THINK IT THROUGH

THE TOPPS TILES GROUP IS BRITAIN’S BIGGEST TILE AND WOOD FLOORING SPECIALIST WITH 271 STORES THROUGHOUT THE UK, AND WITH A CONTROLLED OPENING PROGRAMME OF A NET 30 NEW STORES EACH FINANCIAL YEAR, THE UK STORE TARGET OF A MINIMUM 400 STORES IS WELL WITHIN REACH.

TOPPS’ RECORD SINCE FLOTATION IN 1997 IS EXCELLENT WITH BASIC EARNINGS PER SHARE SHOWING OVER 35% AVERAGE ANNUAL COMPOUND GROWTH OVER THE PAST NINE 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
52 WEEKS RESULTS TO 30 SEPTEMBER 2006

THINK PERFORMANCE

+3.9%  
Group revenue increased by 3.9% to £180.2 million (2005: £173.3 million)

+2.0%  
*Adjusted basic earnings per share increased to 13.07p (2005: 12.81p)

+5.6%  
Group operating profit increased by 5.6% to £38.9 million (2005: £36.8 million)

+9.5%  
Dividend per share increased to 10.40p (2005: 9.50p)

→ Group like-for-like revenue decreased by 1.8%
→ Group gross margin increased to 62.6% (2005: 61.3%)
→ Operating costs increased to 40.4% of revenue excluding share buy back costs of £1.1 million (2005: 40.0%)
→ Profit before tax margin excluding non recurring items increased to 22.2% (2005: 21.6%)*
→ Dividend policy maintained at 1.41 times cover
→ A final net dividend of 6.90 pence per share to be paid on 31 January 2007
→ Net debt position of £99.47m
→ A net 27 new stores opened in the UK in this financial period
→ Now trading from 271 stores in the UK (2005: 244 stores)
→ 15 stores now trading in Holland (2005: 13 stores)
→ Basic Earnings per share 12.80 pence (2005: 13.33 pence)

*Adjusted for non recurring items:
2005: Property disposal gains of £1.7 million
2006: Property disposal gains of 0.3 million and share buy back costs of £1.1 million
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 has been a challenging year for the home improvement market but I am pleased to report that in the face of tough trading the Group has once again grown both its revenues and operating profits.

**FINANCIAL RESULTS**

Group revenue was £180.2m an increase of 3.9% on last year with like-for-like revenue for the period down 1.8%.

Group operating profit before share buy back costs of £1.1million was £40.0 million, an increase of 8.5% compared with last year. Gross margins improved to 62.6% compared with 61.3% in 2005.

**SHARE CAPITAL CONSOLIDATION AND RETURN OF CASH**

Following a review of the Company’s financing requirements and given our robust balance sheet and strong record of cash conversion we announced in July a return of £122.4 million in cash to shareholders in conjunction with a share capital consolidation of 3 for 4 ordinary shares.

The return of cash, equating to 54 pence per ordinary share, was approved by our shareholders on 31 July 2006.

**DIVIDEND**

In line with our stated dividend policy, the Board proposes an increase of 0.9p (9.5%) in the total dividend for the year to 10.40p. This is covered 1.41 times by earnings.

The proposed final dividend of 6.9p [2005: 6.00 pence] will be paid on 31 January 2007 to all shareholders on the register as at 5 January 2007.

**BOARD CHANGES**

As announced in April we strengthened our Executive Board by the appointment of Matthew Williams, our Chief Operating Officer, as a main Board Director. I am delighted to welcome Matthew to the Board.

After 11 years, Andrew Liggett, Finance Director has decided to step down and will be leaving the Company with effect from 30 April 2007.

Andy has been an important part of Topps growth as a quoted Company and I, along with the other members of the Board, wish to thank him for his significant contribution over the last 11 years. All of us wish him well for the future.

**PEOPLE**

These results are testimony to the commitment of all our staff, those in the front line in-store and all our operational support team. On behalf of the Board, I would like to thank them all for their continued enthusiasm and energy. I would also like to extend a warm welcome to the staff who joined the Group in the period.

**OUTLOOK**

We are confident that our strategy for organic growth is sound. We strive to offer the best in range, quality and accessibility of our products coupled with outstanding customer service and we continually monitor our performance to ensure we are always one step ahead of the competition.

Looking ahead, we believe that we are in a strong position to continue to expand our market share and we now have the potential to trade from over 400 stores UK wide. We are confident that the strength of the management team, our people and our strategy will enable further growth of the business and deliver sustainable returns for shareholders.

Barry Bester
Chairman
OUR SUCCESS IS BUILT ON FOUR KEY CORNERSTONES:
THINK STRATEGY

A PROVEN AND RESILIENT BUSINESS MODEL

1. CUSTOMER SERVICE
We continually strive to provide and maintain high levels of customer service and regard it as fundamental to the ongoing success of Topps. The quality and performance of our staff at every level is key and we train all our staff at our own national and regional training centres and through our e-learning tile training college. Customer service remains our number one priority and it is our policy to be honest, helpful and knowledgeable but never pushy.

We complement the advice that our staff can give in store with a range of services offering practical support to customers which include Loan-a-Tile, free "How to" DVD, tile cutting service and our buy-back service which allows undamaged stock tiles to be returned within 45 days for a full refund.

2. STORE LOCATIONS
Topps stores are purposely located in highly visible destinations, on or close to busy roads and always with parking facilities. Our stores in the main are not located on high streets or large retail parks. Our controlled expansion programme is taking us across the UK and a full list of stores can be found at the end 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. STORE LAYOUT
Our average store size is just over 6,250 square feet and can accommodate our in-house formats including wood flooring and natural stone, which usually have their own individually branded section of the store.

All our stores have a similar layout, are clearly branded and designed to be customer-friendly with product and pricing clearly displayed on colourful and informative point-of-sale displays. The stores are mini-warehouse style, which is ideal to display our extensive product ranges as well as ensuring they are easy to navigate with trolleys, prams and pushchairs.

4. STOCK AVAILABILITY
Topps Tiles and Tile Clearing House offer a huge choice of product, with the best the world has to offer in wall and floor tiles, natural stone, laminate and real wood flooring. Our extensive in-store product offering is supported by on-site stock facilities. The combination of choice of product with the availability of inventory is unrivalled in the UK. Our new marketing and distribution centre ensures that all our stores receive at least two deliveries a week to ensure stock levels are maintained at every store.
WE BELIEVE WE HAVE THE RIGHT BUSINESS MODEL AND THE RIGHT PEOPLE TO CONTINUE TO GAIN MARKET SHARE IN THE CURRENT TRADING ENVIRONMENT.
THINK CLEARLY

CHIEF EXECUTIVE’S STATEMENT

Our aim is simple – to deliver sustainable growth and returns to shareholders and central to that aim are our customers. We strive to enhance our customers’ buying experience by constantly improving stores and ranges and offering the best in customer service.

During the year we delivered another solid performance in difficult trading conditions and we continue to extend our market share.

STORE DEVELOPMENT AND EXPANSION

In April 2006 we opened our 250th store in Ashford, Kent – a landmark event in Topps’ history and another step in our UK expansion programme. Whilst we have a stated minimum store target of 350 stores UK wide, we now believe there is scope for over 400 stores.

Against a target of a net 24 new stores in the period we have actually achieved a net total of 27 new store openings. This has in part been due to the appointment in our property department in Grove Park of an in-house property lawyer which has expedited our property transactions. This also means that in the new financial period we are able to step up our store opening programme with a target in 2007 of a net total of 30 new UK outlets.

Tile Clearing House ("TCH")

TCH has its own store format and brand which is targeted at tradesmen and jobbing builders and the lower end of the tile market. In this financial period we opened a net 9 new TCH outlets and refitted 1. We now have a total of 46 stores in the UK.

HOLLAND

In October 2006 we acquired the remaining 50% of our Dutch operation. The Company currently trades from 15 stores in Holland and we intend to increase the new store opening programme to a minimum of 5 new stores each financial year. The acquisition of the remaining 50% of this business gives us the flexibility to step up the expansion programme. We have a minimum store target of 60 stores in Holland.

MARKETING, ADVERTISING AND SPONSORSHIP

Our marketing strategy comprises high profile national campaigns underpinned by regional activity.

We continue to use national television advertising, both digital and terrestrial along with print and radio advertising on a regional basis and this year we continued advertising on UK style channels and sponsored “improve don’t move” on ITV.

Additionally we have just launched a national TV campaign, for the first time. This is to expand our reach and consolidate our national brand as we now have over 225 Topps stores and 46 TCH stores nationwide.

Like most of our customers, we love our football. It’s a major part of our community relations programme and we now sponsor over 260 local football teams through our youth football initiative.
PERFORMANCE IS ABOUT PEOPLE AND THAT IS WHY WE ARE COMMITTED TO MOTIVATING, DEVELOPING AND REWARDING OUR PEOPLE.

1,053

Number of employees completing in-house training schemes (2005: 842).
STAFF DEVELOPMENT AND CUSTOMER SERVICE
We believe that a considerable contribution to our business success is due to the quality of our customer service delivered by our highly trained and friendly staff.

Our recruitment programme is targeted at ambitious individuals of all ages and our rigorous training programme focuses on product knowledge and customer service. A development in our training programme this year has been the introduction of a Group intranet enabling staff to be trained on-site, in-store. The system is self-administered and more efficient and effective than our previous systems.

CORPORATE RESPONSIBILITY
We are committed to behaving as a responsible corporate citizen and we have continued to make progress in the area of social responsibility. More detail is set out later in this report.

THE MARKET
We are the leading tile retailer in the UK with a market share of circa 21% and continued to grow market share over the last financial year in a market that has showed continual growth.

Despite the challenging market conditions, the UK tile market is forecast to grow by volume by over 15% between 2007 and 2011 (source: MBD), reflecting the overall expansion of the DIY retail sector.

The UK still has one of the lowest useages per head of ceramic tiles in Europe, at a level around one third of that of other Northern European countries (source: MBD) and has significant potential for growth. Factors expected to drive growth include the growing trend to tile rooms beyond the more traditional kitchen and bathroom applications (e.g. conservatories), a preference for second bathrooms and a widening product offering.

Additionally, household numbers continue to grow faster than the UK population, which is anticipated to rise by 12% over the next 25 years (source: ONS). This is in contrast to the increasing number of households, which is expected to grow by almost 23% in the next 20 years, from 20.9m in 2003 to 25.7m in 2026 (source: Government forecasts).

We therefore believe Topps is well placed to capitalise on the continued growth in the tile market and to increase market share.

CURRENT TRADING
We have embarked on a high profile, mainstream terrestrial television advertising programme which began on 23 October 2006. Whilst it is early days we are encouraged by the response so far.

In the first 7 weeks of the new financial period Group overall revenue increased by 10.3% and like-for-like revenue increased by 3.3%. This includes a strong performance from our Dutch business, now contributing 100% to Group numbers.

Overall revenue in the UK increased 9.5% and like-for-like revenue increased by 2.7% for the first 7 weeks of the new financial period.

Our business in Holland is performing well and is trading strongly. Overall revenue has increased by 38.1% and like-for-like revenue has increased by 25.8% over the past 7 weeks.

Of the planned 30 new UK stores in the new financial period we have already opened 5 new stores in St Neots, Brixton, Exmouth, Merton and Merry Hill.

In Holland we have opened one new store in Eindhoven.

We are confident in our business model which despite a difficult market has remained resilient and this gives us confidence for the future.

Nicholas Ounstead
Chief Executive Officer
ALL OUR STORES RECEIVE AT LEAST 2 DELIVERIES A WEEK TO ENSURE THAT STOCK LEVELS ARE MAINTAINED AT EVERY STORE.

146
Stock days

17,000
Number of product lines carried by Topps stores.

6,253
sq.ft. is the average size of our mini-warehouse style stores.

99.1%
(2005: 98.7) of customers surveyed expressed levels of satisfaction as 'good to excellent'.

NATURE, OBJECTIVES AND STRATEGIES OF THE BUSINESS

Topps Tiles Plc is Britain’s biggest tile and wood flooring specialist Group with over 271 stores throughout the UK. We have an opening programme of a net 30 new stores each financial year and a long term target of a minimum of 400 stores UK wide.

Our founders, Stuart Williams and Barry Bester, whose vision and enterprise built up the business from just a few shops, are still major shareholders.

Topps first specialist tile centre opened in Manchester in 1963. It was a pioneering concept offering customers quality tiles at bargain prices, sold by friendly, helpful people. This policy has never changed.

We operate two brands in the market, Topps Tiles and Tile Clearing House. Topps is Britain’s biggest tile and wood flooring specialist 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.

Today at Topps you will find the best the world can offer in wall and floor tiles, natural stone, laminate and solid wood flooring. Underfloor heating, tools, adhesives, grouts, accessories and cleaning products are also on hand for the perfect finish to any job. Most of the tiles commissioned for Topps go straight to our central warehouse and distribution centre near Leicester. From here, all Topps stores receive at least two bulk deliveries a week, so stock is constantly flowing to keep pace with demand.

The business is built on four cornerstones that underpin our success: customer service, store locations, store layout and stock availability.

Our aim is to increase shareholder value through the delivery of sustainable earnings growth.

OPERATING ENVIRONMENT

Historically, the Group’s business has proven to be resilient in the face of economic downturn. The business has traded through a number of recessions and whilst revenues continued to grow we did experience some pressure on margins. However, the business has changed over the years and we are confident that our current business model places us well to continue to deliver future shareholder value.

Topps is the market leading brand in the UK, enjoying an estimated 21% market share by value. Estimated market shares are based on external research by MBD.

In terms of competitive positioning Topps sits between the DIY chains and the independent tile retailers.

KEY PERFORMANCE INDICATORS

The Directors monitor a number of financial metrics and key performance indicators (KPIs) for the Group and by store, including:

- Like for like Sales (page 12)
- Sales value per transaction (page 13)
- Gross Margin (page 12)

The Directors receive daily information on these and other metrics and KPIs for the Group as a whole.

In addition, the Directors receive information on non financial metrics including:

- Customer satisfaction (page 10)
- Utilisation of own fleet (page 18)
FINANCIAL PERFORMANCE AT A GLANCE

2005 AND 2006 FIGURES ARE STATED IN ACCORDANCE WITH IFRS.

2002, 2003 AND 2004 ARE STATED IN ACCORDANCE WITH UK GAAP.

GROSS MARGIN (%)

PROFIT BEFORE TAX (£m)

BASIC EARNINGS PER SHARE (pence)

GROUP REVENUE (£m)

OVERALL REVENUE AND LIKE-FOR-LIKE REVENUE GROWTH (%)

AVERAGE NUMBER OF EMPLOYEES (THE TEAM) DURING THE FINANCIAL PERIODS

DIVIDEND LEVEL (pence)

DIVIDEND COVER (times)
KEY STRENGTHS AND RESOURCES
Customer satisfaction is Topps No.1 priority. We are committed to the highest levels of customer service, it is our policy to be honest, helpful and knowledgeable but never, never pushy.

In addition, we provide a range of services offering practical support at every stage of the job including Loan-a-Tile, free ‘How to’ DVD, tile cutting and Topps buy-back service for unused tiles.

The quality and range of products offered is the widest in the market with over 17,000 separate product lines.

RISKS AND UNCERTAINTIES
Risks to the business include its relationship with key suppliers, the potential threat of competitors, the risk that key information technology or EPOS systems could fail, the loss of key personnel; the risk of a prolonged economic recession and development of substitute products.

The Directors routinely monitor all these risks and uncertainties and appropriate actions are taken to mitigate the risks or their potential outcomes.

FINANCIAL REVIEW
Profit and Loss Account
Revenue
During the period Group revenue increased by 3.9% to £180.2 million from £173.3 million last year. Like-for-like sales decreased by 1.8%, with new store openings contributing a 5.7% increase.

Average transaction per customer has slightly increased to £62 compared with £61 in the same period last year.

Gross margin
Overall gross margin was 62.6% compared to 61.3% last year. At the interim point of this period gross margin was 62.4%. The second half of the period has shown a gross margin of 62.7%.

Operating expenses
Total operating costs have increased from £69.4 million to £73.9 million which is an increase of 6.5%, although this includes non recurring share buy back costs of £1.1 million. However costs, excluding the employee profit sharing and non recurring share buy back costs have increased by 8.1% with new stores accounting for 5.1% and like for like increases of 3.0%. Costs as a percentage of sales excluding the non recurring share buy back costs were 40.4% compared to 40.0% last year.

Other Gains and losses
In the period there is a net profit on the sale and leaseback of one freehold property of £258,000. This compares to the £1.7 million profit in 2005 which relates to the sale and leaseback of four freehold properties.

Profit before tax
We have achieved an overall profit before tax of £39.1 million compared to a profit before tax of £39.2 million last year. This period’s profit before tax includes £0.3 million of property disposal gains and £1.1 million of non recurring share buy back costs, compared to £1.7 million of property disposal gains last year, excluding these items profit before tax has increased by 6.5%.

Profit before tax margin
Group profit before tax margin was 21.7% from 22.6% last year. However the profit before tax margin has been affected by the property disposal gains and the non recurring share buy back costs and pre these items was 22.1% (2005: 21.6%).

Taxation
The effective rate of Corporation Tax was 28.8% (2005: 23.0%) and we have continued to fully provide for deferred taxation in line with IAS12. The effective rates of tax for both financial periods have been favourably affected by intra-Group restructuring benefits.

Charts
Financial information in the charts displayed on page 12 is based on the Annual Report and Financial Statements for the 52 week periods ending 1 June 2002, and 1 October 2005, the proforma unaudited statements for the 52 weeks ended 27 September 2003, and the 53 weeks ended 2 October 2004.

Earnings per share
Basic earnings per share is 12.80 pence compared to 13.33 pence last year, a decrease of 4.00%. Diluted earnings per share is 12.74 pence compared to 13.24 pence last year, a decrease of 3.78%.

Both years were affected by property gains and non recurring share buy back costs (as above) and excluding these items the Earnings per share for this year would be 13.07 pence compared to 12.81 pence last year, an increase of 2%.
TRADING HAS CONTINUED TO BE ROBUST, DESPITE THE CONSISTENTLY TOUGH TRADING ENVIRONMENT.

£16.53m  £99.47m

Cash reserves position at 30 September 2006  Net debt position at 30 September 2006
Dividend and dividend policy
The Board is recommending a final dividend of 6.90 pence per share, which will give a total dividend for the period of 10.40 pence compared to 9.50 pence last year an increase of 9.5%. This maintains our dividend cover policy at 1.41 times.

BALANCE SHEET
Capital expenditure
Capital expenditure in the period amounted to £9.1 million. This includes the cost of acquiring three freehold sites for £3.8 million and one long leasehold site for £0.8 million and one development store site costs of £0.5 million. We also acquired three leasehold sites from the administrators of Tile and Bath World Limited at a cost of £0.3 million.

We have also opened a gross 28 new stores and undertaken preparatory work on a further two stores at a cost of £2.5 million and undertaken major refurbishment of a further 2 stores and other minor re-fits at a cost of £0.7 million. We continue to update and expand our IT systems within the business and this coupled with some motor vehicle renewals accounted for £0.5 million.

At the period end the Group owned nine freehold sites, one development site, one long leasehold site and both the Topps and Tile Clearing House distribution and marketing centres. These sites have a total net book value of £16.7 million.

Stock
Stock at the period end represents 146 days turnover compared to 137 days for the same period last year. This level is within our target of 140 - 150 days going forward.

Capital structure
Cash reserves at the period end were £16.5 million and borrowings were £116.0 million, £110.0 million of the latter being to help fund the £122.4 million cash return and share capital consolidation transaction in August 2006 with the remaining £6 million repaying the existing loan on the Topps distribution and marketing centre. This gives the Group a net debt position of £99.5 million compared to a net funds position of £21.8 million as at 1 October 2005.

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

Cash flow
Net cash generated by operations was £37.9 million, £2.1 million higher than last year which reflects the higher trading profit for the Group. The movement in working capital is shown as an outflow of £5.0 million however this is after the payment of the long term incentive plan in September 2006 of £3.6m.

Share Capital Consolidation and Cash Return
In August 2006 the Group completed the announced Share Capital Consolidation of 3 new ordinary shares for every 4 existing ordinary shares and also the share reorganisation providing for a return of cash to shareholders equivalent to 54 pence per ordinary share.

Holland
The joint venture in Holland continues to develop with two new stores opened in the period to bring the total to 15 stores. The Group owned 50% in the joint venture during the financial period with the other 50% owned by the Dutch management team. The Group’s Income Statement shows net profit of £58,000 (2005: £13,000) from the venture which reflects the Group’s 50% holding.

However on 2 October 2006 the Group purchased the remaining 50% share capital of the business for a total cost of £1.16 million being a combination of cash £512,500 (£762,500) and 250,000 Topps Tiles Plc shares with a value of £647,500. These shares are subject to a 3 year lock in agreement. The Dutch management team headed by Hans Ebbelink remains in place with Hans initially having a two year service contract and then reducing to a one year contract.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)
This is the first financial period for adopting IFRS and comparative figures for the previous year have been adjusted accordingly.

POST BALANCE SHEET EVENTS
On 2 October 2006 the Group purchased the remaining 50% of the share capital in the Holland business, to give the Group a 100% holding, at a cost of £1.16 million.

ANNUAL GENERAL MEETING
The Annual General Meeting for the period to 30 September 2006 will be held on 10 January 2007 at 10.30am at Topps Tiles Plc, Thorpe Way, Grove Park, Enderby, Leicestershire LE19 1SU, which is our Topps distribution and marketing centre.

Nicholas Ounstead  Andrew Liggett
Chief Executive Officer  Finance Director
WE PRIDE OURSELVES ON OUR COMMITMENT TO GOOD ENVIRONMENTAL MANAGEMENT AND TO MAKING A POSITIVE CONTRIBUTION TO THE COMMUNITIES WHERE WE DO BUSINESS.

£500k is the amount we plan to raise for Asthma UK by the end of 2006.

260 youth teams wear kit and play with equipment provided by our sports sponsorship scheme.
INTRODUCTION
Corporate Social Responsibility is not new to Topps Tiles. We know that a reputation for acting responsibly helps build our business through customer recommendation.

This is why we pride ourselves on our commitment to product quality, customer service excellence, good environmental management and to making a positive contribution to the communities where we do business.

In 2004, we set up a social and environmental responsibility working group chaired by a Board Director. The purpose of this group was to review how we were doing and to look for opportunities for improvement. Much has been achieved. For example, we have set up a new way of including corporate social responsibility as part of our risk assessment.

Our Website demonstrates the progress we have made on Corporate Social Responsibility an extension of the way we have done and will continue to do our business. In it we describe our approach towards:

- Community relations
- Environment
- Workplace
- Supply Chain

OUR APPROACH
Andrew Liggett, the Finance Director for Topps Tiles Plc is the Chairman and the Board Director responsible for the Social and Environmental policy.

Topps has established a social and environmental responsibility working group to further our consideration of corporate responsibility issues generally, but with a specific focus on environmental management. The members of the working group are the Group Finance Director, the Head of Human Resources, the Buying Director and the Internal Audit Manager.

Together, the members of the working group are accountable for developing and improving our environmental management practice. Each member of the working group is responsible for implementing those elements of the environmental policy relevant to their functions. Topps Tiles believes that environmental responsibility should be an integral part of how we manage our business. This is why we have established such a senior working group to oversee our progress in this area.

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 260 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 sixth 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 during the year to the fundraising by holding sponsored events and in total with our Company donation of £10,000 we raised over £65,000 for this worthy cause. This now brings the total raised to date to £500,000.

As well as sport there is also education, where via our product catalogue schools can win valuable computer equipment. Since the scheme started, over 25 schools have benefited nationwide.
WE RECOGNISE THAT OUR DAY-TO-DAY ACTIVITIES IMPACT ON THE ENVIRONMENT AND AIM TO MINIMISE THE HARMFUL EFFECTS WHenever WE CAN.

15% is the target rate for recycling of plastic waste.

70% (2005: 55%) of our product is distributed using our own fleet of modern vehicles, minimising unnecessary mileage.
ENVIRONMENT
Respect for the environment is an accepted part of modern day business management.

At Topps, we recognise that our day-to-day activities impact on the environment and aim to minimise the harmful effects whenever we can. Last year, we began a Company-wide programme to improve our environmental performance, to review our policies, to put in place management systems to monitor and measure our performance and to set targets for improvement. This year we have identified our main areas of environmental impact as being:

- **Property** particularly energy usage. The Group constantly looks at ways of reducing energy usage and also the use of energy efficient lighting in our stores.

- **Waste** management at our stores, offices and warehouses. All our offices have now adopted paper recycling procedures and there is also a procedure now for stores to return their paper, cardboard and plastic waste to the distribution centre to be baled via the newly installed compactor unit.

- **Transport** Company vehicles and third party distributors. The Group continues to review its distribution cycles and those of its third party carriers as well as continuing to encourage staff to use other modes of transport, in particular we have introduced a salary sacrifice scheme whereby staff can purchase bicycles at reduced prices and support a car sharing policy, where practical.

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 Chairman, Barry Bester, which allows all employees to give suggestions which can help improve the business whether it be operational, environmental or social.

SUPPLY CHAIN
Topps Tiles purchases around £70m of goods each year. The majority of our purchases are ceramic tiles and we also purchase stone, wood and laminate and adhesives. We source our products from around the World.

Labour Standards and Environmental Responsibility are issues of growing importance. Topps Tiles has reviewed how it considers these issues with regard to its supplier relationships and has adopted:

- A policy on Labour Standards and Human Rights
- A standard clause on environmental protection which is being introduced into all new contracts and existing contacts on renewal.

Our buyers also have a regular programme to visit our suppliers, to discuss these issues.

Our full policy and established targets can be viewed on our website at [www.toppstiles.co.uk](http://www.toppstiles.co.uk) and can be found in the Investors section under Corporate Responsibility.
EXECUTIVE DIRECTORS

**BARRY BESTER Executive Chairman (aged 49)**

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 the development of Holland.

He is also responsible for the Company’s employee suggestion scheme.

**NICHOLAS OUNSTEAD Chief Executive Officer (aged 46)**

Health and Safety Committee Chairman

Nicholas joined Topps Tiles in April 1997. Prior to this he was Marketing Director at Bellegrove Ceramics Plc which is a major supplier to DIY chains and independent retailers. In September 2001 he was appointed Chief Operating Officer and promoted to Chief Executive Officer in October 2002. Nicholas is also Chairman of the Health and Safety Committee and has overall responsibility for the day-to-day operations of the business.

**ANDREW LIGGETT Finance Director (aged 45)**

Company Secretary

Secretary of Nomination Committee

Social and Environmental Responsibility Chairman

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.

**MATTHEW WILLIAMS Chief Operating Officer (aged 32)**

Matt joined the Company in 1998 after completing his Chartered Surveyors exams and took up a role in the property department. In 2004 he was promoted to Chief Operating Officer and on 1 April 2006 joined the Plc Board.
NON-EXECUTIVE DIRECTORS

ALAN MCINTOSH CA Senior Non-Executive Director [aged 38]
Chairman of Audit Committee
Member of Nomination Committee
Chairman of Remuneration 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 78]
Member of Audit Committee
Chairman of Nomination Committee
Member of Remuneration Committee

Victor 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 60]
Member of Audit Committee
Member of Nomination Committee
Member of Remuneration Committee

Michael’s business career has seen him in management capacities with Proctor & Gamble and Marks & Spencer. In 1987 he became MP for Fylde and by 1990 had begun a ministerial career that saw him serve in the DSS, Home Office, MAFF and finally the Treasury as Financial Secretary. He joined the Board of Topps Tiles in 1999.
OPERATIONAL DIRECTORS

RAYMOND TRICKER
Northern Operations Director (aged 50)
Ray joined the Company in 2002 and has over 30 years of sales experience including eight years with Wickes.

ADRIAN MCCOURT
Southern Operations Director (aged 48)
Adrian joined the business in 1998 having spent his entire working life in sales, including time in the USA with JC Penney.

ALAN SAUNDERS
Marketing Director (aged 43)
Alan joined the Company in 1984 as Store Manager and progressed to Area Manager before taking up his current role in 2002.
COLIN HAMPSON
IT Director (aged 34)
Colin joined the business in 1995 and has played a key role in implementing and developing our store Epos systems.

JOHN REILLY
Buying Director (aged 45)
John joined the Company in 1998 after twelve years in the tile business, including three years with Great Mills DIY.
DIRECTORS AND ADVISORS

PRESIDENT
S.K.M. WILLIAMS FCA

DIRECTORS
B.F.J. BESTER
Executive Chairman

N.D. OUNSTEAD
Chief Executive Officer

A. LIGGETT FCMA
Finance Director

M. WILLIAMS
Chief Operating Officer

W.A. MCINTOSH CA
Senior Non-Executive Director

V.H. WATSON CBE
Non-Executive Director

The Rt. Hon. J.M. JACK, Privy Counsellor, MP
Non-Executive Director

SECRETARY
A. Liggett FCMA

REGISTERED NUMBER
3213782

REGISTERED OFFICE
Thorpe Way
Grove Park
Enderby
Leicestershire
LE19 1SU

AUDITORS
Deloitte & Touche LLP
201 Deansgate
Manchester M60 2AT

BANKERS
HSBC Bank Plc
56 Queen Street
Cardiff CF10 2PX

REGISTRARS
Capita IRG Plc
Bourne House
34 Beckenham Road
Beckenham
Kent BR3 4TU

SOLICITORS
TLT Solicitors
1 Redcliff Street
Bristol BS99 7JZ

Sinclair Abson Smith Lawyers
19 Market Place
Stockport SK1 1HA

Beachcroft LLP
St. Ann’s House
St. Ann Street
Manchester M2 7LP

STOCKBROKERS
KBC Peel Hunt Limited
111 Old Broad Street
London EC2N 1PH
THINK RESULTS

FINANCIAL STATEMENTS
52 WEEKS RESULTS TO 30 SEPTEMBER 2006

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70 EXPLANATORY NOTES TO THE NOTICE OF ANNUAL GENERAL MEETING > 71 FINANCIAL CALENDAR > 72 THE TEAM >
76 STORE LOCATIONS
The Directors present their report on the affairs of the Group, together with the financial statements and auditors’ report, for the 52 weeks ended 30 September 2006.

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.

ENHANCED BUSINESS REVIEW
The Company is required to set out in this report a fair review of the business of the Group during the financial period ended 30 September 2006 and of the position of the Group at the end of that financial period. The Company is also required to set out a description of the principal risks and uncertainties facing the Group.

The information that fulfils the requirements of the enhanced business review can be found within the business review on pages 11 to 15 and the Corporate and Social Responsibility statement on pages 17 to 19, which are incorporated in this report by reference.

The Directors monitor a number of financial and non-financial KPI’s for the Group and by store and these are detailed on page 11.

RESULTS AND DIVIDENDS
The audited financial statements for the 52 weeks ended 30 September 2006 are set out on pages 36 to 61. The Group’s profit for the period, after taxation, was £27,804,000 (2005 - £30,182,000).

An interim dividend of 3.50 pence per share, £7,933,000, was paid on 30 June 2006.

The Directors recommend a final dividend of 6.90 pence per share, £11,734,000, making a total of 10.40 pence per share, £19,667,000 (2005 – total dividend 9.50p per share, £21,559,000). Subject to approval by the shareholders at the Annual General Meeting, to be held on 10 January 2007, the final dividend will be paid on 31 January 2007, to shareholders on the register at the close of business on 5 January 2007.

DIRECTORS
The Directors of the Company are as follows:
B.F.J. Bester Executive Chairman
N.D. Ounstead Chief Executive Officer
A. Liggett Finance Director
M.T.M. Williams Chief Operating Officer (Joined the Board on 1 April 2006)
W.A. McIntosh Senior Non-Executive Director
V.H. Watson Non-Executive Director
J.M. Jack Non-Executive Director

The Directors’ interests in the shares of the Company are set out on page 33.

SHARE CAPITAL
Details of the Company’s authorised and issued share capital are shown in note 21 to the financial statements.

SUPPLIER PAYMENT POLICY
The Group’s policy is to negotiate 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 payables at the period end represented 41 days purchases (2005 - 44 days).

CHARITABLE AND POLITICAL CONTRIBUTIONS
During the period the Group made charitable donations of £10,000 to Asthma UK (2005: £10,000). The Group made no political contributions.

SUBSTANTIAL SHAREHOLDINGS
In addition to the Directors’ shareholdings noted on page 33, on 2 November 2006 the Company had been notified, in accordance with Sections 198 to 208 of the Companies Act 1985, of the following interests in 3% or more of its issued share capital.

<table>
<thead>
<tr>
<th>Number</th>
<th>% held</th>
</tr>
</thead>
<tbody>
<tr>
<td>HSBC Global Custody Nominee [UK] Limited</td>
<td>37,803,000</td>
</tr>
<tr>
<td>S.K.M. Williams</td>
<td>15,718,950</td>
</tr>
<tr>
<td>Chase Nominees Limited</td>
<td>15,054,000</td>
</tr>
<tr>
<td>Vidacoss Nominees Limited</td>
<td>11,289,000</td>
</tr>
<tr>
<td>State Street Nominees Limited</td>
<td>11,031,000</td>
</tr>
<tr>
<td>BNY (OCS) Nominees Limited</td>
<td>9,520,000</td>
</tr>
<tr>
<td>Bank of New York Nominees Limited</td>
<td>7,155,000</td>
</tr>
<tr>
<td>Littledown Nominees</td>
<td>6,679,000</td>
</tr>
<tr>
<td>BBHISL Nominees Limited</td>
<td>5,846,000</td>
</tr>
</tbody>
</table>
DISABLED EMPLOYEES
Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

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

FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES
The group is exposed to certain financial risks, namely interest rate risk, currency risk and credit risk. Information regarding such financial risk is detailed in notes 16, 18 and 19. The Group’s risk management policies and procedures are also discussed in the Business Review.

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.

The total of options held by employees, excluding Directors, is 1,450,158. The Directors will continue to incentivise employees through additional employee share option schemes in the forthcoming financial period.

INFORMATION GIVEN TO AUDITORS
Each of the Directors at the date of approval of this report confirms that:
■ So far as the Director is aware, there is no relevant audit information of which the Company’s auditors are unaware; and
■ The Directors have taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company’s auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act.

AUDITORS
A resolution to re-appoint Deloitte & Touche LLP as the Company’s auditor will be proposed at the forthcoming Annual General Meeting.

STATEMENT OF 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 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.

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 the system of internal control, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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.

On behalf of the Board

A Liggett
Director and Company Secretary
28 November 2006
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 provision A6.1, as the Board does not currently undertake formal appraisal of its own performance and that of its committees, but is currently in the process of implementing such a procedure. The Company complies with all other provisions of the code.

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

The Board of Directors comprises seven members, of whom three are independent Non-Executive Directors and four are Executive Directors led by the Company’s Executive Chairman, Mr. B J F Bester. The Senior Independent Non-Executive Director is Mr. A. McIntosh, who also chairs the Audit Committee. Brief biographical details of all Directors are given on pages 20 and 21. The Board meets at least twelve times a year. Certain defined issues are reserved for the Board including approval of financial statements and circulars, Annual budgets, Strategy, Directors’ appointments, service agreements and remuneration, internal control and risk management, Corporate governance, key external and internal appointments and pensions and employee incentives.

In advance of board meetings Directors are supplied with up-to-date information about the trading performance of each operating location, the Group’s overall financial position and its achievement against prior year, budgets and forecasts.

Where required, a Director may seek independent professional advice at the expense of the Company, all Directors have access to the Company Secretary and they may also address specific issues to the Senior Independent Non-Executive Director.

In accordance with the articles of association, all directors are subject to re-election every third year thereafter. As such, Nicholas Ounstead will be subject to re-election at the forthcoming AGM. Directors are elected at the first AGM after appointment, therefore, Matthew Williams will be subject to election at the forthcoming AGM. All non executive directors have written letters of appointment. These letters of appointment stipulate three-year renewable terms of office. In line with the Code all non executive directors who have served for nine years will be subject to annual re-election. As such, Victor Watson and Alan McIntosh will be subject to re-election at the forthcoming AGM. Although their length of service exceeds nine years the Board regards them to be independent and considers their broad based commercial experience and extensive business specific knowledge to be extremely beneficial. However the Board is continually reviewing this situation.

The Board considers that Messrs W A McIntosh, V H Watson and The Rt Hon J M Jack are all independent for the purposes of the 2003 Code. The terms and conditions for the appointment of non executive directors are available for inspection on request.

The Board also operates three committees. These are the Nomination Committee, the Remuneration Committee and the Audit Committee. All of these committees meet regularly and have formal written terms of reference which are available for inspection on request.

ATTENDANCE AT BOARD/COMMITTEE MEETINGS

The following table shows the number of Board and Committee meetings held during the 52 weeks ended 30 September 2006 and the attendance record of the individual Directors.

<table>
<thead>
<tr>
<th>Number of meetings</th>
<th>Board of Directors</th>
<th>Audit Committee</th>
<th>Remuneration Committee</th>
<th>Nomination Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>B.F.J. Bester</td>
<td>12</td>
<td>2</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>N.D. Ounstead</td>
<td>12</td>
<td>2</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>A. Liggett</td>
<td>12</td>
<td>2</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>M.T.M. Williams (Appointed 1 April 2006)</td>
<td>5</td>
<td>1</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>W.A. McIntosh</td>
<td>8</td>
<td>2</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>V.H. Watson</td>
<td>11</td>
<td>2</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>J.M. Jack</td>
<td>11</td>
<td>2</td>
<td>2</td>
<td>1</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 Remuneration Report.

AUDIT COMMITTEE

The audit committee consists entirely of independent non executive directors. The current chairman is Alan McIntosh. The other members are Victor Watson and Michael Jack. All members of the audit committee are regarded as having recent and relevant financial experience.

The audit committee considers the nature and scope of the audit process (both internal and external) and its effectiveness. The committee reviews and approves the internal audit programme, meets with the external auditors and considers the annual and interim financial statements before submission to the board. The committee reviews the arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The committee also reviews the group’s system of internal control and reports its findings twice yearly to the board. The committee meets with the external auditors, in the absence of the executive directors, at least twice a year.

As stated above, part of the role of the audit committee is to review the independence of the company’s auditors. The company’s external auditors, Deloitte & Touche LLP have provided non-audit services to the company in the form of tax advice and other advisory work. The audit committee is aware that providing audit and non-audit advice could give rise to a potential conflict of interest. The audit committee has concluded that the auditors, Deloitte & Touche LLP, are independent.

NOMINATION COMMITTEE

The nominations committee is chaired by Victor Watson. The other members are currently Alan McIntosh, Michael Jack, Barry Bester and Andrew Liggett. The formal terms of reference for this committee require it to make recommendations to the board for appointments of directors and other senior executive staff.

Appointments to the board are made on merit, against objective criteria, taking into account the skills and experience required. Where appropriate, external search consultants are enlisted.

DIALOGUE WITH INSTITUTIONAL SHAREHOLDERS

The Directors seek to build on a mutual understanding of objectives between the Company and its institutional shareholders by making annual presentations and communicating regularly throughout the year. 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 C.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 C.2.1 of the Combined Code, the Board continuously reviews the effectiveness of the Group’s system of internal control. The Board’s monitoring covers all controls, including financial, operational and compliance controls and risk management. It is based principally on reviewing reports from management to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied and indicate a need for more extensive monitoring. The Board has also performed a specific assessment for the purposes of this annual report. This assessment considers all significant aspects of internal control arising during the period covered by the report including the work of internal audit. The audit committee assists the Board in discharging its review responsibilities.
REMUNERATION REPORT

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

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

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

None of the Committee has any personal financial interest (other than as shareholders), conflicts of interests arising from cross-directorships or day-to-day involvement in running the business. The Committee makes recommendations to the Board. No Director plays a part in any discussion about his 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;
■ annual bonus payments; 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 2005 with increases taking effect from 30 September 2006. Executive Director’s contracts of service which include details of remuneration will be available for inspection at the Annual General Meeting.

In addition to basic salary, the executive Directors receive certain benefits-in-kind, principally a car and private medical insurance.

Long-term incentive Plan (L-TIP)
The Topps Tiles Plc 2003 Executive L-TIP was a three year plan which matured at the end of the financial period ending 30 September 2006 with the maximum amount of £1,000,000 paid to each of ND Ounstead and A Liggett in the period and £300,000 was paid to M.T.M. Williams. The L-TIP was a cash based plan with performance targets based on the Group profitability over the three year period.
The payment of the individual awards under the scheme was 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.

**Annual bonus payments**

A discretionary annual cash bonus scheme represents the short term incentive element of the overall remuneration package for Mr Williams,
Mr. Liggett and Mr. Ounstead. The remuneration committee establishes the objectives that must be met in the financial period if a cash bonus 
is to be paid. The maximum bonus achievable in the period was 100% of basic salary based on Group performance against budgeted profit 
before tax. For the period ending 30 September 2006 there was a total of £nil paid. The annual bonus scheme for the period to September 2007 
is also 100% of basic salary based upon the achievement of budgeted Group operating profit.

**Pension arrangements**

Mr. Bester, Mr. Ounstead and Mr. Liggett received contributions into their own personal pension schemes (2005: same).

**Directors’ contracts**

**Executive Directors**

It is the Company’s policy that executive Directors enter into a contract with a 12 month term providing for a maximum of six months notice. 
Mr. Williams, Mr. Bester and Mr. Ounstead have entered into new service contracts on 1st October 2006 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.

The details of the non-executive Directors’ contracts are summarised in the table below:

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

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.

AUDITED INFORMATION
Aggregate Directors’ remuneration
The total amounts for Directors’ remuneration were as follows:

<table>
<thead>
<tr>
<th>Name of Director</th>
<th>Fees £’000</th>
<th>Basic salary £’000</th>
<th>Vehicle allowance £’000</th>
<th>Benefits in kind £’000</th>
<th>Money purchase pension contributions £’000</th>
<th>Long term incentive plan £’000</th>
<th>Period ended 30 September £’000</th>
<th>Period ended 1 October £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Directors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2006</td>
<td>2005</td>
</tr>
<tr>
<td>B.F.J. Bester</td>
<td>-</td>
<td>125</td>
<td>-</td>
<td>17</td>
<td>6</td>
<td>-</td>
<td>148</td>
<td>210</td>
</tr>
<tr>
<td>S.K.M. Williams</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>N.D. Ounstead</td>
<td>-</td>
<td>260</td>
<td>24</td>
<td>4</td>
<td>12</td>
<td>1,000</td>
<td>1,300</td>
<td>273</td>
</tr>
<tr>
<td>A. Liggett</td>
<td>-</td>
<td>260</td>
<td>-</td>
<td>29</td>
<td>12</td>
<td>1,000</td>
<td>1,301</td>
<td>267</td>
</tr>
<tr>
<td>M.T.M Williams</td>
<td>-</td>
<td>90</td>
<td>8</td>
<td>1</td>
<td>-</td>
<td>300</td>
<td>399</td>
<td>-</td>
</tr>
<tr>
<td>Non executive Directors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>W.A. McIntosh</td>
<td>20</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>V.H. Watson</td>
<td>20</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>J.M. Jack</td>
<td>-</td>
<td>20</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>20</td>
<td>20</td>
</tr>
</tbody>
</table>

40 755 32 51 30 2,300 3,208 914
**Directors’ share options**
There were no options outstanding, granted to or exercised by Directors during the period and therefore no gains were made by the Directors.
The market price of the ordinary shares at 30 September 2006 was 259 pence and the range during the year was 268.25 pence to 156.5 pence.

**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>Name</th>
<th>30 September 2006</th>
<th>1 October 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>B.F.J. Bester</td>
<td>13,906,200</td>
<td>18,541,600</td>
</tr>
<tr>
<td>N.D. Ounstead</td>
<td>370,125</td>
<td>493,500</td>
</tr>
<tr>
<td>A. Liggett</td>
<td>1,501,125</td>
<td>2,001,500</td>
</tr>
<tr>
<td>M.T.M. Williams</td>
<td>385,980</td>
<td>482,540</td>
</tr>
<tr>
<td>W.A. McIntosh</td>
<td>1,188,750</td>
<td>1,585,000</td>
</tr>
<tr>
<td>V.H. Watson</td>
<td>120,000</td>
<td>180,000</td>
</tr>
<tr>
<td>J.M. Jack</td>
<td>11,250</td>
<td>15,000</td>
</tr>
</tbody>
</table>

**Approval**
This report was approved by the Board of Directors on 28 November 2006 and signed on its behalf by:

**Alan McIntosh**
Chairman of Remuneration Committee
28 November 2006
INDEPENDENT AUDITORS’ REPORT - GROUP ACCOUNTS

TO THE MEMBERS OF TOPPS TILES PLC
We have audited the Group financial statements of Topps Tiles Plc for the 52 weeks ended 30 September 2006, which comprise the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of recognised income and expense and the related notes 1 to 31. These Group financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Remuneration Report that is described as having been audited.

We have reported separately on the individual Company financial statements of Topps Tiles plc for the 52 weeks ended 30 September 2006.

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
The Directors’ responsibilities for preparing the annual report, the Remuneration Report and the Group financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRS) as adopted for use in the European Union are set out in the directors’ report.

Our responsibility is to audit the Group financial statements and the part of the Remuneration Report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view in accordance with the relevant financial reporting framework and whether the Group financial statements and the part of the Remuneration Report described as having been audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS regulation. We report to you if, in our opinion, the information given in the directors’ report is consistent with the Group financial statements. We also report to you if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors’ remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the corporate governance statement reflects the Company’s compliance with the nine provisions of the 2003 FRC 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 statement on internal control covers 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 also report to you if, in our opinion, the Company has not complied with any of the four Directors’ remuneration disclosure requirements specified for our review by the Listing Rules of the Financial Services Authority.

These comprise the amount of each element in the remuneration package and information on share options, details of long term incentive schemes, and money purchase and defined benefit schemes. We give a statement, to the extent possible, of details of any non-compliance.

We read the directors’ report and the other information contained in the annual report for the above year as described in the contents section, including the unaudited part of the Remuneration Report, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements.

BASIS OF AUDIT OPINION
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements and the part of the Remuneration Report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Company’s circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements and the part of the 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 Group financial statements and the part of the Remuneration Report described as having been audited.
OPINION

In our opinion:

■ the Group financial statements give a true and fair view, in accordance with IFRS's as adopted for use in the European Union, of the state of the Group’s affairs as at 30 September 2006 and of its profit for the 52 weeks then ended;

■ the Group financial statements and the part of the Remuneration Report described as having been audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS regulation; and

■ the information given in the directors’ report is consistent with the Group financial statements.

Separate opinion in relation to IFRS

As explained in note 2, the Group in addition to complying with its legal obligation to comply with IFRS’s as adopted for use in the European Union, has also complied with IFRS’s as issued by the International Accounting Standards Board. Accordingly, in our opinion the financial statements give a true and fair view, in accordance with IFRS’s, of the state of the Group’s affairs at 30 September 2006 and of its profit for the 52 weeks then ended.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Manchester

28 November 2006
**CONSOLIDATED GROUP INCOME STATEMENT**

For the 52 weeks ended 30 September 2006

<table>
<thead>
<tr>
<th>Notes</th>
<th>2006 £'000</th>
<th>2005 Restated £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Group revenue</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>180,180</td>
<td>173,326</td>
</tr>
<tr>
<td><strong>Cost of sales</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(67,470)</td>
<td>(67,146)</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>112,710</td>
<td>106,180</td>
</tr>
</tbody>
</table>

**Operating expenses**

<table>
<thead>
<tr>
<th></th>
<th>2006 £'000</th>
<th>2005 £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>employee profit sharing</td>
<td>(5,907)</td>
<td>(7,502)</td>
</tr>
<tr>
<td>distribution costs</td>
<td>(50,901)</td>
<td>(46,348)</td>
</tr>
<tr>
<td>other operating expenses</td>
<td>(15,981)</td>
<td>(15,521)</td>
</tr>
<tr>
<td>share buy back costs</td>
<td>(1,110)</td>
<td>–</td>
</tr>
</tbody>
</table>

**Share of results of joint ventures**

| 15 | 58 | 13 |

**Group and share of joint venture profit from operations before share buy back costs**

| 4 | 38,869 | 36,822 |

**Share buy back costs**

| 8 | (1,110) | – |

**Group and share of joint venture profit from operations**

| 7 | 258 | 1,700 |

**Investment revenue**

| 8 | 1,276 | 1,076 |

**Finance costs**

| 8 | (1,339) | (407) |

**Profit before taxation**

| 9 | 39,064 | 39,191 |

**Taxation**

| 9 | (11,260) | (9,009) |

**Profit after taxation for the period attributable to equity holders of the parent company**

| 26 | 27,804 | 30,182 |

**Earnings per ordinary share**

| 11 | 12.80p | 13.33p |
|    | 12.74p | 13.24p |

All of the above results relate to continuing operations.

---

**CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE**

For the 52 weeks ended 30 September 2006

<table>
<thead>
<tr>
<th>2006 £'000</th>
<th>2005 £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exchange rate loss on retranslation of joint venture</td>
<td>(2)</td>
</tr>
<tr>
<td>First time adoption of IAS 32 and 39</td>
<td>–</td>
</tr>
<tr>
<td>Deferred tax on share save scheme taken directly to equity</td>
<td>304</td>
</tr>
<tr>
<td>Profit for the period attributable to equity holders of the company</td>
<td>27,804</td>
</tr>
<tr>
<td>Recognised income and expense for the period</td>
<td>28,106</td>
</tr>
</tbody>
</table>
## CONSOLIDATED BALANCE SHEET

As at 30 September 2006

<table>
<thead>
<tr>
<th>Notes</th>
<th>2006 £’000</th>
<th>2005 Restated £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goodwill</td>
<td>12</td>
<td>551</td>
</tr>
<tr>
<td>Tangible assets</td>
<td>13</td>
<td>36,857</td>
</tr>
<tr>
<td>Joint venture undertaking</td>
<td>15</td>
<td>281</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>16</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total non-current assets</strong></td>
<td></td>
<td>37,689</td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td>16</td>
<td>27,031</td>
</tr>
<tr>
<td>Trade and other receivables within one year</td>
<td>16</td>
<td>5,528</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>16</td>
<td>16,533</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td></td>
<td>49,092</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td></td>
<td>86,781</td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>17</td>
<td>(25,837)</td>
</tr>
<tr>
<td>Bank loans</td>
<td>18</td>
<td>(4,900)</td>
</tr>
<tr>
<td>Current tax liabilities</td>
<td></td>
<td>(7,507)</td>
</tr>
<tr>
<td><strong>Net current assets</strong></td>
<td></td>
<td>(38,244)</td>
</tr>
<tr>
<td>Bank loans</td>
<td>18</td>
<td>(110,600)</td>
</tr>
<tr>
<td>Other payables</td>
<td>17</td>
<td>-</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>20</td>
<td>(1,233)</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td></td>
<td>(150,077)</td>
</tr>
<tr>
<td><strong>Net (liabilities)/assets</strong></td>
<td></td>
<td>(63,296)</td>
</tr>
</tbody>
</table>

**Equity**

<table>
<thead>
<tr>
<th></th>
<th>2006 £’000</th>
<th>2005 £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share capital</td>
<td>21</td>
<td>5,773</td>
</tr>
<tr>
<td>Share premium</td>
<td>22</td>
<td>531</td>
</tr>
<tr>
<td>Merger reserve</td>
<td>23</td>
<td>(399)</td>
</tr>
<tr>
<td>Share based payment reserve</td>
<td>24</td>
<td>166</td>
</tr>
<tr>
<td>Capital redemption reserve</td>
<td>25</td>
<td>20,254</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>26</td>
<td>(89,621)</td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td></td>
<td>(63,296)</td>
</tr>
</tbody>
</table>

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

The financial statements on pages 36 to 61 were approved by the Board of Directors on 28 November 2006 and signed on its behalf by:

**ND Ounstead**

**A Liggett**

Directors
## CONSOLIDATED CASHFLOW STATEMENT

For the 52 weeks ended 30 September 2006

<table>
<thead>
<tr>
<th></th>
<th>2006 £'000</th>
<th>2005 £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cashflow from Operating Activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Group and share of joint venture operating profit before taxation</td>
<td>38,869</td>
<td>36,822</td>
</tr>
<tr>
<td>Adjustments for:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation of property, plant and equipment</td>
<td>3,718</td>
<td>3,363</td>
</tr>
<tr>
<td>Share of results in joint venture</td>
<td>(58)</td>
<td>(13)</td>
</tr>
<tr>
<td>Share option charge</td>
<td>66</td>
<td>65</td>
</tr>
<tr>
<td>Loss on sale of fixed assets</td>
<td>258</td>
<td>–</td>
</tr>
<tr>
<td>Increase in receivables</td>
<td>(1,342)</td>
<td>(267)</td>
</tr>
<tr>
<td>Increase in inventories</td>
<td>(1,693)</td>
<td>(965)</td>
</tr>
<tr>
<td>Decrease in payables</td>
<td>(1,949)</td>
<td>(3,239)</td>
</tr>
<tr>
<td><strong>Cash generated by operations</strong></td>
<td>37,869</td>
<td>35,766</td>
</tr>
<tr>
<td>Interest paid</td>
<td>(683)</td>
<td>(308)</td>
</tr>
<tr>
<td>Taxation paid</td>
<td>(7,655)</td>
<td>(8,864)</td>
</tr>
<tr>
<td><strong>Net cash from operating activities</strong></td>
<td>29,531</td>
<td>26,594</td>
</tr>
<tr>
<td><strong>Cashflows from investing activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase of treasury shares</td>
<td>–</td>
<td>(3,774)</td>
</tr>
<tr>
<td>Interest received</td>
<td>1,276</td>
<td>942</td>
</tr>
<tr>
<td>Purchase of property, plant and equipment</td>
<td>(8,668)</td>
<td>(8,564)</td>
</tr>
<tr>
<td>Proceeds on sale of property, plant and equipment</td>
<td>573</td>
<td>4,292</td>
</tr>
<tr>
<td><strong>Net cash used in investment activities</strong></td>
<td>(6,819)</td>
<td>(7,104)</td>
</tr>
<tr>
<td><strong>Cashflows from financing activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from issue of share capital</td>
<td>222</td>
<td>721</td>
</tr>
<tr>
<td>Repayment of loans</td>
<td>(6,000)</td>
<td>(517)</td>
</tr>
<tr>
<td>New loans</td>
<td>115,500</td>
<td>–</td>
</tr>
<tr>
<td>Share buy back</td>
<td>(122,216)</td>
<td>–</td>
</tr>
<tr>
<td>Dividends paid</td>
<td>(21,514)</td>
<td>(21,489)</td>
</tr>
<tr>
<td><strong>Net cash used in financing activities</strong></td>
<td>(34,008)</td>
<td>(21,285)</td>
</tr>
<tr>
<td><strong>Net decrease in cash equivalents</strong></td>
<td>(11,296)</td>
<td>(1,795)</td>
</tr>
<tr>
<td>Cash and cash equivalents at beginning of period</td>
<td>27,829</td>
<td>29,624</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at end of period</strong></td>
<td>16,533</td>
<td>27,829</td>
</tr>
</tbody>
</table>
NOTES TO THE GROUP ACCOUNTS
For the 52 weeks ended 30 September 2006

1 GENERAL INFORMATION
Topps Tiles Plc is a company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is given on page 24. The nature of the Group’s operations and its principal activities are set out in the business review on pages 11 to 15.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in note 2.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

- **IFRS 7**: Financial instruments: Disclosures; and the related amendment to IAS 1 on capital disclosures
- **IFRIC 4**: Determining whether an Arrangement contains a Lease
- **IFRIC 8**: Scope of IFRS2
- **IFRIC 9**: Re-Assessment of Embedded Derivatives
- **IFRIC 10**: Interim Financial Reporting and Impairment.

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group except for additional disclosures on capital and financial instruments when the relevant standards come into effect for periods commencing on or after 1 January 2007.

2 ACCOUNTING POLICIES
a) Basis of accounting
The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have been prepared on the historical cost basis, except for the revaluation of certain properties and financial instruments. The principal accounting policies adopted are set out below.

Topps Tiles Plc’s consolidated financial statements were prepared in accordance with United Kingdom Generally Accepted Accounting Principles (UK GAAP) until 1st October 2005. A transitional document was published in January 2006 detailing impact of IFRS in accordance with IFRS 1 and the comparative figures in respect of 2005 are restated to reflect these adjustments.

The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS are given in note 31. The financial statements have also been prepared in accordance with IFRS adopted for use in the European Union and therefore comply with Article 4 of the EU IAS regulations.

The rules for first time adoption of IFRS are set out in IFRS 1. In general a company is required to define it’s IFRS accounting policies and apply these retrospectively to determine it’s opening balance sheet under IFRS. The standard allows a number of optional exemptions to this general principle. The Group has made the following elections under IFRS 1;

- Not to account under IFRS 3 for Business Combinations prior to 24 February 2004
- Not to measure items of property, plant and equipment at fair value at the date of transition to IFRS, but to use UK GAAP values at that date
- To take up the exemption related to financial instruments (IAS 32 & 39) that allows it not to present comparative information in compliance with those standards, but will continue to comply with UK GAAP in this respect
- To only apply the provisions of IFRS 2 to equity instruments issued after 7 November 2002

b) Basis of consolidation
The statutory Group income statement and balance sheet consolidate the financial statements of Topps Tiles Plc and its subsidiary undertakings made up to 30 September 2006. 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.
NOTES TO THE GROUP ACCOUNTS continued
For the 52 weeks ended 30 September 2006

2 ACCOUNTING POLICIES continued

c) Financial period

The accounting period ends on the Saturday which falls closest to 30 September, resulting in financial periods of either 52 or 53 weeks. Throughout the financial statements, directors’ report and financial review, references to 2006 mean at 30 September 2006 or the 52 weeks then ended; references to 2005 mean at 1 October 2005 or the 52 weeks then ended.

d) Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group’s interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Group’s cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before the date of transition to IFRSs has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date. Goodwill of £15,080,000 written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

e) Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes. Sales of goods are recognised when title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset’s net carrying amount. Dividend income from investments is recognised when the shareholders’ rights to receive payment have been established.

f) Property, plant & equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off the cost of assets, less estimated residual value, over their estimated useful lives, on the following bases:

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

Freehold land is not depreciated.

Residual value is calculated on prices prevailing at the date of acquisition.
2 ACCOUNTING POLICIES continued

g) Inventories
Inventories are stated at the lower of cost and net realisable value and relates solely to finished goods for resale. Cost comprises purchase price of materials and an attributable proportion of distribution overheads based on normal levels of activity and is valued at standard cost. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and costs to be incurred – marketing, selling and distribution. Provision is made for those items of inventory where the net realisable value is estimated to be lower than cost. Net realisable value is based on both historic experience and assumptions regarding future selling values, and is consequently a source of estimation uncertainty.

h) Taxation
The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, and interests in jointly controlled entities, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

i) Foreign currency
In preparing the financial statements of individual companies, transactions in currencies other than the entity’s functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of transactions. At each period end, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.
NOTES TO THE GROUP ACCOUNTS continued
For the 52 weeks ended 30 September 2006

2 ACCOUNTING POLICIES continued

i) Foreign currency continued

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the income statement for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group’s joint venture operation are translated at exchange rates prevailing at period end dates. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case the exchange rates at the dates of transactions are used. Exchange differences arising are classified as equity and transferred to the Group’s translation reserve. Such differences are recognised as income or expense in the period in which the operation is disposed of.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts (see below for details of the Group’s accounting policies in respect of such derivative financial instruments).

j) Leases

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.

k) Investments

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

l) Retirement benefit costs

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

m) Operating profit

Operating profit is stated after charging share buy back costs and after share of results of joint ventures but before investment income and finance costs.

n) Finance costs

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

o) Investments in Jointly Controlled Entities

A jointly controlled entity is an entity over which the Group is in a position to exercise joint control, through participation in the financial and operating policy decisions of the investee.

The results and assets and liabilities of jointly controlled entities are incorporated in these financial statements using the equity method of accounting. Investments are carried in the balance sheet at cost adjusted by post-acquisition changes in the Group’s share of the net assets of the jointly controlled entity, less any impairment in the value of individual investments.

Any excess of the cost of acquisition over the Group’s share of the fair values of the identifiable net assets of the jointly controlled entity at the date of acquisition is recognised as goodwill.

Where a Group company transacts with a jointly controlled entity of the Group, profits and losses are eliminated to the extent of the Group’s interest in the relevant jointly controlled entity. Losses may provide evidence of an impairment of the asset transferred in which case appropriate provision is made for impairment.

p) 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.

The Group’s activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

The use of financial derivatives is governed by the Group’s policies approved by the Board of Directors, on the use of financial derivatives. Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value, with gains or losses reported in the income statement.

q) Bank Borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges are accounted for on an accrual basis in the Income Statement using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

r) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the Directors’ best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

s) Share-based payments

The Group has applied the requirements of IFRS 2 Share-based Payments. In accordance with the transitional provisions, IFRS 2 will be applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2005.

The Group issues equity settled share based payments to certain employees. Equity settled share based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the share based payment is expensed on a straight line basis over the vesting period, based on the Group’s estimate of shares that will eventually vest. Fair value is measured by use of the Black Scholes model.

The Group provides employees with the ability to purchase the Group’s ordinary shares at 80% of the current market value through the operation of it’s share save scheme. The Group records an expense, based on its estimate of the 20% discount related to shares expected to vest on a straight line basis over the vesting period.
NOTES TO THE GROUP ACCOUNTS continued
For the 52 weeks ended 30 September 2006

2 ACCOUNTING POLICIES continued

t) Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

u) Trade payables
Trade payables are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

v) Financial Liabilities and Equity
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

3 REVENUE
An analysis of revenue is as follows:

<table>
<thead>
<tr>
<th></th>
<th>2006 £’000</th>
<th>2005 £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-Trade customers</td>
<td>159,482</td>
<td>153,489</td>
</tr>
<tr>
<td>Trade customers</td>
<td>20,698</td>
<td>19,837</td>
</tr>
<tr>
<td></td>
<td>180,180</td>
<td>173,326</td>
</tr>
<tr>
<td>Investment income</td>
<td>1,276</td>
<td>1,076</td>
</tr>
<tr>
<td>Total revenue</td>
<td>181,456</td>
<td>174,402</td>
</tr>
</tbody>
</table>

4 BUSINESS SEGMENTS
The Group is currently organised into two retail operating divisions, Topps Tiles (Topps) and Tile Clearing House (TCH). These divisions are the basis on which the group reports its primary segment information.

Segmental revenue and profit before taxation by business activity were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Topps £’000</th>
<th>TCH £’000</th>
<th>Consolidated £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>159,482</td>
<td>20,698</td>
<td>180,180</td>
</tr>
<tr>
<td>Operating profit before central costs</td>
<td>35,887</td>
<td>4,685</td>
<td>40,572</td>
</tr>
<tr>
<td>Head office /distribution centre costs</td>
<td>(1,703)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating profit</td>
<td></td>
<td></td>
<td>38,869</td>
</tr>
<tr>
<td>Other gains</td>
<td></td>
<td></td>
<td>258</td>
</tr>
<tr>
<td>Finance costs less finance income</td>
<td></td>
<td></td>
<td>(43)</td>
</tr>
<tr>
<td>Profit before taxation</td>
<td></td>
<td></td>
<td>39,064</td>
</tr>
</tbody>
</table>
### BUSINESS SEGMENTS continued

#### Other information

<table>
<thead>
<tr>
<th></th>
<th>Topps £’000</th>
<th>TCH £’000</th>
<th>Head office/ distribution centre £’000</th>
<th>Consolidated £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital additions</td>
<td>2,240</td>
<td>860</td>
<td>5,976</td>
<td>9,076</td>
</tr>
<tr>
<td>Depreciation</td>
<td>2,204</td>
<td>432</td>
<td>1,082</td>
<td>3,718</td>
</tr>
</tbody>
</table>

#### Balance sheet

<table>
<thead>
<tr>
<th></th>
<th>Segment assets</th>
<th>Unallocated corporate assets</th>
<th>Consolidated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital additions</td>
<td>2,240</td>
<td>860</td>
<td>5,976</td>
</tr>
<tr>
<td>Depreciation</td>
<td>2,204</td>
<td>432</td>
<td>1,082</td>
</tr>
<tr>
<td>Segment assets</td>
<td>52,708</td>
<td>7,906</td>
<td>60,614</td>
</tr>
<tr>
<td>Unallocated corporate assets</td>
<td>26,167</td>
<td></td>
<td>26,167</td>
</tr>
<tr>
<td>Consolidated total assets</td>
<td>52,708</td>
<td>7,906</td>
<td>86,781</td>
</tr>
</tbody>
</table>

#### Segmental information for the 52 weeks to 1 October 2005

<table>
<thead>
<tr>
<th></th>
<th>Topps £’000</th>
<th>TCH £’000</th>
<th>Head office/ distribution centre £’000</th>
<th>Consolidated £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>153,489</td>
<td>19,837</td>
<td></td>
<td>173,326</td>
</tr>
<tr>
<td>Operating profit before central costs</td>
<td>34,119</td>
<td>4,575</td>
<td>38,694</td>
<td>1,872</td>
</tr>
<tr>
<td>Operating profit</td>
<td>36,822</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance costs less finance income</td>
<td>669</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other gains</td>
<td>1,700</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit before taxation</td>
<td>39,191</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Other information

<table>
<thead>
<tr>
<th></th>
<th>Topps £’000</th>
<th>TCH £’000</th>
<th>Head office/ distribution centre £’000</th>
<th>Consolidated £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital additions</td>
<td>3,832</td>
<td>631</td>
<td>4,328</td>
<td>8,791</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>1,930</td>
<td>402</td>
<td>1,031</td>
<td>3,363</td>
</tr>
</tbody>
</table>

#### Balance sheet

<table>
<thead>
<tr>
<th></th>
<th>Segment assets</th>
<th>Unallocated corporate assets</th>
<th>Consolidated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital additions</td>
<td>3,832</td>
<td>631</td>
<td>4,328</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>1,930</td>
<td>402</td>
<td>1,031</td>
</tr>
<tr>
<td>Segment assets</td>
<td>49,209</td>
<td>7,381</td>
<td>56,590</td>
</tr>
<tr>
<td>Unallocated corporate assets</td>
<td>33,611</td>
<td></td>
<td>33,611</td>
</tr>
<tr>
<td>Consolidated total assets</td>
<td>49,209</td>
<td>7,381</td>
<td>90,201</td>
</tr>
<tr>
<td>Segment liabilities</td>
<td>(16,495)</td>
<td>(2,774)</td>
<td>(21,269)</td>
</tr>
<tr>
<td>Unallocated corporate liabilities</td>
<td>(16,702)</td>
<td></td>
<td>(16,702)</td>
</tr>
<tr>
<td>Consolidated corporate liabilities</td>
<td>(16,495)</td>
<td>(2,774)</td>
<td>(37,791)</td>
</tr>
</tbody>
</table>
5 PROFIT BEFORE TAXATION

Profit for the period has been arrived at after charging:

<table>
<thead>
<tr>
<th></th>
<th>2006 £'000</th>
<th>2005 £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation of property, plant and</td>
<td>3,718</td>
<td>3,363</td>
</tr>
<tr>
<td>equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staff costs (see note 6)</td>
<td>33,733</td>
<td>29,677</td>
</tr>
<tr>
<td>Auditors’ remuneration for audit</td>
<td>105</td>
<td>70</td>
</tr>
<tr>
<td>services (see below)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Auditors’ remuneration for non-audit</td>
<td>173</td>
<td>56</td>
</tr>
<tr>
<td>services</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

A more detailed analysis of auditors’ remuneration is provided below:

<table>
<thead>
<tr>
<th></th>
<th>2006 £'000</th>
<th>2005 £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit services:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>statutory audit</td>
<td>95</td>
<td>70</td>
</tr>
<tr>
<td>audit-related regulatory reporting</td>
<td>10</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>105</td>
<td>70</td>
</tr>
<tr>
<td>Further assurance services</td>
<td>50</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax services:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>compliance services</td>
<td>65</td>
<td>25</td>
</tr>
<tr>
<td>advisory services</td>
<td>58</td>
<td>31</td>
</tr>
<tr>
<td></td>
<td>123</td>
<td>56</td>
</tr>
<tr>
<td></td>
<td>278</td>
<td>126</td>
</tr>
</tbody>
</table>

A description of the work of the audit committee is set out on page 29 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

Further assurance services includes work performed in respect of the share buy back.

6 STAFF COSTS

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

<table>
<thead>
<tr>
<th></th>
<th>2006 Number</th>
<th>2005 Number</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>employed</td>
<td>employed</td>
</tr>
<tr>
<td>Selling</td>
<td>1,412</td>
<td>1,356</td>
</tr>
<tr>
<td>Administration</td>
<td>170</td>
<td>157</td>
</tr>
<tr>
<td></td>
<td>1,582</td>
<td>1,513</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2006 £'000</th>
<th>2005 £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages and salaries (including LTIP)</td>
<td>30,193</td>
<td>26,477</td>
</tr>
<tr>
<td>Social security costs</td>
<td>3,281</td>
<td>2,984</td>
</tr>
<tr>
<td>Other pension costs (note 28b)</td>
<td>259</td>
<td>216</td>
</tr>
<tr>
<td></td>
<td>33,733</td>
<td>29,677</td>
</tr>
</tbody>
</table>

Details of Director’s emoluments are disclosed on page 32.
7 OTHER GAINS AND LOSSES
Other gains and losses relate to the sale and leaseback of certain freehold properties.

8 INVESTMENT REVENUE

<table>
<thead>
<tr>
<th></th>
<th>2006 £'000</th>
<th>2005 £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank interest receivable and similar income</td>
<td>1,276</td>
<td>1,076</td>
</tr>
</tbody>
</table>

**Finance costs**

<table>
<thead>
<tr>
<th>Description</th>
<th>2006 £'000</th>
<th>2005 £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest on bank loans and overdrafts</td>
<td>(1,377)</td>
<td>(372)</td>
</tr>
<tr>
<td>Interest on VAT payments</td>
<td>–</td>
<td>(64)</td>
</tr>
<tr>
<td>Interest costs capitalised</td>
<td>38</td>
<td>29</td>
</tr>
</tbody>
</table>

Net finance costs: (1,339)  £'000 (407)

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.

9 TAX

<table>
<thead>
<tr>
<th>Description</th>
<th>2006 £'000</th>
<th>2005 £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current tax – charge for the period</td>
<td>11,179</td>
<td>8,670</td>
</tr>
<tr>
<td>Current tax – adjustment in respect of previous periods</td>
<td>343</td>
<td>(116)</td>
</tr>
<tr>
<td>Deferred tax – charge for period</td>
<td>1,082</td>
<td>455</td>
</tr>
<tr>
<td>Deferred tax - adjustment in respect of previous periods (note 20)</td>
<td>(1,344)</td>
<td>–</td>
</tr>
</tbody>
</table>

Total tax: 11,260  £'000 (9,009)

Corporation tax is calculated at 30% (2005: 30%) of the estimated assessable profit for the period.

The charge for the period can be reconciled to the profit per the income statement as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>2006 £'000</th>
<th>2005 £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit before taxation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Continuing operations</td>
<td>39,064</td>
<td>39,191</td>
</tr>
<tr>
<td>Tax at the UK corporation tax rate of 30% (2005: 30%)</td>
<td>11,719</td>
<td>11,757</td>
</tr>
<tr>
<td>Tax effect of Intra-Group restructuring</td>
<td>–</td>
<td>(540)</td>
</tr>
<tr>
<td>Tax effect of expenses that are not deductible in determining taxable profit</td>
<td>281</td>
<td>(1,406)</td>
</tr>
<tr>
<td>Tax effect of utilisation of tax losses not previously recognised</td>
<td>–</td>
<td>(47)</td>
</tr>
<tr>
<td>Tax effect of savings from Share Symmetry on options exercised</td>
<td>–</td>
<td>(729)</td>
</tr>
<tr>
<td>Tax effect of profit in excess of chargeable gains on sale of freehold property</td>
<td>(25)</td>
<td>(38)</td>
</tr>
<tr>
<td>Tax effect of different tax rates on overseas earnings</td>
<td>13</td>
<td>–</td>
</tr>
<tr>
<td>Tax effect of tangible fixed assets which do not qualify for capital allowances</td>
<td>273</td>
<td>128</td>
</tr>
<tr>
<td>Tax effect of adjustment in respect of prior periods</td>
<td>(1,001)</td>
<td>(116)</td>
</tr>
<tr>
<td>Tax expense for the period</td>
<td>11,260</td>
<td>9,009</td>
</tr>
</tbody>
</table>
10 DIVIDENDS
Amounts recognised as distributions to equity holders in the period:

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Final dividend paid for the 52 weeks ended 1 October 2005 of 6.00p (2004: 6.00p) per ordinary share</td>
<td>13,596</td>
<td>13,593</td>
</tr>
<tr>
<td>Interim dividend paid for the 26 weeks ended 1 April 2006 of 3.50p (2005: 3.50p)</td>
<td>7,933</td>
<td>7,983</td>
</tr>
<tr>
<td>Over provision in respect of the prior period final dividend</td>
<td>(15)</td>
<td>(67)</td>
</tr>
<tr>
<td></td>
<td>21,514</td>
<td>21,509</td>
</tr>
</tbody>
</table>

Proposed final dividend for the 52 weeks ended 30 September 2006 of 6.90p (2005: 6.00p) per share 11,734 13,596

The proposed final dividend is subject to approval by shareholders at the annual general meeting and has not yet been included as a liability in these financial statements.

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

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of shares</td>
<td>Number of shares</td>
</tr>
<tr>
<td>Weighted average number of shares</td>
<td></td>
<td></td>
</tr>
<tr>
<td>For basic earnings per share</td>
<td>217,252,872</td>
<td>226,351,825</td>
</tr>
<tr>
<td>Weighted average of shares under option</td>
<td>954,715</td>
<td>1,678,222</td>
</tr>
<tr>
<td>For diluted earnings per share</td>
<td>218,207,587</td>
<td>228,030,047</td>
</tr>
</tbody>
</table>

The reduction in the weighted average number of shares relates to the 3 for 4 reverse share split during August 2007.

12 GOODWILL

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost and carrying amount</td>
<td>551</td>
<td>551</td>
</tr>
</tbody>
</table>

The cost and carrying amount of Goodwill at 2 October 2004 was £551,000.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next five years and extrapolates cash flows for the following five years based on an estimated growth rate of 2 per cent. This rate does not exceed the average long-term growth rate for the relevant markets.
### 13 PROPERTY, PLANT AND EQUIPMENT

<table>
<thead>
<tr>
<th></th>
<th>Land and buildings</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Freehold £’000</td>
<td>Short leasehold £’000</td>
<td>Fixtures and fittings £’000</td>
<td>Motor vehicles £’000</td>
<td>Total £’000</td>
</tr>
<tr>
<td><strong>Cost</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 3 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>Additions</td>
<td>3,548</td>
<td>88</td>
<td>5,067</td>
<td>88</td>
<td>8,791</td>
</tr>
<tr>
<td>Disposals</td>
<td>(2,342)</td>
<td>–</td>
<td>(117)</td>
<td>(185)</td>
<td>(2,444)</td>
</tr>
<tr>
<td>At 2 October 2005</td>
<td>12,410</td>
<td>1,381</td>
<td>30,498</td>
<td>249</td>
<td>44,538</td>
</tr>
<tr>
<td>Additions</td>
<td>4,333</td>
<td>1,016</td>
<td>3,705</td>
<td>22</td>
<td>9,076</td>
</tr>
<tr>
<td>Disposals</td>
<td>[261]</td>
<td>–</td>
<td>(1,321)</td>
<td>(160)</td>
<td>(1,742)</td>
</tr>
<tr>
<td><strong>At 30 September 2006</strong></td>
<td><strong>16,482</strong></td>
<td><strong>2,397</strong></td>
<td><strong>32,882</strong></td>
<td><strong>111</strong></td>
<td><strong>51,872</strong></td>
</tr>
<tr>
<td><strong>Accumulated depreciation and impairment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 3 October 2004</td>
<td>278</td>
<td>700</td>
<td>8,127</td>
<td>50</td>
<td>9,155</td>
</tr>
<tr>
<td>Charge for the year</td>
<td>203</td>
<td>81</td>
<td>3,015</td>
<td>64</td>
<td>3,363</td>
</tr>
<tr>
<td>Eliminated on disposals</td>
<td>[57]</td>
<td>–</td>
<td>32</td>
<td>[27]</td>
<td>[52]</td>
</tr>
<tr>
<td>At 2 October 2005</td>
<td>424</td>
<td>781</td>
<td>11,174</td>
<td>87</td>
<td>12,466</td>
</tr>
<tr>
<td>Charge for the year</td>
<td>213</td>
<td>121</td>
<td>3,355</td>
<td>29</td>
<td>3,718</td>
</tr>
<tr>
<td>Eliminated on disposals</td>
<td>[49]</td>
<td>–</td>
<td>(1,047)</td>
<td>[73]</td>
<td>(1,169)</td>
</tr>
<tr>
<td><strong>At 30 September 2006</strong></td>
<td><strong>588</strong></td>
<td><strong>902</strong></td>
<td><strong>13,482</strong></td>
<td><strong>43</strong></td>
<td><strong>15,015</strong></td>
</tr>
<tr>
<td><strong>Carrying amount at 30 September 2006</strong></td>
<td><strong>15,894</strong></td>
<td><strong>1,495</strong></td>
<td><strong>13,440</strong></td>
<td><strong>68</strong></td>
<td><strong>36,857</strong></td>
</tr>
<tr>
<td>At 2 October 2005</td>
<td>11,986</td>
<td>600</td>
<td>19,324</td>
<td>162</td>
<td>32,072</td>
</tr>
</tbody>
</table>

Freehold land and buildings include £437,310 (2005: £372,466) of assets under construction and £4,104,100 of land (2005: £2,160,000) 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 £408,000 (2005: £370,000) for the Group.

### 14 SUBSIDIARIES

A list of the significant subsidiaries, including the name, country of incorporation and proportion of ownership interest is given in note 3 to the Company’s separate financial statements.

### 15 JOINT VENTURE UNDERTAKING

Aggregated amounts relating to Joint Venture.

<table>
<thead>
<tr>
<th></th>
<th>2006 £’000</th>
<th>2005 £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets</td>
<td>2,952</td>
<td>2,392</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>(2,390)</td>
<td>(1,942)</td>
</tr>
<tr>
<td>Net assets</td>
<td>562</td>
<td>450</td>
</tr>
<tr>
<td>Profit</td>
<td>112</td>
<td>26</td>
</tr>
</tbody>
</table>

Amounts recognised in the income statement and in the balance sheet are as follows:

- **Operating profit**
  - Less: interest (35) (27)
  - Less: tax (31) (16)
- **Share of results of joint venture** 58 13
- **Exchange rate difference taken to reserves** (2) –
- **Movement in Joint Venture interest** 56 13
- **Interest in joint venture** 281 225
16 OTHER FINANCIAL ASSETS

Trade and other receivables

<table>
<thead>
<tr>
<th></th>
<th>2006 £'000</th>
<th>2005 £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amounts falling due within one year:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amounts receivable for the sale of goods</td>
<td>417</td>
<td>238</td>
</tr>
<tr>
<td>Loan to joint venture</td>
<td>107</td>
<td>–</td>
</tr>
<tr>
<td>Other debtors and prepayments</td>
<td>5,004</td>
<td>3,833</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amounts falling due after more than one year:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loan to joint venture</td>
<td>–</td>
<td>115</td>
</tr>
</tbody>
</table>

The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

Credit risk

The Group’s principal financial assets are bank balances and cash and trade receivables. The Group has no significant concentration of credit risk.

Bank and cash balances

Bank and cash balances comprise cash held by the Group and short term bank deposits (with associated right of set off). The carrying amount of these assets approximates their fair value. A breakdown of significant bank and cash balances by currency is as follows:

<table>
<thead>
<tr>
<th>Currency</th>
<th>2006 £'000</th>
<th>2005 £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sterling</td>
<td>14,186</td>
<td>27,940</td>
</tr>
<tr>
<td>US Dollar</td>
<td>(73)</td>
<td>164</td>
</tr>
<tr>
<td>Euro</td>
<td>2,420</td>
<td>(275)</td>
</tr>
<tr>
<td>Total</td>
<td>16,533</td>
<td>27,829</td>
</tr>
</tbody>
</table>

17 OTHER FINANCIAL LIABILITIES

Trade and other payables

<table>
<thead>
<tr>
<th></th>
<th>2006 £'000</th>
<th>2005 £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amounts falling due within one year:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade payables</td>
<td>13,814</td>
<td>14,389</td>
</tr>
<tr>
<td>Other payables</td>
<td>5,261</td>
<td>4,114</td>
</tr>
<tr>
<td>Accruals and deferred income</td>
<td>6,762</td>
<td>4,635</td>
</tr>
<tr>
<td></td>
<td>25,837</td>
<td>23,138</td>
</tr>
</tbody>
</table>

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 41 days (2005: 44 days).

The Directors consider that the carrying amount of trade payables approximates to their fair value.
18  BANK LOANS

<table>
<thead>
<tr>
<th></th>
<th>2006 £'000</th>
<th>2005 £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank loans (all sterling)</td>
<td>115,500</td>
<td>6,000</td>
</tr>
</tbody>
</table>

The borrowings are repayable as follows:

<table>
<thead>
<tr>
<th>Repayment Period</th>
<th>2006 £'000</th>
<th>2005 £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>On demand or within one year</td>
<td>5,000</td>
<td>–</td>
</tr>
<tr>
<td>In the second year</td>
<td>5,000</td>
<td>6,000</td>
</tr>
<tr>
<td>In the third to fifth year</td>
<td>106,000</td>
<td>–</td>
</tr>
<tr>
<td>After five years</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Total</td>
<td>116,000</td>
<td>6,000</td>
</tr>
</tbody>
</table>

Less: total issue costs

| Total less: total issue costs   | (500)      | –          |

Less: amount due for settlement within 12 months (shown under current liabilities)

| Total less: amount due for settlement within 12 months | (5,000) | – |

Issue costs to be amortised within 12 months

| Total issue costs to be amortised within 12 months | 100 | – |

Amount due for settlement after 12 months

| Total amount due for settlement after 12 months      | 110,600   | 6,000 |

The weighted average interest rates paid were as follows:

<table>
<thead>
<tr>
<th>Loans</th>
<th>2006 %</th>
<th>2005 %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>5.4879</td>
<td>5.2885</td>
</tr>
</tbody>
</table>

The Group borrowings are arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

The Group has one principal bank loan of £116 million taken out on 1 August 2006. Repayments commence on 28 July 2007 and will continue until 28 July 2011. The loan is secured by upstream guarantees provided by certain subsidiaries. The LIBOR margin shall be adjusted between 0.5% and 0.7% dependent on the Group’s level of compliance with a net debt to EBITDA covenant.

At 30 September 2006, the Group had available £6.5 million (2005: £4.5 million) of undrawn committed banking facilities.

Disclosures in respect of financial instruments are given under the requirements of IAS 32. The Group has taken advantage of the exemption from applying IAS 32 in respect of the comparative period, the year ended 1 October 2005, although disclosures have been given under that standard for information purposes. Accordingly, disclosures in respect of that year are given below under the relevant UK GAAP standard; FRS 13.

The directors’ report on pages 26 and 27 summarises the objectives and policies for holding or issuing financial instruments and similar contracts, and the strategies for achieving those objectives have been followed during the period.

The numerical disclosures in this note deal with financial assets and financial liabilities as defined in FRS 13 Derivatives and Other Financial Instruments: Disclosures. Certain financial assets such as investments in subsidiaries and joint ventures are excluded from the scope of these disclosures.

As permitted by FRS 13, short term debtors and creditors have also been excluded from the disclosures, other than the currency disclosures.
NOTES TO THE GROUP ACCOUNTS continued
For the 52 weeks ended 30 September 2006

18 BANK LOANS continued

a) Interest rate profile

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

<table>
<thead>
<tr>
<th>Currency</th>
<th>1 October 2005 £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sterling</td>
<td>27,940</td>
</tr>
<tr>
<td>Euro</td>
<td>164</td>
</tr>
<tr>
<td>Dollar</td>
<td>(275)</td>
</tr>
</tbody>
</table>

Total: 27,829

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

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

<table>
<thead>
<tr>
<th>Currency</th>
<th>Floating rate 1 October 2005 £'000 %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sterling – Borrowings Loan 1</td>
<td>6,000 0.75</td>
</tr>
</tbody>
</table>

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

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 1 October 2005.

<table>
<thead>
<tr>
<th>Contract</th>
<th>Initial contract value £'000</th>
<th>Contract delivery</th>
<th>Currency</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>650</td>
<td>3 Oct 2005</td>
<td>Euro</td>
</tr>
<tr>
<td>2</td>
<td>250</td>
<td>3 Oct 2005</td>
<td>USD</td>
</tr>
<tr>
<td>3</td>
<td>650</td>
<td>1 Nov 2005</td>
<td>Euro</td>
</tr>
<tr>
<td>4</td>
<td>650</td>
<td>1 Nov 2005</td>
<td>Euro</td>
</tr>
<tr>
<td>5</td>
<td>650</td>
<td>1 Dec 2005</td>
<td>Euro</td>
</tr>
<tr>
<td>6</td>
<td>650</td>
<td>1 Dec 2005</td>
<td>Euro</td>
</tr>
<tr>
<td>7</td>
<td>650</td>
<td>3 Jan 2006</td>
<td>Euro</td>
</tr>
<tr>
<td>8</td>
<td>650</td>
<td>1 Feb 2006</td>
<td>Euro</td>
</tr>
<tr>
<td>9</td>
<td>650</td>
<td>1 Mar 2006</td>
<td>Euro</td>
</tr>
<tr>
<td>10</td>
<td>650</td>
<td>4 Apr 2006</td>
<td>Euro</td>
</tr>
<tr>
<td>11</td>
<td>650</td>
<td>2 May 2006</td>
<td>Euro</td>
</tr>
</tbody>
</table>

Total: 6,750

c) Maturity of financial liabilities

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

<table>
<thead>
<tr>
<th>Maturity</th>
<th>2005 £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>In more than two years but not more than five years</td>
<td>6,000</td>
</tr>
<tr>
<td>Total</td>
<td>6,000</td>
</tr>
</tbody>
</table>
18 **BANK LOANS continued**

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>2005 £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expiring in one year or less</td>
<td>2,000</td>
</tr>
<tr>
<td>Expiring in more than one year but not more than two years</td>
<td>-</td>
</tr>
<tr>
<td>Expiring in more than two years</td>
<td>2,500</td>
</tr>
<tr>
<td><strong>End of period</strong></td>
<td><strong>4,500</strong></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 the period.

19 **DERIVATIVE FINANCIAL INSTRUMENTS**

**Currency derivatives**

The Group utilises currency derivatives to hedge significant future transactions and cash flows. The Group uses foreign currency forward contracts in the management of its exchange rate exposures. The contracts are denominated in US dollars and Euros.

At the balance sheet date, the total notional amount of outstanding forward foreign exchange contracts that the Group has committed to are as below:

<table>
<thead>
<tr>
<th></th>
<th>2006 £'000</th>
<th>2005 £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Forward foreign exchange contracts</strong></td>
<td>6,050</td>
<td>6,750</td>
</tr>
</tbody>
</table>

These arrangements are designed to address significant exchange exposures for the first half of 2007 and are renewed on a revolving basis as required.

At 30 September 2006 the fair value liability of the group’s currency derivatives is £47,000 (2005: £18,000). These amounts are based on market value of equivalent instruments at the balance sheet date.

Amounts of £29,000 have been charged to income in the year (2005: £18,000).

20 **DEFERRED TAX**

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

<table>
<thead>
<tr>
<th></th>
<th>Accelerated tax depreciation £'000</th>
<th>Share based payments £'000</th>
<th>Exchange Rate differences £'000</th>
<th>Rent free £'000</th>
<th>Total £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 3 October 2004</td>
<td>1,864</td>
<td>(852)</td>
<td>–</td>
<td>[168]</td>
<td>844</td>
</tr>
<tr>
<td>Charged to income</td>
<td>481</td>
<td>(20)</td>
<td>(8)</td>
<td>2</td>
<td>455</td>
</tr>
<tr>
<td>Charge to Equity</td>
<td>–</td>
<td>500</td>
<td>–</td>
<td>–</td>
<td>500</td>
</tr>
<tr>
<td>At 2 October 2005</td>
<td>2,345</td>
<td>(372)</td>
<td>(8)</td>
<td>(166)</td>
<td>1,799</td>
</tr>
<tr>
<td>Credit to income</td>
<td>(257)</td>
<td>(20)</td>
<td>(9)</td>
<td>24</td>
<td>(262)</td>
</tr>
<tr>
<td>Charge to equity</td>
<td>(304)</td>
<td>(304)</td>
<td>–</td>
<td>–</td>
<td>(304)</td>
</tr>
<tr>
<td><strong>At 30 September 2006</strong></td>
<td><strong>2,088</strong></td>
<td><strong>(696)</strong></td>
<td><strong>(17)</strong></td>
<td><strong>(142)</strong></td>
<td><strong>1,233</strong></td>
</tr>
</tbody>
</table>

Temporary differences arising in connection with the interest in joint ventures are insignificant.
NOTES TO THE GROUP ACCOUNTS continued
For the 52 weeks ended 30 September 2006

21 CALLED-UP SHARE CAPITAL

<table>
<thead>
<tr>
<th>Description</th>
<th>2006 £‘000</th>
<th>2005 £‘000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Authorised 240,00,000 (2005: 320,000,000) ordinary shares of 3.33p each (2005: 2.5p)</td>
<td>8,000</td>
<td>8,000</td>
</tr>
<tr>
<td>Authorised 37,000,000 (2005 – nil) redeemable B shares of £0.54 each</td>
<td>19,980</td>
<td>–</td>
</tr>
<tr>
<td>Authorised 124,890,948 (2005 – nil) irredeemable C shares of £0.001 each</td>
<td>125</td>
<td>–</td>
</tr>
<tr>
<td>Authorised 105,109,052 (2005 – nil) deferred shares of £0.001 each</td>
<td>105</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td><strong>28,210</strong></td>
<td><strong>8,000</strong></td>
</tr>
<tr>
<td>Issued and fully-paid 170,056,840 (2005: 226,236,475) ordinary shares of 3.33p each (2005: 2.5p)</td>
<td><strong>5,668</strong></td>
<td><strong>5,655</strong></td>
</tr>
<tr>
<td>Issued and fully paid 353,343 (2005: nil) irredeemable C shares of £0.001 each</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Issued and fully paid 105,109,052 (2005: nil) deferred shares of £0.001 each</td>
<td><strong>105</strong></td>
<td>–</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>5,773</strong></td>
<td><strong>5,655</strong></td>
</tr>
</tbody>
</table>

During the period the group announced a share reorganisation with shareholders given the option of receiving 1 redeemable B share of £0.54 or 1 irredeemable C share of £0.001 for every existing ordinary share held.

The redeemable B shares were redeemable 2 weeks from issue at par.

Those shareholders electing to receive C shares qualified for a special dividend of £0.54 1 week following the date of issue. Shareholders were able to opt out of the special dividend and retain the shares, which will be subject to compulsory purchase by the group between 1 January and 31 March 2007 for £0.54 per share. The C shares issued in place of B shares were subject to compulsory purchase by the group on 14 August 2006 for £0.54 per share.

C shares on which special dividends were paid converted into deferred shares following the payment of the special dividend. The deferred shares carry no dividend, voting or other participation rights.

On 1 August 2006 the group issued 37,000,000 redeemable B shares, which were subject to redemption for £0.54 per share and total consideration of £19,980,000 on 14 August 2006.

On 1 August 2006 the group issued 189,676,020 irredeemable C shares. Shareholders representing 105,109,052 irredeemable C shares received a special dividend of £0.54 per share on 14 August 2006, for total consideration of £56,758,888.

Shareholders representing 84,213,625 irrredeemable C shares received these shares in place of B shares and these were subject to compulsory purchase by the company on 14 August 2006 for £0.54 per share and total consideration of £45,475,358.

Shareholders representing 353,343 irredeemable C shares selected to opt out of the special dividend and these shares will be subject to compulsory buy back between 1 January and 31 March 2007 for £0.54 per share and total consideration of £190,805.

On 31 July 2006 the group approved a 3 for 4 share consolidation in respect of the outstanding issued ordinary share capital of the group.

Under the requirements of IAS 32 ‘Financial Instruments: Presentation’, the outstanding irredeemable C shares have been classified as a liability, as the compulsory buy back represents a contractual obligation for the group as issuer to deliver cash to the holders of the shares.

22 SHARE PREMIUM

<table>
<thead>
<tr>
<th>Description</th>
<th>2006 £’000</th>
<th>2005 £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at start of period</td>
<td><strong>5,575</strong></td>
<td><strong>4,889</strong></td>
</tr>
<tr>
<td>Premium on issue of new shares</td>
<td><strong>209</strong></td>
<td><strong>686</strong></td>
</tr>
<tr>
<td>Reverse share split of 3 for 4</td>
<td>(5,253)</td>
<td>–</td>
</tr>
<tr>
<td>Balance at end of period</td>
<td><strong>531</strong></td>
<td><strong>5,575</strong></td>
</tr>
</tbody>
</table>

During the period the issue of 9,375,926 redeemable B shares of 0.54p and 189,676,021 irredeemable C shares of 0.001p were capitalised against share premium.
23 MERGER RESERVE

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at start and end of period</td>
<td>399</td>
<td>399</td>
</tr>
</tbody>
</table>

24 SHARE BASED PAYMENT RESERVE

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>At start of period</td>
<td>100</td>
<td>35</td>
</tr>
<tr>
<td>Share option charge</td>
<td>66</td>
<td>65</td>
</tr>
<tr>
<td>At end of period</td>
<td>166</td>
<td>100</td>
</tr>
</tbody>
</table>

25 CAPITAL REDEMPTION RESERVE

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>At start of period</td>
<td>190</td>
<td>137</td>
</tr>
<tr>
<td>Buy back of 37,000,000 B shares at 0.54p</td>
<td>19,980</td>
<td>–</td>
</tr>
<tr>
<td>Buy back of 84,213,625 C shares at 0.001p</td>
<td>84</td>
<td>–</td>
</tr>
<tr>
<td>Treasury shares cancellation</td>
<td>–</td>
<td>53</td>
</tr>
<tr>
<td>At end of period</td>
<td>20,254</td>
<td>190</td>
</tr>
</tbody>
</table>

26 RETAINED EARNINGS

<table>
<thead>
<tr>
<th></th>
<th>£’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 3 October 2004</td>
<td>37,460</td>
</tr>
<tr>
<td>Dividends paid</td>
<td>(21,509)</td>
</tr>
<tr>
<td>Treasury Shares cancellation</td>
<td>(4,507)</td>
</tr>
<tr>
<td>First time adoption of IAS 32 and 39</td>
<td>(17)</td>
</tr>
<tr>
<td>Deferred tax on sharesave scheme taken directly to equity</td>
<td>(500)</td>
</tr>
<tr>
<td>Net profit for the period</td>
<td>30,182</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>£’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 2 October 2005</td>
<td>41,109</td>
</tr>
<tr>
<td>Dividends paid</td>
<td>(21,514)</td>
</tr>
<tr>
<td>Share buy back</td>
<td>(137,322)</td>
</tr>
<tr>
<td>Exchange rate loss</td>
<td>(2)</td>
</tr>
<tr>
<td>Deferred tax on sharesave scheme taken directly to equity</td>
<td>304</td>
</tr>
<tr>
<td>Net profit for the period</td>
<td>27,804</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>£’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 30 September 2006</td>
<td>(89,621)</td>
</tr>
</tbody>
</table>
NOTES TO THE GROUP ACCOUNTS continued

For the 52 weeks ended 30 September 2006

27 FINANCIAL COMMITMENTS

a) Capital commitments
At the end of the period there were no capital commitments contracted (2005: £nil).

b) Pension arrangements
The Group operates separate defined contribution pension schemes for employees and Directors. The assets of the schemes are held separately from those of the Group in independently administered funds. The pension cost charge represents contributions payable by the Group to the funds and amounted to £259,000 (2005: £216,000).

c) Lease commitments
Minimum lease payments under operating leases recognised in income for the period were £14,998,000 (2005: £13,793,000).

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

<table>
<thead>
<tr>
<th></th>
<th>Land and buildings £'000</th>
<th>Other £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>129,474</td>
<td>2,145</td>
</tr>
<tr>
<td>2005</td>
<td>129,489</td>
<td>2,380</td>
</tr>
</tbody>
</table>

Operating lease payments primarily represent rentals payable by the Group for certain of its office and store properties. Leases are negotiated for an average term of 15 years and rentals are fixed for an average of 5 years.

28 SHARE BASED PAYMENTS

Equity Settled share option scheme
The Group operates 2 share option schemes in relation to Group employees. Options are exercisable at the middle market closing price for the working day prior to the date of grant and are exercisable 3 years from the date of grant if stated performance criteria have been met.

Details of the share options outstanding during the period are as follows:

<table>
<thead>
<tr>
<th>Date of grant</th>
<th>Option price (p)</th>
<th>Exercisable period</th>
<th>No. of options outstanding 2006</th>
<th>No. of options outstanding 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>26th January 2001</td>
<td>0.545p</td>
<td>3 Years</td>
<td>370,990</td>
<td>460,020</td>
</tr>
<tr>
<td>12th February 2002</td>
<td>0.54p</td>
<td>3 Years</td>
<td>51,145</td>
<td>81,645</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>422,135</td>
<td>541,665</td>
</tr>
</tbody>
</table>

Movements in share options are summarised as follows:

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2006</th>
<th>2005</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of share options</td>
<td>Weighted average exercise price</td>
<td>Number of share options</td>
<td>Weighted average exercise price</td>
</tr>
<tr>
<td>Outstanding at beginning of period</td>
<td>541,665</td>
<td>0.54</td>
<td>1,601,980</td>
<td>0.54</td>
</tr>
<tr>
<td>Exercised during the period</td>
<td>119,530</td>
<td>0.54</td>
<td>1,040,315</td>
<td>0.54</td>
</tr>
<tr>
<td>Outstanding at end of period</td>
<td>422,135</td>
<td>0.54</td>
<td>541,665</td>
<td>0.54</td>
</tr>
<tr>
<td>Exercisable at end of period</td>
<td>422,135</td>
<td>0.54</td>
<td>541,665</td>
<td>0.54</td>
</tr>
</tbody>
</table>

The weighted average share price at the date of exercise for options exercised in the period was 191 pence. The options outstanding at 30 September 2006 had a weighted averaged exercise price of 54 pence, and a weighted average remaining contractual life of 5 years.
28 SHARE BASED PAYMENTS continued

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

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weighted average share price - pence</td>
<td>124.8</td>
<td>108.7</td>
</tr>
<tr>
<td>Weighted average exercise price - pence</td>
<td>99.8</td>
<td>87.0</td>
</tr>
<tr>
<td>Expected volatility - %</td>
<td>32.3</td>
<td>35.9</td>
</tr>
<tr>
<td>Expected life - years</td>
<td>3 or 5</td>
<td>3 or 5</td>
</tr>
<tr>
<td>Risk – free rate of interest - %</td>
<td>4.3</td>
<td>4.2</td>
</tr>
<tr>
<td>Dividend yield - pence</td>
<td>4.5</td>
<td>4.0</td>
</tr>
</tbody>
</table>

Expected volatility was determined by calculating the historical volatility of the Group’s share price over the previous 3 years. The expected risk used in the model has been adjusted, based on management’s best estimate, for the effects of non-transferability, exercise restrictions and behavioural forces.

The Group recognised total expenses of £66,000 (2005: £65,000) relating to equity deferred share based payment transactions.

Other Share Based Payment Plans

The employee share purchase plans are open to almost all employees and provide for a purchase price equal to the daily average market price on the date of grant, less 20%. The shares can be purchased during a two-week period each year. The shares so purchased are generally placed in the employee share savings plan for a 3 or 5 year period.

29 RELATED PARTIES

S.K.M. Williams has the non-statutory role of President, advising on property matters and is a related party by virtue of his 9.2% shareholding (15,718,950 ordinary shares) in the Group’s issued share capital.

At 30 September 2006 S.K.M. Williams was the landlord of two properties leased to Multi Tile Limited, a trading subsidiary of Topps Tiles Plc, for £66,000 (2005 - £66,000).

No amounts were outstanding at 30 September 2006 (2005: £nil).

The lease agreements on both properties are operated on commercial arms length terms. His salary for the year in his role as President was £96,000 (2005: £48,000).

Transactions between the company and it’s subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. There were no transactions between the Group and it’s joint venture in the period (2005: nil) and the loan receivable balance was £107,000 (2005: £115,000).

30 EVENTS AFTER THE BALANCE SHEET DATE

On 2 October 2006 the Group acquired the remaining 50% shareholding in Topps Tiles Holdings BV for total consideration of £1.16 million made up of cash of £512,500 and 250,000 Topps Tiles Plc shares with a value of £647,500. The remaining 50% net assets acquired had an initial fair value of £281,000 and therefore goodwill of £879,000 will be recognised subject to any fair value or intangible asset adjustments.
NOTES TO THE GROUP ACCOUNTS continued
For the 52 weeks ended 30 September 2006

31 EXPLANATION OF TRANSITION TO IFRS

This is the first year that the Group has presented its financial statements under IFRS. The following disclosures are required in the year of transition. The last financial statements under UK GAAP were for the year ended 1 October 2005 and the date of transition was therefore 2 October 2004.

Reconciliation of net assets at 2 October 2004 (date of transition to IFRS)

<table>
<thead>
<tr>
<th></th>
<th>UK GAAP 2 October 2004 £’000</th>
<th>Effect of transition to IFRS £’000</th>
<th>Restated under IFRS 2 October 2004 £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-current assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goodwill</td>
<td>551</td>
<td>–</td>
<td>551</td>
</tr>
<tr>
<td>Property Plant &amp; Equipment</td>
<td>29,236</td>
<td>–</td>
<td>29,236</td>
</tr>
<tr>
<td>Joint venture undertaking</td>
<td>193</td>
<td>–</td>
<td>193</td>
</tr>
<tr>
<td></td>
<td>29,980</td>
<td>–</td>
<td>29,980</td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td>24,373</td>
<td>–</td>
<td>24,373</td>
</tr>
<tr>
<td>Trade and other receivables within one year</td>
<td>3,809</td>
<td>–</td>
<td>3,809</td>
</tr>
<tr>
<td>Trade and other receivables after one year</td>
<td>110</td>
<td>–</td>
<td>110</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>29,624</td>
<td>–</td>
<td>29,624</td>
</tr>
<tr>
<td></td>
<td>57,916</td>
<td>–</td>
<td>57,916</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>87,896</td>
<td>–</td>
<td>87,896</td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>(18,758)</td>
<td>–</td>
<td>(18,758)</td>
</tr>
<tr>
<td>Current tax liabilities</td>
<td>(3,942)</td>
<td>–</td>
<td>(3,942)</td>
</tr>
<tr>
<td>Proposed dividend</td>
<td>(13,593)</td>
<td>13,593</td>
<td>–</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>(9,159)</td>
<td>(560)</td>
<td>(9,719)</td>
</tr>
<tr>
<td></td>
<td>(45,452)</td>
<td>13,033</td>
<td>(32,419)</td>
</tr>
<tr>
<td><strong>Net current assets</strong></td>
<td>12,464</td>
<td>13,033</td>
<td>25,497</td>
</tr>
<tr>
<td><strong>Non-current liabilities</strong></td>
<td>(7,571)</td>
<td>–</td>
<td>(7,571)</td>
</tr>
<tr>
<td><strong>Deferred tax liabilities</strong></td>
<td>(1,864)</td>
<td>1,020</td>
<td>(844)</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>(54,887)</td>
<td>14,053</td>
<td>(40,834)</td>
</tr>
<tr>
<td><strong>Net assets</strong></td>
<td>33,009</td>
<td>14,053</td>
<td>47,062</td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share capital</td>
<td>5,673</td>
<td>–</td>
<td>5,673</td>
</tr>
<tr>
<td>Share premium</td>
<td>4,889</td>
<td>–</td>
<td>4,889</td>
</tr>
<tr>
<td>Merger reserve</td>
<td>(399)</td>
<td>–</td>
<td>(399)</td>
</tr>
<tr>
<td>Share Based Payment Reserve</td>
<td>–</td>
<td>35</td>
<td>35</td>
</tr>
<tr>
<td>Treasury Shares</td>
<td>(733)</td>
<td>–</td>
<td>(733)</td>
</tr>
<tr>
<td>Capital Redemption Reserve</td>
<td>137</td>
<td>–</td>
<td>137</td>
</tr>
<tr>
<td>Retained Earnings</td>
<td>23,442</td>
<td>14,018</td>
<td>37,460</td>
</tr>
<tr>
<td><strong>Total Equity</strong></td>
<td>33,009</td>
<td>14,053</td>
<td>47,062</td>
</tr>
</tbody>
</table>
### 31 EXPLANATION OF TRANSITION TO IFRS continued
Reconciliation of Group income statement for the 52 weeks ended 1 October 2005

<table>
<thead>
<tr>
<th></th>
<th>UK GAAP £’000</th>
<th>Effect of transition to IFRS £’000</th>
<th>Restated under IFRS £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>173,326</td>
<td></td>
<td>173,326</td>
</tr>
<tr>
<td>Profit from operations</td>
<td>36,834</td>
<td>[25]</td>
<td>36,809</td>
</tr>
<tr>
<td>Share of joint venture profit from operations</td>
<td>56</td>
<td>[43]</td>
<td>13</td>
</tr>
<tr>
<td><strong>Group and share of joint venture profit from operations</strong></td>
<td><strong>36,890</strong></td>
<td><strong>[68]</strong></td>
<td><strong>36,822</strong></td>
</tr>
<tr>
<td>Other gains and losses</td>
<td>1,700</td>
<td></td>
<td>1,700</td>
</tr>
<tr>
<td>Investment income</td>
<td>642</td>
<td>27</td>
<td>669</td>
</tr>
<tr>
<td><strong>Profit before taxation</strong></td>
<td><strong>37,532</strong></td>
<td>[41]</td>
<td><strong>37,491</strong></td>
</tr>
<tr>
<td>Profit on disposal of property, plant and equipment</td>
<td>1,700</td>
<td>-</td>
<td>1,700</td>
</tr>
<tr>
<td><strong>Before profit on disposal of property, plant and equipment</strong></td>
<td><strong>39,232</strong></td>
<td><strong>[41]</strong></td>
<td><strong>39,191</strong></td>
</tr>
<tr>
<td>Taxation</td>
<td>(9,043)</td>
<td>34</td>
<td>(9,009)</td>
</tr>
<tr>
<td><strong>Profit for the period</strong></td>
<td><strong>30,189</strong></td>
<td>[7]</td>
<td><strong>30,182</strong></td>
</tr>
</tbody>
</table>
### 31 EXPLANATION OF TRANSITION TO IFRS continued

Reconciliation of net assets at 1 October 2005

<table>
<thead>
<tr>
<th></th>
<th>UK GAAP £'000</th>
<th>Effect of transition to IFRS £'000</th>
<th>Restated under IFRS £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-current assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goodwill</td>
<td>517</td>
<td>34</td>
<td>551</td>
</tr>
<tr>
<td>Property Plant &amp; Equipment</td>
<td>32,072</td>
<td>–</td>
<td>32,072</td>
</tr>
<tr>
<td>Joint venture undertaking</td>
<td>225</td>
<td>–</td>
<td>225</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>115</td>
<td>–</td>
<td>115</td>
</tr>
<tr>
<td></td>
<td>32,929</td>
<td>34</td>
<td>32,963</td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td>25,338</td>
<td>–</td>
<td>25,338</td>
</tr>
<tr>
<td>Trade and other receivables within one year</td>
<td>4,071</td>
<td>–</td>
<td>4,071</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>27,829</td>
<td>–</td>
<td>27,829</td>
</tr>
<tr>
<td></td>
<td>57,238</td>
<td>–</td>
<td>57,238</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>90,167</td>
<td>34</td>
<td>90,201</td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>(18,503)</td>
<td>–</td>
<td>(18,503)</td>
</tr>
<tr>
<td>Current tax liabilities</td>
<td>(3,640)</td>
<td>–</td>
<td>(3,640)</td>
</tr>
<tr>
<td>Proposed dividend</td>
<td>(13,576)</td>
<td>13,576</td>
<td>–</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>(4,056)</td>
<td>(579)</td>
<td>(4,635)</td>
</tr>
<tr>
<td></td>
<td>(39,775)</td>
<td>12,997</td>
<td>(26,778)</td>
</tr>
<tr>
<td><strong>Net current assets</strong></td>
<td>17,463</td>
<td>12,997</td>
<td>30,460</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td>(9,394)</td>
<td>–</td>
<td>(9,394)</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>(2,345)</td>
<td>546</td>
<td>(1,799)</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>(51,514)</td>
<td>13,543</td>
<td>(37,971)</td>
</tr>
<tr>
<td><strong>Net assets</strong></td>
<td>38,653</td>
<td>13,577</td>
<td>52,230</td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share capital</td>
<td>5,655</td>
<td>–</td>
<td>5,655</td>
</tr>
<tr>
<td>Share premium</td>
<td>5,575</td>
<td>–</td>
<td>5,575</td>
</tr>
<tr>
<td>Merger reserve</td>
<td>(399)</td>
<td>–</td>
<td>(399)</td>
</tr>
<tr>
<td>Share Based Payment Reserve</td>
<td>–</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Treasury Shares</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Capital Redemption Reserve</td>
<td>190</td>
<td>–</td>
<td>190</td>
</tr>
<tr>
<td>Retained Earnings</td>
<td>27,632</td>
<td>13,477</td>
<td>41,109</td>
</tr>
<tr>
<td><strong>Total Equity</strong></td>
<td>38,653</td>
<td>13,577</td>
<td>52,230</td>
</tr>
</tbody>
</table>
31 EXPLANATION OF TRANSITION TO IFRS continued

a) IFRS 2 Share Based Payment
IFRS 2 requires a charge to be recognised in the income statement for share based payments, based on the fair value of the option or award at the date of grant, which is expensed over the vesting period of the option or award.

Topps has applied this only to options or schemes awarded after 7 November 2002 and therefore this only includes employee share save schemes as no executive share options were granted after this date.

The cumulative effect to 1 October 2005 is a charge of £100,000 to the Retained Earnings.

b) IFRS 3 Goodwill and Business Combinations
Topps has elected to take the exemption available under IFRS 1 not to apply IFRS 3 retrospectively to Goodwill; accordingly the value of Goodwill has been frozen at the carrying value at 2 October 2004.

Under IFRS Goodwill should not be amortised but is subject to an impairment review annually or more frequently if events or changes occur which may significantly affect the value.

The effect of the change to IFRS was to reverse the charge of £34,000 to the income statement for the year ended 1 October 2005 thereby increasing income for the year and retained earnings by this amount.

c) IAS 10 Events after the Balance Sheet date
IAS 10 requires that dividends should now be recognised only when they are declared and approved rather than being accrued for in the period to which they relate as the liability does not represent a present obligation as defined by IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

On transition to IFRS £13,593,000 at 2 October 2004 was credited to retained earnings.

In addition, dividends are to be shown as a movement directly in equity instead of through the Income Statement.

d) IAS 17 Leases
Under UK GAAP operating lease incentives in respect of rent free periods were recognised in the profit and loss account over the period to the date of the first rent review. IAS 17 states that the incentives must be recognised over the length of the lease.

The effect of this is that Topps is carrying an increased amount of £554,000 for deferred lease incentives as at 1 October 2005 and a charge of £6,000 for the 52 weeks ended 1 October 2005.

e) IAS 31 Jointly Controlled Entities
IAS 31 requires that Topps should recognise in the financial statements its share of the joint assets, any liabilities that it has incurred directly and its share of any liabilities incurred jointly with the other entities. Income from the sale or use of its share of the output of its jointly controlled entity, the share of its expenses and expenses incurred directly in respect of its interest in the joint venture are presented after tax in one single line in the income statement.

f) IAS 32 & 39 Financial Instruments: Disclosure and Presentation & Recognition and Measurement
Profits and losses on financial instruments are recognised in the Income Statement as they arise.

In accordance with IFRS 1, comparative information has not been restated for the impact of IAS 32 and IAS 39, but the Group has only adopted these standards to apply from 1 October 2005.
INDEPENDENT AUDITORS’ REPORT - COMPANY ACCOUNTS

TO THE MEMBERS OF TOPPS TILES PLC
We have audited the individual Company financial statements of Topps Tiles Plc for the 52 weeks ended 30 September 2006 which comprise the balance sheet and the related notes numbered 1 to 9. These financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Group financial statements of Topps Tiles Plc for the 52 weeks ended 30 September 2006.

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 law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the individual Company financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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

We read the directors’ report and the other information contained in the annual report for the above period 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 International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company’s circumstances, consistently applied and adequately disclosed.

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

OPINION
In our opinion:

■ the individual Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company’s affairs as at 30 September 2006;

■ the financial statements have been properly prepared in accordance with the Companies Act 1985; and

■ the information given in the directors’ report is consistent with the individual Company financial statements.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Manchester
28 November 2006
COMPANY BALANCE SHEET
As at 30 September 2006

<table>
<thead>
<tr>
<th>Notes</th>
<th>2006 £'000</th>
<th>2005 £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fixed assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments</td>
<td>3</td>
<td>3,227</td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debtors within one year</td>
<td>4</td>
<td>13</td>
</tr>
<tr>
<td>Debtors after one year</td>
<td>4</td>
<td>221,200</td>
</tr>
<tr>
<td>Cash at bank and in hand</td>
<td></td>
<td>28,094</td>
</tr>
<tr>
<td><strong>Creditors:</strong> Amounts falling due within one year</td>
<td>5</td>
<td>(4,540)</td>
</tr>
<tr>
<td><strong>Net current assets</strong></td>
<td></td>
<td>244,767</td>
</tr>
<tr>
<td><strong>Total assets less current liabilities</strong></td>
<td></td>
<td>247,994</td>
</tr>
<tr>
<td>Creditors: Amounts falling due after more than one year</td>
<td>6</td>
<td>–</td>
</tr>
<tr>
<td><strong>Net assets</strong></td>
<td></td>
<td>247,994</td>
</tr>
<tr>
<td><strong>Capital and reserves</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Called-up share capital</td>
<td>7</td>
<td>5,773</td>
</tr>
<tr>
<td>Share premium</td>
<td>8</td>
<td>531</td>
</tr>
<tr>
<td>Share based payment reserve</td>
<td>8</td>
<td>166</td>
</tr>
<tr>
<td>Special reserves</td>
<td>8</td>
<td>–</td>
</tr>
<tr>
<td>Capital redemption reserve</td>
<td>8</td>
<td>20,254</td>
</tr>
<tr>
<td>Other reserve</td>
<td>8</td>
<td>6,200</td>
</tr>
<tr>
<td>Profit and loss account</td>
<td>8</td>
<td>215,070</td>
</tr>
<tr>
<td><strong>Equity shareholders’ funds</strong></td>
<td></td>
<td>247,994</td>
</tr>
</tbody>
</table>

The financial statements were approved by the Board of Directors on 28 November 2006 and signed on its behalf by:

ND Ounstead
Director

A Liggett
Director
NOTES TO THE COMPANY ACCOUNTS
For the 52 weeks ended 30 September 2006

1 BASIS OF ACCOUNTING
The separate financial statements of the Company are presented as required by the Companies Act 1985. They have been prepared under the historical cost convention and in accordance with United Kingdom Accounting Standards and law.

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year with the exception of FRS 20 and FRS 21 which have been applied for the first time in this reporting period and prior period balances have been restated accordingly.

The company issues equity settled share based payments to certain employees. Equity settled share based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the share based payment is expensed on a straight line basis over the vesting period, based on the company’s estimate of shares that will eventually vest.

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

The company has taken advantage of the exemption in FRS 8 from disclosing transactions with other members of the Group.

2 PROFIT FOR THE YEAR
As permitted by section 230 of the Companies Act 1985 the company has elected not to present its own profit and loss account for the year. Topps Tiles Plc reported a loss after tax for the financial year ended 30 September 2006 of £306,402,000 (2005: £6,239,000 profit).

The auditor’s remuneration for services to the company was £5,000. (2005: £5,000).

The company had no other employees other than the directors (2005: same), their remuneration is detailed on page 32.

3 FIXED ASSET INVESTMENTS

<table>
<thead>
<tr>
<th>Joint venture</th>
<th>Shares £’000</th>
<th>Total £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 2 October 2005</td>
<td>482</td>
<td>14,640</td>
</tr>
<tr>
<td>Additions</td>
<td>-</td>
<td>2,745</td>
</tr>
<tr>
<td>Disposal</td>
<td>-</td>
<td>(14,640)</td>
</tr>
<tr>
<td>At 30 September 2006</td>
<td>482</td>
<td>2,745</td>
</tr>
</tbody>
</table>

The additions in the period relate to the company’s investment in Topps Tiles Holdings Limited, a subsidiary entity. The disposal in the period relates to the sale of the company's investment in subsidiary undertakings to Topps Tiles Holdings Limited for total consideration of £327,745,000 made up of cash of £110,000,000, inter company debt of £215,000,000 and issued share capital of £2,745,000. The profit on disposal was £313,105,000.

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

<table>
<thead>
<tr>
<th>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>Retail and wholesale of ceramic tiles, wood flooring and related products</td>
</tr>
<tr>
<td>Topps Tiles Holdings</td>
<td>100%</td>
<td>Intermediate holding company.</td>
</tr>
<tr>
<td>Topps Tiles [UK] Limited</td>
<td>100%</td>
<td>Retail and wholesale of ceramic tiles, wood flooring and related products</td>
</tr>
<tr>
<td>Topps Tiles Distribution Ltd</td>
<td>100%</td>
<td>Wholesale and distribution of ceramic tiles, wood flooring and related products.</td>
</tr>
<tr>
<td>Topps Tiles Holdings BV*</td>
<td>50%</td>
<td>Retail and wholesale of ceramic tiles, wood flooring and related products</td>
</tr>
</tbody>
</table>

*held directly by Topps Tiles Plc

The investments are represented by ordinary shares.

All 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.
### Debtors

<table>
<thead>
<tr>
<th>Description</th>
<th>2006 £'000</th>
<th>2005 £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amounts falling due within one year:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prepayments and accrued income</td>
<td>13</td>
<td>–</td>
</tr>
<tr>
<td>Amounts owed by subsidiary undertaking</td>
<td>–</td>
<td>76,209</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amounts falling due after one year:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amounts owed by subsidiary undertaking</td>
<td>221,200</td>
<td>6,200</td>
</tr>
</tbody>
</table>

### Creditors: Amounts Falling Due Within One Year

<table>
<thead>
<tr>
<th>Description</th>
<th>2006 £'000</th>
<th>2005 £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank loans and overdrafts</td>
<td>–</td>
<td>30,097</td>
</tr>
<tr>
<td>Trade creditors</td>
<td>137</td>
<td>160</td>
</tr>
<tr>
<td>Amounts owed to Group companies</td>
<td>3,772</td>
<td>–</td>
</tr>
<tr>
<td>Accruals and deferred income</td>
<td>631</td>
<td>361</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>4,540</td>
<td>30,618</td>
</tr>
</tbody>
</table>

### Creditors: Amounts Falling Due After More Than One Year

<table>
<thead>
<tr>
<th>Description</th>
<th>2006 £'000</th>
<th>2005 £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accruals and deferred income</td>
<td>–</td>
<td>3,394</td>
</tr>
</tbody>
</table>

### Called Up Share Capital

<table>
<thead>
<tr>
<th>Description</th>
<th>2006 £'000</th>
<th>2005 £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Authorised 240,00,000 (2005: 320,000,000) ordinary shares of 3.33p each (2005: 2.5p)</td>
<td>8,000</td>
<td>8,000</td>
</tr>
<tr>
<td>Authorised 37,000,000 (2005 – nil) redeemable B shares of £0.54 each</td>
<td>19,980</td>
<td>–</td>
</tr>
<tr>
<td>Authorised 124,890,948 (2005 – nil) irredeemable C shares of £0.001 each</td>
<td>125</td>
<td>–</td>
</tr>
<tr>
<td>Authorised 105,109,052 (2005 – nil) deferred shares of £0.001 each</td>
<td>105</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>28,210</td>
<td>8,000</td>
</tr>
<tr>
<td>Issued and fully-paid 170,056,840 (2005: 226,236,475) ordinary shares of 3.33p each (2005: 2.5p)</td>
<td>5,668</td>
<td>5,655</td>
</tr>
<tr>
<td>Issued and fully paid 353,343 (2005: nil) irredeemable C shares of £0.001 each</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Issued and fully paid 105,109,052 (2005: nil) deferred shares of £0.001 each</td>
<td>105</td>
<td>–</td>
</tr>
<tr>
<td>Total</td>
<td>5,773</td>
<td>5,655</td>
</tr>
</tbody>
</table>

During the period the Group allotted 489,370 (2005: 1,413,585) ordinary shares with a nominal value of £13,000 (2005: £35,000) under share option schemes for an aggregate cash consideration of £222,000 (2005: £721,000).

The Company has one class of ordinary shares which carry no rights to fixed income.

During the period the group announced a share reorganisation with shareholders given the option of receiving 1 redeemable B share of £0.54 or 1 irredeemable C share of £0.001 for every existing ordinary share held.

The redeemable B shares were redeemable 2 weeks from issue at par.
NOTES TO THE COMPANY ACCOUNTS continued
For the 52 weeks ended 30 September 2006

7 CALLED UP SHARE CAPITAL continued
Those shareholders electing to receive C shares qualified for a special dividend of £0.54 1 week following the date of issue. Shareholders were able to opt out of the special dividend and retain the shares, which will be subject to compulsory purchase by the group between 1 January and 31 March 2007 for £0.54 per share. The C shares issued in place of B shares were subject to compulsory purchase by the group on 14 August 2006 for £0.54 per share.

C shares on which special dividends were paid converted into deferred shares following the payment of the special dividend. Deferred shares carry no dividend, voting or other participation rights.

On 1 August 2006 the group issued 37,000,000 redeemable B shares, which were subject to redemption for £0.54 per share and total consideration of £19,980,000 on 14 August 2006.

On 1 August 2006 the group issued 189,676,020 irredeemable C shares. Shareholders representing 105,109,052 irredeemable C shares received a special dividend of £0.54 per share on 14 August 2006, for total consideration of £56,758,888.

Shareholders representing 84,213,625 irredeemable C shares received these shares in place of B shares and these were subject to compulsory purchase by the company on 14 August 2006 for £0.54 per share and total consideration of £45,475,358.

Shareholders representing 353,343 irredeemable C shares selected to opt out of the special dividend and these shares will be subject to compulsory buy back between 1 January and 31 March 2007 for £0.54 per share and total consideration of £190,805.

On 31 July 2006 the group approved a 3 for 4 share consolidation in respect of the outstanding issued ordinary share capital of the group.

Under the requirements of IAS 32 ‘Financial Instruments: Presentation’, the outstanding irredeemable C shares have been classified as a liability, as the compulsory buy back represents a contractual obligation for the Group as issuer to deliver cash to the holders of the shares.

8 RESERVES

<table>
<thead>
<tr>
<th>Share premium £’000</th>
<th>Special reserve £’000</th>
<th>Capital redemption reserve £’000</th>
<th>Other reserves £’000</th>
<th>Share based payment reserve £’000</th>
<th>Profit and loss account £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 2 October 2005</td>
<td>5,575</td>
<td>14,917</td>
<td>190</td>
<td>6,200</td>
<td>100</td>
</tr>
<tr>
<td>Premium on issue of new shares</td>
<td>209</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share Buy Back</td>
<td>(5,253)</td>
<td>(14,917)</td>
<td>20,064</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Share based payment reserve movement</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>66</td>
</tr>
<tr>
<td>Retained profit for the period</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>At 30 September 2006</td>
<td>531</td>
<td>–</td>
<td>20,254</td>
<td>6,200</td>
<td>166</td>
</tr>
</tbody>
</table>

During the period the issue of 9,375,926 redeemable B shares of 0.54p and 189,676,021 irredeemable C shares of 0.001p were capitalised against share premium.

During the period the issue of 27,624,074 redeemable B shares of 0.54p were capitalised against the special reserve.

During the period the buyback of 37,000,000 redeemable B shares of 0.54p and 84,213,625 irredeemable C shares of 0.001p were credited to the Capital Redemption Reserve.

The Directors consider £203,106,000 of the profit and loss account reserves not to be distributable at 30 September 2006 due to them arising on an unrealised gain on the disposal of subsidiary companies.

At 30 September 2006, the Directors consider the other reserve of £6,200,000 to remain non distributable.
9 PRIOR YEAR ADJUSTMENT

The Company’s accounting policies for share based payments and dividends were changed during the period in order to implement FRS 20 – Share Based Payments and FRS 21 – Events after the Balance Sheet date. The comparative figures in the primary statements and notes have been restated to reflect the new policies. The effect of the changes in policies are summarised below.


<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£’000</td>
<td>£’000</td>
</tr>
<tr>
<td>Profit and loss account</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share Based Payments</td>
<td>(66)</td>
<td>(100)</td>
</tr>
<tr>
<td>Dividends</td>
<td>(1,862)</td>
<td>13,596</td>
</tr>
<tr>
<td>(Decrease) / increase in profit for the period</td>
<td>(1,928)</td>
<td>13,496</td>
</tr>
<tr>
<td>Balance Sheet</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividend payable</td>
<td>(1,862)</td>
<td>13,596</td>
</tr>
<tr>
<td>Share Based Payment reserves</td>
<td>166</td>
<td>100</td>
</tr>
<tr>
<td>P&amp;L Reserve</td>
<td>(166)</td>
<td>13,496</td>
</tr>
<tr>
<td>(Decrease) / increase in Net Assets</td>
<td>(1,862)</td>
<td>13,596</td>
</tr>
</tbody>
</table>

FIVE YEAR RECORD

<table>
<thead>
<tr>
<th></th>
<th>UK GAAP</th>
<th>IFRS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>52 weeks ended</td>
<td>Proforma 52 weeks ended</td>
</tr>
<tr>
<td></td>
<td>£’000</td>
<td>£’000</td>
</tr>
<tr>
<td>Group revenue</td>
<td>91,026</td>
<td>118,897</td>
</tr>
<tr>
<td>Operating profit</td>
<td>11,660</td>
<td>18,569</td>
</tr>
<tr>
<td>Profit before taxation</td>
<td>11,516</td>
<td>18,888</td>
</tr>
<tr>
<td>Shareholders’ funds</td>
<td>23,824</td>
<td>30,822</td>
</tr>
<tr>
<td>Basic earnings per share1</td>
<td>3.58p</td>
<td>5.82p</td>
</tr>
<tr>
<td>Dividend per share1</td>
<td>1.43p</td>
<td>3.48p</td>
</tr>
<tr>
<td>Dividend cover</td>
<td>2.5</td>
<td>1.67</td>
</tr>
<tr>
<td>Average number of employees</td>
<td>1,070</td>
<td>1,176</td>
</tr>
<tr>
<td>Share price (period end)1</td>
<td>54.8p</td>
<td>85.4p</td>
</tr>
</tbody>
</table>

1 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 Wednesday 10 January 2007 at 10.30 a.m. for the following purposes:

Ordinary business
1. To receive and adopt the Company’s Annual Report and Financial Statements for the financial period ended 30 September 2006 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 6.90 pence per Ordinary Share for the financial period ended 30 September 2006.
3. To re-appoint Nicholas Ounstead as a Director of the Company.
4. To re-appoint Matthew Williams [who has been appointed since the last AGM] as a Director of the Company.
5. To re-appoint Alan McIntosh as a Director of the Company.
6. To re-appoint Victor Watson who reached the age of 78 years on 26 September 2006, as a Director of the Company.
7. 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 the Annual Report and Financial Statements are laid before the Company at a remuneration to be determined by the Directors.
8. To approve the Directors’ Remuneration Report for the financial period ended 30 September 2006 as set out in the Annual Report and Financial Statements for that period.

Special business
To consider and, if thought fit, to pass the resolutions set out below which, in the case of Resolution 9 will be proposed as an Ordinary Resolution and, in the case of Resolutions 10 and 11 will be proposed as Special Resolutions.

9. THAT the Directors of the Company be and they are generally and unconditionally authorised for the purposes of and pursuant to Section 80 of the Companies Act 1985 (the “Act”) to exercise all the powers of the Company to allot relevant securities (within the meaning of that section) up to an aggregate nominal amount of £1,889,510 [in substitution for 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, if earlier, 15 months from the date of the passing of this resolution, 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.

10. THAT subject to and conditional on the passing of Resolution 9 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) wholly for cash pursuant to the general authority and power conferred by Resolution 9 above (as varied from time to time by the Company in general meeting) as if Section 89(1) of the Act did not apply to any such allotment provided that this 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 of 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
   (b) the allotment (otherwise than pursuant to paragraph (a) above) of equity securities up to an aggregate nominal amount of the greater of £283,429 or 5% of the issued ordinary share capital of the Company, and shall expire (unless previously revoked or extended by the Company in general meeting) at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or, if earlier, 15 months from the date of the passing of this resolution, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuant of any such offer of agreement notwithstanding that the power conferred by this resolution has expired.

11. THAT the Company be generally and unconditionally authorised for the purposes of Section 166 of the Act to make one or more market purchases (within the meaning of Section 163(3) of the Act) of Ordinary Shares of 3 1⁄3p each in the capital of the Company (“Ordinary Shares”) provided that:
   (a) the maximum number of Ordinary Shares hereby authorised to be purchased is 25,338,618 (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 3 1⁄3p;
   (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 or contracts for the purchase of Ordinary Shares under this authority before the expiry of such 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, Proxy Department, 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 Uncertificated Securities Regulations 2001, only those shareholders who are registered on the Company’s share register at 8.00am on 9 January 2007 (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 9 January 2007 (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 CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the Annual General Meeting and any adjournment thereof by utilising the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a “CREST” Proxy Instruction”) must be properly authenticated in accordance with CRESTCo’s specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the issuer’s agent (ID : RA10) by the latest time(s) for receipt of proxy appointments specified in the notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer’s agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, CREST sponsors or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take [or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take] such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

7 The following documents are available for inspection by members at the registered office of the Company (except Bank Holidays) during the normal business hours and at the place of the meeting 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 including the terms and conditions of appointment of the non-executive directors.
EXPLANATORY NOTES
TO THE NOTICE OF ANNUAL GENERAL MEETING

Notes
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 10 January 2007 at 10.30a.m.

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 other resolutions:

Ordinary Business
Resolution 2
Final dividend
A final dividend of 6.90 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 5 January 2007. Subject to approval by the Ordinary Shareholders at the Annual General Meeting, the dividend will be paid on 31 January 2007. An interim dividend of 3.50 pence per Ordinary Share was paid on 30 June 2006. This gives a total dividend level of 10.40 pence per Ordinary Share for the 52 week period to 30 September 2006.

Resolutions 3, 4, 5 and 6
Re-election of Directors
N. D. Ounstead, A. McIntosh and V.H. Watson are the Directors retiring by rotation this year and they offer themselves for re-election and M.T.M. Williams offers himself for re-election as a new appointment to the Board. 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 78 retires and offers himself for re-election annually. Brief biographical details about the Directors standing for re-election appear on pages 20 and 21 of the Annual Report and Financial Statements. Special notice of the Intention to propose the resolution to re-elect Victor Watson has been duly given as required by sections 379 and 293(5) of the Companies Act 1985.

Special Business
Resolutions 9 and 10
Appointment of authority to issue shares and the disapplication of statutory rights of pre-emption
Resolution 9: The right of the Directors to allot further shares in the capital of the Company requires in most cases the prior authorisation of the shareholders in general meeting under Section 80 of the Companies Act 1985 (“the Act”). Resolution 9 will be put to members as special business to authorise the Directors to allot 56,685,356 Ordinary Shares with an aggregate value of £1,889,510 out of the Company’s unissued share capital representing approximately but no more than 33.3% of the Company’s current issued share capital (excluding shares held in treasury). The Company currently holds no Ordinary Shares 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 10: seeks to obtain power under Section 95 of the Act to enable the Directors to allot, for cash, shares with an aggregate nominal value of £283,429 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.

Resolution 11
Authority to purchase Ordinary Shares
At the Annual General Meeting, Ordinary Shareholders are being invited under Resolution 11 to grant authority to the Company to make market purchases of its Ordinary Shares. It is proposed such authority shall expire on the conclusion of the Annual General Meeting to be held in 2008 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 3½p 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 11 shall be utilised in respect of employee share options as they are exercised.

As at 28 November 2006, there were options to subscribe for 1,255,378 equity shares outstanding under various schemes representing approximately 0.74% of the current issued share capital of the Company. If the authority sought by Resolution 11 was exercised in full, the number of outstanding options would represent approximately 0.87% of the issued share capital following the repurchase of shares.
FINANCIAL CALENDAR

KEY DATES

Annual General Meeting and first quarter trading update ➤ 10 January 2007
Final dividend payable ➤ 31 January 2007
2006/07 interim results announcement ➤ May 2007
2006/07 interim dividend payable ➤ June 2007
Third quarter trading update ➤ July 2007
2006/07 full year results announcement ➤ November 2007
THINK AS ONE

THE TEAM

A
Aaron Callaghan
Aaron Hobson
Aaron Hodgkinson
Abdulaziz Kulmie
Adam Boshir
Adam Campion
Adam Devlin
Adam Eustace
Adam Gale
Adam Howie
Adam Hughes
Adam Ireland
Adam Kilty
Adam Lucas
Adam Mortimer
Adam Nutall
Adam Slater
Adam Southall
Adam Stopford
Adam Storer
Adam Towner
Adam Walker
Aldwin Ridderstap
Alistair Johnstone
Alistair Payne
Allan Chigarro
Allan Duffy
Allan Harper
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THE TEAM
continued
STORE LOCATIONS

CENTRAL REGION
1 Abingdon
2 Aston
3 Banbury
4 Bedford
5 Binley
6 Boston
7 Burton
8 Bury St Edmunds
9 Cambridge
10 Cannock
11 Clacton-on-Sea
12 Colchester
13 Coventry
14 Derby
15 Derby
16 Erdington
17 Grantham
18 Great Yarmouth
19 Grove Park
20 Hereford
21 Huntingdon
22 Ipswich
23 Kidderminster
24 Kings Heath
25 Kings Lynn
26 Leicester
27 Lincoln
28 Luton
29 Mansfield
30 Martlesham
31 Milton Keynes
32 Newcastle-U-Lyme
33 Newark
34 Northampton
35 Norwich
36 Northampton
37 Nottingham
38 Oldbury
39 Oxford
40 Peterborough
41 Redditch
42 Sheldon
43 Shrewsbury
44 Slough
45 Stafford
46 Stamford
47 Stoke on Trent
48 Stratford-upon-Avon
49 Tamworth
50 Telford
51 Wellingborough
52 West Bromwich
53 Wolverhampton
54 Worcester
55 Workop

LONDON AND THAMES SOUTH
56 Ashford
57 Basildon
58 Battersea
59 Beckton
60 Boxted
61 Bognor Regis
62 Braintree
63 Brentwood
64 Brighton
65 Broadstairs
66 Canterbury
67 Caithness
68 Charlton
69 Chelmsford
70 Chelmsford
71 Chichester
72 Chingford
73 Colindale
74 Croydon
75 Dagenham
76 Eastbourne
77 Edmont
78 Eltham
79 Enfield
80 Eynsford
81 Erdington
82 Erdington
83 Farnborough
84 Farnham
85 Feltham
86 Folkestone
87 Fulham
88 Gatwick
89 Grayshott
90 Gunnersbury
91 Guildford
92 Harlow
93 Hedgend
94 Highgate
95 Horsham
96 Isle of Wight
97 Lewes
98 Maidstone
99 Mitcham
100 New Southgate
101 Newbury
102 Newhaven
103 Old Kent Road
104 Orpington
105 Penge
106 Pentonville Road
107 Blackpool
108 Bolton
109 Cheadle
110 Chester
111 Chorley
112 Congleton
113 Crawley
114 Crowland
115 Crewe
116 Darlington
117 Dartford
118 Doncaster
119 Doncaster
120 Dover
121 Dudley
122 Dumfries
123 Eastbourne
124 Eastleigh
125 Edwinstrey
126 Exeter
127 Feltham
128 Folkestone
129 Fore Street
130 Frome
131 Gateshead
132 Grays
133 Gravesend
134 Great Barr
135 Great Yarmouth
136 Grimsby
137 Grimsby
138 Guildford
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SCOTLAND
225 Aberdeen
226 Dundee
227 Edinburgh
228 Falkirk
229 Forres
230 Inverness
231 Linwood
232 Perth
233 Rutherglen
234 Shavrdail
235 Sighthill
236 Wishaw

SOUTH WEST
237 Barnstaple
238 Basingstoke
239 Bournemouth
240 Bournemouth
241 Bridport
242 Bridgewater
243 Bristol
244 Cardiff
245 Cheltenham
246 Christchurch
247 Clevedon
248 Cribs Causeway
249 Cross Hands
250 Exeter
251 Frome
252 Gloucester
253 Hengrove
254 Leeds
255 Leighton Buzzard
256 Lowestoft
257 Martlesham
258 Northampton
259 Nottingham
260 Nuneaton
261 Peterborough
262 Shrewsbury
263 Stoke-on-Trent
264 Wolverhampton

NORTH WEST
265 Bolton
266 Bradford
267 Darlington
268 Doncaster
269 Hull
270 Sheffield

SOUTH
271 Aberdeen
272 Dundee
273 Edinburgh
274 Falkirk
275 Forres
276 Inverness
277 Linwood
278 Perth
279 Rutherglen
280 Shavrdail
281 Sighthill
282 Wishaw

HOLLAND STORES
1 Almere
2 Amersfoort
3 Amsterdam
4 Amsterdam
5 Amstelveen
6 Amstelveen
7 Beuningen
8 Duiven
9 Enschede
10 Groningen

TOTAL 286 STORES

This report has been printed on paper which is totally chlorine-free (TCF), suitable for recycling and is derived from renewable timber produced on a fully sustainable basis. Materials are sourced from paper mills that are ISO 14001 certified. The inks used are vegetable based.

Designed and produced by Kinverleigh.
HOLLAND STORES

Stores at beginning of period
New stores opened
Sub-Total
Closures
Total

TILE CLEARING HOUSE - STORE NUMBERS

Stores at beginning of period
New stores opened
Sub-Total
Closures
Total

TOPPS TILES - STORE NUMBERS

Stores at beginning of period
New stores opened
Sub-Total
Closures
Total

LONDON STORES

Stores at beginning of period
New stores opened
Sub-Total
Closures
Total

Holland - Store Numbers

Stores at beginning of period
New stores opened
Sub-Total
Closures
Total

Tops Tiles - Store Numbers

Stores at beginning of period
New stores opened
Sub-Total
Closures
Total

Tile Clearing House - Store Numbers

Stores at beginning of period
New stores opened
Sub-Total
Closures
Total