



# SCS

SOFA • CARPET • SPECIALIST



# Continuous Growth

Annual Report 2017

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

Principally located in modern retail park locations and 27 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

£333.0m

+4.9%

### EBITDA

£17.4m

+8.4%

- Gross sales improved 4.4% to £349.5m (2016: £334.7m)
- Revenue improved 4.9% to £333.0m (2016: £317.3m)
- EBITDA increased by 8.4% to £17.4m (2016: £16.0m)
- Operating profit increased 8.8% to £12.0m (2016: £11.0m)
- Like-for-like orders declined 0.7% against very strong comparatives
- Two-year like-for-like order intake growth of 14.3%

## Operational highlights

- Strong progress in all four areas of our strategy for growth:
  - Sales density per square foot at our ScS stores increased 3.2% to £226 (2016: £219)
  - Four new stores opened in the year. The Group now trades from 100 ScS stores and operates 27 House of Fraser concessions
  - House of Fraser concession gross sales up 8.3% to £27.4m (2016: £25.3m)
  - Online gross sales up 12.3% to £11.3m (2016: £10.0m)
- Overall Trustpilot rating improved and 5-star 'Excellent' rating maintained

### Earnings per share

23.5p

+7.8%

### Two year like-for-like order intake growth

14.3%

- Earnings per share of 23.5p (2016: 21.8p)
- Free cash flows in the year of £23.6m, including a £12.5m working capital improvement
- Strong balance sheet with cash of £40.1m (2016: £22.4m) and no debt
- Recommended final dividend of 9.80p per share, full year dividend of 14.70p per share (2016: 14.50p), an increase of 1.4%

## In this report

### I. Strategic Report

- 01 2017 Highlights
- 02 At a Glance
- 04 Our History
- 06 Our Markets
- 08 Why Invest in ScS
- 10 Chairman's Statement
- 12 Chief Executive Officer's Review
- 14 Our Business Model
- 16 Our Strategy
- 18 Our Strategy in Action
- 22 Financial Review and KPIs
- 26 Managing Risk
- 28 Principal Risks and Uncertainties
- 32 Sustainability, People and Community

### II. Corporate Governance

- 36 Board of Directors
- 38 Corporate Governance Statement
- 42 Audit Committee Report
- 46 Directors' Remuneration Report
- 59 Directors' Report
- 62 Statement of Directors' Responsibilities

### III. Financial Statements

- 63 Independent Auditors' Report to the Members of ScS Group plc
- 68 Consolidated Statement of Comprehensive Income
- 69 Consolidated Statement of Changes in Equity
- 70 Consolidated Statement of Financial Position
- 71 Consolidated Statement of Cash Flows
- 72 Notes to the Consolidated Financial Statements
- 84 Statement of Financial Position
- 85 Statement of Changes in Equity
- 86 Statement of Cash Flows
- 87 Notes to the Company Financial Statements
- IBC Company Information



See our website for more information [www.scsplc.co.uk](http://www.scsplc.co.uk)

# Sitting customers at the heart of our business



Customers not only sit on our sofas, but also sit at the heart of our business. Our customer-centric approach is underpinned by our values which ensure the best shopping experience is delivered consistently.

## 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 marketplace, 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 diversifying the range and the development of our branded offering.

See [Our Business Model](#) on page 14

## Where we are

We trade from 100 stores and 27 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.

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

The concession currently operates from 27 House of Fraser stores across the UK and offers a collection of sofas, flooring, dining and occasional ranges.

Our online sales grew to £11.3m, up from just £0.5m in 2009. We offer our full in-store ranges on our ScS website, along with a dedicated website for our House of Fraser customers.

[www.scs.co.uk](http://www.scs.co.uk)

[www.houseoffrasermadetoordersofas.co.uk](http://www.houseoffrasermadetoordersofas.co.uk)

Stores across the UK

100

Average store retail space

14,700 sq ft

Distribution centres

9

House of Fraser concessions

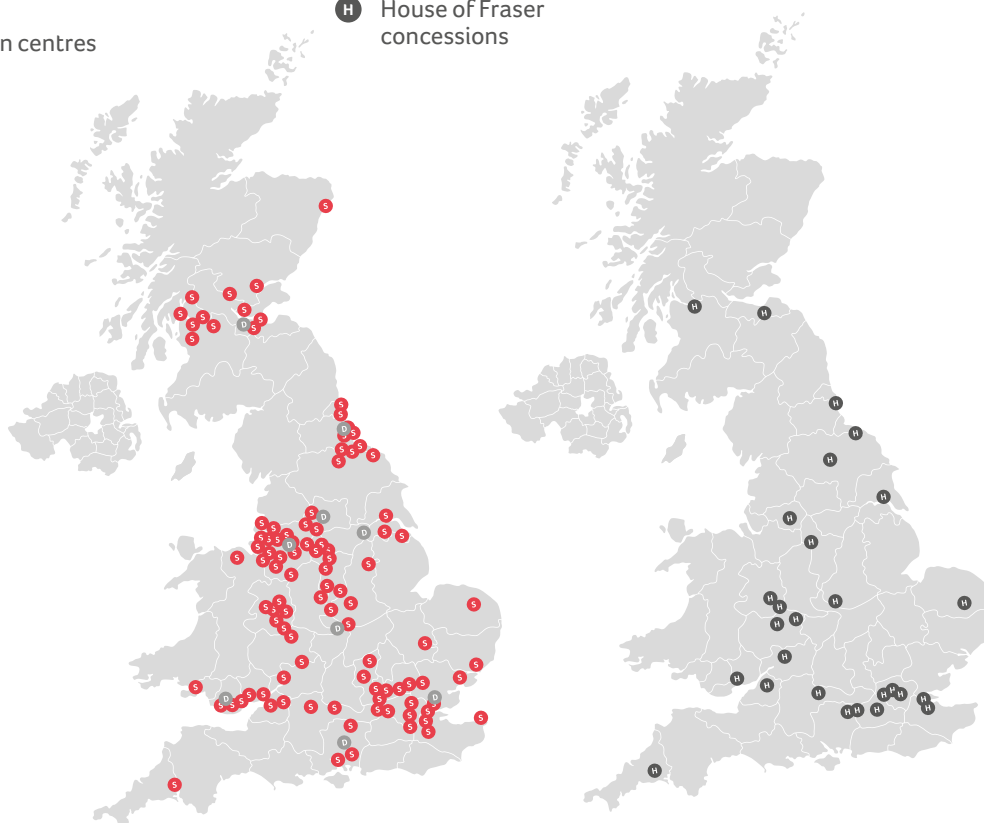
27

### Our stores and distribution centres

- S ScS
- D Distribution centres

### House of Fraser with ScS concessions

- H House of Fraser concessions



# From a family-owned local business to a national footprint plc.



## 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

## 2012

Flooring added to ScS range

ScS re-branded as the Sofa Carpet Specialist



## 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 large, modern stores.

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.



### 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



Listed on the London Stock Exchange in January

Three new ScS store openings

### 2017

Four new store openings: Aberdeen, Thanet, Edinburgh (Straiton) and Plymouth

5-star Trustpilot rating maintained and overall score improved

### 2016



5-star 'Excellent' rating achieved on independent customer review site Trustpilot

One new store opening: Bromborough, in the Wirral



Tetrad become the latest brand to be added to the range

DURESTA Alexander & James

Duresta and A&J become the latest third party brands to be added to the range

# ScS is one of the leading retailers in a market worth an estimated £3.2bn

The upholstered furniture market is worth an estimated £3.2bn sales per annum, in which ScS is one of the leading retailers with a share of 9.9% (2016: 9.8%). ScS is also becoming a major participant in the £2.0bn sales per annum floorcoverings market, which it only entered in 2012 and where it now has a 2.5% (2016: 2.4%) share.

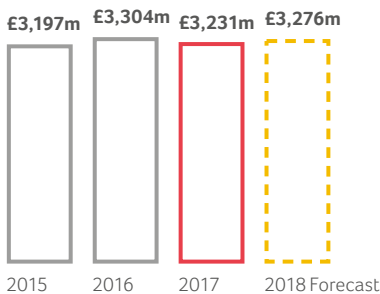
The overall market contracted significantly as a result of the global financial crisis and the prolonged recession that followed. The value of the upholstered furniture market fell from almost £4.0bn in 2007 to an estimated £3.2bn in 2017.

The signs are that the furniture and floorcoverings markets in 2018 will return to growth after a very challenging few years.

### Looking ahead

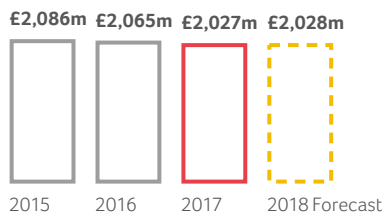
GlobalData forecasts state that ScS core markets are now set to resume growth – with circa 10% growth anticipated between 2017 and 2022 in upholstered furniture and circa 6.8% in floorcoverings.

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 11.4% of total gross sales.



Upholstery market size

**£3,231m**



Floor coverings market size

**£2,027m**







## Our market share

ScS has grown market share and increased sales per square foot, despite the continued economic uncertainty.

We believe there is still considerable room to grow our market share in both upholstery and floor coverings through continued pursuit of our strategy for growth.

Our focus is to provide choice, value and quality for our customers and we appeal strongly to a broad demographic with our ScS stores appealing to aspiring homemakers, families and retired couples whereas our House of Fraser concessions attract a more affluent demographic.

2017 upholstery market share

9.9%



2017 floor coverings market share

2.5%



# Continuous growth underpinned by our key strengths

## #1 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.

## #2 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, mystery shop exercises and Trustpilot feedback.

## #3 Store portfolio

ScS currently operates from 100 stores in the UK, 98 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. A further 20 potential locations have been identified.

## #4 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 with ScS, and the markets in which we operate.

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 strong foundation for further growth.

Dividend yield

**circa 9%**  
since IPO

Dividend per share

**14.70p**  
+1.4%

## #5 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. The House of Fraser concessions also enable us to appeal to a different demographic.

## #7 Negative working capital business model

The Group operates a negative working capital business model, coupled 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.

## #6 Growing online capability

Having grown online sales from £0.5m in 2009 to £11.3m in the year ended 29 July 2017, the website currently generates more sales than ScS's leading store. A new website was launched in July 2014, and we have continued to invest in online sales with a further £1.8m in 2017. This platform is expected to underpin further online sales growth as well as act as a marketing and research tool to drive customer in-store visits.

## #8 Dividend

Consistent dividend growth, with full year dividend of 14.70p per share in the current year. Dividend yield has been circa 9% since floatation.

# A clear strategy for growth, underpinned by strong cash flows and increasing resilience

Following the strong performance in the year ended 30 July 2016, I am very pleased to report further growth across the business for the year ended 29 July 2017, despite challenging economic conditions.

## Financial and strategic objectives

The Group continues to pursue the following objectives:

- Deliver profitable and sustainable growth;
- Improve the quality of earnings;
- Improve business resilience through the economic cycle; and
- Increase shareholder returns.

The business has continued to deliver against these objectives, growing revenue and gross profit, diligently controlling costs and maximising cash flow. I am particularly pleased with this result given the toughening trading environment since the turn of the year, and believe it demonstrates the increasingly resilient business we are building and the commitment of our Board and staff to achieving the objectives we set.

Reaching the milestone of 100 ScS stores was a further highlight of this financial year, with our new stores in Aberdeen, Thanet, Edinburgh (Straiton) and Plymouth contributing towards the increase in revenue, gross profit and EBITDA. These stores will help the Group continue to target sustainable growth and improve the overall resilience of the business.

## Result and dividend

I am pleased to report that the Group delivered a result slightly ahead of market expectations. The first half of the financial year saw the Group trade strongly and continue the momentum from the previous financial year. However, as we noted in our trading outlook in March, the second half of the year brought with it more challenging conditions across the market, with decreased footfall and reduced consumer confidence. Against this backdrop, and very strong prior year comparatives, I am proud of our two-year like-for-like order intake growth of 14.3%. We have also continued to identify and implement various business efficiencies, which have helped to increase our EBITDA margin and resulted in a 7.8% increase in earnings per share (EPS) from 21.8p to 23.5p.

The Group continues to hold no debt, had cash reserves of £40.1m at 29 July 2017 and generated free cash flows in the year of £23.6m, benefiting from a £12.5m working capital movement. Underlying cash flows, together with continued expansion in our store network, show the Group's ability to continue to grow and strengthen its balance sheet. The Group continues to maintain a £12.0m committed revolving credit facility. This provides further resilience, whilst also allowing the Group to maximise opportunities as they arise.

Despite the continued uncertain economic environment, the improved operating results year-on-year, the strength of the Group's balance sheet and the Board's confidence in the outlook for the Group has resulted in the Board proposing a full-year dividend of 14.70p, a 1.4% increase on the full-year dividend for 2016. If approved, this would result in a final dividend of 9.80p.

## Revenue

£333.0m

+4.9%

## Earnings per share

23.5p

+7.8%



I am proud of our two-year like-for-like order intake growth of 14.3%. We have also continued to identify and implement various business efficiencies, which have helped to increase our EBITDA margin and resulted in a 7.8% increase in earnings per share (EPS) from 21.8p to 23.5p.”

**Final thoughts**

Finally, I would like to record the Board's thanks to all of our 1,952 team members throughout the business. Particularly against more challenging trading conditions, it is their commitment, expertise and enthusiasm that allows the Group to continue to grow and improve each year, and deliver our mission to provide our customers with excellent service, value and quality.

The Group has a clear strategy for growth, underpinned by strong cash flows and the increasing resilience of the Group's balance sheet. The Group is positioned to take advantage of future opportunities and whilst there remains a level of uncertainty in the wider economy, the Board remains positive about the long-term prospects for the business.

**Alan Smith**  
**Chairman**

2 October 2017



# We are delighted to be reporting continued sales growth across all areas of the Group for the third year in a row

## Overview

The core ScS business has continued to focus on providing excellent choice, value and quality for our customers, and I am pleased to see this delivering record results in furniture and flooring sales. Furthermore, our targeted investment in key growth areas continue to prove successful, with an 8.3% increase in sales from our House of Fraser concessions and 12.3% growth in our online business.

## Results

The Group saw a £15.7m (4.9%) increase in revenue in the year to £333.0m (2016: £317.3m). Gross profit increased to £153.7m (2016: £149.1m), EBITDA increased 8.4% to £17.4m (2016: £16.0m) and profit before tax rose 9.9% to £12.0m (2016: £10.9m).

## Strategy for growth

The Group continues to focus on four key areas in its strategy for growth:

### Area 1 – Increase sales densities

Sales density per square foot at our ScS stores for the last 12 months was £226. This represents an increase of £7 per square foot or 3.2% on the £219 achieved in the 12 months ended 30 July 2016. This increase was achieved by continued focus on the following:

- The ongoing targeting and maximisation of a branded range of products and the continued development of our flooring offering;
- Maximising our average order value, with furniture order values rising 1.1% in the year to £1,575, and flooring order values rising 3.5% in the year to £629;

- Continued investment in our online capability, resulting in both the benefit of direct sales through the website and the indirect benefit of improving the quality of footfall, with customers often entering our stores having already researched their choices. This has ensured that, despite decreases in footfall noted industry-wide, customers are more engaged and more likely to place an order; and
- Improving the customer journey, experience and confidence, evidenced by an improved Trustpilot satisfaction score. The Group has over 73,000 reviews and is proud to have improved its overall score and maintained its maximum 5-star 'Excellent' rating.

Marketing spend increased to £24.7m in the year (2016: £23.1m) as the Group continued to operate in an increasingly competitive and challenging marketplace, and to drive sales conversion, namely the proportion of customers who purchased a product after entering a store, which further increased this year.

### Area 2 – Maximise the opportunity with House of Fraser customers

The Group operates 27 House of Fraser concessions, targeting those customers who prefer to shop in department stores and town centres, and enabling the Group to access a wider demographic. Despite being integrated into the Group for over three years, gross sales continued to rise strongly in the year, increasing by 8.3% to £27.4m (2016: £25.3m).

Contribution to the Group's EBITDA is a continued focus as these concessions become established, and following their first positive contribution in the prior year, the House of Fraser concession EBITDA continued to strengthen in 2017. As with

the ScS store network, individual concession performance is regularly reviewed to ensure all locations make an appropriate level of return.

Both ScS and House of Fraser management teams continue to recognise the ongoing potential that the partnership offers and continually work together on how to improve sales and margins.

### Area 3 – Optimise online presence

Whilst relatively large ticket home furnishings continue to be predominantly a store-based sale, we know that a high proportion of our customers continue to research our products online before they visit the store to make their final purchase decision. Continued website investment has therefore been a key part of the Group's strategy for growth. In addition, as the Group continues to improve its online presence and provide a higher quality responsive web platform, an increasing number of customers are choosing to make their purchase directly online. This has been supported by continued investment in website development and maintenance of £1.8m (2016: £1.4m) and increased digital marketing spend, which has successfully driven improvements in our website visitor count and conversion.

Online gross sales increased 12.3% to £11.3m (2016: £10.0m).

### Area 4 – Achieve strong financial returns from new store openings

During the first half of the financial year, the Group opened four new stores in Aberdeen (September 2016) and Thanet, Edinburgh (Straiton) and Plymouth (all on Boxing Day 2016). All four stores have performed in line with the targets set within their initial investment analysis and have contributed positively to EBITDA in the year.

## EBITDA

£17.4m

+8.4%

## Gross profit

£153.7m

+3.1%



The core ScS business has continued to focus on providing excellent choice, value and quality for our customers, and I am pleased to see this delivering record results in furniture and flooring sales.”

We now operate from 100 stores across the UK, almost all of which are in modern out-of-town retail parks, often alongside competing furniture and floorcoverings retailers. A new store in Chelmsford is targeted to open on Boxing Day 2017.

We continue to hold a list of sites identified for potential new stores, and opportunities are consistently pursued and monitored, with plans for further expansion in the coming financial year.

Additionally, we continue to closely monitor the performance of our network and actively manage the portfolio.

#### Current trading and outlook

Since the start of the current financial year, trading performance has been in line with our expectations. Furthermore, we believe the Group's increasing resilience will enable us to manage the continued economic uncertainty and take advantage of opportunities.

The continued successful self-financed expansion of the ScS network, ongoing growth in the concession agreement with House of Fraser and double-digit online growth, together with the Group's strong cash flow dynamics, demonstrate the ability of the Group to maintain a strong financial position and continue to deliver value for our shareholders.

**David Knight**  
Chief Executive Officer

2 October 2017



## Our Business Model

The ScS business model offers a high quality, competitively priced range of 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 flexible overhead costs – resulting in a great value offer for our customers.

### Our competitive advantages

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#### Expert staff

Our experienced store and dedicated service teams help customers make the right choices and provide first class aftersales service.

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#### Nationwide coverage

With 100 stores and 27 House of Fraser concessions we offer nationwide coverage from Aberdeen to Plymouth.

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#### Low cost overheads

Our cost-efficient supply chain, infrastructure and flexible cost base means we stay competitive.

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#### Efficient, reliable supply chain

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

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#### Modern and comfortable stores

Our stores offer a wide range of fabric and leather sofas, flooring and furniture that help make a house a home.





## How we leverage our strengths to deliver the best experience for our customers



### Choice & value

We are sofa and flooring specialists and this is the core of our customer proposition – offering a wide range of styles, fabrics, brands and value.



### Credit

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.



### Quality

Working with leading furniture and flooring brands and a small group of trusted suppliers; we aim to provide a quality and durable product for our customers.



### Service

Customer deliveries are executed by our own experienced workforce, which is central to our strategy of providing the best customer experience.



### Convenience

Our customers can find many of their home furnishing needs under one roof, with 127 locations to choose from around the UK.



### Online

Our online channel supports and complements our stores.

## Outputs

### Happy customers with brand loyalty

Listening is important and we've received feedback from over 73,000 of our customers via Trustpilot. We're proud to have retained our 5-star 'Excellent' rating.

See **Our Strategy in Action** on page 18

### Sales growth

Increasing sales densities, and average order values contributed to the overall growth in our trading performance for the third year in a row.

See **Our Strategy in Action** on page 20

### Shareholder value

Through the continued expansion of the ScS business, ongoing growth in our House of Fraser concessions, together with our strong cash flows, we continue to deliver value for our shareholders.

See **Why Invest in ScS** on page 08

# Our growth strategy

### Strategic Priority



#### 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 3.2% during 2017 to £226. This represents an increase of £7 per square foot on the £219 achieved in 2016.

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 own label brands, the continued development of our flooring offer and increasing our marketing spend to £24.7m (2016: £23.1m).

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 73,000 reviews.

### 2017 Progress

- 3.2% growth in sales per square foot;
- 6.9% increase in marketing spend;
- Improved Trustpilot satisfaction score and maintained 5-star 'Excellent' rating; and
- Increased average order value in furniture and flooring.

[Read more on page 20](#)



#### Maximising the opportunity

with House of Fraser.

Following a successful pilot the full roll out was completed in July 2014. The Group currently operates from 27 House of Fraser stores, under the Made to Order, Sofas, Furniture and Flooring brand. The arrangement has delivered gross sales of £27.4m, a 8.3% increase on 2016. Potential exists to further develop this opportunity; GlobalData estimates the market opportunity for upholstery and flooring sales, in department stores, to be £287.0m.

Appropriate returns are a continued focus of those concessions as they become established. Both ScS and House of Fraser recognise the ongoing potential of the partnership.

- 8.3% increase in sales;
- Improved EBITDA;
- Tetrad added as a new third party brand; and
- New concession layout developed.

[Read more on page 12](#)



#### Optimising online presence

through continued investment.

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 £11.3m in 2017, a 12.3% 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.

- Online sales reached £11.3m;
- Improvement to the user experience, on mobile and tablet devices;
- Improvement of brand visibility; and
- Increasing online traffic through improvement to marketing strategy.

[Read more on page 12](#)



#### Filling in the white space

achieving strong returns from new stores.

During the year we opened new stores in Aberdeen (September 2016) and Thanet, Edinburgh (Straiton) and Plymouth (all on Boxing Day 2016). A new store in Chelmsford is targeted to open on Boxing Day 2017. Management has identified over 20 potential new locations within the UK. The key for us is a structured opening programme, ensuring that we get the very best locations for our new stores.

We now operate from 100 stores across the UK, almost all of which are in modern out-of-town retail parks, often alongside competing furniture and floorcovering retailers.

- New stores opened in Aberdeen, Thanet, Edinburgh (Straiton) and Plymouth;
- New stores contributed to EBITDA in the year; and
- Committed to a new store in Chelmsford.

[Read more on page 12](#)

## 2018 Priorities

- Continue to increase sales densities;
- Improve gross margin;
- Grow market share;
- Maintain marketing investment; and
- 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 to ensure offering is tailored to the House of Fraser customer; and
- Review of concession network to ensure appropriate level of return.

- 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; and
- Introduction of a product clearance section online.

- Ensure successful launch at the new store;
- Continued focus on potential sites for further opening opportunities; and
- Continued review of existing footprint to maximise returns.

## Key Risks

- A reduction in consumer confidence resulting in a fall in consumer spending.
- Economic uncertainty following the UK's decision to leave the EU.
- Reducing income levels and the availability of credit.

[Find out more on page 28](#)

- Competition from furniture and flooring offers in other department stores.
- Failure to deliver a safe, quality product in line with customer expectations.
- Failing to ensure we can attract and retain high calibre people.

[Find out more on page 28](#)

- Failure to keep pace with technology developments, to ensure that on-line offering continues to provide and improving user experience.
- Ineffective marketing strategy fails to drive customer to our websites.
- Lack of continuous operation of our IT systems.

[Find out more on page 29](#)

- Lack of availability of leasehold store property.
- Unsuitable available retail space.
- The cost of leasing property moves unfavourably.

[Find out more on page 30](#)

## Measures of Success

### Total year-on-year gross sales growth

4.4%

### Like-for-like order intake movement

(0.7%)

### Two-year like-for-like order intake growth

14.3%

### Gross margin % of gross sales

44.0%

2016: 44.6%

### EBITDA

£17.4m

An increase of £1.4m (8.4%) on 2016

### Earnings per share

23.5p

A 7.8% increase on 2016

### ScS sales density per square foot

£226

A 3.2% increase on 2016

### Customer service

9.2

Score out of ten based on over 73,000 Trustpilot reviews (2016: 8.9)



# Listening to our customers

Listening to our customers is so important to us. We encourage our customers to give us feedback via the independent Trustpilot platform and care is taken to review the feedback on our stores, our delivery teams and our aftercare team.

Our Trustscore is available publically and viewed circa 28,000 times per month on average. Our Trustscore is also visible through search engines and is seen on average 58,000 times per month. In 2016 we set ourselves and achieved the ambitious target of 5-star 'Excellent' rating. We're proud to have maintained this throughout 2017 and indeed improved on our overall customer satisfaction score from 8.9 in 2016 to 9.2 in 2017.

Using Trustpilot's actionable insight tools we identified that our customers really appreciated their in-store experience and also valued the level of service we provided when delivering their orders to their homes. Our customers commented that they felt we offered a friendly and helpful experience, and great service. It was identified that attention was needed on delivery lead times, and making it

easier for customers to get updates on their order which we are focusing on.

In net promoter terms 82% of our customers are promoters of the Group and only 6% are detractors with the remaining 12% passive.

The insights we have gained are shared across the business, allowing us to make improvements to further enhance the customer experience. Our team very much appreciate the insights gained, and in our most recent engagement survey it was clear that this business tool was one our team wanted to ensure that we retain and develop.

The group now has over 73,000 reviews on Trustpilot, and we've seen a continued improvement in our customer satisfaction performance, maintaining our maximum 5-stars 'Excellent' rating.

Trustpilot customer satisfaction

**9.2** (out of ten)

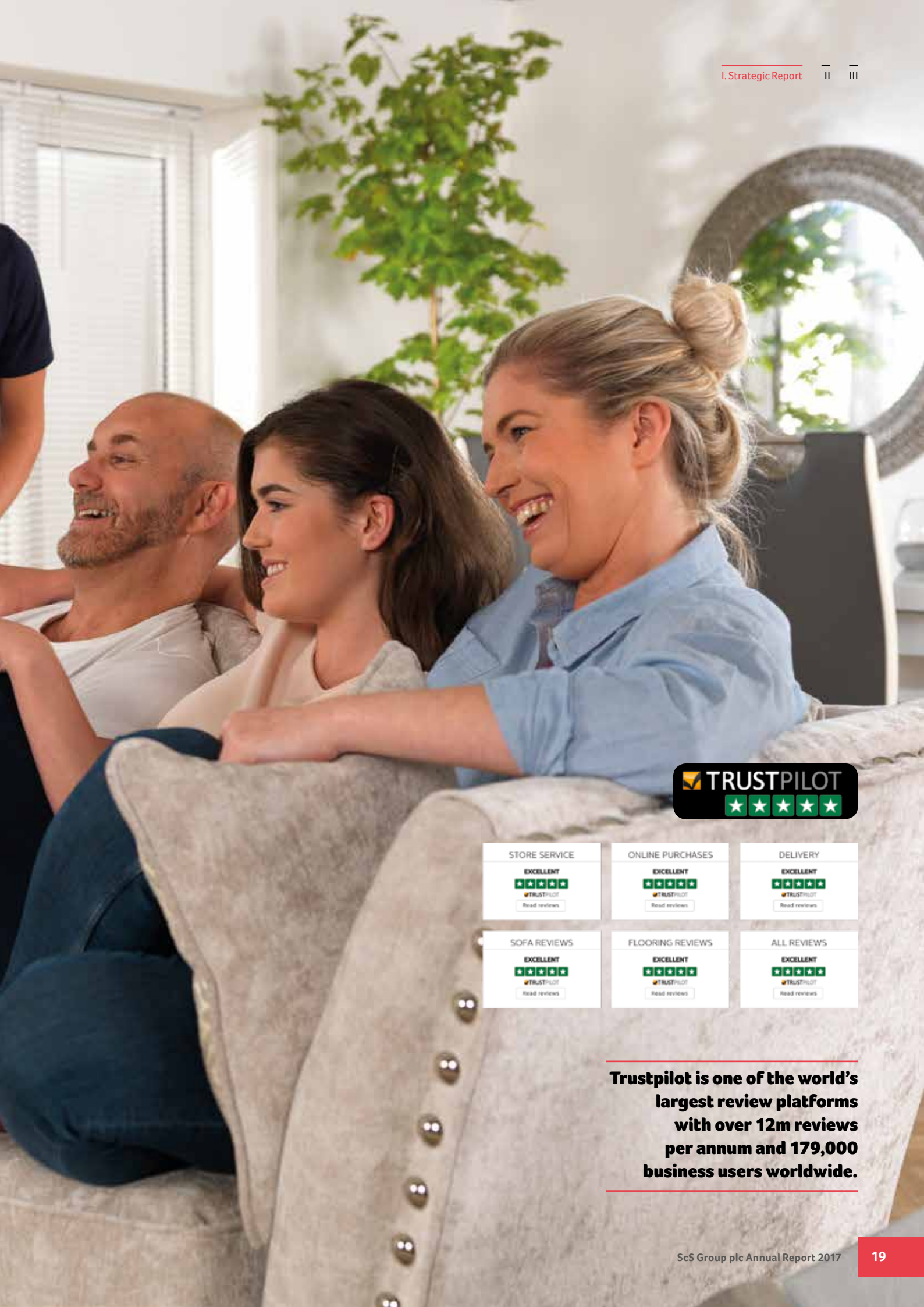
Rating

**5 star**

Number of reviews

**73,000**





<p>STORE SERVICE</p> <p>EXCELLENT</p> <p>★★★★★</p> <p>TRUSTPILOT</p> <p>Read reviews</p>	<p>ONLINE PURCHASES</p> <p>EXCELLENT</p> <p>★★★★★</p> <p>TRUSTPILOT</p> <p>Read reviews</p>	<p>DELIVERY</p> <p>EXCELLENT</p> <p>★★★★★</p> <p>TRUSTPILOT</p> <p>Read reviews</p>
<p>SOFA REVIEWS</p> <p>EXCELLENT</p> <p>★★★★★</p> <p>TRUSTPILOT</p> <p>Read reviews</p>	<p>FLOORING REVIEWS</p> <p>EXCELLENT</p> <p>★★★★★</p> <p>TRUSTPILOT</p> <p>Read reviews</p>	<p>ALL REVIEWS</p> <p>EXCELLENT</p> <p>★★★★★</p> <p>TRUSTPILOT</p> <p>Read reviews</p>

**Trustpilot is one of the world's largest review platforms with over 12m reviews per annum and 179,000 business users worldwide.**



# Increasing sales densities

The group has showed continued improvement in sales densities per square foot, increasing from £177 in 2013 to £226 in 2017; a 28% increase.

Sales density per square foot at our ScS stores for the last twelve months was £226. This represents an increase of £7 per square foot or 3.2% on the £219 achieved in the 12 months ended 30 July 2016.

The group has continued to invest heavily in marketing, spending £24.7m in 2016 (2016: £23.1m), attracting new and returning customers to our website and stores, and improving our sales conversion, this being the proportion of customers who purchased a product after entering a store, which further increased this year.

We have continued to focus on the maximisation of our branded range of products, developing both our third party and in-house brands in both furniture and flooring. We have improved our average order value in both furniture and flooring; with

furniture order values rising 1.1% in the year to £1,575, and flooring order values rising 3.5% in the year to £629.

Having launched our transactional website in 2009, we have seen a steady growth in sales and profits. Continued investment into our online capability has resulted in the benefit of increased direct sales through our website and the indirect benefit of improving the quality of the footfall. Increasingly, we are finding that our customers enter our stores having already researched their choices.

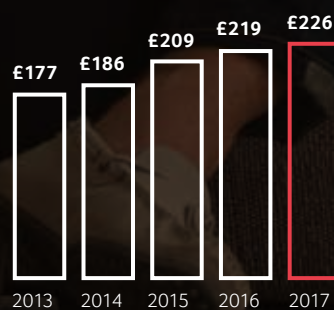
Despite an industry-wide noted decrease in footfall, our customers are more engaged and are more likely to place an order with us. We believe our customers are experiencing an improved journey, evidenced by an increasing Trustpilot satisfaction score.

Sales per square foot

**£226**

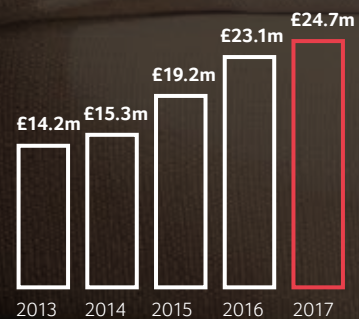
Marketing spend

**£24.7m**



Sales densities per square foot

**£226**



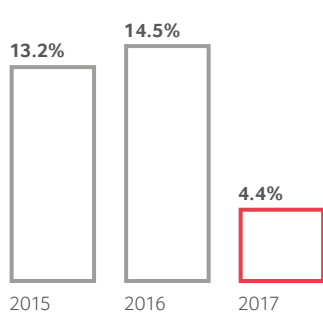
Marketing spend

**£24.7m**

# Financial Review and KPIs

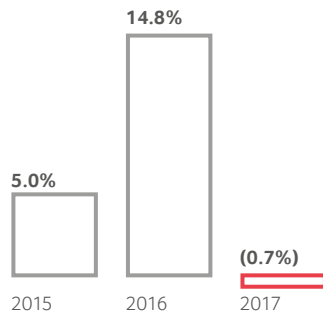
## Key Performance Indicators

### Financial KPIs



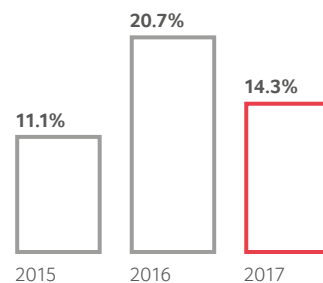
Total year-on-year gross sales growth

**4.4%**



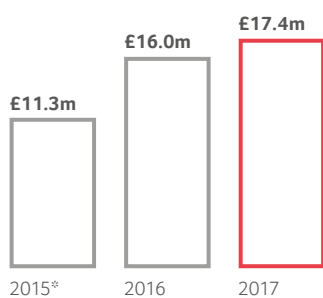
Like-for-like order intake movement

**(0.7%)**



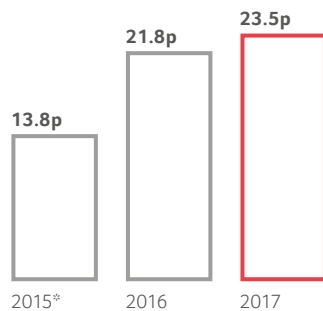
Two-year like-for-like order intake growth

**14.3%**



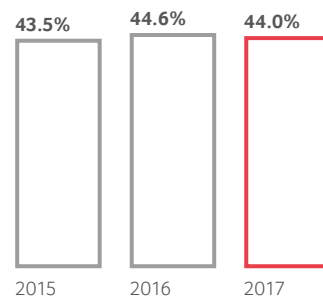
EBITDA

**£17.4m**



Earnings per share

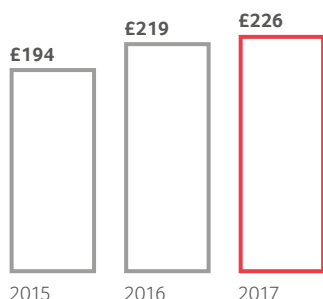
**23.5p**



Gross margin % of gross sales

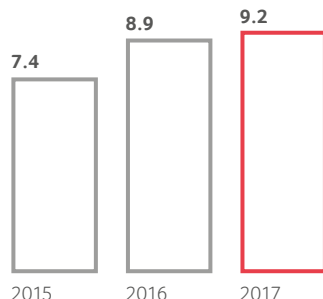
**44.0%**

### Non-financial KPIs



ScS sales density per square foot

**£226**



Trustpilot customer satisfaction

**9.2** (out of ten)

\* 2015 EBITDA and Earnings per share are adjusted to exclude £3.7m of fees associated with the IPO.



## Gross sales and revenue

Gross sales increased by £14.8m (4.4%) to £349.5m (2016: £334.7m) and is attributable to:

- An increase in furniture sales in ScS stores of 3.7% to £270.9m;
- An increase in flooring sales in ScS stores of 5.0% to £39.9m;
- An increase in online sales of 12.3% to £11.3m; and
- An increase in sales from the House of Fraser concession of 8.3% to £27.4m.

Gross sales in the year benefited from three main factors:

- The increased order intake seen at the end of the previous financial year (which was delivered in this period);
- The increased sales order intake seen in the first half of the current year; and
- Four new stores, with gross sales of £7.4m.

Revenue, which represents gross sales less charges relating to interest-free credit sales (see note 3 – Segment information), increased by 4.9% to £333.0m (2016: £317.3m).

## Gross profit

Gross margin (as a percentage of gross sales) in the year was 44.0% (2016: 44.6%). The margin decreased by 0.6% when compared to the previous year, largely due to a focus in the year to reduce stocks of older product, which improved store appearance and created a working capital inflow. Quality of earnings remains a key area of focus.

The increased revenue resulted in an increase in gross profit of £4.6m, or 3.1%.

## Operating profit

Operating profit for the year increased by 8.8% to £12.0m (2016: £11.0m).

## 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. Distribution costs expressed as a percentage of revenue for the year were 5.0%, 0.1% higher than the prior year.

As part of the ongoing review of distribution efficiencies, the Group has taken the decision post year-end to close two warehouses in Thanet and West Thurrock and move to a single new warehouse in Basildon. The Group will see the cost benefit of this in the year to 28 July 2018.

## 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, 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 £125.2m, compared to £122.6m in the prior year. Administrative costs as a percentage of revenue were 37.6%, compared to 38.6% in the prior year.

The year saw an increase in administrative costs of £2.6m, with the majority of the increase being driven by the following:

- £1.6m increase to £24.7m (including £0.2m in relation to launch of new stores) in marketing investment;
- £1.6m reduction in payroll costs resulting from:
  - £4.5m decrease in performance related bonuses;
  - £2.0m increase driven by an inflationary wage increase, resourcing to support growth, succession planning; and
  - £0.9m from new stores;
- £1.3m rent and rates increase due to the new store openings;
- £0.4m increase in website development and maintenance costs; and
- £0.4m increase in depreciation and amortisation.

	Year ended 29 July 2017 £m	Year ended 30 July 2016 £m
Gross sales	349.5	334.7
Revenue	333.0	317.3
Gross profit	153.7	149.1
Distribution costs	(16.5)	(15.5)
Administration expenses	(125.2)	(122.6)
Total operating expenses	(141.7)	(138.1)
Operating profit	12.0	11.0
Net finance costs	–	(0.1)
Profit before tax	12.0	10.9
Tax	(2.6)	(2.2)
Profit after tax	9.4	8.7
Earnings per share	23.5p	21.8p
EBITDA	17.4	16.0

## Financial Review and KPIs continued

### EBITDA

An analysis of EBITDA is as follows:

	Year ended 29 July 2017 £m	Year ended 30 July 2016 £m
Operating profit	12.0	11.0
Depreciation	4.8	4.5
Amortisation	0.6	0.5
EBITDA	17.4	16.0

### Taxation

The tax charge for the financial year is higher than if the standard rate of corporation tax had been applied, mainly due to charges not deductible for tax purposes, principally depreciation on capital expenditure that does not qualify for capital allowances.

### Earnings per share (EPS)

EPS for the year ended 29 July 2017 was 23.5p compared to earnings per share of 21.8p in the previous year.

### Cash 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 29 July 2017 £m	Year ended 30 July 2016 £m
Cash generated from operating activities	30.1	13.2
Net capital expenditure	(5.2)	(3.4)
Net taxation and interest payments	(1.3)	(2.2)
Free cash flow	23.6	7.6
Dividends	(5.9)	(6.3)
Net cash generated	17.7	1.3

Cash generated from operating activities in the year benefited by £10.6m from the timing of the July supplier payment run due to the slightly earlier year-end date.

Net capital expenditure in the year includes £3.1m on four new stores (2016: £0.7m on one new store).

### Dividend

An interim dividend of 4.90p per ordinary share was paid in May 2017. The Group has continued to strengthen and deliver very positive results, with very strong cash generation and a balance sheet that is growing in resilience. Despite the continued uncertain economic environment, the Board is confident in the outlook for the Group and therefore proposes a full-year dividend of 14.70p, a 1.4% increase on the full-year dividend for 2016. If approved, this would result in a final dividend of 9.80p.



**Chris Muir**  
Chief Financial Officer

2 October 2017



# Managing Risk

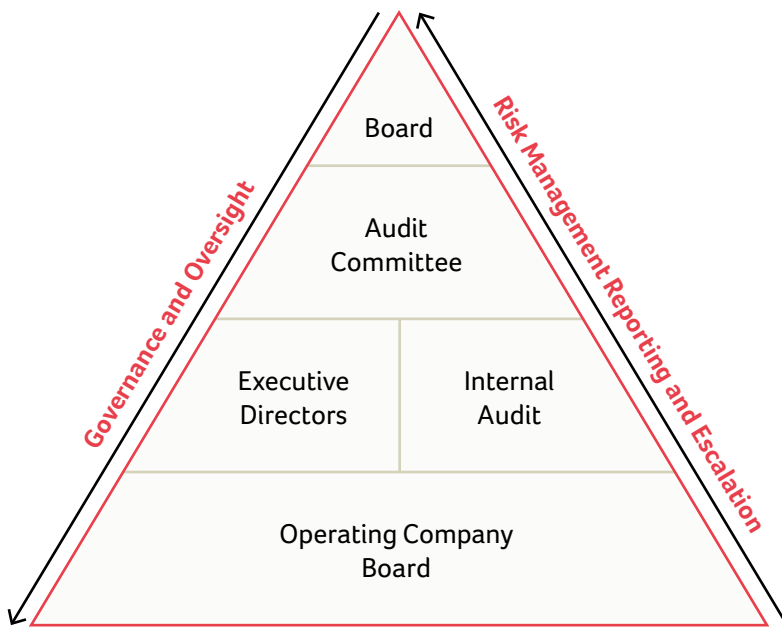
## Risk governance

Like all businesses, we face risks and uncertainties that could affect 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.

## 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.



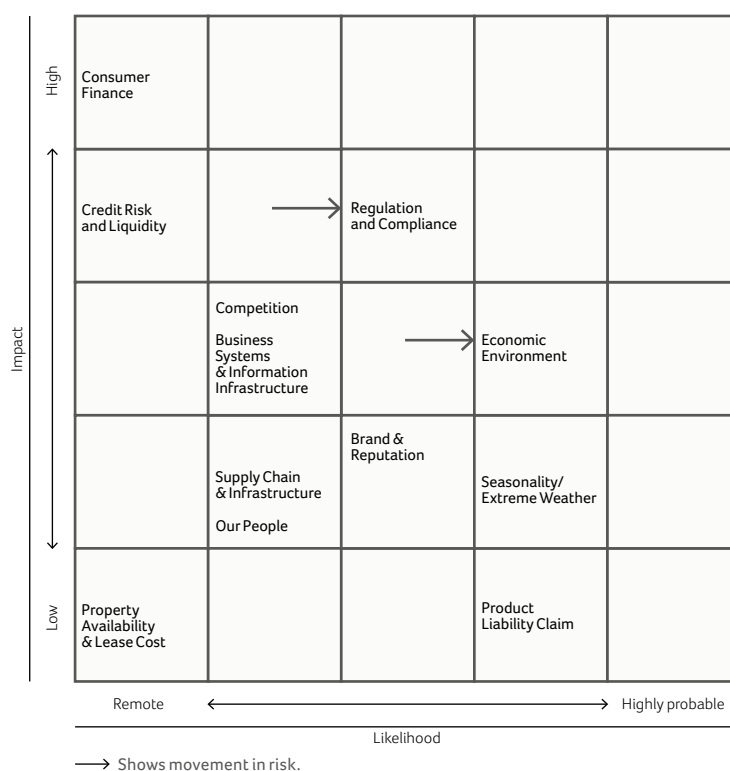
### Identification of risks

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, which 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, and any change from the prior year. 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:

### Group Principal Risks Map















Category of Risk	Risk Parameters	
<b>Strategic</b>	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.
<b>Operational</b>	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.
<b>Financial</b>	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.
<b>Compliance</b>	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
<b>Economic environment</b> 	<p>A reduction in consumer confidence or activity levels in the housing market, resulting in a fall in consumer spending on discretionary high value items, such as furniture, could be damaging to the performance of and prospects for the Group.</p>	<ul style="list-style-type: none"> <li>We offer a range of products and price points in our categories to ensure that customers can trade up or down.</li> <li>We maintain a lean business model allowing us to remain competitive in our markets and adapt to change quickly.</li> <li>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.</li> </ul>	
	<p>The Group faces economic uncertainty following the decision for the UK to leave the EU along with other factors such as income levels and the availability of credit.</p>	<ul style="list-style-type: none"> <li>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, along with an improved dining and occasional range, has diversified our offering into a wider demographic consumer base.</li> <li>We offer a range of interest-free options to our customers to allow more affordable payments.</li> </ul>	
	<p>Further exchange rate fluctuations could lead to cost pressure.</p>	<ul style="list-style-type: none"> <li>We work closely with our suppliers and will attempt to minimise any impact on our cost base and our retail pricing strategy.</li> </ul>	
<b>Competition</b> 	<p>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.</p>	<ul style="list-style-type: none"> <li>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 that broadens our appeal and sales base.</li> <li>We actively monitor sales performance, product and advertising performance and competitor activity.</li> <li>We have carried out a comprehensive review of our advertising strategy to ensure that we are reaching our target audience effectively.</li> </ul>	
<b>Regulation and compliance</b> 	<p>Many of the Group's activities are facing increasing legislation and standards including trading, advertising, product quality, health &amp; safety, the environment, data protection and the Bribery Act. Failure to comply with these may risk incurring financial or reputational damage. Changes to the regulation of product warranties could affect future sales.</p>	<ul style="list-style-type: none"> <li>We actively monitor compliance with our existing obligations and we maintain internal policies and procedures. Colleagues are kept informed of these requirements via regular briefings and internal communications.</li> <li>All suppliers are subject to regular checks and independent product testing is regularly undertaken.</li> <li>We ensure that we comply with current guidelines on pricing and promotions through regular review and monitoring.</li> <li>Annually, all employees are issued with a code of conduct.</li> <li>A confidential hotline is established for colleagues to raise any concerns in confidence.</li> </ul>	

Key Risk	Description	Mitigation	Change In Risk Level
<b>Business systems and information infrastructure</b> 	The Group's business involves a high number of operational and financial transactions across numerous sites that rely on the continuous operation of our IT systems.	<ul style="list-style-type: none"> <li>• 24-hour system monitoring is in place for business critical systems.</li> <li>• A disaster recovery site is available and a full disaster recovery plan is in place and is reviewed and updated annually.</li> <li>• The resilience against cyber-attack is regularly tested and monitored by the Group.</li> </ul>	
<b>Seasonality/ extreme weather</b> 	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.	<ul style="list-style-type: none"> <li>• The Group constantly monitors national, divisional, regional and branch results.</li> <li>• This close monitoring and our ability to flex the marketing and advertising spend enables the Board to react quickly to changes in the marketplace.</li> </ul>	
<b>Consumer finance</b> 	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.	<ul style="list-style-type: none"> <li>• We maintain relationships with a number of credit providers to reduce the risk of the facility being withdrawn.</li> <li>• We regularly review default levels with the providers.</li> <li>• The Group has obtained the relevant permissions from the FCA to continue to provide interest-free credit to customers and continually monitors relevant compliance to obligations.</li> <li>• Regular training is provided to retail staff and any complaints regarding regulated activity are reported to the Board.</li> </ul>	
<b>Credit risk and liquidity</b> 	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.	<ul style="list-style-type: none"> <li>• We have developed strong relationships and credibility with credit insurers through regular communication and information sharing.</li> <li>• Robust forecasting facilities enable early discussion of possible issues increasing the chances of positive solutions.</li> <li>• The committed bank revolving credit facility has been agreed and is in place until October 2018.</li> <li>• Suppliers provide regular updates on their credit insurance arrangements.</li> <li>• See the viability statement on page 31, for further information.</li> </ul>	
<b>Supply chain/ infrastructure</b> 	<p>A large proportion of the Group's products are supplied by a small number of key manufacturers. A supplier that ceases to trade could cause disruption to the supply of products to customers.</p> <p>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.</p>	<ul style="list-style-type: none"> <li>• The Group has long-established and good working relationships with its key suppliers.</li> <li>• When sourcing products we ensure that at least two factories can produce each product providing resilience.</li> <li>• We independently monitor supplier financial stability to identify any early signs of failure.</li> <li>• We have updated our Service Level Agreements with all our suppliers to ensure that they meet our business requirements.</li> <li>• Suppliers are expected to be members of Sedex (the supplier ethical data exchange) and agree to audits of manufacturing facilities.</li> </ul>	
<b>Brand and reputation</b> 	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.	<ul style="list-style-type: none"> <li>• Key aspects of our business activities that have the potential to impact reputation are monitored closely.</li> <li>• We regularly survey customer service levels (for example, through Trustpilot) and product quality, colleague engagement (through staff surveys). The integrity of our product sourcing is regularly monitored and reviewed.</li> </ul>	

## Principal Risks and Uncertainties continued

Key Risk	Description	Mitigation	Change In Risk Level
<b>Product</b> 	<p>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.</p>	<ul style="list-style-type: none"> <li>• We have updated our Service Level Agreements with all our suppliers to ensure that they meet our business requirements. Suppliers are required to provide evidence that the product supplied is compliant with all current regulations.</li> <li>• Suppliers are expected to be members of Sedex that entails agreeing to independent audits of manufacturing facilities (including compliance to the Modern Slavery Act).</li> <li>• The Group carries out regular independent testing on products supplied to ensure ongoing compliance to current regulations.</li> <li>• Product performance is monitored via the customer service team and regular meetings are held with suppliers to help eliminate and reduce product issues.</li> </ul>	
<b>Our people</b> 	<p>The business is reliant on the high quality, stability and experience in its senior management team.</p>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• The Board has adopted a succession plan which includes strategy and contingency measures should key individuals not be available.</li> </ul>	
<b>Property – availability/ lease costs</b> 	<p>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. Recent changes to the minimum living wage could affect the Group's cost base or affect ability to retain staff.</p>	<ul style="list-style-type: none"> <li>• The Group ensures terms and conditions of employment are fair and competitive in the sector.</li> <li>• The Group works to maintain its brand presence and retain its reputation as an 'employer of choice'.</li> <li>• The Group has achieved and maintained Investors in People status.</li> <li>• Retention rates are monitored and supported by an exit interview process.</li> </ul>	
<b>Property – availability/ lease costs</b> 	<p>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 Group business model – permitting it to compete cost-effectively, alter the size and position of its stores when necessary and expand into new locations as part of its strategy for growth. The Group's performance and prospects could be adversely affected if the availability and cost of suitable property were to move unfavourably.</p>	<ul style="list-style-type: none"> <li>• We work closely with agents and we regularly monitor for new opportunities.</li> <li>• Ensuring we have up-to-date information from landlords on our current sites and are aware of the development of new retail sites.</li> <li>• We work closely with our professional advisors to monitor progress and changes to rental evidence to predict future lease costs.</li> <li>• All proposed new stores are assessed for suitability and return on investment prior to being given the go-ahead by the Board.</li> </ul>	



### 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 25 July 2020, 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. The Group continues to hold a significant cash balance and maintains an undrawn £12.0m committed revolving credit facility. The facility, which was extended in August 2016, has a maturity date of October 2018. Discussions have begun to extend this facility, and therefore in preparing the viability statement the Directors have assumed that the current facility will be extended to cover the three-year period to 25 July 2020.

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 25 July 2020. 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 25 July 2020) 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.

## Sustainability, People and Community

At ScS we see our core purpose as helping customers find 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, sustainability, our people and the communities in which we operate are a key part of our business and is integrated into the day-to-day management of our 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.

We focus on three key priority areas: sustainability, where our emphasis is on recycling waste, reducing electricity usage, improving fuel

efficiencies and sourcing with integrity; people, to ensure that our staff and customers can work and shop in a safe environment, and a focus on ensuring 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



### SUSTAINABILITY

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. We now recycle or divert from landfill 95.7% of all waste collected (2016: 92%).

#### 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 has 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. Since 2013 we have reduced our electrical energy consumption by 6.9%; the electrical reduction is against a backdrop of opening nine all electric stores in that period. Our gas usage has reduced 41.1%. The gas reduction has been assisted by the replacement of four gas air-conditioning systems with energy-efficient all electric units, and a further five are targeted in 2018.

In 2017 we reduced our greenhouse gas emissions from 9,310.95 t/CO<sub>2</sub> to 8,439.47 t/CO<sub>2</sub>, a reduction of 871.48 t/CO<sub>2</sub> (2016: 755 t/CO<sub>2</sub>).

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 2017 we estimate that we have reduced our fuel consumption by a further 1.6% per delivery (2016: 4.1%).

#### Sourcing with integrity

The statement has been made pursuant to Section 54 of the Modern Slavery Act 2015. The Group has long been committed to the rights and well-being of the people who work for us, and in our supply chain, although we recognise modern forms of slavery can be very difficult to detect outside of the Group.

In line with our own values, policies and processes, we operate a zero-tolerance approach to slavery and remain committed to tackling this type of human rights abuse through the effective due diligence and risk assessment of our supply chains.

The Group benefits from having close, well established and stable trading relationships with a relatively small number of 1st tier suppliers in both our furniture and flooring product offering. We also sell dining and occasional furniture which we source from a small number of well-established and highly regarded wholesalers. Our distribution supply chain is in-house, and we employ circa 400 drivers, crew and operatives in our UK-based distribution network.

## Risk assessment

Goods are principally manufactured in the UK, however, around a third of goods are manufactured in the Far East.

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; and
- Reviewing the extent to which types of employees may be more vulnerable than others due to cultural, economic or demographical reasons.

The Group has well-established, stable and long-standing working relationships with its key suppliers based in the Far East and has achieved full support to our approach. The manufacturing of all goods in the Far East are completed in modern purpose built factories. Given the size and nature of the goods, the level of risk is considerably lower when compared to other types of manufacturing activities in the region.

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 including modern slavery. Any reporting will be fully investigated and appropriate remedial actions taken.

## Action completed

All our suppliers conduct regular Modern Slavery risk assessments and have commissioned or provided independent ethical audits within their own manufacturing processes to ensure alignment to local laws; standards set out by the International Labour Organisation and our internal policies and standards, which include:

- Clear obligations on suppliers to comply and implement controls to prevent Modern Slavery;

- Ensuring all employment shall be voluntary; and
- Provision of an employment contract confirming the employee's right to leave work and the ability to terminate employment upon expiry of reasonable notice.

Training has also been completed by all employees in our merchandising and compliance departments to ensure a high level of awareness and understanding of the risks of modern slavery and human trafficking in our supply chains.

Our new supplier process has been updated to enable the Group to adopt a more collaborative approach to tackling modern slavery. Where appropriate, we have assisted our suppliers to build upon their capability to detect modern slavery risk within their supply chains through the sharing of best practice.

## Next steps

As well as assessment of the effectiveness of the measures put in place by the Group, the following will be reviewed and reported on in future Modern Slavery Statements:

- Increasing awareness to our retail and distribution teams demonstrating our commitment to tackle this issue;
- Supplementation of our existing terms of business with a code of conduct further highlighting our expectations of our supply chain; and
- Begin the process for risk assessing our supply chain for consumable goods supplied to the Group.

## PEOPLE

### 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 2017 there were four accidents reportable to the Health and Safety Executive. In 2016 there were eight reportable accidents, thus achieving our aim of reducing the number of reportable accidents though a review of the root causes and revisions to operating procedures. During 2017 we did see a significant overall reduction in incidents across the business, the accident frequency rate reducing from 7.2 (per 100,000 hours worked) in 2016 to 1.14 (per 100,000 hours worked). This reduction was as a result of a drop in the total number of incidents, but also a decrease in the number of working days lost as a result of incidents.

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 Health 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 104 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 16 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 2017 survey achieved a 90% return rate.

## Sustainability, People and Community continued

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 2017, five new apprentices joined our business. Our aim is always to offer permanent roles to apprentices, where it is possible to do so, on completion of their training. An open programme of Regulated Qualification Framework (RQF) training is offered to colleagues across the business and in 2017 16 RQF's were undertaken. 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 distribution teams in identifying potential drivers whilst offering career progression and promotion.

We are working on our current training strategy to ensure that we optimise use of the Apprentice Levy and currently have three apprentices working via the levy programme.

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. 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

Every year we work with and support various local and national charities, community and voluntary organisations to help make a positive contribution to their services and fundraising activities. From local children's cancer charities, child and adult hospice services to high-profile fundraising appeals, such as Children in Need and Macmillan's Biggest Coffee Morning, as a nationwide retailer we aim to support activities which have a positive impact within our local communities and which are close to the hearts and minds of our employees. During the year we made donations and raised funds of more than £57,000 and, together with our employees, we have benefitted more than 150 local and national charities and community organisations.

During the year we have continued our sponsorship of Sunderland AFC's sporting charity **Foundation of Light**. In recent years our partner sponsorship of their award-winning **Tackle It and Making**

## Celebrating 100 stores, by celebrating 100 'good causes'

As part of our celebrations for reaching **100 stores nationwide**, we wanted to say a big 'thank you' and give something back to each of the local communities that supported us on our journey from one local store in Sunderland to 100 across the UK. We decided to create a £10,000 celebratory fund to shine a light on hardworking local causes and launched a national appeal asking members of the public to visit our stores and nominate local 'good causes', whether a charity, community group or voluntary organisation, to receive a donation from the fund.

More than **1,650 votes** were cast, with nominations ranging from local disability swimming groups, dog rescue centres, scout groups, child and adult hospice services, mental health charities, local hospital units, emergency services, and many more. The benefitting cause for each of our 100 stores was chosen by the people on the basis of the most voted for, demonstrating its importance within the local community.



From left to right: Jon visited the team at Acorns who were one of our 100 Good Causes beneficiaries. | Hanna, from our Bromborough store, visited Claire's House Hospice to hear more about the service and the impact of our donation. | Pupils The Friends of Larkfield were delighted with their donation which will help fund school resources.



Our 100 Good Causes reach as far north as Aberdeen's **Community Foods Initiative**, to as far south as Plymouth's **St Luke's Hospice**. Others include: **Acorns Children's Hospice Birmingham**, which provides babies, children and young people with life limiting or life threatening conditions specialist palliative nursing and care, **The Friends of Larkfield School**, a fundraising and liaison group funding school resources and activities, **The Alzheimer's Society**, the leading dementia support and research charity in the UK, as nominated by people in Nottingham, **Claire House**

**Children's Hospice** in the North West which helps seriously and terminally ill children live life to the full by creating wonderful experiences and bringing back a sense of normality to family life with specialist care and emotional support, and **Megan's Summer Ball** in Kidderminster raising funds for youngster Megan, born with a very rare chromosome disorder, and the **T9M Trust**, to name just a few.

The full list of our 100 Good Causes can be found here: <http://blog.scs.co.uk/about/100-good-causes-benefit-from-fund-launched-by-scs/>



Megan visited our Kidderminster store to thank the staff for their donation to this year's fundraising event. Employee Dan (pictured on the left) was also guest DJ at the summer ball event.

**Moves** programmes has totalled £40,000 and continues to help deliver disability coaching and awareness for children and young adults. Earlier in 2017, employees visited Oxclose Primary School in Sunderland to see the positive impact our support is having across the region.

We also played an active role in **Great North Snowdogs'** Tyne and Wear's biggest ever mass-participation public art event. A pack of more than 60 Snowdog sculptures were dotted around the North East region with a mission to help raise funds for and celebrate the work of **St Oswald's Children's Hospice**, based in Newcastle. As sponsor of DonTy (@DogOnTheTyne), based at Gateshead's Angel of the North, together with fellow sponsors and contributors, the fundraising campaign raised £259,000 to help fund the work of the hospice. Family is important to us, and we couldn't help but make DonTy a permanent fixture and member of the team. His new 'forever' home is now in our head office reception as a lasting memory of the event for our employees, as well as a great talking point for visitors for years to come.

### Standing together

We actively encourage and support our employees in their ambitions to help and support charity initiatives, fundraisers and groups close to their hearts and minds. Our people are the heartbeat of our business and very much the heartbeat of their local communities. Some examples of the contributions made by our employees during the year include:

- From dress down days to crafty competitions, raffles and much more, employees at our head office have taken part and supported a range of fundraising events, including **Macmillan's Coffee Morning**, **Comic Relief's Red Nose Day**, **Children in Need**, **Bradley Lowery's Football Shirt Day**, **Save the Children's Christmas Jumper Day** and more. Together the team have raised and donated more than £2,000 during the year.
- Our Manchester store made a £1,000 donation to the **Manchester Emergency Appeal**, following the tragic events at Manchester Arena to help locals rebuild their lives.
- Employee Trevor jumped into action to raise funds for **Bradley Lowery's** fight against neuroblastoma taking up the challenge of a sponsored skydive. Trevor raised £1,500 through sponsorship from his friends and colleagues.

## Furnishing the future

We have a real passion for great furniture and we know the comfort, value and significance the humble sofa often plays in households across the UK and beyond. Using our skills and experience in this area, in 2017 we donated a custom-made armchair to **Hazel Oak School** an all age special school for children with moderate learning difficulties in Solihull.

The armchair was specially designed and created with UK furniture makers Ashley Manor, based in Dudley, and is upholstered in soft, textured fabric, with bright cushions, to heighten the senses and create a relaxed learning environment. The cosy chair is now pride of place in the school's newly-refurbished library, and will enable teachers and learning-support staff to create an inviting space for the children to read.



Pete Brown, Senior Distribution Manager, visited the school to deliver their new armchair, along with a donation of new books for the school's library.

## Standing together for Macmillan

Fighting cancer is one of the biggest battles faced by many people and their families and loved ones. This battle is a very real and personal one to our team, with a number of employees currently fighting and surviving cancer. Sadly, during the year, it has also taken one of our own.

In support of their colleagues and to raise much needed awareness and funds, a group of employees from our HR, Training and Payroll departments committed to walking 100 miles to raise funds for Macmillan Cancer Support. The group set themselves the challenge of not only trekking the 84-mile Hadrian's Wall but added an extra 16 miles to finish at our Sunderland store. The team completed their six-day challenge over the Easter Bank Holiday weekend 2017, finishing in Sunderland. The team raised £4,000 in sponsorship and the Company further boosted the final fundraising total to £10,000.



Our HR, Training and Payroll team members at the start of their walking challenge.

- The ScS team held a silent auction to raise funds for **Leicester's Children's Hospital**. The auction, part of the Group's annual recognition and awards evening, generated £10,000 which was doubled by the Company totalling £20,000. The funds are already being utilised to enhance their provisions for sick babies and children, making their hospital stays more comfortable and homely.

## Board of Directors

**Alan Smith**  
Non-Executive Chairman

**David Knight**  
Chief Executive Officer

**Chris Muir**  
Chief Financial Officer

### *Date of Appointment*

22 October 2014\*

1 January 2002

4 April 2016

### *Committee Membership*

Chairman of the Nomination Committee  
Audit Committee  
Remuneration Committee

N/A

N/A

### *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.

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 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. He joined Northgate in 2003 as a Group Accountant and held a number of senior UK and group roles, including UK Finance Director and acting group CEO in the summer of 2014. He is a chartered accountant having qualified with Deloitte in 1999.

### *Key Strengths*

Retail, finance, strategy, marketing

Retail, strategy, marketing, supply chain

Financial and risk management, sales and operational planning, restructuring, change management

### *External Appointments*

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



\* 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.

<b>Ron McMillan</b> Non-Executive Director	<b>Paul Daccus</b> Non-Executive Director	<b>George Adams</b> Non-Executive Director
<i>Date of Appointment</i>		
22 October 2014*	1 December 2014*	9 July 2015
<i>Committee Membership</i>		
Chairman of the Audit Committee Remuneration Committee Nomination Committee	Nomination Committee	Chairman of the Remuneration Committee Audit Committee Nomination Committee
<i>Biography</i>		
Ron is the Senior Independent Director and Chairman of the Audit Committee of N Brown Group plc and 888 Holdings plc. He is a Non-Executive Director and Chairman of the Audit Committee of B&M European Value Retail S.A. and Chairman of Welcome to Yorkshire. Until 2013 Ron worked in PwC's assurance business for 38 years and has deep knowledge and experience of auditing, financial reporting issues and governance. As the Regional Chairman of PwC in the UK and Deputy Chairman of PwC in the Middle East, he acted as engagement leader to a number of major listed companies, including many in the retail sector.	Paul is Managing Director of Sun European Partners, LLP. He has more than 20 years of experience in mergers and acquisitions, specialising in private equity and acquisition finance. Prior to joining Sun European Partners, LLP in 2005, Paul served as a Director on corporate finance teams at Deloitte and Touche LLP and Arthur Andersen LLC. He received his Bachelor of Accountancy degree with Honours from Dundee University.	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.
<i>Key Strengths</i>		
Finance, financial reporting, governance, risk management	Finance, corporate finance, investment appraisal, restructuring	Retail, strategy, marketing, supply chain
<i>External Appointments</i>		
N Brown Group plc 888 Holdings plc B&M European Value Retail S.A. Welcome to Yorkshire Ltd.	Sun European Partners LLP SAG Advisory 1 Ltd Dreams Holdco Ltd Dreams Topco Ltd	FFX Ltd Nobia AB Stiga S.A. Whales and Dolphins Conservation Society



# 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 40 and reports of each committee are set out on pages 42 to 58.

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.

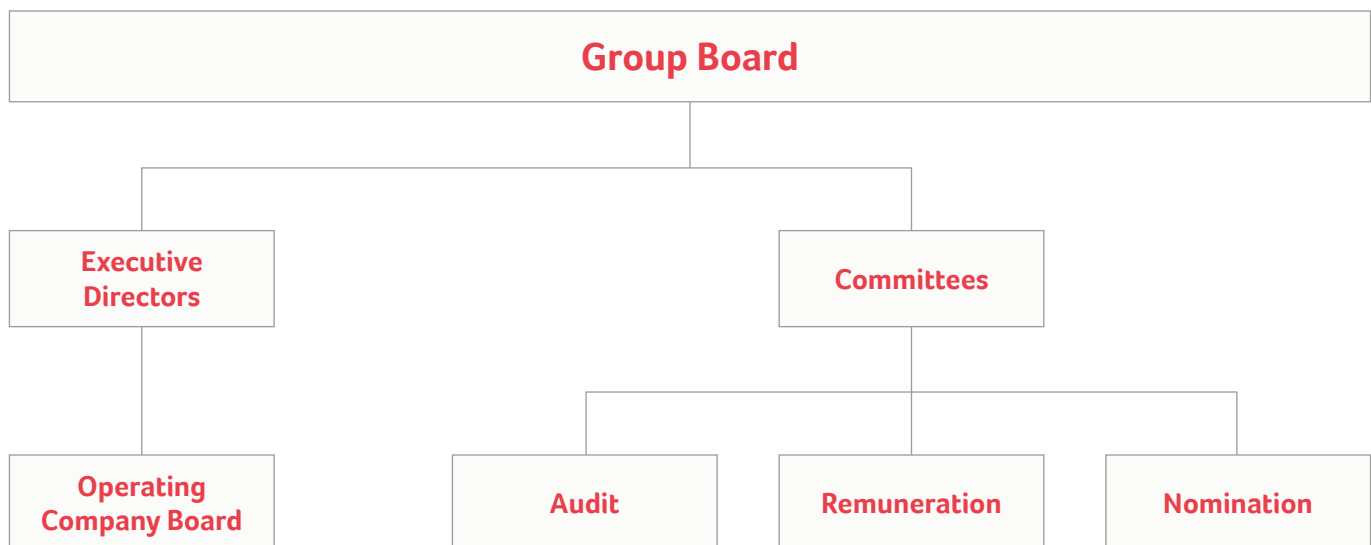
## **Matters reserved for the Board**

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 Officer and the Chief Financial Officer.



## Structure Chart



- 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 2018.

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 and

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 29 July 2017, 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 46 to 52.

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.

## Corporate Governance Statement continued

### 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.

### 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, a Remuneration Committee and a Nomination Committee. A summary of the terms of reference of each of these committees is set out below. The full terms of reference of each of the committees is available at ScS Group plc head office.

#### 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. The Committee as a whole have competence relevant to the retail sector, in which we operate. All members served on the Committee throughout 2017 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 42 to 45.

#### 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 2017 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 46 to 52.

#### 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 2017 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 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.

### Board performance evaluation

A review was undertaken during the 2017 financial year. 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, as they each continue to be effective members of the Board and demonstrate commitment to their roles.

### Risk management and internal control

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

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

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

**Financial reporting:** Monthly management accounts are provided to members of the Board which contain current financial reports. Reporting included an analysis of actual versus 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 26 to 30.

**Monitoring of controls:** There are formal policies and procedures in place to ensure the integrity and accuracy of accounting records of the Group and to safeguard its assets. The Board has carried out a review of the effectiveness of the internal controls during the year ended 29 July 2017 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 (April 2016) during 2017, 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 through the Annual General Meeting, at which the Chairman will give an account of the progress of the business over the past year, and will provide the opportunity for shareholders to raise questions with the Chairman and the Chairs of each of the Committees of the Board.

The Company also runs a corporate website at [www.scsplc.co.uk](http://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  
2 October 2017

### Directors attendance

The Board held six meetings during 2017 and the attendance at the meetings was as follows:




	PLC	Audit Committee	Remuneration Committee	Nomination Committee
<b>Total no. of meetings</b>	<b>6</b>	<b>3</b>	<b>3</b>	<b>1</b>
David Knight	6	3	3	1
Chris Muir	6	3	3	1
Alan Smith	6	3	3	1
Ron McMillan	6	3	3	1
George Adams	6	3	3	1
Paul Daccus	6	3	3	1

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

# Audit Committee Report

The Audit Committee acknowledges and embraces its role of protecting the interests of shareholders as regards the integrity of publicised financial information and the effectiveness of audit.

**Ron McMillan**  
**Chairman of the Audit Committee**

Member and meetings in 2017	Member since	Meetings Attended
Ron McMillan (Chairman)	2014	
Alan Smith	2014	
George Adams	2015	



**Dear Shareholder**

The Audit Committee exercises oversight of the Group’s financial policies and reporting, monitors the integrity of the financial statements and reviews and considers significant financial and accounting estimates and judgements. The Committee satisfies itself that the disclosures in the financial statements about these estimates and judgements are appropriate and obtains from the external auditors an independent view of the key disclosure issues and risks. In relation to risks and controls, the Committee ensures that these have been identified and that appropriate responsibilities and accountabilities have been set.

A key responsibility of the Committee is to review the scope of work undertaken by the internal and external auditors and to consider their effectiveness.

During the year, the Committee again oversaw the process used by the Board to assess the viability of the Group, the stress testing of key trading assumptions and the preparation of the viability statement, which is set out on page 31, in the principle risks section of the Strategic Report.

The Committee has also considered the narrative at the front end of the Annual Report and believes that sufficient information has been provided to give shareholders a fair, balanced and understandable account of the Group’s business.

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 they have been discharged are set out below.

I shall be available at the Annual General Meeting on 22 November 2017 to answer any questions you may have on this report and would like to thank my colleagues for their continued help and support.

### Committee composition

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

The members of the Committee during the year were Ron McMillan, Alan Smith and George Adams. Details of Committee meetings and attendance are set out in the Corporate Governance Statement on page 41. The timing of Committee meetings is set to accommodate the dates of releases of financial information and the approval of scope of and outputs from work programmes executed by the internal and external auditors. The biographies of the members of the Committee can be found on pages 36 and 37 and reflect the significant experience that the Committee members have of working in or with companies in the retail and consumer goods sectors.

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

In addition to scheduled meetings, the Committee Chairman meets with the Head of 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:

- Reviewing and monitoring the integrity of the financial statements and other price sensitive financial releases of the Group;
- Monitoring the quality, effectiveness and independence of the external auditors and approving their appointment;
- Monitoring the activities of the Internal Audit function;

- Assisting the Board with the development and execution of a risk management strategy, risk policies and current risk exposures, including the maintenance of the Group's risk register; and
- Keeping under review the adequacy and effectiveness of the Group's internal financial controls and internal control and risk management systems.

### 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 recurring work of the Committee comprised:

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

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

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

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

### Completeness of stock provisions

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

### Internal control and risk management

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

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

1. the risks and the impact they may have;
2. actions to mitigate risks;
3. risk scores to highlight the implications of occurrence;
4. ownership of risks; and
5. target dates for actions to mitigate risks.

A description of the principal risks is set out on pages 28 to 30.

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

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

## Audit Committee Report continued

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

### • **Going Concern**

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

Other areas of focus for the Committee were:

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

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

- Approval of the external auditors terms of engagement;
- Consideration of the level of non-audit services provided by the external auditors and the application of the Group's policy 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 28 January 2017;
- Consideration of the processes that are in place to ensure that assurance can be provided on whether the Annual Report and financial statements is considered to be fair, balanced and understandable. The Committee receives drafts and working papers relating to the Annual Report and Financial Statements in order to facilitate its review and input. Management representations, 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 areas of accounting estimation or judgement;
- Consideration of the Market Abuse Regulations and Insider Dealing Policies; and
- Making recommendations to the Board in respect of the Committee's findings, and reporting on how the Committee has discharged its duties.

### **Internal Audit**

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

During the year the Committee reviewed reports from Internal Audit in relation to:

- Fraud risk, money laundering, anti-bribery, whistleblowing and compliance with the Modern Slavery Act;
- Compliance assessments of the Group's retail outlets and Distribution Centres;
- Risk management, along with the effectiveness of mitigating actions in relation to the Group's principle risks, including IT systems, business continuity and cyber risk;
- IT processes and controls;
- Processes and controls related to FCA regulated activities;
- Health and safety processes and controls;
- Payroll and expenses procedures and controls;
- HR and training procedures and controls;
- Stock management processes and controls;
- Purchase ledger processes and controls; and
- Risk management.

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 have reported significant progress in compliance at retail outlets following the focus applied over the past year.

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 nine years, with the current year being the third audit signed off by Jonathan Greenaway, 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 in relation to the provision of non-audit services by the auditors. The external auditors are not permitted to perform any work that they may be later required to audit or which might affect their objectivity and independence or create a conflict of interest. Furthermore, the external auditors may not perform any work prohibited by the Ethical Standards published by the Financial Reporting Council.

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

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.

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



**Ron McMillan**




**Chairman of the Audit Committee**

2 October 2017

# Directors' Remuneration Report

On behalf of the Board, I am pleased to present the Director's Remuneration Report for the year ended 29 July 2017.

**George Adams**  
Chairman of the Remuneration Committee

Member and meetings in 2017	Member since	Meetings Attended
George Adams (Chairman)	2015	
Ron McMillan	2014	
Alan Smith	2014	



## Dear Shareholder

Our Annual Report on Remuneration outlines how the Remuneration Policy, approved at the 2015 Annual General Meeting, was applied for 2017, and how we intend to apply it for 2018. There have been no changes to the Policy and we will be reviewing the Policy over the forthcoming year and setting out our proposals for approval at the 2018 Annual General Meeting.

The Annual Report on Remuneration is subject to an advisory vote at our 2017 Annual General Meeting.

There will be no resolution on the Policy at the 2017 Annual General Meeting. For ease of reference, the current policy is set out for shareholders' information on pages 53 to 58.

## 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.

## 2017 Performance related pay

For 2017, the annual bonus was based solely on EBITDA. Sales and revenue for 2017 grew despite the challenging market backdrop.

EBITDA of £17.4m was above the minimum target set for the year, as a result the bonus was paid out at 39.2% of the maximum. The Committee considers that this fairly reflects the results for the year. Further information on the bonus and targets can be found on page 48 of our Annual Report on Remuneration.



As set out in our Remuneration Policy on pages 53 to 58 the Committee considered the long-term incentive plan to be awarded to the Executive Directors. A long-term incentive plan was awarded during 2017 the details of which can be found in our 2016 Annual Report. There were no long-term incentive plan awards vesting during the year, however, the performance-based Enil cost options granted on 30 March 2015 have been forfeit as of the 29 July 2017, as the earnings per share (EPS) for the Group was lower than the performance condition set.

## Remuneration proposals for 2018

### Base salary

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

The Remuneration Committee decided that, given the uncertain market conditions, the salaries of the CEO and the CFO will remain unchanged from their remuneration in 2017. No basic pay awards were given to any of the senior management team. Details of the average increase given to other employees is detailed on page 51.

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

### Annual bonus

The 2018 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 CEO and 100% of salary for the CFO. 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.

### 2018 Long-Term Incentive Plan (LTIP)

The Committee has agreed to a LTIP award in 2018 which is in keeping with our remuneration policy. Awards will be granted at 100% of salary for the CEO and 100% of salary for the CFO. The awards will be subject to an EPS performance condition. Taking into account internal forecasts for business performance over the next three years, as well as external expectations of performance, the Committee agreed the following targets for 2018 awards:

EPS figure (in 2020)	Percentage of award that vests
Less than 25.1p	Nil
25.1p	25%
Greater than 25.1p but less than 31.0p	Straight-line basis between 25% and 100%
31.0p	100%

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

## Shareholder feedback

We value the views of our shareholders and we actively welcome any feedback on our remuneration policy and its implementation. We will be reviewing the Remuneration Policy over the next year and presenting a revised Policy for approval at the 2018 Annual General Meeting. We hope you find this report helpful and informative and we hope to receive your support for our Annual Report on Remuneration at our Annual General Meeting on 22 November 2017.

## Role of the Remuneration Committee

The Committee has responsibility for determining the Company's policy on remuneration for 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 2017 at this year's Annual General Meeting. The Remuneration Policy was approved by shareholders at the 2015 Annual General Meeting. 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 2017 Annual General Meeting.

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

# Directors' Remuneration Report continued

## Annual Remuneration Report

### Executive Directors remuneration in 2017

#### Elements of remuneration

##### Salary

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

The current basic salaries as at 2 October 2017 are:

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

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

##### Pension and other benefits

The Executive Directors are eligible to pension benefits equating to 20% of their basic salary, which are non-contributory. The CEO and the CFO receive £10,000 per annum of pension benefits into their pension fund, the balance is paid as cash allowance.

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

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

##### Annual bonus

The Executive Directors received annual bonuses in 2017. 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.

Pre-bonus EBITDA	£16,514,528	£19,254,675	£20,932,013	£22,609,350
% maximum	12.5%	50%	75%	100%
David Knight	£53,550	£214,200	£321,300	£428,400
Chris Muir	£30,000	£120,000	£180,000	£240,000

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

In light of performance in 2017, the Remuneration Committee approved payments of £167,844 for David Knight (CEO) and £94,030 for Chris Muir (CFO), representing a pay-out at 39.2% of the maximum. Malus and clawback rules apply to all bonuses awarded.

For 2018 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 2017, however, the performance-based Enil cost options granted on 30 March 2015 have been forfeit as of the 29 July 2017, as the EPS for the Group was lower than the performance condition set. The awards required an EPS for 2017 of at least 24 pence. Full details of the awards and two performance conditions attached are set out in the 2015 annual report.

The Committee has agreed to award a long-term incentive plan in 2018. 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 2020)	Percentage of award that vests
Less than 25.1p	Nil
25.1p	25%
Greater than 25.1p but less than 31.0p	Straight-line basis between 25% and 100%
31.0p	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 2017 and 2016:

	Salary £	Benefits <sup>****</sup> £	Bonus £	LTIP £	Pension <sup>***</sup> £	Total £
<b>David Knight</b>						
2016	300,000	21,290	420,000	–	60,000	801,290
<b>2017</b>	<b>306,000</b>	<b>20,685</b>	<b>203,418*</b>	–	<b>61,200</b>	<b>591,303</b>
<b>Chris Muir</b> (joined 4 April 2016)						
2016	78,462	4,712	80,000	–	12,372	175,546
<b>2017</b>	<b>240,000</b>	<b>18,518</b>	<b>94,030</b>	–	<b>48,000</b>	<b>400,548</b>
<b>Ron Turnbull</b> (left 12 August 2016)						
2016	200,000	14,938	250,000	–	40,000	504,938
<b>2017</b>	<b>7,692</b>	<b>458</b>	<b>14,229*</b>	–	<b>1,538**</b>	<b>23,917</b>

\* The bonus figures include a one-off payment to David Knight and Ron Turnbull for £35,574 and £14,229 respectively in lieu of the interim dividend payment in 2015.

\*\* 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 54.

### Payments to past Directors and loss of office payments – audited

A payment of £14,229 was paid to Ron Turnbull in November 2016, this was a one-off payment that was made in lieu of the 2015 interim dividend.

There were no payments to past Directors for loss of office in the year ended 29 July 2017.

### 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 2018.

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 2017 to the Non-Executive Directors were as follows:

	2017 £	2016 £
Alan Smith	125,000	125,000
Ron McMillan	60,000	60,000
George Adams	60,000	60,000

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

## Directors' Remuneration Report continued

### 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 2017.

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

As at 15 September 2017	Share interests held beneficially	Nil cost options subject to performance*	Option awards vested on admission**	Total
David Knight				
Number	1,476,958	173,026	22,772	1,672,756
Value at year end	£2,302,208	£269,704	£35,496	£2,607,408
Chris Muir				
Number	–	135,707	–	135,707
Value at year end	–	£211,533	–	£211,533
Ron Turnbull				
Number	70,000	–	–	70,000
Value at year end	£109,113	–	–	£109,113

\* Awards vest subject to EPS performance over a three-year period. This relates to awards granted in 2017.

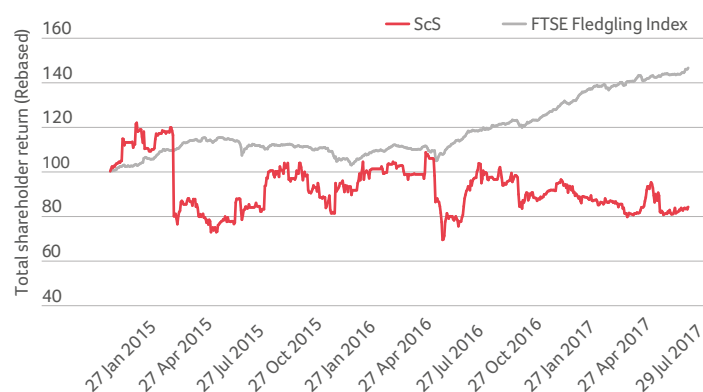
\*\* Option awards are vested and are exercisable until 20 January 2025 at an exercise price of £1.75.

The value of share interests at the year-end is based on the closing share price at 28 July 2017 of £1.55875.

The Executive Directors are required to build and maintain a shareholding equivalent to 100% of base salary. The shareholding for David Knight was significantly in excess of this level at the year end. The beneficial shareholding for Chris Muir is currently nil, but he is required to build up a shareholding, which will be achieved by the retention of share options awarded under the LTIP.

### Performance graph and pay table

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



Source: Datastream (Thomson Reuters).

This graph shows the value, by 29 July 2017, of £100 invested in SCS Group on 27 January 2015 compared with the value of £100 invested in the FTSE Fledgling Index.

## 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 £
<b>David Knight</b>						
<b>2017</b>	<b>306,000</b>	<b>203,418</b>	<b>20,685</b>	–	<b>61,200</b>	<b>591,303</b>
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 29 July 2017 and the year ended 30 July 2016 compared to the amounts for UK full-time employees of the Group for each of the following elements of pay:

	2017 £	2016 £	% Change
<b>CEO</b>			
Salary	<b>306,000</b>	300,000	2.00%
Benefits	<b>20,685</b>	21,290	(2.84%)
Bonus	<b>203,418</b>	420,000	(51.57%)
<b>Average per employee (excluding the CEO)</b>			
Salary	<b>24,113</b>	23,744	1.55%
Benefits	<b>668</b>	712	(6.15%)
Bonus	<b>2,267</b>	4,458	(49.14%)

## 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.

	2017 £'000	2016 £'000	% Change
Total pay for employees	<b>58,728</b>	59,115	(0.66%)
Distributions to shareholders	<b>5,893</b>	5,801	1.56%

## Remuneration Committee

The members of the committee for the 2017 financial year were George Adams (Committee Chairman), Alan Smith and Ron McMillan. All of the current members are independent Non-Executive Directors.

The responsibilities of the Committee are set out in the Corporate Governance section of the Annual Report on page 40.

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

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

Name	Attendance
George Adams	3
Alan Smith	3
Ron McMillan	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 2017 amounted to £7,367, excluding VAT, based on the required time commitment.

## Directors' Remuneration Report continued

### Shareholder voting

At the Annual General Meeting on 23 November 2016, 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 Annual Report on Remuneration	35,102,763	99.99%	3,760	0.01%	–	35,107,322	87.75%

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**

2 October 2017

## 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 Annual General Meeting. For ease of reference it is set out below, although some references which were specific to the Policy's operation in 2016 and 2017 have been removed or updated for ease of reading.

### Policy

Remuneration Element	Purpose	Operation	Maximum
<b>Base salary</b>	This is the basic pay and reflects the individual's role, responsibilities and contribution to the Group.	<p>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.</p> <p>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.</p> <p>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.</p>	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.

## Directors' Remuneration Report continued

Remuneration Element	Purpose	Operation	Maximum
<b>Benefits</b>	To provide benefits which are valued by the individual and assist them in carrying out their duties.	<p>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.</p> <p>The Committee has the discretion to add or remove benefits to remain market competitive or to meet the needs of the business.</p> <p>In addition, where the Committee considers it appropriate to do so, additional relocation expenses may be paid.</p> <p>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.</p> <p>Business travel and associated hospitality are provided in the normal course of business.</p>	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.
<b>Pension</b>	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.
<b>Bonus</b>	Provide an incentive linked principally to the financial performance of the Group.	<p>The Committee intends all, or the majority of, the bonus to be based on financial measures, but it has the discretion to introduce operational, corporate, divisional and/or individual performance measures if appropriate to the business.</p> <p>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.</p>	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.



Remuneration Element	Purpose	Operation	Maximum
<b>Long-term incentives</b>	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.	<p>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.</p> <p>Malus and Clawback provisions apply to the awards made under the LTIP from 28 January 2015 onwards.</p> <p>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.</p> <p>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.</p>	<p>The policy is to award Executive Directors £nil-cost share options equating to no more than 100% of their basic salary.</p> <p>No more than 25% of an award can be earned for a threshold performance.</p>
<b>Shareholding guidelines</b>	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.
<b>Employee share plan</b>	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 2017 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 LTIP for performance share awards.

The Company is committed to widespread share ownership. Following the IPO the Company made a number of awards under a LTIP 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.

## Directors' Remuneration Report continued

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 takes 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 Group'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 Group strategic plan and financial performance. Targets will be set by the Committee at the time of the grant of each award.

#### Clawback

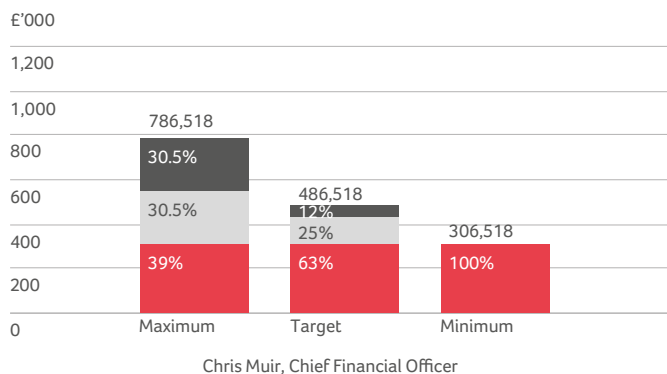
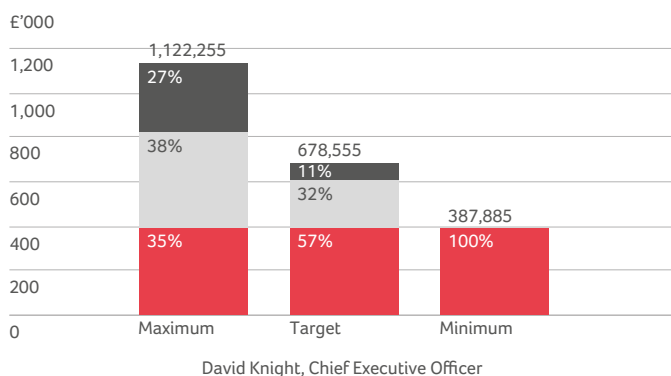
The annual incentive plan and the LTIP rules include provisions for malus and clawback within a three-year period following payment or vesting if the Committee concludes that there has been a material mis-statement of financial results, or there are circumstances which would have warranted summary dismissal 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 28 July 2018, as a percentage of total potential remuneration and total value, for the policy as it will be implemented for 2018. 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).



■ Fixed ■ Variable ■ LTIP

## Recruitment and promotions

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

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

- The UK regulations do not require that caps on fixed pay apply to a new recruit and the Committee reserves the right to set fixed pay at such levels as it considers necessary although, in practice, it envisages abiding by the caps set out in this policy.
- 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.

## Directors' Remuneration Report continued

### Chairman and Non-Executive Directors

#### Fees

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

Details of the fees paid to the Non-Executive Directors are set out in the Remuneration Report. The Chairman and the Non-Executive Directors are entitled to be reimbursed 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
<b>Non-Executive Directors fees</b>	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 Nomination Committee agreed on 27 September 2017 to offer a further three-year appointment to Alan Smith and Ron McMillan. The appointment letters provide that no other compensation is payable on termination. Paul Daccus is appointed under the terms of a Relationship Agreement with Sun Capital Partners Management V, LLC dated 22 October 2014.

### Insurance

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

# Directors' Report

## Activities and results

The Directors have pleasure in presenting their Annual Report and audited consolidated financial statements for the year ended 29 July 2017. Some of the information required to be part of the Directors' Report can be found elsewhere in this document as detailed in the following paragraphs and is incorporated into this report by cross-reference.

ScS is one of the UK's leading furniture and flooring retailers, operating from 100 ScS stores principally located in modern retail park locations and 27 House of Fraser concessions across the country.

## Management report

The Directors' Report, together with the Strategic Report, set out on pages 1 to 35, 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 29 July 2017 and the position of the Group at the end of that period to enable shareholders to assess how the Directors have performed their duty under section 172 of the Companies Act. The review also describes the principal risks and uncertainties facing the Group and provides a fair review of the Group's business at the end of the financial year and the Group's future developments.

## Risk management

The Board oversees the development of processes to manage risks appropriately. The Executive Directors and Operating Board Directors implement and oversee risk management processes and report to the Board on them. The Board also identifies and reviews key business risks. Further details can be found on pages 26 to 30.

## UK Corporate Governance Code

The corporate governance statement setting out how the Company complies with the UK Corporate Governance Code 2016 and which includes a description of the main features of its Internal Control and risk management arrangements in relation to the financial reporting process is set out on pages 38 to 41, which form part of this report.

## Corporate social responsibility (CSR)

Our CSR activity is set out in the Sustainability, People and Community report on pages 32 to 35, which form part of this report.

## Results and dividend

The financial statements set out the Group's results for the year ended 29 July 2017 and are contained in pages 68 to 83.

The Group's profit after tax for the financial year ended 29 July 2017 of £9.4m (2016: £8.7m) is reported in the consolidated statement of comprehensive income on page 68.

The Board is recommending a final dividend of 9.80p per ordinary share, which together with the interim dividend of 4.90p per ordinary share paid in May 2017, resulting in a full-year dividend of 14.70p. This dividend, if approved, will be paid on 27 November 2017 to shareholders on the register on 3 November 2017. The ex-dividend date is 2 November 2017.

Movements in reserves are shown in the Statement of Changes in Equity on page 69.

## Share capital

Details of the Group's issued share capital are shown in note 17 on page 81.

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 19 on page 81 and 82.

## 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' Report continued

### Directors and their interests

Details of the Directors of the Company as at 29 July 2017 are shown on pages 36 and 37 and their interests in shares and share awards made to them under share incentive schemes in the Company are shown in the Directors' Remuneration Report on page 50, 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

### 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 regular newsletter which is made available to all employees.

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

### Charitable and political donations

During the year, the Group made charitable donations, including funds raised by employees, of £57,000 (2016: £44,000). No political donations have been made (2016: £nil).

### Employee Benefit Trust

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

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

### Major interest in shares

As at 15 September 2017 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	4,321,000	10.80
Milton Asset Management	2,809,358	7.02
Columbia Threadneedle Investments	2,025,000	5.06
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 22 November 2017 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 auditors are aware of that information.

By order of the Board



**Chris Muir**  
**Company Secretary**

2 October 2017

## Statement of Directors' Responsibilities

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

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

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

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

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

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

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

Each of the Directors, whose names and functions are listed in the Board of Directors section on pages 36 and 37 confirm that, to the best of their knowledge:

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

By order of the Board



**Chris Muir**  
**Company Secretary**  
2 October 2017



# Independent Auditors' Report to the Members of ScS Group plc

## Report on the audit of the financial statements

### Opinion

In our opinion:

- ScS Group Plc's Group financial statements and Company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the Company's affairs as at 29 July 2017 and of the Group's profit and the Group's and the Company's cash flows for the year then ended;
- The Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- The Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law); and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report, which comprise: the consolidated and Company statements of financial position as at 29 July 2017; the consolidated statement of comprehensive income, the consolidated and Company statements of cash flows, and the consolidated and Company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

### Basis for opinion

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

### Independence

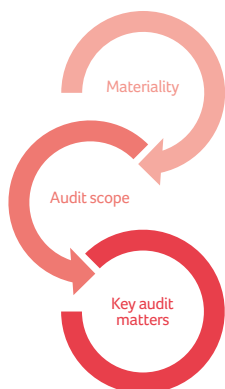
We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities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

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

Other than those disclosed in note 4 to the financial statements, we have provided no non-audit services to the Group or the Company in the period from 31 July 2016 to 29 July 2017.

### Our audit approach

#### Overview



- Overall Group materiality: £1,165,000 (2016: £1,100,000), based on 0.35% of total revenues.
- Overall Company materiality: £700,000 (2016: £700,000), based on 1% of total assets.
- We performed an audit of the complete financial information of the Group's trading entity A. Share & Sons Limited as well as its three holding companies including the Company (excluding dormant and immaterial entities).
- The timing of the audits for the statutory accounts for the Group, 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.
- Completeness of stock provisions.
- Volume rebates from suppliers.

### The scope of our audit

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

# Independent Auditors' Report to the Members of ScS Group plc continued

## Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
<p><b>Completeness of stock provisions</b> Refer to page 43 (Audit Committee Report).</p> <p>The Group holds £22.1m of inventory at the 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. As such 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.</p> <p>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.</p>	<p>The integrity of the aged stock listing was tested, with the inventory type and stock ageing being vouched to invoice on a sample basis. There were no issues noted with the underlying data used in calculating the provision.</p> <p>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 and any associated provision. No material exceptions were noted and we concurred with the provision held by management for aged stock items.</p>
<p><b>Volume rebates from suppliers</b> Refer to page 43 (Audit Committee Report).</p> <p>Volume rebates are negotiated by ScS Group plc as part of its dealings in the normal course of business with suppliers. Judgement arises when agreements are not co-terminus with the Group's year end and contain spending thresholds or 'hurdle rates' that may change the rebate percentage offered for all spend in the period. In mitigation, hurdle rates are not included in all contracts, there is quarterly settlement of rebates and the vast majority of non-coterminous agreements exceeded the hurdle rate at the year end.</p>	<p>We sent confirmation requests to a sample of suppliers, asking them to confirm the rebate year end and percentage included in the contract as well as the overall spend in the year. Where a response was not received, we agreed the rebate year end and percentage 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.</p>

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

## How we tailored the audit scope

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

The Group is based in and operates solely in the UK market from its 100 stores and 27 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 as well as three holding companies including the Company (excluding dormant and immaterial entities). The timing of the audits for the statutory accounts for the Group, 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 in aggregate on the financial statements as a whole.

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

	Group financial statements	Company financial statements
<b>Overall materiality</b>	£1,165,000 (2016: £1,100,000).	£700,000 (2016: £700,000).
<b>How we determined it</b>	0.35% of total revenues.	1% of total assets.
<b>Rationale for benchmark applied</b>	Based on our professional judgement and our knowledge of the client our materiality was based on 0.35% (2016: 0.35%) of revenue giving an overall materiality of £1,160,000 (2016: £1,100,000). We used 0.35% of revenue as the benchmark for our materiality calculations due to the low margin nature of the business and our judgement around what would affect the decisions of the members.	Based on our professional judgement and our knowledge of the client our materiality was based on 1.0% (2016: 1.0%) of total assets giving an overall materiality of £700,000 (2016: £700,000). We used 1.0% of total assets as the benchmark for our materiality calculations due to the entity being a holding company with limited activity and our judgement around what would affect the decisions of the members.

We allocated component materiality of £1,150,000 to A. Share and Sons Limited, the only component in scope for our Group audit. This was less than our overall Group materiality of £1,165,000.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £58,000 (Group audit) (2016: £55,000) and £35,000 (Company audit) (2016: £35,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

### Going concern

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

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Group's and the Company's ability to continue as a going concern over a period of at least 12 months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern.
We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

### Reporting on other information

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

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

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

# Independent Auditors' Report to the Members of ScS Group plc continued

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

## Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 29 July 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

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

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

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

- The directors' confirmation on page 26 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 31 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

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

## Other code provisions

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

- The statement given by the directors, on page 62, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company obtained in the course of performing our audit.
- The section of the Annual Report on page 40 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

## Directors' remuneration

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

## Responsibilities for the financial statements and the audit

### Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 62, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

### Auditors' responsibilities for the audit of the financial statements

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

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

### Use of this report

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

## Other required reporting

### Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

### Appointment

We were appointed by the directors on 3 November 2009 to audit the financial statements for the year ended 1 August 2009 and subsequent financial periods. The period of total uninterrupted engagement is nine years, covering the years ended 1 August 2009 to 29 July 2017.



### Jonathan Greenaway (Senior Statutory Auditor) for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors  
Newcastle upon Tyne  
2 October 2017

## Consolidated Statement of Comprehensive Income for the year ended 29 July 2017

	Note	2017 £'000	2016 £'000
<b>Gross sales</b>	3	<b>349,502</b>	334,660
<b>Revenue</b>	3	<b>332,965</b>	317,305
Cost of sales		<b>(179,224)</b>	(168,177)
<b>Gross profit</b>		<b>153,741</b>	149,128
Distribution costs		<b>(16,503)</b>	(15,491)
Administrative expenses		<b>(125,249)</b>	(122,622)
<b>Operating profit</b>	4	<b>11,989</b>	11,015
Finance costs	6	<b>(96)</b>	(217)
Finance income	7	<b>70</b>	86
Net finance costs		<b>(26)</b>	(131)
<b>Profit before taxation</b>		<b>11,963</b>	10,884
Taxation	8	<b>(2,561)</b>	(2,155)
<b>Profit for the year</b>		<b>9,402</b>	8,729
<b>Attributable to:</b>			
Owners of the parent			
<b>Profit and total comprehensive income for the year</b>		<b>9,402</b>	8,729
<b>Earnings per share (expressed in pence per share):</b>			
Basic earnings per share	9	<b>23.5p</b>	21.8p
Diluted	9	<b>22.9p</b>	21.3p

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

## Consolidated Statement of Changes in Equity for the year ended 29 July 2017

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Merger reserve £'000	Retained earnings £'000	Total equity £'000
<b>At 26 July 2015</b>	<b>37</b>	<b>–</b>	<b>13</b>	<b>25,511</b>	<b>1,219</b>	<b>26,780</b>
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)
<b>At 30 July 2016</b>	<b>40</b>	<b>16</b>	<b>13</b>	<b>25,511</b>	<b>4,036</b>	<b>29,616</b>
<b>At 31 July 2016</b>	<b>40</b>	<b>16</b>	<b>13</b>	<b>25,511</b>	<b>4,036</b>	<b>29,616</b>
Total comprehensive income	–	–	–	–	9,402	9,402
Share-based payments	–	–	–	–	154	154
Dividend paid	–	–	–	–	(5,893)	(5,893)
<b>At 29 July 2017</b>	<b>40</b>	<b>16</b>	<b>13</b>	<b>25,511</b>	<b>7,699</b>	<b>33,279</b>

# Consolidated Statement of Financial Position

## as at 29 July 2017

	Note	2017 £'000	2016 £'000
<b>Non-current assets</b>			
Intangible assets	10	1,077	1,145
Property, plant and equipment	11	23,878	23,501
<b>Total non-current assets</b>		<b>24,955</b>	<b>24,646</b>
<b>Current assets</b>			
Inventories	12	22,084	23,188
Trade and other receivables	13	9,699	9,014
Cash and cash equivalents		40,126	22,379
<b>Total current assets</b>		<b>71,909</b>	<b>54,581</b>
<b>Total assets</b>		<b>96,864</b>	<b>79,227</b>
<b>Current liabilities</b>			
Current income tax liabilities		2,121	210
Trade and other payables	14	53,794	42,232
<b>Total current liabilities</b>		<b>55,915</b>	<b>42,442</b>
<b>Non-current liabilities</b>			
Trade and other payables	15	7,140	6,068
Deferred tax liability	16	530	1,101
<b>Total non-current liabilities</b>		<b>7,670</b>	<b>7,169</b>
<b>Total liabilities</b>		<b>63,585</b>	<b>49,611</b>
<b>Capital and reserves attributable to the owners of the parent</b>			
Share capital	17	40	40
Share premium	17	16	16
Capital redemption reserve		13	13
Merger reserve		25,511	25,511
Retained earnings		7,699	4,036
<b>Equity attributable to the owners of the parent</b>		<b>33,279</b>	<b>29,616</b>
<b>Total equity</b>		<b>33,279</b>	<b>29,616</b>
<b>Total equity and liabilities</b>		<b>96,864</b>	<b>79,227</b>

The notes on pages 72 to 83 are an integral part of these consolidated financial statements.

The financial statements on pages 68 to 83 were approved by the Board and authorised for issue on 2 October 2017 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 29 July 2017

	Note	2017 £'000	2016 £'000
<b>Cash flows from operating activities</b>			
Profit before taxation		11,963	10,884
Adjustments for:			
Depreciation of property plant and equipment	11	4,806	4,478
Amortisation of intangible assets	10	599	556
Share-based payments	19	154	437
Finance costs	6	96	217
Finance income	7	(70)	(86)
		<b>17,548</b>	16,486
Changes in working capital:			
Decrease/(increase) in inventories	12	1,104	(2,483)
Increase in trade and other receivables	13	(685)	(127)
Increase/(decrease) in trade and other payables		12,123	(658)
Cash generated from operating activities		<b>30,090</b>	13,218
Interest paid	6	(96)	(217)
Income taxes paid		(1,220)	(2,049)
<b>Net cash flow generated from operating activities</b>		<b>28,774</b>	10,952
<b>Cash flows used in investing activities</b>			
Purchase of property, plant and equipment	11	(4,728)	(2,974)
Payments to acquire intangible assets	10	(476)	(410)
Interest received	6	70	86
<b>Net cash flow used in investing activities</b>		<b>(5,134)</b>	(3,298)
<b>Cash flows used in financing activities</b>			
Dividends paid		(5,893)	(6,349)
Proceeds of share issue		–	19
<b>Net cash flow used in financing activities</b>		<b>(5,893)</b>	(6,330)
Net increase in cash and cash equivalents		17,747	1,324
Cash and cash equivalents at beginning of year		22,379	21,055
<b>Cash and cash equivalents at end of year</b>		<b>40,126</b>	22,379

# Notes to the Consolidated Financial Statements

## 1. General information

ScS Group plc (the 'Company') is a company limited by shares incorporated and domiciled in England, within the UK (Company registration number 03263435). The address of the registered office is 45-49 Villiers Street, Sunderland, SR1 1HA. The Company's principal activity is to act as a holding company for its subsidiaries. The Company and its subsidiaries' (the 'Group') principal activity is the provision of furniture and flooring, trading under the names ScS and 'House of Fraser Made to Order Sofas, Furniture and Flooring'. 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 29 July 2017 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 29 July 2017. 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:

A number of new standards and interpretations and amendments to existing standards have been issued but not are yet effective nor adopted by the EU, including IFRS 15 'Revenue from Contracts with Customers', IFRS 9 'Financial Instruments' and IFRS 16 'Leases', and have not been applied in preparing these consolidated financial statements. Of these, only IFRS 16 is expected to have a material impact to the Group.

- IFRS 16 'Leases' will be effective for the year ending 25 July 2020 onwards and the impact on the financial statements will be significant. IFRS 16 requires lessees to recognise a lease liability reflecting future lease payments and a right-of-use asset for all lease contracts. Therefore, the substantial majority of the Group's operating lease commitments (£178,418,000 on an undiscounted basis, as shown in note 22) would be brought on to the balance sheet. Depreciation of the right of use asset will be recognised in the income statement on a straight-line basis, with interest recognised on the lease liability. This will result in a change to the profile of the net charge taken to the income statement over the life of the lease. Depreciation and interest charges will replace the lease costs currently charged to the income statement and consequently there will be a significant adjustment to the quoted unadjusted Group EBITDA. There will be no impact on cash flows, although the presentation of the cash flow statement will change significantly. Management has begun to model and quantify the expected impact using the current lease portfolio and presented initial thoughts on the expected impact to the Board, however the impact will greatly depend on the facts and circumstances at the time of adoption and upon transition choices adopted. It is therefore not yet practicable to provide a reliable estimate of the financial impact on the Group's consolidated results.

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

### Payments received on account

The Group operates a negative working capital model whereby customers pay a deposit at the point of order and, unless the order is to be financed using consumer credit, settle outstanding balances before delivery. Deposits taken from customers are shown as payments received on account within current liabilities until the goods or services are delivered.

### 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.

## Notes to the Consolidated Financial Statements continued

### 2. Accounting policies continued

#### 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.

#### 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.

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

#### Lease incentives

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

#### Lease premiums

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

#### Pension costs

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

#### Taxation

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

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

Deferred tax is recognised using the liability method, on temporary differences at the balance sheet date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes, to the extent that the 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, which includes the Executive Directors of the Group. The fair value of the Directors' services received by the Group in exchange for the issue of shares in the Company is recognised as an expense in the financial statements of the subsidiary company to which services have been supplied. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares issued, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of shares that are expected to vest. At each balance sheet date, the Group revises its estimates of the number of shares that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

### Provisions

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

### Critical accounting judgements and estimates

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

An analysis of gross sales is as follows:

	Year ended 29 July 2017 £'000	Year ended 30 July 2016 £'000
Sale of goods	<b>328,381</b>	312,776
Associated sale of warranties	<b>21,121</b>	21,884
<b>Gross sales</b>	<b>349,502</b>	334,660
Less: costs of interest-free credit	<b>(16,537)</b>	(17,355)
<b>Revenue</b>	<b>332,965</b>	317,305

## Notes to the Consolidated Financial Statements continued

### 4. Operating profit

Operating profit is stated after charging:

	Year ended 29 July 2017 £'000	Year ended 30 July 2016 £'000
Fees payable to the Company auditors for the audit of Company and consolidated financial statements	25	25
Fees paid for other services:		
– audit of the Company's subsidiaries	95	101
– other non-audit services	19	13
Depreciation of property, plant and equipment – owned	4,806	4,478
Amortisation of computer software	599	556
Operating lease rentals – plant and machinery	2,342	2,204
Operating lease rentals – land and buildings	24,435	23,802

### 5. Employees and Directors

#### 5.1 Staff costs

	Year ended 29 July 2017 £'000	Year ended 30 July 2016 £'000
Wages and salaries	53,216	52,858
Social security costs	4,275	4,829
Other pension costs	1,083	991
Share-based payments (note 19)	154	437
	<b>58,728</b>	<b>59,115</b>

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

	Year ended 29 July 2017 Number	Year ended 30 July 2016 Number
Sales	765	714
Office and managerial	739	724
Services and warehousing	432	382
Cleaning	34	30
	<b>1,970</b>	<b>1,850</b>

#### 5.2 Directors' emoluments

	Year ended 29 July 2017 £'000	Year ended 30 July 2016 £'000
Aggregate emoluments	1,151	1,614
Other pension costs	110	112

Highest paid Director	Year ended 29 July 2017 £'000	Year ended 30 July 2016 £'000
Aggregate emoluments	530	741
Other pension costs	61	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 the Group Directors and excludes the Non-Executive Directors disclosed in 5.2 above.

The key management compensation is as follows:

	Year ended 29 July 2017 £'000	Year ended 30 July 2016 £'000
Aggregate emoluments	1,928	2,583
Deferred contribution pension cost	230	218
Share-based payments	154	437

### 6. Finance costs

	Year ended 29 July 2017 £'000	Year ended 30 July 2016 £'000
Bank facility renewal fees	–	71
Bank facility non-utilisation fees	96	146
	96	217

### 7. Finance income

	Year ended 29 July 2017 £'000	Year ended 30 July 2016 £'000
Bank interest received	70	86

### 8. Taxation

#### (a) Analysis of tax charge in the year

	Year ended 29 July 2017 £'000	Year ended 30 July 2016 £'000
<b>Current tax:</b>		
UK corporation tax on profits for the year	3,071	1,776
Adjustments in respect of prior years	61	(192)
Total current tax	3,132	1,584
<b>Deferred tax:</b>		
Origination and reversal of temporary differences	(533)	571
Adjustments in respect of prior years	(38)	–
Total deferred tax (credit)/charge (note 16)	(571)	571
Income tax charge in the statement of comprehensive income	2,561	2,155

#### (b) Factors affecting tax expense for the year

The tax charge assessed on the profit for the year is higher (2016: lower) than the standard rate of corporation tax in the UK of 19.67% (2016: 20.00%). The differences are explained below:

	Year ended 29 July 2017 £'000	Year ended 30 July 2016 £'000
<b>Profit before taxation</b>	11,963	10,884
Profit before tax at 19.67% (2016: 20.00%)	2,353	2,177
Effects of:		
Other expenses not deductible	128	134
Depreciation not eligible for tax purposes	108	94
Adjustments in respect of prior years	20	(192)
Impact of changes in tax rates	(48)	(58)
<b>Total taxation charge in the statement of comprehensive income</b>	2,561	2,155

## Notes to the Consolidated Financial Statements continued

### 8. Taxation continued

#### (c) Factors that may affect future tax charges

The standard rate of corporation tax in the UK changed from 20% to 19% with effect from 1 April 2017. Further reductions in the corporation tax rate from 19% to 17% from 1 April 2020 were substantively enacted as part of the Finance Bill 2016 (on 6 September 2016). Accordingly, the profits for this period are taxed at an effective rate of 19.67% and deferred taxation has been calculated based on a rate of 17%.

### 9. Earnings per share

	Year ended 29 July 2017 €'000	Year ended 30 July 2016 €'000
Profit attributable to owners of the Company	9,402	8,729
Weighted average number of shares in issue for the purposes of basic earnings per share	40,009,109	40,006,654
Effect of dilutive potential ordinary shares: – Share options	1,085,096	965,889
Weighted average number of ordinary shares for the purposes of diluted earnings per share	41,094,205	40,972,543
Basic earnings per share (in pence per share)	23.5p	21.8p
Diluted earnings per share (in pence per share)	22.9p	21.3p

### 10. Intangible assets

	29 July 2017 €'000
	Computer software
<b>Cost</b>	
At 31 July 2016	4,603
Additions	531
<b>At 29 July 2017</b>	5,134
<b>Accumulated amortisation</b>	
At 31 July 2016	3,458
Charge for the year	599
<b>At 29 July 2017</b>	4,057
<b>Net book amount</b>	
At 29 July 2017	1,077
At 30 July 2016	1,145
	30 July 2016 €'000
	Computer software
<b>Cost</b>	
At 26 July 2015	4,193
Additions	410
<b>At 30 July 2016</b>	4,603
<b>Accumulated amortisation</b>	
At 26 July 2015	2,902
Charge for the year	556
<b>At 30 July 2016</b>	3,458
<b>Net book amount</b>	
At 30 July 2016	1,145
At 25 July 2015	1,291



## 11. Property, plant and equipment

	Freehold land and buildings £'000	Leasehold property £'000	Computer equipment £'000	Fixtures and fittings £'000	Total £'000
<b>Cost</b>					
At 31 July 2016	159	47,695	12,369	27,269	87,492
Additions	–	3,407	1,004	773	5,184
Disposals	–	(303)	(10,080)	(34)	(10,417)
<b>At 29 July 2017</b>	<b>159</b>	<b>50,799</b>	<b>3,293</b>	<b>28,008</b>	<b>82,259</b>
<b>Accumulated depreciation</b>					
At 31 July 2016	85	28,780	11,767	23,359	63,991
Charge for the year	3	3,217	472	1,114	4,806
Disposals	–	(302)	(10,080)	(34)	(10,416)
<b>At 29 July 2017</b>	<b>88</b>	<b>31,695</b>	<b>2,159</b>	<b>24,439</b>	<b>58,381</b>
<b>Net book amount</b>					
<b>At 29 July 2017</b>	<b>71</b>	<b>19,104</b>	<b>1,134</b>	<b>3,569</b>	<b>23,878</b>
At 30 July 2016	74	18,915	602	3,910	23,501
<b>Cost</b>					
At 26 July 2015	159	46,438	11,941	26,484	85,022
Additions	–	1,705	428	841	2,974
Disposals	–	(448)	–	(56)	(504)
<b>At 30 July 2016</b>	<b>159</b>	<b>47,695</b>	<b>12,369</b>	<b>27,269</b>	<b>87,492</b>
<b>Accumulated depreciation</b>					
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)
<b>At 30 July 2016</b>	<b>85</b>	<b>28,780</b>	<b>11,767</b>	<b>23,359</b>	<b>63,991</b>
<b>Net book amount</b>					
<b>At 30 July 2016</b>	<b>74</b>	<b>18,915</b>	<b>602</b>	<b>3,910</b>	<b>23,501</b>
At 25 July 2015	77	20,106	654	4,168	25,005

During the year an exercise was undertaken to review fully written down computer equipment and adjust associated carrying cost and accumulated depreciation values to bring them in line with assets still in use.

The net book value of leasehold properties is as follows:

	29 July 2017 £'000	30 July 2016 £'000
Short leaseholds (up to 25 years)	19,036	18,843
Long leaseholds (greater than 25 years)	68	72
	<b>19,104</b>	<b>18,915</b>

## 12. Inventories

	29 July 2017 £'000	30 July 2016 £'000
Finished goods	22,084	23,188

The cost of inventories as an expense and included in cost of sales amounted to £184,329,000 (2016: £175,731,000).

The charge for the year relating to inventories written off amounted to £611,000 (2016: £508,000).

## Notes to the Consolidated Financial Statements continued

### 13. Trade and other receivables

	29 July 2017 £'000	30 July 2016 £'000
Trade receivables	3,029	1,981
Other receivables	2,272	2,290
Prepayment	4,398	4,743
	<b>9,699</b>	<b>9,014</b>

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.

### 14. Trade and other payables – current

	29 July 2017 £'000	30 July 2016 £'000
Trade payables	29,142	14,430
Payments received on account	11,506	12,825
Other taxation and social security payable	4,775	4,862
Accruals	8,371	10,115
	<b>53,794</b>	<b>42,232</b>

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

### 15. Trade and other payables – non-current

	29 July 2017 £'000	30 July 2016 £'000
Lease incentives	6,496	6,068
Onerous lease provision	644	–
	<b>7,140</b>	<b>6,068</b>

The onerous lease provision of £644,000 (2016: £nil) relates to commitments on lease payments for the West Thurrock and Thetford distributions centres, which were closed in September 2017, and on leases for stores identified as loss-making as part of managements ongoing review of store profitability.

### 16. Deferred tax liability

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

	29 July 2017 £'000	30 July 2016 £'000
Opening deferred tax liability	1,101	530
(Credited)/charged to profit and loss account arising from the origination and reversal of temporary differences (note 8)	(571)	571
<b>Closing deferred tax liability</b>	<b>530</b>	<b>1,101</b>
Deferred taxation has been fully provided for in respect of:		
Accelerated capital allowances	550	1,123
Losses	(101)	(113)
Other timing differences	(20)	(22)
Capital gains held over	101	113
<b>Closing deferred tax liability</b>	<b>530</b>	<b>1,101</b>

## 17. Called-up share capital

	Number of shares	Ordinary shares £'000	Share premium £'000	Total £'000
At 26 July 2015	40,000,000	37	–	37
Shares issued/proceeds	9,109	3	16	19
<b>At 30 July 2016 and as at 29 July 2017</b>	<b>40,009,109</b>	<b>40</b>	<b>16</b>	<b>56</b>

Authorised, allotted and fully paid share capital is 40,009,109 of £0.001p each (2016: 40,009,109 of £0.001p each).

## 18. Dividends

A final dividend for year ended 30 July 2016 of 9.83p was paid on 28 November 2016. It has been recognised in shareholders' equity in the year to 29 July 2017.

An interim dividend of 4.90p per ordinary share was declared by the Board of Directors on 21 March 2017 and paid on 11 May 2017. It has been recognised in shareholders' equity in the year to 29 July 2017.

A final dividend for the year ended 29 July 2017 of 9.80p per ordinary share was proposed by the Board of Directors.

At 29 July 2017 the retained earnings of the Company amounted to £65,798,000.

## 19. Share-based payments

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

### Post-admission incentive arrangements

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

- (i) £Nil cost options conditional on the IPO taking place (approved on 21 January 2015).
- (ii) Market value options under 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 2017). As the EPS for the Group was lower than the performance condition set, these awards have been forfeit as at 29 July 2017.
- (v) Performance-based £nil cost options granted on 17 October 2016 (the performance condition is based on EPS as set out in the consolidated audited financial statements of the Group for the financial year ended 27 July 2019).

### 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.

# Notes to the Consolidated Financial Statements continued

## 19. Share-based payments continued

	LTIP (pre-IPO nil cost options)		LTIP (CSOP market value options)		2015 and 2017 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 26 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	–	–	–	–	–	–	–	–
<b>Outstanding as at 30 July 2016</b>	<b>551,421</b>	<b>£0.000001</b>	<b>59,550</b>	<b>£1.75</b>	<b>354,918</b>	<b>£0.000001</b>	<b>965,889</b>	<b>£0.11</b>
Granted	–	–	–	–	474,125	£0.000001	474,125	£0.000001
Forfeited	–	–	–	–	(354,918)	£0.000001	(354,918)	£0.000001
Exercised	–	–	–	–	–	–	–	–
Expired	–	–	–	–	–	–	–	–
<b>Outstanding as at 29 July 2017</b>	<b>551,421</b>	<b>£0.000001</b>	<b>59,550</b>	<b>£1.75</b>	<b>474,125</b>	<b>£0.000001</b>	<b>1,085,096</b>	<b>£0.10</b>
<b>Exercisable at 29 July 2017</b>	<b>–</b>	<b>£0.000001</b>	<b>59,550</b>	<b>£1.75</b>	<b>–</b>	<b>£0.000001</b>	<b>59,550</b>	<b>£1.75</b>
Exercisable at 30 July 2016	–	£0.000001	59,550	£1.75	–	£0.000001	59,550	£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 21 January	2015 21 January	2015 30 March	2017 17 October
Grant date	2015	2015	2015	2016
Share price at grant date	£1.75	£1.75	£2.05	£1.83
Exercise price	£nil	£1.75	£nil	£nil
Number of employees	25	6	6	6
Shares issued	571,421	68,659	445,711	474,125
Expected volatility	33.7%	36.2%	33.7%	50.1%
Expected life (years)	3	5	3	3
Risk-free interest rate	0.70%	1.06%	0.69%	0.12%
Expected dividend yield	8%	8%	0%	0%
Fair value per share	£1.38	£0.24	£2.05	£1.42
Estimated vesting	100%	100%	0%	40%

The total charge for the year relating to employee share-based payment plans was £154,000 (2016: £437,000) which is in relation to equity-settled share-based payment transactions. There are no liabilities arising from share-based payment transactions.

## 20. Capital commitments

Capital commitments contracted for but not provided amounted to £nil (2016: £1,082,000).

## 21. 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 (2016: £118,000) and are held in accruals.

## 22. Financial commitments

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

	Land and buildings		Plant and machinery	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
<b>Group</b>				
Within one year	493	525	503	384
Within two to five years	27,369	17,303	3,327	2,784
After five years	146,726	163,225	–	–
	<b>174,588</b>	<b>181,053</b>	<b>3,830</b>	<b>3,168</b>

## 23. 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 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.

## 24. Related parties

Holdings in subsidiaries are disclosed in the Company financial statements in note 4. Only ScS Furnishings Limited and the ScS Group Employee Benefit Trust is not included in the consolidation on the grounds of materiality.

## 25. 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.

## 26. 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.

## Company Information

### Statement of Financial Position as at 29 July 2017

	Note	2017 £'000	2016 £'000
Investments	4	70,000	70,000
<b>Current assets</b>			
Trade and other receivables	5	30	25
Cash at bank and in hand		–	–
<b>Total current assets</b>		<b>30</b>	<b>25</b>
<b>Total assets</b>		<b>70,030</b>	<b>70,025</b>
<b>Current liabilities</b>			
Trade and other payables	6	4,163	3,445
<b>Total current liabilities</b>		<b>4,163</b>	<b>3,445</b>
<b>Total liabilities</b>		<b>4,163</b>	<b>3,445</b>
<b>Capital and reserves</b>			
Called-up share capital	7	40	40
Share premium account	7	16	16
Capital redemption reserve		13	13
Retained earnings		65,798	66,511
<b>Total shareholders' funds</b>		<b>65,867</b>	<b>66,580</b>
<b>Total equity</b>		<b>65,867</b>	<b>66,580</b>
<b>Total equity and liabilities</b>		<b>70,030</b>	<b>70,025</b>

The notes on pages 87 to 88 form an integral part of these financial statements.

The total comprehensive income for the year included within the accounts of the Company is £5,180,000 (2016: £5,672,000).

The financial statements on pages 84 to 88 were approved by the Board and authorised for issue on 2 October 2017 and signed on its behalf by:



**David Knight**  
Chief Executive Officer

## Company Information

### Statement of Changes in Equity for the year ended 29 July 2017

	Share premium account £'000	Capital redemption reserve £'000	Called-up share capital £'000	Retained earnings £'000	Total equity £'000
<b>At 26 July 2015</b>	–	<b>13</b>	<b>37</b>	<b>67,188</b>	<b>67,238</b>
Total comprehensive income	–	–	–	5,672	5,672
Proceeds from shares issued	16	–	3	–	19
Dividends paid	–	–	–	(6,349)	(6,349)
<b>At 30 July 2016</b>	<b>16</b>	<b>13</b>	<b>40</b>	<b>66,511</b>	<b>66,580</b>
<b>At 31 July 2016</b>	<b>16</b>	<b>13</b>	<b>40</b>	<b>66,511</b>	<b>66,580</b>
Total comprehensive income	–	–	–	5,180	5,180
Dividends paid	–	–	–	(5,893)	(5,893)
<b>At 29 July 2017</b>	<b>16</b>	<b>13</b>	<b>40</b>	<b>65,798</b>	<b>65,867</b>

## Company Information

### Statement of Cash Flows for the year ended 29 July 2017

	Note	2017 £'000	2016 £'000
<b>Cash flows from operating activities</b>			
Profit before taxation		5,180	5,672
Changes in working capital:			
Increase in trade and other receivables	5	(5)	(7)
Increase in trade and other payables	6	718	665
Cash generated from operations		5,893	6,330
<b>Net cash flow generated from operating activities</b>		<b>5,893</b>	<b>6,330</b>
<b>Net cash flow used in investing activities</b>		<b>-</b>	<b>-</b>
<b>Cash flows used in financing activities</b>			
Dividends paid	8	(5,893)	(6,349)
Proceeds of share issue		-	19
<b>Net cash flow used in financing activities</b>		<b>(5,893)</b>	<b>(6,330)</b>
<b>Net increase in cash and cash equivalents</b>		<b>-</b>	<b>-</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>-</b>	<b>-</b>
<b>Cash and cash equivalents at end of year</b>		<b>-</b>	<b>-</b>



# Notes to the 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 have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006.

No exemptions from the requirements of IFRS have been applied in the preparation of these financial statements.

### Critical accounting estimates and judgements

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. However, due to the nature of the Company, we do not consider there to be any critical accounting estimates or judgements made in the preparation of these financial statements.

### Capital management

The Company follows the same capital management as the Group – see page 83 in the Group accounts.

### New standards, amendments and interpretations

For the latest amendments and interpretations, please refer to page 72 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 Company. Total comprehensive income for the Company for the year was £5,180,000 (2016: £5,672,000).

## 3. Directors emoluments

No Executive Directors received any remuneration for their services to the Company (2016: £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 46 to 52.

## 4. Investments

Cost and net book value At 30 July 2016 and 29 July 2017	Subsidiary undertaking £'000
	<b>70,000</b>

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%
<b>Held by subsidiary undertakings</b>			
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%

## Notes to the Company Financial Statements continued

### 4. Investments continued

The registered office address for all of the subsidiaries is 45-49 Villiers Street, Sunderland, SR1 1HA.

All shares carry equal voting rights and are deemed to be controlled by ScS Group plc.

The Directors believe that the carrying value of the investments is supported by their underlying net assets.

ScS Furnishings Limited is exempt from audit as it is dormant. Its aggregate amount of capital and reserves is £1.

### 5. Trade and other receivables

	2017 £'000	2016 £'000
Prepayments and accrued income	30	25

### 6. Trade and other payables

	2017 £'000	2016 £'000
Amounts owed to Group undertakings	4,018	3,360
Accruals and deferred income	145	85
	4,163	3,445

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

### 7. Called-up share capital

	Number of shares	Ordinary shares £'000	Share premium account £'000	Total £'000
At 26 July 2015	40,000,000	37	–	37
Shares issued/proceeds	9,109	3	16	19
At 30 July 2016 and 29 July 2017	40,009,109	40	16	56

Authorised, allotted and fully paid share capital is 40,009,109 of £0.001p each (2016: 40,009,109 of £0.001p each).

### 8. Dividends

A final dividend for year ended 30 July 2016 of 9.83p was paid on 23 November 2016. It has been recognised in shareholders' equity in the year to 29 July 2017.

An interim dividend of 4.90p per ordinary share was declared by the Board of Directors on 21 March 2017 and paid on 11 May 2017. It has been recognised in shareholders' equity in the year to 29 July 2017.

A final dividend for year ended 29 July 2017 of 9.80p per ordinary share was proposed by the Board of Directors.

At 29 July 2017 the retained earnings of the Company amounted to £65,798,000.

### 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 23 of the Group financial statements.

### 10. Related parties

There is not deemed to be any one controlling party.

# Company Information

## Registered office

**ScS Group plc**  
45-49 Villiers Street  
Sunderland  
SR1 1HA  
Tyne & Wear

Tel: 0191 731 3000  
[www.scsplc.co.uk](http://www.scsplc.co.uk)

## Company number

Registered in England: 03263435

## Listing

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

## Share registrar

**Equiniti**  
Aspect House  
Spencer Road  
Lancing  
West Sussex  
BN99 6DA

Tel: 0871 384 2030  
[www.equiniti.com](http://www.equiniti.com)

## Independent Auditor

**PricewaterhouseCoopers LLP**  
5th & 6th Floor  
Central Square South  
Orchard Street  
Newcastle Upon Tyne  
NE1 3AZ

Tel: 0191 232 8493  
[www.pwc.co.uk](http://www.pwc.co.uk)

## Brokers

**Shore Capital Group Ltd**  
Bond Street House  
14 Clifford Street  
London  
W1S 4JU

Tel: 020 7408 4050  
[www.shorecap.co.uk](http://www.shorecap.co.uk)

## Principal bankers

**Lloyds Banking Group PLC**  
10 Gresham Street  
London  
EC2V 7AE

Tel: 020 7616 1500  
[www.lloydsbankinggroup.com](http://www.lloydsbankinggroup.com)

## Financial PR

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107 Cheapside  
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# ScS

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