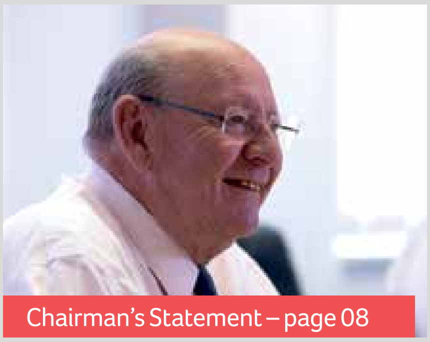
SCS
SOFA • CARPET • SPECIALIST

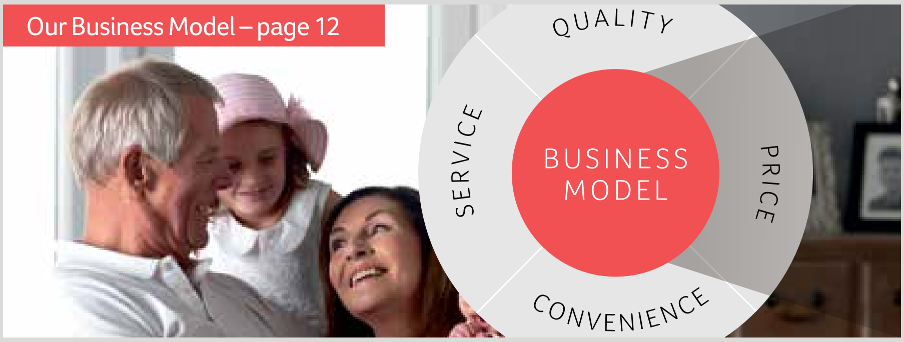
GROWTH
STRENGTH
DEVELOPMENT

Annual Report 2016

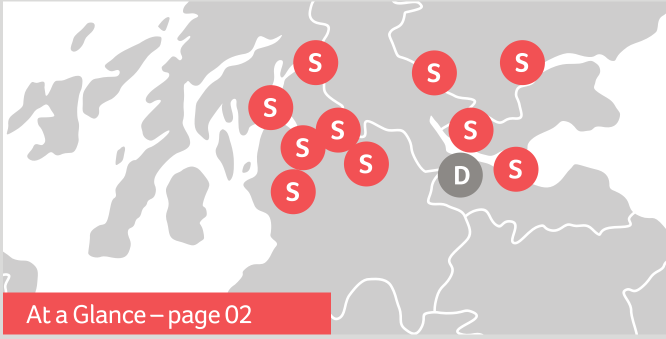
SCS IS ONE OF THE UK'S LEADING FURNITURE AND FLOORING RETAILERS, OPERATING FROM 97 STORES



Chairman's Statement – page 08



Our Business Model – page 12



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Principally located in modern retail park locations and 28 concessions in House of Fraser stores across the country – as far north as Aberdeen and as far south as Plymouth, offering a focused range of upholstered furniture and floorcoverings.

ScS has over 100 years of furniture retailing experience and our specialist staff are highly trained in their fields, so that we can offer our customers the best service and advice when they choose new sofas and flooring for their homes.

Financial Highlights

REVENUE

£317.3m
+14.7%

GROSS PROFIT

£149.1m
+17.3%

EBITDA

£16.0m
+41.9%
(compared to prior year adjusted EBITDA)

EARNINGS PER SHARE

21.8p

- Gross sales up 14.5% to £334.7m (2015: £292.2m)
- Revenue up 14.7% to £317.3m (2015: £276.7m)
- Like-for-like order intake for the year ended 30 July 2016, up 14.8% (2015: 5.0%)
- Gross profit increased 17.3% to £149.1m (2015: £127.2m)
- EBITDA £16.0m (2015: £7.6m, adjusted 2015 EBITDA: £11.3m)
- Operating profit £11.0m, (2015: £2.8m, 2015 operating profit before exceptional items £6.4m)
- Earnings per share 21.8p (2015: loss per share 5.6p, adjusted 2015 earnings per share 13.8p)
- Strong balance sheet with cash of £22.4m (2015: £21.1m) and no debt
- Recommended final dividend of 9.83p per share, full year dividend of 14.5p per share (2015: 14.0p), an increase of 3.6%

Operational Highlights

- Sales density per square foot increased 12.9% to £219 (2015: £194) supported by significant increase in marketing spend
- Two new stores opened in Bromborough on the Wirral on Boxing Day 2015 and in Aberdeen in September 2016
- Three further stores in Plymouth, Thanet and Edinburgh are targeted to open on Boxing Day 2016
- House of Fraser concession gross sales up 19.7% to £25.3m (2015: £21.2m) resulting in a positive EBITDA contribution
- Continued investment and development of the e-commerce platform for ScS trading website resulting in gross sales increasing 19.8% to £10.0m (2015: £8.4m)
- Improved distribution management leading to a reduction in costs expressed as a percentage of revenue to 4.9% (2015: 5.1%)

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

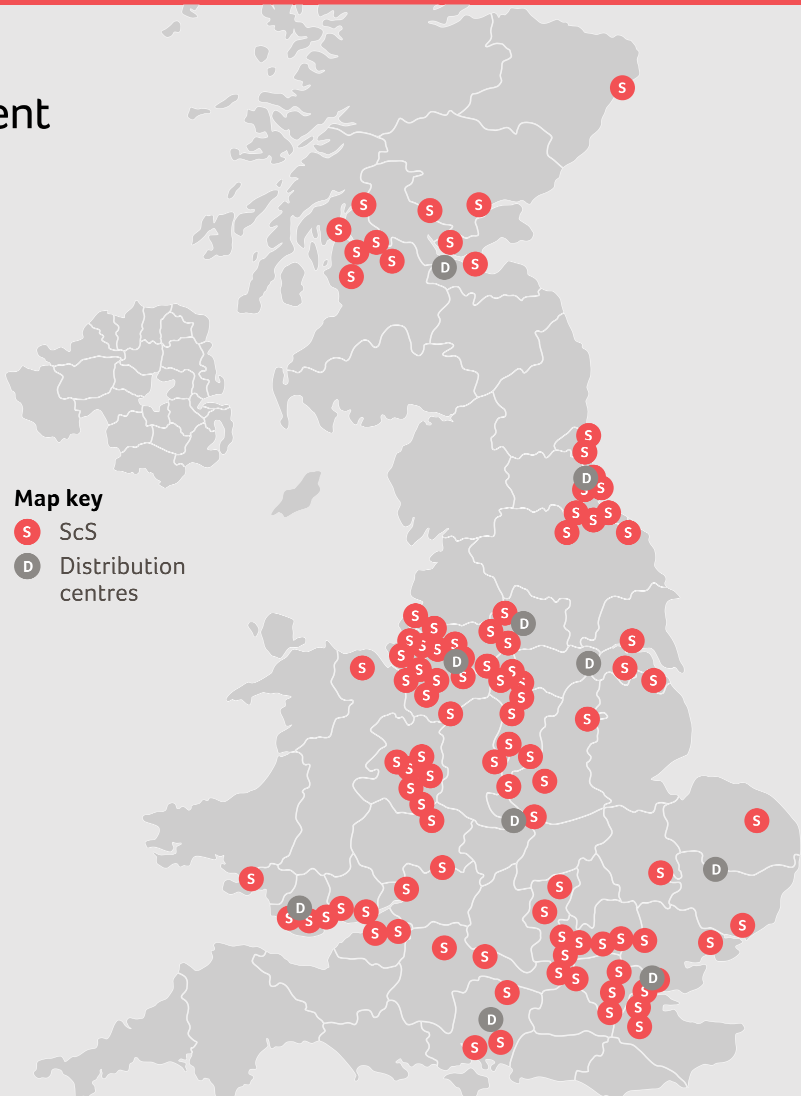
AT A GLANCE

ScS

We trade from 97 stores and 28 House of Fraser department stores across the country – from Aberdeen to Plymouth.

Our target is to open two to three new stores per year with over 20 potential new store locations identified.

Our online sales grew to £10.0m, up from just £0.5m in 2009. We offer our full in-store ranges, together with an additional express delivery selection, for customers where time is a priority, along with a dedicated website for our House of Fraser customers.



Map key
- S ScS
- D Distribution centres

STORES ACROSS THE UK

97

AVERAGE STORE RETAIL SPACE

14,700 sq ft

DISTRIBUTION CENTRES

10

Key Strengths

ScS has a number of key strengths that have supported the growth in sales and profits in the last three years and which provide a firm base for further growth.

One of the largest retailers of sofas and flooring
A combination that gives scope to develop our current customer base, provide further 'sell-on' opportunities to our current customers and reach new customers through the development of our House of Fraser concessions.

Trained staff with a focus on customer service
ScS places emphasis on the provision of high levels of service throughout the customer experience from the point of sale through to delivery and providing appropriate after sales service if required. Our sales staff are trained to operate to high standards, supported by in-house training and external materials, such as videos of mystery shopper exercises.

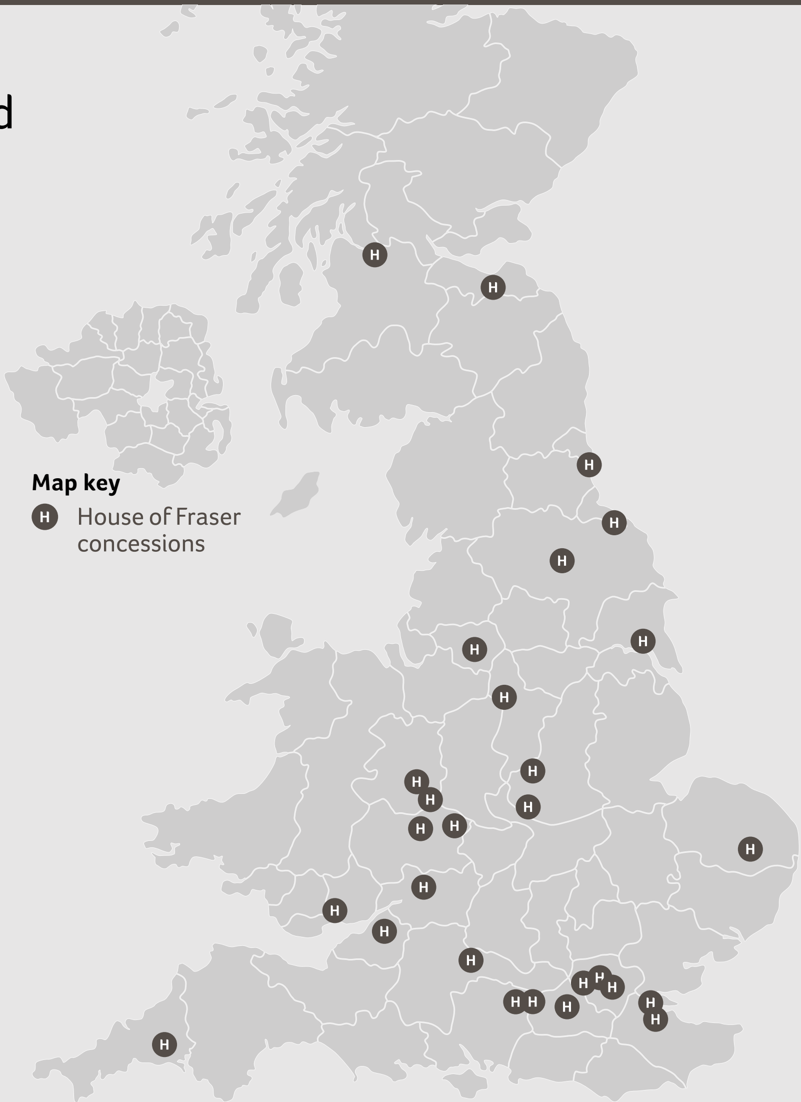
Store portfolio
ScS currently operates from 97 stores in the UK, 95 of which are in out of town retail park locations. Investment in the store portfolio continues to ensure each store remains well presented, attractive and modern with a fashionable look and feel.

Experienced management team
Led by David Knight, ScS's Chief Executive Officer, the senior management team has many years of combined experience both in their respective areas of expertise and with ScS's business.

HOUSE OF FRASER – MADE TO ORDER SOFAS, FURNITURE & FLOORING

In 2014 ScS began operating the upholstered furniture and carpet concession ranges for House of Fraser.

The concession currently operates from 28 House of Fraser stores across the UK and offers a collection of sofas, flooring, dining and occasional ranges. www.houseoffrasermadetoordersofas.co.uk



HOUSE OF FRASER CONCESSIONS

28

Diverse and focused product range
ScS seeks to offer a diverse product and brands offering at a range of price points in order to appeal to a wide national customer base. This seeks to provide scope for growth as well as greater resilience in the event of an economic downturn.

Growing online capability
Having grown online sales from £0.5m in 2009 to £10.0m in the year ended 30 July 2016, the website currently generates more sales than ScS's leading store. A new website was launched in July 2014, ScS have continued to invest (2016 £1.4m). This platform is expected to underpin further online sales growth as well as act as a marketing tool to drive customer in-store visits.

Negative working capital business model
The Group operates a negative working capital business model with low ongoing capital expenditure requirements. The majority of product suppliers are paid at the end of the month following the month in which the furniture was delivered to the Group's distribution centres.

IT systems
The Group has invested in IT systems that seek to support ScS's growth by offering business insights and consistent reporting data. This infrastructure is supported both by a professional IT team and external support contracts that aim to ensure that ScS's stores, distribution centres and head office experience minimal disruption.

Read more on page 12

OUR HISTORY

The Group's business commenced trading in Sunderland as a family-owned general home furnishings store.

By the 1980s, the business operated from eight stores in the North East of England under the ScS name, specialising in selling upholstered furniture. Following a management buyout in 1993, the business began to expand outside of the North East of England, and focused on establishing ScS as a major UK upholstered furniture retailer operating from larger and more modern stores in out of town retail park locations.

The store expansion programme saw the store estate grow, and, by 2007, had increased to 95 stores supported by nine distribution centres. A number of operational initiatives were also undertaken, including upgrades to business processes, management information and information technology systems. David Knight was appointed Chief Executive Officer in 2002 and Chris Muir was appointed as Chief Financial Officer in April 2016.

2009

- Transactional online website launched
- La-Z-Boy, the first third party brand, is added to the ScS product range

2010

- Occasional tables, lamps and dining furniture added
- G Plan, the second third party brand is added
- SiSi Italia, the first own brand, is added to the ScS range

2011

- Interest-free credit offered on all products in every store

0%

2012

- Flooring added to ScS range
- ScS re-branded as the Sofa Carpet Specialist


2013
Endurance, the second own brand, is added to the range
Three House of Fraser concession pilots
2014
Parker Knoll, a further third party brand is added to the ScS range
New website launched to provide enhanced online shopping experience
House of Fraser concessions launched
2015
In January we listed on the London Stock Exchange
Three new ScS store openings
2016
5-star rating achieved on independent customer review site Trustpilot
One new store opening. Bromborough, in the Wirral
Duresta and A&J become the latest third party brands to be added to the ScS range

OUR MARKETS

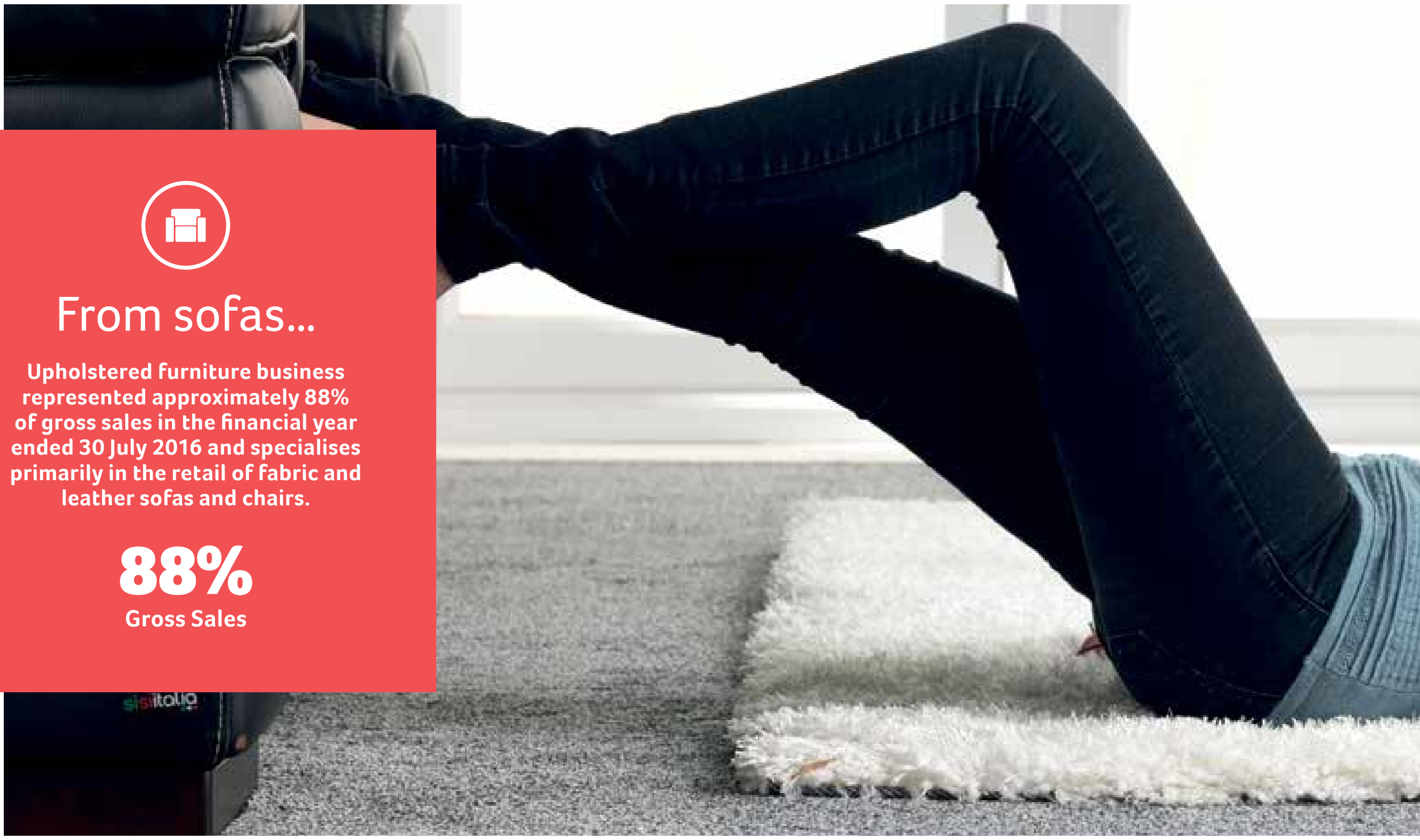
ScS operates in the UK retail market for upholstered furniture and floorings.

The upholstered furniture market is worth an estimated £3.1bn sales per annum, and in which ScS is one of the leading retailers with a share of 9.1%. ScS is also becoming a major participant in the £2.1bn sales per annum floorcoverings market, which it only entered in 2012 and where it now has a 2.3% share.

The signs are that the furniture and floorcoverings markets have returned to growth after a very challenging few years.

The overall market contracted significantly as a result of the global financial crisis and the prolonged recession that followed it.

The value of the upholstered furniture segment of the market fell from almost £4bn in 2007 to an estimated £3.1bn in 2016.



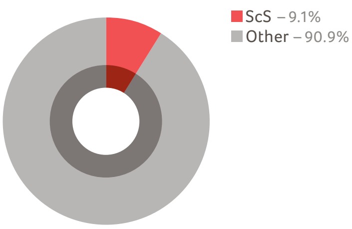
From sofas...

Upholstered furniture business represented approximately 88% of gross sales in the financial year ended 30 July 2016 and specialises primarily in the retail of fabric and leather sofas and chairs.

88%
Gross Sales

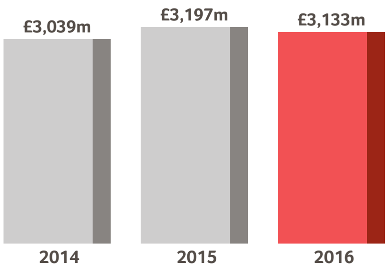
UPHOLSTERY MARKET SHARE

9.1%



UPHOLSTERY MARKET SIZE

£3,133m



UPHOLSTERY MARKET FORECAST

+6.3%
(2016-2021)

Looking ahead, the conditions necessary for the market to grow sustainably – improving consumer confidence and disposable income, a strengthening level of housing market activity and availability of affordable consumer credit for higher-ticket items – are all now in place.

Consequently Verdict forecasts that ScS core markets are now set to resume strong growth – with 6.3% growth anticipated between 2016 and 2021 in upholstered furniture and 2.5% in floorcoverings.

Our business mix 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 and accessories. Flooring now represents 12% of total gross sales.

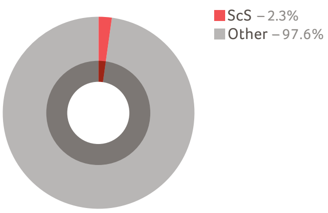
...to carpets

The flooring business represented approximately 12% of gross sales in the financial year ended 30 July 2016 and focuses on the retail of carpets, as well as laminate and vinyl flooring.

12%
Gross Sales

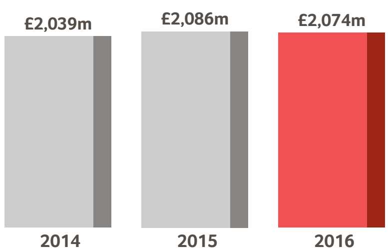
FLOOR COVERINGS MARKET SHARE

2.3%



FLOOR COVERINGS MARKET SIZE

£2,074m



FLOOR COVERINGS MARKET FORECAST

+2.5%
(2016-2021)

CHAIRMAN'S STATEMENT

This is my second annual statement to our shareholders following the Company's IPO in January 2015 and I am pleased to report that the business has made excellent progress against its strategic objectives in the year. This has resulted in growth in both revenue and margins.

Financial and strategic objectives
The Company has set itself the following objectives:

- To deliver profitable and sustainable growth;
- To improve the quality of earnings;
- To improve business resilience through the economic cycle; and
- To increase shareholder returns.

The business has continued to pursue these objectives determinedly, growing revenue, gross profit and tightly controlling costs and cash flow. These objectives are well underpinned by the pursuit of our strategy for growth, which includes four key areas as follows:

- Increasing sales densities at our stores;
- Optimising the opportunity with House of Fraser customers;
- Growing online revenue; and
- Achieving strong and speedy financial returns from new store openings.

Performance
The business traded strongly throughout the year supported by increased marketing spend. This growth coupled with strong cost control resulted in an increase in earnings per share (EPS) to 21.8p (adjusted EPS 2015: 13.8p).

REVENUE

£317.3m
+14.7%

EARNINGS PER SHARE

21.8p

"During the year the Group saw increases in both the gross margin and the EBITDA margin in line with the objective of improving quality of earnings."

During the year the Group saw increases in both the gross margin and the EBITDA margin in line with the objective of improving quality of earnings. This improved performance also increased the Group's resilience. Continued strong cash generation provides scope to further expand the business and also increase shareholder returns in the form of dividends.

Progress was also seen in all four strategic areas for growth as detailed above and the business has increased market share in both the upholstery and flooring markets. Encouragingly these market share gains have been achieved at higher gross margins than in the prior year.

Dividend

The Group remains in a strong financial position, with good cash generation and a balance sheet that is growing in resilience. This, coupled with the Board's continued confidence in the outlook for the Group, means we are proposing a full year dividend of 14.5p, a 3.6% increase on the full year dividend for 2015. This results in a final dividend of 9.83p. This final dividend is lower than in the prior year (11.2p) because a higher interim dividend was paid in line with the Board's intention of paying a one third and two thirds split between the interim and the final respectively.

Board changes

During the year we welcomed Chris Muir to the Board as Chief Financial Officer, following the decision of Ron Turnbull to step down from the Board and resign from the Company. Chris joined the Group on 4 April 2016 from Northgate plc where he was Group Finance Director from May 2011. Chris brings substantial experience to the Board and will be a valuable asset as we look to further grow and develop our business.

Colleagues

I would like to record the Board's thanks to all of our 1,848 team members throughout the business. It is their commitment, expertise and enthusiasm that allows the Group to deliver our mission to provide our customers with excellent service, value and quality.

Outlook

The Group has a clear strategy for growth underpinned by strong cash flows and the Board remains positive about the long-term prospects for the business.

The Board feels the business is in a strong position to maximise opportunities as they arise and continue to grow market share by pursuing the four areas of our strategy for growth.

Alan Smith
Chairman
3 October 2016

OUR VALUES

Deliver an exceptional customer experience
We place emphasis on providing high levels of service throughout our customers journey from point of sale, through to delivery and after sales service.

Extensive product range
We aim to offer our customers the best choice and value in the market-place, through our range of famous brands and own label products.

Knowledgeable team
We train our staff to talk accurately about our products so our customers can be confident they are making the right choice for their home.

Growth focused
Across the business we focus on growing sales and profits, by growing sales densities, diversifying the range and the development of our branded offering.

Read more on page 12

CHIEF EXECUTIVE OFFICER'S REVIEW

We are delighted to be reporting significant growth across all areas of the Group for the 2016 financial year.

Overview
Our sales order intake is the highest ever and is up 14.8% on a like-for-like basis. These results continue to demonstrate the progress that has been made in developing ScS into a strong national brand with three very clear retail offers – upholstered furniture, flooring and our House of Fraser concessions, all supported by an online platform that has seen continued investment.

Results
The Group saw a £40.6m (14.7%) increase in revenue in the year to £317.3m (2015: £276.7m). Gross profits increased 17.3% to £149.1m with gross margin as a percentage of gross sales increasing 110 basis points to 44.6% (2015: 43.5%). EBITDA increased to £16.0m (2015: £11.3m after adjusting for exceptional items).

Strategy for growth
As previously articulated, the Group has four key areas in its strategy for growth:

Area 1 – Increasing sales densities
Increasing sales densities is being targeted in the following ways:

- The ongoing use and further introduction of a branded range of products, including both third party brands and ScS private label brands;
- The continued development of our flooring offering;
- Ongoing investment in our online capability and offer;

EBITDA

£16.0m
+41.9%
(compared to prior year adjusted EBITDA)

GROSS PROFIT

£149.1m
+17.3%

"Our sales order intake is the highest ever and is up 14.8% on a like-for-like basis."

- Increasing footfall quality (both physically and digitally via our websites) by raising brand awareness;
- Improving sales conversion at our stores; and
- Improving the customer journey, experience and confidence.

Sales density per square foot at our ScS stores has increased to £219. This is an increase of £25, or 12.9%, on that achieved in 2015 and 19.0% higher than that achieved in 2014. Flooring continues to prove a very successful product offering since its introduction in 2012, with gross sales increasing £6.3m (19.9%) in the year.

The average order price in furniture was stable with an increase in flooring as the business ceased the aggressive flooring promotion that it ran in the previous year as it continued to establish its market share and awareness.

Marketing spend increased to £23.1m in the year (2015: £19.2m) as the Group invested in brand awareness, targeting and achieving increased footfall and website hits. Increases were also noted in sales conversion, being the proportion of customers who purchased a product after entering a store.

The Group recognises the importance of the customers' experience and measures and monitors this on an ongoing basis. As with a number of other retail companies, satisfaction levels are provided by Trustpilot, which allows customers to provide feedback and a rating on their experience. I am pleased to announce that our continued dedication to improving this means we are now rated as excellent based on over 31,000 Trustpilot reviews and have been awarded the maximum 5-star rating.

Area 2 – Optimising the opportunity with House of Fraser customers

When reviewing opportunities for growth the Group identified that certain customer types prefer to shop in department stores and town centres and have a different expectation of the product being offered.

Rather than losing the focus that is evident in our ScS stores the Group looked at concession opportunities across the UK.

Following a pilot, the full roll out was completed by July 2014. The arrangement currently operates from 28 House of Fraser stores and has delivered a gross sales increase of £4.1m (19.7%) in the year to £25.3m (2015: £21.2m) and made a positive contribution to the Group's EBITDA.

As the relationship matures, both ScS and House of Fraser management teams recognise the potential that exists. In light of this, the Group has recently appointed a senior manager to help lead and maximise this opportunity.

Area 3 – Growing online revenue

Evidence indicates that customers are increasingly researching online prior to making a purchase and our websites are an integral tool to support our customers. Given the high-ticket and bespoke nature of the items we sell, a high proportion of our customers will visit our stores before they make their final purchase decision. However, the Group recognises that the investment in our website is critical and that it is an ever increasing part of the customer journey.

Accordingly, in the year ended 30 July 2016, the Group has continued to improve its online offering, investing £1.4m in website development (2015: £0.7m). The business has also significantly increased website marketing spend.

Online gross sales increased 19.8% to £10.0m (2015: £8.4m).

Area 4 – Achieving strong and speedy financial returns from new store openings

During the year ended 30 July 2016, the Group opened a new ScS store in Bromborough, in the Wirral. This new store made a positive contribution to the Group's EBITDA in the 2016 year with performance being ahead of original expectations.

A further new store was opened in Aberdeen in September, post the year end. New stores in Plymouth, Thanet and Edinburgh are targeted to open on Boxing Day 2016.

In line with the Group's commitment to increase quality of earnings and resilience, store profitability is regularly reviewed and lease extensions are considered in line with the Group's objectives. Following careful consideration, the decision was taken to close the Stechford store in August 2016.

We now operate from 97 stores across the UK, almost all of which are in modern out of town retail parks, often alongside competing furniture and floorcoverings retailers – plus the 28 House of Fraser concessions.

Current trading and outlook

We are encouraged by our trading performance since the start of the current financial year and this is in line with our expectations. However, we are mindful that the Group continues to face very strong comparatives during the remainder of the year.

Looking further ahead, we are excited about our prospects, including the continued growth from our ScS network, the concession agreement with House of Fraser, our flooring offering and our online proposition. We continue to identify new store opportunities within our target areas. The Group's cash flow dynamics underpin the strong financial position which will support our ambitions for future growth and continue to deliver value for our shareholders.

David Knight
Chief Executive Officer
3 October 2016

OUR BUSINESS MODEL

The ScS business model is all about offering a high quality, competitively priced range of upholstered furniture, flooring and related products to our customers with great service – supported by experienced expert staff, modern comfortable stores, an efficient supply chain and low overhead costs – resulting in a great value offer for our customers.

KEY ELEMENTS OF THE ScS BUSINESS MODEL AND HOW THEY COMBINE TO CREATE VALUE FOR CUSTOMERS AND SHAREHOLDERS ARE:

An authoritative, competitively priced upholstery offer.
We are sofa specialists and this is the core of our customer proposition – offering customers a wide range of styles, fabrics, brands and value for money.

Our cost-efficient supply chain, infrastructure and central overhead means we stay competitive.
Customer deliveries are executed by our own experienced workforce, which is central to our strategy of providing the best customer experience.

An authoritative, competitively priced carpets and flooring offer.
We are flooring specialists and offer a great selection of carpets and floorings.

ADDED VALUE FOR CUSTOMERS AND SHAREHOLDERS

Large, modern, comfortable stores.
Our customers can find all their home furnishing needs under one roof and our stores are designed to be convenient, welcoming and easy to shop in. Our online channel supports and complements our stores.

Our reliable supplier base ensures quality.
We source from a small group of specialist mainly UK-based suppliers, most of which we've worked with for many years.

Interest-free credit being available on all our products.
As a retailer of higher ticket furniture items this is another core part of our offer for customers – particularly those who want the flexibility to plan their purchases and pay by instalments.

Excellent customer service which really differentiates ScS.
Our experienced, expert store and dedicated service teams help our customers make the right choices as well as provide first class after-sales service.

OUR STRATEGY

Our strategy for growth includes four key areas.

Strategic Priority	2016 Progress
INCREASING SCS SALES DENSITIES – BY OFFERING GREAT CHOICE AND VALUE; BROADENING OUR PRODUCT OFFERING AND ENSURING A FIRST CLASS SERVICE. Sales per square foot in existing stores have grown by 12.9% during 2016, to £219. This has driven strong market share growth on a store base that has grown only modestly. The key has been attracting more customers through a combination of broadening our offers, to include a wider range of both third party and ScS private label brands, the continued development of our flooring offer and increasing our marketing spend to £23.1m (2015: £19.2m). Measuring the experience of our customers through the Trustpilot platform, has also provided insight and our continued dedication to improvement means we are now rated as excellent, based on over 31,000 reviews. Read more on page 16	• 12.9% growth in sales per square foot • 20.3% increase in marketing spend • A maximum 5-star award with Trustpilot • Increased footfall and conversion
OPTIMISING THE OPPORTUNITY WITH HOUSE OF FRASER. Following a successful pilot the full roll out was completed in July 2014. The Group currently operates from 28 House of Fraser stores, under the Made to Order, Sofas, Furniture and Flooring brands. The arrangement has delivered gross sales of £25.3m, a 19.7% increase on 2015. Potential exists to further develop this opportunity; Verdict estimates the market opportunity for upholstery and flooring sales, in department stores, to be £306.3m. Concessions were rebranded during the year from House of Fraser for Living, to House of Fraser, Made to Order, Sofas, Furniture and Flooring, to bring clarity to the product offering.	• 19.7% increase in sales • Senior Manager appointed to the Operating Board to manage the concession opportunity • Duresta and A&J added as a new third party brands
GROWING ONLINE REVENUE. Online is a growing sales channel for us. Evidence indicates that consumers are using our website to research products prior to making a purchase. A high proportion of our customers will visit one of our stores before making a purchase. Online sales grew to £10.0m in 2016, a 19.8% increase. Online is not only complementary to our stores, it is critical to our customers journey and their buying experience. Research indicates that a growing number of customers research their purchase online prior to visiting stores. Read more on page 17	• Online sales reached £10.0m • Improvement to the user experience, on mobile and tablet devices • Improvement of brand visibility • Increasing online traffic through improvement to digital marketing strategy
FILLING IN THE WHITE SPACE – ACHIEVING STRONG AND SPEEDY RETURNS FROM NEW STORES. Management has identified over 20 potential new locations within the UK. During the year we opened a new store in Bromborough, in the Wirral, and since the year end a further new store has been opened in Aberdeen (September). New stores in Plymouth, Thanet and Edinburgh are targeted to open on Boxing Day 2016. The key for us is a structured and manageable opening programme, ensuring that we get the very best location for our new stores. The Board also have an objective to optimise the existing portfolio as well as the new stores. In line with the Group's commitment to increase quality of earnings and resilience, store profitability is regularly reviewed. Following careful consideration, the decision was taken to close the Stechford store in August 2016.	• New stores opened in Bromborough and Aberdeen • Committed to stores in Plymouth, Thanet and Edinburgh

2017 Priorities

- Continue to increase sales densities
- Grow market share
- Maintain marketing investment
- Continue to use Trustpilot feedback to further improve the customer experience

- Continue to increase sales
- Develop the online presence of House of Fraser, Made to Order, Sofas, Furniture and Flooring
- Review of the product ranges and concession layout to ensure offering is tailored to the House of Fraser customer

- Introduction of Reevo, to obtain feedback on individual products
- Continued development to increase online traffic
- Customers to be able to view products in all colours
- Improve customer relations through more effective use of data

- Ensure successful launches at the four new stores
- Continued focus on potential sites for further opening opportunities

Measures of Success

TOTAL YEAR-ON-YEAR GROSS SALES GROWTH

14.5%

ScS SALES DENSITY PER SQUARE FOOT

£219

A 12.9% increase on 2015

LIKE-FOR-LIKE ORDER INTAKE GROWTH

14.8%

CUSTOMER SERVICE

8.9

Score out of ten based on over 31,000 Trustpilot reviews

GROSS MARGIN % OF GROSS SALES

44.6%

2015: 43.5%

ADJUSTED EBITDA

£16.0m

An increase of £4.7m on 2015

ADJUSTED EARNINGS PER SHARE

21.8p

An 8.0p increase on 2015

Read more on page 18

OUR STRATEGY IN ACTION

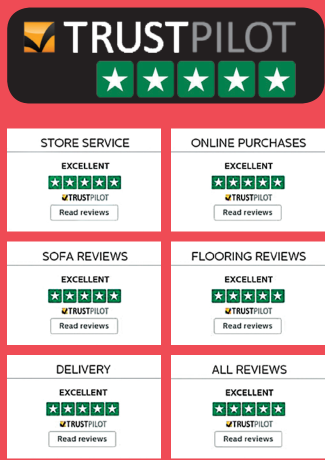
UNDERSTANDING OUR CUSTOMERS

WE MONITOR OUR CUSTOMERS' PERCEPTIONS AND EXPERIENCES THROUGH THE INDEPENDENT TRUSTPILOT PLATFORM AND WE HAVE BEEN ABLE TO ANALYSE FEEDBACK AT STORE, ONLINE AND DISTRIBUTION CENTRE LEVEL, ENABLING TARGETED PERFORMANCE IMPROVEMENTS.

Our Trustscore is available publicly and viewed 20,000 times per month on average. Our Trustscore is also visible through search engines and is seen on average 125,000 times per month.

To drive staff performance in store, and to continue to improve their customer service, ScS set an ambitious target of getting 5-star status. Using actionable insight tools, we identified that our customers appreciated knowledgeable staff, clear explanations of the best products and a non-pushy sales team. It was also identified that attention was needed to delivery lead times and keeping our customers updated on their order.

As a result of these insights, we were able to make improvements across the business; processes have been established to further enhance the customer experience. The results are more happy customers, driven by a customer-orientated sales team, focusing on customer needs. The Group has now had over 31,000 reviews and over the course of the last financial year we've seen a 20% improvement in our star rating performance. The Group currently has the maximum 5 stars and is rated as excellent.



BROADENING THE OFFER – ONLINE

THE GROUP HAS MADE A SIGNIFICANT INVESTMENT IN ITS ONLINE PLATFORM; £1.4M IN 2016 (2015: £0.7M), COUPLED WITH INCREASED DIGITAL MARKETING.

As well as generating more sales than the Group's leading store, the website has also proved to be key in driving in-store footfall.

The Group launched its transactional website in April 2009. Sales and profits from the website have grown steadily, particularly over the last three years to £10.0m in the year ended 30 July 2016. For the year ended 25 July 2015 online gross sales represented 2.9% of gross sales, this grew during 2016 to 3.0%.

The Group's online offering is not only important as a complimentary sales channel, it provides a key marketing channel with many customers choosing to view and research products before visiting a physical store location.

The Group's online sales performance is reflective of the fact that 'big ticket' purchases are generally sold in a retail store environment rather than online. Whilst the Group expects to see a continued sales growth online via this channel, the prime objective of the online strategy is to promote ScS to potential sofa and carpet customers and encourage them to visit a ScS store.

Investments:
- Development of information content and product images;
- Improved user experience on the home page, much easier to navigate on tablet and mobile; and
- Improvement of brand visibility.

The products available on the Group's website generally mirror the in-store offering but include a small range of additional 'web exclusive' ranges which typically have a lower price point and faster delivery time. The online customer demographic is broadly similar to that of the in-store customer, with a bias towards a younger customer demographic as well as customers located in more rural locations. The online offering is currently available only to customers within the UK and utilises ScS's existing distribution network to deliver customer orders.

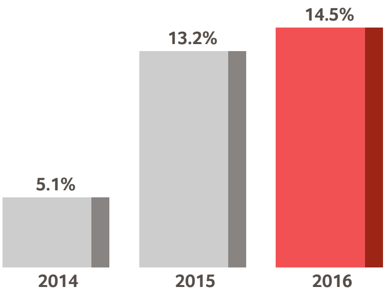
FINANCIAL REVIEW AND KPIs

Key Performance Indicators

Financial KPIs

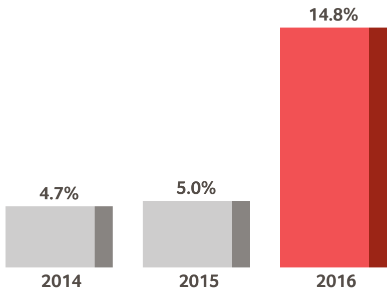
TOTAL YEAR-ON-YEAR GROSS SALES GROWTH

14.5%



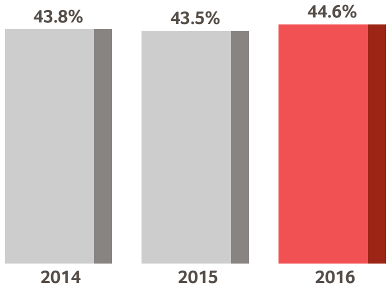
LIKE-FOR-LIKE ORDER INTAKE GROWTH

14.8%



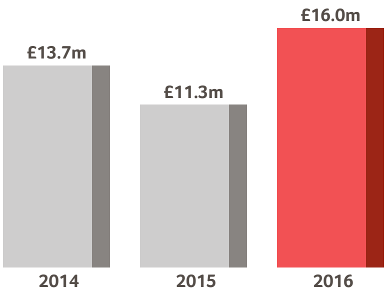
GROSS MARGIN % OF GROSS SALES

44.6%



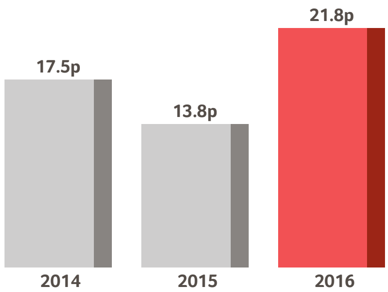
ADJUSTED EBITDA

£16.0m



ADJUSTED EARNINGS PER SHARE

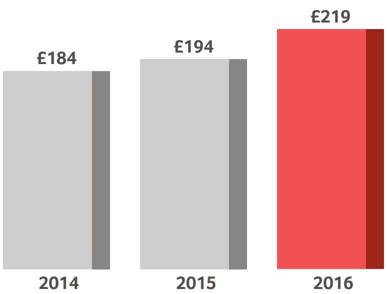
21.8p



Non-financial KPIs

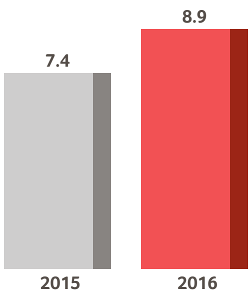
ScS SALES DENSITY PER SQUARE FOOT

£219



TRUSTPILOT CUSTOMER SATISFACTION

8.9 (out of ten)



Gross sales and revenue

Gross sales increased by £42.5m (14.5%) on the previous financial year to £334.7m (2015: £292.2m) and is attributable to:

- An increase in upholstered furniture gross sales in ScS stores of 13.2% to £261.3m;
- An increase in flooring gross sales in ScS stores of 19.9% to £38.1m;
- An increase in online gross sales of 19.8% to £10.0m, and
- An increase in gross sales from the House of Fraser concession of 19.7% to £25.3m.

Revenue, which represents gross sales less charges relating to interest free credit sales (see note 3 – Segment information), increased by 14.7% on the previous financial year to £317.3m (2015: £276.7m).

Like-for-like order intake for the financial year ended 30 July 2016, calculated on the basis of all stores opened for 12 months or longer, was up 14.8% on the previous financial year (2015: 5.0%).

Gross profit

Gross margin as a percentage of gross sales increased by 110 basis points from 43.5% in the year ended 25 July 2015 to 44.6% in the year ended 30 July 2016. The 2015 margin was impacted by very competitive promotions, notably a 'free carpet' offer during the 2014 Autumn period to support the growth and awareness of our flooring business.

The increase in gross margin and growth achieved in the year resulted in an increase in gross profit of £22.0m or 17.3%.

Operating profit

On a statutory basis operating profit for the year ended 30 July 2016 increased to £11.0m (2015: £2.8m). The 2015 operating profit before exceptional items (relating to the January 2015 IPO) was £6.4m.

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 ten distribution centres, as well as costs of third party delivery services contracted to support peak delivery periods. During 2016 we have successfully implemented initiatives for improved route planning and central arranging of onward delivery to customers. The resulting efficiency gains have contributed to the reduction in distribution costs expressed as a percentage of revenue year-on-year from 5.1% to 4.9%.

Administrative expenses

Administrative expenses comprise:

- Store operating costs, principally employment costs and property related costs (rent and rates, utilities, store repairs and depreciation of capital investment) and costs associated with the concession agreement with House of Fraser;
- Marketing expenditure; and
- General administrative expenditure which includes the employment costs for the directors and senior management and all head office based functions (customer call centre, finance, human resources, IT, merchandising, online sales support, flooring administration, administrative support for House of Fraser concession), company pension contributions, legal and professional costs, insurance, company car costs, IT systems support and telecommunications.

Administration costs for the year totalled £122.6m, this compares to £106.7m in the year ended 25 July 2015 after removing IPO related exceptional costs of £3.7m (see Exceptional items – note 6). Administrative costs as a percentage of revenue were in line with the prior year.

The year saw an increase in administrative costs of £15.9m, with the majority of the increase being driven by the following:

- £8.5m increase in payroll costs, £7.1m relating to bonuses and commission, reflecting the strong sales and profit performance in the year; and
- Marketing investment increased by £3.9m to £23.1m.

	Year ended 30 July 2016 £m	Year ended 25 July 2015 £m
Gross sales	**334.7**	292.2
Revenue	**317.3**	276.7
Gross profit	**149.1**	127.1
Distribution costs	**(15.5)**	(14.0)
Administration expenses (excluding exceptionals)	**(122.6)**	(106.7)
Total operating expenses (excluding exceptionals)	**(138.1)**	(120.7)
Operating profit (excluding exceptionals)	**11.0**	6.4
Net finance costs (excluding exceptionals)	**(0.1)**	(3.9)
Exceptional items	**–**	(4.2)
Profit/(loss) before tax	**10.9**	(1.7)
Tax	**(2.2)**	(0.5)
Profit/(loss) after tax	**8.7**	(2.2)
Earnings/(loss) per share	**21.8p**	(5.6p)
EBITDA (excluding exceptionals)	**16.0**	11.3

FINANCIAL REVIEW AND KPIS
CONTINUED

Net finance costs
Net finance costs for the year ended 30 July 2016 were £0.1m reflecting the Group's strong balance sheet with no debt (2015: net finance cost £4.5m).

Net finance costs in 2015 comprised interest payable on the pre-IPO US$ denominated debt owed to the principal shareholder, together with a loss on exchange thereon. The year ended 25 July 2015 included exceptional items of £0.6m and a loss on exchange of £2.8m.

Exceptional costs
Exceptional costs in the year ended 25 July 2015, comprised legal and professional fees associated with the IPO, management fees paid to an affiliate of Parlour Product Holding (Lux) Sarl, the principal shareholder, in relation to the early termination of a management services agreement as a result of the IPO and commitment and legal fees relating to the new banking facilities.

Taxation
The Group's effective tax rate for the year ended 30 July 2016 was 19.8%.

The 2015 tax charge based on profit before tax adjusted for IPO costs charged as exceptional operating items was an effective rate of 25.8% which was higher than if the standard rate of corporation tax had been applied due to charges not deductible for tax purposes, principally foreign exchange losses.

Earnings per share (EPS)
EPS for the year ended 30 July 2016 was 21.8p compared to a loss per share of 5.6p in the previous year. Adjusting the 2015 year for exceptional/non-recurring operating costs and non-recurring net finance costs gives a revised EPS for 2015 of 13.8p.

EBITDA
An analysis of EBITDA (2015: adjusted EBITDA) is as follows:

	Year ended 30 July 2016 £m	Year ended 25 July 2015 £m
Operating profit	**11.0**	2.8
Depreciation	**4.5**	4.2
Amortisation	**0.5**	0.6
Exceptional items	**–**	3.7
EBITDA	**16.0**	11.3

Cash flow and cash equivalents
A 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 approximately seven days after 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 30 July 2016 £m	Year ended 25 July 2015 £m
Cash generated from operating activities	**13.2**	10.0
Net capital expenditure	**(3.4)**	(4.1)
Net taxation and interest payments	**(2.2)**	(1.8)
Free cash flow	**7.6**	4.1
Loan repayment	**–**	(0.8)
Dividends	**(6.3)**	(1.0)
Net cash generated	**1.3**	2.3

At an operational level the Group remained strongly cash generative with cash generated from operating activities of £13.2m (2015: £10.0m).

Capital expenditure of £3.4m (2015: £4.1m) included £1.0m on new stores (2015: £2.5m) and refurbishment expenditure of £1.0m (2015: £0.5m).

The Group's cash and cash equivalents at the end of the financial year are very strong at £22.4m (2015: £21.1m), whilst debt is £nil. The year-end closing cash balance has been impacted by the 53-week year with the year-end falling in line with the month end. This timing means that the month end payment runs to suppliers and employees have been made. The Group's cash and cash equivalents at the end of week 52 was £31.9m.

In August 2016, the Group also extended its £12.0m committed revolving credit facility to October 2018.

Dividend
An interim dividend of 4.67p per ordinary share was paid in May 2015. With confidence in the Group's future growth prospects, and supported by strong cash flow dynamics, robust financial position and the extended committed banking facility, it is proposed to pay a final dividend of 9.83p per ordinary share, resulting in a full year dividend of 14.5p (2015: 14.0p).

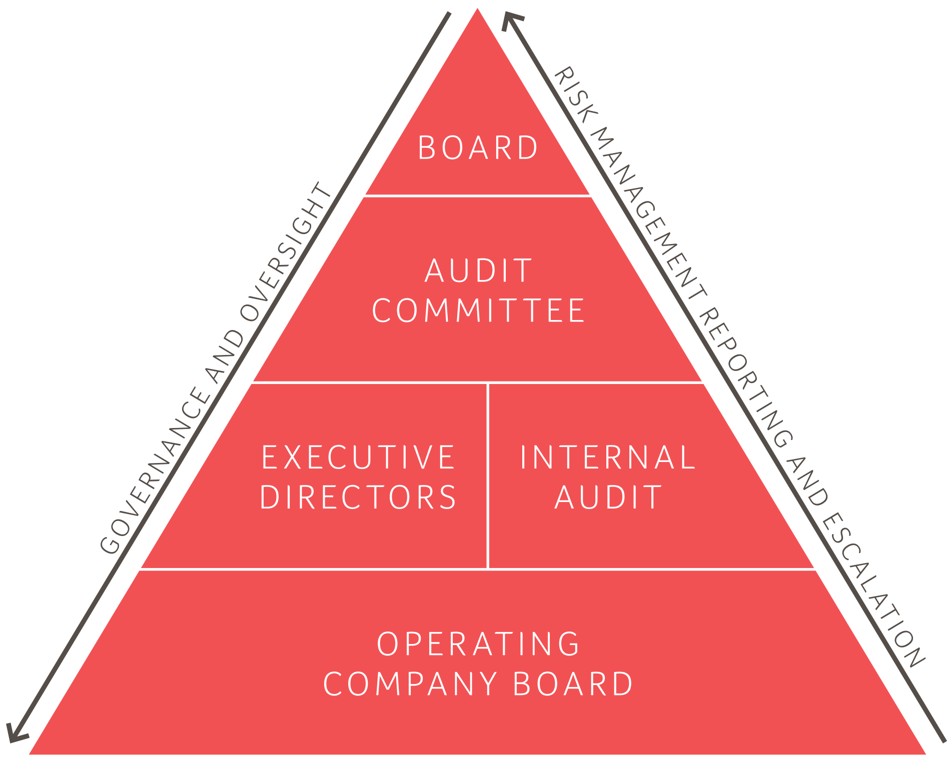
Chris Muir
Chief Financial Officer
3 October 2016

MANAGING RISK

Risk governance
Like all businesses, we face risks and uncertainties that could impact the achievement of our strategy. These risks are accepted as part of doing business.

The Board recognises that the nature and scope of these risks can change; regular reviews are undertaken of the risks and the systems and processes to mitigate them. 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. The Group has a formal governance framework in place underpinning our approach to risk management.

The Board has carried out a robust assessment of the principal risks and uncertainties of the Group, including those that threaten its business model, future performance, solvency and risk.



The Board has overall responsibility for the leadership of risk management, sets strategic objectives and the risk appetite and monitors performance.

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

The Executive Directors are responsible for disseminating risk policies. They support and help the Operating Company Board to 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.

Internal Audit is 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 Internal Audit reports formally to the Audit Committee and has direct access to the Chair of the Audit Committee. The Internal Audit team takes a risk-based approach to planning audit work.

Operating Company Board are responsible for risk management roles at operational level. They are responsible for the continuous identification of risk assurance and self-assessment of mitigating controls.

MANAGING RISK CONTINUED

Risk management process & framework

The Board and Executive Management are collectively responsible for managing risk across the Group. On a departmental basis risks are reviewed and reported through risk registers.

The Audit Committee is presented with risk reports at every committee meeting. The Group takes the following ongoing approach to risk management.

Identification of risks

The Board and the Group's management have a clearly defined responsibility for identifying the major business risks facing the Group and for developing systems to mitigate and manage those risks. The control of key risks is reviewed by the Board twice yearly and by the Group's management at their monthly meetings. The Board can therefore confirm that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, that has been in place for the year under review and up to the date of approval of this annual report. The Board has performed a robust assessment of the principal risks facing the Group.

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 impact, likelihood, change from the prior year and appetite. The governance of risk is undertaken in the context of the Group's overall risk appetite. The Group considers risk appetite to ensure adequate resources are allocated to the risks. The Board reviewed and approved a formal risk appetite statement as follows:

CATEGORY OF RISK	RISK PARAMETERS	
STRATEGIC	Medium to high tolerance	During development of new propositions, and assessing new opportunities, we are prepared to accept medium to high risks that support our pursuit of growth.
OPERATIONAL	Low to medium tolerance	When operating within our business, including the management of our suppliers, controlling stock and assets, and managing our people we have a low to medium tolerance for risk. We will take a cautious approach to risk within our operations, but consider that certain risks will be taken in order to achieve our strategic objectives and maintain our competitive position.
FINANCIAL	Low tolerance	We consider that robust financial controls are necessary to manage our business effectively. All our operating processes are based around policies and procedures that minimise the risk of a loss of financial control.
COMPLIANCE	Extremely low tolerance	We have an extremely low tolerance when complying with laws and regulations that relate to bribery and corruption, product safety employee safety, customer safety, and consumer credit. We have controls in place that are designed to mitigate these types of risks. We have detailed and tested procedures in place for dealing with these types of scenarios when they arise.

PRINCIPAL RISKS AND UNCERTAINTIES

The following principal risks and uncertainties are those that the Board has identified as having a potential detrimental impact on our corporate reputation, the operation of our business or on our ability to execute our strategy. The business takes a variety of steps to mitigate these risks and these are reviewed regularly as part of the oversight by the Audit Committee of the system of internal controls and reported on to the Board and the Executive Directors, who are collectively responsible for overall risk management.

Key to change in risk level since the previous year: Risk Higher (Worsened) ↑ Risk Stayed Level ↔ Risk Lower (Improved) ↓

KEY RISK	DESCRIPTION	MITIGATION	CHANGE IN RISK LEVEL
ECONOMIC ENVIRONMENT	A reduction in consumer confidence or activity levels and pricing in the housing market, resulting in a fall in consumer spending on discretionary high value items, such as furniture, could be damaging to the performance of and prospects for the Group.	• We offer a range of products and price points in our categories to ensure that customers can trade up or down. • We maintain a lean business model allowing us to remain competitive in our markets and adapt to change quickly. • A key strand of our strategy has been to broaden and thereby diversify our product offering into categories such as flooring and third party brands.	↔
	The recent referendum decision for the UK to leave the EU could potentially impact on the economy and a reduction in consumer spending.	• We will continue to offer a quality product at a competitive price that remains attractive to our consumer base. Our entrance into the flooring market, concessions and brands has diversified our offering into a wider demographic consumer base.	
	Further exchange rate fluctuations could lead to cost pressure.	• We work closely with our suppliers and will attempt to minimise any impact on our cost base and our retail pricing strategy.	
COMPETITION	The Group operates in competitive and fragmented markets and against a wide variety of retailers and may face increased competition in its target markets. Failure to be aware of or respond to key changes in the competitive environment is a risk to our future success.	• We continue diversifying and developing our proposition for customers as part of our Group strategy. We continually respond to changing patterns in demand in our core market which broadens our appeal and sales base. • We actively monitor sales performance, product and advertising performance and competitor activity. • Our sales performance has demonstrated that we continue to grow our share of the market.	↔
REGULATION AND COMPLIANCE	Many of the Group's activities are regulated by legislation and standards including trading, advertising, product quality, health & safety, the environment, data protection and the Bribery Act. Failure to comply with these may risk incurring financial or reputational damage.	• We actively monitor compliance with our existing obligations and we have internal policies and procedures. Colleagues are kept informed of these requirements via regular briefings and internal communications. • All employees are issued with a code of conduct. • A confidential hotline has been setup for colleagues to raise any concerns in confidence. • All suppliers are subject to regular checks and independent product testing is regularly undertaken.	↔
BUSINESS SYSTEMS AND INFORMATION INFRASTRUCTURE	The Group's business involves a high number of operational and financial transactions across numerous sites which rely on the continuous operation of our IT systems.	• 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. • This resilience is tested and monitored by the Group.	↔
SEASONALITY/ EXTREME WEATHER	Furniture retailing is highly seasonal in nature. Prolonged extreme cold, warm or unseasonal weather conditions may reduce footfall in our stores, resulting in weak sales, leading to potentially adverse effects on profitability.	• The Group constantly monitors national, divisional, regional and branch results. • This close monitoring and our ability to flex the marketing and advertising spend enables the Board to react quickly to changes in the marketplace.	↔

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

KEY RISK	DESCRIPTION	MITIGATION	CHANGE IN RISK LEVEL
CONSUMER FINANCE	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.	• We maintain a longstanding relationship with two credit providers to reduce the risk of the facility being withdrawn. • We regularly reviews default levels with the providers to discuss the associated fee levels. • The Group has obtained the relevant permissions from the FCA to continue to provide interest-free credit to customers. • Regular training is provided to retail staff and any complaints regarding regulated activity are reported to the Board.	↓
CREDIT RISK & LIQUIDITY	The availability of supplier credit and the ability of suppliers to obtain credit risk insurance could have material adverse effects on the Group's cash position and overall financial condition.	• We have developed strong relationship and credibility with credit insurers though regular communication and information sharing. • Robust forecasting facilities enable early discussion of possible issues increasing the chances of positive solutions. • The committed bank revolving credit facility has been agreed and is in place until October 2018. • Suppliers provide regular updates on their Credit Insurance arrangements. • See viability statement for further information.	↔
SUPPLY CHAIN/ INFRASTRUCTURE	A large proportion of the Group's products are supplied by a small number of key manufacturers. A supplier which ceases to trade could cause disruption to the supply of products to customers. Around one-third of the total products sold by the Group are manufactured in the Far East, which could present difficulties in ensuring supplier compliance and an ethical supply chain.	• The Group has long-established and good working relationships with its key suppliers. • When sourcing products we ensure that at least two factories can produce each product providing resilience. • We independently monitor supplier financial stability to identify any early signs of failure. • Service level agreements are in place with all suppliers. • Suppliers are expected to be members of Sedex (the supplier ethical data exchange) and agree to audits of manufacturing facilities. • Our contractual relationships are with long-standing UK businesses.	↔
BRAND & REPUTATION	The Group recognises the need to protect its brand and reputation – failure to do so effectively could result in a loss of confidence by customers and or colleagues.	• Key aspects of our business activities which have the potential to impact reputation are monitored closely. • We regularly survey customer service levels (for example, though Trustpilot), and product quality, colleague engagement (through staff surveys). The integrity of our product sourcing is regularly monitored and reviewed. • We ensure that we comply with current guidelines on pricing and promotions through regular review and monitoring.	↔
PRODUCT LIABILITY CLAIMS	Failure to deliver a safe, quality product in line with customer expectations risks the reputation of the Group, resulting in loss of customer confidence and declining sales volumes.	• All suppliers have entered into a service level agreement with the Group. • Suppliers are required to provide evidence that the product supplied is compliant with all current regulations and are expected to be members of Sedex and agree to audits of manufacturing facilities. • The Group carries out 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.	↔

KEY RISK	DESCRIPTION	MITIGATION	CHANGE IN RISK LEVEL
OUR PEOPLE	The business is reliant on the high quality, stability and experience in its senior management team.	• The key senior Executives and management are appropriately rewarded and incentivised through bonus and long-term incentive arrangements with a focus on retention as well as performance. • The Board has adopted a succession plan which includes strategy and contingency measures should key individuals not be available.	↓
	Retaining trained and engaged colleagues is essential to the delivery of the high standard of customer service, which is a key part of our proposition. Our future success is at risk if we do not recruit and retain high calibre people.	• Retention rates monitored and supported by an exit interview process. • The Group ensures terms and conditions of employment are fair and competitive in the sector. • The Group works to maintain its brand presence and retain its reputation as an 'employer of choice'. • The Group has Investors in People status.	
PROPERTY – AVAILABILITY/ LEASE COSTS	The Group's business requires that it leases substantial amounts of retail space. The availability and cost of suitable leasehold store property is a key element of the Company's business model – permitting it to compete cost-effectively, alter the size and position of its stores when necessary and also expand into new locations as part of its strategy for growth. The Group's performance and prospects could be adversely affected were the availability and cost of suitable property to move unfavourably.	• We work closely with agents and we regularly monitor for new opportunities. • Ensuring we have current information from landlords on our current sites and are aware of the development of new retail sites. • Work closely with our professional advisors to monitor progress and changes to rental evidence to predict future lease costs.	↔

Viability statement

As explained in the Strategic Report, our business model provides customers with high quality, competitively priced upholstered furniture, flooring and related products. The Directors have assessed the viability of the Group over the three-year period to 27 July 2019, taking into account the Group's current position and the potential impact of the principal risks documented in the Strategic Report.

The three-year period was selected as this represents the normal budgeting period of the business and the payback requirements of any significant capital investment (new stores).

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 in. Changing economic conditions which impact consumer confidence could have an impact on demand for high ticket items.

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. Current headroom against the Group's existing facility is £12.0m. The Group bank facility, which was extended in August 2016, has a maturity date of October 2018. In preparing the viability statement the Directors have assumed that the current facility will be extended to cover the three-year period to July 2019.

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 27 July 2019. 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. The Strategic Plan (which covers the same period as the viability statement to 27 July 2019) was 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 for downturns in revenue, gross margin (due to increased cost of sales) and the withdrawal of supplier credit insurance. The outcome of this testing satisfied the Directors with respect to the ongoing liquidity and solvency of the Group over the period under review.

CORPORATE SOCIAL RESPONSIBILITY

At ScS we see our core purpose as helping customers find the perfect furniture and flooring for their home, suiting both our customer's budget and personal style. At the same time of course, we recognise that as a responsible business we have an obligation to operate in a manner that is both ethical and sustainable.

At ScS, Corporate Social Responsibility (CSR) is a key part of our business and is integrated into the day-to-day management of the Company. It is important to our reputation in the marketplace and to our customers and colleagues, as well as the wider stakeholders in society and the communities we serve.

Our CSR programme is focused on four key priority areas: Environment, where our emphasis is on recycling waste, reducing electricity usage, improving fuel efficiencies and sourcing with integrity; Health and Safety, to ensure that our staff and customers can work and shop in a safe environment; Colleagues, where our focus is on seeking to ensure that ScS is a great place to work and develop; and Community, where we put great emphasis on local charitable fundraising.

David Knight
Chief Executive Officer

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. There are a number of important areas that we place emphasis on, to reduce the environmental impact of the business. Our focus is to maximise the level of waste recycling, reduce our electricity usage, improve our fuel efficiencies and source products with integrity.

Waste recycling

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. Since 2013 we have reduced our gross weight volumes by 35% and we now recycle or divert from landfill 92% of all waste collected.

Greenhouse gas emissions reporting

We aim to reduce our carbon footprint. All ScS sites now have automatic meter readers (AMR) fitted for recording electricity usage and meter loggers for recording gas usage. This allows greater control of costs by more accurate recording of data but also the policing of anomalies as these are highlighted within 24 hours.

ScS are currently trialling a building energy management system (BEMs) at four sites. This allows automatic computerised management of all energy usage, leading to maximising cost efficiencies and minimising downtime and wastage. Such systems include movement sensors to switch off equipment when it is not being used, light sensors to moderate lighting on signage and auto controls for heating and cooling.

Since 2014 ScS have installed new corporate signage at all sites incorporating the latest LED Illumination technology and all new sites opened since then 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 year-on-year by 2.5% and in 2016 reduced our gas usage by 22%.

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In 2016 we have reduced our greenhouse gas emission by approximately 755 tonnes across our business.

In 2015 we introduced the Paragon system of computerised management of our logistics operation. This allows the use of delivery vehicles to be optimised in terms of load en route, minimising the mileage required to achieve our customer deliveries, thus reducing fuel consumption. During 2016 we estimate that we have reduced our fuel consumption by 4.1% per delivery.

Sourcing with integrity

ScS recognises modern forms of slavery can be very difficult to detect, given its criminal nature. The Group is committed to tackling this type of human rights abuse through effective due diligence and risk assessment of its supply chains.

ScS operates a zero-tolerance approach to any such activities to ensure compliance with the Modern Slavery Act, and its values, policies and processes have been developed which extend throughout our supply chain.

Risk assessment

The majority of goods are manufactured in the UK, however, around a third of goods are manufactured in the Far East. A large proportion of the Group's products are supplied by a small number of key manufacturers. The Group has developed good working relationships with its key suppliers over many years and is therefore able to effectively communicate and achieve support in this area. The Group risk assesses its supply chain by:

- Assessing the risk profile of individual countries based on the Global Slavery Index together with the inherent profile risk associated with the manufacturing of the goods in that territory.
- Analysing the insights and expertise of specialist third parties.
- Reviewing the extent to which types of employees may be more vulnerable than others due to cultural, economic or demographical reasons.

The biggest identified risks to modern slavery are products sourced for sale from the Far East, and the Group has prioritised its focus with these suppliers. The manufacturing of all goods in the Far East are all completed in modern purpose built factories. Given the size and nature of the goods the level of risk is lower compared to other types of manufacturing activities in the Far East.

Steps taken

In preparation for our first statement, ScS has written to its suppliers raising awareness of the Modern Slavery Act and the steps required by its suppliers to tackle modern slavery. In addition, this year our standard supplier contractual terms have changed to include:

- A requirement that our suppliers conduct regular modern slavery risk assessments and obtain independent ethical audits within their own manufacturing processes.
- Clear obligations on suppliers to comply and implement controls to prevent modern slavery. This includes ensuring all employment shall be voluntary, provision of an employment contract confirming the employee's right to leave work and the ability to terminate employment upon expiry of reasonable notice.
- Never requiring employees to lodge deposits of money or surrender of any government-issued identification, passports or work permits as a condition of employment.
- Immediate notification to the Group if a supplier becomes aware of any modern slavery within their supply chains.

In addition, the Group operates a Whistleblowing Policy, aimed principally at our employees but also available to others working in our supply chains which allows the reporting of any wrongdoing and extends to human rights violations such as modern slavery. Any reporting will be fully investigated and appropriate remedial actions taken.

Any new supplier intending to supply the Group not only must adhere to these terms, but, in addition, must also support the Group's commitment through the production of an independent ethical trading audit that specifically covers the requirements of the Modern Slavery Act prior to orders being placed.

Caption: 1. Recognising the contribution of our people | 2. One of our distribution teams on the 'delivering excellence' programme | 3. Celebrating long service | 4. ScS's HR team celebrate being re-accredited Investors in People status | 5. Showing our colours cheering on England and Wales in Euro 2016.

CORPORATE SOCIAL RESPONSIBILITY CONTINUED

Training

To ensure a high level of understanding of the risks of modern slavery and human trafficking in our supply chains, extensive training has been provided to all members of staff in our Merchandising and Compliance departments.

Assessment of effectiveness

In order to assess the effectiveness of the measures put in place by the Group, the following will be reviewed and reported on in future Modern Slavery Statements:

- Staff training levels;
- Further actions taken to strengthen supply chain audits; and
- Steps taken to upskill our suppliers through continued assessment of their ability to detect and mitigate modern slavery risk within their supply chains.

Health and safety

We take the welfare of our customers and employees very seriously. We are therefore committed to ensuring that our business has appropriate health and safety standards across our store portfolio as well as our distribution centres and our head office. We want to ensure that our customers and employees can shop and work in a safe environment. The Board has the ultimate responsibility for ensuring health and safety compliance. The business regularly monitors a number of KPIs, including the number of accidents, particularly those that are required to be reported to the Health and Safety Executive.

In 2016 there were eight accidents reportable to the Health and Safety Executive. In 2015 there were five reportable accidents. The root cause of these accidents were investigated and operating procedures revised as a result with the aim of reducing this number in 2017. During 2016 we did see an overall reduction in incidents across the business of 20% compared to the previous year, the accident frequency rate reducing from 9.2 (per 100,000 hours worked) to 7.2 (per 100,000 hours worked).

Our Health and Safety Policy is communicated throughout the business and all our colleagues receive health and safety training that is appropriate to their job role. Observance of policy is monitored through regular health and safety audits and we ensure that we are abreast of all current statutory requirements. Retail and Distribution Managers bonus earnings are reduced for a poor Heath and Safety Audit.

Colleagues

Our people are core to our business, whether they work in our stores, are part of our distribution operation or are a member of our support teams. ScS is a growing business and in the last 12 months we have created 132 new jobs across our organisation.

We are an equal opportunities employer and we strive to ensure that no employee is discriminated against on the grounds of gender, race, religion, disability, sexual orientation or age. We want ScS to be a great place to work and everyone working in it has an equal opportunity to progress within the business.

ScS has held the Investors in People standard for the past 15 years, and we undertake regular culture surveys across our organisation to ensure that every employee has the opportunity to provide us with feedback about our workplace. Our Investors in People accreditation was re-assessed in August 2016 and we are proud to have retained the standard.

We offer apprentice opportunities within our business and in 2016, ten new apprentices joined our business. Our aim is always to offer permanent roles to apprentices,

CELEBRATING 40 YEARS OF DEDICATED SERVICE

Employee Lesley Sheraton, based at our Sunderland office, is looking and feeling fab as she celebrates 40 years' service with the Company, becoming the Group's longest-serving employee. Lesley joined the A. Share & Sons family business in 1975 as an 'Office Junior' working for Alan Share and his mother Esther, based then in Blandford Street, Sunderland.

Having joined the business aged 16, Lesley has worked her way up to her current role as PA to our Chief Executive, David Knight, and Assistant Company Secretary. Lesley also manages a team of people and plays an intrinsic role in the smooth and efficient running of our headquarters.

Lesley said: "I'm extremely proud to be part of the success of this fantastic business, from one North East store in Sunderland to 97 nationwide and becoming a major UK sofa and carpet specialist. Whilst there have been a number of changes and challenges during my time with the business, in my experience, the key to its longevity and success is the passion and commitment from its employees, and the high number of very long-serving employees is testament to that."

At the same time Lesley became the Group's current longest-serving employee the business also celebrated 40 years of the ScS brand.

David Knight, Chief Executive, said: "Lesley is a wonderful example of someone who has helped grow and develop our business, she is truly a huge asset to us and her work ethic and understanding of the importance of our customers is unquestionable. This ethic has enabled her to become the very valued senior member of our team she is today."

where it is possible to do so on completion of their training. An open programme of NVQ training is offered to colleagues across the business and in 2016 25 NVQ's were awarded. Our Time to Train policy gives colleagues the opportunity to engage in other external training opportunities and, if the course meets relevant business criteria, the Company offers financial support towards this and, where required, a flexible work arrangement to allow them to attend their chosen course. Using this approach is key to the development of our distribbution teams in identifying potential drivers whilst offering career progression and promotion.

In addition to external courses we produce bespoke development events to increase the capability of our people and support them through product and policy changes. Using technology to deliver some learning interventions means our training can be more cost-effective and highly responsive in terms of identifying best working practices. This drives a consistent performance standard throughout the business.

We reward our store teams through results-focused bonus and commission schemes, which allow our retail sales teams to earn rewards commensurate with performance.

Caption: From top – Presenting an award to a participant in the Foundation of Light Programme | Dog on the Tyne, the ScS Snowdog.

In May 2015, we launched a share incentive plan that will allow all employees the opportunity to participate in the future success of ScS.

Community

Whilst we're a leading UK retailer we also understand our role as a local furniture and flooring store in the many communities and lives of the millions of people we serve, whether customer, employee or stakeholder. We understand with this role comes responsibility.

We encourage our people to contribute positively to the local communities in and around our network of branches, distribution centres and office locations. As a business and through our people we regularly help support the work of national charities and local causes. This year alone, together with our employees, we have raised and given funds totalling more than £44,000 to causes close to the hearts and minds of our employees.

Foundations in the North East

One of those causes includes Sunderland AFC's sporting charity, Foundation of Light. This year the Group has continued its support with a further £10,000 donation helping even more youngsters and their families across the North East region access sport. The Company's contributions, which now total more than £30,000, support the delivery of specialist disability sports coaching as well as social educational programmes in the region.

Our involvement in Great North Snowdogs

As a business we are also helping support and raise funds for St Oswald's Children's Hospice this year by sponsoring a Great North Snowdog, which is part of a 'paw-some' mass-participation, public art trail happening in the North East of England commencing in September 2016. St Oswald's UK has teamed up with Wild in Art to stage the interactive trail of some 60 large-scale Snowdog sculptures, inspired by the much loved animated short film, The Snowman™ and The Snowdog. The Snowdogs are decorated by artists and will be on show for ten weeks in locations across Tyne and Wear.

ScS has sponsored a Snowdog designed by Jane Headford, a scenic artist who trained in London, from Dartura Art & Design who has created designs for many public art trails in the UK. Dog on the Tyne's design is inspired by the North East's architecture, heritage and its beauty when it's cold and snowy outside.

The Company's Snowdog is located at the famous and iconic Angel of the North, Gateshead, and is already becoming a great addition to the ScS family.

Great team efforts

During December 2015, employees across the ScS Group took part in national 'Christmas Jumper Day' by wearing their favourite festive knit and making a donation to TEXT SANTA to help three amazing charities give hope to families in difficulty at Christmas. Those charities include: Macmillan Cancer Support, Make-A-Wish UK and Save the Children. And it didn't stop there, ScS were also the proud sponsor of Big Star's Bigger Star as part of ITV's coverage of the charity appeal, with the Company donating monies for every question answered correctly on the show. In total the ScS Group and its employees raised some £25,000 for TEXT SANTA.

Another instance during the year is our dedicated team's fundraising activity for the Sports Relief Day campaign. Together our employees collected a fantastic £900 over the course of the day through a series of fundraising activities, including a dress down day, bake sale, sporting competitions and generous donations. The Company further boosted the total by doubling it and bringing our Group fundraising total to some £1,800.

Our employees working within their local communities

Many of our employees individually take on various challenges and fundraising events in which the Company and its employees lend their support.

We've a cohort of Great North Runners supporting various national and local charitable organisations at the same time as racing the 13-mile course. This has included raising funds for Cancer Research UK, Tommy's Baby Charity, Macmillan Cancer Support, Diabetes UK and many more.

A member of our supply chain team helped host a charity football match with his local team taking on a team of SAFC legends, including Gary Bennett, Julio Arca, Darren Williams and Alex Rae. 'The Match' was in aid of raising funds for Sunderland's Niall Quinn Children's Centre and a local church community roof appeal. ScS was the event's match programme sponsors.

We also regularly help raise awareness and get behind national charitable campaigns, including the likes of Macmillan's Coffee Morning and Children in Need.

BOARD OF DIRECTORS

ALAN SMITH
Non-Executive Chairman

Date of Appointment

22 October 2014*

Committee Membership

Chairman of the Nomination Committee
Audit Committee
Remuneration Committee

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.

Alan Smith is also Chairman of the Nomination Committee and a member of the Remuneration and Audit Committee.

External Appointments

Displayplan Holdings Limited
Displayplan Limited
NAAFI Trustees Limited
The Navy, Army and Air Force Institutes
The Royal Air Force Charitable Trust Enterprises
Brambledown Aircraft Hire

DAVID KNIGHT
Chief Executive Officer

Date of Appointment

1 January 2002

Committee Membership

N/A

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.

CHRIS MUIR
Chief Financial Officer

Date of Appointment

4 April 2016

Committee Membership

N/A

Biography

Chris joined ScS on 4 April 2016 as Chief Financial Officer. Prior to this he was Group Finance Director of Northgate plc. Northgate is Europe's leading specialist in light commercial vehicle hire and a member of the FTSE 250. 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.

* The letters of appointment for Mr Smith and Mr McMillan are each dated 22 October 2014. Mr Daccus' appointment commenced with effect from 1 December 2014 pursuant to a letter of appointment dated 9 January 2015.

RON MCMILLAN
Non-Executive Director

Date of Appointment

22 October 2014*

Committee Membership

Chairman of the Audit Committee
Remuneration Committee
Nomination Committee

Biography

Ronald (Ron) is the Senior Independent Director and Chairman of the Audit Committee of N Brown Group plc, 888 Holdings plc, Brammer PLC and is a non-executive Director and the Chairman of the Audit Committee of B&M European Value Retail S.A. Ron spent the whole of his career with PricewaterhouseCoopers where he was a partner for 28 years until his retirement on 31 March 2013.

Ron is the Chairman of the Audit Committee and a member of the Remuneration and Nomination Committees.

External Appointments

N Brown Group plc
888 Holdings plc
B&M European Value Retail S.A.
Brammer Plc
Welcome to Yorkshire

PAUL DACCUS
Non-Executive Director

Date of Appointment

1 December 2014*

Committee Membership

Remuneration Committee (resigned 18 Nov 2015)
Nomination Committee
Audit Committee (resigned 18 Nov 2015)

Biography

Paul is Managing Director of Sun European Partners, LLP. He has more than a decade 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 and Touche LLP and Arthur Andersen LLC. He received his Bachelor of Accountancy degree with Honours from Dundee University.

Paul is a member of the Nomination Committee.

External Appointments

Sun European Partners LLP
SAG Advisory 1 Ltd
Dreams Holdco Ltd
Dreams Topco Ltd
Hey Bidco Ltd
Hey Midco Ltd
Hey Topco Ltd
Upsilon Bidco Ltd
Upsilon Midco Ltd
Upsilon Topco Ltd

GEORGE ADAMS
Non-Executive Director

Date of Appointment

9 July 2015

Committee Membership

Chairman of the Remuneration Committee
Audit Committee
Nomination Committee

Biography

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.

George is Chairman of the Remuneration Committee and a member of the Audit and Nomination Committees.

External Appointments

Frontier Economics Ltd
Whales and Dolphins Conservation Society
FFX Ltd

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

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 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 page 34 and reports of each committee are set out on pages 36 to 49.

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.

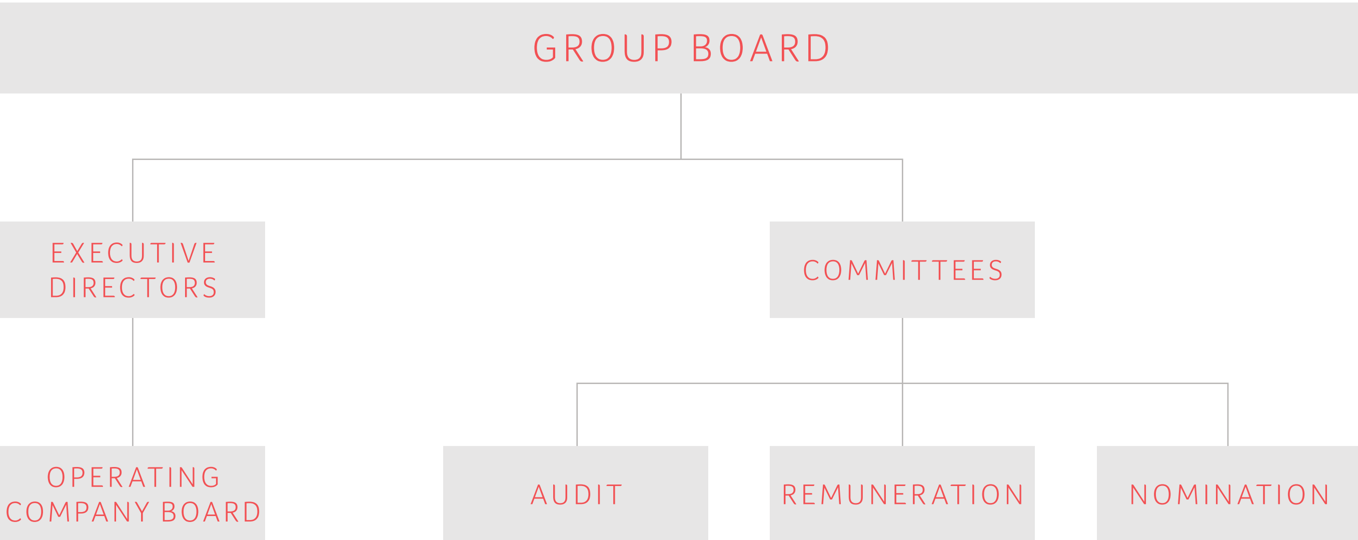
Matters reserved for the Board

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

- Approval 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.
- Approval 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.
- Approval 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 and the Chief Financial Officer.
- Undertaking a formal and rigorous review of the Board performance and corporate governance matters.
- Approval and supervision of any material litigation, insurance levels of the Group and the appointment of the Group's professional advisors.

There is a rolling programme of Board meetings throughout the year and there are six Board meetings presently scheduled for 2017.

STRUCTURE CHART



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, 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, two 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 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, Ron McMillan (Senior Independent Director), appointed 22 October 2014, and George Adams, appointed 9 July 2015, are both considered by the Group to meet the definition of an independent Director. The Chairman, Alan Smith, is also considered independent. 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 the Director's 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 for an initial period of three years. At the year ended 30 July 2016, Sun Capital Partners Management V, LLC, held 41.5% of the total issued shares in the Company.

The Board believe 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 40 to 49.

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 Standing 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 and the implementation of other Board decisions.

CORPORATE GOVERNANCE STATEMENT CONTINUED

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 appoint a female Non-Executive Director following the IPO, 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.

Conflicts of interest

Paul Daccus has an interest in the shares held by Sun Capital Partners Management V, LLC, which holds 41.5% 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, Remuneration Committee and 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.

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 information of the Group; 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 and George Adams. 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. All members served on the Committee throughout 2016 and all three remain in place at the date of this report.

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 in pages 36 to 39.

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 and Ron McMillan. All members served on the Committee throughout 2016 and all remain in place at the date of this report.

The Remuneration Committee meets not less than two times a year. Details of the activities of the Committee in the last financial year are set out on pages 40 to 49.

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 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 meet at least annually.

During the 2016 financial year the Nomination Committee has 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 appointed Chris Muir to the position of Chief Financial Officer during the course of 2016, to succeed Ron Turnbull who announced he would be leaving the Group.

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-based, objective criteria, recognising diversity policy but without setting gender targets and this is considered to be in the best interests of the Group and its shareholders.

Directors attendance

The Board held eight meetings during 2016 and the attendance at the meetings was as follows:

	Board	Audit Committee	Remuneration Committee	Nomination Committee
David Knight	8	3	3	1
Ron Turnbull	6	2	1	–
Chris Muir	4	2	2	–
Alan Smith	8	3	3	1
Ron McMillan	8	3	3	1
George Adams	8	3	3	1
Paul Daccus	8	3	3	1

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

Board performance evaluation

A review was undertaken during the 2016 financial year, this being the first full-year cycle of the Board following the IPO. This will be repeated on an annual basis going forward, and at least once every three years with an external consultant to assist in the process are required by the UK Corporate Governance Code.

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.

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 included 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 23 to 25.

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 have carried out a review of the effectiveness of the internal controls during the year ended 30 July 2016 and for the period up to the date of approving the Annual Report and Financial Statements. The Board were 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 function who are 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 whistleblowing policies in relation to the reporting of any suspected malpractice or wrongdoing. In addition, the Group have 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 Corporate Governance Code (September 2014) during 2016, as applicable, except where stated above in this report.

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 though 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 and Financial Statements.

Alan Smith
Chairman
3 October 2016

AUDIT COMMITTEE REPORT

The Audit Committee exercises oversight of the Group's financial policies and reporting. It monitors the integrity of the financial statements and reviews and considers significant financial and accounting estimates and judgements.

Ron McMillan
Chairman of the Audit Committee

Dear Shareholder
The Committee satisfies itself that the disclosures in the financial statements about these judgements and estimates are appropriate and obtains from the external auditors an independent view of the key disclosure issues and risks.

A key responsibility of the Committee is to review the scope of the work undertaken by the newly-established Internal Audit function and the external auditors and to consider their effectiveness. The scope of the Internal Audit work is agreed with management and the Committee; the Committee monitors and reviews the key aspects of the work undertaken by the external auditors. In relation to risks and controls the Committee ensures that these have been identified and that appropriate responsibilities and accountabilities have been set.

The Committee oversees the process of the Board's assessment of the viability of the Groups stress testing of key trading assumptions and the preparation of the viability statement, which is set out on page 25 in the managing risks section of the Strategic Report.

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

Further information on the Committee's responsibilities and the manner in which these have been discharged are set out below.

I shall be available at the Annual General Meeting on 23 November 2016 to answer any questions you may have on this report and would like to thank my colleagues for their help and support during the year.

Committee composition
The Committee comprises three members, two of whom are independent Non-Executive Directors. Two members constitute a quorum. 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 and George Adams. Paul Daccus resigned from the Committee on 18 November 2015. Details of Committee meetings and attendance are set out in the Corporate Governance Statement on page 35. The biographies of the members of the Committee can be found on pages 30 and 31.

Although not members of the Committee, David Knight, as CEO, Chris Muir, as CFO and Paul Daccus as 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 Internal Audit, the external auditors and the CFO during the year.

Responsibilities

The responsibilities of the Committee, as delegated by the Board, are set out in the terms of reference and are available from the Group's head office. They include the following:

- Monitoring the quality, effectiveness and independence of the external auditors and approving their appointment, re-appointment and fee level;
- Reviewing and approving the external audit plan, and ensuring that it is consistent with the scope of the audit engagement;
- Reviewing and monitoring the integrity of the financial statements and other price sensitive financial releases of the Group;
- 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;
- Keeping under review the adequacy and effectiveness of the Group's internal financial controls and internal control and risk management systems; and
- Monitoring the activities of the Internal Audit function and approving the Internal Audit plan.

Activities

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

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 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 provision**
  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.

- **Risk management and internal controls**
  The Committee reviewed the Group's internal control environment and concluded that the Group continues to maintain a robust system of internal control for the purpose of safeguarding the Group's assets, managing risk and, where appropriate, complying with regulation. This covers all material risks and related controls, including financial, operational and compliance controls together with mitigating actions and responsibilities. The Group's Internal Audit function also focuses on 'in-store' activity and ensures that all transactions are properly accounted for.

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 to 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 23 January 2016;
- Consideration of the processes that are in place to ensure that assurance can be provided on whether the Annual Report and Accounts is considered to be fair, balanced and understandable. The Committee receives drafts and working papers relating to the Annual Report and Accounts in order to facilitate its review and input. Management representations, external and Internal Audit reviews have also taken place to provide this assurance to the Audit Committee and the Board;
- Consideration of this set of full-year annual report and financial statements of the Group;
- Consideration of significant articles of accounting estimation or judgement; and
- Making recommendations to the Board in respect of the Committee's findings, and reporting on how the Committee has discharged its duties.

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

AUDIT COMMITTEE REPORT CONTINUED

Internal Audit

The Head of Internal Audit was appointed on 5 October 2015 with a direct reporting line to the Committee. Since that date, 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:

1. Fraud risk, money laundering, anti-bribery and whistleblowing;
2. Compliance with the Modern Slavery Act;
3. Performance assessments of the Group's retail outlets compliance procedures;
4. The effectiveness of mitigating actions in relation to the Group's principle risks, including IT systems, business continuity and cyber risk;
5. Security around cash banking;
6. Finance house receivables;
7. Payroll and expenses procedures and controls;
8. Cash and credit card controls;
9. Stock management processes and controls; and
10. Marketing expenditure and controls.

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.

Internal Audit are also working closely with retail store managers to improve the level of compliance and embed processes.

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

External auditors

PwC have been the Group's auditors for eight years, with the current year being the second audit signed off by the partner who is currently responsible. The Committee has formally recommended that PwC be re-appointed as auditors at the forthcoming Annual General Meeting and PwC has signalled its willingness to continue in office. Resolutions appointing PwC as auditors and authorising the Directors to set remuneration will be proposed at the Annual General Meeting. The Group intends to review the external audit appointment in 2018.

The Committee has established policies which ensure that PwC is not engaged in any work which is not permitted under current guidance and that non-audit fees paid to the auditors will not exceed 70% of audit fees over a three-year period.

All non-audit work undertaken by the auditors has to be approved by the Committee or by the Chairman of the Committee in advance. Fees paid and payable to PwC in respect of the year under review are as shown in note 4.

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

Risk management

The Directors have 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 misstatement, loss or failure. Equally, no system can guarantee elimination of the risk of failure to meet the objectives of the business. Against this background, the Committee continued to help develop a risk management policy for the Group which, sets out risk appetite and tolerance, the framework within which risk is managed and the responsibilities and procedures attaining to the application of the policy.

The Group is proactive in ensuring that corporate and operational risks are identified, assessed and managed by identifying suitable controls. The Group maintains a Corporate Risk Register and an Operational Risk Register which detail:

1. The risks and impacts they may have;
2. Actions to mitigate the risks;
3. Risk scores to highlight the likelihood of occurrence;
4. The 'owners' of the risks; and
5. Target dates for actions by risk owners.

The Board is responsible for measuring the effectiveness of risk management and for regularly reviewing the Corporate Risk Registers. Management are responsible for monitoring risks on a quarterly basis and for reporting all new and identified risks to the Board.

The agreed framework for Risk Management is as follows:

- Review of principal risks and mitigating controls;
- Review of risk appetite;
- Review of the Corporate Risk Register and key risk indicators;
- Quarterly tracking and reporting movement of risks to Operating Company Board and the plc Board; and
- Internal Audit reviews and will test controls over risks.

A description of the principal risks together with mitigating actions is set out on pages 23 to 25.

The Committee believes that appropriate internal controls are in place throughout the Group. The Group has a well-defined organisational structure, with clear lines of responsibility. The Group has a comprehensive financial reporting system and the Committee believes that the Group complies with the provisions of the UK Corporate Governance Code on internal controls.

Ron McMillan
Chairman of the Audit Committee
3 October 2016

DIRECTORS' REMUNERATION REPORT

On behalf of the Board, I am pleased to present the Director's Remuneration Report for the year ended 30 July 2016.

George Adams
Chairman of the Remuneration Committee

Dear Shareholder

The Remuneration Policy was approved by our shareholders at our 2015 AGM. There are no changes to the Policy approved in 2015, however, for ease of reference, this is set out for shareholders' information on pages 45 to 49. There will be no resolution on our Remuneration Policy at the 2016 AGM.

Our Annual Report on Remuneration outlines how our Remuneration Policy was applied in 2016 and how we intend to apply it for 2017. The Annual Report on Remuneration is subject to an advisory vote at our 2016 AGM.

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.

2016 Performance related pay

Sales and revenue for 2016 showed significant growth on the previous financial year. The results significantly outperformed the marketplace.

For 2016, the annual bonus was based solely on EBITDA.

EBITDA of £16.0m was above the maximum target set for the year, as a result the bonus paid out at 100% of maximum. The Committee considers that this fairly reflects the results for the year. Further information on the bonus and targets can be found on page 42 of our Annual Report on Remuneration.

As set out in our Remuneration Policy on pages 45 to 49 the Committee considered the long-term incentive plan to be awarded to the Executive Directors. Due to the timing of the award made at IPO, no long-term incentive plan was awarded during 2016. Nor were there any long-term incentive plan awards vesting during the year.

Remuneration proposals for 2017

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 and an external benchmarking process was undertaken.

The CEO's salary remained unchanged in 2016; however, an increase was awarded effective from 1 August 2016 and his salary was increased to £306,000 in line with the average increase given to other employees. Further details are provided on page 42. The salary of the CFO will remain unchanged from the salary awarded on appointment.

There will be no change in pension provision or benefits framework for Executive Directors.

Annual bonus

The 2017 bonus will continue to be based on EBITDA performance supporting our strong emphasis on delivering profitable growth. The maximum award opportunity remains 140% of salary for the Chief Executive and 100% of salary for the Chief Financial Officer. 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.

2017 Long-Term Incentive Plan (LTIP)

The Committee has agreed to a LTIP award in 2017 which is in keeping with our remuneration policy. Awards will be granted at 100% of salary for the Chief Executive and 100% of salary for the Chief Financial Officer. The awards will be subject to an earnings per share (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 the following targets for 2017 awards:

EPS figure (in 2019)	Percentage of award that vests
Less than 27.3p	Nil
27.3p	25%
Greater than 27.3p but less than 34.4p	Straight-line basis between 25% and 100%
34.4p	100%

The Committee considers that the targets are stretching and will ensure that significant reward is only available for delivery of a strong performance.

Recruitment of a new Chief Financial Officer

Ron Turnbull stood down as Group CFO and ceased to be a Director on 6 May 2016. He departed from the Company on 12 August 2016. His leaving arrangements are in line with our Policy and further details are provided on page 43 of our Annual Report on Remuneration.

His replacement, Chris Muir, joined the Group on 4 April 2016. The package awarded on joining was in keeping with our Remuneration Policy. No changes are proposed to his remuneration for 2017. Further details are provided on page 43.

Shareholder feedback

We value the views of our shareholders and we actively welcome any feedback on our remuneration policy and its implementation. We hope you find this report helpful and informative and we hope to receive your support for our Annual Report on Remuneration at our AGM on 23 November 2016.

George Adams
Chairman of the Remuneration Committee
3 October 2016

DIRECTORS' REMUNERATION REPORT CONTINUED

Role of the Remuneration Committee

The Committee has responsibility for determining the Company's policy on remuneration of the Executive Directors and the Chairman and to recommend and monitor the level and structure of remuneration of other senior management of the Group.

The Committee's terms of reference are available from the ScS Group plc head office.

There will be an advisory vote on the Annual Report on Remuneration for 2016 at this year's AGM. The Remuneration Policy was approved by shareholders at the 2015 AGM. No changes have been made to our Remuneration Policy this year and as such there will be no resolution on our Remuneration Policy at the 2016 AGM.

The Committee also welcomes feedback generally at any time which will be considered as part of its annual review of remuneration policy.

Annual Remuneration Report

Executive Directors remuneration in 2016

Elements of remuneration

Salary

A benchmark review exercise was carried during 2016. As a result of this exercise the CEO's salary was increased in line with the general increase awarded to employees in the Group effective from 1 August 2016. The CFO's salary remained unchanged.

The current basic salaries as at 3rd October 2016 are:

- David Knight: £306,000 (26 July 2015: £300,000)
- Chris Muir: £240,000 (26 July 2015: n/a)

Ron Turnbull left the Company on 12 August 2016, on that date his basic salary was £200,000 (26 July 2015: £200,000).

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 per annum of pension benefits into their pension fund, the balance is paid as cash allowance.

The CEO receives a car allowance of £18,642 and the CFO receives a car allowance of £17,000.

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 2016. The bonuses were based on EBITDA. No bonus was paid unless a threshold level of EBITDA is achieved. The details of the targets and how the bonus was calculated are set out below.

Post-Bonus EBITDA	£12,500,000	£13,800,000	£14,800,000	£15,800,000
% maximum	12.5%	50%	75%	100%
David Knight	£52,500	£210,000	£315,000	£420,000
Chris Muir*	£10,000	£40,000	£60,000	£80,000
Ron Turnbull	£25,000	£100,000	£150,000	£200,000

Bonuses are calculated on a straight line basis for performance between target levels.
* Bonuses for Chris Muir are pro-rated to reflect his April 2016 start date.

In light of performance in 2016, the Remuneration Committee approved payments of £420,000 for David Knight (CEO) and £80,000 for Chris Muir (CFO), representing a pay-out at 100% of the maximum. Chris Muir joined the Group on 4 April 2016 and his bonus was pro-rated to reflect the proportion of the performance period served. Malus and clawback rules apply to all bonuses awarded.

For 2017 the maximum bonus opportunity is unchanged at 140% of base salary for the CEO and 100% of base salary for the CFO. 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

There was no vesting in respect of performance in 2016 and no long-term incentive plan was awarded in 2016, however, the Committee has agree to award a long-term incentive plan in 2017. The CEO and CFO will be awarded shares with a face value of 100% of base salary subject to EPS targets being met. The awards have a three-year vesting period (no holding period applies, but will be considered for future awards) and are subject to the following targets:

EPS figure (in 2019)	Percentage of award that vests
Less than 27.3p	Nil
27.3p	25%
Greater that 27.3p but less than 34.4p	Straight-line basis between 25% and 100%
34.4p	100%

All-employee share plans

The Company adopted an all-employee UK Share Incentive Plan (SIP) immediately prior to admission. 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 2016 and 2015:

	Salary £	Benefits*** £	Bonus £	LTIP £	Pension** £	Total £
David Knight						
2015	300,000	20,183	–	–	60,000	380,183
2016	**300,000**	**21,290**	**420,000**	**–**	**60,000**	**801,290**
Chris Muir (Joined 4 April 2016)						
2015	–	–	–	–	–	–
2016	**78,462**	**4,712**	**80,000**	**–**	**12,372**	**175,546**
Ron Turnbull******						
2015	200,000	15,495	–	–	40,000*	255,495
2016	**200,000**	**14,938**	**250,000**	**–**	**40,000***	**504,938**

* Ron Turnbull has reached his lifetime limit and receives a payment in lieu of pension contributions equating to 20% of his basic salary.
** 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 45.
**** Ron Turnbull resigned from the Board on 6 May 2016, however he remained an employee of the Group throughout 2016. These figures represent his total remuneration for 2016.

Recruitment arrangements for Chris Muir
Chris Muir joined the Group on the 4 April 2016, with a basic salary of £240,000 reflecting his skills and experience. His remuneration package was set in line with the approved remuneration policy, with a maximum bonus opportunity of 100% of salary and an LTIP award level of 100% of salary. He was entitled to a pro-rata bonus for 2016 as set out on page 42. No LTIP awards were made in 2016.

Termination arrangements for Ron Turnbull
Ron Turnbull stood down from the Board and as CFO on 6 May 2016 and left the Group on 12 August 2016, in accordance with the Remuneration Policy. The LTIP award he was granted on IPO will be pro-rated to reflect the portion of the vesting period during which Ron was employed and will remain subject to the original performance conditions and vesting schedule. He will not receive any other payments in relation to the cessation of his employment.

Ron Turnbull is eligible for an annual performance-related bonus for the year ending 30 July 2016 of up to 100% of base salary, paid in cash. In light of the performance in 2016, the bonus due equates to 100% of base salary.

As part of the arrangements for an orderly transition from Mr Turnbull to his successor, the Remuneration Committee put in place an additional bonus award within the parameters of Remuneration Policy (which allows a bonus potential of up to 200% of salary). The amount of this additional bonus was £50,000 and was subject to performance conditions measured over 2016. Having judged the performance conditions to have been fully met, the Committee awarded a bonus of £50,000 to Mr Turnbull, which was paid on 12 August 2016.

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 30 July 2016.

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 2017.

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.

The fees paid for 2016 to the Non-Executive Directors were as follows:

	2016 £	2015 £
Alan Smith	**125,000**	95,192
Ron McMillan	**60,000**	46,846
George Adams	**60,000**	3,923

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

Payments to past Directors – audited
There were no payments to past Directors in 2016 other than as set out above.

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 2016.

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

Y/E 30.07.16	Share interests held beneficially	Nil cost options subject to performance*	Option awards vested on admission**	Totals
David Knight				
Number	1,476,958	171,428	22,772	1,671,158
Value at year end	£2,163,743	£251,142	£33,361	£2,448,246
Chris Muir				
Number	–	–	–	–
Value at year end	–	–	–	–
Ron Turnbull				
Number	631,607	63,492***	–	695,099
Value at year end	£925,304	£93,016	–	£1,018,320

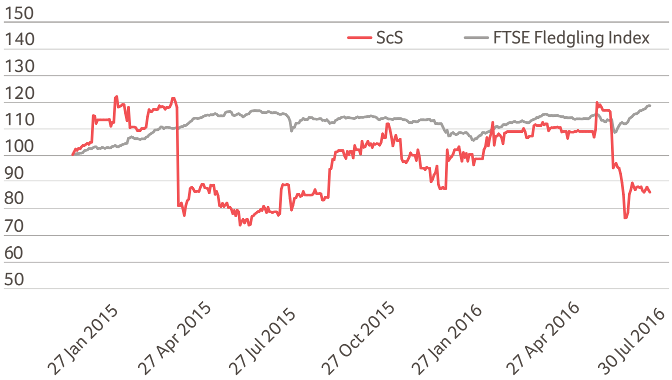
* Awards vest subject to EPS performance over a three-year period.
** Option awards are vested and are exercisable until 20 January 2025 at an exercise price of £1.75.
*** Pro-rated award to reflect the portion of the vesting period which Ron Turnbull was employed.

The value of share interests at the year end is based on the closing share price at 29 July 2016 of £1.465.

Ron Turnbull exercised 9,109 share options which had vested on admission.

The Executive Directors are required to build and maintain a shareholding equivalent to 100% of base salary. The shareholding for David Knight and Ron Turnbull were significantly in excess of this level at the year end. The 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.



This graph shows the value, by 30 July 2016, of £100 invested in ScS Group on 27 January 2015 compared with the value of £100 invested in the FTSE Fledgling Index.

DIRECTORS' REMUNERATION REPORT CONTINUED

Changes in the remuneration of the CEO

Total remuneration of individuals undertaking the role of CEO in each of the past six years is as follows:

	Salary £	Bonus £	Benefits £	LTIP £	Pension £	Total £
David Knight						
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 30 July 2016 and the year ended 25 July 2015 compared to the amounts for UK full-time employees of the Group for each of the following elements of pay:

	2016 £	2015 £	% Change
CEO			
Salary	**300,000**	300,000	–
Benefits	**21,290**	20,183	5.5%
Bonus	**420,000**	–	–
Average per employee (excluding the CEO)			
Salary	**23,744**	23,400	1.5%
Benefits	**712**	661	7.7%
Bonus	**4,458**	1,400	218.4%

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.

	2016 £'000	2015 £'000	% Change
Total pay for employees	59,115	49,141	20.3%
Distributions to shareholders	5,801	5,524	5.0%

Remuneration Committee

The members of the committee for the 2016 financial year were George Adams (Committee Chairman), Alan Smith and Ron McMillan. All of the current members are independent Non-Executive Directors. Paul Daccus resigned from Committee on 18 November 2015.

The responsibilities of the Committee are set out in the Corporate Governance section of the annual report on page 34.

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, Ron Turnbull, 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
Alan Smith	3
Ron McMillan	3
Paul Daccus	1
George Adams	3

Advisers 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 were 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 2016 amounted to £17,573, excluding VAT, based on the required time commitment.

Shareholder Voting

At the Annual General Meeting on 18 November 2015, the total number of shares issued with voting rights was 40,009,109. The resolution to approve the Remuneration Policy and the Remuneration Report 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 Directors' Policy Report	35,219,888	100.00%	1,344	0.00%	–	35,221,232	88.03%
To approve the Annual Report on Remuneration	35,220,588	100.00%	644	0.00%	–	35,221,232	88.03%

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
3 October 2016

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 Directors' Remuneration Policy

The Directors' Remuneration Policy was approved by shareholders at the 2015 AGM. For ease of reference it is set out below, although some references which were specific to the Policy's operation in 2015 and 2016 have been removed or updated for ease of reading.

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 are benchmarked against companies both main and AIM listed (excluding those in the financial services sector) who are of a similar size, sector and complexity. Similarly, in practice, the Committee will typically discount the data to recognise that the cost of living in the North East is lower than some other parts of the UK.	Given the requirements under current UK regulations for a formal cap, the Committee has limited the maximum salary it may award to 120% of the median salaries in the benchmark group. In practice though the Committee would normally expect to keep it at the median of this benchmark.
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. 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. 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 cost of benefits paid to an Executive Director in any one year is capped at £100,000, but this may be exceeded in exceptional circumstances, for example, if the cost of a benefit were to increase significantly.
Pension	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 Executive Directors and senior management.

DIRECTORS' REMUNERATION REPORT CONTINUED

REMUNERATION ELEMENT	PURPOSE	OPERATION	MAXIMUM
Bonus	Provide an incentive linked principally to the financial performance of the Group.	The Committee intends all or 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 is 140% of base salary and 100% of base salary for the CFO 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	Awards may be made annually of £nil-cost options based on performance conditions. The Committee may set performance conditions typically over a three-year period.	Dividend equivalents will be made as either a cash payment or delivery of Plan Shares at exercise equal in value to the dividends payable on the number of Plan Shares in respect of which the Award is exercised between the Award Date and the date on which the Award vested. Malus and Clawback provisions apply to the awards made under the LTIP from 28 January 2015 onwards. 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 in case of events arising which were unforeseen when the performance conditions were first set by the Committee. Where a holding period is imposed in the discretion of the Committee in relation to any LTIP award, the default position (unless the Committee determines otherwise) is for the holding period to expire on the fifth anniversary of the date of grant of the relevant award.	The policy is to award Executive Directors £nil-cost share options equating to no more that 100% of their basic salary. No more than 25% of an award can be earned for a threshold performance.
Shareholding guidelines	Executive Directors are expected to maintain their 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 100% of base salary of the relevant Executive.
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 a maximum of £1,800 worth of shares per annum from their pre-tax and pre-national insurance salary through a resident SIP trust.

Existing awards

In putting the Directors' Remuneration Report to an advisory vote of shareholders, the Company will honour any commitments already entered into in 2016 with the Executive Directors, which are detailed in the annual remuneration report.

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 participate in the long-term incentive plan for performance share awards.

The Company is committed to widespread share ownership. Following the IPO the Company made a number of awards under a long-term incentive plan which was adopted prior to admission. Also 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 consistent basis to 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 does not consult directly with employees when reviewing Executive Directors' remuneration, but take into account the general base salary increase for the broader workforce when undertaking annual salary reviews for the Executive Directors.

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 pay-out, 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.

Clawback

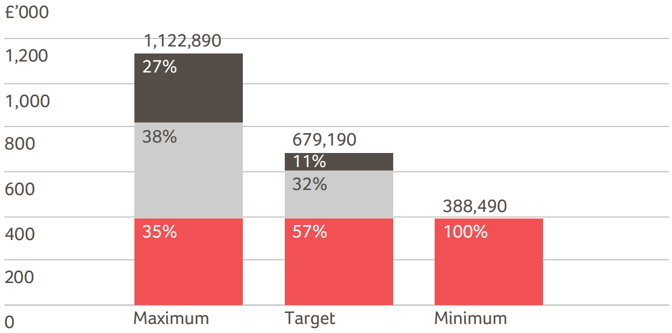
The Annual Incentive Plan and the LTIP rules include provisions for malus and clawback within a three-year period following payment or vesting if the Committee concludes that there has been a material mis-statement of financial results, or there are circumstances which would have warranted summary dismissal of the participant, or there are circumstances having an impact on the reputation of the Company which justify 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.

Potential reward scenarios

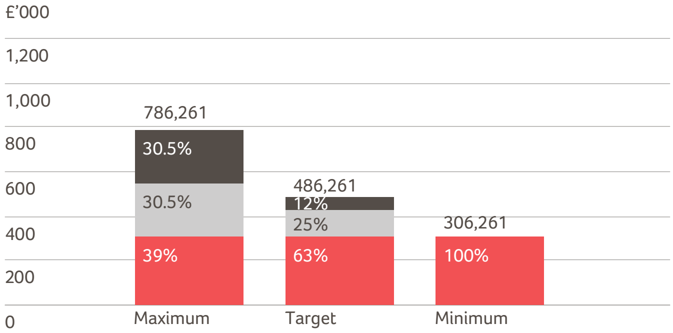
The graphs below show an estimate of the Executive Directors' remuneration package for the financial year ending 30 July 2017, as a percentage of total potential remuneration and total value, for the policy as it will be implemented for 2017. Share price movements and dividend accrual have been excluded 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 100% 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 for the CEO and 100% of base salary for the CFO and 100% vesting under the LTIP (assuming an award of 100% of salary under the LTIP).



David Knight, Chief Executive Officer



Chris Muir, Chief Financial Officer

Fixed | Variable | LTIP

DIRECTORS' REMUNERATION REPORT CONTINUED

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 of 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.
- 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.
- 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.

There are no enhanced provisions on a change of control under the Executive Directors' service contracts.

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, awards lapse if they have not vested on giving or being given notice of termination of employment for any reason, unless the Committee in its discretion permits an award to vest in whole or in part and on such terms as it may specify in its absolute discretion. 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.

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 of 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

All of the Non-Executive Directors of the Company 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, save for George Adams whose letter of appointment is dated 9 July 2015. 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 financial statements for the year ended 30 July 2016. 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 97 ScS stores principally located in modern retail park locations and 28 House of Fraser concessions across the country.

Management report
The Directors' Report, together with the Strategic Report set out on pages 1 to 29, 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 30 July 2016 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 overseas 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 detail can be found on pages 21 to 25.

UK Corporate Governance Code
The compliance by the Company with the UK Corporate Governance Code 2014 are set out in the Corporate Governance Report on pages 32 to 35, which form part of this report.

Corporate social responsibility
Our CSR activity is set out in the Corporate Social Report on pages 26 to 29, which form part of this report.

Results and dividend
The financial statements set out the Group's results for the year ended 30 July 2016 and are contained in pages 58 to 75.

The Group's profit after tax for the financial year ended 30 July 2016 of £8.7m (2015: loss £2.2m) is reported in the consolidated statement of income on page 58.

The Board is recommending a final dividend of 9.83p per ordinary share, which together with the interim dividend of 4.67p per ordinary share paid in May 2016, resulting in a full-year dividend of 14.5p. This dividend, if approved, will be paid on 28 November 2016 to shareholders on the register on 4 November 2016. The ex-dividend date is 3 November 2016.

Movements in reserves are shown in the Statement of Changes in Equity on page 59.

Share capital
Details of the Group's issued share capital are shown in note 20 on pages 72 and 73.

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 page 73.

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.

Events since the balance sheet date
There have been no events since the balance sheet date that either require adjustment to the financial statements or are important in the understanding of the Company's current position.

Directors and their interests
Details of the Directors of the Company as at 30 July 2016 are shown on pages 30 and 31 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 pages 42 and 43, 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
David Knight	Chief Executive Officer
Chris Muir	Chief Financial Officer (appointed 4 April 2016)
Ron Turnbull	Chief Financial Officer (resigned 6 May 2016)

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 appropriate times during the year supported by regular senior management meetings and briefings, both on a national and regional basis, and a comprehensive weekly 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 and employee become disabled, efforts are made to ensure their continued employment with the Group, with retraining being provided if necessary.

Charitable and political donations
During the year, the Group made charitable donations, including funds raised by employees, of £44,000 (2015: £14,000). No political donations have been made (2015: £nil).

Employee Benefit Trust
The Company 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 was to facilitate the winding up of pre-admission management incentive arrangements, holding ordinary shares in the Company which will be acquired by the Executive Directors and relevant key management in accordance with a put and call agreement within the period six to 12 months following admission.

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.

Going forward, the EBT may hold shares in trust to be used in connection with the Group's share incentive schemes.

Major interest in shares
As at 22 September 2016 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)*	16,620,160	41.54
Artemis Investment Management	4,818,692	12.04
River and Mercantile Asset Management	2,709,945	6.77
Milton Asset Management	2,705,812	5.19
Investec Asset Management	2,031,664	5.08
Columbia Threadneedle Investments	2,025,000	5.06
Henderson Global Investors	1,550,193	3.87
Mr David Knight	1,476,958	3.69

* A Sun Capital Partners company.

Annual General Meeting
A notice convening the Company's Annual General Meeting on 23 November 2016 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 the 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 auditor is 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 auditor is aware of that information.

Chris Muir
Company Secretary
3 October 2016

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and Accounts in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and Article 4 of the IAS Regulation and have also chosen to prepare the Parent Company financial statements in accordance with United Kingdom Accounting Standards (UK GAAP) and Financial Reporting Standard 101 (FRS 101). Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period.

In preparing these financial statements, IAS 1 (Presentation of Financial Statements) requires that Directors:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether they have been prepared in accordance with IFRSs as adopted by the EU and applicable UK accounting standards, including FRS101 have been followed; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group 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 corporate and financial information included on the Company's Group website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement
We confirm to the best of our knowledge:

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- The Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

The Directors are responsible for preparing the annual report in accordance with applicable law and regulations. Having taken advice from the Audit Committee the Board considers the report and accounts, taken as a whole, to be fair, balanced and understandable and that it provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

By order of the Board

Chris Muir
Company Secretary
3 October 2016

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SCS GROUP PLC

Report on the Group financial statements

Our opinion

In our opinion, ScS Group plc's Group financial statements (the 'financial statements'):

- give a true and fair view of the state of the Group's affairs as at 30 July 2016 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

What we have audited

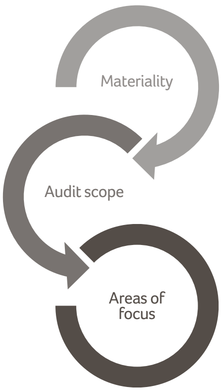
The financial statements, included within the annual report, comprise:

- the Consolidated Statement of Financial Position as at 30 July 2016;
- the Consolidated Statement of Comprehensive Income for the year then ended;
- the Consolidated Statement of Cash Flows for the year then ended;
- the Consolidated Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

Our audit approach

Overview



- Overall Group materiality: £1,100,000 which represents 0.35% of revenue.
- We performed an audit of the complete financial information of the Group's trading entity A Share & Sons Limited, the holding company and all other subsidiaries (excluding dormant entities).
- Completeness of stock provisions.
- Volume rebates from suppliers.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)').

We designed our audit by determining materiality and assessing 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.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as 'areas of focus' in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

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

AREA OF FOCUS	HOW OUR AUDIT ADDRESSED THE AREA OF FOCUS
Completeness of stock provisions Refer to page 37 (Audit Committee Report). The Group holds £23.2m of inventory at year end. The nature of the business is such that stock held at the stores to display certain ranges will be more than one year old. Notwithstanding this, there is a material balance of inventory greater than one year old which gives rise to a risk that this aged stock may be unsaleable and therefore not held at the lower of cost and 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 ageing of a sample of stock items being checked against invoices to confirm ageing. No exceptions were noted. To check whether stock items were being sold at less than book value, a sample of aged stock items sold in the year was selected and the book value compared to proceeds. Whilst exceptions were noted, they were not material in aggregate and we concurred with management's assessment that stock is not materially misstated.
Volume rebates from suppliers Refer to page 37 (Audit Committee Report). Volume rebates are negotiated by ScS Group plc as part of its dealings in the normal course of business with suppliers. The judgement arises when the agreements are not coterminous with the Group's year end and contain spending thresholds or 'hurdle rates' that, if hit, will 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 rebate terms and rebate percentage included in the contract as well as the overall spend in the year. We did not receive responses for the full population; where a response was not received, we agreed terms to the underlying contract. For the total supplier spend during the year, we tested on a sample basis to invoice and settlement agreeing that the rebate was calculated in line with the rebate agreement. We tested on a sample basis the year end debtor amount to invoice and subsequent receipt post year end. No issues were noted on any of the above procedures.

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 geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group is based in and operates solely in the UK market from its 97 stores and 28 House of Fraser concessions. It has one trading entity, A Share & Sons Limited, and three UK-based holding companies including ScS Group plc. The Group's accounting function and financial reporting is managed from head office.

We performed an audit of the complete financial information of the Group's trading entity A Share & Sons Limited, the holding company and all other subsidiaries (excluding dormant entities).The timing of the audits for the statutory accounts for the Group, parent company and the subsidiary 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.

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 on the financial statements as a whole.

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

Overall Group materiality	£1,100,000 (2015: £1,380,000).
How we determined it	0.35% of revenue.
Rationale for benchmark applied	Based on our professional judgement and our knowledge of the client our materiality was based on 0.35% (2015: 0.5%) of revenue giving an overall materiality of £1,100,000 (2015: £1,380,000). 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 users of the financial statements.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £55,000 (2015: £69,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the Directors' Statement, set out on page 50, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the Directors' Statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the Directors' Statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's ability to continue as a going concern.

Other required reporting

Consistency of other information

Companies Act 2006 opinion

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

• information in the annual report is: – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or – otherwise misleading.	We have no exceptions to report.
• the statement given by the Directors on page 52, in accordance with provision C.1.1 of the UK Corporate Governance Code (the 'Code'), that they consider the annual report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit.	We have no exceptions to report.
• the section of the annual report on page 37, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report.

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

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

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

• the Directors' confirmation on page 21 of the annual report, in accordance with provision C.2.1 of the Code, 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.	We have nothing material to add or to draw attention to.
• the disclosures in the annual report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
• the Directors' explanation on page 25 of the annual report, in accordance with provision C.2.2 of the Code, 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 material to add or to draw attention to.

Under the Listing Rules we are required to review the Directors' Statement that they have carried out a robust assessment of the principal risks facing the Group and the Directors' 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 Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

Adequacy of information and explanations received

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. We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 52, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the 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.

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matter

We have reported separately on the Company financial statements of ScS Group plc for the year ended 30 July 2016 and on the information in the Directors' Remuneration Report that is described as having been audited.

Jonathan Greenaway (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne
3 October 2016

- The maintenance and integrity of the ScS Group plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JULY 2016

	Notes	2016 £'000	2015 £'000
Gross sales	3	**334,660**	292,163
Revenue	3	**317,305**	276,734
Cost of sales		**(168,177)**	(149,583)
Gross profit		**149,128**	127,151
Distribution costs		**(15,491)**	(14,041)
Administrative expenses		**(122,622)**	(110,343)
Operating profit	4	**11,015**	2,767
Analysed as:			
Operating profit before exceptional items		**11,015**	6,420
Exceptional items	6	**–**	(3,653)
Operating profit after exceptional items		**11,015**	2,767
Finance costs	7	**(217)**	(4,515)
Finance income	8	**86**	20
Net finance costs		**(131)**	(4,495)
Profit/(loss) before taxation		**10,884**	(1,728)
Taxation	9	**(2,155)**	(496)
Profit/(loss) for the year		**8,729**	(2,224)
Attributable to:			
Owners of the parent			
Profit/(loss) and total comprehensive income/(expenses) for the year		**8,729**	(2,224)
Earnings/(loss) per share (expressed in pence per share):			
Basic earnings/(loss) per share	10	**21.8p**	(5.6)p
Diluted	10	**21.3p**	(5.6)p

All results arise from continuing operations. There are no other sources of comprehensive income.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JULY 2016

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Merger reserve £'000	Retained earnings £'000	Total equity £'000
At 27 July 2014	**–**	**–**	**–**	**–**	**4,253**	**4,253**
Total comprehensive income	–	–	–	–	(2,224)	(2,224)
Share-based payments	–	–	–	–	234	234
Proceeds from shares issued	50	70,000	–	–	–	70,050
Capital reduction	–	(70,000)	–	–	–	(70,000)
Share buyback	(13)	–	13	–	–	–
Group re-organisation	–	–	–	25,511	–	25,511
Dividend paid	–	–	–	–	(1,044)	(1,044)
At 25 July 2015	**37**	**–**	**13**	**25,511**	**1,219**	**26,780**
At 26 July 2015	**37**	**–**	**13**	**25,511**	**1,219**	**26,780**
Total comprehensive income	–	–	–	–	8,729	8,729
Share-based payments	–	–	–	–	437	437
Proceeds from shares issued	3	16	–	–	–	19
Dividend paid	–	–	–	–	(6,349)	(6,349)
At 30 July 2016	**40**	**16**	**13**	**25,511**	**4,036**	**29,616**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JULY 2016

	Notes	2016 £'000	2015 £'000
Non-current assets			
Intangible assets	11	**1,145**	1,291
Property, plant and equipment	12	**23,501**	25,005
Total non-current assets		**24,646**	26,296
Current assets			
Inventories	13	**23,188**	20,705
Trade and other receivables	14	**9,014**	8,887
Cash and cash equivalents		**22,379**	21,055
Total current assets		**54,581**	50,647
Total assets		**79,227**	76,943
Capital and reserves attributable to the equity shareholders of the parent			
Share capital	18	**40**	37
Share premium	18	**16**	–
Capital redemption reserve		**13**	13
Merger reserve		**25,511**	25,511
Retained earnings		**4,036**	1,219
Equity shareholder's funds		**29,616**	26,780
Total equity		**29,616**	26,780
Non-current liabilities			
Trade and other payables	16	**6,068**	5,668
Deferred tax liability	17	**1,101**	530
Total non-current liabilities		**7,169**	6,198
Current liabilities			
Current income tax liabilities		**210**	675
Trade and other payables	15	**42,232**	43,290
Total current liabilities		**42,442**	43,965
Total liabilities		**49,611**	50,163
Total equity and liabilities		**79,227**	76,943

The notes on pages 62 to 75 are an integral part of these consolidated financial statements.

The financial statements on pages 58 to 75 were approved by the Board and authorised for issue on 3 October 2016 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 30 JULY 2016

	Notes	2016 £'000	2015 £'000
Cash flows from operating activities			
Profit/(loss) before taxation		**10,884**	(1,728)
Adjustments for:			
Depreciation of property plant and equipment	12	**4,478**	4,185
Amortisation of intangible assets	11	**556**	596
Share-based payments	20	**437**	234
Finance costs	7	**217**	4,515
Finance income	8	**(86)**	(20)
		16,486	7,782
Changes in working capital:			
Increase in inventories	13	**(2,483)**	(704)
Increase in trade and other receivables	14	**(127)**	(571)
(Decrease)/increase in trade and other payables		**(658)**	3,492
Cash generated from operating activities		**13,218**	9,999
Interest paid	7	**(217)**	(731)
Income taxes paid		**(2,049)**	(1,088)
Net cash flow generated from operating activities		**10,952**	8,180
Cash flows used in investing activities			
Purchase of property, plant and equipment	12	**(2,974)**	(3,666)
Payments to acquire intangible assets	11	**(410)**	(480)
Interest received	8	**86**	20
Net cash flow used in investing activities		**(3,298)**	(4,126)
Cash flows used in financing activities			
Repayment of borrowings from related party		**–**	(799)
Dividends paid		**(6,349)**	(1,044)
Proceeds of share issue		**19**	50
Net cash flow used in financing activities		**(6,330)**	(1,793)
Net increase in cash and cash equivalents		**1,324**	2,261
Cash and cash equivalents at beginning of year		**21,055**	18,794
Cash and cash equivalents at end of year		**22,379**	21,055

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

ScS Group plc (the 'Company') is a Company incorporated and domiciled in the UK (Company registration number 03263435). The address of the registered office is 45-49 Villiers Street, Sunderland, SR1 1HA. The Company and its subsidiaries' (the 'Group') principal activity is the provision of upholstered furniture and flooring, trading under the name ScS. The shares in the Company were admitted to the Official List of the London Stock Exchange (LSE) on 28 January 2015.

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 30 July 2016 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 30 July 2016. 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. 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

Standards, amendments and interpretations effective and adopted by the Group:

The following new standards and amendments to standards, which are mandatory for the first time in the financial period beginning 26 July 2015, are relevant for the Group but have not had a material impact on the financial statements:

- IAS 19 (amendment) 'Employee benefits' – clarification for accounting of employee and third party contributions (effective for periods beginning on or after 1 February 2015); and
- The '2010-2012 Improvement projects' (effective from 1 February 2015).

At 30 April 2016, a number of new standards and interpretations and amendments to existing standards were issued but not yet effective nor adopted by the EU, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a material impact to the Group, except for the following:

- IFRS 16 'Leases' (effective for periods beginning on or after 1 January 2019).

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.

Segmental reporting

Segments are reported in a manner consistent with the internal reporting to the Board of Directors (see note 3 – Segment information).

Revenue
Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, charges associated with interest free credit sales, returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when the significant risks and rewards of ownership of the goods and warranty contracts have passed to the buyer. 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.

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% to 33% straight-line per annum.

The carrying value of intangible assets are 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% to 20% straight-line per annum
Computer equipment	20% to 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 land and 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 reduced by all costs of completion, marketing, selling and distribution.

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.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

2. Accounting policies continued

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.

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.

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.

Exceptional items
The Group presents as exceptional items on the face of the income statement, those material items of income and expense which, because of the nature and expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the year, so as to facilitate comparison with prior periods and to assess better trends in financial performance.

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
Deferred tax is recognised using the liability method, on all temporary differences at the balance sheet date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes, with the following exception:

- Deferred tax assets are recognised only to the extent that the Director considers 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. 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

The preparation of the financial statements under IFRS requires the Director to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The Directors consider that the following estimates and judgements are likely to have the most significant effect on the amounts recognised in the consolidated historical financial information.

Volume rebates

The Group receives income from suppliers via volume rebates which are based on agreed rates based on 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.

Stock provisions

The Group's policy in relation to stock provisioning is to provide for obsolete, slow moving and defective stocks.

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 the business to be one type of business generating gross sales and revenue from the retail of upholstered furniture and flooring. All gross sales and revenue (loss)/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 30 July 2016 £'000	Year ended 25 July 2015 £'000
Sale of goods	**312,776**	273,491
Associated sale of warranties	**21,884**	18,672
	334,660	292,163

Charges associated with interest-free credit are deducted from gross sales in arriving at revenue. Charges for interest-free credit in 2016 and 2015 were £17,355k and £15,429k respectively.

4. Operating profit

Operating profit is stated after charging:

	Year ended 30 July 2016 £'000	Year ended 25 July 2015 £'000
Fees payable to the Company auditors for the audit of parent company and consolidated financial statements	**25**	59
Fees paid for other services:		
– audit of the Company's subsidiaries	**101**	85
– tax compliance	**–**	13
– other assurance services	**15**	–
– other non-audit services	**13**	960
Depreciation of property, plant and equipment – owned	**4,478**	4,185
Amortisation of computer software	**556**	596
Operating lease rentals – plant and machinery	**2,204**	2,180
Operating lease rentals – land and buildings	**23,802**	23,262

Other non-audit services in year ended 25 July 2015 above principally relate to the Group's initial public offering.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

5. Employees and Directors
5.1 Staff costs

	Year ended 30 July 2016 £'000	Year ended 25 July 2015 £'000
Wages and salaries	**52,858**	43,901
Social security costs	**4,829**	4,077
Other pension costs	**991**	929
Share-based payments (note 20)	**437**	234
	59,115	49,141

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

	Year ended 30 July 2016 Number	Year ended 25 July 2015 Number
Sales	**714**	704
Office and managerial	**724**	682
Services and warehousing	**382**	352
Cleaning	**30**	27
	1,850	1,765

5.2 Directors' emoluments

	Year ended 30 July 2016 £'000	Year ended 25 July 2015 £'000
Aggregate emoluments	**1,614**	682
Other pension costs	**112**	100

Highest paid Director	Year ended 30 July 2016 £'000	Year ended 25 July 2015 £'000
Aggregate emoluments	**741**	320
Other pension costs	**60**	60

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

5.3 Key management compensation
Key management comprises the Directors of the trading subsidiary, A. Share & Sons Limited, and excludes the Group Directors and Non-Executive Directors disclosed in 5.2 above.

The key management compensation is as follows:

	Year ended 30 July 2016 £'000	Year ended 25 July 2015 £'000
Aggregate emoluments	**1,213**	636
Deferred contribution pension cost	**106**	112
Share-based payments	**437**	86

6. Exceptional items

Exceptional costs comprise:

	Notes	**Year ended 30 July 2016 £'000**	Year ended 25 July 2015 Administrative expenses £'000	Year ended 25 July 2015 Finance costs £'000
Management fees	6(a)	**–**	1,100	–
IPO deal fees	6(b)	**–**	2,553	–
Bank facility fees	6(c)	**–**	–	555
		–	3,653	555

6 (a) Management fees payable to an affiliate of the former parent undertaking, Sun Capital Partners, Inc. in relation to the termination of a management service agreement due to the IPO.
6 (b) Legal and professional fees related to the IPO.
6 (c) Banking and legal fees related to the committed £12.0m revolving credit facility.

7. Finance costs

	Year ended 30 July 2016 £'000	Year ended 25 July 2015 £'000
Foreign exchange losses on amounts owed to related parties	**–**	2,829
Interest payable on amounts owed to related parties	**–**	955
Bank facility fees	**71**	555
Other finance costs	**146**	176
	217	4,515

8. Finance income

	Year ended 30 July 2016 £'000	Year ended 25 July 2015 £'000
Bank interest received	**86**	20

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

9. Taxation

(a) Analysis of tax charge in the year

	Year ended 30 July 2016 £'000	Year ended 25 July 2015 £'000
Current tax:		
UK corporation tax on profits/(loss) for the year	**1,776**	1,492
Adjustments in respect of prior years	**(192)**	43
Total current tax	**1,584**	1,535
Deferred tax:		
Origination and reversal of temporary differences	**571**	(489)
Adjustments in respect of prior years	**–**	(550)
Total deferred tax (note 17)	**571**	(1,039)
Income tax charge in the statement of comprehensive income	**2,155**	496

(b) Factors affecting tax expense for the year

The tax charge assessed on the profit/(loss) for the year is lower (2015: higher) than the standard rate of corporation tax in the UK of 20.00% (2015: 20.67%). The differences are explained below:

	Year ended 30 July 2016 £'000	Year ended 25 July 2015 £'000
Profit/(loss) before taxation	**10,884**	(1,728)
Profit/(loss) before tax at 20.00% (2015: 20.67%)	**2,177**	(357)
Effects of:		
Other expenses not deductible	**134**	796
Depreciation not eligible for tax purposes	**94**	82
Foreign exchange loss not deductible	**–**	585
Adjustment in respect of prior years	**(192)**	(507)
Impact of changes in tax rates	**(58)**	(103)
Total taxation charge in the statement of comprehensive income	**2,155**	496

(c) Factors that may affect future tax charges

The standard rate of corporation tax in the UK changed from 21% to 20% with effect from 1 April 2015. Further reductions in the corporation tax rate from 20% to 19% from 1 April 2017, then 18% from 1 April 2020 were announced in the Summer Budget 2015 and enacted in Finance (No 2) Act 2015. The March 2016 Budget announced a revision to the rate of corporation tax applying from 1 April 2020 to 17%, but this has not yet been substantively enacted. Accordingly, the profits for this period are taxed at an effective rate of 20.00% and deferred taxation has been calculated based on a rate of 19%.

10. Earnings per share

	Year ended 30 July 2016 £'000	Year ended 25 July 2015 £'000
Profit/(loss) attributable to owners of the Company	**8,729**	(2,224)
Weighted average number of shares in issue for the purposes of basic earnings per share	**40,006,654**	40,000,000
Effect of dilutive potential ordinary shares:		
– Share options	**965,889**	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**40,972,543**	40,000,000
Basic earnings/(loss) per share (in pence per share)	**21.8p**	(5.6)p
Diluted earnings/(loss) per share (in pence per share)	**21.3p**	(5.6)p

A total of 1,085,791 potential ordinary shares have not been included within the calculation of diluted earnings per share for the year ended 25 July 2015 as they are antidilutive.

11. Intangible assets

	30 July 2016 £'000
	Computer software
Cost	
At 26 July 2015	**4,193**
Additions	**410**
At 30 July 2016	**4,603**
Accumulated amortisation	
At 26 July 2015	**2,902**
Charge for the year	**556**
At 30 July 2016	**3,458**
Net book amount	
At 30 July 2016	**1,145**
At 25 July 2015	**1,291**

	25 July 2015 £'000
	Computer software
Cost	
At 27 July 2014	3,713
Additions	480
At 25 July 2015	4,193
Accumulated amortisation	
At 27 July 2014	2,306
Charge for the year	596
At 25 July 2015	2,902
Net book amount	
At 25 July 2015	1,291
At 26 July 2014	1,407

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

12. Property, plant & equipment

	Freehold land and buildings £'000	Leasehold property £'000	Computer equipment £'000	Fixtures and fittings £'000	Total £'000
Cost					
At 26 July 2015	159	46,438	11,941	26,484	85,022
Additions	–	1,705	428	841	2,974
Disposals	–	(448)	–	(56)	(504)
At 30 July 2016	**159**	**47,695**	**12,369**	**27,269**	**87,492**
Accumulated depreciation					
At 26 July 2015	82	26,332	11,287	22,316	60,017
Charge for the year	3	2,896	480	1,099	4,478
Disposals	–	(448)	–	(56)	(504)
At 30 July 2016	**85**	**28,780**	**11,767**	**23,359**	**63,991**
Net book amount					
At 30 July 2016	**74**	**18,915**	**602**	**3,910**	**23,501**
At 25 July 2015	77	20,106	654	4,168	25,005
Cost					
At 27 July 2014	159	44,429	11,556	25,212	81,356
Additions	–	2,009	385	1,272	3,666
At 25 July 2015	**159**	**46,438**	**11,941**	**26,484**	**85,022**
Accumulated depreciation					
At 27 July 2014	79	23,612	11,028	21,113	55,832
Charge for the year	3	2,720	259	1,203	4,185
At 25 July 2015	**82**	**26,332**	**11,287**	**22,316**	**60,017**
Net book amount					
At 25 July 2015	**77**	**20,106**	**654**	**4,168**	**25,005**
At 26 July 2014	**80**	**20,817**	**528**	**4,099**	**25,524**

The net book value of leasehold properties is as follows:

	30 July 2016 £'000	25 July 2015 £'000
Short leaseholds	**18,843**	20,029
Long leaseholds	**72**	77
	18,915	20,106

13. Inventories

	30 July 2016 £'000	25 July 2015 £'000
Finished goods	**23,188**	20,705

The cost of inventories as an expense and included in cost of sales amounted to £175,731,000 (2015: £156,194,000).

The charge for the year relating to inventories written off amounted to £508,000 (2015: £353,000).

14. Trade and other receivables – current

	30 July 2016 £'000	25 July 2015 £'000
Trade receivables	**1,981**	3,376
Other receivables	**2,290**	2,180
Prepayment	**4,743**	3,331
	9,014	8,887

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 Pounds Sterling.

The majority of the trade receivables are due from finance houses with which there are existing relationships and no history of default.

The bad debt provision is not considered material for disclosure.

15. Trade and other payables – current

	30 July 2016 £'000	25 July 2015 £'000
Trade payables	**14,430**	24,356
Payments received on account	**12,825**	7,247
Other taxation and social security payable	**4,862**	3,449
Accruals	**10,115**	8,238
	42,232	43,290

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

16. Trade and other payables – non-current

	30 July 2016 £'000	25 July 2015 £'000
Lease incentives	**6,068**	5,668

17. Deferred tax

Deferred tax liability

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

	30 July 2016 £'000	25 July 2015 £'000
Opening deferred tax liability	**530**	1,569
Charged/(credited) to profit and loss account arising from the origination and reversal of temporary differences (note 9)	**571**	(1,039)
Closing deferred tax liability	**1,101**	530
Deferred taxation has been fully provided for in respect of:		
Accelerated capital allowances	**1,123**	1,609
Losses	**(113)**	(119)
Other timing differences	**(22)**	(1,079)
Capital gains held over	**113**	119
Closing deferred tax liability	**1,101**	530

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

18. Called-up share capital

	Notes	Number of shares Number	Ordinary shares £'000	Share premium £'000	Total £'000
At 28 July 2014		1	–	–	–
Share sub-division	18(a)	99,999	–	–	–
Shares issued/proceeds	18(a)	5,000,000,000	50	70,000	70,050
Capital reduction	18(a)	–	–	(70,000)	(70,000)
Consolidation of shares	18(b)	(4,963,079,840)	–	–	–
Share sub-division	18(b)	37,020,160	–	–	–
Share re-designation and buyback	18(b)	(37,020,160)	(13)	–	(13)
Shares issued/proceeds	18(c)	257,277	–	–	–
Shares issued/proceeds	18(d)	2,722,563	–	–	–
At 25 July 2015		**40,000,000**	**37**	**–**	**37**
At 26 July 2015		40,000,000	37	–	37
Shares issued/proceeds		9,109	3	16	19
At 30 July 2016		**40,009,109**	**40**	**16**	**56**

Authorised, allotted and fully paid share capital is 40,009,109 of £0.001p each (2015: 40,000,000 of £0.001p each).

18(a) As part of the Group reorganisation on 21 January 2015 the existing £1 share capital which consisted of one ordinary share was subdivided into 100,000 (£0.00001) ordinary shares. A further 4,999,900,000 (£0.00001) ordinary shares were issued to the principal shareholder for cash.

A further 100,000 (£0.00001) ordinary shares were issued to the principal shareholder as consideration for the acquisition of the entire 'A' ordinary shares in issue in Parlour Product Topco Limited. The value attributable to the acquisition was £70,000,000 thereby creating a share premium of £69,999,999. This was subsequently reduced through a capital reduction.

18(b) The shares in issue were consolidated down to 37,020,160 ordinary shares of £0.001351 per share and subdivided into 37,020,160 ordinary shares of £0.001 per share and 37,020,160 ordinary shares of £0.000351 per share.

The ordinary £0.000351 shares were redesignated as deferred shares and bought back out of distributable reserves for total consideration of £0.01 and held as treasury shares.

18(c) On 22 January 2015 the Company issued 257,277 ordinary (£0.001) shares in exchange for the 750 'C' ordinary shares held by a senior manager in Parlour Product Topco Limited.

18(d) On 28 January 2015 the Company issued a further 2,722,563 ordinary shares of £0.001 each to the ScS Group plc Employee Benefit Trust (refer to Directors' Report).

19. Dividends
A final dividend for year ended 25 July 2015 of 11.2p was paid on 25 November 2015. It has been recognised in shareholders' equity in the year to 30 July 2016.

An interim dividend of 4.67p per ordinary share was declared by the Board of Directors on 12 April 2016 and paid on 27 May 2016. It has been recognised in shareholders' equity in the year to 30 July 2016.

A final dividend of 9.83p per ordinary share was proposed by the Board of Directors.

At 30 July 2016 the retained earnings of the parent company amounted to £66.5m.

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 were made during the year:

(i) £nil cost options conditional on the IPO taking place (approved on 21 January 2015).
(ii) Market value options under a 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 the 2017).

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)		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 27 July 2014	–	–	–	–	–	–	–	–
Granted	571,421	£0.000001	68,659	£1.75	445,711	£0.000001	1,085,791	£0.11
Forfeited	–	–	–	–	–	–	–	–
Exercised	–	–	–	–	–	–	–	–
Expired	–	–	–	–	–	–	–	–
Outstanding as at 25 July 2015	571,421	£0.000001	68,659	£1.75	445,711	£0.000001	1,085,791	£0.11
Granted								
Forfeited	(20,000)	–	–	–	(90,793)	–	(110,793)	–
Exercised	–	–	(9,109)	£1.75	–	–	(9,109)	£1.75
Expired	–	–	–	–	–	–	–	–
Outstanding as at 30 July 2016	551,421	£0.000001	59,550	£1.75	354,918	£0.000001	965,889	£0.10
Exercisable at 30 July 2016	–	£0.000001	59,550	£1.75	–	£0.000001	59,550	£1.75
Exercisable at 25 July 2015	–	£0.000001	68,659	£1.75	–	£0.000001	68,659	£1.75

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

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

	2015	2015	2015
Grant date	**21 January 2015**	**21 January 2015**	**30 March 2015**
Share price at grant date	**£1.75**	**£1.75**	**£2.05**
Exercise price	**£nil**	**£1.75**	**£nil**
Number of employees	**25**	**6**	**6**
Shares issued	**571,421**	**68,659**	**445,711**
Expected volatility	**33.7%**	**36.2%**	**33.7%**
Expected life (years)	**3**	**5**	**3**
Risk-free interest rate	**0.70%**	**1.06%**	**0.69%**
Expected dividend yield	**8%**	**8%**	**0%**
Fair value per share	**£1.38**	**£0.24**	**£2.05**
Estimated vesting	**100%**	**100%**	**0%**

The total charge for the year relating to employee share-based payment plans was £437,000 (2015: £234,000) 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 £1,082,000 (2015: £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 5. Amounts outstanding at the year end were £118,000 (2015: £114,000) and are held in accruals.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

23. Financial commitments
The future aggregate minimum lease payments under non-cancellable operating leases as set out below:

	Land and buildings		Plant and machinery	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Operating leases which expire:				
Within one year	**525**	–	**384**	312
Within two to five years	**17,303**	13,641	**2,784**	3,930
After five years	**163,225**	184,665	**–**	–
	181,053	198,306	**3,168**	4,242

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 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 inter-company debt and 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 IAS 39. 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.

All financial assets are deemed to be loans and receivables at amortised cost and their carrying value equal to their fair value.

All financial liabilities are held at amortised cost and their carrying value equal to their fair value and there is no variance between this at initial recognition and the transaction price.

All financial assets and liabilities are based on readily observable prices and market data (level 1).

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.

25. Related parties
Loans from related parties
In prior years the Group had the following loans from Parlour Product Holding (Lux) Sarl, the principal shareholder:

- Unsecured interest free loan of US$6,125,000 payable on maturity at 12 August 2068;
- 23,987,885 Series 1 – 8% unsecured payment in kind notes of US$1.00 payable on demand;
- 9,233,000 Series 2 – 8% unsecured payment in kind notes of US$1.00 payable on demand; and
- 18,076,284 unsecured payment in kind notes of US$1.00 payable on demand in recognition of interest accrued and capitalised at each balance sheet date.

The movement on the amounts outstanding are as follows:

	30 July 2016 £'000	25 July 2015 £'000
Series 1 payment in kind notes		
Opening balance	–	13,987
Issued	–	593
Repaid	–	(748)
Foreign exchange loss	–	1,756
Capitalised in period	–	(15,588)
Closing balance	–	–
Series 2 payment in kind notes		
Opening balance	–	8,539
Issued	–	362
Foreign exchange loss	–	1,073
Capitalised in period	–	(9,974)
Closing balance	–	–

The amounts capitalised in the prior year as part of the Group reorganisation.

Purchases of goods and services

Management fees and expenses have been paid to an affiliate of the principal shareholder under the terms of a Management Services Agreement as follows:

	Year ended 30 July 2016 £'000	Year ended 25 July 2015 £'000
Management fees and expenses	–	152
Termination fee (note 6 (a))	–	1,100
	–	1,252

Holdings in subsidiaries are disclosed in the parent company accounts in note 2. Only ScS Furnishings Limited is 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. Post-balance sheet events

There have been no events since the balance sheet date that either require adjustment to the financial statements or are important in the understanding of the Company's current position.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SCS GROUP PLC

Report on the Company financial statements

Our opinion

In our opinion, ScS Group plc's Company financial statements (the 'financial statements'):

- give a true and fair view of the state of the Company's affairs as at 30 July 2016 and of its cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report, comprise:

- the Statement of Financial Position as at 30 July 2016;
- the Statement of Cash Flows for the year then ended;
- the Statement of changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law (United Kingdom Generally Accepted Accounting Practice).

Other required reporting

Consistency of other information

Companies Act 2006 reporting

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

ISAs (UK & Ireland) reporting

Under International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)') we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- otherwise misleading.

We have no exceptions to report arising from this responsibility.

Adequacy of accounting records and information and explanations received

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
- the 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.

Directors' remuneration

Directors' remuneration report – Companies Act 2006 opinion

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

Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 52, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the 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.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matter

We have reported separately on the Group financial statements of ScS Group plc for the year ended 30 July 2016.

Jonathan Greenaway (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne
3 October 2016

- The maintenance and integrity of the ScS Group plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

PARENT COMPANY INFORMATION
STATEMENT OF FINANCIAL POSITION
AS AT 30 JULY 2016

	Notes	2016 £'000	2015 £'000
Investments	4	**70,000**	70,000
Current assets			
Trade and other receivables	5	**25**	17
Cash at bank and in hand		**–**	–
Total current assets		**25**	17
Total assets		**70,025**	70,017
Capital and reserves			
Share capital	7	**40**	37
Share premium account	7	**16**	–
Capital redemption reserve		**13**	13
Retained earnings		**66,511**	67,188
Equity shareholders' funds		**66,580**	67,238
Total equity		**66,580**	67,238
Current liabilities			
Trade and other payables	6	**3,445**	2,779
Total current liabilities		**3,445**	2,779
Total liabilities		**3,445**	2,779
Total equity and liabilities		**70,025**	70,017

The notes on pages 81 to 83 form an integral part of these financial statements.

The financial statements on pages 78 to 83 were approved by the Board and authorised for issue on 3 October 2016 and signed on its behalf by:

David Knight
Chief Executive Officer

PARENT COMPANY INFORMATION

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JULY 2016

	Share premium account £'000	Capital redemption reserve £'000	Called-up share capital £'000	Profit and loss account £'000	Total 2015 £'000
At 27 July 2014	–	–	–	–	–
Group reorganisation	70,000	13	37	–	70,050
Capital reduction	(70,000)	–	–	70,000	–
Dividend paid	–	–	–	(1,044)	(1,044)
Total comprehensive income	–	–	–	(1,768)	(1,768)
At 25 July 2015	**–**	**13**	**37**	**67,188**	**67,238**
At 26 July 2015	**–**	**13**	**37**	**67,188**	**67,238**
Total comprehensive income	–	–	–	5,672	5,672
Proceeds from shares issued	16	–	3	–	19
Dividends paid	–	–	–	(6,349)	(6,349)
At 30 July 2016	**16**	**13**	**40**	**66,511**	**66,580**

PARENT COMPANY INFORMATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JULY 2016

	Notes	2016 £'000	2015 £'000
Cash flows from operating activities			
Profit/(loss) before taxation		**5,672**	(1,768)
Changes in working capital:			
Increase in trade and other receivables		**(7)**	(17)
Increase in trade and other payables		**665**	2,779
Cash generated from operations		**6,330**	(994)
Net cash flow generated from operating activities		**6,330**	(994)
Net cash flow used in investing activities		**–**	–
Cash flows used in financing activities			
Dividends paid		**(6,349)**	(1,044)
Proceeds of share issue		**19**	50
Net cash flow used in financing activities		**(6,330)**	(994)
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 PARENT COMPANY FINANCIAL STATEMENTS

1. Accounting policies

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

These financial statements, for the year ended 30 July 2016 of ScS Group plc are the first to be prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). For years up to and including the year ended 26 July 2015 the Company prepared its financial statements in accordance with the UK Generally accepted accounting practice ('UK GAAP') that was applicable at that time. The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006.

The Company's date of transition to FRS 101 was 27 July 2014.

No exemptions from the requirements of IFRS have been applied in the preparation of these financial statements. The Company intends to continue reporting under FRS 101 in the next financial year.

The transition is not considered to have a material effect on the financial statements. There were no adjustments noted on the transition to FRS101.

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 74 in the Group Accounts.

New standards, amendments and interpretations

For the latest amendments and interpretations, please refer to page 62 in the Group Accounts.

Fixed asset investments

Fixed asset investments in subsidiary undertakings are recorded at cost plus incidental expenses less any provision for impairment.

Taxation

The tax charge for the financial period is based on the profit for the financial period.

2. Income Statement exemption

The Company has elected to take the exemption under section 408 of the Companies Act 2006 from presenting the Income Statement of the parent company. Total comprehensive income for the parent company for the year was £5,672,000 (2015: loss £1,768,000).

3. Directors emoluments

No Executive Directors received any remuneration for their services to the Company (2015: £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 40 to 49.

4. Investments

	Subsidiary undertaking £'000
Cost and net book value	
At 30 July 2016 and 25 July 2015	**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%

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.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

5. Trade and other receivables – current

	2016 £'000	2015 £'000
Prepayments and accrued income	**25**	17

6. Trade and other payables – current

	2016 £'000	2015 £'000
Amounts owed to Group undertakings	**3,360**	2,661
Accruals and deferred income	**85**	118
	3,445	2,779

Amounts owed to Group undertakings are unsecured, interest free and repayable on demand.

7. Called-up share capital

	Notes	Number of shares Number	Ordinary shares £'000	Share premium £'000	Total £'000
At 28 July 2014		1	–	–	–
Share sub-division	6(a)	99,999	–	–	–
Shares issued/proceeds	6(a)	5,000,000,000	50	70,000	70,050
Capital reduction	6(a)	–	–	(70,000)	(70,000)
Consolidation of shares	6(b)	(4,963,079,840)	–	–	–
Share sub-division	6(b)	37,020,160	–	–	–
Share re-designation and buyback	6(b)	(37,020,160)	(13)	–	(13)
Shares issued/proceeds	6(c)	257,277	–	–	–
Shares issued/proceeds	6(d)	2,722,563	–	–	–
At 25 July 2015		**40,000,000**	**37**	**–**	**37**
At 26 July 2015		40,000,000	37	–	37
Shares issued/proceeds		9,109	3	16	19
At 30 July 2016		**40,009,109**	**40**	**16**	**19**

Authorised, allotted and fully paid share capital is 40,009,109 of £0.001p each (2015: 40,000,000 of £0.001p each).

6(a) As part of the Group reorganisation on 21 January 2015 the existing £1 share capital which consisted of one ordinary share was subdivided into 100,000 (£0.00001) ordinary shares. A further 4,999,900,000 (£0.00001) ordinary shares were issued to the principal shareholder for cash.

A further 100,000 (£0.00001) ordinary shares were issued to the principal shareholder as consideration for the acquisition of the entire 'A' ordinary shares in issue in Parlour Product Topco Limited. The value attributable to the acquisition was £70,000,000 thereby creating a share premium of £69,999,999. This was subsequently reduced through a capital reduction.

6(b) The shares in issue were consolidated down to 37,020,160 ordinary shares of £0.001351 per share and subdivided into 37,020,160 ordinary shares of £0.001 per share and 37,020,160 ordinary shares of £0.000351 per share.

The ordinary £0.000351 shares were redesignated as deferred shares and bought back out of distributable reserves for total consideration of £0.01 and held as treasury shares.

6(c) On 22 January 2015 the Company issued 257,277 ordinary (£0.001) shares in exchange for the 750 'C' ordinary shares held by a senior manager in Parlour Product Topco Limited.

6(d) On 28 January 2015 the Company issued a further 2,722,563 ordinary shares of £0.001 each to the ScS Group plc Employee Benefit Trust.

8. Dividends

A final dividend for year ended 25 July 2015 of 11.2p was paid on 25 November 2015. It has been recognised in shareholders' equity in the year to 30 July 2016.

An interim dividend of 4.67p per ordinary share was declared by the Board of Directors on 12 April 2016 and paid on 27 May 2016. It has been recognised in shareholders' equity in the year to 30 July 2016.

A final dividend of 9.83p per ordinary share was proposed by the Board of Directors.

9. 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.

10. Related parties

There is not deemed to be any one controlling party.

NOTES

COMPANY INFORMATION

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Registered in England: 03263435

Listing
Ordinary shares of ScS Group plc are listed with a premium listing on the London Stock Exchange.

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