The Topps Tiles Group is Britain’s biggest ceramic tile and wood flooring specialist with 220 stores throughout the UK, and with a controlled opening programme of 24 new stores per annum, the UK store target of 350 stores is well within reach.

Topps’ record since flotation in 1997 is consistently excellent with earnings per share showing over 42% average annual compound growth over the past seven years and with our dominant market position, more new stores and a growing market, the Board expects a continued build in shareholder value.
Financial Highlights
The Group has continued to deliver excellent results across all areas.

53 weeks results to 2 October 2004

- Group turnover increased by 32.5%* to £157.6 million
- Group gross margin increased to 60.5% (2003: 57.5%*)
- Operating costs decreased as a percentage of Group turnover to 39.9% (2003: 41.9%*)
- Profit before tax increased by 78.9%* to £33.8 million
- Profit before tax margin increased to 21.4% (2003: 15.9%*)
- Basic earnings per share increased by over 94% to 11.30 pence (2003: 5.82** pence)
- Dividend policy changed to 1.41 times cover from 1.67 times cover at 27 September 2003
- A final net dividend of 6.00 pence per share to be paid on 31 January 2005
- The full period dividend of 8.00 pence per share is an increase of over 130%*
- Net cash position of £23.1 million
- Net 24 new stores opened
- 11 stores now trading in Holland (2003: 8 stores)

* comparatives are made to the unaudited information for the 52 weeks ended 27 September 2003 (See Profit and Loss Account).

** adjusted for share sub-division of 5:1 in May 2004.
We are pleased to report another record performance for the Group underpinned by a strong financial position. Since flotation in 1997 we have achieved consistent double digit growth in both turnover and profits whilst keeping tight controls over costs. The key to our continued success is our commitment to the highest levels of customer service and both the range and quality of products that we offer.

This period saw the completion and opening of our new purpose-built distribution and marketing centre at Grove Park in Leicestershire. The new facility was officially opened on 28 May 2004 by the Right Honourable Patricia Hewitt, Secretary of State for Trade and Industry.

This now gives us the capacity to achieve our target of over 350 stores on the UK mainland and also to distribute more product ourselves thereby cutting down on the number of third party distributors that we use.

Financial results*
Group turnover has increased by 32.5% over the period to £157.6 million with profit before tax increasing by over 78% to £33.8 million.

We again experienced strong growth in like-for-like sales for the period of 21.5% demonstrating the strength of our brand and the underlying continued growth in the ceramic tile and laminate and wood flooring markets. This is particularly encouraging given that prior period like-for-like sales growth was challenging at over 15%.

Our business is highly cash generative and at the period end we had net cash balances of £23.1 million.

*Comparatives are made up of the unaudited proforma information for the 52 weeks ended 27 September 2003 (See Profit and Loss Account).
The key to our continued success is our commitment to the highest levels of customer service and both the range and quality of products that we offer.

Dividend
The Board is committed to a progressive dividend policy and is recommending a final dividend of 6.00 pence per share, which together with the interim dividend of 2.00 pence per share, brings the total dividend for the period to 8.00 pence per share, an increase of over 130% compared to the unaudited proforma dividend for the 52 week period to 27 September 2003. The dividend will be paid on 31 January 2005 to all shareholders on the register as at 14 January 2005.

Outlook
We enjoy the market leading position as a specialist for ceramic tiles in the UK and we have emerged this year as a truly recognised national brand. We are confident that we have the right strategies, management and people to deliver another period of growth and progress for Topps Tiles Plc.

People
During the period we created a further 161 new jobs through our expansion programme and we are delighted to have this opportunity to welcome those who have joined our team as well as to thank all our people for their individual contribution to another record set of results.

* comparatives are made to the unaudited information for the 52 weeks ended 27 September 2003 (See Profit and Loss Account).

Stuart Williams
Executive Co-Chairman

Barry Bester
Executive Co-Chairman

Summary
- We now trade from 220 stores throughout the UK and eleven stores in Holland
- Group turnover increased by 32.5%* to £157.6 million
- Profit before tax increased by over 78%* to £33.8 million
- We remain confident that we can continue to grow the business

Overall sales and like-for-like sales growth (%)

Source: see page 9.

Topps Tiles Plc Annual Report and Financial Statements 2004
Strategy Statement

Our success is built on four key cornerstones:

1. Customer service
   We always aim to provide high levels of customer service across both our brands and train all our staff at our own national and regional training centres and through our e-learning tile training college. Customer satisfaction is our number one priority and it is our policy to be honest, helpful and knowledgeable but never, never pushy.

   In store we provide a range of services offering practical support at every stage of the job which includes Loan-a-Tile, free “How to” video or DVD, tile cutting service and our buy-back service which allows undamaged stock tiles to be returned within 28 days for a full refund.

2. Store locations
   Our stores in the main are not located on high streets or large retail parks but can be found on highly visible destination sites on or close to busy roads with parking facilities outside. Our controlled expansion is taking us across the UK and a full list of stores can be found at the beginning of this report or on our website at www.toppstiles.co.uk.

   Our stores trade seven days a week on Monday to Saturday opening from 8.00am to 6.00pm and on Sundays either 10.00am to 4.00pm or 11.00am to 5.00pm, with a number of larger stores opening until 8.00pm during the week.
3. Stock availability
Stock is absolutely key to our success and across both Tile Clearing House and Topps Tiles you will find the best the world has to offer in wall and floor tiles, natural stone, laminate and real wood flooring. Every store carries a huge number of lines in stock with replenishments arriving twice a week from our new distribution and marketing centre in Leicestershire.

Over 80% of our tiles are imported from around the world to bring customers the very best choice, quality and value.

4. Store layout
Our average size store is just over 6,400 square feet. They are laid out in an easy to navigate mini warehouse style with wide aisles to accommodate prams and pushchairs.

The stores are well lit and customer friendly with a huge choice of products merchandised with colourful displays and informative point-of-sale and with pricing information clearly displayed.

Summary
- New e-learning college
- New central warehouse up and running
- Over 350 stores planned
- Importing product from around the world
- Mini warehouse style store layout
- Huge choice of product
Operating and Financial Review

Topps has had another excellent period of strong sales and profit growth.

Operating review

Store openings
Our controlled store opening programme continues with 27 new stores (24 Topps and 3 Tile Clearing House) opened in this financial year. This now gives us an overall total of 220 trading stores (187 Topps and 33 Tile Clearing House) with three stores being closed or relocated giving us a net 24 new stores opened in the period. We have re-fitted 14 outlets in line with our policy of continuous review to ensure we achieve the maximum potential from our sites. We now have 69 stores with our tile studio concept of extra choice of up-market tiles available on a special order basis and 16 floorstores with an enhanced stock range of laminate and real wood flooring.

The rollout of the Stoneworks concept within the stores continues as consumers’ appetite for natural product grows. This area of the market is growing rapidly and we are well placed to take advantage of this trend with 17 stores now open.

New distribution and marketing centre
We successfully completed the move to our new central distribution and marketing centre in April this year, without any disruption to trading. The tripling of capacity will be sufficient to take us from our current store number of 220 through to our stated target of over 350 stores in the UK.

Holland
We now have a total of eleven stores trading in Holland under our 50/50 joint venture including three new stores opened in the period. It is our intention to open a further two stores in the next financial period.

Marketing and advertising
We operate two brands in the market, Topps Tiles and Tile Clearing House. Topps is Britain’s biggest tile and wood flooring specialist group with the largest choice in the UK to suit all tastes and budgets. Tile Clearing House is a true “cash and carry” tile store selling end of lines, job lots and seconds, appealing to small builders, local contractors and bulk purchasers.

Over the past 18 months, Topps has undertaken a significant programme of sponsorships across various broadcast channels including GMTV National Weather, UK Style and Carlton Weather.

Customer service
Across both our brands, we differentiate ourselves from the competition not only by the range and availability of our stock but also, most importantly, by the standard of customer service provided by our high quality, well trained staff.
Customer service (continued)
We have a teamwork policy at Topps of which training is a key feature. We train all staff on both existing and new product and procedure developments within the business thus equipping them with the necessary tool kit to serve our customers. We have our own training department and training centres along with in-store training via our e-learning software and our radio station Tiles FM.

The market
The tile market continues to grow with the non-contract sector estimated at 43.1 million square metres (source MSI*) for 2004. Growth is forecast to reach 54.5 million square metres by 2008, an increase of 26%.

The UK has traditionally had a very low usage per capita of ceramic tiles compared with our European neighbours but this is now changing with tiles becoming increasingly more popular. The continued growth in the market is driven by a number of factors, in particular the increase in second bathrooms and shower areas, conservatories and utility rooms and the trend for larger kitchens at the expense of formal dining rooms.

Consumers today are increasingly aware of health and hygiene issues in the home and are replacing traditional soft flooring products with easy to clean ceramic floor tiles or wood and laminate flooring. There is also an increase in the use of under floor heating systems in family rooms where hard flooring is now becoming more popular.

The Alliance & Leicester’s Moving Improving Index revealed that Britons were forecast to spend a record £17 billion on their homes during summer 2004. A record number of people are getting into DIY, more are planning serious projects and the average expenditure on DIY will rise by 23% during summer 2004.

Current trading
In the first seven weeks of the new financial period we have recorded a like-for-like sales increase of over 16% and overall sales have increased by over 25%.

This period’s target expansion is for another net 24 new stores and we have already opened stores in Barnsley, Edinburgh, Clacton and Camberley.

Topps has had another excellent period of strong sales and profit growth. The first few weeks of the new financial period have begun well and we are confident of delivering continued growth to our shareholders.

*MSI – Marketing Strategies for Industry

Summary
- Net 24 new stores opened
- Current trading like-for-like sales growth of over 16% for the first seven weeks
- Current overall sales growth of over 25% for the first seven weeks
- Continued TV sponsorships
- Market to grow 26% over next four years

Gross margin (%)

Source: see page 9.
27 stores opened this year... our controlled expansion continues with 220 stores now trading throughout the UK.
Operating and Financial Review (continued)

Financial review*
Profit and Loss Account
Turnover
During the period Group turnover increased by 32.5% to £157.6 million from £118.9 million last year. Like-for-like sales increased by 21.5%, with new store openings contributing a further 8.2% increase, with the remaining 2.8% increase due to the 53rd week in this period.

Gross margin
Overall gross margin was 60.5% compared to 57.5% last year. At the interim point of this period gross margin was 59.4%. The second half has shown a gross margin of 61.5%.

Operating expenses
Costs as a percentage of sales were 39.9% compared to 41.9% 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 78.9% to £33.8 million compared to a profit before tax of £18.9 million last year.

Profit before tax margin
Group profit before tax margin has increased to 21.4% from 15.9% last year. This increase of 5.5 percentage points has been achieved primarily by an increase in gross margin of 3.0 percentage points and a reduction in operating costs of 2.0 percentage points with the remainder being reflected in the profit on disposal of fixed assets and interest receivable.

Taxation
The effective rate of Corporation Tax was 24.1% (89 weeks ended 27 September 2003: 30.4%) and we continued to fully provide for deferred taxation in line with FRS19.

The effective rate of tax for this financial period has been favourably affected by a statutory deduction for share options exercised of 4.2%.

Charts
Financial information in the charts displayed on pages 1, 3, 7, 9, 11 and 13 is based on the Annual Report and Financial Statements for the 53 week periods ended 3 June 2000 and 2 October 2004, and the 52 week periods ended 2 June 2001 and 1 June 2002 and the proforma unaudited statements for the 52 week period ended 27 September 2003.

Summary*
- Like-for-like sales growth of 21.5%
- Gross margin 60.5%
- Profit before tax up 78.9%
- Basic earnings per share up 94.2%
- Dividend cover reduced to 1.41 times
- Dividend payout up 130%

*Comparatives are made up of the unaudited proforma information for the 52 weeks ended 27 September 2003 (See Profit and Loss Account).
Consistent growth in sales requires consistent delivery of product. Our new central distribution and marketing centre comprises 105,000 square feet.
Operating and Financial Review (continued)

Financial review (continued)
Earnings and dividends
Our earnings per share has grown to 11.30 pence compared to 5.82 pence last year, an increase of 94.2%.

The Board is recommending a final dividend of 6.00 pence per share, which will give a total dividend for the period of 8.00 pence compared to 3.48 pence last year, an increase of 130%. This gives a dividend cover of 1.41 times compared to 1.67 times for the 69 week period ended 27 September 2003.

The Board is confident in this further reduction in cover as the business continues to demonstrate its ability to generate free cash and considers this reduction to be a sustainable level.

Balance Sheet
Fixed assets
Capital expenditure in the period amounted to £11.7 million. This reflects the cost of acquiring two freehold sites for £0.8 million, further development costs on four sites of £1.1 million and the completion costs of the new distribution and marketing centre of £5.1 million.

We have also opened 27 new stores at a cost of £2.3 million and undertaken major refurbishment of a further 14 stores at a cost of £0.5 million and other minor re-fit costs of £0.9 million. We continue to update and expand our IT systems within the business and this coupled with some motor vehicle renewals accounted for £1.0 million.

At the period end the Group owned nine freehold sites, two development sites and the new distribution and marketing centre which have a total net book value of £10.9m.

Stock
Stock at the period end represents 143 days turnover compared to 147 days for the same period last year.

Cash reserves
Cash reserves at the period end were £29.6 million and borrowings were £6.5 million, the latter being primarily for the new distribution and marketing centre. This gives the Group a net funds position of £23.1 million compared to £15.2 million as at 27 September 2003.

The highly cash generative nature of our business means that the Group has always been able to fund its entire new store expansion programme from its own resources and to purchase freehold sites as suitable opportunities arise.

Share buy-backs
In the financial period the Group has bought back 5,878,920 Ordinary Shares at a cost of £8.64 million. This primarily is to stop any dilution occurring as employee share options are exercised and sold. However the Group
Continued sales growth from existing stores is driven by friendly, helpful expert in-store advice.
Operating and Financial Review (continued)

Financial review (continued)
Balance Sheet (continued)
has also, on occasion, acquired shares when the Board considers there is an opportunity to do so in the market. To date, 5,471,120 of the shares acquired have been cancelled leaving 407,800 held as Treasury Shares.

Share split
In May 2004 the Company completed a share sub-division whereby each Ordinary Share of 12.5 pence was sub-divided into five Ordinary Shares of 2.5 pence each. The Board believes the share split will increase the marketability and liquidity of the shares by accommodating investors who could be deterred by the pre share split price level. The Board considered this particularly important, since the Company had recently become a FTSE 250 quoted company.

Joint venture in Holland
The joint venture in Holland continues to develop with three new stores opened in the period to bring the total to eleven stores. The Group owns 50% in the joint venture with the other 50% owned by the Dutch management team. The Group’s Profit and Loss Account shows turnover of £1.8 million and the operating profit before tax of £39,000 from the venture which reflects the Group’s 50% holding.

International Financial Reporting Standards (IFRS)
The Group is working closely with its auditors to implement these proposed changes. The Group is required to adopt IFRS for the financial period commencing 2 October 2005.

Annual General Meeting
The Annual General Meeting for the period to 2 October 2004 will be held on 11 January 2005 at 10.30am at Topps Tiles Plc, Thorpe Way, Grove Park, Enderby, Leicestershire LE19 1SU, which is our new distribution and marketing centre.

Nicholas Ounstead
Chief Executive Officer

Andrew Liggett
Finance Director

Summary
- Eleven stores trading in Holland
- IFRS being implemented
- AGM set for 11 January 2005

Dividend level (pence) and cover (times)

Source: see page 9.
Corporate and Social Responsibility (CSR)

The Board is developing an integrated CSR policy that targets and measures the performance of the Group.

Community relations
Topps is one of the biggest supporters of youth football in the UK, providing new kits and equipment to junior teams local to 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 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 fund raising achievements for our adopted charity Asthma UK. This is our fourth year of support for the charity which aims to conquer this respiratory disorder which affects over one million children in the UK. Asthma UK 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 £10,000 we raised over £75,000 for this worthy cause.

As well as sport there is also education, where via our product catalogue schools can win valuable computer equipment. Since the scheme started, over 20 schools have benefited nationwide.

Market place
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 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.
Workplace (continued)
There is a strong culture of internal promotion and regular dialogue on job and career development.

Topps is committed to promoting equal opportunities for all, and we believe that we have the right policies in place to meet this objective.

The Group also operates an employee suggestion scheme which is overseen by the Co-Chairman, Barry Bester, which allows all employees to give suggestions which can help improve the business whether it be operational, environmental or social.

An in-house magazine is produced six times a year and sent to all employees as a further way of keeping everybody informed of the developments within the business.

Health and safety
The Group has a well documented and clear policy that is implemented rigorously throughout the business. We operate a Health and Safety Committee which meets on a regular basis and its members are representative of all areas of the business and is chaired by our Chief Executive.

Environment
The Group is currently a constituent of the FTSE 4 Good Index of socially responsible UK quoted companies. The Directors aim to comply with the criteria set by the operators of this Index and are actively engaged in further developments of CSR policies to achieve ongoing compliance.

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.

Summary
■ One of the biggest supporters of youth football in the UK
■ Clear policy of building local brand awareness
■ Our fourth year of support for Asthma UK
■ Commitment of support for local schools, hospitals and community centres
■ Strong culture of internal promotion
Our sponsorship activities support our controlled growth... consistently reinforcing the brand values.
Corporate and Social Responsibility (CSR) (continued)

Environment (continued)

Within the offices of the business we actively promote the recycling of all paper products through the use of recycling bins placed throughout the building.

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.

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 which will include an environmental policy that highlights any major impacts such as waste, energy efficiencies and paper and timber procurement focusing on the use of post consumer recycled waste and Forest Stewardship Council Certification.
Executive Directors

**Stuart Williams FCA**  
Executive Co-Chairman  
(aged 60)  
Member of Nomination Committee

Stuart was a founder shareholder and Director of Topps Tiles in 1984. His principal responsibilities include Group Strategy and overseeing property and legal matters. He is also editor of the in-house magazine.

**Barry Bester**  
Executive Co-Chairman  
(aged 47)  
Member of Nomination Committee

Barry was a founder shareholder and Director of Topps Tiles in 1984. His principal responsibilities are those of Group Strategy along with overseeing development of the joint venture in Holland. He is also responsible for the Company’s employee suggestion scheme.

**Andrew Liggett FCMA**  
Finance Director  
(aged 43)

Andrew 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 ten years, initially as Management Accountant and then as Finance Director. He is responsible for the accounting, financial control, treasury, administration and Group secretarial matters.

**Nicholas Ounstead**  
Chief Executive Officer  
(aged 44)

Nicholas joined Topps Tiles in April 1997. Prior to this he was Marketing Director at Belgrove 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 and has overall responsibility for the day-to-day operations of the business.
Non-Executive Directors

Alan McIntosh CA
Senior Non-Executive Director
(aged 36)
Chairman of Audit Committee
Member of Nomination Committee
Alan qualified as a Chartered Accountant with Deloitte. He was one of the founders and the former Group Finance Director of Punch Group Ltd. He joined the Board of Topps Tiles in 1997.

Victor Watson CBE
Non-Executive Director
(aged 76)
Member of Audit Committee
Chairman of Nomination Committee
Victor is also a Director of Thorpe Park (Leeds) Limited and Chairman of Leeds Chamber of Commerce 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 58)
Member of Audit Committee
Member of Nomination Committee
Michael’s business career has seen him in management capacities with Proctor & Gamble and Marks & Spencer. In 1967 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. He joined the Board of Topps Tiles in 1999.
Operational Directors

Ray Tricker  
Northern Operations Director  
(aged 48)

Ray joined the Company in 2002 and has over 30 years worth of sales experience including eight years with Wickes.

Adrian McCourt  
Southern Operations Director  
(aged 46)

Adrian joined the business six years ago having spent his entire working life in sales, including time in the USA with JC Penney.

Martin Shenton  
Midlands and South West Operations Director  
(aged 49)

Martin joined the Company in 1978 and has worked in many different positions in his time with the business.

Alan Saunders  
Marketing Director  
(aged 41)

Alan joined the Company in 1984 as Store Manager and progressed to Area Manager before taking up his current role in 2002.
Matt Williams  
Property Director  
(aged 30)

Matt joined the Company in 1998 after completing his Chartered Surveyors exams and took up his current position in 2003.

Colin Hampson  
IT Director  
(aged 32)

Colin joined the business in 1995 and has played a key role in implementing and developing our Epos systems.

John Reilly  
Buying Director  
(aged 43)

John joined the Company in 1998 after twelve years in the tile business, including three years with Great Mills DIY.
Directors and Advisors

Directors
BFJ Bester
Executive Co-Chairman
SKM Williams FCA
Executive Co-Chairman
ND Ounstead
Chief Executive Officer
A Liggett FCMA
Finance Director
WA McIntosh CA
Senior Non-Executive Director
VH Watson CBE
Non-Executive Director
The Rt Hon JM Jack, Privy Counsellor MP
Non-Executive Director

Company Secretary
A Liggett FCMA

Registered number
3213782

Registered office
Rushworth House
Wilmslow Road
Handforth
Wilmslow
Cheshire SK9 3HJ

Auditors
Deloitte & Touche LLP
Manchester

Bankers
HSBC Bank Plc
56 Queen Street
Cardiff CF10 2PX

Registrars
Capita Registrars Plc
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Solicitors
TLT Solicitors
1 Redcliff Street
Bristol BS99 7JZ

Sinclair Abson Smith Lawyers
30 Greek Street
Stockport SK3 8AD

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
Directors’ Report

The Directors present their report on the affairs of the Group, together with the Financial Statements and Auditors’ Report, for the 53 week period ended 2 October 2004.

Principal activity and business review
The principal activity of the Group comprises the retail and wholesale distribution of ceramic tiles, wood flooring and related products. Details of the Group’s performance during the period and expected future developments are contained in the Chairmen’s Statement and the Operating and Financial Review on pages 2 to 13 of the Annual Report and Financial Statements.

Results and dividends
The audited Financial Statements for the 53 week period ended 2 October 2004 are set out on pages 34 to 54. The Group’s profit for the period, after taxation was £25,648,000 (69 weeks ended 27 September 2003: £16,386,000).

An interim dividend of 2.00 pence per share, £4,602,000 was paid on 30 June 2004.

The Directors recommend a final dividend of 6.00 pence per share, £13,593,000 making a total of 8.00 pence per share, £18,195,000 (69 weeks ended 27 September 2003: total dividend 4.35p per share, £9,832,000). Subject to approval by the shareholders at the Annual General Meeting to be held on 11 January 2005, the final dividend will be paid on 31 January 2005 to shareholders on the register at the close of business on 14 January 2005.

Directors
The Directors of the Company are as follows:

SKM Williams Executive Co-Chairman
BFJ Bester Executive Co-Chairman
ND Ounstead Chief Executive Officer
A Liggett Finance Director
WA McIntosh Senior Non-Executive Director
VH Watson Non-Executive Director
JM Jack Non-Executive Director

Their interests in the shares of the Company are set out on page 31.

Share capital
Details of the Company’s authorised and issued share capital are shown in Note 19 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 49 days’ purchases (69 weeks ended 27 September 2003: 55 days).
Directors’ Report (continued)

Charitable and political contributions
During the period the Group made charitable donations of £10,000 (69 weeks ended 27 September 2003: £10,000) to Asthma UK. The Group made no political contributions.

Substantial shareholdings
In addition to the Directors’ shareholdings noted on page 31, on 2 November 2004 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>Name of Nominee Company</th>
<th>Number</th>
<th>% held</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chase Nominees Limited</td>
<td>28,674,000</td>
<td>12.6%</td>
</tr>
<tr>
<td>HSBC Global Custody Nominee (UK) Limited</td>
<td>26,362,000</td>
<td>11.6%</td>
</tr>
<tr>
<td>Littledown Nominees Limited</td>
<td>18,538,000</td>
<td>8.2%</td>
</tr>
<tr>
<td>State Street Nominees Limited</td>
<td>15,836,000</td>
<td>6.9%</td>
</tr>
<tr>
<td>Vidacos Nominees Limited</td>
<td>12,965,000</td>
<td>5.7%</td>
</tr>
<tr>
<td>BNY (OCS) Nominees Limited</td>
<td>8,518,000</td>
<td>3.7%</td>
</tr>
<tr>
<td>Nortrust Nominees Limited</td>
<td>7,191,000</td>
<td>3.2%</td>
</tr>
<tr>
<td>Morstan Nominees Limited</td>
<td>6,939,000</td>
<td>3.1%</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 386,842 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 3,629,047. The Directors will continue to incentivise employees through additional employee share option schemes in the forthcoming financial period.

During the period, the Company purchased 5,878,920 Ordinary Shares for a consideration of £8,640,000. The shares were initially held as Treasury Shares but subsequently it was decided that 5,471,120 of the shares should be cancelled.
Auditors
A resolution to re-appoint Deloitte & Touche LLP as the Company’s Auditors 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; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements;

Going concern
After making appropriate enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Group accounts.

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

On behalf of the Board

A Liggett
Director and Company Secretary
30 November 2004

Corporate Governance Statement
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 Provisions A1.3 and A6.1. In regard to A1.3, the Chairmen met with the Non-Executive Directors on an informal basis during the period. Separate formal meetings between the Chairmen and the Non-Executives will be held at least annually. In regard to A6.1, the Board does not currently undertake a formal appraisal of its own performance and that of its committees, but it is committed to putting in place and conducting such a process in the forthcoming year. The Company complies with all other provisions of the Code.

Code Provision D.3.1 requires the members of the Audit Committee to be named in the Annual Report and Financial Statements. WA McIntosh (Chairman), VH Watson and The Rt Hon JM Jack have served on the Committee throughout the period.
Corporate Governance Statement (continued)

Attendance at Board/Committee meetings
The following table shows the number of Board and Committee meetings held during the 53 week period ended 2 October 2004 and the attendance record of the individual Directors.

<table>
<thead>
<tr>
<th></th>
<th>Board of Directors</th>
<th>Audit Committee</th>
<th>Remuneration Committee</th>
<th>Nomination Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of meetings</td>
<td>10</td>
<td>2</td>
<td>1</td>
<td>—</td>
</tr>
<tr>
<td>SKM Williams</td>
<td>1</td>
<td>0</td>
<td>2</td>
<td>—</td>
</tr>
<tr>
<td>BFJ Bester</td>
<td>10</td>
<td>2</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>ND Ounstead</td>
<td>9</td>
<td>2</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>A Liggett</td>
<td>10</td>
<td>2</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>WA McIntosh</td>
<td>8</td>
<td>1</td>
<td>1</td>
<td>—</td>
</tr>
<tr>
<td>VH Watson</td>
<td>10</td>
<td>2</td>
<td>1</td>
<td>—</td>
</tr>
<tr>
<td>JM Jack</td>
<td>10</td>
<td>2</td>
<td>1</td>
<td>—</td>
</tr>
</tbody>
</table>

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 Directors’ Remuneration Report.

Dialogue with 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. The Company also posts financial information on its website www.toppstiles.co.uk.

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

In compliance with Provision D.2.1 of the Combined Code, the Board continuously reviews the effectiveness of the Group’s system of internal control. The Board’s monitoring covers all controls, including financial, operational and compliance controls and risk management. It is based principally on reviewing reports from management to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied and indicate a need for more extensive monitoring. The Board has also performed a specific assessment for the purposes of this Annual Report and Financial Statements. 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.
Directors’ Remuneration Report

Introduction
This report has been prepared in accordance with the Directors’ Remuneration Report Regulations 2002 (The Regulations) 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 WA McIntosh (Chairman), VH Watson and The RT Hon JM Jack who are all independent Non-Executive Directors.

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 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;
■ long-term incentive plan;
■ 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 2004 with increases taking effect from 1 October 2004. 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 and pension contributions, the Executive Directors receive certain benefits-in-kind, principally a car and private medical insurance.
Directors’ Remuneration Report (continued)

Unaudited information (continued)

Long-term Incentive Plan (L-TIP)
The Topps Tiles Plc 2003 Executive L-TIP is a three year plan, set up in the period, which is due to mature at the financial period ending 30 September 2006. The L-TIP is a cash based plan with performance targets based on the Group profitability over the three year period. It is discretionary and will be operated by the Board acting through the Remuneration Committee. The maximum total amount potentially payable under the plan if performance criteria are met is £4,000,000. ND Ounstead and A Liggett each have been granted a 25% interest in the L-TIP.

The payment of the individual awards under the scheme is dependent on the participant remaining in employment with the Group and the Group achieving a cumulative total of at least £80,000,000 pre-tax profits (before any accrual for the L-TIP) over the three year period and the diluted earnings per share as shown in the Group’s annual accounts must increase by an average of 15% per annum (compounded annually) over the same period. In the event of a take-over, reconstruction or winding up of the Group, a proportion of awards will vest having regard to the number of months of the performance period that have elapsed and any other relevant factors.

Share options
The share option scheme comprises two parts, the Topps Tiles Plc Approved Executive Share Options Scheme and the Topps Tiles Plc Unapproved Executive Share Options 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 options 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 the terms and conditions of any entitlement of a Director to share options.

Pension arrangements
BFJ Bester, ND Ounstead and A Liggett received contributions into their own personal pension schemes.

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

SKM Williams, BFJ Bester, A Liggett and ND Ounstead have entered into new service contracts on 1 October 2004 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 £20,000. 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.
Directors' contracts (continued)

Non-Executive Directors (continued)

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>WA McIntosh</td>
<td>27 May 1997</td>
<td>N/A</td>
<td>6 months</td>
</tr>
<tr>
<td>VH Watson</td>
<td>27 May 1997</td>
<td>N/A</td>
<td>6 months</td>
</tr>
<tr>
<td>JM Jack</td>
<td>26 January 1999</td>
<td>N/A</td>
<td>6 months</td>
</tr>
</tbody>
</table>

Performance graph

The following graph shows the Company’s performance, measured by Total Shareholder Return (TSR), compared with the performance of the FTSE Index also measured by TSR. The index chosen for the comparison demonstrates the Group’s TSR in comparison to the average for FTSE 250 companies. The Company has previously been compared to the average for small companies but entered the FTSE 250 in June 2004.

Audited information

Aggregate Directors’ remuneration

The total amounts for Directors’ remuneration were as follows:

<table>
<thead>
<tr>
<th></th>
<th>53 weeks ended</th>
<th>69 weeks ended</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2 October 2004</td>
<td>27 September 2003</td>
</tr>
<tr>
<td>Emoluments</td>
<td>£959</td>
<td>£1,171</td>
</tr>
<tr>
<td>Money purchase pension</td>
<td>24</td>
<td>20</td>
</tr>
<tr>
<td>contributions</td>
<td>983</td>
<td>1,191</td>
</tr>
</tbody>
</table>
Directors' Remuneration Report (continued)

**Audited information (continued)**

**Directors’ emoluments**

<table>
<thead>
<tr>
<th>Name of Director</th>
<th>Basic Fee £'000</th>
<th>Salary £'000</th>
<th>Benefits in Kind £'000</th>
<th>Money purchase pension contributions £'000</th>
<th>53 weeks ended 2 October 2004 £'000</th>
<th>69 weeks ended 27 September 2003 £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Executive Directors</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SKM Williams</td>
<td>—</td>
<td>178</td>
<td>20</td>
<td>—</td>
<td>198</td>
<td>257</td>
</tr>
<tr>
<td>BFJ Bester</td>
<td>—</td>
<td>178</td>
<td>20</td>
<td>6</td>
<td>204</td>
<td>266</td>
</tr>
<tr>
<td>ND Ounstead</td>
<td>—</td>
<td>229</td>
<td>24</td>
<td>9</td>
<td>262</td>
<td>292</td>
</tr>
<tr>
<td>A Liggett</td>
<td>—</td>
<td>229</td>
<td>21</td>
<td>9</td>
<td>259</td>
<td>295</td>
</tr>
<tr>
<td><strong>Non-Executive Directors</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>WA McIntosh</td>
<td>20</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>20</td>
<td>27</td>
</tr>
<tr>
<td>VH Watson</td>
<td>20</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>20</td>
<td>27</td>
</tr>
<tr>
<td>JM Jack</td>
<td>—</td>
<td>20</td>
<td>—</td>
<td>—</td>
<td>20</td>
<td>27</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>40</td>
<td>834</td>
<td>85</td>
<td>24</td>
<td>983</td>
<td>1,191</td>
</tr>
</tbody>
</table>

Aggregate emoluments disclosed above do not include the amounts of £499,000 accrued at the period end, under the L-TIP, as owing to each of ND Ounstead and A Liggett.

**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 exercised by the Directors. Details of options which relate to the unapproved scheme, for Directors who served during the period and exercised or granted since the prior period, are set out below:

<table>
<thead>
<tr>
<th>Name of Director</th>
<th>£ exercisable 2003 during period</th>
<th>Exercise price £</th>
<th>Date from which exercisable</th>
<th>Market price at exercise date £</th>
<th>Gain on exercise in 53 weeks ended 2 October 2004 £'000</th>
<th>Gain on exercise in 69 weeks ended 27 September 2003 £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>A Liggett</td>
<td>1,500,000</td>
<td>0.602</td>
<td>06.09.03</td>
<td>1.62</td>
<td>1,527</td>
<td></td>
</tr>
<tr>
<td>ND Ounstead</td>
<td>500,000</td>
<td>0.602</td>
<td>06.09.03</td>
<td>1.12</td>
<td>259</td>
<td></td>
</tr>
<tr>
<td>ND Ounstead</td>
<td>625,000</td>
<td>0.602</td>
<td>06.09.03</td>
<td>1.62</td>
<td>636</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2,422</td>
<td></td>
</tr>
</tbody>
</table>

There have been no variations to the terms and conditions or performance criteria for share options during the financial period.

No further options can be granted under this scheme. No options were granted during the period and at the period end none of the Directors had any outstanding options.

The other Executive and Non-Executive Directors held no options during the period, no options were granted during the period.

The market price of the Ordinary Shares at 2 October 2004 was 178.9 pence and the range during the year was 86 pence to 190 pence.
Audited information (continued)

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>Director</th>
<th>53 weeks ended 2 October 2004</th>
<th>69 weeks ended 27 September 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>BFJ Bester</td>
<td>£8,000</td>
<td>£8,000</td>
</tr>
<tr>
<td>ND Ounstead</td>
<td>£9,000</td>
<td>£5,000</td>
</tr>
<tr>
<td>A Liggett</td>
<td>£9,000</td>
<td>£7,000</td>
</tr>
<tr>
<td></td>
<td>£24,000</td>
<td>£20,000</td>
</tr>
</tbody>
</table>

Directors’ interests

The Directors had the following interest in the shares of the Company (all interests relate solely to Ordinary Shares).

<table>
<thead>
<tr>
<th>Director</th>
<th>2 October 2004</th>
<th>27 September 2003</th>
<th>Share options end of period*</th>
</tr>
</thead>
<tbody>
<tr>
<td>SKM Williams</td>
<td>24,698,600</td>
<td>24,998,600</td>
<td>—</td>
</tr>
<tr>
<td>BFJ Bester</td>
<td>18,541,600</td>
<td>24,998,600</td>
<td>—</td>
</tr>
<tr>
<td>ND Ounstead</td>
<td>493,500</td>
<td>493,500</td>
<td>—</td>
</tr>
<tr>
<td>A Liggett</td>
<td>2,001,500</td>
<td>2,001,500</td>
<td>—</td>
</tr>
<tr>
<td>WA McIntosh</td>
<td>1,585,000</td>
<td>1,585,000</td>
<td>—</td>
</tr>
<tr>
<td>VH Watson</td>
<td>185,000</td>
<td>186,000</td>
<td>—</td>
</tr>
<tr>
<td>JM Jack</td>
<td>15,000</td>
<td>15,000</td>
<td>—</td>
</tr>
</tbody>
</table>

*adjusted for share sub-division

Approval

This report was approved by the Board of Directors on 30 November 2004 and signed on its behalf by:

WA McIntosh
Chairman of Remuneration Committee
30 November 2004
Independent Auditors’ Report

To the members of Topps Tiles Plc
We have audited the Financial Statements, excluding the proforma information, of Topps Tiles Plc for the 53 week period ended 2 October 2004 which comprise the Consolidated Profit and Loss Account, the Balance Sheets, the Consolidated Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related Notes 1 to 24. 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 Annual Report and Financial Statements 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 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 Annual Report and Financial Statements for the above year 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 audit. 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.

Topps Tiles Plc Annual Report and Financial Statements 2004
Basis of audit opinion (continued)
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 2 October 2004 and of the profit of the Group for the 53 week 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
30 November 2004
### Consolidated Profit and Loss Account

For the 53 week period ended 2 October 2004

<table>
<thead>
<tr>
<th>Notes</th>
<th>53 weeks ended 2 October 2004 £’000</th>
<th>69 weeks ended 27 September 2003 £’000</th>
<th>Proforma information 27 September 2003 £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notes</td>
<td>Audited</td>
<td>Audited</td>
<td>UNaudited</td>
</tr>
<tr>
<td>Turnover, group and share of joint venture</td>
<td>159,430</td>
<td>154,297</td>
<td>120,032</td>
</tr>
<tr>
<td>Less: share of joint venture turnover</td>
<td>(1,818)</td>
<td>(2,087)</td>
<td>(1,135)</td>
</tr>
<tr>
<td>Group turnover</td>
<td>157,612</td>
<td>152,210</td>
<td>118,897</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(62,282)</td>
<td>(64,737)</td>
<td>(50,587)</td>
</tr>
<tr>
<td>Gross profit</td>
<td>95,330</td>
<td>87,473</td>
<td>68,310</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>– employee profit sharing</td>
<td>(7,853)</td>
<td>(5,450)</td>
<td>(4,271)</td>
</tr>
<tr>
<td>– other operating expenses</td>
<td>(54,968)</td>
<td>(58,881)</td>
<td>(45,534)</td>
</tr>
<tr>
<td>Group operating profit</td>
<td>32,509</td>
<td>23,142</td>
<td>18,505</td>
</tr>
<tr>
<td>Share of operating profit in joint venture</td>
<td>39</td>
<td>64</td>
<td>64</td>
</tr>
<tr>
<td>Group and share of joint venture operating profit</td>
<td>32,548</td>
<td>23,206</td>
<td>18,569</td>
</tr>
<tr>
<td>Exceptional profit on disposal of fixed assets</td>
<td>5</td>
<td>542</td>
<td>—</td>
</tr>
<tr>
<td>Profit on ordinary activities before net finance income</td>
<td>33,090</td>
<td>23,206</td>
<td>18,569</td>
</tr>
<tr>
<td>Net finance income</td>
<td>6</td>
<td>704</td>
<td>348</td>
</tr>
<tr>
<td>319</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit on ordinary activities before taxation</td>
<td>7</td>
<td>33,794</td>
<td>23,554</td>
</tr>
<tr>
<td>Tax on profit on ordinary activities</td>
<td>8</td>
<td>(8,146)</td>
<td>(7,168)</td>
</tr>
<tr>
<td>Profit on ordinary activities after taxation</td>
<td>25,648</td>
<td>16,386</td>
<td>13,119</td>
</tr>
<tr>
<td>Dividends</td>
<td>9</td>
<td>(18,155)</td>
<td>(9,832)</td>
</tr>
<tr>
<td>Transfer to reserves</td>
<td>20</td>
<td>7,493</td>
<td>6,554</td>
</tr>
<tr>
<td>5,248</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Earnings per Ordinary Share*</td>
<td>10</td>
<td>11.30p</td>
<td>7.28p</td>
</tr>
<tr>
<td>– basic</td>
<td>10</td>
<td>11.12p</td>
<td>7.20p</td>
</tr>
<tr>
<td>– diluted</td>
<td>10</td>
<td>11.12p</td>
<td>7.20p</td>
</tr>
</tbody>
</table>

*adjusted for share sub-division of 5:1 in May 2004.

The accompanying Notes are an integral part of this Consolidated Profit and Loss Account.

There are no recognised gains or losses in either period other than the profit for the financial period and a foreign exchange gain of £9,000 (69 weeks ended 27 September 2003: £15,564). Accordingly, no separate Statement of Total Recognised Gains and Losses is presented. All activity arose from continuing operations.
Balance Sheets
As at 2 October 2004

<table>
<thead>
<tr>
<th></th>
<th>Group 2 October 2004 £'000</th>
<th>Group 27 September 2003 £'000</th>
<th>Company 2 October 2004 £'000</th>
<th>Company 27 September 2003 £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fixed assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goodwill</td>
<td>11 551</td>
<td>586</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Tangible assets</td>
<td>12 29,236</td>
<td>23,252</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Investments</td>
<td>13 (—)</td>
<td>(—)</td>
<td>15,122</td>
<td>15,126</td>
</tr>
<tr>
<td>Joint venture undertaking</td>
<td>(13(c))</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– share of assets</td>
<td>1,059</td>
<td>946</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>– share of liabilities</td>
<td>(866)</td>
<td>(773)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stocks</td>
<td>24,373</td>
<td>19,713</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Debtors due within one year</td>
<td>14 3,809</td>
<td>4,712</td>
<td>40,103</td>
<td>17,238</td>
</tr>
<tr>
<td>Debtors after one year</td>
<td>14 110</td>
<td>—</td>
<td>6,200</td>
<td>—</td>
</tr>
<tr>
<td>Cash at bank and in hand</td>
<td>17 29,624</td>
<td>18,580</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Creditors: amounts falling due within one year</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>15 (45,452)</td>
<td>(31,920)</td>
<td>(19,195)</td>
<td>(8,898)</td>
</tr>
<tr>
<td><strong>Net current assets</strong></td>
<td>12,464</td>
<td>11,085</td>
<td>27,108</td>
<td>8,340</td>
</tr>
<tr>
<td><strong>Total assets less current liabilities</strong></td>
<td>42,444</td>
<td>35,096</td>
<td>42,230</td>
<td>23,466</td>
</tr>
<tr>
<td><strong>Creditors: amounts falling due after more than one year</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>16 (7,571)</td>
<td>(2,925)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Provisions for liabilities and charges</strong></td>
<td>18 (1,864)</td>
<td>(1,349)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Net assets</strong></td>
<td>33,009</td>
<td>30,822</td>
<td>42,230</td>
<td>23,466</td>
</tr>
</tbody>
</table>

**Capital and reserves**

<table>
<thead>
<tr>
<th></th>
<th>Group 2 October 2004 £'000</th>
<th>Group 27 September 2003 £'000</th>
<th>Company 2 October 2004 £'000</th>
<th>Company 27 September 2003 £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Called-up share capital</td>
<td>19 5,673</td>
<td>5,659</td>
<td>5,673</td>
<td>5,659</td>
</tr>
<tr>
<td>Share premium</td>
<td>20 4,889</td>
<td>1,715</td>
<td>4,889</td>
<td>1,715</td>
</tr>
<tr>
<td>Merger reserve</td>
<td>20 (399)</td>
<td>(399)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Special reserve</td>
<td>20 (—)</td>
<td>(—)</td>
<td>14,917</td>
<td>14,917</td>
</tr>
<tr>
<td>Treasury Shares</td>
<td>20 (733)</td>
<td>(733)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Capital redemption reserve</td>
<td>20 137</td>
<td>—</td>
<td>137</td>
<td>—</td>
</tr>
<tr>
<td>Other reserve</td>
<td>20 (—)</td>
<td>(—)</td>
<td>6,200</td>
<td>—</td>
</tr>
<tr>
<td>Profit and Loss Account</td>
<td>20 23,442</td>
<td>23,847</td>
<td>11,147</td>
<td>1,175</td>
</tr>
<tr>
<td><strong>Equity shareholders’ funds</strong></td>
<td>21 33,009</td>
<td>30,822</td>
<td>42,230</td>
<td>23,466</td>
</tr>
</tbody>
</table>

The accompanying Notes are an integral part of these Balance Sheets.

The Financial Statements on pages 34 to 54 were approved by the Board of Directors on 30 November 2004 and signed on its behalf by:

ND Gunstead
A Liggett
Directors

Topps Tiles Plc Annual Report and Financial Statements 2004
### Consolidated Cash Flow Statement

For the 53 week period ended 2 October 2004

**30 November 2004**

<table>
<thead>
<tr>
<th></th>
<th>Notes</th>
<th>53 weeks ended 2 October 2004 £'000</th>
<th>69 weeks ended 27 September 2003 £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net cash inflow from operating activities</strong></td>
<td></td>
<td>37,770</td>
<td>33,723</td>
</tr>
<tr>
<td>Returns on investments and servicing of finance</td>
<td>22(a)</td>
<td>530</td>
<td>312</td>
</tr>
<tr>
<td>Taxation</td>
<td></td>
<td>(5,236)</td>
<td>(7,104)</td>
</tr>
<tr>
<td>Capital expenditure and financial investment</td>
<td>22(b)</td>
<td>(8,266)</td>
<td>(10,653)</td>
</tr>
<tr>
<td>Acquisitions and disposals</td>
<td></td>
<td>—</td>
<td>(486)</td>
</tr>
<tr>
<td>Equity dividends paid</td>
<td></td>
<td>(11,534)</td>
<td>(5,469)</td>
</tr>
<tr>
<td><strong>Cash inflow before financing</strong></td>
<td></td>
<td>13,264</td>
<td>10,323</td>
</tr>
<tr>
<td>Financing</td>
<td>22(e)</td>
<td>(2,220)</td>
<td>3,115</td>
</tr>
<tr>
<td><strong>Increase in cash in the period</strong></td>
<td>22(f)</td>
<td>11,044</td>
<td>13,438</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 United Kingdom accounting standards.

b) Basis of preparation of unaudited proforma information

The unaudited profit and loss accounts are based on management accounts information and have been presented for the benefit of the principal users of the Financial Statements as in the opinion of the Directors it forms a more appropriate basis for making comparisons of profit and loss performance. The audit opinion does not extend to the proforma information.

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 2 October 2004. The Financial Statements of Topalpha Limited have been consolidated using merger accounting principles. In all other cases, subsidiary undertakings have been accounted for using acquisition accounting principles 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 Section 230 of the Companies Act 1985. The Company’s profit after tax for the period, determined in accordance with the Act, was £36,035,000 (69 weeks ended 27 September 2003: £9,727,000). An unrealised gain of £6,200,000 was generated (69 weeks ended 27 September 2003: £Nil).

d) Financial period

The accounting period ends on the Saturday which falls closest to 30 September, resulting in financial periods of either 52 or 53 weeks. The prior year financial period was 69 weeks due to the change in accounting reference date.

Unaudited proforma information represents a profit and loss account for the non-statutory period of the 52 weeks ended 27 September 2003.

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 useful economic life, which is 20 years. Provision is made for any impairment.

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

f) Turnover

Turnover comprises the net amount receivable in respect of sales during the period to third parties and excludes value added tax.
Notes to the Financial Statements (continued)

For the 53 week period ended 2 October 2004

1 Accounting policies (continued)

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 ten 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, which comprise goods for re-sale, 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.

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 substantively 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. The results of overseas operations are translated at the average rates of exchange during the period and their balance sheets at rates ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets and results of overseas operations are reported in the statement of total recognised gains and losses. All other exchange differences are included 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.
Notes to the Financial Statements (continued)

For the 53 week period ended 2 October 2004

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 United Kingdom and Mainland Europe.

By geographical origin:

<table>
<thead>
<tr>
<th></th>
<th>Turnover 53 weeks ended 2 October 2004 £’000</th>
<th>Turnover 69 weeks ended 27 September 2003 £’000</th>
<th>Profit before tax 53 weeks ended 2 October 2004 £’000</th>
<th>Profit before tax 69 weeks ended 27 September 2003 £’000</th>
<th>Net assets at 2 October 2004 £’000</th>
<th>Net assets at 27 September 2003 £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>157,612</td>
<td>152,210</td>
<td>33,051</td>
<td>23,142</td>
<td>39,333</td>
<td>34,071</td>
</tr>
<tr>
<td>Mainland Europe</td>
<td>1,818</td>
<td>2,087</td>
<td>39</td>
<td>64</td>
<td>193</td>
<td>173</td>
</tr>
<tr>
<td></td>
<td>159,430</td>
<td>154,297</td>
<td>33,090</td>
<td>23,206</td>
<td>39,526</td>
<td>34,244</td>
</tr>
</tbody>
</table>

Bank loans and overdraft
- 53 weeks: —
- 69 weeks: —

Net finance income
- 53 weeks: 704 £’000
- 69 weeks: 348 £’000

Total net assets
- 53 weeks: —
- 69 weeks: 33,009 £’000

Profit on ordinary activities before taxation
- 53 weeks: 33,794 £’000
- 69 weeks: 23,554 £’000

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

3 Operating expenses

<table>
<thead>
<tr>
<th></th>
<th>53 weeks ended 2 October 2004 £’000</th>
<th>69 weeks ended 27 September 2003 £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Distribution costs</td>
<td>41,176</td>
<td>44,849</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>13,792</td>
<td>14,032</td>
</tr>
<tr>
<td>Employee profit sharing</td>
<td>7,853</td>
<td>5,450</td>
</tr>
<tr>
<td></td>
<td>62,821</td>
<td>64,331</td>
</tr>
</tbody>
</table>

Topps Tiles Plc Annual Report and Financial Statements 2004
4 Staff costs

a) Staff numbers
The average monthly number of employees (including Executive Directors) was:

<table>
<thead>
<tr>
<th></th>
<th>53 weeks ended 2 October 2004</th>
<th>69 weeks ended 27 September 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number employed</td>
<td>Number employed</td>
</tr>
<tr>
<td>Selling</td>
<td>1,181</td>
<td>1,036</td>
</tr>
<tr>
<td>Administration</td>
<td>146</td>
<td>140</td>
</tr>
<tr>
<td></td>
<td>1,327</td>
<td>1,176</td>
</tr>
</tbody>
</table>

b) Staff costs
Their aggregate remuneration comprised:

<table>
<thead>
<tr>
<th></th>
<th>53 weeks ended 2 October 2004</th>
<th>69 weeks ended 27 September 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages and salaries</td>
<td>£25,354</td>
<td>£27,157</td>
</tr>
<tr>
<td>Social security costs</td>
<td>£2,936</td>
<td>£2,384</td>
</tr>
<tr>
<td>Other pension costs (Note 23(b))</td>
<td>£175</td>
<td>£194</td>
</tr>
<tr>
<td></td>
<td>£28,465</td>
<td>£29,735</td>
</tr>
</tbody>
</table>

Details of Directors’ emoluments are disclosed on page 29.

5 Exceptional profit on disposal of fixed assets
The profit on disposal of fixed assets increased the tax charge by £130,622.
### Notes to the Financial Statements (continued)

For the 53 week period ended 2 October 2004

#### 6 Finance income (net)

<table>
<thead>
<tr>
<th>Investment income</th>
<th>53 weeks ended 2 October 2004</th>
<th>£'000</th>
<th>69 weeks ended 27 September 2003</th>
<th>£'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest receivable and similar income</td>
<td>930</td>
<td></td>
<td>358</td>
<td></td>
</tr>
</tbody>
</table>

**Interest payable and similar charges**

| Bank loans and overdrafts        | (373)                        | (73) |
| Joint venture interest           | (27)                         | —    |
| Interest costs capitalised       | 174                          | 63   |
| Net finance charges              | (226)                        | (10) |
| Net finance income               | 704                          | 348  |

Finance costs have been capitalised based on a capitalisation rate of 4.5%, which is the weighted average of rates applicable to the Group’s general borrowings outstanding during the period.

#### 7 Profit on ordinary activities before taxation

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

<table>
<thead>
<tr>
<th>Depreciation and amounts written off tangible fixed assets</th>
<th>53 weeks ended 2 October 2004</th>
<th>£'000</th>
<th>69 weeks ended 27 September 2003</th>
<th>£'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>- owned</td>
<td>2,729</td>
<td></td>
<td>3,045</td>
<td></td>
</tr>
<tr>
<td>Amortisation of goodwill</td>
<td>17</td>
<td>54</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Joint venture goodwill</td>
<td>18</td>
<td>24</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exceptional operating expenses, impairment of display stands</td>
<td>344</td>
<td>—</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loss on disposal of fixed assets charged within operating profit</td>
<td>269</td>
<td>217</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exceptional profit on disposal of fixed assets</td>
<td>(542)</td>
<td>—</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating lease rentals</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- plant and machinery</td>
<td>563</td>
<td>535</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- other</td>
<td>11,652</td>
<td>13,153</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Remuneration to Auditors</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- audit</td>
<td>54</td>
<td>55</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- other</td>
<td>181</td>
<td>38</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
8 Tax on profit on ordinary activities

The tax charge comprises:

<table>
<thead>
<tr>
<th></th>
<th>53 weeks ended 2 October 2004</th>
<th>69 weeks ended 27 September 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current tax</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>UK Corporation Tax</td>
<td>7,573</td>
<td>6,734</td>
</tr>
<tr>
<td>Share of current tax paid by joint venture</td>
<td>19</td>
<td>22</td>
</tr>
<tr>
<td>Adjustments in respect of prior years</td>
<td></td>
<td></td>
</tr>
<tr>
<td>– UK Corporation Tax</td>
<td>39</td>
<td>70</td>
</tr>
<tr>
<td><strong>Total current tax</strong></td>
<td>7,631</td>
<td>6,826</td>
</tr>
<tr>
<td>Deferred tax – origination and reversal of timing differences (Note 18)</td>
<td>515</td>
<td>342</td>
</tr>
<tr>
<td><strong>Total tax on profit on ordinary activities</strong></td>
<td><strong>8,146</strong></td>
<td><strong>7,168</strong></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>53 weeks ended 2 October 2004</th>
<th>69 weeks ended 27 September 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Profit on ordinary activities before tax</strong></td>
<td><strong>33,794</strong></td>
<td><strong>23,554</strong></td>
</tr>
<tr>
<td>Tax on profit on ordinary activities at standard UK Corporation Tax rate of 30%</td>
<td>10,139</td>
<td>7,066</td>
</tr>
<tr>
<td><strong>Effects of:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income not deductible for tax purposes</td>
<td>(869)</td>
<td>(458)</td>
</tr>
<tr>
<td>Capital allowances in excess of depreciation</td>
<td>(475)</td>
<td>(64)</td>
</tr>
<tr>
<td>Depreciation on tangible fixed assets which do not qualify for capital allowances</td>
<td>196</td>
<td>207</td>
</tr>
<tr>
<td>Savings from Share Symmetry on options exercised</td>
<td>(1,408)</td>
<td>—</td>
</tr>
<tr>
<td>Higher tax rate on overseas earnings</td>
<td>9</td>
<td>5</td>
</tr>
<tr>
<td>Adjustments to tax charge in respect of prior periods</td>
<td>39</td>
<td>70</td>
</tr>
<tr>
<td><strong>Current tax charge for period</strong></td>
<td><strong>7,631</strong></td>
<td><strong>6,826</strong></td>
</tr>
</tbody>
</table>

Factors that may affect the Group’s future tax charge include anticipated restructuring benefits, differences between the market value and option price of share options exercised and future planning opportunities.
Notes to the Financial Statements (continued)

For the 53 week period ended 2 October 2004

9 Dividends

<table>
<thead>
<tr>
<th>Dividends Description</th>
<th>53 weeks ended 2 October 2004 £'000</th>
<th>69 weeks ended 27 September 2003 £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interim paid 2.00p per Ordinary Share</td>
<td>4,602</td>
<td>—</td>
</tr>
<tr>
<td>Interim paid 6 months ended November 2002 (0.67p)</td>
<td>—</td>
<td>1,509</td>
</tr>
<tr>
<td>Interim paid 4 months ended March 2003 (0.60p)</td>
<td>—</td>
<td>1,352</td>
</tr>
<tr>
<td>Final proposed 6.00p (69 weeks ended 27 September 2003: 3.08p) per Ordinary Share</td>
<td>13,593</td>
<td>6,972</td>
</tr>
<tr>
<td>Over provision in respect of the prior period final dividend</td>
<td>(40)</td>
<td>(1)</td>
</tr>
<tr>
<td>Total 8.00p (69 weeks ended 27 September 2003: 4.35p) per Ordinary Share</td>
<td>18,155</td>
<td>9,832</td>
</tr>
</tbody>
</table>

The unaudited proforma dividend figure for the 52 weeks ended 27 September 2003 of £7,871,000 represents a proforma dividend of 3.48 pence per Ordinary Share using the dividend cover of 1.67 which was applicable to the 69 week period, of which it formed part.

10 Earnings per share

The calculation of earnings per share is based on the profit of ordinary activities after taxation 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 2 October 2004</th>
<th>At 27 September 2003*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of shares</td>
<td>Number of shares</td>
<td>Number of shares</td>
</tr>
<tr>
<td>For basic earnings per share</td>
<td>226,881,069</td>
<td>225,287,980</td>
</tr>
<tr>
<td>Weighted average of shares under option</td>
<td>3,868,815</td>
<td>2,173,000</td>
</tr>
<tr>
<td>For diluted earnings per share</td>
<td>230,749,884</td>
<td>227,460,980</td>
</tr>
</tbody>
</table>

*adjusted for share sub-division

11 Goodwill

<table>
<thead>
<tr>
<th></th>
<th>Total £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td>693</td>
</tr>
<tr>
<td>Amortisation</td>
<td>107</td>
</tr>
<tr>
<td>Charge for the period</td>
<td>35</td>
</tr>
<tr>
<td>At 2 October 2004</td>
<td>142</td>
</tr>
<tr>
<td>Net book value</td>
<td>551</td>
</tr>
<tr>
<td>At 2 October 2004</td>
<td>586</td>
</tr>
<tr>
<td>At 27 September 2003</td>
<td></td>
</tr>
</tbody>
</table>
### 12 Tangible fixed assets

<table>
<thead>
<tr>
<th></th>
<th>Land and buildings Freehold £’000</th>
<th>Land and buildings Short leasehold £’000</th>
<th>Fixtures and fittings £’000</th>
<th>Motor vehicles £’000</th>
<th>Total £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Group</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Cost</strong></td>
<td></td>
<td></td>
<td></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>
</tr>
<tr>
<td>Additions</td>
<td>5,421</td>
<td>120</td>
<td>5,986</td>
<td>138</td>
<td>11,665</td>
</tr>
<tr>
<td>Disposals</td>
<td>(2,475)</td>
<td></td>
<td>(1,312)</td>
<td>(259)</td>
<td>(4,046)</td>
</tr>
<tr>
<td>At 2 October 2004</td>
<td>11,204</td>
<td>1,293</td>
<td>25,548</td>
<td>346</td>
<td>38,391</td>
</tr>
<tr>
<td><strong>Depreciation</strong></td>
<td></td>
<td></td>
<td></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>
</tr>
<tr>
<td>Charge</td>
<td>131</td>
<td>71</td>
<td>2,433</td>
<td>94</td>
<td>2,729</td>
</tr>
<tr>
<td>Disposals</td>
<td>(45)</td>
<td></td>
<td>(952)</td>
<td>(97)</td>
<td>(1,094)</td>
</tr>
<tr>
<td>At 2 October 2004</td>
<td>278</td>
<td>700</td>
<td>8,127</td>
<td>50</td>
<td>9,155</td>
</tr>
<tr>
<td><strong>Net book value</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 2 October 2004</td>
<td>10,926</td>
<td>593</td>
<td>17,421</td>
<td>296</td>
<td>29,236</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>
</tr>
</tbody>
</table>

Freehold land and buildings includes £406,535 (2003: £3,637,872) of assets under construction, including £2,160,000 of land (27 September 2003: £1,860,000) 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 £341,000 (27 September 2003: £167,000) for the Group.

### 13 Fixed asset investments

<table>
<thead>
<tr>
<th>Company 2October 2004 £’000</th>
<th>Company 27September 2003 £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subsidiary undertakings (Note 13a)</td>
<td>14,640</td>
</tr>
<tr>
<td>Joint venture (Note 13b)</td>
<td>482</td>
</tr>
<tr>
<td></td>
<td>15,122</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.
**Notes to the Financial Statements (continued)**

For the 53 week period ended 2 October 2004

### 13 Fixed asset investments (continued)

<table>
<thead>
<tr>
<th>Subsidiary undertaking</th>
<th>% of issued shares held</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>Sale of ceramic tiles, wood flooring and related products</td>
</tr>
<tr>
<td>Topps Tiles (UK) Limited</td>
<td>100%</td>
<td>Sale of ceramic tiles, wood flooring and related products</td>
</tr>
<tr>
<td>Topps Tiles Distribution Limited</td>
<td>100%</td>
<td>Wholesale and distribution of ceramic tiles, wood flooring and related products</td>
</tr>
<tr>
<td>Multi Tile Distribution Limited</td>
<td>100%</td>
<td>Wholesale and distribution of ceramic tiles, wood flooring and related products</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Joint ventures</th>
<th>% of issued shares held</th>
<th>Principal activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Topps Tiles Holdings BV*</td>
<td>50%</td>
<td>Sale 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 (Holland) BV which is registered and incorporated in the Netherlands.

(a) Subsidiary undertakings

<table>
<thead>
<tr>
<th>Company</th>
<th>£'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost and net book value Beginning and end of period</td>
<td>14,640</td>
</tr>
</tbody>
</table>

(b) Joint venture

<table>
<thead>
<tr>
<th>Company</th>
<th>£'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost and net book value At 27 September 2003</td>
<td>486</td>
</tr>
<tr>
<td>Amounts written off</td>
<td>(4)</td>
</tr>
<tr>
<td>At 2 October 2004</td>
<td>482</td>
</tr>
</tbody>
</table>

(c) Joint venture

<table>
<thead>
<tr>
<th>Group</th>
<th>2 October 2004</th>
<th>27 September 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of gross assets</td>
<td>1,059</td>
<td>946</td>
</tr>
<tr>
<td>Share of gross liabilities</td>
<td>(866)</td>
<td>(773)</td>
</tr>
<tr>
<td>Share of net assets</td>
<td>193</td>
<td>173</td>
</tr>
</tbody>
</table>

**Topps Tiles Plc Annual Report and Financial Statements 2004**
### 14 Debtors

<table>
<thead>
<tr>
<th></th>
<th>Group 2 October 2004 £’000</th>
<th>Group 27 September 2003 £’000</th>
<th>Company 2 October 2004 £’000</th>
<th>Company 27 September 2003 £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amounts falling due within one year:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade debtors</td>
<td>635</td>
<td>775</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Loan to joint venture</td>
<td>—</td>
<td>106</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Amounts owed by subsidiary undertaking</td>
<td>—</td>
<td>—</td>
<td>40,103</td>
<td>17,223</td>
</tr>
<tr>
<td>Other debtors</td>
<td>651</td>
<td>811</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Prepayments and accrued income</td>
<td>2,523</td>
<td>3,020</td>
<td>—</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>3,809</td>
<td>4,712</td>
</tr>
</tbody>
</table>

Debtors falling due after one year:

<table>
<thead>
<tr>
<th></th>
<th>Group 2 October 2004 £’000</th>
<th>Group 27 September 2003 £’000</th>
<th>Company 2 October 2004 £’000</th>
<th>Company 27 September 2003 £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan to joint venture</td>
<td>110</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Amounts owed by subsidiary undertaking</td>
<td>—</td>
<td>—</td>
<td>6,200</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>3,919</td>
<td>4,712</td>
</tr>
</tbody>
</table>

**Total debtors**: 3,919 £’000 4,712 £’000 40,103 £’000 17,238 £’000

### 15 Creditors: amounts falling due within one year

<table>
<thead>
<tr>
<th></th>
<th>Group 2 October 2004 £’000</th>
<th>Group 27 September 2003 £’000</th>
<th>Company 2 October 2004 £’000</th>
<th>Company 27 September 2003 £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank loans and overdrafts (Note 17)</td>
<td>517</td>
<td>497</td>
<td>2,615</td>
<td>1,553</td>
</tr>
<tr>
<td>Trade creditors</td>
<td>14,649</td>
<td>13,101</td>
<td>3</td>
<td>108</td>
</tr>
<tr>
<td>Other creditors</td>
<td>4,109</td>
<td>6,204</td>
<td>215</td>
<td>54</td>
</tr>
<tr>
<td>Corporation Tax</td>
<td>3,942</td>
<td>1,547</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Proposed dividend</td>
<td>13,593</td>
<td>6,972</td>
<td>13,593</td>
<td>6,972</td>
</tr>
<tr>
<td>Accruals and deferred income</td>
<td>8,642</td>
<td>3,599</td>
<td>2,754</td>
<td>207</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>45,452</td>
<td>31,920</td>
</tr>
</tbody>
</table>

### 16 Creditors: amounts falling due after more than one year

<table>
<thead>
<tr>
<th></th>
<th>Group 2 October 2004 £’000</th>
<th>Group 27 September 2003 £’000</th>
<th>Company 2 October 2004 £’000</th>
<th>Company 27 September 2003 £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank loan (Note 17)</td>
<td>6,000</td>
<td>2,925</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Accruals and deferred income</td>
<td>1,571</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td>7,571</td>
<td>2,925</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>
17 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.

a) Interest rate profile
The currency profile of the Group’s financial assets is as follows:

<table>
<thead>
<tr>
<th>Currency</th>
<th>Group 2 October 2004 £’000</th>
<th>Group 27 September 2003 £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sterling</td>
<td>29,719</td>
<td>19,069</td>
</tr>
<tr>
<td>Euro</td>
<td>(33)</td>
<td>(280)</td>
</tr>
<tr>
<td>Dollar</td>
<td>(62)</td>
<td>(290)</td>
</tr>
<tr>
<td></td>
<td>29,624</td>
<td>18,580</td>
</tr>
</tbody>
</table>

Financial assets comprise short term cash deposits, accessible within 24 hours, with major United Kingdom clearing banks (with associated right of offset) and deposits placed on money markets at call. The financial assets earn floating rates of interest based upon bank base rates.

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

<table>
<thead>
<tr>
<th></th>
<th>Group 2 October 2004 £’000</th>
<th>Group 27 September 2003 £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sterling – borrowings</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loan one</td>
<td>517</td>
<td>497</td>
</tr>
<tr>
<td>Loan two</td>
<td>6,000</td>
<td>2,925</td>
</tr>
<tr>
<td>Total</td>
<td>6,517</td>
<td>3,422</td>
</tr>
</tbody>
</table>

The interest rate noted on sterling borrowings is the excess over bank base rate.

Loan two has an offset facility whereby if the cash deposit is equivalent to the loan value the Group only pays 0.75% on the loan value.
17 Derivatives and other financial instruments (continued)

Currency risk (continued)

b) Currency exposures

The amounts shown in the table below show the effect of forward contracts entered into to manage foreign currency exposure as at 27 September 2003 and 2 October 2004.

<table>
<thead>
<tr>
<th>Contract</th>
<th>Initial contract value £’000</th>
<th>2 October 2004</th>
<th>Currency</th>
<th>27 September 2003</th>
<th>Contract delivery</th>
<th>Currency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract one</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>400</td>
<td>1 Oct 2003</td>
<td>Euro</td>
</tr>
<tr>
<td>Contract two</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>400</td>
<td>1 Nov 2003</td>
<td>Euro</td>
</tr>
<tr>
<td>Contract three</td>
<td>500</td>
<td>1 Nov 2004</td>
<td>Euro</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Contract four</td>
<td>500</td>
<td>1 Dec 2004</td>
<td>Euro</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1,000</td>
<td>800</td>
<td></td>
</tr>
</tbody>
</table>

c) Maturity of financial liabilities

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

<table>
<thead>
<tr>
<th></th>
<th>2 October 2004</th>
<th>27 September 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>In one year or less</td>
<td>517</td>
<td>497</td>
</tr>
<tr>
<td>In more than two years but not more than five years</td>
<td>6,000</td>
<td>2,925</td>
</tr>
<tr>
<td>Total</td>
<td>6,517</td>
<td>3,422</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>2 October 2004</th>
<th>27 September 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expiring in one year or less</td>
<td>2,000</td>
<td>2,000</td>
</tr>
<tr>
<td>Expiring in more than two years</td>
<td>1,983</td>
<td>5,078</td>
</tr>
<tr>
<td>Total</td>
<td>3,983</td>
<td>7,078</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.
Notes to the Financial Statements (continued)
For the 53 week period ended 2 October 2004

18 Provisions for liabilities and charges

Deferred taxation £’000
At 27 September 2003 1,349
Charged to Profit and Loss Account 515
At 2 October 2004 1,864

Deferred tax is provided as follows:

<table>
<thead>
<tr>
<th></th>
<th>2 October 2004</th>
<th>27 September 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accelerated capital allowances</td>
<td>1,864</td>
<td>1,349</td>
</tr>
</tbody>
</table>

19 Called-up share capital

Ordinary Shares of 12.5p each

<table>
<thead>
<tr>
<th></th>
<th>Number of shares</th>
<th>2004 £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Authorised</td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 27 September 2003 and 2 October 2004</td>
<td>320,000,000</td>
<td>8,000</td>
</tr>
<tr>
<td>Allotted, called-up and fully-paid</td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 27 September 2003</td>
<td>226,368,545</td>
<td>5,659</td>
</tr>
<tr>
<td>Issued in period</td>
<td>6,055,380</td>
<td>151</td>
</tr>
<tr>
<td>Treasury Shares cancellation</td>
<td>(5,471,120)</td>
<td>(137)</td>
</tr>
<tr>
<td>At 2 October 2004</td>
<td>226,952,805</td>
<td>5,673</td>
</tr>
</tbody>
</table>

During the period the Company allotted 6,055,380 Ordinary Shares with a nominal value of £151,000 under share option schemes for an aggregate cash consideration of £3,325,000.

20 Reserves

<table>
<thead>
<tr>
<th></th>
<th>Share premium £’000</th>
<th>Merger reserve £’000</th>
<th>Treasury shares £’000</th>
<th>Redemption reserve £’000</th>
<th>Profit and loss account £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Group</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 27 September 2003</td>
<td>1,715</td>
<td>(399)</td>
<td>—</td>
<td>—</td>
<td>23,847</td>
</tr>
<tr>
<td>Premium on issue of new shares</td>
<td>3,174</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Exchange differences</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>9</td>
</tr>
<tr>
<td>Treasury Shares purchased</td>
<td>—</td>
<td>—</td>
<td>(8,640)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Treasury Shares cancellation</td>
<td>—</td>
<td>—</td>
<td>7,907</td>
<td>137</td>
<td>(7,907)</td>
</tr>
<tr>
<td>Retained profit for the period</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>7,493</td>
<td></td>
</tr>
<tr>
<td>At 2 October 2004</td>
<td>4,889</td>
<td>(399)</td>
<td>(733)</td>
<td>137</td>
<td>23,442</td>
</tr>
</tbody>
</table>
20 Reserves (continued)

<table>
<thead>
<tr>
<th>Share premium £'000</th>
<th>Special reserve £'000</th>
<th>Treasury shares £'000</th>
<th>Capital redemption reserve £'000</th>
<th>Other reserve £'000</th>
<th>Profit and loss account £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Company</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 27 September 2003</td>
<td>1,715</td>
<td>14,917</td>
<td>—</td>
<td>—</td>
<td>1,175</td>
</tr>
<tr>
<td>Premium on issue of new shares</td>
<td>3,174</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Treasury Shares purchased</td>
<td>—</td>
<td>—</td>
<td>(8,640)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Treasury Shares cancellation</td>
<td>—</td>
<td>—</td>
<td>7,907</td>
<td>137</td>
<td>—</td>
</tr>
<tr>
<td>Retained profit for the period</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Other reserve movement</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>6,200</td>
</tr>
<tr>
<td><strong>At 2 October 2004</strong></td>
<td>4,889</td>
<td>14,917</td>
<td>(733)</td>
<td>137</td>
<td>6,200</td>
</tr>
</tbody>
</table>

The Directors consider the balances on the profit and loss account and special reserves to be distributable.

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

21 Reconciliation of movements in Group equity shareholders’ funds

<table>
<thead>
<tr>
<th>53 weeks ended</th>
<th>69 weeks ended</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 October 2004</td>
<td>27 September 2003</td>
</tr>
<tr>
<td>£'000</td>
<td>£'000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>53 weeks ended</th>
<th>69 weeks ended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit for the period</td>
<td>25,648</td>
<td>16,386</td>
</tr>
<tr>
<td>Dividends paid and proposed</td>
<td>(18,155)</td>
<td>(9,832)</td>
</tr>
<tr>
<td>Consideration for purchase of Treasury Shares</td>
<td>(8,640)</td>
<td>—</td>
</tr>
<tr>
<td>Exchange differences</td>
<td>9</td>
<td>—</td>
</tr>
<tr>
<td>Issue of shares (net of expenses)</td>
<td>3,325</td>
<td>444</td>
</tr>
<tr>
<td>Net additions to shareholders’ funds</td>
<td>2,187</td>
<td>6,998</td>
</tr>
<tr>
<td>Opening equity shareholders’ funds</td>
<td>30,822</td>
<td>23,824</td>
</tr>
<tr>
<td>Closing equity shareholders’ funds</td>
<td>33,009</td>
<td>30,822</td>
</tr>
</tbody>
</table>
Notes to the Financial Statements (continued)

For the 53 week period ended 2 October 2004

22 Consolidated cash flow

a) Reconciliation of operating profit to operating cash flows

<table>
<thead>
<tr>
<th></th>
<th>53 weeks ended 2 October 2004</th>
<th>69 weeks ended 27 September 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating profit</td>
<td>32,509</td>
<td>23,184</td>
</tr>
<tr>
<td>Depreciation</td>
<td>2,729</td>
<td>3,045</td>
</tr>
<tr>
<td>Loss on disposal of fixed assets</td>
<td>269</td>
<td>217</td>
</tr>
<tr>
<td>Goodwill amortisation</td>
<td>35</td>
<td>54</td>
</tr>
<tr>
<td>Increase in stocks</td>
<td>(4,660)</td>
<td>(694)</td>
</tr>
<tr>
<td>Decrease/(increase) in debtors</td>
<td>793</td>
<td>(1,728)</td>
</tr>
<tr>
<td>Increase in creditors</td>
<td>6,095</td>
<td>9,645</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net cash inflow from operating activities</td>
<td>37,770</td>
<td>33,723</td>
</tr>
</tbody>
</table>

b) Returns on investments and servicing of finance

<table>
<thead>
<tr>
<th></th>
<th>53 weeks ended 2 October 2004</th>
<th>69 weeks ended 27 September 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest received</td>
<td>930</td>
<td>363</td>
</tr>
<tr>
<td>Interest paid</td>
<td>(400)</td>
<td>(51)</td>
</tr>
<tr>
<td>Net cash inflow from returns on investments and servicing of finance</td>
<td>530</td>
<td>312</td>
</tr>
</tbody>
</table>

c) Capital expenditure and financial investment

<table>
<thead>
<tr>
<th></th>
<th>53 weeks ended 2 October 2004</th>
<th>69 weeks ended 27 September 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase of tangible fixed assets</td>
<td>(11,491)</td>
<td>(11,655)</td>
</tr>
<tr>
<td>Sale proceeds of tangible fixed assets</td>
<td>3,225</td>
<td>1,002</td>
</tr>
<tr>
<td>Net cash outflow from capital expenditure and financial investment</td>
<td>(8,266)</td>
<td>(10,653)</td>
</tr>
</tbody>
</table>

d) Acquisitions and disposals

<table>
<thead>
<tr>
<th></th>
<th>53 weeks ended 2 October 2004</th>
<th>69 weeks ended 27 September 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition of joint venture</td>
<td>—</td>
<td>(486)</td>
</tr>
</tbody>
</table>
22 Consolidated cash flow (continued)

e) Financing

<table>
<thead>
<tr>
<th>53 weeks ended</th>
<th>69 weeks ended</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 October 2004</td>
<td>27 September 2003</td>
</tr>
</tbody>
</table>

Proceeds from issue of Ordinary Share capital 3,325 444
New loans 3,095 3,422
Purchase of Treasury Shares (8,640) —
Repayment of loans — (746)
Capital element of hire purchase rentals — (5)
Net cash (outflow)/inflow from financing (2,220) 3,115

f) Analysis and reconciliation of net funds

<table>
<thead>
<tr>
<th>At 27 September 2003</th>
<th>Cash flow 2003 £’000</th>
<th>At 2 October 2004 £’000</th>
</tr>
</thead>
</table>

Cash at bank and in hand 18,580 11,044 29,624
Debt due within one year (497) (20) (517)
Due debt after one year (2,925) (3,075) (6,000)
Net funds 15,158 7,949 23,107

<table>
<thead>
<tr>
<th>53 weeks ended</th>
<th>69 weeks ended</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 October 2004</td>
<td>27 September 2003</td>
</tr>
</tbody>
</table>

Increase in cash in the period 11,044 13,438
Cash outflow from increase in debt and finance leasing (3,095) (2,676)
Movements in net funds in the period 7,949 10,762
Net funds at start of period 15,158 4,396
Net funds at end of period 23,107 15,158
23 Financial commitments
a) Capital commitments
At the end of the period there were no capital commitments contracted (27 September 2003: £4.6 million).

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 £175,000 (16 months ended 27 September 2003: £194,000).

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></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Land and buildings £'000</td>
<td>Other £'000</td>
<td>Land and buildings £'000</td>
<td>Other £'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>1,255</td>
<td>56</td>
<td>761</td>
<td>164</td>
</tr>
<tr>
<td>– within two to five years</td>
<td>2,052</td>
<td>516</td>
<td>2,089</td>
<td>200</td>
</tr>
<tr>
<td>– after five years</td>
<td>8,777</td>
<td>11</td>
<td>6,800</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td>12,084</td>
<td>583</td>
<td>9,650</td>
<td>384</td>
</tr>
</tbody>
</table>

24 Related parties
At 2 October 2004 SKM Williams was the landlord of two properties leased to Multi Tile Limited, a trading subsidiary of Topps Tiles Plc, for £66,000 (69 weeks ended 27 September 2003: £88,000).

No amounts were outstanding at 2 October 2004 (27 September 2003: £Nil).

The lease agreements on both properties are operated on commercial arms length terms.
## Five Year Record

<table>
<thead>
<tr>
<th></th>
<th>53 weeks ended 2 October 2003</th>
<th>52 weeks ended 2 October 2004</th>
<th>52 weeks ended 2 October 2004</th>
<th>69 weeks ended 27 September 2003</th>
<th>53 weeks ended 2 October 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover, including joint venture</td>
<td>£'000</td>
<td>£'000</td>
<td>£'000</td>
<td>£'000</td>
<td>£'000</td>
</tr>
<tr>
<td></td>
<td>62,614</td>
<td>74,642</td>
<td>91,026</td>
<td>154,297</td>
<td>120,032</td>
</tr>
<tr>
<td>Operating profit, including Group share of joint venture</td>
<td>£'000</td>
<td>£'000</td>
<td>£'000</td>
<td>£'000</td>
<td>£'000</td>
</tr>
<tr>
<td></td>
<td>8,249</td>
<td>9,637</td>
<td>11,660</td>
<td>23,206</td>
<td>18,569</td>
</tr>
<tr>
<td>Profit before taxation</td>
<td>£'000</td>
<td>£'000</td>
<td>£'000</td>
<td>£'000</td>
<td>£'000</td>
</tr>
<tr>
<td></td>
<td>8,018</td>
<td>9,414</td>
<td>11,516</td>
<td>23,554</td>
<td>18,888</td>
</tr>
<tr>
<td>Shareholders’ funds</td>
<td>£'000</td>
<td>£'000</td>
<td>£'000</td>
<td>£'000</td>
<td>£'000</td>
</tr>
<tr>
<td></td>
<td>13,182</td>
<td>18,669</td>
<td>23,824</td>
<td>30,822</td>
<td>33,009</td>
</tr>
<tr>
<td>Basic earnings per share*</td>
<td>£'000</td>
<td>£'000</td>
<td>£'000</td>
<td>£'000</td>
<td>£'000</td>
</tr>
<tr>
<td></td>
<td>2.62p</td>
<td>2.96p</td>
<td>3.58p</td>
<td>7.28p</td>
<td>5.82p</td>
</tr>
<tr>
<td>Dividend per share*</td>
<td>£'000</td>
<td>£'000</td>
<td>£'000</td>
<td>£'000</td>
<td>£'000</td>
</tr>
<tr>
<td></td>
<td>0.86p</td>
<td>1.00p</td>
<td>1.43p</td>
<td>4.35p</td>
<td>3.48p</td>
</tr>
<tr>
<td>Dividend cover</td>
<td>£'000</td>
<td>£'000</td>
<td>£'000</td>
<td>£'000</td>
<td>£'000</td>
</tr>
<tr>
<td></td>
<td>3.00</td>
<td>2.90</td>
<td>2.50</td>
<td>1.67</td>
<td>1.67</td>
</tr>
<tr>
<td>Average number of employees</td>
<td>£'000</td>
<td>£'000</td>
<td>£'000</td>
<td>£'000</td>
<td>£'000</td>
</tr>
<tr>
<td></td>
<td>779</td>
<td>941</td>
<td>1,070</td>
<td>1,176</td>
<td>1,176</td>
</tr>
<tr>
<td>Share price (period end)*</td>
<td>£'000</td>
<td>£'000</td>
<td>£'000</td>
<td>£'000</td>
<td>£'000</td>
</tr>
<tr>
<td></td>
<td>54.2p</td>
<td>66.0p</td>
<td>54.8p</td>
<td>85.4p</td>
<td>85.4p</td>
</tr>
</tbody>
</table>

*adjusted for share sub-division of 5:1 in May 2004.
Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Topps Tiles Plc (the “Company”) will be held at Topps Tiles Plc, Thorpe Way, Grove Park, Enderby, Leicestershire LE19 1SU on Tuesday 11 January 2005 at 10.30am for the following purposes:

Ordinary business
1. To receive and adopt the Company’s Annual Report and Financial Statements for the financial period ended 2 October 2004 together with the last Directors’ Report, the last Directors’ Remuneration Report and the Auditors’ Report on those accounts and the auditable part of the Directors’ Remuneration Report.
2. To declare a final dividend of 6.00 pence per Ordinary Share on the Ordinary Shares for the period.
3. To re-elect WA McIntosh as a Director of the Company.
4. To re-elect VH Watson as a Director of the Company.
5. To re-appoint Deloitte & Touche LLP as Auditors to hold office from the conclusion of the meeting to the conclusion of the next meeting at which the Annual Report and Financial Statements are laid before the Company at a remuneration to be determined by the Directors.

Special business
To consider and, if thought fit, pass the resolutions set out below which, in the case of Resolution 7 will be proposed as an Ordinary Resolution and, in the case of Resolutions 8 and 9 will be proposed as Special Resolutions:

7. THAT the Directors of the Company 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 £1,885,987 (in substitution for/to any existing authorities under the Act) to such persons at such times and upon such terms and conditions as they may determine (subject always to the articles of association of the Company) provided that this authority shall (unless previously revoked, varied or extended by the Company in general meeting) expire at the conclusion of the next Annual General Meeting or 15 months from the date of the passing of this resolution, if earlier save that the Company may, before such expiry, make an offer, agreement or arrangement which would or might require relevant securities to be allotted after the expiry of such period and the Directors may then allot relevant securities pursuant to any such offer, agreement or arrangement as if the authority or power conferred hereby had not expired.

8. THAT subject to and conditional on the passing of Resolution 7 set out above, the Directors of the Company be and they are authorised and 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 general authority and power conferred by Resolution 7 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 authority and power shall unless renewed, varied or revoked, expire at the conclusion of the next Annual General Meeting of the Company or 15 months from the date of the passing of this resolution, if earlier and provided further that this authority and power shall be limited to:

(a) the allotment of equity securities pursuant to a rights issue or similar offer to Ordinary Shareholders where the equity securities respectively attributable to the interests of all Ordinary Shareholders are proportionate or as nearly as practical (and taking into account any prohibitions against or difficulties concerning the making of an offer or allotment to shareholders whose registered address or place of residence is overseas and subject to such exclusions as the Directors of the Company may deem necessary or expedient to deal with fractional entitlement or record dates) to the respective numbers of Ordinary Shares held by them; and
Special business (continued)
(b) the allotment (otherwise than pursuant to paragraph (a) above) of equity securities up to an aggregate nominal amount of the
greater of £283,181 or 5% of the issued share capital of the Company.

9. THAT the Company be generally and unconditionally authorised for the purposes of Section 166 of the Act to make market purchases
(within the meaning of Section 163(3) of the Act) of Ordinary Shares of 2.5p each in the capital of the Company (“Ordinary Shares”)
provided that:
(a) the maximum number of Ordinary Shares hereby authorised to be purchased is 33,815,000 (representing 14.9% of the
Company’s issued Ordinary Share capital);
(b) the minimum price, exclusive of any expenses, which may be paid for an Ordinary Share is 2.5p;
(c) the maximum price, exclusive of any expenses, which may be paid for an Ordinary Share is an amount equal to 105% 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) unless previously renewed, varied or revoked, the authority conferred shall expire at the close of the next Annual General
Meeting of the Company or twelve months from the date of this resolution, if earlier; and
(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
1. This notice has been sent to all Ordinary Shareholders who are entitled to attend or be represented at the meeting.

2. A member entitled to attend and vote at the Annual General Meeting 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 appointed for the holding of the Annual General Meeting.

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

4. 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.

5. 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 10 January 2005 (or if the meeting is adjourned, shareholders entered on the Company’s
register of members not later than 48 hours before the time fixed for the adjourned meeting) shall be entitled to attend the Annual
General Meeting 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 10 January 2005 (or, if the meeting is adjourned after 48 hours before the time fixed for the adjourned
meeting) shall be disregarded in determining the rights of any person to attend and/or vote at the Annual General Meeting.
6. 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.

A Liggett
Company Secretary
30 November 2004

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

Registered No:
3213782
Explanatory Notes to the Notice of Annual General Meeting

THE ANNUAL GENERAL MEETING of the Company will be held at the Company’s premises at Thorpe Way, Grove Park, Enderby, Leicestershire LE19 1SU on 11 January 2005 at 10.30am.

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

**Ordinary business**

**Resolution 2**

**Final dividend**

A final dividend of 6.00 pence 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 14 January 2005. Subject to approval by the Ordinary Shareholders at the Annual General Meeting, the dividend will be paid on 31 January 2005. An interim dividend of 2.00 pence per Ordinary Share was paid on 30 June 2004. This gives a total dividend level of 8.00 pence per Ordinary Share for the 53 week period to 2 October 2004.

**Resolutions 3 and 4**

**Re-election of Directors**

WA McIntosh and VH 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 three years with the exception of VH Watson who at the age of 76 retires and offers himself for re-election annually. Brief biographical details about the Directors standing for re-election appear on page 19 of the Annual Report and Financial Statements.

**Special business**

**Resolutions 7 and 8**

**Appointment of authority to issue shares and the disapplication of statutory rights of pre-emption**

**Resolution 7:** 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 7 will be put to members as special business to authorise the Directors to allot Ordinary Shares with a nominal value of £1,885,987 out of the Company’s unissued share capital representing approximately 33.3% of the Company’s current issued share capital (excluding shares held in treasury). The Company holds 407,800 Ordinary Shares in treasury representing approximately 0.18% of the Company’s current issued share capital (excluding shares held in treasury).

The Directors have no current intention of exercising the authority to allot further shares. The authority shall expire immediately following the Annual General Meeting next following the resolution or, if earlier, 15 months following the resolution being passed.

**Resolution 8:** 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 £283,181 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 Annual General Meeting next following the resolution or, if earlier, 15 months following the resolution being passed.
Special business (continued)

Resolution 9
Authority to purchase Ordinary Shares

At the Annual General Meeting, Ordinary Shareholders are being invited under Resolution 9 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 Annual General Meeting to be held in 2006 or twelve months from the date of this resolution, if earlier.

This authority will be limited to the purchase of not more than 14.9% of the Ordinary Shares currently in issue. This represents the maximum amount of Ordinary Share capital in issue which is permitted before 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 2.5p per Ordinary Share.

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. The Directors’ current intention is that the authority sought by Resolution 9 shall be utilised in respect of the shares under these options.

As at 30 November 2004, there were options to subscribe for 3,629,047 equity shares outstanding under various schemes representing approximately 1.60% of the current issued share capital of the Company. If the authority sought by Resolution 9 was exercised in full, the number of outstanding options would represent approximately 1.88% of the issued share capital following the repurchase of shares.
Financial Calendar

Key dates

- Annual General Meeting: 11 January 2005
- Final dividend payable: 31 January 2005
- 2004/05 interim results announcement: May 2005
- 2004/05 interim dividend payable: June 2005
- 2004/05 full year results announcement: November 2005
The Team (continued)

Karim Tiller
Karim Brooks
Karim Cumberbatch
Karim Jackson
Karim Magee
Karim Roberts-Synes
Kathryn Robinson
Kieron Birch
Keith Ambrose
Keith Earl
Keith Hughes
Keith Ruddin
Kelly Ellis
Kelly King
Kelly Whyte
Kelly Woodberry
Kelly Wynn
Kevan Marks
Kevan Oldham
Kevan Oldham
Kevan Owen
Kevan Turner
Kel Savarson
Kim Wood
Kerry Atkinson
Kerry Blake
Kerry Hume
Kevan Richardson
Kevan Ashworth
Kevan Ains
Kevan Baker
Kevan Bootle
Kevan Brophy
Kevan Crumpton
Kevan Dine
Kevan Elton
Kevan Gallagher
Kevan Gariff
Kevan Hayes
Kevan Nelson
Kevan Reading
Kevan Robinson
Kevan Rockett
Kevan Smith
Kevan Taylor
Kevan Thomas
Kevan Tulley
Kiaran Barvans Warden
Kieron Clarke
Kimbrey Box
Kirk Starting
Kris Bailey
Kris Kingdom
Kris Hutchison
Larisa Cole
Larissa Gurney
Laura Cooper
Laura Edwards
Laura Johnson
Laura Karshaw
Laura Price
Laurence Clark
Laurence Davies
Laurence Lowm
Leah Potter
Leanne Foxweather
Leanne Miles
Leanne Reid
Lee Chapman
Lee Cutley
Lee Dover
Lee Dunn
Lee Fisher
Lee Galloway
Lee Hodgson
Lee Jacobis
Lee Johnston
Lee Kingdom
Lee Kilcoyne
Lee Langmaid
Lee Marton
Lee Maxey
Lee Morris
Lee Payne
Lee Pinder
Lee Pyle
Lee Reayland
Lee Ryn
Lee Shildcock
Lee Street
Lee Whitaker
Lee Wilkinson
Lee Williams
Lee Winter
Leigh Holdren
Leon McKenna
Leon Talley
Leonard Denton
Leonard Shadbolt
Leonard Wilson
Lee Mohamed
Leslie Mahab
Leszek Dabkowski
Lewis Smith
Lianne Harrison-Attock
Linda Oliver
Lisa Barrow
Lisa Bell
Lisa Hols
Lisa Kousourou
Lisa Nourse
Lisa Page
Lisa Shippard
Lisa Walker
Lisa Wright
Lisan Taylor
Lorita Dayley
Lorna Ballymeine
Lorna Roach
Louisa Skighaur
Louisa Koopugh
Lucy Dacosta
Lyndsay Martin
Lyndsey Grimes
Lynsey Machin
m
Malcolm Baker
Mandeep Flora
Mandy Adney
Manjula Thathal
Marc Middleton
Marc Minig
Marc Why
Marco Krip
Mark Heida
Margaret Learis
Mario Kord
Mario Van Der Valk
Mark Allen
Mark Arthur
Mark Bell
Mark Bianchi
Mark Blann
Mark Bobor
Mark Bone
Mark Bourner
Mark Bradbury
Mark Briers
Mark Bromfield
Mark Cowley
Mark Curwen
Mark Dennis
Mark Discombe
Mark Gantly
Mark Gasson
Mark Hadfield
Mark Hilton
Mark Hirst
Mark Hodgkinson
Mark Horswell
Mark Hunter
Mark Jopson
Mark Johnson
Mark Jones
Mark Laver
Mark Meehan
Mark Moore
Mark Motherhead
Mark Mayor
Mark Samuels
Mark Stephenson
Mark Strong
Mark Thompson
Mark Traynor
Mark Watson
Mark Williams
Mark Woodcock
Mark Baker
Martin Bennett
Martin Brophy
Martin De Bruijn
Martin Denchett
Martin Hallow
Martin Herton
Martin Pye
Martin Rodgers
Martin Shorton
Martin Siggers
Martin Simett
Martin Stables
Martin Watt
Martin Winterburn
Martin Daniel
Mary Stornard
Mathew Tsedl
Matt Stone
Matthew Bond
Matthew Cohen
Matthew Contardi
Matthew Dunne
Matthew Foster
Matthew Foulds
Matthew Hawley
Matthew Jenner
Matthew Johnson
Matthew McKinne
Matthew Meigh
Matthew Nye
Matthew Pickley
Matthew Reaver
Matthew Robinson
Matthew Sogey
Matthew Walker
Matthew Webb
Matthew Williams
Matthew Winstone
Matthew Wright
Mauron Wood
Matt Helton
Matthew Asadyun
Melanie Hall
Melton Thompson
Michael Bateman
Michael Broughton
Michael Collins
Michael Crosby
Michael Crawford
Michael Crank
Michael Dorman
Michael Dunn
Michael Earls
Michael Finn
Michael Gay
Michael Gill
Michael Godding
Michael Griffiths
Michael Harrison
Michael Holland
Michael Hughes
Michael Ingham
Michael Jack
Michael Jones
Michael Laverty
Michael Leambe
Michael Listler
Michael Megdale
Michael McLeod
Michael O’Dowd
Michael Rothengatter
Michael Rout
Michael Skinner
Michael Smiles
Michael Swaine
Michael Tracker
Michael Whately
Michelle Bloomfield
Michelle Kempson
Michelle Williams
Mike Butler
Mike Easton
Mike Lock
Mit Amin
Mohammed Patel
Mohammad Ullah
Mohammad Akhter
Mohammed Jamil
Mohammed Pavan
Munirzah Khaisa
Musawer Shail
n
Nancy Beaver
Naninder Chatha
Nassar Mpoor
Natalie Eoin
Natalie Talbot
Nathan Austin
Nathan Broughton
Nathan Collins
Nathan Couhland
Nathan Seighread
Neil Browne
Neil Carr
Neil Critchlow
Neil Curtis
Neil Davies
Neil Handy
Neil Horman
Neil Ketnor
Neil Shephard
Neil Thakor
Neil Worthington
NicLews
Nicholas Bradshaw
Nicholas Clifford
Nicholas Kyrkka
Nicholas Lawrence
Nicholas Leach
Nicholas Dunstaed
Nicholas Salibaby-Jones
Nicholas Stones
Nicholas Thornton
Nicholas Whites
Nick Heiskoart
Nick Warnham
Nicola Acorns
Nicola Davies
Nicola Dearden
Nicola Eggerton
Nicola Haynes
Nicola O’Dowd
Nicola West
Nicolas Wassell
Nigel Brooks
Nigel Flamng
Nigel Sankey
Nigel Stognt
Nigel Wood
Nidra Grazier
Niall Moctt
Nina Dahya
Nina Abbott
Nina Channa
Noel Hacket
Norman Heathwaite
O
Oluayo Ogunloye
Oliver Comfort
Oliver Sawyer
Owen Rawlinson
P
Parveesh Ramsaha
Pasquale Santarelli
Patricia Campbell
Patricia Symes
Patricia Walker
Patrick McLaughton
Patrick Mcna
Patrice Janssen
Patricia Kallas
Paul Bainbridge
Paul Barnard
Paul Burtt
Paul Burrow
Paul Cdr"now
Paul But
Paul Carter
Paul Casblon
Paul Chalmr
Paul Chapman
Paul Clark
Paul Costey
Paul French
Paul Galvin
Paul Glynn
Paul Hallwell
Paul Hank
Paul Honor
Paul Irving
Paul Kelly
Paul Kemp
Paul Lathop
Paul Lavery
Paul Leatd
Paul Loggett
Paul Mack
Paul Martindale
Paul Mayfield
Paul Miller
Paul Mills
Paul Moore