MEASURING UP...

TOPPS TILES PLC
Report and Financial Statements 2003
Topps Tiles is by far the UK’s biggest specialist ceramic tile group. We continue to grow strongly and enjoy a dominant position in an expanding market sector.
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We are delighted to report another period of significant growth. The Group continues to grow strongly, with more stores opened, a growing brand awareness and a strong performance by staff which have combined to continue to drive the business forward.
The Group has continued to deliver excellent results across all areas

16 months results to 27 September 2003

- Group turnover increased by 22.4%* to £152.21m
- Group gross margin increased to 57.5% (2002: 56.4%*)
- Operating costs decreased as a % of Group turnover to 42.3% (2002: 43.3%*)
- Profit before tax increased by over 45%* to £23.55m
- Net margin 15.5% (2002: 13.0%*)
- Basic earnings per share increased by over 45% to 36.4 pence (2002: 25.1* pence)
- Dividend policy changed to 1.67 times cover from 2.5 times cover at 1 June 2002
- A final net dividend of 15.40 pence per share to be paid on 2 February 2004
- The full period dividend of 21.75 pence per share is an increase of over 200%
- Net Cash position of £15.158m
- Net 25 new stores opened
- 8 stores now trading in Holland

*Comparatives are made to the unaudited information for 16 months ended 28 September 2002. (See Profit and Loss Account)
MEASURING UP...

the Group at a glance

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

Operating from 160 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.

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 lines, 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 2003, the number of stores increased from 32 to 36.
Service has always been our top priority at Topps Tiles Plc - we’re here to help our customers, our loyal staff who help make us the UK’s largest ceramic tile group, 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 1,300 staff across the Group. We encourage participation in the Group’s success through our employee share option schemes. We also incentivise staff through store bonus schemes, which this period has generated over £5.4 million in profit sharing for staff.

SERVING OUR SHAREHOLDERS
Since the Group was listed on the London Stock Exchange in 1997, basic earnings per share has consistently grown from 4.2p in 1997 to 36.4p in 2003.
MEASURING UP...

to our business and financial objectives

We now trade from 196 stores throughout Britain and from 8 stores in Holland with our joint venture partner.
RESULTS
We are delighted to report another excellent period of trading for Topps Tiles Plc with record profits and increased UK market share. We are becoming a market-leading brand with a now established national media presence and higher levels of customer awareness.

Group turnover has increased by 22.4% over the 16 month period ended 28 September 2002 to £152.21 million with profit before tax increasing by over 45% to £23.55 million.

The Group has now achieved double digit growth in both sales and profit before tax in every period since its public listing in June 1997.

A growth of 14.3% in like for like sales was recorded for the 16 month period demonstrating the underlying strength of the ceramic tile and laminate and wood flooring markets.

We are delighted to report another excellent period of trading for Topps Tiles Plc with record profits and increased UK market share. We are becoming a market-leading brand with a now established national media presence and higher levels of customer awareness.

Our Balance Sheet remains robust with net assets of £30.82 million (1 June 2002: £23.82 million) and net cash balances of £15.16 million.

The Group continues to be cash generative even though we continue to significantly invest in new store openings and the refurbishment of older stores.

DIVIDEND
The Board is recommending a final dividend of 15.40 pence per share, which together with the interim dividends of 6.35 pence per share, brings the total dividend for the period to 21.75 pence per share, an increase of 204% compared to the 12 month period to 1 June 2002. This reflects the change of dividend cover policy from 2.5 times to 1.67 times cover. The dividend will be paid on 2 February 2004 to all shareholders on the register as at 9 January 2004.

LONG-TERM INCENTIVE PLAN (L-TIP)
The Board recognises the need to maintain long-term improvement in the performance of the Group and considers that this can be best achieved by implementing a long-term incentive plan for its senior employees that delivers value directly related to the Group financial results. Accordingly the Board proposes to introduce the Topps Tiles Plc 2003 Executive Long-Term Incentive Plan (the “Plan”) and seeks shareholders’ approval to adopt the Plan in Resolution 7 of the A.G.M.

PEOPLE
The Board, as always, wishes to thank all staff for their tremendous efforts, enthusiasm and loyalty which has been reflected in the performance of the Group.

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

We remain confident that we can continue to grow the business and deliver further strong financial performances.

Barry Bester,
Executive
Co-Chairman

Stuart Williams,
Executive
Co-Chairman
MEASURING UP...

business objectives

Our strategy remains simple.
To provide excellent value, and service to our customers whilst delivering profitable growth for our shareholders.

The Group has made significant progress this financial period opening a net 25 new stores (19 Topps and 6 Tile Clearing House) giving an overall total of 196 trading stores (160 Topps and 36 Tile Clearing House). We have re-fitted 22 outlets along with 14 Floorstores and 58 Tile Studios which offer enhanced ranges of products on a special order basis and further strengthens our position as the UK’s largest ceramic tile specialist.

Our strategy remains simple, to provide excellent value, and service to our customers whilst delivering profitable growth for our shareholders.

Gross margin continued to improve and was up from 56.4%* to 57.5% and has increased more than eight percentage points over the last six financial periods. With an increasing mix of products being supplied through our own warehouse, and the benefit of lower cost sources from outside the EU feeding into the business, we believe gross margin should continue to move forward.

In April the Group completed a deal to acquire a purpose built warehouse facility in close proximity to the current facilities in Leicestershire. This will be operationally available in early 2004 and will give the business the additional warehousing and distribution capacity it requires to achieve its stated store target of 250 ‘Topps’ and 100 ‘TCH’.

On 10 June 2002 the Group entered into a joint venture with a Dutch management team. We now have a total of eight stores trading in Holland under the 50/50 joint venture including two new stores opened in the period. Tiles have now been fully introduced into the wood flooring stores and wood into our original tile only store in Sleidrecht. We are now seeing the benefits of the long experience our Dutch co-investor has in the laminate and wood market feeding through into Group margins.

* Same period last year figures relate to the 16 months ended 28 September 2002 as disclosed on page 36.

A campaign of 30-second commercials promoting Topps has been broadcast on UK Style, UK Food, Discovery Home & Leisure, UK Gold, UK Horizons, UK Bright Ideas and FTN. Topps has also sponsored the weather reports on Carlton in the London area.
Our vast new distribution warehouse (Far left) is being built at Junction 21 of the M1 near Leicester, enabling us to deliver even greater numbers of tiles and laminate flooring products to our ever-increasing number of stores.

The Tile Clearing House brand continues to perform well and complements the proven ‘Topps’ format by appealing to small contractors and bulk purchasers with its range of end of lines, discontinued ranges and job lots. The two brands trade very well when located close to each other as they create an area to buy tiles. The roll out of our core range into the business and new IT systems has reduced stock days to 147 from 166 days at 28 September 2002 and we continue our efforts to improve efficiencies.

Operating costs in the period represented 42.3% of sales compared with 43.3%* for the same period last year and we continue to look at ways to improve this further.

The retail tile market in the UK continues to grow and is estimated at 41.0 million square metres** in 2003. Growth is forecast to continue to reach 48.7 million square metres** by 2006. The reason for the sustained growth is driven by a number of different factors.

The areas where ceramic tiles are now used is growing as consumers add shower rooms, conservatories, en-suite bathrooms and larger kitchens to their homes. Consumers are also much more aware of health and hygiene issues in the home and are replacing soft flooring products with easy to clean ceramic floor tiles or wood and laminate flooring. The market is also being driven by under floor heating systems which are more widely used on the continent where use of ceramic floor tiles is up to six times greater than in the UK. The extensive media coverage of home improvement programmes continues to drive consumer interest and Topps are strengthening their position as brand leader by sponsoring the UK Style channel on Sky which features Changing Rooms and Ground Force amongst its shows.

CURRENT TRADING

We are delighted that in the first seven weeks of the new financial year like for like sales have shown an increase of 14.9% and overall sales are up 25.2%. The outlook for the ceramic tile and wood flooring market remains positive and as described is forecast to grow steadily over the next three years. We are well on the way with our planned expansion for 2003/04 of 24 new stores for the year with 2 new stores already trading, moving us towards our target of 350 outlets across the UK.

Nicholas Ounstead,
Chief Executive Officer

* Same period last year figures relate to the 16 months ended 28 September 2002 as disclosed on page 36.
** Source: Marketing Strategies for Industry (MSI) November 2003
PROFIT AND LOSS ACCOUNT

Turnover
During the period Group turnover increased by 22.4% to £152.21 million from £124.34* million in the same period last year. Like for like sales increased by 14.3%*, with new store openings contributing a further 8.1%* increase.

Gross Margin
Overall gross margin was 57.5% compared to 56.4%* in the same period last year. This also compares favourably to the interim statements during the period when in the six months to 30 November 2002 the gross margin was 57.0% and the ten months to 29 March 2003 it was 57.2%.

The final six months of the 16 month period therefore showed gross margins of 57.8%.

Operating Expenses
Costs as a percentage of sales were 42.3% compared to 43.3%* in the same period last year.

This reduction is mainly due to the economies of scale that the business is now benefiting from as it continues to grow.

Profit before tax
We have achieved an overall increase in profit before tax of 45.6% to £23.554 million compared to a profit before tax of £16.181* million in the same period last year.

Taxation
The effective rate of corporation tax was 30.4% (2002: 30.2%) and we continued to fully provide for deferred taxation in line with FRS19.

Earnings and Dividends
Our earnings per share has grown to 36.4 pence compared to 25.1 pence* in the same period last year, an increase of 45.0%.

The Board is recommending a final dividend of 15.40 pence per share which will give a total dividend for the period of 21.75 pence compared to 7.15 pence in the same period last year, an increase of 204%. This reflects the additional interim dividend paid within this 16 month period, but also the change of dividend cover policy from 2.5 times to 1.67 times cover.

* Same period last year figures relate to the 16 months ended 28 September 2002 as disclosed on page 36.
The Board is confident in reducing the cover, as the business continues to demonstrate its ability to generate ‘free’ cash and has matured to the stage where the Board feels the change is appropriate.

**BALANCE SHEET**

**Fixed assets**

Capital expenditure in the period amounted to £11.7 million. This reflects the cost of acquiring 5 freehold sites for £2.6 million, further development costs on 2 sites of £0.3 million and the initial costs of the new warehouse project of £3.2 million.

We have also opened 33 new stores at a cost of £2.9 million and undertaken major refurbishment of a further 22 stores at a cost of £1.2 million and other minor refit costs of £0.4 million. We continue to update and expand our I.T. systems within the business and this coupled with some motor vehicle renewals accounted for £1.1 million.

**Stock**

Stock days have reduced to 147 days cover compared to 166 days* at the same period last year. At the interim announcements to November 2002 and March 2003 the cover was 159 days and 158 days respectively.

This reduction is partially due to our preparation for moving to the new warehouse facility in 2004.

**Gearing**

Cash reserves at the period end were £18.580 million and borrowings were £3.422 million which is primarily for the new warehouse project. This gives the Group a net funds position of £15.158 million compared to £4.616* million at the same period last year.

**OTHER MATTERS**

**New warehouse project**

The Group has entered into an agreement to acquire a purpose built warehouse facility at a total project cost of £7.8 million. In the period to 27 September 2003 £3.2m had been spent with the remainder due in 2003/04.

**Joint Venture in Holland**

The joint venture in Holland continues to progress with 8 stores now trading. The Group owns 50% in the joint venture with the remaining 50% held by the Dutch management team. The Group’s profit and loss account shows turnover of £2.087 million and profit before tax of £64k from the venture which reflects the Group’s 50% holding.

**Accounting Period End Date Change**

The Group has changed its accounting period end date, from the nearest Saturday to the 31 May, to the nearest Saturday to the 30 September. This change has taken effect in this financial period hence the reason for reporting 16 month numbers.

**Annual General Meeting**

The A.G.M. for the period to 27 September 2003 will be held on 6 January 2004. This is 15 months since the last A.G.M. due to the Group’s change of accounting period end from the nearest Saturday to 31 May, to the nearest Saturday to 30 September.

**Auditors**

On 31 July 2002, Arthur Andersen resigned as auditors of the Group and the directors appointed Deloitte & Touche to fill the casual vacancy. On 1 August 2003 Deloitte & Touche transferred their business to Deloitte & Touche LLP. The Company’s consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of Section 26(5) of the Companies Act 1989.

Andrew Liggett,
Finance Director
Our two brands are distinctly different but fit perfectly to provide a seamless service.
1. CUSTOMER SERVICE
Customer service is a subject we take very seriously. All staff attend an induction course at our training centres where they learn our friendly and helpful approach to customer service, along with product range and technical knowledge. We believe that 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. An increasing market presence and long-standing relationships 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.

Our success has been founded on four crucial cornerstones:
MEASURING UP...

Our excellent teamwork

Our strategy of providing customer service that is second to none, having the widest range of high-quality products at the best prices and selling them from well-placed, easily accessible locations is a real winner.
We now employ over 1300 staff across the Group and encourage participation in the success of the business through employee share option schemes and a strong culture of rewarding performance.

Training is a key feature of our teamwork policy and we endeavour to train and support all staff on existing and new product and procedure developments within the business. We achieve this through our own training department and training centres along with in-store training via our e-learning software. We are also a recognised ‘Investor in People’ company.

Our strong culture of rewarding performance is reflected in the store bonus schemes which during the period have generated over £5.4m in profit sharing for the staff.

We also offer all employees the opportunity to participate in the Group’s success through company share option schemes and Sharesave schemes in association with the Halifax Building Society.

Our stated policy of 24 new store openings per year coupled with our policy of promoting from within the business, wherever possible, allows staff to develop a career path and helps nurture an atmosphere of opportunity for all.
MEASURING UP...

To the market
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 three years.

**THE MARKET**
The UK has traditionally had a very low usage of ceramic tiles per capita, compared with our European neighbours it is up to six times lower, but this is changing as consumer tastes move away from soft flooring products to hard floor surfaces such as ceramic floor tiles and wood and laminate flooring. The Group continues to grow its market share and is estimated to have 17% of the 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 18% over the next three years*. There are a number of drivers for this growth. There are now far more areas to tile as consumers add second bathrooms, shower rooms, conservatories and kitchen extensions to their homes. Hygiene and health issues are also pushing the market forward as consumers switch to easy-to-clean products in order to create a healthier environment in the home.

**FLOORSTORE**
To take advantage of this move we now have opened 10 new Floorstores giving us 14 in total. Trading from existing space in the business these stores sell an enhanced range of laminate and wood flooring products and have a separate entrance giving the feeling of a mini warehouse specialist.

**STONEWORKS**
We are also trialling within six stores a dedicated stone and natural product area called ‘Stoneworks’. This part of the market is growing rapidly and we will be well placed to take advantage of this trend.

The consumer awareness of the ‘Topps’ brand continues to increase through our TV sponsorships on Carlton, Tyne Tees and Sky UK Style channel and national radio and press campaigns.

**TILE CLEARING HOUSE**
Tile Clearing House has established itself as a tile brand in its own right, and serves a different sector of the market to the ‘Topps’ brand. Its customers in the main are small contractors, local builders and bulk purchasers.

It offers a completely different and narrower range of products to Topps and includes end of lines, discontinued and factory specials but stock is held in greater depth.

The stores, which operate from less prominent locations continue to benefit from strong local advertising.

*Source: Marketing Strategies for Industry (MSI) November 2003
Topps Tiles is one of the biggest supporters of youth football in the UK, providing new kits and equipment to junior teams local to every one of our stores.
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 an outlet. This has made Topps Tiles one of the biggest supporters of youth football in Britain and we now have over 180 teams playing regularly in our colours.

We also take great pride in our fundraising achievements for our adopted charity the National Asthma Campaign. This our fourth year of support for the charity, which aims to conquer this respiratory disorder which affects over 1 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. Our staff contributed greatly to the fundraising by holding sponsored events and in total with our Company donation of £32,000 we raised over £75,000 for this worthy cause.

As well as sport there is also education, via our product catalogue schools can win valuable computer equipment. Since the scheme started, over 30 schools have benefited nationwide.
Corporate Social Responsibility (CSR) is a core part of our management process and will be integrated into every aspect of both the strategic and the routine management of the business.
The Board is developing an integrated CSR policy that targets and measures the performance of the Group in the following areas:

**MARKETPLACE**
The Group works closely with key suppliers to source and distribute products that contribute positively to environmental performance.

The Group has developed an environmental policy on timber products and has adopted the principles and criteria of the Forest Stewardship Council (FSC) as its benchmark.

**WORKPLACE**
Topps businesses comply with current employment legislation and work with employees and local management of each branch to create a positive and equitable working environment.

There is a strong culture of internal promotion and regular dialogue on job and career development.

**COMMUNITY**
The Group supports local charities and encourages employees to take an interest in social and community activities outside the workplace.

Topps sponsors local junior football teams on a nationwide basis and supplies computer equipment to schools.

**ENVIRONMENT**
Topps encourages the use of recycled and recyclable packaging where practicable. We continue to look at ways of reducing waste - both physical and invisible ‘waste’ built into business processes.

We are an affiliated member of Valpak, who are the UK’s largest compliance scheme for packaging waste.

The Group conducts its business consistent with its long established values. These include product quality and customer service excellence along with a commitment to maintain our equal opportunities workforce and actively encouraging diversity. We are also committed to making a positive contribution to the communities where we do business and to the environment as a whole.
Why not ask us some questions?

Nick Ounstead, Chief Executive Officer, concludes our business review by answering some questions frequently put to us by analysts and shareholders regarding the Group’s business, financial position and strategy.

How sensitive is the business to currency changes?
Over 80% of our tile products are imported, therefore we are exposed to currency fluctuation, although by far the majority of payments are made in Sterling. The Euro is our main currency requirement, with around five million sterling equivalent needed per year. 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 gives us a known cost base for setting retail prices.

Does the business generate cash?
Over 99% of our sales are cash or cash equivalents so even with the fast growth of our number of outlets, the business is highly cash generative. This is well demonstrated by our progressive dividend policy which has gone from 3 times cover at flotation to 2.5 times cover in June 2002 and now 1.67 times cover.

Will earnings per share continue to grow?
We have seen EPS grow from 4.2p per share in 1997 (when the business floated) to 36.4p per share for this 16 month
period; this by any standard is tremendous growth and we believe that the business can continue to grow and develop substantially from its current position.

**Are sites difficult to find?**

Our store model is very flexible and our format can fit into anything from 4,000 sq ft to 15,000 sq ft. Our ideal store is on a busy road with parking for around six to eight cars on the way to a retail park or nearby to other tile stores. This flexibility means we are finding plenty of suitable sites at acceptable rent levels. We are planning to open 24 new stores in the new financial period.

**How many stores can you open?**

The tile and wood flooring market is forecast to grow steadily over the next few years and we are confident we can meet our target of 350 stores (250 Topps Tiles and 100 Tile Clearing House brand) by keeping to our proven format of offering excellent choice, value and service.

**Why does the business need such high levels of stock?**

We believe one of our key strengths and a barrier to entry into our business is stock availability. This differentiates us from our competitors and means that we can offer a “cash and carry” service from the store and if this is not achievable we can normally fulfil the order from our central warehouse within days.

**What would happen if the housing market slowed down?**

Our business is more the replacement market and we have always maintained that we are not directly linked to the “ups and downs” of the housing market. If some people decide not to move home they may instead decide to improve their existing home and this is why historically the Company has not seen great increases in sales when the housing market is booming and vice versa.
Andrew Liggett F.C.M.A. Finance Director (aged 42)
Company Secretary
Secretary of Nomination Committee

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, treasury, administration and Group secretarial matters.

Barry Bester (aged 46)
Executive Co-Chairman
Member of Nomination Committee

Barry and Stuart founded the business in 1984 and developed the sales format and employee incentive structure which is the foundation of the business today. Barry and Stuart are responsible for overall Group strategy, new business development and sustaining the core ethos of the business.

Stuart Williams F.C.A. (aged 59)
Executive Co-Chairman
Member of Nomination Committee

Nicholas Ounstead Chief Executive Officer (aged 43)

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 and promoted to Chief Executive Officer in October 2002. Nicholas is also Chairman of the Health and Safety Committee.
NON-EXECUTIVE DIRECTORS

Alan McIntosh  C.A. Senior Non-Executive Director (aged 35)
Chairman of Audit Committee
Member of Nomination Committee

Alan McIntosh qualified as a Chartered Accountant with Deloitte & Touche and subsequently joined the corporate finance department of Hill Samuel. He was one of the founders and the Group 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 investment company, Capital Management and Investment Plc. He joined the board of Topps Tiles in 1997.

Victor Watson  C.B.E. Non-Executive Director (aged 75)
Member of Audit Committee
Chairman of Nomination Committee

Victor Watson is a Director of Thorpe Park (Leeds) Limited, Swivel Technologies Limited and is Chairman of Leeds Business Services Limited. He was formerly Chairman of Waddington Plc. He joined the Board of Topps Tiles in 1997.

Rt. Hon Michael Jack  Privy Councillor, MP, Non-Executive Director (aged 57)
Member of Audit Committee
Member of Nomination 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. Throughout this time he has maintained strong business links, via both direct contacts and his consultancy work. He joined the board of Topps Tiles in 1999.
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A. Liggett F.C.M.A.
W.A. McIntosh C.A.
V.H. Watson C.B.E.
The RT. Hon. J.M. Jack, Privy Counsellor, MP

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19 Market Place
Stockport SK1 1HA
Beachcroft Wansbroughs Solicitors
St Ann’s House
St Ann Street
Manchester M2 7LP

STOCKBROKERS
KBC Peel Hunt Limited
111 Old Broad Street
London EC2N 1PH
The directors present their report on the affairs of the Group, together with the financial statements and auditors’ report, for the 16 month period ended 27 September 2003.

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. During the period, the Group changed its accounting reference date, from the Saturday which falls closest to 31 May, to the Saturday which falls closest to 30 September.

Details of the Group’s performance during the period and expected future developments are contained in the Chairman’s Statement, and Chief Executive’s 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 27 September 2003 are set out on pages 36 to 58. The Group’s profit for the period, after taxation was £16,386,000 (12 months ended 1 June 2002 - £8,039,000).

An interim dividend of 3.35p per share (£1,509,000) was paid on 28 February 2003, and a further interim dividend of 3p per share (£1,352,000) was paid on 30 June 2003.

The directors recommend a final dividend of 15.4p per share, £6,972,000 making a total of 21.75p per share, £9,833,000 (12 months ended 1 June 2002 – total dividend 7.15p per share, £3,215,000). Subject to approval by the shareholders at the Annual General Meeting, to be held on 6 January 2004, the final dividend will be paid on 2 February 2004 to shareholders on the register at the close of business on 9 January 2004.

DIRECTORS
The directors of the Company, who all served during the period, are as follows:

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

Executive Co-Chairman
Executive Co-Chairman
Chief Executive Officer
Finance Director
Senior Non-Executive Director
Non-Executive Director
Non-Executive Director

Their interests in the shares of the Company are set out on page 33.

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 55 days purchases (12 months ended 1 June 2002 - 50 days).
CHARITABLE AND POLITICAL CONTRIBUTIONS
During the period the Group made charitable donations of £32,000 to “The National Asthma Campaign”. The Group made no political contributions.

SUBSTANTIAL SHAREHOLDINGS
In addition to the directors’ shareholdings noted on page 33, on 27 September 2003 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.

<table>
<thead>
<tr>
<th>Number</th>
<th>% held</th>
</tr>
</thead>
<tbody>
<tr>
<td>HSBC Global Custody Nominee (UK) Limited</td>
<td>5,854,000</td>
</tr>
<tr>
<td>Littledown Nominees Limited</td>
<td>4,979,000</td>
</tr>
<tr>
<td>Chase Nominees Limited</td>
<td>4,620,000</td>
</tr>
<tr>
<td>Stanlife Nominees Limited</td>
<td>3,165,000</td>
</tr>
<tr>
<td>State Street Nominees Limited</td>
<td>2,769,000</td>
</tr>
<tr>
<td>BNY (OCS) Nominees Limited</td>
<td>2,169,000</td>
</tr>
</tbody>
</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 period the Company issued 119,493 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 1,336,885. The directors will continue to incentivise employees through additional employee share option schemes in the forthcoming financial period.
AUDITORS
On 31 July 2002 Arthur Andersen resigned as auditors of the Company and the directors appointed Deloitte & Touche to fill the casual vacancy. On 1 August 2003, Deloitte & Touche transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of section 26(5) of the Companies Act 1989. A resolution to re-appoint Deloitte & Touche LLP as the Company’s auditor will be proposed at the forthcoming Annual General Meeting.

DIRECTORS RESPONSIBILITIES
United Kingdom 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 as at the end of the financial period and of the profit of the Group for that period. In preparing those 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;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They also have general responsibility for the systems of internal control for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Rushworth House
Wilmslow Road
Handforth
Cheadle
Cheshire
SK9 3HJ

25 November 2003

By order of the Board,

Rushworth House
Wilmslow Road
Handforth
Cheadle
Cheshire
SK9 3HJ

25 November 2003

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 provision A6.1. The nature of this breach relates to service contracts for the non-executive directors which are for an indefinite term. 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.

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.

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.

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 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.
INTRODUCTION
This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 which introduced new statutory requirements for the disclosure of directors’ remuneration in respect of periods ending on or after 31 December 2002. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the board has applied the Principles of Good Governance relating to directors’ remuneration. As required by the Regulations, a resolution to approve the report will be proposed at the Annual General Meeting of the Company at which the financial statements will be approved.

The Regulations require the auditors to report to the Company’s members on the “auditable part” of the Directors’ remuneration report and to state whether in their opinion that part of the report has been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations). The report has therefore been divided into separate sections for audited and unaudited information.

UNAUDITED INFORMATION
Remuneration committee
The Company has established a Remuneration Committee, which is constituted in accordance with the recommendations of the Combined Code. The members of the committee are Mr McIntosh, Mr Watson and The Rt. Hon. Mr Jack who are all independent non-executive directors, with the committee being chaired by Mr McIntosh.

None of the Committee has any personal financial interest (other than as shareholders), conflicts of interests arising from cross-directorships or day-to-day involvement in running the business. The Committee makes recommendations to the board. No director plays a part in any discussion about his or her own remuneration.

Remuneration policy
Executive remuneration packages are prudently designed to attract, motivate and retain directors of the high calibre needed to maintain the Group’s position as a market leader and to reward them for enhancing value to shareholders. The performance measurement of the executive directors and key members of senior management and the determination of their annual remuneration package are undertaken by the Committee. The remuneration of the non-executive directors is determined by the board within limits set out in the Articles of Association.

There are four main elements of the remuneration package for executive directors and senior management:

- Basic annual salary (including directors’ fees) and benefits;
- Annual bonus payments
- Share option incentives; and
- Pension arrangements.

Basic salary
An executive director’s basic salary is determined by the Committee prior to the beginning of each year and when an individual changes position or responsibility. In deciding appropriate levels, the Committee considers the Group as a whole and relies on objective research which gives up-to-date information on a comparator group of companies. Basic salaries were reviewed in September 2003 with increases taking effect from 1 October 2003. Executive directors’ contracts of service which include details of remuneration will be available for inspection at the Annual General Meeting.

In addition to basic salary, the executive directors receive certain benefits-in-kind, principally a car and private medical insurance.
**Annual bonus payments**
A discretionary annual cash bonus scheme represents the short-term incentive element of the overall remuneration package for Mr. Liggett and Mr. Ounstead. The Committee establishes the objectives that must be met in the financial period if a cash bonus is to be paid. The maximum bonus achievable in the current period was £30,000, which is 13% of basic salary.

**Share options**
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.

No significant amendments are proposed to be made to the terms and conditions of any entitlement of a director to share options.

**Pension arrangements**
Mr. Bester, Mr. Liggett and Mr. Ounstead received contributions into their own personal pension schemes.

**Performance graph**
The following graph shows the Company's performance, measured by total shareholder return, compared with the performance of the FTSE Small Cap Index also measured by total shareholder return. The index chosen for the comparison demonstrates the Group's TSR in comparison to the average for Small Cap companies.
DIRECTORS’ CONTRACTS

Executive directors
It is the Company’s policy that executive directors enter into a contract with a 12 month term providing for a maximum of six months notice.

Mr. Williams, Mr. Bester, Mr. Liggett and Mr. Ounstead have entered into new service contracts on 1 October 2003 in accordance with the above policy.

In the event of early termination, the directors’ contracts provide for compensation up to a maximum of six months basic salary for the notice period.

Non-executive directors
All non-executive directors have specific terms of engagement and their remuneration is determined by the board within the limits set by the Articles of Association and based on independent surveys of fees paid to non-executive directors of similar companies. The basic fee paid to each non-executive director in the period was £26,667. It is the Company’s policy that non-executive directors should have contracts with an indefinite term providing for a maximum of six months notice. Non-executive directors cannot participate in any of the Company’s share option schemes and are not eligible to join the company’s pension scheme. The details of the non-executive directors’ contracts are summarised in the table below:

<table>
<thead>
<tr>
<th>Name of director</th>
<th>Date of contract or letter of appointment</th>
<th>Unexpired term</th>
<th>Notice period</th>
</tr>
</thead>
<tbody>
<tr>
<td>W.A. McIntosh</td>
<td>27 May 1997</td>
<td>N/A</td>
<td>6 months</td>
</tr>
<tr>
<td>V.H. Watson</td>
<td>27 May 1997</td>
<td>N/A</td>
<td>6 months</td>
</tr>
<tr>
<td>J.M. Jack</td>
<td>26 January 1999</td>
<td>N/A</td>
<td>6 months</td>
</tr>
</tbody>
</table>

AUDITED INFORMATION

Aggregate directors’ remuneration

The total amounts for directors’ remuneration were as follows:

<table>
<thead>
<tr>
<th></th>
<th>16 months ended 27 September 2003</th>
<th>12 months ended 1 June 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emoluments</td>
<td>£1,171</td>
<td>£685</td>
</tr>
<tr>
<td>Money purchase pension contributions</td>
<td>£20</td>
<td>£15</td>
</tr>
<tr>
<td></td>
<td>£1,191</td>
<td>£700</td>
</tr>
</tbody>
</table>
Directors’ emoluments

Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in the Company granted to or held by the directors. Details of options for directors who served during the period and granted since the date of their appointment, are set out below:

<table>
<thead>
<tr>
<th>Name of director</th>
<th>Fees</th>
<th>Basic salary</th>
<th>Bonus</th>
<th>Benefits in kind</th>
<th>Money purchase pension contributions</th>
<th>16 months ended 27 September 2003</th>
<th>12 months ended 1 June 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>B.F.J. Bester</td>
<td>–</td>
<td>231</td>
<td>_</td>
<td>27</td>
<td>8</td>
<td>266</td>
<td>165</td>
</tr>
<tr>
<td>S.K.M. Williams</td>
<td>–</td>
<td>231</td>
<td>_</td>
<td>26</td>
<td>–</td>
<td>257</td>
<td>165</td>
</tr>
<tr>
<td>N.D. Ounstead</td>
<td>–</td>
<td>231</td>
<td>30</td>
<td>26</td>
<td>5</td>
<td>292</td>
<td>156</td>
</tr>
<tr>
<td>A. Liggett</td>
<td>–</td>
<td>231</td>
<td>30</td>
<td>27</td>
<td>7</td>
<td>295</td>
<td>169</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>54</td>
<td>951</td>
</tr>
</tbody>
</table>

Non-executive directors

<table>
<thead>
<tr>
<th>Name of director</th>
<th>Fees</th>
<th>Basic salary</th>
<th>Bonus</th>
<th>Benefits in kind</th>
<th>Money purchase pension contributions</th>
<th>16 months ended 27 September 2003</th>
<th>12 months ended 1 June 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>W.A. McIntosh</td>
<td>27</td>
<td>_</td>
<td>_</td>
<td>_</td>
<td></td>
<td>27</td>
<td>15</td>
</tr>
<tr>
<td>V.H. Watson</td>
<td>27</td>
<td>_</td>
<td>_</td>
<td>_</td>
<td></td>
<td>27</td>
<td>15</td>
</tr>
<tr>
<td>J.M. Jack</td>
<td>_</td>
<td>27</td>
<td>_</td>
<td>_</td>
<td></td>
<td>27</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td>54</td>
<td>951</td>
<td>60</td>
<td>106</td>
<td>20</td>
<td>1,191</td>
<td>700</td>
</tr>
</tbody>
</table>

Directors’ share options

Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in the Company granted to or held by the directors. Details of options for directors who served during the period and granted since the date of their appointment, are set out below:

<table>
<thead>
<tr>
<th>Name of director</th>
<th>Scheme</th>
<th>2 June 2002</th>
<th>Granted</th>
<th>Exercised</th>
<th>27 September 2003</th>
<th>Exercise Price (p)</th>
<th>Date from which exercisable</th>
<th>Expiry date</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Liggett</td>
<td>Unapproved</td>
<td>300,000</td>
<td>–</td>
<td>–</td>
<td>300,000</td>
<td>301.0</td>
<td>6.09.03</td>
<td>5.09.07</td>
</tr>
<tr>
<td>N. Ounstead</td>
<td>Unapproved</td>
<td>225,000</td>
<td>–</td>
<td>–</td>
<td>225,000</td>
<td>301.0</td>
<td>6.09.03</td>
<td>5.09.07</td>
</tr>
</tbody>
</table>

There were no exercises of options by directors during the period and therefore no gains were made by the directors.

There have been no variations to the terms and conditions or performance criteria for share options during the financial period and no further options can be granted under this scheme.

The other executive and non-executive directors held no options during the period.

The market price of the ordinary shares at 27 September 2003 was 426.5 pence and the range during the period was 226.7 pence to 426.5 pence.
**Directors’ pension entitlements**

Three directors are members of money purchase personal pension schemes. Contributions paid by the Company in respect of such directors were as follows:

<table>
<thead>
<tr>
<th></th>
<th>16 months ended 27 September 2003 £’000</th>
<th>12 months ended 1 June 2002 £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>B.F.J. Bester</td>
<td>8</td>
<td>6</td>
</tr>
<tr>
<td>A. Liggett</td>
<td>7</td>
<td>5</td>
</tr>
<tr>
<td>N.D. Ounstead</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>20</strong></td>
<td><strong>15</strong></td>
</tr>
</tbody>
</table>

**Directors interests**

The directors had the following interests in the shares of the Company (all interests relate solely to ordinary shares):

<table>
<thead>
<tr>
<th></th>
<th>27 September 2003 ordinary shares of 12.5p each</th>
<th>1 June 2002 ordinary shares of 12.5p each</th>
<th>Share options ordinary shares of 12.5p each start and end of period</th>
</tr>
</thead>
<tbody>
<tr>
<td>B.F.J. Bester</td>
<td>4,999,720</td>
<td>5,757,720</td>
<td></td>
</tr>
<tr>
<td>S.K.M. Williams</td>
<td>4,999,720</td>
<td>5,775,720</td>
<td></td>
</tr>
<tr>
<td>A. Liggett</td>
<td>400,300</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>317,000</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>

**Approval**

This report was approved by the board of directors on 25 November 2003 and signed on its behalf by:

**Alan McIntosh**

Chairman of Remuneration Committee

25 November 2003
TO THE MEMBERS OF TOPPS TILES PLC
We have audited the financial statements, excluding the proforma information contained within the profit and loss account, of Topps Tiles Plc for the 16 months period ended 27 September 2003 which comprise the consolidated profit and loss account, the statement of total recognised gains and losses, the balance sheets, the consolidated cash flow statement and the related notes 1 to 23. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the directors’ remuneration report that is described as having been audited.

This report is made solely to the Company’s members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company’s members those matters we are required to state to them in an auditors’ report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company’s members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS
As described in the statement of directors’ responsibilities, the Company’s directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the report including the directors’ remuneration report. Our responsibility is to audit the financial statements and the part of the directors’ remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors’ remuneration report described as having been audited have been 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 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 of the Financial Services Authority, and we report if it does 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 directors’ report and the other information contained in the report for the above period as described in the contents section including the unaudited part of the directors’ remuneration report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.
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 and the part of the directors’ remuneration report described as having been audited. 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 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 and the part of the directors’ remuneration report described as having been audited 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 and the part of the directors’ remuneration report described as having been audited.

OPINION
In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 27 September 2003 and of the profit of the Group for the 16 month period then ended; and

- the financial statements and the part of the directors’ remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Manchester
25 November 2003

An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial statements since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in the area.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.
## CONSOLIDATED PROFIT & LOSS ACCOUNT

**for the period ended 27 September 2003**

### PROFORMA INFORMATION NOTE 1(d)

<table>
<thead>
<tr>
<th>Note</th>
<th>16 months ended 27 September 2003</th>
<th>12 months ended 1 June 2002</th>
<th>16 months ended 28 September 2002</th>
<th>12 months ended 27 September 2003</th>
<th>12 months ended 28 September 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Audited £'000</td>
<td>Audited £'000</td>
<td>Unaudited £'000</td>
<td>Unaudited £'000</td>
<td>Unaudited £'000</td>
</tr>
<tr>
<td>1.</td>
<td><strong>Turnover, group and share of joint venture</strong></td>
<td>2 154,297 91,026</td>
<td>124,783 120,540 96,105</td>
<td>444 1,643 (444)</td>
<td>124,339 118,897 95,661</td>
</tr>
<tr>
<td></td>
<td>Less: share of joint venture turnover</td>
<td>(2,087) –</td>
<td>(444) (1,643) (444)</td>
<td>(444) (1,643) (444)</td>
<td>(444) (1,643) (444)</td>
</tr>
<tr>
<td>2.</td>
<td><strong>Group turnover</strong></td>
<td>152,210 91,026</td>
<td>124,339 118,897 95,661</td>
<td>54,179 50,587 41,338</td>
<td>54,179 50,587 41,338</td>
</tr>
<tr>
<td></td>
<td>Cost of sales</td>
<td>(64,737) (40,029)</td>
<td>(54,179) (50,587) (41,338)</td>
<td>(54,179) (50,587) (41,338)</td>
<td>(54,179) (50,587) (41,338)</td>
</tr>
<tr>
<td></td>
<td>Operating expenses</td>
<td>3 (5,450) (2,859)</td>
<td>(4,038) (4,271) (3,111)</td>
<td>(58,881) (36,478)</td>
<td>(49,826) (45,534) (38,035)</td>
</tr>
<tr>
<td>4.</td>
<td><strong>Group operating profit</strong></td>
<td>23,142 11,660</td>
<td>16,296 18,505 13,177</td>
<td>64 – 64 –</td>
<td>16,296 18,505 13,177</td>
</tr>
<tr>
<td></td>
<td>Share of operating profit in joint venture</td>
<td>64 –</td>
<td>– 64 –</td>
<td>– 64 –</td>
<td>– 64 –</td>
</tr>
<tr>
<td>5.</td>
<td><strong>Profit on ordinary activities before finance income (charges)</strong></td>
<td>23,206 11,660</td>
<td>16,296 18,569 13,177</td>
<td>– 64 –</td>
<td>16,296 18,569 13,177</td>
</tr>
<tr>
<td></td>
<td>Net finance income (charges)</td>
<td>5 348 (144)</td>
<td>(115) 319 (12)</td>
<td>(115) 319 (12)</td>
<td>(115) 319 (12)</td>
</tr>
<tr>
<td>6.</td>
<td><strong>Profit on ordinary activities before taxation</strong></td>
<td>23,554 11,516</td>
<td>16,181 18,888 13,165</td>
<td>– 64 –</td>
<td>16,181 18,888 13,165</td>
</tr>
<tr>
<td></td>
<td>Tax on profit on ordinary activities</td>
<td>7 (7,168) (3,477)</td>
<td>(4,877) (5,769) (3,972)</td>
<td>(4,877) (5,769) (3,972)</td>
<td>(4,877) (5,769) (3,972)</td>
</tr>
<tr>
<td>7.</td>
<td><strong>Profit on ordinary activities after taxation</strong></td>
<td>16,386 8,039</td>
<td>11,304 13,119 9,193</td>
<td>(9,832) (3,208) (3,208)</td>
<td>(9,832) (3,208) (3,208)</td>
</tr>
<tr>
<td></td>
<td>Dividends paid and proposed</td>
<td>8 (9,832) (3,208)</td>
<td>(3,208) (8,192) (3,208)</td>
<td>(3,208) (8,192) (3,208)</td>
<td>(3,208) (8,192) (3,208)</td>
</tr>
<tr>
<td>8.</td>
<td><strong>Retained profit for the year transferred to reserves</strong></td>
<td>19 6,554 4,831</td>
<td>8,096 4,927 5,985</td>
<td>6,554 4,831</td>
<td>6,554 4,831</td>
</tr>
</tbody>
</table>

### Earnings per ordinary share

- **Basic**
  - 36.4p 17.9p 25.1p 29.1p 20.4p
  - 36.0p 17.8p 25.0p 28.8p 20.3p

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 and accordingly no statement of total recognised gains or losses is presented.

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.
## Balance Sheets

### 27 September 2003

<table>
<thead>
<tr>
<th>Notes</th>
<th>Group 27 September £'000</th>
<th>Group 1 June £'000</th>
<th>Company 27 September £'000</th>
<th>Company 1 June £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fixed assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goodwill 10</td>
<td>586</td>
<td>285</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Tangible assets 11</td>
<td>23,252</td>
<td>15,044</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Investments 12</td>
<td>–</td>
<td>–</td>
<td>15,126</td>
<td>14,640</td>
</tr>
<tr>
<td>Joint venture undertaking</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- share of assets 12(c)</td>
<td>946</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>- share of liabilities 12(c)</td>
<td>(773)</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>24,011</td>
<td>15,329</td>
<td>15,126</td>
<td>14,640</td>
</tr>
</tbody>
</table>

### Current assets

<table>
<thead>
<tr>
<th></th>
<th>27 September £'000</th>
<th>1 June £'000</th>
<th>27 September £'000</th>
<th>1 June £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stocks - finished goods</td>
<td>19,713</td>
<td>19,019</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Debtors 13</td>
<td>4,712</td>
<td>3,802</td>
<td>17,238</td>
<td>10,801</td>
</tr>
<tr>
<td>Cash at bank and in hand</td>
<td>18,580</td>
<td>5,142</td>
<td>–</td>
<td>462</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>43,005</td>
<td>27,963</td>
<td>17,238</td>
<td>11,263</td>
</tr>
</tbody>
</table>

### Creditors:

<table>
<thead>
<tr>
<th>Amounts falling due within one year</th>
<th>27 September £'000</th>
<th>1 June £'000</th>
<th>27 September £'000</th>
<th>1 June £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total assets less current liabilities</strong></td>
<td>35,096</td>
<td>25,357</td>
<td>23,466</td>
<td>23,126</td>
</tr>
</tbody>
</table>

### Creditors:

<table>
<thead>
<tr>
<th>Amounts falling due after more than one year</th>
<th>27 September £'000</th>
<th>1 June £'000</th>
<th>27 September £'000</th>
<th>1 June £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Provisions for liabilities and charges</strong></td>
<td>(1,349)</td>
<td>(1,007)</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

### Net assets

<table>
<thead>
<tr>
<th>27 September £'000</th>
<th>1 June £'000</th>
<th>27 September £'000</th>
<th>1 June £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Capital and reserves</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Called-up share capital</td>
<td>5,659</td>
<td>5,623</td>
<td>5,659</td>
</tr>
<tr>
<td>Share premium account</td>
<td>1,715</td>
<td>1,307</td>
<td>1,715</td>
</tr>
<tr>
<td>Merger reserve</td>
<td>(399)</td>
<td>(399)</td>
<td>–</td>
</tr>
<tr>
<td>Special reserve</td>
<td>–</td>
<td>–</td>
<td>14,917</td>
</tr>
<tr>
<td>Profit and loss account</td>
<td>23,847</td>
<td>17,293</td>
<td>1,175</td>
</tr>
</tbody>
</table>

### Equity shareholders’ funds

<table>
<thead>
<tr>
<th>27 September £'000</th>
<th>1 June £'000</th>
<th>27 September £'000</th>
<th>1 June £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>The financial statements on pages 36-58 were approved by the board of directors on 25 November 2003 and signed on its behalf by:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>S.K.M. Williams</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B.F.J. Bester</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Directors</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>25 November 2003</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The accompanying notes are an integral part of these balance sheets.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## CONSOLIDATED CASH FLOW STATEMENT
for the period ended 27 September 2003

<table>
<thead>
<tr>
<th>Notes</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>£'000</td>
<td>£'000</td>
<td></td>
</tr>
<tr>
<td><strong>Net cash inflow from operating activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>21(a)</td>
<td>33,723</td>
<td>10,426</td>
</tr>
<tr>
<td>Returns on investments and servicing of finance</td>
<td>21(b)</td>
<td>312</td>
</tr>
<tr>
<td>Taxation</td>
<td></td>
<td>(7,104)</td>
</tr>
<tr>
<td>Capital expenditure and financial investment</td>
<td>21(c)</td>
<td>(10,653)</td>
</tr>
<tr>
<td>Acquisitions and disposals</td>
<td>21(d)</td>
<td>(486)</td>
</tr>
<tr>
<td>Equity dividends</td>
<td></td>
<td>(5,469)</td>
</tr>
<tr>
<td><strong>Cash inflow before financing</strong></td>
<td></td>
<td>10,323</td>
</tr>
<tr>
<td>Financing</td>
<td>21(e)</td>
<td>3,115</td>
</tr>
<tr>
<td><strong>Increase in cash in the period</strong></td>
<td>21(f)</td>
<td>13,438</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2,936</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 preparation of unaudited profit and loss accounts*
The unaudited profit and loss accounts are based on management accounts information and have been presented for the benefit of the principal users of financial statements. The audit opinion does not extend to the unaudited proforma profit and loss accounts.

c) **Basis of consolidation**
The statutory Group profit and loss account and balance sheet consolidate the financial statements of Topps Tiles Plc and its subsidiary undertakings made up to 27 September 2003. The financial statements of Topalpha Limited have been consolidated using merger accounting principles in the year ended May 1998. In all other cases, subsidiary undertakings have been accounted for using acquisition accounting principles and incorporate the results of the Group’s joint venture undertaking. The Group accounts for its own share of assets, liabilities and cash flows associated with this joint venture.

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 £9,727,000 (12 months ended 1 June 2002 - £3,221,000).

d) **Financial period**
The accounting period end has been changed to the Saturday that falls closest to 30 September resulting in normal financial periods of either 52 or 53 weeks, however the current financial period is 69 weeks due to the change in accounting reference date.

Proforma information represents profit and loss accounts for the following non-standard statutory periods; 16 months ended 28 September 2002, 12 months ended 27 September 2003 and 12 months ended 28 September 2002.

e) **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 estimated 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 £15m 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.
Accounting policies (continued)

f) Turnover
Turnover comprises the net amount receivable in respect of sales during the period to third parties and excludes value added tax.

g) 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 on a straight line basis
- 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

Freehold land is not depreciated.

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

h) 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. Provision is made for obsolete, slow moving or defective items where appropriate.

i) 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 substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

j) 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)

k) 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.

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

m) 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.

n) 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.

o) 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 arise within the UK and Europe.

By Geographical origin:

<table>
<thead>
<tr>
<th></th>
<th>16 months ended</th>
<th>12 months ended</th>
<th>16 months ended</th>
<th>12 months ended</th>
<th>At</th>
<th>At</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>27 September</td>
<td>1 June</td>
<td>27 September</td>
<td>1 June</td>
<td>2003</td>
<td>2002</td>
</tr>
<tr>
<td></td>
<td>£’000</td>
<td>£’000</td>
<td>£’000</td>
<td>£’000</td>
<td>£’000</td>
<td>£’000</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>152,210</td>
<td>91,026</td>
<td>23,142</td>
<td>11,660</td>
<td>34,071</td>
<td>24,570</td>
</tr>
<tr>
<td>Holland</td>
<td>2,087</td>
<td>–</td>
<td>64</td>
<td>–</td>
<td>173</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>154,297</td>
<td>91,026</td>
<td>23,206</td>
<td>11,660</td>
<td>34,244</td>
<td>24,570</td>
</tr>
</tbody>
</table>

Bank loans and overdrafts
Finance income/(charges) 348 (144)
Total Net Assets 30,822 23,824
Profit on ordinary activities before taxation 23,554 11,516

Turnover by destination is not materially different to that by geographical origin.

### 3 Operating expenses

<table>
<thead>
<tr>
<th></th>
<th>16 months ended</th>
<th>12 months ended</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>27 September</td>
<td>1 June</td>
</tr>
<tr>
<td></td>
<td>£’000</td>
<td>£’000</td>
</tr>
<tr>
<td>Distribution costs</td>
<td>44,849</td>
<td>28,808</td>
</tr>
<tr>
<td>Administrative expenses:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>14,032</td>
<td>7,670</td>
</tr>
<tr>
<td>Employee profit sharing</td>
<td>5,450</td>
<td>2,859</td>
</tr>
<tr>
<td></td>
<td>19,482</td>
<td>10,529</td>
</tr>
<tr>
<td></td>
<td>64,331</td>
<td>39,337</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>16 months ended 27 September 2003</th>
<th>12 months ended 1 June 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number employed:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Selling</td>
<td>1,036</td>
<td>936</td>
</tr>
<tr>
<td>Administration</td>
<td>140</td>
<td>134</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1,176</td>
<td>1,070</td>
</tr>
</tbody>
</table>

Their aggregate remuneration comprised:

<table>
<thead>
<tr>
<th></th>
<th>16 months ended 27 September 2003</th>
<th>12 months ended 1 June 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages and salaries</td>
<td>27,157</td>
<td>17,304</td>
</tr>
<tr>
<td>Social security costs</td>
<td>2,384</td>
<td>1,323</td>
</tr>
<tr>
<td>Other pension costs (note 22(b))</td>
<td>194</td>
<td>169</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>29,735</td>
<td>18,796</td>
</tr>
</tbody>
</table>

Details of directors emoluments are disclosed on page 32.
### Net finance (income)/charges

<table>
<thead>
<tr>
<th></th>
<th>16 months ended</th>
<th>12 months ended</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>27 September 2003</td>
<td>1 June 2002</td>
</tr>
<tr>
<td></td>
<td>£'000</td>
<td>£'000</td>
</tr>
<tr>
<td><strong>Investment income</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest receivable and similar income</td>
<td>(358)</td>
<td>(57)</td>
</tr>
<tr>
<td><strong>Interest payable and similar charges</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank loans and overdrafts</td>
<td>73</td>
<td>213</td>
</tr>
<tr>
<td>Hire purchase contracts</td>
<td>–</td>
<td>7</td>
</tr>
<tr>
<td>Interest costs capitalised</td>
<td>(63)</td>
<td>(19)</td>
</tr>
<tr>
<td>Net interest payable and similar charges</td>
<td>10</td>
<td>201</td>
</tr>
<tr>
<td>Net finance (income)/charges</td>
<td>(348)</td>
<td>144</td>
</tr>
</tbody>
</table>

Finance costs have been capitalised based on a capitalisation rate of 3.5%, which is the weighted average of rates applicable to the Group's general borrowings outstanding during the period.

### Profit on ordinary activities before taxation

Profit on ordinary activities before tax is stated after charging:

<table>
<thead>
<tr>
<th></th>
<th>16 months ended</th>
<th>12 months ended</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>27 September 2003</td>
<td>1 June 2002</td>
</tr>
<tr>
<td></td>
<td>£'000</td>
<td>£'000</td>
</tr>
<tr>
<td>Depreciation and amounts written off tangible fixed assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- owned</td>
<td>3,045</td>
<td>1,826</td>
</tr>
<tr>
<td>- held under finance leases and hire purchase contracts</td>
<td>–</td>
<td>86</td>
</tr>
<tr>
<td>Amortisation of goodwill</td>
<td>54</td>
<td>17</td>
</tr>
<tr>
<td>Loss on disposal of tangible fixed assets</td>
<td>217</td>
<td>–</td>
</tr>
<tr>
<td>Operating lease rentals</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- plant and machinery</td>
<td>535</td>
<td>366</td>
</tr>
<tr>
<td>- other</td>
<td>13,153</td>
<td>7,862</td>
</tr>
<tr>
<td>Remuneration to auditors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- audit</td>
<td>55</td>
<td>40</td>
</tr>
<tr>
<td>- other</td>
<td>38</td>
<td>24</td>
</tr>
</tbody>
</table>

Amounts payable to Deloitte & Touche in respect of non-audit services relate to tax planning advice.
### Tax on profit on ordinary activities

<table>
<thead>
<tr>
<th></th>
<th>16 months ended 27 September 2003</th>
<th>12 months ended 1 June 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£’000</td>
<td>£’000</td>
</tr>
<tr>
<td><strong>Current tax</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>UK corporation tax</td>
<td>6,734</td>
<td>3,396</td>
</tr>
<tr>
<td>Share of current tax paid by joint venture</td>
<td>22</td>
<td>–</td>
</tr>
<tr>
<td>Adjustments in respect of prior years</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- UK corporation tax</td>
<td>70</td>
<td>(33)</td>
</tr>
<tr>
<td><strong>Total current tax</strong></td>
<td>6,826</td>
<td>3,363</td>
</tr>
<tr>
<td><strong>Deferred tax - Origination and reversal of timing differences (note 17)</strong></td>
<td>342</td>
<td>114</td>
</tr>
<tr>
<td><strong>Total tax on profit on ordinary activities</strong></td>
<td>7,168</td>
<td>3,477</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>16 months ended 27 September 2003</th>
<th>12 months ended 1 June 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£’000</td>
<td>£’000</td>
</tr>
<tr>
<td><strong>Profit on ordinary activities before tax</strong></td>
<td>23,554</td>
<td>11,516</td>
</tr>
<tr>
<td>Tax on profit on ordinary activities at standard UK corporation tax rate of 30%</td>
<td>7,066</td>
<td>3,455</td>
</tr>
</tbody>
</table>

*Effects of:*

- Net income not deductible for tax purposes
  - 16 months ended 27 September 2003: (458)
  - 12 months ended 1 June 2002: (85)

- Capital allowances in excess of depreciation
  - 16 months ended 27 September 2003: (64)
  - 12 months ended 1 June 2002: (114)

- Depreciation on tangible fixed assets which do not qualify for capital allowances
  - 16 months ended 27 September 2003: 207
  - 12 months ended 1 June 2002: 149

- Accounting profit in excess of chargeable gains on sale of freehold property
  - 16 months ended 27 September 2003: –
  - 12 months ended 1 June 2002: (9)

- Higher tax rate on overseas earnings
  - 16 months ended 27 September 2003: 5
  - 12 months ended 1 June 2002: –

- Adjustments to tax charge in respect of prior periods
  - 16 months ended 27 September 2003: 70
  - 12 months ended 1 June 2002: (33)

**Current tax charge for period**

- 16 months ended 27 September 2003: 6,826
- 12 months ended 1 June 2002: 3,363
8 Dividends

<table>
<thead>
<tr>
<th></th>
<th>16 months ended</th>
<th>12 months ended</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>27 September 2003</td>
<td>1 June 2002</td>
</tr>
<tr>
<td>Dividends</td>
<td>£'000</td>
<td>£'000</td>
</tr>
<tr>
<td>Over provision in respect of prior period final dividend</td>
<td>–</td>
<td>(7)</td>
</tr>
<tr>
<td>Interim paid 6.35p (2002 – 1.35p) per ordinary share</td>
<td>2,861</td>
<td>606</td>
</tr>
<tr>
<td>Final proposed 15.40p (2002 – 5.80p) per ordinary share</td>
<td>6,972</td>
<td>2,609</td>
</tr>
<tr>
<td>Written off in period</td>
<td>(1)</td>
<td>–</td>
</tr>
<tr>
<td>Total 21.75p (2002 – 7.15p) per ordinary share</td>
<td>9,832</td>
<td>3,208</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>At 27 September 2003</th>
<th>At 1 June 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weighted average number of shares:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>For basic earnings per share</td>
<td>45,057,596</td>
<td>44,865,992</td>
</tr>
<tr>
<td>Weighted average of shares under option</td>
<td>2,051,333</td>
<td>691,761</td>
</tr>
<tr>
<td>Number of shares that would have been issued at fair value</td>
<td>(1,616,733)</td>
<td>(466,524)</td>
</tr>
<tr>
<td>For diluted earnings per share</td>
<td>45,492,196</td>
<td>45,091,229</td>
</tr>
</tbody>
</table>

10 Goodwill

<table>
<thead>
<tr>
<th></th>
<th>Total £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Group</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Cost</strong></td>
<td></td>
</tr>
<tr>
<td>At 2 June 2002</td>
<td>338</td>
</tr>
<tr>
<td>Additions (note 12)</td>
<td>355</td>
</tr>
<tr>
<td>At 27 September 2003</td>
<td>693</td>
</tr>
<tr>
<td><strong>Amortisation</strong></td>
<td></td>
</tr>
<tr>
<td>At 2 June 2002</td>
<td>53</td>
</tr>
<tr>
<td>Charge for the period</td>
<td>54</td>
</tr>
<tr>
<td>At 27 September 2003</td>
<td>107</td>
</tr>
<tr>
<td><strong>Net book value</strong></td>
<td></td>
</tr>
<tr>
<td>At 27 September 2003</td>
<td>586</td>
</tr>
<tr>
<td>At 1 June 2002</td>
<td>285</td>
</tr>
</tbody>
</table>
## Tangible fixed assets

<table>
<thead>
<tr>
<th>Group</th>
<th>Land and buildings</th>
<th></th>
<th>Fixtures and fittings</th>
<th></th>
<th>Motor vehicles</th>
<th></th>
<th>Total £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Freehold £’000</td>
<td>Short leasehold £’000</td>
<td></td>
<td>£’000</td>
<td></td>
<td>£’000</td>
<td></td>
</tr>
<tr>
<td><strong>Cost</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 2 June 2002</td>
<td>2,179</td>
<td>1,098</td>
<td>16,123</td>
<td>395</td>
<td>19,795</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additions</td>
<td>6,079</td>
<td>75</td>
<td>5,172</td>
<td>329</td>
<td>11,655</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disposals</td>
<td>-</td>
<td>-</td>
<td>(421)</td>
<td>(257)</td>
<td>(678)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 27 September 2003</td>
<td>8,258</td>
<td>1,173</td>
<td>20,874</td>
<td>467</td>
<td>30,772</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Depreciation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 2 June 2002</td>
<td>97</td>
<td>479</td>
<td>4,167</td>
<td>8</td>
<td>4,751</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Charge for the period</td>
<td>95</td>
<td>150</td>
<td>2,652</td>
<td>148</td>
<td>3,045</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disposals</td>
<td>-</td>
<td>-</td>
<td>(173)</td>
<td>(103)</td>
<td>(276)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 27 September 2003</td>
<td>192</td>
<td>629</td>
<td>6,646</td>
<td>53</td>
<td>7,520</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net book value</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 27 September 2003</td>
<td>8,066</td>
<td>544</td>
<td>14,228</td>
<td>414</td>
<td>23,252</td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 1 June 2002</td>
<td>2,082</td>
<td>619</td>
<td>11,956</td>
<td>387</td>
<td>15,044</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Freehold land and buildings includes £3,637,872 (including £1,800,000 of land) of assets under construction, on which no depreciation has been charged in the current period.

Cumulative finance costs capitalised included in the cost of tangible fixed assets amount to £167,000 (1 June 2002 - £104,000) for the Group.
12 Fixed asset investments

<table>
<thead>
<tr>
<th>Company</th>
<th>27 September</th>
<th>1 June</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£'000</td>
<td>£'000</td>
</tr>
<tr>
<td>Subsidiary undertakings (Note 12a)</td>
<td>14,640</td>
<td>14,640</td>
</tr>
<tr>
<td>Joint venture (Note 12b)</td>
<td>486</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>15,126</strong></td>
<td><strong>14,640</strong></td>
</tr>
</tbody>
</table>

The Company and the Group have investments in the following subsidiary undertakings and joint ventures which principally affected the profit 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>Subsidiary undertaking</th>
<th>% of issued</th>
<th>Principal activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Topalpha Limited*</td>
<td>100%</td>
<td>Property management and investment</td>
</tr>
<tr>
<td>Multi Tile Limited</td>
<td>100%</td>
<td>Retail and wholesale of ceramic tiles, wood flooring and related products</td>
</tr>
<tr>
<td>Topps Tiles (UK) Limited</td>
<td>100%</td>
<td>Retail and wholesale of ceramic tiles, wood flooring and related products</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Joint venture</th>
<th>% of issued</th>
<th>Principal activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Topps Tiles Holdings BV*</td>
<td>50%</td>
<td>Retail and wholesale of ceramic tiles, wood flooring and related products</td>
</tr>
</tbody>
</table>

* held directly by Topps Tiles Plc

The investments are represented by ordinary shares.

All subsidiary undertakings are incorporated in Great Britain and are registered and operate in England and Wales except for Topps Tiles Holdings BV which is registered and incorporated in the Netherlands.

**a) Subsidiary undertaking**

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

**Amounts written off**

| Beginning and end of period | 12 |

**Net book value**

| Beginning and end of period | 14,640 |
b) Joint venture

Cost and net book value

<table>
<thead>
<tr>
<th>Company £'000</th>
<th>£'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 2 June 2002</td>
<td>–</td>
</tr>
<tr>
<td>Additions</td>
<td>486</td>
</tr>
<tr>
<td>At 27 September 2003</td>
<td>486</td>
</tr>
</tbody>
</table>

On 10 June 2002 the Company acquired 50% of the issued share capital of Topps Tiles Holdings BV. The fair value of the consideration was £486,000.

The following table sets out the book and fair values of the identifiable assets and liabilities acquired:

<table>
<thead>
<tr>
<th>Book and fair value £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tangible fixed assets</td>
</tr>
<tr>
<td>359</td>
</tr>
<tr>
<td>Current assets</td>
</tr>
<tr>
<td>Stocks</td>
</tr>
<tr>
<td>417</td>
</tr>
<tr>
<td>Debtors</td>
</tr>
<tr>
<td>101</td>
</tr>
<tr>
<td>Cash</td>
</tr>
<tr>
<td>–</td>
</tr>
<tr>
<td>Total assets</td>
</tr>
<tr>
<td>877</td>
</tr>
<tr>
<td>Creditors: due within one year</td>
</tr>
<tr>
<td>(746)</td>
</tr>
<tr>
<td>Total liabilities</td>
</tr>
<tr>
<td>(746)</td>
</tr>
<tr>
<td>Net assets</td>
</tr>
<tr>
<td>131</td>
</tr>
<tr>
<td>Goodwill</td>
</tr>
<tr>
<td>355</td>
</tr>
<tr>
<td>Satisfied by:</td>
</tr>
<tr>
<td>Cash</td>
</tr>
<tr>
<td>486</td>
</tr>
</tbody>
</table>

c) Joint venture

<table>
<thead>
<tr>
<th>Group</th>
<th>27 September 2003 £'000</th>
<th>1 June 2002 £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of gross assets</td>
<td>946</td>
<td>–</td>
</tr>
<tr>
<td>Share of gross liabilities</td>
<td>(773)</td>
<td>–</td>
</tr>
<tr>
<td>Share of net assets</td>
<td>173</td>
<td>–</td>
</tr>
</tbody>
</table>
### 13 Debtors

<table>
<thead>
<tr>
<th></th>
<th></th>
<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>
<td>£'000</td>
<td>£'000</td>
</tr>
<tr>
<td>Amounts falling due within one year:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade debtors</td>
<td>775</td>
<td>773</td>
<td>–</td>
<td>–</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loan to joint venture</td>
<td>106</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amounts owed by subsidiary undertakings</td>
<td>–</td>
<td>–</td>
<td>17,223</td>
<td>10,542</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other debtors</td>
<td>811</td>
<td>1,515</td>
<td>–</td>
<td>244</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prepayments and accrued income</td>
<td>3,020</td>
<td>1,514</td>
<td>15</td>
<td>15</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>4,712</td>
<td>3,802</td>
<td>17,238</td>
<td>10,801</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### 14 Creditors: Amounts falling due within one year

<table>
<thead>
<tr>
<th></th>
<th></th>
<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>
<td>£'000</td>
<td>£'000</td>
</tr>
<tr>
<td>Bank loans and overdraft (note 16)</td>
<td>497</td>
<td>220</td>
<td>1,553</td>
<td>–</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade creditors</td>
<td>13,101</td>
<td>9,912</td>
<td>108</td>
<td>25</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other creditors</td>
<td>6,204</td>
<td>1,555</td>
<td>54</td>
<td>6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporation tax</td>
<td>1,547</td>
<td>1,847</td>
<td>4</td>
<td>6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proposed dividend</td>
<td>6,972</td>
<td>2,609</td>
<td>6,972</td>
<td>2,609</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accruals and deferred income</td>
<td>3,599</td>
<td>1,792</td>
<td>207</td>
<td>131</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>31,920</td>
<td>17,935</td>
<td>8,898</td>
<td>2,777</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>Group 27 September 2003</th>
<th>Group 1 June 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£'000</td>
<td>£'000</td>
</tr>
<tr>
<td>Bank loan (note 16)</td>
<td>2,925</td>
<td>526</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 profiles 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.

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 currency profile of the Group’s financial assets is as follows:

<table>
<thead>
<tr>
<th></th>
<th>27 September 2003</th>
<th>1 June 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sterling</td>
<td>19,069</td>
<td>5,142</td>
</tr>
<tr>
<td>Euro</td>
<td>(280)</td>
<td>–</td>
</tr>
<tr>
<td>Dollar</td>
<td>(209)</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>18,580</td>
<td>5,142</td>
</tr>
</tbody>
</table>

Financial assets comprise short term cash deposits with major United Kingdom clearing banks (with associated right of off-set) and deposits placed on money markets at call. The financial assets earn floating rates of interest based upon bank base rates.
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>27 September 2003</th>
<th>1 June 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£’000</td>
<td>%</td>
</tr>
<tr>
<td>Sterling – Borrowings:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loan 1</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Loan 2</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Loan 3</td>
<td>497</td>
<td>1.00</td>
</tr>
<tr>
<td>Loan 4</td>
<td>2,925</td>
<td>0.75</td>
</tr>
<tr>
<td>Total</td>
<td>3,422</td>
<td></td>
</tr>
</tbody>
</table>

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

Loan 4 has an offset facility whereby if cash deposits are equivalent to the loan value the Company only pays 0.75% on the loan value.

b) Currency exposures

The amounts shown in the table below shows the effect of forward contracts entered into to manage foreign currency exposure as at 27 September 2003.

<table>
<thead>
<tr>
<th>Initial contract value £’000</th>
<th>Contract delivery</th>
<th>Currency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract 1</td>
<td>400</td>
<td>1 October 2003</td>
</tr>
<tr>
<td>Contract 2</td>
<td>400</td>
<td>3 November 2003</td>
</tr>
</tbody>
</table>

800

There were no forward contracts in place at 1 June 2002.
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>27 September 2003</th>
<th>1 June 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£’000</td>
<td>£’000</td>
</tr>
<tr>
<td>In one year or less</td>
<td>497</td>
<td>220</td>
</tr>
<tr>
<td>In more than one year but not more than two years</td>
<td>–</td>
<td>220</td>
</tr>
<tr>
<td>In more than two years but not more than five years</td>
<td>2,925</td>
<td>306</td>
</tr>
<tr>
<td>Total</td>
<td>3,422</td>
<td>746</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>27 September 2003</th>
<th>1 June 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£’000</td>
<td>£’000</td>
</tr>
<tr>
<td>Expiring in one year or less</td>
<td>2,000</td>
<td>2,000</td>
</tr>
<tr>
<td>Expiring in more than one year but not more than two years</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Expiring in more than two years</td>
<td>5,078</td>
<td>7,100</td>
</tr>
<tr>
<td>Total</td>
<td>7,078</td>
<td>9,100</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 the end of either period.

17 Provisions for liabilities and charges

Group

<table>
<thead>
<tr>
<th></th>
<th>27 September 2003</th>
<th>1 June 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£’000</td>
<td>£’000</td>
</tr>
<tr>
<td>Deferred taxation - accelerated capital allowances</td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 2 June 2002</td>
<td>1,007</td>
<td>893</td>
</tr>
<tr>
<td>Charged to profit and loss account</td>
<td>342</td>
<td>114</td>
</tr>
<tr>
<td>At 27 September 2003</td>
<td>1,349</td>
<td>1,007</td>
</tr>
</tbody>
</table>
### 18 Called-up share capital

<table>
<thead>
<tr>
<th></th>
<th>27 September 2003</th>
<th>Number of shares</th>
<th>£'000</th>
<th>1 June 2002</th>
<th>Number of shares</th>
<th>£'000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ordinary shares of 12.5p each:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Authorised</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beginning and end of period</td>
<td>64,000,000</td>
<td>8,000</td>
<td>56,600,000</td>
<td>7,075</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Allotted, called-up and fully-paid</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 2 June 2003</td>
<td>44,980,765</td>
<td>5,623</td>
<td>44,805,018</td>
<td>5,601</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Issued in the period</td>
<td>292,944</td>
<td>36</td>
<td>175,747</td>
<td>22</td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 27 September 2003</td>
<td>45,273,709</td>
<td>5,659</td>
<td>44,980,765</td>
<td>5,623</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

During the period the Company allotted 292,944 (1 June 2002 - 175,747) ordinary shares with a nominal value of £36,000 (1 June 2002 - £22,000) under share option schemes for an aggregate cash consideration of £444,000 (1 June 2002 - £324,000).

### 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>At 2 June 2002</td>
<td>(399)</td>
<td>1,307</td>
<td>17,293</td>
</tr>
<tr>
<td>Premium on issue of new shares</td>
<td>–</td>
<td>408</td>
<td>–</td>
</tr>
<tr>
<td>Retained profit for the period</td>
<td>–</td>
<td>–</td>
<td>6,554</td>
</tr>
<tr>
<td>At 27 September 2003</td>
<td>(399)</td>
<td>1,715</td>
<td>23,847</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>At 2 June 2002</td>
<td>14,917</td>
<td>1,307</td>
<td>1,279</td>
</tr>
<tr>
<td>Premium on issue of new shares</td>
<td>–</td>
<td>408</td>
<td>–</td>
</tr>
<tr>
<td>Retained loss for the period</td>
<td>–</td>
<td>–</td>
<td>(104)</td>
</tr>
<tr>
<td>At 27 September 2003</td>
<td>14,917</td>
<td>1,715</td>
<td>1,175</td>
</tr>
</tbody>
</table>
### 20 Reconciliation of movements in Group equity shareholders’ funds

<table>
<thead>
<tr>
<th></th>
<th>16 months ended 27 September 2003 £'000</th>
<th>12 months ended 1 June 2002 £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit for the period</td>
<td>16,386</td>
<td>8,039</td>
</tr>
<tr>
<td>Dividends paid and proposed</td>
<td>(9,832)</td>
<td>(3,208)</td>
</tr>
<tr>
<td>Issue of shares (net of expenses)</td>
<td>444</td>
<td>324</td>
</tr>
<tr>
<td>Net additions to shareholders’ funds</td>
<td>6,998</td>
<td>5,155</td>
</tr>
<tr>
<td>Opening equity shareholders’ funds</td>
<td>23,824</td>
<td>18,669</td>
</tr>
<tr>
<td>Closing equity shareholders’ funds</td>
<td>30,822</td>
<td>23,824</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>16 months ended 27 September 2003 £'000</th>
<th>12 months ended 1 June 2002 £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating profit</td>
<td>23,184</td>
<td>11,660</td>
</tr>
<tr>
<td>Depreciation</td>
<td>3,045</td>
<td>1,912</td>
</tr>
<tr>
<td>Loss on disposal of fixed assets</td>
<td>217</td>
<td>–</td>
</tr>
<tr>
<td>Goodwill amortisation</td>
<td>54</td>
<td>17</td>
</tr>
<tr>
<td>Increase in stocks</td>
<td>(694)</td>
<td>(1,726)</td>
</tr>
<tr>
<td>(Decrease)/increase in debtors</td>
<td>(1,728)</td>
<td>338</td>
</tr>
<tr>
<td>Increase/(decrease) in creditors</td>
<td>9,645</td>
<td>(1,775)</td>
</tr>
<tr>
<td>Net cash inflow from operating activities</td>
<td>33,723</td>
<td>10,426</td>
</tr>
</tbody>
</table>
### 21b) Returns on investments and servicing of finance

<table>
<thead>
<tr>
<th></th>
<th>16 months ended</th>
<th>12 months ended</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>27 September 2003</td>
<td>1 June 2002</td>
</tr>
<tr>
<td>£'000</td>
<td>£'000</td>
<td></td>
</tr>
<tr>
<td>Interest received</td>
<td>363</td>
<td>57</td>
</tr>
<tr>
<td>Interest paid</td>
<td>(51)</td>
<td>(213)</td>
</tr>
<tr>
<td>Interest element of hire purchase rentals</td>
<td>–</td>
<td>(7)</td>
</tr>
<tr>
<td>Net cash inflow/(outflow) from returns on investments and servicing of finance</td>
<td>312</td>
<td>(163)</td>
</tr>
</tbody>
</table>

### 21c) Capital expenditure and financial investment

<table>
<thead>
<tr>
<th></th>
<th>16 months ended</th>
<th>12 months ended</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>27 September 2003</td>
<td>1 June 2002</td>
</tr>
<tr>
<td>£'000</td>
<td>£'000</td>
<td></td>
</tr>
<tr>
<td>Purchase of tangible fixed assets</td>
<td>(11,655)</td>
<td>(3,954)</td>
</tr>
<tr>
<td>Sale proceeds of tangible fixed assets</td>
<td>1,002</td>
<td>3,791</td>
</tr>
<tr>
<td>Net cash outflow from capital expenditure and financial investment</td>
<td>(10,653)</td>
<td>(163)</td>
</tr>
</tbody>
</table>

### 21d) Acquisitions and disposals

<table>
<thead>
<tr>
<th></th>
<th>16 months ended</th>
<th>12 months ended</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>27 September 2003</td>
<td>1 June 2002</td>
</tr>
<tr>
<td>£'000</td>
<td>£'000</td>
<td></td>
</tr>
<tr>
<td>Acquisition of joint venture</td>
<td>(486)</td>
<td>–</td>
</tr>
</tbody>
</table>

### 21e) Financing

<table>
<thead>
<tr>
<th></th>
<th>16 months ended</th>
<th>12 months ended</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>27 September 2003</td>
<td>1 June 2002</td>
</tr>
<tr>
<td>£'000</td>
<td>£'000</td>
<td></td>
</tr>
<tr>
<td>Proceeds from issue of ordinary share capital</td>
<td>444</td>
<td>324</td>
</tr>
<tr>
<td>New loans</td>
<td>3,422</td>
<td>–</td>
</tr>
<tr>
<td>Repayment of loans</td>
<td>(746)</td>
<td>(1,976)</td>
</tr>
<tr>
<td>Capital element of hire purchase rentals</td>
<td>(5)</td>
<td>(184)</td>
</tr>
<tr>
<td></td>
<td>3,115</td>
<td>(1,836)</td>
</tr>
</tbody>
</table>
21f) Analysis and reconciliation of net funds

<table>
<thead>
<tr>
<th></th>
<th>At 1 June 2002 £’000</th>
<th>At 27 September 2003 £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash at bank and in hand</strong></td>
<td>5,142</td>
<td>13,438</td>
</tr>
<tr>
<td><strong>Debt due within one year</strong></td>
<td>(220)</td>
<td>(277)</td>
</tr>
<tr>
<td><strong>Due debt after one year</strong></td>
<td>(526)</td>
<td>(2,399)</td>
</tr>
<tr>
<td><strong>Net funds</strong></td>
<td>4,396</td>
<td>10,762</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>16 months ended 27 September 2003 £’000</th>
<th>12 months ended 1 June 2002 £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Increase in cash in the period</strong></td>
<td>13,438</td>
<td>2,936</td>
</tr>
<tr>
<td><strong>Cash (inflow)/outflow from (increase)/decrease in debt and finance leasing</strong></td>
<td>(2,676)</td>
<td>2,160</td>
</tr>
<tr>
<td><strong>Movements in net funds in the period</strong></td>
<td>10,762</td>
<td>5,096</td>
</tr>
<tr>
<td><strong>Net funds/(debt) at start of period</strong></td>
<td>4,396</td>
<td>(700)</td>
</tr>
<tr>
<td><strong>Net funds at end of period</strong></td>
<td>15,158</td>
<td>4,396</td>
</tr>
</tbody>
</table>

22 Financial commitments

a) Capital commitments
At the end of the period there were capital commitments contracted but not provided for of £4.6m in relation to the warehouse development (1 June 2002 - £Nil).

b) Pension arrangements
The Group operates separate defined contribution pension schemes for employees and directors. The assets of the scheme 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 £194,000 (12 months ended 1 June 2002 - £169,000).
22 Financial commitments (continued)

c) Lease commitments

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

The annual rentals under the foregoing leases are as follows:

<table>
<thead>
<tr>
<th></th>
<th>27 September 2003</th>
<th></th>
<th>1 June 2002</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Land and buildings</td>
<td>Other</td>
<td>Land and buildings</td>
<td>Other</td>
</tr>
<tr>
<td></td>
<td>£'000</td>
<td>£'000</td>
<td>£'000</td>
<td>£'000</td>
</tr>
<tr>
<td>Operating leases which expire:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- within one year</td>
<td>761</td>
<td>164</td>
<td>837</td>
<td>103</td>
</tr>
<tr>
<td>- within two and five years</td>
<td>2,089</td>
<td>200</td>
<td>1,389</td>
<td>287</td>
</tr>
<tr>
<td>- after five years</td>
<td>6,800</td>
<td>20</td>
<td>5,913</td>
<td>22</td>
</tr>
<tr>
<td></td>
<td>9,650</td>
<td>384</td>
<td>8,139</td>
<td>412</td>
</tr>
</tbody>
</table>

23 Related Parties

At 27 September 2003 S.K.M. Williams was the landlord of two properties leased to Multi Tile Ltd, for £88,000 (1 June 2002 £Nil), a trading subsidiary of Topps Tiles Plc. No amounts were outstanding at 27 September 2003 (1 June 2002 £Nil).

The lease agreements on both properties are operated on commercial, arms length terms.
<table>
<thead>
<tr>
<th></th>
<th>12 months ended 29 May 1999 £'000</th>
<th>12 months ended 3 June 2000 £'000</th>
<th>12 months ended 2 June 2001 £'000</th>
<th>12 months ended 1 June 2002 £'000</th>
<th>16 months ended 27 September 2003 £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover, including joint ventures</td>
<td>42,996</td>
<td>62,614</td>
<td>74,642</td>
<td>91,026</td>
<td>154,297</td>
</tr>
<tr>
<td>Operating profit</td>
<td>6,091</td>
<td>8,249</td>
<td>9,637</td>
<td>11,660</td>
<td>23,142</td>
</tr>
<tr>
<td>Profit before taxation</td>
<td>5,828</td>
<td>8,018</td>
<td>9,414</td>
<td>11,516</td>
<td>23,554</td>
</tr>
<tr>
<td>Shareholders’ funds</td>
<td>9,338</td>
<td>13,182</td>
<td>18,669</td>
<td>23,824</td>
<td>30,822</td>
</tr>
<tr>
<td>Basic earnings per share¹</td>
<td>9.9p</td>
<td>13.1p</td>
<td>14.8p</td>
<td>17.9p</td>
<td>36.4p</td>
</tr>
<tr>
<td>Dividend per share¹</td>
<td>3.20p</td>
<td>4.30p</td>
<td>5.00p</td>
<td>7.15p</td>
<td>21.75p</td>
</tr>
<tr>
<td>Dividend cover</td>
<td>3.0</td>
<td>3.0</td>
<td>2.9</td>
<td>2.5p</td>
<td>1.67p</td>
</tr>
<tr>
<td>Average number of employees</td>
<td>585</td>
<td>779</td>
<td>941</td>
<td>1,070</td>
<td>1,176</td>
</tr>
<tr>
<td>Share price (period end)¹</td>
<td>212p</td>
<td>271p</td>
<td>330p</td>
<td>274p</td>
<td>427p</td>
</tr>
</tbody>
</table>

Notes

¹ Adjusted for subdivision of share capital (January 1999).
**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 6 January 2004 at 10.30 a.m. for the following purposes:

**Ordinary Business**

1. to receive and adopt the report of the Directors and the financial statements for the period ended 27 September 2003 and the report of the auditors thereon;

2. to declare a final dividend of 15.40 pence per ordinary share on the ordinary shares for the period;

3. to re-elect Stuart Williams as a director of the Company;

4. to re-elect Nicholas Ounstead as a director of the Company;

5. to re-elect Victor Watson as a director of the Company;

6. to re-appoint Deloitte & Touche LLP 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 7 and 8 will be proposed as Ordinary Resolutions and, in the case of Resolutions 9 and 10 will be proposed as Special Resolutions:

7. THAT the rules of the Topps Tiles Plc 2003 Executive Long-Term Incentive Plan (the “Plan”) a draft of which is produced to the meeting and initialled by the Chairman for the purposes of identification be and are approved and adopted and the Directors be and are authorised to do all things as may be necessary or expedient to carry the Plan into effect.

8. 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 £1,884,518 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.

9. THAT subject to and conditional on the passing of Resolution 8 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 8 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 £282,961.
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 or expressions defined in or for the purposes of sections 89-96 inclusive of the Act shall bear the same meanings.

10 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 4,980,108;

(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 at 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 Registrars (Proxies), PO Box 25, Beckenham, Kent, BR3 4BR, 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 5 January 2004 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 5 January 2004 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 at 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.

c) a copy of the rules of the proposed Topps Tiles Plc Executive Long-Term Incentive Plan referred to in Resolution 7.

Andrew Liggett
Secretary

25 November 2003

Registered Office:
Rushworth House,
Wilmslow Road,
Handforth,
Cheshire SK9 3HJ

Registered No. 3213782
THE ANNUAL GENERAL MEETING of the Company will be held at the Company's premises at Unit D, Mortimer Road Industrial Estate, Narborough, Leicester, LE9 5GA, on 6 January 2004 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 15.40p 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 9 January 2004. Subject to approval by the ordinary shareholders at the AGM, the dividend will be paid on 2 February 2004. Interim dividends of 3.35p and 3.00p per ordinary share were paid on 28 February 2003 and 30 June 2003 respectively. This gives a total dividend level of 21.75p per ordinary share for the 16 month period to 27 September 2003.

RESOLUTIONS 3, 4 AND 5
Re-election of Directors
Stuart Williams, Nicholas Ounstead, 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 75 retires and offers himself for re-election annually. Brief biographical details about the directors standing for re-election appear on pages 22 and 23 of the report and financial statements.

SPECIAL BUSINESS
Resolution 7: The Board recognises the need to maintain long-term improvement in the performance of the Group and considers that this can be best achieved by implementing a long-term incentive plan for its senior employees that delivers value directly related to the Group financial results. Accordingly the Board proposes to introduce the Topps Tiles Plc 2003 Executive Long-Term Incentive Plan (the “Plan”) and seeks shareholders’ approval to adopt the Plan in Resolution 7 of the A.G.M.

The Plan is a cash based plan with performance targets based on the Group profitability over a three year period ending in September 2006. The principal features of the Plan are outlined below:

Operation - The Plan is a discretionary plan and will be operated by the Board (acting where appropriate through the Remuneration Committee).

Eligibility - Any employee of the Group, as well as any executive director who is required to devote substantially all of his time to the business of the Group, who is more than 6 months from retirement will be eligible to participate in the Plan at the discretion of the Remuneration Committee. However, it is currently intended to offer participation only to senior employees but the Executive Co-Chairmen will not participate.

Awards - Awards may be made at any time following the date on which the Plan is adopted by the Group. However it is currently intended that the awards will be made to those existing employees who are selected to participate as soon as possible after the Plan is adopted. Further awards will only be made during the performance period in exceptional circumstances, such as a new joiner or on promotion and on the basis that such awards are adjusted to take into account the extent to which the performance period has expired and the extent the performance conditions have been already met.

No payment will be required for the grant of an award. Awards are not pensionable benefits and are not transferable (other than on death) without the consent of the Board.

Limits - The maximum total amount potentially payable under the Plan if performance conditions are met is £4,000,000. The incentive pool will be divided at the discretion of the board, acting with the remuneration committee, but no one individual will be entitled to receive more than twenty five per cent of the incentive pool.

Payment of Awards - Subject to the participant discharging any relevant tax liability and all conditions being satisfied, an award will normally be paid out as soon as possible after the end of the performance period.
Conditions Applicable to the Awards - The payment of the awards will be dependent on the employee remaining in employment with the Group and the Group achieving at least £80,000,000 audited pre-tax profits over the three year period ending September 2006. (In calculating the level of profit, any accrual for the Plan will be added back and the Remuneration Committee may also, if it deems appropriate, make an adjustment to disregard profit derived from businesses acquired after the commencement of the performance period.) Failure to satisfy the performance condition will result in the employee receiving no payment under the award.

Special Situations - If a Participant leaves employment with the Group for any reason before the end of the performance period, his award will lapse.

In the event of a take-over, reconstruction or winding up of the Group, the awards will become immediately payable.

Alterations to the Plan - The Plan may at any time be altered by the Board in any respect. However, any alterations to the advantage of participants to the rules governing eligibility, limits on participation, the level of the incentive pool available under the Plan, and the circumstance in which the Awards are payable must be approved in advance by shareholders in general meeting unless the alteration or addition is minor in nature and made to benefit the administration of the Plan, to comply with the provisions of any existing or proposed legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or Group companies.

RESOLUTIONS 8 AND 9
Appointment of Authority to Issue Shares and the Dis-application of Statutory Rights of Pre-emption

Resolution 8: 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 8 will be put to members as special business to authorise the directors to allot ordinary shares with a nominal value of £1,884,518 out of the Company's unissued share capital representing approximately 33.3% of the Company's current issued share capital. The authority shall expire five years from the date of passing this resolution.

Resolution 9 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 £282,961 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 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 10
Authority to Purchase Ordinary Shares

At the AGM, ordinary shareholders are being invited under resolution 10 to grant authority to the Company to make market purchases of its ordinary shares. It is proposed such authority shall expire on the conclusion of the AGM to be held in 2005.

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 25 November 2003, there were options to subscribe for 1,781,067 equity shares outstanding under various schemes representing approximately 3.93% of the current issued share capital of the Company. If the authority sought by resolution 10 was exercised in full, the number of outstanding options would represent approximately 4.42% of the issued share capital following the repurchase of shares.
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.
THE TEAM

continued

Pamela Brydon
Patricia Squires
Patricia Walker
Patrick McKeogh
Patrick McLaughlin
Patrick McLean
Paul Bainbridge
Paul Barnard
Paul Bliss
Paul Burkett
Paul Burrow
Paul Calderone
Paul Carter
Paul Castleton
Paul Chapman
Paul Coffey
Paul Copeland
Paul Cunliffe
Paul Danbury
Paul Edwards
Paul Gibbons
Paul Glenn
Paul Halliwell
Paul Hammond
Paul Honour
Paul Horn
Paul Irving
Paul Kelly
Paul Kemp
Paul Lathrope
Paul Laverty
Paul Leaford
Paul Liggett
Paul Mayfield
Paul McCullock
Paul Miller
Paul Peacock
Paul Revell
Paul Riley
Paul Robinson
Paul Rockett
Paul Roden
Paul Ruddle
Paul Semple
Paul Smith
Paul Stuart
Paul Sutton
Paul Thorneycroft
Paul Williams
Paul Woolnough
Paula Budsworth
Pauline Grenfell
Perry Simpson
Peter Byrne
Peter Charters
Peter Davey
Peter Davidson
Peter Deegan
Peter Fallows
Peter Fordham
Peter Johnson
Peter Lynn
Peter Rhodes
Peter Simmonds
Peter Smith
Peter Suthers
Phil Peacock
Philip Hawkeswood
Philip Kelly
Philip Kelly
Philip McCarney
Philip McChrystal
Philip Meakin
Philip Osborne
Philip Pritchard
Philip Tomlin
Philip Wenn
Philip Dunn
Phillip Fitzgibbons
Phillip Hunt
Phillipa Hewitt
Pravesh Ramsaha
Rahman Fofana
Raj Surani
Rajan Mehta
Rajinder Dhanoya
Rajiv Vadgama
Ranjit Jassal
Ranjit Grewal
Ravi Sudera
Ravindra Senaratne
Ray Tricker
Raymond Distefano
Rebecca Bailey
Rebecca Jacques
Rebecca Oblein
Reedwan Desai
Rehan Khan
Rhonda Partridge
Rhys Kelland
Richard Ball
Richard Barnes
Richard Beckham
Richard Bickers
Richard Brookfield
Richard Carter
Richard Clark
Richard Davies
Richard Deavall
Richard Hamblen
Richard Harris
Richard Homan
Richard Hurdiss
Richard Hutcheson
Richard Lee
Richard Mauto
Richard Scott
Richard Smallman
Richard Spencer Smith
Richard Whitmore
Richard Wilson
Rizwan Khan
Robert Adams
Robert Bumstead
Robert Cairns
Robert Cruickshank
Robert Davis
Robert Exley
Robert Green
Robert Hadley
Robert Hodgson
Robert Howker
Robert Humphreys
Robert Mackie
Robert Maples
Robert Marcellin
Robert Moss
Robert Myers
Robert Novis
Robert Rayner
Robert Reynolds
Robert Stevens
Robert Trigg
Robert Waldon
Robert Wright
Roberto Di-Leva
Robin Holt
Robin Pinhorn
Rocky Stocking
Rodney Sanders
Roger Bailey
Ron Perrott
Ronald Daniels
Ronald Emmanuel
Ronald Mackenzie
Ronnie Webster
Rosina Taylor
Roslyn Naylor
Roy Haddon
Roy Lewis
Roy Peasland
Russell Adgey
Russell Thornton
Ryan Barfield
Sadie Manning
Safeer Yassen
Sagren Naidoo
Saladdin Beqqada
Sally Casburn
Sally Green
Sam Nortey
Sam Osborn
Samantha Cato
Samantha Gobey
Samantha Sayer
Sandra Robinson
Sarah Crawford
Sarah Earthey
Sarah Foster
Sarah Jones
Sarah Pimm
Sarah Webb
Sarah Whitehead
Satyan Meisuria
Scott Arundell
Scott Frankland
Scott Hickman
Scott McCluskey
Scott Meadows
Scott Smith
Scott Williams
Sean Fisher
Sean Kerry
Sean McClafferty
Sean Wixen
Shafaq Mohammed
Shane Malone
Shane Sayles
Shane Wood
Shanooor Ali
Sharon Homer
Sharon Muir
CENTRAL REGION
Aston
Banbury
Bedford
Boston
Burton
Bury St Edmunds
Cambridge
Cannock
Colchester
Coventry
Derby
Derby 2
Erdington
Great Yarmouth
Hereford
Kings Heath
Kings Lynn
Leicester
Lincoln
Luton
Martlesham
Narborough
Newcastle-U-Lyne
Newark
Northampton
Norwich
Nottingham
Oldbury
Peterborough
Sheldon
Shrewsbury
Solihull
Stafford
Stoke on Trent
Tamworth
Telford
West Bromwich
Wolverhampton

LONDON AND THAMES SOUTH
Basildon
Beckton
Bexhill
Brighton
Broadstairs
Canterbury
Catford
Charlton
Cheilmsford
Chingford
Colindale
Crayford
Croydon
Dagenham
Eastbourne
Edmonton
Eltham
Farnborough*
Fulham
Gatwick
Gunnersbury
Guildford
Harlow
Ilford
Isle of Wight
Maidstone
Mitcham
New Southgate
Newbury
Old Kent Road
Orpington
Penge
Portsmouth
Raynes Park
Rayleigh
Reading
Romford
Sittingbourne
Slough
Southall
Southampton
Southend
Stamford Hill
Swindon
Tonbridge
Tunbridge Wells
Twickenham
Uxbridge
Vauxhall
Waltham Cross*
Watford
Wembley

NORTH WEST
Aintree
Blackpool
Bolton
Cheadle
Chester
Chester 2
Chorley
Cleveleys
Crewe
Failsworth
Flint
Liverpool
Macclesfield
Morecambe
Oldham
Ormskirk
Preston
Sale
Salford
Snipe (Audenshaw)
St Helens
Stockport
Warrington
Widnes
Wigan

NORTH
Barrow in Furness
Carlisle
Chesterfield
Durham
Harrogate
Huddersfield
Leeds
Hull
Stockton
Sunderland
Tyneside
Wakefield
York

SCOTLAND
Aberdeen
Edinburgh
Falkirk
Glasgow
Greenock
Hillington
Inverness
Linwood
Perth
Rutherglen
Wishaw

SOUTH WEST
Barnstaple
Basingstoke
Bristol
Cardiff
Cheltenham
Christchurch
Cribbs Causeway
Exeter
Gloucester
Newport
Plymouth
Poole
Salisbury
Swansea
Taunton

New store 2002/03

Stores at beginning of period 139
New stores opened 24
Transfer from TCH* 2
Sub-Total 165
Closures 4
Holland Store sold to Joint Venture 1
Total 160

TOTAL 160 STORES
LONDON STORES
New store 2002/03

Stores at beginning of period 139
New stores opened 24
Transfer from TCH* 2
Sub-Total 165
Closures 4
Holland Store sold to Joint Venture 1
Total 160
CENTRAL REGION
Cambridge ●
Coventry ●
Fenton ●
Great Barr ●
Leicester ●
Harlow ●
Milton Keynes ●
Nottingham ●
Peterborough ●
Stoke on Trent ●
Worcester

NORTH
Bradford ●
Darlington ●
Doncaster ●
Hull ●
Sheffield ●

SOUTH WEST
Bournemouth ●
Bridgend ●
Exeter ●

SCOTLAND
Aberdeen ●

LONDON AND THAMES SOUTH
Barking ●
Beckenham ●
Charlton ●
Haringey ●
New Southgate ●
Orpington ●
Swindon ●
Wembley ●

NORTH WEST
Bolton ●
Cheadle ●
Crosby ●
Maghull ●
Oldham ●
Preston ●
Stockport ●
Wigan ●

● New store 2002/03

Stores at beginning of period 32
New stores opened 9
Transfer to Topps (2)
Sub-Total 39
Closures (3)
Total 36