SCS
SOFA • CARPET • SPECIALIST

Delivering our values

Annual Report 2020

SCS
Sofa • Carpet • Specialist

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

After more than 100 years of offering customers the best combination of value, quality and choice, this year has been like no other we have faced. Despite the challenges, our dedicated colleagues have lived our values and continue to deliver for all of our stakeholders.

Read more on **pages 4 to 13**

At a Glance

Providing excellent customer experience with outstanding value, quality and choice

About us

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

Our purpose

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

Read more on Our Business Model on **pages 14-15**

Our values

Our people make us who we are, and building and inspiring an outstanding team is at the forefront of our business strategy; it encourages our people to give their very best and enjoy what they do. We are committed to creating a great place to work and our culture is underpinned by our **RIGHT** values:

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

Inclusive: Working and communicating with each other to achieve common goals;

Get it right: Doing things right first time;

Hard working: Passionate, committed and driven with a winning attitude; and

Trusted: Operating with fairness, respect, honesty and integrity.

We encourage an open and honest culture when engaging with our stakeholders. We inspire success in our teams, ensuring that all our colleagues feel supported. Every staff member is treated as an equal and we recognise and reward people for doing the right thing.

Delivering our values will continue to help our business grow, evolve and build a community that our people are proud to be a part of.

Our responsibility

At ScS, we have a clear vision to be Britain's best value sofa and carpet retailer. At the same time, we recognise that as a responsible business we have an obligation to operate in a manner that is both ethical and sustainable.

Our focus is on three key areas:

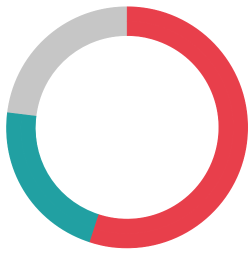
- **People,** to continue to make ScS a great place to work, with a focus on building and inspiring an outstanding team;
- **Community,** where we put emphasis on local charitable fundraising; and
- **Sustainability,** where our emphasis is on recycling waste, reducing energy consumption and emissions, and working with our supply base to ensure ethical sourcing.

Read more on Stakeholder Engagement on **pages 32 to 33**

Employees

1,707

(FY19: 1,784)

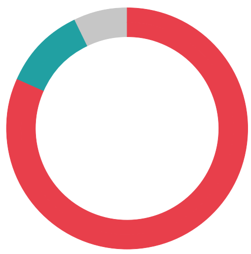


Store teams
Head office and support teams
Delivery and warehousing teams

Gross sales breakdown*

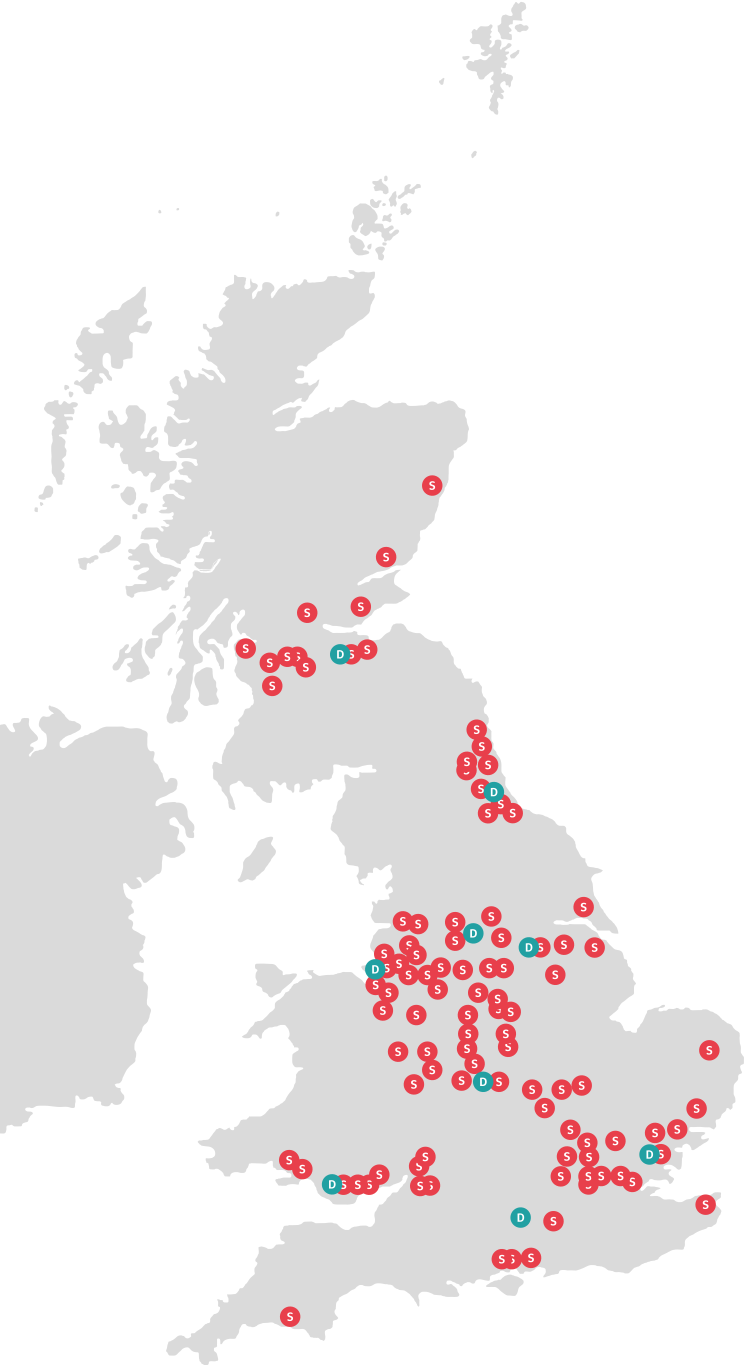
£268.1m

(FY19: £333.3m)



Furniture (in-store)
Online
Flooring (in-store)

* Gross sales represents turnover on the sale of goods and warranties before deduction of interest free credit (page 94)



Where we are

Over the past few years, we have focused on optimising our store footprint to ensure our estate is sustainable and efficient. We want to ensure that our stores are accessible and reach as many potential customers as possible. The right store in the right location works hand-in-hand with having great people, great product, excellent service and value.

We currently trade from 100 stores across the UK – from Aberdeen to Plymouth, and believe the reach offered by our existing and targeted network is optimum to meet customer demand, whilst ensuring we make an appropriate return. As customer shopping habits evolve and the demand for online shopping increases, we are able to support our physical estate through offering all of our ranges on our website.

A new website was launched this summer, with increased speed, mobile optimisation and functionality. This has been coupled with other improvements including increased product visualisation. The progress made in our online capability allows customers not only to purchase with more confidence online but perform detailed research before visiting one of our stores. Our statistics show that our online sales are complementary to our stores, attracting a different customer base. The retail network is then further supported by nine strategically placed regional distribution centres.

Our stores and distribution centres

S Stores   D Distribution

Stores across the UK

100

Distribution centres

9

Average retail space per store

14,374 sq ft

Delivering our Values

Responsive

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

Our product range is carefully selected with our customers at the forefront of our procurement decisions and during the year we continued to respond to the latest customer demands by launching over 100 new products across our furniture and flooring ranges.

Ahead of re-opening our stores we wanted to make sure that our customers felt safe and we understood that they would prefer to avoid queues, therefore we introduced an appointment system. Customers are now able to book a convenient time slot at any our 100 stores, giving them dedicated time in our branches with a member of the sales team. As well as benefiting our customers, the system has resulted in increased conversion rates and positive customer feedback on Trustpilot.

Throughout lockdown it was important that we were still able to respond to aftercare issues for our customers. Our team of technicians adapted to working from home and were able to carry out virtual product inspections using video conferencing software.

"We recently launched our own 'Inspire' brand in response to our customers' desire for a classic, timeless and stylish range. We understand that our customers want their home to be as individual as they are, which is why we offer a superior range of famous sofa brands to suit all tastes. Ensuring we offer the right products at the right price is key to what we do."

Melissa Maddison
Merchandising manager

Working and communicating with each other to achieve common goals

Ensuring that our people feel connected to the business and part of the ScS community is key to our success, and this was especially important during lockdown. Through our increased internal communication channels, including weekly emails and regular team video conferences, we made sure that everyone was kept up to date on the latest developments.

As we knew it was vital to get our colleagues opinions on our approach to re-opening, we created an interactive forum so that they could share their views, had the latest information at their fingertips and were able to communicate with other colleagues, sharing their concerns or even their latest lockdown DIY projects!

Our teams worked tirelessly in the first week of lockdown to ensure all our customers were personally contacted and updated on their order status. This was followed by regular communications to provide reassurance. Our care and consideration has been reflected in positive Trustpilot reviews.

We recognise the importance of having an efficient, resilient and high quality supply chain as we continue to grow together. As part of our commitment to these partnerships, all our suppliers received full payment during lockdown, enabling us to work quickly with them to deliver orders as we re-opened. We continue to work collaboratively to ensure our customers receive the best product at the right price.

Delivering our Values

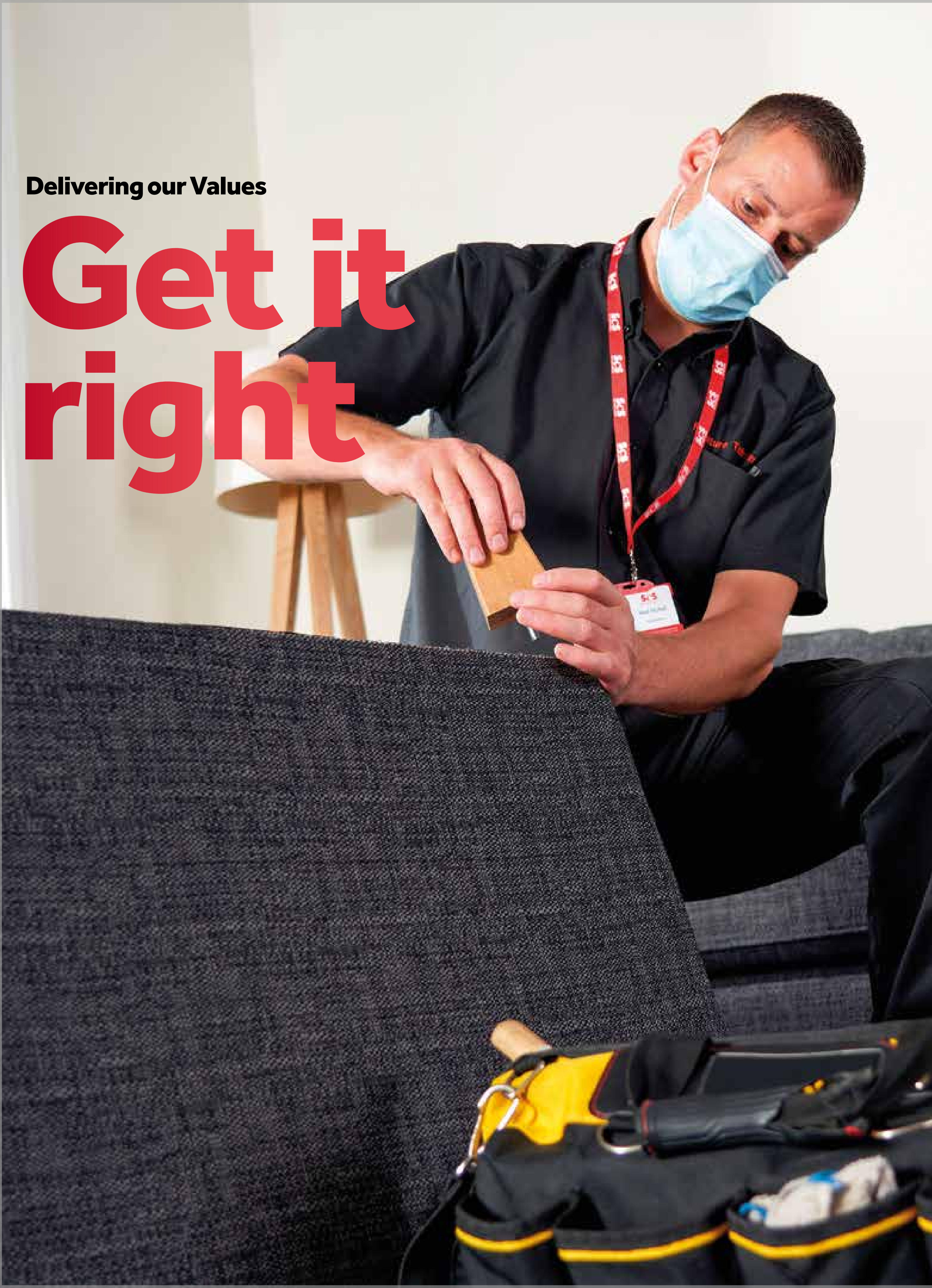
Inclusive

"During lockdown ScS supported me to set up and run an ScS team radio station. I thoroughly enjoyed being able to provide support and entertainment to my colleagues during such a challenging time. With more than 900 people tuning in it was great to stay connected and boost morale! I'm very proud to be a part of the ScS community."

Paul Hillier
Sales Professional at our Plymouth store

Delivering our Values

Get it right



Doing things right first time

We know that at times balancing the challenges of work and home life can be difficult, that's why our colleague's mental health and wellbeing is of utmost importance to us. We have teamed up with an external organisation to offer support to our people through a free, confidential employee assistance programme, available 24/7.

To further enhance the support available, we have also trained 32 of our people to become mental health first aiders, and our senior managers have participated in mental heath awareness training, so that if anyone needs extra support they can turn to a trained colleague for help.

Ahead of re-opening our stores and distribution centres, risk assessments were carried out for all of our main operational processes and activities to ensure the safety and wellbeing of our colleagues and customers. Our risk assessments are published on our plc website.

Teams were issued with a 'Safety First' booklet which contained details of the new measures which were to be implemented, such as one way systems, deep cleaning procedures and checks to be performed before entering a customer's home for our distribution crews, flooring surveyors and technicians. COVID-19 specific mandatory training was rolled out across the business and PPE was made available alongside a demonstration video of how to use it effectively.

"Asking for help and offering a helping hand when it's needed is part of what our 'get it right' value is all about. With the psychological impact of COVID-19 leading to elevated levels of stress and anxiety, it was more important than ever for us to focus on mental health and wellbeing."

Hannah English
Engagement and Internal Communications

Passionate, committed and driven with a winning attitude

The creation of our new customer experience support team allows our customers to benefit from a dedicated team available for a wider timeframe. The new team has embraced their roles and are committed to providing an efficient and consistent service.

We were quick to respond to the COVID-19 pandemic and move staff, where possible, to work from home ahead of the government imposed lockdown. Our people quickly adapted to their new way of working, utilising video conferencing and other communication channels. Teams went the extra mile to ensure that they had regular catch ups and that much needed interaction with others!

Our e-commerce team have been working hard on our new website which launched in July 2020. Given the increased activity via our website during the year it was vital that the transition was managed effectively, requiring careful preparation and planning. Our dedicated team of experts have made significant improvements to our website, including increasing speed, improving navigation and user experience for mobile devices, enhanced information showcasing our products, and increased functionality in the check-out process for customers.

Delivering our Values

Hard working

"Working from home was a new concept for a lot of my colleagues and my main focus was to ensure that they had an appropriate workstation that complied with our health and safety guidelines. I performed virtual assessments and offered advice on how they could make their space more suitable."

Mark Forster
Health and Safety Officer

Delivering our Values

Trusted

"Thank you so much to ScS for this very generous donation. It is much appreciated and will help us to support those in food poverty."

Gateshead Foodbank

"We are really grateful for organisations like yours stepping up at this time."

Loughborough Foodbank

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Operating with fairness, respect, honesty and integrity

As a trusted and responsible employer we take our commitment to our people very seriously and we strive to support and reward our colleagues as best we can. The Board took the decision to top up the basic pay of those furloughed to 100% so that no one was financially impacted during these already challenging times.

With over 230,000 Trustpilot reviews our customers take comfort in the positive experience of others and recognising that they are shopping with a trusted business. Throughout the year we have maintained our 'Excellent' Trustpilot rating and continuously monitor our reviews to reward our teams and identify any areas for improvement.

With demand for food bank support being unprecedented during lockdown, ScS supported the Trussell Trust by donating £48,000 to the food banks located closest to each of our 100 stores. We recognise the importance of supporting our local communities and we are proud to have been able to support such a great cause and make a difference.

Trustpilot rating

Excellent

Trustpilot

ScS donation to food banks closest to our 100 stores

£48,000

Our Business Model

Creating value and choice for our target market

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

Our key ingredients

Range of price points
From £299 to £5,295, creating value and choice for our customers.

Easy ways to pay
Long-term interest-free credit making buying affordable.

Brands
Long-term relationships with leading furniture and flooring brands.

Service
'Excellent' Trustpilot rated service delivered by our passionate and caring team.

On key retail parks
High quality stores in prime locations.

Online
Showcasing product and a rapidly growing sales platform.

Product

What we do
We offer a wide range of designs and famous brands across our furniture and flooring ranges, all at price points that deliver great value.

Our furniture products are made-to-order and tailored to meet our customers' needs.

Our flooring offering ranges from carpets and rugs to laminate and luxury vinyl tiling. There is something for everyone.

Working closely with our suppliers allows us to target key price points and offer our products at the best possible value.

How we do it
We carefully select our suppliers and source from a small group of specialists, mainly UK-based suppliers, most of whom we have worked with for many years, building strong relationships.

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

To give our customers flexibility we offer interest-free credit across all of our products.

To ensure our customers purchase the right flooring for their home we offer a free flooring sample service.

In-store expertise

What we do
Across our 100 stores we offer our customers the opportunity to purchase their furniture and flooring under one roof and help to make their house a home.

Our dedicated sales teams are on hand to help the customer choose the right product for them within our large, modern stores.

We provide a free surveying service so flooring customers can be assured that they have ordered the correct size and quantity of floor covering for their home.

How we do it
Our 'home of brands' vision allows our customer to browse our stores and envisage our products in their home, with complimentary furniture and flooring products displayed together.

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

We have fully integrated our in store sales app, nYwhere, into the business to improve the ordering process. We have also added functionality to allow carpet surveyors to complete orders in the customer's home.

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

Alan Smith
Chairman

Website

What we do

Our store network is supported by our new mobile and tablet friendly transactional website.

With improved computer generated imagery (CGI) of our products and a more efficient checkout process, our website allows customers the chance to browse our products at their leisure and convenience.

We have introduced an electronic 'contact us' form to allow our customers to contact us 24 hours a day, seven days a week, at a time and location convenient to them.

How we do it

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

We have introduced web-only products as we recognise the needs of our online customers may differ to those who chose to come in store.

Delivery

What we do

We offer a two-man home delivery and installation service for our furniture products, and a full fitting service for our flooring range.

Our delivery teams provide customers with an efficient and friendly service, taking pride in their work and having respect and consideration for our customers' homes.

Working with our fitting partners our flooring is cut, delivered and fitted to our customers' specifications.

How we do it

From our nine distribution centres operating across the UK, our delivery teams ensure that customers receive their furniture in a timely manner.

Our two-man home delivery operation uses electronic proof of delivery software which integrates with our core system, giving our teams real-time visibility and improving query resolution.

Customer experience

What we do

We have a dedicated, central customer experience team who have the tools, knowledge and technology to ensure we can resolve our customers' queries quickly. The team are available to provide assistance seven days a week.

Our team of highly skilled service technicians, and flooring surveyors, are on hand to visit customers' homes to take care of any issues arising after delivery or fitting.

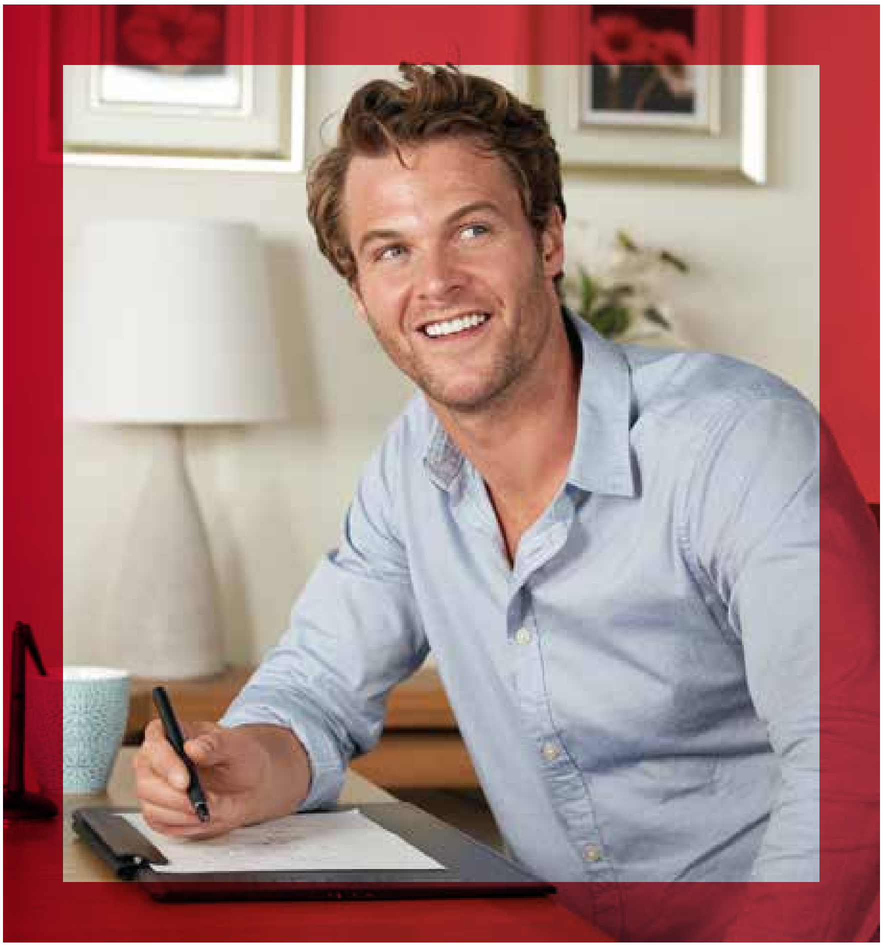
Our dynamic appointment scheduling system allows us to offer the earliest possible appointment to a customer, which can include a same day service.

How we do it

Utilising contact centre technology and a job optimisation solution, our team is able to manage customer enquiries and our service technician appointments. These appointments are scheduled to give the shortest possible wait times, ensuring that our customers benefit from an efficient service.

Our service technicians benefit from support tools which allows them to electronically submit high quality, media rich reports which means that our aftercare team can respond quickly to their recommendations and we can feedback to our suppliers to ensure product quality continues to improve.

Our Markets



Potential opportunity in a recovering but uncertain market

-22.1% ↓

Forecast 2020 market size: Furniture*

£2,462m

-29.1% ↓

Forecast 2020 market size: Flooring*

£1,403m

* source GlobalData (as of 1 Sept 2020)

Current UK market

We operate in both the furniture and flooring markets.

Market commentary

The latest analysis of the upholstery market from GlobalData suggests a 0.7% reduction in the size of the market in 2019 will be followed by a further 22.1% fall in 2020. Their view is that 2020 initially began relatively buoyantly, but this growth was interrupted in March by COVID-19 and the national lockdown, with consumers deferring non-essential purchases and whilst online orders grew significantly, the relatively small proportion of the market that is transacted via the web meant this increase was not able to counterbalance the closure of stores. Pent-up demand occurred as customers emerged from lockdown in a more cash-rich position, spending money that was previously earmarked for holidays and other leisure activities on home improvements. GlobalData predict that customers have brought forward purchases and forecast market conditions will become challenging with the developing COVID-19 pandemic, the end of the current furlough scheme at the end of October, and the end of the EU transition period. GlobalData are forecasting that the 22.1% decline in 2020 will largely reverse in 2021, with the market forecasted to be down 2% when compared to 2019. By 2025, the market is forecast to be 5.6% higher than 2019.

GlobalData analysis on the floorcoverings market suggest that following growth of 0.9% in 2019, it will be one of the hardest hit sub-sectors within retail in 2020. Their commentary outlines that lockdown prevented the measurements and installation of flooring, and encouraged shoppers to be more considered with non-essential purchases. Unlike other sectors, flooring did not transfer online, and the weak housing market for the past two years had already stunted growth. There has been a slight recovery in demand since the end of lockdown, and the stamp-duty holiday has also encouraged more people to move house, however as with other big-ticket purchases, GlobalData highlight that potential restrictions on installers entering customer's homes, the end of the furlough scheme and concerns over job security will lead customers to hold off on making bit ticket purchases. GlobalData are forecasting a 29.1% fall in the floorcoverings market in 2020 with 2021 recovering to 2% below the 2019 market. By 2025, the market is forecast to be 5.8% higher than 2019.

Key drivers

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

Consumer confidence

Big ticket sales are usually heavily affected by consumer confidence, which has reached new lows as COVID-19 has impacted worldwide. GfK* reported that, with the pandemic's potential affect on years of job security, employment was the biggest concern for consumers. Consumer confidence as reported in the GfK Consumer Confidence Index has fallen to -27 in August 2020, down from -14 in August 2019. Recent post-lockdown trading suggests that the impact on our markets appears to be balanced by a change in consumer spending attitude, where a reduction in ability to spend on holidays in 2020, has allowed for increased spending on home furnishings.

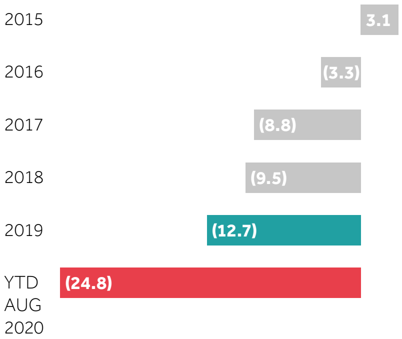
Housing market

A house move triggers the purchase of new flooring and furniture for many of our customers. Since a peak in 2016 (the highest number since 2007), housing transactions have continued to fall each year, with total transactions for 2019 4.5% lower than the 2016 peak. The impact of COVID-19 halted the housing market entirely during mid-2020, and total transactions to August 2020 are 25.1% lower when compared to the same period in the prior year. Post-lockdown, pent-up demand for house moves, a temporary stamp duty freeze, as well as wider behavioural shifts as people re-assess their housing needs, including a shift towards more home working, initially appear to have encouraged a rapid recovery to the market, although this may be temporary in nature.

* GFK Consumer Confidence Index, August 2020

Consumer confidence

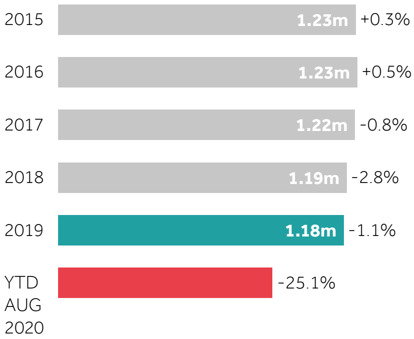
-24.8



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

Housing market

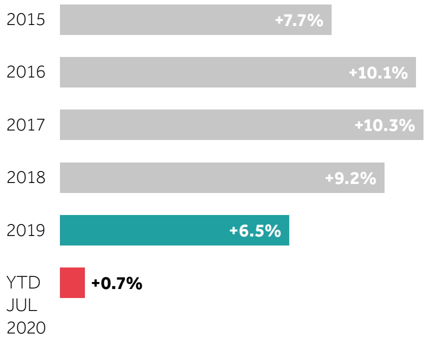
-25.1%



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

Availability of consumer credit

+0.7%



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

Availability of consumer credit

With nearly half of our customers choosing to utilise our finance options to pay for their products, the availability of consumer credit helps facilitate sales, and provide opportunities for upselling. Early 2020 continued to show growth of net consumer credit lending, albeit slower than that seen in recent years. However, availability is now reported as beginning to reduce from May 2020 onwards.

Our place in the market

Increasing market share

Although the market remains volatile, our strong re-opening performance, together with the loss of some competitors during the lockdown period suggests we continue to grow market share. GlobalData estimate that our upholstery market share has increased from 7.9% in 2013 to 9.8%, and our flooring market share increased from 1.6% to 2.8%, over the same time frame.

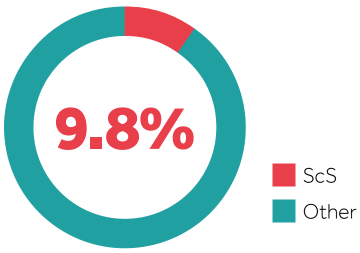
Value retailer

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

Opportunities for further growth

The online market has grown significantly through 2020, both as a result of the closure of physical stores, and through the desire of people to shop from the safety of their own homes. Our new website and the continued improvements planned should allow us to continue the significant growth we have experienced already. As the economic recovery begins, our focus is to continue to provide value, quality and choice for our customers and appeal strongly to a broad demographic of aspiring homemakers, families and retired couples.

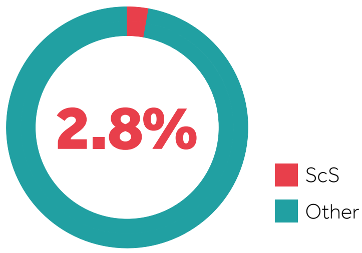
2020 upholstery market share*



2019 market share: 9.4%

Retailer	2019 (%)	2020e (%)
DFS	24.8	**28.1**
ScS	9.4	**9.8**
Sofology	7.5	**8.0**
Furniture Village	5.6	**6.2**
IKEA	5.3	**5.6**
Next	3.9	**4.0**
Made.com	2.0	**3.1**
John Lewis	2.3	**2.1**
Argos	1.8	**2.0**
Wayfair	1.0	**1.7**

2020 floor coverings market share*



2019 market share: 2.5%

Retailer	2019 (%)	2020e (%)
Carpetright	15.6	**16.0**
B&Q	6.2	**6.0**
Tapi	5.0	**5.8**
Wickes	4.9	**4.5**
Dunelm	3.3	**4.0**
United Carpets	3.3	**3.7**
IKEA	2.8	**3.5**
Amazon	1.9	**3.1**
John Lewis	3.4	**3.0**
ScS	2.5	**2.8**

* Market share data provided by GlobalData

Our advantages in the market

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

Our product offering has continued to evolve in line with our strategy to broaden our appeal by offering a wider range of brands – including third-party brands – as well as flooring, dining and occasional ranges. Flooring now represents 11.4% of total gross sales.

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

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

Chairman's Letter

Following a number of years of building the Group's profitability and resilience, I write this report very proud at how well the business has responded to a year that could not have been predicted. I am very fortunate to chair a team who personify our values, and never has the strength of teams in a business been more important than in this unprecedented time.

-19.5% ↓

Gross sales

£268.1m

-91.4% ↓

Underlying EPS

2.6p

-0.4% ↓

Gross margin % of gross sales

44.6%

Dear Shareholder,

This report covers our 2019/20 financial year, which ended 25 July 2020 and, whilst strategic progress was made throughout the year, our results are naturally dominated by the effects of the global outbreak of COVID-19 in the second half of the year. Our response to the impact of the pandemic is explained throughout this report.

Overview

Despite such a challenging year, the Group and our people have remained committed to living by our RIGHT values. Whilst we go into this in further detail throughout the report, I am proud of our quick reaction into lockdown when our stores and distribution centres were required to close, our increased levels of communication with all of our customers and colleagues, our commitment to ensuring colleagues who were furloughed received full pay, and that we continued to pay all our supply partners on time and in full. Additionally, I was delighted we were able to provide support to 100 food banks across the UK during this challenging time. The planning and preparation for re-opening was a collaborative effort from our people, ensuring all concerns were taken into consideration, and above all prioritising the safety and wellbeing of our teams and customers. Throughout the year, my fellow board members and I have increased our visibility across the business, visiting stores upon re-opening, contributing to the weekly internal communications and leading companywide video conference calls.

Financially, our efforts in previous years to build a strong and resilient business have been key to ensuring our continued success. As would be expected with such a tactile 'big-ticket' purchase, the temporary closure of our stores led to a material reduction in order intake and, whilst online bookings increased significantly, this could not offset the overall decline. We welcomed the government's swift action in suspending business rates for a year and the support for continued employment through the job retention scheme. Our flexible cost base enabled the Group to minimise cash outflow over this critical time.

Our extensive planning, coupled with the way we communicated and looked after our customers and colleagues during lockdown, has played a key part in our performance since re-opening in late May, with order intake growth of 92.2% in the 9 weeks ending 25 July 2020. To finish the year with order intake down only 5.9%, despite our stores being closed for two months, is an outstanding result.

The year also saw the Group reach an important milestone with regards to its ownership structure. On 11 February, Parlour Products Holdings (LUX) S.A.R.L ('Parlour') sold its entire stake in the Group. Parlour owned the business prior to the flotation in January 2015 and had retained 40.25% of the shareholding as at the start of the year. As part of this event, we were pleased to return value to our shareholders by acquiring and subsequently cancelling 2 million shares.

Dividends
Despite the strength of our balance sheet, the Board did not feel it was right to pay an interim dividend at a time when the economy was facing such uncertainty and that the Group was receiving government support. It seemed inappropriate to use the cash for anything other than protecting the financial strength and resilience of the business at such a crucial time. The Board recognises the importance of income to the Group's shareholders and will continue to assess when it is sensible to re-commence dividend payments.

Board
During the year, Paul Daccus, who was Parlour's representative on the Board, resigned following their sale of its stake in the Group.

As previously announced, David Knight notified the Board of his intention to retire as Group CEO and has agreed he will not retire before the end of July 2021. The search for David's replacement has commenced and we will provide a further update when appropriate.

Our culture
Listening & improving

As a Board we are committed to listening to our employees. We received many responses to the Group's annual employee survey and are committed to:

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

I have been delighted with the ongoing support from my board colleagues in these challenging times. As might be expected, the board has met more frequently both as a board and with colleagues in the business to provide increased guidance, support and to share their knowledge and experience.

Summary
Clearly, the year is not what we had planned or hoped for. Nevertheless, the performance and reaction of the team gives me every confidence that the business has all the attributes to continue to deliver in these uncertain times. I strongly believe that if the COVID-19 outbreak had not interrupted its progress, the Group would have been delivering results showing an increase in profits and resilience for the fifth year in a row.

Whilst it is too early to provide clarity on the outlook for the weeks and months ahead, we are encouraged with the trading seen since re-opening and we remain focused on our vision to become Britain's best value sofa and carpet retailer. The Board would like to thank our customers for their continued support and our colleagues for their ongoing dedication and professionalism.

ScS is a resilient business, with a strong balance sheet and a flexible cost base, and we are well positioned to navigate the challenges ahead and maximise opportunities as and when they arise.

Alan Smith
Chairman
1 October 2020

CEO's Review

This year has been like no other in my 32 years with ScS. I am very proud of my team of colleagues, and with their help over the past few years we have built a resilient business that has been able to respond to and confidently manage the challenges of COVID-19.

-63.5% ↓

Underlying EBITDA (pre IFRS 16)

£7.2m

+13.6% ↑

Online sales

£19.1m

-5.9% ↓

Order intake

-5.9%

Overview

Throughout the year our priorities have been to support our colleagues, to continue to provide a high quality service to our customers and to protect the long-term success of our business.

During these unprecedented times, it's been humbling to see how our people have embraced the change needed to adapt quickly to operating in new ways, and how they have shown an inspiring level of care and commitment to our customers, local communities and to their colleagues. It is a privilege for me to be part of this passionate and dedicated team, particularly as I begin my final year as CEO.

Although there remains continued uncertainty in the wider UK economy, both in regards to the further impact of COVID-19, and the impending end of the Brexit transition period, the Group is positioned strongly, and our purpose remains unchanged, to provide an excellent customer experience with outstanding value, quality and choice.

Results

The two-month lockdown period from late March to late May meant deliveries to customers were temporarily paused. Due to this, the Group saw a £65.2m (19.5%) decrease in gross sales in the year to £268.1m (2019: £333.3m). In-store furniture sales decreased £55.2m (20.1%), in-store flooring sales decreased £12.3m (29.2%), and online sales increased £2.3m (13.6%).

The year started with a challenging autumn trading period, impacted by the ongoing low consumer confidence levels due to the uncertainty arising from Brexit and the political landscape. Following a level of Brexit clarity and the general election in December 2019, we enjoyed a successful winter sales period, returning to growth. This momentum increased in February and March and the Group was on track to deliver another year of growth before the UK went into lockdown, forcing temporary store closures and a suspension of deliveries. Encouragingly, since re-opening our stores at the end of May, the demand for our product has exceeded our expectations and we were very happy to be able to welcome our customers back into our stores for a safe shopping experience. Our delivery teams have also been working at full capacity to deliver orders placed before and during lockdown.

Gross profit decreased to £119.6m (2019: £149.9m), with the gross margin percentage falling slightly to 44.6% (2019: 45.0%). Pre-IFRS 16 underlying EBITDA decreased to £7.2m (2019: £19.7m) and pre-IFRS 16 underlying profit before tax decreased to £1.8m (2019: £14.6m).

Year in review

Autumn

Early in the year, our nYwhere in-store sales app was fully integrated into the business to facilitate a streamlined sales ordering process. nYwhere allows our salespeople to complete an order from a tablet-friendly, intuitive and easy to navigate tile-based interface which links directly to our core system. Our customers have benefited from a simple step-by-step process, increased speed and order accuracy levels, and the convenience of receiving their order documents electronically.

A transformative change for the business then followed, with the centralisation of administration from our individual stores to a dedicated central team. This step naturally followed the introduction of nYwhere, as the app removed the need for orders to be manually input into our system in-store. A specialist central customer experience team was created and customers now benefit from a larger team available for a wider timeframe, providing a more consistent service. On top of the efficiencies achieved, taking all support requests in to one team has enabled the business to identify areas where the customer journey can be further improved, which was more difficult when support was split across the UK in 100 stores. This was a big change for the Group, as a number of the local administrators had been in the business for some time and we appreciate this was a significant period of change for our store teams.

Compared to the prior year our bookings performance was as follows:

Period	Weeks	Date	Order intake vs prior year
Pre-lockdown	1 to 34	28 July 2019 to 21 March 2020	(4.2%)
Lockdown	35 to 43	22 March to 23 May 2020	(92.5%)
Post-lockdown	44 to 52	24 May to 25 July 2020	92.2%
Full year	1 to 52	28 July 2019 to 25 July 2020	(5.9%)*

* like-for-like order intake declined 6.0%.

Attracting, recruiting, developing and retaining the right people is key to our success. The retail regional and branch manager roles are critical as they lead the local store teams. Further developing these teams was identified as a great opportunity for investment and early in the year we enlisted the help of business coaches and former Olympians Steve Backley and Roger Black to deliver their 'Olympic Experience' training programme. We remain focused on investing in the development and wellbeing of our people, and helping our teams achieve their potential.

Winter

The centralisation of administrative tasks was complete in late November, with the new processes and procedures rolled out across the whole network and the new customer experience team now established. This meant that throughout the key winter sales period our in-store teams were able to benefit from the use of the nYwhere app, focusing on maximising sales in-store and allowing the new central customer experience team to deal with customer queries.

A review of the in-store space allocation and merchandising was also completed prior to the winter sales period. This identified opportunities to increase the product range in a number of our stores and the introduction of our 'home of brands' vision, resulting in a revised and improved customer journey in our stores, creating an increased concession feel across our key external and internal brand areas.

This review led to greater consistency across our stores, including product placement, visual merchandising and range, with complimentary furniture and flooring products displayed together. Throughout the year, we were able to introduce and showcase new brands, including our 'Inspire' range followed by our 'Living' and 'Signature' ranges. We continue to review our product offerings to meet our customer's needs.

Customer service remains a key focus area and our Trustpilot rating is testament to the continued work and efforts of our people alongside our continued investment in technology and processes to improve the customer journey. We were very proud to reach the 200,000 reviews milestone on Trustpilot and maintain our 'Excellent' rating.

Investment in technology continued with the roll-out of Microsoft Power BI across our retail management teams. This mobile optimised tool allows instant drill down on performance from the Group view to region, store, sales person and order level detail by day, week, period and year. Managers are presented with a daily dashboard with KPIs highlighting key areas for opportunity.

CEO's Review continued

In line with our ongoing investment in our e-commerce capability, our online sales team was also restructured and strengthened, which led to the implementation of further technology, which optimises sales campaigns and increases efficiencies and conversion rates of our telesales team.

Spring

After a promising start in the second half of the year, our Far East suppliers were impeded by the initial outbreak of COVID-19 and they were forced to reduce their operations. As the outbreak spread across the world and to the UK, we began to see reduced footfall and order intake, and as a precautionary measure, on 17 March 2020, the Group drew down £12m from its revolving credit facility (RCF).

As the situation developed, a proactive decision was made by management for our head office-based support colleagues to work from home where possible. Following that initial action, on 23 March the UK government ordered the closure of all 'non-essential' retailers and lockdown measures were imposed. All operations across our stores and distribution centres were temporarily closed and our colleagues were asked to remain at home, with the safety of our people and customers being our main focus.

At the peak, over 1,400 employees were placed into furlough during the period when our stores and distribution centres were closed. We continued to demonstrate our commitment to our employees and took the decision to ensure all our colleagues received full pay during this challenging time. Additional holiday was also given to those who were needed to continue to support the business in recognition of their hard work as we all adjusted to new ways of working.

Increased internal and external communications were vital during this lockdown period in order to ensure all our customers and colleagues were kept informed. Within the first week of lockdown, our dedicated teams were able to directly contact over 25,000 customers who had placed orders and provide them with the latest information regarding their order and offer them reassurance. Internally, we increased our use of weekly communication emails, set up a companywide discussion forum, and even had a furloughed colleague voluntarily set up and run an ScS team radio station.

Cash management was an immediate priority for the business and, together with constant reforecasting and scenario modelling, a series of cost saving initiatives were implemented to protect the business, including:

- Reductions in advertising costs, capital spend and bonuses;
- Cancellation of the interim dividend;
- Recovery of corporation tax instalments paid to date; and
- Secured rent deferral agreements with our landlords.

The business also received support from the government in the form of:

- Deferral of VAT, NI and PAYE payments (£6.1m);
- Retail business rates holiday (£3.4m); and
- Furlough scheme (£5.0m).

These cost and cash flow actions enabled us to reduce our monthly cash operating costs in April and May. In the same period, the business re-negotiated the covenants with our bank on our existing £12m revolving credit facility allowing the Group to continue to have access to this funding line if the need arose.

The closure of our stores saw a shift in customer shopping habits as orders placed through our website increased significantly. Over April and May online orders were up 78%.

During the lockdown, the team still working focused heavily on business improvement projects including the continued development of our new website. Detailed planning was completed in preparation for the re-opening of our stores and distribution centres, with the primary focus being on the safety of our colleagues and customers.

Summer

Our phased re-opening began on 23 May with our English stores, followed by Scottish stores on 5 June and finally our Welsh stores opened their doors on 22 June in line with government and legal guidance. Similarly, from 19 May our distribution activities gradually resumed. Ensuring the health and safety of our retail and distribution teams and our customers was paramount to us as we implemented our comprehensive re-start plan. All of our teams received training before business re-commenced with all locations carrying out detailed risk assessments prior to opening. These assessments are published on our corporate website. The layout and square footage of our stores allowed us to implement social distancing without compromising the customer experience. Our stores introduced a clearly marked one way system, hand sanitiser stations located throughout and deep cleaning protocols. Likewise, the teams at our distribution centres implemented new ways of working and delivery crews now take vigorous steps before arriving at customers' homes. We also updated our website to include details of our in-store and delivery safety measures alongside videos of the new procedures in action. All of our colleagues have been supplied with the necessary personal protective equipment (PPE) including facemasks, visors, disposable gloves and anti-bacterial wipes.

To help manage customer flow and the number of people in store we also introduced an appointment system to allow customers a specific time slot with a dedicated salesperson, removing the need for a customer to queue.

The appointment system also had noticeable benefits on our in-store conversion. The steps we have taken have been very positively received by our customers, as can be seen through our Trustpilot reviews.

Following the stores re-opening, we experienced very strong trading with order intake growth of 92.2% in the nine weeks ending 25 July 2020, as we benefited from pent-up demand, and a willingness from our customers to spend on furnishings following extended periods in their homes. Our thorough advance planning, coupled with commitment to spend on brand awareness throughout lockdown, also enabled us to re-open quickly, and with impact, when we were given permission to do so, and we appeared to gain an advantage against some of our competitors, who took longer to fully re-open. We are confident in being able to use this base to grow our market share, particularly as our sector and the retail landscape changes in light of the challenging trading conditions.

As we continue to respond to meeting the demands of our customers, throughout the year we have invested significantly in a new online sales platform which aims to improve the customer's online journey by providing a more engaging checkout process, increased showcasing of our products (including our new online exclusive range) and clearer navigation for mobile devices. We have also significantly increased the level of computer generated imagery we do in-house, ensuring all models and colours are captured, allowing use across our nYwhere app, online, and on in-store displays. With online sales providing an ever increasing proportion of our overall sales, and a more important role than ever for our customers, we were excited to launch the new site and look forward to further enhancements that we can implement on our new mobile optimised site.

The COVID-19 outbreak has allowed us to take a step back and to consider how we do things as a company in terms of culture, work habits and in our day-to-day operations. For example, the increased activity through the website has seen us introduce web-only products and reinforced the importance of a strong online presence. We also appreciate that these are truly unprecedented times and our colleagues have had to adapt to new ways of working and to re-adjust back into their work routines. With this in mind we have trained 30 employees to become mental health first aiders to support our people post-lockdown.

Current trading and outlook

Trading since the start of the new financial year has remained strong, with like-for-like order intake growth of 45.8% for the nine weeks to 26 September 2020. We believe current performance has continued to benefit from pent-up demand and an increased investment by UK consumers in their homes. This growth has significantly exceeded our expectations and the Board continues to be encouraged by recent trading.

We are delighted with the strong trading since the start of the new financial year. However, we are now entering our key autumn trading period and it remains difficult to predict the potential impact of the increased economic uncertainty, including the cessation of the government's Coronavirus Job Retention Scheme (CJRS) at the end of October.

Despite the uncertainty, our value-led proposition is underpinned by a strong balance sheet, and our clear offering has continued to prove successful. We are confident it will continue to appeal to our customers who want to buy great products at the lowest possible price.

David Knight
Chief Executive Officer
1 October 2020

Delivering value for over 100 years

1894
We commenced trading in Sunderland as a family-owned general home furnishings store, under the name 'Suite Centre Sunderland'

1980
We grew to operate from eight stores in the North East of England under the ScS brand

1993
Following a management buyout, we began to expand outside of the North East of England, opening in regional clusters across the UK

2007
Our store expansion programme saw the store estate grow to 95 stores nationwide

2009
- Launched a transactional online website
- La-Z-Boy, the first third-party brand, was added to the ScS product range

2010
- Expanded our range to include occasional tables and dining furniture
- G Plan was added to our third-party brand range
- Our first own-brand, SiSi Italia, was introduced

2011
Began to offer interest-free credit on all products in every store

2012
- Expanded to add flooring to the ScS range
- Re-branded as 'ScS, the Sofa Carpet Specialist'

2013
We added Endurance, our second own-brand, to the range

2014
- Launched our new website to provide enhanced online shopping experience
- House of Fraser concessions launched

2015
- Listed on the London Stock Exchange in January
- Opened three new ScS stores in Abbotsinch, Slough and Croydon

2016
- 5-star 'Excellent' rating achieved on independent customer review site Trustpilot
- One new store opened in Bromborough

2017
- Four new store openings: Aberdeen, Thanet, Edinburgh (Straiton) and Plymouth
- 5-star Trustpilot rating maintained and overall score improved
- Tetrad became the latest brand to be added to the range

2018
- One new store opening in Chelmsford
- First furniture retailer to reach 100,000 Trustpilot reviews – with a 5-star 'Excellent' rating
- First UK company to be accredited with FIRA certified compliance
- Interiors Monthly, Flooring Retailer of the Year

2019
- Launched our nYwhere app
- Refit of flooring department in every store
- Built our own in-house photography studio
- Exited House of Fraser concessions

2020
- New store opened in Kirkcaldy
- Reached 200,000 reviews on Trustpilot, one of only four companies in the UK to reach this milestone
- Created a specialist centralised customer experience team
- Introduced new brands as part of our 'home of brands' vision: 'Signature', 'Inspire' and 'Living' (all ScS brands)
- Effective handling of the challenges of COVID-19
- Launched our new website

Our Strategy

Focusing on seven priorities

Our strategy is structured around seven key priorities, each of them with defined short and long-term goals to enable us to achieve our vision: Becoming Britain's best value sofa and carpet retailer, making it easy for our customers to love their home.

01. Building and inspiring an outstanding team

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

How
By having the best team in our sector.

What we've done
- Implement a more structured retail management development programme, providing greater support and guidance to our branch and regional management teams
- Strengthened our learning and development and HR teams by the recruitment of additional field-based business partners
- Listened to the feedback given in our annual employee survey and implemented changes
- Enhanced employee communications across the network, including the use of social media, video and weekly news updates

What we're going to do
- Continue the increased investment in the development of managers and teams
- Improve induction plans across the business
- Re-define and re-launch employee engagement and communication activities
- Change our approach to employee surveys, with the aim of getting more frequent and tailored feedback from the different areas of the business
- Move to a more flexible working environment to provide greater support across our retail and distribution network

02. Delivering an exceptional customer experience

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

How
By relentless focus on customer experience.

What we've done
- Continued to focus on Trustpilot and increased our use of customer feedback to maintain and improve our TrustScore
- Centralised and strengthened customer support, extending support hours and increasing customer service
- Introduced a customer enquiry web portal, allowing customers greater flexibility in how they choose to contact us
- Implemented social distancing across our stores, helping the customer feel at ease whilst shopping

What we're going to do
- The centralisation of customer support has allowed the business to identify areas for improvement in the customer journey
- Targeting further product quality enhancements
- Extending customer support hours
- More pro-active customer communications

03. Optimising our product strategy

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

How
By sourcing the best value products.

What we've done
- Rolled out our 'home of brands' vision, creating branded 'mini-showrooms' and allowing consistency across the network
- Launched new products to increase our product offering and showcased our newest brands, 'Inspire', 'Signature' and 'Living'
- Introduced web exclusive products, recognising the different requirements of online shoppers
- Continued focus on product value, including promotions and enhancements

What we're going to do
- Product range review (of both upholstered furniture and dining and occasional tables) to maximise market share opportunities
- Review of supplier capacity and quality to ensure we continue to exceed customer expectations
- Consideration of products with shorter lead times

04. Driving sales densities in our ScS network

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

How
By having modern stores in great locations.

What we've done
- Reviewed in-store layouts and model ranges as part of our 'home of brands' roll out
- Implemented individual branch business plans (supported by Power BI analytics) to identify and deliver greater returns
- Launched new training aids for our sales teams, giving them the latest product information to increase their knowledge and confidence
- Introduced store appointments to enhance customer service and increase conversion levels

What we're going to do
- Increase in store visualisation with the implementation of new point of sale material and the increased use of in store media
- Removal of redundant store office space to allow increased range size in all stores
- Enhance the performance management framework to help support staff development
- Trial the use of technology in smaller footprint stores to allow customers to see the full range

05. Creating a market-leading website and increasing digital awareness

Continued success will increase website new visitor count, online sales, and improve the quality of store footfall, with consumers increasingly using websites to research products prior to making a purchase. Consumers are also becoming more comfortable buying 'big ticket' items online.

How
By providing an excellent omnichannel offering.

What we've done
- Launched a new 'mobile first' website
- Increased product visualisation by utilising our in-house photography studio and CGI image experts
- Implemented new campaign management into our telesales team, optimising conversion and efficiencies

What we're going to do
- Further enhance product visualisation tools, including 360° image technology
- Improve the online customer journey by streamlining the finance journey
- Increase online integration to core systems to improve productivity and time spent on value add activities

06. Accelerating our flooring growth

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

How
By having a market-leading flooring offering.

What we've done
- Continued increase in our online sample service
- Increased our flooring specific training for our sales teams to aid product knowledge and conversion
- Worked with our suppliers to improve service levels and product offerings

What we're going to do
- Enhance product range, introducing a greater range of carpets and other flooring products
- Increase promotional activity in the flooring range
- Streamline and improve the customer journey, including process and technology changes

07. Improving our profitability

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

How
By running a lean and efficient business model.

What we've done
- Implementation of Power BI reporting to allow dynamic analysis of critical KPIs across our retail network
- Full tender programme for areas of non-product spend
- Improved management focus, including better reporting, has led to a reduction in stock held across the business

What we're going to do
- Further technology enhancements to increase business efficiency
- Implementation of changes to the warranty product in line with FCA guidelines
- Roll out of Power BI across other parts of the business

Key Performance Indicators

The Group's strategy remains key to the Group's future success

Overview

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

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

Financial KPIs

Total year-on-year gross sales

£268.1m

Why it's important
Sustainable growth in delivered sales is key to our long-term success, increasing market share and creating opportunities.

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

Link to strategic priorities
1 2 3 4 5 6 7

Like-for-like order intake growth

-6.0%

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

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

Link to strategic priorities
1 2 3 4 5 6 7

Online sales

£19.1m

Why it's important
The Group needs to maximise its share of customers wanting to transact online.

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

Link to strategic priorities
1 2 3 4 **5** 6 **7**

Gross margin % of gross sales

44.6%

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

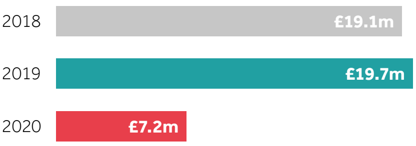
What we measure
Gross margin % of gross sales is a measure taken directly from our primary statement of accounts, and is the total margin made from sale of product, excluding VAT, as a proportion of total gross sales.

Link to strategic priorities
1 2 **3** 4 5 6 **7**

Non-Financial KPIs

Underlying EBITDA (pre IFRS 16)

£7.2m



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

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

Link to strategic priorities
1 2 3 4 5 6 7

Sales density per square foot

£184

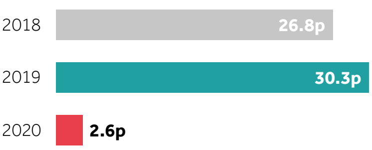
Why it's important
For our business to grow without increasing the store estate, we must generate increasing revenues in the trading space we currently occupy.

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

Link to strategic priorities
1 2 3 4 5 6 7

Underlying Earnings per share (EPS)

2.6p



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

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

Link to strategic priorities
1 2 3 4 5 6 7

Trustpilot customer satisfaction

4.7

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

What we measure
Our TrustScore, marked out of 5, is a measure provided by Trustpilot, an independent review platform used by our customers which asks them to rate our customer service.

Link to strategic priorities
1 2 3 4 5 6 7

> **"This year our KPIs reflect the significant impact COVID-19 has had on the business, and are not a true measure of the Group's ability to deliver its strategy. The Board has outlined what we have done, and what we're going to do, in the Our Strategy section on pages 24 and 25 and is comfortable the current strategy remains key to the Group's future success."**

David Knight
CEO

Financial Review

The financial results for the year have been significantly impacted by the COVID-19 pandemic. This disruption to deliveries had a material impact on sales and profits. The strong post-lockdown order intake recovery has resulted in a larger opening order book for the financial year ending 31 July 2021.

+42.7% ↑

Cash

£82.3m

-20.2% ↓

Gross profit

£119.6m

Government support provided in response to COVID-19

£8.4m

	Year ended 25 July 2020 (Post-IFRS 16) £m	Year ended 25 July 2020 (Pre-IFRS 16) £m	Year ended 27 July 2019 (IAS 17) £m
Gross sales	**268.1**	**268.1**	333.3
Revenue	**255.5**	**255.5**	317.4
Gross profit	**119.6**	**119.6**	149.9
Distribution costs	**(17.0)**	**(17.4)**	(17.3)
Administration expenses before exceptionals and government support	**(106.3)**	**(108.9)**	(118.3)
Business rates relief	**3.4**	**3.4**	–
Coronavirus Job Retention Scheme (CJRS)	**5.0**	**5.0**	–
Total operating expenses	**(114.9)**	**(117.9)**	(135.6)
Underlying operating profit	**4.7**	**1.7**	14.3
Exceptional items	**(4.0)**	**(3.2)**	(0.3)
Operating profit	**0.7**	**(1.5)**	14.0
Net finance (expense)/income	**(3.8)**	**0.1**	0.3
(Loss)/profit before tax	**(3.1)**	**(1.4)**	14.3
Tax	**0.9**	**-**	(2.9)
(Loss)/profit after tax	**(2.2)**	**(1.4)**	11.4
Underlying earnings per share	**2.6p**	**4.3p**	30.3p
Underlying EBITDA from continuing operations	**33.0**	**7.2**	19.7

The financial statements for the year have been prepared under IFRS 16 on a modified retrospective basis. To aid comparability with the prior year, the table above shows the current year on both a post and pre-IFRS 16 basis.

Underlying EBITDA from continuing operations

An analysis of underlying EBITDA is as follows:

	Year ended 25 July 2020 (Post-IFRS 16) £m	Year ended 25 July 2020 (Pre-IFRS 16) £m	Year ended 27 July 2019 (IAS 17) £m
Underlying operating profit from continuing operations before government support	**(3.7)**	(6.7)	14.3
Government support	**8.4**	8.4	–
Underlying operating profit	**4.7**	1.7	14.3
Depreciation and amortisation	**28.3**	5.5	5.4
Underlying EBITDA from continuing operations	**33.0**	7.2	19.7
Exceptional costs	**(4.0)**	(3.2)	(0.3)
EBITDA from continuing operations	**29.0**	4.0	19.4

Impact of IFRS 16 on the financial statements

The following financial information and commentary, unless otherwise stated, have been presented on a consistent accounting basis and do not reflect the impact of IFRS 16. The impact of the new standard on the Group financial statements is shown in note 2.

Overview

The financial results for the year have been significantly impacted by the COVID-19 pandemic and the related national lockdown from late March to late May. Whilst we were pleased with the post-lockdown order intake recovery, which meant order intake finished the year only 5.9% below that seen in the previous financial year, the two-month national lockdown resulted in deliveries to customers being temporarily suspended. Gross sales, revenue and related profit is not recognised until orders are delivered, hence this disruption to deliveries had a material impact on sales and profits. The strong post-lockdown order intake recovery has resulted in a larger opening order book for the financial year ending 31 July 2021.

Gross sales and revenue

Gross sales decreased by £65.2m (19.5%) to £268.1m (2019: £333.3m) and is reflective of the period of closure of our store and distribution network following the government's COVID-19 response. The decrease is attributable to:

- A decrease in furniture sales in stores of 20.1% to £219.0m (2019: £274.2m);
- A decrease in flooring sales in stores of 29.2% to £30.0m (2019: £42.3m); and
- An increase in online sales of 13.6% to £19.1m (2019: £16.8m).

Revenue, which represents gross sales less charges relating to interest-free credit sales (see note 3 – Segment information), also decreased by 19.5% to £255.5m (2019: £317.4m). This is again reflective of the period of closure of our store and distribution network in the second half of the year.

Gross profit

Gross margin (gross profit as a percentage of gross sales) decreased to 44.6% (2019: 45.0%). The decrease of 37 basis points is largely due to the increasingly promotional pricing and value offers which we feel are more important than ever, as consumers continue to seek value. The 44.6% gross margin achieved in the current year is in line with levels achieved by the business in the past few years. The lower volume year-on-year resulted in a decrease in gross profit of £30.3m (20.2%).

Financial Review continued

Distribution costs

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

Distribution costs remained broadly in line with the prior year at £17.4m (2019: £17.3m). Property and staff-related costs increased, driven by cost pressures being seen in the logistics sector. This was largely offset by savings in relation to the reduced deliveries in the second half of the year.

As a percentage of gross sales for the year, distribution costs were 6.5% (2019: 5.2%). As we have separately presented the CJRS claim, these costs do not include the related distribution employee salary savings obtained via the government grant scheme.

Administrative expenses before exceptional items and government support

Administrative expenses comprise:

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

Administration costs for the year totalled £108.9m, compared to £118.3m in the prior year. Administrative costs were 40.6% of gross sales, up from 35.5% in the prior year.

There was an overall decrease in administrative costs of £9.4m, driven predominantly by a £6.4m reduction in performance related pay, a £2.0m reduction in marketing spend and a £1.6m fall in property and utility costs.

Marketing costs decreased to £20.4m in the year (2019: £22.4m), as the business reacted quickly to the nationwide lockdown measures by deferring the planned spend on the key Easter and May bank holiday trading periods. During lockdown, investment was made in brand awareness by increasing TV sponsorship levels. Post-lockdown, we invested in a strong re-opening launch campaign which ran throughout June and July, a period in which historically marketing spend was at a minimum. This increased investment helped achieve the significant level of post-lockdown sales order growth.

Government support

During the year the Group has benefitted significantly from £8.4m of government support provided in response to the COVID-19 outbreak. This support is attributable to:

- £5.0m received via the Coronavirus Job Retention Scheme (CJRS). This government grant provided support for 80% of employees' payroll costs of over 1,400 employees who were 'furloughed' during the period the Group's operations were required to close. We took the decision to top-up the salaries of our colleagues to their normal levels in order to support them through such an unprecedented period. The last colleague was brought back from furlough on 1 August, and therefore the Group has had no further claims under the CJRS; and
- £3.4m of retail business rates relief. Our retail property rates bill is a significant cost to the business, and the government's response to the impact of COVID-19 to cut 100% of retail business rates bill for the 2020 to 2021 tax year (1 April 2020 to 31 March 2021) has enabled a significant cash saving. As the Group continues to utilise this benefit into the new financial year, it expects to receive a further £7.2m benefit.

Flexible costs

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

Excluding government support and exceptional items, total costs before interest, tax, depreciation and amortisation across for the year were £269.3m (2019: £313.6m). Total costs fell £44.3m, largely as a result of the fall in variable costs, which, as expected, reduced in line with the decrease in turnover. As a consequence of the lower variable and total costs, semi-variable and fixed costs make up a slightly larger percentage of total costs when compared to previous years.

Of total costs, 72% (2019: 76%), or £194.5m (2019: £237.7m) are variable or discretionary, and are made up of:

- £148.5m cost of goods sold, including finance and warranty costs (2019: £183.4m);
- £17.4m distribution costs (2019: £17.3m);
- £20.4m marketing costs (2019: £22.4m); and
- £8.2m performance-related payroll costs (2019: £14.6m).

Semi-variable costs totalled £40.2m, or 15% of total costs, for the year (2019: £39.7m; 13%) and are predominantly other non-performance-related payroll costs and store costs. Rent, rates, heating, and lighting make up the remaining £34.6m (13%) of total costs (2019: £36.2m; 11%).

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

Underlying operating profit

The operating profit before exceptional costs was £1.7m for the year, compared to £14.3m for the same period last year, driven by the £30.3m reduction in gross profit, partially offset by the decrease in operating costs and the benefit from government support. Without the additional government support, the Group would have recorded an underlying operating loss of £6.7m.

Exceptional costs

Exceptional items predominantly comprise of an impairment as a consequence of a cautious view on longer term store performance in a potentially weakened economic environment. Pre-IFRS 16, this £2.6m charge relates to impairment of the Group's property plant and equipment. A £3.4m charge has been recognised as part of the Group's results as presented under IFRS 16, in recognition of impairment to the Group's property plant and equipment and right-of-use lease asset.

Exceptional costs also include amounts payable for redundancy costs incurred relating to the centralisation of administrative support from each of our individual stores to our head office in Sunderland.

Prior year exceptional costs relate to the professional fees in connection with the aborted acquisition of sofa.com, as announced in January 2019.

Taxation

Pre-IFRS 16, the tax credit for the financial year is lower (2019: higher) than if the standard rate of corporation tax had been applied, mainly due to the share based payment credit not included for tax purposes.

Loss/earnings per share (EPS) – Post IFRS 16

Basic underlying EPS for the year ended 25 July 2020, which excludes exceptional costs, was 2.6p compared to 30.3p in the previous year.

Statutory basic loss per share for the year ended 25 July 2020 was 5.8p compared to an EPS of 28.5p in the previous year.

A full reconciliation of EPS is shown in note 10.

Cash and cash equivalents

Cash increased £24.6m in the year to £82.3m (2019: £57.7m). A summary of cash flows is shown below:

	Year ended 25 July 2020 £m	Year ended 27 July 2019 £m
Cash generated from operating activities	**59.5**	24.1
Payment of capital and interest elements of leases	**(20.0)**	–
Net capital expenditure	**(3.9)**	(5.6)
Net taxation and interest payments	**(1.5)**	(2.5)
Free cash flow	**34.1**	16.0
Dividends	**(4.3)**	(6.5)
Purchase of own shares	**(5.2)**	–
Net cash generated	**24.6**	9.5

The business continued to be cash generative in the year with cash generated from operating activities of £59.5m (2019: £24.1m). However, it should be noted that the different presentation under IFRS 16 improves the reported number as a result of removing rent charges. On an IAS 17 comparable basis, cash generated from operating activities was £39.5m (2019: £24.1m).

Of the £39.5m underlying cash generated from operating activities, £27.9m has been generated through improved working capital, largely reflecting the negative working capital business model whereby:

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

Customer deposit balances have increased by £19.9m in the year to £34.6m (2019: £14.7m), reflecting the strong post-lockdown sales order growth seen across the business. Additionally, the year-end cash position has benefited from a £6.1m working capital benefit on PAYE/NI and VAT, due to deferment of payments in line with the government support offered as part of its response to COVID-19.

Following negotiations with landlords, rent deferrals totalling £4.3m were achieved. This has reduced the payment of capital and interest elements of leases, and the majority of this benefit will unwind in the new financial year.

Cash flows also include returns to investors made during the first half of the year. The Group paid a £4.3m final dividend relating to the previous financial year, and also acquired £5.2m worth of its own shares. £4.4m of these shares were purchased from Parlour Product Holdings (LUX) S.A.R.L, and were subsequently cancelled. The remaining £0.8m of shares were bought into treasury for the purposes of satisfying Long-Term Incentive Plan (LTIP) awards. More information can be found in note 22.

Dividend

The Board recognises the importance of a return on investment to the Group's shareholders and aims to reinstate a progressive dividend policy as soon as is appropriate given the general uncertainty that the UK currently faces.

Despite the strength of the Group's balance sheet, in light of the current uncertain economic environment, coupled with the support received from the UK government, it seemed inappropriate to use the cash for anything other than protecting the financial strength and resilience of the business.

We will continue to assess when it is appropriate to re-commence dividend payments.

Ongoing impact of COVID-19

The Group's annual result and ongoing trade has been significantly impacted by COVID-19, and the Group continues to monitor developments. It remains difficult to predict with any certainty how the situation will evolve in future weeks and months. An update on the current situation in relation to key stakeholders is set out below.

Our people

The welfare of all colleagues and stakeholders is of paramount importance to the Group. We have implemented actions to protect the wellbeing of our teams, including significant changes across our stores, where their large layout and square footage enables us to implement social distancing without compromising the customer experience, together with supply of appropriate PPE, hand sanitiser stations located throughout and deep cleaning protocols. Our distribution centre and upholstery teams have implemented best practices for visiting customers, and many head office employees continue to work from home. We continue to minimise non-essential travel to Europe, the Far East and within the UK and we continually remind and train our colleagues of the need to maintain the highest possible standards of hygiene.

Our customers

Our customers have been very understanding of the trading environment the Group is operating in, and we have engaged well with them throughout the period impacted by COVID-19, with positive Trustpilot reviews reflecting their appreciation of the steps we have taken to ensure safety throughout the customer journey.

Our suppliers

All of our manufacturing suppliers have returned to operation. High order levels combined with new methods of working are applying pressure to lead times. There remains the further potential risk that one of the factories needs to close for a period of time, impacting our supply chain, creating delivery delays and lengthening product lead times further.

Chris Muir
Chief Financial Officer
1 October 2020

Stakeholder Engagement

Section 172 Statement

Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole but having regard to a range of factors set out in section 172(1)(a)-(f) in the Companies Act 2006.

The Board recognises the importance of engaging with stakeholders and taking their views into account when making decisions, although the Board acknowledges that not every decision it makes will not necessarily result in a positive outcome for all of the Group's stakeholders. Details on how the Board operates and the way in which it reaches decisions are set out on pages 52 to 56.

This statement sets out how the Directors have approached and met their responsibilities under s172 Companies Act 2006 in the financial year ending 25 July 2020, providing an overview of each stakeholders interests, concerns and the ways in which the Board has engaged with these groups. This report is presented in compliance with The Companies (Miscellaneous Reporting) Regulations 2018 and the UK Corporate Governance Code July 2018.

Examples of interactions with our stakeholders that have taken place in 2020 can be found on **page 33.**

Non-Financial Information Statement

The table below sets out where stakeholders can find information in our Strategic Report that relates to non-financial matters, as required by the Non-financial Reporting requirements as detailed in the Companies Act 2006.

Reporting requirement	Our policies	Where you can find out more
Environmental matters	Regulatory and compliance Responsible sourcing and supply chain Sustainability Monitoring our carbon footprint	Page 44 Page 33 Page 32 Page 75
Employees	Diversity and inclusion Health and safety Engagement Code of Business conduct	Page 33 and 76 Page 45 Page 33 Page 76
Social matters	COVID-19 Apprenticeship programmes Supporting local communities and charities	Page 36 Page 33 Page 33
Human rights	Responsible sourcing and supply chain Modern Slavery policy	Page 44 Page 44 and visit our website
Anti-bribery and anti-corruption	Political donations Whistle-blowing Anti-bribery and corruption statement	Page 76 Page 42 Page 42
Description of business model	N/A	Page 14
Non-financial KPIs	N/A	Page 26
Principal risks and uncertainties	N/A	Page 36

Environment

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

During the last twelve months, we have completed our Energy Savings Opportunity Scheme assessment and identified further energy saving opportunities to progress our energy and carbon management. This develops from our existing position where all new sites include LED lighting and energy-efficient heating and cooling systems.

Since 2013, we have reduced our electrical energy consumption by 41.3%; the electrical reduction is against a backdrop of opening 12 all electric stores in that period. Our gas usage has reduced 57.1%.

We are progressively changing our existing stores with LED lighting and the reduction of gas usage in our stores through replacement of gas-fired heating systems which are being replaced with high efficiency air-conditioning systems (electrically powered). We also continue to pursue wider behavioural and management improvements to our efficiency across all of our operations including our fleet.

Who are our stakeholders?	Why we focus on these stakeholders?	How do we engage with them?	What have we done during FY20?
People Building and inspiring an outstanding team is at the forefront of our business strategy. We are committed to creating a great place to work and to live by our RIGHT values.	Our people are our greatest asset and key to our success, incorporating their views into Board decision-making is essential to achieving our business objectives and creating a workplace which treats everyone equally. We also monitor gender diversity across the business. In 2020, our gender balance remained unchanged with 33% of our workforce being female. Further details on our gender pay gap are published at scsplc.co.uk.	We engage with our people through a variety of channels: – Discussion Groups – Weekly newsletters – Conferences – Employee surveys – Performance reviews – Employee forums	This financial year has been a challenging year for our people and engaging with our teams has been more important than ever before. A number of examples of interaction are set out below: – The Board members have been out visiting stores and distribution centres, listening to the views of our colleagues. – The group's CEO David Knight and Board member George Adams have hosted companywide zoom calls to discuss financial performance and to get feedback and opinions on matters that affect our colleagues. – Our new 'Engagement and Internal Communications' team have been collating the results of the annual employee survey and putting an implementation plan in place to address our people's concerns. – We have trained and funded various qualifications for our people such as CIMA, AAT, 7.5 tonne vehicle drivers and apprenticeship programmes. – Through our training offerings we have developed and enhanced the skills of our teams.
Suppliers Vital to our purpose of delivering outstanding value, quality and choice to our customers. We have 16 major furniture suppliers based in the UK who make and source products for us from within the UK, Europe and the Far East.	Working closely with our suppliers ensures that we have the right product offerings for our customers. We collaborate with some of the most iconic brands in furniture which is essential to our 'home of brands' vision.	We engage with our suppliers through regular meetings to review product quality and performance to ensure that we are meeting our customers' needs. As a responsible business we work with our suppliers and with SEDEX to ensure that Modern Slavery Regulations are adhered to within our supply chain. We collaborate with our suppliers to reduce our environmental impact by reducing the use of single use plastics and looking for more sustainable packaging options, for example offering a carpet made entirely from recycled plastics and using reusable packaging.	Throughout the year we worked with our suppliers to launch over 100 new products across our furniture and flooring ranges. We brought 5 new suppliers on board to make and source our products and we look forward to building our relationships with these suppliers and to see mutually beneficial volume growth. Although our operations were paused due to the COVID-19 pandemic, we worked with our supplying partners to ensure they received payment as normal, and were in a strong position to re-start delivery as soon as possible.
Customers We seek to offer our customers outstanding value, quality and choice for their homes.	Our purpose is built around providing an excellent customer experience and this focus is crucial to the Board's strategy.	Our customers are encouraged to rate their experience with us on Trustpilot and we are thrilled to have received over 230,000 reviews which we regularly review and use to reward our staff and identify areas for improvement.	We are very proud to have maintained our 'Excellent' rating on Trustpilot and we are in the process of utilising data analysis tools to help us gain further insight from our reviews. During the first week of the lockdown period, our teams contacted over 25,000 customers individually to offer them reassurance regarding their order. Through the newly launched appointment system our dedicated sales team have enjoyed welcoming customers back into our stores and ensuring that they choose the right product for them.
Communities During the year, the Group and its people continued to support many local and national great causes, close to the hearts and minds of the ScS family.	Our store network is spread across the UK and they play an active role in their local communities. As a socially responsible business it is important to us to contribute to society and the economy.	As part of our daily operations our customer facing colleagues connect with people and customers in their local communities every day. We continue to support many charities chosen by our people.	We have recruited 557 new colleagues throughout the year, creating job opportunities for people across various locations. We have continued to support local charities with donations of £18,000. Throughout lockdown we donated £48,000 across a number of Trussell Trust Foodbanks to support our local communities in what was a worrying time for many households.
Shareholders We have two main shareholder groups; Institutional investors and individual shareholders. The majority of our shareholders are institutional investors. This has been the case since our flotation in 2015.	The Group's strategy and purpose have been built with the long-term success of the business in mind and for the benefit of our members as a whole.	We engage with our shareholders through a range of channels including meetings, the Annual Report, our AGM and our financial and trading statements. Investors are able to keep up-to-date through our dedicated corporate website.	We have continued to update our shareholders with regular trading updates throughout the period as events have unfolded. We held a live analyst meeting open to all shareholders, and a webcast of the meeting is published to our website for those unable to attend. Our CFO is on hand to speak to our shareholders and address any queries they have.

Risk and Risk Management

Our risk management framework is designed to manage and report on risks that could affect the performance and reputation of our business

Our approach to risk management
The Group's strategy takes into account risks along with opportunities and manages them accordingly. The Group accepts that it faces risks and uncertainties that could affect the achievement of its strategic objectives and consequently mitigating controls are in place to reduce the risk to an acceptable level. Regular reviews of existing and emerging risks are undertaken along with the control systems and processes to mitigate them.

Risk management framework
The Board has overall responsibility for managing risk. The Audit Committee has oversight of risk management and reports to the Board. The established governance framework underpinning our approach to risk management is set out in detail below and includes monthly reporting of risks to the Operating Board, and consideration of risk management at every Audit Committee, including the robust assessment of the existing principal and emerging risks and the related control environment.

Identification of risks
The Board and the Group's senior management team have a clearly defined responsibility for identifying the major business risks facing the Group and for developing systems to report, mitigate and manage those risks. This process has been reviewed this year by engaging third-party risk experts who facilitated risk workshops with senior management to review and provide assurance over the existing principal and emerging risks.

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

On an annual basis, a calibration model of scoring one to five is used to define the level of risk appetite for each type of risk. The Group has a minimal risk appetite for areas of statutory compliance but is willing to accept greater risk to achieve its objectives and drive the business forward. The Board's appetite for each of the principal risks is set out in the table below, and within the principal risks on the following pages.

Monitoring of risks
There is an ongoing process for identifying, evaluating, managing and reporting on the significant risks faced by the Group. This has been in place for the year under review and up to the date of approval of this Annual Report. The Board has also performed a robust assessment of the principal risks and mitigating controls.

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

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

Risk management processes and framework

The key roles and delegated responsibilities:

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

Bottom-up
Risk management reporting.

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

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

The Audit Committee
The Audit Committee oversees risk management and internal controls. The Committee reviews the Group's internal controls, sets objectives and monitors the effectiveness of the Internal Audit team. The Committee also monitors the independence and expertise of the external auditors.

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

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

Principal risk	Risk appetite levels 2020 Low	Low to medium	Balanced	Material	Aggressive
Strategic risks					
Economic environment					
Competition					
Key trading periods					
Regulation and compliance					
Infrastructure risks					
Business systems and infrastructure					
Supply chain, infrastructure and product					
Our people and culture					
Reputational risks					
Brand and reputation					
Financial risk					
Credit risk, liquidity and consumer credit					

The table shows that the majority of appetite for risk is low or low to medium, with only economic environment, competition, and key trading periods showing a balanced appetite. During the year the Board's appetite has only changed in one area and this is a reduction in appetite for risk in business systems and infrastructure.

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

Principal Risks and Uncertainties

Good risk management is essential to underpin the achievement of our strategic objectives. We continue to carry out robust reviews of all risks and respond quickly and effectively

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

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

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

We consider the risks surrounding COVID-19 and Brexit to be significant and impact a number of our principal risks, and have outlined these separately below.

COVID-19

COVID-19 has had a wide ranging and significant impact on a number of the principal risks and uncertainties within our business. We have implemented new controls, risk assessments and procedures to ensure that we follow government advice and industry best practice. The mitigating controls implemented cover a wide range of responses which are set out below:

- Immediately prior to and post the initial period of lockdown, Operating Board meetings were held on a daily basis to ensure relevant actions and decisions could be made quickly, and that these were effectively communicated to all teams across the business;
- The cash flow and profit impacts of different levels/lengths of lockdown were modelled prior to the temporary closure of our stores and distribution centres in late March;
- In March 2020, we drew down our £12m revolving credit facility (RCF) to further secure our cash position. Covenants which allowed for greater headroom were then agreed with the bank. The RCF was repaid prior to the year end, reflecting the strength of the Group's balance sheet;
- The closure of our stores and distribution centres was completed efficiently in line with government timelines;
- The majority of operational colleagues were furloughed and the Group made monthly claims under the Coronavirus Job Retention Scheme (CJRS), allowing us to retain all our staff throughout the lockdown;
- Home working was implemented quickly and effectively for all staff who were required to continue to work, including the provision of equipment and assessments of home working environments;
- A senior management team and Operating Board meeting was set up weekly to communicate key messages and discuss emerging issues and agreed actions;
- Communication channels were set up with all external stakeholders including close support for our customers and key suppliers, along with dialogue with relevant regulatory authorities;
- A staff forum was created to allow two-way communication of the latest developments, make suggestions and to raise concerns, including shared views related to the re-opening processes;
- Our communications team produced a detailed regular business bulletin that was sent to all colleagues, including those on furlough, to ensure everyone was kept up to date with the latest information;
- All non-essential costs were reduced and planned capital expenditure was deferred along with the suspension of the interim dividend;
- Landlords were engaged to manage rent obligations and negotiate rent deferrals and rent-free periods;
- Following the announcement that stores could re-open and as a result of the detailed planning work carried out during lockdown, we were able to re-deploy staff and quickly re-open stores with all the correct procedures and personal protective equipment in place;
- Operating processes were updated to ensure that all best practice guidelines are followed, making 'safety first' our priority in all areas of the business;
- We provided additional resource, both through new recruitment and from within our existing team to support additional demand experienced by our online sales channel;
- Detailed cash modelling was carried out to assess various scenarios and ensure that cash was preserved to allow us to continue to operate. Although we could not predict the ongoing impact on the business, we considered severe and plausible downsides;
- The RCF has now been repaid and cancelled and we have secured a new three-year £20m facility under the Coronavirus Large Business Interruption Loan Scheme (CLBILS);
- Risk assessments were performed for our key operational areas and detailed working practices and training was provided to ensure the safety of our teams; and
- We provided additional resource in our stores to help our customers understand our safety procedures and all of our people across the business were provided with personal protective equipment.

In this continually changing and challenging environment we continue to monitor this risk and associated impacts to ensure we adhere to best practice and government advice. The business has responded well, quickly adapting to new ways of working, whist minimising the impact and risk to employees, customers, suppliers and the resilience of the Group. It is difficult to predict with any certainty what the impact of COVID-19 will have over any given period, however, it is certain that the impact will be enterprise wide and will have a profound effect on priorities and other existing risks facing the Group. The impact of, and the increased risk created by the pandemic, is highlighted within each of the principal risks set out in the following pages.

Brexit

Brexit remains a significant economic event facing the UK for the coming year. This risk continues to increase due to the elevated uncertainty over the UK's withdrawal from the EU in December 2020, and the disruption to trade negotiations caused by the COVID-19 pandemic. The potential impact of the risks facing the Group following withdrawal remain uncertain. In particular, we consider the highest risks being related to the UK economy and subsequent consumer confidence, the risk of supply chain disruption and cost increases, and labour availability, both within our operations and within our supply chain. We also recognise that there could be an impact on the regulatory guidelines that the Group operates within, although we expect those to be minimal in the short to medium term.

Actions taken include:

- Operating Board monitoring and review of the evolving impact of the post-transition trading relationship between the UK and the EU;
- The Operating Board has considered various scenarios depending on the outcome of trade negotiations and have prepared plans for each scenario;
- Working with our suppliers to ensure that they have made appropriate plans;
- Ongoing monitoring of regulatory changes that may affect our operations post-transition period;
- Reviews of impacts on staffing levels to ensure that staff retention is managed appropriately; and
- Review of pricing strategy and changes in our cost base to ensure we can continue to offer the best value product in the market.

The impact of, and the increased risk created by Brexit, is highlighted within each of the principal risks set out in the following pages.

Risk categories

Each principal risk is grouped into an overarching risk category to enable better analysis of risk and improved risk reporting.

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

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

Reputational risks are those which could damage the brand or perception of our business. The principal risk in this category is 'Brand and reputation'.

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

Principal Risks and Uncertainties continued

Key to change in risk level since the previous year:

↑ Risk higher (worsened) — Risk stayed level ↓ Risk lower (improved)

Strategic risks

Risk	Risk description	Mitigation	Progress in 2020
Economic environment **Change in risk level** ↑ **Link to strategic priorities** 3 Optimising product 4 Sales density 6 Flooring growth 7 Improve profitability **Performance indicator** Sales performance **Risk appetite** Balanced **Risk profile after mitigating controls** Medium **Responsibility** Board **Reports to** Chief Executive Officer	**Consumer confidence** Changes in consumer confidence, driven by political or economic concerns, including increased uncertainty in job security, have a direct impact on consumer spending on discretionary high value items, such as furniture and flooring, which could result in a decline in the performance of the Group. The ongoing economic uncertainty the UK is currently facing, given the ongoing exit from the EU and the impact of COVID-19, means consumer confidence continues to be subdued.	Maintaining a business with the right level of resilience to protect the Group throughout the economic cycle. This includes having an appropriately structured balance sheet with sensible levels of cash and no debt. Operating a lean business model with a high proportion of costs that are flexible with demand allows us to adapt and right size the cost base quickly, whilst remaining competitive in our markets. Maintaining our established diverse product offering, including a market-leading upholstered furniture and flooring range with complementary dining and occasional furniture. Our range of products at broad price points across all categories allows our customers to find good value product for all budgets, along with excellent service and a range of interest-free options.	Closing cash on the balance sheet increased from £57.7m at the end of July 2019 to £82.3m at the end of July 2020. Our cost base and structure is constantly under review and we continue to ensure that we maintain our efficient business model. Flexible costs in 2020 totalled 72%. Our pricing strategy has always been based on offering the best value, along with a wide range of price points and this continues to be our focus. Our updated store layout and range planning is now complete and is embedded across the Group. Our focus on providing value to our core demographic and our significant investment in marketing continues and ensures that our core customer knows who we are and what we offer. Improvements in our customer journey mean customers can have confidence when shopping with the Group.
	Currency rates Exchange rate fluctuations could lead to cost pressure.	We purchase all our products on a sterling basis, minimising exposure to exchange rate movements. We have always worked closely with our suppliers on exchange rate fluctuations to minimise any impact on our cost base and our retail pricing strategy.	Throughout 2020, the Group has continued to manage cost increases with our supplier base. This has led to the Group's margin being at a similar level to prior years.
	Interest rates The Group offers interest-free credit options on all products we sell, the provision of which results in a cost to the Group from our finance house partners. Interest rate fluctuations could lead to cost pressure and also reduce customer's disposable income levels.	Cost of and access to consumer finance is managed by having strong relationships with three finance houses who currently operate with the Group. Relationships are also maintained with other finance houses to ensure the Group continues to receive the right service at the right cost.	Over the year, interest-free credit charges have remained stable. Since the end of the year LIBOR, has reduced, which would normally result in a reduction in charges to the Group. However, customer default levels are forecast to increase, and, therefore, changes to charges are forecast to be minimal.

Key to change in risk level since the previous year:

↑ Risk higher (worsened) ⟷ Risk stayed level ↓ Risk lower (improved)

Risk	Risk description	Mitigation	Progress in 2020
Economic environment continued	**COVID-19 impact** The pandemic, coupled with the government's response, has led to a material impact on the Group's activities in the financial year. There is an ongoing risk of further disruption to the Group's performance if further restrictions are imposed. The full extent of the impact on employment and consumer confidence is not yet understood. Both are likely to reduce in the short to medium term, leading to a reduction in demand and spending on high value discretionary items. The longer-term impact on exchange and interest rates is not yet known but this could lead to increased operating costs to the Group.	Our cautious approach and focus on building a resilient balance sheet position in the past few years has allowed the Group to continue to satisfy customer orders, whilst treating our teams and supply partners fairly during the last few turbulent months. The Group cash flow and financial forecasting is robust and allows the business to model and minimise potential impacts.	Following the outbreak of COVID-19, a number of measures were put in place to mitigate the risk to our business including: – Increased financial modelling to plan cash flow impact including increased downside scenario modelling; – Utilisation and amendment of bank revolving credit facility (RCF) to maximise cash availability; – Existing RCF replaced with a larger, longer tenure £20m CLBILS facility which is in place until August 2023; – Use of government schemes for a retail rates holiday, and to defer VAT payment until March 2021; – Cash management exercises with most capital expenditure projects put on hold, and rent deferral agreements from landlords; – Implementation of the Coronavirus Job Retention Scheme (CJRS) for over 1,400 staff; – Investment in personal protective equipment (PPE) for use by staff in order to increase consumer confidence; and – Improved communication channels set up with colleagues, customers and suppliers.
	Brexit The Group may be unable to identify and effectively respond to the challenges of a post-Brexit business environment leading to reduced performance. The risks following Brexit include an increase in supplier costs and disruption to the supply chain.	Our review of the potential impact of the Brexit outcome and mitigating actions that the Group can employ has been completed. Working closely with our suppliers has enabled us to plan for the Brexit process and to minimise any impact on our cost base and our retail pricing strategy.	Our review highlighted that the exposure of the Group is partly reduced through our UK-based suppliers and that the level of finished goods that come from the EU are proportionately low. The nature of our product also means that small delays in transportation will not have a material impact on our lead times or proposition offered.

Principal Risks and Uncertainties continued

Key to change in risk level since the previous year:

↑ Risk higher (worsened) ⟷ Risk stayed level ↓ Risk lower (improved)

Strategic risks continued

Risk	Risk description	Mitigation	Progress in 2020
Competition **Change in risk level** ⟷ **Link to strategic priorities** 4 Sales density 5 Market-leading website 6 Flooring growth 7 Improve profitability **Performance indicator** Sales performance **Risk appetite** Balanced **Risk profile after mitigating controls** Medium **Responsibility** Commercial Director **Reports to** Chief Executive Officer	**Competitive marketplace** Intensifying competition, particularly online, and operating within fragmented markets could increase pressure on sales and margins.	We continue to diversify and develop our product range and continually respond to changing patterns in demand, whilst remaining focused on our core market. Our upholstered furniture range includes third-party brands and ScS house brands. Due to our scale and importance to our suppliers, our ranges are exclusive to the Group. We differentiate ourselves from the competition by ensuring the customer journey creates a compelling reason to purchase. Our retail teams are continually focused on the customer experience, which is core to our success. We diligently review and act upon feedback from our customers through platforms such as Trustpilot and Google My Business reviews. We regularly monitor competitor's activities to ensure we maintain a highly competitive position in the market place.	During 2020, we continued with our review and revamp of our ranges and store layouts to ensure we maximise the customer proposition and journey. A new concession feel 'Home of Brands' concept was rolled out across the store network in the year, introducing new house brands to the range. In light of market opportunity and demand, the Group increased the value offering presented in store. Our commitment to achieve having the best customer service in our market remains an area of focus. The Group's TrustScore increased for the fourth year in a row. Our market share in upholstered furniture continues to increase from 9.4% in 2019 to 9.8% in 2020.
	Changes in marketplace Failing to respond to key changes in the competitive environment is a risk to the Group's strategic plans for growth and profitability.	We monitor product performance across the network and in competitors to identify emerging trends. We constantly invest in our website to increase user experience to allow customers to purchase online or to carry out research before visiting a store. We also operate a telesales operation, providing a full omnichannel offering. Our marketing strategies are constantly reviewed to ensure that we are reaching our target audience effectively.	The introduction of enhanced data analytics during the year has increased the insight and speed of reviewing product performance. During the year, new campaign management software was implemented into our telesales operation, increasing efficiency and the customer experience. At the end of the year, a new faster and more intuitive website was launched. This site, which is mobile optimised, increases the user experience and allows the Group to improve how we showcase our products. Continued progress has been made with digital marketing and our Search Engine Optimisation (SEO) rankings, seeing more website traffic and online sales increasing by 13.6%. Our review of marketing strategies has been under continuous review throughout 2020, ensuring our investment into relevant advertising channels maximises our opportunity to reach our customers. The temporary closure of our stores in late March allowed the Group to trial a different mix of traditional and digital media allocation.

Key to change in risk level since the previous year:

↑ Risk higher (worsened) ⟷ Risk stayed level ↓ Risk lower (improved)

Risk	Risk description	Mitigation	Progress in 2020
Competition continued	**COVID-19 impact** The COVID-19 pandemic, whilst challenging will also present opportunities for the Group. The period of closure and post-lockdown trading has and will cause financial distress to competitors such that they may consider their level of participation in the market. Some competitors have ceased trading and others have been forced to scale back operations. The pandemic has also increased the number of consumers who are willing to buy bigger ticket items online. This presents both a risk and an opportunity for the business.	The Group will continue to monitor consumer habits closely and is well placed to react to any changes, such as the shift to online, and to also take advantage of a greater market share in the event of other businesses leaving the market. The Group is committed to continue to increase expenditure on the digital shopping experience where returns justify the investment.	At the end of the year, post the initial COVID-19 lockdown period, two of the Group's largest competitors went into administration. Whilst, one did re-open post-administration, it now operates with a smaller footprint than it did previously. We continue to monitor risks and explore opportunities that the pandemic has presented, and ensure that any response to a change in risk or opportunity is addressed accordingly. As noted above, the online customer proposition has been enhanced by the launch of a new website. This has been complemented by introducing a range of online-only products.
	Brexit The risk of supply chain disruption could reduce the availability of products and therefore our ability to compete.	We continue to work with our suppliers to ensure we have a supply of products to continue our competitive offering.	During the year we have continued to monitor the political landscape and our supplier arrangements.

Risk	Risk description	Mitigation	Progress in 2020
Key trading periods **Change in risk level** ⟷ **Link to strategic priorities** 4 Sales density 5 Market-leading website 7 Improve profitability **Performance indicator** Sales performance **Risk appetite** Balanced **Risk profile after mitigating controls** Medium **Responsibility** Chief Executive Officer	**Key trading periods** Furniture retailing has historically relied on certain key trading days and periods, including bank holidays. Prolonged extreme cold, warm or unseasonal weather conditions over these key trading periods may reduce footfall in our stores, resulting in weak sales and potentially adverse effects on profitability.	Close monitoring and our ability to flex the marketing due to the strength of our relationships with key advertisers enables us to react quickly to changes in the marketplace, including extreme weather events. We actively monitor and forecast demand and, should this risk occur, we would review planned and tactical promotional activity to determine whether strengthening this would drive sales. Our website enables customers to purchase easily without needing to visit a store.	The year saw the Group react quickly to threats during or around the historical key trading periods. Advertising was flexed appropriately, reducing spend and risk. Our marketing strategy is under constant review and we have undertaken significant work on improving our presence on digital channels. We continue to monitor our investments to achieve maximum impact with our core customers. Our recently launched and updated website will improve the customer journey and experience to ensure that we can continue to trade successfully throughout any impact of adverse periods of weather or closures due to a pandemic.
	COVID-19 impact The closure of shops in late March to late May due to COVID-19 impacted on the key trading period of Easter and the first May bank holiday. Future disruption is possible if a second wave of the pandemic results in further closures at a regional or national level on or around a key trading period.	The strength of our relationships with key advertisers and our flexible cost base enables the business to conserve cash when an extreme event occurs.	In response to the temporary closure of our stores in late March, all advertising was cancelled or deferred. The strength of our relationships with key advertisers meant we were able to re-allocate this spend with no penalties, and to turn this promotional activity back on following the re-opening of the stores in May.

Principal Risks and Uncertainties continued

Key to change in risk level since the previous year:

Risk higher (worsened) Risk stayed level Risk lower (improved)

Strategic risks continued

Risk	Risk description	Mitigation	Progress in 2020
Regulation and compliance **Change in risk level** Risk stayed level **Link to strategic priorities** 1 Outstanding team 2 Customer experience 4 Sales density 7 Improve profitability **Performance indicator** Prosecution and regulatory action **Risk appetite** Low **Risk profile after mitigating controls** Medium **Responsibility** Corporate Services Director **Reports to** Chief Executive Officer	**Key regulated activities** The Group's operations are subject to a number of regulations, including: – Trading standards – Advertising standards – Product safety and quality – Health & safety – Environment – Data protection (GDPR) – Bribery Act – Financial Conduct Authority (FCA) – Modern Slavery Non-compliance with any of the regulations could result in a financial cost, and/or reputational damage.	All team members are provided with relevant training dependant on their role. Completion of training is monitored and reported monthly to the Operating Board. Any complaints regarding regulated activity are reported to and investigated by the Audit, Risk and Compliance team and reported to the Operating Board and the Audit Committee. We actively monitor compliance with our existing obligations and we regularly update and re-issue internal policies and procedures. We review current guidelines on pricing and promotions through regular review and monitoring. All employees are issued with a code of conduct, which is updated annually and published on our intranet. We have an anti-bribery and corruption policy and all employees dealing with third parties are expected to undergo training. Our anti-bribery and corruption policy sets out our approach for the giving and accepting of gifts and hospitality. A regular review of gifts and hospitality registers and the policy is carried out by the Audit, Risk and Compliance team. We have a long established confidential whistle-blower hotline, which allows colleagues to raise any concerns. Our policy is intended to make employees or third parties aware that they should report any serious concerns or suspicions about any wrongdoing or malpractice on the part of any employee of the Group. We carry out due diligence product testing regularly to ensure our products comply with all relevant regulations.	Enhancements have been made to our training programme (including online training) to improve monitoring and reporting processes, covering all regulated areas and in particular the requirements of the FCA. We have introduced a 'Staple Six' that all colleagues must complete annually. A new online training course to help our retail colleagues introduce finance to customers has been implemented. This will accommodate increased levels of monitoring, compliance, reporting and support to colleagues. Monitoring of our compliance with GDPR continues to be an area of focus and we have continued to enhance our processes and systems to respond quickly to any subject access requests. Risk assessments were carried out across the whole network prior to re-opening following the COVID-19 enforced temporary closures. A new COVID-19 and use of PPE online training module was also introduced to support all colleagues across the business.
	Warranty regulation Expected changes to the regulation and reporting of product warranties could affect future sales and profit from this income stream. Further legislation changes may have a retrospective impact, effecting future profit levels.	We actively monitor and respond to the updates provided by the FCA ensuring any relevant requirements are understood and appropriate action can be planned, in particular in relation to warranty sales. Our pricing model allows us to adjust what we charge for our products, and we will consider implementing these if changes to regulation or reporting impact the current level of warranty income.	The business has continued to monitor developments in potential warranty regulation and has been working on changes to ensure the Group continues to comply with any required changes.

Key to change in risk level since the previous year:

Risk higher (worsened) Risk stayed level Risk lower (improved)

Infrastructure risks

Risk	Risk description	Mitigation	Progress in 2020
Business systems and infrastructure **Change in risk level** Stayed level **Link to strategic priorities** 2 Customer experience 5 Market-leading website 7 Improved profitability **Performance indicator** Number of major incidents System performance **Risk appetite** Low **Risk profile after mitigating controls** Medium **Responsibility** Chief Financial Officer **Reports to** Chief Executive Officer	**System availability** The Group's performance is heavily reliant on the continuous operation of our IT systems. Outages or disruption could result in a decrease in sales performance and impact our delivery service. **Information security** There is a risk that a loss of data could have a significant adverse reputational impact. **Cyber security and performance** Any major disruption (such as a cyber-attack), sustained performance problems, or failure to keep technology up-to-date could constitute a significant risk to our business.	A 24-hour system for monitoring performance is in place for business critical systems. A 24-hour third-party support contract is also in place for all critical systems. A business continuity plan is in place together with a disaster recovery plan and alternative operating site. Arrangements are reviewed annually and updates made accordingly. We have processes and systems in place to ensure system access is appropriately controlled and access to sensitive data is limited. The Group is committed to ensuring that its network, applications and data are protected and all relevant software and hardware updates are installed on a regular basis. We use third-party experts to regularly test our resilience against cyber-attack. This testing covers both external and internal penetration testing, including granting access to hardware that sits within our physical network to understand what weaknesses the latest cyber security tools can identify. All access to networks and systems remotely are restricted to those people using Virtual Private Network (VPN) tools. Staff are provided with Company IT equipment and the use of other equipment is prohibited. All staff have been issued with information security guidance, which is updated annually.	During the past year our investment in IT has continued, in particular where this related to cyber security improvements. We have load tested our disaster recovery site throughout the year, including relocating half of our head office support functions to operate from the site in March. We have enabled a number of staff to work from home, reducing the risks within our head office.
	COVID-19 impact Following guidelines introduced by the government regarding increased home working, there is an increased risk that the Group's business systems could be impacted by the number of staff working remotely.	Prior to moving to full remote working, the Group initially implemented the business continuity plans to reduce the risk to employees located in our head office. This involved splitting our support teams across our head office and disaster recovery site along with increased home working.	To reduce the risk to our colleagues, the business enabled all of our office-based staff to work from home. This demonstrated that the Group has the ability to operate key support functions remotely.

Principal Risks and Uncertainties continued

Key to change in risk level since the previous year:

↑ Risk higher (worsened) ⟷ Risk stayed level ↓ Risk lower (improved)

Infrastructure risks continued

Risk	Risk description	Mitigation	Progress in 2020
Supply chain, infra-structure and product **Change in risk level** ↑ **Link to strategic priorities** 3 Product strategy 4 Sales density 6 Flooring growth 7 Improved profitability **Performance indicator** Sales performance Customer feedback Delivery optimisation **Risk appetite** Low to medium **Risk profile after mitigating controls** Medium **Responsibility** Logistics Director Commercial Director **Reports to** Chief Executive Officer	**Supplier resilience and capacity** The majority of the products we sell are sourced from a small number of key suppliers based in the UK. If a supplier is unable to meet demand or ceases to trade this would disrupt supply to customers. **Ethical practices** Given that parts of our supply chain are based in the Far East there is an increased risk of ensuring compliance over ethical practices. **Product quality and safety** If we are unable to provide a good quality and safe product there is a risk to the reputation of the Group, resulting in loss of customer confidence and reduction in demand.	We have ensured that at least two factories can produce a comparable model for each product we sell, reducing the risk of disruption in the event of a supplier issue. On time delivery and product quality is monitored and reported to the Board on a regular basis. Our review of supplier financial stability ensures that any early signs of failure are addressed if necessary. All suppliers are required to be members of Sedex and we expect all our suppliers to comply with the relevant legislation and best practices. We have a programme of regular independent testing on our products to ensure ongoing compliance to current regulations. Our customer service team hold regular meetings with suppliers to review quality and agree appropriate action for continuous improvement.	Supplier performance has improved in the year, based on product quality, independent safety testing and, up until the impact of the lockdown period, on-time delivery metrics. We have continued as a member of Sedex and promote the membership with our suppliers to monitor risks of modern slavery within our supply chain. We are reviewing other opportunities to enhance our oversight of ethical trading within the supply chain. We have maintained our accreditation from the Furniture Industry Research Associated Certified Compliance scheme, and are proud that ScS was the first UK company to achieve this.
	COVID-19 impact During, and subsequent to, the pandemic crisis there is a risk of disruption to the Group's supply chain. This could result in delayed orders or an increase in costs due to manufacturing cost increases.	In response to COVID-19 we have worked closely with our suppliers to monitor their response and ability to deal with the impact of the pandemic. The Group has paid suppliers in line with existing terms during the lockdown period to ensure they are able to re-commence production to fulfil our outstanding customer order book.	Any product delays have been communicated to customers as soon as we have been made aware. We continue to monitor the impact of COVID-19 on our supply chain and work with our suppliers to minimise any disruption. This includes increased levels of forecasting and capacity planning following the post-lockdown increase in demand.
	Brexit There is a risk of disruption to the supply chain along with a potential increase in duties leading to an increase in cost base.	We continue to monitor the evolving impact of post-transition trading relationship with the EU.	We continue to review arrangements in place covering our suppliers and we continue to monitor and work with them to reduce our exposure.

Key to change in risk level since the previous year:

↑ Risk higher (worsened) ↔ Risk stayed level ↓ Risk lower (improved)

Risk	Risk description	Mitigation	Progress in 2020
Our people and culture **Change in risk level** ↑ **Link to strategic priorities** 1 Outstanding team 2 Customer experience 7 Improved profitability **Performance indicator** Colleague retention **Risk appetite** Low to medium **Risk profile after mitigating controls** Medium **Responsibility** Corporate Services Director **Reports to** Chief Executive Officer	**Team retention** Our colleagues are critical to enable the delivery of a high standard of customer service. We rely on the quality, experience and engagement of all our colleagues across the whole business. Poor retention will increase the risk of loss of knowledge, increase the cost of recruitment and retraining, and impact on the customer experience. **Payroll costs** Any future increase to the minimum living wage will affect the Group's cost base and our ability to retain staff.	Forming part of our wider priority 'Building and inspiring an outstanding team' we are constantly reviewing our terms and conditions of employment to ensure they remain competitive and fair within the sector. Our succession planning has been in place for a number of years and includes strategic and contingency measures in the event that key individuals are not available. The plan is refreshed and reviewed on an annual basis by the Board. We constantly review retention rates and further insight is gained through an exit interview process. Appropriate rewards and incentives are in place to secure the retention of our senior management team. The incentives focus on rewarding performance as well as recognising the need to retain the experience of our senior managers. The Group is accredited with Investors in People status and forms part of a wider strategy for 'Building and inspiring an outstanding team'.	Following the successful launch of our refreshed strategies we have continued to promote the changes and significant investment in making ScS a great place to work. The prior year saw the Group enhance employee benefits, including the introduction of an employee assistance programme. This has been promoted during the lockdown period to provide our staff with a support route. In collaboration with MHFA England, 32 mental health first aiders have also had training on supporting colleagues throughout our business. Enhanced personal development programme commenced for our retail branch and senior management teams. We continue to develop and improve our training to identify and close training gaps. Following the annual staff survey we have responded to staff feedback and we update our teams on the progress made. Staff turnover has reduced by 9.2% during the financial year.
	COVID-19 impact The impact of COVID-19 and the resulting government action resulted in staff being furloughed for a significant period of time. Staff returning to work could feel anxious, which may impact efficiency and absenteeism. There is a risk that a number of staff from one location being diagnosed with the virus, resulting in a temporary closure of a store or distribution centre which would impact our performance and our ability to deliver the best customer experience.	Our flat management structure allows the business to react quickly to minimise costs and maximise our people focus during a lockdown period. In response to COVID-19 and following the re-opening of business, the Group invested in the re-training of staff along with updated policies, procedures and guidance.	We invested and continue to supply personal protective equipment along with guidance, and a safety first programme to ensure staff feel confident about coming back to their workplace. Risk assessments and safe systems of work were implemented for all areas of the business. Improved staff communications were implemented, including the use of social media. We updated training on COVID-19 and safety processes for staff in preparation for re-start. Where possible, staff were set up to work remotely from home.

Principal Risks and Uncertainties continued

Key to change in risk level since the previous year:

Risk higher (worsened) | Risk stayed level | Risk lower (improved)

Reputational risk

Risk	Risk description	Mitigation	Progress in 2020
Brand and reputation **Change in risk level** Risk stayed level **Link to strategic priorities** 1 Outstanding team 2 Customer experience 7 Improve profitability **Performance indicator** Sales performance Customer feedback **Risk appetite** Low **Risk profile after mitigating controls** Low **Responsibility** Board **Reports to** Chief Executive Officer	**Brand and reputation** Protecting our brand and reputation is key to our success and everything we do. The Group recognises that failure to effectively protect the brand could result in a loss of confidence by customers, colleagues and other key stakeholders.	Any risk to our brand and reputation is monitored closely through various channels and regularly reported to the Operating Board. Key stakeholder KPIs are reported to the Board regularly. Our retail, compliance, merchandise, distribution and aftercare teams all have processes in place to monitor and adhere to relevant standards, ensuring our reputation for a high quality product and service is maintained. We have review processes in place to monitor customer service levels through Trustpilot and social media feedback. We work on product quality through discussions with our suppliers and we review colleague engagement through staff engagement surveys. We have a long established code of conduct, equality and diversity policies, and all staff and suppliers have access to a confidential whistle-blowing helpline. The integrity of our product sourcing is regularly monitored and reviewed with our suppliers.	During 2020, we have continued to focus on customer service and strive to achieve the new more aspirational targets set by Trustpilot. We have further promoted our values throughout the business, ensuring our focus is maintained on making ScS a great place to work and shop. We continued to work closely with our suppliers and have established an improvement programme for product quality. Data from customer services and audit results help us to guide suppliers through areas of focus to drive improvements. A continuous improvement framework is in place that enables us to work with our suppliers to review existing products and new products as they are introduced into the range.
	COVID-19 impact As a result of COVID-19, a delay in orders and deliveries to customers may result in reputational damage. Changes to store layout, required under government guidance to allow social distancing, may impact on the customer's experience, reduce sales and increase costs.	The Group has a dedicated supplier management team, who track all customer orders including any revised delivery dates. This team works with our senior management team to ensure all delays are communicated to our customers as soon as these are evident.	All delays on orders taken prior to the lockdown period were communicated to impacted customers. Customers were contacted directly by a member of our senior management team. We have worked with and will continue to work with our suppliers to ensure any impact can be mitigated. Lead times on products are regularly updated to ensure customers are aware of any extended delivery times at the point of order. We have ensured that every store has a 'meet and greet' member of staff in place to ensure customers are reassured and advised on our revised shopping experience. We have installed signage and provided personal protective equipment to all staff and have followed all government guidelines and best practice provided by relevant bodies.

Key to change in risk level since the previous year:

↑ Risk higher (worsened) ⟷ Risk stayed level ↓ Risk lower (improved)

Financial risks

Risk

Credit risk, liquidity and consumer credit

Change in risk level
↑

Link to strategic priorities
1 Outstanding team
2 Customer experience
4 Sales density
7 Improve profitability

Performance indicator
Sales performance
Customer feedback
Cost of consumer finance
Net debt

Risk appetite
Low

Risk profile after mitigating controls
Medium

Responsibility
Chief Financial Officer

Reports to
Chief Executive Officer

Risk description	Mitigation	Progress in 2020
Supplier credit The availability of supplier credit and the ability of suppliers to obtain credit insurance could have a significant impact on our suppliers' working capital requirements, which may have a material impact on the Group's cash position and overall financial position.	We have developed strong relationships and credibility with credit insurers through regular communication, information, ongoing trading performance and the Group's resilience levels. We have robust forecasting facilities in place that enable early discussion of risks, which improves the chances of positive solutions for all stakeholders.	The Group has had increased dialogue in the year with credit insurers. Suppliers provided regular updates on their credit insurance arrangements. None of our manufacturing suppliers saw a reduction in their credit insurance levels.
COVID-19 impact There is an increased risk that the Group's credit rating is affected, reducing the ability of our suppliers being able to obtain credit insurance.	Embedded cash-flow forecasting and the management and reduction in costs allowed the Group to manage cash appropriately. Whilst trading was significantly impacted by the lockdown, the Group continued to pay our suppliers for goods delivered. This has meant that post the lockdown period our supply chain has been able to re-start.	Despite the impact of COVID-19 resulting in stores being closed in March 2020, the Group continues to maintain a strong cash position on its balance sheet.
Liquidity Cash generated from business activities is used to fund our working capital, any reduction or loss of access to cash would impact on the ability to pay suppliers and continue operations.	The Group's treasury policy is to have a balance sheet that does not rely on debt to fund its day-to-day operating activities. Targeting to hold sufficient cash balances to provide adequate liquidity through the economic cycle. The Group maintains a strong, long standing relationship with our bank. A £12m revolving credit facility (RCF) was in place from January 2015 to August 2020, when it was replaced with a three-year £20m CLBILS facility which matures in August 2023.	Despite the COVID-19 lockdown, we continued to maintain a strong financial position through careful monitoring and management of our cash flows. The Group acted quickly to amend the terms of the existing RCF to improve covenant headroom, and then subsequently replaced with an improved facility.
COVID-19 impact The closure of the stores and distribution centres meant the cash position of the Group reduced, largely due to the unwind of working capital. A prolonged period of closure or subdued demand post-re-opening would reduce liquidity levels further.	Embedded cash-flow forecasting and the management and reduction in costs allowed the Group to manage cash appropriately and engage in discussions with its bank as required.	Following the amendment of the covenant terms on the existing £12m RCF, the Group agreed a new £20m CLBILS RCF, which is in place until August 2023. Closing cash increased by £24.6m to £82.3m (2019: £57.7m) Please see our Viability Statement on page 49 for further details.

Principal Risks and Uncertainties continued

Key to change in risk level since the previous year:

Risk higher (worsened) | Risk stayed level | Risk lower (improved)

Financial risks continued

Risk	Risk description	Mitigation	Progress in 2020
Credit risk, liquidity and consumer credit continued	**Consumer credit** The Group's ability to offer interest-free credit to customers may be impacted as a result of high default levels, increased interest rates or the withdrawal or uncompetitive nature of consumer credit facilities provided by the external finance companies – thereby reducing the competitiveness of a key part of the Group's customer proposition.	We work closely with a number of finance providers to ensure that we can obtain a competitive rate and reduce the risk of not being able to offer the interest-free proposition. The Group monitors acceptance rates by provider by week to identify and challenge any emerging trends. In order to ensure that we maintain our relevant permissions from the FCA, we continually monitor relevant compliance and work with our finance providers to ensure that our obligations are met. Training is provided to retail staff and any complaints regarding regulated activity are investigated by the Audit, Risk and Compliance team and reported to the Operating Board.	During 2020, we have worked closely with our existing finance providers to ensure that we adhere to relevant legislation and guidance. We have maintained our close working relationship with our three finance providers, and we are in ongoing discussions with other potential providers to enable us to have a range of options available. Default levels and acceptance levels have remained stable during the year. We implemented new online training for all our retail sales staff.
	COVID-19 impact Following the lockdown period the FCA and government has prompted lenders to provide payment holidays to customers to assist during the crisis. This could lead to an increase in default levels when the payments resume. This would lead to an increase in risk, and therefore, cost to the lender and increased costs to the Group if the finance companies feel this increase in default levels will persist in the medium term. Due to the potential increase in unemployment there is a risk of acceptance rates falling which would mean fewer customers being able to use the finance facility to make a purchase.	Due to the strength of the relationships held with the finance companies, any changes to costs or acceptance rates are discussed up front. The Group's ongoing discussions with other national finance companies ensures we can benchmark costs and acceptance rates across the UK and remain competitive in the marketplace.	Post-lockdown, no increase in costs have been proposed by the finance companies. We saw acceptance rates drop slightly on re-opening and we have continued to monitor this on a weekly basis and have seen levels return to normal in the new financial year.

Viability Statement

The UK Corporate Governance Code requires the Group to issue a 'viability statement' declaring whether we believe the Group can continue to operate and meet its liabilities, taking into account its current position and principal risks in the longer term

Variable or discretionary total Group costs

72%

Undrawn CLBILS committed revolving credit facility

£20m

Due to the inherent pace of change in the retail environment, and the wider economic environment, the Group tends to ensure focus is on delivery of short to medium-term goals. The strategy and associated principal risks underpin the Group's three-year strategic planning process ('the Strategic Plan'), which is updated annually. This process takes into account the current and prospective macro-economic conditions in the UK and the competitive tension that exists within the markets that we trade. Our current Strategic Plan has also been revisited in light of the more recent impact of COVID-19, and the Board believes it remains relevant to ensuring success in this period. The period of three years, as set out within the Strategic Plan, is considered appropriate for business planning, measuring performance and aligns with the payback requirements of any significant capital investment (new stores).

As explained in the Strategic Report, the Group's business model provides customers with high quality, competitively priced upholstered furniture, flooring and related products. The Directors are confident that consumer demand for these products will continue to remain in the longer term, and that our strategy (see pages 24 and 25) will ensure our business model will continue to bring long-term sustainable success to the Group.

Assessment of viability

The Strategic Plan is stress tested for severe but plausible scenarios and the effectiveness of any mitigating actions that would reasonably be taken. Given the current political and economic uncertainty, in particular surrounding potential further impact of COVID-19, together with the changes across the retail sector, it is reasonable to expect further volatility in the short term. The Strategic Plan was therefore specifically stress tested against the key risks identified within the plan, with attention to the principal risks and uncertainties highlighted on pages 36 to 48. This included the modelling of:

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

Due primarily to the flexible nature of the cost structure of the Group, and additionally to the significant cash reserves held currently, the outcome of this stress testing satisfied the Directors with respect to the ongoing liquidity and solvency of the Group over the three-year period under review. 72% of total Group costs are either variable or discretionary and as such, even in difficult trading conditions, these costs would also reduce. The Group has also excluded any potential further assistance from the UK government. These reductions, together with relevant mitigating actions and significant cash reserves, would ensure the Group could continue to meet its liabilities. Further to the above examples, the Directors are comfortable that the work done to minimise the risk to the supply chain, chiefly ensuring the use of a variety of suppliers, and ensuring multiple factories are able to produce similar product ranges, would be sufficient to limit the effect on the Group should that risk occur.

The Strategic Plan 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 the new undrawn £20.0m CLBILS committed revolving credit facility. The facility was entered into in August 2020 and extends to August 2023. The Strategic Plan also encompasses the projected cash flows and headroom against financial covenants under the Group's facility.

Conclusion

Based upon this assessment, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to 29 July 2023. 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.

This strategic report, which has been prepared in accordance with the requirements of the Companies Act 2006, has been approved and signed on behalf of the Board.

David Knight
Chief Executive Officer
1 October 2020

Board of Directors

Alan Smith
Non-Executive Chairman

Date of appointment

22 October 2014

Committee membership

N R

Biography

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

Key strengths

Retail, finance, strategy, marketing

External appointments

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

David Knight
Chief Executive Officer

Date of appointment

1 January 2002

Biography

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

Key strengths

Retail, strategy, marketing, supply chain

Chris Muir
Chief Financial Officer

Date of appointment

4 April 2016

Biography

Chris joined ScS as Chief Financial Officer in April 2016. He is a chartered accountant, qualifying in 1999 whilst working at Deloitte. In 2003, he joined Northgate plc, Europe's leading specialist in light commercial vehicle hire, as the 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. Prior to joining ScS he was Group Finance Director of Northgate.

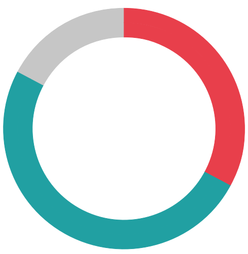
Key strengths

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

Executive/Non-Executive

Chairman
Chief Financial Officer
Chief Executive
Non-Executives

Board tenure



1-5 years
15 years+
5-15 years

Ron McMillan
Non-Executive Director

22 October 2014

A R N

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

Finance, financial reporting, governance, risk management

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

George Adams
Non-Executive Director

9 July 2015

R A N

George has a strong commercial and management background, with over 30 years of international experience across Europe and Asia. George is the Chair of FFX ltd and Bradford and Sons ltd, he is also Non-Executive Director for Nobia AB and Stiga SA.

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

Retail, strategy, marketing, supply chain

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

Angela Luger
Non-Executive Director

16 May 2019

A N R

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

Retail, marketing, digital, strategy

Portmerion Group plc
The Paint Shed Holdings Limited
New Look Retailers Limited
The Hiring Hub Holdings Limited
Majelan Limited

Committee membership key

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

Corporate Governance Statement

"Whilst we are facing unprecedented times; good corporate governance remains an essential part of our Group operations."

Alan Smith
Chairman

Role of the Board

The Board is committed to high standards of corporate governance. The Group has complied and intends to continue to comply with the requirements of the 2018 UK Corporate Governance Code, a copy of the Code is available on the FRC's website: www.frc.org.uk.

The Group is led and controlled by the Board which is collectively responsible for the long-term sustainable success of the Group. The Board focuses on the Group's purpose, values and strategy and on its performance and governance. 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 54 and the Audit and Remuneration Committee reports are set out on pages 57 to 73.

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 an experienced and able senior management team. All Directors have access to the Group Secretary, whose appointment and removal is one of the matters reserved for the Board.

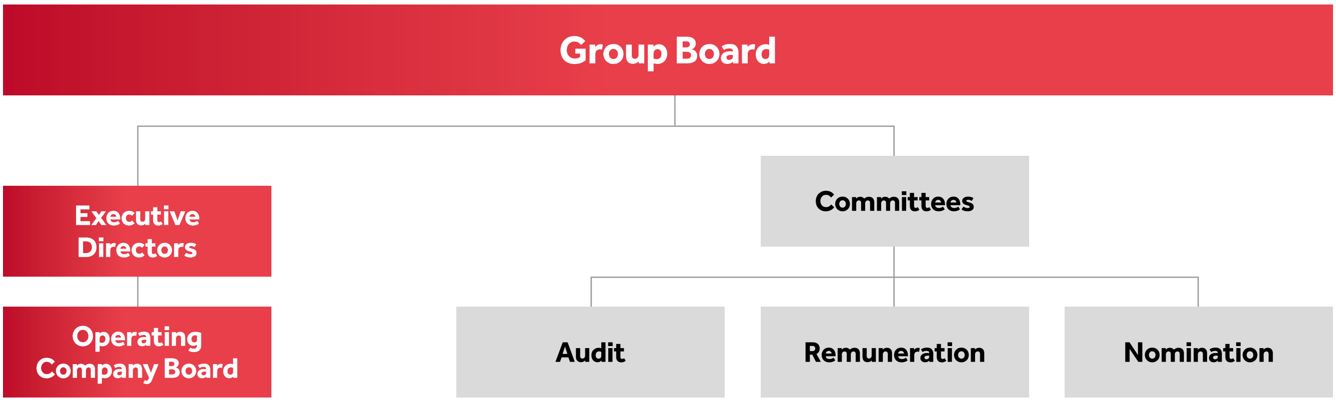
Stakeholder engagement

The Board appreciates the importance of engaging with the Group's stakeholders and having regard to their interests in its decision making process. The welfare and interests of our colleagues and customers during the coronavirus pandemic have been of paramount importance. At each scheduled meeting, the Board reviews key performance indicators relating to suppliers, employees and customers as well as movements in the Group's shareholders. Regular update reports are provided to the Board by the designated Non-Executive Workforce Engagement Director, George Adams, who holds regular discussion forums with members of the wider workforce to ensure that the Board is engaging with colleagues and to provide them with a direct route to raise issues or concerns with the Board.

During the year, members of the Board, including the Chair, have attended regular meetings with the Group's suppliers, shareholders and employees. Members of the Board regularly visit the Group's stores and distribution centres and have particularly done so following the re-opening under coronavirus restrictions, in order to form their own assessment of the in-store experience and working environment, for colleagues and customers.

Details of the stakeholder interests, which the Board has considered in its normal business operations during the year and in the period from the on-set of the coronavirus pandemic, are set out in the Section 172 Statement and Stakeholder Report on pages 32 and 33, and the Risk and Risk Management section on pages 34 and 35.

Structure chart



Culture and values

The Board considers and monitors how the Group's values of being a responsive, inclusive, getting it right, hardworking and trusted retailer of sofas and carpets are reflected in the way in which the Group operates. The Group's vision is to be Britain's best value sofa and carpet retailer, making it easy for our customers to love their home. Our values and purpose reflect how the Group operates culturally as a business and how we engage with our stakeholders.

The Board recognises the importance of ensuring a healthy and supportive culture within the Group. The Board monitors culture and values in a number of ways, including undertaking an annual survey of all employees, undertaking pulse surveys throughout the year on specific topics, reviewing feedback through Director discussion groups, as well as reviewing feedback provided by our customers through forums such as Trustpilot and Google My Business. All employees are able to access a confidential helpline operated by Safecall should they want to report any wrongdoing anonymously. The Board are provided with insight into any calls that are made. We also have a dedicated, free to use employee assistance programme, where employees can gain access to help and support on a whole range of personal issues including mental health and financial worries. The Group works with Sedex to improve working conditions for employees of the Group's suppliers and responsibly source its supplies.

Matters reserved for the Board

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

- Having responsibility for the overall leadership of the Group to promote its long-term sustainability, establishing its purpose, values and strategy and ensuring that these and its culture are aligned;
- Approving any changes to the capital structure of the Group;
- Approving financial reporting, budgets, dividend policy and any significant changes in accounting policies and practices of the Group;
- Establishing procedures to manage risk, oversee the internal control framework and determining the nature and extent of the risk appetite of the Group is willing to take to achieve its long-term strategic objectives;
- Approving of any major capital projects and materially significant contracts for the Group;
- Ensuring effective engagement with and encouraging participation from shareholders and other stakeholders;
- Understanding the views of the Group's key stakeholders, including the workforce, and setting and reviewing engagement mechanisms;
- Approving the structure, size and composition of the Board and the remuneration policy for all Directors and senior management;
- Reviewing workforce remuneration and related policies and the alignment of incentives and rewards with culture;
- Aligning executive remuneration to the Group's purpose and values and ensuring that it is clearly linked to delivery of the Group's long-term strategy;
- Agreeing the responsibilities of the Chair of the Board, the Chief Executive, Senior Independent Director, the Board and its Committees;
- Undertaking a formal and rigorous annual review of the performance of the Board, its Committees, the Chairman, individual Directors and corporate governance matters; and
- Approving and supervising of any material litigation and appointing the Group's professional advisors.

Directors' attendance

The Board held twelve meetings during the 2020 financial year and attendance at the meetings was as follows:

	PLC	Audit Committee	Remuneration Committee	Nomination Committee
Total no. of meetings	**12**	**3**	**5**	**1**
David Knight	12	–	–	–
Chris Muir	12	–	–	–
Alan Smith	12	–	5	1
Ron McMillan	12	3	5	1
George Adams	12	3	5	1
Angela Luger	12	3	5	1
Paul Daccus*	3	–	–	–

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

* Paul Daccus stepped down from the Board on 11 February 2020 in connection with the sale by Parlour Products Holdings (LUX) S.A.R.L of its entire holding in the Group.

There is a rolling programme of Board meetings throughout the year and there are six Board meetings presently scheduled for 2021. In 2020, meetings were held between the six scheduled meetings, as circumstances required. The Board will continue to meet on this basis, when circumstances require.

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

Corporate Governance Statement continued

meetings which are held as circumstances require, the Board packs reflect the agenda of the meeting, but generally the CEO and CFO will still present reports to the Board on trading, financial performance and operational matters, as well as in respect of the other matters for the consideration of the Board at the meeting.

Composition of the Board

Following Paul Daccus stepping down from the Board on 11 February 2020, in connection with the sale by Parlour Products Holdings (LUX) S.A.R.L of its entire holding in the Group, the Board has comprised of the Non-Executive Chairman, two Executive Directors and three independent Non-Executive Directors.

The Board's composition is compliant with the 2018 Corporate Governance Code.

The 2018 UK Corporate Governance Code recommends that at least half of the Board, excluding the Chair, should be Non-Executive Directors whom the Board considers to be independent. The Group has met this requirement and Ron McMillan (Senior Independent Director), appointed 22 October 2014, George Adams, appointed 9 July 2015, and Angela Luger, appointed 16 May 2019 are all considered by the Group to meet the definition of an independent Director. Each of them is considered by the Board to be independent in character and judgement and free from relationships or circumstances which may affect, or could appear to affect, their judgement. Independence is determined by ensuring that the Non-Executive Directors do not have any material business relationships or arrangements (apart from their fees for acting as Non-Executive Directors) with the Group or its Directors which in the opinion of the Board could affect their independent judgement.

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 62 to 73.

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 its Committees and the commitment of their members. The Chairman has met with each of the Non-Executive Directors during the year on a one-to-one basis, without the Executive Directors being present, to discuss matters relating to the Board, its balance and the monitoring powers of the Executive Directors.

The Chairman believes the current Board and its Committees have an appropriate balance of skills and experience to enable them to discharge their responsibilities effectively. The development of the Group's Directors is regularly reviewed and the Chairman discusses training requirements with each Director.

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

Division of responsibilities

The positions of Chairman and CEO are occupied by different individuals. There is a clear division of 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 in directing the Group. The Chairman facilitates the contribution of the Non-Executive Directors and constructive relations between them and the Executive Directors and ensures that Directors receive accurate, timely and clear information.

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

Diversity

The Group is satisfied overall with its record on diversity, and is aware of the need to monitor and review its level of diversity. Whilst the Group would have preferred to have a more diverse Board, appointments will always be made on merit and objective criteria 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

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 Group'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 Group 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 or online at scsplc.co.uk.

Sub-committee responsibilities

Audit Committee

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

Remuneration Committee

- Chairman and Executive Director remuneration
- Senior management remuneration
- Review of workforce remuneration and policies
- Bonus schemes
- Long-term incentive plans
- Non-Executive Director pay

Nomination Committee

- Board structure
- Board appointments
- Board succession plans
- Senior management appointments

Audit Committee

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

- Monitoring the quality, effectiveness, independence and objectivity of the external auditors, approving their appointment, re-appointment and fee levels;
- Reviewing and monitoring the integrity of the financial statements, any formal announcements relating to financial performance and reviewing significant financial reporting judgements contained in them;
- Monitoring and reviewing the effectiveness of the Internal Audit, Risk and Compliance function;
- Assisting the Board with the development and execution of a risk management strategy, risk policies and current and emerging risk exposures, including the maintenance of the Group's risk register;
- Providing advice (where requested by the Board) on whether the Annual Report and accounts, taken as a whole, is fair, balanced and understandable, and providing the information necessary for shareholders to assess the Group's position and performance, business model and strategy; 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), George Adams and Angela Luger. Ron McMillan is an ICAEW chartered accountant and his experience formally as an audit partner of PwC fulfils the requirement under the UK Corporate Governance Code that one member of the Committee has recent and relevant financial experience.

The Committee as a whole has competence relevant to the retail sector, in which we operate.

In compliance with the 2018 Corporate Governance Code, Alan Smith, as Chairman of the Board, ceased to be a member of the Audit Committee with effect from the start of the 2020 financial year but continues to attend the Audit Committee meetings, along with David Knight and Chris Muir, by invitation.

The Audit Committee meets not less than three times a year. Details of the activities of the Committee in the last financial year are set out on pages 57 to 61.

Remuneration Committee

The Remuneration Committee is chaired by George Adams. The duties of the Remuneration Committee as delegated to it by the Board are contained in the terms of reference available at ScS Group plc head office or online at scsplc.co.uk, which in summary include:

- Setting the policy for the Group on executive remuneration and setting remuneration for the Chair, the Executive Directors and senior management;
- Reviewing workforce remuneration and related policies and the alignment of incentives and rewards with culture, and taking these into account when setting the policy for Executive Director remuneration;
- Preparing an annual Directors' Remuneration Report for approval by shareholders at the Annual General Meeting of the Group;
- Reviewing the design of all share incentive plans for approval by the Board and/or shareholders;
- Determining and monitoring any share ownership requirements for the Executive Directors and senior management including post-employment requirements;
- Determining the policy for termination payments and compensation payments for the Executive Directors and senior management; and
- Determining the policy for, and scope of, pension arrangements for the Executive Directors and senior management, and aligning the same with those available to the Group's wider workforce.

The members of the Remuneration Committee are George Adams (Chair), Alan Smith, Ron McMillan and Angela Luger.

The Remuneration Committee meets not less than twice a year. Details of the activities of the Committee in the last financial year are set out on pages 62 to 73.

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 Angela Luger.

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 or online at scsplc.co.uk, 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 positions;
- Overseeing the development of a diverse pipeline for succession; and
- Identifying and nominating candidates for the approval of the Board, to fill Board vacancies when they arise.

The Committee meets at least annually.

During the 2020 financial year the Nomination Committee:

- Reviewed the size, structure and composition of the Board, with regard to the experience, skills and knowledge represented on it and the balance of Executive and Non-Executive Directors represented on it;
- Considered the succession planning for Board and senior management positions; and
- Commenced the process of finding a successor to David Knight, as the Group's CEO, further to the Group's announcements concerned with his retirement. This has involved agreeing a comprehensive specification for the desired candidate and ensuring the role brief was aligned to the desired Board composition.

The Committee recognises 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 of gender, social and ethnic backgrounds and cognitive and personal strengths in relation to how the Group is led and represented. Appointments will always be made on merit and objective criteria, recognising our diversity policy but without setting gender targets and this is considered to be in the best interests of the Group and its shareholders. The Board currently has one female Board member out of six members (16.7%). The Group's Operating Board has one female member out of six members (16.7%).

Board performance evaluation

Following last year's externally facilitated evaluation by Fiseq Limited, the 2020 evaluation of the performance of the Board, its Committees, the Chair and the individual Directors was conducted by the Group's Internal Audit Team. The evaluation confirmed that the Board and its Committees have a good balance of knowledge and experience and did not identify any concerns with performance, although opportunities were identified to further develop the role of the Board to ensure a progressive and performance-led approach.

In accordance with the 2018 UK Corporate Governance Code, the Group will continue to undertake annual evaluations and at least once every three years with an external consultant facilitating the evaluation.

Re-election of Directors

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

Risk management and internal control

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

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

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

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

Corporate Governance Statement continued

Risk management: The Group maintains a risk register, which is continually updated and monitored, with full reviews occurring three times a year. 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 principal risks and uncertainties of the Group are set out on pages 36 to 48. During the 2020 financial year the Board has carried out a robust assessment of the principal and emerging risks facing the Group and has also conducted an annual review of the effectiveness of the systems of internal control. Please refer to page 34 in the Strategic Report for further information.

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 risk management and internal controls during the year ended 25 July 2020 and for the period up to the date of approving the Annual Report and Financial Statements. The Board was satisfied after a review of the key risks to the business and relevant mitigating actions that they were acceptable for a business of the type, size and complexity as that operated by the Group.

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

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

Compliance statement

The Group has complied with the provisions of the 2018 Corporate Governance Code during 2020.

Shareholder relations

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

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

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

Alan Smith
Chairman
1 October 2020

Audit Committee Report

"The Audit Committee advises the Board on financial reporting, viability and going concern and whether the Annual Report provides shareholders with the information necessary to assess the Group's performance. It also monitors risks and risk mitigation."

Ron McMillan
Chair of the Audit Committee

Dear Shareholder
The Audit Committee is integral to the Group's governance framework and continues to keep its activities under review to reflect regulatory developments and best practice. The Audit Committee advises the Board on financial reporting, viability and going concern and whether the Annual Report provides the shareholders with the information necessary to assess the Group's performance. It also monitors risks and risk mitigation.

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

Whilst risk management is a Board responsibility, the Committee has continued to work closely with the Board and Group management to ensure that all significant risks, including those which have arisen from COVID-19, are considered on an ongoing basis and that all communications with shareholders are properly considered. In relation to risks and controls, the Committee ensures that these have been identified and that appropriate responsibilities and accountabilities have been set.

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

During the year, the Committee again oversaw the process used by the Board to assess the viability of the Group, the stress testing of key trading assumptions and the preparation of the viability statement which is set out on page 49 in the Principal Risks section of the Strategic Report. The Committee also continued to monitor the implementation of IFRS 16.

The Committee has considered the narrative in the Strategic Report and whether the 2020 Annual Report is fair, balanced and understandable and whether it provides the necessary information to shareholders to assess the Group's performance, business model and strategy. The Committee considered management's assessment of items included in the financial statements and the prominence given to them. The Committee, and subsequently the Board, were satisfied that, taken as a whole, the 2020 Annual Report and Accounts are fair, balanced and understandable.

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

Audit Committee Report continued

Going forward, I shall ensure that the Committee continues to acknowledge and embrace its role of protecting the interests of shareholders in regards to the integrity of published financial information and the effectiveness of audit. I am available to speak with shareholders at any time and shall be available at the Annual General Meeting in November to answer any questions you may have on this report. I would like to thank my colleagues on the Committee for their help and support during the year.

Ron McMillan
Chair of the Audit Committee
1 October 2020

Member and meetings attended in 2020	Member since	Meetings attended
Ron McMillan (Chairman)	2014	3
George Adams	2015	3
Angela Luger	2019	3

The Audit Committee met three times during the year. Details of the Committee members' attendance are noted above.

Committee composition

The Committee comprises three members, all 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, George Adams and Angela Luger. Details of Committee meetings and attendance are set out in the Corporate Governance Statement on page 53. The timing of Committee meetings is set to accommodate the dates of releases of financial information and the approval of the scope and outputs from work programmes executed by the internal and external auditors. The biographies of the members of the Committee can be found on pages 50 and 51 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, Alan Smith, as Group Chairman, David Knight, as CEO and Chris Muir, as CFO, attend meetings, together with representatives from the internal audit function and the external auditors.

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

The Committee critically evaluates its own performance on an annual basis and considers where improvements can be made.

Responsibilities

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

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

Activities

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

The recurring work of the Committee comprised:

- Consideration of the Annual Report and financial statements of the Group;
- Consideration of the Interim Results report and non-statutory financial statements of the Group for the half year;
- Consideration of the significant areas of accounting estimation or judgement;
- Consideration of the principal risks included in the Annual Report;
- Consideration of going concern and viability issues and the related disclosures;
- Approval of the external auditors' terms of reference, audit plan and fees; and
- Approval of the Internal Audit Plan.

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

	September 2019	March 2020	July 2020
Review of Interim Results		X	
Review of Annual Report; approval of Audit Committee report, consideration of significant areas of accounting estimation or judgement and whether the Annual Report is fair, balance and understandable	X		
Review of management representations	X	X	
Review and approval of Internal Audit Plan, reports and updates	X	X	X
Approval of the external audit strategy and fees			X
Update on the provision of any non-audit services and fees provided by the external auditors	X	X	
Effectiveness of the Internal Audit function	X		
Effectiveness of the external audit		X	
Risk management update and review of related disclosures, including warranty risk and COVID-19	X	X	X
Review of internal control processes and related disclosures	X	X	X
Review of disaster recovery practices	X	X	
Review of Group IT systems			X
Update on the Group Data Protection compliance including policy review	X	X	X
Reviewed and agreed the structure and annual plan for compliance function			X
Effectiveness of procedures for detecting fraud			X
Update on Modern Slavery matters	X		
Consideration of UK Corporate Governance Code 2018 and disclosure regulations	X	X	
Year-end final review of related party transactions	X		
Accounting policies and disclosures in relation to:			
– IFRS 16	X	X	
– Corporation tax and VAT	X	X	
– Supplier rebates	X	X	
– Stock and related provisions	X	X	
– Impairment assessment for loss making stores	X	X	
Going concern and viability issues and disclosures, including the impact of COVID-19	X	X	

Accounting matters

The significant accounting and related matters considered by the Committee during the year were:

- **Implementation of new accounting standards**
  IFRS 16 'Leases' has had a material impact on the financial statements and the Committee has continued to monitor and review the disclosures in relation to IFRS 16.

- **Impairment**
  The Committee discussed with management the work performed in their calculation of the future cash flow models of poor-performing stores, which had been used to determine whether any impairment had been suffered over the carrying values of both the right-of-use asset and the assets held at these stores. The Committee discussed with management and the external auditors the validity of cash flow projections and the significant financial assumptions used, including the selection of appropriate discount and growth rates used over the remaining lease period. The Committee satisfied itself that asset values were not materially misstated.

- **Warranty risk**
  The Committee has continued to discuss the risk to warranty sales, following the FCA's proposal to enforce statistical reporting of this type of insurance product, and also the risk that the product may become regulated by changes to future legislation. The Board remains focused on monitoring developments in this area.

- **COVID-19**
  The Committee discussed with management the uncertainties and impact of the coronavirus and considered various sensitivity scenarios and cash flow models to satisfy itself that the Group was as well positioned as it could be.

Risk management and internal control

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.

Audit Committee Report continued

A description of the principal risks is set out on pages 36 to 48.

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 (FRC). During the year, the Board has not been advised by the Committee nor has it identified itself, any failings, frauds, or weaknesses in internal control which it has determined to be material in the context of the financial statements.

The Committee continues to believe that appropriate controls are in place throughout the Group, that the Group has a well-defined organisational structure with clear lines of responsibility and a comprehensive financial reporting system. The Committee also believes that the Company complies with the FRC guidance on risk management, internal control and related financial business reporting.

Board reporting

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

Internal Audit

The Head of Audit, Risk & Compliance has a direct reporting line to the Committee and attends every Committee meeting to present internal audit and risk management reports. During the financial year, Internal Audit has undertaken a programme of work which was discussed and agreed with both management and the Committee and which was designed to address both risk management and areas of potential financial loss. Whilst this plan was revised during the year due to the period of lockdown, which prevented certain elements of work to be performed, the Committee agreed the changes and is comfortable that all key areas of risk have been covered. 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 and related internal controls
- Anti-money laundering
- Anti-bribery and corporate crime
- Compliance with the Modern Slavery Act
- Compliance with data protection
- Compliance assessments of the Group's operating processes in relation to retail outlets and distribution centres
- Risk management, including the effectiveness of mitigating actions in relation to the Group's principal risks, including IT systems, business continuity and cyber-risk
- Processes and controls over products returned to manufacturer
- Retail store operating processes
- Third parties and outsourced contracts
- Product and pricing data integrity
- Estates management
- Deliveries and central arranging processes
- Order and sales processes for online commerce
- Information technology processes
- Health and safety including response to COVID-19
- Finance house payment processes
- Fleet processes
- Information security in relation to recording of telephone calls and ecommerce data protection

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

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

External auditors

Following a tender process outlined in the 2019 Annual Report, the Committee recommended that PwC be asked to continue as the Group's auditors. The new partner responsible for the Group's audit is Andy Ward, who is a partner in PwC's Leeds office. PwC have now been the Group's auditors for 10 years. The Group has complied with the Statutory Audit Services for Large Companies Market Investigation (Mandatory use of Competitive Tender Process and Audit Committee Responsibilities) Order 2014.

The Committee reviews the performance of PwC annually based on their understanding of key areas of judgement and the extent of challenge, the quality of reporting and the conduct, efficiency and timeliness of the audit. Feedback is sought from the Board, management and the Group's Finance and Internal Audit functions.

The Committee has, in conjunction with the Board and the management team, reviewed the effectiveness of the external auditors, in relation to both audit and non-audit services and has satisfied itself that the work undertaken by the external auditors was effective. The Committee has also considered the degree of scepticism applied by PwC in executing their audit, particularly in areas requiring management judgement and estimation.

The ScS 2019 audit was not chosen for review by the FRC. However, the Committee reviewed PwC's transparency report for the year ended 30 June 2019, which was published in September 2019. That report summarises the results of the audit quality reviews of PwC conducted by the FRC and sets out the steps PwC is taking to ensure audit quality with reference to the Audit Quality Framework issues by the FRC. 35% of the FTSE350 audits reviewed required more than limited improvements and PwC is working hard to address the issues identified by the FRC and to ensure that the quality of their audits continue to improve. The Committee will monitor the progress PwC is making in this regard.

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

All fees for non-audit work require pre-authorisation by the Chief Financial Officer and the Audit Committee, and non-audit fees paid to the auditors are not permitted to exceed 70% of audit fees over a three-year period. PwC did not perform any non-audit services during financial year 2020 for the Group.

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

Going concern and viability

In assessing the Group's continued adoption of the going concern basis of preparation of the financial statements, the Directors have carefully considered the impact of COVID-19 on the Group's financial position, liquidity and future performance. In forecasting cash flows over 12 months from the date of signing of the financial statements, the Directors have made assumptions in relation to customer demand, the availability of product and the long-term impact of the COVID-19 outbreak as described in the Financial Review.

A pandemic of this scale lacks precedence in the UK and it is, therefore, difficult to assess the medium to long-term effect it will have on consumer behaviour. In considering going concern and viability at the 2020 half-year end management considered a severe but plausible downside sensitivity scenario. Whilst this scenario did not include the most severe of possibilities it did include a two-month national lockdown with reduced sales post-lockdown in the second half of the 2020 financial year with sales not expected to return to normal levels within the year. In the period post-half-year end, sales remained at materially elevated levels and in-store sales have outperformed those included within the COVID-19 adjusted forecast.

In considering going concern and viability at the 2020 year end, management has again considered a severe but plausible down side scenario. Whilst this scenario again does not include the most severe of possibilities, it again reflects a two-month national lockdown in the first half of the 2021 financial year, followed by a period gradual recovery, only returning to normal levels by July 2021.

After making enquiries, the Directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements (see basis of preparation on page 89). The Board's Viability Statement is set out on page 49.

Fair, balanced and understandable

The Committee considered whether the 2020 Annual Report is fair, balance and understandable and whether it provides the necessary information to shareholders to assess the Group's performance, business model and strategy. Also considered was management's assessment of items included in the financial statements and the prominence given to them. The Committee and subsequently the Board were satisfied that, taken as a whole, the 2020 Annual Report and Accounts are fair, balance and understandable.

Ron McMillan
Chair of the Audit Committee
1 October 2020

Directors' Remuneration Report

"On behalf of the Board, I am pleased to present the Directors' Remuneration Report for the year ended 25 July 2020."

George Adams
Chairman of the Remuneration Committee

Dear Shareholder

Our Annual Remuneration Report outlines how the Remuneration Policy, approved at the 2018 Annual General Meeting, was applied for 2020. The Remuneration Report will be subject to an advisory vote at our 2020 Annual General Meeting.

Notwithstanding the impact of COVID-19 on the business, the Company remains focused on its three-year strategy and the Committee believes the current remuneration arrangements remain appropriate to successfully deliver this. The Board considers that maintaining the highest standards of corporate governance are essential to protecting shareholder value and that the alignment of remuneration with the forward looking business strategy is an integral part of this process. Our three-year policy continues to provide an appropriate framework and as such no changes are being proposed this year. The current policy is set out for shareholders' information starting on page 69 and the key principles are summarised below.

George Adams
Chair of the Remuneration Committee
1 October 2020

Member and meetings attended in 2020	Member since	Meetings attended
George Adams (Chairman)	2015	5
Alan Smith	2014	5
Ron McMillan	2014	5
Angela Luger	2019	5

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 implement the Remuneration Policy in a simple, transparent and understandable way, supporting the principles set out in Provision 40 of the 2018 UK Corporate Governance Code ('the Code'):

Clarity	– The Remuneration Policy is closely aligned to the business, purpose and strategy and has a clear link between performance and reward.
Simplicity	– The Policy has operated largely unchanged since IPO.
Risk	– Performance targets are set to ensure the delivery of sustainable profitable growth and appropriate safeguards are in place to ensure that overall outcomes are aligned with underlying business performance and the stakeholder experience.
Predictability	– Maximum limits for variable pay are set and disclosed.
Proportionality	– Remuneration levels are periodically benchmarked against other similar sized companies and actual rewards closely linked to the performance outcomes delivered.
Alignment to culture	– The incentive schemes are focused on our strategy of sustainable profitable growth and are designed to encourage behaviours that are consistent with ScS' purpose, culture and values.

Overview of performance and remuneration outcomes

The COVID-19 pandemic has had a significant impact on the business, resulting in the temporary closure of our stores and distribution network for several weeks. Whilst the Group's strong balance sheet and flexible cost base, has enabled us to be resilient to the challenges facing us, there was an inevitable impact on profitability during the year. As such, no bonuses will be paid to Executive Directors or senior management for 2020 and the LTIP award that was granted in 2017 will lapse.

As part of our commitment to our employees, the Board and senior management have worked tirelessly to keep the spirit and morale of employees high, planning quick responses to re-opening our stores and distribution centres whilst ensuring all employees were re-trained and comfortable with altered working conditions. There was a strong focus on communication and keeping our entire team updated whilst our stores and distribution centres were closed. The focus for FY21 will be on getting the business back on track to pre-COVID performance as soon as possible.

No changes are proposed to the Executive Directors' salaries for 2021. Our incentive schemes (annual bonus and LTIP) will continue to focus on our long-term strategy of profitable growth, with stretching performance targets applied. The Committee will use its discretion to ensure that any rewards earned are commensurate with the underlying performance of the business and the employee and stakeholder experience.

The Committee has taken into account the Code, wider workforce remuneration and emerging best practice in relation to Executive Director remuneration. The Committee believes that our remuneration framework is clear and transparent and aligned with our culture; over 80% of the wider workforce are eligible to earn a bonus. The incentive framework consists of an annual bonus and LTIP, with capped award levels and a pay-out linked to group performance. Stretching but fair targets are set. This ensures that potential reward outcomes are clear and aligned to the performance achieved, with the Committee having the discretion to adjust outcomes where this is not considered to be the case.

Pay levels are set taking into account internal and external reference points to ensure that pay is competitive whilst remaining equitable within the Group. A number of additional factors are in place to mitigate reputational and other risks, including malus and clawback provisions, Committee discretion, a two-year holding period on LTIP awards, and minimum shareholding guidelines.

Directors' Remuneration Report continued

Shareholder feedback

We value the views of our shareholders and we actively welcome any feedback on our Remuneration Policy and its implementation. Given the current uncertainties and the difficulties in setting appropriate targets for bonuses and LTIP's on a forward looking basis; we have engaged directly in conversations with principal shareholders to understand fully their thoughts on forward-looking remuneration. The feedback obtained has been used by the Committee to set the forward looking performance criteria.

We hope you find this report helpful and informative and we hope to receive your support for our Annual Remuneration Report at our Annual General Meeting on 25 November 2020.

Annual Remuneration Report

Elements of remuneration

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 and in light of COVID-19, the salaries of the CEO and the CFO will remain unchanged from their remuneration in 2020. No basic pay increases were given to any of the senior management team. Details of the average increase given to other employees is detailed on page 67.

The current basic salaries as at 1 October 2020 are:

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

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

Pension and other benefits

The Executive Directors are eligible to pension benefits equating to 20% of their basic salary, which are non-contributory. The CEO and the CFO receive £10,000 and £9,960 per annum, respectively, of pension benefits into their pension fund. The balance is paid as a cash allowance. In 2019, the Committee agreed to freeze the current monetary value of the CEO and CFO's pension. In the event of a future uplift to their basic salary, the pension will remain as a capped fixed contribution. Any new Executive Director appointments will have a pension contribution in line with that provided to the broader workforce.

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

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

Annual bonus

The Executive Directors were eligible to receive annual bonuses in 2020. However, EBITDA performance in 2020 did not meet the threshold level required and as such no bonus was paid out. The details of the targets and how the bonus was to be calculated are set out below:

Pre-bonus EBITDA	£19,102,750	£21,231,000	£22,688,500	£24,146,000
% maximum	12.5%	50%	75%	100%
David Knight	£53,550	£214,200	£321,300	£428,400
Chris Muir	£42,000	£168,000	£252,000	£336,000

For 2021, the maximum bonus opportunity is unchanged at 140% of base salary for both the CEO and 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

The LTIP granted on 16 October 2017, which was due to vest in 2020, will lapse in full as the loss per share for the Group was below the performance condition set, a minimum EPS of 25.1p. Details of the award and the performance conditions attached were set out in full in the 2017 Annual Report.

During the year, the Executive Directors were granted a Long-Term Incentive Plan award with a face value of 150% of salary each. The awards were made in the form of nil-cost options and were for 195,319 and 153,191 shares respectively for the CEO and CFO. The awards have a three-year vesting period, plus a two-year hold period. The average share price on the date of grant, 14 October 2019 was 236.0p. As disclosed in last year's Annual Report, the following EPS targets were applied:

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

It is noted that with the implementation of IFRS 16, changes will impact on EPS performance for these awards at the point of vesting. The impact is that future cash flows relating to property and vehicle leases will be capitalised and shown on the balance sheet. Rental charges will no longer exist, the charge being replaced by depreciation and finance costs over the lease term. The Committee therefore intends to adjust the EPS targets for the 2018, 2019 and 2020 LTIP awards when the impact of IFRS 16 has crystallised. Whilst we have all the data we require with regards to property and vehicle leases, the final impact of IFRS 16 will not be known until we reach the relevant year. The adjustment is intended purely to reflect the changes created as a result of IFRS 16 and are not an amendment to the agreed targets per se. The Committee has engaged directly with a number of shareholders to discuss the current and future LTIP arrangements. No changes are intended for in-flight awards.

A wider than normal target band has been applied to reflect both the current uncertainty and to provide a stretching level at the upper limit.

The Committee has agreed to award a Long-Term Incentive Plan in 2021. The CEO and CFO will be awarded nil cost options subject to EPS targets being met. The awards have a three-year vesting period, plus a two-year holding period, and are subject to the following targets:

EPS figure (in 2023)	Percentage of award that vests
Less than 18.3p	Nil
18.3p	25%
Greater than 18.3p 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.

While the share price has trended lower recently due to external factors, the Remuneration Committee determined that the 2020 grants would be maintained at the normal levels (150% of base salary for the Executive Directors). However, the Committee has full discretion, under the plan rules, to ensure that the final vesting outcomes are justified based on the performance of the Group, including consideration of any windfall gains.

All-employee share plans

The Company offers an all-employee UK Share Incentive Plan (SIP). All employees on completion of six months service become eligible to join. Under the SIP employees may elect to acquire up to £150 worth of shares in the Company every month or pay a maximum one-off lump sum of up to £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 Group during 2020 and 2019:

	Salary £	Benefits** £	Bonus £	LTIP*** £	Pension* £	Total £	Total fixed remuneration £	Total variable remuneration £
David Knight								
2019	306,000	20,798	425,187	281,787	61,200	1,094,972	387,998	706,974
2020	306,000	20,827	–	–	61,200	388,027	388,027	–
Chris Muir								
2019	240,000	18,605	238,200	222,848	48,000	767,653	306,605	461,048
2020	240,000	19,035	–	–	48,000	307,035	307,035	–

* 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 69.
*** The value of the LTIP award vesting in 2019 has been updated to reflect the actual share price on the date of vesting.

Payments to past Directors and loss of office payments – audited

There were no payments to past directors for loss of office in the year ended 25 July 2020 (2019: none).

Remuneration of the Chairman and Non-Executive Directors – audited

The structure of Non-Executive Directors fees, and their levels, were set by the Board on admission. No review is expected during 2021.

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 2020 to the Non-Executive Directors were as follows:

	2020 £	2019 £
Alan Smith	125,000	125,000
Ron McMillan	60,000	60,000
George Adams	60,000	60,000
Angela Luger (appointed 16 May 2019)	50,000	10,642

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

Paul Daccus (resigned 11 February 2020) did not receive any remuneration for his services to the Group. 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 2020.

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

	Share interests held beneficially	Nil cost options subject to performance*	Option awards vested	Total
David Knight				
Number	1,528,615	401,519	22,772**	1,952,906
Value at year end	£2,330,679	£612,196	£34,720	£2,977,595
Chris Muir				
Number	50,474	314,917	-	365,391
Value at year end	£76,958	£480,154	-	£557,112

* Awards vest subject to EPS performance over a three-year period. This relates to awards granted in 2019 and 2020.

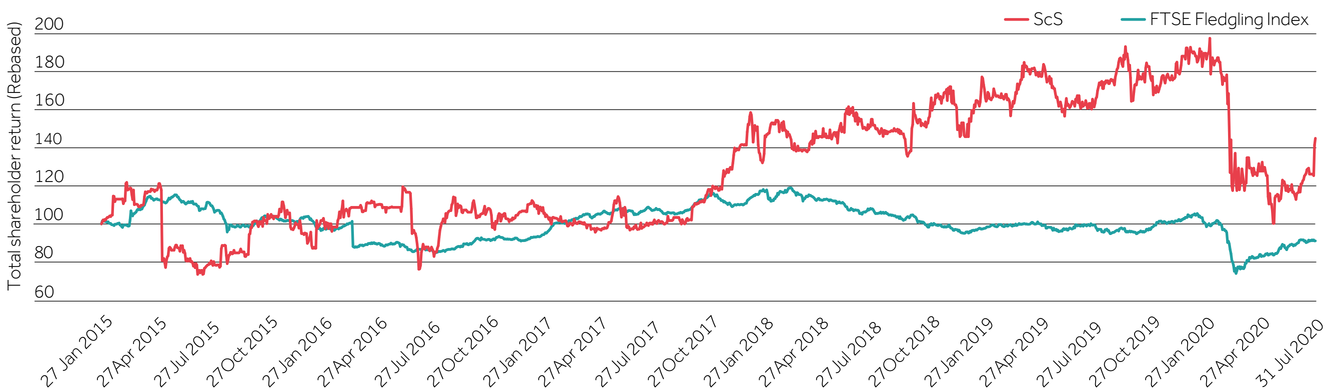
** Option awards vested (but unexercised) are 22,772 options at an exercise price of 175p.

The value of share interests at the year end is based on the average share price in the three months ending on 25 July 2020 of 152.47p.

The Executive Directors are required to build and maintain a shareholding equivalent to 200% of base salary. The shareholding for David Knight was significantly in excess of this level at the year end. The beneficial shareholding for Chris Muir is currently 50,474, but he is required to continue 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 Group's Total Shareholder Return (TSR) performance against the performance of the FTSE Fledgling Index, from the date of the IPO of the Group. 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 25 July 2020, of £100 invested in ScS Group on 26 January 2015 compared with the value of £100 invested in the FTSE Fledgling Index.

Changes in the remuneration of the CEO

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

	Salary £	Bonus £	Benefits £	LTIP £	Pension £	Total £
David Knight						
2020	**306,000**	**–**	**20,827**	**–**	**61,200**	**388,027**
2019	306,000	425,187	20,798	281,787	61,200	1,094,972
2018	306,000	427,372	20,836	–	61,200	815,408
2017	306,000	203,418	20,685	–	61,200	591,303
2016	300,000	420,000	21,290	–	60,000	801,290
2015	300,000	–	20,183	–	60,000	380,183
2014	300,000	177,450	20,336	–	60,000	557,786
2013	247,500	274,073	16,302	–	49,500	587,375
2012	247,500	199,635	13,929	–	71,625	532,689
2011	247,500	–	17,265	–	49,500	314,265

Changes in the remuneration of the Directors

The table below shows the percentage changes in the Executive and Non-Executive Directors' remuneration between the financial year ended 25 July 2020 and the year ended 27 July 2019 compared to the amounts for full-time employees of the Group for each of the following elements of pay:

	Percentage change from 2019		
	Salary	Benefits	Bonus
Executive Directors			
David Knight	-	0.1%	(100)%
Chris Muir	-	2.3%	(100)%
Non-Executive Directors			
Alan Smith	-	n/a	n/a
Ron McMillan	-	n/a	n/a
George Adams	-	n/a	n/a
Angela Luger	-	n/a	n/a
Average per employee (excluding Directors)	**1.2%**	**7.3%**	**(56.3%)**

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.

	2020 £'000	2019 £'000	% Change
Total pay for employees	52,230	60,308	(13.4%)
Distributions to shareholders	4,336	6,547	(33.8%)

CEO pay ratio

The table below shows the ratio of CEO pay for 2020 comparing the sum of the single total figures of remuneration for David Knight to the full-time equivalent total reward of those colleagues whose pay is ranked at the 25th, 50th and 75th percentile in our UK workforce.

We have adopted Methodology Option A to calculate the ratio, as we believe it provides the best comparison of colleague pay with that of our CEO by using a consistent methodology to value remuneration and identify our employees ranked at the 25th, 50th and 75th percentiles. Employee pay was calculated based on actual pay and benefits for the 12 monthly payrolls in respect of the full financial year to 25 July 2020. We can confirm that none of the three individuals received additional or exceptional pay within the year and no adjustments were made to the calculation of the total remuneration for these employees from the methodology set out for the CEO's single total figure remuneration. The ratios as set out below:

Year	Method	25th percentile	50th percentile	75th percentile
2020	Option A	21:1	16:1	12:1

This is the first year that ScS Group has disclosed the pay ratio and, as such, we have no historic data against which to compare this year's ratio. We will provide additional commentary on the comparison year-on-year from next year's report. The table below provides the individual remuneration information in relation to our employees ranked at the 25th, 50th and 75th percentiles:

Year	Method	25th percentile	50th percentile	75th percentile
2020	Salary	£17,601	£24,259	£19,727
	Total pay and benefits	£18,190	£24,259	£31,412

Directors' Remuneration Report continued

Gender pay gap

Information on our gender pay gap can be found on scsplc.co.uk.

Remuneration Committee

The members of the Committee for the 2020 financial year were George Adams (Committee Chairman), Alan Smith, Ron McMillan and Angela Luger. 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 55.

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 was as follows:

Name	Attendance
George Adams	5
Alan Smith	5
Ron McMillan	5
Angela Luger	5

Advisors to the Committee

During the year, the Committee received independent advice on executive remuneration matters from New Bridge Street, a trading name of Aon Hewitt Ltd, and from July 2020, Mercer Ltd. Mercer were appointed by the Remuneration Committee following a selection process.

New Bridge Street and Mercer Ltd are members of the Remuneration Consultants Group and, as such, voluntarily operate under the code of conduct in relation to executive remuneration consulting in the UK. The Committee has received advice provided by New Bridge Street and Mercer during the year and is comfortable that they have been objective and independent. Total fees received by New Bridge Street in relation to remuneration advice provided to the Committee during 2020 amounted to £14,146, excluding VAT, based on the required time commitment. Total fees received by Mercer in relation to remuneration advice provided to the Committee during 2020 amounted to £9,540, excluding VAT, based on the required time commitment.

Shareholder voting

At the Annual General Meeting on 27 November 2019, the total number of shares issued with voting rights was 38,012,655. The resolution to approve the Annual Remuneration Report from the 2019 AGM and the resolution to approve the Remuneration Policy from the 2018 AGM 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 Remuneration Report (2019 AGM)	28,329,606	99.99%	4,115	0.01%	2,368	28,336,089	74.54%
To approve the Remuneration Policy (2018 AGM)	30,408,893	99.96%	13,626	0.04%	-	30,422,519	76.04%

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

George Adams
Chairman of the Remuneration Committee
1 October 2020

Remuneration Policy Report

Remuneration Policy overview

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

How the views of shareholders are taken into account

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

The Directors' Remuneration Policy

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

Changes from the previously approved policy

The key changes between the previous policy and this Policy were:

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

Remuneration element	Purpose	Operation	Maximum
Base salary	This is the basic pay and reflects the individual's role, responsibilities and contribution to the Group.	Base salaries are reviewed annually with changes typically taking effect from the beginning of the relevant financial year. On reviews, consideration is given by the Committee to a range of factors, including the Group's overall performance, market conditions and individual performance of executives and the level of salary increases given to employees across the Group.	Base salaries will be benchmarked periodically against companies that are both main and AIM listed, who are of a similar size, sector and complexity. Salaries will generally be set at the mid-market levels.
Benefits	To provide benefits which are valued by the individual and assist them in carrying out their duties.	The Group will provide market competitive benefits, which may periodically be reviewed. Executives will generally be eligible to receive those benefits on similar terms to other senior executives. Executives are entitled to a car allowance or a company car, car insurance, other running costs and fuel, death in service life assurance, private medical care and any other Group-wide benefits including employee discount. Business travel and associated hospitality are provided in the normal course of business. The Committee has the discretion to add or remove benefits to remain market competitive or to meet the needs of the business. In addition, where the Committee considers it appropriate to do so, additional relocation expenses may be paid.	We ensure that benefits offered are in line with the market.
Pension	To provide a market competitive pension contribution (or equivalent cash allowance).	Executive Directors may take pension benefits as a contribution to defined contribution personal pension plans, or on reaching the lifetime limit for pension contributions the Executive Director can receive cash in lieu.	A total maximum value of 20% of base salary for existing Executive Directors. Since the policy was introduced, the Committee have agreed to cap the pension contributions for existing Directors at their current pound value and committed to align the pension arrangement for future hires with the workforce rate.
Bonus	Provide an incentive linked to the financial performance of the Group and any other appropriate individual or business measures.	The Committee intends for the majority of the bonus to be based on financial measures, but has the discretion to introduce operational, corporate, divisional and/or individual performance measures if appropriate to the business. Performance conditions, once set, will generally remain unaltered, but the Committee has the right in its absolute discretion to make adjustments during any performance period to reflect any events arising which were unforeseen when the performance conditions were originally set by the Committee. Bonuses are normally paid in cash.	The current annual bonus potential for the CEO and CFO is 140% of base salary. 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 Policy Report continued

Remuneration element	Purpose	Operation	Maximum
Long-term incentives	To align the Directors with the long-term performance of the business and the returns received by shareholders.	Awards may be made annually as options (including nil cost options) or as conditional share awards based on performance conditions. The Committee may set performance conditions typically over a three-year period. Performance is normally based on earnings per share targets, but different measures and targets may be used alongside or instead of earnings per share for future awards at the discretion of the Committee. Performance conditions, once set, will generally remain unaltered, but the Committee has the right in its absolute discretion to substitute, vary or waive the performance conditions during any performance period in case of events arising which were unforeseen when the performance conditions were first set by the Committee, provided that such substitution, variation or waiver is reasonable and (other than in the case of a waiver) produces a fairer measure of performance and is not materially less difficult to satisfy. Dividend equivalents will be made as either a cash payment or delivery of plan shares in an amount equal in value to the dividends that would have been payable on the number of vested plan shares under the award in respect of the period between the award date and the date on which the award vested or, where the award is an option and a holding period applies, to the date of expiry of the holding period or exercise (if earlier). A two-year post-vesting holding period shall apply to LTIP awards granted to Executive Directors and may apply (at the discretion of the Committee) in relation to LTIP awards granted to others.	The policy is to award Executive Directors nil cost share options equating to no more than 150% of their basic salary in respect of each financial year. No more than 25% of an award can be earned for a threshold performance. A two-year post-vesting holding period will be applied to awards from 2019 onwards.
Shareholding guidelines	Executive Directors are expected to maintain their minimum shareholding levels once they have been obtained.	The Committee will review shareholding annually against policy. The Committee reserves the right to alter the shareholding guidelines during the period of the policy but without making the guidelines any less onerous overall.	The minimum required level of shareholding is 200% of base salary of the relevant Executive.
Employee share plan	To encourage share ownership by employees and participation in the long-term success of the Group, the Group operates an employee share incentive plan for UK employees which was adopted in April 2015.	Executive Directors can participate in the employee Share Incentive Plan (SIP) on the same terms as other employees of the Group in the UK.	Under the rules of the SIP employees can purchase shares from their pre-tax and pre-national insurance salary through a resident SIP trust. Although the Group has no current intention to do so, the Group may also award matching shares (in proportion to the number of shares an employee chooses to purchase), or to make an award of free shares. The maximum amount that can be purchased, offered as a match or awarded for free under the SIP is subject to the published HMRC annual limits.

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

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

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

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

Operation of variable pay
Annual incentive plan
The Committee will set the performance targets annually under the annual incentive plan to take account of the 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 Group's strategy each year.

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

Long-Term Incentive Plan (LTIP)

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

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

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

Clawback

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

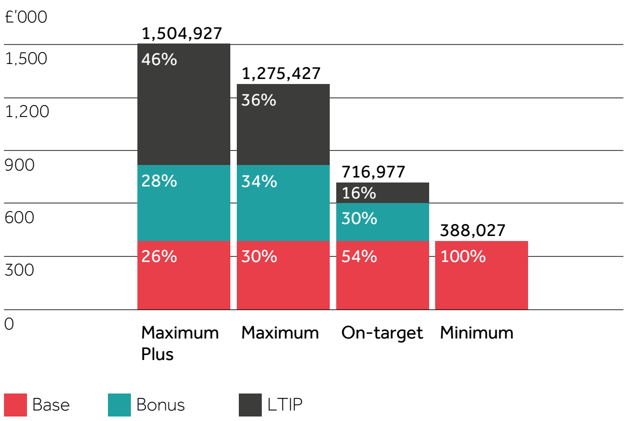
Potential reward scenarios

The graphs below show an estimate of the Executive Directors' remuneration package as it will be implemented for 2020.

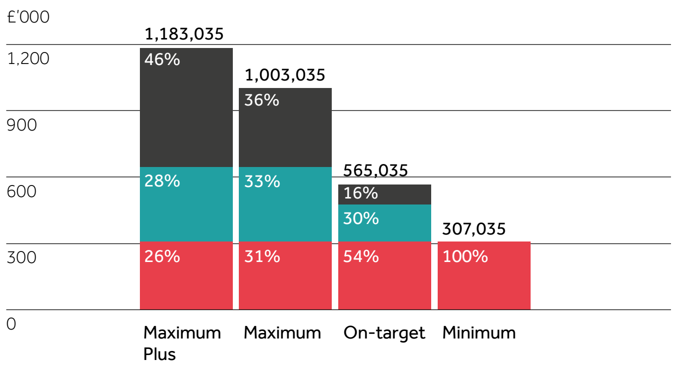
Assumptions

– The minimum scenario reflects fixed remuneration only which is base salary, pension and benefits.
– The on-target scenario reflects the fixed remuneration plus 50% of the maximum annual bonus under the annual incentive plan, and 25% vesting under the LTIP being the threshold level (assuming an award of 150% of salary to Executive Directors under the LTIP).
– The maximum scenario reflects fixed remuneration plus 100% of the maximum annual bonus under the annual incentive plan which is 140% of base salary and 150% vesting under the LTIP (assuming an award of 150% of salary under the LTIP).
– The maximum plus scenario is the same above but shows the impact of a 50% increase in the share price on the value of the LTIP award (the on-target and maximum scenarios exclude the impact of share price increase).

David Knight (Chief Executive Officer)



Chris Muir (Chief Financial Officer)



Discretions retained by the Committee in operating variable pay schemes

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

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

Remuneration Policy Report continued

Recruitment and promotions

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

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

- The UK regulations do not require that caps on fixed pay apply to a new recruit and the Committee reserves the right to set fixed pay at such levels as it considers necessary although, in practice, it envisages abiding by the caps set out in this Policy. Variable pay will be capped at the limits set out in the Policy for existing Directors.
- If a new Executive Director's salary is set on appointment below the median market rates, phased increases (as a percentage of salary) above those granted generally to other employees may be awarded subject to the individual's performance and development.
- On pensions, the intention is to limit the pension provision (provided either through a Company contribution to a defined contribution scheme or paid as a cash allowance in lieu of pension) to the same level as the wider workforce for all new Executive Directors and members of the senior management team. However, the Committee reserves the discretion to provide a pension provision in excess of this and up to a maximum of 20% of salary if necessary to do so in a recruitment situation.
- The Group 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 Group will meet the appropriate relocation expenses.

Service contract and payments for loss of office

Main provisions on termination

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

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

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

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

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

Any new contracts will be on similar terms.

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

Annual bonus on termination

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

Performance share plans on termination

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

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

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

Chairman and Non-Executive Directors

Fees

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

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

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

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

Letters of appointment

Alan Smith and Ron McMillan have letters of appointment dated 22 October 2014 for an initial period of three years and are subject to three months' notice of termination by either side at any time and subject to annual re-appointment as a Director by the shareholders. George Adams' letter of appointment is dated 9 July 2015, and Angela Luger's letter of appointment is dated 16 May 2019. Alan Smith and Ron McMillan were re-appointed for a further term of three years commencing 22 October 2020. George Adams was re-appointed for a further term of three years commencing 9 July 2018. The appointment letters provide that no other compensation is payable on termination.

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 present their Annual Report, together with the audited consolidated financial statements for the year ended 25 July 2020. ScS is one of the UK's leading furniture and flooring retailers, operating from 100 ScS stores principally located in modern retail park locations across the country.

Management Report
The Directors' Report, together with the Strategic Report, set out on pages 1 to 49, form part of the Management Report for the purposes of Disclosure Guidance and Transparency Rule (DTR) 4.1.5R.

Statutory information contained elsewhere in the Annual Report
Other information that is relevant to the Directors' Report, and which is incorporated by reference into this report, can be located as follows:

Information	Pages
Future developments	24 to 25
Stakeholder engagement	33
Corporate governance report	52 to 56
Section 172 statement	32
Risk management	34 to 48
Statement of responsibilities	77

As permitted by legislation, the Group has chosen to include certain matters in its Strategic Report that would otherwise be required to be included in the Directors' Report, as the Board considers them to be of strategic importance. The Strategic Report can be found on pages 1 to 49.

Non-financial information statement
In addition to the above referenced sections of the Annual Report, the Stakeholder Index and non-financial information sections of the Annual Report set out on pages 32 to 33 are intended to help stakeholders understand the Group's development, performance, and impact of its activities, information relating to the environment, employee, social, respect for human rights, anti-corruption and anti-bribery matters in accordance with the non-financial reporting requirements contained in sections 414CA and 414CB of the Companies Act 2006.

Results and dividend
The financial statements set out the Group's results for the year ended 25 July 2020 and are contained in pages 85 to 105. The Group's loss after tax for the financial year ended 25 July 2020 of £2.2m (2019: profit after tax £11.4m) is reported in the Consolidated Statement of Comprehensive Income on page 85. Despite the strength of the Group's balance sheet, the Board did not feel it was appropriate to pay an interim or a final dividend at a time when it was receiving cash through the support mechanisms provided by the UK government, and the cash was used to protect the financial strength and resilience of the Group. The Board recognises the importance of income to the Group's shareholders and will continue to assess when it is appropriate to re-commence dividend payments. Movements in reserves are shown in the Statement of Changes in Equity on page 87.

Articles of association
The Company's Articles of Association may only be amended by special resolution at a general meeting of the shareholders.

Share capital
Details of the Company's issued share capital are shown in note 9 on page 111.

The Company has one class of ordinary shares which carry no fixed income. Each share carries the right to one vote at general meetings. 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 Company's share capital and all issued shares are fully paid. There are no restrictions on voting rights or the transfer of securities in the Company and the Directors are not aware of any agreements between holders of the Company's shares that may result in such restrictions.

Details of outstanding employee share options and the operation of relevant schemes are shown in note 22 on pages 102 and 103.

Authority to purchase shares
The Company was authorised by shareholders at the 2019 AGM to purchase in the market up to 10% of the Company's issued share capital, as permitted under the Company's Articles of Association. A renewal of this authority will be proposed at the 2020 AGM. During the year, the Company purchased 1,996,454 ordinary shares with a total nominal value of £1,996.45 at a price of 220.0p per ordinary share from related party Parlour Product Holdings (LUX) S.A.R.L for a total consideration of £4.4m. Following this purchase, the ordinary shares purchased by the Company were cancelled.

Employee Benefit Trust
The Company established the ScS Group plc Employee Benefit Trust (EBT) with Sanne Fiduciary Services Limited as the Trustees in Jersey in January 2015. The purpose of the EBT continues to be to hold shares in trust in connection with the Group's share incentive schemes. During the financial year to 25 July 2020, the Trust purchased 324,582 ordinary shares of £0.001 each in the Group at an average price of 232.2p per ordinary share, of which 290,025 were used to satisfy awards. 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. 77,275 ordinary shares in the Group remained held as treasury shares at 25 July 2020.

Significant agreements – change of control
The Company is not party to any significant agreements that would take effect, alter or terminate upon a change in control of the Company following a takeover. The Directors are not aware of any agreements between the Company and its Directors and employees that provide for compensation for loss of office or employment that occurs following a takeover bid, except that provisions of the Company's share plans may cause options and awards granted under such plans to vest on a takeover.

Streamlined energy and carbon reporting statement

Emission type	kWh			CO_2e tonnes (Location based)		
	Current year (2019/2020)	Previous year (2018/2019)	Variance %	Current year (2019/2020)	Previous year (2018/2019)	Variance %
Scope 1: combustion	12,796,459	16,200,593	(21%)	2,838	3,670	(23%)
Scope 2: purchased energy	13,297,222	15,557,852	(15%)	3,399	4,404	(23%)
Scope 3: indirect energy	1,991,785	333,736	497%	487	82	494%
Total	28,085,466	32,092,181	(12%)	6,724	8,156	(18%)

Greenhouse gas emissions intensity ratio

	Total footprint (scope 1, scope 2 and scope 3) – CO_2e tonnes		
	Current year (2019/2020)	Previous year (2018/2019)	Variance %
Turnover (£'000)	268,119	333,267	(19.5%)
Intensity ratio (tCO_2e/£100,000)	2.508	2.447	2.5%

The COVID-19 pandemic has had an impact on our turnover and carbon emissions. The relative impact on turnover is directly linked to reduced operations but we still have to produce some carbon emissions to maintain essential systems in our estate. This means that on a relative basis our performance is not directly comparable but is presented here for transparency and compliance with the Streamlined Energy and Carbon Reporting requirements.

GHG protocol dual reporting

Emission type	CO_2e tonnes (dual reporting methodology)		
	Location based	Market based (Supplier specific)	Var. %
Scope 1: combustion	2,838	2,838	0%
Scope 2: purchased energy	3,399	3,550	4%
Scope 3: indirect energy	487	487	0%
Total	6,724	6,875	2%

- Our methodology has been based on the principals of the Greenhouse Gas Protocol, taking account of the 2015 amendment which sets out a 'dual reporting' methodology for the reporting of Scope 2 emissions. In the 'Total Footprint' summary above, purchased electricity is reported on a location-based method.
- We have reported on all the measured emissions sources required under The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018, except where stated.
- The period of our report is 1 August 2019 to 31 July 2020.
- This includes limited emissions under Scope 1 and 2 (gas & fuel used in transport; purchased electricity), except where stated, and limited emissions under Scope 3 (fuel used in personal/hire cars/vehicles for business purposes).
- Energy use and emissions figures relate to our UK operation (including offshore energy and emissions) only, except where stated.
- Conversion factors for UK electricity (location-based methodology), gas and other emissions are those published by the Department for Environment, Food and Rural Affairs for 2019/20.
- Conversion factors for UK electricity (market-based methodology) are published on the fuel mix disclosures on each supplier's website.
- Gas data has not been estimated where non-billed months of data were received. This is due to a combination of known issues, such as supplier overbilling followed by periods of zero (catch-up) billing, sites moving to electricity only and expected variation in consumption (due to both seasonality and the COVID-19 outbreak). This approach is consistent with the ESOS methodology.

Statement of exclusions

- No known exclusions.

Directors and their interests

Details of the Directors of the Company as at 25 July 2020 are shown on pages 50 and 51 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 66, all of which form part of this report. There have been no changes in the Board of the Company since that date.

The appointment and replacement of Directors is governed by the Company's Articles of Association, the UK Corporate Governance Code, the Companies Act 2006 and related legislation. All the Directors will seek re-election at the AGM. A Director may be appointed by ordinary resolution of the shareholders or by the Board. The Board may from time to time appoint a Director to fill a vacancy or as an additional Director, provided that the individual seeks election at the next AGM.

The directors of the company who were in office during the year and up to the date of signing the financial statements were:

Alan Smith	Non-Executive Chairman
George Adams	Non-Executive Director
Paul Daccus	Non-Executive Director (Resigned 11 February 2020)
Ron McMillan	Non-Executive Director
Angela Luger	Non-Executive Director
David Knight	Chief Executive Officer
Chris Muir	Chief Financial Officer

Subject to provisions of the Companies Act 2006, the Company's Articles of Association, and to any directions given by special resolution, the business of the Company shall be managed by the Board, which may exercise all the powers of the Company.

Directors' Report continued

Directors' indemnities

As permitted by the Company's Articles of Association, the Directors have the benefit of an indemnity which is applicable in certain circumstances. The Company also purchased and maintains Directors' and Officers' liability insurance. Both the insurance and indemnities applied throughout the financial year ended 25 July 2020 and through to the date of this report.

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 (either physically or virtually) held at meaningful times during the year supported by regular senior management meetings and briefings, both on a national and regional basis, and a comprehensive regular newsletter which is made available to all employees. As a consequence of the COVID-19 outbreak, only the Autumn sales conference was able to go ahead. Internal communications were significantly increased from the start of lockdown as detailed on page 6, and we continued to hold the Directors discussions group with our designated Non-Executive Workforce Engagement Director, George Adams, virtually.

We also encourage colleagues to become involved in the financial performance of our business through a variety of share and bonus schemes. Employee engagement is considered further within our Stakeholder Index on page 33.

Our Code of Conduct which applies across the Group sets out the standard of behaviour expected of all of our people and includes guidance on policies such as: anti-bribery, conflicts of interest, and whistle-blowing procedures. We have a zero-tolerance approach to bribery and provide our colleagues with the ability to raise concerns regarding misconduct via an independent and confidential whistle-blowing service.

Equal opportunities

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 £66,000 (2019: £18,000). No political donations, expenditure or contributions have been made or incurred (2019: £nil).

Events after the balance sheet date

On 25 August 2020, the Group arranged a £20.0m CLBILS revolving credit facility (RCF). This facility is committed for a term of 36 months and would be renegotiated well in advance of this maturity date. The RCF is subject to certain covenants in respect of fixed charge cover, liquidity, leverage and capital spending.

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.

Major interest in shares

As at 9 September 2020 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		Number of shares held	% of issued share capital
M&G Investment Management	4,645,529	12.22	Premier Miton Investors	1,719,766	4.52
Artemis Investment Management	4,583,920	12.06	Huntington Management	1,649,587	4.34
Tellworth Investments	3,525,690	9.28	Mr David Knight	1,528,615	4.03
Stadium Capital Management	1,855,177	4.88	Bank of America Merrill Lynch International as principal	1,489,103	3.92
SCION Asset Management	1,850,119	4.87	Columbia Threadneedle Investments	1,175,000	3.09
Fidelity International	1,757,161	4.62			

Annual General Meeting

A notice convening the Company's Annual General Meeting on 25 November 2020 will be issued to shareholders separately.

Auditors

The Group's independent auditors, PricewaterhouseCoopers LLP (PwC), have indicated their willingness to continue in office and the Audit Committee has recommended that PwC remain in office. A resolution to re-appoint PwC as auditors will be put to the members at the Annual General Meeting. So far as the Directors are aware, there is no relevant audit information of which the auditors are unaware. The Directors have taken all steps that they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

By order of the Board

Richard Butts
Company Secretary
1 October 2020

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 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 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 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.

Directors' confirmations

The directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group and company's position and performance, business model and strategy.

Each of the directors, whose names and functions are listed in Board of Directors section 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

Richard Butts
Company Secretary
1 October 2020

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 25 July 2020 and of the group's loss and the group's and the company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report 2020 (the "Annual Report"), which comprise: the consolidated and company statements of financial position as at 25 July 2020; 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

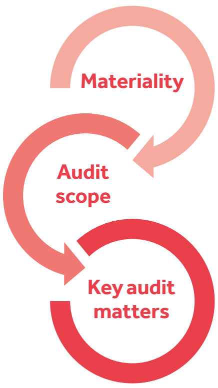
We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities 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 28 July 2019 to 25 July 2020.

Our audit approach

Overview



- Overall group materiality: £2,000,000 (2019: £1,136,000), based on 1% of revenue, capped at 20% of the five year average (loss)/profit before tax (2019: 0.35% of revenue).
- Overall company materiality: £702,000 (2019: £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 auditing ScS group plc (the Company's) equity balance. This approach provides 100% coverage over the Group's revenue.
- Desktop reviews were performed over all out of scope components.

- Group: Impairment of assets in relation to loss making stores.
- Group: IFRS 16 (Leases) and recognition of right of use assets and lease liabilities.
- Group and Company: COVID-19 impact and consideration of Going Concern.
- Company: Carrying value of Investments in subsidiaries.

The scope of our audit

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

Capability of the audit in detecting irregularities, including fraud

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

- Discussions with management and internal audit, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Review of board minutes;
- Review of legal expenditure in the year to identify potential non-compliance with laws and regulation;
- Evaluation of management's controls designed to prevent and detect irregularities, in particular their anti-bribery controls;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to impairment of assets, adoption of IFRS 16 (Leases) and consideration of the impact of COVID-19 on going concern and the impairment of the investment in the company (see related key audit matters below);
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations.

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

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Group	
Impairment of assets in relation to loss making stores Refer to page 59 (Audit Committee Report) ScS Group plc has 100 stores at the year end. The nature of the business is such that, when all costs have been allocated on a store by store basis, some stores' fixed assets and right of use assets are not covered by the present value of its future cash flows. This gives rise to potential impairment of the assets. Management have used EBITDA as a proxy for cash flows, exclusive of rent repayments. We recognise that there are a number of judgements involved in the asset impairment calculation, including forecasting of future results, length of leases, allocation of costs and use of an appropriate discount rate. As such, the judgements involved in the impairment of asset calculation were an area of focus. Management have calculated an impairment charge of £3.4m, which has been treated as an exceptional item in the Statement of comprehensive income as it is management's view that the additional impairment required is a result of the impact of COVID-19 on the Group's future cash flows.	We obtained the impairment workings from management and checked their arithmetical accuracy. We agreed that all store rent payments per management's IFRS 16 calculation had been allocated to stores and agreed allocation of fixed assets on a sample basis by vouching to invoice. We assessed the store by store allocation of revenue and direct costs for reasonableness by comparing to the store's historical results over the previous two years as a percentage of the total results achieved. We agreed that central costs had been allocated on a reasonable basis to the underlying stores with no exceptions noted. We agreed that the rent was correctly excluded from the stores EBITDA. There were no issues noted with the underlying data used in calculating the impairment provision. Management's assessment of which stores were at risk of impairment was based on the forecast future performance of individual stores in the group's portfolio. We assessed the robustness of the groups' forecasting process in the prior years and the underlying historical accuracy. This excluded forecasting of the current year result given the unforeseen impact of COVID-19. We have also considered actual results achieved post year end. Management's forecasting was considered to be suitably robust and accurate. We agreed the FY21 forecast results used in the asset impairment calculation were consistent with board approved budgets. We assessed the reasonableness of the assumptions used in the calculation and performed sensitivities where appropriate. This included, but was not limited to, utilising our valuations experts to perform an assessment of discount rate and store growth rates with reference to the macro-economic and industry predictions. We concluded that the level of impairment of fixed assets and right of use assets in the store portfolio was materially correct. We assessed the reasonableness of the impairment charge being treated as an exceptional item within the Statement of comprehensive income and agreed this was acceptable based on the nature and magnitude of the impairment charge. We have assessed completeness and accuracy of the related disclosures within the financial statements. We are satisfied the assumptions made by management in determining the asset impairment and the related disclosures in the financial statements are appropriate.

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

Key audit matter	How our audit addressed the key audit matter
IFRS 16 (Leases) and recognition of right of use assets and lease liabilities Refer to page 59 (Audit Committee Report) ScS Group plc has 100 stores at the year end, 9 distribution centres and a number of cars, the majority of which are leased. The Group is required to recognise a lease liability and corresponding right of use asset in relation to the agreements which meet the IFRS 16 criteria of a lease. The Group has elected to apply IFRS 16 under the modified retrospective transition option. On transition a £5.8m adjustment relating to impairment of the right of use asset was recognised by the Group in reserves. This arose due to differences in cost allocation and discount rate between the Group's onerous lease calculation and impairment model and involves judgement. The calculation of lease liabilities requires assumptions to be made in relation to the discount rate, which can have a significant impact on the lease liabilities recognised. Estimation uncertainty arises in respect of the discount rate where the implicit rate in the lease is not available, as is typical in the Group's store leases. In those circumstances the Group bases the discount rate on the incremental borrowing rate. The incremental borrowing rate is an unobservable input based on assumptions of the Group's credit risk and specific risks of leased assets. Small changes in discount rate assumptions across a number of leases could lead to a material change in the valuation of lease liabilities and the corresponding right of use asset. As a result of COVID-19, the Group were granted a number of waivers and deferrals in respect of their lease agreements, which were recognised as lease modifications during the year.	We assessed management's accounting policy for leases to verify that it was compliant with IFRS 16, and concluded that their policy was appropriate. We leveraged work performed in the prior year over the transition impact of IFRS 16. This included testing the completeness and accuracy of the data used by management in its lease accounting, corroborating key data inputs to the underlying lease documents. We recalculated a sample of lease contracts to verify that the accounting entries had been appropriately determined by management and ensured this calculation methodology was applied consistently across the population of similar leases. Assisted by our valuation experts, we independently assessed management's methodology used to determine the discount rates applied to the lease portfolio and found this to be supportable. We agreed any lease modifications made on transition to underlying lease contracts on a sample basis. We evaluated the transition model prepared by management in respect of impairment and agreed consistency of the underlying data to the prior year audit work and validated the integrity of the calculation methodology. We agreed the reasonableness of the discount rate applied with our experts and considered the reasonableness of judgements taken by management. We have tested the lease waivers and deferrals during the year back to corroborating evidence from the landlords to ensure they have been correctly recognised. We considered completeness of the IFRS 16 calculation by testing the reconciliation of the Group's operating lease commitments as reported in the prior year financial statements to the IFRS 16 calculation as at the adoption date. We assessed the completeness and accuracy of disclosures within the financial statements. We are satisfied the transition to IFRS 16, including recognition of the right of use asset and lease liabilities, and the related disclosures in the financial statements are appropriate.

Key audit matter	How our audit addressed the key audit matter
Group and Company	
COVID-19 impact and consideration of Going Concern Refer to page 59 (Audit Committee Report) The ongoing COVID-19 pandemic is having a significant impact on the UK economy in which the Group operates. As a result, the Group and Company have faced operational challenges and there remains significant uncertainty as to the duration of the pandemic and what its lasting impact will be on the economy. The pandemic was a present condition at 25 July 2020 and is something that is continually evolving. The Directors have considered the potential impact of the evolving pandemic across the business and on the financial statements. Management have considered the impact on the carrying value of the Group's fixed assets, including right of use assets, in relation to loss making stores for impairment as a result of the ongoing pandemic, and have also considered the impact on the Company's carrying value of investment in its subsidiaries. In relation to the Group's going concern assessment, management have considered the implications of COVID-19 and have undertaken an assessment including a review of the anticipated performance and forecast future cash flows of the Group and the potential ongoing impact of the ongoing pandemic. Management have also stress tested the cash flow forecasts reflecting what they consider to be a severe yet plausible downside scenario resulting from the consequences of COVID-19. Having taken into account these models, together with a robust assessment of planned and possible mitigating actions, management has concluded that the Group remains a going concern, and that there is no material uncertainty in respect of this conclusion. Management has described its going concern and viability assessment on page 49 of the Annual Report.	We have considered the carrying value of the Groups fixed assets, including right of use assets, in relation to loss making stores within the specific key audit matter; impairment of assets in relation to loss making stores, and the carrying value of the Company's investments in its subsidiaries within the specific key audit matter; Carrying value of investments in subsidiaries. We have re-evaluated our risk assessment, including the going concern risk of the Group. Based on management's assessment and our audit procedures thereon as described below, we consider our original risk assessment to remain appropriate and therefore consider going concern to be a significant risk for the Group. In assessing management's consideration of the potential impact on the Group going concern assessment of COVID-19, we have undertaken the following audit procedures: – We obtained from management their latest forecasts that support the board's assessment and conclusions with respect to the going concern basis of preparation of the financial statements. – We assessed the management accounts for the financial year to date and checked that these were consistent with the starting point of management's forecasts. We also checked the arithmetical accuracy of management's forecasts. – We evaluated management's board approved budget and cash flow forecast and severe yet plausible downside scenario for the period to July 2023. We challenged the adequacy and appropriateness of the underlying assumptions and significant forecast cash flows. – We understood the mitigating actions taken by management to date and confirmed the available mitigating actions in management's model are within their control and can be taken on a timely basis, if needed. – We evaluated the level of forecast liquidity and forecast compliance with the bank facility covenants, which included further downside sensitivity to management's severe but plausible downside and agreed to source documentation. Our findings and conclusions in respect of going concern are set out in the 'Going concern' section below. We have evaluated management's disclosures in the financial statements in relation to COVID-19 and are satisfied that they are consistent with the risks affecting the Group, their impact assessment and the procedures that we have performed.
Company	
Carrying value of Investments in subsidiaries Refer to pages 109 and 110 (Notes to the Company Financial Statements) The Company holds an investment in its subsidiary undertakings, at a carrying value of £70m (2019: £70m). The Company is required to assess the investment in its subsidiary annually for impairment. The test for impairment compares the carrying value of the investment in subsidiary balance to the higher of their fair value or value-in-use using an impairment model. Following the downturn in the market as a result of COVID-19 and the uncertainty of the future market, there is a risk that the valuation of the Company's investment in its subsidiary entities could be impaired.	We have assessed the Company's share price and market capitalisation, comparing this to the aggregate carrying value of the investment in subsidiary balance. Given the fluctuating nature of the share price during the year, we have obtained a cash flow forecast model from management to support the carrying value of the investment in subsidiary balance. We have checked the mathematical accuracy and integrity of the model and assessed that it meets the requirements of IAS 36. We have agreed the forecasted EBITDA (used as a proxy for cash flow) has been agreed to board approved budgets and is consistent with the forecasted model used within the impairment of asset calculation and going concern model. See details in the above key audit matters for work performed in relation to assessment of the appropriateness of the budgeted forecasts. We used internal valuation experts to assess the appropriateness of the discount rate assumptions and found this to be reasonable. We evaluated other material assumptions applied to the cash flow forecasts with reference to the macro-economic and industry predictions. We assessed the completeness and accuracy of disclosures within the financial statements. We are satisfied the assumptions made by management in determining the valuation and the related disclosures in the financial statements are appropriate.

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

How we tailored the audit scope

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

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

Materiality

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

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

	Group financial statements	Company financial statements
Overall materiality	£2,000,000 (2019: £1,136,000).	£702,000 (2019: £700,000).
How we determined it	1% of revenue, capped at 20% of the five year average (loss)/profit before tax (2019: 0.35% of revenue).	1% of total assets.
Rationale for benchmark applied	Based on our professional judgement and our knowledge of the client, materiality was based on 1% of revenue which is a standard materiality benchmark particularly in low margin businesses such as ScS Group plc. However, it is important that we are mindful of our materiality level in the context of the business' profitability. Consequently, we capped the materiality level applied at 20% of the five year average profit/loss before tax.	Based on our professional judgement and our knowledge of the client our materiality was based on 1.0% (2019: 1.0%) of total assets giving an overall materiality of £702,000 (2019: £700,000). We used 1.0% of total assets as the benchmark for our materiality calculations due to the entity being a holding company with limited activity and our judgement around what would affect the decisions of the members.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The materiality allocated to A Share & Sons Limited was £1,900,000, this was the only component in scope.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £100,000 (Group audit) (2019: £56,800) and £35,000 (Company audit) (2019: £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 twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern.
We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 25 July 2020 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 60 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 49 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 77, 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 59 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, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit committee, we were appointed by the directors on 3 November 2009 to audit the financial statements for the year ended 31 July 2009 and subsequent financial periods. The period of total uninterrupted engagement is 12 years, covering the years ended 31 July 2009 to 25 July 2020. The audit went out to competitive tender for the year end 27 July 2019 and we were reappointed as auditors on 21 November 2018.

Andy Ward (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne
1 October 2020

Consolidated Statement of Comprehensive Income
For the year ended 25 July 2020

	Note	2020 £'000	2019 £'000
Gross sales	3	**268,119**	333,267
Revenue	3	**255,491**	317,406
Cost of sales		**(135,911)**	(167,547)
Gross profit		**119,580**	149,859
Distribution costs		**(16,988)**	(17,310)
Administrative expenses		**(101,873)**	(118,610)
Operating profit	4	**719**	13,939
Analysed as:			
Underlying operating profit		**4,708**	14,291
Exceptional items included within administrative expenses	5	**(3,989)**	(352)
Operating profit		**719**	13,939
Finance costs	7	**(4,195)**	(96)
Finance income	8	**355**	417
Net finance (costs)/income		**(3,840)**	321
(Loss)/profit before taxation		**(3,121)**	14,260
Tax credit/(charge)	9	**898**	(2,880)
(Loss)/profit from continuing operations		**(2,223)**	11,380
Loss from discontinued operations	31	**–**	(4)
(Loss)/profit for the period		**(2,223)**	11,376
Attributable to:			
Owners of the parent			
(Loss)/profit and total comprehensive income for the year		**(2,223)**	11,376
(Loss)/earnings per share (expressed in pence per share):			
Basic (loss)/earnings per share	10	**(5.8p)**	28.5p
Diluted (loss)/earnings per share	10	**(5.8p)**	27.4p

There is no variance between the diluted and basic earnings per share in the current year.

There are no other sources of comprehensive income.

Consolidated Statement of Financial Position
As at 25 July 2020

	Note	2020 £'000	2019 £'000
Non-current assets			
Intangible assets	11	**2,358**	1,642
Property, plant and equipment	12	**17,209**	21,065
Right-of-use asset	13	**118,499**	–
Deferred tax asset	18	**722**	–
Total non-current assets		**138,788**	22,707
Current assets			
Inventories	14	**18,207**	19,209
Trade and other receivables	15	**4,804**	8,754
Current income tax receivable		**358**	–
Cash and cash equivalents		**82,282**	57,666
Total current assets		**105,651**	85,629
Total assets		**244,439**	108,336
Current liabilities			
Current income tax liabilities		**–**	1,951
Trade and other payables	16	**81,169**	56,624
Provisions	19	**125**	–
Lease liabilities	13	**24,167**	–
Total current liabilities		**105,461**	58,575
Non-current liabilities			
Trade and other payables	17	**137**	6,413
Deferred tax liability	18	**–**	452
Provisions	19	**1,084**	–
Lease liabilities	13	**112,253**	–
Total non-current liabilities		**113,474**	6,865
Total liabilities		**218,935**	65,440
Capital and reserves attributable to the owners of the parent			
Share capital	20	**38**	40
Share premium	20	**16**	16
Capital redemption reserve		**15**	13
Treasury reserve	28	**(182)**	(91)
Merger reserve		**25,511**	25,511
Retained earnings		**106**	17,407
Equity attributable to the owners of the parent		**25,504**	42,896
Total equity		**25,504**	42,896
Total equity and liabilities		**244,439**	108,336

The notes on pages 89 to 105 are an integral part of these consolidated financial statements.

The financial statements on pages 85 to 105 were approved by the Board and authorised for issue on 1 October 2020 and signed on its behalf by:

David Knight
Chief Executive Officer
ScS Group plc: Registered number 03263435

Consolidated Statement of Changes in Equity
For the year ended 25 July 2020

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Merger reserve £'000	Treasury reserve £'000	Retained earnings £'000	Total equity £'000
At 29 July 2018	40	16	13	25,511	(268)	11,990	37,302
Total comprehensive income	–	–	–	–	–	11,376	11,376
Share-based payments (note 22)	–	–	–	–	–	765	765
Treasury shares (note 28)	–	–	–	–	177	(177)	–
Dividend paid (note 21)	–	–	–	–	–	(6,547)	(6,547)
At 27 July 2019	40	16	13	25,511	(91)	17,407	42,896
At 28 July 2019	40	16	13	25,511	(91)	17,407	42,896
Impact of change in accounting policy (note 2)	–	–	–	–	–	(5,826)	(5,826)
Tax impact of change in accounting policy (note 2)	–	–	–	–	–	990	990
At 28 July 2019 (restated)	**40**	**16**	**13**	**25,511**	**(91)**	**12,571**	**38,060**
Total comprehensive loss	–	–	–	–	–	(2,223)	(2,223)
Share-based payment credit (note 22)	–	–	–	–	–	(818)	(818)
Purchase of own shares	–	–	–	–	–	(4,425)	(4,425)
Treasury shares (note 28)	–	–	–	–	(91)	(663)	(754)
Cancellation of repurchased shares	(2)	–	2	–	–	–	–
Dividend paid (note 21)	–	–	–	–	–	(4,336)	(4,336)
At 25 July 2020	**38**	**16**	**15**	**25,511**	**(182)**	**106**	**25,504**

Consolidated Statement of Cash Flows
For the year ended 25 July 2020

	Note	2020 £'000	2019 £'000
Cash flows from operating activities			
(Loss)/profit before taxation		**(3,121)**	14,260
Adjustments for:			
Loss from discontinued operations before tax	31	**–**	(5)
Depreciation of property, plant and equipment	12	**4,847**	4,824
Depreciation – right-of-use assets	13	**22,787**	–
Amortisation of intangible assets	11	**647**	676
Impairment on non-current assets	5	**3,376**	–
Share-based payment (credit)/charge	22	**(818)**	765
Finance costs	7	**4,195**	96
Finance income	8	**(355)**	(417)
		31,558	20,199
Changes in working capital:			
Decrease in inventories	14	**1,002**	2,656
Decrease/(increase) in trade and other receivables	15	**191**	(220)
Increase in trade and other payables		**26,715**	1,486
Cash generated from operating activities		**59,466**	24,121
Interest paid	7	**(215)**	(96)
Income taxes paid		**(1,595)**	(2,774)
Net cash flow generated from operating activities		**57,656**	21,251
Cash flows used in investing activities			
Purchase of property, plant and equipment		**(2,694)**	(4,377)
Payments to acquire intangible assets		**(1,151)**	(1,240)
Interest received	8	**355**	417
Net cash flow used in investing activities		**(3,490)**	(5,200)
Cash flows used in financing activities			
Dividends paid	21	**(4,336)**	(6,547)
Purchase of own shares	28	**(5,180)**	–
Interest paid on lease liabilities		**(3,980)**	–
Payment of capital element of leases		**(16,054)**	–
Proceeds from bank loan		**12,000**	–
Repayment of borrowings		**(12,000)**	–
Net cash flow used in financing activities		**(29,550)**	(6,547)
Net increase in cash and cash equivalents		**24,616**	9,504
Cash and cash equivalents at beginning of year		**57,666**	48,162
Cash and cash equivalents at end of year		**82,282**	57,666

Notes to the Consolidated Financial Statements

1. General information

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

The Company's principal activity is to act as a holding company for its subsidiaries. The Company and its subsidiaries' (the 'Group's') principal activity is the provision of furniture and flooring, trading under the name ScS.

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 25 July 2020 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 25 July 2020. 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

At the time of approving the financial statements, the Board is required to formally assess that the business has adequate resources to continue in operational existence for the foreseeable future and as such can continue to adopt the 'going concern' basis of accounting.

Liquidity

The most significant factor in considering whether current resources are adequate is to consider the Group's liquidity. At 25 July 2020, the Group's cash balance totalled £82.3m, and £20.6m was owed as trade payables for goods delivered. The Group has no drawn down debt, and further liquidity is available through the £20.0m CLBILS revolving credit facility (RCF) granted on 25 August 2020. This facility is committed for a term of 36 months and would be renegotiated well in advance of this maturity date. The RCF is subject to certain covenants in respect of fixed charge cover, liquidity, leverage and capital spending.

Cash flows

As part of the Group's ongoing review of going concern, management have modelled cash flow forecasts to July 2023. The cash flow forecasts for that period include assumptions in relation to customer demand, the availability of product and the estimated continued impact of COVID-19 on the Group's performance.

Whilst the Group believes its initial cash flow forecasts are cautious, and current trading has exceeded those forecasts, the Group also recognises that there is considerable uncertainty as to the continued impacts of COVID-19. Whilst it is difficult to estimate the impact COVID-19 might have on the business, management have considered a further severe but plausible downside sensitivity scenario. The downside scenario includes the assumption that the Group's stores and distribution network are forced to close for a further eight weeks, including across the crucial pre-Christmas trading period, followed by a period of gradual recovery, only returning to normal levels by July 2021. The scenario does not include any pent-up demand increase, despite the order increase experienced following the first lockdown period.

The Group has included within the downside scenario associated reductions in marketing, capital spend, management and staff bonus costs and sales-related commission payments. The government provided an 80% grant under the Coronavirus Job Retention Scheme (CJRS) as support for furloughed workers, which currently ends in October 2020. Further government support was provided through VAT and PAYE/NI deferrals and a 12-month business rates holiday for all retail businesses until March 2021. The Group also obtained further benefits through working with landlords for rent deferments. No additional government or landlord support has been included in the modelled downside scenario.

Throughout this 'severe but plausible downside' scenario, the Group would have significant cash headroom, with the cash low point at the end of July 2021 being substantial, before use of the £20m RCF. Furthermore, forecasts show sufficient headroom on all of the financial covenants and no requirement for any additional sources of financing (including any drawdown on the RCF).

Many of our large suppliers operate using credit insurance, which they use to support their payment terms with the Group. As these credit insurers are consistently reviewing their support for the companies involved, and a severe economic climate could mean that they withdraw their support for the Group, which could create working capital challenges for our suppliers, requiring them to request earlier payment dates. The Group has modelled the impact of the full withdrawal of this insurance, and noted that the cash headroom available ensures this does not pose a further risk to the Group's going concern basis.

For the reasons set out in detail above, the Board believe that it remains appropriate to prepare the Group financial statements on a going concern basis.

New standards, amendments and interpretations

At the date of authorisation of these financial statements, new standards, amendments and interpretations which had been issued but were not yet mandatory are not expected to have a material impact on the consolidated financial statements.

The following standards and amendments were adopted in the current financial year, and further details of their impact on the Group financial statements are given in note 13:

- IFRS 16 'Leases', which has been applied using the modified retrospective transition approach
- 'COVID-19-Related Rent Concessions amendment to IFRS 16'

Other standards, interpretations and amendments effective in the current financial year have not had a material impact on the Group financial statements.

Notes to the Consolidated Financial Statements continued

2. Accounting policies continued

IFRS 16

IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments.

The Group has applied IFRS 16 using the modified retrospective transition approach, with recognition of the initial right-of-use asset values being equal to the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate at 28 July 2019. Accordingly, the comparative information presented for 2019 has not been restated.

Previously, the Group determined at the inception of a contract whether an arrangement was or contained a lease under IFRIC 4 Determining Whether an Arrangement Contains a Lease. The Group now assesses whether a contact is, or contains, a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to IFRS 16, the Group elected to apply the practical expedient allowing the standard to be applied only to contracts that were previously identified as leases under IAS 17 and IFRIC 4. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 28 July 2019.

IFRS 16 provides for certain optional practical expedients, including those related to the initial adoption of the standard. In applying IFRS 16 for the first time the Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option, and lease contracts for which the underlying asset is of low value ('low-value assets').

For leases of properties in which the Group is a lessee, it has applied the practical expedient permitted by IFRS 16 and will account for each lease component and any associated non-lease components as a single lease component.

The impact on the balance sheet on transition is summarised below:

	28 July 2019 £'000
Property, plant and equipment	(480)
Right-of-use assets	126,287
Deferred tax asset	990
Lease liabilities	(134,857)
Prepayments	(3,760)
Accruals	6,985
Retained earnings	4,836

The net impact on retained earnings at 28 July 2019 was a decrease of £4,836,000. This arose as a result of an initial impairment of both the right-of-use assets and property, plant and equipment of £6,340,000, offset by a reversal in the previous onerous lease provisions relating to the same leases of £514,000 and the recognition of a net increase in deferred tax assets of £990,000. This impairment arose principally as a result of measurement differences between provisioning under IAS 36 compared with IAS 37. The weighted average incremental borrowing rate applied to the lease liabilities on 28 July 2019 was 2.9%.

The table below shows a reconciliation from the total operating lease commitment as disclosed at 27 July 2019 to the total lease liabilities recognised in the accounts immediately after transition:

	28 July 2019 £'000
Operating lease commitments disclosed as at 27 July 2019	149,960
Discounted using the incremental borrowing rate at the date of initial application	(15,103)
Total lease liabilities recognised at 28 July 2019	134,857

The Group presents lease liabilities separately in the consolidated balance sheet.

The required disclosures under IAS 17 for these operating leases for the prior year are shown below:

	Land and buildings	Plant and machinery	Total
	Year ended 27 July 2019 £'000	Year ended 27 July 2019 £'000	Year ended 27 July 2019 £'000
Group			
Within one year	23,872	1,458	25,330
Within two to five years	76,661	1,794	78,455
After five years	46,175	–	46,175
	146,708	3,252	149,960

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.

2. Accounting policies continued

Subsidiaries

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

Transactions eliminated on consolidation

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

Exceptional items

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

Gross sales and revenue

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

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

The Group operates a negative working capital model whereby customers pay a deposit at the point of order and, unless the order is to be financed using consumer credit, settle outstanding balances before delivery. Payment of part of the consideration is often therefore taken before the Group has fulfilled its performance obligation. These deposits taken from customers are referred to as contract liabilities under IFRS 15, and are presented as payments received on account within current liabilities, until the goods or services are delivered. A very small number of deposits are refunded without delivery of product, and therefore materially, the value of customer deposits will be realised within 12 months. Where the outstanding balance is settled subsequent to the delivery of goods via consumer credit, the full financed balance is received within two working days of delivery from our third-party finance providers, who are then responsible for collecting subsequent payments from the customer. There has been no significant changes to the methodology in recognising contract liabilities in the current year.

The Group holds a sales return provision in the Consolidated Statement of Financial Position to provide for expected levels of returns on sales made before year end. The Group recognises the expected value of revenue relating to returns within sales.

Segmental reporting

As noted in the gross sales and revenue note above, segments are reported in a manner consistent with the internal reporting to the Board of Directors (see note 3 – Segment information on page 94).

Intangible assets

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

Computer software	20-33% straight-line per annum

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

Property, plant and equipment

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

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

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

Notes to the Consolidated Financial Statements continued

2. Accounting policies continued

Leases

The Group assesses whether a contract is, or contains, a lease at inception of the contract. Typically, lease contracts relate to properties such as stores and distribution centres, and vehicles leases. For leases in which the Group is a lessee, the Group recognises a right-of-use asset and a lease liability.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease. The right-of-use asset is initially measured at cost, which includes the amount of lease liabilities recognised, adjusted for any lease payments made at or before the commencement date, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method over the shorter of the asset's useful life or the lease term. Depreciation on right-of-use assets is included in administrative costs in the consolidated income statement. The right of use asset is tested for impairment if there are any indicators of impairment.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of the lease payments to be made over the lease term. Lease payments include: fixed payments less any lease incentives receivable; variable lease payments that depend on an index or rate; amounts expected to be payable by the lessee under residual value guarantees; and the cost of exercise of a purchase option if the lessee is reasonably certain to exercise that option.

Any variable lease payments that do not depend on an index or rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

Where the lease contains an extension option or a termination option which is exercisable by the Group, as lessee, an assessment is made as to whether the Group is reasonably certain to exercise the extension option, or not exercise the termination option, considering all relevant facts and circumstances.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate unless the interest rate implicit in the lease can be readily determined.

After the commencement date, the lease liability is increased to reflect the accretion of interest and reduced for lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term or a change in the fixed lease payments. Interest charges are included in finance costs in the consolidated income statement.

Inventories

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

Trade receivables

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

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

Trade payables

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

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

Borrowings

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

Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand.

Government grants

Included in administrative expenses is income of £5.0m that was received under the UK Government's Job Retention Scheme which has been paid to employees on furlough. There are no unfulfilled conditions or other contingences attaching to this grant. The Group did not benefit directly from any other forms of government assistance.

2. Accounting policies continued

Treasury shares

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

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

Share capital

Ordinary shares are classified as equity.

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

Pre-opening and launch costs

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

Advertising expenditure

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

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.

Pension costs

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

Taxation

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

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

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

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

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

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.

Notes to the Consolidated Financial Statements continued

2. Accounting policies continued
Critical accounting judgements and estimates
The preparation of the financial statements requires judgements, estimates and assumptions to be made that affect the reported value of assets, liabilities, revenues and expenses. The nature of estimation and judgement means that actual outcomes could differ from expectation.

Critical accounting estimates and assumptions
Management consider that accounting estimates and assumptions made in relation to the following items have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial period.

Stock provisions

The Group holds £18.2m of inventory at the year end, and the majority of this stock is held for display in store. Due to the nature of this stock, it will often be subject to the wear and tear associated with use in a showroom environment, and some items may have also been in store for an extended period of time. As such, this stock is often unable to achieve the same margin as the 'special order' stock purchased and delivered directly to our customers, and may occasionally be sold at a level lower than cost following a business decision to refresh the range or better utilise the space. The Group's policy in relation to stock provisioning is therefore to provide for obsolete, slow-moving and defective stock, and therefore ensure that stock is held at the most appropriate estimate of net realisable value.

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

Impairment of property, plant and equipment and right-of-use assets

Management consider each store to be a cash-generating unit (CGU). At each balance sheet date, the Group reviews the carrying amounts of it's property, plant and equipment and right-of-use assets and intangible assets to determine whether there is any indication of impairment at a store following poor performance. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Recoverable amounts for CGUs are the higher of fair value less costs of disposal, and value in use. Value in use is calculated from cash flow projections based on the Group's internal budgets, which are then extrapolated over the remaining store lease length, and management's expectations of estimated growth rates. The key estimates for the value in use calculations are those regarding the discount rate used and expected changes to future cash flows. Management sets the budgets based on past experiences and expectations of future changes in the market and estimates discount rate using pre-tax rates that reflect the current market assessment of the time value of money and the risks specific to the CGUs, deriving from the Group's post-tax weighted average cost of capital. If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or CGU in prior years. A reversal of an impairment loss is recognised as income immediately.

Discount rates utilised within IFRS 16 accounting

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. Generally the Group uses its incremental borrowing rate as the discount rate. As it has no external borrowings management are required to determine an approximation, calculated based on UK Government Gilt rates of an appropriate duration and adjusted by an indicative credit premium.

Critical judgements in applying the Group's accounting policies
Going concern

After considering the forecasts, sensitivities and mitigating actions available to management and having regard to the risks and uncertainties to which the Group is exposed, management have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, and operate for a period of at least 12 months from the date of signing the financial statements. Accordingly, the financial statements continue to be prepared on the going concern basis.

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

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

An analysis of gross sales is as follows:

	Year ended 25 July 2020 £'000	Year ended 27 July 2019 £'000
Sale of goods	**249,578**	309,932
Associated sale of warranties	**18,541**	23,335
Gross sales	**268,119**	333,267
Less: costs of interest-free credit	**(12,628)**	(15,861)
Revenue	**255,491**	317,406

4. Operating profit

Operating profit is stated after charging:

	Year ended 25 July 2020 £'000	Year ended 27 July 2019 £'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	**97**	103
– other non-audit services	**15**	15
Depreciation of property, plant and equipment – owned	**4,847**	4,824
Depreciation of right-of-use assets	**22,787**	–
Amortisation of intangible assets	**647**	676
Impairment of property, plant and equipment and right-of-use assets	**3,376**	–
Operating lease rentals – plant and machinery	**–**	2,198
Operating lease rentals – land and buildings	**–**	24,400
COVID-19 related rent concessions	**(615)**	–
Government support	**8,420**	–

During the year the Group received support from the UK government of £8.4m in response to the COVID-19 outbreak. This included £5.0m under the UK Government's Job Retention Scheme which has been paid to employees on furlough. This has been recognised as a grant in accordance with the accounting policy set out in Note 2.

5. Exceptional items

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

	Year ended 25 July 2020 £'000	Year ended 27 July 2019 £'000
Impairment charges associated with stores	**3,376**	–
Restructuring costs	**613**	–
Professional fees	**–**	352
	3,989	352

Impairment charges associated with stores

As a result of COVID-19 a revision in future projections for the business has resulted in an impairment charge of £3,376,000 being recognised on the assets associated with a number of our stores. This has been split between the right-of-use asset (£2,619,000) and tangible assets (£757,000), apportioned based on net book value.

Management have considered the potential impact of changes in assumptions on the impairment recorded against the Group's network of store cash-generating units, While there is not a significant risk of an adjustment to the carrying amount of any one store cash-generating unit that would be material to the Group as a whole in the next financial year, management have considered sensitivities to the impairment charge as a result of changes to the post-tax discount rate. The discount rate used in management's calculation was 8.5%. The sensitivities applied are an increase or decrease of 1.0% used to determine the impairment charge. It is estimated that a 1.0% decrease/increase in discount rate assumptions, with no change to forecast revenue assumptions, would result in a £667,000 increase/£599,000 decrease in the impairment charge of store assets in the 52 weeks to 25 July 2020.

Restructuring costs

Current year exceptional items include £613,000 in relation to amounts payable for loss of office incurred as a result of restructuring, in particular, relating to the centralisation of administrative support from each of our individual stores to our head office in Sunderland.

Professional fees

In the prior year, exceptional costs disclosed within continuing operations related to the unrealised acquisition of sofa.com. As announced in January 2019, the Group was in discussions regarding the potential acquisition of the business and assets of Sofa.com Limited. Ultimately, this transaction did not occur and the professional fees relating to the due diligence conducted were therefore deemed to be exceptional.

6. Employees and Directors

6.1 Staff costs

The aggregate remuneration of all employees including Directors comprises:

	Year ended 25 July 2020 £'000	Year ended 27 July 2019 £'000
Wages and salaries	**47,281**	52,037
Social security costs	**4,532**	5,087
Other pension costs	**1,235**	1,172
Share-based payment (credit)/charge (note 22)	**(818)**	765
	52,230	59,061
Discontinued operations (note 31)	**–**	1,247
Total	**52,230**	60,308

Notes to the Consolidated Financial Statements continued

6. Employees and Directors continued

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

	Year ended 25 July 2020	Year ended 27 July 2019
Sales	**681**	620
Office and managerial	**525**	680
Services and warehousing	**466**	451
Cleaning	**35**	33
	1,707	1,784
Discontinued operations	**–**	45
Total	**1,707**	1,829

Details of Directors' remuneration, share options, long-term incentive schemes and pension entitlements are disclosed in the Remuneration Report on pages 62 to 68.

6.2 Key management compensation

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

The key management compensation is as follows:

	Year ended 25 July 2020 £'000	Year ended 27 July 2019 £'000
Short-term employee benefits	**1,349**	2,857
Deferred contribution pension cost	**209**	240
Share-based payment (credit)/charge	**(818)**	765

These have been disclosed in the Remuneration Report along with details of shares exercised by the highest paid Director.

The share-based payment credit in the year of £818,000 relates to the unwinding of expenses previously recognised due to EPS for the Group falling below the minimum performance conditions.

7. Finance costs

	Year ended 25 July 2020 £'000	Year ended 27 July 2019 £'000
Bank facility non-utilisation fees	**63**	96
Bank facility renewal fees	**55**	–
Bank facility utilisation fees	**97**	–
Interest on lease liability	**3,980**	–
	4,195	96

8. Finance income

	Year ended 25 July 2020 £'000	Year ended 27 July 2019 £'000
Bank interest received	**355**	417

9. Taxation

(a) Analysis of tax (credit)/charge in the year

	Year ended 25 July 2020 £'000	Year ended 27 July 2019 £'000
Current tax:		
UK corporation tax on profits for the year	**(459)**	3,299
Adjustments in respect of prior years	**(255)**	(226)
Total current tax (credit)/charge	**(714)**	3,073

	Year ended 25 July 2020 £'000	Year ended 27 July 2019 £'000
Deferred tax:		
Origination and reversal of temporary differences	**(284)**	(244)
Adjustments in respect of prior years	**100**	51
Total deferred tax (credit)/charge (note 18)	**(184)**	(193)
Income tax (credit)/charge in the statement of comprehensive income	**(898)**	2,880

9. **Taxation** continued

(b) Tax on discontinued operations

	Year ended 25 July 2020 £'000	Year ended 27 July 2019 £'000
Tax credit on profit from ordinary activities of discontinued operations	**–**	(1)

(c) Factors affecting tax credit/charge for the year

The tax credit (2019: charge) assessed on the loss(2019: profit) for the year is higher (2019: higher) than the standard rate of corporation tax in the UK of 19.00% (2019: 19.00%). The differences are explained below:

	Year ended 25 July 2020 £'000	Year ended 27 July 2019 £'000
Continuing (loss) profit before taxation	**(3,121)**	14,260
Profit before tax at 19.00% (2019: 19.00%)	**(593)**	2,709
Effects of:		
Other expenses not deductible	**(146)**	204
Deduction on exercise of share options	**(112)**	(5)
Depreciation not eligible for tax purposes	**161**	111
Adjustments in respect of prior years	**(155)**	(175)
Impact of changes in tax rates	**(53)**	36
Income tax (credit)/charge in the statement of comprehensive income	**(898)**	2,880

(d) Factors that may affect future tax charges

The Chancellor confirmed in the March 2020 budget that the rate of corporation tax will remain at 19% from 1 April 2020, and consequently deferred tax at 25 July 2020 has been calculated based on the rate of 19%.

10. (Loss)/earnings per share

	Year ended 25 July 2020 pence	Year ended 27 July 2019 pence
a) Basic (loss)/earnings per share attributable to the ordinary equity holders of the Company		
From underlying continuing operations	**2.6p**	29.4p
From underlying discontinued operation	**–**	0.9p
Total basic earnings per share from underlying operations	**2.6p**	30.3p
From exceptional costs	**(8.4p)**	(1.8p)
Total basic (loss)/earnings per share	**(5.8p)**	28.5p
b) Diluted (loss)/earnings per share attributable to the ordinary equity holders of the Company		
From underlying continuing operations	**2.6p**	28.3p
From underlying discontinued operation	**–**	0.8p
Total diluted earnings per share from underlying operations	**2.6p**	29.1p
From exceptional costs	**(8.4p)**	(1.7p)
Total diluted (loss)/earnings per share	**(5.8p)**	27.4p

c) Reconciliations of earnings used in calculating (loss)/earnings per share	Year ended 25 July 2020 £'000	Year ended 27 July 2019 £'000
(Loss)/profit from continuing operations	**(2,223)**	11,380
– Add back exceptional costs net of tax	**3,231**	352
Profit from underlying continuing operations	**1,008**	11,732
Loss from discontinued operation	**–**	(4)
– Add back exceptional costs net of tax	**–**	359
Profit from underlying discontinued operations	**–**	355
Total profits from underlying operations	**1,008**	12,087
Total (loss)/profit from operations	**(2,223)**	11,376

d) Weighted average number of shares used as the denominator	Year ended 25 July 2020	Year ended 27 July 2019
Weighted average number of shares in issue for the purposes of basic (loss)/earnings per share	**38,464,470**	39,934,853
Effect of dilutive potential ordinary shares:		
– Share options	**1,598,815**	1,563,000
Weighted average number of ordinary shares for the purpose of diluted (loss)/earnings per share	**40,063,285**	41,497,853

A total of 1,598,815 potential ordinary shares have not been included within the calculation of diluted (loss)/earnings per share as at 25 July 2020 as they are antidilutive.

Notes to the Consolidated Financial Statements continued

11. Intangible assets

	25 July 2020 £'000
	Computer software
Cost	
At 28 July 2019	**6,893**
Additions	**1,363**
At 25 July 2020	**8,256**
Accumulated amortisation	
At 28 July 2019	**5,251**
Charge for the year	**647**
At 25 July 2020	**5,898**
Net book amount	
At 25 July 2020	**2,358**
At 27 July 2019	1,642

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

Amortisation is charged through the administration expenses line.

12. Property, plant and equipment

	Freehold land and buildings £'000	Leasehold improvements £'000	Computer equipment £'000	Fixtures and fittings £'000	Total £'000
Cost					
At 28 July 2019	159	53,704	4,357	31,085	89,305
Additions	–	369	307	1,552	2,228
At 25 July 2020	**159**	**54,073**	**4,664**	**32,637**	**91,533**
Accumulated depreciation and impairment					
At 28 July 2019	94	38,326	3,260	26,560	68,240
Opening IFRS 16 impairment adjustment	1	284	24	171	480
Charge for the year	3	2,806	654	1,384	4,847
Impairment	1	455	37	264	757
At 25 July 2020	**99**	**41,871**	**3,975**	**28,379**	**74,324**
Net book amount					
At 25 July 2020	**60**	**12,202**	**689**	**4,258**	**17,209**
At 27 July 2019	65	15,378	1,097	4,525	21,065
Cost					
At 29 July 2018	159	51,871	3,691	29,145	84,866
Additions	–	1,833	666	1,940	4,439
At 27 July 2019	**159**	**53,704**	**4,357**	**31,085**	**89,305**
Accumulated depreciation and impairment					
At 29 July 2018	91	35,038	2,787	25,500	63,416
Charge for the year	3	3,288	473	1,060	4,824
At 27 July 2019	**94**	**38,326**	**3,260**	**26,560**	**68,240**
Net book amount					
At 27 July 2019	**65**	**15,378**	**1,097**	**4,525**	**21,065**
At 28 July 2018	68	16,833	904	3,645	21,450

12. Property, plant and equipment continued

The net book value of leasehold improvements is as follows:

	Year ended 25 July 2020 £'000	Year ended 27 July 2019 £'000
Short leaseholds (up to 25 years)	**12,144**	15,313
Long leaseholds (greater than 25 years)	**58**	65
	12,202	15,378

From 28 July 2019 the Group adopted IFRS 16 'Leases'. Leased assets are now presented as a separate line item in the balance sheet. Refer to notes 2 and 13 for the accounting policy and details about the changes in accounting policy, respectively.

Impairment of property, plant and equipment

As a result of the impact of COVID-19 all stores have been tested for impairment as at the year end. The impairment review compared the value in use of each CGU based on the Group's latest budget and forecast cash flows to the carrying values as at 25 July 2020. A charge of £757,000 relating to the impact of COVID-19, was recorded against property, plant and equipment and recognised as an exceptional item (see note 5).

As disclosed in the accounting policies (note 2), the cash flows used within the impairment model are based on assumptions which are sources of estimation uncertainty and small movements in these assumptions could lead to a further impairment.

13. Leases

The Group leases both properties and motor vehicles.

As a lessee, the Group previously classified leases as an operating lease or finance lease based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases, except for short-term leases and leases of low-value assets.

Consolidated Statement of Financial Position

The Consolidated Statement of Financial Position as at 25 July 2020 shows the following amounts relating to leases. As IFRS 16 has not been applied retrospectively the balances alongside represent the equivalent balances at the start of the accounting period after restating for IFRS 16.

Right-of-use assets

	Leasehold property £'000	Motor vehicles £'000	Total £'000
Cost			
At 28 July 2019	122,970	3,317	126,287
Additions	14,705	2,913	17,618
Disposals	–	(422)	(422)
At 25 July 2020	**137,675**	**5,808**	**143,483**
Accumulated depreciation			
At 28 July 2019	–	–	–
Charge for the year	20,859	1,928	22,787
Depreciation on disposals	–	(422)	(422)
Impairment (note 5)	2,619	–	2,619
At 25 July 2020	**23,478**	**1,506**	**24,984**
Net book amount			
At 25 July 2020	**114,197**	**4,302**	**118,499**

Impairment of right-of-use assets

As a result of the impact of COVID-19, all stores have been tested for impairment as at the year end. The impairment review compared the value in use of each CGU based on the Group's latest budget and forecast cash flows to the carrying values as at 25 July 2020. A charge of £2,619,000 relating to the impact of COVID-19, was recorded against the right-of-use asset and recognised as an exceptional item (see note 5) as it is considered to be material and one-off in nature.

As disclosed in the accounting policies (note 2), the cash flows used within the impairment model are based on assumptions which are sources of estimation uncertainty and small movements in these assumptions could lead to a further impairment.

Lease liabilities

The following tables show the discounted lease liabilities included in the Group Consolidated Statement of Financial Position and a maturity analysis of the contractual undiscounted lease payments:

	Year ended 25 July 2020 £'000
Current	**24,167**
Non-current	**112,253**
	136,420

Notes to the Consolidated Financial Statements continued

13. Leases continued

Maturity analysis – contractual undiscounted lease payments:

	Year ended 25 July 2020 £'000
Group	
Within one year	**28,010**
Within two to five years	**81,366**
After five years	**41,132**
Total undiscounted lease payments	**150,508**

The Group presents lease liabilities separately in the consolidated balance sheet.

Consolidated Statement of Comprehensive Income

The Group has recognised depreciation and interest costs in respect of leases that were previously classified as operating leases in the income statement for the year, rather than rental charges of £25,216,000. During the year, the Group recognised £22,787,000 of depreciation charges and £3,980,000 of interest costs in respect of these leases. Leases of low value assets and short-term leases of 12 months or less are expensed to the Group income statement.

The practical expedient for COVID-19-related rent concessions has been applied to all rent concessions that meet the specified conditions. This has resulted in negative variable lease payment of £615,000 being credited to the income statement.

14. Inventories

	Year ended 25 July 2020 £'000	Year ended 27 July 2019 £'000
Finished goods	**18,207**	19,209

The cost of inventories before cash discounts and volume rebates, as an expense and included in cost of sales relating to continued operations amounted to £138,663,000 (2019: £171,290,000).

The charge for the year relating to inventories written off amounted to £640,000 (2019: £815,000).

15. Trade and other receivables

	Year ended 25 July 2020 £'000	Year ended 27 July 2019 £'000
Trade receivables	**1,577**	1,084
Other receivables	**1,948**	2,470
Prepayments	**1,279**	5,200
	4,804	8,754

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

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

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

The bad debt provision is not considered material for disclosure.

16. Trade and other payables – current

	Year ended 25 July 2020 £'000	Year ended 27 July 2019 £'000
Trade payables	**20,638**	25,859
Payments received on account	**34,592**	14,697
Other taxation and social security payable	**12,834**	4,063
Accruals	**13,105**	12,005
	81,169	56,624

The fair value of financial liabilities approximates their carrying value due to short maturities. Financial liabilities are denominated in Sterling. Payments received on account represent deposits taken from customers at the point of order and in advance of the Group fulfilling its performance obligations to provide goods and services for customer orders. They will be realised in the next 12 months. The brought forward balance of payments received on account was recognised as revenue during the year.

17. Trade and other payables – non-current

	Year ended 25 July 2020 £'000	Year ended 27 July 2019 £'000
Lease incentives	**–**	5,899
Onerous lease provision	**–**	514
Accruals	**137**	–
	137	6,413

In the prior year the onerous lease provision of £514,000 related to commitments on leases for stores identified as loss-making as part of management's ongoing review of store profitability. In the current year under IFRS 16, this provision along with the lease incentives has been reclassified to offset against the right-of-use asset recognised at the transition date.

18. Deferred tax

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

	Year ended 25 July 2020 £'000	Year ended 27 July 2019 £'000
Opening deferred tax liability	**(452)**	(645)
Adjustment on initial application of IFRS 16	**990**	–
Opening deferred tax liability (restated)	**538**	(645)
Adjustments in respect of prior years	**(100)**	–
Credited to profit and loss account arising from the origination and reversal of temporary differences (note 9)	**284**	193
Closing deferred tax asset/(liability)	**722**	(452)

Deferred taxation has been fully provided for in respect of:

	Year ended 25 July 2020 £'000	Year ended 27 July 2019 £'000
Accelerated capital allowances	**(407)**	(497)
Losses	**284**	121
Other timing differences	**43**	45
Capital gains held over	**(135)**	(121)
Adjustment on initial application of IFRS 16	**937**	–
Closing deferred tax asset/(liability)	**722**	(452)

19. Provisions

	Property obligations £'000	Total £'000
At 28 July 2019	–	–
Reclassification from accruals	1,209	1,209
At 25 July 2020	**1,209**	**1,209**

Property provisions relate to obligations in respect of the Group's property leases for an estimate of dilapidation and decommissioning costs payable upon exiting a leased property. These provisions are expected to be utilised at the end of each specific lease.

	Year ended 25 July 2020 £'000	Year ended 27 July 2019 £'000
Current	**125**	–
Non-current	**1,084**	–
	1,209	–

20. Called-up share capital

	Number of shares	Ordinary shares £'000	Share premium £'000	Total £'000
As at 27 July 2019	40,009,109	40	16	56
Shares repurchased and cancelled	(1,996,454)	(2)	–	(2)
As at 25 July 2020	**38,012,655**	**38**	**16**	**54**

Authorised, allotted and fully paid share capital is 38,012,655 of £0.001 each (2019: 40,009,109 of £0.001 each).

On 8 November 2019, the Group acquired 1,996,454 ordinary shares at a price of 220.0p per ordinary share from related party Parlour Product Holdings (LUX) S.A.R.L for a total consideration of £4,400,000. Following this purchase, the ordinary shares purchased by the Group were cancelled, and the Group's issued share capital subsequently consists of 38,012,655 ordinary shares, each with one voting right.

Notes to the Consolidated Financial Statements continued

21. Dividends
A final dividend for the year ended 27 July 2019 of 11.20p was paid on 27 November 2019. It has been recognised in shareholders' equity in the year to 25 July 2020.

An interim dividend of 5.50p per ordinary share was declared by the Board of Directors on 20 March 2020. However, the Board did not feel it was appropriate to pay the interim dividend when receiving government support. A final dividend has not been proposed.

At 25 July 2020, the retained earnings of the Company amounted to £57,726,000.

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

Post-admission incentive arrangements
The ScS Group plc Long-Term Incentive Plan (LTIP) was adopted on 21 January 2015 conditional upon admission. The LTIP allows for various types of awards and the following grants over shares in ScS Group plc have been made:
(i) £Nil cost options conditional on the IPO taking place (approved on 21 January 2015).
(ii) Market value options under an HMRC approved Company Share Option Plan conditional on the IPO taking place (approved on 21 January 2015).
(iii) Unapproved market value options conditional on the IPO taking place (approved on 21 January 2015).
(iv) Performance-based £nil cost options granted on 30 March 2015 (the performance condition is based on EPS as set out in the consolidated audited financial statements of the Group for 2017). As the EPS for the Group was lower than the performance condition set, these awards have been forfeited as at 28 July 2018.
(v) Performance-based £nil cost options granted on 17 October 2016 (the performance condition is based on EPS as set out in the consolidated audited financial statements of the Group for the financial year ended 27 July 2019). As the EPS for the Group was higher than the minimum performance condition set, a proportion of these options were awarded as at 25 July 2020.
(vi) Performance-based £nil cost options granted on 16 October 2017 (the performance condition is based on EPS as set out in the consolidated audited financial statements of the Group for the financial year ended 25 July 2020).
(vii) Performance-based £nil cost options granted on 15 October 2018 (the performance condition is based on EPS as set out in the consolidated audited financial statements of the Group for the financial year ended 31 July 2021).
(ix) Performance-based £nil cost options granted on 14 October 2019 (the performance condition is based on EPS as set out in the consolidated audited financial statements of the Group for the financial year ended 30 July 2022).

Fair value of awards
The awards granted have been valued using the Black-Scholes model. No performance conditions were included in the fair value calculations.

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

	LTIP (pre-IPO nil cost options)		LTIP (CSOP market value options)		2018, 2019 and 2020 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 28 July 2018	139,997	£0.000001	52,393	£1.75	1,028,266	£0.000001	1,220,656	£0.08
Granted	–	–	–	–	672,848	£0.000001	672,848	£0.000001
Forfeited	(34,285)	£0.000001	(4,880)	£1.75	(208,484)	£0.000001	(247,649)	£0.04
Exercised	(82,855)	£0.000001	–	–	–	–	(82,855)	£0.000001
Expired	–	–	–	–	–	–	–	–
Outstanding as at 27 July 2019	22,857	£0.000001	47,513	£1.75	1,492,630	£0.000001	1,563,000	£0.05
Granted	–	–	–	–	562,340	£0.000001	562,340	£0.000001
Forfeited	–	£0.000001	–	–	(258,226)	£0.000001	(258,226)	£0.000001
Exercised	(22,857)	£0.000001	–	–	(245,442)	£0.000001	(268,299)	£0.000001
Outstanding as at 25 July 2020	–	–	47,513	£1.75	1,551,302	£0.000001	1,598,815	£0.05
Exercisable at 25 July 2020	–	–	47,513	£1.75	–	–	47,513	£1.75
Exercisable at 27 July 2019	22,857	£0.000001	47,513	£1.75	–	–	70,370	£1.18

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

As at 25 July 2020, 554,141 of the outstanding LTIP share options relate to the 2020 LTIP, which vested as at the year end date. Due to the Group's EPS being lower than the minimum target set, these options will lapse. Further information on the LTIP is available in the Directors' Remuneration Report.

22. Share-based payments continued

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

	2015	2015	2017	2018	2019	2020
Grant date	21 January 2015	21 January 2015	17 October 2016	16 October 2017	15 October 2018	**14 October 2019**
Share price at grant date	£1.75	£1.75	£1.83	£1.75	£2.23	**£2.36**
Exercise price	£nil	£1.75	£nil	£nil	£nil	**£nil**
Number of employees	25	6	6	8	8	**7**
Shares issued	571,421	68,659	474,125	554,141	672,848	**562,340**
Expected volatility	33.7%	36.2%	–[1]	–[1]	–[1]	**–[1]**
Expected life (years)	3	5	3	3	3	**3**
Risk-free interest rate	0.70%	1.06%	–[1]	–[1]	–[1]	**–[1]**
Expected dividend yield	8%	8%	–[1]	–[1]	–[1]	**–[1]**
Fair value per share	£1.38	£0.24	£1.83	£1.75	£2.23	**£2.36**
Actual/estimated vesting	100%	100%	56%	0%	0%	**0%**

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

The total credit for the year relating to employee share-based payment plans was £818,000 (2019: charge of £765,000) which is in relation to equity-settled share-based payment transactions. There are no liabilities arising from share-based payment transactions.

23. Capital commitments

Capital commitments contracted for but not provided amounted to £480,000 (2019: £230,000).

24. Pension commitments

The Group operates several defined contribution pension schemes for the benefit of its staff. The assets of the schemes are held separately from those of the Group in independently administered funds. The pension charges represent contributions payable by the Group to these funds and are shown in note 6. Amounts outstanding at the year end were £227,000 (2019: £219,000) and are held in accruals.

25. Financial instruments – risk management

Financial risk management policy

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

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

Credit risk

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

Cash and deposits are invested with Lloyds Bank plc.

Liquidity risk

The Group's exposure to liquidity risk is low, as historically working capital requirements have been funded entirely by self-generated cash flow.

At 25 July 2020, the Group's cash balance totalled £82.3m, and £20.6m was owed as trade payables for goods delivered. The Group has no drawn down debt, and further liquidity is available through the £20.0m CLBILS revolving credit facility (RCF) granted on 25 August. This facility is committed for a term of 36 months and would be renegotiated well in advance of this maturity date. The RCF is subject to certain covenants in respect of fixed charge cover, liquidity, leverage and capital spending.

Financial instruments by category

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

The Group's main financial assets comprise cash and cash equivalents and trade receivables arising from the Group's activities. These financial assets all meet the conditions to be recognised at amortised cost under IFRS 9 (previously loans and receivables under IAS 39).

Other than trade and other payables, the Group had no financial liabilities within the scope of IFRS 9 as at 25 July 2020 (2019: £nil). Balances within trade and other payables will mature within one year.

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

Notes to the Consolidated Financial Statements continued

25. Financial instruments – risk management continued

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.

26. Related parties

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

27. 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.

28. Treasury reserve

	£'000
As at 28 July 2018	268
Transfer to retained earnings	(177)
As at 27 July 2019	**91**
Purchase of own shares	754
Transfer to retained earnings	(663)
As at 25 July 2020	**182**

During the current year, the Group's Employee Benefit Trust purchased 324,582 ordinary shares of £0.001 each in the Group at an average price of 232.2 pence per ordinary share for the purpose of satisfying management share incentive awards. 290,025 of these shares had been used to satisfy awards, with the remainder held as treasury shares. As at 25 July 2020 the Group holds 77,275 of its own ordinary shares of 0.1 pence each in the Group at an average purchase price of 234.9 pence.

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

29. Net debt

	Year ended 25 July 2020 £'000
Cash and cash equivalents	**82,282**
Lease liabilities	**(136,420)**
Net debt	**(54,138)**

As a result of the adoption of IFRS 16, the Group is in a net debt position due to the recognition of a lease liability.

30. Post balance sheet events

On 25 August 2020, the Group arranged a £20.0m CLBILS revolving credit facility (RCF). This facility is committed for a term of 36 months. The RCF is subject to certain covenants in respect of fixed charge cover, liquidity, leverage and capital spending.

31. Discontinued operations

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

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

Income statement of discontinued operations

	Year ended 25 July 2020 £'000	Year ended 27 July 2019 £'000
Gross sales	–	7,279
Revenue	–	7,193
Cost of sales	–	(3,956)
Gross profit	–	3,237
Distribution costs	–	(575)
Administrative expenses	–	(2,667)
Operating loss	–	(5)
Analysed as:		
Operating profit/(loss) before exceptional items	–	438
Exceptional items*	–	(443)
Operating loss	–	(5)
Loss before taxation	–	(5)
Taxation	–	1
Loss from discontinued operations	–	(4)
Attributable to:		
Owners of the parent	–	(4)
Loss attributable and total comprehensive loss for the period	–	(4)
Net cash inflow from operating activities	–	1,492
Net increase of cash generated from discontinued operations	–	1,492

Underlying EBITDA

An analysis of underlying EBITDA is as follows:

	Year ended 25 July 2020 £'000	Year ended 27 July 2019 £'000
Operating profit/(loss) before exceptional items	–	438
Depreciation	–	86
Underlying EBITDA from discontinued operations	–	524
Exceptional items*	–	(443)
EBITDA from discontinued operations	–	81

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

Company Statement of Financial Position
As at 25 July 2020

	Note	2020 £'000	2019 £'000
Non-current assets			
Investments	5	**70,000**	70,000
Total non-current assets		**70,000**	70,000
Current assets			
Trade and other receivables	6	**27**	4
Deferred tax asset	7	**149**	–
Cash at bank and in hand		**–**	–
Total current assets		**176**	4
Total assets		**70,176**	70,004
Current liabilities			
Trade and other payables	8	**12,563**	6,488
Total current liabilities		**12,563**	6,488
Total liabilities		**12,563**	6,488
Capital and reserves			
Called-up share capital	9	**38**	40
Share premium account	9	**16**	16
Capital redemption reserve		**15**	13
Treasury share reserve	12	**(182)**	(91)
Retained earnings		**57,726**	63,538
Total shareholders' funds		**57,613**	63,516
Total equity		**57,613**	63,516
Total equity and liabilities		**70,176**	70,004

The notes on pages 109 to 111 form an integral part of these financial statements.

The total comprehensive income for the year included within the financial statements of the Company is £3,612,000 (2019: £5,979,000).

The financial statements on pages 106 to 111 were approved by the Board and authorised for issue on 1 October 2020 and signed on its behalf by:

David Knight
Chief Executive Officer

Company Statement of Changes in Equity
For the year ended 25 July 2020

	Called-up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Treasury reserve £'000	Retained earnings £'000	Total equity £'000
At 29 July 2018	40	16	13	(268)	64,283	64,084
Total comprehensive income	–	–	–	–	5,979	5,979
Transfer to retained earnings	–	–	–	177	(177)	–
Dividends paid	–	–	–	–	(6,547)	(6,547)
At 27 July 2019	**40**	**16**	**13**	**(91)**	**63,538**	**63,516**
At 28 July 2019	40	16	13	(91)	63,538	63,516
Total comprehensive income	–	–	–	–	3,612	3,612
Purchase of own shares	–	–	–	–	(4,425)	(4,425)
Cancellation of repurchased shares	(2)	–	2	–	–	–
Treasury shares (note 12)	–	–	–	(91)	(663)	(754)
Dividends paid (note 10)	–	–	–	–	(4,336)	(4,336)
At 25 July 2020	**38**	**16**	**15**	**(182)**	**57,726**	**57,613**

Company Statement of Cash Flows
As at 25 July 2020

	Note	2020 £'000	2019 £'000
Cash flows from operating activities			
Profit before taxation		**3,463**	5,979
Changes in working capital:			
(Increase)/decrease in trade and other receivables	6	**(23)**	6
Increase in trade and other payables	8	**6,076**	562
Cash generated from operations		**9,516**	6,547
Net cash flow generated from operating activities		**9,516**	6,547
Net cash flow used in investing activities		**–**	–
Cash flows used in financing activities			
Dividends paid	10	**(4,336)**	(6,547)
Purchase of own shares		**(5,180)**	–
Net cash flow used in financing activities		**(9,516)**	(6,547)
Net increase in cash and cash equivalents		**–**	–
Cash and cash equivalents at beginning of year		**–**	–
Cash and cash equivalents at end of year		**–**	–

Notes to the Company Financial Statements
For the year ended 25 July 2020

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

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

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

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

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

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

Further information on the Group's going concern and ongoing viability is provided in note 2 of the Group financial statements.

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

Carrying value of the investment
Management have considered the carrying value of the investment, given the Group's reported loss for the year. Management calculated a value in use from cash flow projections based on the Group's internal budgets, which are then extrapolated into perpetuity and discounted using the Group's cost of capital. The key estimates for the value in use calculations are those regarding the discount rate used and expected future cash flows. Management utilised the budget and discount rate consistent with those use in the Group's underlying store impairment calculations. Management's value in use calculation provided significant headroom over the carrying investment value.

Capital management
The Company follows the same capital management as the Group – see page 103 in the Group financial statements.

New standards, amendments and interpretations
For the latest amendments and interpretations, please refer to page 89 in the Group financial statements.

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

Trade receivables
Trade receivables for the Company refer to prepayments made for services performed in the ordinary course of business. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Trade payables
Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

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

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

Notes to the Company Financial Statements continued
For the year ended 25 July 2020

2. Accounting policies continued
Related parties
In these financial statements, the Company has taken advantage of the following disclosure exemptions available under FRS 101:
- The requirement of paragraph 17 of IAS 24 'Related Party Transactions'; and
- The requirements in IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is party to the transaction is a wholly-owned by such a member.

3. Income statement exemption
The Company has elected to take the exemption under section 408 of the Companies Act 2006 from presenting the Income Statement or a Statement of Comprehensive income for the Company. Total comprehensive income for the Company for the year was £3,612,000 (2019: £5,979,000).

4. Directors' emoluments
No Executive Directors' received any remuneration for their services to the Company (2019: £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 62 to 68.

The Company does not employ any staff other than the Non-Executive Directors noted above.

5. Investments

	Subsidiary undertaking £'000
Cost and net book value	
At 27 July 2019 and 25 July 2020	70,000

The subsidiaries, which were owned and incorporated in the United Kingdom were are as follows:

Name	Principal activity	Class of shares held	% of holdings
Parlour Product Topco Limited	Holding company	Ordinary	100%
Held by subsidiary undertakings			
Parlour Product Holding Limited	Holding company	Ordinary	100%
A. Share & Sons Limited	Specialist retailer of upholstered furniture	Ordinary	100%
ScS Furnishings Limited	Dormant company	Ordinary	100%

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

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

The Directors believe that the carrying value of the investments is supported by managements value in use model (see note 2).

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

6. Trade and other receivables

	2020 £'000	2019 £'000
Prepayments	**27**	4

7. Deferred tax

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

	Year ended 25 July 2020 £'000	Year ended 27 July 2019 £'000
Opening deferred tax liability	–	–
Credited to profit and loss account arising from the origination and reversal of temporary differences	**149**	–
Closing deferred tax asset	**149**	–

Deferred taxation has been fully provided for in respect of:

	Year ended 25 July 2020 £'000	Year ended 27 July 2019 £'000
Losses	**149**	–
Closing deferred tax asset	**149**	–

8. Trade and other payables

	2020 £'000	2019 £'000
Amounts owed to Group undertakings	**12,415**	6,320
Accruals and deferred income	**148**	168
	12,563	6,488

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

9. Called-up share capital

	Number of shares	Ordinary shares £'000	Share premium £'000	Total £'000
As at 27 July 2019	40,009,109	40	16	56
Shares repurchased and cancelled	(1,996,454)	(2)	–	(2)
As at 25 July 2020	38,012,655	38	16	54

Authorised, allotted and fully paid share capital is 38,012,655 of £0.001 each (2019: 40,009,109 of £0.001 each).

On 8 November 2019, the Company acquired 1,996,454 ordinary shares at a price of 220.0 pence per ordinary share from related party Parlour Product Holdings (LUX) S.A.R.L for a total consideration of £4,400,000. Following this purchase, the ordinary shares purchased by the Company were cancelled, and the Company's issued share capital subsequently consists of 38,012,655 ordinary shares, each with one voting right.

10. Dividends

A final dividend for the year ended 27 July 2019 of 11.20p was paid on 27 November 2019. It has been recognised in shareholders' equity in the year to 25 July 2020.

An interim dividend of 5.50p per ordinary share was declared by the Board of Directors on 20 March 2020. However, the board did not feel it was appropriate to pay the dividend when receiving government support. A final dividend has not been proposed.

At 25 July 2020 the retained earnings of the Company amounted to £57,726,000

11. 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 25 of the Group financial statements.

12. Treasury reserve

Details of the Company's share capital and share buybacks are given in note 28 of the notes to the Group financial statements.

Company Information

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

Tel: 0191 731 3000
www.scsplc.co.uk

Company number
Registered in England: 03263435

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

Share registrar
Equiniti
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Tel: 0871 384 2030
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

Brokers
Shore Capital Group Ltd
Cassini House
57 St James's Street
London
SW1A 1LD

Tel: 020 7408 4050
www.shorecap.co.uk

Principal bankers
Lloyds Banking Group PLC
10 Gresham Street
London
EC2V 7AE

Tel: 020 7616 1500
www.lloydsbankinggroup.com

Financial PR
Buchanan
107 Cheapside
London
EC2V 6DN

Tel: 020 7466 5000
scs@buchanan.uk.com

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Sunderland
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Tel. 0191 731 3000
www.scs.co.uk