

A young man and woman are sitting on a grey sofa, looking at a laptop screen. The man is wearing a purple t-shirt and the woman is wearing a red sweater. They are both smiling and appear to be engaged in a pleasant activity on the laptop. The background is a bright, out-of-focus window.

**scs**

SOFA • CARPET • SPECIALIST

# Profitable growth

Annual Report 2018



ScS is one of the  
UK's leading furniture  
and flooring retailers,  
operating from 101 ScS  
stores and 27 House of  
Fraser concessions

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

## A YEAR IN REVIEW

### Financial highlights

#### Gross sales

**£352.3m**

+£2.8m

#### Gross margin

**44.7%**

+67bps

#### EBITDA

**£18.8m**

+8.1%

#### Earnings per share

**26.8p**

+14.0%

#### Dividend

**16.2p**

+10.2%

#### Cash in bank

**£48.2m**

+£8.1m

### Operational highlights

#### Strategy reviewed

Providing focus and priorities for the business for the next three years.

#### Improving our store network

New ScS store opened in Chelmsford – now trading from 101 stores.

#### Improved online sales

Increased investment in team and website grew online sales by 22.6% to £13.8m.

[Read more on page 22](#)

#### Customer service

Became the first UK furniture retailer to achieve 100,000 Trustpilot reviews.

Trustpilot reviews now exceed 113,000.

Trustpilot 5-star 'Excellent' rating maintained.

[Read more on page 24](#)

#### Building resilience

Increased the balance sheet strength, whilst increasing margins and cost flexibility.

£12.0m committed revolving credit facility extended to November 2021.

### Our strategy

We reviewed our strategy during the year. This has allowed the business to reflect on our current focus, and identify where opportunities exist. The result was a revision to our priorities, mission statement and core values. Eight priority areas were identified:

- 1 Building and inspiring an outstanding team
- 2 Delivering an exceptional customer experience
- 3 Optimising our product strategy
- 4 Driving sales densities in our ScS network
- 5 Creating a market leading website and increasing digital awareness
- 6 Maximising the opportunity with House of Fraser customers
- 7 Accelerating our flooring growth
- 8 Improving our profitability

[Read more on page 16](#)

# What we do

ScS, the 'Sofa Carpet Specialist', are one of the UK's leading furniture and flooring retailers. Principally located in modern retail park locations throughout the UK, we also run a furniture and flooring concession in House of Fraser.

We have over 100 years' furniture and retailing experience and our dedicated team of specialists are highly-trained in their fields, which means we can offer our customers the best combination of value-for-money, product choice, quality and customer service.

Our people and our customers are paramount to us and they are placed at the very heart of the Group through our mission, culture and values. Having been established since the 1890s as a family-owned business in Sunderland, we know our customers and how important customer experience and value are to them. Our business and reputation is built on offering outstanding value-for-money in the marketplace along with a 5-star rated customer experience. We combine this with a relentless focus on great quality and choice, from our bespoke and extensive sofa ranges to our specialist flooring collections.

**During the year we have refreshed our mission statement, values and company strategy, which we reference throughout the remainder of the Annual Report. However, our aim remains simple – to provide 'An excellent customer experience with outstanding value, quality & choice.'**



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Employees

**1,932**  
(FY17: 1,970)

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Upholstered furniture market share

**9.6%**  
(FY17: 9.4%)

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Trustpilot rating

**5-star**

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Trustpilot reviews

**113,000**

# Where we are

We trade from 101 ScS stores and operate 27 concessions within House of Fraser department stores across the country – from Aberdeen to Plymouth.

Managing our store footprint is critical to our success. The right store in the right location works hand-in-hand with having great people, great product, service and value. We review our store network on an ongoing basis in order to optimise the store estate and ensure we are retailing in the best available locations. This review covers both the existing network and any opportunities we have identified for new locations. These reviews have identified a further 10-15 potential locations where we would consider opening a new ScS store. We have also identified opportunities to improve our existing network by either relocating to better retail parks in the same area or to rationalise our network to improve our profitability, flexibility and resilience.

Our view is the reach offered by our existing and targeted network is optimum to meet customer demand, whilst ensuring we make an appropriate return. All new locations and existing store lease extensions are subject to a judicious review and Board sign off.

Our online sales grew to £13.8m, up from just £0.5m in 2009. We offer our full in-store ranges on our ScS website.

In 2014 ScS began operating a furniture and flooring range for House of Fraser and we offer a collection of sofas, flooring, dining and occasional products. Throughout the year the concession operated from 27 House of Fraser stores across the UK.

The retail network is supported by nine strategically placed regional distribution centres. We believe this regional footprint is ideal for optimising customer deliveries, whilst maximising business efficiency.

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

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

## Our stores and distribution centres

- ScS stores
- Distribution centres
- House of Fraser concessions

### Stores across the UK

101

### Average store retail space

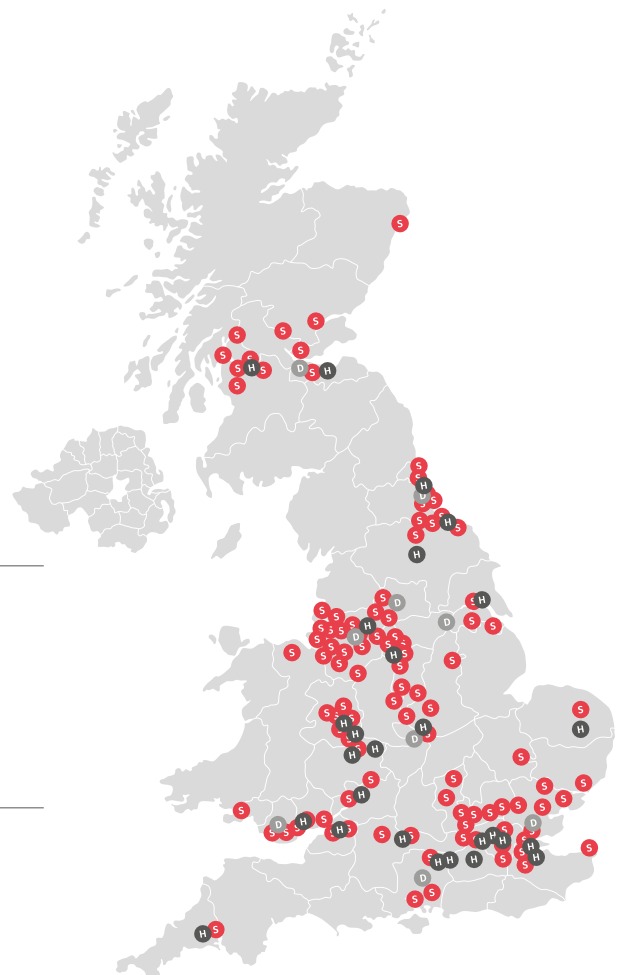
14,536 sq ft

### Distribution centres

9

### House of Fraser concessions

27



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



## 2009

Transactional online website launched

**L A Z B O Y**

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

## 2010

Occasional tables, lamps and dining furniture added



G Plan, the second third party brand, is added



SiSi Italia, the first own brand, is added to the ScS range

## 2011

Interest-free credit offered on all products in every store

## 2012

Flooring added to ScS range

ScS re-branded as the Sofa Carpet Specialist

## 2013

Endurance, the second own brand, is added to the range

Three House of Fraser concession pilots

## 2014

Parker Knoll, a further third party brand, is added to the ScS range

New website launched to provide enhanced online shopping experience

House of Fraser concessions launched



## 2015



Listed on the London Stock Exchange in January

Three new ScS store openings in Abbotsinch, Slough and Croydon

## 2016



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

One new store opening in Bromborough

**DURESTA**

**Alexander & James**

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

## 2017

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

5-star Trustpilot rating maintained and overall score improved

**tetrad**  
*Anything else is just a sofa*

Tetrad became the latest brand to be added to the range

## 2018

One new store opening in Chelmsford

First furniture retailer to reach 100,000 Trustpilot reviews – with a 5-star 'Excellent' rating

First UK Company to be accredited with FIRA certified compliance

Interiors Monthly, Flooring Retailer of the Year

# A strong year of profitable growth and increased resilience

I am pleased to report a third consecutive year of progress, with growth in sales and margins, coupled with increased resilience in the business. These results are particularly encouraging given the ongoing uncertainty in the UK retail sector.

In light of this challenging environment, a review of the Group's strategy was completed during the year. This has provided increased focus on the areas we feel will continue to deliver value to our customers, colleagues and shareholders.

## Financial and strategic objectives

The strategy continues to pursue the same key objectives:

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

The business has continued to deliver against these objectives, further increasing revenue, gross profit, EBITDA and margins, whilst diligently controlling overheads. The continued strong cash flow generation has also strengthened our balance sheet and further enhanced the resilience of the Group.

Our relentless focus on the customer experience and our value offering is a key part of the current and future strategy. Reaching the milestone of 100,000 customer reviews on Trustpilot was a considerable achievement for the Group; maintaining our 5-star 'Excellent' rating provides further evidence that customers enjoy shopping with us.

## Results and dividend

I am once again pleased to report that the Group has delivered results ahead of market expectations. This is particularly pleasing given the continued challenging trading environment, and demonstrates the resilience of the business and the success of our focus on offering an excellent customer experience with outstanding value, quality and choice.

The first half of the financial year saw the Group trade strongly, with overall like-for-like performance growth of 2.2%. However, the second half of the year brought more challenging conditions across the market. Extreme bad weather at the end of February and exceptionally warm weather through June and July, coupled with the World Cup, resulted in like-for-like orders in the second half declining by 2.6%. Given these headwinds, it is encouraging that we have delivered a full-year like-for-like order increase of 0.2%.

As part of our continued aim to improve profitability, we have continued to identify and implement various business efficiencies, both within gross margin and overhead costs, and these initiatives have helped to increase our EBITDA margin, resulting in a 14.0% increase in earnings per share (EPS) from 23.5p to 26.8p.

During the year we successfully opened one new ScS store in Chelmsford and this, along with the full year impact of new stores opened during the previous financial year, has helped to drive the increase in revenue in the year. As part of our ongoing reviews to ensure we have the best stores in the best locations we also took the decision to not renew the lease on one of our Edinburgh stores, which was not achieving the level of return the Group desires for the capital invested.



“

I am once again pleased to report that the Group has delivered results ahead of market expectations.”

## Gross sales

**£352.3m**

+£2.8m

## Earnings per share

**26.8p**

+14.0%

Our concession within House of Fraser, which represented 7.1% of gross sales, has had a particularly challenging year. The ongoing uncertainty throughout the year as to the viability of the House of Fraser business culminated in the business going into administration shortly after our year end. The business and assets were subsequently bought by Sports Direct International plc and, whilst we continue to trade from all 27 concessions, order performance has continued to be disappointing. We are currently in discussions with the new owners with a view to agreeing a mutually beneficial arrangement, which will allow us to continue trading in a profitable manner in as many of the current concessions as possible.

The Group continues to hold no debt, had cash reserves of £48.2m at 28 July 2018 (2017: £40.1m) and, after paying out a further £6.0m (2017: £5.9m) in dividends in the year, generated net cash flows in the year of £8.0m (2017: £17.7m). The Group continues to maintain a £12.0m committed revolving credit facility, which was extended during the year to November 2021. This provides further resilience, whilst also allowing the Group to take advantage of opportunities as they arise.

Whilst the continued uncertain economic environment means that we expect trading to continue to be challenging, the improved results year-on-year, coupled with the strength of the Group's balance sheet, has resulted in the Board proposing a final dividend of 10.90p. If approved, this would give a full year dividend of 16.2p, an increase of 10.2% on the full-year dividend for 2017.

## Conclusion

The continued strength and resilience of the Group is built on the hard work, dedication and expertise of all of the people who work for the business. On behalf of the Board, I would like to thank all of our 1,932 team members throughout the business, in particular for their determination and commitment in helping us to continue to grow despite the continued challenging trading conditions. This is a particularly difficult time for our 124 employees working across our House of Fraser concessions, and I would especially like to thank them for their professionalism and patience whilst we do our very best to agree a way forward with the new owners.

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



**Alan Smith**  
Chairman

1 October 2018

## Our culture – listening and improving

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

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

## Our values

We live by our **RIGHT** values:

### Responsive

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

### Inclusive

Working and communicating with each other to achieve common goals.

### Get it right

Doing things right first time.

### Hard working

Passionate, committed and driven with a winning attitude.

### Trusted

Operating with fairness, respect, honesty and integrity.

# Growing market share despite suppressed consumer confidence

## Current UK market trends

**Recent research from GlobalData indicates the following key drivers of activity in our core markets:**

Challenging economic conditions are likely to continue to suppress consumer confidence.

Current uncertainty around the Brexit outcome has dampened big ticket sales and the subsequent transitional period to follow will continue to weigh on the market.

Housing transactions, a key purchase motivation in furniture, have slowed in 2018.

Footfall in retail parks continues to shrink, although customers often arrive better researched and more committed to purchasing.

Interest rates have been at historic lows, which has helped partly fund big ticket purchases. Interest rate rises in November 2017 and August 2018 will increase the cost of credit and encourage savings.

## Looking ahead

GlobalData forecasts state that ScS core markets will grow over the longer term – with circa 9.8% growth anticipated between 2018 and 2023 in furniture and circa 10.3% in floorcoverings over the same period.

A growing prominence of 'digital' in the big ticket market – with increased acceptance for customers to make their purchase online, and the vast majority of customers entering the store having carried out research beforehand.

## Implications on ScS

We continue to strive to offer the best value, choice, quality and service to our customers in light of pressures on consumer spend and potential cost inflation following Brexit.

Our digital presence will continue to be a significant driver in the success of the business, both in regards to researching and transacting online.

With nearly half of our customers choosing to utilise our finance options to pay for their products, we will work closely with our providers to minimise the impact of interest rate changes.

## Our advantages in the market

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

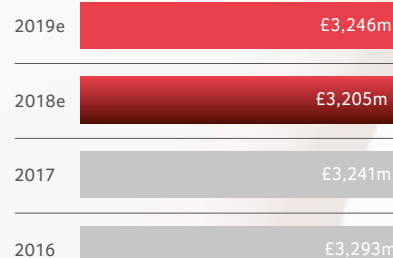
Our product offering has continued to evolve in line with our strategy to broaden our appeal by offering a wider range of brands – including third party brands – as well as flooring, dining and occasional ranges. Flooring in our ScS stores now represents 12.1% of total gross sales.

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

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

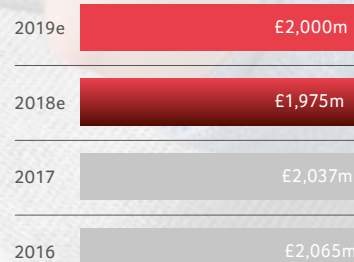
## Upholstery market size\*

**£3,205m**



## Floor coverings market size\*

**£1,975m**



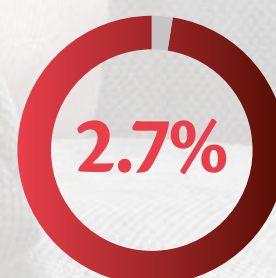
\* Updated per latest GlobalData data at time of publication.

## 2018 upholstery market share



FY17 market share: 9.4%

## 2018 floor coverings market share



FY17 market share: 2.5%

A photograph of a man with curly brown hair and a beard, wearing a blue patterned sweater, and a young boy with curly brown hair wearing a green polo shirt. Both are smiling broadly and have their arms raised in the air, appearing to be cheering or celebrating. They are sitting on a grey sofa. In the background, a white wall and a framed picture are visible.

## Recognising our place in the market

### Increasing market share

We continue to grow, with GlobalData estimating that our furniture market share has increased from 7.9% in 2013 to 9.6%, and our flooring market share increasing from 1.6% to 2.7%, over the same time frame.

### Value retailer

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

### Opportunities for further growth

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

### Target upholstered furniture market share

**13%**

### Target flooring market share

**3%**

# Improved profitability through providing outstanding value, quality and choice

## Overview

2018 has been another strong year. Despite a prolonged period of economic uncertainty and challenging trading conditions, we have continued to grow the business. I believe this is due to our continued focus on what we do best – ensuring that we offer an excellent customer experience with outstanding value, quality and choice. The downturn in sales in our House of Fraser concessions has been more than offset by growth in our core ScS business. This has been aided by record results from our online channel, which has seen a 22.6% increase in gross sales.

## Results

The Group saw a £4.3m (1.3%) increase in revenue in the year to £337.3m (2017: £333.0m). Gross profit increased to £157.3m (2017: £153.7m), with the gross margin percentage increasing 67bps to 44.7% (2017: 44.0%). EBITDA increased 8.1% to £18.8m (2017: £17.4m) and profit before tax rose 10.5% to £13.2m (2017: £12.0m).

## Strategic priorities

In light of the challenging and changing retail environment, the Group reviewed its strategy during the year. This has allowed the business to reflect on its current focus, identify where opportunities exist and led to a refinement in priorities, mission statement and core values. Eight priority areas were identified:

- Building and inspiring an outstanding team;
- Delivering an exceptional customer experience;
- Optimising our product strategy;
- Driving sales densities in our ScS network;
- Creating a market-leading website and digital awareness;
- Maximising the opportunity with House of Fraser customers;
- Accelerating our flooring growth, and
- Improving our profitability.



“

In light of the challenging and changing retail environment, the Group reviewed its strategy during the year. This has allowed the business to reflect on its current focus, identify where opportunities exist and led to a refinement in priorities, mission statement and core values.”

### Building and inspiring an outstanding team

The Group is fortunate to have very experienced and dedicated employees. However, if we are to continue to move the business forward, it is critical that we continue to improve our ability to attract, retain and recruit the right people. Core to this was a review of the Group's culture and the launch of its new core values. Progress in this area has already occurred, with an increase in staff retention rates, coupled with increased staff engagement, alignment and communication as evidenced by the recently completed staff survey, which had a 81% response rate. Further progress is targeted in 2019, with the implementation of new recruitment strategies and technology and additional strengthening of the senior management team.

### Delivering an exceptional customer experience

The Group has held a 5-star 'Excellent' Trustpilot rating for three years and this continues to be a key priority for us. The Group is one of a handful of businesses in the UK to have achieved over 100,000 reviews since we started using the independent review site, and whilst we are delighted to have achieved the maximum star rating, there are still areas we believe we can improve. This priority will include a review of the customer journey, from when customers start researching online or visiting a store, to the point of delivery and aftercare. The aim is to identify where we can further enhance the experience. This will include the use of mobile technology and the continued incentivisation of our teams to provide an excellent customer experience.

### Optimising our product strategy

Key to the Group's mission is providing product that gives the customer outstanding value, quality and choice. We feel our wide range of price points, together with market leading brands, core ranges and credit options delivers a market leading offer. The Group's long term relationships with its supplier base means we can react quickly to emerging trends and can focus on product quality and service. The ongoing development and management of this supply chain will be a key competitive advantage in the future.

### Driving sales densities in our ScS network

In-store sales remain the most significant element of the Group's business, making up 89.0% (2017: 88.9%) of the Group's turnover. Despite the significant pressure on consumer spending in the year, and the consequential impact on 'big-ticket' purchases, gross furniture sales were inline with prior year, at £270.9m, and flooring sales in-store grew 7.1%, to £42.8m.

This increase was mainly driven by the increase in the store estate size, following the opening of four stores in the previous year, and a further store in Chelmsford in 2018. With regards to future plans, we continue to pursue a number of new locations across the UK, where we feel there are opportunities for expansion with the right level of return on investment. Conversely, there are a small number of our current stores where we would consider an exit should the opportunity arise. We review our store network on an ongoing basis in order to optimise the estate. As part of this ongoing process we may also look to take advantage of relocations within a town from one park to another.

### EBITDA

**£18.8m**

+8.1%

### Gross profit

**£157.3m**

+2.3%

The Group has continued to optimise our branded range of products, and this has helped maximise our average order value, with furniture order values rising 0.4% in the year to £1,582, and flooring order values rising 7.9% to £679. We continue to do this through our use of brand-focused advertising campaigns and the ongoing improvements we are making in store to showcase brand areas.

We continue to invest in our online capability, resulting in both the benefit of direct sales through the website noted separately below, but also the indirect benefit of improving the quality of footfall, with the majority of customers now entering our stores having already researched their choices. This has ensured that, despite continued decreases in footfall noted industry-wide, customers are more engaged and more likely to place an order. The Group continues to operate in an increasingly competitive and challenging marketplace. Driving customers to both our website and, ultimately, our stores via TV, press, radio and digital marketing remains a key strategic priority. In-store customer conversion remains a key measure for the Group, and in the current year this conversion rate increased by 4.8%.

Following the exercise to refresh aged display stock in FY17, stock sales were £2.2m lower in FY18, which is the main reason the sales density per square foot at our ScS stores for the year ended 28 July 2018 decreased £2 or 0.9% per square foot to £224 (2017: £226). Excluding stock sales, the underlying sales per square foot has remained the same and, whilst we are disappointed to see this, industry data indicates that we have outperformed the overall market.



The Group has held a 5-star 'Excellent' Trustpilot rating for three years now and this continues to be a key priority for us. ”

#### Gross margin

**44.7%**

+67bps

#### Online gross sales

**£13.8m**

+22.6%

#### Creating a market leading website and digital awareness

An ever increasing proportion of our customers visit our website to research our products prior to visiting a store to make their final purchase. Additionally, whilst, as a big ticket retailer, we believe that having a store network where customers can come in and see the products is essential, we also appreciate that an increasing number of customers are choosing to transact online. Continued website investment has therefore been a key part of the Group's strategy. To this end, we have strengthened our E-commerce team and have continued our investment in website development and maintenance and increased digital marketing spend, which has successfully driven improvements in our website visitor count and conversion.

Online was a significant success for the business in the year, with gross sales increasing 22.6% to £13.8m (2017: £11.3m). We continue to see further potential and online growth will remain a key strategic priority. We also took the decision in the year to commit to a re-platforming of our website in 2019, with the expectation this will greatly improve our customer's experience through increased speed and functionality, and dramatically improve the look and feel, in particular on mobile devices.

#### Maximising the opportunity with House of Fraser customers

The Group operates 27 House of Fraser concessions, targeting those customers who prefer to shop in department stores and town centres, and enabling the Group to access a wider demographic. On 10 August 2018, shortly after our year end, House of Fraser was placed into administration. Uncertainty as to the viability of House of Fraser's own business throughout the year meant that trading conditions were very difficult, and this resulted in gross sales decreasing by 9.4% to £24.8m (2017: £27.4m). This decline in gross sales has resulted in a reduction in the contribution of the concessions to the overall Group EBITDA.

As noted in the Chairman's statement, the House of Fraser business and assets were bought out of administration by Sports Direct International plc and we are currently still trading from all 27 concessions. We remain in discussions with the new owners in an attempt to agree new terms of trade, mindful of the 124 employees who work in these concessions, but also of the need to protect and enhance shareholder value.

#### Accelerating our flooring growth

Since adding flooring as a sales channel in 2012, it has continually helped drive increased turnover and profitability. We are very proud to have recently been awarded the coveted 'Best Flooring Retailer 2018' from Interiors Monthly, a leading industry magazine. Customers increasingly see ScS as a destination for their flooring needs, with flooring sales in-store increasing 7.1% to £42.8m (2017: £39.9m). Flooring still remains a key growth area and the Group is committed to continuing to invest in its success. During the year ended 28 July 2018, we also ran our first flooring-specific advertising campaign, as we continue to look to increase customer awareness and highlight the product offering. We also continue to improve and invest in the space allocated to our flooring offer across our network of stores, and look forward to this helping to further grow our market share.

#### Improving our profitability

Delivering profitable growth and increasing our quality of earnings are two of our four financial objectives. With the Group's high level of operational gearing, modest changes in revenue and gross profit margins can have a significant impact on earnings. The Group saw its gross profit margin increase to 44.7% (2017: 44.0%) and the EBITDA margin increased to 5.3% (2017: 5.0%). This is covered in more detail in the Financial Review.

**Current trading and outlook**

Since the start of the current financial year, the overall trading performance of the Group has been in line with our expectations. Due to the ongoing changes at House of Fraser, trading within our concessions, which represented 7.1% of FY18 gross sales, remains challenging and we are working with the new owners to address this as a priority. Performance in our core ScS business has been encouraging.

We will continue to focus on our value offering and we believe the Group's increasing resilience and strong cash flow dynamics will enable us to manage the continued economic uncertainty and take advantage of opportunities as they arise, allowing us to continue to deliver value for our shareholders.



**David Knight**  
**Chief Executive Officer**

1 October 2018

An  
excellent  
customer  
experience with  
outstanding  
value, quality  
and choice

[WWW.SCS.CO.UK](http://WWW.SCS.CO.UK)

The ScS business model offers a high quality, competitively priced range of furniture, flooring and related products to our customers with great service – supported by experienced expert staff, modern comfortable stores, an efficient supply chain and flexible cost base – resulting in outstanding value, quality and choice for our customers.

### Our competitive strengths

#### Expert staff

Experienced and knowledgeable staff who are passionate about helping our customers operate throughout the business. This starts with our product sourcing team, who ensure our customers have the right choice, value and quality available to them in-store and online. Great product is supported by our knowledgeable in-store teams who help customers make the right choices. Our in-house delivery teams and dedicated service and support teams ensure the whole customer journey is as smooth as possible.

#### Customer service, awareness and nationwide coverage

Customers can shop with confidence with our maximum 5-star Trustpilot rating. With over 100 years of trading experience and many years of marketing investment we are a known destination for customers looking for their next sofa or flooring. With 101 stores and 27 House of Fraser concessions we offer nationwide coverage from Aberdeen to Plymouth.

#### Modern and comfortable stores

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

#### An omnichannel shopping experience

Our continued investment in our trading websites ensures the customer has a first class experience, whether looking to buy online or simply using the site to research and view our great products and offers.

#### Efficient, reliable supply chain

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

#### Flexible cost base

Our make to order business model ensures over 75% of our costs are proportioned to sales, or are discretionary.

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



#### Choice & value

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



#### Quality

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



#### Convenience

Our customers can find many of their home furnishing needs under one roof, with 128 locations to choose from around the UK, in addition to our online offering.

### Revenue generating activities



ScS furniture – in-store

**£270.9m**



ScS flooring – in-store

**£42.8m**



## Credit

Offering choices for our customers with affordable monthly payments.



## Service

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



## Online

Our digital channels are key to our customer experience and are designed to support and compliment our stores.



ScS online

**£13.8m**



House of Fraser

**£24.8m**

## Value creation

### For customers

Providing an excellent customer experience with outstanding value, quality and choice.

We have now received feedback from over 100,000 of our customers via Trustpilot and we are proud to have retained our 5-star 'Excellent' rating.

*See Our Strategy in Action on page 24*

### For colleagues

Building a great place to work, where growth continues in a challenging economy.

A workplace where hard work is recognised and opportunities exist for progression.

Improving communication and clarity with the launch of the refreshed company strategy and values.

*See our Sustainability, People and Community section on page 35*

### For our stakeholders

Through our continued growth of revenue, margins, profits and dividends underpinned by our strong cash flows we continue to deliver value for our shareholders, whilst building resilience.

*See the Financial Review in ScS on page 26*

# During the year the Group has reviewed its strategy

## 2018 strategic priority

### 1 Building and inspiring an outstanding team

**By putting people at the heart of our business, we aim to ensure they help us deliver an exceptional customer experience.**

To continue to achieve growth in today's economy we are focused on creating a great place to work. Recognising the contribution individuals make and creating opportunities for progression is important to us.

#### Core values

We've refreshed our core values and have helped our teams focus on getting it **RIGHT**:

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

#### Leading edge recruitment technology

Our new mobile-first recruitment website takes candidates straight to the available positions local to them; applying online is easy and quick and if candidates don't see a role that suits them they can register with us and join our candidate bank for when a future opportunity arises.

#### Creating opportunities

During FY18 12% of our staff were promoted within our business. Every member of the team was given an opportunity to participate in training activities. Our most recent staff survey showed improvements in all the areas measured compared to previous surveys.

### 2 Delivering an exceptional customer experience

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

#### Trustpilot

For such an important purchase, customers want confidence that their retailer of choice can deliver on their promises. To aid this, we encourage our customers to leave feedback on the independent Trustpilot platform. Nothing gives customers more insight than other customers' feedback.

Every review is taken seriously, especially where they identify areas for improvement. Part of our management's remuneration is driven by the quality of customer experience they deliver.

See page 24

#### Technology

We are currently investing in technology that will enhance our customer journey, covering web research, in-store experience, delivery and aftercare.

The advancements will offer customers more choice and flexibility throughout their buying journey.

In addition we will be reviewing our internal processes and procedures to ensure that we adopt a customer-first focused approach across all of our teams.

### 3 Optimising our product strategy

**We want to ensure that our customers are able to choose from a range of products that offer value for money at a range of price points.**

#### Supplier performance

We are able to utilise feedback from customers provided via Trustpilot and our Aftercare team to provide our suppliers with detailed information on the performance of their product.

The feedback is utilised by our suppliers to improve product quality and durability with targets set for levels of improvement.

#### Product performance

We monitor the performance of each of the products in our range. This helps identify changing customer preferences and allows the business to act appropriately to ensure we maximise our retail space.

#### Range

A full review of the range (furniture and flooring) offered in store and online was carried out in the current year, ensuring we continue to provide great value, quality and choice. During the year, we refreshed a number of our products, including the re-launch of our dining and occasional furniture offering.

#### Brands

Being home to some of the UK's best-loved furniture and flooring brands gives customer's further confidence in our authority and the quality we can offer. The majority of our branded products are exclusive to the Group, making ScS the destination for buying the biggest and best brands.

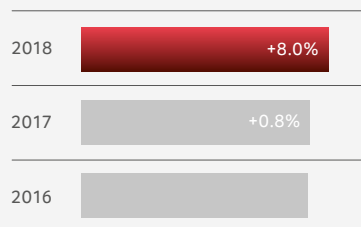
## Our strategy covers eight main areas:

- Building and inspiring an outstanding team
- Delivering an exceptional customer experience
- Optimising our product strategy
- Driving sales densities in our ScS network
- Creating a market leading website and increasing digital awareness
- Maximising the opportunity with House of Fraser customers
- Accelerating our flooring growth
- Improving our profitability

## Key performance indicators

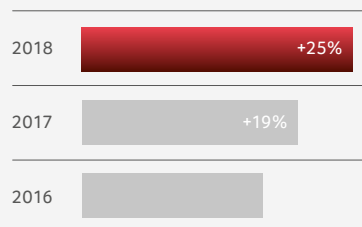
### Staff retention

Changes to our staff retention over the last three years.



### Culture survey

Trend in our employee culture survey over the last three years.



## Key risks

### Our people and culture

Ensuring that we are able to attract and retain high quality and experienced people right across our business, is key to ensuring the growth and development of the Group.

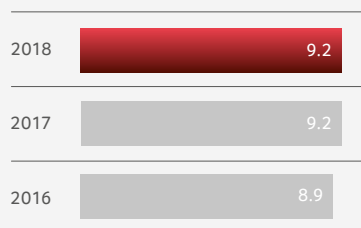
The UK is currently experiencing high levels of employment. This, along with increases to the minimum and living wage, is placing upward pressure on salaries and demands for skilled labour.

### Brand and reputation

Our people are key to all aspects of our business operation. It is essential that we ensure that each of our team members have the skills necessary to be able to do their job and sufficient knowledge to ensure that our strong brand and reputation continue to grow.

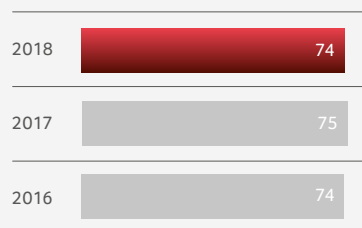
### Trustpilot

We have continued to focus on our TrustScore to ensure that we can maintain our Excellent rating.



### Customer satisfaction score

Customer satisfaction score is a methodology to determine customer satisfaction with a purchase or interaction.



### Brand and reputation

Customers have a great deal of choice and flexibility when it comes to where they shop. If our brand or reputation becomes damaged in any way, customers may choose to shop elsewhere rather than visit us to consider a purchase.

### Our people and culture

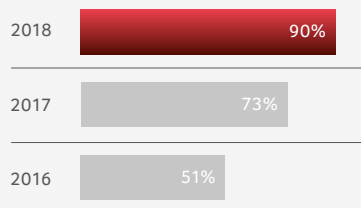
Failure to attract, develop and retain good people working with our customers can impact on the customers buying experience.

### Business systems

Customers are increasingly demanding of retailers and want a service that suits their needs and requirements. Without investment in business systems that facilitate this, customers may become unhappy with a lack of flexibility to meet their needs.

### Sedex membership

Sedex is a not-for profit organisation that is one of the world's largest collaborative platforms for sharing responsible sourcing data on supply chains. We are working towards ensuring that all of our suppliers members and are focusing on their performance around labour rights, health and safety, environment and business ethics.



### Furniture Industry Research Association (FIRA)

We became the first UK Company to be accredited with FIRA Certified Compliance.



### Supply chain, infrastructure and product

Failure to deliver a safe, quality product in line with customer expectations risks the reputation of the Group, resulting in a loss of customer confidence and declining sales volumes.

### Regulation and compliance

If we are supplied with a product that does not meet the required safety and quality standards this could result in financial or reputational damage.

### Economic environment

A challenging consumer market can lead to a drop in revenue for suppliers with an impact on their long-term viability.

### 2018 strategic priority

#### 4 Drive sales densities in our ScS network

**In a challenging marketplace where competition between retailers is tougher than ever, we have continued our success at converting our footfall into customers and increasing average order values.**

##### Expert sales teams

With our heritage and authority in the sofa and flooring marketplace, customers can feel confident that our teams will help them make the right choice. Building on this experience and quality is a key priority for 2019.

##### Affordability

Our wide range of products at different price points allow customers to choose furniture and flooring they love. To compliment this we also offer a number of credit options, including 48 month interest free credit.

##### Modern & comfortable stores

The year saw the Group open one ScS store in Chelmsford. Following the successful opening of a new store in Edinburgh in December 2016, we have closed our existing Edinburgh store.

##### Marketing

Calling our customers to action is a key activity in the Group. We advertise on all the traditional media platforms (TV, radio and press) and also on the emerging digital platforms. Making our spend have the biggest impact is critical, often focusing activity around key trading days and in line with seasonal spending patterns.

#### 5 Creating a market leading website and increasing digital awareness

**Continued success online will increase website new visitor count and improve the quality of store footfall, with consumers continuing to use our website to research products prior to making a purchase.**

##### Optimising our existing website

The existing site is under review to see how we can improve the user experience, including navigation, speed and content. Recently deployed insight tools have provided insight into the areas where we can make quick wins.

##### Improving product presentation and user experience

The Group is exploring how it best meets the ever changing demands of the online customer and optimises the research tools for our customers who prefer to shop in store. This includes improved search functionality product imagery, and video content.

##### Increasing our digital marketing

Over the past three years the Group has increased its digital spend. With the improved insight and improved website content and functionality this is an area the Group will continue to grow its investment in 2019.

##### Creating a market leading website

We have recently appointed a new provider to help replatform the website, striving for best-in-class functionality and performance.

#### 6 Maximising the opportunity with House of Fraser customers

**Targeting a different demographic to the core ScS business, our concessions currently operate in 27 House of Fraser stores across the UK.**

##### A tailored offering

Promoted under the House of Fraser 'Made to order, Sofas, Furniture and Flooring' brand, the product offering is tailored to the target market.

##### Building customer confidence and awareness

With the well-publicised challenges and changes House of Fraser has seen over the past few months, rebuilding customer confidence in the brand is key. Awareness that the department store also houses a furniture and flooring offering that is one of the strongest on the high street is also a key focus.

##### Optimising the store footprint

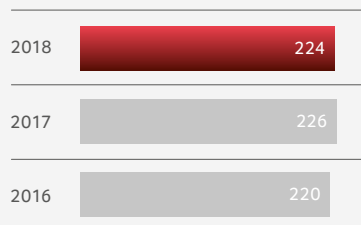
The Group currently operates from 27 House of Fraser stores.

We remain in dialogue with House of Fraser as they restructure and reinvest, with possible opportunities in their remaining stores network, and remain hopeful that the long-term outcome of the restructuring will be a stronger House of Fraser that can benefit both its customers and ourselves as concession partners.

## Key performance indicators

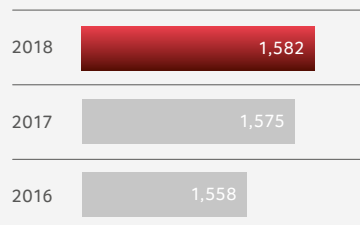
### Sales densities per square foot (£)

Decline in sales densities per square foot of 0.9% in the current year, but an increase of 15.2% over the last 3 years.



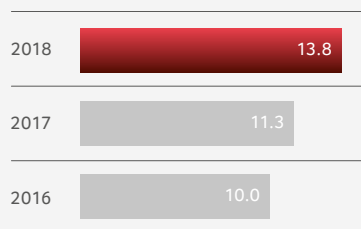
### ScS furniture AOP (£)

ScS furniture AOP increased 0.4% in the current year, and 2.0% over the last 3 years.



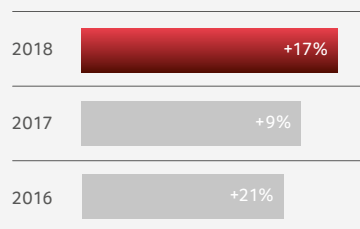
### Online gross sales (£m)

Growth in online gross sales of 22.6% in the current year, and 64.3% over the last 3 years.



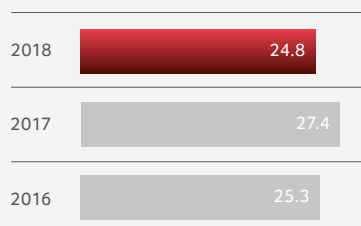
### Website hits

Website visitors increased 8% in the current year, and have increased 54% over the last 3 years.



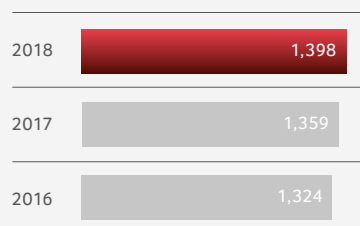
### House of Fraser gross sales (£m)

Decrease in gross sales of 9.4% in the current year, but an increase of 17.0% over the last 3 years.



### House of Fraser AOP (£)

HoF AOP increased 2.9% in the current year, although down 3.8% over the last 3 years.



## Key risks

### Economic environment

With the big-ticket nature of our sales, a reduction in consumer confidence may lead to a fall in discretionary spending.

### Competition

With an increasingly competitive market, the ability to respond to the changing customers' needs and shopping habits is critical.

### Consumer finance

The inability to offer interest free credit would have a material impact on the Group's proposition.

### Seasonality/extreme weather

Prolonged extreme weather, either hot or cold, could impact on store footfall. This is important due to the seasonal nature of big ticket furniture retailing.

### Competition

With the ongoing emergence of online businesses offering furniture coupled with the increase of products researched/purchased online the Group's trading websites must be of good standard.

### Our people

Failure to attract, develop and retain good people in this area increases the reliance on third party providers.

### Business systems

A loss of the websites or underlying business operating system would cause a disruption to the customer-purchasing journey and could lead to loss of business.

### Brand and reputation

Recent news will have reduced consumer confidence in House of Fraser. A failure to rebuild this confidence will lead to a deterioration of sales.

### Our people

Given the uncertainty surrounding the high street and House of Fraser in particular, attracting and retaining good quality people will prove challenging.

### Competition

Failure of the traditional department stores to adapt to changing customer shopping habits may lead to reduced shopper footfall.

### 2018 strategic priority

#### 7 Accelerating our flooring growth

**Sales and profits from flooring have increased every year since we introduced this offer in 2012. Flooring still remains a key growth opportunity for the Group.**



##### Customer experience

Just as we do with our furniture services, we measure the performance of our teams involved in the provision of flooring. Trustpilot reviews specific to flooring are fed back to our teams so we can learn and improve.

##### Optimising our footprint

A review of our flooring offer and positioning in our stores in 2018 has led to a refurbishment programme that will be completed in 2019. This refit and re-location will enhance the flooring offer, increase awareness and improve the customer shopping experience.

##### Range and customer choice

Our non-stock operation allows the Group to carry a range of flooring products that rivals the market leaders, with over 120 ranges available and 5,000 SKUs. In the current year, the range has been re-categorised to improve and simplify the shopping experience.

##### Customer awareness

We are confident that further growth can be achieved through increasing customer's awareness of the ScS flooring offering. We increasingly find customers are interested in the proposition of fitting new flooring and purchasing furniture at the same time.

#### 8 Improving our profitability

**Since floating in January 2015 the business has focused on increasing the Group's profits, margins and resilience, whilst maintaining the flexible cost base. In the last three years EBITDA has increased by 66%.**

##### Procurement

A review of the Group's procurement (both direct and indirect) commenced in the current year and continues. This review has helped with the increase in gross margin noted in the current year. Services and products purchased by the Group will be tendered in line with procurement best practice.

##### Cost base flexibility

Whilst the Group is happy to invest in taking the business forward, it continues to recognise the importance of having a cost base that is appropriate to a business with a high level of operational gearing. The business estimates that 75% of its cost base is flexible.

##### Enhanced insight

The current year has seen the establishment of regular margin reviews with the key operating units of the business. This has been aided by improved reporting and insight from a strengthened reporting team.

##### Simplifying processes

Process reviews are ongoing in a number of the areas of the business with the aim of finding a more efficient way of operating. The use of technology is also being considered where the business case supports the required investment.

## Key performance indicators

### Flooring gross sales (£m)

Growth in flooring gross sales of 7.1% in the current year, and 34.6% over the last 3 years.

2018	42.8
2017	39.9
2016	38.1

### Flooring AOP (£)

ScS flooring AOP increased 7.9% in the current year, and 36.5% over the last 3 years.

2018	679
2017	629
2016	608

### Gross margin %

Gross margin increased 67bps in the year to 44.7% (2017: 44.0%).

2018	44.7
2017	44.0
2016	44.6

### EBITDA (£m)

EBITDA increase of 8.1% in the year.

2018	18.8
2017	17.4
2016	16.0

## Key risks

### Economic environment

A reduction in consumer confidence or activity levels in the housing market could reduce demand for new flooring.

### Our people and culture

Attracting and retaining high quality, experienced sales and operating teams is key to continuing to offer the high levels of service we currently deliver. The availability of these people will be critical if the Group is to maximise the opportunity in the flooring market.

### Competition

The market is in a period of change following the market leader's decision to reduce the number of operating locations. Whilst the impact this will have on the market is not yet clear, this change will create opportunities as well as risks.

### Economic environment

A reduction in consumer confidence could lead to reduced demand which, due to the level of operational gearing in the business could have a significant impact on the Group's profit levels. Exchange and interest rate fluctuations could also lead to cost pressure.

### Seasonality/extreme weather

As seen in the current year, extreme weather conditions can lead to reduced footfall and in turn reduced revenue.

### Consumer finance

A reduction in the availability of reasonably priced finance may reduce the ability of the Group to offer interest free credit, which is a key part of the Group's customer proposition.

## Double digit online growth

Online continues to be the fastest growing area of the business, now contributing £13.8m of gross sales, achieving 22.6% growth on the prior year.

The online sales channel continues to be a crucial part of growth within retail and ensuring we are maximising this opportunity is a key part of the strategy for the Group. Despite selling predominantly 'big-ticket' items, customers are becoming increasingly confident buying online and, whilst our average order value is typically lower than that in store, the increasing number of transactions shows that our continued investment in this space is achieving strong returns.

As well as the success of direct sales online, we know our website also offers an excellent catalogue and research tool for our customers. For many online only retailers, a customer leaving their website is the last time they'll see them. However, as we increasingly improve our integrated 'bricks and clicks' model, we are seeing more and more of our customers selecting a shortlist of products before they

then come in to try them out, and ultimately make the sale in the store. Despite the continued industry-wide decrease in footfall, our customers are more engaged and are more likely to place an order with us, with a greater proportion of people coming into the store then placing an order than ever before, leading to increased store conversion.

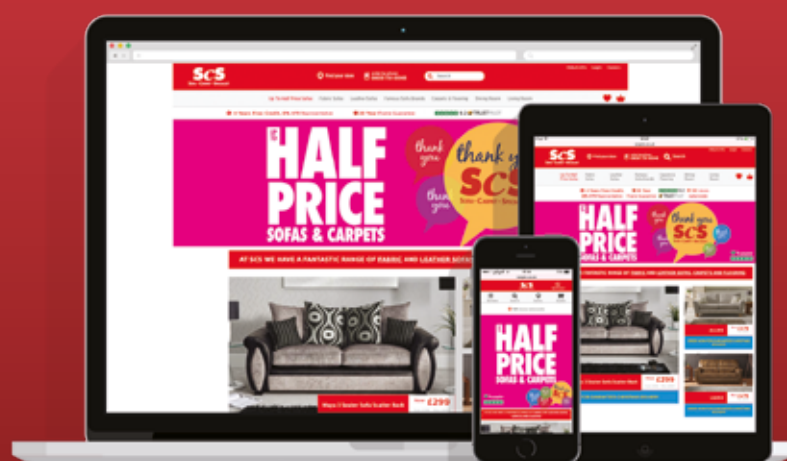
The Group is committed to further investment in this area, and has therefore targeted achieving a market-leading website and online presence. Through 2019 we will be strengthening our e-commerce and digital team with a number of specialist roles, and have committed with a new specialist partner to deliver a new, fully re-platformed website.

### Online sales

**£13.8m**  
(FY17: £11.3m)

### Store conversion

**+4.8%**



[Link to 2018 Strategic Priorities](#)



## Online revenue growth

**£13.8m**

2018 13.8

2017 11.3

2016 10.0

## Web traffic

**+17%**

2018 +17%

2017 +9%

2016 +21%

## Over 100,000 Trustpilot Reviews – listening, engaging and continually improving our customer experience

We love listening to and engaging with our customers and we use all the feedback we receive to help inform and improve our business. The whole business gains an enormous sense of pride when receiving positive customer feedback about their experiences of our stores or our delivery and aftercare teams. However, receiving constructive feedback from our customers about what to improve on is even more valuable to our business. Trustpilot is one of the world's largest independent consumer review platforms with almost 50 million reviews and more than 240,000 businesses reviewed worldwide. Free and open to all, it gives our existing customers a place to share their opinions and for prospective customers to discover reviews about our business. Trustpilot provides us with the tools to turn consumer feedback into valuable insights and business results.

Trustpilot is hugely important to our business, and in June this year we were delighted to reach 100,000 reviews, becoming the first furniture retailer, and one of only 10 UK companies, to achieve the milestone. Even more impressively, we have once again maintained our 5-star 'Excellent' rating, and are proud to think we've now turned over 100,000 houses into homes.

Our TrustScore continues to be a key metric that our business success is measured against. Beyond listening and engaging with our customers, Trustpilot's Actionable Insights solution allows us to pull rich, useful information from all our customer reviews. The reviews continue to show how much customers enjoy their in-store experience and how much they value the level of service we provide when delivering orders to their homes. Customers consistently comment that we offer a friendly, helpful experience and great service. We've also listened and acted upon feedback from our customers regarding delivery slots and timings, and we are currently testing new software which will improve timetabling, make routing more efficient, and provide more useful notifications to customers on delivery times, which we plan to implement next financial year.

For prospective customers looking to purchase their next piece of furniture, there is no better research tool than reading reviews of previous customers, and having over 100,000 reviews for those potential customers to build their opinion on is something nobody else can offer! In fact, we are the furniture retailer on Trustpilot who has received the most 5-star ratings from customers.

Our TrustScore is available publicly and viewed around 34,000 times per month. Search engines also report our score on their results pages, meaning it is seen a further 147,000 times per month, and local store reviews even show on our "Store Locator" page, allowing customers to see exactly what they can expect if they visit their local ScS store.

Trustpilot remains the best way for us to understand what our customers think about us and the service we provide. 100,000 reviews later, with a 9.2 out of ten TrustScore and an average 5-star 'Excellent' rating – we are delighted with the results!

### TrustScore

**9.2** out of ten

### Number of reviews

**113,000**

### Overall customer experience rating – Excellent



More than just a rating, Trustpilot stars signify to the world that a company has nothing to hide, loves its customers, and shares our mission to create ever-improving experiences for everyone. Through Trustpilot, ScS is striving to constantly put its customers at the heart of what it does, and that is great to see.



Peter Mühlmann,  
Founder and CEO,  
Trustpilot

[Link to 2018 Strategic Priorities](#)



Trustpilot is one of the world's largest review platforms with almost 50m reviews and 240,000 businesses reviewed worldwide.



#### Very welcoming shop

Very welcoming shop layout with a very good selection of furniture on display.

Helpful but not pushy staff who had good product knowledge and guided us through the different sofa beds that we were considering.

I would say that SCS are a cut above the other furniture stores and will not hesitate to both revisit in the future and recommend.



#### Very happy customers

We have used SCS in the past for a sofa and then carpet, the whole customer experience has always been first class from the sale right through to delivery/fitting and after care, for this reason we did not hesitate to order bathroom flooring and as usual received brilliant customer service!



#### Very very satisfied

I have purchased my sofas from ScS for the past 10 years or more, and would not think of going anywhere else. Marvellous customer service/advice, friendly staff and no hard sales tactics.

I would recommend this company highly.



# Strong results despite an unsettled market



## Gross sales and revenue

Gross sales increased by £2.8m (0.8%) to £352.3m (2017: £349.5m) and is attributable to:

- Furniture sales in ScS stores in-line with prior year at £270.9m;
- An increase in flooring sales in ScS stores of 7.1% to £42.8m;
- An increase in online sales of 22.6% to £13.8m, and
- A decrease in sales from the House of Fraser concession of 9.4% to £24.8m.

The four new stores opened in the prior year, plus the new store in Chelmsford in the current year, contributed an additional £6.0m to gross sales year on year. The decrease in gross sales for existing ScS stores was due to a reduction in the opening order book following the downturn in trading experienced towards the end of the prior year, and a reduction in the number of lower margin stock sales of £2.2m following the display refresh in the prior year. Gross sales in the House of Fraser concessions reduced due to the combination of a lower opening order book and the trading difficulties experienced by House of Fraser as a whole during the financial year.

Revenue, which represents gross sales less charges relating to interest-free credit sales (see note 3 – Segment information) on page 82, increased by 1.3% to £337.3m (2017: £333.0m). This was driven mainly by increased volume, but also benefitted from work undertaken to reduce the cost of interest free credit provided by the Group's finance houses.

## Gross profit

Gross margin (gross profit as a percentage of gross sales) increased to 44.7% (2017: 44.0%). The increase of 67bps is attributable to a number of actions including reducing the cost of interest free credit we pay to finance houses, a reduction in the volume of lower margin stock sales following the display refresh in the prior year, and an increased focus and insight on made to order sales.

The increase in gross margin, coupled with the higher volume year on year, resulted in an increase in gross profit of £3.6m or 2.3%.

## Distribution costs

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

Distribution costs expressed as a percentage of revenue for the year were 5.3%, 0.3% higher than the prior year. The higher costs in the year reflect cost pressure experienced in remuneration for drivers and increased expenditure surrounding the opening of the Group's new distribution centre in Basildon.

## Administrative expenses

Administrative expenses comprise:

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

Administration costs for the year totalled £126.2m, compared to £125.2m in the prior year. Administrative costs as a percentage of revenue were 37.4%, compared to 37.6% in the prior year.

The year saw an increase in administrative costs of £1.0m, with the increase being driven by the following:

- £2.2m increase in payroll costs largely driven by a £2.0m increase in performance related bonuses following the Group's improved EBITDA;
- £0.8m decrease to marketing investment, and
- £0.4m decrease in website development and maintenance costs following a strengthening of the on-line team who have been able to add in-house development.

Marketing costs decreased to £23.9m in the year (2017: £24.7m) as, following the decision to re-phase some of our half-one spend into half-two in order to enhance returns, we then decided to reduce the overall level of spend in light of the benign market conditions. The control of costs remains a key focus area as does increasing the level of flexibility in our cost base.

## Flexible costs

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

Total costs before interest, tax, depreciation and amortisation across for the year were £333.5m (2017: £332.1m).

Of this total, 75% (2017: 75%), or £251.5m (2017: £249.7m), are variable or discretionary, and are made up of:

- £195.0m cost of goods sold, including finance and warranty costs (2017: £195.8m);
- £17.9m distribution costs (2017: £16.5m);
- £23.9m marketing costs (2017: £24.7m), and
- £14.7m performance related payroll costs (2017: £12.7m).

Semi-variable costs total £45.5m, or 14% of total costs, for the year (2017: £46.3m; 14%) and are predominately other non-performance related payroll costs and store costs. Rent, rates, heating, and lighting then make up the remaining £36.5m (11%) of total costs (2017: £36.1m; 11%).

The Group has reduced the average remaining lease tenure of our store portfolio. This has been achieved by targeting lower tenures on existing lease renewals and on new stores. This provides the Group with increased flexibility to exit or relocate stores where required. The majority of recent leases entered into are ten years in length. Average remaining tenure length for the Group has dropped from 8.4 years at the end of FY16 to 6.8 years at the end of FY18 (FY17: 7.6 years).

### Operating profit

Operating profit for the year increased by 10.5% to £13.2m (2017: £12.0m).

### EBITDA

An analysis of EBITDA is as follows:

	Year ended 28 July 2018 £m	Year ended 29 July 2017 £m
Operating profit	13.2	12.0
Depreciation	5.1	4.8
Amortisation	0.5	0.6
EBITDA	18.8	17.4

### Taxation

The tax charge for the financial year is higher (2017: higher) than if the standard rate of corporation tax had been applied, mainly due to charges not deductible for tax purposes, principally depreciation on capital expenditure that does not qualify for capital allowances, offset by a benefit on the exercise of share options by management awarded upon listing.

### Earnings per share (EPS)

EPS for the year ended 28 July 2018 was 26.8p compared to earnings per share of 23.5p in the previous year, an increase of 14.0%.

### Cash and cash equivalents

A strong cash flow has been generated from operations reflecting the negative working capital business model whereby:

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

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

	Year ended 28 July 2018 £m	Year ended 29 July 2017 £m
Cash generated from operating activities	21.0	30.1
Net capital expenditure	(2.9)	(5.2)
Net taxation and interest payments	(2.9)	(1.3)
Free cash flow	15.2	23.6
Dividends	(6.0)	(5.9)
Purchase of own shares	(1.2)	–
Net cash generated	8.0	17.7

Cash generated from operating activities in the previous year benefited by £10.6m from the timing of the July 2017 supplier payment run when compared to the year ended 30 July 2016.

	Year ended 28 July 2018 £m	Year ended 29 July 2017 £m
Gross sales	352.3	349.5
Revenue	337.3	333.0
Gross profit	157.3	153.7
Distribution costs	(17.9)	(16.5)
Administration expenses	(126.2)	(125.2)
Total operating expenses	(144.1)	(141.7)
Operating profit	13.2	12.0
Net finance costs	–	–
Profit before tax	13.2	12.0
Tax	(2.5)	(2.6)
Profit after tax	10.7	9.4
Earnings per share	26.8p	23.5p
EBITDA	18.8	17.4

Net capital expenditure in the year includes £0.8m on the new Chelmsford store and new Basildon distribution centre following the consolidation of the Thetford and West Thurrock distribution centres (2017: £3.1m on four new stores).

### Dividend

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

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

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

An interim dividend of 5.30p per ordinary share was paid in May 2018. The Group has continued to strengthen and deliver positive results, with very strong cash generation and a balance sheet that is growing in resilience. Additionally, the Group continues to maintain a £12.0m committed revolving credit facility, which was extended during the year to November 2021.

Therefore, despite the continued uncertain economic environment, the Board is confident in the outlook for the Group and proposes a full-year dividend of 16.2p, a 10.2% increase on the full-year dividend for 2017. If approved, this would result in a final dividend of 10.90p. The dividend, if approved, will be paid on 26 November 2018 to shareholders on the register on 2 November 2018. The ex-dividend date is 1 November 2018.

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

1 October 2018

## RISK AND RISK MANAGEMENT

### Risk governance

Like all businesses, we face risks and uncertainties that could affect the achievement of our strategy. These risks are accepted as part of doing business. The Group recognises that the nature and scope of these risks can change, therefore regular reviews are undertaken of the risks and the systems and processes to mitigate them.

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

The Group has a formal governance framework in place underpinning our approach to risk

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



### Risk management process & framework

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

The Audit Committee is presented with risk reports at every committee meeting.

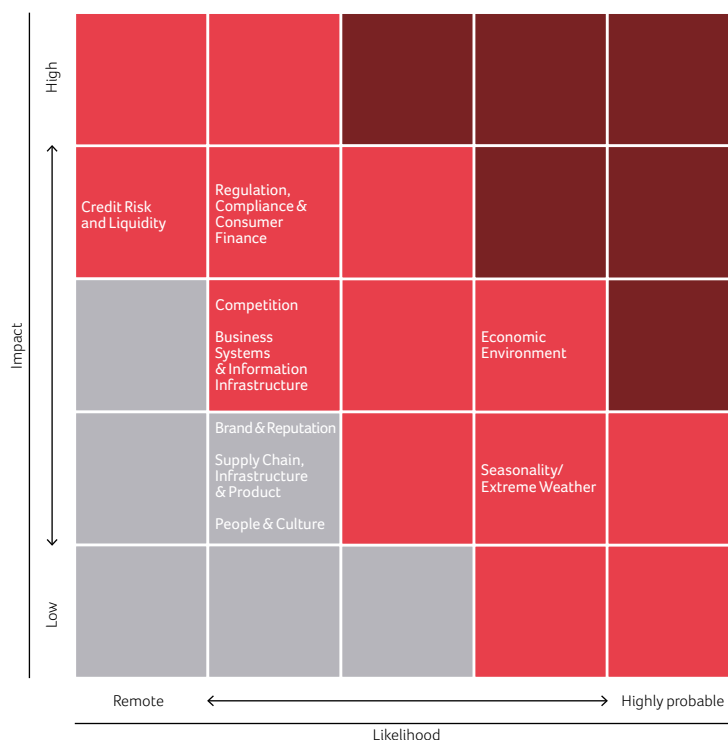
## Identification of risks

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

## Risk appetite

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

## Group principal risks map



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

## PRINCIPAL RISKS AND UNCERTAINTIES

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






For reporting purposes we have combined the following risks into one heading:

- Combined 'regulation & compliance' plus 'consumer finance' into 'regulation, compliance & consumer finance'.
- Combined 'supply chain/infrastructure' plus 'product' into 'supply chain/infrastructure & product'.

We have removed the risk of 'property – availability/lease costs' as this risk has been reported as low impact and remote likelihood for a number of years, and although the risk will continue to be monitored internally, we no longer class it as a principal risk.

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

### ECONOMIC ENVIRONMENT

Link to strategic priorities    	Performance indicator Sales performance	Executive responsibility Board	Change in risk level 
Description	Mitigation	Progress in 2017/18	
<p>A reduction in consumer confidence or activity levels in the housing market, resulting in a fall in consumer spending on discretionary high value items, such as furniture, could be damaging to the performance of and prospects for the Group.</p> <p>The Group faces economic uncertainty following the decision for the UK to leave the EU along with other factors such as income levels and the availability of credit.</p> <p>Further exchange or interest rate fluctuations could lead to cost pressure.</p>	<ul style="list-style-type: none"> <li>• We maintain a lean business model allowing us to remain competitive in our markets and adapt to change quickly.</li> <li>• We offer a range of products and price points in our categories to ensure that customers can trade up or down.</li> <li>• A key strand of our strategy has been to broaden and thereby diversify our product offering into categories such as flooring and third party brands.</li> <li>• We will continue to offer a quality product at a competitive price that remains attractive to our consumer base. Our entrance into the flooring market, concessions and brands, along with an improved dining and occasional range, has diversified our offering into a wider demographic consumer base.</li> <li>• We offer a range of interest-free options to our customers to enable more affordable, monthly payments.</li> <li>• We work closely with our suppliers and will attempt to minimise any impact on our cost base and our retail pricing strategy.</li> </ul>	<p>In light of economic conditions this risk was increased in the prior year.</p> <p>Ongoing review of business structure as part of strategic plan.</p> <p>We have improved our occasional range and introduced new ranges into our House of Fraser concessions.</p> <p>Our flooring range has been improved. Flooring departments in stores are being fully re-merchandised with a fresh new look.</p> <p>Our furniture product range has undergone an internal and external review, resulting in a refreshed range.</p> <p>We have introduced further resilience to our finance offer by introducing an additional finance house.</p> <p>We have worked with our existing suppliers to manage costs over the year to ensure that we can continue to offer value to our customers.</p>	

## COMPETITION

Link to strategic priorities 4 5 6 7	Performance indicator Sales performance	Executive responsibility Buying Director Sales Director	Change in risk level ◀▶
Description	Mitigation	Progress in 2017/18	
The Group operates in competitive and fragmented markets and against a wide variety of retailers and may face increased competition in its target markets. Failure to be aware of or respond to key changes in the competitive environment is a risk to our future success.	<ul style="list-style-type: none"> <li>We continue diversifying and developing our proposition for customers as part of our Group strategy. We continually respond to changing patterns in demand in our core market that broadens our appeal and sales base.</li> <li>We actively monitor sales performance, product and advertising performance and competitor activity.</li> <li>We have carried out a comprehensive review of our advertising strategy to ensure that we are reaching our target audience effectively.</li> </ul>	<p>We have continued to review our business model and our ability to adapt to changes in the market and challenges from competitors.</p> <p>We have reviewed our digital strategy and plan to invest significantly in customers digital experience which will support our growth expectations.</p>	

## REGULATION, COMPLIANCE & CONSUMER FINANCE

Link to strategic priorities 3 4 8	Performance indicator Prosecution and regulatory action	Executive responsibility CFO Corporate Services Director	Change in risk level ◀▶
Description	Mitigation	Progress in 2017/18	
<p>Many of the Group's activities are facing increasing legislation and standards including trading, advertising, product quality, health &amp; safety, the environment, data protection (GDPR) and the Bribery Act. Failure to comply with these may risk incurring financial or reputational damage. Changes to the regulation of product warranties could affect future sales.</p> <p>The Group's ability to offer interest-free credit to customers may be impaired as a result of high default levels, higher interest rates or the withdrawal or uncompetitive nature of consumer credit facilities provided by external finance companies – thereby reducing the competitiveness of a key part of the Group's customer proposition.</p>	<ul style="list-style-type: none"> <li>Regular training is provided to retail staff and any complaints regarding regulated activity are reported to the Board.</li> <li>We actively monitor compliance with our existing obligations and we maintain internal policies and procedures. Colleagues are kept informed of these requirements via regular briefings and internal communications.</li> <li>All suppliers are subject to regular checks and independent product testing is regularly undertaken.</li> <li>We ensure that we comply with current guidelines on pricing and promotions through regular review and monitoring.</li> <li>Annually, all employees are issued with a code of conduct.</li> <li>A confidential hotline is established for colleagues to raise any concerns in confidence.</li> <li>We maintain relationships with a number of credit providers to reduce the risk of the facility being withdrawn.</li> <li>We regularly review default levels with the providers.</li> <li>The Group has obtained the relevant permissions from the FCA to continue to provide interest-free credit to customers and continually monitors relevant compliance to obligations.</li> </ul>	<p>During 2017/18 we have improved and strengthened our assurance framework.</p> <p>We have improved our training programme and developed monitoring and reporting processes.</p> <p>We work closely with our finance providers to ensure that we adhere to relevant legislation and guidance. The Group also engaged a third finance provider during the year, increasing resilience.</p> <p>We conducted a full review of all business processes ahead of the implementation of the changes to data protection regulation improvements were made to ensure that we were fully compliant with the new regulations.</p>	

## PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Key to change in risk level since the previous year: Risk higher (worsened) ▲ Risk stayed level ◀▶ Risk lower (improved) ▼

### BUSINESS SYSTEMS AND INFORMATION INFRASTRUCTURE

Link to strategic priorities 2 5	Performance indicator Number of major incidents	Executive responsibility CFO	Change in risk level ◀▶
Description	Mitigation	Progress in 2017/18	
The Group's business involves a high number of operational and financial transactions across numerous sites that rely on the continuous operation of our IT systems.	<ul style="list-style-type: none"> <li>24-hour system monitoring is in place for business critical systems.</li> <li>A disaster recovery site is available and a full disaster recovery plan is in place and is reviewed and updated annually.</li> <li>The resilience against cyber-attack is regularly tested and monitored by the Group.</li> </ul>	<p>We have continued to invest in our IT systems.</p> <p>The IT investment program aligns and supports our growth strategy.</p> <p>We have implemented our plan to ensure our compliance with GDPR.</p>	

### SEASONALITY/EXTREME WEATHER

Link to strategic priorities 4 8	Performance indicator Number of major incidents	Executive responsibility Board	Change in risk level ◀▶
Description	Mitigation	Progress in 2017/18	
Furniture retailing is highly seasonal in nature. Prolonged extreme cold, warm or unseasonal weather conditions may reduce footfall in our stores, resulting in weak sales, leading to potentially adverse effects on profitability.	<ul style="list-style-type: none"> <li>The Group constantly monitors national, divisional, regional and branch results.</li> <li>This close monitoring and our ability to flex the marketing and advertising spend enables the Board to react quickly to changes in the marketplace.</li> </ul>	<p>We have reviewed our marketing strategy, and undertaken significant work on improving our presence on digital channels. Improvements have been made to our website to improve the customer journey and experience.</p>	

### CREDIT RISK AND LIQUIDITY

Link to strategic priorities 3 8	Performance indicator Cash headroom Banking covenants	Executive responsibility CFO	Change in risk level ◀▶
Description	Mitigation	Progress in 2017/18	
The availability of supplier credit and the ability of suppliers to obtain credit risk insurance could have material adverse effects on the Group's cash position and overall financial condition.	<ul style="list-style-type: none"> <li>We have developed strong relationships and credibility with credit insurers through regular communication and information sharing.</li> <li>Robust forecasting facilities enable early discussion of possible issues increasing the chances of positive solutions.</li> <li>£12.0m revolving credit facility in place.</li> <li>Suppliers provide regular updates on their credit insurance arrangements.</li> <li>See the viability statement on page 34 for further information.</li> </ul>	<p>The committed bank revolving credit facility has been agreed and is in place until November 2021.</p> <p>We have continued to maintain a strong financial position through careful monitoring and management.</p> <p>Closing cash has increased £8.1m to £48.2m (2017: £40.1m).</p>	

## SUPPLY CHAIN/INFRASTRUCTURE AND PRODUCT

Link to strategic priorities	Performance indicator	Executive responsibility	Change in risk level
3 4 6 7 8	Customer feedback/independent testing/delivery optimisation	Logistics Director Buying Directors	↔
Description	Mitigation	Progress in 2017/18	
<p>A large proportion of the Group's products are supplied by a small number of key manufacturers. A supplier that ceases to trade could cause disruption to the supply of products to customers.</p> <p>Around one-third of the total products sold by the Group are manufactured in the Far East, which could present difficulties in ensuring supplier compliance and an ethical supply chain.</p> <p>Failure to deliver a safe, quality product in line with customer expectations risks the reputation of the Group, resulting in loss of customer confidence and declining sales volumes.</p>	<ul style="list-style-type: none"> <li>The Group has long-established and good working relationships with its key suppliers.</li> <li>When sourcing products we ensure that at least two factories can produce each product providing resilience.</li> <li>We independently monitor supplier financial stability to identify any early signs of failure.</li> <li>Suppliers are expected to be members of Sedex that entails agreeing to independent audits of manufacturing facilities (including compliance to the Modern Slavery Act).</li> <li>The Group carries out regular independent testing on products supplied to ensure ongoing compliance to current regulations.</li> <li>Product performance is monitored via the customer service team and regular meetings are held with suppliers to help eliminate and reduce product issues.</li> </ul>	<p>We have updated our Service Level Agreements with all our suppliers to ensure that they meet our business requirements.</p> <p>We have continued as members of Sedex to monitor risks of modern slavery within our supply chain.</p> <p>We have been accredited by the FIRA certified compliance scheme during the past year, with ScS being the first UK company to achieve this.</p>	

## BRAND AND REPUTATION

Link to strategic priorities	Performance indicator	Executive responsibility	Change in risk level
1 2 6 8	Customer feedback (Trustpilot)	Board	▼
Description	Mitigation	Progress in 2017/18	
<p>The Group recognises the need to protect its brand and reputation – failure to do so effectively could result in a loss of confidence by customers and or colleagues.</p>	<ul style="list-style-type: none"> <li>Key aspects of our business activities that have the potential to impact reputation are monitored closely.</li> <li>We regularly survey customer service levels (for example, through Trustpilot) and product quality, colleague engagement (through staff surveys). The integrity of our product sourcing is regularly monitored and reviewed.</li> </ul>	<p>We have maintained our five-star rating on Trustpilot.</p> <p>We have reviewed and refreshed our values, to align and focus on our revised business strategy.</p>	

## OUR PEOPLE AND CULTURE

Link to strategic priorities	Performance indicator	Executive responsibility	Change in risk level
1 2 5 6 7	Colleague retention	Corporate Services Director HR Director	↔
Description	Mitigation	Progress in 2017/18	
<p>The business is reliant on the high quality, stability and experience in its senior management team.</p> <p>Retaining trained and engaged colleagues is essential to the delivery of the high standard of customer service, which is a key part of our proposition. Our future success is at risk if we do not recruit and retain high-calibre people.</p> <p>Recent changes to the minimum living wage could affect the Group's cost base or affect ability to retain staff.</p>	<ul style="list-style-type: none"> <li>The key senior Executives and management are appropriately rewarded and incentivised through bonus and long-term incentive arrangements with a focus on retention as well as performance.</li> <li>The Board has adopted a succession plan which includes strategy and contingency measures should key individuals not be available.</li> <li>The Group ensures terms and conditions of employment are fair and competitive in the sector.</li> <li>The Group works to maintain its brand presence and retain its reputation as an 'employer of choice'.</li> <li>The Group has achieved and maintained Investors in People status.</li> <li>Retention rates are monitored and supported by an exit interview process.</li> </ul>	<p>We have launched a new recruitment website and applicant tracking system.</p> <p>We have refreshed our strategic approach setting our Group mission, culture and values.</p> <p>An HR Director has been appointed and joined the Group in August 2018.</p> <p>Further investment in training and development has been in place to establish and close training gaps.</p> <p>We continue to carry out and respond to staff surveys on an annual basis.</p> <p>Staff turnover has reduced by 8% during FY18.</p>	

## VIABILITY STATEMENT

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As explained in the Strategic Report, the Group's business model provides customers with high quality, competitively priced upholstered furniture, flooring and related products. The Directors are confident that consumer demand for these products will continue to remain in the longer term, and that our growth strategy (see pages 16 to 21) will ensure our business model will continue to bring long term sustainable success to the Group.

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

### Assessment of viability

The Strategic Plan is stress tested for severe but reasonable scenarios and the effectiveness of any mitigating actions that would reasonably be taken. The Strategic Plan was specifically stress tested against the key risks identified within the plan, with attention to the principal risks and uncertainties highlighted on pages 30 to 33. This included the modelling of:

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

Due primarily to the flexible nature of the cost structure of the Group, and additionally to the significant cash reserves held currently, the outcome of this stress testing satisfied the Directors with respect to the ongoing liquidity and solvency of the Group over the three year period under review. Approximately 76% of total Group costs are either variable or discretionary and as such, even in difficult trading conditions, these costs would also reduce, and in the most severe scenarios the dividend could also be restricted. These reductions, together with relevant mitigating actions and significant cash reserves, would ensure the Group could continue to meet its liabilities. Further to the above examples, the

Directors are comfortable that the work done to minimise the risk to the supply chain, chiefly ensuring the use of a variety of suppliers and ensuring multiple factories are able to produce similar product ranges, would be sufficient to limit the effect on the Group should that risk occur.

The Strategic Plan also encompasses the projected cash flows and headroom against financial covenants under the Group's existing facility. The Strategic Plan makes certain assumptions about the normal level of capital recycling likely to occur and therefore considers whether additional financing will be required. The Group continues to hold a significant cash balance and maintains an undrawn £12.0m committed revolving credit facility. The facility, which was extended in December 2017, has a maturity date of November 2021, and therefore covers the three-year period to 31 July 2021.

### 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 31 July 2021. 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.

## SUSTAINABILITY, PEOPLE AND COMMUNITY

“

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

At ScS, sustainability, our people and the communities in which we operate are a key part of our business and is integrated into the day-to-day management of our Company. It is important to our reputation in the marketplace and to our customers and colleagues, as well as the wider stakeholders in society and the communities we serve.

We focus on three key priority areas:

**sustainability**, where our emphasis is on recycling waste, reducing electricity usage, improving fuel efficiencies and sourcing with integrity; **people**, to ensure that our staff and customers can work and shop in a safe environment, and a focus on ensuring that ScS is a great place to work and develop; and **community**, where we put great emphasis on local charitable fundraising.



**David Knight**  
Chief Executive Officer

An  
excellent  
customer  
experience with  
outstanding  
value, quality  
and choice

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### Sustainability

As a retailer we recognise our operations will impact on the environment, and we have a duty to ensure that both now and in the future we seek to minimise this impact. There are a number of important areas that we place emphasis on, to reduce the environmental impact of the business. Our focus is to maximise the level of waste recycling, reduce our electricity usage, improve our fuel efficiencies and source products with integrity.

#### Waste recycling

ScS is committed to reducing waste. All of our waste packaging, principally plastic and cardboard, generated by our stores, head office, distribution centres and used for protecting the product we deliver directly to our customers, is collected and recycled. We now recycle or divert from landfill 97% of all waste collected (2017: 95.7%).

#### Greenhouse gas emissions reporting

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

We aim to place our contracts for electricity supply with contractors providing energy predominantly produced by renewable sources such as solar and wind power.

Since 2014 ScS has installed new corporate signage at all sites incorporating the latest LED illumination technology and all new sites opened since then include LED store lighting and energy-efficient heating and cooling systems. This, together with a progressive change to energy efficient systems in our existing stores, means that we are reducing our electricity usage. Since 2013 we have reduced our electrical energy consumption by 27.6%; the electrical reduction is against a backdrop of opening eleven all electric stores in that period. Our gas usage has reduced 44.5%. The gas reduction has been assisted by the replacement of nine gas air-conditioning systems with energy-efficient all electric units, and a further five are targeted in 2019.

In 2018 we reduced our greenhouse gas emissions from 7,395 t/CO<sub>2</sub> to 6,132 t/CO<sub>2</sub>, a reduction of 1,264 t/CO<sub>2</sub>.

In 2015 we introduced the Paragon system of computerised management of our logistics operation. This allows the use of delivery vehicles to be optimised in terms of load en route, minimising the mileage required to achieve our customer deliveries, thus reducing fuel consumption. During 2018 we estimate that we have reduced our fuel consumption by a further 1.2% per delivery (2017: 1.6%). We are currently introducing technology from Kirona into our business, which will improve the service given to our customers by improving service technician appointment scheduling and offering greater flexibility to our customers.

#### Sourcing with integrity

##### Modern slavery statement 2018

This statement is made pursuant to Section 54 of the Modern Slavery Act 2015.

The Group has clear policies and procedures in line with best-industry practice which are underpinned by our values and principles. These demonstrate our continual commitment to do what we can to eradicate this type of human rights abuse. Our approach to modern day slavery is overseen by our audit, risk and compliance teams as part of governance strategy. Throughout the year the Group has continued to benefit from close, well established and stable trading relationships with a relatively small number of first tier suppliers in both our furniture and flooring product offering, with no material changes. We also sell dining and occasional furniture which we source from a small number of well-established and highly regarded wholesalers.

#### Risk assessment

Goods are principally manufactured in the UK, however around a third of goods are manufactured in Europe and the Far-East. The Group risk assesses its supply chain by:

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

The Group maintains stable and long standing working relationships with its key suppliers based in the Far East. The manufacturing of all goods in the Far East are completed in modern purpose-built factories. Given the size and nature of the goods, the level of risk is considerably lower when compared to other types of manufacturing activities in the region. In addition, the Group operates a Whistleblowing Policy which allows the reporting of any wrongdoing and extends to human rights violations like Modern Slavery. Any reporting will be fully investigated and appropriate remedial actions taken.

#### Action completed

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

- Clear obligations on suppliers to comply and implement controls to prevent Modern Slavery;
- Ensuring all employment shall be voluntary, and
- Provision of an employment contract confirming the employee's right to leave work and the ability to terminate employment upon expiry of reasonable notice.

#### Next steps

Over the next 12 months we will increase the scope of audits to key second tier suppliers within the Group, to increase oversight and detect risk of modern day slavery and further strengthen our training, through the development of e-learning modules for our buying teams.

#### Assessment of effectiveness

The Group recognises that its commitment to tackling modern slavery is a continual journey and we will continue to assess the effectiveness of our approach through an already established Risk Committee. We will continue to improve communication on this topic with our supply chain as by working together, not only with our suppliers but also with other companies, we will be far more effective in meeting our common goal of eradicating modern slavery.

## People

### Health and safety

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

In 2018 there were seven accidents reportable to the Health and Safety Executive. In 2017 there were four reportable accidents, and we continue to focus on reducing the number of reportable accidents though a review of the root causes and revisions to operating procedures. During 2018 we did see an increase in incidents across the business, the accident frequency rate increasing from 1.14 (per 100,000 hours worked) in 2017 to 3.04 (per 100,000 hours worked). Whilst this result remains better than our 2016 rate (7.2 per 100,000 hours worked), a review has been undertaken to understand why the rate has increased. During 2018 we fully implemented our online accident management system and we believe that the increase is a result of better reporting and greater visibility on all incidents and near-misses across the business. Data from this reporting will be used to identify areas of focus to ensure the risk of accidents and incidents is minimised across our business.

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

### Colleagues

Our people are core to our business, whether they work in our stores, are part of our distribution operation or are a member of our support teams. During 2018 we refreshed our strategy and put our people at the heart of this refresh. We developed the RIGHT values that we are encouraging all of our people to live by and we have appointed an HR Director and an Engagement and Internal Communication Manager to support our ambitions people objectives and gain buy in from our staff teams.



We are an equal opportunities employer and we strive to ensure that no employee is discriminated against on the grounds of gender, race, religion, disability, sexual orientation or age. We want ScS to be a great place to work and everyone working in it has an equal opportunity to progress within the business. As part of our 2018 staff survey we included specific questions about the organisations approach to diversity and inclusion 76% of survey respondents either agreed or strongly agreed that as a business we are pro-active and positive in our approach to diversity and inclusion.

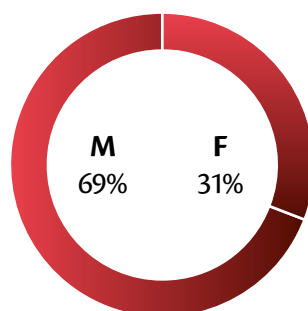


## Gender pay gap

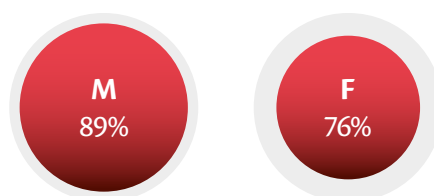
We are confident that men and women are paid equally for doing equivalent jobs across our business. The furniture sector has traditionally been male dominated. Retail sales teams make up the majority of our workforce, a division within which our average gap is 5% mean, however, as a business we provide a full service for our customers and roles in distribution and upholstery do attract a predominantly male workforce, which explains why our hourly pay gap is higher than the national average.

We have been very successful in recruiting female workers into roles within our head office and administrative roles within our stores, where we are able to offer a higher degree of flexibility. We are committed to continuing to promote our flexible working policies across our business with a view to attracting and retaining female candidates and supporting their progression through the business.

### Percentage male/female employees



### Proportion of male and female employees receiving bonus pay



### Pay gap and bonus difference between male and female employees

	Mean	Median
Hourly rate of pay	28%	29%
Bonus pay	45%	78%

### Proportion of male and female employees according to quartile pay bands

M	Upper	F
84%		16%
Upper Middle		
78%		22%
Lower Middle		
68%		32%
Lower		
45%		55%



### Understanding our results

- Retail sales teams make up the majority of our workforce. If we made the same gender comparison across sales and retail managers our mean gender pay gap would decrease to 5% mean, and 7% median.
- 18% of our store managers are female and we are actively encouraging more of our female workforce to progress into management roles. At store manager level our gender pay gap is -10% mean and -18% median, indicating that our average female manager is earning more than a male manager.
- Our mean bonus pay gap is +45% and our median bonus pay gap is +78%. These calculations are based not only on bonus payments but include any additional pay such as commission payments, monthly store bonuses and annual bonuses. The reason that our bonus gap is higher than our hourly pay gap can be explained as follows:
  - We have significantly more men than women working in retail sales and management roles who are eligible for commission and store bonus payments.
  - We have significantly more women than men working in administrative roles that attract no commission and smaller bonus opportunities.
  - We have more women than men working part-time and bonus payments are pro-rated to reflect part-time working.

### Training and development

ScS has held the Investors in People standard for the past 17 years, and we undertake regular culture surveys across our organisation to ensure that every employee has the opportunity to provide us with feedback about our workplace; our 2018 survey achieved a 81% return rate, and the overall results were positive with improvements shown across all areas that were reviewed as part of the survey. The feedback received is used to drive improvements across the business with a view to making ScS a great place to work.

We offer apprentice opportunities within our business and in 2018, nine apprentices are working with us via the levy programme. Our Time to Train policy gives colleagues the opportunity to engage in other external training opportunities and, if the course meets relevant business criteria, the Company offers financial support towards this and, where required, a flexible work arrangement to allow them to attend their chosen course. Using this approach is key to the development of our distribution teams in identifying potential drivers whilst offering career progression and promotion.

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

We reward our store teams through results-focused bonus and commission schemes, which allow our retail sales teams to earn rewards commensurate with performance. In May 2015, we launched a share incentive plan that will allow all employees the opportunity to participate in the future success of ScS.



“We work hard to keep deliveries moving, but we still have a chuckle each day at work. It’s fast-paced, and definitely not boring!”

Phil Averill, Senior Administrator at our distribution centre in Seaham, has reached 35 years’ service.

## Our people are **RIGHT** at the heart of our business and the community

Our people are the heart of our business, we simply couldn’t do business without them. During the year, 180 members of our team reached significant milestones in their long service with the Group. From five years to 35 years, together our team celebrated more than 1,600 years service.

### 35 years for Phil

Phil has worked for the business for an amazing 35 years, and he first started when we had only five stores. He has been part of our growth and development and has seen the business go from strength to strength. He is responsible for ensuring stock is booked in, items are delivered to customers homes and the processing of all the necessary paperwork that comes with the job.

Phil manages a small team who he enjoys working with and says “We work hard to keep deliveries moving, but we still have a chuckle each day at work. It’s fast-paced, and definitely not boring!”.

### Community

#### From our family to yours

During the year, the Group and its employees continued to support many local and national great causes, close to the hearts and minds of the ScS family, and roll-out initiatives which engage with local communities and raise awareness of important matters. From 'eggs-cellent' fundraising efforts to celebrating creativity in the classroom, we shine a light on the fantastic initiatives and people fundraising efforts happening across our Group over the course of the financial year:

### Supporting our foundations



CFO Chris Muir and Reporting Analyst Lee French visited Oxclose Primary School, Washington, to see and hear more about the impact of our donations.

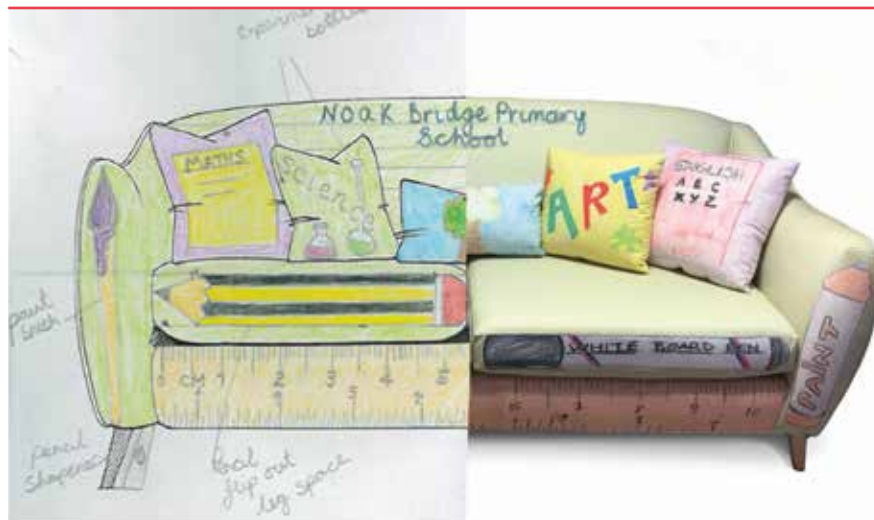
Youngsters across the North East are benefitting from our ongoing support of Sunderland's sporting charity Foundation of Light.

Having been an active supporter since 2013, our contributions which total more than £50,000 continue to support the delivery of their education and disability coaching 'Making Moves' sessions, which provide opportunities for youngsters and adults with disabilities to take part in a wide variety of sports and physical activities.

Liz Barton-Jones, Foundation of Light's Head of Sport and Wellbeing said: "Over the years ScS have made a huge impact on the lives of young people in the area and without their help we would not have been able to deliver the amount of sessions we have. Their ongoing support will continue making a real difference to many people in our communities."

Members of the ScS team have visited schools and taken part in sessions to see the impact our support is having.

### Celebrating creativity in the classroom



From design to reality: Gracee's winning design is brought to life.

To celebrate the natural creativity of youngsters in classrooms across the UK, we teamed up with Ashley Manor, a UK award-winning upholstery expert, and supplier to many of our sofa collections, to launch a nationwide design competition called 'My Sofa is'.

The aim of the initiative was to inspire school youngsters 11 years and under to put pen to paper and share their sofa designs as part of a competition, where the winning young designer would see their creativity transformed into a reality.

After receiving more than 300 entries, the front runners were revealed to our online community, who voted in their masses to decide the winning sofa design and crown our champion as Gracee Denning, aged ten, from Essex, whose design was inspired by school.

Gracee said: "My sofa is... all about my school, it's bright and will make people happy when they see it. I came up with this sofa because I realised school has lots of equipment and subjects and I've put all these all together in a Super School Sofa design."

### Family matters brought to the forefront



Bringing families together is a huge part of what we do, therefore, while introducing our new dining and living collection, we looked into the importance of eating together as a family. We undertook research into family dining habits finding seven out of ten UK parents missed family dinnertimes, and set ourselves a mission to 'Bring back family

dining', by raising important awareness of the nutritional and social benefits of families eating together.

We worked with Amanda Gummer, Child Psychologist and founder of Fundamentally Children, to spread the word and launched a campaign to encourage people and families to spare a moment to bring back togetherness at the dining table.

Amanda said: "Regular family meals are great at providing children with a routine, valuable time with family and a chance to take time away from a rushed 'food on the go' culture we are adopting rapidly. Meal times as a family allow parents to connect with their children and are ideal for everyone's emotional wellbeing."

## Stores connecting with the community



Our team at Chelmsford collected community wishes.

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

During the year we opened ScS store 101 in Chelmsford and to celebrate its official opening we called on the local community to share their good wishes with us. We launched a Mother's Day Wishing Tree in store where the local community could visit to leave a message for the mother figures in their life.

All nominations were entered into a prize draw to win the ultimate relaxation package; a spa day for two. The prize was won by Mum Kathryn, who was nominated by her Mum's best friend.

## Our excitement for Elmer's parade!



They say elephant's never forget, and nor could we! Following our involvement in the 2017 Great North Snowdogs community art trail, we're really excited to have confirmed our commitment to be part of Elmer's Great North Parade taking place 2019.

The Group is proud to once again support St Oswald's Children's Hospice in its quest to raise awareness and vital funds for its children's services across the North East region. We can't wait to be part of the parade!

## Everyone does their bit



The ScS team celebrating after raising £1,000.

Employees in our Customer Service team did a cracking job collecting Easter eggs to donate to domestic abuse charity Wearside Women in Need (WWIN). Sandra Wales, Aftercare Section Head, rounded up the team to donate as many chocolate eggs as possible to help brighten up the days of children who find themselves in a very unfortunate situation.

Marie Robson, from our Customer Service team, rallied together our budding bakers to bake a difference for St Oswald's Hospice in

time for Christmas 2017. The team put on an amazing spread of fundraising activities, and through a mouth-watering bake sale, tombola, dress down day and prize raffle, the team raised £1,000 for this great cause.

The team also put their baking skills into action to raise vital funds for Macmillan, a charity close to our hearts. Colleagues in many parts of the business donned their aprons, rolled up their sleeves as part of the World's Biggest Coffee Morning fundraiser.

## BOARD OF DIRECTORS



**Alan Smith**  
Non-Executive Chairman

**Date of Appointment**

22 October 2014

**Committee Membership**



**Biography**

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



**David Knight**  
Chief Executive Officer

1 January 2002

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



**Chris Muir**  
Chief Financial Officer

4 April 2016

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

**Key Strengths**

Retail, finance, strategy, marketing

Retail, strategy, marketing, supply chain

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

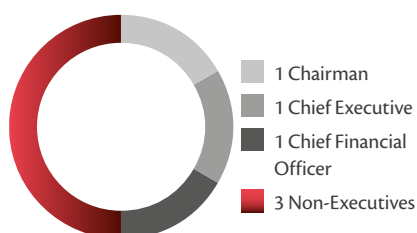
**External Appointments**

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

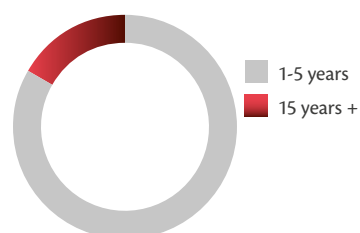
**Committee Membership key**

- Audit Committee Chair
- Audit Committee Member
- Remuneration Committee Chair
- Remuneration Committee Member
- Nomination Committee Chair
- Nomination Committee Member

**Executive/Non-Executive**



**Board tenure**





**Ron McMillan**  
Non-Executive Director

22 October 2014



Ron is the Senior Independent Director and Chairman of the Audit Committee of N Brown Group plc and 888 Holdings plc. He is a Non-Executive Director and Chairman of the Audit Committee of B&M European Value Retail S.A. and Homeserve plc. Until 2013 Ron worked in PwC's assurance business for 38 years and has deep knowledge and experience of auditing, financial reporting issues and governance. As the 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  
888 Holdings plc  
B&M European Value Retail S.A.  
Homeserve plc



**Paul Daccus**  
Non-Executive Director

1 December 2014



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

Finance, corporate finance, investment appraisal, restructuring

Sun European Partners LLP  
SAG Advisory 1 Ltd  
Dreams Holdco Ltd  
Dreams Topco Ltd  
DRL Topco Ltd  
DRL Holdings plc  
Zara UK Holdco Ltd  
Seagull Bidco Ltd  
Seagull Midco Ltd  
Seagull Topco Ltd



**George Adams**  
Non-Executive Director

9 July 2015



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

Retail, strategy, marketing, supply chain

FFX Ltd  
Nobia AB  
Stiga S.A.



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

**Alan Smith**  
Chairman

#### Directors attendance

The Board held six meetings during 2018 and the attendance at the meetings was as follows:

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

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

\* Alan Smith and Ron McMillan did not attend the Nomination Committee meeting where their respective re-appointments were discussed.

#### Role of the Board

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

The Company is led and controlled by the Board which is collectively responsible for the long-term performance of the Group. The Board focuses on the strategy, performance and governance of the Group. The Board has delegated certain responsibilities to committees to assist in discharging its duties and the implementation of matters approved by the Board. A summary of the terms of reference of each committee is set out on page 46 and reports of each committee are set out on pages 48 to 64.

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

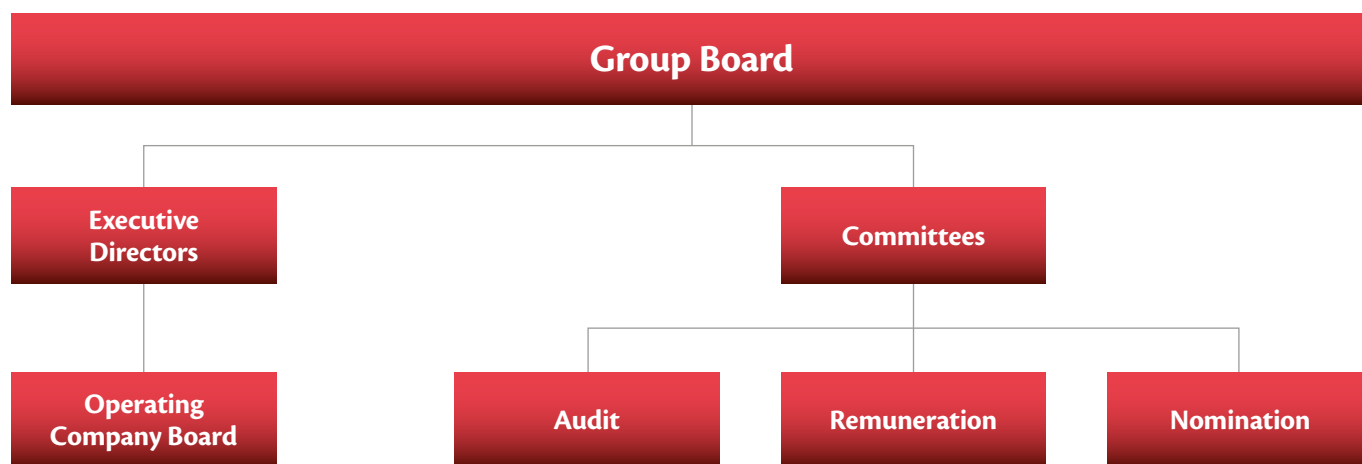
#### Matters reserved for the Board

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

- Approval of the Group's strategic aims and objectives, reviewing performance and business planning and oversight of the Group's operations.
- Approving any changes to the capital structure of the Group.



## Structure chart



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

There is a rolling programme of Board meetings throughout the year and there are six Board meetings presently scheduled for 2019.

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

### Composition of the Board

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

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

On 22 October 2014, Sun Capital Partners Management V, LLC entered into a Relationship Agreement with the Company. Under the terms of that agreement Sun Capital Partners Management V, LLC are entitled to appoint one

Non-Executive Director to the Board. At the year ended 28 July 2018, Sun Capital Partners Management V, LLC held 40.25% of the total issued shares in the Company.

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

All Directors have service agreements or letters of appointment in place and the details of the terms of these are set out in the Directors' Remuneration Report on pages 52 to 64.

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

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

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

## Division of responsibilities

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

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

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

## Diversity

The Group is satisfied overall with its record on diversity, and is aware of the need to monitor and review its level of diversity. Whilst the Group would have preferred to appoint a female Non-Executive Director following the IPO, appointments will always be made on merit as opposed to on the basis of gender targets, and this is considered in the best interests of the Group and its shareholders.

## Conflicts of interest

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

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

There is an established process of the Board for regularly reviewing actual or potential conflicts of interest. In particular, there is a process for reviewing transactions proposed to be entered into by related parties of Directors with any entities in the Group, including professional advice and consideration of it by the Board and the Company's corporate brokers on the application of the Listing Rules, the applicability and the appropriateness of any exemptions in respect of any transactions in the ordinary course of business and reporting to general

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

## Committees of the Board

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

### Sub-Committee Responsibilities

#### Audit Committee

- Financial reporting
- External audit
- Risk management and internal audit
- Whistleblowing, fraud and anti-bribery

#### Remuneration Committee

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

#### Nomination Committee

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

### Audit Committee

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

- Monitoring the quality, effectiveness and independence of the external auditors approving their appointment, re-appointment and fee levels;
- Reviewing and monitoring the integrity of the financial statements and any other price sensitive information of the Group, and
- Keeping under review the adequacy and effectiveness of the Group's internal financial controls and internal control and risk management systems.

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

The Committee as a whole have competence relevant to the retail sector, in which we operate. All members served on the Committee throughout 2018 and all three remain in place at the date of this report.

The Audit Committee meets not less than three times a year. Details of the activities of the Committee in the last financial year are set out in pages 48 to 51.

### Remuneration Committee

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

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

The members of the Remuneration Committee are George Adams (Chair), Alan Smith and Ron McMillan. All members served on the Committee throughout 2018 and all remain in place at the date of this report.

The Remuneration Committee meets not less than two times a year. Details of the activities of the Committee in the last financial year are set out on pages 52 to 58.

### Nomination Committee

The Nomination Committee comprises all of the Non-Executive Directors. It is chaired by Alan Smith and its other members are Ron McMillan, George Adams and Paul Daccus. The duties of the Nomination Committee as delegated to it by the Board are contained in the terms of reference available at ScS Group plc head office, which in summary include:

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

The Committee meet at least annually.

During the 2018 financial year the Nomination Committee has reviewed the size, structure and composition of the Board, with regard to the experience and skills represented on it and the balance of Executive and Non-Executive Directors represented on it.

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

#### Board performance evaluation

A review was undertaken during the 2018 financial year. This will be repeated on an annual basis going forward and at least once every three years with an external consultant to assist in the process are required by the UK Corporate Governance Code.

#### Re-election of Directors

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

#### Risk management and internal control

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

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

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

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

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

Information on key risks and uncertainties of the Group are set out on pages 30 to 33.

**Monitoring of controls:** There are formal policies and procedures in place to ensure the integrity and accuracy of accounting records of the Group and to safeguard its assets. The Board has carried out a review of the effectiveness of the internal controls during the year ended 28 July 2018 and for the period up to the date of approving the Annual Report and financial statements. The Board were satisfied after a review of the key risks to the business and relevant mitigating actions that they were acceptable for a business of the type, size and complexity as that operated by the Group.

**Internal audit:** The Group has established an Internal Audit function who are responsible for the monitoring of the Group's role management approach and provides a line between operational managers and the Audit Committee.

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

#### Compliance statement

The Company has complied with the provisions of the Corporate Governance Code (April 2016) during 2018, as applicable, except where stated above in this report.

#### Shareholder relations

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

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

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

The Company also runs a corporate website at [www.scsplc.co.uk](http://www.scsplc.co.uk), which is regularly updated with our releases to the market and other information and which includes a copy of this Annual Report and financial statements.



**Alan Smith**

**Chairman**

1 October 2018

“

The Audit Committee is an important element of the Group's governance structure. Our role is to advise the Board on financial reporting, viability and going concern, risks and controls, and whether the Annual Report provides the information necessary for shareholders to assess the Group's performance, business model and strategy.”

**Ron McMillan**  
Chairman of the Audit Committee

Member and meetings in 2018	Member since	Meetings attended
Ron McMillan (Chairman)	2014	
Alan Smith	2014	
George Adams	2015	

### Dear Shareholder

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

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

During the year, the Committee again oversaw the process used by the Board to assess the viability of the Group, the stress testing of key trading assumptions and the preparation of the viability statement, which is set out on page 34, in the principle risks section of the Strategic Report. The Committee also monitored the proposed implementation of IFRS 16.

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

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

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

I shall be available at the Annual General Meeting on 21 November 2018 to answer any questions you may have on this report and would like to thank my colleagues for their continued help and support.



### Committee composition

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

The members of the Committee during the year were Ron McMillan, Alan Smith and George Adams. Details of Committee meetings and attendance are set out in the Corporate Governance Statement on page 44. The timing of Committee meetings is set to accommodate the dates of releases of financial information and the approval of scope of and outputs from work programmes executed by the internal and external auditors. The biographies of the members of the Committee can be found on pages 42 and 43 and reflect the significant experience that the Committee members have of working in or with companies in the retail and consumer goods sectors.

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

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

### Responsibilities

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

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

- Monitoring the activities of the Internal Audit function;
- Assisting the Board with the development and execution of a risk management strategy, risk policies and current risk exposures, including the maintenance of the Group's risk register;
- Keeping under review the adequacy and effectiveness of the Group's internal financial controls and internal control and risk management system, and
- Making recommendations to the Board in relation to the appointment of the external auditor.

### Activities

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

The recurring work of the Committee comprised:

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

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

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

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

- **Completeness of stock provisions**

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

- **Loss making stores and onerous lease provisions**

The Committee discussed with management the work performed in their calculation of the future cash flow models of poor-performing stores, which had been used to determine whether any impairment had been suffered over the carrying value of the assets held at these stores, and whether any of the lease commitments held at those stores had become onerous in nature and required providing for. The Committee discussed with management and the external auditors the validity of cash flow projections and the significant financial assumptions used, including the selection of appropriate discount and growth rates used over the remaining lease period. The Committee satisfied itself that asset values were not materially misstated, and that the current onerous lease provision was appropriate, as set out in note 15 on page 87 to the consolidated financial statements.

- **Implementation of new accounting standards**

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

IFRS 16 (Leases) will have a material impact on the financial statements for the financial year beginning on 28 July 2019 and the Committee considered the proposed disclosures in relation to IFRS 16 in the Group's financial statements for the year ended 28 July 2018.

- **Internal control and risk management**

The Board has overall responsibility for ensuring that the Group maintains a sound system of internal control. There are inherent limitations in any system of internal control and no system can provide absolute assurance against material misstatements, loss or failure. Equally, no system can guarantee elimination of the risk of failure to meet the objectives of

the business. Against that background, the Committee has helped the Board develop and maintain an approach to risk management which incorporates risk appetite, the framework within which risk is managed and the responsibilities and procedures pertaining to the application of the policy.

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

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

A description of the principal risks is set out on pages 30 to 33.

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

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

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

### • **Going concern**

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

Other areas of focus for the Committee were:

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

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

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

### **Board reporting**

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

### **Internal Audit**

The Head of Internal Audit has a direct reporting line to the Committee and attends every Committee meeting to present Internal Audit and Risk Management reports. During the financial year Internal Audit has undertaken

a programme of work which was discussed and agreed with both management and the Committee and which was designed to address both risk management and areas of potential financial loss. Internal Audit has also established procedures within the business to ensure that new risks are identified, evaluated and managed and that necessary changes are made to the risk register.

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

- Fraud risk, anti-money laundering, anti-bribery and corporate crime, whistleblowing and compliance with the Modern Slavery Act;
- Compliance assessments of the Group's retail outlets and distribution centres;
- Risk management, including the effectiveness of mitigating actions in relation to the Group's principle risks, including IT systems, business continuity and cyber risk;
- Group tax matters;
- Supply chain and logistics;
- Stock and receivable balances;
- Merchandising processes and procedures;
- Estate management;
- Cash and banking controls;
- Fleet management;
- Marketing costs, including e-commerce and digital marketing;
- GDPR implementation, and
- Customer complaints.

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

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

### **External auditors**

Corporate Governance rules in the UK for FTSE 350 companies require the external audit appointment to be formally retendered after ten years, and for the auditors to be changed after 20 years. PwC have been the Group's auditors for nine years, with the current year

being the fourth audit signed off by Jonathan Greenaway, who is currently responsible. As part of the Audit Committee's desire to operate within best practices, during the year the Committee oversaw an external audit tendering process and invited PwC and two other firms to submit proposals for 2019 and beyond. Following this process, the Committee recommended to the Board that PwC be asked to continue as the Group's auditors.

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

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

All fees for non-audit work require pre-authorisation by the Chief Financial Officer and the Audit Committee, and non-audit fees paid to the auditors are not permitted to exceed 70% of audit fees over a three-year period. Fees paid and payable to PwC in respect of the year under review are as shown in note 4 on page 82.

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



**Ron McMillan**

**Chairman of the Audit Committee**



1 October 2018

“

On behalf of the Board, I am pleased to present the Director's Remuneration Report for the year ended 28 July 2018.”

**George Adams**

**Chairman of the Remuneration Committee**

Member and meetings in 2018	Member since	Meetings attended
George Adams (Chairman)	2015	
Ron McMillan	2014	
Alan Smith	2014	



## Dear Shareholder

Our Annual Report on Remuneration outlines how the Remuneration Policy, approved at the 2015 Annual General Meeting, was applied for 2018. Our Remuneration Policy has been reviewed and the Committee is conscious that there has been considerable development in broader market pay and Remuneration Policy over the three-year life of our current policy. We have adopted a conservative approach to setting pay, an approach we wish to maintain in our refreshed policy. We have concluded that our current policy continues to provide an appropriate framework, although some limited revisions were felt to be necessary.

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

The Annual Report on Remuneration is subject to an advisory vote at our 2018 Annual General Meeting.

There will be a resolution on the Policy at the 2018 Annual General Meeting. The revised policy is set out for shareholders' information starting on page 59.

## Remuneration principles

The key aims of the Remuneration Policy are to:

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

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

## Key changes to the Remuneration Policy:

The key elements to our Remuneration Policy are as follows:

### 1. Base salaries

We intend to continue our approach to reviewing base salaries, giving consideration to the Group's performance, market conditions, individual performance and the increases awarded across the Group to employees. Salaries will be benchmarked periodically against companies that are both main and AIM listed who are of similar size and complexity. Salaries will generally be set at the mid-market level. It is not our intention to increase the current base salaries of the CEO and CFO in 2019.

### 2. Bonus

The Committee remains committed to ensuring that the majority of our bonus arrangements will be based on financial measures, but retains discretion to introduce corporate, divisional and individual performance measures if it is felt appropriate for the business to do so. In 2019 the Committee intends to set bonus performance conditions purely on financial measures, there are no proposed changes to the level of award which remain at a maximum of 140% of basic salary for the CEO and 100% of basic salary for the CFO.

### 3. LTIP

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

The Committee has noted a significant increase in the prevalence of holding periods, and in view of the recent changes to the UK Corporate Governance Code, a two year holding period will be applied to awards from 2019 onwards, the Committee believes that the current three year performance period remains an appropriate mechanism.

The Committee also wishes to ensure that the LTIP remains competitive; the current policy has an annual grant limit of 100% of basic salary. We propose to amend the rules and set an upper limit of 150% of basic salary, in choosing to make an award at 150% of basic salary, the Committee have ensured that the EPS targets set are stretching.

### 4. Shareholding guidelines

Our current shareholding guidelines require a minimum holding of 100% of basic salary once that level has been obtained. It is proposed, in line with best practice, to increase this level to 200% of basic salary.

## 2018 Performance related pay

For 2018, the annual bonus was based solely on EBITDA. Sales and revenue for 2018 grew despite the challenging market backdrop.

EBITDA of £18.8m was above the minimum target set for the year, as a result the bonus was paid out at 99.76% of the maximum. The Committee considers that this fairly reflects the results for the year. Further information on the bonus and targets can be found on page 54 of our Annual Report on Remuneration.

As set out in our Remuneration Policy on pages 59 to 64 the Committee considered the long-term incentive plan to be awarded to the Executive Directors. A long-term incentive plan was awarded during 2018, the details of which can be found in our 2017 Annual Report. A long-term incentive plan vested during the year, however, as previously reported, the performance-based £nil cost options granted on 30 March 2015 have been forfeit as of the 29 July 2017, as the earnings per share (EPS) for the Group was lower than the performance condition set. There is no long-term incentive plan award vesting based on performance to 28 July 2018.

## Remuneration proposals for 2019

### Base salary

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

The Remuneration Committee decided that, given the uncertain market conditions, the salaries of the CEO and the CFO will remain unchanged from their remuneration in 2018. No basic pay awards were given to any of the senior management team. Details of the average increase given to other employees is detailed on page 57.

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

### Annual bonus

The 2019 bonus will continue to be based on EBITDA performance supporting our strong emphasis on delivering profitable growth. The maximum award opportunity remains 140% of salary for the CEO and 100% of salary for the CFO. The Committee considers the forward-looking EBITDA targets to be commercially sensitive, but full disclosure of the targets and performance against them will be provided on a retrospective basis in next year's Remuneration Report.

### 2019 Long-Term Incentive Plan (LTIP)

The Committee has agreed to a LTIP award in 2019 which is in keeping with our remuneration policy. Awards will be granted at 150% of salary for the CEO and 150% of salary for the CFO. The awards will be subject to an EPS performance condition. Taking into account internal forecasts for business performance over the next three years, as well as external expectations of performance, the Committee agreed targets for 2019 awards which are set out on page 55.

In moving towards compliance with the 2018 Corporate Governance Code, the committee has included a two year hold period for these awards. The Committee considers that the targets are stretching and will ensure that significant reward is only available for delivery of a strong performance.

### Shareholder feedback

We value the views of our shareholders and we actively welcome any feedback on our remuneration policy and its implementation. We have reviewed our Remuneration Policy and we are presenting a revised Policy for approval at the 2018 Annual General Meeting. As part of this review process we sought the views of our larger investors.

We hope you find this report helpful and informative and we hope to receive your support for our Annual Report on Remuneration at our Annual General Meeting on 21 November 2018.

### Annual Remuneration Report

#### Executive Directors remuneration in 2018

##### Elements of remuneration

##### Salary

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

The current basic salaries as at 1 October 2018 are:

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

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

### Pension and other benefits

The Executive Directors are eligible to pension benefits equating to 20% of their basic salary, which are non-contributory. The CEO and the CFO receive £10,000 and £9,960 per annum, respectively, of pension benefits into their pension fund, the balance is paid as cash allowance.

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

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

### Annual bonus

The Executive Directors received annual bonuses in 2018. The bonuses were based on EBITDA. No bonus is payable unless a threshold level of EBITDA is achieved. The details of the targets and how the bonus was calculated are set out below.

Pre-bonus EBITDA	£16,463,669	£18,654,676	£20,082,014	£21,509,352
% maximum	12.5%	50%	75%	100%
David Knight	£53,550	£214,200	£321,300	£428,400
Chris Muir	£30,000	£120,000	£180,000	£240,000

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

In light of performance in 2018 (pre-bonus EBITDA of £21,495,498), the Remuneration Committee approved payments of £427,372 for David Knight (CEO) and £239,424 for Chris Muir (CFO), representing a pay-out at 99.76% of the maximum. Malus and clawback rules apply to all bonuses awarded.

For 2019 the maximum bonus opportunity is unchanged at 140% of base salary for the CEO and 100% of base salary for the CFO. The bonus is based on the achievement of stretching EBITDA targets. The Committee does not disclose the targets in advance as they are commercially sensitive. Retrospective disclosure of the EBITDA targets will be included in next year's report.

### Long-term incentives

The LTIP due to vest during 2018 for the performance-based £nil cost options granted on 30 March 2015 have been forfeit as of the 29 July 2017, as the EPS for the Group was lower than the performance condition set. The awards required an EPS for 2017 of at least 24 pence for threshold vesting. Actual EPS for 2017 was 23.5p. Full details of the awards and the performance conditions attached are set out in the 2015 Annual Report.

There are no long-term incentive plan awards vesting based on performance to 28 July 2018.

During the year, the Executive Directors were granted a long-term incentive plan award with a face value of 100% of salary each. The awards were made in the form of nil-cost options and were over 176,909 and 138,752 shares respectively for the CEO and CFO. The awards have a three-year vesting period (no holding period) and the share price on the date of grant, 16 October 2017 was £1.73. As disclosed in last year's annual report, the following EPS targets were applied:

EPS figure (in 2020)	Percentage of award that vests
Less than 25.1p	Nil
25.1p	25%
Greater than 27.0p but less than 31.0p	Straight-line basis between 25% and 100%
31.0p	100%

The Committee has agreed to award a long-term incentive plan in 2019. The CEO and CFO will be awarded shares with a face value of 150% of base salary subject to EPS targets being met. The awards have a three-year vesting period, plus a two year holding period, and are subject to the following targets:

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

### All-employee share plans

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

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

### Single figure table of total remuneration Executive Directors – audited

The audited table below shows the aggregate remuneration of the Directors of the Company during 2018 and 2017:

	Salary £	Benefits £***	Bonus £	LTIP £	Pension £**	Total £
<b>David Knight</b>						
2017	306,000	20,685	203,418*	–	61,200	591,303
<b>2018</b>	<b>306,000</b>	<b>20,836</b>	<b>472,372</b>	<b>–</b>	<b>61,200</b>	<b>815,408</b>
<b>Chris Muir</b>						
2017	240,000	18,518	94,030	–	48,000	400,548
<b>2018</b>	<b>240,000</b>	<b>17,818</b>	<b>239,424</b>	<b>–</b>	<b>48,000</b>	<b>545,242</b>
<b>Ron Turnbull (left 12 August 2016)</b>						
2017	7,692	458	14,229*	–	1,538	23,917
<b>2018</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

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

\*\* Ron Turnbull has reached his lifetime limit and received a payment in lieu of pension contributions equating to 20% of his basic salary. David Knight and Chris Muir opt to receive part of their pension contributions as a cash allowance.

\*\*\* Benefits of the Directors are discussed in detail on page 54.

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

There were no payments to past Directors for loss of office in the year ended 28 July 2018.

### 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 2019.

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

The fees paid for 2018 to the Non-Executive Directors were as follows:

	2018 £	2017 £
Alan Smith	125,000	125,000
Ron McMillan	60,000	60,000
George Adams	60,000	60,000

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

## DIRECTORS' REMUNERATION REPORT CONTINUED

### Directors' shareholding and share interests – audited

The table below sets out the number of shares held or potentially held by Directors (including connected persons or related parties where relevant) as at the financial year end 2018.

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

As at 11 September 2018	Share interests held beneficially	Nil cost options subject to performance*	Option awards vested on admission**	Total
<b>David Knight</b>				
Number	1,476,958	349,935	22,772	1,849,665
Value at year end	£3,293,616	£780,355	£50,782	£4,124,753
<b>Chris Muir</b>				
Number	—	274,459	—	274,459
Value at year end	—	£612,044	—	£612,044

\* Awards vest subject to EPS performance over a three-year period. This relates to awards granted in 2017 and 2018.

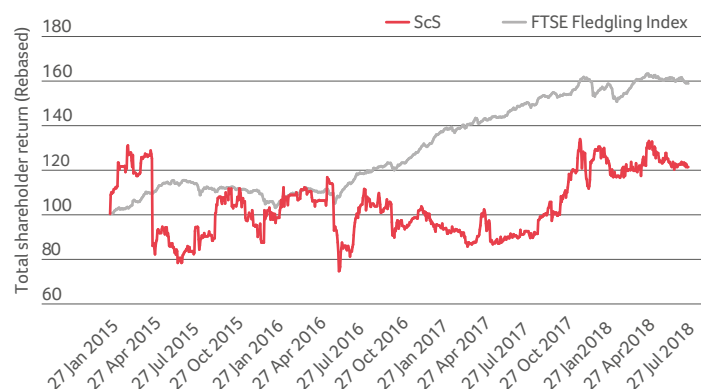
\*\* Option awards are vested and are exercisable until 20 January 2025 at an exercise price of £1.75.

The value of share interests at the year-end is based on the closing share price at 27 July 2018 of £2.23.

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

### Performance graph and pay table

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



Source: Datastream (Thomson Reuters).

This graph shows the value, by 27 July 2018, of £100 invested in SCS Group on 27 January 2015 compared with the value of £100 invested in the FTSE Fledgling Index.

## Changes in the remuneration of the CEO

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

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

The table below shows the percentage changes in the CEO's remuneration between the financial year ended 28 July 2018 and the year ended 29 July 2017 compared to the amounts for UK full-time employees of the Group for each of the following elements of pay:

	2018 £	2017 £	% Change
<b>CEO</b>			
Salary	306,000	306,000	0.00%
Benefits	20,836	20,685	0.73%
Bonus	427,372	203,418	110.10%
<b>Average per employee (excluding the CEO)</b>			
Salary	24,646	23,878	3.22%
Benefits	832	748	11.23%
Bonus	2,531	2,107	20.12%

## 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.

	2018 £'000	2017 £'000	% Change
Total pay for employees	61,279	58,728	4.34%
Distributions to shareholders	6,032	5,893	2.35%

## Remuneration Committee

The members of the Committee for the 2018 financial year were George Adams (Committee Chairman), Alan Smith and Ron McMillan. All of the current members are independent Non-Executive Directors.

The responsibilities of the Committee are set out in the Corporate Governance section of the Annual Report on page 46.

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

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

Name	Attendance
George Adams	4
Alan Smith	4
Ron McMillan	4

## DIRECTORS' REMUNERATION REPORT CONTINUED

### Advisers to the Committee

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

New Bridge Street is a member of the Remuneration Consultants Group and, as such, voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. The Committee has received advice provided by New Bridge Street during the year and is comfortable that it has been objective and independent. Total fees received by New Bridge Street in relation to remuneration advice provided to the Committee during 2018 amounted to £10,083, excluding VAT, based on the required time commitment.

### Shareholder voting

At the Annual General Meeting on 22 November 2017, the total number of shares issued with voting rights was 40,009,109. The resolution to approve the Remuneration Report received the following votes from shareholders.

Resolution	Votes for	Percentage of votes cast in favour	Votes against	Percentage of votes cast against	Votes withheld	Total votes cast	Percentage of issued share capital voted
To approve the Annual Report on Remuneration	29,454,970	99.96%	11,495	0.04%	51,644	29,518,109	73.78%

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



**George Adams**

**Chairman of the Remuneration Committee**

1 October 2018

## Remuneration Policy Report

### Remuneration Policy overview

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

### How the views of shareholders are taken into account

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

### The Directors' Remuneration Policy

The Directors' Remuneration Policy requires approval by shareholders at the 2018 AGM and, if approved, will take effect from that date. This report has been prepared on behalf of, and has been approved by, the Board. It complies with The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

### Changes from the previously approved policy

The previous policy was approved by shareholders at the 2015 AGM. The key changes between the previous policy and this new policy being put to shareholders for approval are:

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

### Policy

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

## DIRECTORS' REMUNERATION REPORT CONTINUED

Remuneration element	Purpose	Operation	Maximum
<b>Pension</b>	Provide a market competitive pension contribution (or equivalent cash allowance).	Executive Directors may take pension benefits as a contribution to defined contribution personal pension plans, or on reaching the lifetime limit for pension contributions the Executive Director can receive cash in lieu.	A total maximum value of 20% of base salary for existing Executive Directors.
<b>Bonus</b>	Provide an incentive linked to the financial performance of the Group and any other appropriate individual or business measures.	<p>The Committee intends 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.</p> <p>Performance conditions, once set, will generally remain unaltered, but the Committee has the right in its absolute discretion to make adjustments during any performance period to reflect any events arising which were unforeseen when the performance conditions were originally set by the Committee. Bonuses are normally paid in cash.</p>	<p>The current annual bonus potential for the CEO is 140% of base salary and 100% of base salary for the CFO and senior managers. The threshold bonus levels will be no more than 25% of their respective maxima. As the regulations require a formal cap for a three-year period, future bonus potential will only increase where appropriate against market data and, in any event, will be subject to an overall maximum of 200% of salary for any Executive Director.</p>
<b>Long-term incentives</b>	To align the directors with the long-term performance of the business and the returns received by shareholders.	<p>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.</p> <p>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.</p> <p>Performance conditions, once set, will generally remain unaltered, but the Committee has the right in its absolute discretion to substitute, vary or waive the performance conditions during any performance period in case of events arising which were unforeseen when the performance conditions were first set by the Committee, provided that such substitution, variation or waiver is reasonable and (other than in the case of a waiver) produces a fairer measure of performance and is not materially less difficult to satisfy.</p> <p>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 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).</p> <p>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.</p>	<p>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.</p> <p>No more than 25% of an award can be earned for a threshold performance.</p> <p>A two-year post-vesting holding period will be applied to awards from 2019 onwards.</p>

Remuneration element	Purpose	Operation	Maximum
<b>Shareholding guidelines</b>	Executive Directors are expected to maintain their minimum shareholding levels once they have been obtained.	The Committee will review shareholding annually against policy. The Committee reserves the right to alter the shareholding guidelines during the period of the policy but without making the guidelines any less onerous overall.	The minimum required level of shareholding is 200% of base salary of the relevant Executive.
<b>Employee share plan</b>	To encourage share ownership by employees and participation in the long-term success of the Group, the Group operates an employee share incentive plan for UK employees which was adopted in April 2015.	Executive Directors can participate in the employee share incentive plan (SIP) on the same terms as other employees of the Group in the UK.	<p>Under the rules of the SIP employees can purchase shares from their pre-tax and pre-national insurance salary through a resident SIP trust. Although the Company has no current intention to do so, the Company may also award matching shares (in proportion to the number of shares an employee chooses to purchase), or to make an award of free shares.</p> <p>The maximum amount that can be purchased, offered as a match or awarded for free under the SIP is subject to the published HRMC annual limits.</p>

### Existing awards

In putting this Directors' Remuneration Policy to an binding vote by shareholders, the Company will honour any commitments already entered with the Executive Directors into under the previously approved policy, which are detailed in the annual Remuneration Report.

### Payment of statutory entitlements and settlement of claims

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

### Remuneration Policy and other employees

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

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

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

### Operation of variable pay

#### Annual incentive plan

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

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

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

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

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:

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

## Clawback

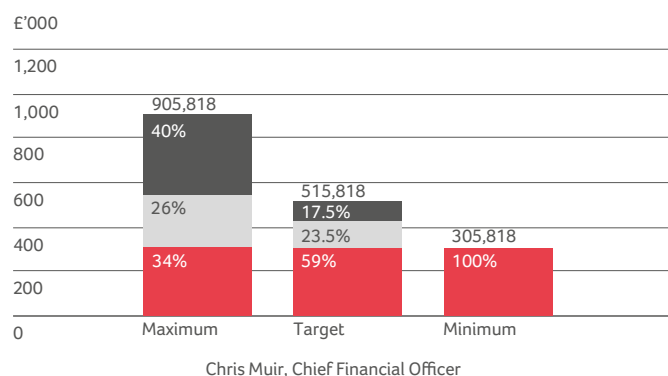
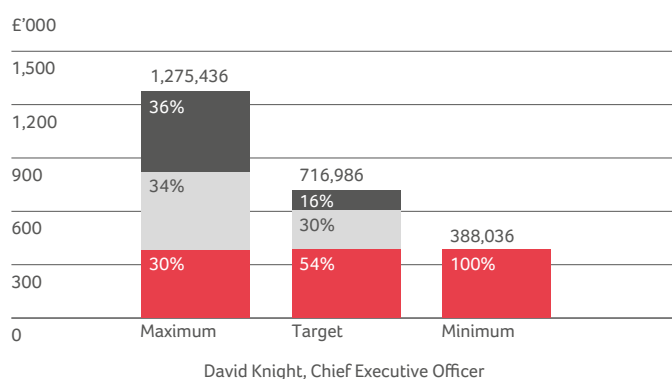
The Annual Incentive Plan and the LTIP rules include provisions for malus and clawback within a three-year period following payment or vesting if the Committee concludes that there has been a material mis-statement of financial results; an error has been made in assessing any performance targets; conduct of the individual which amounts to fraud or gross misconduct; events or behaviour of the individual leading to censure of the Company by a regulatory authority which has an impact on the reputation of the Company which justify clawback being operated, or where the Committee discovers information from which it concludes that a bonus or award was paid or vested to a greater extent than it should have been. 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 2019. Share price movements and dividend accrual have been excluded from the indicative scenarios below.

### Assumptions

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



Fixed Variable LTIP

## Discretions retained by the Committee in operating variable pay schemes

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

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

## Recruitment and promotions

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

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

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

## Service contract and payments for loss of office

### Main provisions on termination

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

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

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

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

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

Any new contracts will be on similar terms.

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

### Annual bonus on termination

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

### Performance share plans on termination

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

## DIRECTORS' REMUNERATION REPORT CONTINUED

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

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

### Chairman and Non-Executive Directors

#### Fees

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

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

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

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

#### Letters of appointment

All of the Non-Executive Directors of the Company have letters of appointment dated 22 October 2014 for an initial period of three years and are subject to three months' notice of termination by either side at any time and subject to annual re appointment as a Director by the shareholders, save for George Adams whose letter of appointment is dated 9 July 2015. Alan Smith and Ron McMillan were reappointed for a further term of three years commencing 22 October 2017. George Adams was re-appointed for a further term of 3 years commencing 9 July 2018. The appointment letters provide that no other compensation is payable on termination. Paul Daccus is appointed under the terms of a Relationship Agreement with Sun Capital Partners Management V, LLC dated 22 October 2014.

#### Insurance

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

## DIRECTORS' REPORT

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### Activities and results

The Directors have pleasure in presenting their Annual Report and audited consolidated financial statements for the year ended 28 July 2018. Some of the information required to be part of the Directors' Report can be found elsewhere in this document as detailed in the following paragraphs and is incorporated into this report by cross-reference.

ScS is one of the UK's leading furniture and flooring retailers, operating from 101 ScS stores principally located in modern retail park locations and 27 House of Fraser concessions across the country.

### Management report

The Directors' Report, together with the Strategic Report, set out on pages 1 to 41, form part of the Management Report for the purposes of DTR 4.1.5R.

### Strategic report

The strategic report sets out a review of the business of the Group during the year ended 28 July 2018 and the position of the Group at the end of that period to enable shareholders to assess how the Directors have performed their duty under section 172 of the Companies Act. The review also describes the principal risks and uncertainties facing the Group and provides a fair review of the Group's business at the end of the financial year and the Group's future developments.

### Risk management

The Board oversees the development of processes to manage risks appropriately. The Executive Directors and Operating Board Directors implement and oversee risk management processes and report to the Board on them. The Board also identifies and reviews key business risks. Further details can be found on pages 28 to 33.

### UK Corporate Governance Code

The corporate governance statement setting out how the Company complies with the UK Corporate Governance Code 2016 and which includes a description of the main features of its Internal Control and risk management arrangements in relation to the financial reporting process is set out on pages 44 to 47, which form part of this report.

### Corporate social responsibility (CSR)

Our CSR activity is set out in the Sustainability, People and Community report on pages 35 to 41, which form part of this report.

### Results and dividend

The financial statements set out the Group's results for the year ended 28 July 2018 and are contained in pages 69 to 90.

The Group's profit after tax for the financial year ended 28 July 2018 of £10.7m (2017: £9.4m) is reported in the consolidated statement of comprehensive income on page 74.

The Board is recommending a final dividend of 10.90p per ordinary share, which together with the interim dividend of 5.30p per ordinary share paid in May 2018, results in a full-year dividend of 16.20p. This dividend, if approved, will be paid on 26 November 2018 to shareholders on the register on 2 November 2018. The ex-dividend date is 1 November 2018.

Movements in reserves are shown in the Statement of Changes in Equity on page 75.

### Share capital

Details of the Group's issued share capital are shown in note 17 on page 87.

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

Details of outstanding employee share options and the operation of relevant schemes are shown in note 19 on page 88 and 89.

### Going concern

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

### Events since the balance sheet date

On 10 August 2018, House of Fraser (Stores) Limited, the entity with which the Group had agreement to operate the House of Fraser concessions with, entered into administration. The business and assets were subsequently bought by Sports Direct International plc and, whilst we continue to trade from all 27 concessions, order performance has continued to be disappointing. We are currently in discussions with the new owners with a view to agreeing a mutually beneficial arrangement, which will allow us to continue trading in a profitable manner in as many of the current concessions as possible.

### Directors and their interests

Details of the Directors of the Company as at 28 July 2018 are shown on pages 36 and 37 and their interests in shares and share awards made to them under share incentive schemes in the Company are shown in the Directors' Remuneration Report on page 50, which form part of this report. There have been no changes in the Board of the Company since that date.

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

Alan Smith	Non-Executive Chairman
George Adams	Non-Executive Director
Paul Daccus	Non-Executive Director
Ron McMillan	Non-Executive Director
David Knight	Chief Executive Officer
Chris Muir	Chief Financial Officer

### Directors' indemnities

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

### Employee involvement

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

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

### Charitable and political donations

During the year, the Group made charitable donations, including funds raised by employees, of £20,000 (2017: £57,000). No political donations have been made (2017: £nil).

### Employee Benefit Trust

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

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

### Major interest in shares

As at 11 September 2018 the following shareholders have notified the Company of their interest in 3% or more of the Company's issued share capital:

	Number of shares held	% of issued share capital
Parlour Product Holdings (Lux Sarl)*	16,103,024	40.25
Artemis Investment Management	4,260,305	10.65
Milton Asset Management	1,824,816	4.56
Mr David Knight	1,476,958	3.69
Columbia Threadneedle Investments	1,200,000	3.00

\* A Sun Capital Partners company.

### Annual General Meeting

A notice convening the Company's Annual General Meeting on 21 November 2018 will be issued to shareholders separately.

**Auditors**

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

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

By order of the Board



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

1 October 2018

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

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

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

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

Each of the Directors, whose names and functions are listed in the Board of Directors section on pages 42 and 43 confirm that, to the best of their knowledge:

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

By order of the Board



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

1 October 2018

## 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 28 July 2018 and of the group's profit and the group's and the company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law), and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report, which comprise: the Consolidated and Company Statements of Financial Position as at 28 July 2018; the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statements of Cash Flows, and the Consolidated and Company Statements of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

#### Basis for opinion

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

#### Independence

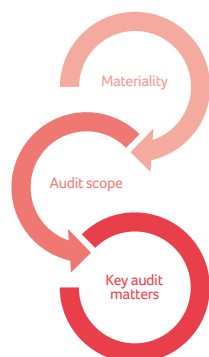
We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities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

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

Other than those disclosed in note 4 to the financial statements, we have provided no non-audit services to the group or the company in the period from 30 July 2017 to 28 July 2018.

#### Our audit approach

##### Overview



- Overall group materiality: £1,180,000 (2017: £1,165,000), based on 0.35% of total revenues.
- Overall company materiality: £700,000 (2017: £700,000), based on 1% of total assets.
- We performed an audit of the complete financial information of the Group's trading entity A Share & Sons Limited as well as its three holding companies.
- The timing of the audits for the statutory accounts for the Group, Company and the subsidiary companies took place at the same point in time and, as such, as at the date of this opinion we have audited all material balances across the Group.
- Completeness and accuracy of stock provisions.
- Volume rebates from suppliers.
- Impairment of assets in relation to loss making stores.

#### The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the group and the industry in which it operates, and considered the risk of acts by the group which were contrary to applicable laws and regulations, including fraud.

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

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We designed audit procedures at group and significant component level to respond to the risk, recognising that 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. We focused on laws and regulations that could give rise to a material misstatement in the group and company financial statements, including, but not limited to, the Companies Act 2006, the Listing Rules and UK tax legislation. Our tests included, but were not limited to, the review of financial statement disclosures to underlying supporting documentation, review of correspondence with legal advisors, enquiries of management and review of internal audit reports in so far as they related to the financial statements. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

### Key audit matters

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

#### Key audit matter

##### Completeness and accuracy of stock provisions

Refer to pages 49 (Audit Committee Report).

The Group holds £21.9m of inventory at the year end. The nature of the business is such that stock held at the stores to display certain ranges is likely to become aged or sell at a lower price, which could be lower than its cost. As such there is a material element of inventory that has a risk that this may be held at a cost higher than its net realisable value.

In addition to this, the uncertainty in relation to the future viability of House of Fraser gives rise to a risk that stock held in House of Fraser concessions may also be sold at a discounted value and require a further provision.

We recognise that there is judgement in arriving at any potential value of provision for these items with management needing to take into account future saleability of the item, potential proceeds and underlying cost. As such, the judgements involved were an area of focus.

#### How our audit addressed the key audit matter

The integrity of the aged stock listing was tested, with the inventory type and stock ageing being vouched to invoice on a sample basis. There were no issues noted with the underlying data used in calculating the provision.

To check whether stock items were being sold at less than book value, a sample of stock items sold in the year was selected and the book value compared to proceeds and any associated provision. No material exceptions were noted and we concurred with the provision held by management for aged stock items.

Where a calculation was involved, management's calculation of the provision was reperformed and alternative calculation methodologies considered. Our results showed that management's calculations were reasonable.

To check the provision against House of Fraser stock was reasonable, we obtained evidence of sales from a recent store closure. We then challenged the judgements made by management in arriving at the level of provision against House of Fraser stock. Our results showed that management's judgement was reasonable.

##### Volume rebates from suppliers

Refer to pages 49 (Audit Committee Report).

Volume rebates are negotiated by ScS Group plc as part of its dealings in the normal course of business with suppliers. Judgement arises when agreements are not co-terminus with the Group's year end and contain spending thresholds or 'hurdle rates' that may change the rebate percentage offered for all spend in the period. In mitigation, hurdle rates are not included in all contracts, there is quarterly settlement of rebates and the vast majority of non-coterminous agreements exceeded the hurdle rate at the year end.

We sent confirmation requests to a sample of suppliers, asking them to confirm the rebate terms and percentage included in the contract as well as the overall spend in the year. Where a response was not received, we agreed the rebate terms and percentage to the underlying contract. For the total supplier spend during the year, we tested on a sample basis to invoice and settlement. We then agreed that the rebate was calculated in line with the rebate agreement.

We tested on a sample basis amounts received through the year to bank with no exceptions noted.

The total rebate earned in the year was recalculated using the contracted rates and spend in the year. Our calculation showed the rebate amounts were materially correct.

## Key audit matter

### Impairment of assets in relation to loss making stores

Refer to pages 49 (Audit Committee Report).

ScS Group plc has 101 stores at year end. The nature of the business is such that, when costs have been allocated on a store by store basis, some stores are considered to be loss making. This gives rise to a risk that fixed assets on a store by store level may not be recoverable and therefore an impairment may need to be charged.

We recognise that there is judgement in arriving at any potential impairment of assets with management needing to take into account lease lengths, future forecasts, remaining net book value and allocation of costs. As such, the judgements involved were an area of focus.

## How our audit addressed the key audit matter

We obtained the impairment workings from management and checked their arithmetical accuracy and agreed them to the underlying trial balance. We then tested on a sample basis the store by store asset allocation vouching to invoice. We also checked costs had been allocated to stores on an accurate and appropriate basis through sampling to invoice. We agreed that central costs had been allocated on a reasonable basis to the underlying stores with no exceptions noted. There were no issues noted with the underlying data used in calculating the impairment provision.

Management's assessment of which stores were at risk of impairment was based on the forecasted future performance of individual stores in the group's portfolio. In order to assess the reasonableness of this we considered the robustness of the groups forecasting process and their underlying historic accuracy. Managements forecasting was considered to be suitably robust and accurate.

For the stores most at risk, we reviewed the future plans to return the stores to profitability. We concluded that the level of impairment in the store portfolio provided by management was materially correct.

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

## How we tailored the audit scope

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

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

## Materiality

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

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

	Group financial statements	Company financial statements
<b>Overall materiality</b>	£1,180,000 (2017: £1,165,000).	£700,000 (2017: £700,000).
<b>How we determined it</b>	0.35% of total revenues.	1% of total assets.
<b>Rationale for benchmark applied</b>	Based on our professional judgement and our knowledge of the client our materiality was based on 0.35% (2017: 0.35%) of revenue giving an overall materiality of £1,180,000 (2017: £1,165,000). We used 0.35% of revenue as the benchmark for our materiality calculations due to the low margin nature of the business and our judgement around what would affect the decisions of the members.	Based on our professional judgement and our knowledge of the client our materiality was based on 1.0% (2017: 1.0%) of total assets giving an overall materiality of £700,000 (2017: £700,000). We used 1.0% of total assets as the benchmark for our materiality calculations due to the entity being a holding company with limited activity and our judgement around what would affect the decisions of the members.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. Our only component in scope, A Share and Sons Limited was allocated £1,165,000. We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £59,000 (Group audit) (2017: £58,000) and £35,000 (company audit) (2017: £35,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

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

### Going concern

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

#### Reporting obligation

We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group's and the company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.

We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

#### Outcome

We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern.

We have nothing to report.

### Reporting on other information

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

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

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

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

### Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 28 July 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06).

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

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

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

- The directors' confirmation on page 50 of the Annual Report that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 34 of the Annual Report as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

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

### Other code provisions

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

- The statement given by the directors, on page 65, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position and performance, business model and strategy is materially inconsistent with our knowledge of the group and company obtained in the course of performing our audit.
- The section of the Annual Report on page 46 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

### Directors' remuneration

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

### Responsibilities for the financial statements and the audit

#### Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on pages 44 and 45, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

#### Use of this report

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

## Other required reporting

### Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

### Appointment

Following the recommendation of the audit committee, we were appointed by the directors on 3 November 2009 to audit the financial statements for the year ended 1 August 2009 and subsequent financial periods. The period of total uninterrupted engagement is 10 years, covering the years ended 1 August 2009 to 28 July 2018.

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

Chartered Accountants and Statutory Auditors

Newcastle upon Tyne

1 October 2018

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

### FOR THE YEAR ENDED 28 JULY 2018

	Note	2018 £'000	2017 £'000
<b>Gross sales</b>	3	<b>352,317</b>	349,502
<b>Revenue</b>	3	<b>337,313</b>	332,965
Cost of sales		(179,975)	(179,224)
<b>Gross profit</b>		<b>157,338</b>	153,741
Distribution costs		(17,873)	(16,503)
Administrative expenses		(126,223)	(125,249)
<b>Operating profit</b>	4	<b>13,242</b>	11,989
Finance costs	6	(228)	(96)
Finance income	7	205	70
Net finance costs		(23)	(26)
<b>Profit before taxation</b>		<b>13,219</b>	11,963
Taxation	8	(2,541)	(2,561)
<b>Profit for the year</b>		<b>10,678</b>	9,402
<b>Attributable to:</b>			
Owners of the parent			
<b>Profit and total comprehensive income for the year</b>		<b>10,678</b>	9,402
<b>Earnings per share (expressed in pence per share):</b>			
Basic earnings per share	9	<b>26.8p</b>	23.5p
Diluted	9	<b>26.0p</b>	22.9p

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

### FOR THE YEAR ENDED 28 JULY 2018

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Merger reserve £'000	Treasury shares £'000	Retained earnings £'000	Total equity £'000
<b>At 31 July 2016</b>	<b>40</b>	<b>16</b>	<b>13</b>	<b>25,511</b>	<b>–</b>	<b>4,036</b>	<b>29,616</b>
Total comprehensive income	–	–	–	–	–	9,402	9,402
Share-based payments	–	–	–	–	–	154	154
Dividend paid	–	–	–	–	–	(5,893)	(5,893)
<b>At 29 July 2017</b>	<b>40</b>	<b>16</b>	<b>13</b>	<b>25,511</b>	<b>–</b>	<b>7,699</b>	<b>33,279</b>
<b>At 30 July 2017</b>	<b>40</b>	<b>16</b>	<b>13</b>	<b>25,511</b>	<b>–</b>	<b>7,699</b>	<b>33,279</b>
Total comprehensive income	–	–	–	–	–	10,678	10,678
Share-based payments	–	–	–	–	–	542	542
Purchase of own shares into treasury (note 27)	–	–	–	–	(268)	(897)	(1,165)
Dividend paid	–	–	–	–	–	(6,032)	(6,032)
<b>At 28 July 2018</b>	<b>40</b>	<b>16</b>	<b>13</b>	<b>25,511</b>	<b>(268)</b>	<b>11,990</b>	<b>37,302</b>

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## AS AT 28 JULY 2018

	Note	2018 £'000	2017 £'000
<b>Non-current assets</b>			
Intangible assets	10	1,151	1,077
Property, plant and equipment	11	21,450	23,878
<b>Total non-current assets</b>		<b>22,601</b>	<b>24,955</b>
<b>Current assets</b>			
Inventories	12	21,865	22,084
Trade and other receivables	13	8,536	9,699
Cash and cash equivalents		48,162	40,126
<b>Total current assets</b>		<b>78,563</b>	<b>71,909</b>
<b>Total assets</b>		<b>101,164</b>	<b>96,864</b>
<b>Current liabilities</b>			
Current income tax liabilities		1,650	2,121
Trade and other payables	14	54,566	53,794
<b>Total current liabilities</b>		<b>56,216</b>	<b>55,915</b>
<b>Non-current liabilities</b>			
Trade and other payables	15	7,001	7,140
Deferred tax liability	16	645	530
<b>Total non-current liabilities</b>		<b>7,646</b>	<b>7,670</b>
<b>Total liabilities</b>		<b>63,862</b>	<b>63,585</b>
<b>Capital and reserves attributable to the owners of the parent</b>			
Share capital	17	40	40
Share premium	17	16	16
Capital redemption reserve		13	13
Treasury reserve	27	(268)	–
Merger reserve		25,511	25,511
Retained earnings		11,990	7,699
<b>Equity attributable to the owners of the parent</b>		<b>37,302</b>	<b>33,279</b>
<b>Total equity</b>		<b>37,302</b>	<b>33,279</b>
<b>Total equity and liabilities</b>		<b>101,164</b>	<b>96,864</b>

The notes on pages 78 to 90 are an integral part of these consolidated financial statements.

The financial statements on pages 74 to 90 were approved by the Board and authorised for issue on 1 October 2018 and signed on its behalf by:



**David Knight**  
Chief Executive Officer

ScS Group plc: Registered number 03263435

## CONSOLIDATED STATEMENT OF CASH FLOWS

### FOR THE YEAR ENDED 28 JULY 2018

	Note	2018 £'000	2017 £'000
<b>Cash flows from operating activities</b>			
Profit before taxation		13,219	11,963
Adjustments for:			
Depreciation of property, plant and equipment	11	5,035	4,806
Amortisation of intangible assets	10	518	599
Share-based payments	19	542	154
Finance costs	6	228	96
Finance income	7	(205)	(70)
		19,337	17,548
Changes in working capital:			
Decrease in inventories	12	219	1,104
Decrease/(increase) in trade and other receivables	13	1,163	(685)
Increase in trade and other payables		314	12,123
Cash generated from operating activities		21,033	30,090
Interest paid	6	(228)	(96)
Income taxes paid		(2,896)	(1,220)
<b>Net cash flow generated from operating activities</b>		17,909	28,774
<b>Cash flows used in investing activities</b>			
Purchase of property, plant and equipment	11	(2,306)	(4,728)
Payments to acquire intangible assets	10	(575)	(476)
Interest received	7	205	70
<b>Net cash flow used in investing activities</b>		(2,676)	(5,134)
<b>Cash flows used in financing activities</b>			
Dividends paid		(6,032)	(5,893)
Purchase of own shares	27	(1,165)	–
<b>Net cash flow used in financing activities</b>		(7,197)	(5,893)
Net increase in cash and cash equivalents		8,036	17,747
Cash and cash equivalents at beginning of year		40,126	22,379
<b>Cash and cash equivalents at end of year</b>		48,162	40,126

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 1. General information

ScS Group plc (the 'Company') is a company limited by shares incorporated and domiciled in England, within the UK (Company registration number 03263435). The address of the registered office is 45-49 Villiers Street, Sunderland, SR1 1HA. The Company's principal activity is to act as a holding company for its subsidiaries. The Company and its subsidiaries' (the 'Group') principal activity is the provision of furniture and flooring, trading under the names ScS, the Sofa Carpet Specialists, and 'House of Fraser Made to Order Sofas, Furniture and Flooring'. The shares in the Company were admitted to the Official List of the London Stock Exchange (LSE) on 28 January 2015.

## 2. Accounting policies

### Basis of preparation

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) as they apply to the financial statements of the Group for the year ended 28 July 2018 and applied in accordance with the Companies Act 2006 as applicable to companies using IFRS and interpretations issued by the IFRS Interpretations Committee (IFRS IC) and under the historic cost convention. The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 28 July 2018. These policies have been consistently applied to all of the years presented, unless otherwise stated.

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

### Going concern

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

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

### New standards, amendments and interpretations

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

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

- IFRS 16 'Leases' will be effective for the year ending 25 July 2020 onwards and the impact on the financial statements will be significant. IFRS 16 requires lessees to recognise a lease liability reflecting future lease payments and a right-of-use asset for all lease contracts. Therefore, the substantial majority of the Group's operating lease commitments (£166,540,000 on an undiscounted basis, as shown in note 22) would be brought on to the balance sheet. Depreciation of the right of use asset will be recognised in the income statement on a straight-line basis, with interest recognised on the lease liability. This will result in a change to the profile of the net charge taken to the income statement over the life of the lease. Depreciation and interest charges will replace the lease costs currently charged to the income statement and consequently there will be a significant adjustment to the quoted unadjusted Group EBITDA. There will be no impact on cash flows, although the presentation of the cash flow statement will change significantly. Management has begun to model and quantify the expected impact using the current lease portfolio and presented initial thoughts on the expected impact to the Board, however the impact will greatly depend on the facts and circumstances at the time of adoption and upon transition choices adopted. It is therefore not yet practicable to provide a reliable estimate of the financial impact on the Group's consolidated results.

### Basis of consolidation

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

### Subsidiaries

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

## 2. Accounting policies continued

### Transactions eliminated on consolidation

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

### Segmental reporting

Segments are reported in a manner consistent with the internal reporting to the Board of Directors (see note 3 – Segment information on page 82).

### Revenue

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, charges associated with interest-free credit sales, returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when the significant risks and rewards of ownership of the goods and warranty contracts have passed to the buyer. This is deemed to be when the goods and any associated warranty contracts have been delivered to the customer. Warranty services, once sold, are subsequently provided by third parties.

### Intangible assets

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

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

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

### Property, plant and equipment

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

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

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

### Inventories

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

### Trade receivables

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

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

### 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.

### 2. Accounting policies continued

#### Payments received on account

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

#### Borrowings

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

#### Cash and cash equivalents

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

#### Treasury shares

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

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

#### Share capital

Ordinary shares are classified as equity.

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

#### Pre-opening and launch costs

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

#### Advertising expenditure

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

#### Supplier contributions

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

#### Supplier rebates

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

#### Leases

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

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

#### Lease incentives

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

#### Lease premiums

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

#### Pension costs

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

## 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 Director considers that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

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

### Foreign currency

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

### Share-based payments

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

### Provisions

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

### Critical accounting judgements and estimates

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

### Volume rebates

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

### Stock provisions

The Group holds £21.9m of inventory at the year end, and the majority of this stock is held for display in store. Due to the nature of this stock, it will often be subject to the wear and tear associated with use in a showroom environment, and some items may have also been in store for an extended period of time. As such, this stock is often unable to achieve the same margin as the 'special order' stock purchased and delivered direct 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 current held, those estimated values may differ from the final sale and the total differences could potentially be significant.

## 2. Accounting policies continued

### Loss making stores and onerous leases

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

## 3. Segment information

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

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

An analysis of gross sales is as follows:

	Year ended 28 July 2018 £'000	Year ended 29 July 2017 £'000
Sale of goods	329,571	326,534
Associated sale of warranties	22,746	22,968
<b>Gross sales</b>	<b>352,317</b>	<b>349,502</b>
Less: costs of interest-free credit	(15,004)	(16,537)
<b>Revenue</b>	<b>337,313</b>	<b>332,965</b>

## 4. Operating profit

Operating profit is stated after charging:

	Year ended 28 July 2018 £'000	Year ended 29 July 2017 £'000
Fees payable to the Company auditors for the audit of Company and consolidated financial statements	25	25
Fees paid for other services:		
– audit of the Company's subsidiaries	98	95
– other non-audit services	19	19
Depreciation of property, plant and equipment – owned	5,035	4,806
Amortisation of computer software	518	599
Operating lease rentals – plant and machinery	2,327	2,342
Operating lease rentals – land and buildings	24,541	24,435

## 5. Employees and Directors

### 5.1 Staff costs

	Year ended 28 July 2018 £'000	Year ended 29 July 2017 £'000
Wages and salaries	54,509	52,433
Social security costs	5,214	5,058
Other pension costs	1,014	1,083
Share-based payments (note 19)	542	154
	<b>61,279</b>	<b>58,728</b>

## 5. Employees and Directors continued

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

	Year ended 28 July 2018 £'000	Year ended 29 July 2017 £'000
Sales	735	765
Office and managerial	721	739
Services and warehousing	440	432
Cleaning	36	34
	<b>1,932</b>	<b>1,970</b>

### 5.2 Directors' emoluments

	Year ended 28 July 2018 £'000	Year ended 29 July 2017 £'000
Aggregate emoluments	1,496	1,151
Other pension costs	109	110

Highest paid Director	Year ended 28 July 2018 £'000	Year ended 29 July 2017 £'000
Aggregate emoluments	754	530
Other pension costs	61	61

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

### 5.3 Key management compensation

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

The key management compensation is as follows:

	Year ended 28 July 2018 £'000	Year ended 29 July 2017 £'000
Aggregate emoluments	2,694	1,928
Deferred contribution pension cost	232	230
Share-based payments	542	154

## 6. Finance costs

	Year ended 28 July 2018 £'000	Year ended 29 July 2017 £'000
Bank facility renewal fees	132	—
Bank facility non-utilisation fees	96	96
	<b>228</b>	<b>96</b>

## 7. Finance income

	Year ended 28 July 2018 £'000	Year ended 29 July 2017 £'000
Bank interest received	205	70

**8. Taxation****(a) Analysis of tax charge in the year**

	Year ended 28 July 2018 £'000	Year ended 29 July 2017 £'000
<b>Current tax:</b>		
UK corporation tax on profits for the year	2,995	3,071
Adjustments in respect of prior years	(569)	61
Total current tax	2,426	3,132
<b>Deferred tax:</b>		
Origination and reversal of temporary differences	(398)	(533)
Adjustments in respect of prior years	513	(38)
Total deferred tax charge/(credit) (note 16)	115	(571)
Income tax charge in the statement of comprehensive income	2,541	2,561

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

The tax charge assessed on the profit for the year is higher (2017: higher) than the standard rate of corporation tax in the UK of 19.00% (2017: 19.67%). The differences are explained below:

	Year ended 28 July 2018 £'000	Year ended 29 July 2017 £'000
Profit before taxation	13,219	11,963
Profit before tax at 19.00% (2017: 19.67%)	2,512	2,353
Effects of:		
Other expenses not deductible	120	128
Deduction on exercise of share options	(200)	–
Depreciation not eligible for tax purposes	128	108
Adjustments in respect of prior years	(56)	20
Impact of changes in tax rates	37	(48)
<b>Total taxation charge in the statement of comprehensive income</b>	<b>2,541</b>	<b>2,561</b>

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

The standard rate of corporation tax in the UK changed from 20% to 19% with effect from 1 April 2017. Further reductions in the corporation tax rate from 19% to 17% from 1 April 2020 were substantively enacted as part of the Finance Bill 2016 (on 6 September 2016). Accordingly, the profits for this period are taxed at an effective rate of 19.00% and deferred taxation has been calculated based on a rate of 17%.

**9. Earnings per share**

	Year ended 28 July 2018 £'000	Year ended 29 July 2017 £'000
Profit attributable to owners of the Company	10,678	9,402
Weighted average number of shares in issue for the purposes of basic earnings per share	39,804,480	40,009,109
Effect of dilutive potential ordinary shares: – Share options	1,220,656	1,085,096
Weighted average number of ordinary shares for the purposes of diluted earnings per share	41,025,136	41,094,205
Basic earnings per share (in pence per share)	26.8p	23.5p
Diluted earnings per share (in pence per share)	26.0p	22.9p

## 10. Intangible assets

	28 July 2018 £'000
	Computer software
<b>Cost</b>	
At 30 July 2017	5,134
Additions	592
<b>At 28 July 2018</b>	<b>5,726</b>
<b>Accumulated amortisation</b>	
At 30 July 2017	4,057
Charge for the year	518
<b>At 28 July 2018</b>	<b>4,575</b>
<b>Net book amount</b>	
<b>At 28 July 2018</b>	<b>1,151</b>
<b>At 29 July 2017</b>	<b>1,077</b>
	29 July 2017 £'000
	Computer software
<b>Cost</b>	
At 31 July 2016	4,603
Additions	531
<b>At 29 July 2017</b>	<b>5,134</b>
<b>Accumulated amortisation</b>	
At 31 July 2016	3,458
Charge for the year	599
<b>At 29 July 2017</b>	<b>4,057</b>
<b>Net book amount</b>	
<b>At 29 July 2017</b>	<b>1,077</b>
<b>At 30 July 2016</b>	<b>1,145</b>

Amortisation is charged through the administration expenses line.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 11. Property, plant and equipment

	Freehold land and buildings £'000	Leasehold property £'000	Computer equipment £'000	Fixtures and fittings £'000	Total £'000
<b>Cost</b>					
At 30 July 2017	159	50,799	3,293	28,008	82,259
Additions	–	1,072	398	1,137	2,607
<b>At 28 July 2018</b>	<b>159</b>	<b>51,871</b>	<b>3,691</b>	<b>29,145</b>	<b>84,866</b>
<b>Accumulated depreciation</b>					
At 30 July 2017	88	31,695	2,159	24,439	58,381
Charge for the year	3	3,343	628	1,061	5,035
<b>At 28 July 2018</b>	<b>91</b>	<b>35,038</b>	<b>2,787</b>	<b>25,500</b>	<b>63,416</b>
<b>Net book amount</b>					
<b>At 28 July 2018</b>	<b>68</b>	<b>16,833</b>	<b>904</b>	<b>3,645</b>	<b>21,450</b>
At 29 July 2017	71	19,104	1,134	3,569	23,878
<b>Cost</b>					
At 31 July 2016	159	47,695	12,369	27,269	87,492
Additions	–	3,407	1,004	773	5,184
Disposals	–	(303)	(10,080)	(34)	(10,417)
<b>At 29 July 2017</b>	<b>159</b>	<b>50,799</b>	<b>3,293</b>	<b>28,008</b>	<b>82,259</b>
<b>Accumulated depreciation</b>					
At 31 July 2016	85	28,780	11,767	23,359	63,991
Charge for the year	3	3,217	472	1,114	4,806
Disposals	–	(302)	(10,080)	(34)	(10,416)
<b>At 29 July 2017</b>	<b>88</b>	<b>31,695</b>	<b>2,159</b>	<b>24,439</b>	<b>58,381</b>
<b>Net book amount</b>					
<b>At 29 July 2017</b>	<b>71</b>	<b>19,104</b>	<b>1,134</b>	<b>3,569</b>	<b>23,878</b>
At 30 July 2016	74	18,915	602	3,910	23,501

The net book value of leasehold properties is as follows:

	Year ended 28 July 2018 £'000	Year ended 29 July 2017 £'000
Short leaseholds (up to 25 years)	16,768	19,036
Long leaseholds (greater than 25 years)	65	68
	<b>16,833</b>	<b>19,104</b>

### 12. Inventories

	Year ended 28 July 2018 £'000	Year ended 29 July 2017 £'000
Finished goods	21,865	22,084

The cost of inventories as an expense and included in cost of sales amounted to £181,601,000 (2017: £184,329,000).

The charge for the year relating to inventories written off amounted to £1,095,000 (2017: £611,000).

### 13. Trade and other receivables

	Year ended 28 July 2018 £'000	Year ended 29 July 2017 £'000
Trade receivables	1,232	3,029
Other receivables	2,704	2,272
Prepayment	4,600	4,398
	<b>8,536</b>	<b>9,699</b>

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

**13. Trade and other receivables** continued

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

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

The bad debt provision is not considered material for disclosure.

**14. Trade and other payables – current**

	Year ended 28 July 2018 £'000	Year ended 29 July 2017 £'000
Trade payables	26,294	29,142
Payments received on account	12,232	11,506
Other taxation and social security payable	4,492	4,775
Accruals	11,548	8,371
	<b>54,566</b>	<b>53,794</b>

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

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

	Year ended 28 July 2018 £'000	Year ended 29 July 2017 £'000
Lease incentives	6,371	6,496
Onerous lease provision	630	644
	<b>7,001</b>	<b>7,140</b>

The onerous lease provision of £630,000 (2017: £644,000) relates to commitments on leases for stores identified as loss-making as part of managements ongoing review of store profitability (2017 also included amounts for the West Thurrock and Thetford distributions centres, which were closed in September 2017).

**16. Deferred tax liability**

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

	Year ended 28 July 2018 £'000	Year ended 29 July 2017 £'000
Opening deferred tax liability	530	1,101
Charged/(credited) to profit and loss account arising from the origination and reversal of temporary differences (note 8)	115	(571)
<b>Closing deferred tax liability</b>	<b>645</b>	<b>530</b>
Deferred taxation has been fully provided for in respect of:		
Accelerated capital allowances	716	550
Losses	(121)	(101)
Other timing differences	(71)	(20)
Capital gains held over	121	101
<b>Closing deferred tax liability</b>	<b>645</b>	<b>530</b>

**17. Called-up share capital**

	Number of shares	Ordinary shares £'000	Share premium £'000	Total £'000
At 31 July 2016	40,000,000	37	–	37
Shares issued/proceeds	9,109	3	16	19
At 29 July 2017 and as at 28 July 2018	40,009,109	40	16	56

Authorised, allotted and fully paid share capital is 40,009,109 of £0.001p each (2017: 40,009,109 of £0.001p each).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 18. Dividends

A final dividend for year ended 29 July 2017 of 9.80p was paid on 27 November 2017. It has been recognised in shareholders' equity in the year to 28 July 2018.

An interim dividend of 5.30p per ordinary share was declared by the Board of Directors on 21 March 2018 and paid on 10 May 2018. It has been recognised in shareholders' equity in the year to 28 July 2018.

A final dividend for the year ended 28 July 2018 of 10.90p per ordinary share was proposed by the Board of Directors.

At 28 July 2018 the retained earnings of the Company amounted to £64,283,000.

### 19. Share-based payments

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

#### Post-admission incentive arrangements

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

- (i) £Nil cost options conditional on the IPO taking place (approved on 21 January 2015).
- (ii) Market value options under a HMRC approved Company Share Option Plan conditional on the IPO taking place (approved on 21 January 2015).
- (iii) Unapproved market value options conditional on the IPO taking place (approved on 21 January 2015).
- (iv) Performance-based £nil cost options granted on 30 March 2015 (the performance condition is based on EPS as set out in the consolidated audited financial statements of the Group for 2017). As the EPS for the Group was lower than the performance condition set, these awards have been forfeit as at 28 July 2018.
- (v) Performance-based £nil cost options granted on 17 October 2016 (the performance condition is based on EPS as set out in the consolidated audited financial statements of the Group for the financial year ended 27 July 2019).
- (vi) Performance-based £nil cost options granted on 16 October 2017 (the performance condition is based on EPS as set out in the consolidated audited financial statements of the Group for the financial year ended 26 July 2020).

#### Fair value of awards

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

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

	LTIP (pre-IPO nil cost options)		LTIP (CSOP market value options)		2015, 2017 and 2018 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 31 July 2016	551,421	£0.000001	59,550	£1.75	354,918	£0.000001	965,889	£0.11
Granted	—	—	—	—	474,125	£0.000001	474,125	£0.000001
Forfeited	—	—	—	—	(354,918)	£0.000001	(354,918)	£0.000001
Exercised	—	—	—	—	—	—	—	—
Expired	—	—	—	—	—	—	—	—
<b>Outstanding as at 29 July 2017</b>								
2017	551,421	£0.000001	59,550	£1.75	474,125	£0.000001	1,085,096	£0.10
Granted	—	—	—	—	554,141	£0.000001	554,141	£0.000001
Forfeited	—	—	—	—	—	—	—	—
Exercised	(411,424)	£0.000001	(7,157)	£1.75	—	—	(418,581)	£0.029922
Expired	—	—	—	—	—	—	—	—
<b>Outstanding as at 28 July 2018</b>								
2018	139,997	£0.000001	52,393	£1.75	1,028,266	£0.000001	1,220,656	£0.08
<b>Exercisable at 28 July 2018</b>	139,997	£0.000001	52,393	£1.75	—	£0.000001	192,390	£0.48
Exercisable at 29 July 2017	—	£0.000001	59,550	£1.75	—	£0.000001	59,550	£1.75

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

## 19. Share-based payments continued

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

	2015	2015	2015	2017	2018
	21 January	21 January	30 March	17 October	16 October
	2015	2015	2015	2016	2017
Grant date	2015	2015	2015	2016	2017
Share price at grant date	£1.75	£1.75	£2.05	£1.83	£1.75
Exercise price	£nil	£1.75	£nil	£nil	£nil
Number of employees	25	6	6	6	8
Shares issued	571,421	68,659	445,711	474,125	554,141
Expected volatility	33.7%	36.2%	— <sup>1</sup>	— <sup>1</sup>	— <sup>1</sup>
Expected life (years)	3	5	3	3	3
Risk-free interest rate	0.70%	1.06%	— <sup>1</sup>	— <sup>1</sup>	— <sup>1</sup>
Expected dividend yield	8%	8%	— <sup>1</sup>	— <sup>1</sup>	— <sup>1</sup>
Fair value per share	£1.38	£0.24	£2.05	£1.83	£1.75
Estimated vesting	100%	100%	0%	40%	85%

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 £542,000 (2017: £154,000) which is in relation to equity-settled share-based payment transactions. There are no liabilities arising from share-based payment transactions.

## 20. Capital commitments

Capital commitments contracted for but not provided amounted to £nil (2017: £nil).

## 21. Pension commitments

The Group operates several defined contribution pension schemes for the benefit of its staff. The assets of the schemes are held separately from those of the Group in independently administered funds. The pension charges represent contributions payable by the Group to these funds and are shown in note 5 on page 83. Amounts outstanding at the year end were £181,000 (2017: £118,000) and are held in accruals.

## 22. Financial commitments

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

	Land and buildings		Plant and machinery	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
<b>Group</b>				
Within one year	397	493	336	503
Within two to five years	25,355	27,369	3,177	3,327
After five years	137,275	146,726	—	—
	<b>163,027</b>	<b>174,588</b>	<b>3,513</b>	<b>3,830</b>

## 23. Financial instruments – risk management

### Financial risk management policy

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

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

### Credit risk

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

Cash and deposits are invested with Lloyds Bank plc.

## 23. Financial instruments – risk management continued

### Liquidity risk

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

### Financial instruments by category

Financial assets and liabilities are classified in accordance with IAS 39. No financial instruments have been reclassified or derecognised in the year. There are no financial assets which are pledged or held as collateral. The Group does not hold any financial assets or liabilities held as fair value through the income statement, defined as being in a hedging relationship or any available for sale financial assets.

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

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

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

### Capital management

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

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

## 24. Related parties

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

## 25. Contingent liabilities

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

## 26. Post-balance sheet events

On 10 August 2018, subsequent to the financial year, House of Fraser (Stores) Limited and James Beattie Limited, the trading entities with which the Group held a contract with to operate the 'House of Fraser Made to Order Sofas, Furniture and Flooring' store concessions, entered into administration. The business and assets were subsequently bought by Sports Direct International plc. At the date of publication of the Annual Report and financial statements, we continue to trade from all 27 concessions, and have entered into discussions with management regarding ongoing trading terms.

## 27. Treasury shares

	£'000
As at 29 July 2017	–
Purchase of own shares	1,165
Transfer to retained earnings	(897)
<b>As at 28 July 2018</b>	<b>268</b>

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

## COMPANY INFORMATION

## STATEMENT OF FINANCIAL POSITION AS AT 28 JULY 2018

	Note	2018 £'000	2017 £'000
Investments	5	70,000	70,000
<b>Current assets</b>			
Trade and other receivables	6	10	30
Cash at bank and in hand		–	–
<b>Total current assets</b>		10	30
<b>Total assets</b>		70,010	70,030
<b>Current liabilities</b>			
Trade and other payables	7	5,926	4,163
<b>Total current liabilities</b>		5,926	4,163
<b>Total liabilities</b>		5,926	4,163
<b>Capital and reserves</b>			
Called-up share capital	8	40	40
Share premium account	8	16	16
Capital redemption reserve		13	13
Treasury share reserve	12	(268)	–
Retained earnings		64,283	65,798
<b>Total shareholders' funds</b>		64,084	65,867
<b>Total equity</b>		64,084	65,867
<b>Total equity and liabilities</b>		70,010	70,030

The notes on pages 94 to 96 form an integral part of these financial statements.

The total comprehensive income for the year included within the accounts of the Company is £5,414,000 (2017: £5,180,000).

The financial statements on pages 91 to 96 were approved by the Board and authorised for issue on 1 October 2018 and signed on its behalf by:



**David Knight**  
Chief Executive Officer

## COMPANY INFORMATION

### STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 28 JULY 2018

	Called-up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Treasury shares £'000	Retained earnings £'000	Total equity £'000
<b>At 31 July 2016</b>	40	16	13	–	66,511	66,580
Total comprehensive income	–	–	–	–	5,180	5,180
Dividends paid	–	–	–	–	(5,893)	(5,893)
<b>At 29 July 2017</b>	40	16	13	–	65,798	65,867
<b>At 30 July 2017</b>	40	16	13	–	65,798	65,867
Total comprehensive income	–	–	–	–	5,414	5,414
Purchase of own shares into treasury	–	–	–	(268)	(897)	(1,165)
Dividends paid	–	–	–	–	(6,032)	(6,032)
<b>At 28 July 2018</b>	40	16	13	(268)	64,283	64,084

## COMPANY INFORMATION

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 28 JULY 2018

	Note	2018 £'000	2017 £'000
<b>Cash flows from operating activities</b>			
Profit before taxation		<b>5,414</b>	5,180
Changes in working capital:			
Decrease/(increase) in trade and other receivables	6	<b>20</b>	(5)
Increase in trade and other payables	7	<b>1,763</b>	718
Cash generated from operations		<b>7,197</b>	5,893
<b>Net cash flow generated from operating activities</b>		<b>7,197</b>	5,893
<b>Net cash flow used in investing activities</b>		–	–
<b>Cash flows used in financing activities</b>			
Dividends paid	9	<b>(6,032)</b>	(5,893)
Purchase of own shares		<b>(1,165)</b>	–
<b>Net cash flow used in financing activities</b>		<b>(7,197)</b>	(5,893)
<b>Net increase in cash and cash equivalents</b>		–	–
<b>Cash and cash equivalents at beginning of year</b>		–	–
<b>Cash and cash equivalents at end of year</b>		–	–

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

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## 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

### Statement of compliance with FRS 101

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

### Basis of preparation

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

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

### 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 accounts.

### 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 90 in the Group accounts.

### New standards, amendments and interpretations

For the latest amendments and interpretations, please refer to page 78 in the Group accounts.

### Fixed asset investments

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

### 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.

## 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 of the Company. Total comprehensive income for the Company for the year was £5,414,000 (2017: £5,180,000).

#### 4. Directors emoluments

No Executive Directors received any remuneration for their services to the Company (2017: £nil). All Executive Directors remuneration was borne by another Group company, A. Share and Sons Limited. These costs have been consolidated into the Group's financial statements and are disclosed, along with the Non-Executive Directors fees, within the Remuneration Report on pages 52 to 58.

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 29 July 2017 and 28 July 2018

70,000

The subsidiaries, which were owned and incorporated in the United Kingdom were are as follows:

Name	Principal activity	Class of shares held	% of holdings
Parlour Product Topco Limited	Holding company	Ordinary	100%
<b>Held by subsidiary undertakings</b>			
Parlour Product Holding Limited	Holding company	Ordinary	100%
A. Share & Sons Limited	Specialist retailer of upholstered furniture	Ordinary	100%
ScS Furnishings Limited	Dormant company	Ordinary	100%

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

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

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

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

#### 6. Trade and other receivables

	2018 £'000	2017 £'000
Prepayments and accrued income	10	30

#### 7. Trade and other payables

	2018 £'000	2017 £'000
Amounts owed to Group undertakings	5,746	4,018
Accruals and deferred income	180	145
	5,926	4,163

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

#### 8. Called-up share capital

	Number of shares	Ordinary shares £'000	Share premium account £'000	Total £'000
At 31 July 2016	40,000,000	37	—	37
Shares issued/proceeds	9,109	3	16	19
<b>At 29 July 2017 and 28 July 2018</b>	<b>40,009,109</b>	<b>40</b>	<b>16</b>	<b>56</b>

Authorised, allotted and fully paid share capital is 40,009,109 of £0.001p each (2017: 40,009,109 of £0.001p each).

### **9. Dividends**

A final dividend for year ended 29 July 2017 of 9.80p was paid on 28 November 2017. It has been recognised in shareholders' equity in the year ended 28 July 2018.

An interim dividend of 5.30p per ordinary share was declared by the Board of Directors on 21 March 2018 and paid on 10 May 2018. It has been recognised in shareholders' equity in the year ended 28 July 2018.

A final dividend for year ended 28 July 2018 of 10.90p per ordinary share was proposed by the Board of Directors.

At 28 July 2018 the retained earnings of the Company amounted to £64,283,000.

### **10. Financial instruments**

The Company has financial instruments, being trade receivables and trade payables, that arise directly from its operations. The financial instruments – risk management policy has been included in note 23 of the Group financial statements.

### **11. Related parties**

There is not deemed to be any one controlling party.

### **12. Treasury shares**

Details of the Company's share capital and share buybacks are given in note 27 of the notes to the Group financial statements.

## COMPANY INFORMATION

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### Registered office

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

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

### Company number

Registered in England: 03263435

### Listing

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

### Share registrar

Equiniti  
Aspect House  
Spencer Road  
Lancing  
West Sussex  
BN99 6DA

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

### Independent auditor

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

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

### Brokers

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

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

### Principal bankers

Lloyds Banking Group PLC  
10 Gresham Street  
London  
EC2V 7AE

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

### Financial PR

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EC2V 6DN

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