Delivering value

SCS
SOFA • CARPET • SPECIALIST

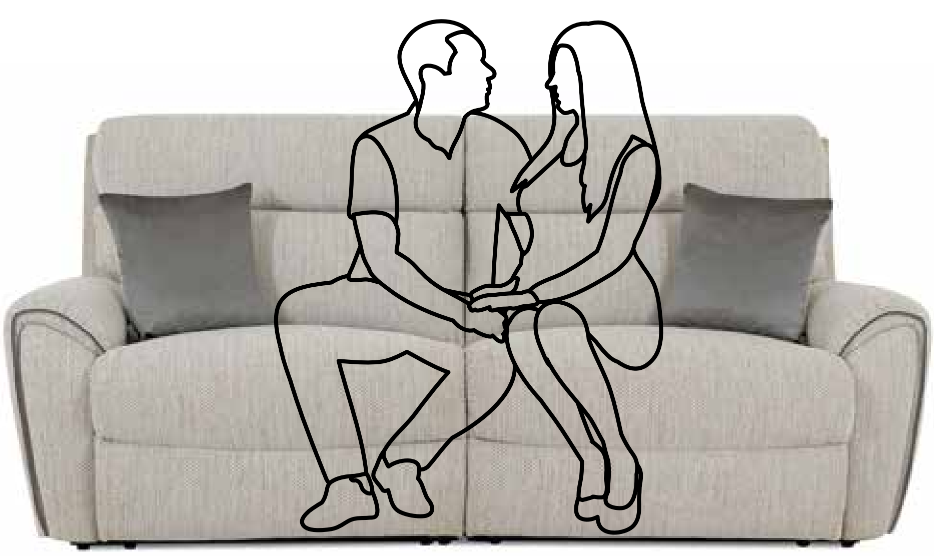
Annual Report 2019

SCS is one of the UK's leading furniture and flooring retailers, operating from 100 stores.

In this report

Strategic Report

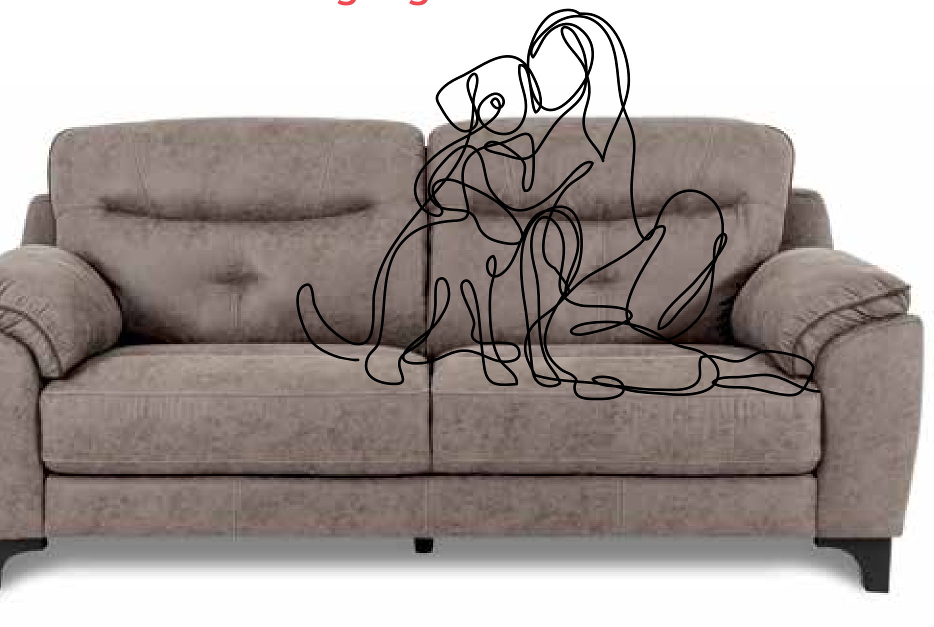
Corporate Governance



Financial Statements

See our website
for more information
www.scsplc.co.uk

Financial highlights



Gross sales

£333.3m

+£5.8m

Underlying earnings per share

30.3p

+13.1%

Gross margin

45.0%

FY18: 45.0%

Underlying EBITDA (from continuing operations)

£19.7m

+£0.6m

Cash

£57.7m

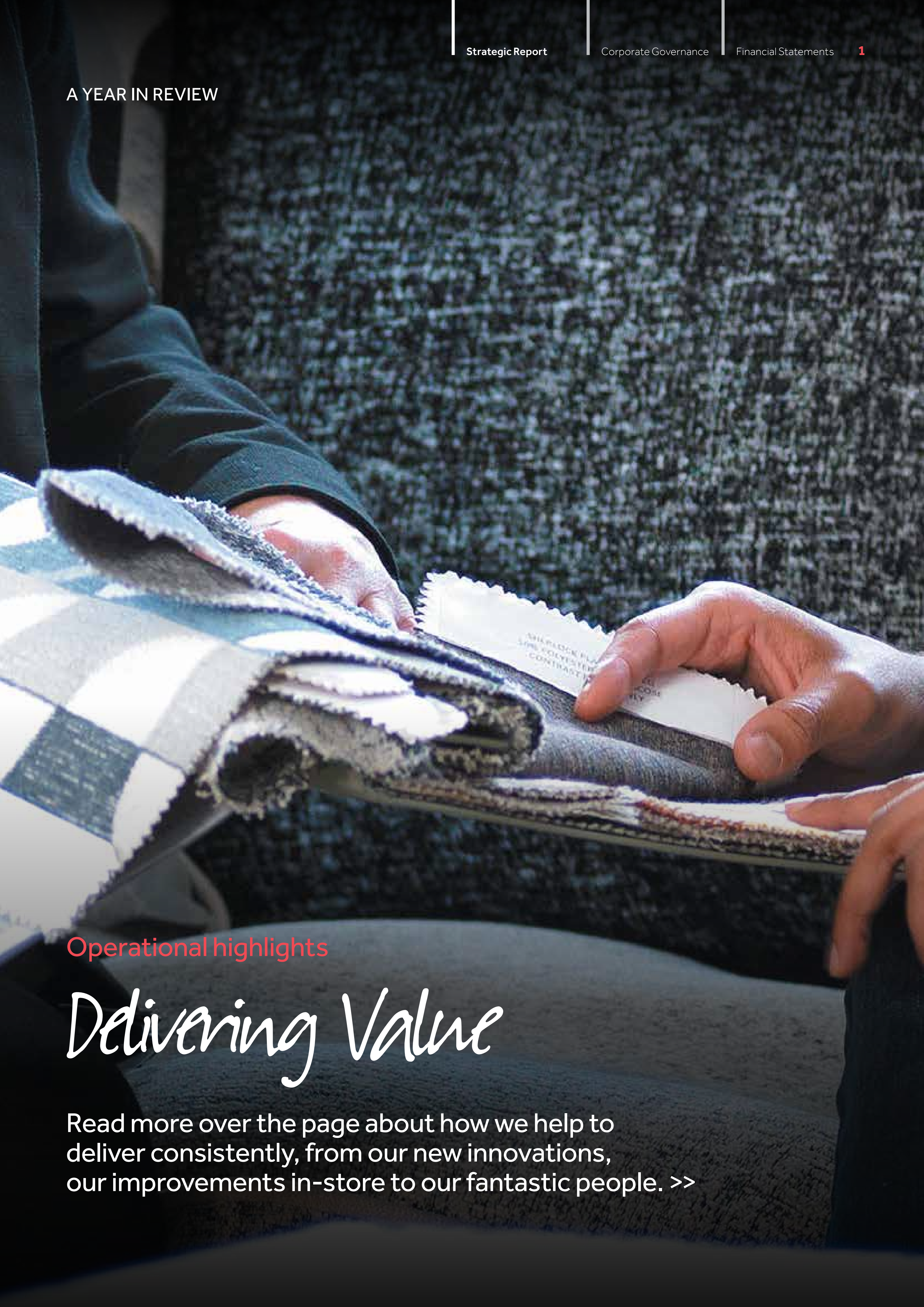
+£9.5m

Dividend

16.7p

+3.1%

A YEAR IN REVIEW



Operational highlights

Delivering Value

Read more over the page about how we help to deliver consistently, from our new innovations, our improvements in-store to our fantastic people. >>

Our technology is meeting the needs of our customers

Operational highlights

Our Technology

Continued investment in our e-commerce offering has driven an online sales increase of 21.7% to £16.8m (2018: £13.8m)

Roll out of our in-store sales app (nYwhere) completed end of July 2019

Implementation of technology for delivery, surveying and service technicians, further enhancing our customer experience

Read more on page 26 >>

Showcasing our product in welcoming, modern stores

Operational highlights

Our Stores

Increased like-for-like order intake by 4.2% and sales densities per sq. foot by 2.2%

Continued to grow our branded offering in-store

5 star "Excellent" rating maintained on Trustpilot with over 160,000 reviews

Complete refurbishment of our flooring departments in every store

Read more on page 22 >>

A YEAR IN REVIEW CONTINUED

Our teams are committed to delivering an excellent customer experience

Operational highlights

Our People

Continued to deliver tangible actions from employee survey results

Invested in enhanced reward package and benefits for all team members

Launched a new 'mobile friendly' recruitment website to showcase our opportunities, and to manage and track applicants

Strengthened our Board and management team with new appointments

Read more on page 28 >>

AT A GLANCE

Providing excellent customer experience with outstanding value, quality and choice

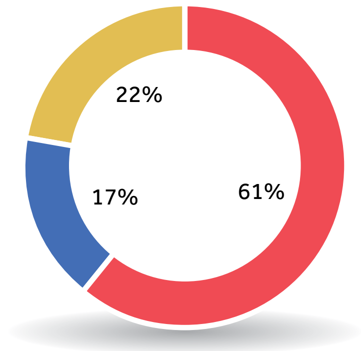
About us

We are the 'Sofa Carpet Specialist' – ScS. We are one of the UK's leading furniture and flooring retailers and have over 100 years of furniture and retailing experience. Our dedicated team of specialists are highly-trained in their fields. We have a clear purpose and strategy which drives us day-to-day and ensures we offer our customers the best combination of customer service, value-for-money, quality and product choice.

Employees

1,784

(FY18: 1,797)



Store teams
Head office and support teams
Delivery and warehousing teams

Our purpose

At ScS, we focus on providing an excellent customer experience with outstanding value, quality and choice. Our customer's homes are special places – they are where they relax and enjoy quality time with their friends and families. We want to make sure they have their choice of quality furniture and flooring, and all at the right price. Founded in the 1890s as a family-owned business in Sunderland, we know our customers and how important customer experience and value are to them. Our business and reputation is built on offering outstanding value-for-money along with a 5-star "Excellent" customer experience. We combine this with a relentless focus on great quality and choice, throughout our bespoke and extensive sofa ranges and our specialist flooring offering. Our customers are paramount to us and we place them at the heart of what we do, through our purpose, culture and values.

Our operation

In such a competitive marketplace, our unique position is critical to our success. This means offering the brands and choice consumers desire, at the best possible value, all supported by an excellent customer experience. As the leading La-Z-Boy and G Plan retailers in the UK, our customers have access to some of the most recognised brands in the world of furniture, and each of our products is made-to-order, ensuring our customers get exactly what they want. Our scale allows us to offer this at the best possible price, supported by our interest-free credit payment options, ensuring affordability for our customers. Our in-house customer care teams ensure customers get all the help they need, and our 'Excellent' 5-star rated Trustpilot service gives them confidence during their journey.

Our market

Our unique value proposition ensures we stand out amongst our rivals in the competitive and challenging 'big ticket' furniture and flooring market. Providing the ability to purchase both a new carpet and sofa at the same time provides our customers with a complete home solution, that no other retailer of our size can offer.

Stores across the UK

100

Distribution centres

9

Average retail space per store

14,512 sq ft

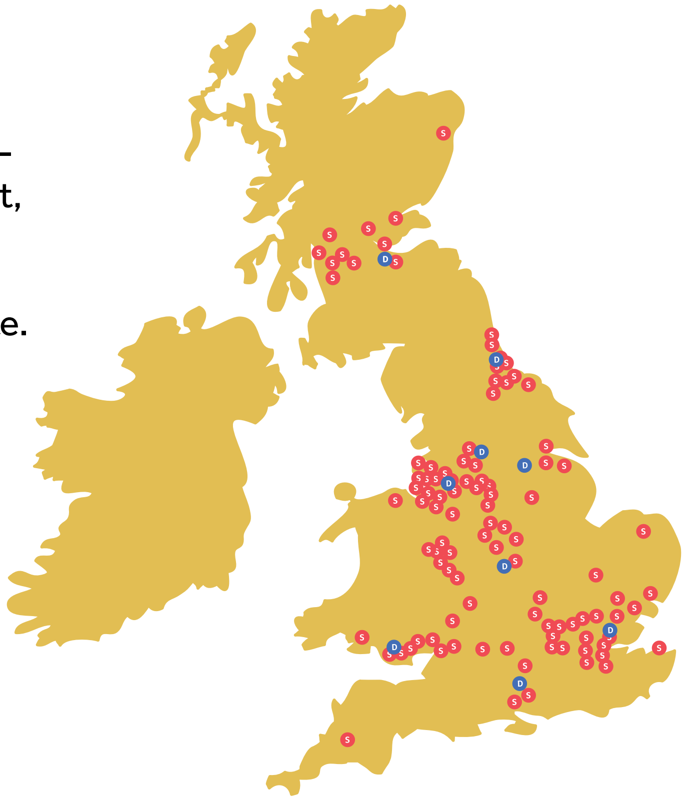
Where we are

The right store in the right location works hand-in-hand with having great people, great product, excellent service and value. We want to ensure we can reach as many potential customers as possible, whilst maintaining a sustainable estate.

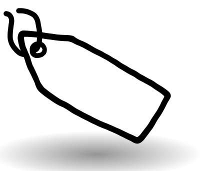
We currently trade from 100 stores across the UK – from Aberdeen to Plymouth, and believe the reach offered by our existing and targeted network is optimum to meet customer demand, whilst ensuring we make an appropriate return. As technology changes the way our customers shop, we are able to support our physical estate through offering our full ranges on our website. The retail network is then further supported by nine strategically placed regional distribution centres.

Our stores and distribution centres

- Stores
- Distribution centres



Our key ingredients

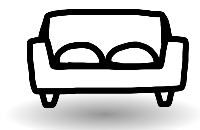


Range of price points

From £299 to £5,295 creating value and choice for our customers.

Easy ways to pay

Long-term interest-free credit making buying affordable.



Brands

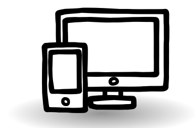
Long term relationships with leading furniture and flooring brands.

Service

5-star “Excellent” Trustpilot rated service delivered by our passionate and caring team.

In key retail parks

High quality stores in prime locations.



Online

Showcasing product and a rapidly growing sales platform.

OUR BUSINESS MODEL

Creating value and choice for our target market

A high quality, value-led range of products, supported by an expert team, modern stores, and an efficient supply chain, providing outstanding value, quality and choice for our customers.

"We have a clear vision to be Britain's best value sofa and carpet retailer."

Alan Smith, Chairman

Our resources

Our people

Our experienced and knowledgeable staff throughout the business are passionate about helping our customers.

Our people work to our RIGHT values to ensure our customers make the right choice and get the right product at the right price for them. Our in-house delivery teams and network of carpet fitters ensure the right fit in their home and our dedicated service and support teams ensure we get it right along the way.

See our Values on page 20 >>

Dedicated employees

1,784

Our stores and reputation

With over 100 years of trading experience and many years of marketing investment we are a recognised destination for customers looking for new furniture and flooring.

Within our expansive modern stores, we offer a wide range of fabric and leather sofas, carpets and other flooring, as well as dining and occasional furniture, to help our customers make their house a home.

Stores across the UK – from Aberdeen to Plymouth

100

Our suppliers

We source from a small group of specialist, mainly UK-based suppliers, most of whom we have worked with for many years, building strong relationships.

Our third party brands are leading furniture and flooring brands recognised and desired by our customers.

Our size ensures we are key to all of our suppliers, ensuring our customers benefit from our demands for value and quality.

Major furniture suppliers

14

Our omnichannel offering

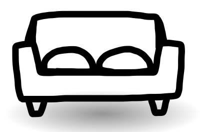
Our store network is supported by the continued investment in our mobile and tablet friendly transactional website.

Our full product portfolio, clear pricing, detailed product information and buying guides ensure our customers have a first class experience, whether looking to buy online or simply using the site to research and view our great products and offers, prior to visiting a store.

Growth in online sales since 2017

49%

What we do

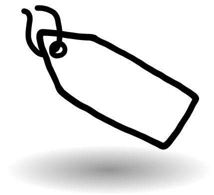


Product
We are furniture and flooring specialists and this is the core of our customer proposition – offering a wide range of designs and famous brands, all at great value.

Our made-to-order business model ensures our customers receive furniture they've selected and tailored, built specifically for them, which limits cash tied up in inventory.

Our sample based flooring operation allows a huge amount of choice, which is cut, delivered and fitted to our customers' specifications.

Our order driven model ensures 76% of our costs are either flexible with volume, or are discretionary.



Price
Our customers want the best value for money in the market, and we aim to deliver it.

Our close supplier relationships allow us to target key price points, and we ensure our staff are empowered to work with the customer to achieve what they are looking for.

Our interest-free credit offering ensures every product we offer can be paid for with affordable monthly payments, with just under 50% of our customers choosing this option.

Customer experience
From our experienced in-store staff, through to our in-house delivery teams and network of fitting partners, customer experience is key to everything we do.

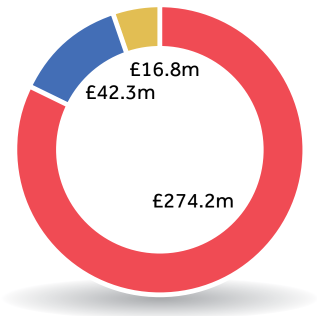
Our Trustpilot reviews allow us to ensure we monitor and improve what we offer, and our 5-star 'Excellent' rating reassures our teams and our customers that we are doing a great job.

When things sometimes do go wrong, our aftercare department have the tools, experience and technology to ensure we can resolve our customers' queries quickly. Recently implemented technology allows our service technicians to get to our customers quicker than ever before. Our teams are then able to feedback to our suppliers to ensure product quality continues to improve.

Where we generate sales

Gross sales

£333.3m



How we create value

For customers
- A customer experience which ensures they get the right product for them, either in-store or online.
- Excellent value at key price points, combined with strong offers to make our customer's budget go further.
- A quality, durable product they can rely on.
- A great range of third party and own brands delivering choice for our customers.
- An opportunity to purchase their furniture and flooring under one roof.

For our people and communities
- A company built upon RIGHT values, ensuring we do the right thing for everyone.
- A great place to work, where growth continues despite a challenging economy.
- A workplace where hard work is recognised and opportunities exist for progression.
- A company who give back locally and become part of the community, supporting local causes and charities.

For our suppliers
- Close relationships built upon years of growing and working together.
- Consistent improvements in product quality and customer choice.
- Working together to ensure effective management of environmental, social and regulatory issues.
- A partnership our suppliers can trust and rely on.

For our shareholders
- A clear awareness of our place in the market, and a clear strategy of how to grow.
- Growing revenues, margins and profits underpinned by strong cash flows.
- A flexible cost model ensuring a strong and resilient investment.
- A progressive dividend policy, maximising shareholder returns.
- A debt-free balance sheet with cash reserves for resilience and future investment opportunities.

See our Stakeholder Index on page 34 >>

OUR MARKETS

Increasing market share in a challenging environment

Current UK market

We operate in both the furniture and flooring markets.

Market commentary

The latest analysis of the furniture market from GlobalData suggests after a 1% reduction in 2018, growth returned in the early half of 2019 as it benefitted from the weather being more in line with the average for that time of year, preventing last year's decline in footfall from being repeated. GlobalData forecast that growth may continue in the second half of the year, although this assumes the UK avoids a no deal Brexit outcome and an extension to Article 50 is concluded before the end of October. Until this certainty is resolved the market is likely to contract, particularly within upholstery, as consumer confidence deteriorates. Five year growth to 2024 is anticipated to be circa 9.6%.

The GlobalData analysis on the floorcoverings market suggest it continues to shrink, with a 4.2% contraction in 2018, and a forecasted 0.6% reduction in 2019. Modest growth is forecast in 2020, which will continue through to 2024. GlobalData highlights the lack of momentum within the housing market, disposable income remaining under pressure, and that the flooring market is slightly more susceptible to challenging weather due to the difficulties in flooring product sales transferring online. Five year growth to 2024 is anticipated to be circa 6.9%.

Key drivers

Both of our core markets are heavily influenced by similar key factors:

Market size:

Furniture	Flooring
£3,204m	£1,951m
+0.6%	-0.6%

Consumer confidence

Big ticket sales are affected by consumer confidence, which has been heavily influenced by the outcome of the EU Referendum, and continues to be impacted by the impending October Brexit deadline and ongoing political uncertainty. Consumer confidence as reported in the GfK Consumer Confidence Index has fallen to -14 in August 2019, down from -7 in August 2018.

Housing market

We are well aware that for many of our customers a house move triggers the purchase of new flooring and furniture. Since the recent peak in 2016 (the highest number since 2007), housing transactions have continued to fall, with total transactions for 2018 3.4% lower than the 2016 peak. Total transactions to August 2019 are 3.2% lower when compared to the same period in the prior year.

Availability of consumer credit

With nearly half of our customers choosing to utilise our finance options to pay for their products, the availability of consumer credit helps facilitate sales, and provide opportunities for upselling. Current levels are at an all-time high, and continue to grow, although that growth has begun to slow in 2018 and through 2019.

Our advantages in the market

Our continued aim to provide a value proposition at a range of price points allows us to offer best-in-class prices to customers searching for the best deal.

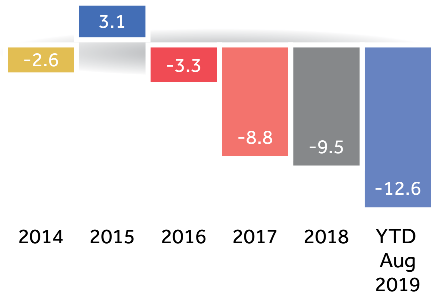
Our product offering has continued to evolve in line with our strategy to broaden our appeal by offering a wider range of brands – including third party brands – as well as flooring, dining and occasional ranges. Flooring now represents 12.7% of total gross sales.

Our partnerships with multiple finance houses will ensure competitive tension and drive the best cost prices and levels of acceptance for our finance offerings.

Our strategy targets the key areas we believe will improve our position in the industry in the coming years. There is still considerable room to grow our market share in both furniture and flooring.

Consumer Confidence

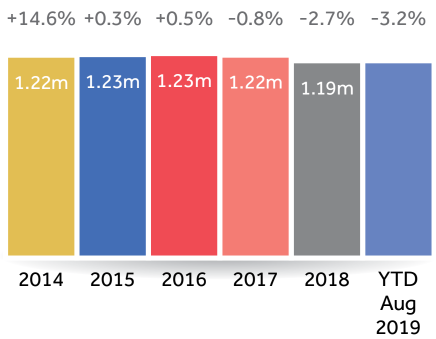
-12.6



GfK Consumer Confidence average of individual scores for each year. Research carried out by GfK on behalf of the European Commission.

Housing market

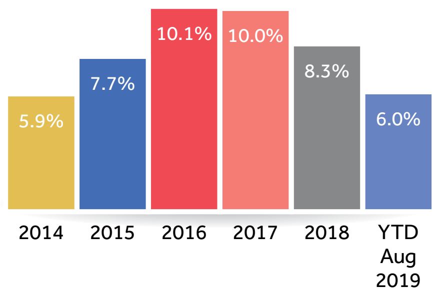
-3.2%



HMRC UK Property Transaction statistics – Total of number of residential property transactions completions with a value over £40,000 within the UK, seasonally adjusted.

Availability of consumer credit

+6.0%



Bank of England – Average 12 month growth rate for the calendar year of total (excluding the Student Loans Company) sterling net consumer credit lending to individuals (in percent) seasonally adjusted.

Our place in the market

Increasing market share

Despite low consumer confidence and reducing numbers of housing transactions, we continue to grow, with GlobalData estimating that our furniture market share has increased from 7.9% in 2013 to 9.3%, and our flooring market share increasing from 1.6% to 2.6%, over the same time frame.

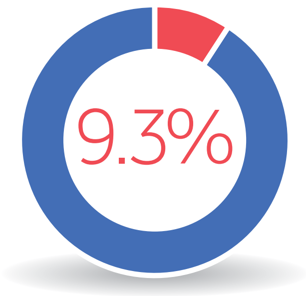
Value retailer

We recognise what we do best, and believe our customers recognise this too. Our continued focus on our key strengths ensures we have a strong and growing reputation for delivering consistently great value, and the continued growth in our market share in upholstery and floor coverings demonstrates this. Our refreshed strategy will continue to support this.

Opportunities for further growth

Our focus is to provide value, quality and choice for our customers and we appeal strongly to a broad demographic with our stores appealing to aspiring homemakers, families and retired couples.

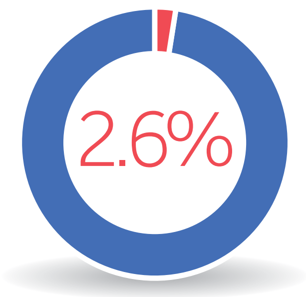
2019 upholstery market share*



2018 market share: 9.1%

Retailer	2018 (%)	2019 (%)
DFS	24.8	**24.9**
ScS*	9.1	**9.3**
Sofology	7.3	**7.9**
Furniture Village	5.5	**5.7**
IKEA	5.3	**5.5**
Harveys	5.3	**4.8**
Next	3.8	**3.8**
John Lewis	2.4	**2.3**
Made.com	1.6	**2.0**
Argos	1.9	**1.9**

2019 floor coverings market share*



2018 market share: 2.6%

Floorcoverings	2018 (%)	2019 (%)
Carpetright	17.6	**16.7**
B&Q	6.7	**6.5**
Wickes	4.6	**4.9**
Tapi	3.8	**4.6**
John Lewis	3.6	**3.4**
United Carpets	3.3	**3.3**
IKEA	2.7	**2.9**
ScS*	2.6	**2.6**
Next	2.2	**2.2**
Amazon	1.9	**1.9**

* Upholstery and floorcoverings market share restated by GlobalData to exclude House of Fraser.

A strong year of profitable growth and increased resilience

I am once again pleased to report a strong year for ScS, as we continue to demonstrate our ability to deliver profitable and sustainable growth despite a challenging economic backdrop. This culminated in the Group delivering a set of results slightly ahead of market expectations.

Alongside our robust trading performance, I am proud of the excellent progress we have made in the first full year of our refreshed strategy, as we continue to invest in our people and the business to ensure we are able to maximise opportunities for growth.

Overview

This year has been exciting, interesting, and demanding. Our refreshed strategy has given our people new impetus and drive, engaging the business with renewed focus on how we maintain the progress and success we have enjoyed over the previous four years. Central to this is promoting a culture of challenge and change across everything we do. Revenue and profits have benefitted, and we continue to generate strong cash flows which have further strengthened our balance sheet, enhanced the resilience of the Group and allowed us to explore potential investment opportunities. Sales order growth has been strong, with like-for-like order intake growth of 4.2% in the year. In particular, our online and core in-store furniture offerings have performed strongly.

I am particularly proud of delivering improved financial results alongside an increasingly positive customer experience, and maintaining our 5-star 'Excellent' rating with over 160,000 Trustpilot reviews. This is testament to our focus on ensuring that the customer is central to everything we do.

Review of the year

The first half of the year was strategically significant for the Group following the decision to end our House of Fraser concession business, exiting our final store in January. Given the challenges being faced by House of Fraser, the Board quickly concluded that this operation was no longer economically viable for the Group.

This speed of decision was an important one for the business, and the first such challenge of this size we had been confronted with in recent years. As our results show, the venture did not generate the sales levels required to ensure the partnership was worthwhile and therefore exiting the House of Fraser concession has had minimal impact on our profitability. My only regret is that we could not retain all our dedicated and hardworking colleagues who had built this partnership. I would again like to take this opportunity to thank all of those colleagues who worked in our House of Fraser concessions.

The Group's resilient balance sheet ensures we are in a strong position to manage potentially challenging economic headwinds, but it also enables the Group to invest internally and consider external opportunities as they arise. Internally we have made significant strides in adopting new technology, which is increasing efficiencies and improving our customers' shopping experience.

As previously reported, the Group considered acquiring sofa.com, which would have added a complementary brand, a new customer demographic and access to a manufacturing base, which we would have looked to utilise in our existing ScS business model. As with any investment, following due diligence, the Board set a value at which the acquisition would be earnings accretive. We were not successful in this instance, however, an investment like this is something we will continue to consider.

The second half of the year allowed increased management focus on our key ScS business, increasing momentum and maximising the opportunities in the market, including gaining market share.

We have benefitted as a Group from having a store estate that we have managed cautiously and sensibly, opening stores where opportunities exist and exiting stores where we do not make the right level of return. We review our store network regularly and have identified a small list of key sites where we would be keen to open if the right space and location could be secured. We maintain the financial flexibility to be able to quickly take these opportunities if and when they become available. Our latest store in Kirkcaldy, which opened in September 2019, is an excellent example of a location that we believe fits well into our portfolio. I am delighted to welcome our new Kirkcaldy team to ScS and look forward to seeing what they achieve.

Our people

Each year I attend our tri-annual sales conferences, and I very much enjoy meeting many of the dedicated, hardworking employees who contribute to the great team of people we have at ScS. As we continue to change and adapt in the challenging retail environment, our colleagues are vital if we are to continue to move the business forward. I am consistently proud of the improving culture and their fantastic achievements and I would like to thank them all for their hard work and commitment. Despite the significant technological investments we have made, and will continue to make, our business is reliant on our people, and they will continue to be at the heart of what we do.

Ensuring the Board maintains a full and fair view of the thoughts and feelings of our teams, I am very pleased that George Adams, one of our Non-Executive Directors, has been able to spend a significant amount of time out in the business this year, meeting many of our colleagues and hearing what they have to say about their working lives first-hand. He reports his findings regularly to the Board, and our discussions have benefitted from the insight he has been able to share.

The Board

Although we have continued to benefit from stability on the Board since our IPO in 2015, we have also taken the opportunity to further strengthen our leadership team through the appointment of Angela Luger as a Non-Executive Director in May 2019. Angela brings significant retail, technological and business experience from her previous roles and I am delighted to welcome her to the Group.

Dividend

Our progressive dividend policy aims to ensure we target improving returns to shareholders, with earnings cover in the range of 1.25x to 2.00x and cash cover in the range of 1.75x to 2.25x. With this in mind, the Board is proposing a final dividend of 11.20p. If approved, this would give a full-year dividend of 16.70p, an increase of 3.1% on the full-year dividend for 2018.

Summary and outlook

We have a clear vision to be Britain's best value sofa and carpet retailer, and a clear strategy to support it. Against the background of political and economic uncertainty and low consumer confidence, our value offering ensures that we make it easy for customers to continue to buy with the confidence that they are getting the best deal.

Despite the uncertainty of recent years, the Group has continued to grow and is a stronger and more resilient business than ever. Trading has been more difficult since the start of our new financial year, however we have built a resilient business that is well positioned to take advantage of opportunities as they arise and I am very positive about the future prospects for the business.

Alan Smith
Chairman
30 September 2019

Gross sales

£333.3m

+5.8m

Underlying EPS

30.3p

+13.1%

Our culture – listening and improving

As a Board we are committed to listening to our employees. We received 1,571 responses to the Group's Employee Survey and having considered all feedback we have committed to:

- Greater openness to change and a willingness to challenge the status quo;
- Improved clarity on our key strategic objectives and prioritisation;
- Enhanced communication to all levels of the business, and
- Making ScS a great place to work.

CEO'S REVIEW

Improved profitability by providing outstanding value, quality and choice

Overview

I am delighted to report another year of good progress and growth for ScS in our continued effort to ensure we are Britain's best value sofa and carpet retailer. The economic environment continues to provide us with challenges, uncertainty and opportunities. The Group continues to focus on providing great value furniture and flooring products at pricing to suit a range of budgets. The year saw the Group working closely with our suppliers to maintain this range of key price points, whilst investing in our people to ensure a best-in-class customer experience.

Customer shopping habits continue to change, including the increasing propensity to research and buy online. The Group has reviewed and improved its omnichannel offering. Despite the uncertain economic and political headwinds, focusing on delivering our strategy has meant we have consistently achieved profitable growth for the last four years. Our purpose remains to provide an excellent customer experience with outstanding value, quality and choice.

Results

The Group saw a £5.8m (1.8%) increase in gross sales in the year to £333.3m (2018: £327.5m). The increase was impacted by a lower opening order book at the start of the year, due to the warm weather and the football World Cup at the end of the previous financial year. Sales were also impacted by the closure of two stores, which did not meet the required level of return for the capital employed. In-store furniture sales increased £3.3m (+1.2%), online sales increased £3.0m (+21.7%) and in-store flooring sales decreased £0.5m (-1.2%).

Underlying EBITDA

£19.7m

+3.0%

Gross profit

£149.9m

+1.8%

Gross profit increased to £149.9m (2018: £147.2m), with the gross margin percentage being maintained at 45.0% (2018: 45.0%). Underlying EBITDA increased 3.0% to £19.7m (2018: £19.1m) and underlying profit before tax rose 7.1% to £14.6m (2018: £13.6m).

Strategic priorities

This financial year saw the Group complete the first year of our refreshed three year strategy. The Group remains focused on those same seven key strategic priorities:

- Building and inspiring an outstanding team;
- Delivering an exceptional customer experience;
- Optimising our product strategy;
- Driving sales densities within our ScS network;
- Creating a market-leading website and digital awareness;
- Accelerating our flooring growth, and
- Improving our profitability.

Building and inspiring an outstanding team

Our number one priority is ensuring we have the best team in the sector and making ScS a great place to work. This priority underpins the other six priorities, and it is of paramount importance that we continue to attract, recruit and retain the right people.

The start of the year saw the Group strengthen its senior management team, and also saw the business re-organise and reduce the layers of management, bringing the Board closer to our colleagues and customers. We have added a new 'mobile-first' recruitment website, and made excellent strides in implementing our culture survey actions. In the second half of the year, I was also pleased to use our new improved staff communications publication to deliver a pay increase and additional holiday for all colleagues, together with our new ScS benefits platform. We've got much more to do in this area, but have made great progress to date.

Delivering an exceptional customer experience

This year we've made excellent progress in improving our customer journey. 'nYwhere', our new tablet based in-store sales app piloted and launched nationwide. It was a significant investment and I'm very pleased with the impact it's already having, and the potential it still offers. nYwhere allows the display of the full range of products, colours, features, and standardises the sale process to guide customers and the sales team through the benefits of additional items and enhancements.

The customer experience has been further enhanced by the implementation of new technology into other areas of the business. Our delivery teams now use a sign-on-glass delivery system, our flooring surveyors are now utilising the latest mobile measuring technology and our service technicians are operating with a route and job optimisation solution that ensures our customers are being looked after faster and better than ever before.

The feedback we receive is key to measuring our success. In last year's Annual Report, I was excited to announce hitting our 100,000 Trustpilot review milestone in June 2018, five years after bringing Trustpilot into our business as a key measure of customer satisfaction. A year later, we now have in excess of 160,000 reviews. I am delighted so many of our customers take the time to give us feedback, and proud that we continue to maintain our 5-star 'Excellent' Trustpilot rating.

Optimising our product strategy

I'm very pleased with the work we have done this year with our suppliers to ensure we offer the best value, quality and choice. Our products look and feel better than ever, and we have continued to work with our suppliers to ensure our products continue to perform at the high level our customers expect. We have also continued to work together to find solutions to improve the customer experience, such as developing a re-usable 'quilted bag' with one of our largest suppliers, to help reduce product damage and lower our plastic usage and environmental impact. By capturing and sharing feedback with our suppliers, we continue to see improvements in our product quality and performance metrics. We also introduced enhanced reporting in relation to supplier 'on-time deliveries', which has driven positive change during the year, helping our distribution centres plan their stock movements, and improving the final customer delivery experience.

The Group has just introduced two new brands into our stores, one being Inspire (an ScS brand), which celebrates great British workmanship and quality, and a new third-party brand Celebrity, which is one of the UK's leading manufacturers of rising and reclining chairs and sofas.

Driving sales densities in our ScS network

Our in-store gross sales grew £2.8m to £316.5m (2018: £313.7m), representing 95.0% (2018: 95.8%) of the Group's total sales, and reiterating how important our store network is to the business, especially given the 'big-ticket' nature of the majority of our offering and the customers' desire to sit on and feel the product they are buying. Gross furniture sales in stores increased 1.2% to £274.2m (2018: £270.9m), although our gross flooring sales decreased by 1.2% to £42.3m (2018: £42.8m) as the flooring market continued to shrink.

Our furniture sales growth was organically driven, with no new store openings during the year. It was also impacted by the closure of one of our Edinburgh stores at the end of the previous financial year and our Reading store in the current year. We continue to pursue a number of new locations across the UK, where we feel there are opportunities for expansion with the right level of return on investment, and were pleased to recently open our new Kirkcaldy store in September 2019. Our organic sales growth was helped by the strategic changes we made during the year, including simplifying our management structure to take our senior managers closer to

"The Group continues to focus on providing great value furniture and flooring products at pricing to suit a range of budgets. The year saw the Group working closely with our suppliers to maintain this range of key price points, whilst investing in our people to ensure a best-in-class customer experience."

CEO'S REVIEW CONTINUED

"We have once again increased our gross profit and EBITDA, with higher gross sales improving gross profit by 1.8%, and underlying EBITDA from continuing operations improving by 3.0% to £19.7m."

what is happening on the shop floor, and adjusting our product mix to continue to focus on the value end of the market and target a lower, more promotional price point. As a consequence of our pricing adjustment, average furniture order values fell 3.5% to £1,527 (2018: £1,582). The strategy proved successful, increasing sales whilst maintaining gross margin.

As a consequence of the above our sales density per square foot increased 2.2% to £229 (2018: £224).

Since the year end, we have been working on finalising a model store, which will define the look and feel of the ScS stores of the future. The plan is that this concept will be rolled out across the UK in the next few months, making ScS the "Home of Big Brand Sofas and Flooring".

Creating a market-leading website and digital awareness

Gross sales growth of 21.7% to £16.8m marks another standout year for our online sales channel. Despite the 'big ticket' nature of our product offering, which means our customers have tended to prefer to purchase after trying our product in store the modern consumer is more willing than ever to buy online. Our online offering ensures we give our customers the shop window they need to feel confident in the product they're buying.

We have continued to improve our site with new features and tools, and are aware that enhancing the visualisation of the product will improve online conversion. This year we opened our new in-house photography and CGI studio to provide more dynamic imagery and video content. We have greatly increased our use of social media to show our products in real homes, put our in-store sales staff's expertise online through new video content, and delivered our first major social influencer campaign, reaching over a million followers.

Following our commitment to fully re-platforming our website, we have begun to research and scope exactly what we want to deliver, ensuring our new site is built from the ground up to be faster, more responsive, and better suited to what our customers want. We know we can also improve our online flooring offer and have improved our carpet sample process. We can support and drive traffic to our stores even better than we already are, which tools such as Google Store Sales Direct are helping us to achieve. We are excited by the opportunities for growth in this area.

Accelerating our flooring growth

In a year where we've made good progress in many of our strategic priorities, succeeding with our flooring strategy has been one of our toughest challenges. After continual growth since we expanded into the flooring sector, 2019 proved challenging, with HMRC reporting a 3.2% reduction in the volume of housing transactions, a key driver for flooring sales, and increasingly aggressive competition, particularly between the two largest market specialists. Our flooring sales in-store decreased 1.2% to £42.3m.

Online sales

£16.8m

+21.7%

Sales density per sq ft

£229

+2.2%

I believe our strategy remains key to ensure we are positioned to take advantage of the future growth expected in the UK flooring market. We have invested in flooring department re-fits across our stores, standardising our display, improving our point of sale and optimising range plans, product placement and promotions. Our surveying and fitting processes have been greatly enhanced through new technology and training, and we pro-actively work with our suppliers to widen our range choice and increase competitive tension. We continue to increase customer awareness and we are increasing our flooring-specific training for our retail store colleagues to aid product knowledge and conversion. Our flooring average order value increased to £686 (2018: £679).

I am also delighted to report that we have recently agreed to be the first national retailer to sell a new product made partly from recycled marine plastic and fishing nets, reclaimed from the world's oceans, introducing a unique and sustainable carpet to our product offering.

Improving our profitability

We have once again increased our gross profit and EBITDA, with higher gross sales improving gross profit by 1.8%, and underlying EBITDA from continuing operations improving by 3.0% to £19.7m. Despite our conscious effort in the year to achieve a lower promotional price point, and increases in the base rate which drives our cost of interest free credit, we successfully held gross profit margin at 45.0%. This was aided by the enhanced gross margin reporting by store, brand and product, which provides our retail management with greater insight into areas for potential improvement coupled with improving terms with our suppliers.

As well as underlying gross profit increases, we have made improvements in driving operational efficiencies, and increased EBITDA margin to 5.9% (2018: 5.8%). We go into more detail on this in the Financial Review, however the success of our improved procurement process, and our lease re-gear programme have helped to partially offset the inflationary pressures we have seen on wage costs.

Current trading and outlook

Since the start of the current financial year, trading conditions have been more challenging, with like-for-like order intake falling 7.6% for the period from 28 July 2019 to 29 September 2019. This period was impacted by the record temperatures experienced by the UK across the August bank holiday weekend and the increasing political and economic uncertainty we are currently facing in the UK.

We remain conscious of the impending Brexit deadline, and the impact this may have on the market, consumer confidence and the wider economy. However, the Group's financial health has never been as strong and with our resilient, debt-free balance sheet, we are in a good position to manage the ongoing uncertainty, and furthermore seek opportunities which will add value in the longer term.

Our strong and clear value offering has proven successful, and we are confident it will continue to appeal to our customers who want to buy great products at the lowest possible price.

David Knight
Chief Executive Officer
30 September 2019

The Group has made good progress in the first full year of our refreshed strategy

Vision

Our vision is to be Britain's best value sofa and carpet retailer, making it easy for our customers to love their home. It's clear, focused, and ambitious, which we like to think represents us well.

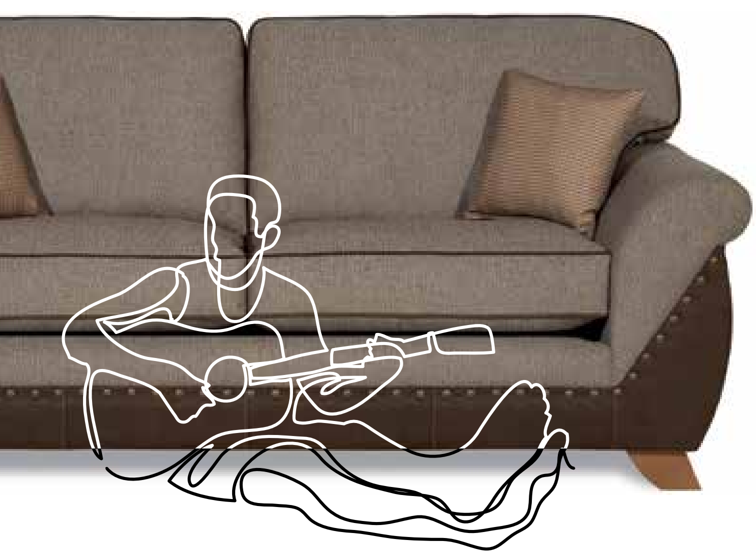
Growth strategy

To work towards achieving our vision, we have seven key strategic priorities, outlined opposite. Our priorities are the key focus for the business, which we believe can help us continue to grow, and deliver value for all.

We have once again had a year of growth, and a year of development. The retail environment continues to change, and we recognise staying ahead and giving customers what they want is key to our success.

Developments in technology continue to change customers' shopping behaviour, requiring all retailers to invest and adapt. Technology has played a key part in our growth strategy, particularly around our customer experience, and consequently, we've provided more detail in our 'Strategy in action' section about the impact this has had, and will have going forward.

We also recognise building and inspiring an outstanding team, whilst a priority in itself, is the foundation of success to our other priorities. A great deal of progress has been made in this area, and again we've described some of this progress in a separate 'Strategy in action' section.



Refreshed values

Last year the Group relaunched its values, and these continue to underpin everything we do.

Our values

We live by our RIGHT values:

Responsive
To our customers, colleagues, markets and new ways of working

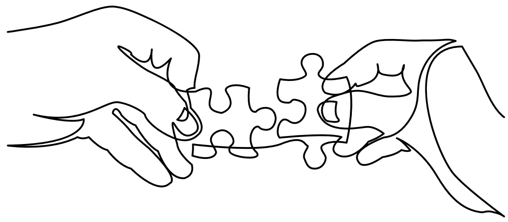
Inclusive
Working and communicating with each other to achieve common goals

Get it right
Doing things right first time

Hard working
Passionate, committed and driven with a winning attitude

Trusted
Operating with fairness, respect, honesty and integrity

Strategic priorities



1

Building and inspiring an outstanding team

By putting our people at the heart of our business, we aim to ensure they help us deliver an excellent customer experience. We are focused on creating a great place to work, recognising the contribution individuals make and creating opportunities for progression and development.

2

Delivering an exceptional customer experience

Consumers today are better informed, more demanding and have greater freedom to choose who they buy from. Giving our customers an excellent buying experience is central to our values and success.

3

Optimising our product strategy

We want to ensure that our customers are able to choose from a wide selection of products that offer value for money at a range of price points. Our mix of core, in-house and famous brands offers something for everyone.

4

Driving sales densities in our ScS network

In a challenging marketplace where competition between retailers is tougher than ever, we will strive to create a shopping experience which ensures our customers feel confident in choosing to purchase with us.

5

Creating a market-leading website and increasing digital awareness

Continued success will increase website new visitor count, online sales, and improve the quality of store footfall, with consumers increasingly using websites to research products prior to making a purchase.

6

Accelerating our flooring growth

With a range that rivals our largest flooring competitors, together with our recognised brand and excellent customer service, we have a great platform to continue to take market share.

7

Improving our profitability

We continue to focus on increasing the Group's profits, margins and resilience, whilst maintaining the flexible cost base.

OUR STRATEGY CONTINUED

Becoming Britain's best value sofa and carpet retailer, making it easy for our customers to love their home.

1 Building and inspiring an outstanding team

How

By having the best team in our sector.

What we've done

- Key senior appointments, including a Non-Executive Director, Commercial Director and HR Director.
- Improvements in the results from our annual employee survey.
- Survey actions plans being reviewed monthly to deliver tangible improvements.
- New quicker 'mobile friendly' recruitment website.
- Developed a succession planning strategy to help forward planning.
- Enhanced rewards and benefits package for all employees.
- Improved employee wellbeing and support.
- Recruitment workshops rolled out to management teams.
- Improvement in internal communications.

What we're going to do

- Recruit new HR and learning and development business partners to facilitate best practice across our network.
- New, extended induction plan being developed for new employees across all parts of the business.
- Tailor-made senior management development programme.
- Manager development workshops to help get the most from our leaders.
- Revision of performance management framework.
- Increased use of alternative media platforms to enhance communications.

2 Delivering an exceptional customer experience

How

By relentless focus on customer experience.

What we've done

- Maintained our focus on Trustpilot to ensure we retained our 5-star "Excellent" rating.
- Rolled out nYwhere nationwide – our in-store sales app (tablet based) to improve customer interaction and business efficiency.
- Equipped our delivery teams with enhanced technology, giving customers an improved delivery experience.
- Introduced instant dynamic appointment scheduling, customer notifications and electronic job completion for our service technicians.
- Provided our flooring surveyor teams with new technology, improving customers' in home surveying experience.
- Created one central team to respond to all customer enquiries.

What we're going to do

- Increase our use of customer feedback insight to maintain and improve our TrustScore, – the underlying rating behind the Trustpilot rating.
- Further review of the customer journey to improve interaction and efficiency.
- Implement a customer enquiry web portal, allowing customers flexibility in how they choose to contact us, improving speed of resolution.
- Improve speed of response to online customer feedback through Trustpilot, Google reviews and social media.
- Review and relaunch service charters for all customer facing teams.

3 Optimising our product strategy

How

By sourcing the best value products.

What we've done

- New price point range plan – leading to an increased value offering.
- Reporting enhancements, coupled with increased supplier engagement has seen improved product quality.
- Worked with our suppliers to develop improved packaging techniques, such as re-usable 'quilted bags', reducing product damage, and lowering our plastic usage and environmental impact.
- Formalised delivery time targets with suppliers, helping to improve inbound delivery planning and optimising our distribution centre space.
- Review of supplier terms and product costs to maintain margins.
- Re-launch of Endurance brand, including store placement and visual merchandising.

What we're going to do

- Continued focus and improvement in product quality and delivery times.
- New 'Home of Big Brands' store – increasing both our own-brand and third-party brand presence in stores.
- Re-launch of Sisi brand.
- Launch of Celebrity and Inspire brands in-store.
- Trial of new brands, including complementary products.
- Joint business plans with key suppliers on new product development and improved service levels.

4

Driving sales densities in our ScS network

How
By having modern stores in great locations.

What we've done
- Reviewed the full store structure, roles and responsibilities to ensure the right people are in the right locations.
- Retail structure simplified, taking senior management closer to the shop floor.
- Established centralised commercial operations team as a hub to drive the stores operationally.
- Standardised the sale process, through our nYwhere app.
- Leveraged nYwhere's ability to show full range of product, colours, features and additional product.
- Strengthened our online and telesales management.
- Revised performance related rewards.

What we're going to do
- Drive best practice nationally with a focus on conversion, product knowledge and product care.
- Rollout programmes for our sales team to improve their confidence to sell and increase their product knowledge.
- Trial and implement a 'model' store layout – brand and product placement, visual merchandising, point of sale material, all designed to show our products at their best and improve the customer journey.
- Review of in-store layouts and model ranges to ensure range plan in every store is optimised.

5

Creating a market- leading website and increasing digital awareness

How
By providing an excellent omnichannel offering.

What we've done
- Strengthened e-commerce team, increasing knowledge, skill base and in-house ability to better manage campaigns and site changes.
- Built our own in-house photography studio, with recruitment of a photography and CGI team, improving images, video content and efficiency.
- Over 20 major website improvements on existing platform including, new checkout, store locator, product page and finance calculator.
- Second retailer in Europe to implement Google Store Sales Direct.
- Improved social media presence – delivered first major social influencer campaign.
- Significant scoping and development work on a new website to deliver a mobile-friendly, best in class e-commerce platform.

What we're going to do
- Complete launch of new website to power the next phase of our growth.
- Increase photo studio output, adding additional product visuals for fabrics and colours, and increasing on-line video content.
- Further improve SEO performance.
- Develop a new CRM programme to allow for enhanced campaigns.
- Explore the use of machine learning to improve effectiveness of digital advertising.

6

Accelerating our flooring growth

How
By having a market-leading flooring offering.

What we've done
- Refit of flooring department in every store, delivering:
  - a refresh of stands, point of sale & visual merchandising;
  - departmental stand plans to control and optimise range plans, product placement & promotions, and
  - introduction of product placement opportunities, where suppliers contribute to feature on certain stands in key trading periods.
- Training and technology implemented to our surveyors, improving accuracy, efficiency and customer experience.
- Reviewed our third party fitting partners and implemented an 'ScS Approved' programme.
- Introduction of new suppliers to widen ranges and increase competitive tension.
- Improved our online sample service.

What we're going to do
- Introduction of flooring specific training for retail store colleagues to aid product knowledge and conversion.
- Continue to improve & assess fitting partners, increasing hard floor and subfloor standards.
- Joint business planning with suppliers to achieve improved service levels.
- Increase training and skills in our surveyor teams.

7

Improving our profitability

How
By running a lean and efficient business model.

What we've done
- Enhanced gross margin reporting by store, brand and products, providing greater insight to areas for improvement.
- Implementation of improved control, reporting and budgeting of costs.
- Revision to our supplier tender process, increasing frequency and driving cost savings.
- Review of processes in administrative and support functions to improve quality and target efficiencies.
- Review of store network performance and lease re-gear programme.
- Improved delivery forecasting allowing better forward planning.
- Reducing insurance and fleet costs through addition of in-vehicle cameras, improved incident reporting and driver FTA training.

What we're going to do
- PowerBI reporting going live to allow dynamic analysis of critical KPIs, across the business, via cloud based mobile application.
- Tender programme including customer finance, distribution, IT and property costs.
- Review of warranty options in light of FCA focus and likelihood of changes to regulation.

KEY PERFORMANCE INDICATORS

Performance against our strategy

Key performance indicators (KPIs) are fundamental to understanding the progress we are making with our strategy, and to monitor the ongoing performance of the business over time. The KPIs set out in this summary are the most relevant measures monitored on an ongoing basis by the Board.

The definition of these KPIs and our performance over the last three years is detailed below, as well as how each KPI links to our strategic priorities. Commentary on these KPIs is contained within the financial review. All KPIs have been restated to include continuing operations only.

Financial KPIs

Total year-on-year gross sales growth

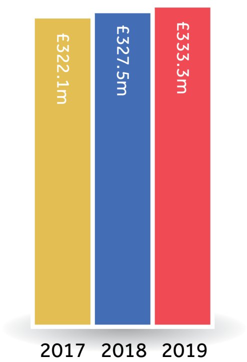
£333.3m

Why it's important

Sustainable growth in sales is key to our long term success, increasing market share and creating opportunities.

What we measure

Gross sales is a measure taken directly from our primary statement of accounts, and is the combined total of all furniture and flooring sales made, excluding VAT, both online and across all of our stores.



Link to strategic priorities

1 2 3 4 5 6 7

Like-for-like order intake growth

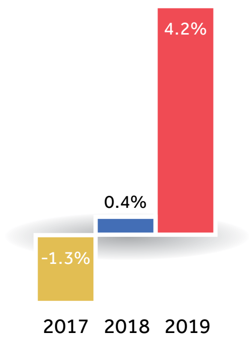
4.2%

Why it's important

Whilst overall sales growth is important, understanding how the same stores perform year on year provides a guide to underlying store performance. Due to lead times, order growth also gives a view as to future delivered sales performance.

What we measure

Like-for-like order growth compares year-on-year trading performance from comparable stores. It therefore excludes new and closed stores. Order value is a combined total of all furniture and flooring orders booked, including VAT, both online and across all of our stores.



Link to strategic priorities

1 2 3 4 5 6 7

Online sales growth

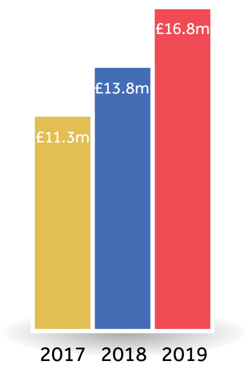
£16.8m

Why it's important

The Group needs to maximise its share of customers wanting to transact online.

What we measure

Online sales growth is the portion of the gross sales figure as defined above, attributable to our online website and telesales.



Link to strategic priorities

5 7

Gross margin % of gross sales

45.0%

Why it's important

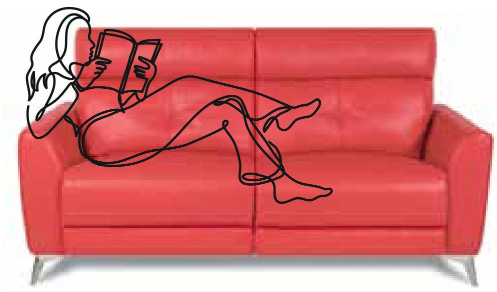
To grow profitably, the Group must ensure that sales growth is supported by maintaining or growing the gross margin.

What we measure

Gross margin % of gross sales is a measure taken directly from our primary statement of accounts, and is the total margin made from sale of product, excluding VAT, as a proportion of total gross sales.

Link to strategic priorities

3 7



Underlying EBITDA

£19.7m

Why it's important
EBITDA is a good indicator of the cash generation capability and direct profitability of the business.

What we measure
EBITDA is earnings before interest, tax, depreciation and amortisation, as well as any exceptional expenditure. We explain how this reconciles to profit before tax in the Financial Review.

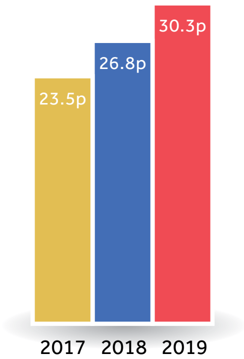
Link to strategic priorities
3 4 6 7

Underlying Earnings per share (EPS)

30.3p

Why it's important
EPS is key to the business to understand the return being generated from profits to our shareholders.

What we measure
EPS is calculated by dividing profit attributable to shareholders by the average number of outstanding shares. The underlying measure excludes any exceptional items arising in the year.



Link to strategic priorities
3 4 6 7

Non-financial KPIs

Sales density per square foot

£229

Why it's important
For our business to grow without increasing the store estate, we must generate increasing revenues in the trading space we currently occupy.

What we measure
Sales density per square foot takes total gross sales made, excluding VAT, divided by the trading space available across our store network.

Link to strategic priorities
3 4 6

Trustpilot customer satisfaction

9.2/10

Why it's important
Customers want confidence that their retailer of choice can deliver on their promises. We focus on our TrustScore to ensure we maintain our 5-star 'Excellent' rating.

What we measure
Our TrustScore is a measure provided by TrustPilot, an independent review platform used by our customers which asks them to rate our customer service.

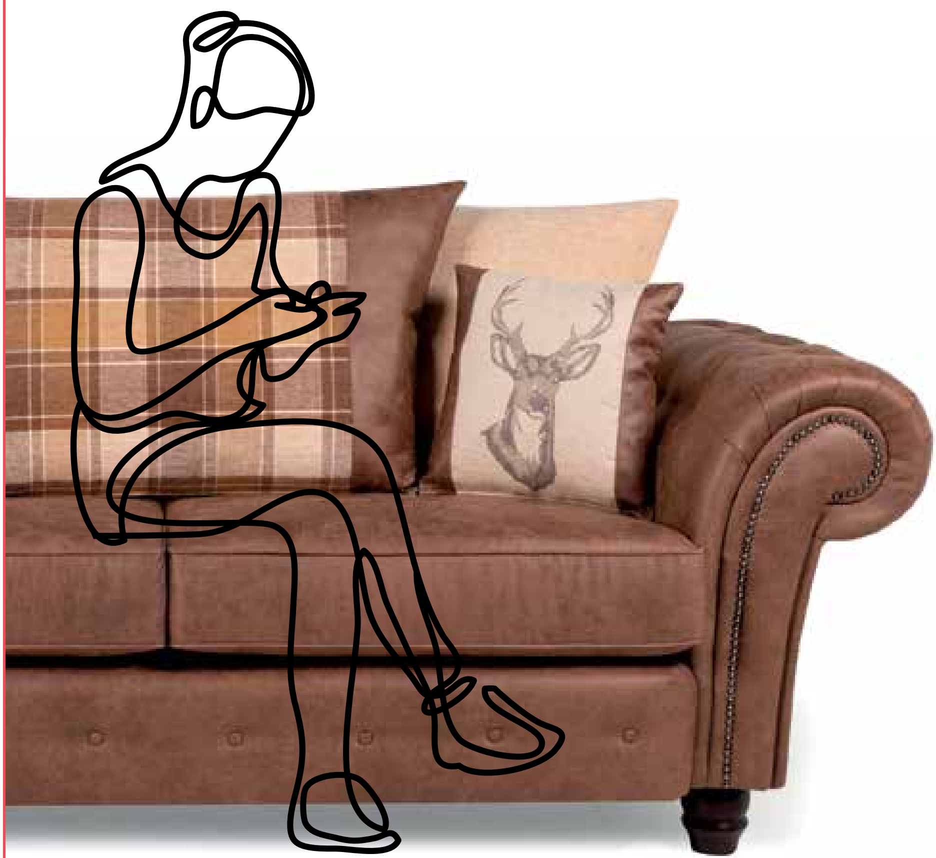
Link to strategic priorities
1 2 7

OUR STRATEGY IN ACTION

Delivering an exceptional customer experience

'App'-y customers through new technology

This year we've invested over £1 million in new technology to improve our customers' experience even further.



nYwhere – the future of ScS sales orders
A large proportion of our investment has been on nYwhere - our sales 'app' which launched in the second half of the year. Where previously our ordering process relied on hand written orders which were then input into our systems, nYwhere improves the in-store ordering process. nYwhere allows a sales person to select products and complete the order from a tablet friendly, intuitive and easy to navigate tile based interface which links directly to our core system. Our sales staff and customers benefit from the simple step-by-step process, increased order accuracy levels, and the convenience of receiving electronic copies of their order, finance agreements and product terms and conditions.

nYwhere has a pre-determined customer journey 'breadcrumb' with prompts and scripts to ensure the sales team correctly engage customers on all areas, from the product, configuration, colour and trim required, through to warranty, care kits and finance applications. The nationwide store roll-out of the app was completed at the end of July, and now ensures every customer receives a consistent approach.

The app's launch has been a success, with over 40,000 orders placed, and both our sales teams and customers consistently commenting on the ease of the transactions and the enjoyable experience.

Dynamic and optimised service technician support tools

Our in-house service technicians are key to our aftersales customer service, ensuring any product issues are quickly rectified, and the customer can continue to enjoy the product they've purchased. The new software we've integrated this year allows our aftercare team to manage our technicians, dynamically scheduling appointments to ensure the shortest possible service wait times. It also provides our teams with instantaneous route optimisation and allows high quality, electronically submitted, media rich reports. Our customers also benefit from confirmation and reminder messages. All of this means our aftercare team can respond quickly to our service technicians' recommendations, and that the detailed reports can be shared with our manufacturers to help improve product quality in the future.

Centrally synchronised flooring surveying software

Our surveyors measure over 1,000 homes a week, and ensuring accurate and detailed reports is vital to giving our customers a flawless fit and finish for their new flooring. In May 2019, we rolled-out a tablet based specialist planning tool that supports our surveyors from first contact with the customer, ensuring measuring and planning their carpets and flooring layout is easy. As every order now uses our new software, every fitter receives a customised cutting plan. The increased contact the software promotes between surveyor and fitter ensures our customers see a joined-up approach. The tool has reduced planning errors, lowered wastage, and delivers an improved customer experience.

Electronic real-time proof of delivery systems

As our last point of contact with our customers, our delivery teams are a key part of our customer's experience. This year we implemented electronic proof of delivery software to support our two-man home delivery operation, handling around 1,000 customer appointments each day. Our customers now sign on glass, and this integrates directly with our core system. Gaining real-time visibility and control of delivery processes, we have been able to achieve a more standardised on-site service and faster query resolution – with our aftercare team proactively liaising with the delivery crews and the customer within moments.

Link to strategic priorities

2 3 4 6 7

nYwhere orders taken

40,000+

m² measured in our new carpet surveying software

352,000

Building and inspiring an outstanding team

Our biggest investment is in our people

Responsive • Inclusive • Get it right • Hard-working • Trusted

ScS SOFA • CARPET • SPECIALIST

Live by the RIGHT values

From our skilled sales teams in store, to the dedicated delivery teams and our hard working support staff, we recognise our people are key to our success.

Retaining our best staff

Whilst bringing the best talent into the organisation is important, key to succeeding is keeping them, together with retaining our existing team. We recognised the need to improve the wider offer to our staff, and this year we launched a new enhanced rewards and benefit package. Our new initiatives go above basic salary remuneration, allowing our employees and their families' access to saving money on holidays, entertainment and everyday spending, adding additional holiday allowance to ensure they get the time together as a family they deserve, and introducing a lifestyle support programme to provide confidential advance and support whenever it's needed. We also relaunched our employee Share Incentive Plan (SIP) to encourage our employees to invest in the company as it grows, and benefit from the value they add.

Throughout the year we have also increased focus on succession planning, to ensure we can focus our development efforts in the appropriate places. All key personnel were identified, and a succession plan established for each. The output of this plan has allowed a strategy to be built to ensure the appropriate succession occurs, and allowed planning well in advance to fill any potential future gaps where applicable.

Recognising the excellent talent we already have within our teams, we continue to develop and promote our best employees. Our senior regional teams have been strengthened internally with the promotion of two senior branch managers, 127 internal employees were promoted during the year, and we have designed new manager development plans which we will be rolling out this year.

Recruiting the best people

Making sure we bring in the best people is key to ensuring our plans for growth are a success. Early in the year we expanded our Operating Company Board, recruiting both a HR Director, and a Commercial Director. Both appointments brought significant experience, in retail, and in working at the top of large, growing organisations. Since joining our team, both have had an impact on the business, tackling their relative areas of the strategy, bringing fresh insight, and driving changes and improvements (many of which are included within these 'Strategy in Action' pages). We are also aware of the increasingly significant role our online business plays within our Group. We are very pleased to have recently appointed a new Head of Online to lead our sales team in maximising our online performance, as we continue to grow at double-digit levels.

In addition to our new appointments, our new 'mobile first' recruitment website and supporting applicant tracking systems are fully operational, and already proving a success, helping strengthen our ability to attract and manage candidates through the process. We have also spent time investing in a nationwide recruitment workshop for regional retail and distribution managers, as well as key support managers, to ensure we standardise and improve our new candidates' interviews, and increase our success with new employees.

Link to strategic priorities

1 2 5 7

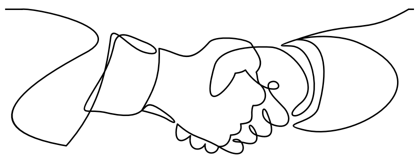
Internal promotions in the year

127

Reduction in staff turnover

2.2%

"Recognising the excellent talent we already have within our teams, we continue to develop and promote our best employees."



FINANCIAL REVIEW

Strong results despite an uncertain market

Gross sales and revenue

Gross sales increased by £5.8m (1.8%) to £333.3m (2018: £327.5m) and is attributable to:

- An increase in furniture sales in stores of 1.2% to £274.2m (2018: £270.9m);
- A decrease in flooring sales in stores of 1.2% to £42.3m (2018: £42.8m), and
- An increase in online sales of 21.7% to £16.8m (2018: £13.8m).

Revenue, which represents gross sales less charges relating to interest-free credit sales (see note 3 – Segment information), increased by 1.5% to £317.4m (2018: £312.8m). This was driven mainly by the increased sales order volume in the year, which was partly offset by a lower opening order book when compared to the prior year and the closure of two stores. Revenue growth was slightly below the growth in gross sales due to increases in the underlying rates driving the cost of interest-free credit provided by the Group's finance houses.

Gross profit

Gross margin (gross profit as a percentage of gross sales) was maintained at 45.0% (2018: 45.0%). The increased cost of offering interest-free credit (due to movements in LIBOR) was offset by improved stock management and supplier terms.

The higher volume year on year, resulted in an increase in gross profit of £2.6m (1.8%).

Distribution costs

Distribution costs comprise the total cost of the in-house distribution function and includes employment costs, the cost of leasing vehicles and related running costs and property costs (principally rent, rates and utilities) for the nine distribution centres, as well as costs of third-party delivery services contracted to support peak delivery periods.

Despite a reduction in the average order value, which increased the number of deliveries, distribution costs expressed as a percentage of gross sales for the year were in line with prior year at 5.2%.

Administrative expenses before exceptionals

Administrative expenses comprise:

- Store operating costs, principally employment costs, property related costs (rent and rates, utilities, store repairs and depreciation);
- Marketing expenditure, and
- General administrative expenditure, which includes the employment costs for the directors, senior management and all head office-based support functions and other central costs.

Administration costs for the year totalled £118.3m, compared to £116.7m in the prior year. Administrative costs were 35.5% of gross sales, down from 35.6% in the prior year.

There was an overall increase in administrative costs of £1.6m, driven by payroll related costs, with the increase in marketing costs of £0.3m offset by other cost savings. The payroll related costs break down as follows:

- £1.1m increase in basic pay due to additional employees to support our expanded e-commerce team and new in-house photography studio, together with pay reviews and national living wage increases;
- £0.3m increase in performance related pay following the Group's improved EBITDA, and
- £0.2m increase in the cost of pension contributions due to auto-enrolment.

Marketing costs increased to £22.4m in the year (2018: £22.1m), supporting the increased sales order growth, and remained at 6.7% of gross sales.

Flexible costs

The nature of the Group's business model, where almost all sales are made to order, results in the majority of costs being proportional to sales. This provides the Group with the ability to flex its cost base as revenue changes, protecting the business should there be wider economic pressures. As shown below, the proportion of cost variability remained consistent year-on-year.

Total costs before interest, tax, depreciation and amortisation across for the year were £313.6m (2018: £308.3m).

Of this total, 76% (2018: 76%), or £237.7m (2018: £233.5m) are variable or discretionary, and are made up of:

- £183.4m cost of goods sold, including finance and warranty costs (2018: £180.2m);
- £17.3m distribution costs (2018: £16.9m);
- £22.4m marketing costs (2018: £22.1m), and
- £14.6m performance related payroll costs (2018: £14.3m).

Semi-variable costs totalled £39.7m, or 13% of total costs, for the year (2018: £38.4m; 12%) and are predominantly other non-performance related payroll costs and store costs. Rent, rates, heating, and lighting make up the remaining £36.2m (11%) of total costs (2018: £36.5m; 12%).

The Group continues to ensure a low average remaining lease tenure on our store portfolio by ensuring low tenures on existing lease renewals and on new stores. This provides the Group with increased flexibility to exit or relocate stores where required. The majority of recent leases entered into are 10 years in length.

Underlying operating profit

The operating profit before exceptional costs was £14.3m for the year, compared to an operating profit of £13.7m for the same period last year, driven by the increased gross profit, partially offset by the increased distribution and administrative expenses.

Underlying EBITDA from continuing operations

An analysis of underlying EBITDA is as follows:

	Year ended 27 July 2019 £m	Restated Year ended 28 July 2018 £m
Underlying operating profit from continuing operations	**14.3**	13.7
Depreciation and amortisation	**5.4**	5.4
Underlying EBITDA from continuing operations	**19.7**	19.1
Exceptional costs	**(0.3)**	–
EBITDA from continuing operations	**19.4**	19.1

Exceptional costs

Exceptional costs relate to the aborted acquisition of sofa.com. As announced in January 2019, the Group was in discussions regarding a potential acquisition of the business and assets of Sofa.com Limited. Ultimately this transaction did not occur, and the professional fees relating to the due diligence conducted have been classified as exceptional for the purposes of providing relevant comparative information.

Discontinued operations

As announced on 25 October 2018, the Group ceased trading from its 27 concessions within House of Fraser at the end of January 2019, following House of Fraser's administration on 10 August 2018, and the subsequent purchase of its trade and assets by Sports Direct International plc.

As a consequence of ceasing to trade through the House of Fraser concession, the associated revenue and costs have been shown separately as a discontinued operation within our results, and prior year comparatives have been restated to show only the continuing ScS business. As the results in note 12 show, the operation made an underlying EBITDA profit of £0.5m, before exceptional items of £0.4m. The same period in the prior year resulted in an EBITDA loss of £0.3m. The prior year result was impacted by the Group reviewing the recoverability of monies owed from the House of Fraser business that went into administration and by a review of the carrying value of stock in House of Fraser in light of the trading issues it was facing at the time.

The underlying EBITDA generated in the current period was largely as a consequence of the success of the Group to retain and fulfil many of the orders in the pre-administration order book and the timing benefit of delivering orders without the associated advertising expense which would usually support future deliveries.

"The nature of the Group's business model, where almost all sales are made to order, results in the majority of costs being proportional to sales. This provides the Group with the ability to flex its cost base as revenue changes, protecting the business should there be wider economic pressures."

FINANCIAL REVIEW CONTINUED

"The Group has continued to strengthen and deliver positive results, with very strong cash generation and a balance sheet that is growing in resilience."

	Year ended 27 July 2019 £m	*Restated Year ended 28 July 2018 £m
Gross sales	**333.3**	327.5
Revenue	**317.4**	312.8
Gross profit	**149.9**	147.2
Distribution costs	**(17.3)**	(16.8)
Administration expenses before exceptionals	**(118.3)**	(116.7)
Total operating expenses	**(135.6)**	(133.5)
Underlying operating profit from continuing operations	**14.3**	13.7
Net finance income/(expense)	**0.3**	–
Exceptional items	**(0.3)**	–
Profit before tax from continuing operations	**14.3**	13.7
Tax	**(2.9)**	(2.7)
Profit after tax from continuing operations	**11.4**	11.0
Loss from discontinued operations	**–**	(0.3)
Profit after tax for the period	**11.4**	10.7
Underlying earnings per share	**30.3p**	26.8p
Underlying EBITDA from continuing operations	**19.7**	19.1

* Results above have been restated to show continuing operations, following the presentation of the House of Fraser concession business as discontinued.

Taxation

The tax charge for the financial year is higher (2018: higher) than if the standard rate of corporation tax had been applied, mainly due to charges not deductible for tax purposes, principally the exceptional professional fees, share based payment charge and depreciation on capital expenditure that does not qualify for capital allowances.

Earnings per share (EPS)

Basic underlying EPS for the year ended 27 July 2019, which excludes exceptional costs, was 30.3p compared to 26.8p in the previous year, an increase of 13.1%.

Statutory basic EPS for the year ended 27 July 2019 was 28.5p compared to 26.8p in the previous year, an increase of 6.3%.

A full reconciliation of EPS is shown in note 10.

Cash and cash equivalents

Cash increased £9.5m in the year to £57.7m (2018: £48.2m). The strong cash flow has been generated from operations, reflecting the negative working capital business model whereby:

- For cash/card sales, customers pay deposits at the point of order and settle outstanding balances before delivery;
- For consumer credit sales, the loan provider pays ScS within two working days of delivery, and
- The majority of product suppliers are paid at the end of the month following the month of delivery into the distribution centres.

A summary of the Group's cash flows is shown below:

	Year ended 27 July 2019 £m	Year ended 28 July 2018 £m
Cash generated from operating activities	**24.1**	21.0
Net capital expenditure	**(5.6)**	(2.9)
Net taxation and interest payments	**(2.5)**	(2.9)
Free cash flow	**16.0**	15.2
Dividends	**(6.5)**	(6.0)
Purchase of own shares	**–**	(1.2)
Net cash generated	**9.5**	8.0

Net capital expenditure in the year includes:

- £3.8m for building, maintenance and store capex (including £1.4m on branch improvements across our whole network, £0.7m on flooring department refits and £0.4m towards the new Kirkcaldy store), and
- £1.8m on new technology (including our 'nYwhere' tablet based sales ordering app and new business reporting and support tools).

Dividend

The Board recognises the importance of a dividend to investors and has set a progressive policy, with the intention to:

- Keep earnings cover in the range of 1.25x to 2.00x;
- Ensure cash cover remains in the range of 1.75x to 2.25x through the economic cycle, and
- Pay an interim dividend that will be approximately one third of the total dividend.

The Board considers this policy appropriate given the strength of the balance sheet, whilst ensuring the Group has sufficient resources to pursue potential future opportunities to deliver growth.

An interim dividend of 5.50p per ordinary share was paid in May 2019. The Group has continued to strengthen and deliver positive results, with very strong cash generation and a balance sheet that is growing in resilience. Additionally, the Group continues to maintain a £12.0m committed revolving credit facility.

Therefore, despite the continued uncertain economic environment, the Board is confident in the outlook for the Group and proposes a full-year dividend of 16.70p, a 3.1% increase on the full-year dividend for 2018. If approved, this would result in a final dividend of 11.20p. The dividend, if approved, will be paid on 2 December 2019 to shareholders on the register on 8 November 2019. The ex-dividend date is 7 November 2019.

The total dividend paid is in line with target earnings per share cover, and cash cover through the economic cycle.

Chris Muir
Chief Financial Officer
30 September 2019

Cash

£57.7m

+£9.5m

Underlying operating profit from continuing operations

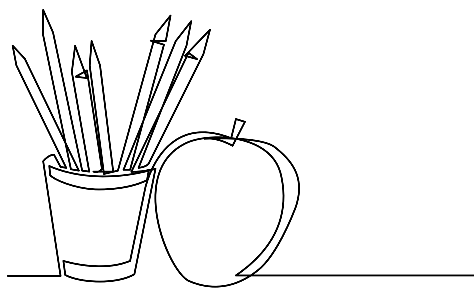
£14.3m

+4.6%

Dividend

16.70p

+3.1%



STAKEHOLDER INDEX

Section 172 Statement

Stakeholder engagement
This statement is intended by the Directors to set out how they have approached and met their responsibilities under s172 Companies Act 2006 in the financial year ending 27 July 2019. It is in response to the obligations as set out in the Companies (Miscellaneous Reporting) Regulations 2018, and the UK Corporate Governance Code July 2018, and as such forms part of the strategic report of the Company's Annual Report and Accounts.

As the new reporting requirements became clearer, the Directors undertook a stakeholder analysis. This review set the agenda for ongoing engagement in 2020, focusing on who Directors should engage and communicate with, either collectively or individually, and how feedback, general or specific, will be considered during the decision-making process. Stakeholders identified during the mapping exercise included our 1,784 colleagues, suppliers, shareholders, customers, analysts, the financial and consumer press, and the communities in which our stores are located.

The following are some examples of the interactions that have taken place in 2019.

George Adams, attended four employee discussion groups during 2019. The groups were well attended by colleagues in retail, distribution and head office teams. Two discussion groups were held in the North East, one in Scotland and one in the South West. These groups will continue throughout 2020 visiting other areas of the UK. These groups offer an opportunity for employees throughout the organisation to speak frankly an openly with the Board, ensuring that the Board are aware and engaged with views of colleagues.

As part of an on-boarding program; Angela Luger, Non-Executive Director, spent time in one-to-one meetings with operating board directors and heads of department. Angela also undertook several store visits and a distribution centre visit. This allowed Angela to engage with teams across the business as well as strengthen her understanding of product range and retail strategy. Operating Board members and Heads of Department attended Board meetings by invitation to discuss work on our strategic priorities and commercial plan. The Board and the Operating Board meet annually to undertake a full review of strategic priorities.

Our Chairman and Non-Executive Directors have attended our tri-annual conference. Our conferences are well attended by retail management teams and other managers from across the business, as well as suppliers. In attending these events Directors were able to speak to participants, including colleagues and suppliers about our business.

Our AGM offers shareholders the opportunity to speak directly with the Board for informal discussion and questions. Our AGMs are always held in an accessible venue. Regular meetings are scheduled with analysts and our CFO is available to be contacted by shareholders who wish to speak to him directly. Each year two live meetings are held which are open to all investors, for anyone unable to attend a recording on the meeting is published on our website.

2020 plan
During 2020, stakeholder sessions that Non-Executive Directors are planning to attend include Director discussion groups, conferences, supplier and analyst meetings.

Non-Financial Information Statement

To ensure that as a Group we live by our RIGHT values; building a sustainable business and delivering value to our stakeholders, it is critical that we conduct our operation responsibly in line with evolving social expectations and good practice.

Reporting requirements and ScS's material areas of impact	Relevant principal risks	Policy embedding, due diligence, outcomes and key performance indicators
Environmental matters - Ensuring that the products we supply meets all required safety standards. - Reducing the amount of single use plastic in our supply chain and developing reusable and/or recyclable packaging options. - Seeking to reduce our carbon footprint, by ensuring we choose energy efficient options when updating our store estate and vehicle fleet.	Regulation and compliance Supply chain, infrastructure and product Brand and reputation Economic environment	- Suppler service level agreements. See page 22. - Due diligence testing on all products we sell to ensure safety and durability. See page 43. - Close working relationships with a group of principally UK based suppliers. See page 10. - Working with suppliers to look at removing single use plastic from the supply chain and developing more sustainable packing options for products. See page 35. - Ongoing monitoring of our carbon footprint. See page 35.
Employees - Working towards a diverse and representative workforce. - Giving our employees a voice and responding to feedback received from the wider workforce in a positive and proactive manner. - Ensuring that we provide a safe working environment and that we adopt a pro-active approach to Health and Safety in the workplace.	Our people and culture Regulation and compliance Brand and reputation	- Monitoring the gender diversity within our workforce. See page 35. - Undertaking regular surveys and discussion groups to ensure opportunities to provide regular feedback from the workforce. See page 22. - Communication and engagement strategy linked to strategic priorities to ensure that we are providing regular updates to our team. See page 22. - Regular reviews of Health and Safety at work to monitor accidents and incidents as well as ensuring all of our team receive adequate training. See page 35.
Social matters - Working with our wider community to create apprentice opportunities. - Engaging with charities local to our business to raise awareness and funds. - Encouraging volunteering within the wider workforce.	Our people and culture Brand and reputation	- Ongoing apprenticeship programme creating opportunities across the organisation. See page 35. - Linking with local good causes and encouraging colleagues to nominate charities they would like to see us support. See page 35. - Offering flexible working allowing colleagues to spend time volunteering. See page 28.
Human rights, anti-corruption and anti-bribery - Ensuring that our business and our suppliers are fully compliant with modern slavery regulations. - Provide adequate training and instruction to our workforce and supply chain on anti-corruption and anti-bribery requirements. - Ensuring that our workforce can raise whistleblowing matters without suffering any detriment at work.	Brand and reputation Supply chain infrastructure and product Regulation and compliance Competition	- Supplier service level agreements. See page 22. - Requiring all suppliers to be members of SEDEX creating visibility in the supply chain. See page 43 and visit scsplc.co.uk for further information on our modern slavery policy. - All colleagues given access to training on anti-bribery policy and best practice. See page 41. - Guides published on anti-bribery and corruption that are available for all colleagues to access. See page 41. - Access to a free confidential whistleblowing line, which is widely publicised around the business. Encouraging employees to speak up if they have any concerns. See page 41.

Environment

As a retailer we recognise that our operations will impact on the environment, and we have a duty to ensure that both now and in the future we seek to minimise this impact.

ScS is committed to reducing waste. All of our waste packaging, principally plastic and cardboard, generated by our stores, head office, distribution centres and used for protecting the product we deliver directly to our customers, is collected and recycled. We now recycle or divert from landfill 97% of all waste collected.

All new sites include LED store lighting and energy-efficient heating and cooling systems. This, together with a progressive change to energy efficient systems in our existing stores, means that we are reducing our electricity usage. Since 2013 we have reduced our electrical energy consumption by 30.9%; the electrical reduction is against a backdrop of opening 11 all electric stores in that period. Our gas usage has reduced 55.0%. The gas reduction has been assisted by the replacement of nine gas air-conditioning systems with energy-efficient all electric units, and a further eight are targeted in 2020.

In 2019 our electricity and natural greenhouse gas emissions have reduced by 697 t/CO_2e and 216 t/CO_2e respectively, a total reduction of 913 t/CO_2e.

People

Building and inspiring an outstanding team is at the forefront of our business strategy. We are committed to creating a great place to work and to live by our RIGHT values.

We talk to our teams about our company results, major business decisions and other things that affect them through many different channels, including discussion groups, town hall meetings, conferences, newsletters, and e-bulletins. We have recently reviewed our benefits and enhanced our current offering for all colleagues. Everyone has recently received an increase to their holiday entitlement, been given access to a new benefits platform offering discounts over a wide range of goods and services; and we've also relaunched our Share Incentive Plan.

We monitor gender diversity across the business. In 2019 our gender balance remained unchanged with 33% of our workforce being female. Further details on our gender pay gap are published at scsplc.co.uk.

Health and wellbeing are important to us. We provide access to employee assistance to all of our colleagues, and this recently launched initiative allows early access to counselling services which can provide support and guidance on a large range of matters including mental health. We continue to focus on the safety of our colleagues. Our accident frequency rate is 1.18 per 100,000 hours, below the HSE average for the sector of 1.59.

Suppliers

Our suppliers are vital to our purpose of delivering outstanding value, quality and choice to our customers. We have 14 major furniture suppliers based in the UK and make and source products for us from within the UK, Europe and the Far East. We work closely with some of the most iconic brands in furniture including La Z Boy, G Plan and Alston's and the vast majority of the products that we sell are exclusive to us.

We work with our suppliers and with SEDEX to ensure that Modern Slavery Regulations are adhered to within our supply chain. We're also focusing efforts on reducing our environmental impact, including reusable packaging for some of our furniture and we're proudly first to market with a carpet made entirely from recycled plastics, including recovered marine plastic and fishing nets. Our Endurance brand products give our customers the look and feel of leather but are made from a technical fabric, providing a family friendly, easy to clean alternative to our customers who would prefer not to choose leather.

We meet regularly with our key suppliers to review product quality and performance to ensure that we are delivering a durable product to our customers.

Customers

Providing an excellent customer experience is at the heart of our organisation. We seek to offer our customers outstanding value, quality and choice for their homes. Feedback from our customers about their buying experience, and the products they have chosen is highly valued. We're proud to have maintained our 5-star 'Excellent' rating on Trustpilot and with over 160,000 reviews are the most reviewed furniture retailer. During 2019 we improved our CSAT (customer satisfaction) score to 77 (2018:74).

Ensuring our product meets the high safety standards required in the UK, we were the first retailer to meet the due diligence standards required by FIRA under their recently launched fire performance compliance scheme.

We offer a broad range of products to our customers; our ranges are regularly refreshed and improved to ensure that we can provide something for everyone's style and budget. Feedback we receive from customers is used when creating new product ranges.

Community

During the year, the Group and its employees continued to support many local and national great causes, close to the hearts and minds of the ScS family. We rolled-out initiatives which engage with local communities and raised awareness of important matters. In 2019, we have donated £18,000 to local and national charities.

Our stores play an active role in their local communities, creating new and rewarding job opportunities for people, generating investments in the local economy and connecting with people and customers on a daily basis.

In 2019 we provided 10 apprentice opportunities across the group. We also trained six, new, 7.5 tonne vehicle drivers, this fully funded programme allows workers interested in taking on a driving role with us to train and work as drivers within our team.

Shareholders

We have two main shareholder groups; institutional investors and individual shareholders. The majority of our shareholders are institutional investors. This has been the case since our flotation in 2015.

During 2019 we held several meetings with our institutional investors and we keep all shareholders up-to-date through regular communication including the Annual Report, AGM and our financial and trading statements. We have a dedicated website for ScS Group plc where investors can find the most current information for the Group and our business performance.

A live analyst meeting is held once a year which is open to all shareholders. For those unable to attend a webcast of the meeting is available on our website. Our CFO attends scheduled meetings and can be contacted by any shareholder who wishes to speak with the Group directly.

RISK AND RISK MANAGEMENT

The Board has ultimate responsibility for risk management throughout the Group and determines the nature and extent of the risks the Group is willing to take to achieve its strategic objectives.

Our approach to risk management
Although we face risks and uncertainties that could affect the achievement of our strategic objectives, these risks are accepted as part of doing business, consequently we apply mitigating controls to reduce the risk to an acceptable level. The Group also recognises that the nature and scope of these risks can change, therefore, regular reviews of existing and emerging risks are undertaken along with the systems and processes to mitigate them.

Risk management framework
The Group has established a formal governance framework underpinning our approach to risk management. During the year the Board has carried out regular robust assessments of the principal risks along with considering emerging risks.

Identification of risks
The Board and the Group's senior management team have a clearly defined responsibility for identifying the major business risks facing the Group and for developing systems to mitigate and manage those risks.

Risk appetite
Risk is always high on the Board's agenda and the focus on effective risk management cascades all the way through the organisation. The culture of the organisation ensures that all activities, from day-to-day operations to high-level strategic decisions, are performed in line with this approach. Management's assessment of our principal risks is based on the potential impact, and the likelihood of the risk materialising, and any change in the risk from the prior year. The governance of risk is undertaken in the context of the Group's overall risk appetite.

A calibration model of one to five has been used to illustrate the range of risk appetite for each type of risk. The Group has a minimal risk appetite for areas of statutory compliance but is willing to accept greater risk to achieve its objectives, compete and drive the business forward. The Boards appetite (which is re-assessed annually) for each of the principal risk is shown opposite, and next to each risk on the following pages.

Monitoring of risks
The senior management team reports changes in the risk profile and any emerging risks on a monthly basis to the Operating Board, and to the Audit Risk and Compliance team. This monthly update is used to track any changes in risk and supports the 'Change in risk level' rating noted against each of the principal risks shown on the following pages. The Board can confirm that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, which has been in place for the year under review and up to the date of approval of this Annual Report. The Board has also performed a robust assessment of the principal risks and mitigating controls.

Process for preparing consolidated financial statements
The Group has established internal control and risk management systems in relation to the process for preparing consolidated financial statements.

Key features are:

- Management regularly monitors and considers developments in reporting regulation and, where appropriate, reflects developments in the consolidated financial statements. The external auditor and the Audit Committee also keep the Board appraised of these developments;
- The draft consolidated financial statements are reviewed by the Audit Committee and the Board. This review takes into account reports from management and the external auditor on significant judgements, changes in accounting policies, changes in accounting estimates and other relevant matters to the consolidated financial statements, and
- The full-year financial statements are subject to external audit and the half-year financial statements are reviewed by the external auditor.

Risk management process and framework

The key roles and delegated responsibilities:

Top-down

Governance and oversight identification, assessment and mitigation of existing and emerging risk at corporate level.

Board

Overall responsibility for the leadership of risk management, sets strategic objectives, the risk appetite and monitors performance.

The Executive Directors

Responsible for disseminating risk policies. They support and help the Operating Board assess risk. The Executive Directors also oversee risk management throughout the Group and encourage open communication on risk matters. The Executive Directors assess the materiality of risks in the context of the whole group.

The Audit Committee

Delegated responsibility from the Board to oversee risk management and internal controls. The Committee reviews the Group's internal controls and sets objectives and monitors the effectiveness of the Internal Audit team. The Committee also monitors the independence and expertise of the external auditors.

Internal Audit

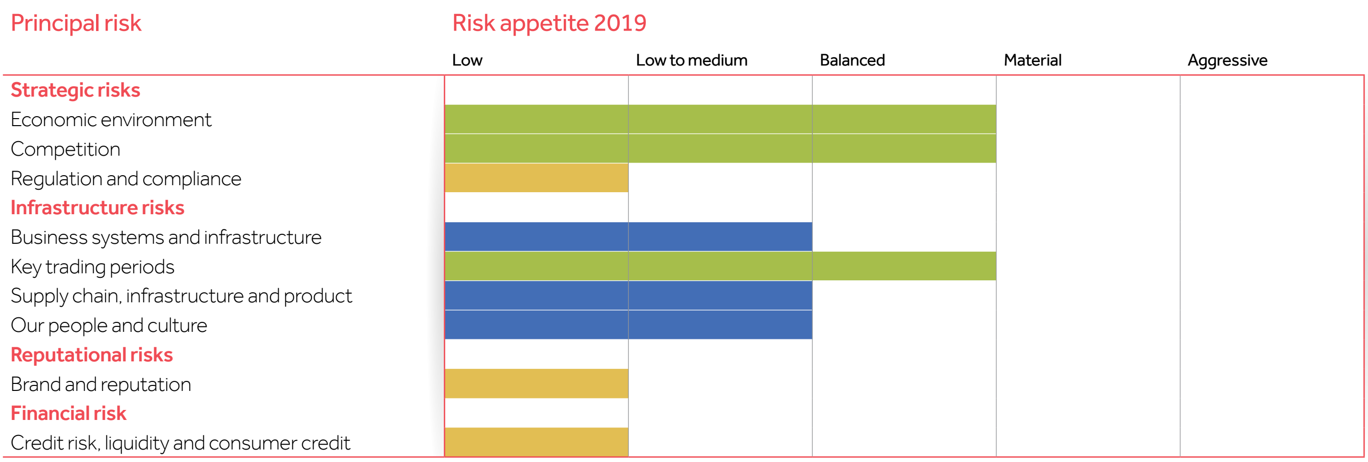
Responsible for the monitoring of the Group's risk management approach and provides a link between the operational managers and the Audit Committee. The Head of Audit Risk & Compliance reports formally to the Audit Committee and has direct access to the Chair of the Audit Committee. The Audit Risk and Compliance team takes a risk-based approach to planning audit work.

Bottom-up

Risk management reporting.

Operating Company Board

Responsible for the identification and assessment of existing and emerging risks at an operational level. They are responsible for the implementation of agreed mitigating controls.



Risk Appetite	Definition
Low	Control over processes is the most significant concern. Commercial considerations are secondary and should not influence decision making in this area.
Low to Medium	Control over processes should be a strong concern. However, commercial impact should still be considered if significant.
Balanced	Controls and commercial impacts should be given equal weight in this area.
Material	Control over processes should be as strong as possible, however if commercial impacts are too great then controls should be sacrificed.
Aggressive	Commercial consideration are the primary concern. No controls should be implemented that impact on commercial aspects in this area.

PRINCIPAL RISKS AND UNCERTAINTIES

The Board has carried out a robust review of the principal risks and uncertainties that the Group faces and which could have a potential detrimental impact on our corporate reputation, the operation of our business or on our ability to deliver our strategic objectives.

The Board's assessment of the principal risks and uncertainties facing the Group and the mitigation in place are set out below.

We have a number of processes and controls in place to mitigate these risks and they are reviewed regularly as part of the oversight by the Audit Committee. Principal risks and uncertainties are formally reviewed by the Audit Committee and the Board three times a year (including the consideration of the viability statement). The Board also monitors KPIs through Board reports and has regular presentations on a number of the key risk areas.

On a monthly basis principal risks and mitigating controls are reported to the Operating Board (including the Chief Executive Officer and Chief Financial Officer).

Risk categories

In line with risk management best practice, to enable better analysis of risk and for improved risk reporting we have grouped the risks into the following categories:

Strategic risks are those which affect the marketplace and environment in which our business operates. Principal risks in this category are: 'Economic environment', 'Competition' and 'Regulation and compliance'.

Infrastructure risks are those which affect the people and the resources that are required to operate our business. Principal risks in this category are: 'Business systems and infrastructure', 'Key trading periods', 'Supply chain infrastructure and product' and 'Our people and culture'.

Reputational risks are those which could damage the brand or perception of our business. Principal risks in this category are: 'Brand and reputation'.

Financial risks affect the ability to ensure sufficient funds are available to run our business. We also rely on the ability to provide consumer credit to our customers that enable us to fulfil strategic plans. Principal risks in this category are: 'Credit risk & liquidity' and 'Consumer Credit'.

Changes to the principal risk headings:

Following a review of the principal risk groupings, we have renamed 'Extreme weather' to 'Key trading periods'; 'Consumer credit' has been combined with 'Credit risk, liquidity and consumer credit'.

Following the ongoing review of risk throughout the year we have added the risk of warranties being increasingly regulated as a standalone risk, rather than being included within other regulated risks. As noted above we have also changed the presentation of these risks to provide improved clarity (See **Risk categories** above).

Key to change in risk level since the previous year: Risk higher (worsened) ↑ Risk stayed level ↔ Risk lower (improved) ↓

STRATEGIC RISKS

Risk heading	Risk description	Mitigation	Progress in 2019	Change in risk level
ECONOMIC ENVIRONMENT **Link to strategic priorities** 3 Optimising product 4 Sales density 6 Flooring growth 7 Improve profitability **Performance indicator** Sales performance **Risk appetite** Balanced **Risk profile after mitigating controls:** Medium **Exec responsibility** Board	**Consumer confidence** A reduction in consumer confidence or activity levels in the housing market, resulting in a fall in consumer spending on discretionary high value items, such as furniture and flooring, could be damaging to the performance of and prospects for the Group. With the increased political and economic uncertainty the UK is currently facing, consumer confidence has reduced year-on-year.	Our lean business model and flexible cost base allows us to remain competitive in our markets and adapt to change quickly. We maintain a strong balance sheet position providing resilience. We have established a broad and diverse product offering, alongside our long established furniture range, such as flooring, dining, and occasional furniture and third-party brands. Our range of products and price points in all categories ensure that customers can trade up or down. We consistently offer a quality product at a competitive price that remains attractive to our consumer base. Our diversification into the flooring market and brands, along with an improved dining and occasional range, has resulted in our offer appealing to a wider demographic consumer base. We offer a range of interest-free options to our customers to enable more affordable, monthly payments.	We continue to monitor our cost base and structure to ensure that we maintain our efficient business model. 2019 has seen further strengthening of the balance sheet. Through market analysis, we have concentrated our focus on providing value to our core demographic and our significant investment in marketing ensures that our core customer knows who we are and what we offer. Our pricing strategy continues to ensure we offer the best value, along with a wide range of price points. A review of store layout and range planning has been completed across the Group, ensuring we offer as much choice as possible. During 2019 we invested in refurbishing every carpet department across the Group. We engaged with a third finance provider to further strengthen our ability to offer consumer finance.	↑
	Interest and currency rates Further exchange or interest rate fluctuations could lead to cost pressure	We purchase all our products on a sterling basis minimising exposure to exchange rate changes. We work closely with our suppliers and will attempt to minimise and impact on our cost base and our retail pricing strategy. The Group does not have interest bearing debt. Cost of and access to consumer finance is managed by having three finance houses operating with the Group, whilst maintaining discussions with other finance houses.	Product cost changes in the year have been managed, allowing the Group to maintain gross margins whilst continuing to offer value to our customers. Interest bearing debt has not been required. Our year end cash position has increased by £9.5m to £57.7m (2018:£48.2m). Apart from a small increase in costs driven by movements in LIBOR, the cost for the provision of finance to customers has been maintained at a level that allows us to maintain our gross margin.	↔
	Brexit The Group faces ongoing economic uncertainty following the decision for the UK to leave the EU.	We have completed a review of the potential impact from a no-deal Brexit outcome and mitigating actions the Group can employ. Working closely with our suppliers enables us to minimise any impact on our cost base and our retail pricing strategy.	Our review highlighted that the exposure of the Group is partly reduced through our UK based suppliers and the level of finished goods that come from the EU are proportionately low. Our product type also means that small delays in transportation will not have a material impact on our lead times or proposition offered.	↑

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

STRATEGIC RISKS continued

Risk heading	Risk description	Mitigation	Progress in 2019	Change in risk level
COMPETITION **Link to strategic priorities** 4 Sales density 5 Market-leading website 6 Flooring growth 7 Improve profitability **Performance indicator** Sales performance **Risk appetite** Balanced **Risk profile after mitigating controls** Medium **Exec responsibility** Commercial Director **Reports to** Chief Executive Officer	**Competitive marketplace** The Group operates in competitive and fragmented markets and against a wide variety of retailers and may face increased competition in its target markets.	We continue diversifying and developing our proposition for customers and we continually respond to changing patterns in demand in our core market to broaden our appeal and sales base. We regularly monitor competitors activities supporting our ability maintain our competitive position in the market place. The Group continues to focus on the customer experience, we see this as one way to differentiate itself from the competition.	During 2019 we comprehensively reviewed our range and store layouts to ensure we maximise the customer proposition. In light of market opportunity and demand, the Group increased the value offering presented in store. The number of Trustpilot reviews continues to increase and remains area of focus. The Group's Trustscore increased for the third year in a row.	↔
	Changes in marketplace Failure to be aware of, or respond to key changes in the competitive environment is a risk to our future success.	We actively monitor sales performance, product and marketing performance and competitor activity. Our fully functional website enables customers to complete their purchases online or to carry out their research before visiting a store. We also provide a telesales operation, providing a full omni-channel offering. We continue to review our marketing strategies to ensure that we are reaching our target audience effectively.	Range plans, promotional activity, product placement and visual merchandising has been refreshed in the year including in store refurbishments of our flooring departments. We have and continue to invest significantly in our website which is being re-designed and launched in 2020. 2019 has seen progress in how we market digitally and in our Search Engine Optimisation (SEO) rankings, seeing more website traffic and online sales increasing by 21.7%. We reviewed our marketing strategy and modified our investment into relevant advertising channels to ensure we maximise our opportunity to reach our customers.	↔

Risk heading	Risk description	Mitigation	Progress in 2019	Change in risk level
REGULATION AND COMPLIANCE **Link to strategic priorities** 1 Outstanding team 2 Customer experience 4 Sales density 7 Improve profitability **Performance indicator** Prosecution and regulatory action **Risk appetite** Low **Risk profile after mitigating controls** Medium **Exec responsibility** Corporate Services Director **Reports to** Chief Executive Officer	**Regulated activity** A number of regulations are applicable to the Group's activities: - Trading standards - Advertising - Product safety and quality - Health & Safety - Environment - Data protection (GDPR) - Bribery Act - Financial Conduct Authority (FCA) - Modern Slavery Failure to comply with the regulations may risk incurring a financial cost or reputational damage.	**All regulated activity** Regular training is provided to retail staff and any complaints regarding regulated activity are investigated by the Audit, Risk and Compliance team and reported to the Operating Company Board. All employees are required to complete core online based training modules, reporting on adherence to these courses are reported monthly to the Operating Company Board. We actively monitor compliance with our existing obligations and we maintain internal policies and procedures. Colleagues are kept informed of these requirements via regular briefings, internal communications and ongoing training. We review current guidelines on pricing and promotions through regular review and monitoring. Annually, all employees are issued with a code of conduct. A confidential whistle-blower hotline was established for colleagues to raise any concerns in confidence. **Product safety** All suppliers are subject to regular checks. Independent due diligence product testing is regularly undertaken to ensure our products comply with all relevant regulations.	During 2019 we have reviewed and strengthened our assurance framework and plans are in progress to further strengthen our compliance function. Our training programme (including online training) has been enhanced to improve monitoring and reporting processes covering all regulated areas. Specific work was carried out in advance on the implementation of GDPR. The Group has improved our reporting processes for data protection controls and all our staff complete training in this key area, which is refreshed annually. Members of the Audit Risk and Compliance team have been trained and are now qualified to practitioner level in Data Protection (GDPR). During 2019 we have appointed an additional non-executive director to the Board. This brings further independent oversight to our governance process.	↔
	Non-regulated activity Expected changes to the regulation and reporting of product warranties could affect future sales and profit from this income stream. Further legislation changes may have a retrospective impact, effecting future profit levels.	We have followed developments closely and are working with our warranty provider to establish and minimise the potential impact of any changes in future reporting or regulation requirements. We actively monitor and respond to the updates provided by the FCA ensuring any relevant requirements are understood and appropriate action can be planned. Our pricing model allows the Group to adjust what we charge for our products, which it will consider implementing if changes to regulation or reporting impact the current level of warranty income.	During the year, the Board has remained focus on monitoring developments in this area. Plans have been formulated that will allow the Group to deploy changes to our current customer offering, with the aim of minimising the impact on the business that any changes required by FCA regulation or reporting.	↑

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

INFRASTRUCTURE RISKS

Risk heading	Risk description	Mitigation	Progress in 2019	Change in risk level
BUSINESS SYSTEMS AND INFRA-STRUCTURE **Link to strategic priorities** 2 Customer experience 5 Market-leading website 7 Improved profitability **Performance indicator** Number of major incidents System performance **Risk appetite** Low to medium **Risk profile after mitigating controls** Medium **Exec responsibility** Chief Financial Officer **Reports to** Chief Executive Officer	The Group's business involves a high number of operational and financial transactions across numerous sites that rely on the continuous operation of our IT systems. The risk of loss of data including customer data could have a significant adverse reputational impact. A major incident (such as a cyber-attack), sustained performance problems, or failure to keep technology up-to-date could constitute a significant risk to our business.	24-hour system monitoring is in place for business critical systems. A disaster recovery site is available and a full disaster recovery plan is in place and is reviewed and updated annually. We also have a business continuity plan which is agreed with every department. The resilience against cyber-attack is regularly tested and monitored by the Group using third-party experts. We regularly review authorisation controls and access to sensitive transactions. We ensure that all relevant software and hardware updates are installed on a regular basis to maximise the security of our data and systems.	During the year our investment in IT was a priority. This year included a major update to our store communication infrastructure and a new electronic customer sales application. Our core network resilience has been increased, whilst also increasing its capacity and improving cyber-security. The IT investment program continues to align and support our growth strategy. We have load tested our disaster recovery site throughout the year.	↔
KEY TRADING PERIODS **Link to strategic priorities** 4 Sales density 7 Improve profitability **Performance indicator** Sales performance **Risk appetite** Balanced **Risk profile after mitigating controls** Medium **Exec responsibility** Chief Executive Officer	Furniture retailing has historically relied on certain key trading days and periods, including bank holidays. Prolonged extreme cold, warm or unseasonal weather conditions over these key trading periods may reduce footfall in our stores, resulting in weak sales and potentially adverse effects on profitability.	The Group constantly monitors national, regional and branch results. Close monitoring and our ability to flex the marketing and advertising spend enables us to react quickly to changes in the marketplace. Our website enables customers to purchase easily without needing to visit a store. We actively monitor and forecast demand and, should this risk occur, we would review planned and tactical promotional activity to determine whether strengthening this would drive sales.	Our marketing strategy is under constant review, and we have undertaken significant work on improving our presence on digital channels. Improvements to our website that improve the customer journey and experience are in progress.	↔

Risk heading	Risk description	Mitigation	Progress in 2019	Change in risk level
SUPPLY CHAIN/ INFRA-STRUCTURE AND PRODUCT **Link to strategic priorities** *3* Product strategy *4* Sales density *6* Flooring growth *7* Improved profitability **Performance indicator** Sales performance Customer feedback Delivery optimisation **Risk appetite** Low to medium **Risk profile after mitigating controls** Medium **Exec responsibility** Logistics Director Commercial Director **Reports to** Chief Executive Officer	The majority of the products we sell are sourced from a small number of key suppliers based in the UK. If a supplier is unable to keep up with demand or ceases to trade this would disrupt our supply to customers. A proportion of the products sold by the Group are manufactured in the Far East. There is a risk of difficulty enforcing compliance and the assurance over ethical practices. We strive to deliver a safe, quality product in line with customer expectations. If we are unable to provide this there is a risk to the reputation of the Group, resulting in loss of customer confidence and declining sales volumes.	Our supply chain ensures that at least two factories can produce each product reducing the risk of disruption in the event of a supplier issue. We review supplier financial stability to identify any early signs of failure and intervene if necessary. All suppliers are required to be members of Sedex. We also require our suppliers to agree to independent audits of manufacturing facilities (including compliance to the Modern Slavery Act). Regular independent testing on products supplied to ensure ongoing compliance to current regulations. Product performance is monitored via the customer service team and regular meetings are held with suppliers to help eliminate and reduce product issues.	We have continued as members of Sedex to monitor risks of modern slavery within our supply chain. We have maintained our accreditation from the FIRA certified compliance scheme, and are proud that ScS was the first UK company to achieve this. Supplier performance has improved in the year, based on product quality, independent safety testing and on-time delivery metrics.	↔
OUR PEOPLE AND CULTURE **Link to strategic priorities** *1* Outstanding team *2* Customer experience *7* Improved profitability **Performance indicator** Colleague retention **Risk appetite** Low to medium **Risk profile after mitigating controls** Medium **Exec responsibility** HR Director Corporate Services Director **Reports to** Chief Executive Officer	The recruitment and retention of trained and engaged colleagues is essential to the delivery of a high standard of customer service, which is a key part of our proposition. We rely on the high quality and the experience of colleagues across the whole business. Poor retention will increase the risk of loss of knowledge and increase the cost of recruitment and retraining. Recent changes to the minimum living wage could affect the Group's cost base or affect our ability to retain staff.	The Group is accredited with Investors in People status. This forms part of a wider strategy for 'Building and inspiring an outstanding team'. Our terms and conditions of employment are constantly under review to ensure they remain competitive and fair within the sector. This again forms part of our wider strategy for 'Building and inspiring an outstanding team'. A succession plan which includes strategy and contingency measures should key individuals not be available, has been in place for a number of years and is reviewed and refreshed on an annual basis. We constantly review retention rates and further insight is gained through an exit interview process. Appropriate rewards and incentives are in place to secure the retention of our senior management team. The incentives focus on rewarding performance as well as recognising the need to retain the experience of our senior managers.	Following the successful launch of our refreshed strategies, this year we have consolidated the changes and significant investment in making ScS a great place to work. The business has recently launched an enhanced employee benefits scheme, including increased holidays and employee assistance programme. Further investment in training and development has been made to establish and close training gaps. We continue to carry out and respond to staff surveys reviewing regularly the progress that has been made in response to the feedback received. Staff turnover has reduced by 2.2% during FY19.	↔

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

REPUTATIONAL RISK

Risk heading	Risk description	Mitigation	Progress in 2019	Change in risk level
BRAND AND REPUTATION **Link to strategic priorities** 1 Outstanding team 2 Customer experience 7 Improve profitability **Performance indicator** Sales performance Customer feedback **Risk appetite** Low **Risk profile after mitigating controls** Low **Exec responsibility** Board	The Group recognises the need to protect its brand and reputation and that failure to do so effectively could result in a loss of confidence by customers, colleagues and other key stakeholders.	Key aspects of our business activities that have the potential to impact reputation are monitored closely and reported to the Operating Board. We have a number of processes in place to adhere to relevant standards ensuring our reputation for a high quality product and service is maintained. We are constantly reviewing: - Customer service levels through Trustpilot and other sources (including social media); - Product quality through working with our suppliers; and - Colleague engagement through staff engagement surveys. All colleagues are trained and advised on the Group's code of conduct, equality and diversity policies and all have access to a confidential whistle-blowing helpline. The integrity of our product sourcing is regularly monitored and reviewed, including independent review by Sedex.	We continued our focus on customer service and maintained our 5-star rating on Trustpilot. We reviewed, refreshed and relaunched our values, to renew our focus on making ScS a great place to work and shop. We continued to work closely with our suppliers and established a quality review and program for product quality. Data from customer services and audit results help us to guide suppliers through areas of focus to drive improvements. This has led to improvements in the year.	↔

FINANCIAL RISK

Risk heading	Risk description	Mitigation	Progress in 2019	Change in risk level
CREDIT RISK, LIQUIDITY AND CONSUMER CREDIT **Link to strategic priorities** 1 Outstanding team 2 Customer experience 4 Sales density 7 Improve profitability **Performance indicator** Sales performance Customer feedback Cost of consumer finance Net debt **Risk appetite** Low **Risk profile after mitigating controls** Medium **Exec responsibility** Chief Financial Officer **Reports to** Chief Executive Officer	**Supplier credit** The availability of supplier credit and the ability of suppliers to obtain credit insurance could have a significant impact on our suppliers' working capital requirements, which may have a material adverse impact on the Group's cash position and overall financial position.	We have developed strong relationships and credibility with credit insurers through regular communication, information, ongoing trading performance and the Group's increasing resilience. Robust forecasting facilities enable early discussion of possible issues, increasing the chances of positive solutions.	Suppliers provide regular updates on their credit insurance arrangements. The Group continues to improve its profitability and balance sheet strength.	↔
	Liquidity The business relies on cash generated from business activities to fund its working capital. A reduction or loss of access to cash would impact on the ability to pay suppliers and continue operations.	We have a long standing arrangement with our bank (which has been in place since 2015) for a £12.0m revolving credit facility in place until November 2021. See the viability statement on page 45 for further information.	We continued to maintain a strong financial position through careful monitoring and management. All covenants relevant to the bank facility improved in the year. Closing cash increased by £9.5m to £57.7m (2018: £48.2m).	

FINANCIAL RISK continued

Risk heading	Risk description	Mitigation	Progress in 2019	Change in risk level
CREDIT RISK, LIQUIDITY AND CONSUMER CREDIT continued	**Consumer credit** The Group's ability to offer interest-free credit to customers may be impaired as a result of high default levels, higher interest rates or the withdrawal or uncompetitive nature of consumer credit facilities provided by external finance companies – thereby reducing the competitiveness of a key part of the Group's customer proposition.	The Group has obtained the relevant permissions from the FCA to continue to provide interest-free credit to customers and continually monitors relevant compliance to obligations. Training is provided to retail staff and any complaints regarding activity are investigated by the Audit, Risk and Compliance team and reported to the Operating Company Board. We maintain relationships with a number of credit providers (including previous and potential providers) to reduce the risk of the facility being withdrawn. We regularly review default and acceptance levels with our finance partners.	We work closely with our finance providers to ensure that we adhere to relevant legislation and guidance. We maintained our close working relationship with our three finance providers. Default levels and acceptance levels have remained stable during the year.	↔

VIABILITY STATEMENT

The viability statement was updated in the prior year as a result of assessment against the FRC Financial Reporting Lab review on Risk and Viability Reporting published in November 2017. As there have been no further publications, the format of the current year statement remains consistent.

As explained in the Strategic Report, the Group's business model provides customers with high quality, competitively priced upholstered furniture, flooring and related products. The Directors are confident that consumer demand for these products will continue to remain in the longer term, and that our growth strategy (see pages 22 and 23) will ensure our business model will continue to bring long term sustainable success to the Group.

Due to the inherent pace of change in the retail environment, and the wider economic environment, the Group tends to ensure focus is on delivery of short to medium term goals. The strategy and associated principal risks underpin the Group's three-year strategic planning process ('the Strategic Plan'), which is updated annually. This process takes into account the current and prospective macro-economic conditions in the UK and the competitive tension that exists within the markets that we trade. Changing economic conditions which impact consumer confidence could have an impact on demand for high ticket items, and a three year period enables the Directors to plan with a reasonable confidence over this time horizon. This also aligns with the payback requirements of any significant capital investment (new stores).

Assessment of viability

The Strategic Plan is stress tested for severe but reasonable scenarios and the effectiveness of any mitigating actions that would reasonably be taken. The Strategic Plan was specifically stress tested against the key risks identified within the plan, with attention to the principal risks and uncertainties highlighted on pages 39 to 45. This included the modelling of:

- Various severities of downturn in revenue;
- Various severities of downturns in gross margin;
- The withdrawal of supplier credit insurance (inclusive of the above downturns), and
- A combination of all of the above.

Due primarily to the flexible nature of the cost structure of the Group, and additionally to the significant cash reserves held currently, the outcome of this stress testing satisfied the Directors with respect to the ongoing liquidity and solvency of the Group over the three year period under review. Approximately 76% of total Group costs are either variable or discretionary and as such, even in difficult trading conditions, these costs would also reduce, and in the most severe scenarios the dividend could also be restricted. These reductions, together with relevant mitigating actions and significant cash reserves, would ensure the Group could continue to meet its liabilities. Further to the above examples, the Directors are comfortable that the work done to minimise the risk to the supply chain, chiefly ensuring the use of a variety of suppliers, and ensuring multiple factories are able to produce similar product ranges, would be sufficient to limit the effect on the Group should that risk occur.

The Strategic Plan also encompasses the projected cash flows and headroom against financial covenants under the Group's existing facility. The Strategic Plan makes certain assumptions about the normal level of capital recycling likely to occur and therefore considers whether additional financing will be required. The Group continues to hold a significant cash balance and maintains an undrawn £12.0m committed revolving credit facility. The facility was extended in December 2017 and has a maturity date of November 2021. For the purposes of this exercise, we have assumed that the facility is extended by at least one year to November 2022, which would cover the three year time horizon we have used.

Conclusion

Based upon this assessment, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to 30 July 2022. In making this statement, the Directors have considered the resilience of the Group, taking into account its current position and the principal risks facing the business.

BOARD OF DIRECTORS

Alan Smith
Non-Executive Chairman

Date of appointment

22 October 2014

Committee membership

N A* R

Biography

Alan has held a number of roles for retail companies across the private equity and quoted sector previously, including Chairman and Chief Executive Officer of Robert Dyas, Chief Executive Officer of Somerfield, Non-Executive Director of Flybe Group and Managing Director of B&Q plc.

Key strengths

Retail, finance, strategy, marketing

External appointments

The Navy, Army and Air Force Institutes
The Royal Air Force Charitable Trust Enterprises
The Royal Air Force Charitable Trust
Brambledown Aircraft Hire

* In order to comply with the 2018 Corporate Governance Code Alan Smith will cease to be a member of the Audit Committee in FY20.

David Knight
Chief Executive Officer

Date of appointment

1 January 2002

Biography

David joined ScS in 1988 as a General Manager from Wades Department Stores, which he joined in 1978. He progressed to become the Branch Manager of the Group's flagship store, located at the Metro Centre in Gateshead. He became National Sales Manager in October 1995 and was appointed to the Board in November 1997 as Merchandising Director. In October 1999 he was promoted to the position of Managing Director, then to Chief Executive Officer in January 2002.

Key strengths

Retail, strategy, marketing, supply chain

Chris Muir
Chief Financial Officer

Date of appointment

4 April 2016

Biography

Chris joined ScS on 4 April 2016 as Chief Financial Officer. Prior to this he was Group Finance Director of Northgate plc, Europe's leading specialist in light commercial vehicle hire. He joined Northgate in 2003 as a Group Accountant and held a number of senior UK and group roles, including UK Finance Director and acting group CEO in the summer of 2014. He is a chartered accountant having qualified with Deloitte in 1999.

Key strengths

Financial and risk management, investor and banking experience, restructuring, change management

Committee membership key

A Audit Committee Chair
A Audit Committee Member
R Remuneration Committee Chair
R Remuneration Committee Member
N Nomination Committee Chair
N Nomination Committee Member

Ron McMillan
Non-Executive Director

22 October 2014

A R N

Ron is the Senior Independent Director and Chairman of the Audit Committee of N Brown Group plc and B&M European Value Retail S.A. He is a Non-Executive Director and Chairman of the Audit Committee of Homeserve plc. Until 2013 Ron worked in PwC's assurance business for 38 years and has deep knowledge and experience of auditing, financial reporting issues and governance. As the Northern Regional Chairman of PwC in the UK and Deputy Chairman of PwC in the Middle East, he acted as engagement leader to a number of major listed companies, including many in the retail sector.

Finance, financial reporting, governance, risk management

N Brown Group plc
B&M European Value Retail S.A.
Homeserve plc

Paul Daccus
Non-Executive Director

1 December 2014

N

Paul is Managing Director of Sun European Partners, LLP. He has more than 20 years of experience in mergers and acquisitions, specialising in private equity and acquisition finance. Prior to joining Sun European Partners, LLP in 2005, Paul served as a Director on corporate finance teams at Deloitte LLP and Arthur Andersen LLC. He received his Bachelor of Accountancy degree with Honours from Dundee University.

Finance, corporate finance, investment appraisal, restructuring

Sun European Partners LLP
Dreams Holdco Ltd
Dreams Topco Ltd
DRL Topco Ltd
Zara UK Holdco Ltd
Scotch and Soda NV

George Adams
Non-Executive Director

9 July 2015

R A N

George has a strong commercial and management background, with over 30 years of international experience across Europe and Asia. George spent 16 years with Kingfisher plc, in roles which included CEO of Europe Development, Group Commercial Director and Commercial Managing Director for B&Q. He has also held CEO positions at Spicers Group and Maxeda DIY Group and has both plc and private equity experience in the retail and consumer goods sector.

Retail, strategy, marketing, supply chain

FFX Ltd
Nobia AB
Stiga S.A.
Bradford and Sons Ltd

Angela Luger
Non-Executive Director

16 May 2019

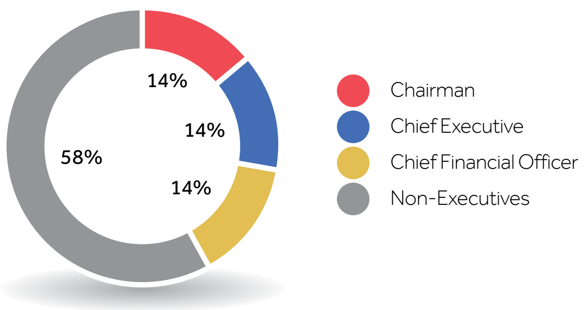
A N R

Angela is the Chair of TM Lewin Ltd, she is also Non-Executive Director for New Look Ltd and Portmerion Group plc. Angela began her career in FMCG marketing with Cadbury's, Coca Cola and Mars, prior to moving into retail. She spent 10 years at Asda, holding a variety of positions including Trading Director and Global Managing Director for George. She was MD of Debenhams, CEO of The Original Factory Shop and most recently was the CEO of N Brown Group plc, where she led the business through a significant digital transformation. Angela has significant experience in marketing, e-commerce and retail, including leveraging technology to optimise a value retail offering.

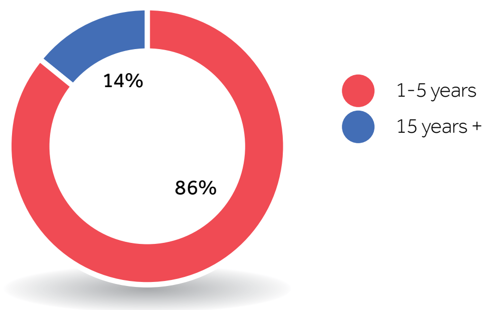
Retail, marketing, digital, strategy

Portmerion Group plc
New Look Ltd
TM Lewin Ltd

Executive/Non-Executive



Board tenure



CORPORATE GOVERNANCE STATEMENT

"This corporate governance statement sets out the main elements of the Company's corporate governance structure and how it complies with the UK Corporate Governance Code. It also includes information required by the Listing Rules and the Disclosure Rules and Transparency Rules."

Alan Smith
Chairman

Directors' attendance

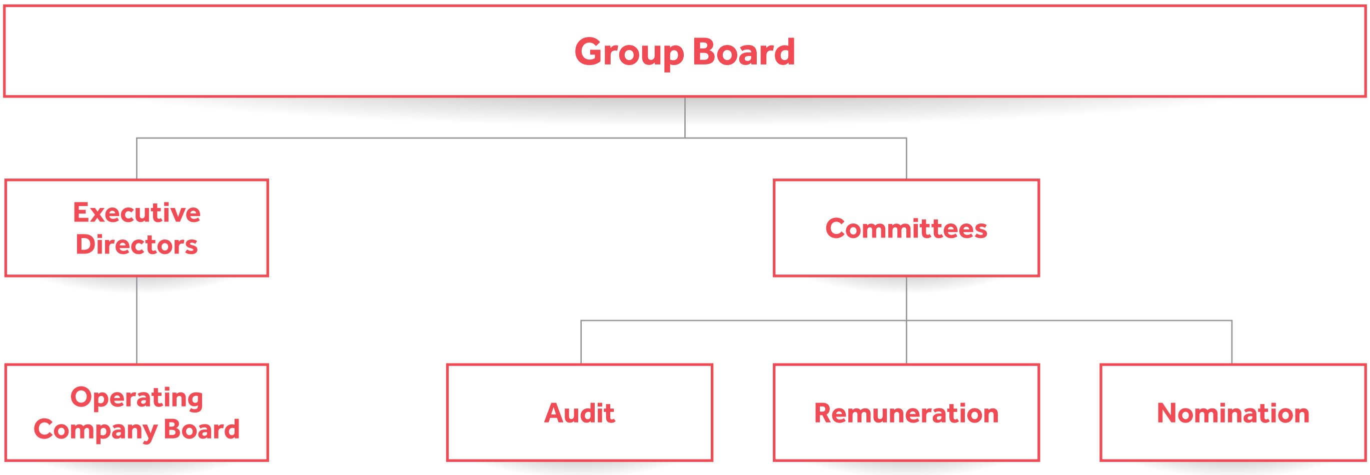
The Board held six meetings during 2019 and attendance at the meetings was as follows:

	PLC	Audit Committee	Remuneration Committee	Nomination Committee
Total no. of meetings	6	3	4	2
David Knight	6	3	4	2
Chris Muir	6	3	4	2
Alan Smith	6	3	4	2
Ron McMillan	6	3	4	2
George Adams	6	2	4	2
Paul Daccus	6	3	4	2
Angela Luger*	2	1	3	

Further meetings of the Board, Audit, Remuneration and Nomination Committees have also been held since the year end.

* Angela Luger was appointed on 16 May 2019.

Structure chart



Role of the Board

The Board is committed to high standards of corporate governance. The Company has complied (except where otherwise stated below) and intends to continue to comply with the requirements of the 2016 UK Corporate Governance Code.

The Company is led and controlled by the Board which is collectively responsible for the long-term performance of the Group. The Board focuses on the strategy, performance and governance of the Group. The Board has delegated certain responsibilities to committees to assist in discharging its duties and the implementation of matters approved by the Board. A summary of the terms of reference of each committee is set out on pages 50 and 51 and reports of each committee are set out on pages 52 to 70.

Detailed implementation of matters approved by the Board and operational day-to-day matters are delegated to the Executive Directors. The Executive Directors are also supported by experienced and able operational senior management.

Matters reserved for the Board

A formal schedule of matters is reserved for the approval of the Board, which includes:

- Approving of the Group's strategic aims and objectives, reviewing performance and business planning and oversight of the Group's operations;
- Approving any changes to the capital structure of the Group;
- Approving the financial reporting, budgets, dividend policy and any significant changes in accounting policies and practices of the Group;
- Ensuring maintenance of a sound system of internal control and risk management;
- Approving of any major capital projects and materially significant contracts for the Group;
- Ensuring a satisfactory dialogue with shareholders based on the mutual understanding of objectives;
- Approving of the structure, size and composition of the Board and the remuneration policy for all Directors and Senior Executives;
- Setting the division of responsibilities between the Chairman, Chief Executive Officer and Chief Financial Officer;
- Undertaking a formal and rigorous review of Board performance and corporate governance matters, and
- Approving and supervising of any material litigation, insurance levels of the Group and appointing the Group's professional advisors.

There is a rolling program of Board meetings throughout the year and there are six Board meetings presently scheduled for 2020.

All Board and committee members receive sets of Board packs in advance of the Board and Committee meetings. For Board meetings this includes current trading, stakeholder KPIs, management accounts and detailed papers on other matters where Board approval is required. The CEO and CFO present reports to the Board at each meeting on trading, financial performance and operational matters, along with updates on any significant health and safety, litigation or regulatory matters.

Composition of the Board

The Board comprises the Non-Executive Chairman, two Executive Directors, three independent Non-Executive Directors and a Non-Executive Director appointed by Sun Capital Partners Management V, LLC in their capacity as the principal shareholder.

The Company has increased its number of non-executive directors by one, during the year. Angela Luger was appointed to the Board on the 16 May 2019. This appointment means that the Board composition is compliant with the 2018 Corporate Governance Code.

The UK Corporate Governance Code recommends that smaller companies have at least two independent Non-Executive Directors, excluding the Chairman. The Company has met this requirement and Ron McMillan (Senior Independent Director), appointed 22 October 2014, George Adams, appointed 9 July 2015, and Angela Luger, appointed 16 May 2019 are all considered by the Group to meet the definition of an independent Director. Each of them is considered by the Board to be independent in character and judgement and free from relationships or circumstances which may affect, or could appear to affect, their judgement. Independence is determined by ensuring that the Non-Executive Directors do not have any material business relationships or arrangements (apart from their fees for acting as Non-Executive Directors) with the Group or its Directors which in the opinion of the Board could affect their independent judgement. Paul Daccus is not regarded as independent for the purpose of the UK Corporate Governance Code in view of his position as a Partner of Sun European Partner LLP and his interests in Sun Capital Partners Management V, LLC which hold shares in the Company.

On 22 October 2014, Sun Capital Partners Management V, LLC entered into a Relationship Agreement with the Company. Under the terms of that agreement Sun Capital Partners Management V, LLC are entitled to appoint one Non-Executive Director to the Board. At the year ended 27 July 2019, Sun Capital Partners Management V, LLC held 40.25% of the total issued shares in the Company.

The Board believes that the terms of the Relationship Agreement referred to above will ensure that the Company and other members of the Group are capable of carrying on their business independently of Sun Capital Partners Management V, LLC and that transactions and relationships between those parties and the Group are at arm's length on normal commercial terms.

All Directors have service agreements or letters of appointment in place and the details of the terms of these are set out in the Directors' Remuneration Report on pages 58 to 64.

CORPORATE GOVERNANCE STATEMENT CONTINUED

The Nomination Committee will review on an annual basis the Board's composition, experience and skills to ensure the effective working of the Board and the Standing Committees and the commitment of their members. The Chairman has met with each of the Non-Executive Directors during the year on a one-to-one basis, without the Executive Directors being present, to discuss matters relating to the Board, its balance and the monitoring powers of the Executive Directors.

The Chairman believes the current Board and its Committees have an appropriate balance of skills and experience to enable them to discharge their responsibilities effectively.

Where Directors have external appointments, the Board is satisfied that they do not impact on the time the Director needs to devote to the Company.

Division of responsibilities

The positions of Chairman and CEO are occupied by different individuals. There is a clear division of the roles and responsibilities between the Chairman and the CEO and no individual has unrestricted powers of decision making.

Alan Smith, as Chairman of the Board, is responsible for leading the Board, setting its agenda and overseeing its effectiveness. The Chairman facilitates the contribution of the Non-Executive Directors and constructive relations between them and the Executive Directors.

David Knight as CEO, together with Chris Muir as CFO, is responsible for the day-to-day management of the Group and the implementation of strategies approved by the Board as well as or along with the implementation of other Board decisions.

Diversity

The Group is satisfied overall with its record on diversity, and is aware of the need to monitor and review its level of diversity. Whilst the Group would have preferred to have a more diverse Board, appointments will always be made on merit as opposed to on the basis of gender targets, and this is considered in the best interests of the Group and its shareholders. During the year the Board appointed Angela Luger as a Non-Executive Director, this appointment was made as a move towards compliance with the 2018 Corporate Governance Code. The appointment also improved the gender diversity of the Board.

Conflicts of interest

Paul Daccus has an interest in the shares held by Sun Capital Partners Management V, LLC, which holds 40.25% of the ordinary share capital and voting rights in the Company, as a result of his partnership in Sun European Partners LLP.

Except as referred to above there are no potential conflicts of interest between any of the Directors or senior management within the Group and their private interests.

There is an established process of the Board for regularly reviewing actual or potential conflicts of interest. In particular, there is a process for reviewing transactions proposed to be entered into by related parties of Directors with any entities in the Group, including professional advice and consideration of it by the Board and the Company's corporate brokers on the application of the Listing Rules, the applicability and the appropriateness of any exemptions in respect of any transactions in the ordinary course of business and reporting to general meetings of shareholders under England and Wales Company Law. This process also includes consideration of the extent to which the Board may require external and any other reports and evaluations to be presented to it on any proposed transactions.

Committees of the Board

The Board has established and delegated authority to an Audit Committee, a Remuneration Committee and a Nomination Committee. A summary of the terms of reference of each of these committees is set out below. The full terms of reference of each of the committees is available at ScS Group plc head office.

Sub-Committee responsibilities

Audit Committee

- Financial reporting
- External audit
- Risk management and internal audit
- Fraud and anti-bribery
- Going concern and viability
- Data protection

Remuneration Committee

- Chairman and Executive Director pay
- Senior Executive pay
- Bonus schemes
- Long-term incentive plans
- Non-Executive Director pay

Nomination Committee

- Board structure
- Board appointments
- Board succession plans
- Senior Executive appointments

Audit Committee

The Audit Committee is chaired by Ron McMillan. The duties of the Audit Committee as delegated by the Board are contained in the terms of reference available at ScS Group plc head office, which in summary include:

- Monitoring the quality, effectiveness and independence of the external auditors approving their appointment, re-appointment and fee levels;
- Reviewing and monitoring the integrity of the financial statements and any other price sensitive financial releases of the Group;
- Monitoring the independence and activities of the Internal Audit, Risk and Compliance functions;
- Assisting the Board with the development and execution of a risk management strategy, risk policies and current risk exposures, including the maintenance of the Group's risk register; and
- Keeping under review the adequacy and effectiveness of the Group's internal financial controls and internal control and risk management systems.

The members of the Audit Committee are Ron McMillan (Chair), Alan Smith, George Adams and Angela Luger. Ron McMillan is an ICAEW chartered accountant and his experience formally as an audit partner of PwC fulfils the requirement under the UK Corporate Governance Code that one member of the Committee has recent and relevant financial experience.

The Committee as a whole has competence relevant to the retail sector, in which we operate. Ron McMillan, Alan Smith, and George Adams served on the Committee throughout 2019 and Angela Luger was appointed on 16 May 2019. All four remain in place at the date of this report.

In moving towards compliance with the 2018 Corporate Governance Code, Alan Smith as Chairman of the Board will cease to be a member of the Audit Committee with effect from 2020.

The Audit Committee meets not less than three times a year. Details of the activities of the Committee in the last financial year are set out on pages 52 to 57.

Remuneration Committee

The Remuneration Committee is chaired by George Adams. The Remuneration Committee sets the policy for the Group on executive remuneration. It determines the level of remuneration of the Chairman and the Executive Directors of the Company and makes recommendations in relation to other senior management.

In accordance with its terms of reference, the Committee prepares an annual Directors' Remuneration Report for approval by shareholders at the Annual General Meeting of the Company. The terms of reference for the Remuneration Committee are available at ScS Group plc head office.

The members of the Remuneration Committee are George Adams (Chair), Alan Smith, Ron McMillan and Angela Luger. George Adams, Alan Smith, and Ron McMillan served on the Committee throughout 2019 and Angela Luger was appointed on 16 May 2019. All four remain in place at the date of this report.

The Remuneration Committee meets not less than twice a year. Details of the activities of the Committee in the last financial year are set out on pages 58 to 64.

Nomination Committee

The Nomination Committee comprises all of the Non-Executive Directors. It is chaired by Alan Smith and its other members are Ron McMillan, George Adams, Angela Luger and Paul Daccus.

The duties of the Nomination Committee as delegated to it by the Board are contained in the terms of reference available at ScS Group plc head office, which in summary include:

- Reviewing the structure, size and composition of the Board, including the balance of Executive and Non-Executive Directors;
- Putting in place plans for the orderly succession of appointments to the Board and to senior management; and
- Identifying and nominating candidates for the approval of the Board, to fill Board vacancies when they arise.

The Committee meets at least annually.

During the 2019 financial year the Nomination Committee reviewed the size, structure and composition of the Board, with regard to the experience and skills represented on it and the balance of Executive and Non-Executive Directors represented on it.

The Committee recognised the need to keep under review certain areas where over the course of time, appointments may be appropriate to consider. The Nomination Committee also recognises the need to monitor and review diversity in relation to how the Group is led and represented. Appointments will always be made on merit, objective criteria, recognising our diversity policy but without setting gender targets and this is considered to be in the best interests of the Group and its shareholders.

Board performance evaluation

A review was undertaken during the 2019 financial year, an external consultant was used to assist with the review this year as required by the 2016 UK Corporate Governance Code. A review will be undertaken on an annual basis going forward and at least once every three years with an external consultant.

The external review identified the Group has a clear strategy, a strong compliance culture, and a good balance of knowledge and experience. It was recommended that the Board look at the composition and effectiveness of its committees and noted that further work was required around the Group's purpose and culture. The Board are committed to acting on the recommendations received.

Re-election of Directors

Based on the performance review by the Nomination Committee of the size, structure and composition of the Board with regard to the experience and skills represented on it, the Nomination Committee has recommended that each of the Directors be re-elected to the Board, as they each continue to be effective members of the Board and demonstrate commitment to their roles.

Risk management and internal control

The Board has overall responsibility for ensuring that the Group maintains a strong system of internal control.

The system of internal control is designed to identify, manage and evaluate, rather than eliminate, the risk of failing to achieve business objectives. It can therefore provide reasonable, but not absolute, assurance against material misstatement, loss or failure to meet objectives of the business due to the inherent limitations of any such system.

The key elements of the Group's system of internal controls are as follows:

Financial reporting: Monthly management accounts are provided to members of the Board which contain current financial reports. Reporting includes an analysis of actual verses budgeted performance and reasons for any significant differences. The annual budget is reviewed and approved by the Board. The Company reports half-yearly and publishes trading updates in line with market practice.

Risk management: The Group maintains a risk register, which is continually updated and monitored, with full reviews occurring on at least an annual basis. Each risk identified on the risk register is allocated an owner, at least at the level of senior manager within the business. The action required (where necessary) or acceptance of the risk is also recorded. The risk registers are provided to the Board, key risks and appropriate mitigating actions are monitored by the Board.

Information on key risks and uncertainties of the Group are set out on pages 36 to 45.

Monitoring of controls: There are formal policies and procedures in place to ensure the integrity and accuracy of accounting records of the Group and to safeguard its assets. The Board has carried out a review of the effectiveness of the internal controls during the year ended 27 July 2019 and for the period up to the date of approving the Annual Report and financial statements. The Board was satisfied after a review of the key risks to the business and relevant mitigating actions that they were acceptable for a business of the type, size and complexity as that operated by the Group.

Internal audit: The Group has established an Internal Audit, Risk and Compliance function which is responsible for the monitoring of the Group's role management approach and provides a line between operational managers and the Audit Committee.

Staff policies: There are formal policies in place in relation to anti-bribery and corruption and whistle-blowing policies in relation to the reporting of any suspected malpractice or wrongdoing. In addition, the Group has provided all employees with access to an independent organisation (Safecall) where any concerns regarding wrongdoing can be reported to the Group.

Compliance statement

The Company has complied with the provisions of the 2016 Corporate Governance Code during 2019, as applicable, except where stated above in this report.

The Board has also undertaken pro-active steps to ensure compliance with the 2018 Corporate Governance Code for 2020.

Shareholder relations

The Board recognises that good communication is key to maintaining shareholder relations, and as such we will endeavour to explain our actions and financial results on a regular basis and to respond to investor inquiries and feedback.

Meetings and calls are regularly made with institutional investors and analysts in order to provide the best quality information to the market.

The Company will communicate with its shareholders through the Annual General Meeting, at which the Chairman will give an account of the progress of the business over the past year, and will provide the opportunity for shareholders to raise questions with the Chairman and the Chairs of each of the Committees of the Board.

The Company also runs a corporate website at www.scsplc.co.uk, which is regularly updated with our releases to the market and other information and which includes a copy of this Annual Report.

Alan Smith
Chairman
30 September 2019

AUDIT COMMITTEE REPORT

"The Committee works closely with the Board and Group management to ensure that all significant risks are considered on an ongoing basis and that all communications with shareholders are properly considered."

Ron McMillan
Chair of the Audit Committee

Member and meetings in 2019	Member since	Meetings attended
Ron McMillan (Chairman)	2014	3
Alan Smith	2014	3
George Adams	2015	2
Angela Luger*	2019	1

* Angela Luger was appointed on 16 May 2019.

Dear Shareholder

During the year, the Audit Committee has continued to carry out a key role within the Group's governance framework, supporting the Board in risk management, internal control and financial reporting. The Committee also acknowledges and embraces its role of protecting the interests of shareholders as regards the integrity of published financial information and the effectiveness of audit.

In so doing, the Committee exercises oversight of the Group's financial policies and reporting, monitors the integrity of the financial statements and reviews and considers significant financial and accounting estimates and judgements. The Committee satisfies itself that the disclosures in the financial statements about these estimates and judgements are appropriate and obtains from the external auditor an independent view of the key disclosure issues and risks.

Whilst risk management is a Board responsibility, the Committee works closely with the Board and Group management to ensure that all significant risks are considered on an ongoing basis and that all communications with shareholders are properly considered.

In relation to risks and controls, the Committee ensures that these have been identified and that appropriate responsibilities and accountabilities have been set. A key responsibility of the Committee is to review the scope of work undertaken by the internal and external auditors and to consider their effectiveness.

During the year, the Committee again oversaw the process used by the Board to assess the viability of the Group, the stress testing of key trading assumptions and the preparation of the viability statement which is set out on page 45 in the principal risks section of the Strategic Report. The Committee also continued to monitor the implementation of IFRS 16.

The Committee considered whether the 2019 Annual Report is fair, balanced and understandable and whether it provides the necessary information to shareholders to assess the Group's performance, business model and strategy. The Committee considered management's assessment of items included in the financial statements and the prominence given to them. The Committee, and subsequently the Board, were satisfied that, taken as a whole, the 2019 Annual Report and Accounts are fair, balanced and understandable.

The Committee reviewed, on behalf of the Board, the Group's compliance with the Modern Slavery Act and its policies in relation to money laundering and anti-bribery.

Further information on the Committee's responsibilities and the manner in which they have been discharged is set out opposite. I am available to speak with shareholders at any time and shall be available at the Annual General Meeting in November to answer any questions you may have on this report. I would like to thank my colleagues on the Committee for their help and support during the year.

Ron McMillan
Chair of the Audit Committee

AUDIT COMMITTEE REPORT CONTINUED

Committee composition

The Committee comprises four members, three of whom are independent Non-Executive Directors. Two members constitute a quorum and the Committee must include one financially qualified member with recent and relevant financial experience. The Committee Chairman fulfils this requirement. All members are expected to have an understanding of financial reporting, the Group's internal control environment, relevant corporate legislation, the roles and functions of internal audit and external audit and the regulatory framework of the business.

The members of the Committee during the year were Ron McMillan, Alan Smith, George Adams and Angela Luger. Details of Committee meetings and attendance are set out in the Corporate Governance Statement on page 48. The timing of Committee meetings is set to accommodate the dates of releases of financial information and the approval of the scope and outputs from work programmes executed by the internal and external auditors. The biographies of the members of the Committee can be found on pages 46 and 47 and reflect the significant experience that the Committee members have of working in or with companies in the retail and consumer goods sectors.

Although not members of the Committee, David Knight, as CEO, Chris Muir, as CFO, and Paul Daccus, as a Non-Executive Director, attend meetings, together with representatives from the internal audit function and the external auditors.

In addition to scheduled meetings, the Committee Chairman meets with the Head of Audit, Risk & Compliance, the external auditors and the CFO during the year, and the internal and external auditors are provided with the opportunity to raise any matters of concern that they may have in the absence of the Executive Directors whether at the Committee meetings, or more informally, outside of them.

Responsibilities

The responsibilities of the Committee, as delegated by the Board, are set out in the terms of reference which are published on the Group's corporate website. They include the following:

- Reviewing and monitoring the integrity of the financial statements and other price sensitive financial releases of the Group;
- Monitoring the quality, effectiveness and independence of the external auditors and approving their appointment;
- Monitoring the independence and activities of the internal audit function;
- Assisting the Board with the development and execution of a risk management strategy, risk policies and current risk exposures, including the maintenance of the Group's risk register, and
- Keeping under review the adequacy and effectiveness of the Group's internal financial controls and internal control and risk management system.

Activities

In discharging its oversight of the matters referred to above and in the introductory letter to this report, the Committee was assisted by management and the internal and external auditors.

The recurring work of the Committee comprised:

- Consideration of the Annual Report and financial statements of the Group;
- Consideration of the interim results report and non-statutory financial statements of the Group for the half year;
- Consideration of the significant areas of accounting estimation or judgement;
- Consideration of the significant risks included in the Annual Report;
- Approval of the external auditors' terms of reference, audit plan and fees; and
- Approval of the internal audit plan.

The significant matters considered by the Committee during the year were:

- **Volume rebates with suppliers**
  The Group receives volume rebates from suppliers. The Committee gained an understanding of these arrangements, discussed them with management and the external auditors and satisfied itself with the controls that are in place to ensure that amounts received and receivable from suppliers are properly accounted for on a monthly basis and that the related judgements are limited.

  The volume rebate arrangements are pre-negotiated with suppliers and are split between suppliers with rebate 'hurdle' rates dependent on spend and those that have a flat rate. At the year end, the vast majority of hurdle rates were exceeded and therefore the level of judgement involved was significantly reduced. Where hurdle rates were not surpassed and the arrangements were not coterminous with the year end, judgements were required but the amounts involved were not material.

- **Completeness of stock provisions**
  The Group policy in relation to stock provisioning is to provide for obsolete, slow-moving and defective stocks. The Committee discussed with the CFO and the external auditors the judgements related to stock provisioning and the appropriateness of these in light of the aged stock analysis. The Committee satisfied itself that stock was not materially misstated.

- **Loss-making stores and onerous lease provisions**
  The Committee discussed with management the work performed in their calculation of the future cash flow models of poor-performing stores, which had been used to determine whether any impairment had been suffered over the carrying value of the assets held at these stores, and whether any of the lease commitments held at those stores had become onerous in nature and required providing for. The Committee discussed with management and the external auditors the validity of cash flow projections and the significant financial assumptions used, including the selection of appropriate discount and growth rates used over the remaining lease period. The Committee satisfied itself that asset values were not materially misstated, and that the current onerous lease provision was appropriate.

- **Implementation of new accounting standards**
  The Committee received papers from management in relation to the implementation of IFRS 9, 15 and 16 and satisfied itself that IFRS 9 (Financial Instruments) and IFRS 15 (Revenue from Contracts with Customers) will not have a material impact on the Group's financial statements.

  IFRS 16 (Leases) will have a material impact on the financial statements for the financial year beginning on 28 July 2019 and the Committee continued to monitor and review the disclosures in relation to IFRS 16 in the Group's financial statements.

- **Warranty Risk**
  The Committee discussed the risk to warranty sales, following the FCA's proposal to enforce statistical reporting of this type of insurance product, and also the risk that the product may become regulated by changes to future legislation. Mitigating actions were discussed and the Board remains focused on monitoring developments in this area. Further details of this risk and the mitigating controls are set out in the principal risks and uncertainties section on pages 39 to 45.

Going concern

The Committee considered the going concern position of the Group. In so doing, the Committee ensured that the assumptions underpinning forecasts were stress tested and that the factors which impact risks and uncertainties were properly considered.

Other areas of focus for the Committee were:

- The Group's significant accounting policies and practices;
- The Group's exposure to tax and VAT issues;
- Fraud risk and its mitigation;
- The Group's business continuity and disaster recovery procedures; and
- The adequacy of the Group's IT systems.

In addition to the above, the Committee undertook the following:

- Approval of the external auditors' terms of engagement;
- Consideration of the level of non-audit services provided by the external auditors and the application of the Group's policy towards these;
- Consideration of the significant risks included in the Annual Report;
- Consideration of the interim results and non-statutory financial statements of the Group for the half-year ended 27 January 2018;
- Consideration of the processes that are in place to ensure that assurance can be provided on whether the Annual Report and Financial Statements are considered to be fair, balanced and understandable. The Committee receives drafts and working papers relating to the Annual Report and Financial Statements in order to facilitate its review and input. Management representations and external and Internal Audit reviews have also taken place to provide this assurance to the Audit Committee and the Board;
- Consideration of significant areas of accounting estimation or judgement;
- Consideration of the Market Abuse Regulations and insider dealing policies, and
- Making recommendations to the Board in respect of the Committee's findings, and reporting on how the Committee has discharged its duties.

The meetings at which the above and certain other matters were discussed were as below:

	September 2018	March 2019	July 2019
Internal Audit ('IA')			
IA annual evaluation	Y		
Review of IA work plan, reports and updates	Y	Y	Y
Risk management update	Y	Y	Y
External auditors			
Review of audit report on preliminary results and Annual Report FY18	Y		
Review of audit report on the Group's interim results FY19		Y	
Approval of the external audit plan and strategy			Y
- Review of external auditors' effectiveness/independence/and quality of audit		Y	
- Update on the provision of any non-audit services provided by the external auditors			Y
Accounting matters			
Review of IFRS 9, 15 and 16, and related disclosures	Y	Y	Y
Update on IFRS 16 process and preparation for implementation	Y	Y	Y
Other matters			
Review of the Group Data Protection Policy and implementation process	Y	Y	Y
Year-end final review of related party transactions	Y		
Consideration of UK Corporate Governance Code 2018 and disclosure regulations for FY20			Y
Effectiveness of the Audit Committee			Y
Effectiveness and adequacy of the Compliance function			Y
Effectiveness of procedures for detecting fraud			Y
Modern Slavery update	Y	Y	Y
Stock provisions	Y		
Loss making stores and onerous leases	Y		
Volume rebates	Y		
Stakeholder and employee engagement	Y		
Impairment of property plant and equipment (PPE)	Y		
Group tax	Y	Y	
Going concern & viability	Y		
Warranty risk	Y	Y	Y

AUDIT COMMITTEE REPORT CONTINUED

Internal control and risk management

The Board has overall responsibility for ensuring that the Group maintains a sound system of internal control. There are inherent limitations in any system of internal control and no system can provide absolute assurance against material misstatements, loss or failure. Equally, no system can guarantee elimination of the risk of failure to meet the objectives of the business. Against that background, the Committee has helped the Board develop and maintain an approach to risk management which incorporates risk appetite, the framework within which risk is managed and the responsibilities and procedures pertaining to the application of the policy.

The Group is proactive in ensuring that corporate and operational risks are identified and managed. A corporate risk register is maintained which details:

1. The risks and the impact they may have;
2. Actions to mitigate risks;
3. Risk scores to highlight the implications of occurrence;
4. Ownership of risks; and
5. Target dates for actions to mitigate risks.

A description of the principal risks is set out on pages 39 to 45.

The Board has confirmed that it has carried out a robust assessment of the principal risks facing the Group, including those which threaten its business model, future performance, solvency or liquidity.

The Board considers that the processes undertaken by the Committee are appropriately robust and effective and in compliance with the guidelines issued by the Financial Reporting Council. During the year, the Board has not been advised by the Committee nor has it identified itself, any failings, frauds, or weaknesses in internal control which it has determined to be material in the context of the financial statements.

The Committee continues to believe that appropriate controls are in place throughout the Group, that the Group has a well-defined organisational structure with clear lines of responsibility and a comprehensive financial reporting system. The Committee also believes that the Company complies with the FRC guidance on Risk Management, Internal Control and related Financial Business Reporting.

Board reporting

I provide an update of matters discussed to the Board and the minutes of Audit Committee meetings are circulated to the Board.

Internal Audit

The Head of Audit, Risk & Compliance has a direct reporting line to the Committee and attends every Committee meeting to present internal audit and risk management reports. During the financial year internal audit has undertaken a programme of work which was discussed and agreed with both management and the Committee and which was designed to address both risk management and areas of potential financial loss. Internal audit has also established procedures within the business to ensure that new risks are identified, evaluated and managed and that necessary changes are made to the risk register.

During the year the Committee reviewed reports from internal audit in relation to:

- Fraud risk, anti-money laundering, anti-bribery and corporate crime and compliance with the Modern Slavery Act;
- Compliance assessments of the Group's retail outlets and distribution centres;
- Risk management, including the effectiveness of mitigating actions in relation to the Group's principal risks, including IT systems, business continuity and cyber-risk;
- Purchase to pay processes – flooring;
- Strategy and change management;
- Stock control processes;
- Refunds processes;
- Sales ledger adjustments;
- Pricing strategy;
- Merchandise and buying processes;
- Business reporting;
- Human resource processes;
- IT Processes;
- Customer after care services;
- Cash and banking processes;
- Adequacy of the compliance function;
- Central administration processes;
- Health & Safety processes;
- Purchase Ledger;
- Payroll processes and controls; and
- Management Accounts.

In relation to each of the above, internal audit made recommendations for improvement, the vast majority of which were agreed by management and either have been or are being implemented.

The Committee has evaluated the performance of internal audit during the year and concluded that significant progress has again been made. Internal audit is viewed as a function which has a strategic plan developed in collaboration with the Committee, and which provides constructive challenge and demonstrates a realistic and commercial view of the business.

External auditors

Corporate Governance rules in the UK for FTSE 350 companies require the external auditor appointment to be formally retendered after 10 years, and for the auditors to be changed after 20 years. PwC have been the Group's auditors for nine years, with the current year being the fifth and last audit signed off by Jonathan Greenaway, the partner who is currently responsible. As part of the Audit Committee's desire to operate within best practices, during the year the Committee oversaw an external audit tendering process and invited PwC and two other firms to submit proposals for 2020 and beyond. Following this process, the Committee recommended to the Board that PwC be asked to continue as the Group's auditors. The new partner responsible for the Group's Audit is Philip Storer.

The Committee has, in conjunction with the Board and the management team, reviewed the effectiveness of the external auditors, in relation to both audit and non-audit services and has satisfied itself that the work undertaken by the external auditors was effective.

Whilst there was no specific FRC review of the Group's audit this year, the Committee discussed with PwC the results of the 2019 FRC Audit Quality Review of PwC as a whole, and the proposed improvement plans arising from the findings. The Committee will continue to monitor progress against these plans.

The Committee has established policies in relation to the provision of non-audit services by the auditors. The external auditors are not permitted to perform any work that they may be later required to audit or which might affect their objectivity and independence or create a conflict of interest. Furthermore, the external auditors may not perform any work prohibited by the Ethical Standards published by the Financial Reporting Council.

All fees for non-audit work require pre-authorisation by the Chief Financial Officer and the Audit Committee, and non-audit fees paid to the auditors are not permitted to exceed 70% of audit fees over a three-year period. Fees paid and payable to PwC in respect of the year under review are as shown in note 4 on page 87.

The Committee reviewed the reports prepared by PwC on key audit findings and any significant deficiencies in the control environment, as well as the recommendations made by PwC to improve processes and controls, together with management's responses to those recommendations. PwC did not highlight any significant internal control weaknesses and management has committed to making appropriate changes in controls in other areas highlighted by PwC.

Ron McMillan
Chair of the Audit Committee
30 September 2019

DIRECTORS' REMUNERATION REPORT

"On behalf of the Board, I am pleased to present the Directors' Remuneration Report for the year ended 27 July 2019."

George Adams
Chairman of the Remuneration Committee

Member and meetings in 2019	Member since	Meetings attended
George Adams (Chairman)	2015	4
Ron McMillan	2014	4
Alan Smith	2014	4
Angela Luger*	2019	3

* Angela Luger was appointed on 16 May 2019.

Dear Shareholder

Our Annual Report on Remuneration outlines how the Remuneration Policy, approved at the 2018 Annual General Meeting, was applied for 2019. We have concluded that our current, three-year policy continues to provide an appropriate framework.

The Company remains focused on its three-year strategy and is keen to ensure that the incentive arrangements remain appropriate to successfully deliver this. The Board believes that maintaining the highest standards of corporate governance is essential to protecting shareholder value and that the alignment of remuneration with the forward looking business strategy is an integral part of this process. As such the Committee has fully debated the proposed remuneration changes to ensure that the incentive plans in place appropriately reward the delivery of our strategy, whilst ensuring alignment with shareholders.

The Annual Report on Remuneration is subject to an advisory vote at our 2019 Annual General Meeting.

The current policy is set out for shareholders' information starting on page 65.

Remuneration principles

The key aims of the Remuneration Policy are to:

- Attract, retain and motivate high-calibre senior management;
- Focus senior management on the delivery of the Group's business objectives;
- Promote a strong and sustainable performance culture;
- Incentivise profitable growth, and
- Align the interests of the Executive Directors and senior management with those of the shareholders.

In promoting these objectives, the Committee's aims are to develop a remuneration policy in a simple, transparent and understandable way.

Remuneration Policy:

The key elements to our Remuneration Policy are as follows:

1. Base salaries

We intend to continue our approach to reviewing base salaries, giving consideration to the Group's performance, market conditions, individual performance and the increases awarded across the Group to employees. Salaries will be benchmarked periodically against companies that are both main and AIM listed who are of similar size and complexity. Salaries will generally be set at the mid-market level. It is not our intention to increase the current base salaries of the CEO and CFO in 2020.

2. Bonus

The Committee remains committed to ensuring that the majority of our bonus arrangements are based on financial measures, but retains discretion to introduce corporate, divisional and individual performance measures if it is felt appropriate for the business to do so. In 2020, the Committee intends to set bonus performance conditions purely on financial measures, there are no proposed changes to the level of award which remains at a maximum of 140% of basic salary for the CEO. It has been agreed that the level of the award for the CFO will increase from a maximum of 100% of basic salary to a maximum of 140%. This decision was reached following a benchmarking exercise that identified a need to increase the CFO reward arrangements to better align with the current median market remuneration and the size and complexity of the role.

3. LTIP

Whilst there has been considerable debate by the market generally as to the suitability of LTIPs, the Committee considers that the current LTIP of the Company based on earnings per share (EPS) targets does provide an appropriate mechanism to align the Executive Directors with the shareholder experience. EPS is well understood by shareholders and participants alike, is consistent with previous awards and supports the delivery and execution of our long-term business strategy.

A two-year holding period has been applied to awards since 2019, the Committee believing that the current three-year performance period remains an appropriate mechanism. The Committee intends to retain the current upper limit of 150% of basic salary and has ensured that the EPS targets set are stretching.

4. Shareholding guidelines

Our current shareholding guidelines require a minimum holding equating to 200% of basic salary, once that level has been obtained.

2019 Performance related pay

For 2019, the annual bonus was based solely on EBITDA. Sales and revenue for 2019 grew despite the challenging market backdrop.

A pre-bonus EBITDA of £22.7m was above the minimum target set for the year, as a result the bonus was paid out at 99.25% of the maximum. The Committee considers that this fairly reflects the results for the year. Further information on the bonus and targets can be found on pages 60 and 61 of our Annual Report on Remuneration.

As set out in our Remuneration Policy on pages 65 to 70 the Committee considered the Long-Term Incentive Plan to be awarded to the Executive Directors. A Long-Term Incentive Plan was awarded during 2019, the details of which can be found in our 2018 Annual Report. A Long-Term Incentive Plan vested during the year, the earnings per share (EPS) for the Group was 30.27 pence which exceeds the minimum performance condition set of 27.3 pence. The committee have therefore agreed an award of 56.33% of the maximum.

DIRECTORS' REMUNERATION REPORT CONTINUED

Remuneration proposals for 2020

Base salary

During the year, the remuneration of the two Executive Directors of the Company, along with the senior management of the Group, was reviewed.

The Remuneration Committee decided that, given the uncertain market conditions, the salaries of the CEO and the CFO will remain unchanged from their remuneration in 2019. No basic pay awards were given to any of the senior management team. Details of the average increase given to other employees is detailed on page 63.

There will be no change in the benefits framework for Executive Directors. Pension amounts have been frozen in monetary values at their current level.

Annual bonus

The 2020 bonus will be based on EBITDA performance for the Executive Directors and will be adjusted to account for the changes resulting from IFRS 16 and supporting our strong emphasis on delivering profitable growth. The maximum award opportunity remains 140% of salary for the CEO and the award for the CFO will be increased from 100% of salary to 140% from 2020. The Committee considers the forward-looking EBITDA targets to be commercially sensitive, but full disclosure of the targets and performance against them will be provided on a retrospective basis in next year's Remuneration Report.

2020 Long-Term Incentive Plan (LTIP)

The Committee has agreed to a LTIP award in 2020 which is in keeping with our remuneration policy. Awards will be granted at 150% of salary for the CEO and 150% of salary for the CFO. The awards will be subject to an EPS performance condition. Taking into account internal forecasts for business performance over the next three years, as well as external expectations of performance, the Committee agreed targets for 2020 awards which are set out on page 61.

It is noted that with the implementation of IFRS 16, changes will impact on EPS performance at the point of vesting. This new accounting standard will be implemented in 2020. The impact is that future cash flows relating to property and vehicle leases will be capitalised and shown on the balance sheet. Rental charges will no longer exist, the charge being replaced by depreciation and finance costs over the lease term.

The Committee therefore intends to adjust the EPS targets when the impact of IFRS 16 has crystallised. Whilst we have all the data we require with regards to property and vehicle leases, the final impact of IFRS 16 will not be known until we reach the relevant year. The adjustment is intended purely to reflect the changes created as a result of IFRS 16 and are not an amendment to the agreed targets per se.

The Committee has included a two-year hold period for these awards. The Committee considers that the targets are stretching and will ensure that significant reward is only available for delivery of a strong performance.

Shareholder feedback

We value the views of our shareholders and we actively welcome any feedback on our Remuneration Policy and its implementation. In reviewing our Remuneration Policy for approval at our 2018 Annual General Meeting we sought the views of our larger investors.

We hope you find this report helpful and informative and we hope to receive your support for our Annual Report on Remuneration at our Annual General Meeting on 27 November 2019.

Annual Remuneration Report

Executive Directors remuneration in 2019

Elements of remuneration

Salary

The decision was made to leave the CEO and CFO's salaries unchanged.

The current basic salaries as at 30 September 2019 are:

- David Knight: £306,000
- Chris Muir: £240,000

The CEO's salary and the current CFO's salary benchmark broadly in line with the market median.

Pension and other benefits

The Executive Directors are eligible to pension benefits equating to 20% of their basic salary, which are non-contributory. The CEO and the CFO receive £10,000 and £9,960 per annum, respectively, of pension benefits into their pension fund, the balance is paid as cash allowance. The committee have agreed to freeze the current monetary value of the CEO and CFO's pension, In the event of a future uplift to their basic salary the pension will remain as a capped fixed contribution.

The CEO and the CFO receive a car allowance of £18,624 and £17,000, respectively.

The Executive Directors are also provided with private medical insurance and Life Assurance that provides cover of up to four times base salary.

Annual bonus

The Executive Directors received annual bonuses in 2019. The bonuses were based on EBITDA. No bonus is payable unless a threshold level of EBITDA is achieved. The details of the targets and how the bonus was calculated are set out below.

Pre-bonus EBITDA	£17,758,614	£19,771,457	£21,246,686	£22,721,914
% maximum	12.5%	50%	75%	100%
David Knight	£53,550	£214,200	£321,300	£428,400
Chris Muir	£30,000	£120,000	£180,000	£240,000

Bonuses are calculated on a straight-line basis for performance between target levels.

In light of performance in 2019 (pre-bonus EBITDA of £22.7m), the Remuneration Committee approved payments of £425,187 for David Knight (CEO) and £238,200 for Chris Muir (CFO), representing a pay-out at 99.25% of the maximum. Malus and clawback rules apply to all bonuses awarded.

For 2020 the maximum bonus opportunity is unchanged at 140% of base salary for the CEO. For the CFO the bonus opportunity will be increased from 100% of base salary to 140%, following on from a benchmarking exercise. The bonus is based on the achievement of stretching EBITDA targets. The Committee does not disclose the targets in advance as they are commercially sensitive. Retrospective disclosure of the EBITDA targets will be included in next year's report.

Long-term incentives

The LTIP due to vest during 2019 for the performance-based £nil cost options granted on 17 October 2016, as the EPS for the Group was 30.27 pence which exceeds the minimum performance condition set of 27.3 pence. The committee have therefore agreed an award of 56.33% of the maximum. Full details of the awards and the performance conditions attached are set out in the 2016 Annual Report.

During the year, the Executive Directors were granted a Long-Term Incentive Plan award with a face value of 150% of salary each. The awards were made in the form of nil-cost options and were over 206,200 and 161,726 shares respectively for the CEO and CFO. The awards have a three-year vesting period, plus a two-year hold period and the average share price on the date of grant, 15 October 2018 was 222.6 pence. As disclosed in last year's Annual Report, the following EPS targets were applied:

EPS figure (in 2021)	Percentage of award that vests
Less than 28.9p	Nil
28.9p	25%
Greater than 28.9p but less than 37.0p	Straight-line basis between 25% and 100%
37.0p	100%

The Committee has agreed to award a Long-Term Incentive Plan in 2020. The CEO and CFO will be awarded nil cost options with a face value of 150% of base salary subject to EPS targets being met. The awards have a three-year vesting period, plus a two-year holding period, and are subject to the following targets:

EPS figure (in 2022)	Percentage of award that vests
Less than 31.6p	Nil
31.6p	25%
Greater than 31.6p but less than 38.7p	Straight-line basis between 25% and 100%
38.7p	100%

Given the anticipated impact of IFRS 16 on EPS, it the Committee's intention to adjust the EPS measures to account for IFRS 16 once the impact has crystallised.

All-employee share plans

The Company offers an all-employee UK Share Incentive Plan (SIP). All employees on completion of six months service become eligible to join. Under the SIP employees may elect to acquire up to £150 worth of shares in the Company every month or pay a maximum one-off lump sum of £1,800 in a tax year.

The Executive Directors are eligible to participate in the SIP on the same basis as other employees.

Single figure table of total remuneration Executive Directors – audited

The audited table below shows the aggregate remuneration of the Directors of the Company during 2019 and 2018:

	Salary £	Benefits** £	Bonus £	LTIP*** £	Pension* £	Total £
David Knight						
2018	306,000	20,836	427,372	–	61,200	815,408
2019	**306,000**	**20,798**	**425,187**	**272,255**	**61,200**	**1,085,440**
Chris Muir						
2018	240,000	17,818	239,424	–	48,000	545,242
2019	**240,000**	**18,605**	**238,200**	**213,534**	**48,000**	**758,339**

* David Knight and Chris Muir opt to receive part of their pension contributions as a cash allowance.
** Benefits of the Directors are discussed in detail on page 65.
*** The value of the LTIP award is calculated using the average share price over a 3 month period ending on 27 July 2019.

Payments to past Directors and loss of office payments – audited

There were no payments to past Directors for loss of office in the year ended 27 July 2019 (2018: none).

Remuneration of the Chairman and Non-Executive Directors – audited

The structure of Non-Executive Directors fees, and their levels, were set by the Board on admission. No review is expected during 2020.

The fees of the Non-Executive Directors are set by the Board and take account of the Chairmanship of Board committees and the time and responsibility of the roles of each Director.

DIRECTORS' REMUNERATION REPORT CONTINUED

The fees paid for 2019 to the Non-Executive Directors were as follows:

	2019 £	2018 £
Alan Smith	**125,000**	125,000
Ron McMillan	**60,000**	60,000
George Adams	**60,000**	60,000
Angela Luger (appointed 16 May 2019)	**10,642**	–

Our Non-Executive Directors (excluding the Chairman) have a base salary of £50,000. Ron McMillan and George Adams each receive an additional £10,000 per annum for chairing the Audit and Remuneration Committees respectively.

There were no other amounts disclosable for the Non-Executive Directors for the year.

Directors' shareholding and share interests – audited

The table below sets out the number of shares held or potentially held by Directors (including connected persons or related parties where relevant) as at the financial year end 2019.

Director	Shares held beneficially	Unvested options
Alan Smith	18,096	–
Ron McMillan	–	–
George Adams	2,000	–
Paul Daccus	–	–
Angela Luger	–	–

	Share interests held beneficially	Nil cost options subject to performance*	Option awards vested	Total
David Knight				
Number	1,476,958	383,109	144,195**	2,004,262
Value at year end	£3,311,635	£859,007	£323,314	£4,493,956
Chris Muir				
Number	–	300,478	95,234	395,712
Value at year end	–	£673,732	£213,534	£887,266

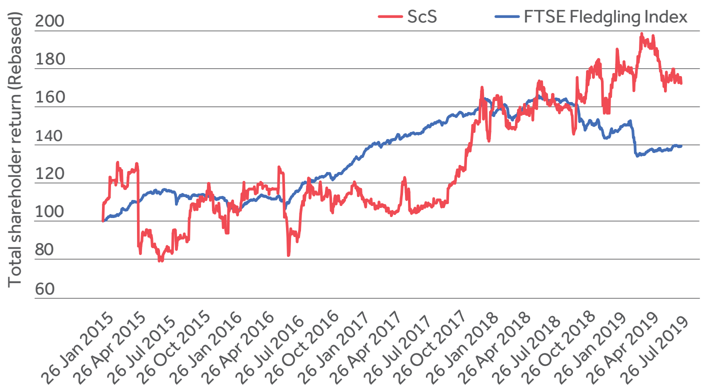
* Awards vest subject to EPS performance over a three-year period. This relates to awards granted in 2018 and 2019.
** Option awards include 22,772 options at an exercise price of 175 pence and 121,423 nil-cost options.

The value of share interests at the year end is based on the average share price in the 3 months ending on 27 July 2019 of 224.22 pence.

The Executive Directors are required to build and maintain a shareholding equivalent to 200% of base salary. The shareholding for David Knight was significantly in excess of this level at the year end. The beneficial shareholding for Chris Muir is currently nil, but he is required to build up a shareholding, which will be achieved by the retention of share options awarded under the LTIP.

Performance graph and pay table

The chart below illustrates the Company's Total Shareholder Return (TSR) performance against the performance of the FTSE Fledgling Index, from the date of the IPO of the Company. This index was selected as it represents a broad equity market index which includes companies of a comparable size.



Source: Datastream (Thomson Reuters).

This graph shows the value, by 26 July 2019, of £100 invested in SCS Group on 26 January 2015 compared with the value of £100 invested in the FTSE Fledgling Index.

Changes in the remuneration of the CEO

Total remuneration of the CEO in each of the past nine years is as follows:

	Salary £	Bonus £	Benefits £	LTIP £	Pension £	Total £
David Knight						
2019	**306,000**	**425,187**	**20,798**	**272,255**	**61,200**	**1,085,440**
2018	306,000	427,372	20,836	–	61,200	815,408
2017	306,000	203,418	20,685	–	61,200	591,303
2016	300,000	420,000	21,290	–	60,000	801,290
2015	300,000	–	20,183	–	60,000	380,183
2014	300,000	177,450	20,336	–	60,000	557,786
2013	247,500	274,073	16,302	–	49,500	587,375
2012	247,500	199,635	13,929	–	71,625	532,689
2011	247,500	–	17,265	–	49,500	314,265

The table below shows the percentage changes in the CEO's remuneration between the financial year ended 27 July 2019 and the year ended 28 July 2018 compared to the amounts for UK full-time employees of the Group for each of the following elements of pay:

	2019 £	2018 £	% Change
CEO			
Salary	**306,000**	306,000	0.0%
Benefits	**20,798**	20,836	(0.2%)
Bonus	**425,187**	427,372	(0.5%)
LTIP	**272,255**	–	–
Average per employee (excluding the CEO)			
Salary	**26,378**	24,646	7.0%
Benefits	**1,014**	832	21.9%
Bonus	**2,443**	2,531	(3.5)%

Relative importance of the spend on pay

The table below shows the movement in spend on pay for all employees compared with the distributions to shareholders.

	2019 £'000	2018 £'000	% Change
Total pay for employees	**60,308**	61,279	(1.6%)
Distributions to shareholders	**6,547**	6,032	8.5%

Remuneration Committee

The members of the Committee for the 2019 financial year were George Adams (Committee Chairman), Alan Smith, Ron McMillan and Angela Luger (from 16 May 2019). All of the current members are independent Non-Executive Directors.

The responsibilities of the Committee are set out in the Corporate Governance section of the Annual Report on page 50.

The Committee may invite the Executive Directors or other members of the senior management to attend meetings and assist the Committee in its deliberations as appropriate. No person is present during any deliberations relating to their own remuneration or involved in determining their own remuneration. During the course of the year David Knight, Chris Muir, Paul Daccus and Marie Liston, Corporate Services Director, were in attendance as required.

The attendance of members of the Committee at meetings of it was as follows:

Name	Attendance
George Adams	4
Alan Smith	4
Ron McMillan	4
Angela Luger (appointed 16 May 2019)	3

DIRECTORS' REMUNERATION REPORT CONTINUED

Advisors to the Committee

During the year the Committee received independent advice on executive remuneration matters from New Bridge Street, a trading name of Aon Hewitt Ltd. New Bridge Street was appointed by the Remuneration Committee following a selection process.

New Bridge Street is a member of the Remuneration Consultants Group and, as such, voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. The Committee has received advice provided by New Bridge Street during the year and is comfortable that it has been objective and independent. Total fees received by New Bridge Street in relation to remuneration advice provided to the Committee during 2019 amounted to £15,619, excluding VAT, based on the required time commitment.

Shareholder voting

At the Annual General Meeting on 21 November 2018, the total number of shares issued with voting rights was 40,009,109. The resolution to approve the Remuneration Report and the resolution to approve the Remuneration Policy received the following votes from shareholders.

Resolution	Votes for	Percentage of votes cast in favour	Votes against	Percentage of votes cast against	Votes withheld	Total votes cast	Percentage of issued share capital voted
To approve the Annual Report on Remuneration	30,409,593	99.96%	12,926	0.04%	0	30,422,519	76.04%
To approve the Remuneration Policy	30,408,893	99.96%	13,626	0.04%	0	30,422,519	76.04%

This report has been approved by the Board of Directors of the Company and signed on behalf of the Board by:

George Adams
Chairman of the Remuneration Committee
30 September 2019

REMUNERATION POLICY REPORT

Remuneration Policy overview

Total remuneration packages for the Executive Directors established at the time of the IPO will provide the basis for the structure of Director Remuneration for the Group. Variable elements of reward including performance-based annual bonuses and long-term incentives will form a significant part of the overall remuneration package for Executive Directors and senior management.

How the views of shareholders are taken into account

The Committee recognises that developing a dialogue with shareholders is constructive and informative in developing and applying the Remuneration Policy. The Committee monitors the feedback received from shareholders during the year and takes into account the best practice guidance issued by institutional shareholders and their representative bodies.

The Directors' Remuneration Policy

The Directors' Remuneration Policy was approved by shareholders at the 2018 AGM and took effect from that date. As part of the review process, feedback was sought and received from major shareholders. This report has been prepared on behalf of, and has been approved by, the Board. It complies with The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

Changes from the previously approved policy

The key changes between the previous policy and this new policy are:

- Broadening the structure of the bonus scheme to include non-financial measures.
- The introduction of a minimum two-year holding period for LTIP awards and an increase in the maximum award that can be granted from 100% of basic salary to 150% of basic salary.
- An increase in shareholding requirements from 100% of basic salary to 200% of basic salary.
- Further minor amendments have been made either to clarify aspects of the previous policy or to reflect consequential amendments following the material amendments described above.

Policy

Remuneration element	Purpose	Operation	Maximum
Base salary	This is the basic pay and reflects the individual's role, responsibilities and contribution to the Group.	Base salaries are reviewed annually with changes typically taking effect from the beginning of the relevant financial year. On reviews, consideration is given by the Committee to a range of factors, including the Group's overall performance, market conditions and individual performance of Executives and the level of salary increases given to employees across the Group.	Base salaries will be benchmarked periodically against companies that are both main and AIM listed, who are of a similar size, sector and complexity. Salaries will generally be set at the mid-market levels.
Benefits	To provide benefits which are valued by the individual and assist them in carrying out their duties.	The Group will provide market competitive benefits, which may periodically be reviewed. Executives will generally be eligible to receive those benefits on similar terms to other senior Executives. Executives are entitled to a car allowance or a Company car, car insurance, other running costs and fuel, death in service life assurance, private medical care and any other Group-wide benefits including employee discount. Business travel and associated hospitality are provided in the normal course of business. The Committee has the discretion to add or remove benefits to remain market competitive or to meet the needs of the business. In addition, where the Committee considers it appropriate to do so, additional relocation expenses may be paid.	We ensure that benefits offered are in line with the market.
Pension	To provide a market competitive pension contribution (or equivalent cash allowance).	Executive Directors may take pension benefits as a contribution to defined contribution personal pension plans, or on reaching the lifetime limit for pension contributions the Executive Director can receive cash in lieu.	A total maximum value of 20% of base salary for existing Executive Directors.

REMUNERATION POLICY REPORT CONTINUED

Remuneration element	Purpose	Operation	Maximum
Bonus	Provide an incentive linked to the financial performance of the Group and any other appropriate individual or business measures.	The Committee intends for the majority of the bonus to be based on financial measures, but has the discretion to introduce operational, corporate, divisional and/or individual performance measures if appropriate to the business. Performance conditions, once set, will generally remain unaltered, but the Committee has the right in its absolute discretion to make adjustments during any performance period to reflect any events arising which were unforeseen when the performance conditions were originally set by the Committee. Bonuses are normally paid in cash.	The current annual bonus potential for the CEO and CFO is 140% of base salary and senior managers. The threshold bonus levels will be no more than 25% of their respective maxima. As the regulations require a formal cap for a three-year period, future bonus potential will only increase where appropriate against market data and, in any event, will be subject to an overall maximum of 200% of salary for any Executive Director.
Long-term incentives	To align the Directors with the long-term performance of the business and the returns received by shareholders.	Awards may be made annually as options (including nil cost options) or as conditional share awards based on performance conditions. The Committee may set performance conditions typically over a three-year period. Performance is normally based on earnings per share targets, but different measures and targets may be used alongside or instead of earnings per share for future awards at the discretion of the Committee. Performance conditions, once set, will generally remain unaltered, but the Committee has the right in its absolute discretion to substitute, vary or waive the performance conditions during any performance period in case of events arising which were unforeseen when the performance conditions were first set by the Committee, provided that such substitution, variation or waiver is reasonable and (other than in the case of a waiver) produces a fairer measure of performance and is not materially less difficult to satisfy. Dividend equivalents will be made as either a cash payment or delivery of Plan Shares in an amount equal in value to the dividends that would have been payable on the number of vested Plan Shares under the award in respect of the period between the award date and the date on which the award vested or, where the award is an option and a holding period applies, to the date of expiry of the holding period or exercise (if earlier). A two-year post-vesting holding period shall apply to LTIP awards granted to Executive Directors and may apply (at the discretion of the Committee) in relation to LTIP awards granted to others.	The policy is to award Executive Directors nil cost share options equating to no more than 150% of their basic salary in respect of each financial year. No more than 25% of an award can be earned for a threshold performance. A two-year post-vesting holding period will be applied to awards from 2019 onwards.
Shareholding guidelines	Executive Directors are expected to maintain their minimum shareholding levels once they have been obtained.	The Committee will review shareholding annually against policy. The Committee reserves the right to alter the shareholding guidelines during the period of the policy but without making the guidelines any less onerous overall.	The minimum required level of shareholding is 200% of base salary of the relevant Executive.

Remuneration element	Purpose	Operation	Maximum
Employee share plan	To encourage share ownership by employees and participation in the long-term success of the Group, the Group operates an employee share incentive plan for UK employees which was adopted in April 2015.	Executive Directors can participate in the employee share incentive plan (SIP) on the same terms as other employees of the Group in the UK.	Under the rules of the SIP employees can purchase shares from their pre-tax and pre-national insurance salary through a resident SIP trust. Although the Company has no current intention to do so, the Company may also award matching shares (in proportion to the number of shares an employee chooses to purchase), or to make an award of free shares. The maximum amount that can be purchased, offered as a match or awarded for free under the SIP is subject to the published HMRC annual limits.

Payment of statutory entitlements and settlement of claims

The Company may pay any statutory entitlements to which an Executive Director is entitled, or settle or compromise any claims made in connection with the termination of employment of the Executive Director where the Committee considers such claims to have a reasonable prospect of success that it is in the best interests of the Company to do so.

Remuneration Policy and other employees

As well as the Executive Directors, other senior management will also participate in the performance based annual incentive plan to be adopted under the Remuneration Policy above. A small group of senior management also participates in the Long-Term Incentive Plan for performance share awards.

The Company is committed to widespread share ownership. The Company employee share incentive plan (SIP), which was adopted prior to admission, has been launched. Under the SIP, Executive Directors are eligible to participate on a basis consistent with all other employees.

In setting the Remuneration Policy going forward, the Committee will also have regard to pay structures across the broader Group. The Committee takes into account the general base salary increase for the broader workforce when undertaking annual salary reviews for the Executive Directors, and will consider consultation with the wider workforce should it be felt appropriate to do so.

Operation of variable pay

Annual incentive plan

The Committee will set the performance targets annually under the annual incentive plan to take account of the Company's strategic plan and financial performance. The performance targets are set by the Committee based on a range of factors including against the budget for the financial year. The metrics adopted by the Committee and the weighting of them may vary in relation to the Company's strategy each year.

The Committee sets a threshold on-target and maximum pay-out target under the plan.

Long-Term Incentive Plan (LTIP)

The Committee will regularly review the performance targets in relation to the LTIP to take account of the Company's strategic plan and financial performance. Targets will be set by the Committee at the time of the grant of each award.

The Committee will operate the scheme in accordance with the plan rules which were approved by shareholders in January 2015. Under the plan rules the Committee has authority to vary the terms of an existing award in certain circumstances. This includes the ability to:

- Settle awards in cash in extremis;
- Make adjustments to the number of shares under option, in the event of a change in the share capital of the Company; and
- Permit the early vesting of awards in the event of a change in control of the Company or, if appropriate to do so, on cessation of employment (see policy on service contracts and payments for loss of office).

Clawback

The Annual Incentive Plan and the LTIP rules include provisions for malus and clawback within a three-year period following payment or vesting if the Committee concludes that there has been a material mis-statement of financial results; an error has been made in assessing any performance targets; conduct of the individual which amounts to fraud or gross misconduct; events or behaviour of the individual leading to censure of the Company by a regulatory authority which has an impact on the reputation of the Company which justifies clawback being operated, or where the Committee discovers information from which it concludes that a bonus or award was paid or vested to a greater extent than it should have been. Malus and clawback provisions have applied to awards made since January 2015.

REMUNERATION POLICY REPORT CONTINUED

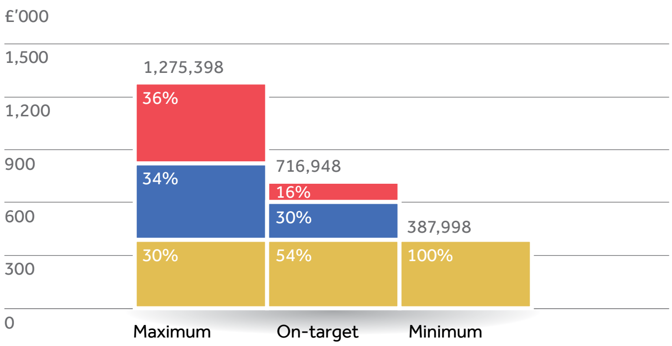
Potential reward scenarios

The graphs below show an estimate of the Executive Directors' remuneration package as it will be implemented for 2019. Share price movements and dividend accrual have been excluded from the indicative scenarios below.

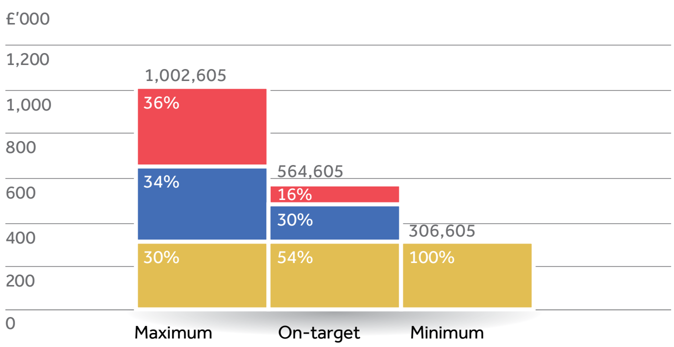
Assumptions

- The minimum scenario reflects fixed remuneration only which is base salary, pension and benefits.
- The on-target scenario reflects the fixed remuneration plus 50% of the maximum annual bonus under the annual incentive plan, and 25% vesting under the LTIP being the threshold level (assuming an award of 150% of salary to Executive Directors under the LTIP).
- The maximum scenario reflects fixed remuneration plus 100% of the maximum annual bonus under the annual incentive plan which is 140% of base salary and 150% vesting under the LTIP (assuming an award of 150% of salary under the LTIP).

David Knight (Chief Executive Officer)



Chris Muir (Chief Financial Officer)



Fixed Bonus LTIP

Discretions retained by the Committee in operating variable pay schemes

The Committee operates the Group's various incentive plans according to their respective rules and (in the case of the Share Incentive Plan) in accordance with relevant legislation and HMRC guidance. In order to ensure efficient administration of these plans, certain operational discretions are reserved to the Committee. These include:

- Determining who may participate in the plans;
- Determining the timing of grants of awards and/or payments under the plans;
- Determining the quantum of any awards and/or payments (within the limits set out in the policy table above);
- In exceptional circumstances, determining that a share-based award shall be settled (in full or in part) in cash;
- Determining the performance measures and targets applicable to an award (in accordance with the statements made in the policy table above);
- Where a participant ceases to be employed by the Group or relocates abroad, determining whether 'good leaver' status shall apply;
- Determining the extent of vesting of an award based on assessment of the performance conditions, including discretion as to the basis on which performance is to be measured if an award vests in advance of normal timetable (on cessation of employment as a 'good leaver' or on the occurrence of corporate events);
- Whether, and to what extent, pro ration shall apply in the event of cessation of employment as a 'good leaver' or on the occurrence of corporate events;
- Whether malus and/or clawback shall be applied to any award and, if so, the extent to which they shall apply, and
- Making appropriate adjustments to awards on account of certain events, such as major changes in the Group's capital structure.

Recruitment and promotions

The remuneration package for a new Executive Director would be set in accordance with the terms of the Company's Remuneration Policy at the time of the appointment.

Additionally on appointment of any new Executive Director (whether by external recruitment or internal promotion) the Remuneration Policy will permit the following:

- The UK regulations do not require that caps on fixed pay apply to a new recruit and the Committee reserves the right to set fixed pay at such levels as it considers necessary although, in practice, it envisages abiding by the caps set out in this policy. Variable pay will be capped at the limits set out in the policy for existing Directors.
- If a new Executive Director's salary is set on appointment below the median market rates, phased increases (as a percentage of salary) above those granted generally to other employees may be awarded subject to the individual's performance and development.
- On pensions, the intention is to limit the pension provision (provided either through a company contribution to a defined contribution scheme or paid as a cash allowance in lieu of pension) to 12.5% of salary to all new Executive Directors and members of the senior management team. However, the Committee reserves the discretion to provide a pension provision in excess of this and up to a maximum of 20% of salary if necessary to do so in a recruitment situation.
- The Company may compensate a new Executive Director for amounts forgone from the individual's former employer in addition to ongoing remuneration provided under the policy (as permitted under Listing Rules) taking account of the amount forfeited, the extent of any performance conditions, the nature of the award and the time period for vesting.
- The annual incentive plan would operate in accordance with its terms pro-rated for the period of employment, and depending on the appointment timing, different performance targets might be set as the Committee considers appropriate.

- On an internal appointment, any variable pay element awarded in respect of the individual's former role would be allowed to pay out according to its terms, with any relevant adjustment to take account of the appointment. Any other ongoing remuneration obligations existing prior to the appointment would also continue.
- On any appointment, the Committee may agree that the Company will meet the appropriate relocation expenses.

Service contract and payments for loss of office

Main provisions on termination

The service contract for the CEO and CFO is indefinite but terminable either by the Company or the Executive Director on 12 months' notice. The service contract for the CEO is dated 19 December 2014 and for the CFO 8 January 2016.

An Executive Directors' service contract can also be terminated without notice or payment of compensation except for pay accrued up to the termination date on the occurrence of certain events such as gross misconduct.

Payment in lieu of notice equal to the base salary only for the unexpired period of notice can be paid under the Executive Directors' Service agreements.

Ordinarily, an Executive Director shall not be entitled to receive any benefits or allowances following their cessation of employment. However, the Committee may in exceptional circumstances allow an Executive Director to continue to receive appropriate benefits or allowances (such as reasonable outplacement or legal fees) for a limited period following cessation.

There are no enhanced provisions on a change of control under the Executive Directors' service contracts. Should a change of control event occur then awards under the bonus and Long Term Incentive Plans shall become payable as soon as practicable after the event date. The awards will be pro-rated to reflect the extent to which the relevant performance targets have been met at the date of the relevant event, and on a time-apportioned basis although the Committee has discretion to disapply time-apportionment if it considers it appropriate to do so.

Any new contracts will be on similar terms.

The service contracts of the Executive Directors are available for inspection at the registered office of the Company.

Annual bonus on termination

There is no contractual entitlement to annual bonus on termination or if an Executive Director is under notice. Under the annual incentive plan, the Committee has absolute discretion to permit a bonus to be paid to a leaver or under notice based on the full or part-year performance, subject to consideration by the Committee of the reasons for the individual leaving. A full or pro-rata time based bonus may be awarded, and this may be paid either at or before the normal payment date.

Performance share plans on termination

Share-based awards made under the Company's share plans are governed by the relevant plan rules. Under the rules of the LTIP, unvested awards shall ordinarily lapse on the individual giving or being given notice of termination of employment, except in certain prescribed 'good leaver' scenarios or unless the Committee in its discretion permits an award to vest on such terms as it may specify in its absolute discretion.

In determining the extent of any vesting, the Committee will take into account the achievement of any applicable performance targets. A pro-rata reduction would normally be applied on a time-apportioned basis, although the Committee has discretion to disapply this requirement if it considers it appropriate to do so. Early vesting of outstanding awards may be permitted at the discretion of the Committee.

Awards which may have vested before giving or receiving notice of termination of employment remain exercisable for a period of six months after leaving or (if later) the expiry of any holding period which the award was subject to. The Committee has the discretion to extend this period.

REMUNERATION POLICY REPORT CONTINUED

Chairman and Non-Executive Directors

Fees

The level and structure of fees for the Non-Executive Directors was set by the Board from admission. The fees of the Non-Executive Directors are set by the Board taking account of the Chairmanship of Board Committees and the time and responsibility of the roles of each of them. The fees are paid in cash. The Committee has responsibility for determining fees paid to the Chairman of the Board. All fees are subject to the aggregate fee cap for Directors in the articles of association, which is currently £400,000 per annum.

Details of the fees paid to the Non-Executive Directors are set out in the Remuneration Report. The Chairman and the Non-Executive Directors are entitled to be reimbursed for all expenses reasonably incurred by them in the performance of their duties. The Chairman and Non-Executive Directors do not participate in any bonus or share plans of the Company.

The Non-Executive Directors do not have service contracts. They are appointed for an initial three-year period subject to being re-elected by members annually.

Remuneration element	Purpose	Operation	Maximum
Non-Executive Directors' fees	Helps recruit and retain high quality, experienced individuals. Reflects time commitment and role.	The level and structure of fees was set by the Board at admission. The fees consist of an annual basic fee plus additional fees paid for the Chairmanship of Board Committees. Limited benefits relating to travel and accommodation may be provided in relation to the performance of any Director's duties. Non-Executive Directors' fees are set by the Executive Directors with reference to external data on fee levels in similar businesses, having taken account of the responsibilities of individual Directors and their expected annual time commitment.	The aggregate amount of Directors' fees is limited by the Company's articles of association.

Letters of appointment

Alan Smith and Ron McMillan have letters of appointment dated 22 October 2014 for an initial period of three years and are subject to three months' notice of termination by either side at any time and subject to annual re-appointment as a Director by the shareholders. George Adams' letter of appointment is dated 9 July 2015, and Angela Luger's letter of appointment is dated 16 May 2019. Alan Smith and Ron McMillan were re-appointed for a further term of three years commencing 22 October 2017. George Adams was re-appointed for a further term of three years commencing 9 July 2018. The appointment letters provide that no other compensation is payable on termination. Paul Daccus is appointed under the terms of a Relationship Agreement with Sun Capital Partners Management V, LLC dated 22 October 2014.

Insurance

All of the members of the Board have the benefit of Directors and Officers Liability Insurance which gives them cover for legal action which may arise against them personally.

DIRECTORS' REPORT

Activities and results
The Directors have pleasure in presenting their Annual Report and audited consolidated financial statements for the year ended 27 July 2019. Some of the information required to be part of the Directors' Report can be found elsewhere in this document as detailed in the following paragraphs and is incorporated into this report by cross-reference.

ScS is one of the UK's leading furniture and flooring retailers, operating from 100 ScS stores principally located in modern retail park locations across the country.

Management Report
The Directors' Report, together with the Strategic Report, set out on pages 1 to 45, form part of the Management Report for the purposes of DTR 4.1.5R.

Strategic Report
The Strategic Report sets out a review of the business of the Group during the year ended 27 July 2019 and the position of the Group at the end of that period to enable shareholders to assess how the Directors have performed their duty under section 172 of the Companies Act. The review also describes the principal risks and uncertainties facing the Group and provides a fair review of the Group's business at the end of the financial year and the Group's future developments.

Risk management
The Board oversees the development of processes to manage risks appropriately. The Executive Directors and Operating Board Directors implement and oversee risk management processes and report to the Board on them. The Board also identifies and reviews key business risks. Further details can be found on pages 36 to 45.

UK Corporate Governance Code
The corporate governance statement setting out how the Company complies with the UK Corporate Governance Code 2016 and which includes a description of the main features of its Internal Control and risk management arrangements in relation to the financial reporting process is set out on pages 48 to 51, which form part of this report.

Non-financial information statement
In addition to the above referenced sections of the Annual Report, the Stakeholder Index and Non-financial information sections of the Annual Report set out on pages 34 to 35 are intended to help stakeholders understand the Group's development, performance, and impact of its activities, information relating to the environment, employee, social, respect for human rights, anti-corruption and anti-bribery matters in accordance with the Non-Financial Reporting requirements contained in sections 414CA and 414CB of the Companies Act 2006.

Results and dividend
The financial statements set out the Group's results for the year ended 27 July 2019 and are contained in pages 74 to 103. The Group's profit after tax for the financial year ended 27 July 2019 of £11.4m (2018: £10.7m) is reported in the consolidated statement of comprehensive income on page 79.

The Board is recommending a final dividend of 11.20p per ordinary share, which together with the interim dividend of 5.50p per ordinary share paid in May 2019, results in a full-year dividend of 16.20p. This dividend, if approved, will be paid on 2 December 2019 to shareholders on the register on 8 November 2019. The ex-dividend date is 7 November 2019.

Movements in reserves are shown in the statement of changes in equity on page 80.

Share capital
Details of the Group's issued share capital are shown in note 18 on page 93.

The Group has one class of ordinary shares which carry no fixed income. Each share carries the right to one vote at general meetings of the Group. The ordinary shares are listed on the Official List and are traded on the London Stock Exchange. No person has any special rights over the Group's share capital and all issued shares are fully paid.

Details of outstanding employee share options and the operation of relevant schemes are shown in note 20 on pages 94 and 95.

Going concern
Having considered the Group's current trading and cash flow generation, including severe but plausible stress testing scenarios, the Directors have concluded that it is appropriate to prepare the Group financial statements on a going concern basis.

Directors and their interests
Details of the Directors of the Company as at 27 July 2019 are shown on pages 46 and 47 and their interests in shares and share awards made to them under share incentive schemes in the Company are shown in the Directors' Remuneration Report on page 62, all of which form part of this report. There have been no changes in the Board of the Company since that date.

The Directors who served throughout the year in review were as follows:

Alan Smith	Non-Executive Chairman
George Adams	Non-Executive Director
Paul Daccus	Non-Executive Director
Ron McMillan	Non-Executive Director
Angela Luger	Non-Executive Director (appointed 16 May 2019)
David Knight	Chief Executive Officer
Chris Muir	Chief Financial Officer

DIRECTORS' REPORT CONTINUED

Directors' indemnities

As permitted by the Company's articles of association, the Directors have the benefit of an indemnity which is applicable in certain circumstances. The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance.

Employee involvement

The Group's policy is to actively involve its employees in the business and to ensure that matters of concern to them, including the aims and objectives and the financial and economic factors which impact thereon, are communicated in an open and regular manner. This is achieved principally through three sales conferences held at meaningful times during the year supported by regular senior management meetings and briefings, both on a national and regional basis, and a comprehensive regular newsletter which is made available to all employees.

The Group is committed to providing equality of opportunity to employees and potential employees. This applies to recruitment, training, career development and promotion for all employees, regardless of physical ability, gender, sexual orientation, religion, age or ethnic origin. Full and fair consideration is given to employment applications by disabled persons wherever suitable opportunities exist, having regard to their particular aptitudes and abilities. Training and career development support is provided where appropriate. Should an employee become disabled, efforts are made to ensure their continued employment with the Group, with retraining being provided if necessary.

Employee engagement is considered further within our Stakeholder Index on page 35.

Business relationships

The Group's need to foster business relationships with suppliers, customers and others is considered further within our Stakeholder Index on page 35.

Charitable and political donations

During the year, the Group made charitable donations, including funds raised by employees, of £18,000 (2018: £20,000). No political donations have been made (2018: £nil).

Employee Benefit Trust

The Group established the ScS Group plc Employee Benefit Trust (EBT) with Sanne Fiduciary Services Limited as the Trustees in Jersey in January 2015. The purpose of the EBT continues to be to hold shares in trust in connection with the Group's share incentive schemes.

The EBT has waived any dividends which it may be entitled to receive in respect of ordinary shares held by it, and has also agreed to waive voting rights to such shares.

Major interest in shares

As at 11 September 2019 the following shareholders have notified the Company of their interest in 3% or more of the Company's issued share capital:

	Number of shares held	% of issued share capital
Parlour Product Holdings (Lux Sarl)*	16,103,024	40.25
Artemis Investment Management	4,244,040	10.61
Milton Asset Management	1,627,266	4.07
Stadium Capital Management	1,498,062	3.74
Mr David Knight	1,476,958	3.69
Huntington Management	1,369,287	3.42
Columbia Threadneedle Investments	1,200,000	3.00

* A Sun Capital Partners company.

Annual General Meeting

A notice convening the Company's Annual General Meeting on 27 November 2019 will be issued to shareholders separately.

Auditors

The Group's independent auditors, PricewaterhouseCoopers LLP (PwC), have indicated their willingness to continue in office and the Audit Committee has recommended that PwC remain in office. A resolution to re-appoint PwC as auditors will be put to the members at the Annual General Meeting.

So far as the Directors are aware, there is no relevant audit information of which the auditors are unaware. The Directors have taken all steps that they ought to have to make themselves aware of any relevant information and to establish that the auditors are aware of that information.

By order of the Board

Chris Muir
Company Secretary
30 September 2019

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- State whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and whether United Kingdom Accounting Standards, comprising FRS 101, have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- Make judgements and accounting estimates that are reasonable and prudent; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The Directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group and Company's performance, business model and strategy.

Each of the Directors, whose names and functions are listed in the Board of Directors section on pages 46 and 47 confirm that, to the best of their knowledge:

- The Company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the Company;
- The Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- The Directors' Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

By order of the Board

Chris Muir
Company Secretary
30 September 2019

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SCS GROUP PLC

Report on the audit of the financial statements

Opinion

In our opinion:

- ScS Group plc's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 27 July 2019 and of the group's profit and the group's and the company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report, which comprise: the consolidated and company statements of financial position as at 27 July 2019; the consolidated statement of comprehensive income, the consolidated and company statements of cash flows, and the consolidated and company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

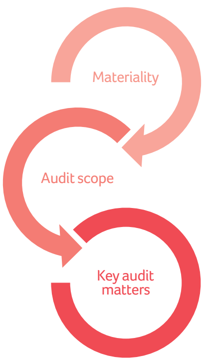
We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the company.

Other than those disclosed in note 4 to the financial statements, we have provided no non-audit services to the group or the company in the period from 29 July 2018 to 27 July 2019.

Our audit approach

Overview



- Overall group materiality: £1,136,000 (2018: £1,180,000), based on 0.35% of total revenues.
- Overall parent company materiality: £700,000 (2018: £700,000), based on 1% of total assets.

- We performed an audit of the complete financial information of the Group's trading entity A Share & Sons Limited, and the Company.
- The timing of the audits for the statutory accounts for the Group, the Company and the subsidiary holding companies took place at the same point in time and, as such, as at the date of this opinion we have audited all material balances across the Group.

- Impairment of assets and onerous leases in relation to loss making stores.
- Completeness and accuracy of stock provisions.
- Volume rebates from suppliers.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Listing Rules and UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or increase the group's EBITDA, or through management bias in manipulation of accounting estimates. Audit procedures performed by the group engagement team included:

- Discussions with management and internal audit, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Review of legal expenditure in the year to identify potential non-compliance with laws and regulation;
- Review of internal audit reports in so far as they are related to the financial statements;
- Evaluation of management's controls designed to prevent and detect irregularities, in particular their anti-bribery controls;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to impairment of assets, onerous lease provisions, manipulation of judgements in respect of rebate hurdle rates and inventory provisions (see related key audit matter's below);
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Impairment of assets and onerous leases in relation to loss making stores Refer to page 54 (Audit Committee Report). ScS Group plc has 99 stores at year end. The nature of the business is such that, when costs have been allocated on a store by store basis, some stores are considered to be loss making. This gives rise to a risk that fixed assets on a store by store level may not be recoverable and therefore an impairment may need to be charged or that the cash flows generated by the store do not cover the lease costs, resulting in an onerous lease. We recognise that there is judgement in arriving at any potential impairment of assets and/or onerous leases with management needing to take into account lease lengths, future forecasts, remaining net book value and allocation of costs and use of an appropriate discount rate. As such, the judgements involved were an area of focus.	We obtained the impairment workings and onerous lease calculations from management and checked their arithmetical accuracy and agreed them to the underlying trial balance. We then tested on a sample basis the store by store asset, cost and revenue allocation through vouching to invoice. In respect of the impairment of asset calculation, we agreed that central costs had been allocated on a reasonable basis to the underlying stores with no exceptions noted. There were no issues noted with the underlying data used in calculating the impairment provision or the onerous lease charge. Management's assessment of which stores were at risk of impairment or of having an onerous lease were based on the forecasted future performance of individual stores in the group's portfolio. In order to assess the reasonableness of this we considered the robustness of the group's forecasting process and their underlying historic accuracy. Management's forecasting was considered to be suitably robust and accurate. For the stores most at risk, we reviewed management's plans to return the stores to profitability. We assessed the reasonableness of the assumptions used and performed sensitivities where appropriate. This included, but was not limited to, assessment of store growth rates and discount rate. We concluded that the level of impairment in the store portfolio and that the level of provision in respect of onerous leases was materially correct.
Completeness and accuracy of stock provisions Refer to page 54 (Audit Committee Report). The Group holds £19.2m of inventory at the year end. The nature of the business is such that stock held at the stores to display certain ranges is likely to become aged or sell at a lower price, which could be lower than its cost. As such there is a material element of inventory that has a risk that this may be held at a cost higher than its net realisable value. We recognise that there is judgement in arriving at any potential value of provision for these items with management needing to take into account future saleability of the item, potential proceeds and underlying cost. As such, the judgements involved were an area of focus.	The integrity of the aged stock listing was tested, with the inventory type and stock ageing being vouched to invoice on a sample basis. There were no issues noted with the underlying data used in calculating the provision. To check whether stock items were being sold at less than book value, a sample of stock items was selected and the book value compared to the sales price and any associated provision. No material exceptions were noted and we concurred with the provision held for aged stock items. Where a calculation was involved, management's calculation of the provision was re-performed and the appropriateness of the calculation was considered. Our results showed that management's calculations were reasonable.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SCS GROUP PLC CONTINUED

Key audit matter	How our audit addressed the key audit matter
Volume rebates from suppliers Refer to page 54 (Audit Committee Report). Volume rebates are negotiated by ScS Group plc as part of its dealings in the normal course of business with suppliers. Judgement arises when agreements are not co-terminus with the Group's year end and contain spending thresholds or 'hurdle rates' that may change the rebate percentage offered for all spend in the period. In mitigation, hurdle rates are not included in all contracts, there is quarterly settlement of rebates and the vast majority of non-coterminous agreements exceeded the hurdle rate at the year end.	We sent confirmation requests to a sample of suppliers, asking them to confirm the year end rebate and percentage included in the contract as well as the overall spend in the year. Where a response was not received, we agreed the year end rebate and percentage to the underlying contract. For the total supplier spend during the year, we tested on a sample basis to invoice and settlement. We then agreed that the rebate was calculated in line with the rebate agreement. We reconciled the year end debtor to contractual rebate earnt, net of cash received. As year end debtor balances are typically not yet due for settlement, we have considered the historical collectability of debtor balances by comparing prior year debtor balances to subsequent receipts. No issues were noted on any of the above procedures.

We determined that there were no key audit matters applicable to the company to communicate in our report.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Overall materiality	£1,136,000 (2018: £1,180,000).	£700,000 (2018: £700,000).
How we determined it	0.35% of total revenues.	1% of total assets.
Rationale for benchmark applied	Based on our professional judgement and our knowledge of the client our materiality was based on 0.35% (2018: 0.35%) of revenue giving an overall materiality of £1,136,000 (2018: £1,180,000). We used 0.35% of revenue as the benchmark for our materiality calculations due to the low margin nature of the business and our judgement around what would affect the decisions of the members.	Based on our professional judgement and our knowledge of the client our materiality was based on 1.0% (2018: 1.0%) of total assets giving an overall materiality of £700,000 (2018: £700,000). We used 1.0% of total assets as the benchmark for our materiality calculations due to the entity being a holding company with limited activity and our judgement around what would affect the decisions of the members.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The materiality allocated to A Share and Sons Limited, which was the only component in scope, was £1,079,200.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £56,800 (Group audit) (2018: £59,000) and £35,000 (company audit) (2018: £35,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group's and the parent company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the group's trade, customers, suppliers and the wider economy.
We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 27 July 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06).

In light of the knowledge and understanding of the group and parent company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06).

The directors' assessment of the prospects of the group and of the principal risks that would threaten the solvency or liquidity of the Group

We have nothing material to add or draw attention to regarding:

- The directors' confirmation on page 56 of the Annual Report that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 45 of the Annual Report as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the group and statement in relation to the longer-term viability of the group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the group and parent company and their environment obtained in the course of the audit. (Listing Rules).

Other code provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the directors, on page 73, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the group's and parent company's position and performance, business model and strategy is materially inconsistent with our knowledge of the group and parent company obtained in the course of performing our audit.
- The section of the Annual Report on page 50 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06).

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SCS GROUP PLC CONTINUED

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 73, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- We have not received all the information and explanations we require for our audit; or
- Adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- Certain disclosures of directors' remuneration specified by law are not made; or
- The company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee, we were appointed by the directors on 3 November 2009 to audit the financial statements for the year ended 1 August 2009 and subsequent financial periods. The period of total uninterrupted engagement is 11 years, covering the years ended 1 August 2009 to 27 July 2019. The audit went out to competitive tender for the year end 27 July 2019 and we were reappointed as auditors on 21 November 2018.

Jonathan Greenaway (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne
30 September 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 27 JULY 2019

	Note	2019 £'000	As restated* 2018 £'000
Gross sales	3	**333,267**	327,465
Revenue	3	**317,406**	312,828
Cost of sales		**(167,547)**	(165,590)
Gross profit		**149,859**	147,238
Distribution costs		**(17,310)**	(16,879)
Administrative expenses		**(118,610)**	(116,691)
Operating profit	4	**13,939**	13,668
Analysed as:			
Underlying operating profit		**14,291**	13,668
Exceptional items included within administrative expenses	5	**(352)**	–
Operating profit		**13,939**	13,668
Finance costs	7	**(96)**	(228)
Finance income	8	**417**	205
Net finance costs		**321**	(23)
Profit before taxation		**14,260**	13,645
Taxation	9	**(2,880)**	(2,622)
Profit from continuing operations		**11,380**	11,023
Loss from discontinued operations	28	**(4)**	(345)
Profit for the period		**11,376**	10,678
Attributable to:			
Owners of the parent			
Profit and total comprehensive income for the year		**11,376**	10,678
Earnings per share (expressed in pence per share):			
Basic earnings per share	10	**28.5p**	26.8p
Diluted earnings per share	10	**27.4p**	26.0p

There are no other sources of comprehensive income.

* The results above have been restated to show continuing operations, following the presentation of the House of Fraser concession business as discontinued (see note 28).

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 27 JULY 2019

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Merger reserve £'000	Treasury reserve £'000	Retained earnings £'000	Total equity £'000
At 30 July 2017	**40**	**16**	**13**	**25,511**	**–**	**7,699**	**33,279**
Total comprehensive income	–	–	–	–	–	10,678	10,678
Share-based payments	–	–	–	–	–	542	542
Treasury shares (note 27)	–	–	–	–	(268)	(897)	(1,165)
Dividend paid	–	–	–	–	–	(6,032)	(6,032)
At 28 July 2018	**40**	**16**	**13**	**25,511**	**(268)**	**11,990**	**37,302**
At 29 July 2018	**40**	**16**	**13**	**25,511**	**(268)**	**11,990**	**37,302**
Total comprehensive income	–	–	–	–	–	11,376	11,376
Share-based payments	–	–	–	–	–	765	765
Treasury shares (note 27)	–	–	–	–	177	(177)	–
Dividend paid	–	–	–	–	–	(6,547)	(6,547)
At 27 July 2019	**40**	**16**	**13**	**25,511**	**(91)**	**17,407**	**42,896**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 27 JULY 2019

	Note	2019 £'000	2018 £'000
Non-current assets			
Intangible assets	11	**1,642**	1,151
Property, plant and equipment	12	**21,065**	21,450
Total non-current assets		**22,707**	22,601
Current assets			
Inventories	13	**19,209**	21,865
Trade and other receivables	14	**8,754**	8,536
Cash and cash equivalents		**57,666**	48,162
Total current assets		**85,629**	78,563
Total assets		**108,336**	101,164
Current liabilities			
Current income tax liabilities		**1,951**	1,650
Trade and other payables	15	**56,624**	54,566
Total current liabilities		**58,575**	56,216
Non-current liabilities			
Trade and other payables	16	**6,413**	7,001
Deferred tax liability	17	**452**	645
Total non-current liabilities		**6,865**	7,646
Total liabilities		**65,440**	63,862
Capital and reserves attributable to the owners of the parent			
Share capital	18	**40**	40
Share premium	18	**16**	16
Capital redemption reserve		**13**	13
Treasury reserve	27	**(91)**	(268)
Merger reserve		**25,511**	25,511
Retained earnings		**17,407**	11,990
Equity attributable to the owners of the parent		**42,896**	37,302
Total equity		**42,896**	37,302
Total equity and liabilities		**108,336**	101,164

The notes on pages 83 to 97 are an integral part of these consolidated financial statements.

The financial statements on pages 79 to 97 were approved by the Board and authorised for issue on 30 September 2019 and signed on its behalf by:

David Knight
Chief Executive Officer

ScS Group plc: Registered number 03263435

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 27 JULY 2019

	Note	2019 £'000	As restated 2018 £'000
Cash flows from operating activities			
Profit before taxation		**14,260**	13,645
Adjustments for:			
Loss from discontinued operations before tax	28	**(5)**	(426)
Depreciation of property, plant and equipment	12	**4,824**	5,035
Amortisation of intangible assets	11	**676**	518
Share-based payments	20	**765**	542
Finance costs	7	**96**	228
Finance income	8	**(417)**	(205)
		20,199	19,337
Changes in working capital:			
Decrease in inventories	13	**2,656**	219
(Increase)/decrease in trade and other receivables	14	**(220)**	1,163
Increase in trade and other payables		**1,486**	314
Cash generated from operating activities		**24,121**	21,033
Interest paid	7	**(96)**	(228)
Income taxes paid		**(2,774)**	(2,896)
Net cash flow generated from operating activities		**21,251**	17,909
Cash flows used in investing activities			
Purchase of property, plant and equipment		**(4,377)**	(2,306)
Payments to acquire intangible assets		**(1,240)**	(575)
Interest received	8	**417**	205
Net cash flow used in investing activities		**(5,200)**	(2,676)
Cash flows used in financing activities			
Dividends paid		**(6,547)**	(6,032)
Purchase of own shares	27	**–**	(1,165)
Net cash flow used in financing activities		**(6,547)**	(7,197)
Net increase in cash and cash equivalents		**9,504**	8,036
Cash and cash equivalents at beginning of year		**48,162**	40,126
Cash and cash equivalents at end of year		**57,666**	48,162

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

ScS Group plc (the 'Company') is a public limited company, which is listed on the London Stock Exchange, incorporated and domiciled in England, within the UK (Company registration number 03263435). The address of the registered office is 45-49 Villiers Street, Sunderland, SR1 1HA.

The Company's principal activity is to act as a holding company for its subsidiaries. The Company and its subsidiaries' (the 'Group's') principal activity is the provision of furniture and flooring, trading under the names ScS, the Sofa Carpet Specialists, and also under 'House of Fraser Made to Order Sofas, Furniture and Flooring'.

2. Accounting policies

Basis of preparation

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) as they apply to the financial statements of the Group for the year ended 27 July 2019 and applied in accordance with the Companies Act 2006 as applicable to companies using IFRS and interpretations issued by the IFRS Interpretations Committee (IFRS IC) and under the historic cost convention. The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 27 July 2019. These policies have been consistently applied to all of the years presented, unless otherwise stated.

The Group financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated.

Going concern

The Group generates strong cash flows, reflecting the negative working capital requirements of the business model. In addition, the Group has a committed £12.0m revolving credit facility in place, which was extended during the year to November 2021. The Group's forecasts and projections show that the Group has adequate resources to continue to operational existence for the foreseeable future.

Having considered the Group's current trading and cash flow generation, including severe but plausible stress testing scenarios, the Directors have concluded that it is appropriate to prepare the Group financial statements on a going concern basis.

New standards, amendments and interpretations

The Group has adopted IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' effective for the current financial year and to all years presented in these consolidated financial statements. Comparative periods remain unchanged from previous years. The adoption of either standard has not had a significant impact on the Group's profit for the period or equity. The expected impact of IFRS 16 'Leases' is discussed in detail below. Aside from IFRS 16, there are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

IFRS 16

IFRS 16 'Leases' will be effective for the year ending 25 July 2020 onwards and the impact on the financial statements will be significant. IFRS 16 requires lessees to recognise a lease liability reflecting future lease payments and a right-of-use asset for all lease contracts. Therefore, the Group's operating leases related to property and vehicles will be brought on to the balance sheet. The lease liability is calculated as the discounted value of remaining lease payments at the date of initial recognition (see below), and the Group expects to adopt the "modified retrospective" transition method whereby the initial right-of-use asset is recognised at a value equal to the lease liability at the date of transition.

Depreciation of the right of use asset will be recognised in the income statement on a straight-line basis, with interest recognised on the lease liability. This will result in a change to the profile of the net charge taken to the income statement over the life of the lease. Depreciation and interest charges will replace the lease costs currently charged to the income statement and consequently there will be a significant adjustment to the Group EBITDA.

IFRS 16 has no economic impact on the Group, nor how the business is run or its cash flows. It is expected that banking covenants will be normalised to reflect a position consistent with historical accounting standards. The Group does not currently intend to alter its approach going forward as to whether assets should be leased or purchased.

Whilst depreciation will be recognised on a straight line basis, IFRS 16 requires interest to be calculated on the effective interest rate method. This results in a higher level of interest being charged during the early period of the lease, falling as the lease progresses and associated liability falls. When compared to rental costs, this will result in a reduction in the Group's profit during the early stage of a lease and an increase during its latter stages.

Impact of the new standard

The Group has prepared an estimate of the impact in the Group's financial statements as at the current year end, but this may change until the Group presents its financial statements for the year ending 25 July 2020, as the Group's lease portfolio is frequently changing and the new accounting policies are subject to change. There will be no restatement of comparative information.

All leases entered into on or after 28 July 2019 will be recognised from the date of inception.

Using this approach, the Group will:

- Apply IFRS 16 to leases previously identified in accordance with IAS 17 Leases and IFRIC 4 Determining Whether an Arrangement Contains a Lease.
- Calculate the lease term according to management's appetite for exercising any available extension or break options.
- Calculate a lease liability as at 28 July 2019 based on the remaining lease payments payable after that date.
- Discount the remaining gross lease payments using the applicable interest rate, which will generally be the incremental borrowing rate, as at 28 July 2019 applicable to each relevant asset type and weighted average length of the lease term remaining on the commencement date.
- Recognise right-of-use assets as at 28 July 2019 equal to the present value of the future lease payments, using the incremental borrowing rate as at that date.
- Exclude any initial direct costs from the measurement of the right-of-use assets that are recognised on adoption of IFRS 16 as at 28 July 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2. Accounting policies continued

Using lease data as at 28 July 2019, the expected impact of adopting IFRS 16 as at that date, applying the same modified retrospective approach as described above, would result in the Group:

- Recognising a right-of-use asset as at 28 July 2019 of c. £126m, net of impairment relating to onerous lease provisions, and any prepaid or accrued lease payments, and
- Recognising a lease liability as at 28 July 2019 of c. £129m.

The impact on the Group's Consolidated Statement of Comprehensive Income for year ending 25 July 2020 will be to:

- Increase underlying EBITDA by c. £25m (the expected rent charge),
- Increase underlying operating profit by c. £2m (rent charge less depreciation),
- Increase finance costs by c. £4m (the interest charge), and
- Decrease profit before tax by c. £2m (the net of the depreciation and interest versus the rent charge).

We would cease to hold an onerous lease provisions (2019: £0.5m). The provisions will instead be used to impair the "right of use" asset, with a resultant reduction in deprecation over the depreciation period, resulting in a timing difference that as with interest, impact early and benefit later years. The depreciation impact was factored into the assessment outlined above.

The tax effects of the adoption of IFRS 16 are still being assessed, although current indications are that we expect there to be minimal impact on the effective tax rate.

Basis of consolidation

The Group financial statements consolidate the financial statements of ScS Group plc and the entities it controls (its subsidiaries) drawn up to within seven days of 31 July each year.

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. Control is generally accompanied by a shareholding of more than one-half of the voting rights. The financial information of subsidiaries is included in the consolidated financial information from the date that control commences until the date that control ceases.

Transactions eliminated on consolidation

Intra-Group balances, and any gains and losses or income and expenses arising from intra-Group transactions, are eliminated in preparing the consolidated financial information. Gains arising from transactions with jointly controlled entities are eliminated to the extent of the Group's interest in the entity. Losses are eliminated in the same way as gains, but only to the extent that there is no evidence of impairment.

Exceptional items

Exceptional items are defined as items of income and expenditure which are material and unusual in nature and which are considered to be of such significance that they require separate disclosure on the face of the income statement. Any future movements on items previously classified as exceptional will also be classified as exceptional.

Gross sales and revenue

For the purposes of managing its business the Group focuses on gross sales, which is defined as the fair value of the consideration received or receivable, prior to any accounting adjustments for interest-free credit fees or aftercare product costs. The Board of Directors believe gross sales is a more transparent measure of the activity levels and performance of its stores and online channels as it is not affected by customer preferences on payment options. Accordingly gross sales is presented in this annual report in addition to statutory revenue as an alternative performance measure, with a reconciliation between the two measures provided in note 3 to the financial statements.

Both gross sales and revenue are stated net of discounts, returns and value added taxes, and are recognised when the group has satisfied its performance obligations by transferring control of the goods or service to the customer, and the revenue and costs in respect of the transaction can be measured reliably and collectability is reasonably assured. This is deemed to be when the goods and any associated warranty contracts have been delivered to the customer. Warranty services, once sold, are subsequently provided by third parties. Revenue is measured net of the charges associated with interest-free credit sales.

The Group operates a negative working capital model whereby customers pay a deposit at the point of order and, unless the order is to be financed using consumer credit, settle outstanding balances before delivery. Payment of part of the consideration is often therefore taken before the Group has fulfilled its performance obligation. These deposits taken from customers are referred to as contract liabilities under IFRS15, and are presented as payments received on account within current liabilities, until the goods or services are delivered. A very small number of deposits are refunded without delivery of product, and therefore materially, the value of customer deposits will be realised within 12 months. Where the outstanding balance is settled subsequent to the delivery of goods via consumer credit, the full financed balance is received within two working days of delivery from our third party finance providers, who are then responsible for collecting subsequent payments from the customer. There has been no significant changes to the methodology in recognising contract liabilities in the current year.

Segmental reporting

As noted in the gross sales and revenue note above, segments are reported in a manner consistent with the internal reporting to the Board of Directors (see note 3 – Segment information on page 87).

2. Accounting policies continued

Intangible assets

Intangible assets purchased separately are capitalised at cost and amortised on a straight-line basis over their useful economic life. The useful economic lives used are as follows:

Computer software: 20-33% straight-line per annum.

The carrying value of intangible assets is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Property, plant and equipment

Property, plant and equipment are stated at historic purchase cost less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost, less estimated residual value, of the tangible fixed assets over their anticipated useful lives at the rates shown below:

Fixtures and fittings	10-20% straight-line per annum
Computer equipment	20-33% straight-line per annum
Leasehold property improvements straight-line per annum	The shorter of the term of the lease or 2% straight-line per annum
Freehold buildings	2% straight-line per annum

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Inventories

Inventories are stated at the lower of cost and net realisable value and consist of finished goods held for resale. Where necessary provision is made for obsolete, slow-moving and defective stocks. Cost comprises the purchase price of goods and other directly attributable costs incurred in bringing the product to its present location and condition. Net realisable value is the estimated selling price less any further costs to be incurred to disposal.

Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. As a requirement of applying IFRS 9, the Group has applied an expected credit loss (ECL) model when calculating impairment losses on its trade and other receivables. The majority of the trade receivables are due from finance houses with which there is a very low likelihood, and no previous history, of default, and therefore there has been no material impact of the ECL model.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand and deposits held at call with banks.

Treasury shares

The Employee Benefit Trust (EBT) provides for the issue of shares to Group employees, principally under share option schemes. Shares in the Company held by the EBT are included in the balance sheet as treasury shares at cost, including any directly attributable incremental costs. Subsequent consideration received for the sale of such shares is also recognised in equity, with any difference between the sale proceeds and the original cost being taken to retained earnings. No gain or loss is recognised in the financial statements on transactions in treasury shares.

The number of such shares is also deducted from the number of shares in issue when calculating the earnings per share.

Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Pre-opening and launch costs

Pre-opening and launch costs are charged to the income statement in the year they are incurred.

Advertising expenditure

All routine and general advertising costs are expensed as incurred. Advertising costs paid to media companies are recognised as a prepayment until the advertising is placed in the media and communicated to the public, at which point the expenditure is expensed to the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2. Accounting policies continued

Supplier contributions

Contributions received from suppliers towards the cost of displaying and promoting their product are recognised as a reduction in the advertising and marketing costs to which they relate.

Supplier rebates

Rebates receivable from suppliers are based upon the volume of business with each supplier and are recognised in the income statement in cost of sales or credited to stock as appropriate on an earned basis, by reference to the supplier revenue.

Leases

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the lease term.

Provisions for onerous leases are recognised when the expected benefits to be derived by the Group from a location are lower than the unavoidable cost of meeting its obligation under the lease.

Lease incentives

The aggregate benefit of lease incentives is recognised as a reduction of rental expense. The benefit is allocated on a systematic basis over the period to the end of the lease. The balance is carried forward within accruals.

Lease premiums

Premiums paid on entering into a lease are classified as short leasehold property within property, plant and equipment and depreciated over the life of the lease.

Pension costs

Contributions to the defined contribution scheme are charged to the income statement in the year in which they become payable. The assets of the scheme are held separately from those of the Group in an independently administered fund.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to a business combination, or items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the liability method, on temporary differences at the balance sheet date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes, to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the average tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Foreign currency

Transactions in foreign currencies are translated at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. All exchange differences are taken to the income statement in the period in which they arise.

Share-based payments

The Company operates an equity-settled, share-based payment plan for Directors of the trading subsidiary undertaking, A. Share & Sons Limited, which includes the Executive Directors of the Group. The fair value of the Directors' services received by the Group in exchange for the issue of shares in the Company is recognised as an expense in the financial statements of the subsidiary company to which services have been supplied. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares issued, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of shares that are expected to vest. At each balance sheet date, the Group revises its estimates of the number of shares that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Critical accounting judgements and estimates

In applying the Group's accounting policies various transactions and balances are valued using estimates or assumptions. Should these estimates or assumptions prove incorrect, there may be an impact on the following year's financial statements. In the course of preparing the financial statements, no judgements have been made in the process of applying the Group's accounting policies that have had a significant effect on the amounts recognised in the financial statements, other than those involving estimations. These are considered below:

Volume rebates

The Group receives income from suppliers via volume rebates which are based on agreed rates affected by the level of spend with suppliers in the year. Where these arrangements are not coterminous with the year end, these are accrued based on management's judgement as to whether the turnover targets will be achieved for the individual supplier. Management considered the value of balance specifically associated with this judgemental element and concluded that in this financial year the value was not sensitive enough to change the balance materially.

2. Accounting policies continued

Stock provisions

The Group holds £19.2m of inventory at the year end, and the majority of this stock is held for display in store. Due to the nature of this stock, it will often be subject to the wear and tear associated with use in a showroom environment, and some items may have also been in store for an extended period of time. As such, this stock is often unable to achieve the same margin as the 'special order' stock purchased and delivered directly to our customers, and may occasionally be sold at a level lower than cost following a business decision to refresh the range or better utilise the space. The Group's policy in relation to stock provisioning is therefore to provide for obsolete, slow-moving and defective stock, and therefore ensure that stock is held at the most appropriate estimate of net realisable value.

In determining an estimate of this value, management has made judgements in respect of the quality of the Group's products and saleability, and applied a provision based on historic sales levels. Whilst management considers that the methodologies and assumptions adopted in the valuation are supportable, reasonable and robust, because of the inherent uncertainty of the sale price of stock currently held, those estimated values may differ from the final sale and the total differences could potentially be significant.

Loss-making stores and onerous leases

Management consider each store to be a cash-generating unit. Where there are indicators of impairment at a store following poor performance, management performs an impairment test over the carrying value of the assets held at these stores. Recoverable amounts for cash-generating units are the higher of fair value less costs of disposal, and value in use. Value in use is calculated from cash flow projections based on the Group's internal budgets, which are then extrapolated over the remaining store lease length, and management's expectations of estimated growth rates. Management also separately considers whether any of the lease commitments held at those stores have become onerous in nature and require providing for, where they believe that the unavoidable costs of meeting or exiting the lease obligations exceed the economic benefits expected to be received under the lease. The key estimates for the value in use calculations are those regarding the discount rate used and expected changes to future cash flows. Management sets the budgets based on past experiences and expectations of future changes in the market and estimates discount rate using pre-tax rates that reflect the current market assessment of the time value of money and the risks specific to the cash-generating units, deriving from the Group's post-tax weighted average cost of capital.

3. Segment information

The Directors have determined the operating segments based on the operating reports reviewed by the senior management team (the Executive Directors and the other Directors of the trading subsidiary, A. Share & Sons Limited) that are used to assess both performance and strategic decisions. The Directors have identified that the senior management team are the chief operating decision makers in accordance with the requirements of IFRS 8 'Segmental reporting'.

The Directors consider that the Group operates one type of business generating gross sales and revenue from the retail of furniture and flooring. All gross sales and revenue profit before taxation, assets and liabilities are attributable to the principal activity of the Group and other related services. All gross sales and revenues are generated in the United Kingdom.

An analysis of gross sales is as follows:

	Year ended 27 July 2019 £'000	As restated Year ended 28 July 2018 £'000
Sale of goods	**309,932**	305,702
Associated sale of warranties	**23,335**	21,763
Gross sales	**333,267**	327,465
Less: costs of interest-free credit	**(15,861)**	(14,637)
Revenue	**317,406**	312,828

4. Operating profit

Operating profit is stated after charging:

	Year ended 27 July 2019 £'000	As restated Year ended 28 July 2018 £'000
Fees payable to the Company auditors for the audit of Company and consolidated financial statements	**25**	25
Fees paid for other services:		
– audit of the Company's subsidiaries	**103**	83
– other non-audit services	**15**	34
Depreciation of property, plant and equipment – owned	**4,824**	4,954
Amortisation of computer software	**676**	518
Operating lease rentals – plant and machinery	**2,198**	2,327
Operating lease rentals – land and buildings	**24,400**	24,541

5. Exceptional items

In order to provide a clearer understanding of underlying profitability, underlying operating profit excludes exceptional items, which relate to costs that, either by their size or nature, require separate disclosure in order to give a fuller understanding of the Group's financial performance.

Exceptional costs disclosed within continuing operations relate to the aborted acquisition of sofa.com (£0.35m). As announced in January 2019, the Group was in discussions regarding a potential acquisition of the business and assets of Sofa.com Limited. Ultimately this transaction did not occur, and the professional fees relating to the due diligence conducted have therefore been deemed exceptional.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

6. Employees and Directors

6.1 Staff costs

The aggregate remuneration of all employees including Directors comprises:

	Year ended 27 July 2019 £'000	As restated Year ended 28 July 2018 £'000
Wages and salaries	**52,037**	50,687
Social security costs	**5,087**	4,871
Other pension costs	**1,172**	1,014
Share-based payments (note 20)	**765**	542
	59,061	57,114
Discontinued operations	**1,247**	4,165
Total	**60,308**	61,279

The average monthly number of employees (including Executive Directors) during the year was as follows:

	Year ended 27 July 2019 £'000	As restated Year ended 28 July 2018 £'000
Sales	**620**	641
Office and managerial	**680**	681
Services and warehousing	**451**	440
Cleaning	**33**	36
	1,784	1,797
Discontinued operations	**45**	135
Total	**1,829**	1,932

Details of Directors' remuneration, share options, long-term incentive schemes and pension entitlements are disclosed in the Remuneration Report on pages 58 to 64.

6.2 Key management compensation

Key management comprises the Directors of the trading subsidiary, A. Share & Sons Limited and the Group Directors and excludes the Non-Executive Directors.

The key management compensation is as follows:

	Year ended 27 July 2019 £'000	Year ended 28 July 2018 £'000
Aggregate emoluments	**2,857**	2,694
Deferred contribution pension cost	**240**	232
Share-based payments	**765**	542

These have been disclosed in the Remuneration Report. The highest paid Director did not exercise any shares during the year.

7. Finance costs

	Year ended 27 July 2019 £'000	Year ended 28 July 2018 £'000
Bank facility renewal fees	**–**	132
Bank facility non-utilisation fees	**96**	96
	96	228

8. Finance income

	Year ended 27 July 2019 £'000	Year ended 28 July 2018 £'000
Bank interest received	**417**	205

9. Taxation

(a) Analysis of tax charge in the year

	Year ended 27 July 2019 £'000	As restated Year ended 28 July 2018 £'000
Current tax:		
UK corporation tax on profits for the year	**3,299**	3,076
Adjustments in respect of prior years	**(226)**	(569)
Total current tax	**3,073**	2,507
Deferred tax:		
Origination and reversal of temporary differences	**(244)**	(398)
Adjustments in respect of prior years	**51**	513
Total deferred tax charge/(credit) (note 17)	**(193)**	115
Income tax charge in the statement of comprehensive income	**2,880**	2,622

(b) Tax on discontinued operations

	Year ended 27 July 2019 £'000	Year ended 28 July 2018 £'000
Tax credit on profit from ordinary activities of discontinued operations	**(1)**	(81)

(c) Factors affecting tax expense for the year

The tax charge assessed on the profit for the year is higher (2018: higher) than the standard rate of corporation tax in the UK of 19.00% (2018: 19.00%). The differences are explained below:

	Year ended 27 July 2019 £'000	As restated Year ended 28 July 2018 £'000
Continuing profit before taxation	**14,260**	13,645
Profit before tax at 19.00% (2018: 19.00%)	**2,709**	2,593
Effects of:		
Other expenses not deductible	**204**	120
Deduction on exercise of share options	**(5)**	(200)
Depreciation not eligible for tax purposes	**111**	128
Adjustments in respect of prior years	**(175)**	(56)
Impact of changes in tax rates	**36**	37
Total taxation charge in the statement of comprehensive income	**2,880**	2,622

(d) Factors that may affect future tax charges

The standard rate of corporation tax in the UK changed from 20.00% to 19.00% with effect from 1 April 2017. Further reductions in the corporation tax rate from 19.00% to 17.00% from 1 April 2020 were substantively enacted as part of the Finance Bill 2016 (on 6 September 2016). Accordingly, the profits for this period are taxed at an effective rate of 19.00% and deferred taxation has been calculated based on a rate of 17.00%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

10. Earnings per share

	Year ended 27 July 2019 £'000 pence	As restated Year ended 28 July 2018 £'000 pence
a) Basic earnings per share attributable to the ordinary equity holders of the Company		
From underlying continuing operations	**29.4p**	27.7p
From underlying discontinued operation	**0.9p**	(0.9p)
Total basic earnings per share from underlying operations	**30.3p**	26.8p
From exceptional costs	**(1.8p)**	–
Total basic earnings per share	**28.5p**	26.8p
b) Diluted earnings per share attributable to the ordinary equity holders of the Company		
From underlying continuing operations	**28.3p**	26.9p
From underlying discontinued operation	**0.8p**	(0.9p)
Total diluted earnings per share from underlying operations	**29.1p**	26.0p
From exceptional costs	**(1.7p)**	–
Total diluted earnings per share	**27.4p**	26.0p
c) Reconciliations of earnings used in calculating earnings per share		
Profit from continuing operations	**11,380**	11,023
- Add back exceptional costs net of tax	**352**	–
Profit from underlying continuing operations	**11,732**	11,023
Loss from discontinued operation	**(4)**	(345)
- Add back exceptional costs net of tax	**359**	–
Profit from underlying discontinued operations	**355**	(345)
Total profits from underlying operations	**12,087**	10,678
Total profits from operations	**11,376**	10,678
d) Weighted average number of shares used as the denominator		
Weighted average number of shares in issue for the purposes of basic earnings per share	**39,934,853**	39,804,480
Effect of dilutive potential ordinary shares:		
- Share options	**1,563,000**	1,220,656
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**41,497,853**	41,025,136

11. Intangible assets

	27 July 2019 £'000
	Computer software
Cost	
At 29 July 2018	**5,726**
Additions	**1,167**
At 27 July 2019	**6,893**
Accumulated amortisation	
At 29 July 2018	**4,575**
Charge for the year	**676**
At 27 July 2019	**5,251**
Net book amount	
At 27 July 2019	**1,642**
At 28 July 2018	**1,151**

	28 July 2018 £'000
	Computer software
Cost	
At 30 July 2017	5,134
Additions	592
At 28 July 2018	5,726
Accumulated amortisation	
At 30 July 2017	4,057
Charge for the year	518
At 28 July 2018	4,575
Net book amount	
At 28 July 2018	1,151
At 29 July 2017	1,077

Amortisation is charged through the administration expenses line.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

12. Property, plant and equipment

	Freehold land and buildings £'000	Leasehold property £'000	Computer equipment £'000	Fixtures and fittings £'000	Total £'000
Cost					
At 29 July 2018	159	51,871	3,691	29,145	84,866
Additions	–	1,833	666	1,940	4,439
At 27 July 2019	**159**	**53,704**	**4,357**	**31,085**	**89,305**
Accumulated depreciation					
At 29 July 2018	91	35,038	2,787	25,500	63,416
Charge for the year	3	3,288	473	1,060	4,824
At 27 July 2019	**94**	**38,326**	**3,260**	**26,560**	**68,240**
Net book amount					
At 27 July 2019	**65**	**15,378**	**1,097**	**4,525**	**21,065**
At 28 July 2018	68	16,833	904	3,645	21,450
Cost					
At 30 July 2017	159	50,799	3,293	28,008	82,259
Additions	–	1,072	398	1,137	2,607
At 28 July 2018	**159**	**51,871**	**3,691**	**29,145**	**84,866**
Accumulated depreciation					
At 30 July 2017	88	31,695	2,159	24,439	58,381
Charge for the year	3	3,343	628	1,061	5,035
At 28 July 2018	**91**	**35,038**	**2,787**	**25,500**	**63,416**
Net book amount					
At 28 July 2018	**68**	**16,833**	**904**	**3,645**	**21,450**
At 29 July 2017	71	19,104	1,134	3,569	23,878

The net book value of leasehold properties is as follows:

	Year ended 27 July 2019 £'000	Year ended 28 July 2018 £'000
Short leaseholds (up to 25 years)	**15,313**	16,768
Long leaseholds (greater than 25 years)	**65**	65
	15,378	16,833

13. Inventories

	Year ended 27 July 2019 £'000	Year ended 28 July 2018 £'000
Finished goods	**19,209**	21,865

The cost of inventories as an expense and included in cost of sales relating to continued operations amounted to £171,290,000 (2018: £167,441,000).

The charge for the year relating to inventories written off amounted to £815,000 (2018: £834,000).

14. Trade and other receivables

	Year ended 27 July 2019 £'000	Year ended 28 July 2018 £'000
Trade receivables	**1,084**	1,232
Other receivables	**2,470**	2,704
Prepayment	**5,200**	4,600
	8,754	8,536

The fair value of trade and other receivables is approximate to their carrying value. Trade and other receivables are considered due once they have passed the contracted due date.

The carrying amounts of trade and other receivables are all denominated in Sterling.

The majority of the trade receivables are due from finance houses with which there is a very low likelihood, and no previous history, of default, and therefore there has been no material impact of the Group's expected credit loss model.

The bad debt provision is not considered material for disclosure.

15. Trade and other payables – current

	Year ended 27 July 2019 £'000	Year ended 28 July 2018 £'000
Trade payables	**25,859**	26,294
Payments received on account	**14,697**	12,232
Other taxation and social security payable	**4,063**	4,492
Accruals	**12,005**	11,548
	56,624	54,566

The fair value of financial liabilities approximates their carrying value due to short maturities. Financial liabilities are denominated in Sterling.

Payments received on account represent deposits taken from customers at the point of order and in advance of the Group fulfilling its performance obligations to provide goods and services for customer orders. They will be realised in the next 12 months. The brought forward balance of payments received on account was recognised as revenue during the year.

16. Trade and other payables – non-current

	Year ended 27 July 2019 £'000	Year ended 28 July 2018 £'000
Lease incentives	**5,899**	6,371
Onerous lease provision	**514**	630
	6,413	7,001

The onerous lease provision of £514,000 (2018: £630,000) relates to commitments on leases for stores identified as loss-making as part of management's ongoing review of store profitability.

17. Deferred tax liability

The Group's movements in deferred taxation during the current financial year and previous year are as follows:

	Year ended 27 July 2019 £'000	Year ended 28 July 2018 £'000
Opening deferred tax liability	**645**	530
Charged/(credited) to profit and loss account arising from the origination and reversal of temporary differences (note 9)	**(193)**	115
Closing deferred tax liability	**452**	645
Deferred taxation has been fully provided for in respect of:		
Accelerated capital allowances	**497**	716
Losses	**(121)**	(121)
Other timing differences	**(45)**	(71)
Capital gains held over	**121**	121
Closing deferred tax liability	**452**	645

18. Called-up share capital

	Number of shares	Ordinary shares £'000	Share premium £'000	Total £'000
At 30 July 2017, at 28 July 2018 and as at 27 July 2019	40,009,109	40	16	56

Authorised, allotted and fully paid share capital is 40,009,109 of £0.001p each (2018: 40,009,109 of £0.001p each).

19. Dividends

A final dividend for the year ended 28 July 2018 of 10.90p was paid on 26 November 2018. It has been recognised in shareholders' equity in the year to 27 July 2019.

An interim dividend of 5.50p per ordinary share was declared by the Board of Directors on 19 March 2019 and paid on 9 May 2019. It has been recognised in shareholders' equity in the year to 27 July 2019.

A final dividend for the year ended 27 July 2019 of 11.20p per ordinary share is proposed by the Board of Directors.

At 27 July 2019 the retained earnings of the Company amounted to £63,538,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

20. Share-based payments

The Group operates equity-settled share schemes for certain employees that are intended to act as a long-term incentive to help retain key employees and Directors who are considered important to the success of the business.

Post-admission incentive arrangements

The ScS Group plc Long-Term Incentive Plan (LTIP) was adopted on 21 January 2015 conditional upon admission. The LTIP allows for various types of awards and the following grants over shares in ScS Group plc have been made:

(i) £Nil cost options conditional on the IPO taking place (approved on 21 January 2015).
(ii) Market value options under an HMRC approved Company Share Option Plan conditional on the IPO taking place (approved on 21 January 2015).
(iii) Unapproved market value options conditional on the IPO taking place (approved on 21 January 2015).
(iv) Performance-based £nil cost options granted on 30 March 2015 (the performance condition is based on EPS as set out in the consolidated audited financial statements of the Group for 2017). As the EPS for the Group was lower than the performance condition set, these awards have been forfeited as at 28 July 2018.
(v) Performance-based £nil cost options granted on 17 October 2016 (the performance condition is based on EPS as set out in the consolidated audited financial statements of the Group for the financial year ended 27 July 2019).
(vi) Performance-based £nil cost options granted on 16 October 2017 (the performance condition is based on EPS as set out in the consolidated audited financial statements of the Group for the financial year ended 25 July 2020).
(vii) Performance-based £nil cost options granted on 15 October 2018 (the performance condition is based on EPS as set out in the consolidated audited financial statements of the Group for the financial year ended 31 July 2021).

Fair value of awards

The awards granted have been valued by an independent third party using the Black-Scholes model. No performance conditions were included in the fair value calculations.

The expected life is the estimated time period to exercise. The expected volatility is calculated by reference to the historic volatility of the Company from the period between admission and the date of grant and historic volatilities of comparator companies measured over a period commensurate with the expected life. The dividend yield is based on the target dividend yield set at IPO (with the exception of awards that give an entitlement to receive dividend equivalents). The risk-free interest rate is the yield on UK government bonds of a term consistent with the expected life. The level of vesting is estimated at the balance sheet date and will be trued up until the vesting date.

	LTIP (pre-IPO nil cost options)		LTIP (CSOP market value options)		2015, 2017, 2018 and 2019 LTIP (Directors' awards)		LTIP (all awards)	
	Share awards	Average exercise price	Share awards	Average exercise price	Share awards	Average exercise price	Share awards	Average exercise price
Outstanding as at 29 July 2017	551,421	£0.000001	59,550	£1.75	474,125	£0.000001	1,085,096	£0.096
Granted	–	–	–	–	554,141	£0.000001	554,141	£0.000001
Forfeited	–	–	–	–	–	–	–	–
Exercised	(411,424)	£0.000001	(7,157)	£1.75	–	–	(418,581)	£0.029922
Expired	–	–	–	–	–	–	–	–
Outstanding as at 28 July 2018	139,997	£0.000001	52,393	£1.75	1,028,266	£0.000001	1,220,656	£0.08
Granted	–	–	–	–	672,848	£0.000001	672,848	£0.000001
Forfeited	(34,285)	£0.000001	(4,880)	£1.75	(208,484)	£0.000001	(247,649)	£0.04
Exercised	(82,855)	£0.000001	–	–	–	–	(82,855)	£0.000001
Expired	–	–	–	–	–	–	–	–
Outstanding as at 27 July 2019	22,857	£0.000001	47,513	£1.75	1,492,630	£0.000001	1,563,000	£0.05
Exercisable at 27 July 2019	22,857	£0.000001	47,513	£1.75	–	£0.000001	70,370	£1.18
Exercisable at 28 July 2018	139,997	£0.000001	52,393	£1.75	–	£0.000001	192,390	£0.48

Note: Weighted average share price for all LTIP awards during the year.

As at 27 July 2019, 443,025 of the outstanding LTIP share options relate to the 2019 LTIP, which vested as at the year end date. This figure is the number of total outstanding options. A proportion of these options will be awarded based on the final Group EPS figure subsequent to the signing of the annual report, and become exercisable from that date. Further information on the LTIP is available in the Directors' Remuneration report.

The fair value of share options issued and the assumptions used in the calculation are as follows:

	2015	2015	2015	2017	2018	**2019**
Grant date	21 January 2015	21 January 2015	30 March 2015	17 October 2016	16 October 2017	**15 October 2018**
Share price at grant date	£1.75	£1.75	£2.05	£1.83	£1.75	**£2.23**
Exercise price	£nil	£1.75	£nil	£nil	£nil	**£nil**
Number of employees	25	6	6	6	8	**8**
Shares issued	571,421	68,659	445,711	474,125	554,141	**672,848**
Expected volatility	33.7%	36.2%	–[1]	–[1]	–[1]	**–[1]**
Expected life (years)	3	5	3	3	3	**3**
Risk-free interest rate	0.70%	1.06%	–[1]	–[1]	–[1]	**–[1]**
Expected dividend yield	8%	8%	–[1]	–[1]	–[1]	**–[1]**
Fair value per share	£1.38	£0.24	£2.05	£1.83	£1.75	**£2.23**
Estimated vesting	100%	100%	0%	56%	85%	**75%**

1. LTIP participants are entitled to receive dividend equivalents on unvested awards, and therefore dividend yield does not impact the fair value calculation. Furthermore, volatility and risk-free rates do not impact the fair value calculation for awards with no exercise price or market based performance conditions.

20. Share-based payment continued

The total charge for the year relating to employee share-based payment plans was £765,000 (2018: £542,000) which is in relation to equity-settled share-based payment transactions. There are no liabilities arising from share-based payment transactions.

21. Capital commitments

Capital commitments contracted for but not provided amounted to £230,000 (2018: £nil).

22. Pension commitments

The Group operates several defined contribution pension schemes for the benefit of its staff. The assets of the schemes are held separately from those of the Group in independently administered funds. The pension charges represent contributions payable by the Group to these funds and are shown in note 6. Amounts outstanding at the year end were £219,000 (2018: £181,000) and are held in accruals.

23. Financial commitments

The future aggregate minimum lease payments under non-cancellable operating leases are set out below:

	Land and buildings		Plant and machinery	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000
Group				
Within one year	**23,872**	24,473	**1,458**	1,617
Within two to five years	**76,661**	81,140	**1,794**	1,891
After five years	**46,175**	57,414	**–**	5
	146,708	163,027	**3,252**	3,513

24. Financial instruments – risk management

Financial risk management policy

The Group's principal financial instruments comprise cash and cash equivalents. The main purpose of these financial instruments is to provide funds for the Group's operations. The Group has other financial instruments being trade receivables and trade payables that arise directly from its operations.

It is, and has been, under review throughout the year, the Group's policy that no trading in financial instruments shall be undertaken. The Group has not entered into derivative transactions during the years under review. The Group does not undertake any speculative transactions and continues to pursue prudent treasury policies by investing surplus funds only with reputable UK financial institutions.

Credit risk

The finance for all the Group's credit sales is provided from external financing companies who bear the whole risk of customer defaults on repayment. The Group's financial assets which are past due and not impaired are deemed not material for disclosure. The remaining balance is deemed fully recoverable due to the use of finance houses to mitigate the risk of recoverability. There have been no gains/losses on financial liabilities.

Cash and deposits are invested with Lloyds Bank plc.

Liquidity risk

The Group's exposure to liquidity risk is low, as historically working capital requirements have been funded entirely by self-generated cash flow. The Group has a £12.0m committed revolving credit facility.

Financial instruments by category

Financial assets and liabilities are classified in accordance with IFRS 9. No financial instruments have been reclassified or derecognised in the year. There are no financial assets which are pledged or held as collateral. The Group does not hold any financial assets or liabilities held as fair value through the income statement, defined as being in a hedging relationship or any available for sale financial assets.

The Group's main financial assets comprise cash and cash equivalents and trade receivables arising from the Group's activities. These financial assets all meet the conditions to be recognised at amortised cost under IFRS9 (previously loans and receivables under IAS39).

Other than trade and other payables, the Group had no financial liabilities within the scope of IFRS 9 as at 27 July 2019 (2018: £nil). Balances within trade and other payables will mature within one year.

The fair value of the Group's financial assets and liabilities is not materially different from their carrying values. Financial assets and liabilities comprise principally of trade receivables and trade payables and the only interest-bearing balances are the bank deposits and borrowings which attract interest at variable rates.

Capital management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern and retain financial flexibility to provide returns for shareholders and benefits for other stakeholders. The Group considers capital to be equity and cash. Equity and cash are disclosed in the consolidated statement of financial position.

The Group manages its capital through continued focus on free cash flow generation and setting the level of capital expenditure and dividend in the context of the current period and forecast free cash flow.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

25. Related parties

Holdings in subsidiaries and any relevant related party transactions are disclosed in the Company financial statements in note 5. Only ScS Furnishings Limited and the ScS Group Employee Benefit Trust are not included in the consolidation on the grounds of materiality.

26. Contingent liabilities

The subsidiary undertakings of the Group are party to a debenture with Lloyds Bank plc which grants fixed and floating charges over the assets of each subsidiary undertaking.

27. Treasury reserve

	£'000
As at 29 July 2017	–
Purchase of own shares	1,165
Transfer to retained earnings	(897)
As at 28 July 2018	**268**
Transfer to retained earnings	(177)
As at 27 July 2019	**91**

As at 27 July 2019 the Group holds 42,718 of its own ordinary shares of 0.1 pence each in the Group at an average purchase price of 214.2 pence for the purposes of satisfying management share incentive awards.

During the previous year the Group's Employee Benefit Trust purchased 544,154 ordinary shares of 0.1 pence each in the Group at an average price of 214.2 pence per Ordinary Share for the purposes of satisfying management share incentive awards. As at 28 July 2018, 418,581 of these shares had been used to satisfy awards, with the remainder held as treasury shares.

28. Discontinued operations

Following the closure of the final House of Fraser concession in January 2019, in accordance with IFRS accounting standards, the results of the House of Fraser concessions are now presented as discontinued operations.

The income statement relating to the discontinued operations is set out below:

Income statement of discontinued operations

	Year ended 27 July 2019 £'000	Year ended 28 July 2018 £'000
Gross sales	**7,279**	24,852
Revenue	**7,193**	24,485
Cost of sales	**(3,956)**	(14,385)
Gross profit	**3,237**	10,100
Distribution costs	**(575)**	(994)
Administrative expenses	**(2,667)**	(9,532)
Operating loss	**(5)**	(426)
Analysed as:		
Operating profit/(loss) before exceptional items	**438**	(426)
Exceptional items*	**(443)**	–
Operating loss	**(5)**	(426)
Loss before taxation	**(5)**	(426)
Taxation	**1**	81
Loss from discontinued operations	**(4)**	(345)
Attributable to:		
Owners of the parent	**(4)**	(345)
Loss attributable and total comprehensive loss for the period	**(4)**	(345)
Net cash inflow from operating activities	**1,492**	706
Net increase of cash generated from discontinued operations	**1,492**	706

Underlying EBITDA

An analysis of underlying EBITDA is as follows:

	Year ended 27 July 2019 £'000	Year ended 28 July 2018 £'000
Operating profit/(loss) before exceptional items	**438**	(426)
Depreciation	**86**	81
Underlying EBITDA from discontinued operations	**524**	(345)
Exceptional items*	**(443)**	–
EBITDA from discontinued operations	**81**	(345)

* Exceptional costs disclosed within discontinued operations comprise amounts payable for loss of office and other costs incurred relating to the closure of the House of Fraser concessions.

COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 27 JULY 2019

	Note	2019 £'000	2018 £'000
Investments	5	**70,000**	70,000
Current assets			
Trade and other receivables	6	**4**	10
Cash at bank and in hand		**–**	–
Total current assets		**4**	10
Total assets		**70,004**	70,010
Current liabilities			
Trade and other payables	7	**6,488**	5,926
Total current liabilities		**6,488**	5,926
Total liabilities		**6,488**	5,926
Capital and reserves			
Called-up share capital	8	**40**	40
Share premium account	8	**16**	16
Capital redemption reserve		**13**	13
Treasury share reserve	11	**(91)**	(268)
Retained earnings		**63,538**	64,283
Total shareholders' funds		**63,516**	64,084
Total equity		**63,516**	64,084
Total equity and liabilities		**70,004**	70,010

The notes on pages 101 to 103 form an integral part of these financial statements.

The total comprehensive income for the year included within the financial statements of the Company is £5,979,000 (2018: £5,414,000).

The financial statements on pages 98 to 103 were approved by the Board and authorised for issue on 30 September 2019 and signed on its behalf by:

David Knight
Chief Executive Officer

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 27 JULY 2019

	Called-up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Treasury reserve £'000	Retained earnings £'000	Total equity £'000
At 30 July 2017	40	16	13	–	66,511	66,580
Total comprehensive income	–	–	–	–	5,414	5,414
Purchase of own shares into treasury	–	–	–	(268)	(897)	(1,165)
Dividends paid	–	–	–	–	(6,032)	(6,032)
At 28 July 2018	40	16	13	(268)	64,283	64,084
At 29 July 2018	40	16	13	(268)	64,283	64,084
Total comprehensive income	–	–	–	–	5,979	5,979
Transfer to retained earnings	–	–	–	177	(177)	–
Dividends paid	–	–	–	–	(6,547)	(6,547)
At 27 July 2019	**40**	**16**	**13**	**(91)**	**63,538**	**63,516**

COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 27 JULY 2019

	Note	2019 £'000	2018 £'000
Cash flows from operating activities			
Profit before taxation		**5,979**	5,414
Changes in working capital:			
Decrease in trade and other receivables	6	**6**	20
Increase in trade and other payables	7	**562**	1,763
Cash generated from operations		**6,547**	7,197
Net cash flow generated from operating activities		**6,547**	7,197
Net cash flow used in investing activities		**–**	–
Cash flows used in financing activities			
Dividends paid	9	**(6,547)**	(6,032)
Purchase of own shares		**–**	(1,165)
Net cash flow used in financing activities		**(6,547)**	(7,197)
Net increase in cash and cash equivalents		**–**	–
Cash and cash equivalents at beginning of year		**–**	–
Cash and cash equivalents at end of year		**–**	–

NOTES TO THE COMPANY FINANCIAL STATEMENTS

1. General information

ScS Group plc (the 'Company') is a company limited by shares incorporated and domiciled in England, within the UK (Company registration number 03263435). The address of the registered office is 45-49 Villiers Street, Sunderland, SR1 1HA. The Company's principal activity is to act as a holding company for its subsidiaries, and its shares are listed on the London Stock Exchange (LSE).

2. Accounting policies

The principal accounting policies applied in the preparation of these financial statement are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Statement of compliance with FRS 101

These financial statements were prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' ('FRS 101'). The Company meets the definition of a qualifying entity under FRS 100, 'Application of Financial Reporting Requirements' as issued by the Financial Reporting Council.

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to business combinations, financial instruments, capital management, presentation of comparative information in respect of certain assets, standards not yet effective, impairment of assets and related party transactions. Where required, equivalent disclosures are given in the consolidated financial statements of ScS Group plc.

Going concern

The Company is the ultimate holding company to a group which is highly cash generative, and which holds sufficient medium and long-term facilities in place to enable it to meet its obligations as they fall due. The Directors are therefore satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future.

Further information on the Group's going concern and ongoing viability is provided in note 2 of the Group financial statements.

Critical accounting estimates and judgements

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. However, due to the nature of the Company, we do not consider there to be any critical accounting estimates or judgements made in the preparation of these financial statements.

Capital management

The Company follows the same capital management as the Group – see page 95 in the Group financial statements.

New standards, amendments and interpretations

For the latest amendments and interpretations, please refer to page 83 in the Group financial statements.

Fixed asset investments

Fixed asset investments in subsidiary undertakings are recorded at cost plus incidental expenses less any provision for impairment.

Trade receivables

Trade receivables for the Company refer to prepayments made for services performed in the ordinary course of business. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Treasury shares

The Employee Benefit Trust (EBT) provides for the issue of shares to Group employees, principally under share option schemes. Shares in the Company held by the EBT are included in the balance sheet as treasury shares at cost, including any directly attributable incremental costs. Subsequent consideration received for the sale of such shares is also recognised in equity, with any difference between the sale proceeds and the original cost being taken to retained earnings. No gain or loss is recognised in the financial statements on transactions in treasury shares.

Taxation

The tax charge for the financial period is based on the profit for the financial period.

Related parties

In these financial statements, the Company has taken advantage of the following disclosure exemptions available under FRS 101:

- The requirement of paragraph 17 of IAS 24 Related Party Transactions;
- The requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is party to the transaction is a wholly owned by such a member.

NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

3. Income statement exemption

The Company has elected to take the exemption under section 408 of the Companies Act 2006 from presenting the Income Statement or a Statement of Comprehensive income for the Company. Total comprehensive income for the Company for the year was £5,979,000 (2018: £5,414,000).

4. Directors' emoluments

No Executive Directors' received any remuneration for their services to the Company (2018: £nil). All Executive Directors' remuneration was borne by another Group company, A. Share and Sons Limited. These costs have been consolidated into the Group's financial statements and are disclosed, along with the Non-Executive Directors' fees, within the Remuneration Report on pages 58 to 64.

The Company does not employ any staff other than the Non-Executive Directors noted above.

5. Investments

	Subsidiary undertaking £'000
Cost and net book value	
At 28 July 2018 and 27 July 2019	**70,000**

The subsidiaries, which were owned and incorporated in the United Kingdom were are as follows:

Name	Principal activity	Class of shares held	% of holdings
Parlour Product Topco Limited	Holding company	Ordinary	100%
Held by subsidiary undertakings			
Parlour Product Holding Limited	Holding company	Ordinary	100%
A. Share & Sons Limited	Specialist retailer of upholstered furniture	Ordinary	100%
ScS Furnishings Limited	Dormant company	Ordinary	100%

The registered office address for all of the subsidiaries is 45-49 Villiers Street, Sunderland, SR1 1HA.

All shares carry equal voting rights and are deemed to be controlled by ScS Group plc.

The Directors believe that the carrying value of the investments is supported by their underlying net assets.

ScS Furnishings Limited is exempt from audit as it is dormant. It's aggregate amount of capital and reserves is £1.

6. Trade and other receivables

	2019 £'000	2018 £'000
Prepayments	**4**	10

7. Trade and other payables

	2019 £'000	2018 £'000
Amounts owed to Group undertakings	**6,320**	5,746
Accruals and deferred income	**168**	180
	6,488	5,926

Amounts owed to Group undertakings are unsecured, interest-free and repayable on demand.

8. Called-up share capital

	Number of shares	Ordinary shares £'000	Share premium account £'000	Total £'000
At 28 July 2018 and 27 July 2019	**40,009,109**	**40**	**16**	**56**

Authorised, allotted and fully paid share capital is 40,009,109 of £0.001p each (2018: 40,009,109 of £0.001p each).

9. Dividends

A final dividend for the year ended 28 July 2018 of 10.90p was paid on 26 November 2018. It has been recognised in shareholders' equity in the year to 28 July 2018.

An interim dividend of 5.50p per ordinary share was declared by the Board of Directors on 19 March 2019 and paid on 9 May 2019. It has been recognised in shareholders' equity in the year to 27 July 2019.

A final dividend for the year ended 27 July 2019 of 11.20p per ordinary share is proposed by the Board of Directors.

At 27 July 2019 the retained earnings of the Company amounted to £63,538,000.

10. Financial instruments

The Company has financial instruments, being trade receivables and trade payables, that arise directly from its operations. The financial instruments – risk management policy has been included in note 24 of the Group financial statements.

11. Treasury reserve

Details of the Company's share capital and share buybacks are given in note 27 of the notes to the Group financial statements.

NOTES

COMPANY INFORMATION

Registered office
ScS Group plc
45-49 Villiers Street
Sunderland
SR1 1HA
Tyne & Wear

Tel: 0191 731 3000
www.scsplc.co.uk

Company number
Registered in England: 03263435

Listing
Ordinary shares of ScS Group plc are listed with a premium listing on the London Stock Exchange.

Share registrar
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BN99 6DA

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www.equiniti.com

Independent auditor
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