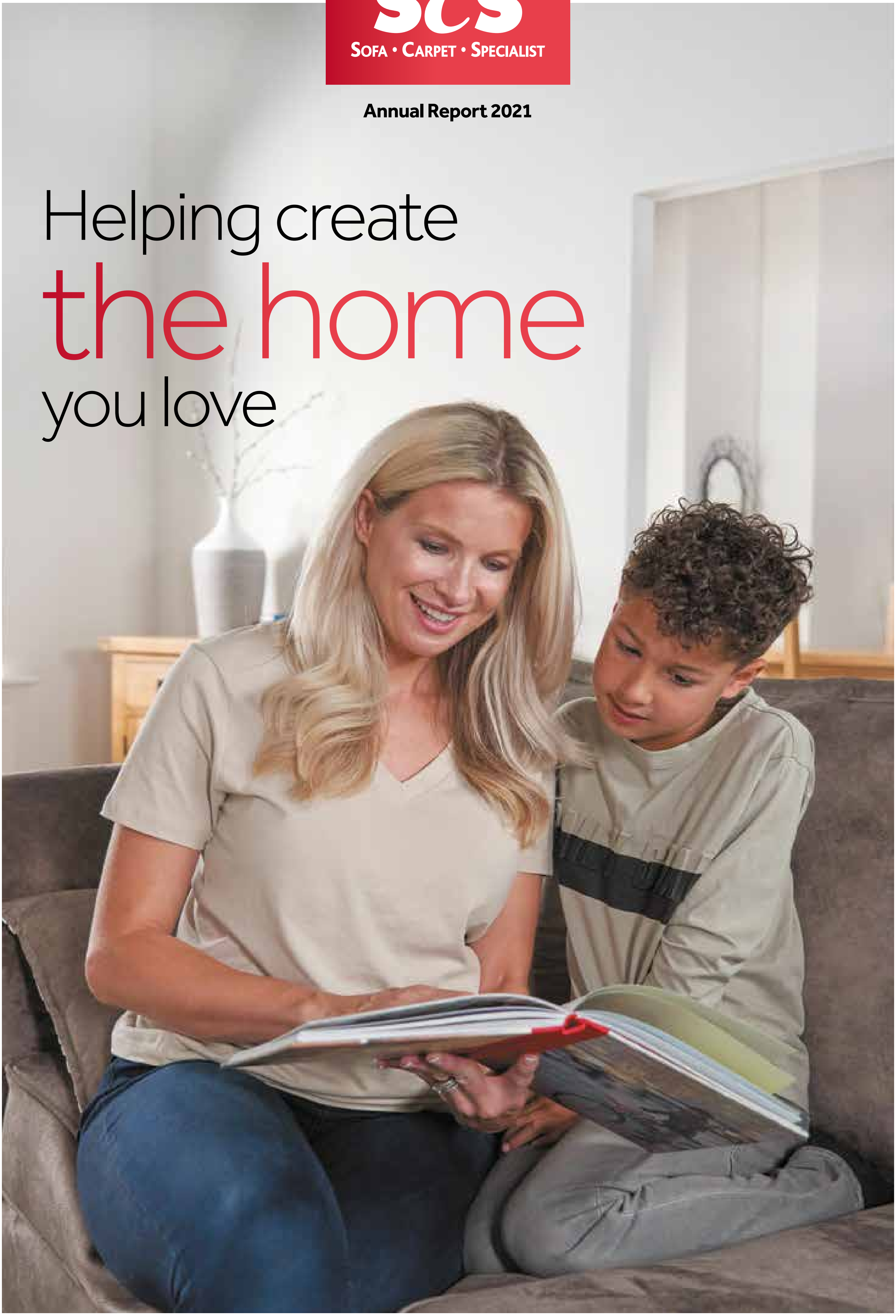
SCS

SOFA • CARPET • SPECIALIST

Annual Report 2021

Helping create the home you love



Helping create the home you love

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

Our mission is to be the UK's best value-for-money home retailer. Delivering outstanding value, quality and choice with a seamless customer experience.

Despite ongoing challenges, we continue to live our values and deliver for all of our stakeholders, including our colleagues and customer by helping create the homes people love.

Contents

Financial highlights

Gross sales*
£324.5m
+£56.4m

Gross margin*
45.3%
FY20: 44.6%

Underlying profit before tax*
£18.4m
+£17.6m

Underlying earnings per share*
41.3p
+38.7p

Cash
£87.7m
+£5.4m

Dividend**
10.0p
reinstated

* See Alternative performance measures pages 134 to 135.
** Dividend includes 3.0p interim paid and 7.0p proposed final dividend.

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The community you love

It's been a fulfilling year of giving back and raising awareness.

Read more on page 10

The products you love

We have a clear mission to be the UK's best value home retailer.

Read more on page 12

The company you love

Our colleagues' wellbeing continues to be a key focus for us.

Read more on page 14

Sofa Carpet Specialists

Where we are

From Aberdeen to Plymouth, we trade from 100 showrooms across the UK, providing an inspiring experience and showcasing the latest developments in our range and brands. Most importantly, our showrooms provide the key ‘sit test’ to our customers. We want to ensure our showrooms are accessible and reach as many potential customers as possible; the right showroom in the right location works hand-in-hand with having great people, great product, excellent service and value.

As customer shopping habits evolve and the demand for omnichannel shopping experience increases, we are able to support our physical estate through offering all of our ranges on our website, enhanced with additional web exclusive ranges with a wider market appeal.

Our improved omnichannel offering allows customers not only to purchase with more confidence online but perform detailed research before visiting one of our showrooms. The retail network is then further supported by nine strategically placed regional distribution centres.

About us

We are ScS – the Sofa Carpet Specialists. We have over 100 years of furniture and retailing experience and have established ourselves as one of the leading furniture and flooring retailers in the UK. Our specialist colleagues are highly trained, ensuring we offer our customers the best combination of customer service, value for money, quality and product choice.

Our purpose

Never have our homes been more important to us. They have evolved and become offices, schools and much more, although above all they have continued to be where we can relax and enjoy quality time with our families and friends. Our refreshed purpose is simply 'Helping create the home you love', leaving our customers to focus on creating memories with those closest to them.

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. Working closely with our suppliers we offer a wide range of products across a broad range of price points, ensuring that our customers have the best available choice of quality furniture and flooring, and all at a price that meets their requirements. Alongside offering our customers great products, our retail colleagues are on hand to ensure that they also receive an excellent customer service. Our customers are of utmost importance to us and drive us to continuously look for ways to improve the customer journey.

Read more on Our business model on pages 8 to 9

- Furniture sales: £248.9m (2020: £219.0m)
- Flooring sales: £28.7m (2020: £30.0m)
- Online sales: £46.9m (2020: £19.1m)

* See Alternative performance measures on pages 134 to 135.

Showrooms across the UK
100 (2020: 100)

Distribution centres
9 (2020: 9)

Average retail space per store
14,374 sq ft

Our values

Our people make us who we are, and creating an outstanding team is at the forefront of our existing and refreshed 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 team member is treated as an equal and we recognise and reward people for doing the right thing.

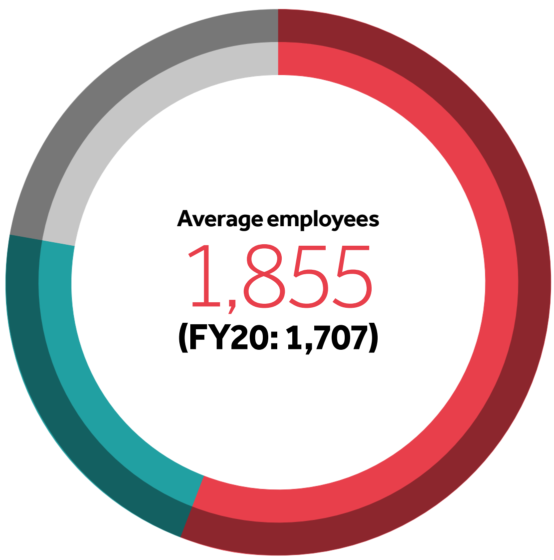
Delivering our values will continue to help our business grow, evolve and build a community that our people are proud to be a part of.

Our responsibility

At ScS, we recognise that as a responsible business we have an obligation to operate in a manner that is both ethical and sustainable.

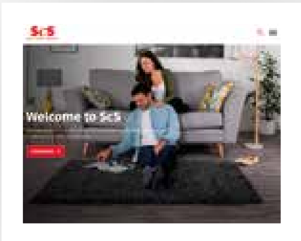
Our focus is on three key areas:
- **Environmental,** where our emphasis is on recycling waste, reducing energy consumption and emissions, and working with our supply base to ensure ethical sourcing;
- **Social,** to continue to make ScS a great place to work, with a focus on creating an outstanding team and making a positive impact in our communities; and
- **Governance,** promoting the long-term sustainable success of the business and a culture aligned with our right values.

Read more on being a responsible business on pages 30 to 41

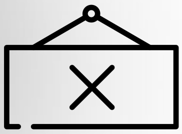


- Store: 56% (2020: 55%)
- Head office and support: 22% (2020: 22%)
- Delivery and warehousing: 22% (2020: 23%)

Being there for our customers and colleagues throughout the COVID-19 pandemic



August
New website launched.



October
Wales entered a two week national lockdown.

December
'Zero touch' finance introduced on website.

December
Stores across England reopened.

Group continues to benefit from reopening bounce following second lockdown.

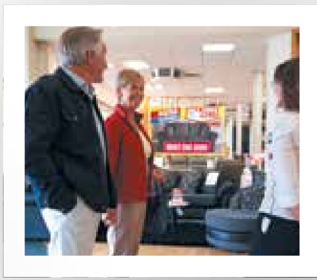
November
England entered a national lockdown.

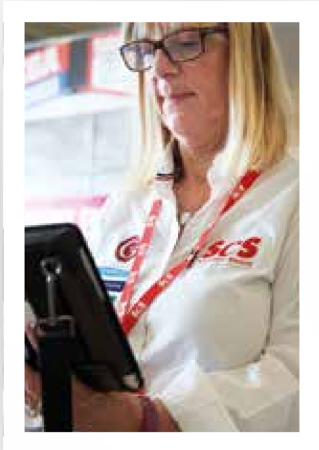
September
UK government increased COVID-19 related restrictions, including localised lockdowns.

Boxing Day
Following the UK government announcement, we saw store closures across Scotland, Wales, East of England and South East England, including London.

Order intake

As a result of the COVID-19 pandemic our stores have experienced temporary closures throughout the year and customer shopping habits have not followed the usual trends. We saw a shift towards a more usual sales pattern towards the end of the year. The profile of our order intake can be seen below.





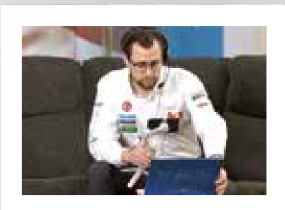
April
English and Welsh stores reopen producing record week.

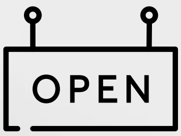
May
Bank holiday weekend.

Late December
Our key winter sale saw an increase in orders, but was ended early following further store closures.

May
Repaid £3.0m Coronavirus Job Retention Scheme grant claimed for FY21.

Late January
MyScSLive launched.





April
Scottish stores able to reopen.

June
Trading begins to stabilise above pre-pandemic levels.

July
Interim dividend of 3.0p per share paid, reflecting strong performance.

"I would like to thank our customers for their continued support."

After another challenging year ScS is recovering well. It has continued to be of the utmost importance to us to do the right thing by our colleagues, customers, communities and other stakeholders.

Dear Shareholder,

This report covers FY21, which ended on 31 July 2021. In last year's Annual Report, I expressed how proud I was of our colleagues' response to the COVID-19 pandemic as they continued to live by our RIGHT values during such challenging times. Twelve months on and once again I want to take the opportunity to express my gratitude to all my colleagues for their support and commitment to the business during the ongoing pandemic.

Overview

After the challenges brought by COVID-19 in FY20, I remained cautiously optimistic coming into this year, although acutely aware there was a significant amount of continued uncertainty. No one could have foreseen a year which included a further 17 weeks of closures for our store network. However, I am delighted that, in the face of the challenges, the Group has delivered a robust set of results and finds itself in a strong position as it enters the new financial year.

In a significant moment for the Group, and as previously announced, on 31 July 2021, after 33 years with the business, David Knight retired from the Group. As Chief Executive Officer, David was a significant part of the Group's success, and he has been unwavering in his commitment to ScS. On behalf of the Board, I would like to thank David for his outstanding contribution to the Group.

As part of our planned succession, in January 2021, Steve Carson joined the Board to succeed David as Chief Executive Officer. Steve has made an immediate and valued contribution, leading the Board and senior management team through a review of the Group's purpose, mission and strategy, whilst continuing to navigate the business through the ongoing pandemic. Our new strategic plan can be found on page 27 and a Q&A section introducing Steve, is included on page 20. Alongside the newly refreshed strategy, the Group's colleagues, customers and shareholders have helped to refresh the overarching goal of the Group. The Group's purpose, 'Helping create the home you love', will guide us into the future. This new purpose has guided our new mission and strategy and will make an increasing difference as we emerge from the pandemic stronger, more aligned and operating in a way that makes the most of Group's strengths and resources.

As a responsible business, the Group is committed to acting in the best interests of our stakeholders and in a sustainable and inclusive manner. Prioritising our colleagues' safety and wellbeing has continued to be of utmost importance. Through regular communication, we have supported our colleagues through this challenging time and maintained our commitment to ensure our furloughed colleagues received full pay. We are grateful for the support of the UK government through the pandemic and have repaid the £3.0m Coronavirus Job Retention Scheme (CJRS) grants claimed during the year. It has been more important than ever to support our local communities and I am delighted that we have continued to support them, providing 10,000 free school meals to underprivileged families in our founding city of Sunderland, supporting the ITV Bowel Cancer Awareness campaign, and continuing our support of the Foundation of Light and its programmes to tackle loneliness and social isolation. We have also strengthened our internal teams responsible for our people and our environmental impact by welcoming a People Director to our Operating Board and a Supply Chain Sustainability Manager to our senior management team.

Dividend

Our efforts in previous years to build a strong and resilient business have been key to ensuring our continued success, particularly in light of the continued turbulence caused by the ongoing COVID-19 pandemic. Despite more temporary store closures as a result of government imposed lockdowns, our flexible cost base has enabled the Group to minimise cash outflow and to maintain profitability. The strength of the Group's balance sheet, coupled with the robust trading experienced since our stores opened in April, gave the Board the confidence to repay the £3.0m CJRS claim made in the year, and recommence dividend payments, starting with a 3.0p interim dividend paid in July. Continued progress and growing confidence has allowed the Board to propose a final dividend of 7.0p. If approved, this would give a full-year dividend of 10.0p.

Summary

I continue to be very proud of the Group that I am privileged to be a part of. After a turbulent 18 months it is encouraging to see a sense of normality returning. I am delighted that despite unprecedented times for the business, the Group's resilience has been proven and we emerge an even stronger business. I am very encouraged to see trading continue above pre-pandemic levels and look forward to working with Steve Carson, the wider Board and our colleagues on implementing our refreshed strategy and delivering strong results, alongside embedding our new purpose into the Group's culture.

On behalf of the Board, I would like to thank our shareholders and customers for their continued support and our colleagues for their ongoing dedication and professionalism.

Alan Smith
Chair
4 October 2021

Creating value and choice for our customers

With a wide range of products, a comprehensive choice across all price points and a seamless customer experience, we are able to help our customers create the home they love.

Our key ingredients

Our strengths

Product
We choose our suppliers carefully, with our customer in mind, to ensure that we are able to offer great value products at a range of price points. We've established relationships with some of the most recognisable brands in the market, whose products are an excellent match for our customers' homes. Working closely with our suppliers, with long-established relationships, allows us to offer our wide range of designs and brands at the best possible 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 every home.

In-store expertise
Our 100 stores allow us to showcase our product ranges and gives our customers the opportunity to purchase their furniture and flooring under a single roof. Our stores remain an essential part of our offering, and work alongside our online channel, providing our customers with the critical 'sit' test, which they continually tell us is so important. Our dedicated retail professionals are on hand to help the customer choose the right product for them within our large, modern showrooms. During periods of temporary store closures due to lockdowns, we adapted our operations to ensure that our customers still received a great customer experience by launching MyScSLive. This web-based solution enables our customers to video call with a colleague based in one of our showrooms. For peace of mind, we also 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.

As we welcomed back customers into our showrooms, we introduced a VIP appointments system to give customers the option to book a convenient time where they would be met with their own personal shopper, further enhancing our customers' safety and shopping experience.

Digital
The online sales experience is more important than ever and we continue to invest in and improve our digital offering. Our showroom network is supported by our new website, making it even easier for our customers to browse our products on their phones and tablets. With improved features such as 'zero touch' finance which enables our customers to apply for finance as part of an integrated step in their online buying journey, our website allows customers the chance to browse and purchase our full range of products, viewing all colours and styles via our huge image library and 3D models, at their leisure and convenience. We have also launched website exclusive products, extending our range beyond that available to our customers in our showrooms and appealing to a broader customer base.

Delivery
Our delivery teams operate from our nine distribution centres located across the UK. We offer a two-man home delivery and installation service for our furniture products, utilising electronic proof of delivery software which integrates with our core system to give our teams' real time visibility of operations. 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. For our flooring ranges we offer a full fitting service. Working with our third-party fitting partners, our flooring is cut, delivered and fitted to our customers' specifications.

Customer experience
Our 'Excellent' rated customer experience is key to our offering. Our showroom professionals, dedicated customer experience teams, highly skilled service technicians, flooring surveyors and delivery teams prioritise ensuring our customers' shopping journeys are a positive one. We encourage feedback at every step of this journey and regularly monitor our customers' reviews on Trustpilot to see what we are doing well and also identify areas for improvement.

Stakeholder outcomes

Customer experience
Offering our customers a great customer experience which ensures they get the right product for them, either in one of our showrooms or online, is at the heart of our business, helping our customers to create the home they love.

Trustpilot rating
'Excellent'

People and culture
It's vital to the success of our business that our colleagues feel engaged and supported. Doing right by our colleagues gives them an environment in which they can thrive and in turn give our customers an excellent customer experience. Through regular communication we update our colleagues on the performance of the business, opportunities available, support programmes and much more.

Employee satisfaction score
73
Colleague survey score (+2 vs national benchmark data)

Suppliers as our partners
We have built our supplier relationships over a number of years and meet regularly with our key suppliers. The vast majority of products that we sell are exclusive to us. We are delighted to be able to offer our customers the brands of our partners alongside our own in-house brands. As we continue to focus on our core model and experience success and growth, our suppliers benefit too.

Supporting our communities
As a responsible business, it's important to us that we give back to our local communities where we live and work. We do this through donating funds to various charities and supporting our colleagues in volunteering their time.

Donated to local and national charities
£60,000

Return for shareholders
The Group has built a robust balance sheet over the years which has contributed to our sustainable business model. This, coupled with our lean operating model and excellent cost control, provides us with the ability to grow and create value for our investors.

Dividend per share
10.0p

Dividend includes 3.0p interim paid and 7.0p proposed final dividend.

Helping create the community you love

It's been a fulfilling year of giving back to our communities and raising awareness for the ScS team.

With the ScS head office being located in Sunderland, the city where the business was founded, giving back to the local community is very important to us. Working with 'Together for Children Sunderland' we donated 10,000 free schools meals to some of Sunderland's most underprivileged families during October 2020 half term.

Throughout April, with the aim of raising awareness for bowel cancer, 250 of our colleagues donned their walking boots, mounted their bikes and dusted off their trainers to cover a total of over 25,000 miles, greater than the distance of the circumference of the earth! Working with ITV's Lorraine as part of a nationwide campaign, we filled the pitch at Sunderland's Stadium of Light with 22 two-seater sofas to represent the 44 people who lose their lives every day due to bowel cancer. Our delivery fleet also proudly displayed special bowel cancer awareness livery to raise further awareness. The Group then donated £1 for every mile, and together with our colleagues own fundraising, we raised £28,448 for this worthy cause.

The finance department swapped their calculators for bin bags as they joined a beach clean-up in partnership with the local council.

Lorraine presents the 'No Butts' campaign

As part of our ongoing relationship with Sunderland AFC's charity, Foundation of Light, ScS has been supporting their 'Wear Together' programmes which aim to tackle loneliness and social isolation for the over 50's. Attending various sessions on a range of topics our colleagues have provided some much needed conversation and interaction for those in the local community who feel isolated and lonely.

"We donated 10,000 free school meals."

"We have a clear mission to be the UK's best value home retailer."

Helping create the products you love

This year we introduced online exclusive products to our website. Introducing these products allows us to offer an enhanced range to our customers and helps broaden our customer base.

In May 2021 we launched our new and improved warranty product, Premium Sofa Guard. It is a complete five-year package designed to not only protect our customer's furniture but to keep it looking great for longer. As an enhancement to the cover already provided, the updated product includes a new protective layer that is added to our customer's furniture to provide protection from stains and spills, giving our customers peace of mind.

Following extensive testing and successful trial, the Group is looking forward to launching an innovative SpringBond flooring underlay product range in Autumn 2021. 85% of the underlay is made from recycled PET plastic bottles and other single use plastics. Furthermore, SpringBond contains no harmful VOC's and at the end of its life the product is 100% recyclable. SpringBond is trying to combat the eight million tonnes of plastic that fill our oceans every year while improving household air pollution at the same time, offering a cleaner living environment for everyone.

During the year we reviewed the wool offering within our flooring range. Wool has unique qualities and appeals to a specific differentiated customer base. Our colleagues undertook specific product training to give them a deeper understanding of the product and how best to present the wool flooring collection in-store. To help our customers make an informed decision we also created a series of educational videos which were showcased within our stores to highlight the benefits of wool.

Helping create the company you love

The COVID-19 pandemic has had a profound impact on our business and our colleagues.

After over a year of successful remote working, we have committed to creating a flexible, hybrid way of working for our office-based teams, whilst ensuring that our colleagues stay well connected and supported.

As a trusted and responsible employer, we continued our commitment to our people, ensuring whilst the stores were closed that we continued to top up all of our furloughed colleagues' pay to 100% so that they were not financially impacted. Our colleagues' wellbeing will always be a key focus and we will continue to make sure that each and every one of our colleagues feel appreciated and proud to be an integral part of the business.

In our annual colleague survey, we were very encouraged to see that our satisfaction score was above the national average when benchmarked against similar companies.

Our survey showed that our colleagues felt particularly strongly that they 'understand how their work contributes to ScS' success', 'understand how ScS plans to achieve its goals' and that ScS 'does a good job of communicating with employees'.

With our continued focus on how we reduce our carbon footprint and protect the environment, we have expanded our car scheme during the year to include all-electric vehicles. We continue to assess further changes to our delivery and upholstery network to improve our environmental impact.

“Our colleagues’ wellbeing will always be a key focus.”

"We are continuously looking for ways to improve how we can help and support our customers."

Helping create the experience you love

At the start of the year we launched our new website, making it even easier for our customers to browse our products on their phones and tablets.

With video calls becoming increasingly popular and lockdowns preventing customers trying our products for themselves, we wanted to bring our customers into our showrooms from the comfort of their own homes. In January, we launched MyScSLive, a web-based solution that enables our customers to video call with a colleague based in one of our showrooms, to give product demonstrations, review product options and explain product features.

Knowing our online customers value convenience, a key priority was the introduction of 'zero touch' finance. Where previously customers were required to complete a finance application over the phone, 'zero touch' finance enables our customers to apply for finance as part of an integrated step in their online buying journey, receiving an immediate decision from the lender, and completing their purchase independently from the comfort of their own home.

During the year, an external review was conducted of our customer journey to help us identify areas for improvement. We are continuously looking for ways to improve how we can help and support our customers, especially after they have placed an order with us. Changes we've already made include online live chat into our customer support and aftercare teams, increasing customer communication options and strengthening our customer support teams to be able to provide timely assistance.

Gaining market share in a recovering market

Current UK market

We operate in both the furniture and flooring markets.

Market commentary

Following a 15.4% reduction in the size of the upholstery market in 2020, GlobalData's latest analysis suggests the market will recover with 20.8% growth through 2021, restoring the market to 2.2%, or £69m above 2019 levels. This growth is largely driven by homeowners continuing to invest in their home early in the year and utilising savings which had been earmarked initially for foreign holidays instead on big ticket products such as new furniture.

Similarly, following a 14.8% decrease to the size of the flooring market through 2020, GlobalData forecast 17.6% growth during 2021, resulting in a market marginally above the level in 2019. Again, they note they have seen a strong rebound in sales as a sector which did not transition online as easily as others benefitted from strong pent-up demand as surveyors and fitters could re-enter customers' homes, and customers had cash available for big-ticket purchases.

In a period in which online growth has been significant across retail, the latest market commentary highlights that although lockdowns have made customers more confident purchasing online, analysts believe the upholstery customer journey will continue to remain distinctly multichannel, with customers still wanting to test products in-store.

GlobalData's latest quarterly home survey data highlighted that buying into a new look became a more important purchase motivator with customers when buying a new sofa in the early part of 2021, continuing from 2020, indicating that shoppers are looking to trade up to more design-led pieces.

Following significant growth in the first half of 2021 as retail reopened, it is forecasted growth for both upholstery and floorcoverings in the second half of 2021 will moderate against tough comparatives. Shoppers are also starting to take last minute foreign holidays, diverting big ticket spend elsewhere. Further supply chain disruption, with manufacturers struggling to keep up with demand amid port disruption and localised COVID-19 outbreaks, could also prevent some pre-Christmas orders from being delivered before the end of the year.

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 reached new lows as COVID-19 impacted worldwide. GfK* reported that, following the significant hit to confidence experienced during the pandemic, current expectations for consumers' personal financial situations for the coming 12 months are holding up and this positivity bodes well for the economy going forward. Consumer confidence as reported in the GfK Consumer Confidence Index recovered to -8 in August 2021, significantly above the low of -36 in June 2020, and only slightly behind the level seen in February 2020, pre-pandemic. Positively, within the survey, the 'Major Purchase Index' was 22 points higher in August 2021 than it was in at the same point in the prior year.

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 the lockdown-impacted 2020 hitting the lowest level since 2012, 15.7% down on the 2016 peak. Despite the lockdown in early 2021, pent-up demand for house moves supported by the extended stamp duty reduction, as well as wider behavioural shifts as people re-assess their housing needs, have encouraged a significant recovery in the market, with housing transactions to August 2021 74.4% above the same point in the prior year. With the temporary stamp duty reduction being phased out in September 2021, and a high volume of Q4 2020 transactions, it is likely housing transactions will slow from these levels.

Consumer credit

Although we have noted a slight decline in the use of finance post-pandemic, 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. The impact of the pandemic has seen a significant impact on the net consumer credit lending to individuals, with a fall of 1.9% in 2020, the first fall since 2012. 2021 has continued, and accelerated, this trend, with a 5.9% fall in lending to date. The decrease noted appears to be consumer led, potentially linked to increased savings or a desire to avoid additional debt. The approval percentage of those requesting finance to purchase with us remains in line with prior years.

+20.8% ↑

Forecast 2021 market size: Furniture**

£3,263m

+17.6% ↑

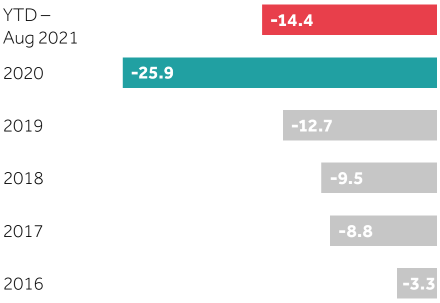
Forecast 2021 market size: Flooring**

£1,992m

* GfK Consumer Confidence Index, August 2021.
** Source: GlobalData (as of 1 Sept 2021).

Consumer confidence

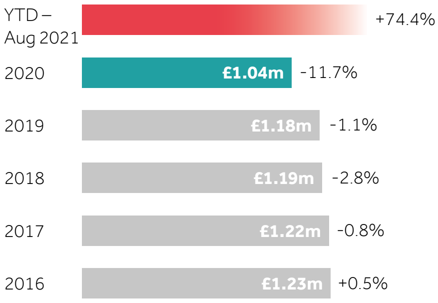
-14.4



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

Housing market

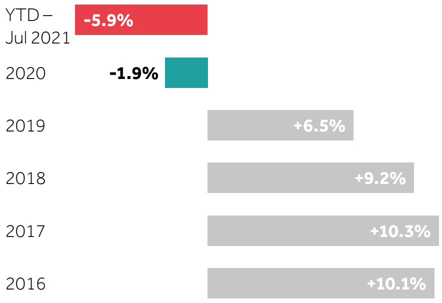
+74.4%



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

Net consumer credit lending

-5.9%



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

Our place in the market

Increasing market share

Following a strong year of recovery and continued positive trading, together with the loss of competitors during the lockdown period, we continue to grow market share in both upholstery and flooring. GlobalData estimate that our upholstery market share has increased from 7.9% in 2013 to 10.2%, and our flooring market share increased from 1.6% to 2.2%, over the same time frame.

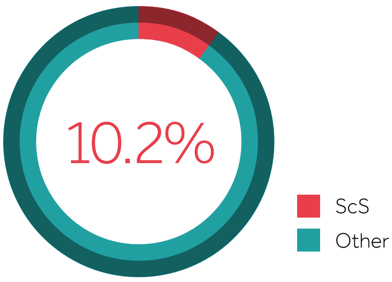
Value retailer

We have a differentiated value-focused positioning in our markets and a continued reputation for providing our customers with products at a leading range of entry to middle price points. We have a clear view of our core customer demographic, which consists of a broad population of aspiring homemakers, families and retired couples.

Opportunities for further growth

We continue to grow our online business significantly, and our new growth plan includes increased digital investment to improve our omnichannel offering. Our core model has had continued success and we will continue to expand and modernise our ranges and brands. As the economic recovery continues, we will also invest in improving our brand perception, awareness and consideration to broaden our customer base.

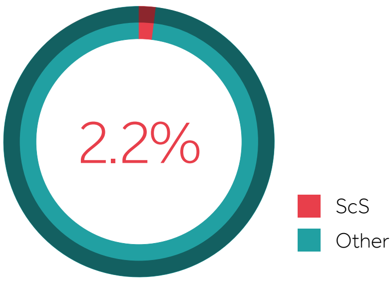
2021 upholstery market share*



2020 market share: 9.8%

Retailer	2020 (%)	2021e (%)
DFS	25.4	**28.1**
ScS	9.8	**10.2**
Sofology	6.9	**8.4**
Furniture Village	6.6	**6.5**
Next	5.4	**5.1**
IKEA	4.7	**4.6**
John Lewis	2.2	**2.6**
Made.com	2.2	**2.3**
Argos	2.0	**2.1**
HSL	1.9	**1.9**

2021 floor coverings market share*



2020 market share: 2.1%

Retailer	2020 (%)	2021e (%)
Carpetright	16.6	**16.6**
Tapi	6.3	**6.6**
B&Q	6.9	**6.3**
Wickes	4.1	**4.4**
Dunelm	3.9	**3.8**
John Lewis	3.7	**3.7**
United Carpets	3.3	**3.3**
IKEA	2.8	**2.7**
Amazon	2.6	**2.6**
ScS (12th)	2.1	**2.2**

* Market share data provided by GlobalData.

"In many ways it feels like a large business, but with a family culture."

In January 2021 we welcomed Steve Carson as Chief Executive Officer. With a strong retail background he brings with him a wealth of knowledge and experience.

Q

Tell us about your background and why you chose ScS?

I have spent my whole career in retail. I spent my first 16 years in various senior leadership roles at Sainsbury's before joining Home Retail Group (HRG) where I spent time at both Argos and Homebase. My last six years at HRG was as Director of Retail and Customer Operations, helping lead the transformation of Argos into a digital business. Most recently, I was Managing Director of Holland & Barrett for three years.

I was attracted to ScS for lots of reasons: it has a great business model; the Group is in a strong financial position; and it has excellent potential for further growth. Ultimately, though, it was down to the fantastic people I met across the whole business, from showroom colleagues to Board members. There was a fantastic passion for delighting customers and seeing the business succeed.

Q

What have been your initial impressions of the business?

Having spent some time getting to know the business properly, I'm even more excited about the business and its future potential. Its value focus gives it a strongly differentiated customer offer in the furniture and flooring market. It has a well-managed, lean operating model to support this value offer. It also has a fantastic team, highlighted by the wonderful job they have done responding to the challenges that COVID-19 has created. I'd like to thank our colleagues and suppliers for their ongoing support; in many ways it feels like a large business, but with a family culture.

I see a great opportunity to build on these core strengths and continue to grow the business going forward, through growing digitally, expanding our ranges and continuing to invest in our showrooms.

Q

Since joining the business, what has been your main areas of focus?

I have had three key priorities since joining the business:

- As you might expect given the current pandemic, my first priority has been to ensure the business continues to trade well and successfully navigates the ever-changing challenges that COVID-19 has created, from closed showrooms, to servicing record levels of demand following reopening, to ongoing supply chain and raw material cost pressures. I have been endlessly grateful for the amazing job all the teams have done across the business in dealing with these challenges.

- Secondly, I have been getting to know the business and working with the leadership team to build our plans for the future. I've spent lots of time out in our showrooms and distribution centres speaking to both colleagues and customers as well as meeting our major suppliers. I worked with all of our senior managers to build our plans for the next phase of growth, including conducting a comprehensive diagnostic of the existing business, identifying a long list of potential opportunities to accelerate growth and refining these into our growth plan for the next three years.

- Thirdly, I have been focused on strengthening the senior leadership team, recruiting a new People Director, Lucy Clough and promoting Gavin Vose, an existing member of the senior management team on to the Operating Board as our new Logistics Director. We have also recruited a number of senior hires into the digital and commercial teams to help drive our growth plan.

Q

How will the new purpose statement guide and strengthen ScS?

Our updated purpose is 'Helping create the home you love'. We feel this perfectly encapsulates what ScS is all about. It is focused on the outcome for our customers, is human and relatable, and has a strong emotive connection that resonates for all our stakeholders: customers, colleagues, suppliers and shareholders.

We believe this will be a long-standing 'North Star' that guides the business as our strategy continues to evolve and as ScS keeps growing, keeping us focused on delighting our customers. It also helps create a sense of belonging and a source of pride for our colleagues, reminding them of what their roles ultimately mean for our customer.

Q

What is the greatest opportunity that you think ScS can benefit from?

The biggest single opportunity for us is to continue to develop and grow our digital channels, both increasing online sales but also sending even more customers into our showrooms to complete their omnichannel shopping journeys. We have already made some great strides in this space. Last year, we replatformed our website to create a faster, more responsive, better featured site, and in lockdown we launched an online virtual consultation service, MyScSLive. We have also invested in strengthening the leadership and size of the digital team. However, there is still lots more to come in this space.

Q

How do you see the business evolving over the next few years under your leadership?

A lot of what I will be concentrating on is ensuring the business stays focused on its existing, well-proven operating model, so this is about evolution, not revolution. Over the next few years, I plan for the business to still be highly penetrated at the value end of the market, but with a broader appeal across other segments. I expect the ScS brand to still shout value, but with a broader meaning around choice, quality and service as well.

I want our digital channels to offer a seamless omnichannel experience for customers who browse online and purchase in one of our showrooms, or vice versa. I expect us to have enhanced the breadth of our range, and I want us to have a strong employer brand which celebrates diversity, inclusion and equality. All of this resulting in a strong, growing business that continues to deliver attractive returns for its shareholders.

Steve Carson
Chief Executive Officer
4 October 2021

Overview

Since joining the business in January 2021, during the third national lockdown, I have been impressed by the team's resilience and commitment as we have navigated the ongoing COVID-19 pandemic. I would, therefore, like to take this opportunity to express my personal thanks to all of our colleagues – I am very proud to work alongside each and every one of you. The dedication and commitment of the teams is a testament to David Knight, my predecessor, who welcomed me into the business and was a great support during the transition period before his retirement. I wish him all the best for the future and I look forward to continuing to grow the successful business that he has helped to build over the last three decades.

Throughout the year our priorities have been to support our colleagues, deliver for our customers and to protect the long-term success of our business. I would like to recognise the continued support we have received from our landlords, suppliers and the government to help achieve this. Although there remains continued uncertainty in the wider UK economy regarding the further impact of COVID-19, the Group is well positioned. Our new purpose, mission and strategy will guide the Group in achieving further growth and inspire our teams to provide an excellent experience for our customers.

2021 operational highlights

- Launched our new website at the start of the year
- Introduced 'zero touch' finance to enable customers to apply for finance online
- Maintained our 'Excellent' Trustpilot score
- Repaid the £3.0m Coronavirus Job Retention Scheme (CJRS) grants in relation to the current financial year
- Recommenced our dividend payments
- Supported local charities and made a difference in our communities, including donating 10,000 free school meals
- Launched our new and improved sofa protection package, Premium Sofa Guard

Results

Like-for-like order intake summary for the year:

Period	Weeks	Like-for like order intake* vs year ended July 2020	Like-for-like order intake* vs year ended July 2019
26 July to 19 December 2020	1 to 21	12.4%	6.6%
20 December 2020 to 3 April 2021	22 to 36	(73.6%)	(76.6%)
4 April to 31 July 2021	37 to 53	54.8%	59.9%
26 July 2020 to 31 July 2021	**1 to 53**	**(1.5%)**	**(6.5%)**

The Group experienced strong order intake growth over the first 21 weeks of the financial year despite the impact of further temporary regional and national store closures across the UK as a result of COVID-19. The temporary store closures during our key winter sale period, through to early April, caused a decrease in like-for-like order intake*, although we were delighted with the encouraging trading following the reopening of our stores.

Despite our stores being closed for 17 weeks in FY21, like-for-like order intake* was down just 6.5% on FY19 (being the last full financial year not impacted by the pandemic).

Unlike during the first national lockdown, our distribution centres remained operational throughout the year. This has enabled the Group to achieve gross sales* of £324.5m, a 21.0% increase from £268.1m in the prior year.

Gross profit increased to £147.0m (2020: £119.6m), with the gross margin percentage* increasing to 45.3% (2020: 44.6%). Underlying operating profit* increased to £22.5m (2020: £4.7m) and underlying profit before tax* increased to £18.4m (2020: £0.9m).

The year finished strongly with the Group's closing order book of £103.5m (including VAT), £1.2m lower than at the same point in the prior year and £60.6m higher than at the same point in 2019.

COVID-19 response and moving forward

The Group's response to the first national lockdown in FY20 was excellent and we were well prepared for the further periods of lockdown seen in the current year. Progress in our digital offering meant we continued to trade strongly online whilst our stores were closed. Unlike the first national lockdown in FY20, government guidance allowed our distribution teams to continue to deliver goods to our customers' homes, which meant we once again supported our suppliers across the year. The business also reacted quickly to our colleagues' needs including providing financial and well-being support in these difficult times. We firmly believe that the responsible nature in which the Group has acted in this challenging period is one of the key reasons why we have been able to deliver the excellent results in FY21 and why we have seen strong performance following our stores reopening.

Safety first

The safety of our colleagues and customers has remained paramount throughout. All of our colleagues were provided with personal protective equipment (PPE), mandatory COVID-19 training and access to lateral flow tests, and our one way systems, hand sanitiser stations and revised delivery processes ensured our customers were protected.

During the periods our stores were open, we continued to operate our VIP appointments system to give customers the option to book a convenient time with one of our team before arriving at one of our stores, further enhancing our customers' safety and shopping experience.

We continue to stay up to date with the latest government guidelines and after the successful introduction of our VIP appointment system we will be continuing to offer this as an option for our customers.

Colleague focus

The mental health and well-being of our colleagues continues to be a key priority. Since the onset of the pandemic, we have ensured that all our furloughed colleagues receive their full salary including topping up average commission payments where relevant. Our dedicated team of trained mental health first aiders are always on hand, and our weekly Company-wide internal communications ensures all our colleagues are up to date with the latest changes across the business.

In November, we carried out our employee survey, utilising the improved technology of a new partner. The survey was shorter, simpler and smarter than previous years, allowing us to obtain and interpret the views and opinions of all 1,572 respondents (83% of our team). It is of utmost importance to us that our colleagues are engaged and have a clear understanding of the Group's strategy and their role in it. We were very encouraged to see that our employee satisfaction score was above the national average when benchmarked against similar

* This report includes Alternative performance measures (APMs) which are defined and reconciled to IFRS information, where applicable, on pages 134 to 135.

companies. Our employees felt particularly strongly that they 'understand how their work contributes to ScS' success', 'understand how ScS plans to achieve its goals' and that ScS 'does a good job of communicating with employees'. Most importantly, we recognise their key feedback areas, and we are currently developing appropriate action plans to further improve employee satisfaction.

After over a year of successful remote working for our office-based teams, we have committed to creating a flexible, hybrid way of working, whilst ensuring that our colleagues stay well connected and supported.

Digital refresh

During the year, we have seen online sales grow 146.0% to £46.9m when compared to the prior year.

As consumer trends continue to evolve, the online sales experience is more important than ever and we continue to invest in and improve our digital offering. Whilst this has driven increased online sales, the majority of our customers also enter our stores having already researched their choices on our website, making our online presence key to improving the quality of our store footfall and subsequently conversion.

The launch of our new website at the start of the year enabled us to improve our offering to customers moving online following the store closures. This period of online-only sales provided valuable insight that supported the business' plans to push on with further web enhancements. The first of these was the launch of website exclusive products, which have proven very successful since their introduction. After welcoming customers back into our showrooms we have seen a reduction in online sales, which is to be expected as consumer shopping habits readjust.

With video calls becoming increasingly popular and store closures preventing customers trying our product for themselves, we wanted to bring our customers into our stores from the comfort of their own homes. In January, we launched MyScSLive, a web-based solution that enables our customers to video call with a colleague based in-store, at a time convenient to them. Although we acknowledge that not all customers will want to utilise this technology instead of visiting a store, our experienced and knowledgeable retail professionals are able to give product demonstrations, review product options and explain product features to those customers who value this safe and convenient option.

Further enhancing our virtual offerings, we moved quickly to establish our flooring surveyor teams online. Appointments to measure rooms in customers' homes were prevented under the government lockdown measures, but our surveyors carried out virtual appointments to guide and advise our customers through the measurement of their own homes. Following changes to government guidance the business has retained this additional service to our customers.

During the year we have redefined the Group's purpose, mission statement and strategy. The process engaged many colleagues across the business, and will help to guide us into the future.

Our purpose

The Group's new purpose, 'Helping create the home you love', is focused on the outcome for our customers, is human and relatable, and has a strong emotive connection that resonates for all our stakeholders: customers, colleagues, suppliers and shareholders.

Our mission statement

Our refreshed mission statement is 'To be the UK's best value home retailer. Delivering outstanding value, quality and choice with a seamless customer experience'. This encapsulates our focus on offering our customers a wide choice of products at outstanding value. Our customers are able to bring their vision to life with exciting brands, new designs and increased ranges.

Our colleagues and our customers remain at the very heart of our mission, culture and values.

Our growth plan

During the year we have conducted a comprehensive diagnostic exercise to identify the Group's key strengths and areas of opportunity. Whilst maintaining the Group's core goals and objectives, the evolved strategy gives the Group clear direction and is more reflective of the post-pandemic world we find ourselves in with a strong focus on our omnichannel offering.

Under this plan we aim to grow our market share, strengthen the expertise of our teams, improve our digital presence while leveraging our strong store network and improve the customer journey. The six key areas of focus identified are as follows:

- **Outstanding team** – we will develop our leadership and invest in capabilities critical for future growth.
- **Customer driven** – we will broaden our customer base and build deeper relationships with them.
- **Inspiring ranges** – we will continue to update and expand our ranges.
- **Digitally optimised** – we will grow our business digitally, both in channel and by encouraging customers into our stores.
- **Engaging showrooms** – we will invest more in our showrooms to create more engaging experiences for our customers.
- **Strengthen the core** – we will remain focused on trading the existing successful business model.

Further information on the new strategy can be found on pages 26 to 27.

Current trading and outlook

Trading since the start of the new financial year has remained strong, with two-year like-for-like order intake* growth of 11.9% for the nine weeks to 2 October 2021. One-year like-for-like orders* have fallen 21.0% as a result of the significant bounce following the lockdown in the prior year. We are delighted with the strong orders performance since the start of the new financial year. However, we are cognisant of the ongoing challenges we, and many other businesses, are facing with regards to the supply chain, including driver shortages, raw material increases and shipping costs and delays.

We have demonstrated throughout the pandemic that we have a flexible and resilient business model which is able to adapt to changes in the macro-environment whilst still delivering for our customers. We look forward to embedding the new purpose and mission statement into our operations and delivering on our refreshed strategy for future growth which we are setting out today.

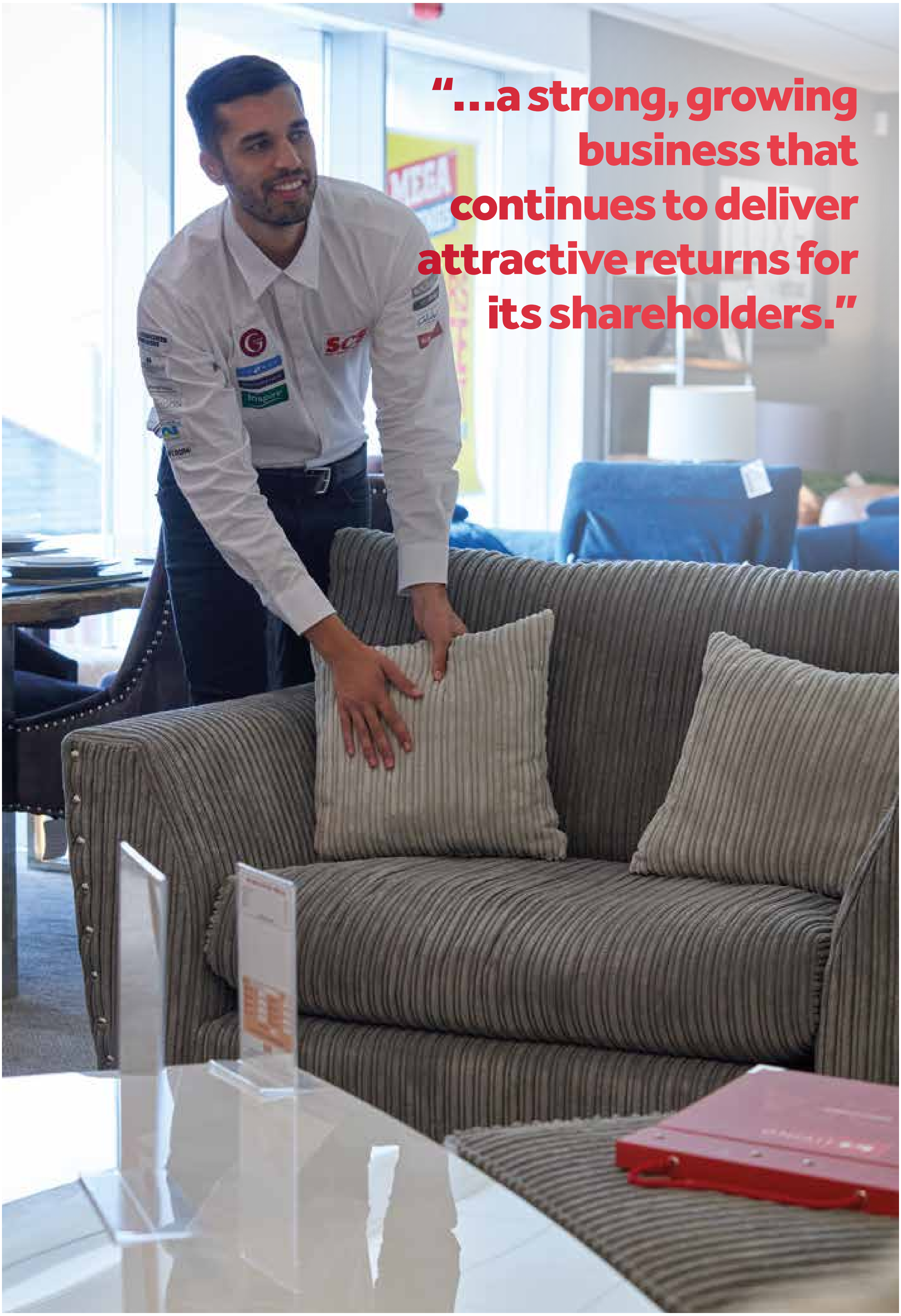
Steve Carson
Chief Executive Officer
4 October 2021

Progress in the year

With our previous strategy being launched in March 2018, the appointment of Steve Carson as the new CEO was an opportune moment to review the direction and focus of the Group. This has led to a refreshed strategy which was launched at the start of our new financial year. The new strategy is discussed in more detail on pages 26 and 27.

Whilst progress in the year in relation to the previous strategy was impacted by the pandemic, it was pleasing to see the following actions were completed:

Priority area	Progress in the year
Building and inspiring an outstanding team **How: by having the best team in our sector**	– All furloughed employees received full pay including topping up average commissions – Trained a number of colleagues to become mental health first aiders to support colleagues across the business – Continued investment in the development of managers and teams across the business, utilising remote learning during periods of lockdown – Increased communication and engagement activities across the business – Launched a new easier to use employee engagement survey with 83% completion – Continued provision of PPE and increased health and safety training across the business – Introduction of hybrid ways of working for support teams – Strengthened the team, including the recruitment of a People Director
Delivering an exceptional customer experience **How: by relentless focus on customer experience**	– Introduction of in-store VIP appointments – Implementation of MyScSLive, allowing customers to shop from home via video technology – Increased customer communication during periods of disruption in the supply chain – Developed inbound product inspection process to increase product quality and customer satisfaction – Increased options for customers to contact our customer experience team with the addition of online contact cards and webchat – Whilst our stores were closed our customer experience team continued to be fully operational to support our customers – Added technology to give store and distribution centre managers visibility of their own Trustpilot feedback
Optimising our product strategy **How: by sourcing best value products**	– New 'website exclusive' products added to our range – Work commenced on increasing sustainability of products across the range including the recruitment of a Supply Chain Sustainability Manager who will lead this area – Refresh of range and price points in light of changing market trends – Full supplier review of production capacity – Margins maintained despite raw material and transport cost pressures
Driving sales densities in our ScS network **How: by having modern stores in great locations**	– Recruitment of temporary 'meet and greet' roles into our stores to ensure customer and colleague safety whilst COVID-19 restrictions were in place – Additional retail space added by removing store office space following centralisation of store administration – Introduction of our new performance management framework 'Inspiring Great Performance' – Enhanced in-store visualisation including new point of sale materials
Creating a market-leading website and increasing digital awareness **How: by providing an excellent omnichannel offering**	– New 'mobile first' website launched at the start of the financial year – Range visualisation improved by adding 360-degree image technology – Introduction of 'zero touch' finance, where customers can complete the finance process online – Web to core system integration improvements – Delivered online sales increased 146.0%
Accelerating our flooring growth **How: by having a market-leading flooring offer**	– Change to business processes to improve how we arrange flooring fitting appointments with our customers – Supplier rationalisation based on service and quality – Introduced virtual surveying appointments
Improving our profitability **How: by running a lean and efficient business model**	– Launch of new 'Premium Sofa Guard' enhancing our previous warranty offer – Further roll-out of PowerBI across the business including distribution and further enhancements in product and store performance metrics – Demonstrated flexible cost base in periods of lockdown



"...a strong, growing business that continues to deliver attractive returns for its shareholders."

Refreshed strategy

A review of the Group's strategy was carried out in the year as a key area of focus for our new CEO, Steve Carson.

Our strategic review included a comprehensive diagnostic phase, which enabled a detailed assessment into what the Group's key strengths are and where opportunities for improvement lie. The process engaged many colleagues across the business and led to a re-defined purpose and mission statement, and identified six key areas of focus. Our 'growth plan' leverages our existing strengths but also invests to ensure our continued success in an increasingly digital future.

Overview

- Strengthen the team
- Understand and improve our brand perception, awareness and consideration for our broad customer base
- Expand and modernise our ranges and brands to increase market share
- Increase digital investment to improve omnichannel offering
- Refresh the look and feel of stores to make them more inspirational
- Continue to do the basics brilliantly well

Purpose

Helping create the home you love

Mission

To be the UK's best value home retailer. Delivering outstanding value, quality and choice with a seamless customer experience

Growth plan

Strategy **Focus for FY22**

Outstanding Team

We will develop our leadership and invest in capabilities critical for future growth

- Improve our employee proposition to ensure we attract and retain great talent
- Increase engagement, enhance our culture and empower our people
- Proactively support our colleagues to make a difference in their local communities
- Build capability and capacity across key functions
- Continue to champion diversity and inclusion across the organisation

Customer Driven

We will broaden our customer base and build deeper relationships with them

- Improve the use of customer data to continuously improve our proposition and service for our customers
- Enhance the customer experience across all our touchpoints: stores, digital, delivery teams and support centre to maintain great customer satisfaction as evidenced by our market-leading Trustpilot scores
- Continue to focus on quality across our ranges
- Refresh the ScS brand for customers, to broaden its appeal, and to further reinforce the proposition and channel improvements we will make

Inspiring Ranges

We will continue to update and expand our ranges

- Continue to provide broad choice and outstanding value for money to our customers
- Refine flooring range and optimise service proposition
- Expand our dining range to gain share
- Innovate in our sofa range and introduce new design aesthetics and exciting new brands
- Maximise the opportunity with our broad customer base
- Explore new supply options including faster delivery

Digitally Optimised

We will grow our business digitally, both in channel and by encouraging customers into our stores

- Strengthen digital leadership and invest in growing the team
- Enhanced breadth of range with a deeper, more personalised relationship with our customers
- Offer a seamless omnichannel experience for customers who browse online and purchase in store or vice versa, underpinned by enhanced digital technology
- Optimse relaunched website to improve conversion levels
- Balanced marketing investment, which will be underpinned by improved analytical tools, ROI modelling and targeting

Engaging Showrooms

As the backbone of our business we will invest more in our showrooms to create more engaging experiences for our customers

- In an omnichannel world, stores remain the backbone of the business
- Review of white space opportunities across the country
- Refresh of showroom environments to create a simpler, more inspiring experience to showcase latest developments in range and brands
- Continue to actively manage rent costs and relocate from less profitable locations

Strengthen the core

We will remain focused on trading the existing successful business model

- Drive sales by continuing to offer customers outstanding value for money and great service
- Optimise processes in core operational disciplines
- Ongoing investment in technology
- Use data and analytics to drive store and product performance
- Maintain focus on cost efficiencies

Delivery of the refreshed strategy will be key to future success

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. Prior year KPIs have been restated to include continuing operations only.

Non-financial KPIs

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
Outstanding team
Customer driven
Inspiring ranges

Colleague survey score

73

Why it's important
Our colleagues play a pivotal role in the success of our business, and we aim to ensure they benefit as we do. It is of utmost importance to us to listen to our colleagues and to get their thoughts and opinions to ensure that our colleagues are engaged and have a clear understanding of their role. We take pride in being a place where colleagues can thrive and progress whilst feeling supported.

What we measure
Our 'Colleague survey score' KPI is new this year and measures the overall eSAT score of the annual survey sent to all colleagues for their feedback. The eSAT score is an aggregate of scores on statements related to discretionary effort, pride, recommend, inspire and career goals.

Link to strategic priorities
Outstanding team
Strengthen the core

CO_2 emissions (tonnes)

6,527

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

What we measure
Scope 1, 2 and 3 emissions, see further detail on page 34.

Link to strategic priorities
Inspiring ranges
Digitally optimised

Financial KPIs

Revenue

£310.6m

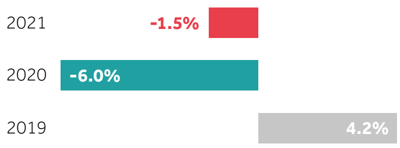
Why it's important
Sustainable growth in delivered sales is key to our long-term success, increasing market share and creating opportunities.

What we measure
Revenue 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 and the costs of interest-free credit, both online and across all of our showrooms.

Link to strategic priorities
Outstanding team
Customer driven
Inspiring ranges
Digitally optimised
Engaging showrooms
Strengthen the core

Like-for-like order intake growth

-1.5%



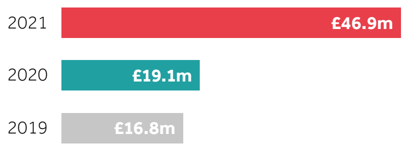
Why it's important
Whilst overall delivered sales growth is important, understanding how the same showrooms perform year-on-year provides a guide to underlying showroom performance. Due to lead times, order growth also gives a view as to future delivered sales performance.

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

Link to strategic priorities
Outstanding team
Customer driven
Inspiring ranges
Digitally optimised
Engaging showrooms
Strengthen the core

Online sales

£46.9m



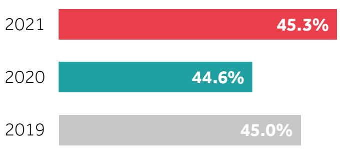
Why it's important
The Group needs to maximise its share of customers wanting to transact online.

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
Digitally optimised
Strengthen the core

Gross margin % of gross sales

45.3%



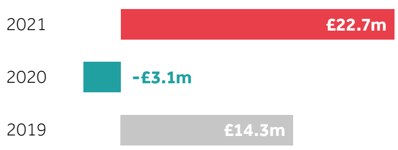
Why it's important
To grow profitably, the Group must ensure that sales growth is supported by maintaining or growing the gross margin.

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
Inspiring ranges
Strengthen the core

Profit/(loss) before tax (PBT/LBT)

£22.7m



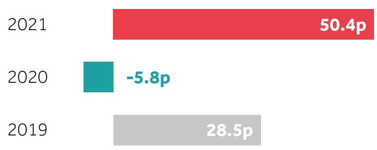
Why it's important
Delivering profitable growth is essential as we aim to create value for all stakeholders over the long term.

What we measure
Profit before tax reflects the performance of the Group before taxation impacts. Following the adoption of IFRS 16 the Group has started using PBT as a KPI rather than underlying EBITDA as PBT includes the full cost of the Group's property leases.

Link to strategic priorities
Inspiring ranges
Digitally optimised
Engaging showrooms
Strengthen the core

Earnings per share (EPS)

50.4p



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.

Link to strategic priorities
Inspiring ranges
Digitally optimised
Engaging showrooms
Strengthen the core

Creating a business that we can be proud of

At ScS, we want to create a business that we can be proud of, with a reputable brand and products that our customers love, a company that our colleagues love to work for and a business that our partners love to work with.

Achieving the above means offering our customers a wide range of quality products at great value that are sourced ethically whilst minimising our impact on the environment. Our colleagues value a culture of openness and honesty and a workplace that supports them in offering an excellent customer experience. Our suppliers want to build long lasting relationships built on trust and shared ethics.

During the year the Group has accelerated its thinking on developing a formal Environmental, Social and Corporate Governance (ESG) strategy that builds on our RIGHT values and integrates sustainability throughout all aspects of the business. Our recent recruitment of a specialist Supply Chain Sustainability Manager is a key part of that strategy. We have made positive steps in this area but acknowledge that there is still progress to be made over the coming months and years. In the coming year we aim to set out a sustainability roadmap, in line with the Task Force on Climate-related Financial Disclosures (TCFD) requirements, setting objectives and targets against which we can measure progress.

Our Supply Chain Sustainability Manager and Commercial Director receive our Furniture Industry Sustainability Programme membership

"The Group has accelerated its thinking on a formal ESG strategy."

Our environment

Placing a greater emphasis on external independent assurance, to further demonstrate our commitment to the sustainability of our products

Chain of Custody Certification – timber

The Group uses timber in many of its products. During the year we have reviewed our timber sourcing policy, and have started to engage with suppliers to ensure that all our own branded products are able to be sourced from independently certified sources no later than July 2026.

Chain of Custody certification provides credible confirmation that our products are from environmentally and socially responsible sources. Chain of Custody Certification verifies that certified material is used throughout the supply chain, from the forest to the factory. Collaborating with industry experts further strengthens our commitment to sustainable sourcing.

Leather Working Group membership

During the financial year the Group became a member of the Leather Working Group. The Leather Working Group is a not-for-profit organisation responsible for the world's leading environmental certification for the leather manufacturing industry. As a responsible retailer of leather furniture, the Group wishes to demonstrate that all leather sourced by the Group does not contribute towards deforestation.

Furniture Industry Sustainability Programme

The Group has successfully completed its first external sustainability audit and has met the requirements set out by the Furniture Industry Sustainability Programme (FISP). We are the first national upholstery and carpet retailer to achieve this certification. This is an independent certified sustainability programme specifically designed for the furniture industry supply chain. FISP helps the Group identify best practice to drive continual improvement of our social and environment impact, ensuring the sustainability of our operations.

Putting sustainability at the core of our product strategy

SpringBond flooring underlay

Following extensive testing and a successful trial, the Group is looking forward to launching an innovative SpringBond flooring underlay product range in Autumn 2021. 85% of the underlay is made from recycled PET plastic bottles and other single use plastics. Furthermore, SpringBond contains no harmful VOC's and at the end of its life the product is 100% recyclable. SpringBond is trying to combat the eight million tonnes of plastic that fill our oceans every year while improving household air pollution at the same time, offering a cleaner living environment for everyone.

Eco-friendly carpet range

Our Delphin and Oceanus carpet ranges are made from regenerated nylon, a yarn made from recycled waste material such as old carpets and abandoned fishing nets collected from the bottom of the sea.

Endurance laminate flooring

During the year, the Group reviewed its laminate flooring range and we are proud to say that 100% of the range is certified by the Programme for the Endorsement of Forest Certification (PEFC) who are dedicated to promoting sustainable forest management.

Electricity now supplied as renewable

100%

Managing our fleet and estates to minimise our environmental impact

To ensure that our fleet vehicles are efficient, safe and meet the required emissions standards, all our trucks are on a five-year replacement cycle. To help minimise our CO_2 emissions, we utilise route optimisation software to reduce the miles that our trucks and vans travel. Using our fleet management system we are able to monitor our driver's behaviour on the road to ensure that our high standards of safe and responsible driving are met. Each driver is assessed against a number of targets and both drivers and management are incentivised to improve.

During the year we have added our first fully electric vehicles to the company car fleet, and we continue to encourage their utilisation throughout the fleet.

Improving our energy efficiency

During the year, we have continued to improve our energy efficiency with an ongoing programme of LED lighting installations and the replacement of outdated equipment with new energy efficient replacements.

From April 2021 we have been supplied with 100% renewable electricity at all ScS sites. With electricity being one of the main contributors to the Group's CO_2 emissions, we are committed to further reducing our energy consumption, and thereby achieve a reduction in carbon emissions.

Throughout the year we obtained a clearer understanding of our energy usage across the Group. We use automatic meter readings to monitor and investigate usage of electricity, and smart loggers to monitor the usage of gas. We have embarked on a programme of replacing all gas fired appliances with a view to achieving this by the end of 2023. We will continue to work with the Carbon Trust and other advisors to reduce the amount of energy we use.

We have worked with our facilities management partners to understand our impact on the environment, specifically water and waste management. We have continued to maintain a high percentage of diversion from landfill and continue to re-evaluate and look for ways to improve our waste management.

"We are the first national upholstery and carpet retailer to achieve the Furniture Industry Sustainability Programme (FISP) certification."

Streamlined Energy and Carbon Reporting statement

	kWh			CO_2e tonnes (Location based)		
Emission type	Current year (2020/2021)	Previous year (2019/2020)	Variance %	Current year (2020/2021)	Previous year (2019/2020)	Variance %
Scope 1: combustion	14,787,217	12,796,459	15.6	3,230	2,838	13.8
Scope 2: purchased energy	13,079,252	13,297,222	(1.6)	3,049	3,399	(10.3)
Scope 3: indirect energy	1,032,622	933,123	10.7	248	224	10.7
Total	**28,899,091**	**27,026,804**	**6.9**	**6,527**	**6,461**	**1.0**

Greenhouse gas emissions intensity ratio

	Total footprint (Scope 1, Scope 2 and Scope 3) – CO_2e tonnes		
	Current year (2020/2021)	Previous year (2019/2020)	Variance %
Turnover (£'000)	324,519	268,119	21.0
Intensity ratio (tCO_2e/£100,000)	2.012	2.410	16.5

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.

Greenhouse Gas Protocol dual reporting

	CO_2e tonnes (dual reporting methodology)		
Emission type	Location based	Market based (supplier specific)	Variance %
Scope 1: combustion	3,230	3,230	0
Scope 2: purchased energy	3,049	2,222	(27.1)
Scope 3: indirect energy	248	248	0
Total	**6,527**	**5,700**	**(12.7)**

- Our methodology has been based on the principles 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 01/08/2020 – 31/07/2021.
- 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 2020.
- Conversion factors for UK electricity (market-based methodology) are published on the fuel mix disclosures on each supplier's website or based on specific tariffs in the case of the Bryt Energy electricity group contract.
- 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 previous reporting submissions.
- During the compilation of the 2020-21 SECR report, two data discrepancies were found within the grey fleet (scope 3) data provided for the 2019-20 report, the first report the company has compiled on this information. The discrepancies related to incorrect hire vehicle mileages provided in the prior year, and the absence of data related to emissions from employee mileage claims. The 2019-20 period data has been restated to utilise the more robust fuel litres data, which have been converted to carbon regardless of vehicle type, resulting in a reduction of 351.4 tCO_2e, and to include employee mileage claims, resulting in an increase of 88.6 tCO_2e. This results in the final updated 2019-20 carbon footprint total of 6,461.42 tCO_2e with an updated intensity ratio of 2.410 (from the originally reported 19-20 ratio of 2.508).
- Processes regarding the collection and reporting of grey fleet data have been improved as a result of the above findings and we do not expect this issue to occur again in future reporting disclosures.

Statement of exclusions

- There are three landlord supplied sites within the portfolio where electricity is recharged as part of the service charge, which have been excluded on the grounds of unavailable data.

Energy efficiency action

During this reporting year, we have undertaken several energy efficiency actions across our estate. These include:

- Retrofit of air heaters with improved efficiency and performance at multiple sites;
- Replacement of gas fired air conditioning systems with all electric air conditioning systems at multiple sites;
- Continued rollout of LED lighting; and
- Energy generation from waste which has 100% diversion from landfill.

In addition to the above, from 1 April 2021 we have been using 100% renewable energy across all ScS site.

"We utilise route optimisation software to reduce the miles that our trucks and vans travel."

Our colleagues

Our people are what makes our business successful and developing an outstanding team is at the forefront of our refreshed business strategy. We are focused on creating a great place to work, recognising the contribution individuals make and creating opportunities for progression and development. Creating a long-term sustainable business relies on attracting and retaining colleagues with the required skills and behaviours which are aligned with our RIGHT values.

Training and development

During the year we launched our 'Inspiring Great Performance' conversational tool. This was rolled out initially to our retail teams and has since been extended across the business. The initiative enables our colleagues to engage in a structured monthly meeting with their line managers to discuss short-term and long-term objectives, any challenges they are facing and any opportunities for development and progression. This meeting also allows for managers to praise and recognise behaviours that are aligned with our RIGHT values.

Following the success in the prior year of the 'Olympic Experience' training programme, delivered by business coaches and former Olympians Steve Backley and Roger Black to our retail regional and branch manager roles, we rolled out a refreshed programme around goal setting, planning and preparation and encouraging a growth mindset. This has given our retail managers the tools to inspire the team around them and help to ensure that the business achieves its aims and targets.

Offering our colleagues opportunities to progress and develop is key to building the team of the future. Members of our distribution team have participated in our 'Warehouse to Wheels' programme which supports colleagues in obtaining their Category C HGV licence. Applications also opened in the year to our retail teams to participate in a year-long development programme 'Moving On Up' which aims to train future branch managers.

A number of our learning and development specialists qualified as 'Insights Discovery' practitioners during the year which gives them the tools to build effective communication and leadership skills across the business. The team launched over 20 courses throughout the year including project management qualifications, health and safety courses and leadership coaching. Alongside this, they have also supported 12 apprentices across the business with studying towards professional qualifications.

Our colleagues receive mandatory online training throughout the year on a wide array of topics including Equality & Diversity, Data Protection and Anti-Bribery.

Engaging with our colleagues

Our people are our greatest asset and key to our success and incorporating their views into Board decision making is essential to achieving our business objectives and creating a workplace which treats everyone equally. We are proud to say that we have retained our Investors in People standard which we have now held for 20 years.

Throughout the year we have engaged with our colleagues in a number of ways:

- Our Non-Executive Workforce Engagement Director, George Adams, held regular discussion forums with members of the wider workforce to provide them with a direct route to raise issues or concerns with the Board;
- We carried out our annual employee survey utilising the improved technology of a new partner. The survey was shorter, simpler and smarter than previous years, allowing us to obtain and interpret the views and opinions of all 1,572 respondents;
- We continued to utilise our online employee interactive forum. This gave our colleagues a convenient way to communicate with one another and share their opinions on important matters that affect them such as our re-opening plans;
- Our senior management kept the teams under their leadership informed on strategy and how their role contributes to ScS' success; and
- The company-wide weekly newsletter informed our colleagues of the Group's performance and significant events taking place across the business.

As part of his induction and following the reopening of our stores, our new CEO has visited a large number of stores and distribution centres.

"A number of our learning and development specialists qualified as 'Insights Discovery' practitioners during the year."

Health, safety and wellbeing

As we continued to navigate the challenges of COVID-19, we made sure the health and safety of all our colleagues and customers was prioritised. We created and rolled out mandatory e-learning modules, 'Covid-19 Safety First' and 'PPE – Personal Protective Equipment', to ensure all colleagues remained up to date with the latest guidance. The one-way systems and deep cleaning procedures were kept in place in all locations throughout the year. We continued our checks performed prior to entering a customer's home for our distribution crews, flooring surveyors and technicians. To further protect the health and safety of our colleagues and customers, we were able to offer free access to lateral flow testing to all our colleagues through participation in the government's scheme.

The established health and safety team, which forms part of our wider Audit, Risk and Compliance team, have continued to monitor the impact of COVID-19 and requirements under the government guidance (for all three nations). They have worked closely with operational teams to ensure we are following guidance and best practice. The health and safety team also reviewed and maintained relevant risk assessments and ensured correct levels of PPE are available for all our colleagues throughout the business.

During the year we have invested in formal 'Institution of Occupational Safety and Health' (IOSH) training for members of the distribution and internal audit teams. This has provided an additional level of assurance to complement the detailed reviews, inspections and reporting completed by the in-house health and safety team. We made further investment in formal training for the distribution team in manual handling techniques and each distribution centre now has at least two qualified trainers.

To support the safety of our distribution teams our fleet of delivery vehicles have been installed with equipment to monitor driver and vehicle safety. This provides assurance that our teams are safe and customers get the best possible service.

The Group gives parity to physical and mental wellbeing. We have mental health first aiders working across the business and our colleagues have access to further support through a free, confidential employee assistance programme which is available 24/7. The weekly newsletter regularly includes advice on how our colleagues can help their mental wellbeing such as free mindfulness courses and links to meditation guides.

Our people team present at a workshop for our branch managers

Our suppliers

We have 16 major furniture suppliers and 7 flooring suppliers who make and source products for us from within the UK, Europe and the Far East.

Despite the ongoing impacts of the COVID-19 pandemic throughout the year, we worked with our suppliers to launch over 80 new products across our furniture and flooring ranges. We brought six 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.

Engaging with our suppliers
Working closely with our suppliers ensures that we have the right product offerings for our customers. We engage with our suppliers through regular meetings to review product quality and performance to ensure that we are meeting our customers' needs. Our purpose, 'Helping create the home you love', is at the core of what we do and we believe creating an atmosphere where suppliers embrace our purpose and values is essential to our continued success.

During the year we have remained in regular contact with our suppliers. Although our operations were once again impacted by the COVID-19 pandemic, our distribution activities were able to continue. We worked with our supply partners to manage the delivery of our large opening order book from pent up demand in June and July 2020 and this two way communication continued throughout the year, particularly regarding ongoing pressures on shipping and raw material shortages, which we have been working together to manage.

Supplier terms
All our suppliers are required to comply with our supplier terms which sets out our expectations in relation to health and safety procedures, anti-bribery and corruption policies, product quality standards and much more. We are committed to providing assurance to our customers that our products are safe and sourced with integrity. Our products are tested regularly and at random to ensure they meet all the regulations and British standards set out in The Furniture and Furnishings (Fire Safety) Regulations 1988.

As a responsible business we work with our suppliers to promote responsible sourcing and ensure that all workers are treated equally with respect and are safe at work. As a member of Sedex we are able to monitor our suppliers adherence to modern slavery regulations and best practice within our supply chain.

We are committed to the responsible stewardship of the environment and community by integrating sound and sustainable business practices into our daily business decisions. 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, by offering a carpet made entirely from recycled plastics and using reusable packaging.

We work closely with recognisable flooring partners

"Working closely with our suppliers ensures that we have the right product offering for our customers."

Our customers

We seek to offer our customers outstanding value, quality and choice for their homes.

We carefully source our products and all of our sofas are covered by a 20-year warranty on frames and springs. Working with our suppliers, monitoring market trends and engaging with our customers through social media channels, helps us to develop product ranges and expand our customer base.

During the year our stores experienced periods of temporary closures due to the COVID-19 pandemic. Having already navigated lockdowns in the previous year we were well prepared and continued to adapt our services to meet the needs of our customers during such challenging times. Our new website launched at the start of the year and in January 2021, we introduced MyScSLive, a web-based solution that enables our customers to video call with a colleague based in one of our showrooms, at a time convenient to them. Our continued investment in improving our omnichannel offering coupled with a shift in customer shopping habits as a result of the pandemic has seen visits to our website increase significantly, driving online sales to record heights for the business. We will continue to monitor these trends and review our product ranges to meet customer demand.

Engaging with our customers

Throughout the year we have increased customer communication. Disruption from localised COVID-19 outbreaks, raw material shortages and shipping issues meant we experienced delays beyond our control. In response, we kept in close communication with our customers.

Our retail and centralised customer services team have worked tirelessly to help our customers.

We strive to provide an excellent customer experience and this focus is crucial to the Group's strategy. Our customers are encouraged to rate their experience with us on Trustpilot and we are thrilled to have received over 299,000 reviews and maintained our 'Excellent' rating. We regularly review our customers' feedback and use it to reward our staff, identify areas for improvement and discuss with suppliers to drive further product quality.

▲ Our customers choose their new sofa

Going the extra mile for our customers

Lisa Price (Branch Manager at our Wigan store) has lived by our RIGHT values by going the extra mile for an elderly customer. After speaking to a customer about their order Lisa learned that they live alone with no family nearby. She also learned that they really enjoyed jigsaws so took it upon herself to get them a jigsaw to keep them entertained through lockdown. She also organised for a hamper of supplies to be delivered as well as more jigsaws and a jigsaw table. Lisa said: "I wanted our customer to know that they weren't alone in lockdown and that they had support from people who cared. The food I collected was after the fourth call where I learned that they were finding it hard to get out because of bad weather. I wanted to do this for them and have a weekly chat as this winter lockdown is a long time for the vulnerable to be alone."

Our 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.

Bowel cancer awareness

Working with ITV's Lorraine on their 'No Butts' campaign, we helped to raise awareness of bowel cancer and its symptoms. We filled Sunderland's Stadium of Light with 22 empty two-seater sofas to represent the 44 people who lose their lives every day due to bowel cancer, the UK's second biggest cancer killer. We also added decals to our delivery fleet, displayed informational signs in all of our showrooms and featured the campaign in our TV ads.

To help raise more funds, 250 of our colleagues walked, ran and cycled over 25,000 miles, which is greater than the number of miles around the earth! The Group donated £1 for every mile, and together with our colleagues own fundraising, we raised a total of £28,448 for this worthy cause.

Sometimes it's the little things that mean the most

Travis Caster, a member of our delivery team at our Basildon distribution centre made the day of one of our customers. After our customer made a comment about not having left the house in a while, Travis continued the conversation and provided a listening ear. The pair soon realised that they had both recently been through a bereavement and our customer really appreciated the fact that Travis took the time to talk with her.

Our customer decided to personally make Travis a bouquet of blue and yellow flowers, colours that Travis had mentioned were of great sentimental value to his family. Travis who prides himself on providing a great experience to our customers said that it is these sort of interactions that really make a difference and he'll never forget the kind gesture from this customer!

The Foundation of Light

For over 10 years, ScS has supported the Foundation of Light, which is Sunderland AFC's official charity. During the year we worked with the charity to support their 'Wear Together' programmes which aim to tackle loneliness and social isolation in the over 50's, an important issue which has been heightened during the pandemic. A number of our colleagues have attended sessions on a range of topics, engaging in conversation and interacting with people from the local community.

Free school meals

As a result of the government voting against extending free school meals for disadvantaged children, ScS donated £20,000 for local children in need during October 2020 half term. Working with 'Together for Children Sunderland' this money provided 10,000 free schools meals to some of Sunderland's most underprivileged families.

Volunteers' Week

The first week of June was Volunteers' Week and our colleagues were encouraged to participate in their local communities. From helping to deliver guided walks to beach cleans, our teams rolled up their sleeves and headed out in their community to support some great causes.

Supporting 'Wear Together' with the Foundation of Light

Our shareholders

We have two main shareholder groups; institutional investors and individual shareholders.

The majority of our shareholders are institutional investors, with our retail investor base growing.

The Company has just one class of share in issue and so all shareholders benefit from the same rights, as set out in the Company's Articles of Association and the Companies Act 2006. The Board recognises its legal and regulatory duties and does not take any decisions or actions, such as selectively disclosing confidential or inside information, that would provide any shareholder or group of shareholders with any unfair advantage or position compared to the shareholders as a whole.

Engaging with our shareholders

The Group's purpose, mission and strategy 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 Annual General Meeting (AGM) and our financial and trading statements. During the year the CEO and CFO have also participated in retail investor presentations. 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 year as events have unfolded. We held a live analyst meeting open to all shareholders, and a webcast of the meeting was published on our website for those unable to attend. Our CFO is on hand to speak to our shareholders and address any queries they have.

The Board receives investor views through the Group's corporate brokers who provide feedback on market reaction and investor views after full and half year results announcements. Independent investment research analysts also have access to our Executive Directors as part of their investment advisory roles. The analysts' research publications provide timely feedback on financial performance, strategy and share valuation.

Investors' views were taken into consideration as part of the Board's decision-making process throughout FY21 including repaying the CJRS grant received in relation to the current year, reinstating a dividend and our ESG strategy.

▲ Store managers at our annual retail conference

The Board recognises the importance of engaging with stakeholders

Section 172 Statement

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 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 65 to 98.

Details of our key stakeholders and engagement with these stakeholders are set out on pages 30 to 41. Examples of how the Directors have oversight of stakeholder matters and had regard for these matters when making decisions are included in the table opposite and discussed throughout the Strategic Report and in the Governance section on pages 2 to 98.

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. This report is presented in compliance with The Companies (Miscellaneous Reporting) Regulations 2018 and the UK Corporate Governance Code July 2018.

The table opposite identifies where, in the Annual Report, information on the issues, factors and stakeholders the Board has considered in respect of Section 172(1).

Section 172 duty	Key examples	Page
(a) The likely consequences of any decision in the long term Example: the Board reviewed and updated the Group's strategy during the year to support the long-term success of the Company. Decisions taken during the year are made in the context of the strategy and with regard to allocating the Group's capital in the most beneficial way.	Our business model Our strategy Key performance indicators Financial review Principal risks and uncertainties Viability statement Corporate governance statement Directors' Remuneration report	8-9 24-27 28-29 44-47 50-59 60 66-80 81-95
(b) The interests of the company's employees Example: our colleagues are at the heart of our business and their interests are taken into consideration by the Board when making decisions that impact them. Throughout the COVID-19 pandemic the Group has topped up furloughed colleagues' salaries to 100% and none of our people have been made redundant as a result of the pandemic. The internal team responsible for our colleagues has also been strengthened by welcoming a People Director to our Operating Board.	Chair's letter Our business model Chief Executive Officer's review Our strategy Key performance indicators Responsible business Principal risks and uncertainties Corporate governance statement Directors' Remuneration report	6-7 8-9 22-23 24-27 28-29 30-41 50-59 66-80 81-95
(c) The need to foster the company's business relationships with suppliers, customers and others Example: working closely with suppliers has been more important than ever during the COVID-19 pandemic, and the Group continued to pay all suppliers in a timely manner despite uncertain periods of closure. Throughout the year customer communication has increased and our retail and centralised customer services team have worked tirelessly to help our customers.	Chair's letter Our business model Chief Executive Officer's review Our strategy Responsible business Corporate governance statement Directors' Remuneration report	6-7 8-9 22-23 24-27 30-41 66-80 81-95
(d) The impact of the company's operations on the community and the environment Example: as a responsible business, the Group is committed to acting in the best interests of our communities and in a sustainable manner. During the year the Group supported local charities and donated a total of £60k. The Group has accelerated its thinking on developing a formal ESG strategy that builds on our RIGHT values and integrates sustainability throughout all aspects of the business. The recent recruitment of a specialist Supply Chain Sustainability Manager is a key part of that strategy.	Chair's letter Our business model Chief Executive Officer's review Our strategy Responsible business Principal risks and uncertainties Corporate governance statement	6-7 8-9 22-23 24-27 30-41 50-59 66-80
(e) The desirability of the company maintaining a reputation for high standards of business conduct Example: our colleagues received mandatory online training throughout the year on a wide array of topics including Equality & Diversity, Data Protection and Anti-Bribery. All suppliers are required to comply with our Supplier Code of Conduct which sets out our expectations in relation to health and safety procedures, anti-bribery and corruption policies, product quality standards and much more.	Our business model Our strategy Responsible business Corporate governance statement Directors' Remuneration report	8-9 24-27 30-41 66-80 81-95
(f) The need to act fairly as between members of the company Example: the Board seeks to ensure that communications are clear and its actions promote the long-term success of the Company. During the course of the pandemic, the Group has successfully adapted the way in which it engages with shareholders and as a result, the Board have been able to take their views and interests into account when making decisions.	Responsible business Corporate governance statement	30-41 66-80

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	Pages 54 Pages 32 to 33 Pages 32 to 33 Page 34
Employees	Diversity and inclusion Health and safety Engagement Code of Business conduct Composition, succession and evaluation	Page 69 to 74 Page 37 Page 36 Page 97 Pages 72 to 74
Social matters	COVID-19 Apprenticeship programmes Supporting local communities and charities	Pages 22 to 23 Page 36 Page 40
Human rights	Responsible sourcing and supply chain Modern Slavery policy	Page 56 Pages 38 and 56 and visit our website
Anti-bribery and anti-corruption	Political donations Whistle-blowing Anti-bribery and corruption statement	Page 98 Page 69 Page 54
Description of business model	N/A	Pages 8 to 9
Non-financial KPIs	N/A	Page 28
Principal risks and uncertainties	N/A	Pages 50 to 59

"Strong post-lockdown sales order growth seen across the business."

The financial results for the current and previous year were impacted by the COVID-19 pandemic. The year started strongly with first half sales benefiting from the large opening order book and continued strong order growth in quarter one. The second half of the year also saw significant revenue growth, despite further national lockdowns, as the business was permitted to continue to deliver goods.

	53 weeks ended 31 July 2021 £m	52 weeks ended 25 July 2020 £m
Gross sales*	**324.5**	268.1
Revenue	**310.6**	255.5
Gross profit	**147.0**	119.6
Distribution costs	**(18.7)**	(17.0)
Administration expenses before exceptionals and government support	**(116.0)**	(106.3)
Business rates relief	**10.2**	3.4
Coronavirus Job Retention Scheme (CJRS)	**–**	5.0
Total operating expenses	**(124.5)**	(114.9)
Underlying operating profit*	**22.5**	4.7
Operating exceptional items	**4.3**	(4.0)
Operating profit	**26.8**	0.7
Net finance expense	**(4.1)**	(3.8)
Profit/(loss) before tax	**22.7**	(3.1)
Tax	**(3.6)**	0.9
Profit/(loss) after tax	**19.1**	(2.2)
Underlying profit before tax*	**18.4**	0.9
Statutory earnings/(loss) per share	**50.4p**	(5.8p)
Underlying earnings per share*	**41.3p**	2.6p
EBITDA*	**52.8**	29.0
Underlying EBITDA*	**48.5**	33.0

Overview

The financial results for the current and previous year were impacted by the COVID-19 pandemic. The Group operates a special order business, where goods are built for customers in line with their order specifications. Gross sales, revenue and related profit is not recognised until orders are delivered. The disruption from the pandemic, including the restrictions on being able to deliver to our customers' homes in the first lockdown coupled with the strong recovery in sales post the initial lockdown, meant the Group commenced the 2021 financial year with a large opening order book.

Gross sales and revenue

Gross sales* increased by £56.4m (21.0%) to £324.5m (2020: £268.1m). The year started strongly with first half sales benefiting from the large opening order book and continued strong order growth in quarter one. The second half of the year also saw significant growth, despite further national lockdowns, as the business was permitted to continue to deliver goods unlike in the first lockdown which impacted sales in the second half of the 2020 financial year.

Sales by channel were are follows:

- An increase in furniture sales in stores of 13.6% to £248.9m (2020: £219.0m);
- A decrease in flooring sales in stores of 4.1% to £28.7m (2020: £30.0m); and
- An increase in online sales of 146.0% to £46.9m (2020: £19.1m).

Revenue, which represents gross sales* less charges relating to interest free credit sales (see note 3 to the financial statements – Segment information), also increased by 21.6% to £310.6m (2020: £255.5m). This is again reflective of the order growth and disruption to our distribution network in the second half of the prior year.

The strong post-lockdown order intake recovery has resulted in the Group holding a large opening order book of £103.5m (including VAT), £1.2m lower than at the same point in the prior year but £60.6m higher than at the same point in 2019.

Gross profit

Gross margin* increased to 45.3% (2020: 44.6%). The increase of 69 basis points is largely due to the reduced take-up and cost of interest free finance together with store closures resulting in a reduction of lower margin stock sales. We expect stock sales and customer credit requirements to return to normal levels in the new financial year. This, coupled with the increased cost pressure from suppliers, means we expect gross margin in the coming year will return to levels achieved by the business in the previous years.

The increased volume and margin year on year resulted in an increase in gross profit of £27.4m (22.9%).

Distribution costs

Distribution costs comprise the total cost of the in-house distribution function and includes employment costs, vehicle running costs and utility costs for the nine distribution centres, as well as costs of third-party delivery services contracted to support peak delivery periods.

Distribution costs increased to £18.7m (2020: £17.0m) as a consequence of the increase in delivered volumes. Additionally, property and staff-related costs increased, driven by cost pressures being seen in the logistics sector.

As a percentage of gross sales for the year, distribution costs were 5.8% (2020: 6.3%).

* This report includes Alternative performance measures (APMs) which are defined and reconciled to IFRS information, where applicable, on pages 134 to 135.

Administrative expenses before exceptional items and government support

Administrative expenses comprise:

- Store operating costs, principally employment costs, property related costs (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 £116.0m, compared to £106.3m in the prior year. Administrative costs were 35.7% of gross sales*, down from 39.6% in the prior year.

There was an overall increase in administrative costs of £9.7m, driven predominantly by the £8.6m increase in performance related pay following the Group's strong full year result. Due to the impact of the pandemic, the prior year saw a significant reduction in the normal levels of bonus and commission paid to management and colleagues. The current year saw performance related pay increase to £16.8m (2020: £8.2m), with the current year cost being more in line with those seen pre-pandemic, where in FY19 performance related pay totalled £14.6m. The current year includes a £1.5m share-based payment charge in the year (2020: £0.8m credit) reflecting the improved actual and forecast performance of the Group. The Group also saw a £3.5m increase in underlying payroll costs driven by additional employees to support working practices during the pandemic and to meet increased demand in our stores coupled with wage inflation.

Marketing costs decreased by £3.2m to £17.2m in the year (2020: £20.4m), as the business adjusted investment in advertising as a result of temporary store closures. We invested in a strong reopening launch campaign and this increased investment helped achieve the significant level of post-lockdown sales order growth. Other administrative costs increased £0.8m.

Government support

The Group's result for the year has benefited from £10.2m of retail business rates relief provided in response to the COVID-19 outbreak. Our retail property rates bill is a significant cost to the business, and the government's initial 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) was followed with further savings on rates for the 2021 to 2022 years. The Group expects to receive a further £2.6m benefit in the next financial year.

During the year the Group received £3.0m as part of the Coronavirus Job Retention Scheme (CJRS) claimed throughout the period of store closures. Following the strong trading on reopening of our stores, the Group took the decision to repay this in full.

In the prior year, the Group's result benefitted from £8.4m of government support, being £3.4m of retail rates relief and £5.0m received from the CJRS.

Flexible costs

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

Excluding government support and exceptional items, total costs before tax for the year were £316.3m (2020: £275.6m). Total costs increased £40.7m, largely as a result of the movement in variable costs, which, as expected, increased in line with the increase in sales. As a consequence of the higher variable and total costs, semi-variable and fixed costs make up a slightly lower percentage of total costs when compared to previous years.

Of total costs, 73% (2020: 70%), or £230.2m (2020: £194.1m) are variable or discretionary, and are made up of:

- £177.5m cost of goods sold, including finance and warranty costs (2020: £148.5m);
- £18.7m distribution costs (2020: £17.0m);
- £17.2m marketing costs (2020: £20.4m); and
- £16.8m performance related payroll costs (2020: £8.2m).

Semi-variable costs totalled £44.2m, or 14% of total costs, for the year (2020: £38.5m; 14%) and are predominantly other non performance related payroll costs and store costs. Depreciation and interest (including on leased assets), rates, heating and lighting make up the remaining £41.9m (13%) of total costs (2020: £43.0m; 16%).

Underlying operating profit*

The operating profit before exceptional costs was £22.5m for the year, compared to £4.7m last year, driven by the £27.4m increase in gross profit, partially offset by the increase in operating costs. Without the additional government support, the Group would have recorded an underlying operating profit of £12.3m (2020: loss of £3.7m).

Operating exceptional items

The £4.2m exceptional credit in the current year relates to the reversal of previous impairment to the Group's stores – both the property, plant and equipment and right-of-use lease assets. The majority of the current year credit reverses the impairment taken in the prior year as a consequence of reduced forecasts following the impact of COVID-19, with an additional element reversing historic store impairment following stronger forecast store performance as a result of encouraging trading and increased opportunities in our markets.

Prior year exceptional costs relate to a £3.4m charge in recognition of impairment to the Group's property, plant and equipment and right-of-use lease assets and £0.6m payable for redundancy costs incurred relating to the centralisation of administrative support from each of our individual stores to our head office in Sunderland.

Finance costs

The net finance expense has increased by £0.3m to £4.1m (2020: £3.8m) as a result of a decrease in interest earned on the Group's cash balance.

Taxation

The tax charge for the financial year is lower (tax credit 2020: higher) than if the standard rate of corporation tax had been applied, mainly due to an increase in the deferred tax asset relating to share options outstanding but unexercised at year end and the increase in the rate used to measure the Group's deferred tax asset.

Earnings/loss per share (EPS/LPS)

Statutory basic EPS for the year ended 31 July 2021 was 50.4p compared to a LPS of 5.8p in the previous year.

Basic underlying EPS for the year ended 31 July 2021, which excludes exceptional costs, was 41.3p compared to 2.6p in the previous year.

* This report includes Alternative performance measures (APMs) which are defined and reconciled to IFRS information, where applicable, on pages 134 to 135.

A full reconciliation of EPS/(LPS) is shown in note 10 to the financial statements.

Cash and cash equivalents

The Group operates a 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.

Cash increased £5.4m in the year to £87.7m (2020: £82.3m). A summary of cash flows is shown below:

	53 weeks ended 31 July 2021 £m	52 weeks ended 25 July 2020 £m
Cash generated from operating activities	**41.6**	**59.5**
Payment of capital and interest elements of leases	**(26.4)**	**(20.0)**
Net capital expenditure	**(4.5)**	**(3.9)**
Net taxation and interest payments	**(3.8)**	**(1.5)**
Free cash flow	**6.9**	**34.1**
Dividends	**(1.1)**	**(4.3)**
Purchase of own shares	**(0.4)**	**(5.2)**
Net cash generated	**5.4**	**24.6**

The Group continued to be cash generative in the year with a net cash inflow from operating activities of £41.6m (2020: £59.5m).

The cash generated from operating activities has decreased by £17.9m. In the prior year, working capital inflow totalled £27.9m largely due to a significant increase in customer deposits as our stores reopened following the first government lockdown. The level of customer deposits in the current year has increased by £2.4m. However, this is offset by a working capital outflow as a result of the 53-week year capturing July month end payroll and supplier payments, together with a repayment of £3.4m VAT and PAYE/NI balances which were previously deferred in line with the government support offered as part of its response to COVID-19.

Customer deposit balances have increased by £2.4m in the year to £37.0m (2020: £34.6m), reflecting the strong post-lockdown sales order growth seen across the business and higher closing order book.

The payment of capital and interest elements of leases has increased by £6.4m, principally as a result of the benefit from rent deferrals negotiated with landlords in the prior year beginning to unwind. This will continue through the next financial year.

Dividend

The Board recognises the importance of a dividend to investors and, despite suspending the dividend temporarily, is keen to reinstate a progressive policy, with the intention to:

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

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

In light of the improved trading, the Group paid an interim dividend of 3.0p in July 2021 (2020: £nil). The Board is confident in the outlook for the Group and proposes a final dividend of 7.0p (2020: £nil). If approved, this would give a full-year dividend of 10.0p (2020: £nil). The final dividend, if approved, will be paid on 10 December 2021 to shareholders on the register on 12 November 2021. The ex-dividend date is 11 November 2021.

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

Chris Muir
Chief Financial Officer
4 October 2021

Our risk management framework

We have a robust risk management framework designed to manage and report on risks that could affect the achievement of our business strategy.

Our approach to risk management

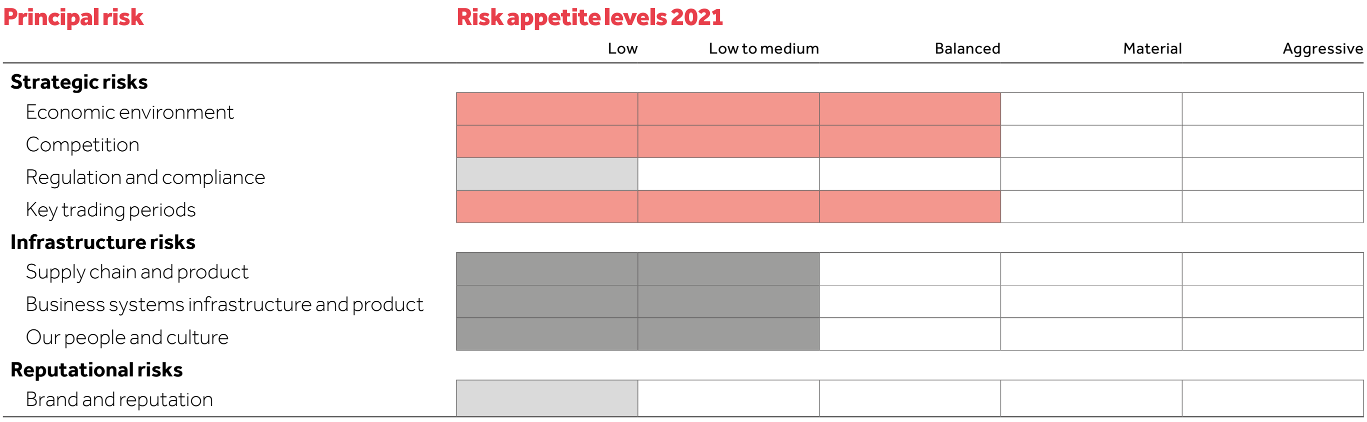
The Group has an established approach to risk management, which takes into account risks along with opportunities and manages them accordingly. We accept that the Group faces risks and uncertainties that could affect the achievement of its strategic objectives, and consequently, mitigating controls are in place to manage risk to an acceptable level. Management and the Board carry out regular reviews of existing and emerging risks along with the control systems and processes that govern them.

Risk management framework

The Board has ultimate responsibility for managing risk. The Audit Committee is provided with an oversight of risk management and completes a robust assessment of principal and emerging risks. The established governance framework underpinning our approach to risk management is set out in detail below and on the following page.

Risk appetite

Managing risk effectively within the framework and in line with our defined risk appetite remains a high priority for the Board. The culture of the organisation ensures that all activities, from day-to-day operations to high-level strategic decisions, are performed in line with the framework. Management's assessment of our principal risks is based on the potential impact, 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 commercial 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 and uncertainties section on the following pages.



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 relaxed.
Aggressive	Commercial consideration is the primary concern. No controls should be implemented that impact on commercial aspects in this area.

Identification of risks

The Board, the Operating 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. The Group's risk management practices have been enhanced through improved functional risk registers designed to identify and report on operational risks.

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 and disclosures, 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 also reviewed by the external auditors.

Risk management processes and framework

Risk management policy, standards and guidelines

Principal risks and uncertainties

Board, Audit Committee, Operating Board, and Audit, Risk and Compliance

Top-down Group and corporate level risk oversight:

Identification
Assessment
Mitigation
Oversight
Reporting

Includes the identification and oversight of emerging risks

Bottom-up Functional and operational level risk:

Identification
Assessment
Prioritisation
Management
Reporting

Includes the identification and management of emerging risks

Functional operational risk registers and reporting

Key roles and delegated responsibilities

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.

We recognise the importance of having a strong risk management culture

The Board has ultimate responsibility for the oversight of managing risk and ensuring that good governance policies are embedded across all levels of the business.

The Board has carried out a robust assessment of emerging and principal risks and uncertainties facing the Group. Set out below are those which are considered to present the most significant threat to the Group's future development or performance.

We have a number of processes and controls in place to mitigate these risks and they are periodically reviewed. 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 (which includes the Chief Executive Officer and Chief Financial Officer).

Two of the highest priority risks we have faced over the past two years are those presented by the COVID-19 pandemic and Brexit. The following updates highlight how we have responded positively and mitigated the risks effectively.

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 implemented new controls, risk assessments and procedures to ensure that we followed government advice and industry best practice. The mitigating controls implemented cover a wide range of responses, which are set out below:

- The senior management team and Operating Board discuss emerging issues in line with changes to government guidelines and communicate agreed actions to the wider teams;
- The cash flow and profit impacts of different levels/lengths of lockdown were modelled prior to the temporary closure of our stores throughout the year;
- The closure and reopening of our stores was completed efficiently and in line with government timelines and guidelines;
- Home working was implemented and, where possible, we will move to a hybrid way of working;
- Communication channels have improved and continue to be in place with all external stakeholders including close support for our customers and key suppliers, along with dialogue with relevant regulatory authorities;
- A colleague forum was created to allow two-way communication of the latest developments, make suggestions and to raise concerns, including shared views related to the reopening processes;
- Our communications team continued to produce detailed regular business bulletins that were 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 May 2020 interim dividend; dividends have since been re-introduced;
- Landlords were engaged to manage rent obligations and negotiate rent deferrals and rent-free periods;
- Operating processes were continually reviewed and updated to ensure that all best practice guidelines were 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 to ensure that cash was preserved to allow the business to continue to operate. Severe but plausible downsides were also considered;
- A three-year £20m facility under the Coronavirus Large Business Interruption Loan Scheme (CLBILS) was secured in August 2020;
- Risk assessments were performed for our key operational areas and detailed working practices and training was provided to ensure the safety of our teams;
- We provided additional resource in our showrooms to help our customers understand our safety procedures and we also introduced a VIP appointments system within our showrooms to give customers the option to book a convenient time with one of our team before arriving;

- All of our colleagues across the business were provided with personal protective equipment; and
- In January 2021, we launched MyScSLive, a web-based solution that enables our customers to video call with a colleague based in a number of our showrooms.

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.

Brexit

Prior to the UK's exit from the EU in December 2020, actions were taken to ensure appropriate measures were in place, including:

- Operating Board monitored and reviewed the evolving impact of the post-transition trading relationship between the UK and the EU;
- The Operating Board considered various scenarios depending on the outcome of trade negotiations and 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.

Following the UK's exit, we have not seen any significant delays or impacts due to this transition. We have seen a reduction in the availability of drivers within our distribution network. We have therefore implemented a plan to improve how we attract and retain drivers.

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 the environment in which our business operates. The 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. The 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'.

Economic environment

Risk category
Strategic

Change in risk level
Risk stayed level

Risk appetite
Balanced

Risk profile after mitigating controls
Medium

Link to strategic priorities
– Customer driven
– Strengthen the core
– Inspiring ranges
– Engaging Showrooms

Performance indicator
Sales performance

Responsibility
Operating Board

Reports to
Chief Executive Officer

Consumer confidence

A downturn in consumer confidence, driven by political or economic concerns, including increased uncertainty in job security, could have a direct impact on consumer spending within our market, which could result in a decline in the performance of the Group. There is a further ongoing risk that the economic uncertainty the UK is currently facing due to the impact of COVID-19, means consumer confidence could be subdued.

Mitigation

The Group is focused on maintaining resilience, ensuring it is protected throughout the economic cycle. The balance sheet is managed carefully to hold sensible levels of cash, and has no debt.

We continue to operate a lean business model with a high proportion of flexible costs allowing us to adapt the cost base quickly, whilst remaining competitive.

We have established a diverse product offering, appealing to our core customers. We offer value-for-money market-leading upholstered furniture and flooring, which is complemented further by a range of dining furniture.

Progress and plans

During 2021, cash in the balance sheet increased from £82.3m at the end of July 2020 to £87.7m at the end of July 2021.

We constantly review our structure, ensuring we maintain our efficient business model. Our flexible costs in 2021 totalled 73%, meaning changes to trading conditions can be more easily navigated.

Our focus on 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 priority.

We continue to review our showroom layout, and range planning is now embedded across the Group. Our focus on providing value to our core demographic and our significant investment in marketing continues, which ensures that our core customer knows who we are and what we offer.

A comprehensive review of improvements we can make to our customers journey has been completed to ensure customers can have even greater confidence when shopping with the Group.

Interest rates, currency rates and consumer credit

The Group's access to, and cost of consumer credit, which provides interest free payments to customers, may be impacted by high default levels or interest rate increases. There are further risks that increased interest rates could reduce customers' disposable income levels. The risk of interest rates and currency exchange rates fluctuating could lead to cost pressure on our suppliers which in turn could be passed on to the Group.

Mitigation

The Group manages the cost of and access to consumer finance by having strong relationships with three finance houses. Further relationships are maintained with other finance houses enabling the Group to receive the right service at the right cost.

Our interest-free offering continues to facilitate a low cost option for our customers to purchase furniture for their home, with a range of prices suitable for all budgets.

We purchase our products on a sterling basis minimising direct exposure to exchange rate movements. We work with our suppliers to manage any impact on the cost base of products and make selling price adjustments as necessary.

Progress and plans

Over the year, underlying rates have remained low and interest-free credit charges have remained stable. Customer default levels have remained at previous levels.

The volume of interest-free credit being taken by customers has reduced, resulting in a lower cost to the Group. We will continue to monitor rates and work with our finance providers to manage any changes. During the year, we have worked closely with our existing finance providers to ensure that we adhere to relevant legislation and guidance.

We have continued to work with our suppliers to manage any impact on their cost base due to interest or exchange rate movements.

Competition

Risk category
Strategic

Change in risk level
Risk stayed level

Risk appetite
Balanced

Risk profile after mitigating controls
Medium

Link to strategic priorities
– Strengthen the core
– Digitally optimised
– Inspiring ranges

Performance indicator
Sales performance

Responsibility
Operating Board

Reports to
Chief Executive Officer

Competitive marketplace and changes to the marketplace

The Group operates in a highly competitive marketplace, increasing pressure on sales and margins. In particular new entrants to the online market present a threat to the ability to remain competitive and potentially reduce the Group's market share. Failing to respond to key changes in the competitive environment is a risk to the Group's strategic plans for growth and profitability.

Mitigation

The Group ensures it continues to respond to the changing needs of our customers, through providing a diverse product range, whilst remaining focused on our core market.

We offer ranges that are exclusive to our Group.

All of our colleagues have continued to focus on the customer journey. We actively monitor and respond to feedback received from our customers on various platforms, such as Trustpilot and Google My Business reviews.

We review product performance across our ranges and in our competitors to identify emerging trends.

We continue to invest in our website to improve user experience, allowing customers to purchase online or to research products before visiting a showroom. We also operate a telesales service and a video appointment, offering customers a full omnichannel service.

Our marketing strategies are constantly under review, ensuring we reach our target audience effectively.

Progress and plans

We have continued to assess the depth and breadth of our range and plan to respond to customers' demands by introducing extended ranges that complement our existing products.

We continue to focus on our commitment to having the best customer service in our market and during the year have started a comprehensive review of our customer service functions. We have maintained the Group's 'Excellent' Trustpilot TrustScore.

Our market share in upholstered furniture continues to increase from 9.8% in 2020 to 10.2% in 2021.

Our review of marketing strategies has been under continuous review throughout 2021, ensuring our investment into relevant advertising channels maximises our opportunity to reach our customers.

At the end of July 2020, we launched our new website, making it even easier for our customers to browse our products on their phones and tablets, and have been making further improvements throughout the year.

Continued progress has been made throughout the year with digital marketing and our Search Engine Optimisation (SEO) ranking, seeing more website traffic and online sales increasing by 146%.

During the year we introduced 'zero touch' finance, allowing customers to apply for finance as part of an integrated step in their online buying journey, receiving an immediate decision from the lender and completing their purchase independently from the comfort of their own home.

In January 2021, we launched MyScSLive, a web-based solution that enables our customers to video call with a colleague based in our showrooms, at a time convenient to them.

During 2021, we also established our flooring surveyor teams online, which allow our surveyors to carry out virtual appointments to guide and advise our customers through the measurement of their own homes.

Financial year 2022 will see continued investment in our digital platform, strengthening our digital leadership and growing our team. The use of enhanced data analytics during the year has increased the insight and speed of reviewing product performance.

Regulation and compliance

Risk category
Strategic

Change in risk level
Risk stayed level

Risk appetite
Low

Risk profile after mitigating controls
Medium

Link to strategic priorities
– Strengthen the core
– Outstanding team
– Customer driven

Performance indicator
Prosecution and regulatory action

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 and safety;
- Environmental;
- Data protection (GDPR);
- Bribery Act;
- Financial Conduct Authority (FCA);
- Modern Slavery; and
- Task Force on Climate-related Financial Disclosures (TCFD)

Non-compliance with any of the above regulations could result in a financial cost and reputational damage.

Mitigation

We provide team members with relevant training for regulated activities dependant on their role. Training compliance is monitored and reported monthly to the Operating Board.

Our compliance with all obligations is monitored and reviewed and we update and re-issue internal policies and procedures as required.

The audit, risk and compliance team investigate any complaints and report regularly to the Operating Board and the Audit Committee.

We have a number of internal guidelines in place including a Code of Conduct, which is published on our intranet. We have an anti-bribery and corruption policy and training in place for all employees dealing with third-party suppliers. We have controls in place to review gifts and hospitality registers along with updates to the policy.

An external confidential whistle-blower hotline has been in place for a number of years. Our policy is intended to ensure employees or third parties are aware that they should report any serious concerns or suspicions about any wrongdoing or malpractice on the part of any employee.

A due diligence product testing schedule is in place to regularly review and confirm that our products continue to comply with all relevant regulations.

We are a member of the Furniture Industry Research Associated (FIRA) compliance scheme and we have successfully achieved continued accreditation.

Our health and safety team visit all our retail operations and distribution centres and carry out inspections, ensuring the expected standards are being met.

Progress and plans

Monitoring and reporting processes are in place to confirm completion of our 'Staple Six' training programmes, which focuses on all regulated areas and, in particular, the requirements of the FCA.

The online training course, to help our retail colleagues introduce finance to customers, is required to be completed annually. This course accommodates increased levels of monitoring, compliance, reporting and support to colleagues.

GDPR continues to be an area of focus and we have enhanced our processes and systems to respond quickly to any subject access requests.

Risk assessments have been under continual review and are updated following guidance issued by the UK government in relation to the COVID-19 pandemic.

During the year we provided formal Health and Safety training to IOSH level for our regional audit team and distribution centre managers. This provides an additional level of assurance to our assurance framework.

We have commenced a comprehensive review of our obligations under TCFD reporting requirements and details of progress in this area are shown on pages 30 to 33.

The Government are proposing a policy to increase scrutiny over a number of areas of governance and internal controls. The Group has started to consider the proposals and will monitor updates and implement any changes if required under any future guidance or regulation.

Warranty regulation

The regulatory changes for reporting of product warranties came in to effect in July 2021. Further legislation changes may have a retrospective impact, effecting future profit levels.

Mitigation

Monitoring and responding to the updates provided by the FCA ensures that any relevant requirements are understood and appropriate action is planned and implemented.

Progress and plans

We have now implemented changes to our care package product. These change the pricing structure of our product and add value, thereby allowing us to restructure our pricing to bring the warranty element into line with the FCA guidelines.

Key trading periods

Risk category
Strategic

Change in risk level
Risk reduced

Risk appetite
Balanced

Risk profile after mitigating controls
Medium

Link to strategic priorities
- Strengthen the core
- Digitally optimised
- Inspiring ranges

Performance indicator
Sales performance

Responsibility
Commercial Director

Reports to
Chief Executive Officer

Key trading periods

Furniture retailing has historically relied on certain key trading days and periods, including bank holidays. Extreme weather conditions or showroom closures due to periods of lockdown over these key trading periods may reduce footfall in our showrooms, resulting in reduced sales and potentially adverse effects on profitability.

Mitigation

Our flexible approach to marketing has enabled us to react quickly to changes in the marketplace, including extreme weather events or periods of lockdown.

Our website, telesales service and video appointments offer customers an opportunity to purchase goods, without having to visit a showroom.

Progress and plans

We adapted our planned marketing activity in line with external factors, including periods of lockdown, to reduce the impact on our historical key trading periods, and continually review our marketing strategies to ensure we reach our customers.

Our website has enabled us to continue to trade successfully throughout adverse periods of weather or closures due to the pandemic. We also introduced 'zero touch' finance allowing our customers to complete their purchase and finance application all online.

The launch of MyScSLive early in 2021 enabled our customers to video call from the comfort of their home with a colleague based in a showroom and discuss their purchase and seamlessly complete the order.

Allowing customers to apply for finance as part of an integrated step in their online buying journey and complete their purchase independently has further improved our customers options to select and place an order with us.

Supply chain and product

Risk category
Infrastructure

Change in risk level
Risk increased

Risk appetite
Low to medium

Risk profile after mitigating controls
Medium

Link to strategic priorities
– Strengthen the core
– Inspiring ranges
– Digitally optimised

Performance indicator
Sales performance
Customer feedback
Delivery optimisation

Responsibility
Logistics Director
Commercial Director
Chief Financial Officer

Reports to
Chief Executive Officer

Supplier resilience and capacity

We rely on a small number of key suppliers, predominantly based in the UK, to provide our product for resale. If one of these suppliers was unable to meet demand or ceases to trade, this would disrupt supply to customers. The supply chain could be affected by the ongoing impact of COVID-19-related issues with our suppliers, such as staff shortages or COVID-19 issues disrupting production, quality and logistics.

Mitigation

We have a system in place that monitors 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. We have worked closely with our suppliers throughout the year and we have ensured that customers are informed of any changes to anticipated delivery time lines.

Progress and plans

During the year, we have continued to closely monitor production capacity and the financial stability of our suppliers. We continued to work closely with our suppliers to ensure they are paid regularly and on time. We are continually reviewing our supply chain and are looking to expand our suppler base where appropriate.

Ethical practices

Our supply chain includes products supplied from the Far East, which increases the risk of non-compliance to our expected ethical practices.

Mitigation

We work with our suppliers to encourage membership of Sedex and we expect all our suppliers to comply with the relevant legislation and best practices.

Progress and plans

We have continued to develop our use of the Sedex platform 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 appointed a new role to work with our suppliers and merchandise team to promote sustainability within our supply chain.

Product quality and safety

Our reputation relies on the supply of good quality and safe products, any failure to ensure the highest standard could result in loss of customer confidence and reduction in demand.

Mitigation

Our suppliers provide us with assurances over quality and standards, which is complemented by a programme of regular independent testing on our products, providing further assurance on compliance to current regulations. Our commercial and customer service teams have access to detailed product performance data and hold regular meetings with suppliers to monitor quality and agree any action for continuous improvement.

Progress and plans

In 2021, we were re-audited against the FIRA Compliance Scheme, and we have maintained our certified accreditation. We are proud that ScS was the first UK company to achieve this and we continue to support and promote this accreditation with our suppliers. We have introduced quality checks at the point of receipt into our distribution centres, ensuring any minor quality issues are resolved prior to being delivered to the customer.

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.

Mitigation

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.

Progress and plans

The Group has continued to have regular 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.

Cost of raw materials and production

An increase in the costs of raw materials, production of goods or of transport costs may result in a reduction in margin or an increase in our retail pricing. Risk of availability of raw materials or of shipping space may lead to a cost increase.

Mitigation

We work closely with our suppliers to review and understand any increase in costs of materials, production or shipping.

Progress and plans

Throughout 2021, 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. This will continue into the new financial year.

Business systems and infrastructure

Risk category
Infrastructure

Change in risk level
Risk stayed level

Risk appetite
Low to medium

Risk profile after mitigating controls
Medium

Link to strategic priorities
- Customer driven
- Digitally optimised
- Strengthen the core

Performance indicator
Number of major incidents
System performance

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. Sustained outages or disruption could result in a decrease in sales performance and could adversely affect our delivery service.

Mitigation

A 24-hour system is in place for monitoring performance of our business-critical systems. There is also a 24-hour third-party support contract in place for all critical systems.

A business continuity plan is in place. A disaster recovery plan is also in place, with all operating systems being replicated at a different site to the primary instance. Arrangements are reviewed annually and updates made accordingly.

Progress and plans

During the past year, we implemented a working from home strategy that allowed our processes and services to continue without any disruption. We are now working on a permanent hybrid solution, which will allow more flexible working and the opportunity for staff to work from a location that suits them and the business.

We have engaged with a third-party specialist to review our technology estate and enable a 'technology roadmap' to be created. This will allow the Group to plan for ongoing investment in the right technology for future growth.

We have updated our business continuity planning to reflect our new ways of working.

Cyber and information security

There is a risk that our data and systems are exposed to external threats, such as cyber-attacks, which could result in data breaches or disruptions to our business. There is a risk of malicious or accidental disclosure, loss, amendment or corruption of data, which could have a significant adverse reputational impact.

Mitigation

We use third-party experts to monitor our network and systems against cyber-attacks, including penetration testing, to understand what weaknesses the latest cyber security tools can identify.

We have policies, processes and systems in place to ensure access to networks and systems is appropriately controlled and access to sensitive data is restricted.

Network, applications and data are protected and all relevant software and hardware updates are installed on a regular basis.

Progress and plans

During the past year, we have continued to invest in IT, in particular where this related to cyber security improvements. We continue to consult with third-party security consultants to ensure ongoing best practice.

Our people and culture

Risk category	Risk appetite	Link to strategic priorities	Responsibility
Infrastructure	Low to medium	– Outstanding team – Customer driven – Strengthen the core	People Director
Change in risk level	**Risk profile after mitigating controls**	**Performance indicator**	**Reports to**
Risk increased	Medium	Colleague retention Team engagement surveys	Chief Executive Officer

Team retention

The Group relies upon the quality, experience and commitment from all of our colleagues across the business to enable the delivery of a high standard of customer service. Failure to recruit, develop and retain colleagues will increase the risk of loss of knowledge and increase the cost of recruitment and retraining, impacting on the customer experience. The demand for certain roles, such as drivers, could result in increased costs in order to recruit and retain.

Mitigation

Our terms and conditions of employment, including salary packages, are subject to regular review, to ensure they remain competitive and fair within the sector.

We have succession plans in place, covering strategic and contingency measures in the event that key individuals are not available.

The Group offers attractive incentives and benefit packages to reward our teams and to retain staff. Our incentives focus on rewarding performance as well as recognising the need to retain the experience of our senior managers.

We perform periodic reviews of retention rates and further insight is gained through an exit interview process.

We carry out an annual employee survey to ensure our colleagues are engaged and have a clear understanding of the Group's strategy and their role in it.

The Group is accredited with Investors in People status and forms part of a wider strategy for 'Building and inspiring an outstanding team'.

Progress and plans

Staff turnover has increased 4.6% during the financial year; however, when compared to financial year 2019, pre-COVID-19, the turnover rate has reduced by 4.1%.

During the year, we have recruited a new CEO, People Director and Logistics Director.

Our 'Inspiring Great Performance' programme is established for our retail branch and senior management teams. This programme will be extended to distribution teams and support functions during the next financial year.

We have continued to develop and improve our training programmes and introduced the 'Moving On Up' programme in August 2021, to further encourage career progression within the Group.

Our recruitment process has been enhanced through strengthening the team, and with improvements to the application process, we have made it easier for potential candidates to apply for advertised roles.

Following on from our employee survey, we identified our colleagues key feedback areas and are currently developing appropriate action plans to further improve employee satisfaction.

Brand and reputation

Risk category
Reputation

Change in risk level
Risk stayed level

Risk appetite
Low

Risk profile after mitigating controls
Low

Link to strategic priorities
- Outstanding team
- Customer driven
- Strengthen the core

Performance indicator
Sales performance
Customer feedback

Responsibility
Operating Board

Reports to
Chief Executive Officer

Brand and reputation

The Group recognises that failure to effectively protect its strong brand could result in a loss of confidence by customers, colleagues and other key stakeholders.

Mitigation

Using feedback from Trustpilot, social media and any other customer contact, we identify where we have opportunities for improvements and action is taken accordingly.

Product quality and the integrity of our product sourcing is regularly monitored and reviewed with our suppliers. As well as assurance being provided by our suppliers in relation to quality and standards, we also complete regular independent testing on our products, providing further assurance on compliance to current regulations.

Regular meetings are held between our commercial and customer service teams to monitor quality and agree any action for continuous improvement.

We review colleague engagement through staff surveys, and we continue to engage with staff through forums to gather feedback.

All our teams that interact or monitor compliance have policies and processes in place to monitor and adhere to relevant standards, ensuring our reputation for a high quality product and service is maintained.

We continue to promote our established Code of Conduct, equality and diversity policies, and all staff and suppliers have access to a confidential whistle-blowing helpline.

Progress and plans

During 2021, customer experience has been elevated as a key focus throughout the Group, with an extensive external review completed to help identify areas to improve our processes across all departments to improve the customer journey.

We have further promoted our values throughout the business, ensuring our focus is maintained on making ScS a great place to work and shop.

Our 'Excellent' Trustpilot score continues to recognise our ability to provide an excellent customer experience, with our TrustScore remaining high at 4.7 out of 5.

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.

As part of the new care package introduced in 2021, we have technicians on site at each distribution centre to inspect products received and enable any issues to be resolved immediately on site or be reported directly to the supplier.

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

73%

Undrawn CLBILS committed revolving credit facility

£20.0m

Cash balance as at 31 July 2021

£87.7m

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 refreshed strategy, our 'Growth Plan' 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. 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).

Capital allocation

We aim to allocate capital, subject to strict returns criteria, to meet the strategic needs of the business. Our target is gross capital expenditure of under 3.0% of total sales per annum, on average. During the year we invested significantly in our distribution centres and store network. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and retain financial flexibility, invest in the business where economic returns are attractive and provide attractive returns to shareholders. Considering these objectives, the Board reinstated a dividend this year and is pleased to propose a final dividend of 7.0p which if approved would give a full year dividend of 10.0p.

As explained in the Strategic Report, the Group's business model provides customers with 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 refreshed strategy (see pages 26 and 27) 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 50 to 59. This included the modelling of:

- A further 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. Approximately 73% 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. This facility has never been drawn and the modelling indicated it would not be required. 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 27 July 2024. 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.

Steve Carson
Chief Executive Officer
4 October 2021

"...our business model will continue to bring long-term sustainable success to the Group."

Board of Directors

1 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, and Group and Managing Director of B&Q.

Key strengths

Retail, finance, strategy, marketing

External appointments

The Navy, Army and Air Force Institutes
The Royal Air Force Charitable Trust Enterprises
Scampton Airshow Limited

2 Steve Carson
Chief Executive Officer

Date of appointment

6 January 2021

Biography

Steve brings deep knowledge and experience in retail and leadership after an extensive career in the sector, most recently as Group Managing Director of Holland & Barrett. Prior to this, Steve held a number of roles at Home Retail Group plc (HRG), which owned a number of well-known brands such as Argos, Homebase and Habitat. Steve latterly served as Director of Retail and Customer Operations and a Board member from 2014-2018, during which time HRG was acquired by Sainsbury's plc, where Steve had also begun his career.

Key strengths

Retail, strategy, digital, marketing

External appointments

Marie Curie
CJC HR Consultancy Ltd

3 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

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

4 Ron McMillan

Non-Executive Director

22 October 2014

(A) (R) (N)

Ron is the Chairman of N Brown Group plc and a Non-Executive Director and Audit Committee Chair of ScS Group plc, HomeServe plc and B&M European Value Retail S.A. 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

5 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 Bradford and Sons Limited, 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 (resigned 23 January 2021)
Nobia AB
Stiga S.A.
Bradford and Sons Limited

6 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

Introduction from the Chair

As a Board we continue to recognise the vital role of good corporate governance in building stakeholder relations and in promoting the long-term success of the Group. Our compliance with the 2018 UK Corporate Governance Code ('the Code') is set out on pages 66 to 67.

Although we are a relatively small Board, we have a wide range of skills and expertise to provide strategic guidance and effectively lead the Group. The Board critically assessed itself this year and I am satisfied that the Board and its Committees have a good balance of knowledge and experience and that no concerns with performance were identified. Further detail on the review is provided on page 73.

During the year the Board has continued to work together to navigate the Group through the ongoing COVID-19 pandemic and ensure that our stakeholders remain our top priority. Maintaining active engagement with our various stakeholders is of utmost importance to the Board to ensure that we understand their interests and take them into account when making decisions on behalf of the Group. Our Section 172 statement on pages 42 to 43 details the Board's engagement with stakeholders throughout the year.

In January 2021, we welcomed our new CEO, Steve Carson, who brings with him a wealth of retail experience and shares the Board's commitment in leading by example to create an open and honest culture. As a Board, we strive to build an outstanding team to ensure we can deliver our plans and continue to develop a Group we can be proud of.

A key theme throughout this year's Annual Report is our purpose – 'Helping create the home you love'. During the last year the Board have been focused on evolving our purpose and strategy. In turn this has helped to further focus the operations of the Group and aid decision making.

We will be holding our Annual General Meeting on 26 November 2021 and I will be available to answer any questions you may have on this report.

Alan Smith
Chair
4 October 2021

Compliance with the UK Corporate Governance Code

The Board is committed to high standards of corporate governance and is responsible for ensuring the Group's compliance 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 Board believes that throughout FY21, the Group has complied with all the Code's provisions.

The following pages provide a high-level overview of how the Board applies the Principles of the Code.

Board leadership and company purpose

Principle A A successful company is led by an effective and entrepreneurial Board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.	Strategic report pages 1 to 60 Board leadership and company purpose pages 68 to 69
Principle B The Board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.	Strategic report pages 1 to 60 Board leadership and company purpose pages 68 to 69 Division of responsibilities pages 70 to 71
Principle C The Board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The Board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.	Section 172 statement pages 42 to 43 Principal risks and uncertainties pages 50 to 59 Audit Committee report pages 75 to 80
Principle D In order for the company to meet its responsibilities to shareholders and stakeholders, the Board should ensure effective engagement with, and encourage participation from, these parties.	Responsible business 30 to 41 Section 172 statement pages 42 to 43
Principle E The Board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.	Section 172 statement pages 42 to 43 Board leadership and company purpose pages 68 to 69

Division of responsibilities

Principle F The Chair leads the Board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the Chair facilitates constructive Board relations and the effective contribution of all non-executive directors, and ensures that direct or receive accurate, timely and clear information.	Board leadership and company purpose pages 68 to 69 Division of responsibilities pages 70 to 71
Principle G The Board should include an appropriate combination of executive and non-executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the Board's decision-making. There should be a clear division of responsibilities between the leadership of the Board and the executive leadership of the company's business.	Board of Directors pages 62 to 63 Division of responsibilities pages 70 to 71
Principle H Non-executive directors should have sufficient time to meet their Board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.	Board leadership and company purpose pages 68 to 69 Division of responsibilities pages 70 to 71 Audit Committee report pages 75 to 80
Principle I The Board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.	Board leadership and company purpose pages 68 to 69 Division of responsibilities pages 70 to 71

Composition, succession and evaluation

Principle J Appointments to the Board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for Board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.	Nomination Committee report pages 73 to 74 Composition, succession and evaluation pages 72 to 74
Principle K The Board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the Board as a whole and membership regularly refreshed.	Board of Directors pages 62 to 63
Principle L Annual evaluation of the Board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.	Nomination Committee report pages 73 to 74 Composition, succession and evaluation pages 72 to 74

Audit, risk and internal control

Principle M The Board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.	Audit Committee report pages 75 to 80
Principle N The Board should present a fair, balanced and understandable assessment of the company's position and prospects.	Strategic report pages 1 to 60 Audit Committee report pages 75 to 80 Financial statements pages 100 to 133
Principle O The Board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.	Viability statement page 60 Principal risks and uncertainties pages 50 to 59 Audit Committee report pages 75 to 80

Remuneration

Principle P Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values, and be clearly linked to the successful delivery of the company's long-term strategy.	Strategic report pages 1 to 60 Board leadership and company purpose pages 68 to 69 Directors' Remuneration report pages 81 to 95
Principle Q A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No director should be involved in deciding their own remuneration outcome.	Directors' Remuneration report pages 91 to 95
Principle R Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.	Directors' Remuneration report pages 91 to 95

Board leadership and company purpose

Role of the Board

The Group is led and controlled by the Board which is collectively responsible for the long-term sustainable success of the Group, generating value for shareholders and contributing to wider society. The Board establishes the Group's purpose, values and strategy and satisfies itself that these are aligned with its culture. All Directors have access to the Group Secretary, whose appointment and removal is one of the matters reserved for the Board.

Board activity in the year

The following summarises some of the Board's key activities over the past year:

Performance, strategy and finance

- Received regular updates from the executives on trading performance;
- Reviewed the Group's performance against its strategic priorities and KPIs;
- Monitored and assessed the impact of the COVID-19 pandemic on the business;
- Provided oversight and ultimate approval of a number of key assessments: the Group's purpose, mission and strategy;
- Review of the customer journey and digital roadmap;
- Approved the FY20 Annual Report and the FY21 Interim Results;
- Approved the dividend policy and declaration;
- Reviewed and confirmed the Group's Viability statement and going concern status;
- Reviewed and approved the Group's FY22 budget; and
- Assessed capital allocations and capital expenditure in respect of the Group's growth strategy.

Leadership, stakeholders and culture

- Appointed a new CEO;
- Reviewed the succession plan for Directors and senior management team;
- Recruited a specific People Director within the Operating Board;
- Reviewed recruitment and how diversity could be improved;
- Continued prioritisation of colleague health and wellbeing during the COVID-19 pandemic;
- Recruited a supply chain sustainability manager to review and enhance our product sourcing;
- Received and reviewed updates on ESG activity;
- Reviewed the annual employee survey results;
- Reviewed wider workforce remuneration and related policies and the alignment of incentives and rewards with culture;
- Received updates on ESG activity; and
- Held discussion groups with colleagues across the business.

Risk management and internal control

- Reviewed the Group's risk registers and monitored the key risks and appropriate mitigating actions;
- Carried out a robust assessment of the principal and emerging risks facing the Group;
- Reviewed the effectiveness of the risk management and internal controls during the year;
- Discussed environmental initiatives; and
- Received updates on ESG activity.

Governance and legal

- Received and reviewed updates on corporate governance developments;
- Reviewed the matters reserved for the Board and the terms of reference of its Committees;
- Conducted an evaluation of the Board's effectiveness and reviewed the outcome;
- Reviewed reports on the Group's key stakeholders and reviewed engagement mechanisms; and
- Appointed the Group's professional advisors.

Committees

The Board has delegated certain responsibilities to Committees to assist in discharging its duties and the implementation of matters approved by the Board. Further detail on the work of the Committees is provided later in the Annual Report.

Detailed implementation of matters approved by the Board and Committees, 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.

Board administration

There is a rolling programme of Board meetings throughout the year and there are six Board meetings presently scheduled for 2022. In 2021, 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 meetings which are held as circumstances require, the Board packs reflect the agenda of the meeting, although 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.

"The Board recognises the importance of ensuring a healthy and supportive culture within the Group."

Values, culture and purpose

The Board considers and monitors how the Group's values of being a responsive, inclusive, getting it right, hard working and trusted retailer of sofas and carpets are reflected in the way in which the Group operates. The Group's purpose is 'Helping create the home you love'. 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. 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.

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.

Whistle-blowing

All employees are able to access a confidential helpline operated by Safecall should they want to report any wrongdoing anonymously. All reports are formally investigated by the Head of Audit, Risk & Compliance with support from relevant functions. Incidents and their outcomes are reported to the Audit Committee and the Board. A number of calls were made to the external hotline during the year and management action was taken where appropriate. No issues were raised that required any direct action from the Board.

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. See the Nomination Committee report on pages 73 to 74 for further details.

Stakeholder engagement

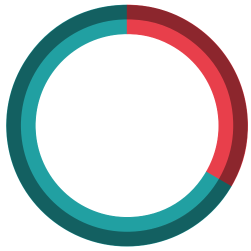
The Board appreciates the importance of engaging with the Group's stakeholders and having regard to their interests in its decision-making process. The welfare and interests of our colleagues and customers during the COVID-19 pandemic have been of paramount importance. At each scheduled meeting, the 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 showrooms and distribution centres to assess operations and engage with colleagues and report on their visits at Board meetings. This year, in particular, there have been a large number of showroom and distribution centre visits as part of the induction of the new CEO, and following the reopening of showrooms under COVID-19 restrictions. Details of the stakeholder interests, which the Board has considered are set out in the Section 172 statement on pages 42 to 43, the Responsible business pages on 30 to 41, and the Risk and risk management section on pages 48 to 49.

Executive/Non-Executive

Chairman (1)
Chief Executive (1)
Chief Financial Officer (1)
Non-Executives (3)

Board tenure



1-5 years (2)
5-15 years (4)
15 years+ (0)

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 and retail investors and analysts in order to provide the best quality information to the market. During the year George Adams, Chair of the Remuneration Committee, met with our largest 20 shareholders to canvas their views on a range of topics, further detail can be found on page 82.

In addition, the Group will communicate with its shareholders through the Annual General Meeting, at which the Chair 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 Chair 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.

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 Company Law. This process also includes consideration of the extent to which the Board may require external and any other reports and evaluations to be presented to it on any proposed transactions.

Division of responsibilities

Group Board

The Board is responsible for the overall leadership of the Group and setting its objectives and standards. All Directors act with integrity and understand the importance of leading by example to promote the desired culture throughout the organisation. It is the Board's responsibility to ensure that the Group has the necessary resources to meet its objectives and measure performance against them. The Board also establishes effective internal control procedures which enable risk to be assessed and managed. The formal list of matters reserved for the Board can be found at scsplc.co.uk.

Committees

The Board has delegated authority to a number of Committees to assist with and supervise specific matters. The key responsibilities of each Committee is outlined on the following page. The terms of reference of each of the Board's Committees are available on our website scsplc.co.uk.

Key roles

The positions of Chair and CEO are occupied by different individuals. There is a clear division of roles and responsibilities between the Chair and the CEO and no individual has unrestricted powers of decision making. Effective communication between Directors is vital for the long-term success of the Group with all Directors bringing their own views to the table and each providing constructive challenge to ensure decision making is informed.

Chair	Chief Executive Officer	Senior Independent Director
Responsible for leading the Board, setting its agenda and overseeing its effectiveness in directing the Group	Responsible for the day-to day management of the Group	Leads the assessment of the Chair's performance
Responsible for directing and focusing the Group, ensuring there is a clear strategy and business model	Reviews and devises the Group strategy for discussion and approval by the Board	Acts as a sounding Board for the Chair and a trusted intermediary for other Directors
Ensures Directors receive accurate, timely and clear information	Responsible for implementing Board decisions	Leads the succession process for the role of Chair
Facilitates the effective contribution of the Non-Executive Directors, promoting a culture of openness and creating a forum for constructive challenge	Leads by example and creates a culture centred around the Group's values	Available to shareholders to resolve significant issues should they arise
Responsible for fostering good relationships between Executive and Non-Executive Directors	Responsible for ensuring effective communication with shareholders and other key stakeholders	

Governance framework

Shareholders
↓
Chair
↓
The Board
↓
Board Committees

Nomination Committee
- Reviews the structure, size and composition of the Board, including the balance of Executive and Non-Executive Directors;
- Considers succession planning for Directors and senior management positions;
- Oversees the development of a diverse pipeline for succession, having regard to diversity of gender, social and ethnic backgrounds, cognitive and personal strengths; and
- Identifies and nominates candidates for the approval of the Board, to fill Board vacancies when they arise.

See Committee report on pages 73 to 74

Audit Committee
- Monitors the quality and effectiveness of the external and internal auditors;
- Reviews and monitors the integrity of the financial statements and any formal announcements relating to financial performance;
- Assists 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; and
- Monitors the adequacy and effectiveness of the Group's internal financial controls and internal control and risk management systems.

See Committee report on pages 75 to 80

Remuneration Committee
- Determines the policy for the Group on executive remuneration and sets remuneration for the Chair, the Executive Directors and senior management;
- Reviews 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;
- Reviews the design of all share incentive plans for approval by the Board and/or shareholders; and
- Determines and monitors any share ownership requirements for the Executive Directors and senior management including post-employment requirements.

See Committee report on pages 81 to 90

Time commitment
As part of the recruitment process the expected time commitment is discussed with both Non-Executive Directors and Executive Directors. The time commitments of the new CEO were evaluated and the Board was satisfied that he has sufficient time for his role. Subsequent external appointments for all Directors would not be undertaken without prior approval of the Board.

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

Directors' attendance
The Board held ten meetings during the 2021 financial year and attendance at the meetings was as follows:

	PLC	Audit Committee	Remuneration Committee	Nomination Committee
Total no. of meetings	**10**	**3**	**5**	**8**
David Knight	10	–	–	–
Steve Carson*	6	–	–	–
Chris Muir	10	–	–	–
Alan Smith	10	–	5	7
Ron McMillan	10	3	5	7
George Adams	10	3	5	7
Angela Luger	10	3	5	8

* Appointed as a Director on 6 January 2021.

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

Composition, succession and evaluation

Composition of the Board

The Board currently comprises of the Non-Executive Chair, two Executive Directors and three independent Non-Executive Directors. During the period of induction of the Group's new CEO, the Board temporarily included both the outgoing CEO and his successor.

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.

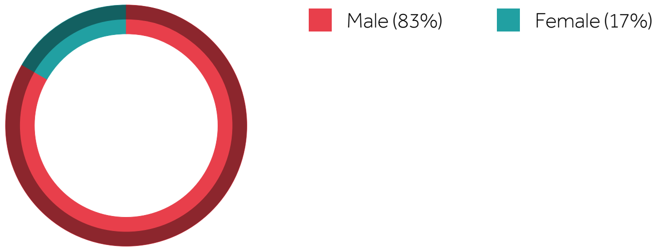
All Directors have service agreements or letters of appointment in place and the details of the terms of these are set out in the Directors' Remuneration report on pages 94 to 95.

The Chair 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.

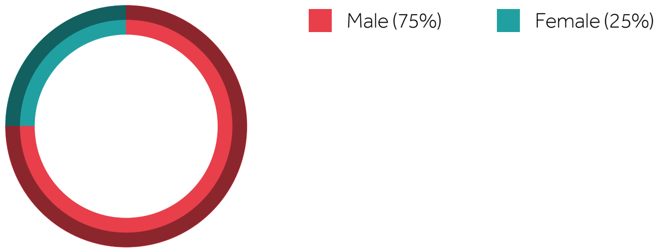
Board development

The Chair 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 Chair discusses training requirements with each Director.

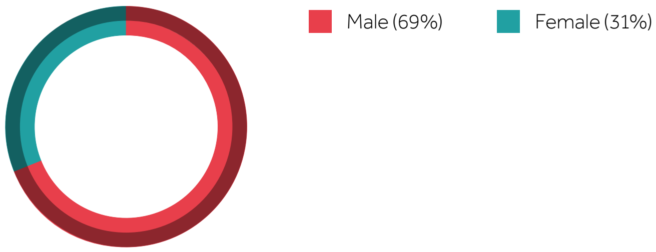
Board gender diversity



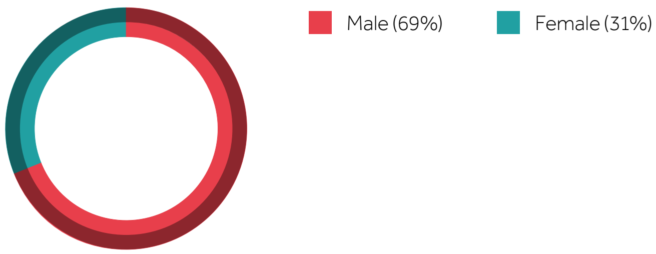
Operating Board gender diversity



Operating Board and senior management team gender diversity



All employees gender diversity



Nomination Committee report

Dear Shareholder,

I am pleased to present the 2021 report of the Nomination Committee.

The primary purpose of the Committee is to lead the process for Board appointments, ensure plans are in place for orderly succession for both the Board and senior management and oversee the development of a diverse pipeline for succession.

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, 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, having regard to diversity of gender, social and ethnic backgrounds, cognitive and personal strengths;
- Identifying and nominating candidates for the approval of the Board, to fill Board vacancies when they arise; and
- Formally and rigorously reviewing and evaluating the performance of the Board, each Board Committee, the Chair of the Board and each individual Director.

Member and meetings attended in 2021	Member since	Meetings attended
Alan Smith (Chair)	2014	7
Ron McMillan	2014	7
George Adams	2015	7
Angela Luger	2019	8

The Executive Directors also attend Committee meetings by invitation. The Committee is supported by the Company Secretary.

There are two scheduled Committee meetings annually, with additional meetings or calls held on an as required basis. During the year, there were an additional six Committee meetings and a number of informal calls and discussions, largely reflective of the recruitment process for the new Chief Executive Officer. Only two of the meetings were able to be held in person.

As part of the Board's performance evaluation conducted during the year, the Committee also reviewed its own performance. The review concluded that the Committee continues to operate effectively.

Committee activities in 2021

Chief Executive Officer appointment

As announced in January 2021, David Knight notified the Board of his intention to retire as Group CEO and agreed not to retire before the end of July 2021. Shortly after this, Sam Allen Associates Limited were appointed to assist with identifying suitable candidates for the role. The Board supports the provisions of the Voluntary Code of Conduct for Executive Search Firms and only engages executive search firms who are signatories to this code. Sam Allen Associates Limited has no other connection with the Group or individual Directors.

A comprehensive role specification was agreed which was aligned to the desired Board composition with reference to diversity and the Board skills matrix. A longlist of potential candidates was then produced and three candidates were shortlisted and interviewed by the Board members.

Taking into account feedback from the Board members, the role specification and the key skills, knowledge and experience of the shortlisted candidates, the Committee recommended the appointment of Steve Carson as the new Chief Executive Officer. This recommendation was approved by the Board, noting Steve's deep knowledge and experience in retail and leadership after an extensive career across a number of national household brands, and his key expertise in managing and optimising all areas of a showroom network, leading national teams and driving digital innovation.

Board effectiveness evaluation

In 2019, the Board took part in an externally facilitated evaluation by Fiseq Limited. 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. An external evaluation will be undertaken during 2022.

The 2021 evaluation of the performance of the Board, its Committees, the Chair and the individual Directors was facilitated by the Group's Internal Audit team. The evaluation included a review of the time commitment required by each of the Company's Non-Executive Directors and the size, structure and composition of the Board and its Committees.

The evaluation process took place in the third quarter of the year. Each of the Directors and the Company Secretary completed a questionnaire, on an anonymised basis, which was prepared to elicit their views on all aspects of the effectiveness of the Board and its Committees, including its composition, diversity and how effectively members work together to achieve objectives.

The key areas of focus were:

- Purpose and strategy;
- Setting and monitoring objectives;
- Knowledge and skills; and
- Stakeholder engagement.

The results of the evaluation were assessed by the full Board. 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 for improvement, including:

- Shaping a purpose-driven culture;
- Board skill gap analysis and succession planning;
- Improving diversity; and
- Increased stakeholder interaction.

Composition, succession and evaluation continued

Nomination Committee report continued

Succession planning

During the year, the Committee considered the succession arrangements for the Board and the Operating Board, comprising the operational directors below Board level. We reviewed immediate, mid-term and long-term succession planning and arrangements, and the Board skills matrix.

This process informs the Company's framework for the skills we wish to focus on when preparing role specifications and evaluating potential new candidates and developing a diverse pipeline.

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.

Diversity

The Committee 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.

Employment positions throughout the Company are filled with the candidates who possess the most appropriate skills and competencies relevant for the particular job role. We have a policy to treat all employees fairly and equally regardless of gender, sexual orientation, marital status, race, colour, nationality, religion, ethnic or national origin, age, disability or union membership status.

Appointments to the Board, as with other positions within the Group, will always be made on merit and objective criteria. Executive external resourcing and strong internal succession plans play a critical role in enabling and accelerating our ability to improve our diversity.

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. Across the business we will continue to work to create a more diverse and inclusive culture.

Alan Smith
Chair of the Nomination Committee
4 October 2021

"The Audit Committee is integral to the Group's governance framework."

The Audit Committee monitors risks and risk mitigation. It 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.

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, risk mitigation and internal control.

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 60 of the Strategic Report.

The Committee has considered the narrative in the Strategic Report and whether the 2021 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 2021 Annual Report and Accounts is 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. The Committee has also given consideration to the development of climate-related reporting to ensure that the Group is ready to report in line with the Task Force on Climate-related Financial Disclosures (TCFD) requirements in the next financial year. The outcome of the consultation on the government proposals to restore trust in audit and corporate governance has recently been published and the Committee will monitor the progress of the proposals over the coming months and years.

Member and meetings attended in 2021	Member since	Meetings attended
Ron McMillan (Chairman)	2014	3
George Adams	2015	3
Angela Luger	2019	3

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
4 October 2021

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 Chair 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 71. The timing of Committee meetings is set to accommodate the dates of releases of financial information and the approval of the scope of and outputs from work programmes executed by the internal and external auditors. The biographies of the members of the Committee can be found on pages 62 to 63 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, Steve Carson, as CEO, and Chris Muir, as CFO, attend meetings, together with representatives from the internal audit function and the external auditors. David Knight, who retired as CEO during the year, also attended all three of the meetings.

In addition to scheduled meetings, the Committee Chairman met virtually with the Head of Audit, Risk & Compliance, the external auditors and the CFO during the year, and the Head of Audit, Risk & Compliance and the 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.

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

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.

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;
- 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;
- Keeping under review the adequacy and effectiveness of the Group's internal financial controls and internal control and risk management and compliance system; and
- Making recommendations to the Board in relation to the appointment of the external auditors and their fees.

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 both the internal and external auditors.

The recurring work of the Committee comprised:

- Review of the Annual Report and financial statements of the Group;
- Review and approval of the statements to be included in the Group's Annual Report concerning internal controls and risk management;
- Review 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 2020	March 2021	July 2021
Review of Interim Results		●	
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	●		
Review of management representations	●	●	
Review and approval of Internal Audit Plan, reports and updates	●	●	●
Approval of the external audit strategy and fees			●
Update on the provision of any non-audit services and fees provided by the external auditors	●	●	
Effectiveness of the Internal Audit function		●	
Effectiveness of the external audit	●		
Risk management update and review of related disclosures, including warranty risk and COVID-19	●	●	●
Review of internal control processes and related disclosures	●	●	●
Review of disaster recovery practices	●	●	●
Review of Group IT systems			●
Update on the Group Data Protection compliance including policy review	●	●	●
Reviewed and agreed the structure and annual plan for compliance function			●
Effectiveness of procedures for detecting fraud			●
Update on Modern Slavery matters	●		
Consideration of the 2018 UK Corporate Governance Code and disclosure regulations	●	●	
Year-end final review of related party transactions	●		
Accounting policies and disclosures in relation to:			
– IFRS 16	●	●	
– Corporation tax and VAT	●	●	
– Supplier rebates	●	●	
– Stock and related provisions	●	●	
– Impairment assessment for loss making stores	●	●	
– Dilapidations	●	●	●
Going concern and viability issues and disclosures, including the impact of COVID-19	●	●	
Considered TCFD reporting requirements			●

Significant issues and judgements relating to the financial statements

The Committee monitors the integrity of the annual and interim reports, including a review of the key accounting issues, areas of judgement and related disclosures contained in them.

The Committee reviewed papers prepared by management setting out the basis for the assumptions used in relation to accounting judgements and these reports are then discussed and challenged by the Committee. The Committee also considered a paper prepared by the external auditor, which included significant reporting and accounting matters, and their views were taken into account.

Area of focus	Committees response
Impairment Management reviews the carrying amount of property, plant and equipment and right-of-use assets every year to determine if there are any indications of impairment. The estimate of the recoverable amount is based on value in use calculations which requires management to estimate future cash flows and an appropriate discount rate. The prior year impairment assessment is also taken into consideration and where it is identified that the impairment has reduced, a reversal of the impairment is recorded. As a result of the COVID-19 pandemic, all showrooms have experienced periods of closure during the year and uncertainty remains over the rate and extent of recovery. The impact of COVID-19 has triggered the requirement for an impairment assessment and as a result all showrooms have been tested for impairment. An impairment review was carried out using the assumptions set out in note 2 to the financial statements. As a result of this review an impairment reversal of £4,242,000 has been recognised. The sensitivities of the assumptions on this amount are also set out in note 5 to the financial statements.	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 the principles and judgements applied were appropriate as well as the presentation of the impairment reversal within the financial statements.
IFRS 16 discount rate In calculating the present value of lease payments, the Group's policy is to use its incremental borrowing rate. However, currently, the Group has no borrowings. It, therefore, uses an approximation based on UK government gilt rates of an appropriate duration, adjusted by an indicative credit premium.	The Committee discussed with management and the external auditors how an approximate rate had been derived. The Committee considers that the judgements made are appropriate to the Group's particular circumstances.
Warranty risk The Group has continued to monitor the FCA's proposal to enforce statistical reporting of this type of insurance product, and the risk that the product may become regulated by changes to future legislation. During the year, the Group implemented changes to its warranty product, which is now sold as part of a complete 'Premium Sofa Guard' care package, minimising the impact on sales and profit that any changes may make.	The Committee has continued to discuss the risk to warranty sales, and has reviewed the changes made to the Group's warranty sales stream during the year. The Committee believes the changes are appropriate and will continue to monitor any further developments in this area.
Supplier rebates The Group receives volume rebates from suppliers which are pre-negotiated and split between suppliers with rebate 'hurdle' rates dependent on spend and those that have a flat rate. Where rebate arrangements were not coterminous with the year end, judgements were required but the amounts involved were not material.	The Committee gained an understanding of these arrangements, discussed them with management and the external auditors and satisfied itself with the controls that are in place to ensure that amounts received and receivable from suppliers are properly accounted for on a monthly basis and that the related judgements are limited.
Stock provisions The Group's policy in relation to stock provisioning is to provide for obsolete, slow moving and defective stock.	The Committee has discussed with management and the external auditors how the policy has been applied in practice so as to ensure that stock is held at the most appropriate estimate of net realisable value. The Committee satisfied itself that stock was not materially misstated.
Dilapidation provision The Group's policy is to ensure a suitable dilapidations provision is in place to utilise to cover costs when a site is exited at the end of a lease. Historical data is used to estimate future liabilities; therefore, a degree of judgement is required.	The Committee has reviewed management's dilapidations calculation and assumptions, and satisfied itself that an appropriate provision is in place.
COVID-19 The Group has continued to monitor the impact of the COVID-19 pandemic on all aspects of the business.	The Committee discussed with management the uncertainties and impact of COVID-19 and considered various sensitivity scenarios and cash flow models to satisfy itself that the Group was as well positioned as it could be.
Climate change and risk reporting External consultants will be helping the Group to set climate change targets and carry out a climate change risk assessment. Metrics will be agreed upon and their measurement and progress monitored.	The Board and the Committee are aware of the increased focus from investors on climate change risk and we are committed to report against the mandatory recommendations of the Task Force on Climate-related Financial Disclosures by 2022.

Going concern

Going concern matters have been a focus of attention by management, the Board and the Audit Committee and the external auditors since the beginning of the COVID-19 pandemic. Significant time and energy has been applied to developing financial models and continually assessing forecasts, sensitivities and mitigating actions available to management. The Board and the Committee have discussed going concern issues on a number of occasions and have satisfied themselves that the underlying assumptions continue to be reasonable and support the conclusion that the Group has adequate resources to continue to operate for a period of at least 12 months from the date on which the financial statements are signed. Accordingly, they continue to adopt the going concern basis in preparing the financial statements (see 'Basis of preparation' within note 2 to the financial statements on page 110).

Viability statement

The Board is required to consider whether the Group can continue to operate and meet its liabilities, taking into account its current position and principal risks in the longer term, having considered severe but plausible risks and risk combinations. The Committee reviewed the process undertaken by management and considered management's scenario modelling and the stress testing of these models. The Committee reviewed and challenged the assumptions used and concluded that the Board is able to make the Viability statement on page 60 of the Strategic Report.

Fair, balanced and understandable

The Committee considered whether the 2021 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. 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 2021 Annual Report and Accounts is fair, balanced and understandable.

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.

A description of the principal risks is set out on pages 50 to 59.

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, and 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.

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. Despite a number of lockdown periods during the year, all of the agreed work has been performed and the Committee 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;
- E-commerce processes;
- Compliance processes;
- Payroll processes;
- Cash and banking processes;
- Marketing processes;
- Processes within the business performance reporting team;
- Central customer experience processes;
- Management accounts;
- Purchase ledger and accounts payable processes;
- Human Resources;
- Training team processes;
- Information technology processes; and
- Health and safety including response to COVID-19.

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 it is 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 in 2019, PricewaterhouseCoopers LLP (PwC) were re-appointed by shareholders. As reported last year, the audit partner from the 2020/21 audit onwards is Andy Ward, who is a partner in PwC's Leeds office. PwC have been the Group's auditors for 11 years.

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 FRC.

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 average audit fees over a three-year period. During the year we paid PwC £20,000 for their review of the interim financial statements (considered to be a non-audit service). No other non-audit services were provided by the external auditor. Fees paid to PwC for audit work were £207,000.

In accordance with International Standards on Auditing (UK & Ireland) 260 and Ethical Statement 1 issued by the Accounting Practices Board, and as a matter of best practice, the external auditors have confirmed their independence as auditors of the Group.

The Committee is responsible for assessing the effectiveness of the external audit process and does so in a number of ways:

(1) The Committee, together with the CFO and Financial Controller, met with the senior members of PwC, prior to both the interim review and year end audit, as they presented their plan for discussion;

(2) The Committee, together with the CFO and Financial Controller and other members of the Board, met with PwC to assess the execution of the review/audit and reporting of their findings; and

(3) The Committee considered the matters set out in PwC's 2020 Transparency Report dealing with audit quality monitoring and remediation. It considered the results of internal and external engagement reviews and the steps taken by PwC to address findings. Within PwC, audit quality is monitored at a global level and at an engagement level, with all engagement partners being reviewed at least once in a three year cycle.

In reviewing PwC's 2020 Transparency Report, the Committee noted the firm's commitment to quality and risk management. The Committee also discussed with PwC the results of the FRC Audit Quality Inspection of the UK firm. During PwC's attendance at Committee meetings, the Committee also met privately with the auditors and, as Chair of the Committee, I had regular dialogue with the audit partner.

The Committee considered in detail PwC's audit planning documentation and satisfied itself that the audit work to be carried out by PwC covered all significant aspects of the Annual Report and Accounts and, therefore, did not feel it was necessary to ask PwC to look at any additional areas specifically. PwC's report to the Audit Committee at the conclusion of the audit confirmed that the audit had been carried out in accordance with the planning documentation and the Audit Committee considered the findings of PwC as reflected in their audit opinion and their year end report to the Board. PwC's audit opinion set out the key matters that, in their opinion were of most significance in this audit. These were consistent with the key matters considered and agreed with the Audit Committee when the audit was planned. PwC's report describes how these matters were addressed in the audit and the scope and nature of their work reflects the thoroughness of their approach and the degree of scepticism applied.

The Committee reviews the performance of PwC annually with feedback from management, the Group's finance team, the Internal Audit function and the Board. The review takes into consideration their understanding of the Group and the retail sector, the extent of challenge to management on areas which required judgement, the quality of audit work, reporting and advice given, and the overall audit process. The conclusions reached were that PwC has continued to perform the audit in a professional and efficient manner with the necessary objectivity and challenge to demonstrate independence and it is, therefore, the Committee's recommendation to the Board that PwC be re-appointed auditors at the Annual General Meeting on 26 November. The Board has no present plans to consider an audit tender process.

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

Ron McMillan
Chair of the Audit Committee
4 October 2021

"I'd like to thank our shareholders for their thoughtful input."

As a small company we try to keep things simple, with clear performance linkages and line of sight from showroom to boardroom and vice versa.

Dear Shareholder,

The ScS Group plc Remuneration Committee has had a busy year in FY21, in part due to the pandemic. At the beginning of the year (August 2020) we considered how to apply the Remuneration Policy at a time of considerable uncertainty and deliberated on fair remuneration for the Executive Directors, with an incoming CEO following the retirement of David Knight, and a wider role for the CFO. These considerations were in addition to an ever wider remit for the Committee in terms of general workforce remuneration and wellbeing.

As a small Group, and member of the FTSE Fledgling Index, we try to keep things simple and maintain clear performance linkages and line of sight from showroom to boardroom and vice versa. Approximately 82% of our colleagues are eligible for either a sales commission or bonus and these are based broadly on the same metrics of sales and profit as the Executive Directors.

Our July year end has meant that we have been effectively five months ahead of many of the larger FTSE companies in having to consider the impact of the COVID-19 pandemic on remuneration and the Investment Association updated guidance relating to these matters which was released in November 2020, a quarter of the way through our new financial year. As a consequence, we have been required to consider our approach before many other companies. In the previous financial year ended 25 July 2020, no executive bonus was paid, nor were there any vesting of LTIP arrangements as the scheme vesting fell short of its target. The Group looked after all furloughed colleagues by topping up their pay to 100% including average sales commission during all periods of lockdown.

Steve Carson joined the business on 6 January 2021, and to ensure a smooth transition, David Knight remained actively in the role of CEO until 30 April 2021. At this point in time, Steve took on responsibility for the business, with David remaining to provide advice and support. For the purposes of reporting, David Knight's remuneration has been utilised for the CEO comparatives used throughout the report as it provides a full year of compensation for comparison.

With this in mind, I reached out to our largest 20 shareholders to canvas their views on what we should do in these extraordinary times; 12 shareholders shared their views, accounting for over 63% of total voting rights during August to early October, and we covered:

1. Considerations for the FY21 bonus scheme, including government money paid, such as furlough, and the relief of taxes, such as rates relief;
2. Whether we should make any changes to long-term incentive plans 'in flight' to reflect the changed circumstances;
3. Whether we should move from a LTIP arrangement to a restricted share scheme; and
4. Any changes given that our CEO, David Knight, was retiring after 33 years of service.

I would like to thank our shareholders for their thoughtful input which I believe the Remuneration Committee has reflected in its decisions in the past year.

FY21 incentives

Bonuses that reflect performance are a key part of the remuneration package. Shareholder feedback was clear on the contentious issues of government support and on dividend reinstatement. Almost unanimously shareholders viewed that direct government money such as furlough should be excluded from any bonus targets, but that relief from payments that would otherwise be paid, such as rates, should be included. Most shareholders also felt that the payment of a modest bonus should be independent of whether the dividend be reinstated and that to tie the two things together would be to confuse the separate decisions.

The Remuneration Committee, therefore, set targets for the FY21 scheme where on-target bonus payments would be paid at a level where the dividend could be reinstated, with a minimum threshold significantly below this to reflect the general uncertainty. We then set hurdle levels above target with a wider stretch than usual, with the highest target level being above the FY19 profit level. These targets were set including rates relief but excluding furlough payments (notwithstanding, the Group repaid all FY21 furlough payments in May 2021).

Despite the stores being closed for 17 weeks the Group has met the highest of the targets set, and therefore, the Remuneration Committee has granted a bonus payout of 140% salary to both David Knight and Chris Muir; Steve Carson's 140% payout is pro-rated for the seven months since he joined the Group.

Long-term incentives

Shareholder feedback was again unanimous that there should be no changes to the performance targets set for the LTIP schemes already 'in flight', that is, those due to end this year and next. Shareholders also confirmed that furlough and other direct payments should be excluded, consistent with their guidance on the bonus scheme. The Remuneration Committee agrees with this approach.

Shareholders did, however, regard a long-term incentive plan as important. Given the extreme level of uncertainty, they guided that the scheme should have a much wider span than before, with upper levels to be in excess of FY19 EPS. Shareholders were unanimously against a restrictive share scheme, and while there was some discussion around whether the targets should be TSR-based or not, most were in favour of continuing to keep the targets simple and understandable. The Remuneration Committee took these views into account in setting the targets for 2023.

Despite the uncertainty and the various lockdowns, the Group performed strongly as stores re-opened. The LTIP targets for FY21 were met, and the LTIP will pay out at 89.3% level.

Executive remuneration

Almost all shareholders consulted inputted on the importance of a smooth handover from the retiring CEO to the new CEO. There was unanimity that we should take our time to get the right person, that the package should be attractive for whoever that might be (we were mid-way in the process of selection), and that we should attend to the wider executive team at the same time. Shareholders were keen to see the direct remit of the incoming CEO reduced with the scope of the CFO role widened, with specific positive reference to Chris Muir taking on additional responsibilities for technology and distribution in the move towards omnichannel. Shareholders strongly approved of the Board's desire for executive stability on the change of the CEO. The Remuneration Committee took advice from our remuneration consultants, Mercer Limited, to benchmark both the CEO role and a wider role for Chris Muir, CFO.

Steve Carson has joined on a salary of £400,000, higher than the outgoing CEO but with a pension level of 5%, in line with the wider workforce. This salary level was in line with the benchmarking undertaken and below his previous salary. The Remuneration Committee raised Chris Muir's salary from £240,000 to £320,000 to reflect both a current salary at below CFO benchmark and his wider role, while at the same time pension was reduced to the 5% wider workforce rate. We fully acknowledge that this increase is exceptional but it reflects both the input from shareholders and our desire to set appropriate benchmarked levels of remuneration.

In keeping with rewards given to other very long serving members of the senior team on retirement; the Committee agreed to recognise David Knight's exceptional contribution by awarding him £5,000 in holiday vouchers to mark his retirement.

Review of Remuneration Policy

We will be seeking approval for the Remuneration Policy at the AGM this year. We continue to be guided by a few simple principles:

- to pay fairly for an individual's role and responsibilities;
- to reward for performance;
- to focus on long-term value creation; and
- to align executives with shareholders through share ownership.

We believe our Policy is fit for purpose and understood throughout the organisation, with alignment from shop floor to Board, and does not require major overhaul. We have reviewed our Policy with our remuneration consultants and also in light of the updated UK Corporate Governance Code. We have made an adjustment to remove any flexibility on pension arrangements for any future hires. We are aware that we have no deferral for the annual bonus above 100% of salary and at this stage we do not intend to implement one but will review this over the year ahead. Finally, we are actively reviewing whether there are robust and strategically aligned ESG metrics that could be included in the bonus in the future.

I hope that you will support the new Policy and the Annual Report on Remuneration.

Colleague input

I am the Non-Executive Director responsible for consulting with and gaining the views of our wider colleagues in the business. In a normal year I would hold six discussion groups in person; however, due to the pandemic, I have held four by video conference this year. It is gratifying to get feedback that the Group has gone above and beyond in both ensuring colleagues are safe and well, and also well looked after in these times, with specific reference paid to the topping up of salaries and commissions for furloughed staff during lockdowns.

Colleagues in these groups were positive about working at ScS, and the opportunities open to all, in a diverse workforce. I will be reinstating physical groups when possible and we will be gaining extra feedback on diversity and gender which will feedback into the Remuneration Committee agenda for the year ahead.

Remuneration Committee agenda for FY22

The scope for the Remuneration Committee has been widened, reflecting the changes to the UK Corporate Governance Code, and we will be looking at a few specific areas in particular in the coming year, particularly since the appointment of a new People Director to our Operating Board. We will continue our work addressing diversity at ScS, both in terms of gender and ethnicity. We will also be beginning to look at how our remuneration principles apply across our workforce in a business that is pivoting from almost completely store-based to one operating in an omnichannel world. Finally, we will be considering whether there should be a role for ESG metrics in our incentive plans and will determine whether there are robust and strategically-aligned metrics that we could include. We will update shareholders on our progress in next year's report.

Communication with shareholders

The Remuneration Committee has found the input from shareholders extremely valuable in deciding what to do in the uncertainty of the pandemic. 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, and will continue to reach out proactively when faced with uncertainty.

I would like to thank my colleagues on the Committee for their help and support over the last year.

George Adams
Chair of the Remuneration Committee
4 October 2021

Member and meetings attended in 2021	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.

Annual Remuneration report

Single figure table of total remuneration Executive Directors – audited

The audited table below shows the aggregate remuneration of the Directors of the Group during 2021 and 2020:

	Salary[1] £	Benefits[2] £	Bonus £	LTIP[3] £	Pension[4] £	Total £	Total fixed remuneration £	Total variable remuneration £
Steve Carson								
2021	227,692	11,718	326,667	–	11,384	577,461	250,794	326,667
David Knight								
2021	306,000	24,444	428,400	588,733	61,200	1,408,777	391,644	1,017,133
2020	306,000	20,827	–	–	61,200	388,027	388,027	–
Chris Muir								
2021	286,667	19,035	401,334	461,752	29,335	1,198,123	335,037	863,086
2020	240,000	19,035	–	–	48,000	307,035	307,035	–

1. Salary increase for Chris Muir effective from 1 January 2021. Steve Carson's appointment effective from 6 January 2021.
2. Benefits of the Directors are discussed in detail below. The value for David Knight includes a one off benefit of £5,000 in holiday vouchers, gifted to him from the business, as a retirement gift marking his 33 years' service.
3. Estimated value of the 2019 LTIP award, being the average of the closing mid-market share price in the three-month period ending 31 July 2021.
4. Steve Carson, David Knight and Chris Muir opt to receive part of their pension contributions as a cash allowance.

Elements of remuneration

Salary

David Knight, CEO, retired from the Group on 31 July 2021; there was no change to his basic salary during the year. Steve Carson joined the Group as CEO on 6 January 2021 on a basic salary of £400,000. Whilst this basic salary is higher than that of David Knight it is reflective of the benchmarking that was undertaken prior to appointment and is lower than his previous basic earnings. The basic salary of Chris Muir, CFO, was also reviewed and increased to £320,000 from £240,000.

When consulting with shareholders, they were keen to stress the importance of a smooth handover from the retiring CEO to the new CEO. In addition, shareholders were also keen to see the direct remit of the incoming CEO reduced with the scope of the CFO role widened, with specific positive references to Chris Muir taking on a wider remit. As such, a benchmarking exercise was undertaken to position the salaries for the incoming CEO and incumbent CFO with widened responsibilities and remit. The CFO's increase is considered both to be exceptional and necessary by the Committee and it is anticipated that any further increases will be aligned to that of the wider workforce.

The salaries of the senior management team were also considered by the Committee, where it was felt appropriate due to changes in roles and responsibilities, and a small number of moderate increases were awarded. Details of the average increase given to other employees is detailed on page 89.

The current basic salaries as at 4 October 2021 are:
- Steve Carson: £400,000
- Chris Muir: £320,000

Pension and other benefits – audited

Having reviewed our pension arrangements, Executive Directors are eligible to pension benefits equating to 5% of their basic salary, which are non-contributory. This change aligns to the pension rate applicable to the wider workforce. David Knight, CEO, retained his legacy pension of 20% of basic salary during his final year with the Group and received £10,000 of pension benefits into his pension fund. The balance was paid as a cash allowance.

Steve Carson, CEO, received £6,051 of pension benefits into his pensions fund and Chris Muir, CFO, received £8,335. The balance was paid as a cash allowance.

Any new Executive Director appointments will have a pension contribution in line with that provided to the broader workforce.

The Executive Directors received a car allowance which were as follows:
- Steve Carson, CEO: £11,384
- David Knight, CEO: £18,642
- Chris Muir, CFO: £17,000

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

Annual bonus

The Executive Directors were eligible to receive annual bonuses in 2021. The annual bonus is solely based on underlying EBITDA* performance, which is adjusted for exceptional items. A pre-bonus EBITDA of £51.9m was above the maximum target set for the year; as a result, 100% of the bonus was paid. The Committee considers that this fairly reflects the results for the year. The details of the targets and how the bonus was calculated are set out below:

Pre-bonus EBITDA	£39,100,000	£44,100,000	£46,500,000	£48,400,000
% maximum	25%	50%	75%	100%
Steve Carson	£81,677	£163,334	£245,000	£326,667
David Knight	£107,100	£214,200	£321,300	£428,400
Chris Muir	£100,333	£200,667	£301,000	£401,334

* Underlying EBITDA is defined in the Alternative performance measures section in the appendices on pages 134 to 135.

For 2022, 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 15 October 2018, which vests in 2021, has exceeded the minimum performance conditions set (a minimum EPS of 28.9p) and will result in an award of 89.3%. The initial award provided vesting conditions on a straight-line basis between 25% and 100% based on an EPS in 2021 from 28.9p to 37.0p. The underlying EPS as reported under IFRS 16 for the year is 41.3p, which would result in 100% award under the terms of the LTIP. The Remuneration Committee are, however, conscious that the award was granted before transition to IFRS 16, at a time when there were 40,009,109 shares in issue, and that the Group has benefited during the year from an effective tax rate lower than the statutory rate. As a consequence, the Remuneration Committee have recalculated EPS using the same accounting basis, number of shares and statutory tax rate as at the date of the award and based the vesting calculation on the adjusted EPS of 35.9p.

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 230,248 and 180,587 shares respectively for David Knight, CEO, and Chris Muir, CFO. The awards have a three-year vesting period, plus a two-year hold period. The average share price on the date of grant, 12 October 2020, was 200.0p. As disclosed in last year's Annual Report, the following EPS targets were applied:

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 has engaged directly with a number of shareholders to discuss the current and future LTIP arrangements. No changes are intended for 'in-flight' awards. As with the LTIP vesting this year, the 2020 and 2021 LTIP EPS targets were set before taking into account the impact of IFRS 16 or changes in effective tax rate. 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. Furthermore specific differences between the effective and statutory tax rates would impact EPS, and can only be adjusted when they are known. The Committee, therefore, intends to adjust future EPS targets when these items have crystallised. The adjustment will purely be to reflect the technical changes created as a result of IFRS 16, and differences in the effective and statutory tax rate and are not an amendment to the agreed targets per se.

The Committee has agreed to award a Long-Term Incentive Plan in 2022. Steve Carson, CEO, and Chris Muir, 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 2024)	Percentage of award that vests
Less than 19.0p	Nil
19.0p	25%
Greater than 19.0p but less than 33.2p	Straight-line basis between 25% and 100%
33.2p	100%

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

The Remuneration Committee determined that the 2022 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 Group 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 Group 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.

Payments to past Directors – audited

There were no payments to past directors in the year ended 31 July 2021 (2020: none).

Payments for loss of office – audited

David Knight left the Board on his retirement on 31 July 2021. He retired with the agreement of the Board and worked his full 12-month notice period. As such the Committee determined that he should be treated as a good leaver with the following implications:

- His salary payments and eligibility for benefits ceased on the date of his retirement;
- He was gifted £5,000 of holiday vouchers as retirement gift from the Group;
- He was eligible for a bonus for 2021 as described above. No further bonus payments will be made;
- He was eligible for vesting of the 2018 LTIP awards on the same basis as the other Executive Directors; and
- His 2019 and 2020 LTIP awards will vest on their third anniversary, subject to performance and pro-rata to the period worked. No award will be made in 2021.

Fees retained for external non-executive directorships

Executives may hold external non-executive directorships in non-competing businesses with the express consent of the Board. Fees may be retained for those roles with Board consent. There are no remunerated non-executive roles currently held by either the CEO or CFO.

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 2022.

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 during 2021 to the Non-Executive Directors were as follows:

	2021 £	2020 £
Alan Smith	125,000	125,000
Ron McMillan	60,000	60,000
George Adams	60,000	60,000
Angela Luger	50,000	50,000

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

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

Directors' shareholding and share interests – audited

The table below sets out the number of shares held or potentially held by Directors (including connected persons or related parties where relevant) as at the financial year end 2021.

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

	Shares held beneficially	Nil cost options subject to performance*	Option awards vested but unexercised**	Total
Steve Carson				
Number	–	–	–	–
Value at year end	–	–	–	–
David Knight				
Number	1,528,615	425,567	231,173	2,185,355
Value at year end	£4,318,337	£1,202,227	£613,213	£6,133,777
Chris Muir				
Number	50,474	333,778	163,452	547,704
Value at year end	£142,589	£942,923	£461,752	£1,547,264

* Awards vest subject to EPS performance over a three-year period. This relates to awards granted in 2020 and 2021.
** Option awards vested (but unexercised) is inclusive of the 2021 EPS LTIP award and dividend equivalents. David Knight also holds a further 22,772 options at an exercise price of 175p.

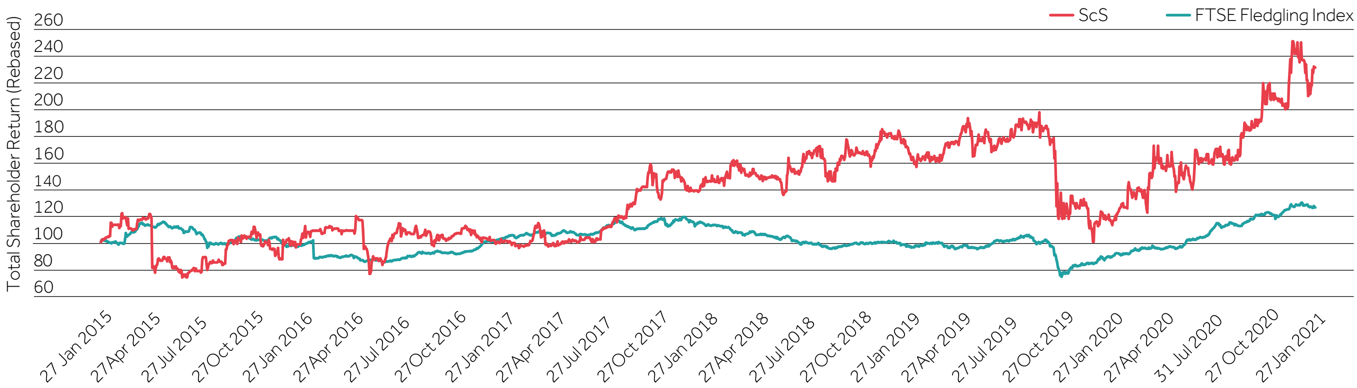
There were no shares exercised by Directors in the year.

The value of share interests at the year-end is based on the average share price in the three months ending on 31 July 2021 of 282.5p. There have been no changes to share interests as at the date of this report.

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. Steve Carson has no shareholding currently and will, therefore, also build a shareholding 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 31 July 2021, of £100 invested in ScS Group plc 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 10 years is as follows:

	Salary £	Bonus £	Benefits £	LTIP £	Pension £	Total £
Steve Carson						
2021*	227,692	326,667	11,718	–	11,384	577,461
David Knight						
2021	306,000	428,400	24,444	588,733	61,200	1,408,777
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

* Remuneration relates to seven months of employment. Shown for illustration only. As described in the opening letter, comparisons in this report are made against David Knight's full year remuneration.

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 31 July 2021 and the year ended 25 July 2020 compared to the amounts for full-time employees of the Group for each of the following elements of pay:

	Percentage change from 2020			Percentage change from 2019		
	Salary	Benefits	Bonus	Salary	Benefits	Bonus
Executive Directors						
Steve Carson	n/a	n/a	n/a	n/a	n/a	n/a
David Knight	–	17.4%	100%	–	0.1%	(100)%
Chris Muir	19.4%	–	100%	–	2.3%	(100)%
Non-Executive Directors						
Alan Smith	–	n/a	n/a	–	n/a	n/a
Ron McMillan	–	n/a	n/a	–	n/a	n/a
George Adams	–	n/a	n/a	–	n/a	n/a
Angela Luger	–	n/a	n/a	–	n/a	n/a
Average per employee (excluding Directors)	**1.6%**	**(10.6)%**	**221.0%**	**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.

	2021 £'000	2020 £'000	% Change
Total pay for employees	65,602	52,230	(25.6)%
Distributions to shareholders	1,133	4,336	(73.9)%

CEO pay ratio

The table below shows the ratio of CEO pay for 2021 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 31 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
2021 – David Knight	Option A	72:1	56:1	44:1
2020 – David Knight	Option A	21:1	16:1	12:1

The difference in ratios from 2020 to 2021 reflects an increase in the variable remuneration of the CEO following the improved performance of the business.

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
2021	Salary	£17,213	£24,483	£27,898
	Total pay and benefits	£19,641	£25,095	£32,190
2020	Salary	£17,601	£24,259	£19,727
	Total pay and benefits	£18,190	£24,259	£31,412

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 2021 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 71.

The Committee may invite the Executive Directors or other members of the senior management team 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, Steve Carson, David Knight, Chris Muir, Marie Liston, Corporate Services Director, and Lucy Cough, People 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 Mercer Ltd.

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 Mercer Limited during the year and is comfortable that they have been objective and independent. Total fees received by Mercer Limited in relation to remuneration advice provided to the Committee during 2021 amounted to £27,878, excluding VAT, based on the required time commitment.

Shareholder voting

At the Annual General Meeting on 25 November 2020, the total number of shares issued with voting rights was 38,012,655. The resolution to approve the Annual Remuneration report from the 2020 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 (2020 AGM)	27,114,538	95.83%	1,180,024	4.17%	500	28,295,062	74.44%
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
Chair of the Remuneration Committee
4 October 2021

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, feedback was proactively sought and shareholders accounting for over 63% of total equity responded. The Committee takes into account the best practice guidance issued by institutional shareholders and their representative bodies.

The Directors' Remuneration Policy

The Directors' Remuneration Policy was last approved by shareholders at the 2018 AGM and is due to be renewed at the 2021 AGM. 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

Only minor changes to the previous policy are proposed; the most significant being our formal commitment to reduce executive pension contribution rates to align more closely to the wider workforce rate and the implementation of bonus deferral when it is felt appropriate to do so. These changes are set out in the table below.

Remuneration element	Purpose	Operation	Maximum	Performance measures
Base salary	This is the basic pay and reflects the individual's role, responsibilities and contribution to the Group; critical to help attract and retaining the right talent.	Base salaries are reviewed annually with changes typically taking effect from the beginning of the relevant financial year. When reviewing, consideration is given by the Committee to a range of factors, including the Group's overall performance, market conditions and individual responsibility of executives and the level of salary increases given to employees across the Group. Higher increases may be awarded where there has been an increase in responsibility. If a new Executive Director's salary is set on appointment below the median market rate, 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.	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; however, the Committee remains mindful of the need to attract, recruit and retain talent within the team.	n/a
Benefits	To provide benefits which are valued by the individual and assist them in carrying out their duties and to support wellness and engagement.	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 and those available to the broader workforce. 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 including where new benefits are introduced for the wider workforce. In addition, where the Committee considers it appropriate to do so, additional relocation expenses may be paid.	No explicit maximum. We ensure that benefits offered are in line with the market and review their cost from time to time in the context of the wider workforce provision.	n/a
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 receive cash in lieu.	A total maximum value of 5%, which aligns closely to the workforce rate. The Committee reserves the right to increase the rate if changes are made for the workforce – no such increase is planned at the present time.	n/a

Remuneration element	Purpose	Operation	Maximum	Performance measures
Bonus	Provide an incentive linked to the financial performance of the Group and any other appropriate individual or business measures. Deferral provides further alignment to shareholders' long-term interests for achievement of stretching targets.	Bonuses are normally paid in cash. Payments are made subject to meeting pre-determined targets set at the start of the year and approved by the Committee. Malus and clawback rules apply to cash and deferred awards; see explanatory notes for more information. The Committee will consider the introduction of bonus deferral arrangements for any bonus earned in excess of 100% of salary.	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.	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 including measures relating to the Group's environmental, social and governance (ESG) objectives. 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, for example, related to transactions. Any amended targets should be no more or less difficult to achieve than the original targets were considered to be when set.
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. The current intention is to use conditional shares or nil cost options for awards. 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. Malus and clawback rules apply to vested awards; see explanatory notes for more information.	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.	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 or vary 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 or variation is reasonable and produces a fairer measure of performance and is not materially less difficult to satisfy.
Shareholding guidelines	Executive Directors are expected to maintain their minimum shareholding levels once they have been obtained.	The Committee will review shareholding annually against the 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 Director. We encourage Executive Directors to meet this requirement within five years of the date of appointment. Executive Directors are expected to retain vested LTIP awards (after tax) until the minimum shareholding level is attained.	n/a

Remuneration element	Purpose	Operation	Maximum	Performance measures
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. Executive Directors will also be eligible to participate in any replacement or new all employee share plan that is introduced on the same terms as other employees.	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 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.	n/a

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 and 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. Around 82% of our colleagues are eligible for either a sales commission or bonus, based broadly on the same metrics of sales and profit as the Executive Directors. 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. Currently, 70 employees participate in the scheme.

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, 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 amounts to fraud or gross misconduct; events or behaviour of the individual leads 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.

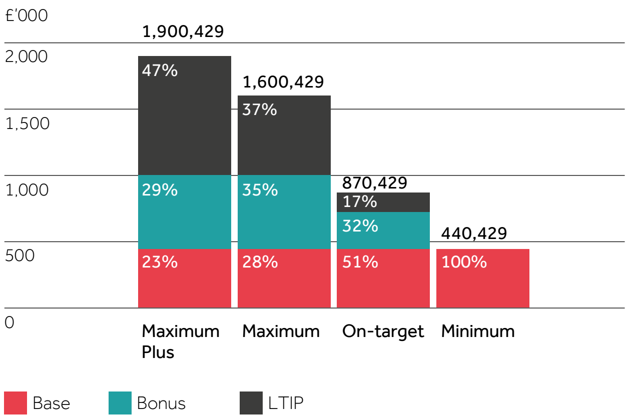
Potential reward scenarios

The graphs below show an estimate of the Executive Directors' remuneration package as it will be implemented for 2022.

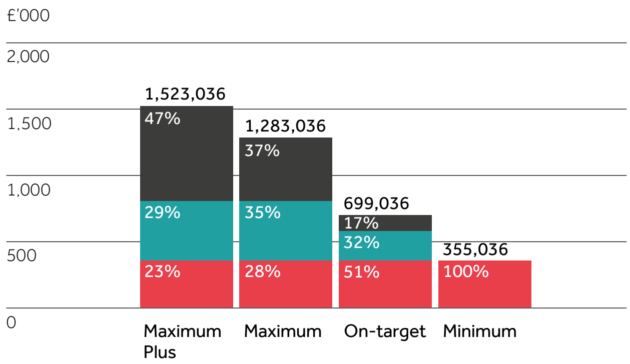
Assumptions

- 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 100% 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).

Steve Carson (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.

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:

- Variable pay will be capped at the limits set out in the Policy for existing Directors.
- 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.
- 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 any 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 24 November 2020 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 'good leaver' based on the full or part-year performance, subject to consideration by the Committee. A full or pro-rata time-based bonus may be awarded, and this may be paid either at or before the normal payment date.

Good leavers include individuals who leave due to ill health, death or redundancy, or in other circumstances at the discretion of the Committee.

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. Good leavers include individuals who leave due to retirement, ill health, death or redundancy, or in other circumstances at the discretion of the Committee.

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 in exceptional circumstances if it considers it appropriate to do so. Awards will typically vest at the usual date but 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 Directors' 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.	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.	The aggregate amount of Directors' fees is limited by the Group's Articles of Association.
	Reflects time commitment and role.	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.	

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 2021. 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 31 July 2021. 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 60, 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

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 60.

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 27
Stakeholder engagement	30 to 41
Streamlined energy and carbon reporting statement	34
Corporate governance statement	65 to 74
Section 172 statement	42 to 43
Risk and risk management	48 to 49
Statement of Directors' responsibilities	99

Disclosures required pursuant to Listing Rule 9.8.4R can be found on the following pages:

Listing Rule	Listing Rule requirement	Disclosure
9.8.4(1)	Interest capitalised by the Group and any related tax relief	Not applicable
9.8.4(2)	Unaudited financial information (LR 9.2.18 R)	Strategic report page 1 to 60
9.8.4(4)	Long-term incentive schemes (LR 9.4.3 R)	Directors' Remuneration report pages 86
9.8.4(5)	Directors' waivers of emoluments	Not applicable
9.8.4(6)	Directors' waivers of future emoluments	Not applicable
9.8.4(7)	Non pre-emptive issues of equity for cash	Not applicable
9.8.4(8)	Non pre-emptive issues for cash by any unlisted major subsidiary undertaking	Not applicable
9.8.4(9)	Parent company participation in a placing by a listed subsidiary	Not applicable
9.8.4(10)	Contract of significance in which a Director is or was materially interested	Not applicable
9.8.4(11)	Contract of significance between the Company (or one of its subsidiaries) and a controlling shareholder	Not applicable
9.8.4(12)	Waiver of dividends by a shareholder	Directors' report page 97
9.8.4(13)	Waiver of future dividends by a shareholder	Directors' report page 97
9.8.4(14)	Board statement in respect of relationship agreement with the controlling shareholder	Not applicable

Non-financial information statement

In addition to the above referenced sections of the Annual Report, the Section 172 statement and non-financial information sections of the Annual Report set out on pages 42 to 43 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 31 July 2021 and are contained in pages 106 to 127. The Group's profit after tax for the financial year ended 31 July 2021 of £19.1m (2020: loss after tax of £2.2m) is reported in the Consolidated statement of comprehensive Income on page 106.

The strength of the Group's balance sheet, coupled with the robust trading experienced since our showrooms opened in April, provided the Board with the confidence to recommence dividends during the year with an interim dividend of 3.0p per share paid in July 2021. The Board is recommending a final dividend of 7.0p per ordinary share, which together with the interim dividend, results in a full-year dividend of 10.0p. This dividend, if approved, will be paid on 10 December 2021 to shareholders on the register on 12 November 2021. The ex-dividend date is 11 November 2021.

Movements in reserves are shown in the Consolidated statement of changes in equity on page 108.

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 to the financial statements on page 133.

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 to the financial statements on pages 125 to 126.

Authority to purchase shares
The Company was authorised by shareholders at the 2020 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 2021 AGM.

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 31 July 2021, the Trust purchased 200,000 ordinary shares of £0.001 each in the Group at an average price of 204.4p per ordinary share, of which 19,861 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. 257,414 ordinary shares in the Group remained held as treasury shares at 31 July 2021.

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.

Directors and their interests
Details of the Directors of the Company as at 31 July 2021 are shown on pages 62 to 63 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 87, 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 unless otherwise stated were:

Alan Smith	Non-Executive Chair
George Adams	Non-Executive Director
Ron McMillan	Non-Executive Director
Angela Luger	Non-Executive Director
David Knight	Chief Executive Officer (Resigned 31 July 2021)
Steve Carson	Chief Executive Officer (Appointed 6 January 2021)
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' 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 31 July 2021 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 weekly newsletter which is made available to all employees. During the year the annual employee engagement survey was carried out and our designated Non-Executive Workforce Engagement Director, George Adams, held the Directors discussion group meetings virtually in which colleagues from across the business were able to share their thoughts and opinions. The feedback from the Directors discussion group meetings is reported at Board meetings and given due consideration in relation to decisions taken by the Board.

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 the Section 172 statement on page 42 to 43.

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 re-training being provided if necessary.

Charitable and political donations
During the year, the Group made charitable donations, including funds raised by employees, of £60,000 (2020: £66,000). No political donations, expenditure or contributions have been made or incurred (2020: £nil).

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 14 September 2021 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
M&G Investment Management	4,595,529	12.09
Artemis Investment Management	4,243,686	11.16
Tellworth Investments	3,945,571	10.38
Stadium Capital Management	1,846,677	4.86
Premier Miton Investors	1,719,766	4.52

	Number of shares held	% of issued share capital
Fidelity International	1,706,618	4.49
SCION Asset Management	1,700,000	4.47
Huntington Management	1,642,148	4.32
Mr David Knight	1,528,615	4.02

Annual General Meeting
A notice convening the Company's Annual General Meeting on 26 November 2021 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
4 October 2021

Statement of Directors' responsibilities in respect of the financial statements

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 accounting standards in conformity with the requirements of the Companies Act 2006 and the 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). Additionally, the Financial Conduct Authority's Disclosure Guidance and Transparency Rules require the Directors to prepare the Group financial statements in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Under company law, 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 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 international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in 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's 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.

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

Each of the Directors, whose names and functions are listed in the Board of Directors section confirm that, to the best of their knowledge:
- the Group financial statements, which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the group;
- the Company financial statements, which have been prepared in accordance with United Kingdom Accounting Standards, comprising FRS 101, give a true and fair view of the assets, liabilities, financial position and profit of the Company; 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
4 October 2021

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 31 July 2021 and of the group's profit and the group's and company's cash flows for the 53 week period (the "year") then ended;
- the group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- 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.

We have audited the financial statements, included within the Annual Report, which comprise: the Consolidated and Company statement's of financial position as at 31 July 2021; the Consolidated statement of comprehensive income, the Consolidated and company statement's of cash flows, and the Consolidated and Company statement's of changes in equity for the period 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.

Separate opinion in relation to international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union

As explained in note 2 to the financial statements, the group, in addition to applying international accounting standards in conformity with the requirements of the Companies Act 2006, has also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In our opinion, the group financial statements have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

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.

Other than those disclosed in Note 4 to the financial statements, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Our audit approach

Overview

Audit scope

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

Key audit matters

- Impairment of assets in relation to loss making stores (group)
- Impact of COVID-19 (group and parent)

Materiality

- Overall group materiality: £2,650,000 (2020: £2,000,000) based on 1% of revenue, capped at 20% of three year average profit/(loss) before tax (2020: 1% of revenue, capped at 20% of five year average (loss)/profit before tax).
- Overall company materiality: £705,000 (2020: £702,000) based on 1% of total assets.
- Performance materiality: £1,987,500 (group) and £529,000 (company).

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.

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.

Transition to IFRS 16 and recognition of right of use assets and lease liabilities (Group) and Carrying value of Investments in subsidiaries (Company), which were key audit matters last year, are no longer included because of this being the year after IFRS 16 adoption meaning the transition to the new standard is no longer a significant risk, and the carrying value of investment in subsidiaries risk has reduced due to the improved market capitalisation of ScS Group plc, which is indicative of the group's value, and the return to profit in the year which provides sufficient headroom on the value in use calculation. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Impairment of assets in relation to loss making stores (group)	
Refer to pages 78 (Audit Committee Report), 115 (Critical accounting estimates and assumptions – Impairment of property, plant and equipment and right-of-use assets) and 116 (Note 5 – Operating exceptional items included within administrative expenses). ScS Group plc has 100 stores at 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. Where there is an indicator of impairment in a store's value management test the carrying value of assets by reference to the future discounted cashflows that the store is expected to generate. Management have used EBITDA as a proxy for cashflows, exclusive of rent repayments. We recognise that there are a number of judgements involved in the impairment of asset 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 assets calculation were an area of focus. Management have calculated an impairment reversal of £4.2m, which has been treated as an exceptional item in the Statement of comprehensive income.	We obtained the impairment workings from management and checked their arithmetical accuracy. We 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 previous year actual's. We agreed that central costs had been allocated on a reasonable basis to the underlying stores, and all material costs had been allocated. We agreed that the rental charge 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 were based on the forecasted future performance of individual stores in the group's portfolio. We agreed the FY22 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, 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 reversal being treated as an exceptional item within the Statement of comprehensive income and agreed as reasonable based on the nature and magnitude of the impairment reversal. 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
Impact of COVID-19 (group and parent) Refer to page 78 (Audit Committee Report). The ongoing and evolving COVID-19 pandemic is having a significant impact on the global economy and the UK economy in which the Group operates. There is significant uncertainty as to what the lasting impact of the pandemic will be on the economy. Management have considered the potential impact on the Group of the ongoing COVID-19 pandemic. In relation to the on-going application of controls, processes and governance, management have not observed a significant impact to the running of the business since lockdown measures were first introduced in the UK in March 2020 and through subsequent restrictions. In relation to the Group's going concern assessment, management have adjusted the cash flow forecasts for the period to October 2022 to reflect a severe but plausible downside scenario resulting from the consequences of COVID-19. Having taken into account these models, together with the current level of cash and other facilities available to the group, and with a robust assessment of planned and possible mitigating actions, management has concluded that the Group remains a going concern. Management has described its going concern and viability assessment on page 60 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. 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 do not consider going concern to be a heightened risk for the Group. In assessing management's consideration of the ability of the Group to continue as a going concern, 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 cashflow forecast and severe yet plausible downside scenario for the period to October 2022. – We challenged the adequacy and appropriateness of the underlying assumptions and significant forecast cashflows. – 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, 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. We have also considered the impact of remote working on internal control environment and having nothing to report.

How we tailored the audit scope

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

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

Materiality

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

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

	Financial statements – group	Financial statements – company
Overall materiality	£2,650,000 (2020: £2,000,000).	£705,000 (2020: £702,000).
How we determined it	1% of revenue, capped at 20% of three year average profit/(loss) before tax (2020: 1% of revenue, capped at 20% of five year average (loss)/profit before tax).	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 businesses profitability. Consequently we capped the materiality level applied at 20% of the three year average profit/(loss) before tax.	Based on our professional judgement and our knowledge of the client our materiality was based on 1.0% (2020: 1.0%) of total assets. We used this 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.

The materiality allocated to A Share and Sons Limited was £2,500,000, this was the only component in scope.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £1,987,500 for the group financial statements and £529,000 for the company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £132,500 (group audit) (2020: £100,000) and £35,000 (company audit) (2020: £35,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining management forecasts for the period to October 2022 and evaluating management's downside scenarios, including a severe but plausible scenario, and challenging their appropriateness and underlying assumptions;
- Evaluating the level of forecast liquidity and forecast compliance with the bank facility covenants.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this 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 our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

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 31 July 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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.

Independent auditors' report to the members of ScS Group plc continued

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.

Corporate governance statement

The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the group's and company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they 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 of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the group was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the group and company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

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

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 in respect of the financial statements, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to Companies Act 2006 and the Listing Rules, and we considered the extent to which non-compliance might have a material effect on the financial statements. 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 understate revenue or the company's EBITDA. Audit procedures performed by the engagement team included:

- Discussions with management, including consideration of known or suspected instances of non-compliance with laws and regulations 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 and fraud, such as whistleblowing controls;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations; and
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular stock provisions, impairment of assets and consideration of the impact of COVID-19 on going concern

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. 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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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.

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 obtained 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 13 years, covering the years ended 31 July 2009 to 31 July 2021. 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
4 October 2021

Consolidated statement of comprehensive income
For the year ended 31 July 2021

	Note	53 weeks ended 31 July 2021 £'000	52 weeks ended 25 July 2020 £'000
Gross sales	3	**324,519**	268,119
Revenue	3	**310,566**	255,491
Cost of sales		**(163,579)**	(135,911)
Gross profit		**146,987**	119,580
Distribution costs		**(18,680)**	(16,988)
Administrative expenses		**(101,534)**	(101,873)
Operating profit	4	**26,773**	719
Analysed as:			
Underlying operating profit		**22,531**	4,708
Operating exceptional items included within administrative expenses	5	**4,242**	(3,989)
Operating profit		**26,773**	719
Finance costs	7	**(4,180)**	(4,195)
Finance income	8	**81**	355
Net finance costs		**(4,099)**	(3,840)
Profit/(loss) before taxation		**22,674**	(3,121)
Income tax (charge)/credit	9	**(3,610)**	898
Profit/(loss) for the year		**19,064**	(2,223)
Attributable to:			
Owners of the parent			
Profit/(loss) and total comprehensive income/(expense) for the year		**19,064**	(2,223)
Earnings/(loss) per share (expressed in pence per share):			
Basic earnings/(loss) per share (pence)	10	**50.4p**	(5.8p)
Diluted earnings/(loss) per share (pence)	10	**48.6p**	(5.8p)

All amounts relate to continuing operations.

There are no other sources of comprehensive income/(expense).

Consolidated statement of financial position
As at 31 July 2021

	Note	As at 31 July 2021 £'000	As at 25 July 2020 £'000
Non-current assets			
Intangible assets	11	**2,243**	2,358
Property, plant and equipment	12	**18,381**	17,209
Right-of-use assets	13	**102,630**	118,499
Deferred tax asset	18	**2,024**	722
Total non-current assets		**125,278**	138,788
Current assets			
Inventories	14	**17,328**	18,207
Trade and other receivables	15	**4,947**	4,804
Current income tax receivable		**–**	358
Cash and cash equivalents		**87,650**	82,282
Total current assets		**109,925**	105,651
Total assets		**235,203**	244,439
Current liabilities			
Current income tax liabilities		**1,171**	–
Trade and other payables	16	**71,818**	81,169
Provisions	19	**488**	125
Lease liabilities	13	**22,693**	24,167
Total current liabilities		**96,170**	105,461
Non-current liabilities			
Trade and other payables	17	**–**	137
Provisions	19	**1,155**	1,084
Lease liabilities	13	**93,368**	112,253
Total non-current liabilities		**94,523**	113,474
Total liabilities		**190,693**	218,935
Capital and reserves attributable to the owners of the parent			
Share capital	20	**38**	38
Share premium	20	**16**	16
Capital redemption reserve		**15**	15
Treasury reserve	28	**(549)**	(182)
Merger reserve		**25,511**	25,511
Retained earnings		**19,479**	106
Equity attributable to the owners of the parent		**44,510**	25,504
Total equity		**44,510**	25,504
Total equity and liabilities		**235,203**	244,439

The notes on pages 110 to 127 are an integral part of these consolidated financial statements.

The financial statements on pages 106 to 127 were approved by the Board and authorised for issue on 4 October 2021 and signed on its behalf by:

Steve Carson
Chief Executive Officer
ScS Group plc: Registered number 03263435

Consolidated statement of changes in equity
For the year ended 31 July 2021

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Merger reserve £'000	Treasury reserve £'000	Retained earnings £'000	Total equity £'000
At 28 July 2019	40	16	13	25,511	(91)	17,407	42,896
Impact of change in accounting policy	–	–	–	–	–	(5,826)	(5,826)
Tax impact of change in accounting policy	–	–	–	–	–	990	990
Balance at 28 July 2019 (restated)	**40**	**16**	**13**	**25,511**	**(91)**	**12,571**	**38,060**
Loss and total comprehensive expense	–	–	–	–	–	(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**
At 26 July 2020	**38**	**16**	**15**	**25,511**	**(182)**	**106**	**25,504**
Profit and total comprehensive income	–	–	–	–	–	19,064	19,064
Share-based payment charge (note 22)	–	–	–	–	–	1,450	1,450
Purchase of treasury shares (note 28)	–	–	–	–	(410)	–	(410)
Sale of treasury shares (note 28)	–	–	–	–	43	(8)	35
Dividend paid (note 21)	–	–	–	–	–	(1,133)	(1,133)
At 31 July 2021	**38**	**16**	**15**	**25,511**	**(549)**	**19,479**	**44,510**

Consolidated statement of cash flows
For the year ended 31 July 2021

	Note	53 weeks ended 31 July 2021 £'000	52 weeks ended 25 July 2020 £'000
Cash flows from operating activities			
Profit/(loss) before taxation		**22,674**	(3,121)
Adjustments for:			
Depreciation of property, plant and equipment	12	**3,980**	4,847
Depreciation of right-of-use assets	13	**21,149**	22,787
Amortisation of intangible assets	11	**865**	647
Impairment (reversal)/charge on non-current assets	5	**(4,242)**	3,376
Share-based payment charge/(credit)	22	**1,450**	(818)
Finance costs	7	**4,180**	4,195
Finance income	8	**(81)**	(355)
		49,975	31,558
Changes in working capital:			
Decrease in inventories	14	**879**	1,002
(Increase)/decrease in trade and other receivables	15	**(143)**	191
(Decrease)/increase in trade and other payables		**(9,141)**	26,715
Cash generated from operating activities		**41,570**	59,466
Interest paid	7	**(439)**	(215)
Income taxes paid		**(3,381)**	(1,595)
Net cash flow generated from operating activities		**37,750**	57,656
Cash flows used in investing activities			
Purchase of property, plant and equipment		**(3,654)**	(2,694)
Payments to acquire intangible assets		**(855)**	(1,151)
Interest received	8	**81**	355
Net cash flow used in investing activities		**(4,428)**	(3,490)
Cash flows used in financing activities			
Dividends paid	21	**(1,133)**	(4,336)
Purchase of own shares	28	**(410)**	(5,180)
Sale of treasury shares	28	**35**	–
Interest paid on lease liabilities		**(3,741)**	(3,980)
Payment of capital element of leases		**(22,705)**	(16,054)
Proceeds from bank loan		**–**	12,000
Repayment of borrowings		**–**	(12,000)
Net cash flow used in financing activities		**(27,954)**	(29,550)
Net increase in cash and cash equivalents		**5,368**	24,616
Cash and cash equivalents at beginning of year		**82,282**	57,666
Cash and cash equivalents at end of year		**87,650**	82,282

Notes to the consolidated financial statements

1. General information

ScS Group plc (the 'Company') is a public limited company, limited by shares, 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 accounting standards in conformity with the requirements of the Companies Act 2006 ('IFRS') and the applicable legal requirements of the Companies Act 2006 for the 53 weeks ended 31 July 2021 (2020: 52 weeks ended 25 July 2020). In addition to complying with international accounting standards in conformity with the requirements of the Companies Act 2006, the Group's financial statements also comply with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The Group's financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated. They are prepared on the historical cost basis, except for share-based payments that have been measured at fair value.

The financial statements for the year have been prepared for the 53 weeks ended 31 July 2021 (2020: 52 weeks ended 25 July 2020). The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 July 2021. These policies have been consistently applied to all of the years presented, unless otherwise stated.

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 31 July 2021, the Group's cash balance totalled £87.7m, and £15.4m was owed as trade payables for goods delivered (note 16). 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 and leverage.

Cash flows

As part of the Group's ongoing review of going concern, the Directors have reviewed the results for the 12 months to 31 July 2021 and have modelled cash flow forecasts under the following scenarios:

- A 'base case' scenario to July 2024 that includes assumptions in relation to customer demand, the availability of product and the estimated continued impact of the recovery of the UK economy on the Group's performance. We assume no further lockdown periods or direct impact on our store and distribution operation. We expect order levels to return to those experienced pre-pandemic, and assume continued availability of product and no other significant impacts of COVID-19.
- A 'severe but plausible downside' sensitivity scenario which sees a further wave of COVID-19 during winter which requires a further UK lockdown. We have assumed stores are required to close for our key winter trading period – from Boxing Day until the end of January 2022, although distribution operations continue to be permitted. Stores re-open in February 2022, with a limited period of additional demand, although we have prudently assumed only a third of lost orders are recovered.

The Group has included within the severe but plausible model associated reductions in marketing, management and staff bonus costs and sales-related commission payments.

The government continues to provide government support through reduced business rates to 31 March 2022. The modelled scenarios include the benefit of the reduced business rates. No additional government or landlord support (such as a further extension of the furlough scheme) has been included to support the modelled scenarios.

Throughout the 'severe but plausible downside' scenario, the Group would have significant cash headroom, with the cash low point at the end of July 2022 still being substantial at £47.6m, 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 a severe economic climate could mean that they withdraw their support for the Group. This 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.

2. Accounting policies continued

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 accounting standards, interpretations and amendments have been adopted in the year:

– Amendments to IFRS 3	Definition of a Business
– Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform
– Amendments to IAS 1 and IAS 8	Definition of Material
– Amendments to IFRS 16 COVID-19	Related Rent Concessions
– Conceptual Framework	Amendments to References to the Conceptual Framework in IFRS Standards

None of the items listed above have had any material impact on the amounts reported in this consolidated set of financial statements.

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.

The financial year represents the 53 weeks ended 31 July 2021 (prior financial year 52 weeks ended 25 July 2020).

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 showrooms 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.

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 the year end but returned after the year end. The Group recognises the expected value of revenue relating to returns within sales provisions and the expected value of cost of sales relating to the returned items is included within inventories.

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 115).

Notes to the consolidated financial statements continued

2. Accounting policies continued

Intangible assets

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

Computer software	20-33% straight-line per annum

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

Property, plant and equipment

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

Fixtures and fittings	10-20% straight-line per annum
Computer equipment	20-33% straight-line per annum
Leasehold 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.

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 showrooms 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 at commencement of the lease.

The Group transitioned to IFRS 16 on 28 July 2019 using the modified retrospective transition approach. The cumulative impact of applying IFRS 16 was accounted for as an adjustment to retained earnings on the transition date.

Lease liabilities

The lease liability is measured at the present value of the lease payments, discounted at the lessee's incremental borrowing rate specific to the term and start date of the lease, unless the interest rate implicit in the lease can be readily determined. Lease payments include:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable by the group under residual value guarantees;
- The exercise price of a purchase option if the group is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the group exercising that option.

The lease liability is subsequently measured at amortised cost using the effective interest rate method. It is remeasured, with a corresponding adjustment to the right-of-use asset, 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.

Right-of-use assets

The right-of-use asset is initially measured at cost, comprising:

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

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.

Leases of low value assets and short-term leases of 12 months or less are expensed to the Group 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.

2. Accounting policies continued

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 Consolidated statement of cash flows, cash and cash equivalents includes cash on hand.

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.

2. Accounting policies continued

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.

Dividends

Interim dividends are recognised when they are paid to the Group's shareholders. Final dividends are recognised when they are approved by the Group's shareholders.

Provisions

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

Critical accounting judgements and estimates

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions in applying the Group's accounting policies to determine the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis, with revisions to accounting estimates applied prospectively.

Discount rates utilised within IFRS 16 accounting has been removed as a critical accounting estimate following completion of the adoption of IFRS 16 'Leases'. This was added as a critical accounting estimate in the FY20 financial statements due to the significance of the liabilities (and corresponding right-of-use assets) which were brought on to the balance sheet on transition. This is no longer considered as a critical accounting estimate following the completion of the transition to IFRS 16 as the impact of the discount rate on lease additions and modifications during the year, and the level of estimation required in determining the discount rates, was not significant.

Going concern has been removed as a critical accounting judgement. Refer to page 110.

2. Accounting policies continued

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 £17.3m of inventory at the year end, and the majority of this stock is held for display in our showrooms. 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 our showroom 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.

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

Management consider each showroom to be a cash-generating unit (CGU). At each balance sheet date, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets and intangible assets to determine whether there is any indication of impairment at a showroom 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 showroom 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. Management have considered the potential impact of changes in assumptions on the impairment in note 5. 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.

3. Segment information

The Directors have determined the operating segments based on the operating reports reviewed by the Operating Board (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 Operating Board 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 and revenue is as follows:

	53 weeks ended 31 July 2021 £'000	52 weeks ended 25 July 2020 £'000
Sale of goods	**301,327**	249,578
Associated sale of warranties	**23,192**	18,541
Gross sales	**324,519**	268,119
Less: costs of interest-free credit	**(13,953)**	(12,628)
Revenue	**310,566**	255,491
Of which:		
Furniture	**280,926**	226,112
Flooring	**29,640**	29,379
Revenue	**310,566**	255,491

4. Operating profit

Operating profit is stated after charging/(crediting):

	53 weeks ended 31 July 2021 £'000	52 weeks ended 25 July 2020 £'000
Fees payable to the Company auditors for the audit of Company and consolidated financial statements	**30**	25
Fees payable to the Company's auditors and their associates for other services to the Group		
– audit of the Company's subsidiaries pursuant to legislation	**177**	97
– other services (see Audit Committee report on page 80 for further information)	**20**	15
Depreciation of property, plant and equipment – owned	**3,980**	4,847
Depreciation of right-of-use assets	**21,149**	22,787
Amortisation of intangible assets	**865**	647
Impairment (reversal)/charge of property, plant and equipment and right-of-use assets	**(4,242)**	3,376
COVID-19-related rent concessions	**–**	(615)

During the year, the Group received the benefit of support from the UK government of £10.2m in response to the COVID-19 outbreak. This benefit relates to retail business rates relief. The Group also received £3.0m under the UK government's Coronavirus Job Retention Scheme which was paid in respect of employees on furlough and recognised as grant income. Following the strong trading on reopening of our showrooms, the Group took the decision to repay the £3.0m CJRS payment in full.

In the prior 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 Coronavirus Job Retention Scheme which was paid in respect of employees on furlough and was recognised as a grant in accordance with the accounting policy set out in note 2. The remaining £3.4m was benefit from retail business rates relief.

5. Operating exceptional items included within administrative expenses

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:

	53 weeks ended 31 July 2021 £'000	52 weeks ended 25 July 2020 £'000
Impairment reversal/(charge)	**4,242**	(3,376)
Restructuring costs	**–**	(613)
	4,242	(3,989)

Impairment reversal/(charge)

Current year exceptional items include a credit of £4,242,000 which relates to the reversal of previous impairment to the Group's stores. The majority of the current year credit reverses the impairment taken in the prior year as a consequence of reduced forecasts following the impact of COVID-19, with an additional element reversing historic store impairment following stronger forecast store performance as a result of encouraging trading and increased opportunities in our markets. This has been split between the right-of-use asset (£2,932,000) and tangible assets (£1,310,000), 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 8.7%. The sensitivities applied are an increase or decrease of 1.0% used to determine the impairment reversal. It is estimated that a 1.0% decrease/increase in discount rate assumptions, with no change to forecast revenue assumptions, would result in a £320,000 increase/£322,000 decrease in the impairment reversal of store assets in the 53 weeks to 31 July 2021.

In the prior year, exceptional costs disclosed of £3,376,000 related to an impairment charge being recognised on the assets associated with a number of our showrooms. This was split between the right-of-use asset (£2,619,000) and tangible assets (£757,000), apportioned based on net book value.

Restructuring costs

In the prior year, exceptional costs disclosed of £613,000 were in relation to amounts payable for loss of office incurred as a result of restructuring, predominantly relating to the centralisation of administrative support from each of our individual showrooms to our head office in Sunderland.

6. Employees and Directors

6.1 Staff costs

The aggregate remuneration of all employees including Directors comprises:

	53 weeks ended 31 July 2021 £'000	52 weeks ended 25 July 2020 £'000
Wages and salaries	**57,150**	47,281
Social security costs	**5,696**	4,532
Other pension costs	**1,306**	1,235
Share-based payment charge/(credit) (note 22)	**1,450**	(818)
	65,602	52,230

The Group received £3.0m (2020: £5.0m) under the UK government's Coronavirus Job Retention Scheme to offset against the gross wages and salaries costs disclosed above. The amounts received in relation to the current year were subsequently repaid.

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

	53 weeks ended 31 July 2021	52 weeks ended 25 July 2020
Sales	**750**	681
Office and managerial	**572**	525
Services and warehousing	**499**	466
Cleaning	**34**	35
Total	**1,855**	1,707

Details of Directors' remuneration, share options, long-term incentive schemes and pension entitlements are disclosed in the Remuneration Report on pages 81 to 90.

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:

	53 weeks ended 31 July 2021 £'000	52 weeks ended 25 July 2020 £'000
Short-term employee benefits	**3,465**	1,349
Deferred contribution pension cost	**200**	209
Share-based payment charge/(credit)	**1,450**	(818)

Further detail on the above can be found in the Remuneration Report along with details of shares exercised by the highest paid Director.

The share-based payment charge in the year of £1,450,000 relates to the Group's improved trading performance against the EPS targets under the Group's Long-Term Incentive Plan as set out in note 22.

The share-based payment credit in the prior 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

	53 weeks ended 31 July 2021 £'000	52 weeks ended 25 July 2020 £'000
Bank facility renewal fees	**19**	55
Bank facility non-utilisation fees	**396**	63
Bank facility utilisation fees	**–**	97
Other finance costs	**24**	–
Interest on lease liability	**3,741**	3,980
	4,180	4,195

8. Finance income

	53 weeks ended 31 July 2021 £'000	52 weeks ended 25 July 2020 £'000
Bank interest received	**81**	355

9. Taxation

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

	53 weeks ended 31 July 2021 £'000	52 weeks ended 25 July 2020 £'000
Current tax:		
UK corporation tax on profits for the year	**4,385**	(459)
Adjustments in respect of prior years	**527**	(255)
Total current tax charge/(credit)	**4,912**	(714)
Deferred tax:		
Origination and reversal of temporary differences	**(608)**	(284)
Adjustments in respect of prior years	**(694)**	100
Total deferred tax credit (note 18)	**(1,302)**	(184)
Income tax charge/(credit) in the Consolidated statement of comprehensive income	**3,610**	(898)

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

The tax charge (2020: credit) assessed on the profit (2020: loss) for the year is lower (2020: higher) than the standard rate of corporation tax in the UK of 19.00% (2020: 19.00%). The differences are explained below:

	53 weeks ended 31 July 2021 £'000	52 weeks ended 25 July 2020 £'000
Profit/(loss) before taxation	**22,674**	(3,121)
Profit/(loss) before tax at 19.00% (2020: 19.00%)	**4,308**	(593)
Effects of:		
Other expenses deductible/(not deductible)	**281**	(146)
Depreciation and impairment eligible/(not eligible) for tax purposes	**(167)**	161
Amounts in relation to share options	**(373)**	(112)
Adjustments in respect of prior years	**(167)**	(155)
Impact of changes in tax rates	**(272)**	(53)
Income tax charge/(credit) in the Consolidated statement of comprehensive income	**3,610**	(898)

(c) Factors that may affect future tax charges

The UK government in its 2021 Budget announced that the main UK corporate rate would be maintained at 19% until 31 March 2023, before being increased to 25% from 1 April 2023. These changes were substantively enacted at the balance sheet date, 31 July 2021, and hence, have been reflected in the measurement of deferred tax balances resulting in deferred tax being calculated using an effective rate of 22%.

10. Earnings/(loss) per share

	53 weeks ended 31 July 2021 £'000	52 weeks ended 25 July 2020 £'000
a) Basic earnings/(loss) per share attributable to the ordinary equity holders of the Company		
Basic earnings per share from underlying operations	**41.3p**	2.6p
From exceptional costs	**9.1p**	(8.4p)
Total basic earnings/(loss) per share	**50.4p**	(5.8p)
b) Diluted earnings/(loss) per share attributable to the ordinary equity holders of the Company		
Diluted earnings per share from underlying operations	**39.8p**	2.6p
From exceptional costs	**8.8p**	(8.4p)
Total diluted earnings/(loss) per share	**48.6p**	(5.8p)

	53 weeks ended 31 July 2021 £'000	52 weeks ended 25 July 2020 £'000
c) Reconciliations of earnings used in calculating earnings/(loss) per share		
Profit/(loss) from operations	**19,064**	(2,223)
– (Deduct)/add back exceptional costs net of tax	**(3,436)**	3,231
Total profits from underlying operations	**15,628**	1,008

	53 weeks ended 31 July 2021 number	52 weeks ended 25 July 2020 number
d) Weighted average number of shares used as the denominator		
Weighted average number of shares in issue for the purposes of basic earnings/(loss) per share	**37,828,902**	38,464,470
Effect of dilutive potential ordinary shares:		
– Share options	**1,435,066**	1,598,815
Weighted average number of ordinary shares for the purpose of diluted earnings/(loss) per share	**39,263,968**	40,063,285

A total of 1,598,815 potential ordinary shares were not included within the calculation of diluted earnings per share as at 25 July 2020 as they were antidilutive.

11. Intangible assets

	Computer software
Cost	
At 26 July 2020	**8,256**
Additions	**750**
Disposals	**(361)**
At 31 July 2021	**8,645**
Accumulated amortisation	
At 26 July 2020	**5,898**
Charge for the year	**865**
Depreciation on disposals	**(361)**
At 31 July 2021	**6,402**
Net book amount	
At 31 July 2021	**2,243**
At 25 July 2020	**2,358**

	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

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 26 July 2020	159	54,073	4,664	32,637	91,533
Additions	–	1,170	495	2,177	3,842
Disposals	–	(71)	(156)	(139)	(366)
At 31 July 2021	**159**	**55,172**	**5,003**	**34,675**	**95,009**
Accumulated depreciation and impairment					
At 26 July 2020	99	41,871	3,975	28,379	74,324
Charge for the year	3	2,505	547	925	3,980
Depreciation on disposals	–	(71)	(156)	(139)	(366)
Impairment reversal	(2)	(759)	(71)	(478)	(1,310)
At 31 July 2021	**100**	**43,546**	**4,295**	**28,687**	**76,628**
Net book amount					
At 31 July 2021	**59**	**11,626**	**708**	**5,988**	**18,381**
At 25 July 2020	60	12,202	689	4,258	17,209
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

The net book value of leasehold improvements is as follows:

	As at 31 July 2021 £'000	As at 25 July 2020 £'000
Short leaseholds (up to 25 years)	**11,571**	12,144
Long leaseholds (greater than 25 years)	**55**	58
	11,626	12,202

Impairment of property, plant and equipment

All showrooms 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 31 July 2021. A reversal of £1,310,000 as a result of improved future projections for the business, was recorded against property, plant and equipment and was 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 charge or reversal.

13. Leases
This note provides information for leases where the Group is a lessee. The Group leases retail, distribution and office properties and motor vehicles. The leases have varying terms which are negotiated on an individual basis and contain a range of different terms and conditions.

Consolidated statement of financial position
The Consolidated statement of financial position as at 31 July 2021 shows the following amounts relating to leases.

Right-of-use assets

	Leasehold property £'000	Motor vehicles £'000	Total £'000
Cost			
At 26 July 2020	137,675	5,808	143,483
Additions[1]	1,127	1,221	2,348
Disposals	–	(427)	(427)
At 31 July 2021	**138,802**	**6,602**	**145,404**
Accumulated depreciation			
At 26 July 2020	23,478	1,506	24,984
Charge for the year	19,220	1,929	21,149
Depreciation on disposals	–	(427)	(427)
Impairment reversal (note 5)	(2,932)	–	(2,932)
At 31 July 2021	**39,766**	**3,008**	**42,774**
Net book amount			
At 31 July 2021	**99,036**	**3,594**	**102,630**
At 25 July 2020	114,197	4,302	118,499

	Leasehold property £'000	Motor vehicles £'000	Total £'000
Cost			
At 28 July 2019	122,970	3,317	126,287
Additions[1]	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**

1. Right-of-use asset additions include new leases. lease renewals and increases in term and/or scope for existing leases.

Impairment of right-of-use assets
All showrooms 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 31 July 2021. A reversal of £2,932,000 as a result of improved future projections for the business, was recorded against property, plant and equipment and was 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.

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:

	As at 31 July 2021 £'000	As at 25 July 2020 £'000
Current	**22,693**	24,167
Non-current	**93,368**	112,253
	116,061	136,420

13. Leases (continued)

Maturity analysis – contractual undiscounted lease payments:

	As at 31 July 2021 £'000	As at 25 July 2020 £'000
Group		
Within one year	**25,784**	28,010
Within two to five years	**72,591**	81,366
After five years	**29,101**	41,132
Total undiscounted lease payments	**127,476**	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, rather than rental charges of £25,609,000. During the year, the Group recognised £21,149,000 of depreciation charges and £3,741,000 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.

14. Inventories

	As at 31 July 2021 £'000	As at 25 July 2020 £'000
Finished goods	**17,328**	18,207

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 £164,795,000 (2020: £138,663,000).

Inventories include a provision of £3,213,000 (2020: £2,894,000). Write-downs of inventories to net realisable value amounted to £874,000 (2020: £640,000). These were recognised as an expense during the period and were included in cost of sales in the Consolidated statement of comprehensive income.

15. Trade and other receivables

	As at 31 July 2021 £'000	As at 25 July 2020 £'000
Trade receivables	**808**	1,577
Other receivables	**1,859**	1,948
Prepayments	**2,280**	1,279
	4,947	4,804

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

	As at 31 July 2021 £'000	As at 25 July 2020 £'000
Trade payables	**15,369**	20,638
Payments received on account	**36,955**	34,592
Other taxation and social security payable	**6,175**	12,834
Accruals	**13,319**	13,105
	71,818	81,169

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.

Notes to the consolidated financial statements continued

17. Trade and other payables – non-current

	As at 31 July 2021 £'000	As at 25 July 2020 £'000
Accruals	**–**	137
	–	137

18. Deferred tax asset

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

	As at 31 July 2021 £'000	As at 25 July 2020 £'000
Opening deferred tax asset/(liability)	**722**	(452)
Adjustment on initial application of IFRS 16	**–**	990
Opening deferred tax asset (restated)	**722**	538
Adjustments in respect of prior years	**694**	(100)
Credited to profit and loss account arising from the origination and reversal of temporary differences (note 9)	**608**	284
Closing deferred tax asset	**2,024**	722

Deferred taxation has been fully recognised/provided for in respect of:

	As at 31 July 2021 £'000	As at 25 July 2020 £'000
Accelerated capital allowances	**(407)**	(407)
Losses	**1,145**	284
Other timing differences	**477**	43
Capital gains held over	**(157)**	(135)
Adjustment on initial application of IFRS 16	**966**	937
Closing deferred tax asset	**2,024**	722

The deferred tax assets include an amount of £1,145,000 which relates to carried-forward tax losses. The group has concluded that the deferred assets will be recoverable using the estimated future taxable income based on the approved business plans and budgets. The Group expects to continue generating taxable income. The losses can be carried forward indefinitely and have no expiry date. There is £33,000 of historic unused losses in the Group's none trading subsidiaries which have not been recognised due uncertainty that there will be eligible taxable income to offset the losses against. Deferred tax assets are expected to be utilised in more than 12 months from the 31 July 2021.

19. Provisions

	Property obligations £'000	Total £'000
At 26 July 2020	**1,209**	**1,209**
Provisions made during the year	434	434
At 31 July 2021	**1,643**	**1,643**

Property provisions relate to an estimate of dilapidation and decommissioning costs based on anticipated lease expiries and renewals. These provisions are expected to be utilised at the end of each specific lease.

	As at 31 July 2021 £'000	As at 25 July 2020 £'000
Current	**488**	125
Non-current	**1,155**	1,084
	1,643	1,209

20. Share capital and share premium

	Number of shares	Ordinary shares £'000	Share premium £'000	Total £'000
As at 31 July 2021 and 25 July 2020	38,012,655	38	16	54

Authorised, allotted and fully paid share capital is 38,012,655 of £0.001 each (2020: 38,012,655 of £0.001 each).

21. Dividends

An interim dividend of 3.0p (2020: £nil) per ordinary share was declared by the Board of Directors on 16 June 2021. The strength of the Group's balance sheet, coupled with the robust trading experienced since showrooms re-opened in April 2021, provided the Board with the confidence to recommence dividends and as such a final dividend of 9.0p (2020: £nil) has been proposed and, if approved, will be recorded within the financial statements for the year ended 30 July 2022.

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. 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 (CSOP) 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 were 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). As the EPS for the Group was lower than the minimum performance condition set, these options lapsed as at 31 July 2021.
(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).
(viii) 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).
(ix) Performance-based £nil cost options granted on 12 October 2020 (the performance condition is based on EPS as set out in the consolidated audited financial statements of the Group for the financial year ended 29 July 2023).

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 Group 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)		2019, 2020 and 2021 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 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
Granted	–	–	–	–	627,163	£0.000001	627,163	£0.000001
Lapsed	–	–	–	–	(452,004)	£0.000001	(452,004)	£0.000001
Forfeited	–	–	–	–	(319,047)	£0.000001	(319,047)	£0.000001
Exercised	–	–	(19,861)	£1.75	–	£0.000001	(19,861)	£1.75
Outstanding as at 31 July 2021	–	–	27,652	£1.75	1,407,414	£0.000001	1,435,066	£0.033
Exercisable at 31 July 2021	–	–	27,652	£1.75	–	–	27,652	£1.75
Exercisable at 25 July 2020	–	–	47,513	£1.75	–	–	47,513	£1.75

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

Notes to the consolidated financial statements continued

22. Share-based payments continued

Fair value of awards continued

As at 31 July 2021, 562,597 of the outstanding LTIP share options relate to the 2018 LTIP, which vested as at the year end date. Due to the Group's EPS being higher than the minimum target set, a proportion of these options will be awarded. Further information on the LTIP is available in the Directors' Remuneration report on page 86.

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

	2015	2015	2017	2018	2019	2020	**2021**
Grant date	21 January 2015	21 January 2015	17 October 2016	16 October 2017	15 October 2018	14 October 2019	**12 October 2020**
Share price at grant date	£1.75	£1.75	£1.83	£1.75	£2.23	£2.36	**£2.00**
Exercise price	£nil	£1.75	£nil	£nil	£nil	£nil	**£nil**
Number of employees	25	6	6	8	8	7	**6**
Shares issued	571,421	68,659	474,125	554,141	672,848	562,340	**627,163**
Expected volatility	33.7%	36.2%	–[1]	–[1]	–[1]	–[1]	**–[1]**
Expected life (years)	3	5	3	3	3	3	**3**
Risk-free interest rate	0.70%	1.06%	–[1]	–[1]	–[1]	–[1]	**–[1]**
Expected dividend yield	8%	8%	–[1]	–[1]	–[1]	–[1]	**–[1]**
Fair value per share	£1.38	£0.24	£1.83	£1.75	£2.23	£2.36	**£2.00**
Actual/estimated vesting	100%	100%	56%	0%	89%	33%	**46%**

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 charge for the year relating to employee share-based payment plans was £1,450,000 (2020: credit of £818,000) 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 £nil (2020: £480,000).

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 £211,000 (2020: £227,000) 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, trade payables and lease liabilities 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 31 July 2021, the Group's cash balance totalled £87.7m, and £15.4m 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.

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.

25. Financial instruments – risk management (continued)

Financial instruments by category (continued)

The Group's main financial assets comprise cash and cash equivalents and trade receivables (note 15) arising from the Group's activities. These financial assets all meet the conditions to be recognised at amortised cost under IFRS 9.

Other than trade and other payables (note 16) and lease liabilities (note 13), the Group had no financial liabilities within the scope of IFRS 9 as at 31 July 2021 (2020: £nil). Balances within trade and other payables will mature within one year and lease liabilities are measured at amortised cost.

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

Capital management

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

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

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 plc 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 share reserve

	£'000
As at 28 July 2019	91
Purchase of own shares	754
Transfer to retained earnings	(663)
As at 25 July 2020	**182**
Purchase of own shares	410
Sale of treasury shares	(43)
As at 31 July 2021	**549**

During the financial year, the Group's Employee Benefit Trust purchased 200,000 ordinary shares of £0.001 each in the Group at an average price of 204.4 pence per ordinary share for the purpose of satisfying management share incentive awards. Subsequently, 19,861 of these shares were used to satisfy awards, with the remainder held as treasury shares. As at 31 July 2021 the Group holds 257,414 of its own ordinary shares of 0.1 pence each in the Group at an average purchase price of 213.4 pence.

During the prior 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 held 77,275 of its own ordinary shares of 0.1 pence each in the Group at an average purchase price of 234.9 pence.

29. Net debt

	Year ended 31 July 2021 £'000	Year ended 25 July 2020 £'000
Cash and cash equivalents	**87,650**	82,282
Lease liabilities	**(116,061)**	(136,420)
Net debt	**(28,411)**	(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.

The change in lease liabilities from £136,420,000 to £116,061,000 was a result of £3,741,000 interest charged, £26,448,000 principal repayments and additions of £2,348,000.

Company statement of financial position
As at 31 July 2021

	Note	As at 31 July 2021 £'000	As at 25 July 2020 £'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	**35**	27
Deferred tax asset	7	**442**	149
Cash at bank and in hand		**–**	–
Total current assets		**477**	176
Total assets		**70,477**	70,176
Current liabilities			
Trade and other payables	8	**14,196**	12,563
Total current liabilities		**14,196**	12,563
Total liabilities		**14,196**	12,563
Capital and reserves			
Called-up share capital	9	**38**	38
Share premium account	9	**16**	16
Capital redemption reserve		**15**	15
Treasury share reserve	12	**(549)**	(182)
Retained earnings		**56,761**	57,726
Total shareholders' funds		**56,281**	57,613
Total equity		**56,281**	57,613
Total equity and liabilities		**70,477**	70,176

The notes on pages 131 to 133 form an integral part of these financial statements.

The total comprehensive income for the year included within the financial statements of the Company is £176,000 (2020: £3,612,000).

The financial statements on pages 128 to 133 were approved by the Board and authorised for issue on 4 October 2021 and signed on its behalf by:

Steve Carson
Chief Executive Officer

Company statement of changes in equity
For the year ended 31 July 2021

	Called-up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Treasury reserve £'000	Retained earnings £'000	Total equity £'000
At 28 July 2019	40	16	13	(91)	63,538	63,516
Profit and 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**
At 26 July 2020	**38**	**16**	**15**	**(182)**	**57,726**	**57,613**
Profit and total comprehensive income	–	–	–	–	176	176
Purchase of treasury shares (note 12)	–	–	–	(410)	–	(410)
Sale of treasury shares (note 12)	–	–	–	43	(8)	35
Dividend paid (note 10)	–	–	–	–	(1,133)	(1,133)
At 31 July 2021	**38**	**16**	**15**	**(549)**	**56,761**	**56,281**

Company statement of cash flows
As at 31 July 2021

	Note	53 weeks ended 31 July 2021 £'000	52 weeks ended 25 July 2020 £'000
Cash flows from operating activities			
(Loss)/profit before taxation		**(117)**	3,463
Changes in working capital:			
Increase in trade and other receivables	6	**(8)**	(23)
Increase in trade and other payables	8	**1,633**	6,076
Cash generated from operations		**1,508**	9,516
Net cash flow generated from operating activities		**1,508**	9,516
Net cash flow used in investing activities		**–**	–
Cash flows used in financing activities			
Dividends paid	10	**(1,133)**	(4,336)
Purchase of own shares		**(410)**	(5,180)
Sales of own shares		**35**	–
Net cash flow used in financing activities		**(1,508)**	(9,516)
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 31 July 2021

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

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

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

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

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

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

Further information on the Group's going concern and ongoing viability is provided in note 2 of the Group financial statements.

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

Capital management
The Company follows the same capital management as the Group – see page 127 in the Group financial statements.

New standards, amendments and interpretations
For the latest amendments and interpretations, please refer to page 111 in the Group financial statements.

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

Trade receivables
Trade receivables for the Company refer to prepayments made for services performed in the ordinary course of business. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Trade payables
Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

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

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

Related parties
In these financial statements, the Company has taken advantage of the following disclosure exemptions available under FRS 101:
- The requirement of paragraph 17 of IAS 24 'Related Party Transactions'; 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.

Notes to the company financial statements continued
For the year ended 31 July 2021

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 £176,000 (2020: £3,612,000).

4. Directors' emoluments
No Executive Directors received any remuneration for their services to the Company (2020: £nil). All Executive Directors' remuneration was borne by another Group company, A. Share & 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 81 to 90.

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 25 July 2020 and 31 July 2021	70,000

The subsidiaries, which were owned and incorporated in the United Kingdom 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.

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

6. Trade and other receivables

	As at 31 July 2021 £'000	As at 25 July 2020 £'000
Prepayments	**35**	27

7. Deferred tax asset
The Company's movements in deferred taxation during the current financial year and previous year are as follows:

	As at 31 July 2021 £'000	As at 25 July 2020 £'000
Opening deferred tax asset	**149**	–
Credited to profit and loss account arising from the origination and reversal of temporary differences	**293**	149
Closing deferred tax asset	**442**	149

Deferred taxation has been fully recognised in respect of:

	As at 31 July 2021 £'000	As at 25 July 2020 £'000
Losses	**442**	149
Closing deferred tax asset	**442**	149

8. Trade and other payables

	As at 31 July 2021 £'000	As at 25 July 2020 £'000
Amounts owed to Group undertakings	**13,906**	12,415
Accruals and deferred income	**290**	148
	14,196	12,563

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

9. Share capital and share premium

	Number of shares	Ordinary shares £'000	Share premium £'000	Total £'000
As at 25 July 2020 and 31 July 2021	38,012,655	38	16	54

Authorised, allotted and fully paid share capital is 38,012,655 of £0.001 each (2020: 38,012,655 of £0.001 each).

10. Dividends

An interim dividend of 3.0p (2020: £nil) per ordinary share was declared by the Board of Directors on 16 June 2021. The strength of the Group's balance sheet, coupled with the robust trading experienced since showrooms re-opened in April 2021, provided the Board with the confidence to recommence dividends and as such a final dividend of 7.0p (2020: £nil) has been proposed and, if approved, will be recorded within the financial statements for the year ended 30 July 2022.

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 share reserve

Details of the Company's share capital and share buybacks are given in note 28 of the Group financial statements.

Alternative performance measures (APMs)

In the reporting of financial information, the Board have adopted various Alternative performance measures (APMs). APMs should be considered in addition to IFRS measurements. The Board believe that these APMs assist in providing useful information on the underlying performance and position of the Group and enhance the comparability of information between reporting periods by adjusting for non-underlying items which affect IFRS measures and are used internally by the Board to measure the Group's performance.

Consequently, APMs are used by the Board and management for performance analysis, planning, reporting and incentive setting purposes and have remained consistent with prior year. A subset is also used by management in setting director and management remuneration. The measures are also used in discussions with the investment analyst community. The key APMs used by the Group are summarised in the table below.

APM	Definition	Reconciliation		
Like-for like order growth	'Like-for-like' order growth comprises total orders (inclusive of VAT) in a financial period compared to total orders achieved in a prior period excluding new or closed stores to ensure comparability.	N/A		
Gross sales	Gross sales represents turnover on the sale of goods and warranties before deduction of interest-free credit.		**2021 £'000**	**2020 £'000**
		Revenue	**310,566**	255,491
		Add back: costs of interest-free credit	**13,953**	12,628
		Gross sales (note 3)	**324,519**	268,119
Gross margin	Gross profit as a percentage of gross sales.		**2021 £'000**	**2020 £'000**
		Revenue	**310,566**	255,491
		Add back: costs of interest-free credit	**13,953**	12,628
		Gross sales (note 3)	**324,519**	268,119
		Gross profit	**146,987**	119,580
		Gross margin	**45.3%**	44.6%
Free cash flow	Net increase in cash before the impacts of dividends paid and the purchase of own shares.		**2021 £'000**	**2020 £'000**
		Net increase in cash and cash equivalents	**5,368**	24,616
		Dividends	**1,133**	4,336
		Purchase of own shares	**410**	5,180
		Sale of own shares	**(35)**	–
		Free cash flow	**6,876**	34,132
Non-underlying items	Certain costs or incomes that derive from events or transactions that fall outside the normal activities of the Group and are excluded by virtue of their size and nature to reflect management's view of the performance of the Group.		**2021 £'000**	**2020 £'000**
		Operating exceptional items (note 5)	**4,242**	(3,989)
Underlying EBITDA	Earnings before interest, tax, depreciation and amortisation before the effect of non-underlying items in the period.		**2021 £'000**	**2020 £'000**
		Statutory operating profit	**26,773**	719
		Depreciation on tangible fixed assets	**3,980**	4,847
		Depreciation on right-of-use assets	**21,149**	22,787
		Amortisation of intangible assets	**865**	647
		EBITDA	**52,767**	36,978
		Non-underlying items	**(4,242)**	3,989
		Underlying EBITDA	**48,525**	32,989

APM	Definition	Reconciliation	2021 £'000	2020 £'000
Underlying operating profit	Underlying operating profit is based on operating profit before the impact of certain costs or incomes that derive from events or transactions that fall outside the normal activities of the Group and are excluded by virtue of their size and nature to reflect management's view of the performance of the Group.	Statutory operating profit	**26,773**	719
		Non-underlying items	**(4,242)**	3,989
		Underlying operating profit	**22,531**	4,708
Underlying profit before tax	Underlying profit before tax is based on profit before tax, before the impact of certain costs or incomes that derive from events or transactions that fall outside the normal activities of the Group and are excluded by virtue of their size and nature to reflect management's view of the performance of the Group.	Statutory profit/(loss) before tax	**22,674**	(3,121)
		Non-underlying items	**(4,242)**	3,989
		Underlying profit before tax	**18,432**	868
Underlying basic EPS	Underlying basic earnings per share (EPS) is based on earnings per share before the impact of certain costs or incomes that derive from events or transactions that fall outside the normal activities of the Group and are excluded by virtue of their size and nature to reflect management's view of the performance of the Group.	Profit/(loss) for the period	**19,064**	(2,223)
		Non-underlying items net of tax	**(3,436)**	3,231
		Underlying profit after tax	**15,628**	1,008
		Number of shares (000's)	**37,829**	38,464
		Underlying EPS	**41.3p**	2.6p

Company information

Registered office
ScS Group plc
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Tel: 0191 731 3000
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Company number
Registered in England: 03263435

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

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