19 May 2020

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

UNAUDITED INTERIM REPORT FOR THE 26 WEEKS ENDED 28 MARCH 2020

First half performance primarily reflects tough pre-COVID-19 trading: business responding well to pandemic challenges, with liquidity strengthened, new operating procedures in place and a phased programme of store re-openings underway

HIGHLIGHTS

Topps Tiles Plc, the UK’s largest tile specialist, announces its interim results for the 26 weeks ended 28 March 2020.

	26 weeks ended 28 March 2020	26 weeks ended 30 March 2019	YoY
Statutory Measures			
Group revenue	**£106.2 million**	£110.3 million	(3.7)%
Gross margin	**59.2%**	61.2%	(200)bps
(Loss)/profit before tax	**£(4.0) million**	£5.2 million	
Basic earnings per share	**(1.86)p**	2.03p	
Interim dividend per share	**nil**	1.1p	
Statutory Measures (pre-IFRS 16)			
(Loss)/profit before tax	**£(0.4) million**	£5.2 million	(107.7)%
Basic earnings per share	**(0.18)p**	2.03p	(108.9)%
Adjusted Measures (pre-IFRS 16)			
Like-for-like revenue growth year-on-year[2]	**(6.1)%**	+0.2%	n/a
Adjusted Group profit before tax[3]	**£1.2 million**	£8.0 million	(85.0)%
Adjusted earnings per share[4]	**0.60p**	3.15p	(81.0)%
Net debt[1]	**£17.3 million**	£18.0 million	£0.7 million
Free cash flow[5]	**£(1.6) million**	£2.7 million	£(4.3) million

Adjusting items are detailed in the notes below – these include items which are either one off in nature or can fluctuate significantly from year to year (such as some property related items). In the prior year, adjusting items included trading losses from the Parkside business whilst the business went through an initial two year phase of investing in growth.

Financial Summary

- First half like-for-like sales declined by 6.1% (2019: +0.2%), with like-for-like sales excluding week 26 when all stores were closed due to COVID-19 down by 4.3% due to challenging trading environment;
- Gross margin of 59.2% (2019: 61.2%) reflects first time inclusion of commercial operation (with a dilution of 80bps), trade mix, and increased competitiveness on pricing;
- Adjusted profit before tax of £1.2 million (2019: £8.0 million), the year on year decrease being due to the above items, and the inclusion of £1.0 million of trading losses from the commercial business which had been excluded in FY19;
- When adjusting items (detailed below) are included, the loss before tax on a statutory basis pre-IFRS 16 was £0.4 million and post-IFRS 16 the loss was £4.0 million (2019: profit of £5.2 million);

- IFRS 16 impact of £3.6 million includes a £2.7 million impairment of right-of-use assets and property, plant and equipment relating to store closures planned before the onset of COVID-19;
- Net debt reduced by £0.7 million year-on-year to £17.3 million; and,
- No interim dividend will be paid (2019: 1.1p), with a full year dividend for 2020 also unlikely in light of the trading losses expected from period of store closures and trading outlook. The Board is keen to re-instate dividends as soon as is appropriate.

COVID-19 Update

- Health and safety of colleagues, customers and business partners is paramount;
- Retail stores closed from 23 March 2020 to safeguard colleagues and customers;
- Strength of supplier relationships demonstrated by flexible arrangements and continued supply – nature of product means minimal obsolescence from disruption;
- Recently re-launched website has performed well, with revenues c.3x pre-crisis levels, but overall retail sales down significantly during period of store closures;
- Trials of new safe operating procedures commenced 22 April 2020 – 250 stores currently offering a click and collect service, and of those 130 are also allowing controlled customer entry, with strict social distancing and other protective measures in place;
- Commercial business has seen a material impact from COVID-19 but has continued to trade and build new customer relationships over this period;
- Board and senior management agreed a voluntary 20% reduction in base pay from April;
- UK Government support schemes utilised – 90% of colleagues furloughed at peak, business rates relief and VAT deferral;
- Additional £10 million loan facility through existing lenders and backed by the UK Government Coronavirus Large Business Interruption Loan Scheme ("CLBILS") credit approved and to be finalised shortly, including a substantial relaxing or removal of covenant conditions over the next 12 months; and
- Robust liquidity position with option for further funding through asset sales in event of extended disruption. Cash headroom as at 28 March 2020 stood at £21.7 million, and is currently at £14.0 million, cash consumption since the half year primarily driven by unwinding of working capital cycle and the earlier timing of the half year end date.

Strategic & Operational Summary

- UK's leading tile specialist with a core purpose to *inspire customers through our love of tiles;*
- Competitive advantage generated from our specialist focus – market leading product development and sourcing capability, combined with world class customer service;
- Trade customer base key – loyalty scheme allows active communication and retention;
- Well invested and flexible store estate with average unexpired lease term of just over three years;
- Entry into commercial market has approximately doubled the size of the Group's addressable UK market whilst maintaining our specialism in tiles;
- Commercial strategy is to disrupt the commercial tile market and construct a new market leader over the medium term;
- Commercial sales of £4.5 million, an increase of 246% year on year, led by Parkside which more than doubled sales over the period; and
- Commercial breakeven profit target deferred to FY21 reflecting first half performance and uncertainty in outlook.

Current Trading and Outlook

- Primary focus is navigating the current crisis and ensuring the Group emerges in the strongest possible position;
- Material trading impact during April but gradual re-opening of stores is generating an improving trend – expect to have 250 stores fully opened by end of May, with remaining 100 stores opened by the end of June;
- Robust liquidity position following £10 million of additional lender support; and
- Topps remains a resilient, market-leading business with a strong management team and the Board is confident that the Group is well positioned to recover once the situation normalises.

Commenting on the results, Rob Parker, Chief Executive said:

"COVID-19 has created a complex and extremely challenging trading environment and I am pleased by the way the Group has responded to this crisis so far. We are prioritising the safety of our colleagues and customers, protecting the business and working hard to ensure we emerge from this period in the strongest possible position. The strong growth of our online business, the development of a collection-only store model, and the encouraging initial customer response to our phased programme of store re-openings, all demonstrate our resilience in the face of the COVID-19 threat.

"The response of our colleagues throughout these most testing times has been fantastic and I would like to thank them all for their unwavering support. The health and safety of employees, customers and business partners will remain our top priority as we continue to progress our plans for a safe return to work.

"Having taken steps to strengthen our financial liquidity over recent weeks we believe our resources are sufficient to address the current challenge. Looking further ahead, as the UK's leading tile specialist, Topps remains well-positioned as the economy begins to recover."

Notes

[1] Net debt is defined as bank loans, before amortised issue costs (note 6) and less cash and cash equivalents. Net debt is pre-IFRS 16 adjustments.
[2] Like-for-like sales revenues are defined as sales from online and stores that have been trading for more than 52 weeks.
[3] Adjusted profit before tax excludes several items that we have incurred during the period in order to give users of the accounts additional information around performance trends. These are items which are either one off in nature or can fluctuate significantly from year to year (such as some property related items). Adjusted profit before tax is pre-IFRS 16 adjustments. These are set out as follows:

	2020 £m	***2019 £m***
Adjusted Pre-Tax Profit	***1.2***	***8.0***
- Parkside trading loss	***-***	***(1.0)***
Adjusted Pre-Tax Profit including Commercial	***1.2***	***7.0***
- Vacant property costs	***(0.7)***	***(0.1)***
- Non-recurring property provision movements	***(0.9)***	***(1.7)***
Statutory Pre-Tax (Loss) / Profit (pre IFRS16)	***(0.4)***	***5.2***
- IFRS 16 adjustments	***(0.9)***	***-***
- IFRS 16 – impairment of closure programme stores	***(2.7)***	***-***
Statutory Pre-Tax (Loss) / Profit	***(4.0)***	***5.2***

[4] Adjusted for the post tax effect of the above items.
[5] Free cash flow is defined as net cash generated from operating activities less investing activities (pre-IFRS 16 adjustments).

The Group implemented IFRS 16 'Leases' for the first time in FY20 using the modified retrospective approach. IFRS 16 has no economic impact on the Group, no effect on how the business is run, nor on cash flows for the Group. The standard does however have a significant impact on how to recognise, measure, present and disclose leases. Comparatives have not been restated and therefore the statutory results are not comparable to the prior period. In addition, adjusted measures have been presented before IFRS 16 adjustments. To aid period on period comparability, the statutory measures above have been provided pre-IFRS 16 adjustments. Further information on the implementation of IFRS 16 is included in the appendix and note 8.

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

This announcement contains inside information within the meaning of the Market Abuse Regulation. The person responsible for arranging release of this announcement on behalf of Topps is Rob Parker, Chief Executive Officer.

UNAUDITED INTERIM REPORT

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

Within our retail business, our successful strategy of "Out Specialising the Specialists" remains at the heart of what we do. This is focussed on offering customers outstanding value for money through an industry-leading product range, world class customer service and omni-channel convenience.

Financial Review

The financial review below excludes the impact of IFRS 16 to allow for comparability of the results, unless stated otherwise. A reconciliation between the loss before tax pre-IFRS 16 and post-IFRS 16 is included within note 8.

Income Statement

As previously reported, the Group experienced challenging trading conditions in the first half, with first quarter performance impacted by economic uncertainty relating to the outcome of the December General Election, with the weakness in home improvement spending persisting into the second quarter, creating a tough trading backdrop. The COVID-19 outbreak began to impact on trading in the final week of the period, with the closure of all Topps Tiles stores from 23 March 2020. A detailed explanation of our response to COVID-19 is provided within the Strategic and Operational Update section below.

Overall Group revenues for the first half decreased by 3.7% to £106.2 million (2019: £110.3 million).

The average number of stores trading fell by two from 362 in the prior year period to 360 in this period. Excluding the final week of the period when all of the Group's stores were closed due to the impact of COVID-19, like-for-like revenues fell by 4.3% (including the final week like-for-like revenues fell by 6.1%). The retail business experienced tough trading conditions throughout the period, with political uncertainty and the snap general election in December being followed by weak consumer confidence, house price and housing transaction data in the early months of 2020.

Gross margin for the period was 59.2% (2019: 61.2%). Inclusion, for the first time, of the commercial business, which operates at lower gross margin levels, dilutes the group gross margin by 80bps over the previous period, The remaining 120bps decrease over the comparable period reflects increased competitiveness on pricing and a greater share of trade sales.

Operating costs (pre-IFRS 16) were £62.8 million, compared to £61.9 million in the prior year. On an adjusted basis (excluding items as defined in the highlights section) operating costs were £61.2 million, compared to £58.5 million in the prior year. The principal drivers of changes in adjusted operating costs are as follows:

- Inclusion of the commercial business in the unadjusted measure, the commercial business incurred operating costs of £2.8 million in the period (2019: £1.6 million)
- A decrease in the number of stores trading (an average of 360 stores vs 362 in the prior year) which generated a reduction of £0.3 million;
- Employee profit share decreased by £0.9 million with the challenging trading conditions of the current year being compared to higher levels of payments in the prior year;
- Inflation accounted for an increase of £1.1 million;

- Regulatory changes relating to National Living Wage and pension contributions have increased costs by £0.7 million and;
- Other cost savings across a number of areas, but primarily driven by strong control of store labour utilisation reduced costs by a further £0.7 million.

During the period we purchased one freehold property for £0.3 million (2019: nil).

The net interest charge (pre-IFRS 16) for the Group was £0.4 million (2019: £0.4 million).

Adjusted profit before tax was £1.2 million (2019: £8.0 million), representing a decrease of 85.0% year-on-year.

A number of items have been excluded from adjusted profit before tax, these are items which are either one off in nature or can fluctuate significantly from year to year (such as some property related items). Adjustments in the current period all relate to property related costs, including £0.9 million (2019: £1.7 million) of non-recurring property provision movements and £0.7 million (2019: £0.1 million) of cost related to closed stores prior to leases being handed back to our landlords. The property provision movements are non-cash and largely relate to the closure of six stores in the period. These closures are utilising the flexibility we have in our portfolio and create a more efficient portfolio, maximising shareholder returns over the longer term.

In the prior two years we have excluded the trading loss from our commercial business from the adjusted profit before tax measure while we went through an initial phase of investment. In the current period the loss in the expanded commercial business (following the acquisition of Strata) was £1.0 million

Adjusted profit before tax also excludes the impact of IFRS 16. The IFRS 16 related adjustments amount to £3.6 million, which includes £2.7 million of impairment charges relating to store closures planned before the COVID-19 crisis. Further details on IFRS 16 are found in note 8.

When adjusting items are included, the pre-IFRS 16 statutory loss before tax for the Group was £0.4 million (2019: statutory profit before tax of £5.2 million). On a post-IFRS 16 basis, the statutory loss before tax for the Group for the period was £4.0 million.

The effective tax rate for the 26 weeks to 28 March 2020 was 8.5% (2019: 23.6%). Tax rates are based on expectations for the full year and are impacted by non-chargeable items.

Basic earnings per share (pre-IFRS 16) were (0.18)p (2019: 2.03p). Adjusting for the post tax impact of the items detailed in note 5 in the highlights section the adjusted basic earnings per share were 0.60p (2019: 3.15p), a decrease of 81.0%.

Capital Expenditure

Capital expenditure in the period amounted to £3.1 million (2019: £3.6 million). The majority of this expenditure related to three new stores, installation of LED lighting in 46 stores, purchase of one freehold property and refurbishment of our central office and warehouse facility. Our plans for the second half of our financial year have been materially reduced to protect our cash position and we anticipate full year capital expenditure being no more than £4.0 million (2019: £7.8 million).

During the period we purchased one freehold property for £0.3 million (2019: no acquisitions).

The Group currently owns six freehold or long leasehold sites (2019: six), including one warehouse, distribution and office facility, with a total net book value of £13.6 million (2019: £14.1 million).

Cash Generation

Net cash generated from operating activities (pre-IFRS 16) over the period was £1.5 million, compared to £6.2 million in the prior year period, a decrease of £4.7 million. The decrease was driven by lower trading, partially offset by lower tax payments.

Free cash flow (pre-IFRS 16) was a £1.6 million outflow, compared to £2.7 million inflow in the prior year period, a decrease of £4.3 million. The decrease was comprised of the movement in operational cash flow detailed above, partially offset by £0.5 million lower capital expenditure.

During the period we drew down £9.0 million of our banking facility to its maximum level of £39.0 million, a cash inflow of £9.0 million versus the prior year.

In addition to the above movements, dividends accounted for £4.5 million cash outflow (2019: £4.5 million), resulting in a net movement in cash of a £2.9 million inflow (2019: £1.8 million inflow).

At the period end cash and cash equivalents for the Group were £21.7 million (2019: £12.0 million) and borrowings were £39.0 million (2019: £30.0 million), giving a net debt position on a pre-IFRS 16 basis of £17.3 million (2019: £18.0 million).

Banking Facilities

The Group has a fully drawn £39.0 million revolving credit facility in place which is committed to July 2022 (2019: £35.0 million). The Group is at the advanced stages of securing a further £10.0 million of additional funding from its existing lenders, Barclays and RBS, under the Coronavirus Large Business Interruption Loan Scheme ("CLBILS"). The existing loan facility includes two covenants which are tested at the interim and full year results – these are the gearing ratio (net debt : EBITDA) and fixed cover charge (EBITDAR : interest and rent). This new agreement also includes a significant relaxation or removal of existing loan facility covenants over the next 12 months, and authority to make freehold property disposals. The facility is credit approved and we are working through the legal documentation process which we expect to conclude in the very near future. The cost of the new facility over the next 12 months is expected to be £0.2 million. The Group retains an £11.0 million uncommitted accordion facility which was envisaged would be used for the purpose of business expansion activity and as such is unlikely to be utilised over the short term.

Liquidity

The business entered the COVID-19 crisis period with a healthy balance sheet, with £21.7 million of cash headroom, having drawn down all of its existing banking facility. The performance of the Retail online business, plus the recent opening of Collection Hubs and Controlled Entry Stores, have provided the business with important sources of cash generation, and this, along with the opportunity presented by UK Government support schemes, has supported a robust current cash position. Cash headroom is currently at £14.0 million. The majority of the cash consumption since the half year period end can be accounted for by the unwinding of the working capital cycle and the timing of the half year end. When this is excluded, cash inflows from trading are broadly offsetting other cash outflows.

As noted elsewhere in this statement, the business has received credit approval for a COVID-19 related additional banking facility of £10.0 million, which is expected to be finalised shortly. We expect available cash headroom to be c.£25 million after receipt of this loan.

The Group has run a series of future trading scenarios and remains confident that its liquidity remains sufficient. In addition, the Group retains the opportunity to consider the sale of freehold assets, if this is in the long-term interests of the business.

Inventory

At the period end the Group had £30.6 million of inventories (2019: £33.2 million) which represented 132 days cover (2019: 154 days). The decrease in inventory over the first half of 2020 reflects the planned unwind of additional stock held in 2019 as a buffer against potential supply chain disruption immediately following the UK's exit from the EU.

Key Performance Indicators

As set out in our most recent annual report, we monitor our performance in implementing our strategy with reference to a clearly defined set of key performance indicators ("KPIs"). These KPIs are applied on a Group-wide basis. Our performance in the 26 weeks ended 28 March 2020 is set out in the table below. The source of data and calculation methods are consistent with those used in the 2019 annual report, however excludes the impact of IFRS 16 to allow for comparability of the results versus the prior period.

Results for the 26 weeks ended 28 March 2020
Highlights

Financial KPIs	26 weeks to 28 March 2020	26 weeks to 30 March 2019
Like-for-like adjusted revenue year-on-year	**(6.1)%**	**+0.2%**
Gross margin	**59.2%**	**61.2%**
Adjusted profit before tax *	**£1.2m**	**£8.0m**
Net debt	**£17.3m**	**£18.0m**
Adjusted earnings per share *	**0.60p**	**3.15p**
Inventory days	**132**	**154**

Non-Financial KPIs	26 weeks to 28 March 2020	26 weeks to 30 March 2019
Net Promoter Score **	**82%**	**71%**
Overall customer satisfaction ***	**88%**	**86%**
Colleague turnover	**37%**	**39%**
Retail stores at period end	**359**	**361**

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

Dividend

The Board has decided that in light of the COVID-19 pandemic, it is not appropriate to pay an interim dividend (2019: 1.1 pence per share). A full year dividend is also unlikely to be recommended by the Board due to an expected increase in the level of net debt and continued uncertainty in the outlook. The Board is cognisant of the role dividends play in shareholders overall returns and is keen to re-instate a dividend as soon as is appropriate.

Strategic & Operational Update

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

As market leader, the business was in a strong position coming into the crisis period and has responded very well over the last six weeks. Our priority has been to safeguard our colleagues and customers, and to also ensure we protect the business by working to emerge from this crisis in the strongest position possible. Although its impact began to be felt only in the final weeks of the period, the scale and severity of the COVID-19 pandemic has forced us to fundamentally reappraise every aspect of our operations. This global tragedy has had a very significant impact on the Group, resulting in a material reduction in sales revenue from 23 March 2020 when our retail stores were closed to support the UK Government efforts to contain the virus. Our strategy over the short term is clear – protect our people, strengthen our financial liquidity and, where we can do so while ensuring the safety of colleagues and customers, adapt our operating model to continue to trade.

The UK Government has put in place a range of support measures for businesses and we have accessed all of those available to us. This includes utilising the Coronavirus Job Retention Scheme to furlough the c.90% of our colleagues who were unable to work from home, business rates relief for the 2020/21 tax year, VAT deferral and utilising the Coronavirus Large Business Interruption Loan Scheme ("CLBILS"), which facilitates access to finance for medium-sized and larger businesses affected by the coronavirus outbreak.

In the period following the introduction of lockdown restrictions on 23 March 2020, beyond safeguarding our colleagues and customers, we have focused on maximising our trading opportunity within the operating constraints of the current situation, reducing costs wherever possible and taking steps to strengthen financial liquidity across our business.

Retail

Our Retail business remains the clear market leader in the domestic tile market and our strategy is centred on providing differentiated products, and combining them with a great customer experience, to deliver great value. Whilst we fully recognise the scale of the short-term challenges facing our business in the current crisis, as the market leader we believe we are well positioned to deal with any lasting legacy from this period and we remain optimistic about the longer term opportunities for our business.

Whilst our retail operations are permitted to trade under the UK Government's "Home and Hardware" retail dispensation, the health and wellbeing of our colleagues and customers is our primary concern and we took the decision to close our stores while we developed new safe ways of working. We have seen a significant increase in our online business with sales running at around three times their pre-crisis level, principally driven by increased conversion. This is providing a vital source of cash inflow to the business during this period. This should, however, be seen in the context of an overall revenue reduction of c.80% in our retail business during April. The proportion of revenues coming from trade customers has fallen over this period and we are continuing to stay close to them with regular communications and promotional support. A survey of our trade customers completed during April confirmed that there has been a reduction in their activity levels of around 75%. For those that have continued to work, the majority have purchased through our online operations and we are actively targeting all of our trade customers to ensure we retain their business following the re-opening of our stores.

In terms of our specialist competitors, we have seen a range of responses over this period. Some ceased all operations (including online), the majority maintained online operations (where they have them), and a few continued to operate stores in a limited capacity. Our assessment is that we remain well positioned to continue to service our customers online and at such point that they are able to return to stores on a fully unrestricted basis.

In response to the COVID-19 outbreak, we been actively explored new operating models which would enable us to continue to support customers, particularly those in the trade channel, while strictly observing social distancing measures. From 22 April 2020 we began to open some of our retail sites as Collection Hubs. This model allows customers shopping online to choose delivery to their home or to collect from their local store if this is more convenient for them. The Collection Hub model does not mean the store has been re-opened – all goods have to have been ordered and paid for in advance, with the collection scheduled for a pre-arranged time and the goods collected in the car park without direct contact between customer and store colleagues. These sites are currently trading on reduced hours and have been staffed on a voluntary basis – although we have been overwhelmed by the support received from colleagues and their desire to return to work. At the current time 250 of our stores are trading in this format, of which 130 are now also trading under the "Controlled Entry" model (see below).

In preparation for a wider re-opening of stores we have also developed a "Controlled Entry" model which includes new in-store protocols for social distancing and the introduction of enhanced protective measures for colleagues. These new measures, which also include limits on the number of customers allowed in store at any one time, were tested in an initial small scale trial of stores and have proved to be effective. The lessons learnt in this trial are now being applied to the wider estate in a phased re-opening programme. We have received a positive response from customers and initial trading from these sites has been encouraging. We currently have 130 stores trading in this format. The remaining stores currently trading as Collection Hubs will all be converted to the Controlled Entry model by the end of May, giving us 250 stores fully open. We expect to re-open the remaining c.100 of our stores by the end of June.

In order to ensure the strongest recovery possible for the business we have pushed harder into our current promotional programme. This includes running an "up to 50% off" promotion online and extending and relaunching our "Get The Look For Less" range which covers our more value orientated products. We are actively communicating with our trade customers to ensure they remain aware of our ability to continue to serve their needs and provide them with great value.

This has been a period of extraordinary change across society and for our business. We are seeing a number of changes in customer behaviour, including an acceleration of the existing trend for more digital transactions and an increase in the number of customers taking on their own tiling work. The questions we must now consider are the extent to which these changes are temporary or permanent, and the impact they will have on the shape of our market over the medium term. In particular, we will assess the implications of any structural shift between physical and digital transactions on the future size of our retail store portfolio. During the period, before the COVID-19 crisis, we commenced a programme to close 25 stores. These are stores which we have identified as either being in close geographical proximity to other stores and we can trade more profitably from a single site, or stores where the economics do not justify our continuing to trade. Across our store estate the average unexpired lease term is just over three years and this flexibility will be key as we continue to assess customer behaviour and consider how to optimise returns for our shareholders.

Commercial

Our commercial business is still at a relatively early stage of its growth and development. We have owned the Parkside business since August 2017 and acquired the Strata business in April 2019. Our market share remains small at around 3-4% and we believe we have continued to take share over the first half through our strategy of "Disrupt and Construct". The Parkside business has grown rapidly under our ownership and first half sales were in excess of £3 million, more than double the prior year. The Strata business had a slower start to the period but had started to see a much better level of sales in recent months and a more robust order book, and this is encouraging as we look forwards beyond the current crisis. Total commercial sales over the first half were £4.5 million, an increase of 246% year on year.

Overall, we have been pleased by how well our commercial business has responded to the COVID-19 challenge. Whilst we have seen a very material reduction in invoiced sales since the UK Government introduced lock down measures the business has continued to trade and service its customers. This resilience has allowed us to build new relationships and grow our market share. In light of COVID-19, we are cautious in our view of the commercial market over the medium term. Whilst the level of disruption in the construction industry has not been as acute as we have seen in our retail business, the potential for a medium term impact remains. At this stage most of the active projects have simply been delayed due to site or business closures and we expect these to recommence in the coming months. What is more difficult to predict is the level of new projects and investments that will be deferred or cancelled, creating reduced invoiced sales in 6-18 months' time. Our teams are working very actively with clients to understand where that disruption might be most severe so that we can tailor our approach accordingly.

Our previous financial target for commercial was to achieve a breakeven position for this financial year. The level of uncertainty resulting from COVID-19 that exists in the outlook, combined with the weaker performance at Strata over the first half, means we now consider this to be unachievable. Subject to the speed of recovery in the construction sector, and based on our significant sales growth prior to this crisis period, we believe that a breakeven position for the business in the next financial year remains a possibility.

Our ambition for our commercial business has not changed. We believe that, in time, we can build a profitable business which leverages the Group's sourcing specialism and, which can ultimately achieve a market leading position.

Product and Supply Chain

The Group's supply chain is diverse and well established and we work closely with a relatively small group of suppliers, which we consider to be strategic relationships for the Group. COVID-19 has underlined the importance of these relationships and we would like to thank all of our suppliers, domestic and international, for their tremendous support through this challenging period. Specific measures have included:

- Holding product at the factory while we worked through the short term implications of store closures;
- Agreeing new payment schedules to enable us to deal with the adverse implications of an unwind of our working capital cycle, which required around £14 million of payments to suppliers during a period of limited revenues coming in;
- Supporting the business with continued supply whilst working through their own COVID-19 issues, including UK Government restrictions and employee welfare (particularly in Italy, Spain and China which are important parts of our supply chain).

In general, we have very low levels of stock obsolescence and during the period of lock down this is a major advantage. Our stock is not seasonal and does not have expiry considerations which means there is no material impact from a short term cessation of trading.

Our "Leading Product" initiative continues to be very important to us and are confident in our market leading range. As a result of this we now expect to slow down new product development over the short term whilst we focus on stabilising the business. We do not believe that this will have any adverse long term implications and we will accelerate these plans again as the outlook becomes clearer.

In our distribution operations, we have been through a period of very rapid change, going from what was essentially a bulk pick to store operation to a customer order picking operation (which are much smaller orders in much larger numbers). Our warehousing operation has coped admirably and within a week had transformed itself, which is a real testament to the commitment and flexibility of our warehouse teams.

People

The Group's success is underpinned by industry-leading levels of customer service and this is reflected in our "Leading People" initiative. This means that we have always been very focussed on our colleagues that deliver this service, with their capability and engagement levels being absolutely key. Their importance to the Group has never been more clear than at the current time.

Whilst, regrettably, it was necessary to furlough a large proportion of our colleagues during the peak of the crisis, the understanding and agreement of our store-based teams has been a tremendous support to the business through this period. We have also been very mindful of the well-publicised concerns on potential social isolation and mental health implications during the lockdown. We have encouraged colleagues to reach out to each other through whatever means they can and provide a support network where they feel people may be more vulnerable. We have supplemented this with online materials to support colleagues.

In recognition of the impact of the crisis on colleagues, the support the business has received from UK Government and acting in the best long term interests of the business, the Board and senior management agreed to a voluntary 20% reduction in their basic pay from 1 April.

The commitment and support we have received from those colleagues who have been able to continue to work has been nothing short of incredible. Where it was possible for colleagues to work remotely, we have supported them with technology and flexible arrangements to ease the strain. For those nonstore colleagues where remote working is not possible, principally our central warehouse teams, we have adapted our working practices to ensure that we can continue to provide a safe working environment and addressed any concerns raised, promptly and efficiently. We would like to offer our heartfelt thanks to all of our teams that have continued working through the COVID-19 period – the commitment they have shown to our business has been outstanding.

Risks and Uncertainties

The Board continues to monitor the key risks and uncertainties of the Group. The risk around the long term impact of the current global pandemic is currently the most significant in our minds, with other risks documented in the 2019 Annual Report and Accounts remain as relevant now as they did previously. These key risks include: Brexit (from a perspective of general economic and consumer confidence, foreign exchange rate fluctuation, and supply chain disruption), appropriate business strategy, threat from competitors, attracting and retaining talent, store portfolio, loss of a key supplier, financing, cyber security, major reputational damage, and fitter availability.

Board Composition

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

Going Concern

Following the significant financial impact of store closures in response to UK Government actions to combat the COVID-19 virus, the Board has considered its ability to meet all of its financial commitments as they fall due very carefully. This includes an analysis of a range of trading scenarios, mitigating actions, requirements of existing lending facilities and additional sourcing of financing.

The strong performance of Topps online business, plus the recent opening of Collection Hubs and Controlled Entry Stores, has provided the business with important sources of cash generation, and this, along with the opportunity presented by UK Government support schemes around business staff retention, VAT deferrals and rates relief, have all supported a robust current cash position. The business is actively reviewing a series of self-help initiatives that can support both profit and cash in the medium term.

In recent weeks the business has received credit approval for a COVID-19 related additional banking facility of £10.0 million, under the UK Government's CLBILS backed scheme, across our two key banking partners. We expect this to be fully documented and signed in the coming days. Our existing lenders have also agreed to substantially relax or remove covenant conditions for the tests arising over the next 12 months.

The Group has run a series of future trading scenarios and remains confident that current funding, supplemented by the additional £10.0 million loan noted above, will provide sufficient liquidity for the business. In the event of a more severe, prolonged, but plausible downside scenario, we would expect the business to adjust working capital levels and overhead costs accordingly. It is noted that the Group also retains the opportunity to consider the sale of freehold assets if this is in the long-term interests of the business.

From a trading perspective the Board can see a path of recovery back to a profitable and cash generative business and is confident, that as market leader, the Group will leverage its scale and core strategic capabilities to drive value from its chosen market of tiles and associated products.

On this basis the Board considers that the Group has sufficient liquidity to meet all of its financial commitments as they fall due for a period of at least 12 months and therefore has prepared the financial statements on a going concern basis.

Current Trading & Outlook

As indicated in the Strategic & Operational Update section of this report, the current COVID-19 crisis is placing severe trading pressure on our business and, with the duration and full impact of the pandemic currently remaining uncertain, assessing the outlook is unusually difficult. The steps we have taken to adapt our trading model to the current reality and to strengthen our financial liquidity are enabling the Group to meet the challenge.

We remain confident about the positioning of our business as a market leader and believe that our longer term prospects remain attractive. However, navigating the current crisis is our key focus.

Rob Parker	**Andrew Wilkinson**
Chief Executive Officer	*Interim Chief Financial Officer*
19 May 2020	

APPENDIX – IFRS 16 'LEASES'

The Group has applied IFRS 16 'Leases' at 29 September 2019 (date of initial application), using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application.

Accounting under IFRS 16

IFRS 16 applies a single 'on balance sheet' approach to lease accounting. Under IFRS 16, leases are accounted for as follows:

- A right-of-use asset is recognised which represents the lessee's contractual right to use the lease asset over the lease term. The right-of-use asset is depreciated on a straight-line basis over the lease term.
- A lease liability is recognised which reflects the lessee's obligation to make payments under the lease term. The lease liability is held at amortised cost, with an associated interest charge. This results in a higher interest expense in the earlier years of the lease term.

IFRS 16 results in the timing of lease expense recognition being accelerated for leases which would be currently accounted for as operating leases. However, the total expense over the life of the lease will be identical under IFRS 16 and IAS 17.

Statement of Financial Performance impact

The impact of the implementation of IFRS 16 on the Statement of Financial Performance is as follows:

	26 weeks ended 28 March 2020		
	Presented under IAS 17 £m	**Impact of IFRS 16 £m**	**Presented under IFRS 16 £m**
Group revenue	106.2	-	106.2
Cost of sales	(43.4)	-	(43.4)
Gross profit	62.8	-	62.8
Operating costs	(62.8)	(2.1)	(64.9)
Group operating loss	**-**	**(2.1)**	**(2.1)**
Net finance costs	(0.4)	(1.5)	(1.9)
Loss before taxation	**(0.4)**	**(3.6)**	**(4.0)**

Statement of Financial Position impact

On transition of IFRS 16 on 29 September 2019, the Group recognised additional right-of-use assets of £124.6m, sub-lease assets of £3.5m, lease liabilities of £128.2m and deferred tax liabilities of £0.5m, as well as a reduction in prepayments, provisions and liabilities. As a result, a transitional adjustment of £2.5m increased the opening balance of retained earnings.

As at 28 March 2020, net debt on a pre-IFRS 16 basis was £17.3m. This increases to £136.0m under IFRS 16 due to the recognition of the lease liabilities which are now on balance sheet.

Our banking covenants are based on a frozen-GAAP basis and therefore the application of IFRS 16 has no impact.

Statement of Cash Flows impact

IFRS 16 does not impact the total cash flow during the period. However, under IAS 17 the rental payments were included within operating activities, whereas under IFRS 16 these are treated as financing activities. The £nil impact on the cash flow is shown in the table below:

	26 weeks ended 28 March 2020		
	Presented under IAS 17	**Impact of IFRS 16**	**Presented under IFRS 16**
	£m	**£m**	**£m**
Net cash from operating activities	1.5	11.1	12.6
Net cash used in investing	(3.1)	0.3	(2.8)
Net cash from/(used in) financing activities	4.5	(11.4)	(6.9)
Cash flow	**2.9**	**-**	**2.9**

RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

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

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

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

By order of the Board,

Rob Parker	**Andrew Wilkinson**
Chief Executive Officer	*Interim Chief Financial Officer*

19 May 2020

Cautionary statement

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

The IMR contains certain forward-looking statements. These statements are made by the directors in good faith based on the information available to them up to the time of their approval of this report but such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

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

Condensed Consolidated Statement of Financial Performance
for the 26 weeks ended 28 March 2020

	Note	**26 weeks ended 28 March 2020 IFRS 16 £'000 (Unaudited)**	26 weeks ended 30 March 2019 IAS 17 £'000 (Unaudited)	52 weeks ended 28 September 2019 IAS 17 £'000 (Audited)
Group revenue - continuing operations		**106,188**	110,346	219,197
Cost of sales		**(43,372)**	(42,852)	(84,245)
Gross profit		**62,816**	67,494	134,952
Distribution and selling costs		**(33,780)**	(45,460)*	(93,138)
Repayment of historic import duty		**-**	-	2,272
Impairment of right-of-use assets and property, plant and equipment		**(2,723)**	-	-
Other operating expenses		**(16,479)**	(5,295)	(8,070)
Administrative costs		**(8,781)**	(7,995)*	(17,439)
Sales and marketing costs		**(3,115)**	(3,160)	(5,244)
Group operating (loss)/profit		**(2,062)**	5,584	13,333
Net finance costs		**(1,897)**	(416)	(858)
(Loss)/profit before taxation		**(3,959)**	5,168	12,475
Taxation	3	**337**	(1,220)	(2,397)
(Loss)/profit for the period		**(3,622)**	3,948	10,078
(Loss)/profit is attributable to:				
Owners of Topps Tiles Plc		**(3,581)**	3,948	10,119
Non-controlling interests		**(41)**	-	(41)
		(3,622)	3,948	10,078
Earnings per ordinary share from continuing operations				
-basic	5	**(1.86)p**	2.03p	5.18p
-diluted	5	**(1.84)p**	2.01p	5.14p

* Distribution and selling costs and administrative costs are now inclusive of employee profit sharing costs, which were separately identified in the prior period financial statements. The prior period has been adjusted to be comparable. The Group has reviewed its accounting policy and has reclassified employee profit sharing costs of £1,958,000 (2018: £2,402,000) to distribution and selling costs, and £64,000 income (2018: £416,000 cost) to administrative costs.

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

The Group has initially applied IFRS 16 ‘Leases’ at 29 September 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application, 29 September 2019 (see note 8). The comparative period is presented under the previous accounting standard, IAS 17 ‘Leases’ and has accordingly not been restated. As such, the results for the 26 week period ended 28 March 2020 are not directly comparable with those reported in the prior period. See note 8 for a reconciliation of the IFRS 16 impact on the financial statements.

Condensed Consolidated Statement of Financial Position
as at 28 March 2020

	Note	**28 March 2020 IFRS 16 £'000 (Unaudited)**	30 March 2019 IAS 17 £'000 (Unaudited)	28 September 2019 IAS 17 £'000 (Audited)
Non-current assets				
Goodwill		**3,104**	1,461	3,104
Intangible assets		**2,651**	548	2,663
Property, plant and equipment		**44,776**	46,861	46,958
Investment properties		**750**	1,233	1,233
Deferred tax assets		**313**	-	-
Right-of-use assets		**112,826**	-	-
		164,420	50,103	53,958
Current assets				
Inventories		**30,602**	33,183	30,924
Other financial assets		**3,302**	-	-
Trade and other receivables		**5,711**	8,635	8,142
Cash and cash equivalents		**21,673**	12,030	18,747
		61,288	53,848	57,813
Total assets		**225,708**	103,951	111,771
Current liabilities				
Trade and other payables		**(38,472)**	(39,640)	(43,336)
Lease liabilities		**(23,200)**	-	-
Current tax liabilities		**(1,028)**	(2,251)	(2,025)
Provisions		**(471)**	(1,424)	(1,235)
Total current liabilities		**(63,171)**	(43,315)	(46,596)
Net current (liabilities)/assets		**(1,883)**	10,533	11,217
Non-current liabilities				
Bank loans	6	**(38,944)**	(29,894)	(29,884)
Lease liabilities		**(95,507)**	-	-
Deferred tax liabilities		**(1,634)**	(1,057)	(1,197)
Provisions		**(2,075)**	(3,426)	(3,862)
Total liabilities		**(201,331)**	(77,692)	(81,539)
Net assets		**24,377**	26,259	30,232
Equity				
Share capital	9	**6,548**	6,548	6,548
Share premium		**2,492**	2,490	2,490
Own shares		**(1,482)**	(1,548)	(1,548)
Merger reserve		**(399)**	(399)	(399)
Share-based payment reserve		**3,960**	4,070	3,962
Capital redemption reserve		**20,359**	20,359	20,359
Accumulated losses		**(7,058)**	(5,261)	(1,178)
Capital and reserves attributable to owners of Topps Tiles Plc		**24,420**	26,259	30,234
Non-controlling interests		**(43)**	-	(2)
Total equity		**24,377**	26,259	30,232

The Group has initially applied IFRS 16 'Leases' at 29 September 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application, 29 September 2019 (see note 8).

Condensed Consolidated Statement of Changes in Equity

For the 26 weeks ended 28 March 2020

	Equity attributable to equity holders of the parent								
	Share capital £'000	**Share premium £'000**	**Own shares £'000**	**Merger reserve £'000**	**Share-based payment reserve £'000**	**Capital redemption reserve £'000**	**Accum-ulated (losses)/ profits £'000**	**Non-controlling interest £'000**	**Total equity £'000**
Balance at 28 September 2019 (Audited)	6,548	2,490	(1,548)	(399)	3,962	20,359	(1,178)	(2)	30,232
Impact of change in accounting policy (IFRS 16)	-	-	-	-	-	-	2,251	-	2,251
Adjusted balance at 29 September 2019*	6,548	2,490	(1,548)	(399)	3,962	20,359	1,073	(2)	32,483
Loss and total comprehensive income for the period	-	-	-	-	-	-	(3,581)	(41)	(3,622)
Issue of share capital	-	2	-	-	-	-	-	-	2
Dividends	-	-	-	-	-	-	(4,484)	-	(4,484)
Own shares issued in the period	-	-	66	-	-	-	(66)	-	-
Credit to equity for equity-settled share based payments	-	-	-	-	(2)	-	-	-	(2)
Deferred tax on share-based payment transactions	-	-	-	-	-	-	-	-	-
Balance at 28 March 2020 (unaudited)	**6,548**	**2,492**	**(1,482)**	**(399)**	**3,960**	**20,359**	**(7,058)**	**(43)**	**24,377**

* The Group has initially applied IFRS 16 'Leases' at 29 September 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application, 29 September 2019.

For the 26 weeks ended 30 March 2019

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

For the 52 weeks ended 28 September 2019

	Equity attributable to equity holders of the parent								
	Share capital £'000	**Share premium £'000**	**Own shares £'000**	**Merger reserve £'000**	**Share-based payment reserve £'000**	**Capital redemption reserve £'000**	**Accum-ulated losses £'000**	**Non-controlling interest £'000**	**Total equity £'000**
Balance at 29 September 2018 (Audited)	6,548	2,490	(3,750)	(399)	3,945	20,359	(2,530)	-	26,663
Profit and total comprehensive income for the period	-	-	-	-	-	-	10,119	(41)	10,078
Dividends	-	-	-	-	-	-	(6,623)	-	(6,623)
Own shares issued in the period	-	-	2,202	-	-	-	(2,202)	-	-
Credit to equity for equity-settled share based payments	-	-	-	-	17	-	64	-	81
Deferred tax on share-based payment transactions	-	-	-	-	-	-	(6)	-	(6)
Non-controlling interest on business combination	-	-	-	-	-	-	-	39	39
Balance at 28 September 2019 (Audited)	**6,548**	**2,490**	**(1,548)**	**(399)**	**3,962**	**20,359**	**(1,178)**	**(2)**	**30,232**

Condensed Statement of Cash Flows
for the 26 weeks ended 28 March 2020

	26 weeks ended 28 March 2020 IFRS 16 £'000 (Unaudited)	26 weeks ended 30 March 2019 IAS 17 £'000 (Unaudited)	52 weeks ended 28 September 2019 IAS 17 £'000 (Audited)
Cash flow from operating activities			
(Loss)/profit for the period	**(3,622)**	3,948	10,078
Taxation	**(337)**	1,220	2,397
Finance costs	**1,944**	425	873
Finance income	**(47)**	(9)	(15)
Group operating (loss)/profit	**(2,062)**	5,584	13,333
Adjustments for:			
Depreciation of property, plant and equipment	**3,571**	3,574	7,117
Depreciation of right-of-use assets	**11,688**	-	-
Amortisation of intangible assets	**137**	45	245
Loss on disposal of property, plant and equipment	**318**	851	866
Impairment charge/(reversal) of property, plant and equipment	**372**	-	(246)
Impairment of right-of-use assets and associated property, plant and equipment	**2,723**	-	-
Impairment of goodwill	**-**	-	245
Gain on lease modification	**(195)**	-	-
Decrease in fair value of investment properties	**483**	-	21
Share option charge/(credit)	**(2)**	125	17
(Increase)/decrease in trade and other receivables	**(1,021)**	77	820
Decrease/(increase) in inventories	**324**	(3,029)	(681)
(Decrease)/ increase in payables	**(881)**	1,261	4,412
Cash generated by operations	**15,455**	8,488	26,149
Interest paid	**(488)**	(393)	(861)
Interest element of lease liabilities paid	**(1,402)**	-	-
Taxation paid	**(999)**	(1,846)	(3,385)
Net cash from operating activities	**12,566**	6,249	21,903
Investing activities			
Interest received	**6**	9	15
Interest received on sublease assets	**41**	-	-
Receipt of capital element of sublease assets	**224**	-	-
Purchase of property, plant, equipment and intangibles	**(3,072)**	(3,587)	(7,242)
Addition of intangibles	**-**	-	(563)
Purchase of investment property	**-**	-	(21)
Proceeds on disposal of property, plant and equipment	**-**	-	185
Acquisition of subsidiary, net of cash acquired	**-**	-	(2,749)
Net cash used in investment activities	**(2,801)**	(3,578)	(10,375)
Financing activities			
Payment of capital element of lease liabilities	**(11,357)**	-	-
Dividends paid	**(4,484)**	(4,483)	(6,623)
Proceeds from issue of share capital	**2**	-	-
Drawdown of bank loans	**9,000**	-	5,000
Repayment of bank loans	**-**	-	(5,000)
Net cash used in financing activities	**(6,839)**	(4,483)	(6,623)
Net increase/(decrease) in cash and cash equivalents	**2,926**	(1,812)	4,905
Cash and cash equivalents at beginning of period	**18,747**	13,842	13,842
Cash and cash equivalents at end of period	**21,673**	12,030	18,747

The Group has initially applied IFRS 16 'Leases' at 29 September 2019, using the modified retrospective approach. Under this approach, comparative information is not restated.

1. General information

The interim report was approved by the Board on 19 May 2020. The financial information for the 52 week period ended 28 September 2019 has been based on information in the audited financial statements for that period.

The comparative figures for the 52 week period ended 28 September 2019 are an abridged version of the Group's full financial statements and, together with other financial information contained in these interim results, do not constitute statutory financial statements of the Group as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that 52 week period has been delivered to the Registrar of Companies. The auditor has reported on those accounts: their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under s498 (2) or (3) of the Companies Act 2006.

This condensed set of consolidated financial statements has been prepared for the 26 weeks ended 28 March 2020 and the comparative period has been prepared for the 26 weeks ended 30 March 2019.

The interim financial statements have not been audited or reviewed by auditors pursuant to the Auditing Practices Board guidance on "Review of interim financial information" and do not include all of the information required for full annual financial statements.

Basis of preparation and accounting policies

The annual financial statements of Topps Tiles Plc are prepared in accordance with IFRSs as adopted by the European Union. The unaudited condensed consolidated set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting', as adopted by the European Union. With the exception of amendments to leases policies as a result of IFRS 16 (see note 8), the same accounting policies, presentation and methods of computation are followed in the condensed set of financial statements as applied in the Group's latest annual audited financial statements.

New and amended standards adopted by the Group

The Group continues to monitor the potential impact of other new standards and interpretations which have been or may be endorsed and require adoption by the Group in future reporting periods.

This is the first set of the Group's financial statements in which IFRS 16 has been applied. The impact of the adoption of this standard is detailed in note 8.

Going concern

Following the significant financial impact of store closures in response to UK Government actions to combat the COVID-19 virus, the Board has considered its ability to meet all of its financial commitments as they fall due very carefully. This includes an analysis of a range of trading scenarios, mitigating actions, requirements of existing lending facilities and additional sourcing of financing.

The strong performance of Topps online business, plus the recent opening of Collection Hubs and Controlled Entry Stores, has provided the business with important sources of cash generation, and this, along with the opportunity presented by UK Government support schemes around business staff retention, VAT deferrals and rates relief, have all supported a robust current cash position.

In recent weeks the business has received credit approval for a COVID-19 related additional banking facility of £10.0 million, under the UK Government's CLBILS backed scheme, across our two key banking partners. We expect this to be fully documented and signed in the coming days. Our existing lenders have also agreed to substantially relax or remove covenant conditions for the tests arising over the next 12 months.

The business has run a series of future trading scenarios and remains confident that current funding, supplemented by the additional £10.0 million loan noted above will provide sufficient liquidity for the business. In the event of a more severe, prolonged, but plausible downside scenario, we would expect the business to adjust working capital levels and overhead costs accordingly. It is noted that the business also retains the opportunity to consider the sale of freehold assets.

From a trading perspective the board can see a path of recovery back to a profitable and cash generative business and are confident, that as market leader, the business will leverage its scale and core strategic capabilities to drive value from its chosen market of tiles and associated products. The business is actively reviewing a series of self-help initiatives that can support both profit and cash in the medium term.

On this basis the Board considers that the Group has sufficient liquidity to meet all of its financial commitments as they fall due for a period of at least 12 months and therefore has prepared the financial statements on a going concern basis.

2. Business segments

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

3. Taxation

	26 weeks ended 28 March 2020 £'000 (Unaudited)	26 weeks ended 30 March 2019 £'000 (Unaudited)	52 weeks ended 28 September 2019 £'000 (Audited)
Current tax – (credit)/charge for the period	**(313)**	1,174	2,602
Current tax - adjustment in respect of previous periods	**-**	-	(101)
Deferred tax – (credit)/charge for the period	**(24)**	46	(65)
Deferred tax - adjustment in respect of previous periods	**-**	-	(39)
	(337)	1,220	2,397

4. Interim dividend

An interim dividend of £nil (2019: 1.10p) per ordinary share has been declared. A final dividend of 2.30p per ordinary share was approved and paid in the period, in relation to the 52 week period ended 28 September 2019.

5. Earnings per share

Basic earnings per share for the 26 weeks ended 28 March 2020 were (1.86)p (2019: 2.03p) having been calculated on earnings (after deducting taxation) of £3,622,000 (loss) (2019: £3,948,000 (profit)) and on ordinary shares of 194,969,302 (2019: 194,432,705), being the weighted average of ordinary shares in issue during the period.

Diluted earnings per share for the 26 weeks ended 28 March 2020 were (1.84)p (2019: 2.01p) having been calculated on earnings (after deducting taxation) of £3,622,000 (loss) (2019: £3,948,000 (profit)) and on ordinary shares of 196,431,345 (2019: 196,086,530), being the weighted average of ordinary shares in issue during the period adjusted to assume conversion of all dilutive potential ordinary shares.

On a pre-IFRS 16 basis, basic earnings per share and diluted earnings per share for the period were (0.18)p and (0.18)p, respectively. These numbers are quoted pre IFRS 16 (applying IAS 17) and related tax charges in order to show comparability with the prior period.

Adjusted earnings per share for the 26 weeks ended 28 March 2020 were 0.60p (2019: 3.15p) having been calculated on adjusted earnings after tax of £1,166,000 (2019: £6,123,000) being earnings (after deducting taxation) of £3,622,000 (loss) (2019: £3,948,000 (profit)) adjusted for the post-tax impact of the following items: a net charge in relation to property related provisions of £373,000 (2019: £689,000), impairment of property plant and equipment of £658,000 (2019: £678,000), the trading loss for the period in relation to Parkside Ceramics Ltd of £nil (2019: £808,000), a fair value loss on impairment properties of £483,000 (2019: £nil), and the impact of IFRS 16 in the period of £3,274,000 (charge) (2019: £nil). In the prior period, the trading loss in relation to Parkside Ceramics Ltd had been classified as an adjusting item as we were in an initial two year phase of investing in growth, and as such the Board did not consider this to be representative of underlying business performance.

6. Bank loans

	26 weeks ended 28 March 2020 £'000 (Unaudited)	26 weeks ended 30 March 2019 £'000 (Unaudited)	52 weeks ended 28 September 2019 £'000 (Audited)
Bank loans (all sterling)	**38,822**	29,809	29,762
The borrowings are repayable as follows:			
On demand or within one year	**-**	-	-
In the third to fifth year	**39,000**	30,000	30,000
	39,000	30,000	30,000
Less: total unamortised issue costs	**(178)**	(191)	(238)
	38,822	29,809	29,762
Issue costs to be amortised within 12 months	**122**	85	122
Amount due for settlement after 12 months	**38,944**	29,894	29,884

The Group has in place a £39.0 million committed revolving credit facility, expiring 29 June 2022. The Group also has an Accordion Option for £11.0 million. As at 28 March 2020, £39.0 million of this facility was drawn (2019: £30.0 million). The loan facility contains financial covenants which are tested on a biannual basis.

7. Financial instruments

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

	Carrying value and fair value		
	26 weeks ended 28 March 2020 £'000 (Unaudited)	26 weeks ended 30 March 2019 £'000 (Unaudited)	52 weeks ended 28 September 2019 £'000 (Audited)
Financial assets			
Fair value through profit and loss	**442**	-	89
Financial liabilities			
Fair value through profit and loss	**-**	255	-

The fair values of financial assets and financial liabilities are determined as follows:

Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

The fair values are therefore categorised as Level 2 (2019: Level 2), based on the degree to which the fair value is observable. Level 2 fair value measurements are those derived from inputs other than unadjusted quoted prices in active markets (Level 1 categorisation) that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

At 28 March 2020 the fair value of the Group's currency derivatives is a gain of £441,607 within trade and other payables (2019: £254,913 loss). These amounts are based on the market value of equivalent instruments at the balance sheet date.

Gains of £353,093 are included in cost of sales (2019: £422,611 loss).

8. Changes in accounting policies

This note explains the impact of the adoption of IFRS 16 'Leases' on the Group's financial statements and discloses the new accounting policies that have been applied from 29 September 2019. IFRS 16 was issued in January 2016 and has been endorsed by the EU. The standard specifies how to recognise, measure, present and disclose leases and replaces IAS 17 'Leases' and IFRIC 4 'Determining whether an arrangement contains a lease'.

The Group adopted IFRS 16 from 29 September 2019 using a modified retrospective transition approach, as described in paragraph C5(b) of the standard, under which the cumulative effect of initial application is recognised as an adjustment to the opening balance of retained earnings at 29 September 2019. The comparative information presented for the 52 weeks ended 28 September 2019 and the 26 weeks ended 30 March 2019 has not been restated and therefore continues to be shown under IAS 17. For all periods prior to 29 September 2019, the Group classified all of its leases as operating leases under IAS 17. Operating lease rental payments were recognised as an expense in the Consolidated Statement of Financial Performance on a straight-line basis over the lease term.

Lease liabilities

On adoption of IFRS 16, the Group recognised liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 'Leases'. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 29 September 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 29 September 2019 was 2.30%. The lease liabilities recognised on 29 September 2019 were as follows:

	29 September 2019 **£'000**
Current lease liabilities	**23,637**
Non-current lease liabilities	**104,608**
	128,245

Right-of-use assets

The associated right-of-use assets for the Group's property and equipment leases were measured at either:

- The carrying amount as if IFRS 16 had been applied since the commencement date, but discounted using the incremental borrowing rate at the date of initial application. The Group has applied this to a small number of property leases where it was possible to obtain sufficient historical data.
- An amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the Consolidated Statement of Financial Position immediately before the date of initial application. The Group has applied this methodology to the majority of its property leases and equipment leases.

On transition the Group have performed an impairment review under IAS 36, recognising an impairment totalling £3.4m to the right-of-use assets through retained earnings. A subsequent impairment review was performed as at 28 March 2020 and an impairment loss totalling £2.7m has been recognised in the Consolidated Statement of Financial Performance. The recognised right-of-use assets on transition relate to the following types of assets:

	29 September 2019 **£'000**
Property	**120,807**
Vehicles, plant and equipment	**3,818**
	124,625

Adjustments to Statement of Financial Position items

The opening balance sheet position as at 29 September 2019 has been restated on transition to IFRS 16. The Group recognised additional right-of-use assets, sub-lease assets, lease liabilities and deferred tax liabilities, as well as a reduction in prepayments, provisions and liabilities, recognising the difference as an adjustment to the opening balance of retained earnings. The impact on transition is summarised below. Comparative periods have not been restated.

	28 September 2019 IAS 17 £'000	IFRS 16 transition adjustments £'000	29 September 2019 IFRS 16 £'000
Non-current assets			
Goodwill	3,104	-	3,104
Intangible assets	2,663	-	2,663
Property, plant and equipment	46,958	-	46,958
Investment properties	1,233	-	1,233
Right-of-use assets	-	124,625	124,625
	53,958	124,625	178,583
Current assets			
Inventories	30,924	-	30,924
Other financial assets	-	3,450	3,450
Trade and other receivables	8,142	(4,264)	3,878
Cash and cash equivalents	18,747	-	18,747
	57,813	(814)	56,999
Total assets	111,771	123,811	235,582
Current liabilities			
Trade and other payables	(43,336)	4,557	(38,779)
Lease liabilities	-	(23,637)	(23,637)
Current tax liabilities	(2,025)	-	(2,025)
Provisions	(1,235)	806	(429)
Total current liabilities	(46,596)	(18,274)	(64,870)
Net current assets/(liabilities)	11,217	(19,088)	(7,871)
Non-current liabilities			
Bank loans	(29,884)	-	(29,884)
Lease liabilities	-	(104,608)	(104,608)
Deferred tax liabilities	(1,197)	(461)	(1,658)
Provisions	(3,862)	1,783	(2,079)
Total liabilities	(81,539)	(121,560)	(203,099)
Net assets	30,232	2,251	32,483
Equity			
Share capital	6,548	-	6,548
Share premium	2,490	-	2,490
Own shares	(1,548)	-	(1,548)
Merger reserve	(399)	-	(399)
Share-based payment reserve	3,962	-	3,962
Capital redemption reserve	20,359	-	20,359
Accumulated losses	(1,178)	2,251	1,073
Capital and reserves attributable to owners of Topps Tiles Plc	30,234	2,251	32,485
Non-controlling interests	(2)	-	(2)
Total equity	30,232	2,251	32,483

IFRS 16 requires derecognition of the rent element of onerous lease provisions. The Group's property provisions have been adjusted to reflect this, with an associated adjustment to retained earnings on transition.

Under IFRS 16, balances such as rent prepayments/accruals, rent free incentives and landlord contributions are reflected in either the right-of-use asset or the lease liability, and therefore have been derecognised on transition.

The total lease liability recognised in the accounts immediately after transition differs from the operating lease commitments at 29 September 2019 largely due to the discount rate used in calculating the lease liability under IFRS 16, the lease term, low value leases and short-term leases.

Impact for the period

As a result of applying IFRS 16, the Group recognised an additional depreciation charge of £11,688,000, gains on lease modification of £195,000, impairments of £2,723,000, an additional charge of £102,000 from the elimination of the onerous lease provision, and net interest costs of £1,471,000 in relation to the leases recognised under IFRS 16. This replaced an operating lease expense that would have otherwise been recognised under IAS 17 of £12,213,000 increasing the loss before taxation by £3,576,000. The impact on the Statement of Financial Performance was as follows:

	26 weeks ended 28 March 2020		
	Presented under IAS 17 £'000	**Impact of IFRS 16 £'000**	**Presented under IFRS 16 £'000**
Group revenue	106,188	-	106,188
Cost of sales	(43,372)	-	(43,372)
Gross profit	62,816	-	62,816
Operating costs	(62,773)	(2,105)	(64,878)
Group operating loss	**43**	**(2,105)**	**(2,062)**
Net finance costs	(426)	(1,471)	(1,897)
Loss before taxation	**(383)**	**(3,576)**	**(3,959)**
Earnings per share			
- Basic	(0.18)p	(1.68)p	(1.86)p
- Diluted	(0.18)p	(1.66)p	(1.84)p

There is no cash flow impact as a result of adoption of IFRS 16. There is only a movement between cash inflow from operating activities and cash flow from investing and financing activities, for rent received and rent paid, respectively. Lease payments/receipts and interest payments/receipts are shown separately on the Statement of Cash Flows.

Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate for portfolios of leases with reasonably similar characteristics;
- accounting for low value operating leases and operating leases with a remaining lease term of less than 12 months as at 29 September 2019 on straight line basis as an expense without recognising a right-of-use asset or a lease liability;
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease;
- on transition, no recognition of initial direct costs incurred in entering the lease within the value of the right-of-use asset.

The Group has also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 'Leases' and IFRIC 4 'Determining whether an arrangement contains a lease'.

Significant areas of judgement

The application of IFRS 16 requires significant judgement, particularly around the calculation of the incremental borrowing rate and determining the lease term when there are options to extend or terminate early.

Lease term

IFRS 16 defines the lease term as the non-cancellable period of a lease together with the options to extend or terminate a lease, if the lessee were reasonably certain to exercise that option.

Where a lease includes the option for the Group to terminate the lease before the term end, the Group makes a judgement as to whether it is reasonably certain that the option will or will not be taken, which can significantly affect the amount of lease liabilities and right-of-use assets recognised.

This judgement is re-assessed on an ongoing and on a lease-by-lease basis.

Discount rate

The discount rate used to calculate the lease liability is the rate implicit in the lease, if it can be readily determined, or the lessee's incremental borrowing rate if not. The Group uses the lessee's incremental borrowing rate for all property and equipment leases.

The Group applies judgement in determining the appropriate discount rate used to calculate the lease liability. As mentioned above, the Group applies a single discount rate to all leases with similar characteristics, which is an option permitted by the standard. This rate is calculated based on the Revolving Credit Facility rate adjusted for a factor based on the lease term.

The weighted average incremental borrowing rate applied to the lease liabilities on 29 September 2019 was 2.30%, ranging between 2.17% and 3.09% dependent on the length of the lease term.

Leases in which the Group is a lessee

The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Group leases assets which consist of properties, vehicles and equipment. Rental contracts are typically made for fixed periods but may have extension options or break options to maximise operational flexibility. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all the risks and rewards of ownership. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases.

Recognition exemptions

The Group has elected to account for lease payments as an expense on a straight-line basis over the lease term or another systematic basis for the following two types of leases:

- leases with a lease term of 12 months or less and containing no purchase options – this election is made by class of underlying asset;
- leases where the underlying asset has a low value when new – this election can be made on a lease-by-lease basis.

For leases where the Group has taken short-term lease recognition exemption and there are any changes to the lease term or the lease is modified, the Group accounts for the lease as a new lease.

From 29 September 2019 leases are recognised as a right-of-use asset with a corresponding liability at the date at which the leased asset is available for use by the group. Each lease payment comprises an element of capital and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option;
- payments of penalties for terminating the lease if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee’s incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs;
- restoration costs.

After lease commencement, the Group measures right-of-use assets using a cost model. Under the cost model a right-of-use asset is measured at cost less accumulated depreciation and accumulated impairment.

The lease liability is subsequently remeasured to reflect changes in:

- the lease term (using a revised discount rate);
- the assessment of a purchase option (using a revised discount rate);
- the amounts expected to be payable under residual value guarantees (using an unchanged discount rate);
- future lease payments resulting from a change in an index or a rate used to determine those payments (using an unchanged discount rate).

The remeasurements are matched by adjustments to the right-of-use asset.

Lease modifications may also prompt remeasurement of the lease liability unless they are determined to be separate leases.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Leases in which the Group is a lessor

Lessor accounting remains similar to current accounting under IAS 17. At lease inception, lessors will determine whether each lease is a finance lease or an operating lease. To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is considered to be the case, then the lease is recognised as a finance lease, if not then it is recognised as an operating lease. As part of this assessment, the Group considers certain factors such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the recognition exemption, then it classifies the sub-lease as an operating lease.

The Group has reassessed the classification of sub-leases in which the Group is a lessor. Under IAS 17, the subleases were classified with reference to the underlying asset which resulted in all subleases being classified as operating leases.

The Group has reclassified a small number of sub-leases as finance leases, resulting in recognition of a finance lease receivable of £3.5m, being equal to the net investment in the lease, as at 29 September 2019. The Group recognises finance income over the lease term of a finance lease, based on a pattern reflecting a constant periodic rate of return on the net investment.

There will be no change to the accounting for the remaining subleases which continue to be accounted for as operating leases, and income from these leases will continue to be recognised on a straight-line basis over the term of the lease.

9. Share capital

The issued share capital of the Group as at 28 March 2020 amounted to £6,548,000 (30 March 2019: £6,548,000). During the period the Group issued 2,352 shares, and therefore the number of shares at 28 March 2020 were 196,443,323.

10. Seasonality of sales

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

11. Related party transactions

S.K.M Williams is a related party by virtue of his 10.3% shareholding (20,160,278 ordinary shares) in the Group's issued share capital (2019: 10.5% shareholding of 20,343,950 ordinary shares).

At 28 March 2020 S.K.M Williams was the landlord of one property leased to Multi Tile Limited, a trading subsidiary of Topps Tiles Plc, for £65,000 (2019: two properties for £122,000) per annum.

No amounts were outstanding with S.K.M. Williams at 28 March 2020 (2019: £nil). The lease agreements on all properties are operated on commercial arm's length terms.

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note, in accordance with the exemption available under IAS 24.

12. Post balance sheet events

On 11 May 2020, the Group completed the sale of its only investment property for a cash consideration of £0.7m.