOUTHGATE

NEWBURY

OLD KENT ROAD

ORPINGTON*

PENGE

RAYNES PARK

READING

ROMFORD

SOUTHALL

SOUTHAMPTON

SOUTHEND

STAMFORD HILL

SWINDON

TONBRIDGE

TUNBRIDGE WELLS

TWICKENHAM*

UXBRIDGE

VAUXHALL

WATFORD

WEMBLEY

NORTH WEST

AINTREE

BLACKBURN

BLACKPOOL

BOLTON

CHEADLE

CHESTER

CHESTER 2

CLEVELEYS

CREWE

FAILSWORTH

LIVERPOOL*

MACCLESFIELD

MORECAMBE

OLDHAM

PRESTON

SALE

SALFORD

SNAPE (AUDENSHAW)

ST HELENS

STOCKPORT

WARRINGTON

WIDNES

WIGAN

NORTH

BARRINGTON

CASTLEFORD

DURHAM*

GATESHEAD

HARROGATE

HUDDERSFIELD

LEEDS

STOCKTON

SUNDERLAND

TYNE SIDE

WAKEFIELD

YORK

SCOTLAND

ABERDEEN

EDINBURGH

FALKIRK*

GREENOCK

HILLINGTON

INVERNESS

LINWOOD

PERTH

RUTHERGLEN

WISHAW

SOUTH WEST

BARNSTAPLE

BASINGSTOKE*

BRISTOL

CARDIFF

CHELTENHAM

CHRISTCHURCH

CRIBBS CAUSEWAY*

EXETER

GLoucester

NEWPORT

PLYMOUTH*

POOLE

SOUTH WALES

SWANSEA

TAUNTON

WESTON SUPER MARE

WINCHESTER*

YEALM*

OVERSEAS

HOLLAND*


Stores at beginning of period 121
New stores 19
Total 140
Closures (1)
Stores at end of period 139

*New store 2001/2002
**CENTRAL REGION**
- Cambridge
- Coventry
- Fenton
- Great Barr
- Leicester
- Milton Keynes*
- Nottingham
- Peterborough
- Stoke on Trent
- Worcester

**NORTH**
- Darlington
- Doncaster
- Hull
- Leeds
- Sheffield

**SOUTH WEST**
- Bournemouth*
- Bridgend
- Exeter

**LONDON AND THAMES SOUTH**
- Charlton
- Farnborough*
- New Southgate
- Orpington
- Swindon
- Waltham Cross*
- Wembley

**NORTH WEST**
- Bolton*
- Crosby
- Oldham
- Preston
- Stockport
- Wigan*

**SCOTLAND**
- Aberdeen*

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**Stores at beginning of period**: 26
**New stores**: 7

**Total**: 33

**Closures**: (1)

**Stores at end of period**: 32

*New store 2001/2002*