Sofas, flooring and furniture

Helping create the home you love

ScS Group plc
Annual Report and Accounts
2023

Our strategy
Continuing to drive the business forward.

Read more on page 16

Financial review
Delivering resilient results and returns to shareholders.

Read more on page 50

Delivering value
Continuing to produce results.

Read more on page 13

"We continue to take market share and make strategic progress."

Financial highlights

Underlying profit before tax*
£7.2m
2022: £13.8m

Cash
£69.5m
2022: £70.8m

Statutory earnings per share
12.8p
2022: 36.2p

Dividend**
14.5p
2022: 13.5p

* See alternative performance measures on pages 55 to 56.
** Dividend includes 4.5p interim paid and 10.0p proposed final dividend.

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About ScS

ScS is one of the UK's leading furniture and flooring retailers

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

Gross sales*
£343.5m
2022: £344.7m

Gross margin*
44.4%
2022: 45.3%

* See alternative performance measures on pages 55 to 56.

Strategic report

Corporate governance

Financial statements

Strategic report

At a glance

Helping create the home you love

ScS Group plc is a sofa, flooring and furniture specialist. We have over 125 years of furniture and retailing experience and have established ourselves as one of the leading furniture and flooring retailers in the UK.

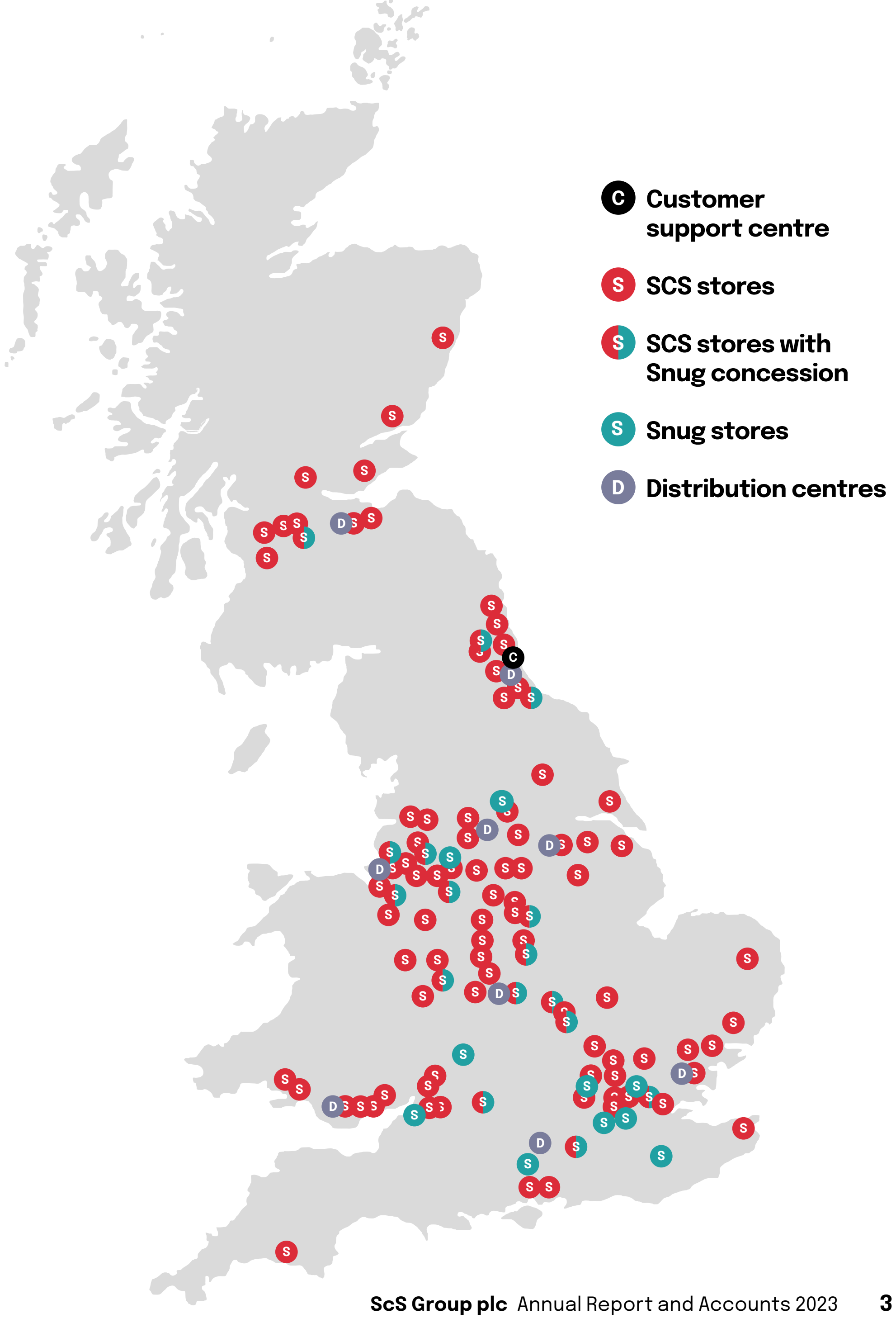
Where we are

100
showrooms across the UK
Providing an engaging experience, showcasing our latest great value products and giving our customers the chance to find the perfect addition to their home.

9
distribution centres across the UK
Delivering to thousands of customers every week.

26
Snug showrooms
Three standalone stores and 23 concessions (a mixture of internal and external). Each showcasing our Snug offering.

1
customer support centre
Supporting the business and customers from our base in Sunderland.



Our purpose

Helping create the home you love

Our clear purpose drives strategic priorities and supports our ambitions and commitments. It guides us in delivering the best combination of customer service, value for money, quality and product choice for our customers. Our customers and our people are at the heart of everything we do and are central to our purpose.

See pages 16 to 22 for more information on our strategy

Highlights

- Delivered a resilient financial performance despite a challenging macroeconomic environment.
- Following significant quantitative and qualitative customer research, launched our new ‘Feel the hug of home’ brand creative.
- Acquired the business and assets of Snug which complements the Group’s existing proposition, diversifies our customer base and increases our market share.
- Opened two new stores in Swindon and York.
- Implemented our refreshed store design into eight further stores taking the total to nine.
- Exceeded 440,000 reviews on Trustpilot and maintained the maximum 5-star ‘Excellent’ rating.
- Completed £7m share buyback programme.
- Launched partnership with Shelter, the national housing and homelessness charity.
- Improved our employee satisfaction score and colleague retention rates.

Our values

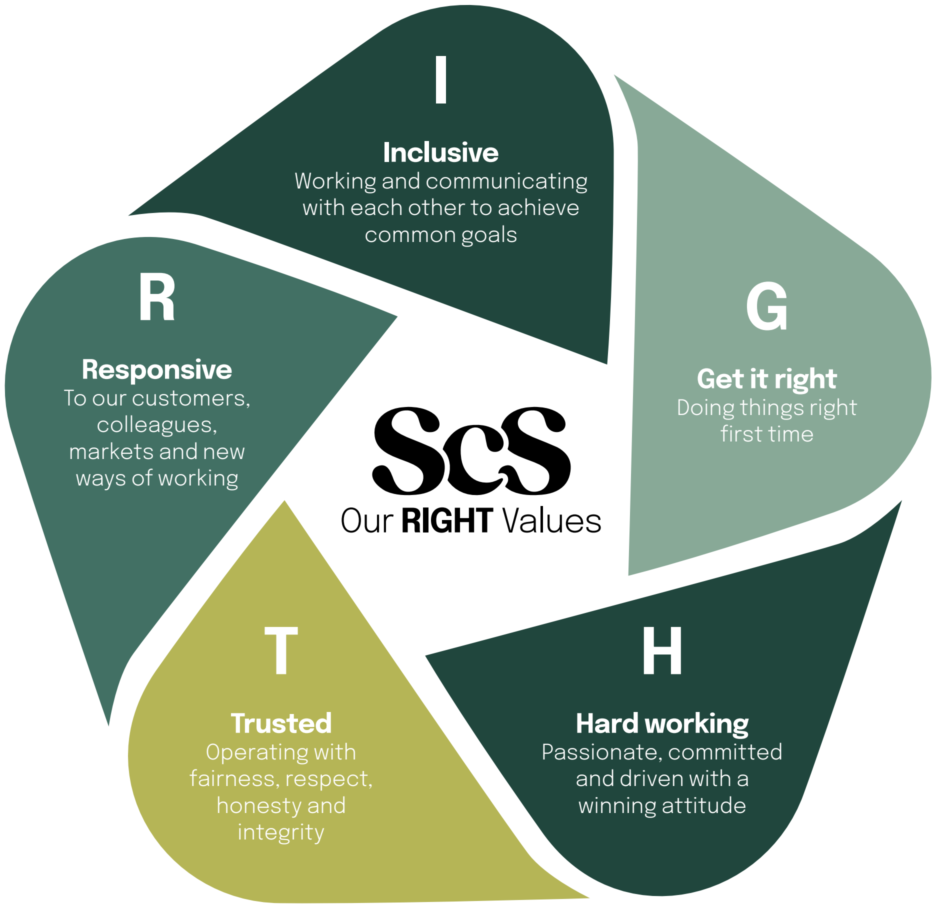
Our RIGHT values, together with our purpose, shape and bring our culture to life.

Our colleagues are key to our success, and we are committed to creating a great place for them to work.

Our responsibility

At ScS, we recognise that as a responsible business we have an obligation to operate in a manner that is both ethical and sustainable. We continue to align our environmental, social and governance (ESG) ambitions with our business strategy and have commenced development of our Net Zero strategy.

See pages 26 to 37 for more information on ESG



- Store: 50% (2022: 51%)
- Customer support centre: 25% (2022: 23%)
- Distribution: 25% (2022: 26%)

- In-store furniture sales: £276.6m (2022: £279.9m)
- In-store flooring sales: £30.1m (2022: £32.6m)
- Online sales: £36.8m (2022: £32.2m)

Trustpilot rating

‘Excellent’

* See alternative performance measures on pages 55 to 56.

> “We continue to recognise the importance of embedding our purpose and strategy in both an ethical and sustainable manner.”

Chair’s letter

Dear Shareholder,
This is my final review and I would like to start by thanking the talented people I have had the pleasure and privilege to work with throughout my nine years. I am extremely proud of what has been achieved during this time.

I am equally pleased that ScS has maintained its core identity, providing excellent value and delivering first-class service to our customers, things I am certain will be the foundations for future successes.

FY23 was a challenging year, impacted by the continued economic pressures consumers and businesses face across the UK. Profits fell in the year, driven by a reduction in our gross margin in our ScS business due to the increased cost of providing credit to our customers. Whilst navigating the uncertain external environment, the Group made notable strides implementing our strategy. I was very pleased with the progress Steve and his team made in the year and would like to thank them for their stewardship and determination, as well as thanking all my colleagues for their continued commitment, application of our RIGHT values and pursuit of our ultimate purpose, ‘to help create the home you love’.

Following the year end, on 24 October 2023, a wholly-owned subsidiary of Poltronesofà S.p.A. announced a recommended cash offer for the Company of 270p per share. In addition, the Group’s shareholders will also be entitled to receive a final dividend in respect of the year ended 29 July 2023 of 10p per share.

Purpose and strategy
I have been delighted with the progress made in the second year of our refreshed strategy. I am confident that this will ensure ScS is in a position to weather the current turbulent economic environment, continue to take market share and prosper when the economy improves.

During the year the team delivered the Group’s first acquisition in its long history, acquiring Snug. The Board visited Snug’s contemporary Leeds store and met the team, including CEO Rob Bridgman, and heard about their exciting plans. Snug’s strong brand and differentiated digital-first offering complements our existing proposition, further diversifies our customer base and increases our market share. I look forward to watching the business grow in the coming years.

Together with other members of the Board I have also visited a number of our new format stores and was impressed with how the team has adapted the design following the learnings gained from our initial locations. It has been pleasing to see their strong performance and we plan to continue to invest in modernising our stores as long as we continue to see the targeted returns.

I was excited to see the positive reaction to the refresh of our ScS brand and modernised product range, making the customer proposition more welcoming and appealing to a wider audience.

None of this progress would have been possible without a fully engaged team and the results of the latest annual employee survey showed an increase in colleague satisfaction by four points to 75, ahead of the UK benchmark. This increase is reflected in our improved employee retention rates.

We continue to recognise the importance of embedding our purpose and strategy in both an ethical and sustainable manner and have progressed towards our ESG objectives. These efforts continue, with our ESG committee establishing a Net Zero strategy.

Shareholder returns
We continue to maintain a strong balance sheet, with £69.5m of cash and no debt at the year end, providing resilience in the current environment. Combined with the strategic progress, the Board has confidence in the Group’s future.

In the year we completed our share buyback programme, returning a total of £7.0m to our shareholders and in addition, completed the cash acquisition of Snug. The Board actively reviews the allocation of capital, considering potential external and internal investment opportunities and returns to shareholders.

As we reflect on the robust performance for the year, the Board is pleased to propose a final dividend of 10.0p subject to approval at the AGM. Upon approval, this would mean a full year dividend of 14.5p.

Board changes

Last year we reported the appointment of three new Non-Executive Directors. Carol Kavanagh, who joined the Board on 26 September 2022, Andy Kemp who joined the board on 1 February 2023 and John Walden who joined as Chair Designate on 1 March 2023. Additionally, I was pleased to welcome Swarupa Pathakji to the Board as Non-Executive Director on 2 May 2023.

Carol, Andy, John and Swarupa have all held a number of relevant senior positions and have extensive listed company experience that will strengthen the Board's capabilities whilst playing a crucial role in the advancement of our strategy. They have all undertaken a comprehensive induction process and are making valuable contributions to the Group.

The original plan was that both Ron McMillan and I would step down from our positions upon the conclusion of the AGM on 1 December 2023, both having served nine years on the Board, the maximum term recommended under the UK Corporate Governance Code. The current intention is that Ron and I will remain as Non-Executive Directors on the Board for a short period post the AGM to assist with the conclusion of the offer for the Company that was announced on the 24 October 2023 and further updates with regards to this will be made as appropriate.

With the notification from Chris Muir of his intention to step down as Chief Financial Officer (CFO), and following a comprehensive recruitment process, I was delighted to welcome Mark Fleetwood to the Group as Chris's successor on 4 September 2023. Chris has been a vital part of the success of ScS since his appointment in 2016 and I'd like to thank him for his contribution. Chris will remain as an Executive Director on the Board to assist with the conclusion of the offer for the Company.

Offer for the Company

Following the year end, on 24 October 2023, a wholly-owned subsidiary of Poltronesofà S.p.A. announced a recommended cash offer for the Company of 270p per share. In addition, the Group's shareholders will also be entitled to receive a final dividend in respect of the year ended 29 July 2023 of 10p per share.

Established in Forli in 1995, Poltronesofà S.p.A. has become the leading sofa retailer in Italy and one of the leading sofa retailers in Europe. It designs and sells sofas and armchairs, as well as sofa beds and decorative accessories and retails them through its 166 stores in Italy, 104 stores in France and 26 further stores across Europe (14 in Belgium, nine in Switzerland, two in Cyprus and one in Malta). Poltronesofà S.p.A. is widely recognised for its focus on a high-quality customer experience while offering Italian-manufactured products at affordable prices. Poltronesofà's customers appreciate the extensive optionality for customisation, with the wide range of models and versions being customisable through Poltronesofà's extensive range of upholsteries. This customer-centric offering is made available at a very convenient price range.

It is intended that the acquisition will be implemented by way of a Court-sanctioned scheme of arrangement under Part 26 of the Companies Act and is expected to complete in the first quarter of 2024.

Summary

We enter the new financial year cautiously optimistic, acknowledging the uncertain economic outlook and the pressures currently and prospectively facing household incomes. However, with the combination of the resilient business model we operate and the strategic progress we have made, alongside targeted investments, we are confident that the Group has improved its offering and is well positioned to compete for market share and to continue to deliver for our stakeholders.

On behalf of the Board, I would like to thank our shareholders, suppliers and customers for their continued support as well as our colleagues for their loyalty and hard work. With our proven steadfast operational resilience, continuing strategic progress and strong future prospects, I am confident in handing over the Chair to John Walden. I do so certain in the knowledge that I am leaving ScS and all of its stakeholders in good hands.

It only remains for me to say a very sincere thank you to everyone who has supported me throughout my time with ScS, and to wish you all the very best for the future.

Yours sincerely,

Alan Smith
Chair
24 October 2023

Chief Executive Officer's review

The Snug acquisition presents us with a great opportunity to increase market share

Overview

The year ended 29 July 2023 marks the conclusion of the second year of our refreshed strategy, mission and purpose which has driven our priorities. Like most companies, we have faced a challenging trading environment resulting from the economic pressures households are facing throughout the UK. Our strong foundations and core values alongside diligent responsive actions have enabled us to maintain a resilient financial performance and gain market share.

I am proud to lead this special business which has always had a family feel, and I would like to thank all of our teams for their ongoing dedication, enthusiasm and contributions in a challenging year. Our colleagues continue to demonstrate the Group's values and put the customers at the centre of everything we do. This hard work and dedication continues to be recognised by our customers, and I am delighted to see that come through in our 5-star 'Excellent' Trustpilot rating.

Results

Positive trading and effective cost management have helped us to navigate a challenging macroeconomic environment to deliver profit ahead of market expectations.

The ScS like-for-like order intake* momentum improved significantly throughout the year. The first half saw a like-for-like order intake reduction of 4.7%, largely due to the first 16 weeks of the year experiencing a 9.1% reduction due to the comparative period benefitting from strong pent-up demand following the last national lockdown. The 10 weeks to 28 January 2023 saw a return to order intake growth of 2.6%, which included the key winter sale. The ScS business refreshed its brand in February 2023 and like-for-like order growth subsequently improved to 5.9% in H2, resulting in FY23 order intake being in line with the prior year.

Whilst all market commentary indicates that big-ticket discretionary purchases remain subdued it was pleasing to see that for the second year running, the ScS business continued to gain market share, cementing its position as the UK's second largest upholstered furniture retailer.

Gross delivered sales was £343.5m (2022: £344.7m), with the ScS business seeing a £5.4m reduction due to a larger order book unwind in FY22. This was partially offset by £4.2m of sales from Snug. Gross profit was £152.4m (2022: £156.3m) with underlying profit before tax*of £7.2m (2022: £13.8m), including a £1.9m loss before tax from Snug.

Gross margin for the year was 44.4% (2022: 45.3%). This was impacted by an increase in the cost of providing credit to customers and the level of display stock

"It was pleasing to see that for the second year running, the Group continued to gain market share."

* This report includes alternative performance measures (APMs) which are defined and reconciled to IFRS information, where applicable, within the Financial review on pages 55 to 56.

sales as we completed the store 'declutter' programme to improve the look and feel of our stores. The cost of credit and level of display stock sales were partially offset by price rises in the year.

Strategic progress

The second year of our refreshed strategy has seen solid progress across a number of areas and would not have been possible without the commitment and support of our colleagues across the Group. The actions we have taken are designed to increase our competitiveness in the marketplace and to position the business to gain market share, doing so in a measured way to ensure the Group remains resilient.

The prior year saw the Group implement a new design concept at our existing Coventry store. Two further stores were invested in at the start of FY23, followed by a period of reflection to measure and refine these initial design concepts. The three concept stores have outperformed the rest of the estate, seeing increased sales, employee satisfaction and a reduction in employee turnover. Taking learnings from the first three stores we then invested in a further six stores in final quarter of the year. Our intention is to invest in at least a further 12 stores in FY24, with the possibility of increasing this if returns are as expected.

Following a period of detailed research, the Group modernised the ScS brand and marketing approach. Our updated marketing tone, style and logo showcase our products in a warm, welcoming manner which we believe is more aligned with our customers and the market, and dovetails well with our new store look and new product ranges. This was a big decision given the positioning and tone of the existing branding and marketing style and we were pleased to see the sales response and market share gain since launch at the start of H2.

To improve our product offering, we have elevated and modernised the ranges on offer in our stores, thus attracting a wider customer demographic as we broaden our appeal. This comes on the back of collaborations, including Ideal Home, with whom we have launched eight exclusive Ideal Home branded sofa ranges, and our new collection with Paloma Faith. We have also expanded our hard floor proposition across laminate, luxury vinyl tiling and engineered wood. As well as improving the range we offer, in recognition of our product quality, we achieved Kitemark certification for domestic furniture by the British Standards Institute. We are one of only a handful of furniture retailers in the UK to hold this stamp of approval.

I remain delighted with our acquisition of Snug in January 2023. Snug is an exciting and young business with great potential. It has a strong and recognisable brand, a differentiated product and targets a market that complements our proposition. In that regard, it presents us with a great opportunity to further increase market share. We therefore view it as a fantastic strategic and cultural fit, which reinforces our commitment to helping our customers create the home they love. Snug's order growth was initially slower than we had hoped, but I am encouraged to see current run rates that are in line with our expectations.

Snug's focus since acquisition has been on re-establishing operations from an effective standing start, including rebuilding supplier relationships, restoring stock levels, re-launching the brand and online presence, and building order momentum. Snug's strategy for the future closely aligns with the wider Group, focused on the aims of improving brand awareness and continuing to grow sales. Alongside a focus on improving the online experience for customers, Snug will also increase its offline presence, both with new standalone stores where the opportunity presents itself, together with ScS's new modernised store rollout each incorporating a Snug concession.

Environmental, social and governance (ESG)

Since developing our ESG strategy last year, we have made progress against the targets and objectives set. I am particularly pleased with some of the differences we have been able to make as part of our work in this area. We have worked hard to implement a number of wellbeing initiatives throughout the year and it was particularly gratifying to receive the Bronze 'Better Health at Work' award along with the 'Best Newcomer' award resulting from all of these fantastic initiatives.

Our ESG steering group has also been working with external consultants on the development of a roadmap towards achieving our Net Zero strategy.

Board changes

Alan Smith, Ron McMillan and Chris Muir will leave the business in the coming year. All three have been supportive and provided wise counsel during my time in the business and I wish them well in their future endeavours. Mark Fleetwood joined the Group in September 2023 as CFO and I am very much looking forward to working with him.

Current trading and outlook

We remain cognisant of the challenging economic environment facing our customers which is expected to continue throughout FY24. We therefore believe that continuing to focus on our value driven proposition is extremely important so that everyone is able to create the home they love.

The Board is confident that the Group's strategy and strong balance sheet will enable ongoing trading resilience and we continue to expect to grow market share while investing in stores, in our digital proposition, and other strategic growth opportunities.

Steve Carson
Chief Executive Officer
24 October 2023

Strategic progress provides solid foundations for the Group to grow market share

Current UK market

We operate in both the furniture and flooring markets.

Market commentary

Both the furniture and flooring markets continue to feel the challenges being faced across the wider economy. Over the past year we have continued to work closely with our manufacturing suppliers to combat cost inflation and to improve product lead times. We have also worked with our credit suppliers to ensure that we are able to continue to provide affordable interest free credit to our customers, ensuring they can continue to 'create the home they love'.

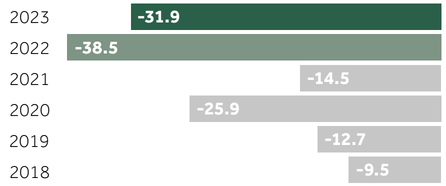
Following a valiant recovery post the Covid-19 pandemic, which saw the upholstery market grow by 17.3% in 2021, growth slowed to 2.3% in 2022, reflecting inflationary pressures which had an adverse impact on both the supply chain and consumer spending power. GlobalData's analysis suggests that 2023 will see a 6.6% contraction in the market due to the continuation of the cost-of-living crisis, leading customers to defer non-essential big-ticket purchases. However, with the Bank of England holding interest rates in September 2023 after 14 consecutive rate hikes, in response to the rate of inflation falling, there are signs that economic sentiment and outlook could be getting close to a turning point. How the consumer reacts to these latest market developments is yet to be seen, but the most recent consumer confidence data should be seen as a positive.

Similarly, following a 13.4% increase in the size of the flooring market through 2021, growth slowed to 2.2% in 2022. Likewise, whilst GlobalData are forecasting inflationary pressures will have an impact on the flooring market in 2023, predicting a contraction of 3.8%, there remains a sense of cautious optimism going into Q4 of 2023.

Highlighting the challenges of the current economic environment noted above, GlobalData's consumer sentiment survey showed an increasing proportion of shoppers intend to delay buying furniture and floorcoverings in response to economic pressures. However, the furniture and flooring sector has historically returned similar results in these surveys and yet has still seen growth in both markets over the past two years. With a return to real wage growth, there is cautious optimism that the sector can continue to grow, albeit at a subdued pace. Further, businesses, such as ours, with strong design and value offerings look set to be well positioned in what is set to become a key battleground.

Consumer confidence

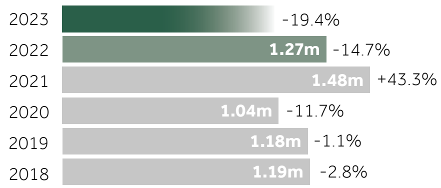
–31.9



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

Housing market

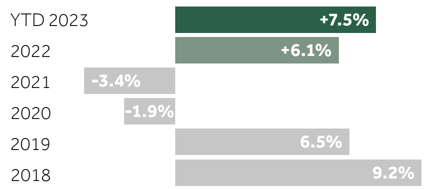
–19.4%



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

Net consumer credit lending

+7.5%



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

Key drivers

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

Consumer confidence

Consumer confidence is intrinsically linked to consumer appetite for big-ticket purchases and GfK monitor this through their Consumer Confidence Index. Throughout the year this reflected ongoing economic uncertainty and inflationary pressures, reaching a record low of -49 in September 2022, the same time as the pound fell to a 37 year low against the dollar. Since then confidence has improved, reaching -25 in August 2023. This is an improvement of 19 points compared to the same point a year ago and reflects improving economic stability despite the impact of rising interest rates and higher food and fuel costs.

Housing market

The purchase of new furniture and flooring often emanates from a property move and as mortgage approvals remain significantly down on pre-pandemic levels, there is a risk of reduced demand. Although property transaction levels to July 2023 are down 19.4% compared to the same point in 2022, the total number of housing transactions remain strong when compared with historical data post-2007. Further confidence should be taken from the Bank of England's decision to hold rates in September 2023, which could stimulate buyer confidence to transact in the back half of the year.

Forecast 2023 market size: Furniture**

£3,026m

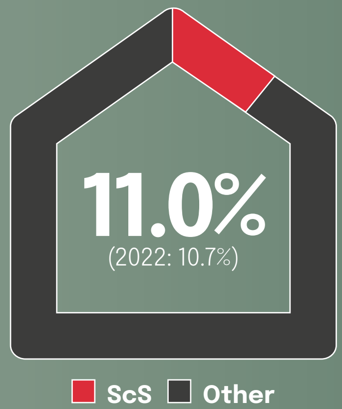
-6.6%

Forecast 2023 market size: Flooring**

£1,888m

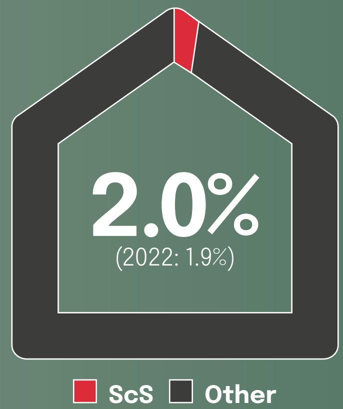
-3.8%

2023 upholstery market share*



Retailer	2022 (%)	2023e (%)
Competitor A	28.4%	28.5%
ScS	10.7%	11.0%
Competitor B	9.0%	9.3%
Competitor C	7.1%	7.5%
Competitor D	5.3%	5.8%
Competitor E	4.9%	5.0%
Competitor F	2.4%	2.5%
Competitor G	1.7%	1.8%
Competitor H	1.7%	1.7%
Competitor I	1.6%	1.5%

2023 floor coverings market share*



Retailer	2022 (%)	2023e (%)
Competitor A	14.9%	14.6%
Competitor B	9.3%	9.9%
Competitor C	7.3%	7.3%
Competitor D	4.6%	4.9%
Competitor E	4.1%	4.3%
Competitor F	3.3%	3.4%
Competitor G	2.8%	3.2%
Competitor H	3.2%	3.0%
Competitor I	2.3%	2.4%
ScS (12th)	1.9%	2.0%

* Market share data provided by GlobalData.

** Source: GlobalData (as of 20 September 2023).

Consumer credit

The availability of consumer credit helps facilitate sales, and provides opportunities for upselling, with nearly half of our customers choosing to utilise this option as a way to pay for their purchase. Given the economic challenges seen throughout 2023, there seems to be a consumer led uptake in finance as consumers look for more affordable solutions. The savings accumulated during the Covid-19 restrictions have also been eroded by the cost of living challenges in the aftermath. We are continuing to expand our finance offerings to facilitate consumer purchases by introducing interest bearing credit allowing our customers to spread the cost over longer terms and reduce their monthly payments. Within the year our approval percentage of those requesting finance to purchase with us continues to remain in line with prior years.

Our place in the market

Increasing market share

Following a challenging year which has seen significant pressures on both the upholstered furniture and flooring markets, it is encouraging that we have been able to grow our market share. Our share of the upholstery market grew by 0.3% to 11.0%, despite the size of the market reducing by 6.6%. Our flooring market share increased 0.1% to 2.0%, with the size of the flooring market reducing by 3.8%.

Value retailer

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

Opportunities for further growth

Our in-store offering remains the spine of our business and provides the platform for our continued success. Our strategy includes further expansion and improvement to our store network where appropriate, in line with our rebrand. We also continue to invest in our online presence, with sales this year up 14.3% through this channel and an ongoing expectation that the significant majority of our customers will begin their journey on our website. The execution of our strategic plan will provide further improvements to our people, our product, our showrooms and our customer journey which, in spite of a tightening economy, will provide opportunities to continue to take market share.

Our business model

Delivering outstanding value, quality and choice with a seamless customer experience

What we do

Showrooms

- Our passionate and skilled retail professionals utilise expert product knowledge to ensure customers choose the right product to help create a home they love.
- Our showrooms allow us to create an inspiring experience for our customers, showcasing our product ranges and giving our customers the opportunity to purchase their furniture and flooring under a single roof. Snug concessions are integrated into 23 ScS showrooms and third-party stores. Snug also has three stand alone stores showcasing the brand's innovative and contemporary offering in fittingly stylish environments.
- Our showrooms complement our online channel, providing our customers with the opportunity to engage with our products and explore our ranges.
- We provide a free surveying service so that flooring customers can be assured they have ordered the correct quantity of floor covering for their home.

Product

- We have established, long-term relationships with leading furniture and flooring brands, ensuring the quality and variety of our product offering at a range of price points.
- The majority of our furniture products are made-to-order and tailored to meet our customers' needs.
- Our acquisition of Snug has diversified our product offering. Snug specialises in modular, re-configurable sofas and sofa beds with a unique delivery in a box proposal, offering customers an alternative solution to the traditional sofa. We hold stock of our Snug range enabling quick delivery and ease of reconfiguration or expansion tailored to our customers' needs.
- Our flooring offering ranges from carpets and rugs to wood, laminate and luxury vinyl tiling.
- Our variety of dining and occasional ranges offer something for every home.
- We continuously refresh our product offering, observing market trends and exploring new design aesthetics and brands.

Digital

- We continue to expand our online offering, enhancing digital growth through investment in people, technology and working with carefully selected partners, including collaborations with social media influencers.
- We offer an extensive range of furniture and flooring online, including web exclusive products which extend our range beyond that available in our showrooms.
- We have optimised our website to increase digital engagement and enhance the customer journey including the introduction of visualisation tools to enable customers to picture how our products will look in their homes.
- ScS's online presence supports it's showroom network providing an omnichannel experience necessary for the modern consumer. Snug uses a digital-first approach built upon its strong online brand with an excellent track record in digital engagement and a social media audience of over 300,000.

Delivery

- ScS delivery teams provide an in-home two-person delivery and installation service for our furniture products from each of our nine distribution centres across the UK, delivering an efficient and friendly service as reflected in our 'Excellent' Trustpilot rating.
- Working with trusted partners we are able to offer our customers reduced lead times through contracting delivery partners and enabling home delivery direct from the supplier.
- Snug offers a variety of quick-delivery, 'stocked-in' models, a standout feature in an industry typically associated with 'made-to-order' goods that have lead times measured in weeks rather than days. The modular nature of all Snug sofas means they are designed to fit through even the tightest doorways.
- Our flooring products are supported by a full fitting service through our third-party network of fitting experts. Our flooring is cut, delivered and fitted to our customers' specifications.

Our business model continued

Sustainability
In order to operate effectively and responsibly, we ensure that sustainability underpins our business model by:

- Reducing our impact on the environment.
- Taking care of our colleagues.
- Contributing to the communities in which we operate.
- Delivering value through strong governance.

Employee satisfaction score
75
Colleague survey score (2022: 71)

Dividend per share
14.5p
Dividend includes a 4.5p interim paid and 10.0p proposed final dividend (2022: 13.5p)

Trustpilot rating
5-star
Rating achieved from over 440,000 reviews (2022: 5-star)

Number of days volunteered by employees
365
including 94 days to Shelter (2022: metric not tracked)

The value we create for our stakeholders

Our people
We offer inspiring careers in a purpose-driven business with a culture of inclusivity, where our colleagues are motivated and encouraged to develop their skills in a supportive environment.

Our customers
We provide our customers with a first-class experience either in our showrooms or online. We take pride in ensuring our customers get the right product together with a high standard of aftercare service, helping them to create the home they love.

Our suppliers
We have built strong and enduring relationships with our long-standing suppliers. We also continue to develop our supplier network, enhancing our product offering and driving further improvements in quality and value. The vast majority of products that we sell are exclusive to us. We are delighted to be able to offer our customers a great range of well-recognised third-party brands, alongside our own in-house brands.

Our communities
As a responsible business, it is important to us that we give back to our local communities where we live and work. We do this through employment opportunities, donating funds to a range of charities and supporting our colleagues with the opportunity to volunteer their time to charities.

Our shareholders
We are committed to delivering long-term growth and returns for our shareholders. This commitment is demonstrated by the Group's robust balance sheet and our progressive shareholder returns.

Our regulators
We deliver and maintain high standards of business conduct through full compliance with applicable laws and regulations. We embrace co-operative and constructive relationships with external regulatory bodies.

Our strategy

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

To achieve our mission, we continue to deliver progress on our strategy. The Board is pleased with the strategic progress made in 2023 and looks forward to the year ahead.

1. Outstanding team

Our colleagues are the cornerstone of our business and our aim is to 'be a place people love to work', where our colleagues feel they belong, are listened to and are given the opportunity to develop.

Ensuring our colleagues feel valued remains a top priority for the Board and at the start of the year, we invested £2.0m in our colleagues' take home pay, both through an increase in their basic salaries and a one-off cost of living support payment.

Attracting and retaining talent is imperative to ensure we have the capabilities within our teams to deliver our strategy. We have:

- Welcomed 53 new colleagues from Snug into the Group and supported the business through the transition period to ensure the brand is set up for growth;
- Achieved the Bronze 'Better Health at Work Award' as we continue to focus on health and wellbeing;
- Supported our colleagues' participation in charitable endeavours by launching a new volunteering policy;
- Established a women's leadership network, encouraging support and collaboration between our female leaders; and
- Reviewed our overall reward offering including:
  - Overhauling our family friendly policies including enhanced maternity and paternity pay;
  - Introducing a 24-hour virtual general practitioner (GP) service;
  - Offering access to low-cost health plans; and
  - Improving our colleague discount policy and extending it to family and friends.

The skills, experience and development of our colleagues are paramount to enabling us to provide outstanding levels of customer service.

We have invested in our people team, including the appointment of a new Head of Learning and Development and we have a comprehensive catalogue of learning and development initiatives ongoing throughout the business including:

- Our 'Moving up' programme, which has seen a second year of colleagues progress to Business Manager positions within our retail stores;
- Launching leadership development programmes for our senior management team and distribution centre teams; and
- Rolled out our 'art of selling' and flooring training to ensure our sales colleagues feel equipped, empowered and confident in advising customers on the most suitable products to meet their requirements.

Increasing engagement and enhancing our culture continues to be a top priority for the Board. The results of the latest annual employee survey were encouraging, receiving a higher response rate and containing more constructive ideas and comments than ever before, demonstrating that our colleagues are engaged and are confident in sharing their thoughts and ideas. By reviewing the feedback, we hope to implement meaningful changes to drive improvements across the business.

see page 24 for further detail

KPI
Colleague survey score
75
(2022: 71)

* Details of current workforce gender diversity can be found on pages 82-83.

Looking forward

- Improve the diversity and mix of our retail base by ensuring all stores have a blend of colleagues on flexible working hours coupled with a workforce reflective of the communities we serve.*
- Review of our retail operation, including consideration of structure, reward and succession planning.
- Launch our new performance review framework.
- Introduce a new internal communication and engagement platform for all our colleagues.
- Further investment into our learning and development team and systems to support investment in our colleagues' knowledge and development.

2. Customer driven

For our customers, our refreshed brand and advertising, launched in the second half of FY23, is likely to be the clearest indicator of the evolution of ScS and the direction we are heading as a business.

The new branding and refined marketing messaging showcases our products and offers following a meticulous data collection and review process, including a number of customer research groups, receiving feedback on a range of topics such as marketing and promotional style and store design. We have seen improved trading since we launched the new marketing campaign at the start of the second half of the year.

As we aim to provide great product quality to our customers, we were delighted in the year to achieve Kitemark certification for domestic furniture from the British Standards Institute (BSI). The BSI Kitemark is a recognised symbol of outstanding quality, safety and trust around the world and we are one of only a handful of furniture retailers in the UK to have this stamp of approval.

The year saw the Group implement a new end-to-end technology solution that delivers significant improvements to our aftersales processes, such as a virtual queue in which customers have the option for one of the team to call them back as opposed to waiting on hold. The system allots calls to an appropriate handler based on their skills. To optimise efficiency, the system links into our social media platforms thereby increasing visibility of customer queries. It was pleasing to see that post-order customer contacts reduced 23% in the year.

KPI
Trustpilot score
4.8
(2022: 4.8)

Further improvements to help our customers included:
- Creating a central continuous improvement team, dedicated to the customer journey, identifying opportunities for improvement and delivering change; and
- Expanding the breadth and depth of our aftercare technician services through a new nationwide provider.

A key part of delivering a seamless customer experience is the monitoring of our customers' reviews on Trustpilot in order to understand what we are doing well and also identify areas for improvement. We now have over 440,000 reviews and we maintained our maximum 5 stars 'Excellent' rating. At a local store level, over 80% of our stores achieved the full 5-star rating, with all other stores attaining a minimum of 4.5 stars. This external validation is critical to ensure the actions we are taking are having the right impact.

Looking forward
- Target increased customer knowledge and brand sentiment through use of ongoing customer research and brand performance tracking.
- Use customer segmentation data to drive marketing 'tone of voice' and media channels, in-store training and range selection.
- Rebalance media mix using econometric modelling.
- Increase customer service levels in our customer experience team following new technology implementation in FY23.
- Continuous improvement programme to target increased quality in product and delivery service.

3. Inspiring ranges

We are always looking to build upon and enhance our product offering and have introduced new design aesthetics mixing contemporary and stylish, chic and colour, whilst maintaining our value focus. This has resulted in the launch of 125 new furniture models and 39 new flooring options during the year.

As part of the ongoing development of our product ranges, we have been delighted to announce some exciting collaborations in the year. Our partnership with Ideal Home, the most popular home publication in the UK, saw the launch of eight exclusive 'Ideal Home' branded sofa ranges. Each range has been developed in collaboration with the team at Ideal Home bringing our customers affordably stylish products. We also launched the 'Paloma Home' range – a collection of sofas, chairs, footstools and cushions designed by singer and style icon, Paloma Faith. The 'Paloma Home' line includes 5 ranges exclusive to ScS, carefully created to add character to any living space. Furthermore, throughout the year, we have launched 112 new upholstery ranges bringing our customers varied styles, fabrics and colours.

Our acquisition of Snug has enhanced the Group's product portfolio and widened our target audience with its modular and reconfigurable sofas with quick delivery, excellent quality and customer service.

Our ongoing commitment to help our customers create the home they love continues to drive our product procurement decisions.

We are delighted to have worked closely with suppliers in the year to return our furniture lead times to historic levels, ensuring our customers get their made-to-order product as quickly as possible, increasing their satisfaction and decreasing the likelihood of cancellations. Cancellations have fallen by over a third in the year.

We have focused our flooring products through the introduction of 20 'star buy' ranges, whilst also streamlining our offering and supply base to deliver unbeatable value for money for our customers.

We also launched a new hard flooring proposition across laminate, luxury vinyl tiling and engineered wood. We have worked to develop the expertise and confidence of our retail colleagues in advising upon and selling our flooring products including producing additional training material for both hard floor and carpet. In addition, we made several enhancements to our customer journey by upgrading the service provided by our external fitters, leading to a reduction in customer queries.

KPI
Gross sales*
£343.5m
(2022: £344.7m)

* This report includes alternative performance measures (APMs) which are defined and reconciled to IFRS information, where applicable, within the Financial Review on pages 55 to 56.

Looking forward

- Continue to refine and expand our product proposition, including increasing our range of corner sofas and sofa beds.
- Develop and grow existing and new brands, partnerships and collaborations.
- Review of sourcing arrangements.
- Drive increased sales in dining and occasional through increased investment in store, online and media.
- Further improve customer journey for flooring customers.
- Development of complementary product categories.

4. Digitally optimised

To support our digital growth ambitions, in the prior year we invested to expand our team and to improve our skills and capabilities in research and development, merchandising and marketing. This included opening a hub in our Coventry concept store as a base for our digital team and appointing a Chief Marketing and Digital Officer to lead the digital strategy.

In FY23, we have begun to see the rewards of this investment and the subsequent actions taken by the team in the year.

Online sales have increased 14.3% year-on-year and now represent 10.7% (FY22: 9.3%) of gross sales, with Snug being a key driver behind this increase. Supporting this, in addition to rolling out our new branding across our digital portfolio, we have increased digital engagement with our customers and, to improve the customer journey and conversion, we have:

- Enhanced our item visualisation enabling customers to add multiple items into one image via our 'visual bundling solution';
- Redesigned and relaunched brand pages with our refreshed brand creative;
- Expanded product content and data visible on product pages;
- Included a 'question and answer' section to the product pages on our website; and
- Developed an online wish list allowing customers to save their favourite products which can be shared with our retail teams to create a more seamless customer journey.

Our approach to digital marketing has also continued to develop and we continue to build our social media presence with increased collaborations with influencers throughout the year as we continue to see increasing engagement through this channel. We have also been trialling competitions on our social media platforms, which have also seen pleasing engagement. As a result of these, the second half of the year saw our highest ever brand engagement across our social platforms. The team at Snug bring with them a wealth of knowledge in this area, with a large social media following and excellent track record in social commerce through the use of innovative and creative ways to further customer engagement such as the UK's first 'Extreme Relaxing Championship' held in August. We look forward to the digital team at ScS working closely with the team at Snug and both brands taking advantage of the resulting synergies.

We have continued to implement our integrated channel strategy, using data to track customers researching online and then visiting offline as we continue to evolve our customer relationship management to aid the customer journey and improve our conversion rates. Our retail colleagues within our stores have been working hard to ensure that customers remain informed about any product they are interested in but may not be ready to purchase by taking their details, allowing for targeted and focused marketing. The digital team has also launched a clearance section on our website to improve the visibility of discounted store stock, and excess distribution centre stock, to anybody accessing the site.

During the period we engaged the support of a third-party specialist to work with our teams as we look to invest in the future technology stack to support the Group. We view this upgrade as key to enhancing business capability with the ultimate aim of increasing efficiency within our teams, allowing for improved data analysis and enhanced system agility. We are excited to see the benefits of the project as it progresses.

Looking forward

- Continue to develop our understanding of the needs of our customers by reviewing customer feedback and improving data collection.
- Generate increased high-quality digital PR and content.
- Accelerate social media drive to increase followers and engagement, learning from Snug.
- Enhance our internal analytics tools and capabilities, aligning channel data to enrich our view of customer trends.
- Commence the implementation of our future technology stack across the Group including an enriched view of customer data and integration layer.
- Continue to improve our website through completion of a site taxonomy project and customer journey enhancements.

KPI
Online sales
£36.8m
(2022: £32.2m)

5. Engaging showrooms

During FY22 and FY23 a key focus for the business related to the launch of our concept stores where we could trial improvements to the look and feel of our showrooms, new technology and ideas.

In addition to the initial Coventry store we launched in July FY22, we refitted two further stores during the year in Gateshead and Uddingston. All three concept stores have seen higher sales performance when compared to the rest of the store network. We were equally delighted by the increase in staff engagement and staff retention levels. We obtained valuable insights from the concept stores, through performance and customer feedback, such as understanding which layouts are most successful, where certain brands are best displayed and how technology can support the customer journey.

Following the success of our initial concept stores, we built upon the insights gained to develop a refined concept store model. The refined model intends to deliver the positive outcomes of the initial concept stores in a more cost-effective manner. At the end of the financial year we implemented this revised design in six of our stores, bringing our total refreshed store portfolio to nine.

At the start of the financial year, and to enhance our in-store experience, we took the decision to roll out the 'declutter' programme that we successfully trialled in FY22 across the entire store network. This included reducing the amount and size of the point of sale materials and being more selective around some of the ranges on display to appropriately showcase our quality products.

During the year we reviewed our store network to ensure our showrooms are in the best possible locations. We were pleased to open two new stores in York and Swindon on Boxing Day. The year also saw us relocate our Northampton store to a more modern unit in an improved location and take an opportunity leave our underperforming Cambridge store. We continue to consider further expansion through utilising customer demographic data and a purpose-built model which helps us to identify the optimum store footprint, location and likely performance of potential new stores.

Looking forward

- Invest in at least a further 12 new format stores in FY24, (increasing this if returns are as expected).
- Continue to seek further opportunities to expand our store footprint in line with our demographic profiling. We currently have a handful of options being considered and progressed, for potential openings in FY24.
- Actively consider relocations to improved retail parks if returns support this.
- Continue to focus on actively managing rent costs as part of lease negotiations.

Highlight
New format stores
9
(2022: 1)

6. Strengthen the core

The success of our product ranges are regularly reviewed and we have continued to advance our line level margin analysis tools. This allows us to better manage the profitability of our product offering as well as optimise our customer experience.

These tools are increasingly useful as we contend with inflationary challenges and are invaluable when comparing performance as we progress in other areas of our strategy.

We have strengthened our retail team, including senior management, through recruitment, structural changes and investment in training. These measures, coupled with increased analytical support, have contributed to improved conversion rates, with in-store furniture conversion increasing by 8% and flooring by 7%.

As we strive to deliver a seamless customer experience we have delivered significant operational and supply chain improvements including:

- Implementation of 'track my driver' technology into our final mile delivery provision;
- Reduction in delivery lead times from 14 weeks to 8 weeks;
- On time and complete deliveries improved from 57% to 75%; and
- Reduction in cancellations by 36%.

Faced with inflationary cost pressures, we have operated strict cost control and budget management across the business. We reviewed internal and external resourcing requirements, particularly within the distribution operation, and took measures to maximise cost efficiency. We have seen significant improvements in distribution staff turnover which is reflective of our increased colleague survey score and has the added benefit of significant cost reductions.

A number of measures have been implemented in the year to mitigate the impact of the rising cost of finance on our gross margin, whilst still delivering the best possible value for money for our customer. Despite these improvements and focus, we have not been able to fully mitigate inflationary pressures, resulting in a reduction in margin. Measures taken include:

- Refining our finance house partner mix to achieve best value;
- Reduced our interest-free credit option from 48 months to 36 months, whilst still maintaining our market leading offer;
- Introduction of interest-bearing credit up to 60 months for customers who wish to spread payments over a longer period;
- Option of monthly finance intervals offered to customers, resulting in a reduction to the average finance period taken; and
- Revised our pricing strategy whilst maintaining our entry price point to drive value for our customers.

We remain focused on improving the success of the core business model we have operated for many years, with strong cost management as reflected in the achievement of a 44.4% gross margin* despite cost pressures; a resilient balance sheet with cash of £69.5m; and informed decision making.

Looking forward

- Drive lead capture and conversion rates via refined resource plans, increased training and the use of CRM.
- Build on FY23 supply chain improvements, including lead times and on time deliveries.
- Embed joint business plans with all suppliers.
- Deliver +45% gross margin via retail price increases, improved sourcing, landed cost reductions and quality of sale metrics.
- Target further distribution efficiencies, including site space optimisation, mix of LCV to HGV in fleet, driving first time delivery success, enhanced route planning, damage reduction and resource planning.
- Continued diligent cost management to budget across all functions, identify and execute efficiencies from new technology stack.

* This report includes alternative performance measures (APMs) which are defined and reconciled to IFRS information, where applicable, within the Financial Review on pages 55 to 56.

KPI
Profit before tax
£6.0m
(2022: £16.4m)

Key performance indicators (KPIs)

The KPIs set out in this summary are fundamental to understanding the progress we are making with our strategy, and to monitor the ongoing performance of the business over time. The definition of these KPIs and our performance over the last three years is detailed below, as well as how each KPI links to our strategic priorities.

Non-financial KPIs

Trustpilot customer satisfaction

4.8

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

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

Link to strategic priorities

1 2 3 4 5 6

Colleague survey score

75

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

What we measure
Our 'Colleague survey score' measures the overall eSAT score of the annual survey sent to all colleagues for their feedback. The eSAT score is an average score used to provide insight into how happy our colleagues are working at ScS. We measure our performance against an external benchmark and are pleased to be ahead by four points.

Link to strategic priorities

1 2 3 4 5 6

CO_2 emissions (tonnes)

6,376t

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

What we measure
Scope 1 (direct), Scope 2 (indirect) and Scope 3 (business travel) as reported under the TCFD report.

(Note: actual data updated from previous disclosure for FY22)

See further detail on page 45

Link to strategic priorities

1 2 3 4 5 6

* This report includes alternative performance measures (APMs) which are defined and reconciled to IFRS information, where applicable, within the Financial Review on pages 55 to 56.

Key 1 Outstanding team 2 Customer driven 3 Inspiring ranges 4 Digitally optimised 5 Engaging showroom 6 Strengthen the core

Financial KPIs – Group

Revenue

£325.9m

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

What we measure
Revenue is a measure taken directly from our primary statement of accounts, and is the combined total of all furniture and flooring delivered sales made, excluding VAT and the costs of interest-free credit, both online and across all of our showrooms.

Link to strategic priorities
1 2 3 4 5 6

Like-for-like order intake*

-0.3%

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

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

Link to strategic priorities
1 2 3 4 5 6

Profit before tax (PBT)

£6.0m

Why it's important
Delivering profitable growth is essential as we aim to create value for all stakeholders over the long term. Movements since prior year are explained in this report. The 2021 result was exceptional as it included £10.2m (2023: £nil) of business rates relief and £4.3m of impairment reversal (2023: charge of £2.4m).

What we measure
Profit before tax reflects the performance of the Group before tax is deducted.

Link to strategic priorities
1 2 3 4 5 6

Gross margin % of gross sales*

44.4%

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

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

Link to strategic priorities
1 2 3 4 5 6

Online sales

£36.8m

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

What we measure
Online sales growth is the portion of the gross sales* figure attributable to our website and telesales.

Link to strategic priorities
1 2 3 4 5 6

Earnings per share (EPS)

12.8p

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

What we measure
EPS is calculated by dividing profit attributable to shareholders by the average number of outstanding shares.

Link to strategic priorities
1 2 3 4 5 6

We are committed to operating the business in a way that all our stakeholders can be proud of. At the core of our ESG strategy lies our purpose of helping customers create the home they love and our RIGHT values. Our ESG strategy centres on delivering not only good value products but also upholding our values in all aspects of our operations.

Progress during the year

During the past year, we have made significant progress in advancing our ESG initiatives. In the prior year, we conducted a thorough materiality assessment and have continued to develop a robust ESG strategy throughout the current year.

With the guidance of specialist consultants, we embarked on our journey to establish a comprehensive roadmap towards achieving net-zero emissions.

ESG is an ever-evolving field and we are committed to maintaining the momentum we have built. We will consistently align and review our ESG strategy, ensuring sustainability is seamlessly integrated into all areas of our operations and is embedded in our wider strategy.

Looking forward

Our ability to generate sustainable social and economic value hinges upon embracing a long-term perspective. Sustainability is increasingly a key factor in the decision-making processes of our customers. With this understanding, we are dedicated to continuously prioritising and advancing our sustainability efforts, ensuring they remain integral to our business strategies and operations.

Materiality assessment

Strategy area	Material issue	Definition
Environmental	Climate change and Net Zero strategy, greenhouse gas emissions (Scope 1,2 & 3)	Monitoring emissions produced by our operations, with the aim to reduce our impact. Developing and embarking on a Net Zero strategy to address climate change and reduce carbon emissions.
Environmental	Waste management and circular economy	Reducing waste from our operations, including plastic and packaging. Improving the volume of waste recycled and diverted from landfill alongside continuing to develop an end-of-life process (circular approach) for our products.
Environmental, Governance	Responsible sourcing, ethical business practices, policy and compliance	Carefully selecting and working closely with our suppliers to improve sustainability within the supply chain. All suppliers are expected to adhere to the guidelines set out in our supplier handbook, including specific details on modern slavery and human rights.
Social	Community engagement and economic impact	Investing in our people through employment, charitable donations, and volunteering to make a positive contribution and improve the quality of life in our communities.
Social	Employee development and wellbeing	Nurturing a culture where our colleagues feel supported to achieve their potential, take pride in their work, and understand how their role contributes to our success. Prioritising colleague wellbeing and ensuring senior members of the team lead by example and live by the Group's values.
Social	Customer satisfaction and quality	Continuously listening to customers and utilising data to determine satisfaction, allowing us to improve our services and products.
Social, Governance	Diversity and inclusion	Creating an inclusive and diverse team where all colleagues are treated with respect and there are equal opportunities for all.
Governance	Health and safety	Monitoring guidelines, improving procedures, and continuous improvement of training programmes to protect the safety and welfare of our colleagues and customers throughout our operations.
Governance	Compliance and ethical business practices and monitoring thereof	Promoting high levels of compliance to existing business practices. Applying new guidance and best practices to support strong governance throughout the Group.

In the prior year we conducted a materiality assessment, which was a crucial step in shaping our ESG strategy, aiming to pinpoint the most significant issues that hold relevance for both our business and our stakeholders. This initial assessment, which is shown on the materiality assessment on the previous page, has been reviewed over the last year. To maintain a strategy that is credible, meaningful, and aligned with global sustainability priorities, we have closely aligned our focus areas with the United Nations Sustainable Development Goals (UN SDGs). By doing so, we ensure our efforts are targeted towards addressing the most pressing challenges and achieving sustainable outcomes that matter to our stakeholders and the wider society.

Our Group ESG targets

During the year the Group has set the below targets to ensure the business continues to develop and stays on track to meet its long-term ESG objectives.

	Target	Initial target date	Progress (against initial target)	Revised/ additional target	Comment
Environmental	100% renewable electricity used across the Group	July 2022	Achieved	Ongoing	Deliverable was first achieved by initial target date. The Group has an ongoing commitment to continually meet these objectives.
	Achieve Furniture Industry Sustainability Programme (FISP) certification	July 2022	Achieved	Ongoing	
	100% of laminate flooring timber to be from responsible sources	July 2022	Achieved	Ongoing	
	95% post-consumer waste diverted from landfill for recycling	July 2022	Achieved	Ongoing	
	100% post-consumer recyclable waste for all ScS delivered product including the removal of polystyrene from all packaging	July 2022	Achieved	Ongoing	
	100% of leather to be from certified sources via the Leather Working Group	July 2023	Achieved	Ongoing	
	Replace all gas-fired appliances with energy-efficient air source heat pumps	July 2026	On track		
	Continue to work with our suppliers to ensure all sofas, dining and flooring containing timber are from responsible or certified sources	December 2026	On track		
Social	Work towards a 25% increase in the number of females in management retail roles	July 2023	Behind	July 2024	Considerable progress has been made since setting this objective. The increase was at 21% at July 2023. The initial target is expected to be achieved by the revised date.
	5% increase in the value of donations and support to local and national charitable and community organisations	July 2023	Achieved	July 2024	Achieved in FY23. We aim to deliver a further increase of 5% in FY24.
	A minimum of 1,000 volunteering days to be completed by colleagues	July 2026	On track	–	Excellent progress in FY23.
Governance	Over 30% of Board positions to be held by a woman	July 2022	Achieved	Ongoing	Deliverable was first achieved by initial target date. The Group has an ongoing commitment to continue to meet this objective.
	ESG measures to be introduced into remuneration performance targets	July 2022	Achieved	Ongoing	
	Obtain ISO 14001 Environmental management certification for head office	July 2024	On Track	–	Good progress has been made to date.
	At least one of the senior Board positions (including Chair, CEO, CFO or Senior Independent Director roles) is held by a woman	July 2023	Behind	Dec 2023	This will be achieved on 1 December 2023 when Angela Luger is appointed as Senior Independent Director.

Our environment

The environment remains a paramount concern for both our colleagues, customers and wider stakeholders, with climate change posing increasing challenges. Recognising the urgent climate emergency we all face, it is imperative that we acknowledge our environmental impact and work towards achieving net-zero emissions.

As we progress on our sustainability journey, we have established interim targets that will serve as stepping stones towards developing a comprehensive Net Zero strategy. By actively addressing our environmental footprint, we aim to contribute to mitigating climate change and safeguarding the planet for future generations.

Sustainable supply chain

Ensuring a sustainable supply chain is crucial, particularly for our furniture and flooring products which rely on materials such as timber, leather and textiles. We acknowledge the significance of traceability throughout our supply chain and are fully committed to advancing sustainable sourcing practices whilst reducing our environmental impact. By prioritising responsible and ethical practices within our supply chain we aim to improve sustainable sourcing, whilst minimising our ecological footprint.

Furniture Industry Sustainability Programme (FISP)

FISP is an independently certified sustainability initiative designed specifically for the furniture industry's supply chain. FISP focuses on promoting best practices that drive positive social, economic and environmental changes through continuous improvement in business operations.

We take pride in being the first national upholstery and carpet retailer to obtain FISP certification, demonstrating our commitment to sustainability. ScS has diligently adhered to the stringent requirements outlined by FISP, maintaining our certification status. We actively collaborate with our suppliers, encouraging their participation in FISP and supporting their certification journey. By fostering broader FISP membership, we aim to adopt industry-wide sustainability and drive collective positive change in the furniture sector.

Sustainable timber supply – from forest to front room

Our commitment to sustainable timber supply is evident in our increased sales of FSC-certified timber. This year, we achieved 83% sales growth in products containing FSC timber, highlighting our dedication to promoting responsible forest management.

PEFC (the Programme for the Endorsement of Forest Certification) and FSC® (Forest Stewardship Council®) are renowned international forest certification programmes that prioritise the preservation of forests through sustainable practices. Certification from these organisations provides added assurance that our products originate from environmentally and socially responsible sources.

In 2023, 100% of our wood flooring was from certified sources, ensuring that it adheres to the highest sustainability standards. Additionally, three of our furniture brands feature FSC® certified timber. We remain committed to offering customers products that align with their environmental values.

Sustainable leather sourcing

We are committed to sustainable leather sourcing and are active members of the Leather Working Group (LWG), a not-for-profit community organisation focused on promoting excellence in sustainable leather production.

As a member of the LWG, our objective is to ensure that all leather sourced by our Group adheres to ethical practices. To achieve this, we have established partnerships with tanneries in our supply chain that are certified by the LWG.

All leather used in our products now originate from these certified tanneries. This commitment allows us to contribute to raising industry standards and reducing environmental impacts associated with leather production. This ensures our entire leather supply chain aligns with the LWG's sustainability principles.

Additionally, our Group actively participates in the LWG traceability working group, collaborating with other industry stakeholders to enhance transparency and traceability throughout the leather supply chain.

Other production initiatives

In line with our sustainable flooring initiatives, we offer our customers the choice of SpringBond underlay. This innovative underlay is composed of 85% recycled materials, predominantly sourced from plastic bottles. During the year, approximately 10% of our flooring customers opted for SpringBond when purchasing their carpets.

We remain dedicated to exploring further advancements in upholstery interiors and textile production and incorporating sustainable practices into our business operations.

Engagement with suppliers

Collaborating with our suppliers is crucial in delivering on our ESG strategy and we are therefore committed to working closely with them to align our ESG targets and drive sustainable practices throughout our supply chain.

We have updated our supplier handbook to incorporate our Net Zero and long-term environmental strategy. This ensures that our suppliers are fully aware of our sustainability goals and are actively involved in their implementation.

Our supplier handbook not only requires suppliers to adhere to the labour standards outlined in the Ethical Trading Initiative Base Code, but it also includes additional reporting requirements for enhanced transparency.

During the year, we held an annual supplier conference. The conference provided a platform to discuss quality assurance, supply chain processes, and, importantly, communicate our ESG strategy and how it will be implemented throughout our supply chain.

As members of Sedex, one of the world's most renowned ethical data platforms, we actively participate in promoting ethical practices and responsible supply chain management.

By engaging with our suppliers and upholding high standards of ethical and sustainable practices, we create partnerships that align with our ESG objectives.

Human rights and modern slavery

Our responsibilities for the welfare of people goes beyond those we employ directly. We aim to ensure that roles we support directly and through our supply chain, are decent, fair and safe and that human rights are always respected.

We leverage insights from our Sedex risk assessment tool and collaborate with industry associations to identify and assess areas of risk. This collaborative effort enables us to stay informed and responsive to emerging challenges. While external audits play a crucial role, we recognise their limitations in uncovering deeply entrenched or systemic issues such as modern slavery that may exist further upstream in our supply chain.

In 2022 we established our own internal supplier audit programme to gain a comprehensive understanding of our supply chain, support us in identifying any potential hidden risks, and ensure compliance with our ethical standards. In line with our strategy, we have allocated additional resources in 2023 and implemented enhanced due diligence processes to address the evolving risks associated with our supply chains.

This proactive risk-based approach ensures we remain vigilant and focused on mitigating potential risks. The supplier audit process is subject to review by our audit, risk and compliance function. In line with our rolling audit programme we have completed 13 supplier audits in the year.

Sustainable packaging

Packaging is essential to safeguard our products. However, we recognise our responsibility to minimise its environmental impact. Striking the right balance between sustainability and product protection is key. Throughout the year, we have taken significant steps towards more sustainable packaging, including:

- Eliminating unnecessary or problematic packaging, such as polystyrene. This has been achieved through our product specification policies and rigorous packaging audits;
- All of our sofa packaging is now 100% recyclable;
- Our customers continue to support our packaging recycling scheme, which is provided as part of our home delivery service, where we offer to remove and recycle all packaging. We have been offering this service for over 20 years; and
- In accordance with our requirements, our suppliers have sourced plastic packaging with a minimum of 30% post-consumer recycled content. By incorporating recycled materials into our packaging, we reduce reliance on virgin resources promoting a more circular approach.

By implementing these measures, we are actively working towards sustainable packaging solutions that align with our commitment to environmental responsibility.

Fleet

The Group has continued to focus on reducing the environmental impact of our delivery and company car fleet. Progress in increasing the proportion of electric cars in our fleet has been slower than expected. This has been driven by the well-publicised challenges impacting electric car adoption across the UK including, vehicle availability, increasing purchase costs and the underdeveloped UK charging infrastructure. Despite the macro challenges, we have continued to focus our efforts in the following areas:

- Continued investment in our light and heavy goods vehicles, ensuring the fleet is operating efficiently, safely and is compliant with latest emissions standards. This practice allows the business to maintain a modern and environmentally friendly fleet. Additionally, we leverage route optimisation software to minimise the distance travelled by our trucks and vans, thereby reducing our CO_2 emissions;
- Increased focus, monitoring and performance of driver behaviour. Through our fleet management system, we closely track and evaluate the driving performance of our drivers. They are assessed against predefined targets, and both drivers and management are incentivised to improve their adherence to our high standards of safe and responsible driving; and
- Introduction of electric car options for all categories of our car fleet.

Over the next 12 months, we will conduct a comprehensive review of our entire fleet. This evaluation aims to identify opportunities for further sustainability improvements, particularly in the realm of electric vehicles. Our commitment is to reduce carbon emissions and transition to a greener fleet.

Energy

Throughout the year, we have remained committed to enhancing our energy efficiency through an ongoing initiative focused on LED lighting installations and the replacement of outdated equipment with energy-efficient alternatives. These investments contribute to reducing our overall energy consumption and carbon footprint.

We have continued to maintain a sustainable energy supply by sourcing 100% renewable electricity for all ScS sites. This significant step allows us to operate on a zero-carbon basis, aligning our energy usage with our commitment to environmental sustainability.

As part of our sustainability initiatives, all new format store investments deploy modern energy-efficient lighting and we have initiated a programme to replace all gas-fired appliances with energy-efficient air source heat pumps by the end of FY26. Additionally, we plan to replace outdated appliances with modern energy-efficient alternatives. To further support and guide our energy reduction endeavours, we maintain active collaborations with the Carbon Trust and other advisors.

By securing a renewable electricity contract, we have effectively avoided the emission of approximately 2,582 tonnes of carbon.

Waste

In conjunction with our facilities management partners, we have taken concerted steps to assess our environmental impact, with a particular focus on water and waste management. Our ongoing collaboration with industry experts ensures we stay at the forefront of energy conservation and waste management, consistently improving our environmental performance.

Our commitment to responsible waste practices remains steadfast, as we strive to maintain a high percentage of waste diversion from landfill. We continuously re-evaluate our waste management processes, seeking opportunities to enhance efficiency and minimise our environmental footprint. The Group also introduced waste reduction as one of the 2023 ESG targets for the senior management bonus scheme.

CASE STUDY

Waste

“Here at ScS, we want to create a business that cares not only about quality, value and service but the environment we operate in. That’s why our ESG strategy incorporates waste management.

Whilst we already had recycling processes in place, we took the time to re-evaluate how we did things and understand areas for improvement. We have since refreshed and refocused colleagues on the importance of recycling and how can we all can play our part.

We want everyone here at ScS to be waste aware – by ensuring our colleagues know which bins to place their recycling in and that waste is segregated correctly, we as individuals and as a business are taking responsibility for the waste we generate through our operations and how this impacts our environment.

As part of my role as Internal Communications Advisor, I was able to produce guidance toolkits, Company-wide communications and help to introduce the facilities to enable our colleagues to play their part and support clear waste recycling processes. Our aim was to have engaged colleagues that share our commitment and values towards environmental stewardship and I think we have made great progress.

I really enjoyed bringing this to life and seeing colleagues’ passion and enthusiasm for a greener future at ScS.”

Louise Marshall
Engagement and Internal Communications Manager

Our colleagues

Our people are what makes our business successful and developing an outstanding team is at the forefront of our business strategy. At ScS our aim is to 'Create a workplace where people love to work', where colleagues feel they belong, are listened to and are given the opportunity to develop. Attracting, developing and retaining colleagues with the appropriate skills, behaviours and attitudes and from a variety of backgrounds is the focus of our people strategy.

Recruitment and induction

Strengthening our employer brand has been a key area of focus for the Group in the year. We have now implemented a digital solution for the recruitment and on-boarding journey via a new careers website and applicant tracking system. It is important to us that our colleagues feel valued from day one and on joining, colleagues now receive their very own welcome pack and attend our foundation workshops to get to know all about ScS.

Learning and development

To support our ambition of developing and retaining colleagues with the appropriate skills, behaviours and attitudes, we have strengthened our learning and development team, delivering a number of key programmes throughout the year, including:

- A senior leadership programme enabling senior managers to gain 360 feedback, focus on key areas for development and build strong relationships to support our strategy and leadership ambitions for the future;
- A management development programme being run across our distribution centres;
- Our 'Moving up' programme continued, aimed at helping those wishing to be future retail managers;
- A behavioural training programme 'The difference is you' has been developed which has impacted positively on colleague turnover and engagement;
- Refreshing our on-boarding with the introduction of foundation workshops has seen all of our new colleagues joining the business get the best possible start, learning all about how we do things here at ScS, setting them up for success in their role;
- We held a number of 'Know more to grow more' sessions to help improve awareness and colleague knowledge in a wide range of areas; and
- Working with our apprenticeship provider, we currently have 25 active apprentices and we plan to increase this during FY24.

Talent

To enable our colleagues to be the best they can be we have reviewed both our talent and performance approach and are launching new frameworks as we head into the new financial year. We have clearly defined our leadership and behaviours framework throughout every level of our business, which will integrate into all aspects of our people operations from attraction, performance and reward. This will underpin our talent pipeline and support our future succession. We have also invested in new senior hires to help support our strategy plans including the appointment of a Director of Retail Operations and a Head of Learning and Development. In addition, we have strengthened the support in retail by introducing a divisional structure.

Wellbeing

In order to add rigour to our approach to improving the health and wellbeing of our colleagues, we signed up to the 'Better Health at Work Award'. The award recognises the efforts of North East and Cumbria based employers in addressing health issues within the workplace. A number of wellbeing initiatives across the business were introduced, focusing on physical and mental health. This included educational campaigns covering mental health, cancer and the menopause. In addition, we signed up and are committed to being a 'menopause friendly employer' and have a policy and education sessions in place. We continue to have mental health first aiders supporting colleagues across the business alongside our health advocates to help us raise more awareness and make positive steps towards fostering a better place to work. Our colleagues have access to further support through a free, confidential employee assistance programme which is available 24/7.

We were delighted to achieve the Bronze 'Better Health at Work Award' and the 'Best Newcomer' Special Recognition Award and now have our sights set on achieving the Silver Award.

Engaging with colleagues

To help shape our plans to making ScS a great place to work it is key that we actively take on board feedback we receive from colleagues. Throughout the year we have engaged with our colleagues in a number of ways:

- Conducted two colleague engagement surveys. We were pleased to see an increase in our eSat score from 71 to 75;
- Kept our colleagues well informed via our 'ScS Essentials' communications cascade, which provides updates on key strategy progress and any other matters across the business;
- Implemented face-to-face colleague listening groups, hosted by Non-Executive Directors providing an opportunity for open and honest feedback in a relaxed environment;
- Engaged external consultants to facilitate conversations with colleagues in order to further understand feedback from our engagement survey; and
- Held multiple campaigns across the business to engage colleagues, including supporting a number of key charities that are important to our people.

We have acted on feedback received throughout the year and made a number of changes, including:

- Introducing improved family friendly policies increasing maternity and paternity leave payments, promoting part-time opportunities and improving benefits;
- Reviewing opening hours (including promotional event days) which has helped support our colleagues' work-life balance; and
- Reducing the amount of manual handling required by store colleagues, improving wellbeing and enabling more customer focus.

We will continue to engage with and listen to our people to drive our thinking on key changes needed to support being a great place to work.

Gender diversity

Our gender pay gap report is available on our corporate website. From data we can see that stores being led by female managers, on average perform better than their male counterparts. To highlight the focus on this, we set a specific ESG target to increase female representation in management roles by the end of FY23 by 25% against a September 2021 baseline. We achieved a 21% increase and have revised our target date of achieving 25% to the end of FY24. Details of our current gender diversity split are set out on pages 82 to 83.

In support of our ESG strategy, we launched our female leadership group whereby 25 female leaders across the business came together to celebrate and discuss key topics supporting females in the workplace. The insights gained will help us progress towards our targets in the year ahead.

CASE STUDY

Moving up programme

Suzanne Coyle, Business Manager, has been part of the ScS team for an incredible 19 years. After a successful year on our 'Moving up' programme, Suzanne was one of our first cohorts to take over the running of our store in Edinburgh. Suzanne tackled it with the same drive and determination she has shown throughout her whole career at ScS; you can see this in the significantly improved results.

Since taking over, the store's employee satisfaction score has jumped from 79 to 83, one of the highest in the Group. Suzanne not only fosters an inclusive and friendly work environment, but a fun one as well where accomplishments are celebrated and colleagues are rewarded for their hard work.

"The 'Moving up' programme has been an integral part of my career at ScS. It helped give me the tools to be the best manager I can be. It gave me a greater understanding of how to get the best out of people and how to work together in order to achieve a common goal.

It showed me that it was ok to be pushed out of my comfort zone and that this is where you can achieve great results."

Our customers

Our customers remain at the heart of everything we do and as a business we seek to offer our customers outstanding value, quality and choice with a seamless customer experience.

The year saw a number of improving customer metrics across the business, including maintaining our Trustpilot TrustScore. We maintained our 5-star 'Excellent' rating. At a local level, the number of stores rated as five stars increased 65% meaning over 80% of our stores are rated at the maximum.

Modernising the range has been a key focus in the year and we have launched 125 furniture ranges and 39 flooring options. This has included the introduction of new suppliers from the UK, Europe and the Far East as we aim to provide the best value products we can source. Pleasingly, we saw product lead times reduce significantly and are now operating at lead times in line with those seen pre-pandemic.

Customer engagement

The year saw the business invest time and resources in increasing its understanding of existing customers but also those consumers who chose not to shop with the Group. This included detailed qualitative and quantitative research covering the in-store experience, our product offering and our promotional and advertising style. This feedback has helped shape our new store format and has played an important part in our new branding and advertising campaign. We are now starting to collect more customer data and feedback that will help shape our customer strategy in the future.

Seamless customer experience

To ensure we deliver the highest levels of customer service we invest significantly in training and developing our colleagues. We are members of the Furniture and Home Improvement Ombudsman, giving additional assurance to our customers.

The year saw the business invest in leading edge contact centre technology operated by our customer experience team, delivering more functionality to our team and improving our service to customers. We have also reviewed our upholstery services and have outsourced the delivery of this service to a specialist provider, who are committed to delivering a swift, efficient and effective service for our customers.

We strive to provide an excellent customer experience and our customers are encouraged to rate their experience with us on Trustpilot. We regularly review our customers' feedback and use it to reward our colleagues, identify areas for improvement and discuss with suppliers to drive further product quality. We are proudly, one of the most reviewed businesses in the UK.

Our Communities

Making a meaningful contribution to our communities has been a key focus at ScS and for our colleagues. As a socially responsible business and with operations spread across the UK we have been supporting in many different ways.

Our partnerships with charities continues to be successful, partnering with three key charities to help and make a difference in the communities we serve.

Shelter partnership

We are delighted to now be officially supporting Shelter as a corporate partner. Our 'It all starts with home' partnership builds on the work we did with Shelter in FY22. Shelter's purpose of 'home is everything' aligns to ScS's of 'Creating the home you love' perfectly, and we look forward to the opportunities this will provide for families within our communities.

As part of our partnership with Shelter, we donate surplus and returned stock to the charity. The charity are able to resell the stock through their own store network or utilise it to support their service users. This contributes to Shelter's charitable purposes but also ensures that stock we no longer need is repurposed rather than disposed of. For FY23 we donated 483 products which has generated £56,000 in sales of donated goods for Shelter.

The Group has also supported our colleagues who have spent 94 days in total across the year volunteering, supporting different Shelter causes such as delivery of donated stock, supporting in stores/pop up stores and finally with their charity supermarket.

Step up for Shelter

Our colleagues embarked on our annual May wellbeing challenge. Throughout the month we challenged colleagues to 'Step up for Shelter' and take part in activities such as walking, cycling, running – you name it, to achieve a combined total of 27,000 miles. Our colleagues embraced the challenge with 100 more colleagues than FY22 participating. The target was achieved a week ahead of schedule and by the end of the month we had a grand total of 34,305 miles.

One of the best parts of the challenge (despite all of the health benefits and colleagues enjoying the outdoors) was seeing the chat section in our app where colleagues were sharing stories and pictures of their adventures. This activity supported our focus on mental health during May and will support our 'Better health at work' silver campaign.

Colleagues raised £1,325 in fundraising and the Group donated £27,000 to Shelter to support this great cause and really make a difference to supporting their purpose of 'It all starts with home'.

Our first year of partnership with Shelter has seen us raise £100,000 for the charity.

Foundation of Light

As a business we have partnered with the Foundation of Light for over a decade and we extended our long-standing relationship with the Foundation (the official charity of Sunderland AFC) supporting the charity's 'Wear Together' programme. The programme is aimed at supporting those over 50 within the local Sunderland, South Tyneside and County Durham communities help feel more connected. A number of colleagues have volunteered their time to help facilitate and join in on many activities as part of the programme during FY23.

St Oswald's

ScS partnered with St Oswald's hospice in FY23 for a three-year period as a supporter of their charity fundraising programme, including their biggest event in the calendar, The Great North Run. In September, a number of ScS colleagues took part on behalf of St Oswald's and we were please to raise money to support this great cause.

Charity fund

Across the year we have supported 25 charities, donating a total of £67,000. Some of these donations have arisen following colleague nomination, which makes it even more special. Donations have been made to Marie Curie, Alzheimer's society, SeeScape, Bright Red Charity and many more.

Volunteering

As part of our ESG strategy, we are encouraging all ScS colleagues to get involved in volunteering activity. ScS aim to support a minimum of 1,000 volunteering days before the end of FY26.

A total of 365 days of activity have taken place this year and we are really proud of how our colleagues have stepped up to support some amazing community work. Some examples include:

- Royal British Legion – supporting selling poppies and manning a stall on 11 November 2023;
- The MCA Trust with building a Santa's grotto to support a children's party;
- A number of food banks within local communities;
- RSPCA – supporting with painting chicken coops, fixing flooring and taking dogs for a walk;
- Alderhey – supporting with collections of large furniture from house clearances;
- Shelter – supporting with stock donation deliveries, volunteering in store and with their pop up events;
- Love Amelia – supporting with raising money and preparing donations to support babies and children experiencing hardship; and
- Changing lives – supported in various locations with cleaning, decorating and gardening.

Other activities continue to be planned in by colleagues and we take great pride in sharing these stories across the business in our weekly newsletter – ScS news.

CASE STUDY

Shelter partnership

Everyone deserves the right to a safe place to call home, so this year we created a partnership with Shelter, supporting their efforts to tackle homelessness and provide help and support to those that need them. We share the belief that home is everything.

As well as monetary donations to Shelter we worked alongside their team in a number of ways. We have donated furniture and flooring stock to Shelter. Shelter have been able to retail this stock through their stores, raising £56,000 during the year. These products were priced to be affordable to Shelter customers and service users.

When delivering product to Shelter stores our distribution colleagues have been delighted to assist Shelter teams; moving stores round to accommodate product as needed. Across our wider business we have contributed 94 volunteer days to Shelter, and aim to increase this number next year.

In May over 300 colleagues took up the challenge to 'Step-Up for Shelter'. A team target was set of 27,000 miles. The team exceeded the target and £27,000 was donated to Shelter in recognition of the challenge the team took on.

Our first year of partnership has seen ScS donate over £100,000 to Shelter and provide meaningful volunteer time to the organisation. It has been wonderful to see this partnership start to flourish and we are excited to continue to grow our partnership with this amazing charity.

Our Shareholders

Achieving sustainable long-term growth and returns is a key objective of the Group and our shareholders. We aim to secure these outcomes by delivering our strategy and making informed decisions. We have two main shareholder groups; institutional investors and individual shareholders. The majority of our shareholders are institutional investors.

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

Engaging with our shareholders

We engage with our shareholders through a range of channels including:

- The Annual Report and trading updates through our dedicated corporate website;
- Our Annual General Meeting (AGM) in which shareholders can direct questions to the Board;
- The Group's CEO and CFO participate in both virtual and face-to-face investor (existing and potential) meetings throughout the year, including store visits with investors if requested;
- Face-to-face analyst/investor presentations covering the interim and preliminary results. A webcast of these meetings is published on our website for those unable to attend;
- The Board receives investor views through the Group's corporate brokers who provide feedback on market reaction and investor views after full and half year results announcements; and
- Independent investment research analysts have access to our Executive Directors as part of their investment advisory roles. The analysts' research publications provide timely feedback on financial performance, strategy and share valuation.

Investors' views were taken into consideration as part of the Board's decision-making process throughout FY23 including:

- The purchase of the business and assets of Snug out of administration;
- The Board's proposal for a final dividend of 10.0p per share taking the full-year dividend to 14.5p;
- The decision to complete the £7m buyback scheme and to not launch a new programme; and
- The investment in a refreshed store design across a further eight stores in the year, taking the total to nine.

"Achieving sustainable long-term growth and returns is a key objective of the Group and our shareholders."

Statement of Compliance

The Financial Stability Board's Task Force on TCFD has set out an important framework for understanding and analysing climate-related risks, and we are committed to regular, consistent and transparent reporting to help communicate our performances and track our progress. We have outlined our key climate-related disclosures in this report. We recognise that further work lies ahead as we continue to develop our reporting capabilities, but we have made some progress and enhanced our disclosures.

We considered our compliance obligation under the UK's Financial Conduct Authority (FCA) Listing Rules and can confirm that we have made disclosures consistent with all TCFD pillars and recommendations, however we accept that there are areas where we feel the disclosure we have made can be improved on.

We have complied with the governance recommendation but there are improvements to be made to enhance Board oversight on climate-related risks and opportunities. On the strategy pillar, we have identified compliance gaps in describing the impact of climate-related risks and opportunities to the Group and financial planning as well as the procedures in place to identify emerging risks, and as such have not completely met the recommended disclosure, but work is in progress to address this.

Climate risk is part of our supplier chain audit criteria and the risk assessment of our supply chain has been subject to senior management oversight. However, there is a scope for improvement here, particularly with having a formal process for integrating, identifying and assessing climate-related risks, and we are working towards defining and implementing that process. Although we report on risks, we have not fully adopted the risk taxonomies aligned with TCFD recommendations. We are working to address all of this and to ensure that our disclosure under this pillar is consistent with the TCFD recommended disclosures on risk management.

In terms of the recommended disclosures under the metrics and targets pillar, while we have not entirely met the requirements consistent with TCFD under this pillar, we have fully disclosed where we are and are working towards improving the metrics used to assess and manage relevant climate risks and opportunities, where such information is material, and have set quantifiable targets against specific metrics.

We have disclosed our emissions across scopes 1, 2 and 3, and aim to implement recommendations and targets from our recently completed Net Zero strategy work.

This FCA compliance statement is only set out in our standalone TCFD report.

Climate-related disclosures

Disclosure of the actual and potential impacts of climate-related risks and opportunities on an organisation is fundamental to understanding how the business strategy may be influenced. Climate-related issues are top of regulatory, investor and corporate agendas and climate-related risks make up four of the five biggest risks faced by businesses. It can affect several important aspects of an organisation's financial performance and position, both now and in the future.

The Task Force provides recommendations for climate-related financial disclosures structured around four thematic areas:
1. Governance
2. Risk management
3. Strategy
4. Metrics and targets

The four overarching recommendations are supported by 11 specific recommended disclosures focusing on assessing climate-related risks and opportunities. The Group recognises the importance of adopting the TCFD recommendations and reports climate-related information consistent with this framework to ensure high-quality and decision-useful disclosures that enable users to understand the impact of climate change on the organisation.

Governance

The governance disclosure considers an organisation's governance around climate-related risks and opportunities.

The strategic oversight of action on climate change is owned by the Board, with decision-making delegated to the Executive Board. Climate change is addressed in a standing agenda item of Executive Board meetings on a monthly basis.

The Group's day-to-day governance of climate change is overseen by our ESG steering group, which is comprised of cross-functional senior representation, including the Chief Financial Officer. The ESG steering group meets on a monthly basis.

Climate change is covered within the remit of the ESG steering group under four working themes:
1. Operational carbon
2. Value chain
3. Climate change and business strategy
4. Engagement and accountability

The ESG steering group reports on its activities to the Executive Board. Executive remuneration at ScS includes links to progress on our environmental, social and governance (ESG) targets, including targeted reductions in waste for the Executive Board and senior managers.

Board oversight

The Group considers climate change to be a significant Board-level strategic issue.

Overall responsibility for climate-related risks and opportunities sits with the Board. As part of our activities to address risk, climate change is a standing Board agenda item included within the ESG update.

Climate-related financial issues fall in scope of the Audit Committee, which will review and take action as required on risk management policies and business planning. The Audit Committee will meet four times per year.

The Board has undertaken carbon literacy training to support understanding in this area and its risks and opportunities.

Management's role

At management level, the climate change agenda is managed as part of the delivery of our ESG strategy. It is now being driven by our Net Zero strategy, which is currently being finalised, and has clear goals, metrics and targets to operationalise our approach. The ESG steering group and Net Zero strategy is coordinated by the People Director, who presents monthly updates and reports to the Executive Board.

Each year we will undertake a planning cycle to assess climate-related issues and ensure that our Net Zero strategy is fit for purpose in addressing climate-related risk and to deliver for the business.

We retain a specialist consultant on an ongoing basis who supports our sustainability ambitions and provides any specific technical advice that is required in relation to climate-related risk, as well as mitigation, adaption and transition.

Next steps

We are committed to disclosing information relating to our governance approach, the Board's oversight of climate-related risks and opportunities, and management's role in assessing and managing climate-related risks and opportunities on an ongoing basis in line with the TCFD recommendations. We will continue to engage at both Board and management level on climate-related issues, considering how we can fully integrate best practice into our internal governance structure and processes.

Strategy

The strategy disclosure looks at the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.

We acknowledge that climate-related risks and opportunities have an impact on our business. We are therefore implementing a clear strategy to respond to that. Our focus is on:

- Mitigation of our impact, by reducing our emissions; and
- Managing any transition or physical risks in relation to adaptation.

We have finalised our Net Zero strategy, and this will provide us with a clear framework of how we manage our climate-related risks and opportunities, going forward.

Emissions reduction strategy

As part of our Net Zero strategy, we will adopt six key principals to guide our approach:

1. Make sustainability central to everything we do;
2. Take proactive action by incorporating the Net Zero strategy into our business strategy and applying the improvement recommendations to our business to reduce our impact on the environment;
3. Engage with and report to our key stakeholders;
4. Become environmentally efficient and sustainable by design (including products, packaging and buildings);
5. Renew our approach and leverage on technology where required to address the climate sustainability challenge; and
6. Rebalance our impact (through carbon offsetting) where the other actions taken do not address it sufficiently.

We have two headline commitments in relation to emissions reduction:

- We have committed to Net Zero by 2050 across all three scopes of emission. As we get more confident with climate reporting and data gathering strategies, there is a possibility that we could bring this target date forward. We believe that this will provide us the right framework for managing our transition to Net Zero and support our reputation by aligning with best practice; and
- We have finalised and aligned our Net Zero strategy with climate science and will look to have this validated externally by relevant initiatives as soon as possible.

These are reinforced by resource level targets, which are further detailed in the metrics and targets section. We have estimated the cost of implementing our Net Zero strategy as approximately £500,000 per annum between now and 2030. We also expect to be able to achieve an interim target date of Net Zero for Scope 1 and 2 by 2038.

Task Force on Climate-related Financial Disclosures (TCFD) continued

Our most significant climate-related risks and opportunities identified from our process are:

Supply chain		The transition to Net Zero		Reputation	
Top risks	Top opportunities	Top risks	Top opportunities	Top risks	Top opportunities
Resilience to physical impacts (sea level rise/ flood risk)	Resilient supply chain and business continuity	Increased costs associated with carbon pricing and taxes	Carbon footprint reduction/reducing operating costs/reduced carbon tax impact	Changing consumer behaviour	Supporting consumers in their transition
Products efficiency policy and standards	New market opportunities and customer base expansion	Cost of decarbonisation	Positive environmental impact through improved efficiency and reduced carbon footprint	Negative perception from stakeholders	Attractiveness to stakeholders

We have conducted a risk assessment based on three climate change scenarios:

Scenario	Early	Late	Business as usual (BAU)
Description	Smooth transition whereby global warming is <2°C	Disruptive transition whereby global warming is <2°C	No acceleration of action whereby global warming is >3°C
Overview	Transition to a carbon-neutral economy starts early and the increase in global temperatures stays well below 2°C, in line with the Paris Agreement.	Global climate goal of keeping temperatures well below 2°C is met but the transition is delayed and must be more severe to compensate for the late start.	No policy action beyond that which has already been announced is delivered, resulting in above 3°C of warming. Therefore, the transition is insufficient for the world to meet its climate goal.
Outcomes of our analysis	We experience a high level of impact from transition risks in this scenario, with higher levels of policy and legislation impacting the business in the short to medium term. The physical risks are least extreme, and these mitigates medium to long-term challenges across our supply chain.	Physical risks under this scenario are higher than the smooth transition as there are significant differences in the impact on the environment, impacting our supply chain more severely. The transition risks are high and disruptive and are likely to have a material impact because of the pace and nature of the interventions required.	Whilst we experience much more limited transition risks in this scenario, the physical risks are much more severe. This has significant impacts on our supply chain in the medium to long term as the world will have to adjust to much more significant change and environmental damage from the impacts of the global temperature rise and the consequent effects on our climate.
Assumptions	There is early and decisive action to reduce global emissions gradually, with clearly signposted government policies and initiatives implemented relatively smoothly.	To compensate for the delayed start a deeper adjustment is required, as evidenced by a steeper increase in global carbon prices in a late attempt to meet climate target. Under this scenario, physical risks rise more quickly than in the early policy action scenario and transition risks are severe.	This scenario tests organisations' resilience to both chronic changes in weather (e.g. rising sea levels), as well as more frequent and extreme weather events (e.g. flash floods). Therefore, under this scenario, there are limited transition risks, but physical risks are significant.

Risk management

The risk management disclosure looks at the processes used to identify, assess and manage climate-related risks.

Identifying and assessing risk

The Group identifies climate-related risks and opportunities and defines materiality based on the 'We Mean Business' risk taxonomy, TCFD guidance and our existing climate-related risk and opportunity assessments.

Risks are grouped into two categories; transition risks, which relate to the transition to a low-carbon economy and physical risks, which relates to the physical impacts of climate change. These are then grouped into further sub-categories. We consider our climate change risk between now and 2050 as a timeframe.

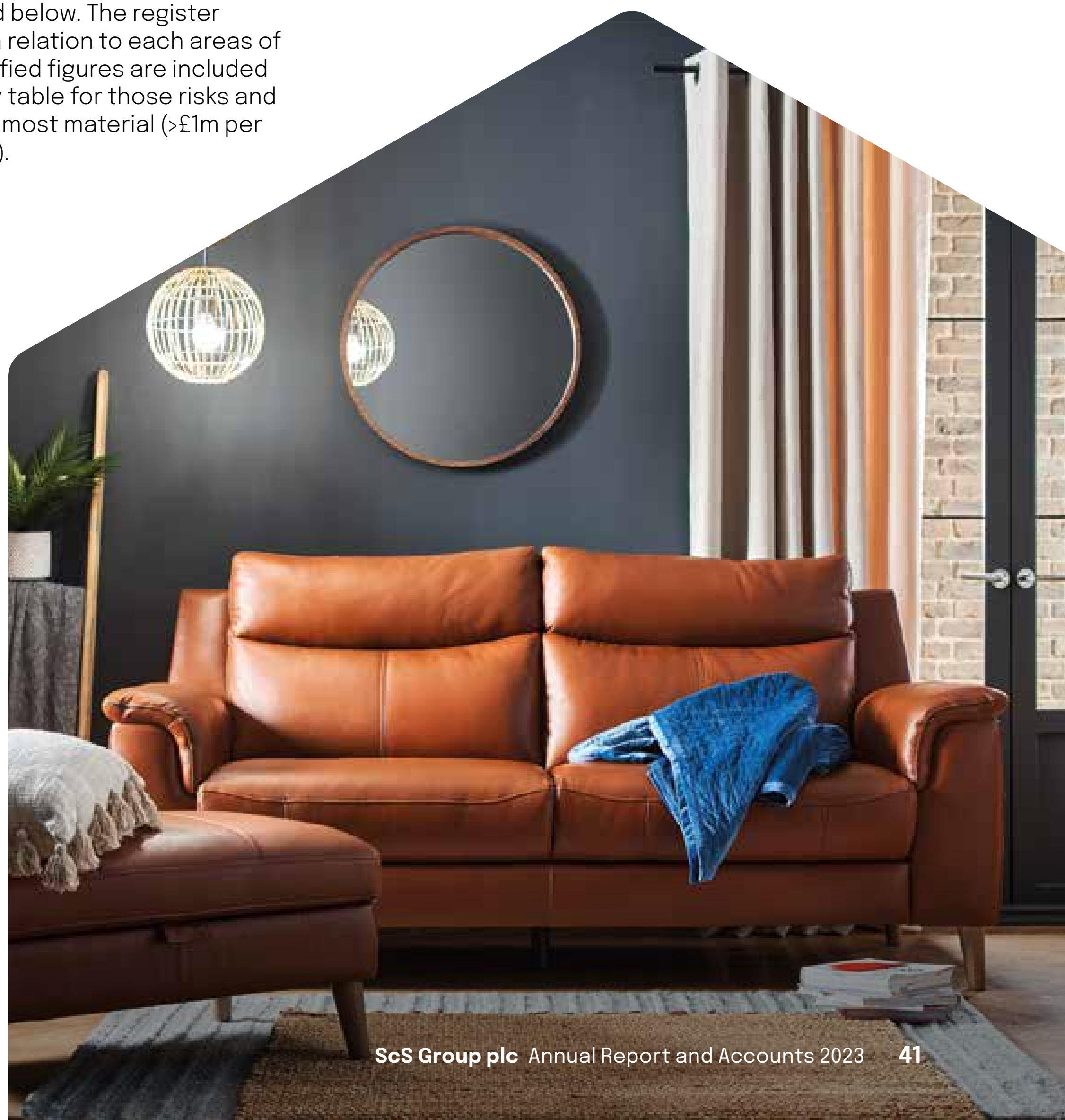
Managing risk

Our risk management process in relation to climate-related risk can be summarised by the following steps:

- **Identify** risks and opportunities and define materiality based upon:
  - 'We Mean Business' taxonomy;
  - TCFD guidance; and
  - Existing climate-related risks and opportunity assessments.
- **Assess** the risks and opportunities and any required action in a short-term timeframe (<5 years).
- **Model** through scenario analysis (where relevant) the potential impact of the risks and opportunities against three climate change scenarios.
- **Manage** by way of developing and implementing internal risk control measures.
- **Monitor** risks on an ongoing basis and improve management controls.

Integrating risk

To assess, manage and integrate risk, we maintain a climate-related risks and opportunity register and we plan to fully align to all the risk taxonomies recommended by the TCFD. The risk taxonomy structure is aligned to the 'We Mean Business' structure and is described below. The register summarises our actions in relation to each areas of the risks identified. Quantified figures are included in the risk and opportunity table for those risks and opportunities considered most material (>£1m per year materiality threshold).



Task Force on Climate-related Financial Disclosures (TCFD) continued

Risk taxonomy and assessment

Our risk taxonomy (in relation to climate-related risk) is shown below, with the underlying level of risk we believe that they present.

Key

Timeframes	
S	Next 3 years
M	Between 3 and 10 years
L	After 10 years, and before 2050

Scenario analysis	
#	Quantitative/detailed
✓	High level assessment

Risk and opportunity table

Strategic risk/ opportunity	Risk/opportunity category	Description	Significant	Timeframe impacted	Scenario analysis
Transition risk – Risks associated with transitioning to a low-carbon economy, e.g. new regulations or reporting requirements, disruptive technology, changing consumer preferences					
Brand and reputation	Reputation	The potential impacts of stakeholder perceptions of our carbon performance and climate change position. Real or perceived inaction on climate change may affect the Group's access to funding and investment and its ability to attract and retain talent, causing loss of revenue and damaging the reputation the Group has with its customer base and other stakeholders. The quantified maximum probable loss from reputational impacts on share prices is £3.0m.	Yes	S, M, L	✓
Economic environment	Customer demand	The change in demand for a product or service due to a shift in preferences because of climate change and sustainability. Customers may change demand to lower-emission and sustainable products, such as alternatives to leather goods and ethical products with lower carbon footprints or higher sustainability ratings.		M, L	✓
Regulation and compliance	Policy	Changes or improvement to regulation, standards or incentives relating to climate change including decarbonisation and adaptation could see additional operational changes and costs borne by the Group.		S, M	✓
Regulation and compliance	Transition to Net Zero costs/taxes	Increased costs associated with decarbonisation ambitions and requirements to offset our emissions footprint that are increasingly expensive and unreliable. The quantified implications for capex and other investments to achieve our Net Zero strategy is a probable maximum of £8.1m. There is a risk that carbon taxes will continue to be introduced in the future, which will increase the cost of products and services both purchased and sold by the Group. This risk has been quantified as a probable maximum loss of £150,000.	Yes	S, M	#
Regulation and compliance	International treaties/ sector agreements	Actions or targets for companies determined by internationally binding agreements within United Nations international conventions or any other internationally recognised protocol or agreement setting specific emissions targets may impact the Group's Net Zero strategy and result in increased costs.	–	S, M, L	✓

Strategic risk/ opportunity	Risk/opportunity category	Description	Significant	Timeframe impacted	Scenario analysis
Physical risk – Increasing global surface temperatures and changing weather patterns can lead to the increased intensity of flooding in some areas, impacting the supply chain					
Economic environment	Social impacts	Changes to social order, culture and prosperity of our communities because of physical climate or regulation change. There may be an increase in the number and intensity of hot days impacting the physical health of our colleagues, partners and suppliers. There may be workforce shortages hampering productivity and communities impacted if operations are forced to relocate, resulting in supply chain disruption.	–	M, L	✓
Responsible sourcing and supply	Supply chain	The effect of the changing climate may trigger extreme weather events including flooding and snow/ice, which may result in damage to key supplier locations and general logistics. The assessment of the supply chain indicates a long-term risk due to the physical impacts of climate change on three of the 22 strategic facilities reviewed. Some key supplier locations and general logistics are expected to be impacted. We are monitoring the proportion of our supply chain that this could impact and considering the mitigation actions that may be necessary. The quantified probable average loss is £6.9m.	Yes	M, L	#
Responsible sourcing and supply	Access to natural resources	Changes in the availability of natural resources, e.g. water and food, because of climate change may impact our ability to source raw materials.	–	M, L	✓
Opportunities associated with transitioning to a low-carbon economy, e.g. increasing resource efficiency, developing low-carbon products/business models, access to green capital					
Responsible sourcing and supply	Supply chain	Enhancing our supply chain standards can create opportunities to: deploy lower emission technologies in our manufacturing process; identify the most efficient transport routes; and source raw materials from markets most resilient to the physical impacts of climate change. The quantified opportunity arising from the reduction in operating costs is a probable maximum gain of £1.75m.	–	M, L	✓
Economic environment	Customer demand	Development of low-emission and ethical products from low-carbon production facilities and sustainable materials may result in increasing demand for products. This will open up new markets and expand our customer base, translating to revenue growth. Strong climate change management can help strengthen relationships with investors, customers, consumers and other stakeholders, and potentially lead to new opportunities.	–	M, L	✓
Regulation and compliance	Energy	Investment in renewable energy technologies across our stores and distribution network could help the Group increase its resilience to future energy/price shocks as well as reduce emissions and impact the environment positively.	–	S, M, L	✓
Brand and reputation	Reputation	Making clear our commitment to climate action may increase our attractiveness to our stakeholders and enhance our reputation amongst out customers.		S, M, L	✓

Metrics and targets

The metrics and targets disclosure looks at the metrics and targets used to assess and manage relevant climate-related risks and opportunities.

Metrics used

Our operational management of climate-related risk is measured through the metrics below. We have made good progress towards four of the six metrics, including continuing to purchase 100% renewable energy, diverting 100% of waste from landfill, engaging actively with our suppliers, and reducing the carbon impact per product sold. While we continue to seek energy efficiencies across our operations and improve our logistics performance, we still have work to do in these areas to meet our targets.

Metric	2021-22	2022-23	Net Zero strategy target (2022-23)	Variance	On track for Net Zero by 2050?
Supply chain engagement (% of suppliers active in programme)	46.02%	46.02%	40.00%	+6.02%	Y
Renewables (% renewable)	100%	100%	100%	0.0%	Y
Waste targets (% landfill avoidance)	100%	100%	100%	0.0%	Y
			Net Zero annual reduction target*	Variance	
Energy efficiency (kwh/m^2 building floor area)	155.40	153.33	-2.15%	-1.33%	Y
Logistics performance (kgCO_2e per km)	0.0226	0.0231	-4.60%	+2.25%	Y
Product lifecycle (kgCO_2e per product sold)	122.31	113.42	-4.00%	-7.27%	Y

* Target represents linear progress year on year. Despite being slightly behind on a linear basis, we expect to achieve all targets by 2050. Our actions in our strategy towards achieving Net Zero are not linear and varying levels of progress will be seen year on year.

Greenhouse gas emissions

Emissions data in respect of the 2022-23 reporting period, based on operational control, are disclosed as follows:

Scope	Category	Current year** tCO_2e (Location)	Current year** tCO_2e (Market)	Previous year* (Location)	Variance (+/-)	Variance (%)
Scope 1	Combustion	2,796	2,796	2,712		
Scope 1	F Gas***	156	156	589		
Scope 1	**TOTAL**	**2,952**	**2,952**	**3,301**	**(349)**	**(10.5)**
Scope 2	Electricity/heat/steam/cooling	2,582	–	2,941		
Scope 2	**TOTAL**	**2,582**	**–**	**2,941**	**(359)**	**(12.2)**
Scope 3	Business travel	842	842	594		
Scope 3	Employee commuting	1,270	1,270	1,259		
Scope 3	Fuel and energy-related activities	1,520	1,520	1,696		
Scope 3	Purchased goods and services	84,310	84,310	83,960		
Scope 3	Waste generated in operations	58	58	67		
Scope 3	Transportation/distribution	4,087	4,087	5,113		
Scope 3	Capital goods	2,448	2,448	1,900		
Scope 3	**TOTAL**	**94,535**	**94,535**	**94,589**	**(54)**	**(0.05)**
All	**TOTAL**	**100,069**	**97,487**	**100,831**	**(762)**	**(0.75)**

* Actual data updated from previous disclosure for FY21-22.
** Current year footprint includes estimated data to end of FY.
*** F Gas included in disclosure as data sources confirmed.

(Location) refers to location-based reporting; (Market) refers to market-based reporting. Both definitions are in line with the Greenhouse Gas Protocol. All stated variances are of our location-based emissions.

The UK emissions, in relation to Scope 1 combustion, Scope 2 electricity/heat/steam/cooling and Scope 3 business travel, measured in kWh total 28,072,887 (2022: 28,899,091). The Group has no overseas usage therefore the global energy use is nil (2022: nil).

Greenhouse gas emissions intensity ratio

	Total footprint (Scope 1, Scope 2 and expenses claims) – CO_2e tonnes		
	Previous year (2021-22)	Current year (2022-23)	Year-on-year variance
Turnover (£m)	344,710	343,457	-0.4%
Intensity ratio (tCO_2e/£100,000)	29.3	29.1	-0.7%

Emission reporting notes

- Our methodology has been based on the principals of the Greenhouse Gas Protocol, taking account of the 2015 amendment which sets out a 'dual reporting' methodology for the reporting of Scope 2 emissions. In the 'Total footprint' summary above, purchased electricity is reported on a location-based method.
- We have reported on all the measured emissions sources required under The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 and The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 except where stated.
- The period of our report is 1 August 2022 to 30 July 2023.
- This report includes emissions under Scope 1 and 2, except where stated, and includes emissions from Scope 3 sources relating to business travel, purchased good and services, capital goods, employee commuting, fuel- and energy-related activities, water and waste.
- All material emissions have been included within this disclosure.
- Conversion factors for UK electricity (location-based methodology), gas and other emissions are those published by the Department for Environment, Food and Rural Affairs for 2021-22.
- Conversion factors for UK electricity (market-based methodology) are published on the fuel mix disclosures on each supplier's website.

Statement of exclusions

- **Business acquisition (Snug)** – We have excluded emissions from Snug. The exclusion is based on Snug's operational strategy, materiality assessment and revenue screening approach to determine the significance of its emissions. Snug is determined to be immaterial due to falling beneath the revenue percentage threshold for materiality and inclusion (currently representing 1% of revenue). Snug has not recorded any previous emissions data and falls outside of mandatory reporting requirements due to its size. Depending on materiality Snug will be considered for inclusion in FY24.

Energy efficiency actions

During this reporting year, we have undertaken several energy efficiency actions across our asset, property portfolio and estate in general. These include:

- Replacement of gas fired air conditioning systems with all electric air conditioning systems at multiple sites;
- Continued rollout of LED lighting;
- All our sites use 100% renewable energy;
- All non-recyclable waste is diverted from landfill and used in energy production;
- Efficiency initiatives and actions to decarbonise our fleet and make business travel more sustainable; and
- We intend to deploy air source heat pumps as a replacement for traditional boilers going forward.

Our ambitions and targets

Although we face some technological dependencies to realise some of our Net Zero ambitions, most importantly, advancements in fleet and shipping decarbonisation, we are committed to achieving our goals. Our new ESG and Net Zero strategy will drive our work towards the below targets:

- Achieve Net Zero date of 2050; and
- Align our Net Zero strategy with climate science and look to have that validated externally by the relevant initiatives.

Next steps

We will continue to drive forward to deliver significant carbon reductions and improve our climate resilience wherever we can. We are on track for all of the decarbonisation targets (shown above) and will continue to reduce our impact on the environment across all three emission scopes in line with climate science, whilst demonstrating good environmental stewardship to our stakeholders.

The Board recognises the importance of engaging with stakeholders

The Board recognises the importance of engaging with stakeholders and taking their views into account when making decisions, although the Board acknowledges that not every decision it makes will necessarily result in a positive outcome for all of the Group's stakeholders. Details on how the Board operates and the way in which it reaches decisions are set out on pages 68 to 123.

Details of our key stakeholders and engagement with these stakeholders are set out on pages 26 to 37. Examples of how the Directors have oversight of stakeholder matters and had regard for these matters when making decisions are included in the table below and discussed throughout the Strategic report and in the Governance section on pages 2 to 123.

Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole but having regard to a range of factors set out in section 172(1)(a)-(f) in the Companies Act 2006. This report is presented in compliance with The Companies (Miscellaneous Reporting) Regulations 2018 and the UK Corporate Governance Code July 2018.

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

Section 172 duty	Key examples	Page
(a) The likely consequences of any decision in the long term Example: The Board reviewed the progress made in year two of the Group's three-year strategy and ensured that both decisions taken and future plans continued to support the long-term success of the Group, with regard to allocating the Group's capital in the most beneficial way.	Our business model Our strategy Key performance indicators Financial review Risk and risk management Viability statement Corporate governance statement Directors' remuneration report	13 to 15 16 to 22 24 to 25 50 to 56 57 to 64 65 to 66 72 to 82 97 to 119
(b) The interests of the company's employees Example: To enable us to deliver our strategy we are determined to build a culture that enables our colleagues to perform at their very best in a collaborative, innovative and inclusive environment where they can thrive. The Board has ultimate responsibility for ensuring the Group's decisions consider our employees' interests. During the year colleagues have taken part in discussion forums held by members of the Board to raise concerns or issues directly.	Chair's letter Our business model Chief Executive Officer's review Our strategy Key performance indicators Responsible business Risk and risk management Corporate governance statement Directors' remuneration report	6 to 7 13 to 14 8 to 9 16 to 22 24 to 25 26 to 37 57 to 64 72 to 81 97 to 119
(c) The need to foster the company's business relationships with suppliers, customers and others Example: Managing our supplier relationships is critical in ensuring the Group's ability to deliver on its strategy. In FY23, through close collaboration with our suppliers, we achieved the Kitemark certification for domestic furniture by the British Standards Institute. We also became a member of the Furniture & Home Improvement Ombudsman, providing additional assurance for our customers through the Ombudsman's alternative dispute resolution services.	Chair's letter Our business model Chief Executive Officer's review Our strategy Responsible business Corporate governance statement Directors' remuneration report	6 to 7 13 to 14 8 to 9 16 to 22 26 to 37 72 to 81 97 to 119

Section 172 duty	Key examples	Page
(d) The impact of the company's operations on the community and the environment Example: As a responsible business, the Group is committed to acting in the best interests of our communities and in a sustainable manner. During the year the Group supported local charities donating a total of £67,000 to support our local communities. Our colleagues continued their fantastic volunteering effort, with 365 days volunteered throughout the year. We have also enhanced our relationship with housing and homelessness charity Shelter, donating stock worth £56,000. The group has commenced development of a Net Zero strategy to complement our existing Environmental, Social and Governance (ESG) strategy.	Chair's letter Our business model Chief Executive Officer's review Our strategy Responsible business Principal risks and uncertainties Corporate governance statement	6 to 7 13 to 14 8 to 9 16 to 22 26 to 37 57 to 64 72 to 81
(e) The desirability of the company maintaining a reputation for high standards of business conduct Example: Our colleagues received mandatory online training throughout the year on a wide array of topics including equality & diversity, data protection and anti-bribery. We have introduced foundation workshops for all new starters and have various ongoing training and development programmes to upskill and empower our workforce. All suppliers are required to comply with our Supplier Code of Conduct which sets out our expectations in relation to health and safety procedures, anti-bribery and corruption policies, product quality standards and much more.	Our business model Our strategy Responsible business Corporate governance statement Directors' remuneration report	13 to 14 16 to 22 26 to 37 72 to 81 97 to 119
(f) The need to act fairly as between members of the company Example: The Board seeks to ensure that communications are clear and its actions promote the long-term success of the Group. During the course of the year, the Group has engaged with its stakeholders and as a result, the Board have been able to take their views and interests into account when making decisions.	Responsible business Corporate governance statement	26 to 37 72 to 81

Non-financial information statement

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

Reporting requirement	Our policies	Where you can find out more
Environmental matters	Regulatory and compliance Responsible sourcing and supply chain Sustainability Monitoring our carbon footprint	Page 60 Pages 26 to 31 and page 61 Pages 26 to 31 Pages 38 to 47
Employees	Diversity and inclusion Wellbeing Engagement Code of business conduct Composition, succession and evaluation	Page 87 Pages 32 Page 33 Page 122 Page 82
Social matters	Apprenticeship programmes Supporting local communities and charities	Pages 32 Page 35 to 36
Human rights	Responsible sourcing and supply chain Modern slavery policy	Pages 26, 43 and 61 Pages 29 and 60 and visit our website
Anti-bribery and anti-corruption	Political donations Whistle-blowing Anti-bribery and corruption statement	Page 123 Page 122 Page 122
Description of business model	N/A	Pages 13 to 14
Non-financial KPIs	N/A	Page 24
Risk and risk management	N/A	Pages 57 to 64

“We are pleased to be delivering a resilient set of numbers that were ahead of market expectations.”

* This report includes alternative performance measures (APMs) which are defined and reconciled to IFRS information, where applicable, within the Financial review on pages 55 to 56.

Financial review

	Group 52 weeks ended 29 July 2023 £m	Snug 29 weeks ended 29 July 2023 £m	Group excl. Snug 52 weeks ended 29 July 2023 £m	Group 52 weeks ended 30 July 2022 £m
Gross sales*	**343.5**	**4.2**	**339.3**	344.7
Revenue	**325.9**	**4.1**	**321.7**	331.6
Gross profit	**152.4**	**2.8**	**149.6**	156.3
Distribution costs	**(21.8)**	**(1.2)**	**(20.7)**	(21.3)
Administration expenses	**(121.0)**	**(3.5)**	**(117.4)**	(117.3)
Total operating expenses	**(142.8)**	**(4.7)**	**(138.1)**	(138.6)
Underlying operating profit/(loss)*	**9.6**	**(1.9)**	**11.5**	17.6
Adjusting items	**(1.2)**	**(0.8)**	**(0.4)**	2.6
Operating profit/(loss)	**8.3**	**(2.8)**	**11.1**	20.2
Net finance expense	**(2.4)**	**-**	**(2.4)**	(3.8)
Profit/(loss) before tax	**6.0**	**(2.8)**	**8.8**	16.4
Underlying profit/(loss) before tax*	**7.2**	**(1.9)**	**9.2**	13.8
EBITDA*	**34.0**	**(2.8)**	**36.7**	46.8
Underlying EBITDA*	**35.2**	**(1.9)**	**37.1**	44.2
Statutory earnings per share	**12.8p**			36.2p
Underlying earnings per share*	**15.9p**			30.7p

Overview

The Group faced a challenging trading environment throughout FY23. Whilst we were disappointed to not see progress in our financial results, we are pleased to be delivering a resilient set of numbers that were ahead of market expectations. Including Snug, gross sales were in line with the prior year. However, we saw increased pressure on gross margin largely due to the increased costs of providing interest-free credit. The ScS business saw a 1.6% reduction in gross sales, which, coupled with the 44.1% gross margin (FY22: 45.3%), saw gross profit reduce by £6.6m. This was partially offset by a £0.6m reduction in operating costs and a £1.5m reduction in net finance costs due to monies received from cash on deposit.

Shareholder returns have increased in the year, with a proposed full year ordinary dividend increase of 7.4%, coupled with the completion of the £7.0m share buyback programme announced in March 2022. The Board is mindful of the challenging economic environment we face and remain committed to retaining a robust balance sheet in these uncertain times.

On 10 January 2023, we acquired the business and assets of Snug. Initial post-acquisition trading was slower than we originally forecast as the business rebuilt from a standing start and Snug made an underlying loss before tax of £1.9m in the year. Trading in Snug improved significantly in the final quarter of the year.

Given Snug's relative size, and the fact it has sufficiently similar characteristics to the rest of the ScS Group to allow aggregation under IFRS 8, we have aggregated Snug into the rest of the Group as one reportable segment. However, to provide clarity and comparability in the first year, the following narrative is split: ScS, Snug and Group.

ScS

	FY23	FY22	Variance
Gross sales*	£339.3m	£344.7m	(1.6%)
Revenue	£321.7m	£331.6m	(3.0%)
Gross profit	£149.6m	£156.3m	(4.2%)
Gross margin*	44.1%	45.3%	(1.2%)
Profit before tax	£8.8m	£16.4m	(£7.6m)
Underlying profit before tax*	£9.2m	£13.8m	(£4.6m)

Gross sales* and revenue

Gross sales* in the period decreased by £5.4m (1.6%) to £339.3m when compared to prior year (FY22: £344.7m). Like-for-like* order intake remained in line with FY22 despite a challenging economic environment and encouragingly we saw order growth in the second half of the year. The movement on gross sales* is further analysed as follows:

- A decrease in furniture sales in ScS stores of 1.5% to £275.6m (FY22: £279.9m);
- A decrease in flooring sales in ScS stores of 7.7% to £30.1m (FY22: £32.6m); and
- An increase in online sales of 4.1% to £33.6m (FY22: £32.2m).

Revenue, which represents gross sales* less charges relating to interest-free credit sales, decreased by 3.0% from FY22 to £321.7m. Revenue for the period has been adversely impacted by an increase in the cost of finance due to increased customer adoption and a number of rate increases across the year.

Gross profit

Gross margin* was 44.1% (FY22: 45.3%). The decrease of 120 basis points was largely due to an increase in the cost of providing credit to customers, with a higher proportion of customers utilising credit when compared to the prior year, further compounded by an increase in the underlying interest rates in the UK. As a proportion of gross sales* the cost of interest-free credit has increased by 1.4% to 5.2%. The business also experienced a lower margin on display stock sales as part of the rollout of our 'decluttering' programme. The cost of credit and stock impacts were partially offset by product price rises in the year.

Distribution costs

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

Distribution costs decreased by £0.6m in the period to £20.7m (FY22: £21.3m). As a percentage of gross sales* for the period, distribution costs were 6.1% (FY22: 6.2%). The reduction was driven by improved inbound planning and performance, coupled with fewer deliveries which resulted in the lower use of outside carriers and agency staff.

Administrative expenses

Administrative expenses comprise:

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

Administration costs for the year totalled £117.4m, in line with the prior year. Administration costs were 34.6% of gross sales*, up from 34.0% in the prior year. Key movements in the year included:

- £0.4m decrease in marketing investment, however spend remained consistent at 6.8% of gross sales*;
- £0.4m reduction in performance-related pay due to a decrease in bonuses accrued for senior management as a result of the performance levels achieved;
- £2.4m increase in other payroll costs, largely due to the impact of wage inflation;
- £1.5m reduction in property costs, largely due to a decrease in depreciation charges on the right of use assets as a result of rent reductions, with a further benefit from rate reductions; and
- £0.1m reduction in other costs.

ScS continued

Flexible costs

The nature of ScS'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 underlying costs before tax for the period were £330.1m (FY22: of £330.9m).

Of this total, 74.4% (FY22: 74.3%), or £245.7m (FY22: £245.9m), are variable or discretionary, and are made up of:

- £189.6m cost of goods sold, including finance and warranty costs (FY22: £188.4m);
- £20.7m distribution costs (FY22: £21.3m);
- £22.9m marketing costs (FY22: £23.3m); and
- £12.5m performance-related payroll costs (FY22: £12.9m).

Semi-variable costs totalled £45.0m, or 13.6% of total costs, for the year (FY22: £42.7m; 12.9%) and are predominantly other non-performance-related payroll costs. Depreciation, interest, rates, heating and lighting make up the remaining £39.4m (11.9%) of total costs (FY22: £42.3m; 12.8%).

Snug

Following the acquisition of Snug in January 2023, we have re-established operations from an effective standing start. This included rebuilding supplier relationships, restoring stock levels, improving brand awareness, and ultimately building order momentum. These challenges meant order growth was initially slower than we had hoped but we are pleased that current run rates are now in line with our expectations.

Snug made a loss before tax in FY23 of £2.8m; removing pre-trading costs gives an underlying loss before tax of £1.9m in H2. Gross sales* in H2 were £4.2m and a gross profit of £2.8m was achieved, delivering a gross margin* of 65.8%. This gross margin was supported by sales of stock purchased at a reduced cost as part of the administration. Whilst we expect gross margin to reduce in FY24, we still expect it to exceed the ScS margin due to the sourcing profile of the Snug business.

Distribution costs totalled £1.2m. Administration costs were £3.5m, with the main elements being:

- Marketing costs were £1.6m, this equated to 39% of gross sales* as we invested in re-establishing the brand online;
- Payroll costs totalled £1.3m; and
- Other costs (including property, legal, technology, depreciation and general running expenses) totalled £0.6m.
- Recent trading indicates that the investment and efforts deployed over the final six months of FY23 are proving successful.

Group

Underlying operating profit*

Operating profit before adjusting items was £9.6m for the year, compared to £17.6m last year, driven by the £1.9m loss incurred in Snug and the £6.6m decrease in ScS gross profit, partially offset by a reduction in ScS distribution costs of £0.6m.

Adjusting items

In the current year the Group has adopted an adjusting items APM to exclude certain costs and incomes that are material in size or unusual/non-recurring in nature, from statutory measures to reflect management's view of the underlying performance of the Group and to aid the reader of the accounts.

	52 weeks ended 29 July 2023 £'000	52 weeks ended 30 July 2022 £'000
Impairment charge associated with stores	**(2,438)**	–
Snug acquisition and pre-trading costs	**(849)**	–
Business interruption insurance claim	**1,250**	–
Exit of Cambridge store	**790**	–
Business rates relief	**-**	2,570
	(1,247)	2,570

Adjusting items (non-GAAP) comprise:

- £2.4m charge in relation to the impairment of the Group's property plant and equipment and right of use assets as a consequence of the current view on longer-term store performance in a potentially weakened economic environment;
- Snug pre-trading costs of £0.8m, including acquisition costs such as legal and professional fees;
- Receipt of a £1.3m business interruption insurance payment relating to loss of profit as a result of the initial lockdown period during the COVID-19 pandemic;
- An early termination payment from the landlord to exit the Cambridge store earlier than the lease end date, coupled with the associated gain on disposal from the lease £0.8m; and
- During the prior year, the Group benefitted from £2.6m of retail business rates relief provided in response to the COVID-19 outbreak. No further benefit was received in the year ended 29 July 2023.

* This report includes alternative performance measures (APMs) which are defined and reconciled to IFRS information, where applicable, within the Financial Review on pages 55 to 56.

For further information, see note 6 to the financial statements.

Net finance cost

The net finance cost has decreased by £1.5m to £2.4m compared to FY22 as a result of increased interest income earned on the Group's significant cash balances.

Taxation

The tax charge for the financial year is higher (2022: lower) than if the standard rate of corporation tax had been applied, mainly due to the impact of non-qualifying depreciation on assets, and non-deductible expenses.

Earnings per share (EPS)

EPS for the year ended 29 July 2023 was 12.8p (2022: 36.2p) and underlying EPS* which excludes adjusting items, was 15.9p (2022: 30.7p).

A full reconciliation of EPS is shown in note 10 to the financial statements.

Cash and cash equivalents

The Group operates a negative working capital business model whereby:

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

Cash decreased by £1.3m in the year to £69.5m (2022: £70.8m). A summary of cash flows is shown below:

	52 weeks ended 29 July 2023 £m	52 weeks ended 30 July 2022 £m
Cash generated from operating activities	**41.8**	28.5
Payment of capital and interest elements of leases	**(23.3)**	(28.6)
Net capital expenditure	**(9.3)**	(4.7)
Net taxation and interest payments	**-**	(3.9)
Free cash flow	**9.2**	(8.7)
Acquisition of business combination	**(0.9)**	–
Dividends	**(4.7)**	(4.4)
Purchase of own shares	**(4.9)**	(3.6)
Net cash outflow	**(1.3)**	(16.8)

The Group continued to be cash generative in the period with a net cash inflow from operating activities of £41.8m.

Cash generated from operating activities is £13.3m higher than FY22 due to the following:

- FY22 saw a large working capital outflow due to a reduction in customer deposits as lead times shortened, coupled with the timing of VAT payments;
- The current year has seen a working capital inflow as a result of the timing of month end supplier payments. This was partially offset by a reduction in customer deposits as lead times normalised to pre pandemic levels;
- FY23 also saw an increase in stock levels following the investment in our Snug business; and
- The working capital movements noted above were partially offset by profit being higher in FY22.

The payment of capital and interest elements of leases decreased by £5.4m due to the prior year including the repayment of rent deferrals previously negotiated with landlords when stores were temporarily closed due to the Government's imposed lockdown response to COVID-19.

Net taxation and interest payments reduced by £3.8m, due to a reduction in tax payable of £1.7m (in line with the reduction in profit) and an increase in interest received on cash deposits of £1.9m. Interest payable reduced £0.2m following the renegotiation of the Group's revolving credit facility.

Net capital expenditure increased in the year as the Group invested in modernising the ScS store network and technology stack.

Cash outflow in relation to the purchase of own shares has increased £1.3m in the year driven by a £2.6m increase in share buybacks, partially offset by a £1.3m reduction in shares bought by the Group's Employee Benefit Trust.

Capital allocation

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern whilst retaining financial flexibility to both invest in the business where economic returns are attractive and provide returns to shareholders. We aim to allocate capital, subject to strict returns criteria, to meet the strategic needs of the business. Our target is gross capital expenditure of under 4.0% of total sales per annum, on average.

During the year we invested in implementing our new store format in eight locations as part of the 'Engaging showrooms' pillar of our strategy.

* This report includes alternative performance measures (APMs) which are defined and reconciled to IFRS information, where applicable, within the Financial Review on pages 55 to 56.

Group continued

Return to shareholders

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

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

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

The Board is confident the Group can continue to take market share and build on the strategic progress experienced in the past two years. The Group paid an interim dividend of 4.5p in May 2023 (2022: 4.5p). The Board is confident in the outlook for the Group and proposes a final dividend of 10.0p (2022: 9.0p). If approved, this would give a full-year dividend of 14.5p (2022: 13.5p). The final dividend, if approved, will be paid on 15 December 2023 to shareholders on the register on 17 November 2023. The ex-dividend date is 16 November 2023.

In March 2022 the Group announced a share buyback programme which was completed in February 2023 returning £7.0m to our shareholders.

Offer for the Company

Following the year end, on 24 October 2023 a wholly-owned subsidiary of Poltronesofà S.p.A. announced a recommended cash offer for the Company of 270p per share. It is intended that the acquisition will be implemented by way of a Court-sanctioned scheme of arrangement under Part 26 of the Companies Act and is expected to complete in the first quarter of 2024. The Group's existing committed debt facilities contain a standard change of control clause that will be triggered once the acquisition completes. This could result in the existing committed debt facilities being withdrawn. The Group does not have visibility of the post completion funding for the Group at this time. Therefore, this could create some uncertainty as to the Group's going concern.

The Directors note the detailed intention statements by Poltronesofà S.p.A. included within the announcement on 24 October 2023, which state that following completion of the acquisition, Poltronesofà S.p.A. intends to support the Group by leveraging its significant, pan-European industry expertise and providing the capital necessary to accelerate the Group's strategy. Poltronesofà S.p.A. is highly supportive of management's vision for the business and the long-term ambitions of being the UK's best value-for-money home retailer and recognises and values the strong strategic, operational and product positioning and setup of the Group, as well as the expertise of its management team and employees. Poltronesofà S.p.A. therefore intends to work closely with the Group's senior management to undertake a strategic review of the Group in order to determine how its short and long-term objectives can best be delivered or exceeded.

Notwithstanding Poltronesofà S.p.A.'s stated intentions, the current Directors will not have full control over the acquired Group and therefore they do not currently have full knowledge of the new ultimate parent undertaking's future intentions and funding plans in relation to the Group. Therefore the change of control position indicates a material uncertainty which may cast significant doubt upon the Group and the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group and the Company were unable to continue as a going concern.

Having considered all of the above, the Board is of the opinion that the going concern basis adopted in the preparation of the consolidated statements is appropriate.

Chris Muir
Executive Director
24 October 2023

Alternative performance measures (APMs)

In the reporting of financial information, the Board has adopted alternative performance measures (APMs). APMs should be considered in addition to IFRS measurements. The Board believe that these APMs assist in providing useful information on the underlying performance and position of the Group and enhance the comparability of information between reporting periods by adjusting for non-underlying items which affect IFRS measures and are used internally by the Board to measure the Group's performance.

Consequently, APMs are used by the Board and management for performance analysis, planning, reporting and incentive setting purposes and have remained consistent with prior period. The measures are also used in discussions with the investment community. The key APMs used by the Group are summarised in the table below.

APM	Definition	Reconciliation		
Like-for-like order intake	'Like-for-like' order intake comprises total orders (inclusive of VAT) in a financial period compared to total orders achieved in a prior period excluding new or closed stores to ensure comparability.	N/A		
Gross sales	Gross sales represents turnover on the sale of goods and commission on warranties before deduction of interest-free credit.		**FY23 £'000**	FY22 £'000
		Revenue	**325,865**	331,569
		Add back: costs of interest-free credit	**17,592**	13,141
		Gross sales (note 3)	**343,457**	344,710
Gross margin	Gross profit as a percentage of gross sales.		**FY23 £'000**	FY22 £'000
		Revenue	**325,865**	331,569
		Add back: costs of interest-free credit	**17,592**	13,141
		Gross sales (note 3)	**343,457**	344,710
		Gross profit	**152,398**	156,264
		Gross margin	**44.4%**	45.3%
Adjusting items	Certain costs or incomes that are material in size and unusual/non-recurring in nature are excluded from statutory measures to reflect management's view of the underlying performance of the Group.		**FY23 £'000**	FY22 £'000
		Adjusting items (note 5)	**(1,247)**	2,570

Alternative performance measures (APMs) continued

APM	Definition	Reconciliation	FY23 £'000	FY22 £'000
EBITDA and underlying EBITDA	Earnings before interest, tax, depreciation and amortisation (EBITDA). Underlying EBITDA is before the effect of adjusting items in the year.	Statutory operating profit	**8,346**	20,199
		Depreciation of tangible fixed assets	**4,179**	4,162
		Depreciation of right-of-use assets	**20,269**	21,523
		Amortisation of intangible assets	**1,185**	882
		EBITDA	**33,979**	46,766
		Adjusting items	**1,247**	(2,570)
		Underlying EBITDA	**35,226**	44,196
Underlying operating profit	Underlying operating profit is based on operating profit before the effect of adjusting items in the year.		**FY23 £'000**	FY22 £'000
		Statutory operating profit	**8,346**	20,199
		Adjusting items	**1,247**	(2,570)
		Underlying operating profit	**9,593**	17,629
Underlying profit before tax	Underlying profit before tax is based on profit before tax before the effect of adjusting items in the year.		**FY23 £'000**	FY22 £'000
		Statutory profit before tax	**5,985**	16,358
		Adjusting items	**1,247**	(2,570)
		Underlying profit before tax	**7,232**	13,788
Underlying basic earnings per share (EPS)	Underlying basic EPS is based on earnings per share before the effect of adjusting items in the year.		**FY23 £'000**	FY22 £'000
		Profit for the year	**4,450**	13,584
		Adjusting items net of tax	**1,055**	(2,082)
		Underlying profit after tax	**5,505**	11,502
		Number of shares (000's)	**34,691**	37,499
		Underlying EPS	**15.9p**	30.7p

Risk and risk management

Our approach to risk management

Our approach to risk management is regularly benchmarked against best practice and strengthened where necessary.

Risk identification and evaluation

The Board, Executive Board and senior management team are actively engaged in a continuous process to manage risks and internal controls.

This process encompasses the following key activities:

- Identifying, evaluating, measuring and disclosing risks;
- Maintaining detailed functional risk registers and ensuring mitigation measures are in place;
- Testing and refining of mitigating controls on a regular basis;
- Actively identifying, controlling and reporting of emerging risks;
- Tracking key performance metrics;
- Regular review of the principal risks and related mitigation measures by the Executive Board, which includes the Chief Executive Officer and Chief Financial Officer;
- Formal assessment three times a year of the key risks and uncertainties by the Audit Committee and the Board;
- Regular presentations to the Board, Executive Board and Audit Committee on key risk areas by the Head of Audit, Risk & Compliance; and
- Reviewing the Group's viability statement on an annual basis.

Risk appetite

Risk appetite is the level of risk that the Group is willing to take to meet our strategic and operational objectives. In determining this, we recognise that there is a balance between a prudent approach to risk and sufficient flexibility to take appropriate opportunities when they arise.

Risk appetite is set by the Board in consultation with the senior management team and is aligned to the Group's strategic goals and priorities. During the year, we agreed that from next year, we will increase the frequency of review of our risk appetite to twice per annum. These reviews will be completed in line with our half-year and year-end reporting timescales.

Our appetite for taking risks is determined by the category of risk. The Board typically has a lower appetite for risk in areas such as regulation and finance, but is more willing to accept a higher appetite for risks in relation to corporate transactions.

Key roles and responsibilities

The Board establishes strategic goals, determines risk appetite and oversees performance. It also has ultimate responsibility for the leadership of risk management.

Approving and communicating risk policies is the responsibility of the Executive Board. Additionally, the Executive Board is responsible for managing risks, promoting open dialogue about risks (both existing and emerging) and taking ownership of each major risk across the entire Group.

Internal controls and risk management are governed by the Audit Committee. The Committee evaluates the internal controls system for the Group, establishes goals and monitors the effectiveness and efficiency of the audit, risk and compliance teams. The Committee also reviews and monitors the professionalism and independence of the external auditors.

Managing risks internally

Risks are identified, assessed and managed at a departmental level. Risks, mitigating controls and emerging risks, identified by the senior management team with input from the relevant director, are documented on functional risk registers. The audit, risk and compliance teams complete quarterly reviews of these registers to reflect any relevant changes and ensure the level of risk remains consistent with our risk appetite.

The functional risk registers are consolidated into the corporate risk register which is subject to formal quarterly review by the Executive Board and at every Audit Committee meeting.

Process for preparing consolidated financial statements

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

The key features of this are:

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

The Board's assessment of the long-term viability of the Group is also reviewed annually, taking account of the principal risks faced. The approach for assessing long-term viability is set out on page 65.

Risk management framework

The graphic below illustrates how our risk management framework enables us to maintain governance over risk management activities across the Group.

Principal risks and uncertainties

A principal risk is a risk or combination of risks that could seriously affect our future performance, strategic ambitions and/or reputation. Our principal risks and uncertainties have been assessed in accordance with our framework.

Identifying risks

The identification and review of emerging risks are embedded into our risk management process, and our principal risks are updated accordingly.

The Board confirms that it has performed a robust assessment of the emerging and principal risks and mitigating controls.

Management of ESG risks

We continue to work towards building a sustainable business model, both in terms of our impact on climate, the environment and protecting the long-term success of the Group. ESG is considered throughout the Group's risk management process.

This year, we have added climate change as a new principal risk.

Further information on our approach to tackling these issues is set out in our Responsibility and sustainability report on pages 26 to 37.

Economic environment

The 'Economic environment' principal risk is directly impacted by ongoing low consumer confidence in the UK.

The significant increases in energy prices, general price inflation and interest rates have all continued to place pressure on household budgets, which is negatively affecting consumer confidence. The cost of living crisis has become part of people's daily financial reality and is continuing to have an impact on their decisions in relation to spending on non-essential items, and in particular big ticket items.

Risk description	Mitigation	Risk profile	Risk appetite	Management responsibility and performance indicator	Link to strategic priorities
ECONOMIC ENVIRONMENT – Strategic risk					
Demand for our products is heavily influenced by factors affecting the economic environment in which the Group operates. Increases in interest rates and associated higher costs of borrowing may further reduce levels of discretionary spend. The Group's ability to offer interest-free credit to customers may be impaired because of high default levels or increased interest rates. Exchange rates fluctuations and cost of borrowing could also lead to cost pressure on our suppliers, which in turn could be passed on to the Group.	Over the year we have continually improved our product range of furniture, flooring, dining and occasional furniture. Our range caters for a wide range of budgets, ensuring that we can continue to offer an excellent product at all price points. We have invested significantly in our showrooms and our new look stores have performed well. The Group provides a range of flexible finance solutions to customers to make the purchasing of our products easier. We purchase our products on a sterling basis which reduces our exposure to exchange rate movement. We work closely with our suppliers to minimise any impact on our cost base.	↑ H	Medium	Executive Board reporting to PLC Board • Gross sales	1 2 3 4 5 6
COMPETITION – Strategic risk					
The Group operates in a fragmented competitive market (including independents, direct purchase from manufacturers and pure online companies), which could lead to reduced market share. Failure to respond quickly and effectively to changing consumer needs could lead to reduced sales and impact profitability.	We have expanded our offering to customers through the introduction of new brands, products with shorter lead times, new designs and ranges which has ensured that we have remained a competitive and attractive proposition for our customers. Our inclusion of a new hard flooring proposition across laminate, luxury vinyl tiling and engineered wood has increased the products offered to our flooring customers. We continue to invest in detailed product line level margin analysis, allowing us to monitor the success of our product ranges and make informed decisions and changes to our offering. We are leaders in our market for gathering feedback from our customers throughout the customer journey and across a number of platforms. We continue to invest in enhancing the customer experience and the success of this strategy is reflected in our 'Excellent' Trustpilot score. We acquired the business and assets of Snug, an innovative digital-first sofa and sofa-bed business specialising in modular and reconfigurable sofas. Its differentiated digital-first offering has complemented the Group's existing proposition.	↔ M	Medium	Executive Board reporting to PLC Board • Gross sales	1 2 3 4 5 6

Key

↔ Risk unchanged | ↑ Increased risk | ↓ Reduced risk | H High risk | M Medium risk | L Low risk

1 Outstanding team | 2 Customer driven | 3 Inspiring ranges | 4 Digitally optimised | 5 Engaging showroom | 6 Strengthen the core

Risk description	Mitigation	Risk profile	Risk appetite	Management responsibility and performance indicator	Link to strategic priorities
REGULATION & COMPLIANCE – Strategic risk					
The Group activities are subject to a number of compliance requirements, including the Financial Conduct Authority (FCA), the Information Commissioner's Office (ICO) and the Financial Reporting Council (FRC), environmental regulations, employment law, advertising standards and competition law. We are also subject to health and safety legislation, and other product-related regulation. Failure to meet any of our regulatory obligations or guidelines could result in a financial impact, such as fines and reputational damage.	Internal policies are in place with guidelines and procedures covering our code of conduct, information security, anti-bribery and corruption, anti-money laundering and whistle-blowing. All our policies are subject to annual review and are updated and re-issued as required. Adherence to these policies forms part of our independent compliance monitoring programme. Our dedicated health and safety team carry out regular inspections at all our retail and distribution sites, to confirm that the required compliance and health and safety standards are being met. A monthly report of the results of all audits and inspections is provided to the Executive Board. Health and safety reports are shared with the Board at each meeting. Training programmes are in place to ensure that all staff are provided with relevant training for regulated activities, in line with their role. The Group actively monitors any other areas for future guidance or regulations that may affect the Group's activities and will implement any changes, if required. In particular, we continue to monitor the Department for Business and Trade (previously Department for Business, Energy and Industrial strategy) publications on audit, reporting and corporate governance reform, and the guidelines issued by the FCA on 'Consumer Duty'. Our independent confidential whistle-blower hotline is in place and reports are sent directly to the Head of Audit, Risk & Compliance, who in turn reports any concerns to the Executive Board and the Board. All our suppliers of products for resale are required to be members of Sedex. This process gives us assurance that the risk of modern slavery is reduced and compliance with relevant legislation and best practice is monitored.	↔ M	Low	Corporate Services Director reporting to CEO • Prosecution or regulatory action	1 2 3 4 5 **6**

Key ↔ **Risk unchanged** ↑ **Increased risk** ↓ **Reduced risk** H **High risk** M **Medium risk** L **Low risk**

Risk description	Mitigation	Risk profile	Risk appetite	Management responsibility and performance indicator	Link to strategic priorities
RESPONSIBLE SOURCING AND SUPPLY CHAIN – Strategic risk					
The supply chain could be affected by capacity, availability or by an increase in the cost of raw materials, labour shortages and transport delays, which may result in a reduction in margin or lead to a less competitive price point. Failure to reduce the environmental impact of our business, including those linked to our supply chain, could result in reputational damage, impacting the future performance of the Group. Failure of suppliers to obtain credit insurance could have a significant impact on our suppliers' working capital requirements, which may have a material impact on the Group's cash position and overall financial position.	Over the past year we have expanded our supply base to reduce reliance on key suppliers or any particular location. To ensure new suppliers comply with our standards, we carry out due diligence checks covering quality management systems, ethical labour sourcing, health and safety processes, environmental stewardship and sustainability. Details of our expectations as a supplier to ScS are set out within our supplier handbook. The Group has a programme to carry out regular independent product testing, to ensure ongoing compliance to current regulations. We are working with our suppliers to attain Forest Stewardship Council® (FSC®) accreditation, which has already been achieved on a number of ranges. During the year, we achieved Kitemark certification for domestic furniture by the British Standards Institute (BSI). We are one of only three furniture retailers in the UK to hold this stamp of approval. We are a member of the Furniture Industry Research Association (FIRA) compliance scheme and achieve continued accreditation. We are also working with our suppliers and the Leather Working Group, which we joined in 2021.	↔ M	Low to medium	Commercial Director reporting to CEO • Gross sales • Customer feedback • Delivery optimisation	1 **2** **3** 4 5 **6**
BUSINESS SYSTEMS AND INFRASTRUCTURE – Infrastructure risk					
Our business operations are heavily dependent on our systems being available, meaning a significant data breach or cyber-attack could adversely impact our reputation, result in legal exposure including significant fines, business disruption, loss of information for our customers or employees and potential loss of customer confidence. The Group is reliant upon key IT systems and failure of our IT infrastructure or disruption to such systems could result in the Group's inability to operate effectively, resulting in disruption to our sales process and limit our ability to deliver goods to our customers.	Our in-house IT team ensure that all relevant software and hardware updates are installed when required, along with an established third-party regular penetration testing programme to monitor the Group's resilience against cyber-attacks. We also have a monitoring programme in place to check access to networks and systems is appropriately controlled and access to sensitive data is limited. Information security and data protection policies are in place and training for information security (GDPR) is mandatory for all staff. During the past year, we commenced a significant project to invest in updated technology that will support the Group and our future growth plans. This project will continue over the next two years and will improve systems resilience, whilst delivering efficiencies and increased insight across the business.	↔ M	Low to medium	Chief Marketing & Digital Officer reporting to CEO • System performance	1 2 3 **4** 5 **6**

1 Outstanding team **2** Customer driven **3** Inspiring ranges **4** Digitally optimised **5** Engaging showroom **6** Strengthen the core

Risk description	Mitigation	Risk profile	Risk appetite	Management responsibility and performance indicator	Link to strategic priorities
OUR PEOPLE AND CULTURE – Infrastructure risk					
The ongoing success of our business is dependent upon our ability to attract, retain and develop the right talent, skills and capabilities and to embed our values in our culture. Failure to meet any of these objectives could impact the delivery of our strategy.	The Group strives to ensure colleague remuneration is competitive, conducting regular function-specific benchmarking and business-wide annual salary reviews. We continually review our terms and conditions of employment, incentives and benefit packages, to ensure they remain competitive across the sector. Regular employee surveys are carried out to understand whether our colleagues are engaged and have a clear understanding of the Group's culture and strategy. We continue to maintain our accreditation as an 'Investor in People' employer helping support a wider strategy for 'Building and inspiring an outstanding team'. We also achieved the Bronze 'Better Health at Work Award'. As part of the Group's ESG strategy and in support of our colleagues participating in charitable activities, we launched our volunteering policy. Our colleagues are actively encouraged to volunteer with local organisations and charities. We aim to support a minimum of 1,000 volunteering days before the end of FY25. 'Within our ESG strategy we continue to progress with our target of increasing the number of female colleagues in management and Board roles.' We have a number of staff trained in mental health first aid and all colleagues have access to free counselling services. We are delighted to see our eSAT score increase from 71 to 75 when compared to FY22. This was coupled with a 12.8% improvement in staff turnover.	↔ M	Low to medium	People Director reporting to CEO • Colleague retention • Team engagement surveys	1 2 3 4 5 6

Key ↔ Risk unchanged ↑ Increased risk ↓ Reduced risk H High risk M Medium risk L Low risk

Risk description	Mitigation	Risk profile	Risk appetite	Management responsibility and performance indicator	Link to strategic priorities
BRAND & REPUTATION – Reputation risk					
Failure to protect our brand could result in a loss of confidence by customers, colleagues and other key stakeholders. Our reputation could be damaged if we do not provide an excellent customer service throughout the customer journey, from the first contact in our stores or online, to customer deliveries and aftercare.	All of our colleagues are trained to ensure they give the highest possible care to our customers and to each other. We have a number of strategies in place to deliver great customer service including a newly improved induction process, refresher online training and external training. We continue to review colleague engagement and feedback through completion of staff surveys. As part of our continued efforts to improve our customer experience, we implemented a new end-to-end technology solution, in our dedicated customer contact centre, that delivers significant improvements in workflow management. We are leaders in our market for gathering feedback from our customers throughout the customer journey and across a number of platforms and our continually updated website now allows us to have oversight of our customers' opinions on our products, so we can ensure that we are meeting their expectations and identify areas for improvement. We are full members of the Furniture Ombudsmen, which has improved our customer outcomes and the efficiency of dispute handling. Product performance is monitored by our commercial and customer service teams and regular meetings are held with suppliers to identify areas of improvement, including working to ensure our suppliers source sustainable products. We share all our policies, procedures and code of conduct on our intranet, which set out the expectations and behaviours required from all our colleagues. The Group's audit, risk and compliance teams monitor standards throughout the business.	↔ L	Low to medium	Corporate Services Director reporting to CEO · Trustpilot · Negative press	1 2 3 4 5 6

1 **Outstanding team** 2 **Customer driven** 3 **Inspiring ranges** 4 **Digitally optimised** 5 **Engaging showroom** 6 **Strengthen the core**

Risk description	Mitigation	Risk profile	Risk appetite	Management responsibility and performance indicator	Link to strategic priorities
KEY TRADING PERIODS – Strategic risk					
Furniture retailing has historically relied on key trading periods. Extreme weather conditions or showroom closures, due to unexpected events, may reduce footfall in our showrooms over these key periods, resulting in reduced sales and potentially adverse effects on profitability.	Our econometric model, which uses our customer data to establish the most appropriate investment in our marketing channels, and our flexible approach to marketing, has enabled us to react quickly to unexpected disruptive events. We continually review our marketing strategies, ensuring our investment into relevant advertising channels maximises our opportunity to reach our customers. We continue to monitor the impact of the cost of living crisis on our key trading periods and have taken appropriate action in response. We have invested in our digital platform to improve the online shopping experience for the customer, allowing us to continue to trade successfully throughout any impact of adverse periods of weather or showroom closures.	↔ M	Medium	Executive Board reporting to PLC Board • Sales performance	2, 4, 5
CLIMATE CHANGE – Reputational risk					
Our key stakeholders, including customers, employees, investors and regulators, as well as the media, continue to focus on the Group's policies and management regarding environmental, social and governance (ESG) risks. Failure to meet customer demand for sustainable products could result in reduced sales revenue. Ensuring the sustainability of the products that we sell could come with increased costs for both the development and the production of these items. Either scenario could impact negatively on business results. Not adapting to public interest in social and environmental concerns may impact customer demand and potentially demotivate colleagues. As a UK premium listed company, the Group is required to make TCFD disclosures in its annual report. Please see our detailed TCFD report on pages 38 to 47 and our Responsibility and sustainability report on pages 26 to 37.	The following are some key points from our ESG strategy: • We have a programme in place to reduce waste at source and at all points throughout the product journey; • We are reviewing how electric delivery vehicles could be used in our distribution network; • Committed to renewable electricity; • Developing a Net Zero strategy with an external consultant; • Continuing to introduce further sustainable products into our range; and • Encouraging staff to reduce wastage in our operational and support centres.	NEW ↑ M	Low	Executive Board reporting to PLC Board	1, 2, 3, 6

Key

↔ Risk unchanged · ↑ Increased risk · ↓ Reduced risk · H High risk · M Medium risk · L Low risk

1 Outstanding team · 2 Customer driven · 3 Inspiring ranges · 4 Digitally optimised · 5 Engaging showroom · 6 Strengthen the core

Viability statement

The UK Corporate Governance Code requires the Group to issue a 'viability statement' articulating whether we believe the Group can continue to operate and meet its liabilities, after accounting for its principal risks in the medium to longer term.

Due to the inherent pace of change in the wider economy, which is often amplified in the retail sector, the Group continues to ensure focus 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 accounts for current and prospective macroeconomic conditions in the UK and the competitive tension that exists within the markets we trade. The defined period of three years, set out within the Strategic Plan, is considered appropriate for business planning, and measuring performance, as it aligns with the payback requirements of any significant capital investment (new stores).

As part of measuring the Group's financial performance against the Strategic Plan, sensitivity analysis over the main assumptions which underpin the plan is conducted. The plans are approved by the Directors and performance is continually tracked throughout the year against financial budgets and key performance indicators (KPIs). In order to remain agile and responsive to the pace of change in the environment which the Group operates in, management pertinently updates its financial forecast and reassesses it at each Board meeting.

In evaluating the Group's future prospects the following was considered:

Economic environment

Uncertainty remains over macroeconomic risks brought on by headwinds such as inflation, interest rates and cost pressures which include a reduction in consumer confidence and changing customer spending behaviours.

Our strategic progress

The Group is reliant on its detailed strategy in order to achieve its forecasts. We have continued to make progressive strides in the year against our strategy, and remain confident that the execution of the next phase will continue to provide opportunities to grow market share.

Supplier resilience and capacity

If a supplier was unable to keep pace with demand, or cease to be able to trade, this would disrupt supply to our customers. We continue to maintain, and continually strive to better our relationships, allowing us to closely monitor both their financial stability and production capacities.

Group financial position

The Group continues to maintain a strong financial position and at the year end had cash of £69.5m, no financial debt and access to a revolving credit facility of £12.0m which remains undrawn.

The Board is satisfied with the resilience of our business model and is confident we are able to continue to leverage this to achieve sustainable long-term growth.

Variable or discretionary total Group costs

74%

Cash balance as at 29 July 2023

£69.5m

Undrawn committed revolving credit facility

£12.0m

Viability statement continued

Scenarios modelled	Links to principal risks
Scenario 1: Economic downturn resulting in a decrease in revenue whilst maintaining gross margin A challenging economic environment takes a toll on consumer confidence, reducing customers' discretionary spend and causing a decline in sales volume. It is assumed that the gross margin remains consistent with the base case scenario and that the decrease in sales volume will be partially offset through minor management of our flexible cost base. **Assumptions** **Sales**: Reduction in volume for a period of 36 months. **Gross margin:** Remains in-line with the base case scenario for a period of 36 months.	Economic environment Competition Responsible sourcing and supply chain
Scenario 2: Economic downturn resulting in a decrease in gross margin A challenging economic environment has resulted in an increase in product cost and the costs of providing credit to our customers. The Group is unable to fully pass on costs. This results in reduced performance over the 36-month period being assessed. **Assumptions** **Sales**: Remain in-line with the base case for a period of 36 months. **Gross margin:** Decreases for a period of 36 months to levels lower than seen historically.	Economic environment Competition Responsible sourcing and supply chain
Scenario 3: Severe economic downturn and the withdrawal of supplier credit insurance A severe downturn in economic conditions resulting in both a reduction in revenue and gross margin, together with the assumption that our suppliers have the credit insurance they use to support their payment terms with the Group withdrawn, seeing our suppliers request earlier payment dates to alleviate their working capital challenges. **Assumptions** **Sales:** Severe reductions for a period of 24 months with a partial recovery in the final 12 months. **Gross margin:** Significant reduction for 24 months remaining flat thereafter. **Working capital:** Cash required to pay suppliers in advance of delivery of product (and therefore in advance of receipt of final balances from customers).	Economic environment Competition Responsible sourcing and supply chain

Assessment of viability

The Strategic Plan is stress tested for severe but plausible scenarios and the effectiveness of any mitigating actions that would reasonably be taken. Macroeconomic indicators such as price inflation and interest rate increases have led to a downturn in consumer confidence which may present challenges for the Group as customers household budgets are stretched they respond by reigning in discretionary, big ticket spend. Our finance providers become more expensive due to increases in the current and forecasted interest rates and our supplier's credit insurance, which they use to support their current payment terms, may be adjusted or withdrawn, accelerating the timing of cash payments. The Strategic Plan was therefore specifically stress tested against the key risks identified, with attention to the principal risks and uncertainties highlighted on pages 57 to 64. The scenarios ran are shown above.

Due to the significant cash reserves held, and the flexibility of the cost base of the Group, the outcome of this stress testing satisfied the Directors in regard to the ongoing liquidity and solvency of the Group over the three-year period under review. 74% of total Group costs are variable or discretionary allowing the Group to remain agile and reduce costs safeguarding against challenging trading conditions. Significant cash reserves combined with the aforementioned cost reductions supplemented with the appropriate, proportional mitigating actions would ensure the Group could continue to meet its liabilities.

In addition to the modelled scenarios, the Directors are comfortable that the work done to minimise the risk to the supply chain, principally ensuring we maintain a diverse portfolio of suppliers, and the ability of multiple factories to produce similar product ranges, would be sufficient to limit the Group's reliance on a single supplier.

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 an undrawn £12.0m committed revolving credit facility which has never been utilised and would not be required under the modelled scenarios. The Strategic Plan also encompasses the projected cash flows and headroom against financial covenants under the Group's facility.

Conclusion

On balance of this assessment, the Directors have a reasonable expectation that the Group will be able to continue to operate, meeting its liabilities as and when due over the period to 25 July 2026. In making this statement, the Directors have considered the resilience of the Group, taking into account its current position and the principal risks facing the business.

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

Based on the results of their assessment, notwithstanding the material uncertainty arising from the offer from Cerezzola Limited (a wholly-owned subsidiary of Poltronesofà S.p.A.), the Directors have a reasonable expectation that the Group will be able to continue in operation and meet liabilities as they fall due over the three-year period of their assessment.

Steve Carson
Chief Executive Officer
24 October 2023

Corporate governance

Strength in leadership

Alan Smith

Non-Executive Chair

Date of appointment: 22 October 2014

Committee membership

R N

Biography

Alan is an experienced Chair and former CEO having held a number of roles for retail companies across the private equity and quoted sector previously, including Chair and CEO of Robert Dyas, CEO of Somerfield, CEO of Evans Halshaw plc and Managing Director of B&Q.

The original intention was that Alan would step down from the Board and leave the Group on 1 December 2023. Alan will now step down as Chair on 1 December 2023, but remain on the Board as a Non-Executive Director until the conclusion of the offer for the Company.

John Walden was appointed as Non-Executive Chair Designate in March 2023 and is in line to succeed Alan as Chair on 1 December 2023.

John will also take over from Alan as Chair of the Nomination Committee.

Key strengths

Alan has significant board, retail and financial experience gained across a number of business sectors. As Chair, he has a deep understanding of governance and what is required to lead an effective Board.

External appointments

- Director of The Navy, Army and Air Force Institutes
- Chair of The Royal Air Force Charitable Trust Enterprises
- Director of Scampton Airshow Limited

John Walden

Non-Executive Chair Designate

Date of appointment: 1 March 2023

Committee membership

A R N

Biography

John joined the Board in March 2023 as Non-Executive Chair Designate, with the intention that he will become Non-Executive Chair of the Board on 1 December 2023 upon Alan Smith's retirement. John will become Chair of the Nomination Committee and step down from the Audit Committee upon commencement of his role as Chair.

John is also Non-Executive Chair of Motorpoint plc and SnowFox Topco Ltd, the topco responsible for Yo Sushi and other sushi-related businesses in the UK and North America. John has held a number of senior roles including Chair of Naked Wines and Chair of Holland & Barrett International. John was previously Executive Director at FTD Companies and CEO of Argos and its parent company Home Retail Group plc. Prior to this he held several senior roles with Best Buy Co. including Executive Vice President and President of the internet division.

Key strengths

John brings deep board-level expertise in both executive and non-executive capacities, has excellent consumer-driven and omnichannel experience, and has led transformational and digital change, both in the UK and US.

External appointments

- Chair of Motorpoint plc
- Chair of SnowFox Topco Ltd

Steve Carson

Chief Executive Officer

Date of appointment: 6 January 2021

Committee membership

n/a

Biography

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

Key strengths

Steve is a strong business leader with excellent commercial, marketing and retail experience. He has experience in strategy implementation and developing digital revenue streams.

External appointments

- Director of Marie Curie
- Director of CJC HR Consultancy Ltd

Committee membership key

A Audit Committee Chair
A Audit Committee member
R Remuneration Committee Chair
R Remuneration Committee member
N Nomination Committee Chair
N Nomination Committee member

Angela Luger

Non-Executive Director

Date of appointment: 16 May 2019

Committee membership

A R N

Biography

Angela began her career in marketing with Cadbury's, Coca Cola and Mars, prior to moving into retail. She spent 10 years at Asda, holding a variety of positions including Trading Director and Global Managing Director for George. She was MD of Debenhams, CEO of The Original Factory Shop and most recently was the CEO of N Brown Group plc, where she led the business through a significant digital transformation.

Angela will succeed Ron McMillan as the Senior Independent Director on 1 December 2023.

Key strengths

Angela has significant experience in marketing, e-commerce and retail, including leveraging technology to optimise a value retail offering.

External appointments

- Non-Executive Director of Portmerion Group plc
- Non-Executive Director of Jet 2 plc
- Non-Executive Director of New Look Retailers Limited
- Non-Executive Director of JD Sports Fashion plc
- Director of The Pennies Foundation

Mark Fleetwood

Chief Financial Officer

Date of appointment: 4 September 2023

Committee membership

n/a

Biography

Mark joined the Board as Chief Financial Officer on 4 September 2023. He is a chartered accountant (FCA) and qualified with KPMG in 2005.

Mark has significant retail and PLC experience. He most recently served a five-year term as Chief Financial Officer of END. (endclothing.com), the digital-led global fashion retailer based in the North East, where he supported the business during a period of high-growth. Prior to this, he was the Corporate Finance Director at Grainger plc, the UK's largest listed residential landlord. Before Grainger, he held senior roles at N+1 Singer and Brewin Dolphin.

Key strengths

Mark has extensive digital, retail and financial experience and a strong track record of delivering strategic progress.

External appointments

n/a

Carol Kavanagh

Non-Executive Director

Date of appointment: 26 September 2022

Committee membership

A R N

Biography

Carol joined the Board in September 2022 as a Non-Executive Director and is a member of the Audit Committee, the Remuneration Committee and the Nomination Committee. She is also the Remuneration Committee Chair of Speedy Hire plc and an independent Remuneration Committee member for British Swimming. Carol has over 20 years of experience working in senior human resource roles across public companies in construction and retail sectors, including as Group HR Director for Travis Perkins Plc from 2007 to 2020.

Carol took over from Angela Luger as Chair of the Remuneration Committee from March 2023.

Key strengths

Carol has extensive retail and Board experience. She brings with her a wealth of knowledge gained through previous HR roles and current Remuneration Committee positions which will be of great value to the Group.

External appointments

- Remuneration Committee Chair of Speedy Hire PLC
- Independent Remuneration Committee member for British Swimming
- Director of CMK Associates Limited

Andy Kemp
Non-Executive Director

Date of appointment: 1 February 2023

Committee membership

A R N

Biography
Andy joined the Board in February 2023 as a Non-Executive Director and is a member of the Audit Committee, the Remuneration Committee and the Nomination Committee.

Andy is also a Non-Executive Director of The Berkeley Group Holdings plc, where he is Chair of the Audit Committee and a member of the Remuneration Committee and the Nominations Committee. Andy is also Chair of the Audit Committee Chairs' Independent Forum. Andy worked in PwC's assurance business for 39 years, managing some of the firms largest audit relationships and undertaking extensive listings and transactions work. Andy was the former Chair of PwC's Non-Executive Director advisory programme and previously sat on PwC's Audit and Risk Assurance Executive Board.

Andy will succeed Ron McMillan as Chair of the Audit Committee on 1 December 2023.

Key strengths
Andy brings a range of skills and extensive experience to the Board including auditing, governance, risk management and finance through holding a variety of executive and non-executive positions.

Andy's comprehensive audit experience highlight him as an exemplary candidate to replace Ron McMillan as Audit Committee Chair.

External appointments
- Audit Committee Chair of The Berkeley Group Holdings plc

Ron McMillan
Non-Executive Director

Date of appointment: 22 October 2014

Committee membership

A R N

Biography
Ron is the Chair of N Brown Group PLC. Until his resignations in 2023, Ron was also Senior Independent Director and Audit Committee Chair of B&M European Value Retail S.A and Non-Executive Director and Audit Committee Chair of Homeserve PLC. Previously, Ron worked in PwC's assurance business for 38 years and has deep knowledge and experience of auditing, financial reporting issues and governance. As the Northern Regional Chair of PwC in the UK and Deputy Chair of PwC in the Middle East, he acted as engagement leader to a number of major listed companies, including many in the retail sector.

The original intention was that Ron would step down from the Board on 1 December 2023. Ron will now remain on the Board as a Non-Executive Director until the conclusion of the offer for the Company,

Key strengths
Ron brings a wide range of experience and skills including finance, risk management and governance through holding a variety of executive and non-executive roles. As Chair of the Audit Committee, he is responsible for leading the Committee to ensure effective internal controls and risk management systems are in place across the Group.

External appointments
- Chair of N Brown Group plc
- Non-Executive Director of B&M European Value and Retail S.A.

Swarupa Pathakji
Non-Executive Director

Date of appointment: 2 May 2023

Committee membership

A R N

Biography
Swarupa joined the Board in May 23 as a Non-Executive Director and is a member of the Audit Committee, the Remuneration Committee and the Nomination Committee.

Swarupa is also a Non-Executive Director of Kings Arms Yard VCT plc, where she is Chair of the Nomination and Remuneration Committees and a member of the Audit and Risk Committee. She is also a Non-Executive Director of value retailer OFS (DS) Holdings Ltd where she is Chair of the Audit Committee. Swarupa has extensive experience across multiple sectors, having worked at both Merrill Lynch and more recently at Duke Street, a mid-market Private Equity firm, where she served as a non-executive director on the boards of a number of companies.

Key strengths
Swarupa brings a wealth of varied financial experience and widespread knowledge of customer-facing businesses and skills including, growth strategy and value creation, building management teams, finance, risk management and governance.

External appointments
- Nomination and Remuneration Committee Chair of Kings Arms Yard VCT plc
- Non-Executive Director of OFS (DS) Holdings Limited

Committee membership key

- (A) Audit Committee Chair
- (A) Audit Committee member
- (R) Remuneration Committee Chair
- (R) Remuneration Committee member
- (N) Nomination Committee Chair
- (N) Nomination Committee member

Chris Muir

Executive Director

Date of appointment: 4 April 2016

Committee membership

n/a

Biography

Chris served as Chief Financial Officer (CFO) from April 2016 to September 2023. He is a chartered accountant, qualifying in 1999 whilst working at Deloitte. In 2003, he joined Northgate plc, Europe's leading specialist in light commercial vehicle hire, as the Group Accountant and held a number of senior UK and group roles, including UK Finance Director and acting Group CEO in the summer of 2014. Prior to joining ScS he was Group Finance Director of Northgate.

During the year Chris notified the Board of his intention to step down and leave the Group. Following the appointment of Mark Fleetwood as CFO on 4 September 2023, Chris was appointed as Executive Director, and he will remain on the Board until the conclusion of the offer for the Company.

Key strengths

Chris has broad financial experience and his strategic and leadership strengths have been a valuable asset to the Group over his tenure.

External appointments

n/a

> "During the year, the Board critically assessed itself and I am satisfied that the Board and its Committees have an excellent balance of knowledge and experience and that no concerns with performance were identified."

Introduction from the Chair

On behalf of the Board, I am pleased to introduce our corporate governance statement for the year ended 29 July 2023, which is my last as Chair.

Since my appointment as Chair in 2014, the Board and I have been committed to maintaining high standards of corporate governance and we recognise the importance of this in supporting the long-term success and sustainability of our business. I am confident my successor, John Walden, together with the rest of the Board, will continue to uphold the high standards of corporate governance in place.

Our compliance with the 2018 UK Corporate Governance Code ('the Code') is set out on pages 73 to 75.

In the second year of our refreshed strategy, the focus of the Board has been to continue to monitor progress against our strategic objectives whilst navigating the well reported challenges faced by consumers, including interest rate increases, cost of living pressures and economic uncertainty.

Throughout FY23, the Board maintained active engagement with the Group's various stakeholders to ensure that we understand and take their interests into account when making decisions on behalf of the Group. Our Section 172 statement on pages 48 to 49 details the Board's engagement with stakeholders throughout the year.

Corporate governance arrangements and strategy have been at the forefront in a transitional year for the Board. I have had the pleasure of welcoming four new Non-Executive Directors to the Board, with each of the appointments bringing a wealth of experience to the table. Furthermore, with Chris Muir stepping down as CFO, I was pleased to welcome Mark Fleetwood to the Group whom has taken over the role from 4 September 2023. Chris will remain on the Board as Executive Director until 1 December 2023. The timing of all new appointments has allowed sufficient time to ensure a successful handover has taken place. Details of the appointments are set out in the Nomination Committee report on pages 86 to 88.

During the year, the Board critically assessed itself and I am satisfied that the Board and its Committees have an excellent balance of knowledge and experience and that no concerns with performance were identified. The Board have also continued to address the findings of the external review of Board effectiveness undertaken in 2022. Further details are set out on pages 84 to 85.

I will be chairing our Annual General Meeting (AGM) on 1 December 2023 and will be available to answer any questions you may have on this report. Upon the conclusion of the AGM, I will step down from my position and John Walden will assume the position of Chair of the Board.

Alan Smith
Chair
24 October 2023

Compliance with the UK Corporate Governance Code

The Board is committed to high standards of corporate governance and is responsible for ensuring the Group's compliance with the requirements of the 2018 UK Corporate Governance Code, which is the version of the Code that applies to FY23. For the year ended 29 July 2023, the Board considers that it has complied with the provisions of the Code with the exception of provision 36, which relates to a formal policy post-employment shareholding requirements for Executive Directors. The remuneration Committee will review this as part of its review of the Remuneration Policy ahead of submitting the new Policy to the 2024 AGM.

The following pages provide a high-level overview of how the Board applies the Principles of the Code (available at www.frc.org.uk).

Board leadership and company purpose	
Principle A A successful company is led by an effective and entrepreneurial Board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.	• Strategic report, pages 1 to 66 • Board leadership and company purpose, pages 75 to 78
Principle B The Board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.	• Strategic report, pages 1 to 66 • Board leadership and company purpose, pages 75 to 78 • Division of responsibilities, pages 79 to 81
Principle C The Board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The Board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.	• Section 172 statement, pages 48 to 49 • Risk and risk management, pages 57 to 64 • Audit Committee report, pages 89 to 96
Principle D In order for the company to meet its responsibilities to shareholders and stakeholders, the Board should ensure effective engagement with, and encourage participation from, these parties.	• Responsible business 26 to 37 • Section 172 statement, pages 48 to 49
Principle E The Board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.	• Responsible business 26 to 37 • Section 172 statement, pages 48 to 49 • Board leadership and company purpose, pages 75 to 78
Division of responsibilities	
Principle F The Chair leads the Board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the Chair facilitates constructive Board relations and the effective contribution of all non-executive directors, and ensures that direct or receive accurate, timely and clear information.	• Board leadership and company purpose, pages 75 to 78 • Division of responsibilities, pages 79 to 81
Principle G The Board should include an appropriate combination of executive and non-executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the Board's decision-making. There should be a clear division of responsibilities between the leadership of the Board and the executive leadership of the company's business.	• Board of Directors, page 68-69 • Division of responsibilities, pages 79 to 81

Division of responsibilities (continued)	
Principle H Non-executive directors should have sufficient time to meet their Board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.	• Board leadership and company purpose, pages 75 to 78 • Division of responsibilities, pages 79 to 81 • Audit Committee report, pages 89 to 96
Principle I The Board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.	• Board leadership and company purpose, pages 75 to 78 • Division of responsibilities, pages 79 to 81
Composition, succession and evaluation	
Principle J Appointments to the Board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for Board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.	• Nomination Committee report, pages 86 to 88 • Composition, succession and evaluation, pages 82 to 85
Principle K The Board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the Board as a whole and membership regularly refreshed.	• Board of Directors, page 68 to 69
Principle L Annual evaluation of the Board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.	• Nomination Committee report, pages 86 to 88 • Composition, succession and evaluation, pages 82 to 85
Audit, risk and internal control	
Principle M The Board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.	• Audit Committee report, pages 89 to 96
Principle N The Board should present a fair, balanced and understandable assessment of the company's position and prospects.	• Strategic report, pages 1 to 66 • Audit Committee report, pages 89 to 96 • Financial statements, pages 125 to 162
Principle O The Board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.	• Risks and risk management pages 57 to 64 • Viability statement, page 65 to 66 • Audit Committee report, pages 89 to 96
Remuneration	
Principle P Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values, and be clearly linked to the successful delivery of the company's long-term strategy.	• Strategic report, pages 1 to 66 • Board leadership and company purpose, pages 75 to 78 • Directors' remuneration report, pages 97 to 119

Remuneration (continued)	
Principle Q A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No director should be involved in deciding their own remuneration outcome.	• Directors' remuneration report, pages 97 to 119
Principle R Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.	• Directors' remuneration report, pages 97 to 119

Board leadership and company purpose

Role of the Board

The Group is led and controlled by the Board which is collectively responsible for the long-term sustainable success of the Group, generating value for shareholders and contributing to wider society. The Board establishes the Group's purpose, values and strategy and satisfies itself that these are aligned with its culture. The Board is also responsible for ensuring that appropriate policies, procedures and controls are in place to support effective risk management and performance against agreed financial and operational metrics.

Board activity in the year

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

Strategy

- Reviewed the Group's performance against its strategic priorities;
- Evaluated and approved incentive targets for both financial and non-financial measures, including the Group's environmental impact, to ensure alignment with strategic aims;
- Considered economic, social, environmental and regulatory issues and any other relevant external matters that may influence or affect the Group's achievement of its objectives; and
- Oversaw the Group's acquisition of the trade and assets of Snug.

Further information on the Group's strategy can be found on pages 1-66

Performance and monitoring

- Received regular updates from the Executive Board on trading performance and progress on strategy;
- Monitored the Group's performance against its targets and KPIs;
- Approved the 2022 Annual Report and the 2023 Interim Results;
- Approved the dividend policy and declaration;
- Reviewed and confirmed the Group's Viability statement and going concern status;
- Reviewed and approved the Group's FY24 budget; and
- Assessed capital allocations and capital expenditure in respect of the Group's strategy.

Further information can be found in the Audit Committee report on pages 89 to 96

Risk management and internal control

- Carried out a robust assessment of the principal and emerging risks facing the Group;
- Reviewed and approved the risk appetite statement;
- Reviewed the effectiveness of the risk management and internal controls during the year; and
- Received updates on climate-related risks and opportunities.

While the Board has ultimate responsibility for the Group's risk management and internal control systems, monitoring of these systems is delegated to the Audit Committee.

Further information can be found in the Audit Committee report on pages 89 to 96

Leadership, stakeholders and culture

- Reviewed the succession plan for Directors and the senior management team including approving the appointment of four new Non-Executive Directors and a new CFO in the year;
- Reviewed recruitment and how diversity could be improved;
- Continued prioritisation of colleague health and wellbeing;
- Approved the issue of a one-off £400 cost of living support payment for our colleagues;
- Reviewed wider workforce remuneration and related policies and the alignment of incentives and rewards with culture;
- Received and reviewed updates on environmental, social and governance (ESG) activity;
- Reviewed employee survey results; and
- Held discussion groups with colleagues across the business.

Further information on succession planning can be found on page 82

Governance and legal

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

How the Board supports strategy

Throughout FY23, the Board has consistently reviewed the Group's progress against our strategic objectives. This included six strategy-specific meetings which included in-depth assessments of specific strategic pillars and evaluations of progress.

Offer for the Company

As announced on 24 October 2023, the Board made the decision to recommend to shareholders an all-cash offer of 270p for each share from a wholly-owned subsidiary of Poltronesofà S.p.A. The offer provides liquidity to shareholders with the opportunity to exit in full and in cash at a significant premium to the current share price, in a time of continued macroeconomic uncertainty. In the short-term, the Board remains cognisant of the challenging economic environment facing customers, which the Board expects to continue throughout FY24. However, the Board is confident that the Group's strategy and strong balance sheet will enable it to continue to trade resiliently and grow market share. The Board further believes that this will place the business in a strong position for when the economic environment improves.

Nevertheless, based on history since the IPO, the Board is not confident that this anticipated progress will necessarily be recognised in appropriate share price appreciation.

It is intended that the acquisition will be implemented by way of a Court-sanctioned scheme of arrangement under Part 26 of the Companies Act and is forecast to complete in the first quarter of 2024.

Values, culture and purpose

The Group's purpose is 'Helping create the home you love' and this is underpinned by our values of being a responsive, inclusive, 'getting it right', hard working and trusted retailer of sofas and carpets. Our values promote our purpose-driven culture which is reflected in how we engage with our stakeholders.

The Board recognises the importance of ensuring a healthy and supportive culture within the Group. The Board monitors culture and values in a number of ways, including undertaking an annual survey of all employees, reviewing feedback through Director discussion groups, as well as reviewing feedback provided by our customers through forums such as Trustpilot and Google My Business. There are formal policies in place in relation to anti-bribery and corruption and an independent whistle-blowing helpline allowing any member of staff to report any suspected malpractice or wrongdoing.

We also have a dedicated, free to use employee assistance programme, where employees can gain access to help and support on a whole range of personal issues including mental health and financial worries.

Additionally, as part of our in-year update to employee benefits, we have introduced a 24-hour virtual general practitioner service for our colleagues and members of their households and have begun to offer access to low-cost health plans.

The Board recognise the importance of, and are committed to, operating in a responsible and sustainable manner. In FY22, the Board established an ESG steering group, developed the ESG strategy and incorporated ESG-related targets into both the executive and senior management bonus schemes. In FY23, the Board has built upon this by the development of a Net Zero strategy which will further strengthen the Group's commitment to environmental sustainability.

For more information on this refer to the Responsibility and sustainability report page 26 to 37

Stakeholder engagement

The Board appreciates the importance of engaging with the Group's stakeholders and having regard to their interests in its decision-making process. The importance and influence of stakeholder groups differs depending on the matter being discussed. It is possible for stakeholder interests to conflict and when this happens, the Board uses its judgement to reach a final decision.

The Board is advised of stakeholder views in a number of different ways:

- Presentations on strategic progress;
- Presentations from external advisors and internal experts;
- One-to-one meetings with shareholders;
- Employee surveys;
- Colleague discussion forums;
- Visits to the Group's showrooms, distribution centres and suppliers; and
- The AGM.

Regular discussion forums were held by two designated Non-Executive Directors, Angela Luger and Carol Kavanagh, to ensure the Board is engaging with colleagues and to provide them with a direct route to raise issues or concerns with the Board.

Detailed below are some examples of matters discussed during the year and how the Board considered our stakeholder groups.

Matter discussed	Stakeholders considered	Discussions held	Outcome of discussions
Acquisition of the business and assets of Snug	• Customers • Shareholders • Suppliers • Environment	Consideration was given to: • Expectations of our stakeholders; • Market developments and our customer offering; • Our brand and reputation; and • Capital allocation and appropriate acquisition valuation.	• Proceed with the acquisition of Snug within financial limits set by the Board. • Resulted in the purchase of the business and assets of Snug in January 2023.
Capital allocation	• Shareholders	Consideration was given to: • Continuing the £7m share buyback scheme and whether a further buyback or alternative capital return was undertaken; • Expectations of our shareholders and options available to utilise Company capital; and • Strength of the Group and current macroeconomic conditions.	• £7m buyback programme successfully completed. • Given favourable returns being seen on the refurbished stores it was concluded that, at present, internal capital investment would continue in the store network.
Approval of new Board members	• Shareholders • Regulators • Colleagues	Consideration was given to: • The skills, experience, culture and diversity required for new Board members; and • Regulatory requirements of the Board and its Committees.	• Four new Non-Executive Directors were appointed in year. • A new CFO was appointed after the year end.
Investment in Business Central proposition	• Colleagues • Shareholders • Customers • Suppliers	Consideration was given to: • Current IT limitations and expected benefits of the proposal; • Project costs and timescales; and • Impact on colleagues and business as usual (BAU) upon implementation.	• Approval of the Microsoft Business Central project.
New advertising agency and marketing strategy	• Shareholders • Customers	Consideration was given to: • Market positioning and strategic direction; • Customer feedback; • Our brand and reputation; and • Expectations of our shareholders.	• Approval of the new advertising partner and marketing strategy.
Store refurbishments	• Customers • Colleagues • Shareholders	Consideration was given to: • Outcomes from concept stores; • Our brand and reputation; • Proposed capital commitments; and • Expectations of our shareholders.	• Further rollout of refreshed store design was approved.
Recommended cash offer for the Group	• Colleagues • Shareholders • Customers • Suppliers • Regulators	Consideration was given to: • Expectations of our stakeholders; • Review of premium using valuation advice provided by Shore Capital and Corporate Limited; • Our brand and reputation; and • The acquirer's intentions post acquisition and the potential impact of them on stakeholders.	• Recommendation for shareholders to accept the cash offer.

Shareholder relations

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

The CEO and CFO hold regular meetings and calls with institutional and retail investors and analysts in order to provide the best quality information to the market. All shareholders also have access to the Chair and the other Directors, who are available to discuss any questions which they may have in relation to the running of the Group.

In addition, the Group will communicate with its shareholders through the AGM, at which the Chair will give an account of the progress of the business over the past year and will provide the opportunity for shareholders to raise questions with the Chair and the Chairs of each of the Committees of the Board.

At each of the scheduled Board meetings throughout the year, the Board receives a report which includes an analysis of ScS Group plc shareholder register. Following the Interim and Preliminary Results presentations feedback is actively sought for discussion by the Board. Such feedback gives the Board an insight into what is important to the Group's shareholders.

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

Whistle-blowing

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

Conflicts of interest

There are no potential conflicts of interest between any of the Directors or senior management within the Group and their private interests.

There is an established process of the Board for regularly reviewing actual or potential conflicts of interest. In particular, there is a process for reviewing transactions proposed to be entered into by related parties of Directors with any entities in the Group. This includes professional advice and consideration of it by the Board and the Group's corporate brokers on the application of the Listing Rules, the applicability and the appropriateness of any exemptions in respect of any transactions in the ordinary course of business and reporting to general meetings of shareholders under England and Wales Company Law. This process also includes consideration of the extent to which the Board may require external and any other reports and evaluations to be presented to it on any proposed transactions.

Executive/Non-Executive

- Chair (1)
- Non-Executive Chair Designate (1)
- Chief Executive Officer (1)
- Chief Financial Officer (1)
- Executive Director (1)
- Non-Executives (5)

Board tenure

- 0-5 years (7)
- 5-15 years (3)
- 15+ years (0)

Division of responsibilities

Group Board

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

Committees

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

Detailed implementation of matters approved by the Board and Committees, and operational day-to-day matters, are delegated to the Executive Directors. The Executive Directors are also supported by an experienced and able senior management team. All Directors have access to the Company Secretary, whose appointment and removal is one of the matters reserved for the Board.

Key roles

The positions of Chair and CEO are currently held by different individuals and this will continue to be the case when the scheduled succession of the new Chair is complete. There is a clear division of roles and responsibilities between the Chair and the CEO and no individual has unrestricted powers of decision making. Effective communication between Directors is vital for the long-term success of the Group with all Directors bringing their own views to the table and each providing constructive challenge to ensure decision making is informed.

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

Time commitment

As part of the recruitment process the expected time commitment is discussed with both Non-Executive Directors and Executive Directors.

The time commitments of the new Non-Executive Directors, Carol Kavanagh, Andy Kemp and Swarupa Pathakji, and Non-Executive Chair Designate, John Walden, have been evaluated and the Board is satisfied that they have sufficient time for their roles. Subsequent external appointments for all Directors would not be undertaken without prior approval of the Board.

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

Board administration

The Board held nine meetings during the year which included six meetings dedicated to reviewing strategic progress. During the year the Board also met on a number of other occasions, as circumstances required. The Board maintains a rolling programme of formal Board meetings throughout the year and accordingly, there are six Board meetings scheduled for FY24, all of which include sessions to review strategic progress.

Meetings of the Board are usually held at the Group's head office or local to a showroom, to afford the Board, particularly the Non-Executive Directors, the opportunity to meet with local management.

All Board and Committee members receive meeting agendas and Board packs in advance of the Board and Committee meetings. For scheduled Board meetings this includes updates on strategy, current trading, stakeholder KPIs, management accounts and detailed papers on other matters where Board approval is required.

At each Board meeting, the Executive Directors discuss the matters included in the Board packs in more detail with the Board. Additionally, where appropriate, members of the Executive Board are invited to present to the Board to inform Directors of issues of importance affecting the Group.

This not only allows the Board to maintain an awareness of the Group's activities but also allows Directors to assess the ability of the senior management team. For Board meetings which are held as circumstances require, the Board packs reflect the agenda of the meeting.

Directors' attendance

All Directors are expected to attend all Board and relevant Committee meetings. If Directors are unable to attend a meeting they will review the relevant papers in advance and provide their comments to the Chair of the Board or Committee. Minutes of the meeting will be sent to any relevant Director who was not in attendance for reference.

	PLC	Audit Committee	Remuneration Committee	Nomination Committee
Total no. of meetings	9	3	7	5
Steve Carson	9	N/A	N/A	N/A
Chris Muir	9	N/A	N/A	N/A
Alan Smith	9	N/A	7	5
John Walden	3	2	3	2
Ron McMillan	8	3	7	5
Angela Luger	9	3	7	5
Carol Kavanagh	8	3	7	4
Andy Kemp	3	2	3	2
Swarupa Pathakji	2	1	2	1

Shareholders

Chair

The Board

Board Committees

Nomination Committee

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

See Committee report on pages 86 to 88

Audit Committee

- Monitors the quality and effectiveness of the external and internal auditors;
- Reviews and monitors the integrity of the financial statements and any formal announcements relating to financial performance;
- Assists the Board with the development and execution of a risk management strategy, risk policies and current and emerging risk exposures, including the maintenance of the Group's risk register; and
- Monitors the adequacy and effectiveness of the Group's internal financial controls and internal control and risk management systems.

See Committee report on pages 89 to 96

Remuneration Committee

- Determines the policy for the Group on executive remuneration and sets remuneration for the Chair, the Executive Directors and senior management;
- Reviews workforce remuneration and related policies and the alignment of incentives and rewards with culture, and taking these into account when setting the policy for Executive Director remuneration;
- Reviews the design of all share incentive plans for approval by the Board and/or shareholders; and
- Determines and monitors any share ownership requirements for the Executive Directors and senior management including post-employment requirements.

See Committee report on pages 97 to 119

Chief Executive Officer
Responsible for the day-to-day management of the Group and the implementation of strategy.

Executive Board – Assists the Chief Executive Officer in the performance of his duties including:
- Progress against strategy and budgets;
- Monitoring of operating and financial performance; and
- Allocation of resource.

Composition, succession and evaluation

Composition of the Board

The Board currently comprises of the Non-Executive Chair, the Non-Executive Chair Designate, three Executive Directors and five independent Non-Executive Directors.

The Board's composition is compliant with the UK Corporate Governance Code July 2018 ('The Code').

The Code recommends that at least half of the Board, excluding the Chair, should be Non-Executive Directors whom the Board considers to be independent. The Group has met this requirement as Ron McMillan (Senior Independent Director), appointed 22 October 2014 and Angela Luger, appointed 16 May 2019 have been in place for the whole of FY23, matching the number of Executive Directors. The Board's composition has been strengthened throughout the year with the Non-Executive appointments of Carol Kavanagh, appointed 26 September 2022, Andy Kemp, appointed 1 February 2023 and Swarupa Pathakji, appointed 2 May 2023. All of the Group's Non-Executive Directors are considered by the Group to meet the definition of an independent Director. Each of them is considered by the Board to be independent in character and judgement and free from relationships or circumstances which may affect, or could appear to affect, their judgement. Independence is determined by ensuring that the Non-Executive Directors do not have any material business relationships or arrangements (apart from their fees for acting as Non-Executive Directors) with the Group or its Directors which in the opinion of the Board could affect their independent judgement.

All Directors have service agreements or letters of appointment in place and the details of the terms of these are set out in the Directors' remuneration report on pages 97 to 119.

The Chair has met with each of the Non-Executive Directors during the year on a one-to-one basis, without the Executive Directors being present. In addition, the Senior Independent Director holds a private meeting of the Non-Executive Directors without the Chair being present to assess his performance.

Board Diversity and Inclusion

The Financial Conduct Authority's updated Listing Rules (LR 9.8.6R (10) and LR 14.3.33R (2)) require in-scope companies to publish numerical data on the sex or gender identity and ethnic diversity of their board, senior board positions (Chair, CEO, Senior Independent Director (SID) and CFO) and executive management in a table. These new reporting requirements apply to financial years starting on or after 1 April 2022, meaning that this is the first year that these requirements are reportable by the Group.

To collate this information, PLC Board members were asked to complete a diversity disclosure to confirm which of the categories set out in the below they identify with.

The details of Board composition as at 29 July 2023 are set out in the following tables:

Table 1: Reporting table on sex/gender representation

	Number of Board members	Percentage of Board	Number of senior positions on the Board (CEO, CFO, SID, Chair)	Number in executive management	Percentage of executive management
Men	6	67%	4	6	75%
Women	3	33%	–	2	25%

Table 2: Reporting table on ethnicity representation

	Number of Board members	Percentage of Board	Number of senior positions on the Board (CEO, CFO, SID, Chair)	Number in executive management	Percentage of executive management
White British or other White (including minority-white groups)	8	89%	4	8	100%
Mixed/Multiple Ethnic Groups	–	–	–	–	–
Asian/Asian British	1	11%	–	–	–
Black/African/Caribbean/Black British	–	–	–	–	–
Other ethnic group, including Arab	–	–	–	–	–
Not specified/prefer not to say	–	–	–	–	–

Details on the Board's compliance with the targets set out in Listing Rule 14.3.33 are set out in the Nomination Committee report on page 88.

Board development
The Chair believes the current Board and its Committees have an appropriate balance of skills and experience to enable them to discharge their responsibilities effectively. The development of the Group's Directors is regularly reviewed and the Chair discusses training requirements with each Director. Succession planning of the Board is the responsibility of the Nomination Committee. Details of the actions of the Nomination Committee in year are set out in the Nomination Committee report.

Board gender diversity
- Male: 7 (70%)
- Female: 3 (30%)

Executive Board gender diversity
- Male: 7 (78%)
- Female: 2 (22%)

Executive Board and senior management team* diversity
- Male: 28 (70%)
- Female: 12 (30%)

All employees diversity
- Male: 1,160 (67%)
- Female: 571 (33%)

* The senior management team are those considered by the Executive Board to have extensive experience in their field and typically lead a team/department.

Corporate governance statement continued

Board effectiveness evaluation

In 2022 the Board took part in an externally facilitated evaluation by Sam Allen Associates Ltd. In accordance with the UK Corporate Governance Code, the Board will continue to undertake annual evaluations and at least once every three years with an external consultant facilitating the evaluation. Due to the significant changes to the composition of the Board in year, upcoming retirements of the Chair and Senior Independent Director, and upcoming departure of the previous CFO, an external evaluation will be carried out in 2024.

The external review in 2022 identified the following areas for continued focus. We have provided an update of the progress made in year to address these points;

Area of focus	Actions taken
Increasing the focus on succession planning and the need for increased diversity	With both Alan Smith and Ron McMillan due to retire in the coming year, appointments have been made to ensure a smooth transition. John Walden joined the Board in March 2023 as Non-Executive Chair Designate (to take over from Alan Smith), Carol Kavanagh joined the Board in September 2022, Andy Kemp joined the Board in February 2023 and Swarupa Pathakji joined the Board in May 2023. Upon the notification of Chris Muir's intention to step down as CFO, a thorough recruitment process was undertaken to identify and appoint a suitable successor. This resulted in the appointment of Mark Fleetwood on 4 September 2023. All new Board members underwent a comprehensive onboarding process to introduce them to the Company. Additional handover procedures have been completed where new Board members are taking on designated roles, Board Chair and CFO, to ensure a smooth transition. The appointments made in year have broadened the diversity of the Board, in line with business focus.
Opportunity to improve stakeholder engagement	The Board has increased engagement in the year with greater physical interactions through: • Store visits to meet colleagues; • Suppliers visits to factories and trade shows; • Shareholder meeting; and • Director listening sessions over FY23.
To ensure that ESG priorities are continuously reviewed whilst ensuring they provide sustainable commercial value	The Board has built ESG strategy progress into their periodic updates to monitor the Group's delivery against the ESG strategy developed in FY22. The Board has received updates on the progress of the Net Zero strategy which is currently under development.

The 2023 evaluation of the performance of the Board, its Committees, the Chair and the individual Directors was facilitated by the Group's Internal Audit team.

The evaluation included a review of the time commitment required by each of the Company's Non-Executive Directors and the size, structure and composition of the Board and its Committees. The evaluation process took place in the second half of the year. Each of the Directors and the Company Secretary completed a questionnaire, on an anonymised basis, which was prepared to elicit their views on all aspects of the effectiveness of the Board and its Committees, including its composition, diversity and how effectively members work together to achieve objectives.

The results of the evaluation were assessed by the full Board. The evaluation confirmed that the Board and its Committees have and will continue to have a good balance of knowledge and experience with no concerns arising around Board performance. The feedback concluded that the Committees continued to perform well and highlighted the following strengths:

- Continued strong alignment in the views of the Board of Directors in the Group's purpose and strategy;
- Governance and compliance amongst the Board and its members is strongly adhered to;
- The succession planning and induction of new Directors has been well considered and executed; and
- The ability for all Directors to contribute and constructively challenge remained strong.

Opportunities for improvement identified from the review were:

Area of focus	Actions
Further Board engagement with a wider stakeholder Group	With the new Board members joining during the year, the induction programme has ensured good exposure to the Group's colleagues. In the new financial year the plans are to increase wider stakeholder engagement for the new Directors, including shareholders and suppliers.
Board objectives	It was felt that with the change of Chair, it presented a good opportunity to review and restate the Board objectives.
Capital allocation considerations	A session was held in July 2023 covering the Group's capital structure and to consider the best use of the Group's cash. This included a review of the Group's historical trading and balance sheet position and presentations from our external brokers on the potential impact of different forms of capital return.

> We are delighted with the calibre of the new Directors recruited during the year."

Nomination Committee report

We believe we are well placed to continue to deliver excellent returns to shareholders

Dear Shareholder,
I am pleased to present the 2023 report of the Nomination Committee ('the Committee').

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

The responsibilities of the Committee, as delegated by the Board, are set out in the terms of reference which are published on the Group's corporate website at www.scsplc.co.uk, which in summary include:
- Reviewing the structure, size and composition of the Board, including the balance of Executive and Non-Executive Directors;
- Setting measurable objectives and targets for diversity and inclusion in relation to the Board and senior management positions;
- Putting in place plans for the orderly succession of appointments to the Board and to senior management positions;
- Overseeing the development of a diverse pipeline for succession, having regard to diversity of gender, social and ethnic backgrounds, cognitive and personal strengths;
- Identifying, assessing and nominating candidates for the approval of the Board, to fill Board vacancies when they arise; and
- Reviewing and evaluating the performance of the Board, each Board Committee, the Chair of the Board and each individual Director.

Members and meetings attended in 2023	Member since	Meetings attended
Alan Smith	2014	5
Ron McMillan	2014	5
Angela Luger	2019	5
Carol Kavanagh*	2022	4
Andy Kemp**	2023	2
John Walden***	2023	2
Swarupa Pathakji****	2023	1

* Carol Kavanagh joined the Board on 26 September 2022.
** Andy Kemp joined the Board on 1 February 2023.
*** John Walden joined the Board on 1 March 2023.
**** Swarupa Pathakji joined the Board on 2 May 2023.

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

There are three scheduled Committee meetings annually, but with additional meetings or calls held on an as required basis. During the year, there were an additional two Committee meetings and a number of informal calls and discussions. The majority of the meetings were held in person.

Committee activities in 2023

Chief Financial Officer

On 2 December 2022 we announced the resignation of Chris Muir as the Group's CFO, following which we commenced a recruitment process to appoint a new CFO.

With the assistance of Clarity Search Ltd we agreed a comprehensive role specification and aligned this to the desired Board composition with reference to diversity, inclusion and a Board skills matrix. Taking into account feedback from Board members, the role specification and the key skills, knowledge and experience of the shortlisted candidates, the Committee recommended the appointment of Mark Fleetwood as the Group's new CFO, which we announced on 4 July 2023.

Mark joined the Board on 4 September 2023. Mark was previously CFO of END. (endclothing.com), the digital-led global fashion retailer based in the North East. Further details of Mark's experience prior to joining the Group appear in the Board of Directors biographies on pages 68 to 70.

Additional Non-Executive Director

Ron McMillan and I are due to step down from the Board in early 2024, having both completed nine years as Board members. During the year, Carol Kavanagh, Andy Kemp and John Walden joined the Board, having all been recruited in 2022.

In order to fill a remaining Non-Executive Director vacancy on the Board, with assistance from Sam Allen Associates Limited and following the same process as outlined above, the Committee recommended the appointment of Swarupa Pathakji. Swarupa's appointment was announced in April 2023 and she joined the Board on 2 May 2023. Details of Swarupa's experience appear in the Board of Directors biographies on page 70. Upon joining the Board, Swarupa was also appointed as a member of the Audit Committee, the Remuneration Committee and the Nomination Committee.

Board effectiveness evaluation

The Committee oversees the Board effectiveness review which evaluates the performance of the Board and its Committees, the Chair and individual Directors. In 2022, the review was externally facilitated by Sam Allen Associates Ltd. The 2023 evaluation was facilitated by the Group's Internal Audit team. The areas of focus identified in the 2022 evaluation were all taken into consideration as part of the 2023 evaluation.

The evaluation included a review of the time commitment required by each of the Company's Non-Executive Directors and the size, structure and composition of the Board and its Committees. The Committee also undertook a review of the actions that arose from the effectiveness review to track progress. Full details are provided on pages 84-85.

In accordance with the UK Corporate Governance Code, the Board will continue to undertake annual evaluations and at least once every three years with an external consultant facilitating the evaluation. Given the significant changes to the composition of the Board in 2023 an external evaluation will be carried out in 2024.

Succession planning

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

This process informs the Group's framework for the skills we wish to focus on when preparing role specifications, evaluating potential new candidates and developing a diverse and inclusive pipeline. The Board's policy on succession planning is directly aligned to the long-term strategy of the Group.

Diversity and inclusion

The Committee recognises the need to monitor and review diversity and inclusion, including gender, social and ethnic backgrounds and cognitive and personal strengths in relation to how the Group is led and represented. During 2022 the Group set the following targets to increase focus in this area:

- To increase the number of females in management retail roles by 25% by July 2023.
- To increase the percentage of women on the PLC Board to over 30% by December 2022.

The targets were reflected in our recruitment and succession policies and I can report that as a result of the Group's various initiatives and actions, we achieved the PLC Board target and made significant progress in increasing the number of females in management roles by 21%.

Employment positions throughout the Group are filled with the candidates who possess the most appropriate skills and competencies relevant for the particular job role. We have a policy to treat all employees fairly and equally regardless of gender, sexual orientation, marital status, race, colour, nationality, religion, ethnic or national origin, age, disability or union membership status. Our employees receive mandatory diversity and inclusion training in connection with our continued focus on developing and promoting a diverse and inclusive workforce.

Ensuring that our future Board and senior management team better reflects the diversity of the communities we serve and the people we employ is a key objective of our 'Outstanding team' strategy pillar. Similarly to other businesses, we are starting this journey by focusing on a plan to drive gender diversity within our teams and in the succession pipeline. See page 83 for further detail of the gender balance across the Group.

We recognise that diversity is much broader than gender but believe that achieving sustainable traction in this critical area of talent will help us develop strategies that can be applied more widely.

Although the Company fully supports the current debate on Board diversity and the Board diversity targets set out in Listing Rule 14.3.33, it does not currently meet all of these targets, as only 30% of the Board are women and none of the senior positions on the Board is currently held by a woman. However, we announced in November 2022 that Angela Luger will undertake the role of Senior Independent Director with effect from 1 December 2023, when Ron McMillan steps down from the Board, and after that date over 42% of the Board will be made up of women. Accordingly, from 1 December 2023 the Company will meet all of the diversity targets set out in Listing Rule 14.3.33.

Our people are our greatest asset and key to our success, incorporating their views into Board decision making is essential to achieving our business objectives and creating a workplace which treats everyone equally.

Alan Smith
Chair of the Nomination Committee
24 October 2023

“The Committee has 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.”

Audit Committee report

The Audit Committee oversees the Group’s assessment of risk, risk management and risk mitigation, the internal audit framework and assesses the effectiveness of internal and external audit.

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

The Committee has 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.

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

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

During the year, the Committee again oversaw the process used by the Board to assess the viability of the Group, the stress testing of key trading assumptions and the preparation of the Viability statement which is set out on pages 65 to 66 of the Strategic report.

The Committee has considered the narrative in the Strategic report, whether it is presented in an equitable manner and whether it provides the necessary information to shareholders to assess the Group’s performance, business model and strategy. The Committee considered management’s assessment of items included in the financial statements and the prominence given to them. The Committee, and subsequently the Board, were satisfied that, taken as a whole, the 2023 Annual Report and Accounts are fair, balanced and understandable.

Audit Committee report continued

The Committee reviewed, on behalf of the Board, the Group's compliance with the Modern Slavery Act and it's policies in relation to money laundering and anti-bribery. The Committee has also given consideration to the development of climate-related reporting and the Group has reported in line with the Task Force on Climate-related Financial Disclosures (TCFD) requirements in the year; see pages 38 to 40 for further detail.

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

Member and meetings attended in 2023	Member since	Meetings attended
Ron McMillan (Chair)	2014	3
Angela Luger	2019	3
Carol Kavanagh	2022	3
Andy Kemp*	2023	2
John Walden**	2023	2
Swarupa Pathakji***	2023	1

* Andy Kemp was appointed in February 2023.
** John Walden was appointed in March 2023.
*** Swarupa Pathakji was appointed in May 2023.

The Audit Committee met three times during the financial year. Further meetings of the Committee have also been held since the year end.

I am retiring from the Board in early 2024. On 1 December 2023 Andy Kemp will become the Chair of the Audit Committee. Andy joined the Audit Committee upon his appointment in February 2023, enabling a thorough handover prior to my upcoming departure. Andy has extensive experience in audit, governance and risk management and I am confident that under his leadership, the Committee will fulfil its duties to an exceptionally high standard.

Up until my departure, I will be available to speak with shareholders at any time, as will Andy upon commencement of his tenure. Andy and I will be available at the Annual General Meeting (AGM) to answer any questions you may have on this report. As always, I'd like to thank my colleagues on the Committee for their help and support during the year.

Ron McMillan
Chair of the Audit Committee
24 October 2023

Committee composition

The Committee comprises six members, all of whom are Non-Executive Directors. Two members constitute a quorum and the Committee must include one financially qualified member with recent and relevant financial experience. The Committee Chair, Andy Kemp and Swarupa Pathakji each fulfil 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, Angela Luger, Carol Kavanagh, Andy Kemp, John Walden and Swarupa Pathakji. Details of Committee meetings and attendance are set out in the Corporate governance statement on page 80. In December 2023 Ron McMillan will step down from the Board, and as Chair of the Audit Committee, having served the maximum nine-year tenure for an independent Non-Executive Director. As noted in the Chair's report, Andy Kemp joined the Board and the Audit Committee as a Non-Executive Director on 1 February 2023 and, following the end of Ron's tenure, will assume the Audit Committee Chair role. Andy is financially qualified with recent and relevant financial experience. The timing of Committee meetings is set to accommodate the dates of releases of financial information and the approval of the scope of and outputs from work programmes executed by the internal and external auditors. The biographies of the members of the Committee can be found on pages 68-70 and reflect the significant experience that the Committee members have of working in or with companies in the retail and consumer goods sectors.

Although not members of the Committee, Alan Smith, as Group Chair, Steve Carson, as CEO, and Chris Muir, as CFO, attend meetings, together with representatives from the internal audit function and the external auditors.

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

The Committee critically evaluates its own performance on an annual basis and considers where improvements can be made. An external evaluation is performed once every three years in line with best practice.

Board reporting

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

Responsibilities

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

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

Activities

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

The recurring work of the Committee comprised:

- Review of the Annual Report and Financial statements of the Group;
- Review and approval of the statements to be included in the Group's Annual Report concerning internal controls and risk management;
- Review of the Interim Results report and non-statutory financial statements of the Group for the half year;
- Consideration of the significant areas of accounting estimation or judgement;
- Consideration of the principal risks included in the Annual Report;
- Consideration of going concern and viability issues and the related disclosures;
- Consideration of the Group's reporting against TCFD recommendations;
- Approval of the external auditors' terms of reference, audit plan and fees; and
- Approval of the internal audit plan.

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

	October 2022	March 2023	July 2023
Review of Interim Results		x	
Review of Annual Report; approval of Audit Committee report, consideration of significant areas of accounting estimation or judgement and whether the Annual Report is fair, balanced and understandable	x		
Review of management representations	x	x	
Review and approval of the internal audit plan, reports and updates	x	x	x
Approval of the external audit strategy and fees			x
Update on the provision of any non-audit services and fees provided by the external auditors	x	x	
Effectiveness of the internal audit function		x	
Effectiveness of the external audit	x		
Risk management update and review of related disclosures	x	x	x
Review of internal control processes and related disclosures	x	x	x
Review of disaster recovery practices	x	x	x
Update on the Group data protection compliance including policy review	x	x	x
Reviewed and agreed the structure and annual plan for compliance function			x
Effectiveness of procedures for detecting fraud			x
Consideration of the 2018 UK Corporate Governance Code and disclosure regulations	x	x	
Year-end final review of related party transactions	x		
Accounting policies and disclosures in relation to:			
– Corporation tax and VAT	x	x	
– Supplier rebates	x	x	x
– Stock and related provisions	x	x	x
– Impairment assessment for loss making stores	x	x	x
– Dilapidations	x	x	x
– Accounting for warranties	x		
– Valuation of parent company investment	x	x	x
– The acquisition of Snug Furniture Limited		x	x
Going concern and viability issues and disclosures	x	x	x
TCFD reporting disclosures	x		x

In considering the above accounting matters the Committee had regard to papers and reports prepared by the Group finance team and the external auditors and the explanations and disclosures made in the Annual Report.

Significant issues and judgements relating to the financial statements

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

Area of focus	Committee's response
Impairment Management reviews the carrying amount of goodwill, property, plant and equipment and right-of-use assets every year to determine if there are any indications of impairment. The estimate of the recoverable amount is based on value in use calculations which requires management to estimate future cash flows and an appropriate discount rate. The prior year impairment assessment is also taken into consideration and where it is identified that the impairment has reduced, a reversal of the impairment is recorded.	The Committee discussed with management and the external auditors the validity of cash flow projections and the significant financial assumptions used, including the selection of appropriate discount and growth rates used over the remaining lease period. The Committee satisfied itself that the principles and judgements applied were appropriate as well as the presentation of the impairment within the financial statements.
Parent company investment The ultimate parent company of the Group, ScS Group plc, holds an investment in the subsidiary companies of the Group. The carrying value of this investment is reviewed by management to determine if there are any indications of impairment. Management use analysis to assess the investment for indications of impairment including; a value in use calculation incorporating budget-based cash flow projections and an assessment of market capitalisation.	The Committee discussed with management and the external auditors the analysis performed by management, including verifying the validity of any significant assumptions applied in the value in use model (discount and growth rates applied) and the practicality of an assessment against market capitalisation. The Committee satisfied itself that the principles and judgements applied were appropriate and that no impairment charge was required.
Supplier rebates The Group receives volume rebates from suppliers which are pre-negotiated and split between suppliers with rebate 'hurdle' rates dependent on spend and those that have a flat rate. Where rebate arrangements were not coterminous with the year end, judgements were required but the amounts involved were not material.	The Committee gained an understanding of these arrangements, discussed them with management and the external auditors and satisfied itself with the controls that are in place to ensure that amounts received and receivable from suppliers are properly accounted for on a monthly basis and that the related judgements are limited.
Stock provisions The Group's policy in relation to stock provisioning is to provide for obsolete, slow moving and defective stock.	The Committee has discussed with management and the external auditors how the policy has been applied in practice so as to ensure that stock is held at the most appropriate estimate of net realisable value. The Committee satisfied itself that stock was not materially misstated.
Dilapidation provision The Group's policy is to ensure a suitable dilapidations provision is in place to utilise to cover costs when a site is exited at the end of a lease. Historical data is used to estimate future liabilities; therefore, a degree of judgement is required.	The Committee has reviewed management's dilapidations calculation and assumptions, and satisfied itself that an appropriate provision is in place.
Alternative Reporting Measures (APMs) The Group's policy is to adopt APMs in order to assist in providing useful information on the underlying performance and position of the Group. In the current year, the Group has adopted an adjusting items APM to exclude certain costs and incomes that are material in size and unusual/non recurring in nature.	The Committee has reviewed management's calculation and presentation of APMs. The Board believe that these APMs assist in providing useful information on the underlying performance and position of the Group and enhance the comparability of information between reporting periods by adjusting for non-underlying items which affect IFRS measures and are used internally by the Board to measure the Group's performance.

Climate change and risk reporting

During the year, the Group prepared its second report in line with the TCFD requirements which can be found on pages 38 to 40. The report outlines the progress made in understanding, identifying and managing the business's climate-related risks and opportunities. We acknowledge that climate-related reporting is a rapidly developing topic that we will continue to monitor as required.

Going concern

The Board and the Committee considered the half-year and full-year statements with respect to the going concern basis of accounting and have satisfied themselves that the underlying assumptions supporting the statements continue to be reasonable and support the conclusion that the Group has adequate resources to continue to operate for a period of at least 12 months from the date on which the financial statements are signed. Accordingly, they continue to adopt the going concern basis in preparing the financial statements (see note 2 to the financial statements on page 137).

Viability statement

The Board is required to consider whether the Group can continue to operate and meet its liabilities, taking into account its current position and principal risks in the longer term, having considered severe but plausible risks and risk combinations. The Committee reviewed the process undertaken by management and considered management's scenario modelling and the stress testing of these models. The Committee reviewed and challenged the assumptions used by management in its modelling, including specific challenges on how severe but plausible revenue and margin reductions had been determined, the value of revenue and margin reductions, and whether the modelling should cover a period greater than three years and how this could be reflected in the Annual Report. The Committee concluded that the Board is able to make the Viability statement on pages 65-66 of the Strategic report.

Fair, balanced and understandable

The Committee considered whether the 2023 Annual Report and Accounts is fair, balanced and understandable and whether it provides the necessary information to shareholders to assess the Group's performance, business model and strategy. Also considered was management's assessment of items included in the financial statements, including non-GAAP APM's and the prominence given to them. The Committee and subsequently the Board were satisfied that, taken as a whole, the 2023 Annual Report and Accounts is fair, balanced and understandable.

Risk management and internal control

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

The Group is proactive in ensuring that corporate and operational risks are identified and managed. Functional risk registers are maintained which detail:

1. The risks and the impact they may have;
2. The risk appetite for each risk;
3. The link to principal risks;
4. Actions to mitigate risks;
5. Risk scores to highlight the implications of occurrence;
6. Ownership of risks; and
7. Target dates for actions to mitigate risks.

A description of the principal risks is set out on pages 59 to 64.

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

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

The Committee continues to believe that appropriate controls are in place throughout the Group, and that the Group has a well-defined organisational structure with clear lines of responsibility and a comprehensive financial reporting system. The Committee also believes that the Company complies with the FRC guidance on risk management, internal control and related financial business reporting. Furthermore, the internal audit function has carried out an assessment of the effectiveness of actions taken by management to mitigate significant risks.

Internal audit

The Head of Audit, Risk & Compliance has a direct reporting line to the Committee and attends every Committee meeting to present internal audit and risk management reports. During the financial year, internal audit has undertaken a programme of work which was discussed and agreed with both management and the Committee and which was designed to address both risk management and areas of potential financial loss. All of the agreed work has been performed and the Committee is comfortable that all key areas of risk have been covered. Internal audit has also established procedures within the business to ensure that new risks are identified, evaluated and managed, and that necessary changes are made to the risk register. During the year, the Committee reviewed reports from internal audit in relation to:

- Fraud risk and related internal controls;
- Anti-money laundering;
- Anti-bribery and corporate crime;
- Compliance with the Modern Slavery Act;
- Compliance with data protection;
- Compliance assessments of the Group's operating processes in relation to retail outlets and distribution centres;
- Risk management, including the effectiveness of mitigating actions in relation to the Group's principal risks;
- Department for Business, Energy & Industrial Strategy (BEIS) response, timeline and action plan;
- Compliance processes;
- Marketing;
- Health and safety processes;
- Payroll processes;
- Human resources;
- Purchase ledger processes;
- Information technology;
- Central customer experience processes;
- ESG strategy; and
- Digital processes.

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

The Committee has evaluated the performance of internal audit during the year and concluded it is a function which has a strategic plan developed in collaboration with the Committee, and which provides constructive challenge and demonstrates a realistic and commercial view of the business.

External auditors

Following a tender process in 2019, PricewaterhouseCoopers LLP (PwC) were re-appointed as the Group's external auditors. The audit partner is Andy Ward, who is a partner in PwC's Leeds office and has been the audit partner for three years. PwC has been the Group's auditors for 13 years.

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

All fees for non-audit work require pre-authorisation by the CFO and the Audit Committee, and non-audit fees paid to the auditors are not permitted to exceed 70% of average audit fees over a three-year period. During the year other non-audit services provided by PwC included £30,000 for their review of the interim financial statements. No other non-audit services were provided by the external auditors. Fees paid to PwC for audit work were £240,000.

The Group is in compliance with the requirements of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Responsibilities) Order 2014, which relates to the frequency and governance of external audit tenders and the setting of a policy on the provision of non-audit services.

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

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

1. The Committee, together with the CFO, met with the senior members of PwC, prior to both the interim review and year-end audit, as they presented their plan for discussion;
2. The Committee, together with the CFO and other members of the Board, met with PwC to assess the execution of the review/audit and reporting of their findings; and
3. The Committee considered the matters set out in PwC's 2023 Transparency Report dealing with audit quality monitoring and remediation. It considered the results of internal and external engagement reviews and the steps taken by PwC to address findings. Within PwC, audit quality is monitored at a global level and at an engagement level, with all engagement partners being reviewed at least once in a three-year cycle.

In reviewing PwC's 2023 Transparency Report, the Committee noted the firm's commitment to quality and risk management. The Committee also discussed with PwC the results of the FRC Audit Quality Inspection of the UK firm. During PwC's attendance at Committee meetings, the Committee also met privately with the auditors and, as Chair of the Committee, I had regular dialogue with the audit partner.

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

The Committee reviews annually the performance of PwC with feedback from management, the Group's finance team, the internal audit function and the Board. As part of this review, the Committee met with members of the audit team to understand the experience of the wider team and their understanding of the Group, the retail sector and the extent of challenge to management on areas which required judgement. The conclusions reached were that PwC has continued to perform the audit in a professional and efficient manner with the necessary objectivity and challenge to demonstrate independence. Following the FY22 audit, it was noted that for future audit processes the Board would need to be satisfied with the strengths and experience of the PwC engagement team, which was addressed in PwC's planning process for FY23. It is the Committee's recommendation to the Board that PwC be re-appointed auditors at the AGM on 1 December 2023.

The Board has no present plans to consider an audit tender process.

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

Ron McMillan
Chair of the Audit Committee
24 October 2023

Directors' remuneration report

The delivery of our strategic priorities depends on building and developing outstanding teams in all areas of the organisation. This has been reflected in the decisions made when considering our pay and incentive arrangements for the wider workforce.

Dear Shareholder,
I am pleased to present this year's Directors' remuneration report on behalf of the Remuneration Committee ('the Committee').

In April 2023, I stepped into the role of Remuneration Committee Chair. I would like to thank Angela Luger and the members of the Committee, for all their support and guidance.

This report provides context and insight into our pay arrangements for Non-Executive Directors and Executive Directors including the assessment of FY23 performance and pay, our continued focus on fairness of pay across the Group, as well as our plans for FY24.

We remain focused on our strategic priorities as we look to continue to grow our market share. Critical to delivering these plans is building and developing outstanding teams in all areas of the organisation. The Committee is also conscious as to delivering our plans in a sustainable manner to ensure that all stakeholders are considered. This has been reflected in the decisions made when considering our pay and incentive arrangements for the wider workforce.

The team continue to react and demonstrate great flexibility to the uncertainty in economic conditions. Despite the challenging backdrop the Group has delivered a resilient financial result ahead of market expectations.

In recognition of our teams' hard work and ongoing dedication, in August 2023 we awarded annual pay increases that supported critical roles across the organisation and key structural changes. Our approach to pay was therefore bespoke and a range of pay awards were made, which resulted in a minimum 3% pay increase for our colleagues (maximum 3% for all Directors).

FY23 incentives
The Executive Directors are eligible for annual bonus incentives with a maximum opportunity of 140% of salary. Historically the Group has used EBITDA to determine the annual bonus award. In the FY23 year we concluded that 10% of the award would be based on hitting two ESG targets, with the other 90% driven by an EBITDA profit target. In concluding on the profit award for the year, the Committee excluded the performance of Snug given it was not known when we set the targets.

Whilst the Group did not achieve the original EBITDA target, largely driven by the gross margin impact of the increased interest rate experienced over the year, the business exceeded the budgeted adjusted profit before tax* target. The ScS adjusted profit before tax for the year was £9.2m, compared to a budget of £8.0m. Based on this profit before tax outperformance, the Committee has therefore approved the minimum EBITDA pay out.

Moving forward we will be using adjusted profit before tax* as the measure for the financial element of our targets and this year is one of transition to this method.

"In recognition of our teams' hard work and resilience, in August 2023 we awarded annual pay increases that supported critical roles in the organisation and key structural changes"

* Adjusted profit before tax is based on profit before tax before the effect of adjusting items. See page 138 for the definition of adjusting items.

In addition, both of the ESG bonus targets on colleague wellbeing (measured by the employee engagement survey) and waste reduction were met. Therefore, the bonus will pay out at 21.25% of the maximum.

Long-term incentives

The FY21 award is due to vest in October 2023, however, the performance period ended on 29 July 2023 and so the vesting percentage can be determined. The Remuneration Committee are, however, conscious that the award was granted before transition to IFRS 16, at a time when there were 38,012,655 shares in issue, before the acquisition of Snug, and that the statutory tax rate has risen since the grant date. On this basis the Remuneration Committee have recalculated EPS using the same accounting basis, number of shares and effective tax rate as at the date of the award and based the vesting calculation on the adjusted, excluding Snug, EPS of 19.7p. Therefore, the award will vest at 33.07% of the maximum.

Remuneration in FY24

On 24 October 2023, a wholly owned subsidiary of Panda S.P.A announced a recommended cash offer for the entire issued and to be issued share capital of the Company. Should the acquisition complete as intended, rewards and incentives may be reviewed. If for any reason, the offer does not proceed, the current remuneration packages will continue.

Steve Carson and Chris Muir have received increases of 3% of salary in line with the increases applied to the wider workforce. Benefit and pension provisions remain unchanged for the forthcoming year.

The Committee has decided to continue to incorporate ESG metrics in the form of employee engagement (wellbeing) and waste reduction measures into the annual bonus. These metrics will again account for 10% of the overall bonus with the remainder being subject to profit before tax targets. The maximum bonus opportunity for the CEO and CFO remains unchanged at 140% of salary.

The Long Term Incentive Plan (LTIP) award will continue to be subject solely on EPS with the LTIP grant unchanged at 150% of salary for both the CEO and CFO.

Fees for our Chair and Non-Executive Directors remain unchanged for the forthcoming year.

Executive Director changes

We announced in December 2022 Chris Muir's intention to step down as CFO. Chris has a 12-month notice period; he will receive his FY23 bonus (subject to the normal performance conditions) and will be eligible for a pro-rated annual bonus in FY24 but will not participate in the LTIP.

The Board have since appointed a successor; Mark Fleetwood joined as CFO effective 4 September 2023. Mark Fleetwood's basic salary has been set at £325,000 with an annual bonus and long-term incentive opportunity in line with our Remuneration Policy. He is also eligible to receive a car cash allowance and healthcare cover in line with that of Chris Muir, and a pension in line with the wider workforce.

Colleague input

We have actively engaged with our colleagues from across the business through face-to-face feedback sessions, where they were able to openly raise any topics with myself and the wider team of Directors. These sessions, combined with our annual employee engagement survey, provided insight to help shape the future people strategy for the business, and ensure our decisions on all matters are carefully considered and allow for feedback and improvement.

On behalf of the Committee, I would like to thank shareholders for their input and engagement in the year, and we welcome any comments. I will be available at the Annual General Meeting (AGM) in November to answer any questions you may have on this report.

Carol Kavanagh
Chair of the Remuneration Committee
24 October 2023

Remuneration principles

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

In promoting these objectives, the Committee's aims are to implement the Remuneration Policy in a simple, transparent and understandable way, supporting the principles set out in Provision 40 of the 2018 UK Corporate Governance Code ('the Code'):

Clarity	The Remuneration Policy is closely aligned to the business, purpose and strategy and has a clear link between performance and reward.
Simplicity	The Policy has operated largely unchanged since IPO, with the most significant change being our formal commitment to align executive pension contributions with the wider workforce.
Risk	Performance targets are set to ensure the delivery of sustainable profitable growth and appropriate safeguards are in place to ensure that overall outcomes are aligned with underlying business performance and the stakeholder experience.
Predictability	The range of possible rewards for variable pay are set and disclosed.
Proportionality	Remuneration levels are periodically benchmarked against other similar sized companies and actual rewards are closely linked to the delivery of the strategy and the long-term performance of the Company.
Alignment to culture	The incentive schemes are focused on our strategy of sustainable profitable growth and are designed to encourage behaviours that are consistent with ScS' purpose, culture and values.

Annual remuneration report

Single figure table of total remuneration Executive Directors – audited

The audited table below shows the aggregate remuneration of the Directors of the Group during FY23 and FY22:

	Salary £	Benefits[1] £	Bonus £	LTIP[2] £	Pension[3] £	Total £	Total fixed remuneration £	Total variable remuneration £
Steve Carson								
FY23	412,000	21,414	122,570	–	20,600	576,584	454,014	122,570
FY22	400,000	21,534	269,360	–	20,000	710,894	441,534	269,360
Chris Muir								
FY23	329,600	18,414	98,056	108,654	16,480	571,204	364,494	206,710
FY22	320,000	18,534	215,488	114,027	16,000	684,049	354,534	329,515

1. Taxable benefits of the Directors are discussed in detail below. Executive Directors received a car allowance and private medical insurance.
2. Estimated value of the FY21 LTIP award, using the average of the closing mid-market share price in the three-month period ending 29 July 2023, being 158.7p. The value of the FY20 LTIP has been restated to reflect actual vesting of awards based on a share price of 139.0p on the date of vesting. The share price on the date of grant was 235.0p, therefore, there is nil value due to appreciation from grant. LTIP participants receive dividends (or any other distribution) only when the award vests. The value of the dividend equivalents paid on the CFO's FY20 award was £11,392, taken as shares (8,196 shares).
3. Steve Carson and Chris Muir opt to receive part of their pension contributions as a cash allowance.

Elements of remuneration

Salary

The basic salary for Steve Carson, CEO, was reviewed and increased from £400,000 to £412,000 effective 1 August 2022. The basic salary of Chris Muir, CFO, was also reviewed based on the same principles and increased from £320,000 to £329,600 effective 1 August 2022. This was in line with the wider workforce basic salary increase.

Pension and other benefits – audited

Executive Directors are eligible to pension benefits equating to 5% of their basic salary, which are non-contributory. This aligns to the pension rate applicable to the wider workforce.

Steve Carson, CEO, received £4,000 of pension benefits and Chris Muir, CFO, received £3,938. The balance was paid as a cash allowance.

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

The Executive Directors received a car allowance which was as follows:

- Steve Carson, CEO: £20,000
- Chris Muir, CFO: £17,000

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

Annual bonus – audited

The Executive Directors are eligible for annual bonus incentives with a maximum opportunity of 140% of salary. Historically the Group has used EBITDA to determine the annual bonus award. In the FY23 year we concluded that 10% of the award would be based on hitting two ESG targets, with the other 90% driven by an EBITDA profit target. In concluding on the profit award for the year, the Committee excluded the performance of Snug given it was not known when we set the targets.

Whilst the Group did not achieve the original EBITDA target, largely driven by the gross margin impact of the increased interest rate experienced over the year, the business exceeded the budgeted adjusted profit before tax target. The ScS adjusted profit before tax for the year was £9.2m, compared to a budget of £8.0m. Based on this profit before tax outperformance, the Committee has therefore approved the minimum EBITDA pay out.

Moving forward we will be using adjusted profit before tax* as the measure for the financial element of our targets and this year is one of transition to this method.

In addition, both of the ESG bonus targets on colleague wellbeing (measured by the employee engagement survey) and waste reduction were met. Therefore, the bonus will pay out at 21.25% of the maximum. The details of the targets and how the bonus was calculated are set out below:

	Target/ % of max bonus				Target	% of max bonus	Actual
Pre-bonus EBITDA	£15.7m	£20.3m	£22.2m	£24.1m			
% maximum	11.25%	45%	67.50%	90%			11.25%
Social – employee engagement					65	5%	5%
Environmental – Waste reduction across the business					5%	5%	5%
Steve Carson	£64,890	£259,560	£389,340	£519,120		£57,680	£122,570
Chris Muir	£51,912	£207,648	£311,472	£415,296		£46,144	£98,056

Long-term incentives

Awards vesting in 2023 – audited

The LTIP granted on 12 October 2020, is due to vest in October in 2023. The initial award provided vesting conditions on a straight-line basis between 25% and 100% based on an EPS in 2023 from 18.3p to 31.0p.

The underlying EPS as reported under IFRS16 for the year is 15.9p, which would not have resulted in an award under the terms of the LTIP. The Remuneration Committee are, however, conscious that the award was granted before transition to IFRS 16, at a time when there were 38,012,655 shares in issue, before the acquisition of Snug (which has been loss making as the business grows from a standing start), and that the statutory tax rate has risen since the grant date.

As a consequence, the Remuneration Committee have recalculated EPS using the same accounting basis, number of shares and effective tax rate as at the date of the award and based the vesting calculation on the adjusted, excluding Snug, EPS of 19.7p. As such, the award will vest at 33.07% of the maximum.

Awards granted during the year – audited

During the year, the Executive Directors were granted a LTIP award with a face value of 150% of salary. The awards were made in the form of nil-cost options and were for 348,955 and 279,164 shares respectively for Steve Carson, CEO, and Chris Muir, CFO. The awards have a three-year vesting period, plus a two-year hold period.

* Adjusted profit before tax is based on profit before tax before the effect of adjusting items. See page 138 for the definition of adjusting items.

Details of the award are set out in the table below:

	Max. award (% of salary)	Max award[1] £	No. shares	Performance measures	Holding period
Steve Carson	150%	£618,000	348,955	100% EPS	2 years
Chris Muir	150%	£494,400	279,164	100% EPS	2 years

1. The five-day average share price prior to the date of grant, 21 April 2023, was 177.1p.

The Committee chose to delay the setting of the EPS targets at the start of FY23 to ensure that it could consider all relevant information. A review was completed to ensure that the long-term incentive targets for our senior leadership team are appropriately stretching and motivational, and this included independent advice on executive remuneration. The EPS targets approved are set out below:

EPS figure (in 2024)	Percentage of award that vests
Less than 17.3p	Nil
17.3p	12.5%
Greater than 17.3p but less than 23.1p	Straight-line basis between 12.5% and 50%
Greater than 23.1p but less than 30.6p	Straight-line basis between 50% and 100%
30.6p or greater	100%

The performance conditions for the FY23 LTIP awards are consistent with the Company's approved Directors' Remuneration Policy.

All-employee share plans

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

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

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 ended 29 July 2023.

Director	Shares held beneficially	Unvested
Alan Smith	18,096	–
Ron McMillan	–	–
Angela Luger	–	–
Carol Kavanagh	–	–
Andy Kemp	–	–
John Walden	–	–
Swarupa Pathakji	–	–

	Shares held beneficially	Nil cost options subject to performance[1]	Option awards vested but unexercised[2]	Total
Steve Carson				
Number	75,000	572,752	–	647,752
Value at year end	£119,025	£908,957	–	£1,027,982
Chris Muir				
Number	179,557	458,202	68,465	706,224
Value at year end	£284,957	£727,167	£108,654	£1,120,778

1. Awards vest subject to EPS performance over a three-year period. This relates to awards granted in FY22 and FY23.
2. Option awards vested (but unexercised) is inclusive of the FY21 EPS LTIP award and dividend equivalents.

The value of share interests at the year-end is based on the average share price in the three months ending on 29 July 2023 of 158.7p. There have been no changes to share interests as at the date of this report.

The Executive Directors are required to build and maintain a shareholding equivalent to 200% of base salary. The beneficial shareholding for Steve Carson is currently 28.9% of his salary. Mark Fleetwood does not currently hold any shares. Both are required to build up their shareholding, which will be achieved by the retention of share options awarded under the LTIP.

Chris Muir currently has a shareholding of 86.5% of his salary but will leave the business during FY24.

Payments to past Directors – audited
David Knight left the Board on his retirement on 31 July 2021. He retired with the agreement of the Board and worked his full 12-month notice period. As such the Committee determined that he should be treated as a good leaver, and therefore his unvested conditional shares awarded under the FY20 and FY21 LTIPs were time pro-rated to 31 July 2021. The LTIP award granted in FY20 vested in October 2022 at 48.2%, resulting in an award of 69,730 shares (inclusive of dividend equivalents) with a value of £96,925 (the share price at vest was 139.0p) (FY22: Payments to retiring CEO, David Knight, as detailed in last year's Annual Report). The LTIP award granted in FY21 will vest in October 23 at 33.07%, resulting in an award of 29,079 shares (inclusive of dividend equivalents) with a value of £47,314 (using the average of the closing mid market share price in the three month period ending 29 July 2023, being 158.7p, on the non dividend equivalent proportion of the award of 25,342).

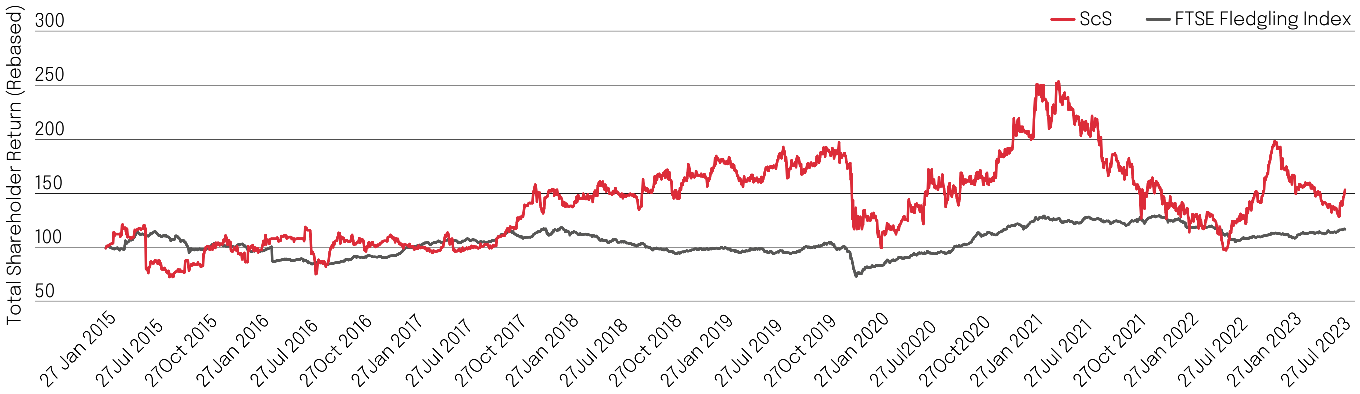
Payments for loss of office – audited
There were no payments to past directors in the year ended 29 July 2023 (FY22: none).

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

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.

	FY23 £'000	FY22 £'000	% Change
Total pay for employees	67,775	65,420	3.6%
Distributions to shareholders	4,724	4,443	6.3%

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



Source: Datastream (Thomson Reuters).

This graph shows the value, by 29 July 2023, of £100 invested in ScS Group plc on 26 January 2015 compared with the value of £100 invested in the FTSE Fledgling Index.

Changes in the remuneration of the CEO

The Committee believes that the Remuneration Policy and remuneration structure clearly aligns with the Group's strategic objectives and performance. The table shows the remuneration data for Directors undertaking the role of CEO in the last 10 years.

	CEO single figure £	Annual bonus payment (% of maximum)	LTIP vesting (% of maximum)
Steve Carson			
FY23	576,584	21.25%	N/A
FY22	710,894	48.1%	N/A
FY21[1]	577,461	100.0%	N/A
David Knight			
FY21	1,382,077	100.0%	89.3%
FY20	388,027	0.0%	0.0%
FY19	1,094,972	99.3%	56.3%
FY18	815,408	99.8%	0.0%
FY17	591,303	39.2%	0.0%
FY16	801,290	100.0%	N/A
FY15	380,183	0.0%	N/A
FY14	557,786	42.3%	N/A

1. Remuneration relates to seven months of employment. Shown for illustration only. Comparisons in this report to are made against David Knight's full year remuneration.

Changes in the remuneration of the Directors

The table below shows the percentage changes in the Executive and Non-Executive Directors' remuneration over the last four years, compared to the amounts for full-time employees of the Group for each of the following elements of pay:

	Percentage change from FY22			Percentage change from FY21			Percentage change from FY20			Percentage change from FY19		
	Salary	Benefits	Bonus	Salary	Benefits	Bonus	Salary	Benefits	Bonus	Salary	Benefits	Bonus
Executive Directors												
Steve Carson[1]	3%	(0.6)%	(54.5)%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Chris Muir[2]	3%	(0.6)%	(54.5)%	11.60%	(2.6)%	(46.3)%	19.40%	–	100%	–	2.30%	(100)%
Non-Executive Directors												
Alan Smith	–	N/A	N/A	–	N/A	N/A	–	N/A	N/A	–	N/A	N/A
Ron McMillan	–	N/A	N/A	–	N/A	N/A	–	N/A	N/A	–	N/A	N/A
Angela Luger[3]	2.3%	N/A	N/A	10.82%	N/A	N/A	–	N/A	N/A	–	N/A	N/A
Carol Kavanagh	–	N/A	N/A	N/A	N/A	N/A	–	N/A	N/A	–	N/A	N/A
Andy Kemp	–	N/A	N/A	–	N/A	N/A	–	N/A	N/A	–	N/A	N/A
John Walden	–	N/A	N/A	–	N/A	N/A	–	N/A	N/A	–	N/A	N/A
Swarupa Pathakji	–	N/A	N/A	–	N/A	N/A	–	N/A	N/A	–	N/A	N/A
Average per employee (excluding Directors)*	**5.5%**	**1.5%**	**(27.8)%**	**8.8%**	**(6.1)%**	**(49.1)%**	**1.6%**	**(10.6)%**	**221%**	**1.2%**	**7.3%**	**(56.3)%**

1. Steve Carson has had no increase in salary or benefits from FY21 to FY22, as he was appointed in January 2021.
2. Chris Muir received a salary increase in January 2021.
3. Angela Luger was appointed Chair of the Remuneration Committee during FY22 until March FY23 and therefore received an additional payment for this role for a proportion of FY22 and FY23.

CEO pay ratio

The table below shows the ratio of CEO pay for FY23 comparing the sum of the single total figures of remuneration for Steve Carson to the full-time equivalent total reward of those colleagues whose pay is ranked at the 25th, 50th and 75th percentile in our UK workforce. These employees were identified on 29 July 2023.

We have adopted Methodology Option A to calculate the ratio, as we believe it provides the best comparison of colleague pay with that of our CEO by using a consistent methodology to value remuneration and identify our employees ranked at the 25th, 50th and 75th percentiles.

1. We have used employee remuneration details from A. Share and Sons Limited and Snug Furniture Limited, the trading subsidiaries of ScS plc. This is considered more meaningful as ScS plc has no employees other than Non-Executive Directors.

Colleague pay was calculated based on actual pay and benefits for the 12 monthly payrolls in respect of the full financial year to 29 July 2023. We can confirm that none of the three individuals received additional or exceptional pay within the year and no adjustments were made to the calculation of the total remuneration for these employees from the methodology set out for the CEO's single total figure remuneration. The ratios as set out below:

Year	Method	25th percentile	50th percentile	75th percentile
FY23 – Steve Carson	Option A	26:1	20:1	15:1
FY22 – Steve Carson	Option A	35:1	27:1	21:1
FY21 – David Knight[1]	Option A	70:1	55:1	43:1
FY20 – David Knight	Option A	21:1	16:1	12:1

1. David Knight's FY21 single figure value has been restated to reflect actual vesting value of the FY19 LTIP award, based on a share price of 268.0p on the date of vesting.

The difference in the ratios from FY22 to FY23 is predominantly the result of the reduction in the CEO single figure value. Steve Carson was not eligible to receive an LTIP vest in FY23 due to his start date. The decrease in pay ratio this year is the combined result of the reduced total remuneration for the CEO, as detailed in the single figure table and, in response to the cost of living crisis, the focus on pay for lower paid colleagues.

The table below provides the individual remuneration information in relation to our employees ranked at the 25th, 50th and 75th percentiles:

Year	Method	25th percentile	50th percentile	75th percentile
FY23	Salary	£21,666	£28,549	£36,732
	Total pay and benefits	£22,117	£29,170	£37,531
FY22	Salary	£19,898	£25,549	£33,381
	Total pay and benefits	£20,241	£26,082	£34,138
FY21	Salary	£17,213	£24,483	£27,898
	Total pay and benefits	£19,641	£25,095	£32,190
FY20	Salary	£17,601	£24,259	£19,727
	Total pay and benefits	£18,190	£24,259	£31,412

Gender pay gap

Our people-focused strategy projects include work focused on talent, reward and employer brand. This work will help us to make sure we are supporting and representing our female colleagues at every level. Within our learning and development programmes, we will ensure a fair proportion of female colleagues are included to help provide a supportive environment.

As part of our ESG strategy, we will be reporting and monitoring numbers of females in management roles in retail, with the aim of increasing female management by 25% by the end of FY24.

For further information and to view the full report, please visit www.scsplc.co.uk

Remuneration of the Chair 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 FY24.

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

The fees paid during FY23 to the Non-Executive Directors were as follows:

	FY23	FY22
Alan Smith	£125,000	£125,000
Ron McMillan	£60,000	£60,000
Angela Luger	£56,667	£55,410
Carol Kavanagh	£51,154	n/a
Andy Kemp	£25,000	n/a
John Walden	£20,833	n/a
Swarupa Pathakji	£12,500	n/a

Our Non-Executive Directors (excluding the Chair) have a base fee of £50,000. Ron McMillan, Angela Luger and Carol Kavanagh each received an additional £10,000 per annum for chairing the Audit and Remuneration Committees respectively. Carol Kavanagh was appointed as Remuneration Committee Chair on 1 April 2023. Angela Luger was paid as Remuneration Committee Chair up to 31 March 2023.

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

Implementation of the Remuneration Policy in FY24

Salary, pension and other benefits

As anticipated, increases in FY24 will be aligned to that of the wider workforce with average increases of 3%. The CEO and CFO's base salaries were reviewed and increased by 3% effective 1 August 2023; this rate is in line with that provided to the wider workforce:

- Steve Carson: £424,360 (previously £412,000)
- Chris Muir: £339,488 (previously £329,600)

Our incoming CFO, Mark Fleetwood, has been appointed on 4 September 2023 with a basic salary of £325,000. Mark's salary was benchmarked using external market insights through our recruiters and other benchmarking sources.

The Executive Directors will continue to receive pension contributions of 5% of salary in line with the rate available for the wider workforce. They will also continue to receive a car allowance, private medical insurance and life assurance.

Approach for FY24 annual bonus

For FY24, the maximum bonus opportunity is unchanged at 140% of base salary for both the CEO and CFO.

To further align with the strategy, the Committee has included non-financial ESG performance measures into the bonus with a total weighting of 10%. The measures are:

- Social – employee engagement
  This is measured via an independent colleague engagement survey, where the measure is to increase the colleague positive response to the statement 'ScS takes a genuine interest in my wellbeing'. The target score is 70 before the end of FY24 (Scored 68 in FY23).
- Environmental – Waste reduction across the business

The remaining 90% of the bonus is based on the achievement of stretching EBITDA targets. The Committee does not disclose the EBITDA targets in advance as they are commercially sensitive. Retrospective disclosure of the EBITDA targets will be included in next year's report.

The FY24 annual bonus detailed above may be impacted should the acquisition complete as intended. The Remuneration Committee currently propose that awards are time and performance pro-rated to the completion date.

Long-term incentives

If the acquisition proceeds, then no FY24 LTIP Award will be granted. Prior to the offer, we commenced a review on the long-term incentive targets for our senior leadership team to ensure they are appropriately stretching and motivational in light of our newly refreshed growth strategy. Should the acquisition not proceed, we will seek independent expert advice on executive remuneration, as well as feedback from a range of our key shareholders before finalising our FY24 LTIP award.

The Remuneration Committee intends that the FY24 grants will be maintained at the normal levels (150% of base salary for the Executive Directors). However, the Committee has full discretion, under the plan rules, to ensure that the final vesting outcomes are justified based on the performance of the Group, including consideration of any windfall gains.

Chris Muir will not be invited to participate in the LTIP award this year as he is currently within his notice period. Mark Fleetwood will participate in line with the levels set out in our Remuneration Policy.

Chair and Non-Executive Director fees

Fees for the Chairman and Non-Executive Directors remain unchanged as below.

Role	Fee
Chairman	£125,000
Non-Executive Directors base fee	£50,000
Audit and Remuneration Committee Chair	£10,000

Remuneration Committee

The members of the Committee for the 2023 financial year were Carol Kavanagh (Committee Chair from March 2023, previously a Committee member), Angela Luger (Committee Chair until March 2023), Alan Smith and Ron McMillan, Andy Kemp, John Walden and Swarupa Pathakji. 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 pages 79 to 81.

The Committee may invite the Executive Directors or other members of the senior management team to attend meetings and assist the Committee in its deliberations as appropriate. No person is present during any deliberations relating to their own remuneration or involved in determining their own remuneration. During the course of the year, Steve Carson, Chris Muir and Lucy Clough (People Director) were in attendance as required.

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

Member and meetings attended in FY23	Member since	Meetings attended
Carol Kavanagh	2022	7
Angela Luger	2019	7
Alan Smith	2014	7
Ron McMillan	2014	7
Andy Kemp	2023	3
John Walden	2023	3
Swarupa Pathakji	2023	2

Advisors to the Committee

During the year, the Committee received independent advice on executive remuneration matters from Mercer Limited. Mercer was appointed by the Committee following a formal tendering process.

Mercer Limited are members of the Remuneration Consultants Group and, as such, voluntarily operate under the code of conduct in relation to executive remuneration consulting in the UK. The Committee has received advice provided by Mercer Limited during the year and is comfortable that they have been objective and independent. Total fees received by Mercer Limited in relation to remuneration advice provided to the Committee during FY23 amounted to £17,600, excluding VAT, based on the required time commitment.

Shareholder voting

At the AGM on 25 November 2022, the total number of shares issued with voting rights was 35,551,162. The resolution to approve the Annual remuneration report from the 2022 AGM received the following votes from shareholders.

Resolution	Votes for	Percentage of votes cast in favour	Votes against	Percentage of votes cast against	Votes withheld	Total votes cast	Percentage of issued share capital voted
To approve the Directors' remuneration report (2022 AGM)	19,140,744	99.89%	20,476	0.11%	1,666,020	20,827,240	58.6%

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

Carol Kavanagh
Chair of the Remuneration Committee
24 October 2023

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. The Committee can confirm Remuneration Policy has operated as intended in relation to both performance and quantum.

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 and considers feedback received from shareholders. When the policy was last approved in FY22 feedback was pro-actively sought and shareholders accounting for over 69% of total equity responded, with 80.2% in favour. The Committee takes into account the best practice guidance issued by institutional shareholders and their representative bodies.

The Directors' Remuneration Policy

The Directors' Remuneration Policy was last approved by shareholders on the 26 November 2021 at the 2021 AGM and is due to be renewed at the 2024 AGM. This report has been prepared on behalf of, and has been approved by, the Board. It complies with The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. The Remuneration Committees terms of reference can be inspected by members at: www.scsplc.co.uk/corporate-governance/committees-terms-of-reference.

The most significant changes made last year are our formal commitment to reduce executive pension contribution rates to align more closely to the wider workforce rate and the implementation of bonus deferral when it is felt appropriate to do so.

Remuneration element	Purpose	Operation	Maximum	Performance measures
Base salary	This is the basic pay and reflects the individual's role, responsibilities and contribution to the Group; critical to help attract and retaining the right talent.	Base salaries are reviewed annually with changes typically taking effect from the beginning of the relevant financial year. When reviewing, consideration is given by the Committee to a range of factors, including the Group's overall performance, market conditions and individual responsibility of executives and the level of salary increases given to employees across the Group. Higher increases may be awarded where there has been an increase in responsibility. If a new Executive Director's salary is set on appointment below the median market rate, phased increases (as a percentage of salary) above those granted generally to other employees may be awarded subject to the individual's performance and development.	Base salaries will be benchmarked periodically against companies that are both main and AIM listed, who are of a similar size, sector and complexity. Salaries will generally be set at the mid-market levels; however, the Committee remains mindful of the need to attract, recruit and retain talent within the team.	N/A

Remuneration Policy report continued

Remuneration element	Purpose	Operation	Maximum	Performance measures
Benefits	To provide benefits which are valued by the individual and assist them in carrying out their duties and to support wellness and engagement.	The Group will provide market competitive benefits, which may periodically be reviewed. Executives will generally be eligible to receive those benefits on similar terms to other senior executives and those available to the broader workforce. Executives are entitled to a car allowance or a company car, car insurance, other running costs and fuel, death in service life assurance, private medical care and any other Group-wide benefits including employee discount. Business travel and associated hospitality are provided in the normal course of business. The Committee has the discretion to add or remove benefits to remain market competitive or to meet the needs of the business including where new benefits are introduced for the wider workforce. In addition, where the Committee considers it appropriate to do so, additional relocation expenses may be paid.	No explicit maximum. We ensure that benefits offered are in line with the market and review their cost from time to time in the context of the wider workforce provision.	N/A
Pension	To provide a market competitive pension contribution (or equivalent cash allowance).	Executive Directors may take pension benefits as a contribution to defined contribution personal pension plans or receive cash in lieu.	A total maximum value of 5%, which aligns closely to the workforce rate. The Committee reserves the right to increase the rate if changes are made for the workforce – no such increase is planned at the present time.	N/A

Remuneration element	Purpose	Operation	Maximum	Performance measures
Bonus	To provide an incentive linked to the financial performance of the Group and any other appropriate individual or business measures. Deferral provides further alignment to shareholders' long-term interests for achievement of stretching targets.	Bonuses are normally paid in cash. Payments are made subject to meeting pre-determined targets set at the start of the year and approved by the Committee. Malus and clawback rules apply to cash and deferred awards; see explanatory notes for more information. The Committee will consider the introduction of bonus deferral arrangements for any bonus earned in excess of 100% of salary.	The current annual bonus potential for the CEO and CFO is 140% of base salary. The threshold bonus levels will be no more than 25% of their respective maxima. As the regulations require a formal cap for a three-year period, future bonus potential will only increase where appropriate against market data and, in any event, will be subject to an overall maximum of 200% of salary for any Executive Director.	The Committee intends for the majority of the bonus to be based on financial measures, but has the discretion to introduce operational, corporate, divisional and/or individual performance measures if appropriate to the business including measures relating to the Group's ESG objectives. Performance conditions, once set, will generally remain unaltered, but the Committee has the right in its absolute discretion to make adjustments during any performance period to reflect any events arising which were unforeseen when the performance conditions were originally set by the Committee, for example, related to transactions. Any amended targets should be no more or less difficult to achieve than the original targets were considered to be when set.
Long-term incentives	To align the Directors with the long-term performance of the business and the returns received by shareholders.	Awards may be made annually as options (including nil cost options) or as conditional share awards based on performance conditions. The Committee may set performance conditions typically over a three-year period. The current intention is to use conditional shares or nil cost options for awards. Dividend equivalents will be made as either a cash payment or delivery of plan shares in an amount equal in value to the dividends that would have been payable on the number of vested plan shares under the award in respect of the period between the award date and the date on which the award vested or, where the award is an option and a holding period applies, to the date of expiry of the holding period or exercise (if earlier). A two-year post-vesting holding period shall apply to LTIP awards granted to Executive Directors and may apply (at the discretion of the Committee) in relation to LTIP awards granted to others. Malus and clawback rules apply to vested awards; see explanatory notes for more information.	The policy is to award Executive Directors nil cost share options equating to no more than 150% of their basic salary in respect of each financial year. No more than 25% of an award can be earned for a threshold performance.	Performance is normally based on earnings per share targets, but different measures and targets may be used alongside or instead of earnings per share for future awards at the discretion of the Committee. Performance conditions, once set, will generally remain unaltered, but the Committee has the right in its absolute discretion to substitute or vary the performance conditions during any performance period in case of events arising which were unforeseen when the performance conditions were first set by the Committee, provided that such substitution or variation is reasonable and produces a fairer measure of performance and is not materially less difficult to satisfy.

Remuneration element	Purpose	Operation	Maximum	Performance measures
Shareholding guidelines	Executive Directors are expected to maintain their minimum shareholding levels once they have been obtained.	The Committee will review shareholding annually against the Policy. The Committee reserves the right to alter the shareholding guidelines during the period of the Policy but without making the guidelines any less onerous overall.	The minimum required level of shareholding is 200% of base salary of the relevant Executive Director. We encourage Executive Directors to meet this requirement within five years of the date of appointment. Executive Directors are expected to retain vested LTIP awards (after tax) until the minimum shareholding level is attained.	N/A
Employee share plan	To encourage share ownership by employees and participation in the long-term success of the Group, the Group operates an employee share incentive plan for UK employees which was adopted in April 2015.	Executive Directors can participate in the employee Share Incentive Plan (SIP) on the same terms as other employees of the Group in the UK. Executive Directors will also be eligible to participate in any replacement or new all employee share plan that is introduced on the same terms as other employees.	Under the rules of the SIP employees can purchase shares from their pre-tax and pre-national insurance salary through a resident SIP trust. Although the Group has no current intention to do so, the Group may also award matching shares (in proportion to the number of shares an employee chooses to purchase), or make an award of free shares. The maximum amount that can be purchased, offered as a match or awarded for free under the SIP is subject to the published HMRC annual limits.	N/A

Payment of statutory entitlements and settlement of claims

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

Remuneration Policy and other employees

As well as the Executive Directors, other senior management will also participate in the performance-based annual incentive. 71% of our colleagues are eligible for either a sales commission or bonus, based broadly on the same metrics of sales and profit as the Executive Directors. A small group of senior management also participates in the LTIP for performance share awards.

The Group is committed to widespread share ownership. The Group employee SIP, which was adopted prior to admission, has been launched. Under the SIP, Executive Directors are eligible to participate on a basis consistent with all other employees. Currently, 63 employees participate in the scheme.

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

Operation of variable pay

Annual incentive plan

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

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

Long-Term Incentive Plan (LTIP)

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

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

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

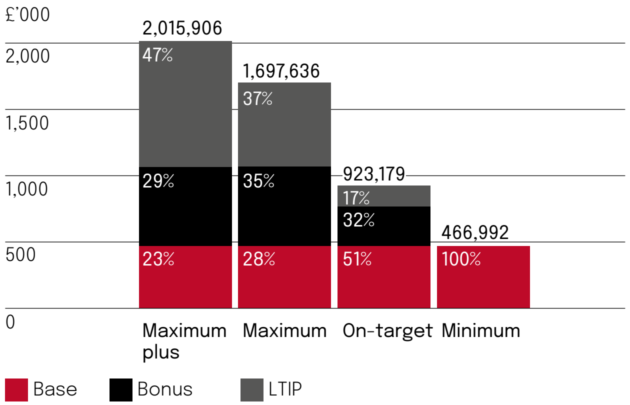
Clawback

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

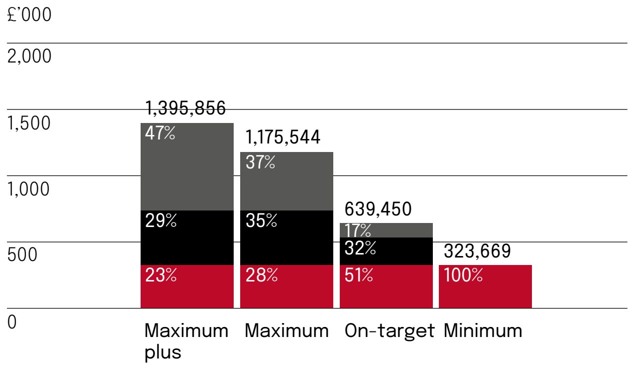
Potential reward scenarios

The graphs below show an estimate of the Executive Directors' remuneration package as it will be implemented for FY24. Based on the current reward package available should the acquisition not proceed.

Steve Carson (Chief Executive Officer)



Mark Fleetwood (Chief Financial Officer)



Assumptions

- For Mark Fleetwood, all scenarios reflect remuneration related to time in role, since his appointment date.
- 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, which is 140% of base salary, and 25% vesting under the LTIP being the threshold level (assuming an award of 150% of salary to Executive Directors under the LTIP).
- The maximum scenario reflects fixed remuneration plus 100% of the maximum annual bonus under the annual incentive plan, which is 140% of base salary and 100% vesting under the LTIP (assuming an award of 150% of salary under the LTIP).
- The maximum plus scenario is the same above but shows the impact of a 50% increase in the share price on the value of the LTIP award (the on-target and maximum scenarios exclude the impact of share price increase).

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 SIP in accordance with relevant legislation and HMRC guidance). In order to ensure efficient administration of these plans, certain operational discretions are reserved to the Committee. These include:

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

- Whether malus and/or clawback shall be applied to any award and, if so, the extent to which they shall apply; and
- Making appropriate adjustments to awards on account of certain events, such as major changes in the Group's capital structure.

Recruitment and promotions

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

Additionally, on appointment of any new Executive Director (whether by external recruitment or internal promotion) the Remuneration Policy will permit the following:
- Variable pay will be capped at the limits set out in the Policy for existing Directors.
- On pensions, the intention is to limit the pension provision (provided either through a Company contribution to a defined contribution scheme or paid as a cash allowance in lieu of pension) to the same level as the wider workforce for all new Executive Directors and members of the senior management team.
- The Group may compensate a new Executive Director for amounts forgone from the individual's former employer in addition to ongoing remuneration provided under the Policy (as permitted under Listing Rules) taking account of the amount forfeited, the extent of any performance conditions, the nature of the award and the time period for vesting.
- The annual incentive plan would operate in accordance with its terms pro-rated for the period of employment, and depending on the appointment timing, different performance targets might be set as the Committee considers appropriate.
- On an internal appointment, any variable pay element awarded in respect of the individual's former role would be allowed to pay out according to its terms, with any relevant adjustment to take account of the appointment. Any other ongoing remuneration obligations existing prior to the appointment would also continue.
- On any appointment, the Committee may agree that the Group will meet any appropriate relocation expenses.

Service contract and payments for loss of office

Main provisions on termination

The service contract for the CEO is indefinite but terminable either by the Company or the CEO on 9 months' notice. The service contract for the CFO is indefinite but terminable either by the Company or the CFO on 12 months' notice. The service contract for Steve Carson is dated 24 November 2020, for Chris Muir, 8 January 2016, and for Mark Fleetwood 8 June 2023. An Executive Director's service contract can also be terminated without notice or payment of compensation except for pay accrued up to the termination date on the occurrence of certain events such as gross misconduct.

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

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

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

Any new contracts will be on similar terms.

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

Non-Executive Directors have letters of appointment. The term is for an initial period of two-three-year terms with a provision for termination on three months' notice from either party.

Annual bonus on termination

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

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

Performance share plans on termination

Share-based awards made under the Group's share plans are governed by the relevant plan rules. Under the rules of the LTIP, unvested awards shall ordinarily lapse on the individual giving or being given notice of termination of employment, except in certain prescribed 'good leaver' scenarios. Good leavers include individuals who leave due to retirement, ill health, death or redundancy, or in other circumstances at the discretion of the Committee.

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

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

Chair 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 Chair of the Board. All fees are subject to the aggregate fee cap for Directors in the Articles of Association, which is currently £400,000 per annum.

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

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

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

Letters of appointment

Alan Smith and Ron McMillan have letters of appointment dated 22 October 2014 for an initial period of three years and are subject to three months' notice of termination by either side at any time and subject to annual re-appointment as a Director by the shareholders. Angela Luger's letter of appointment is dated 16 May 2019. Alan Smith and Ron McMillan were re-appointed for a further term of three years commencing 22 October 2020. Carol Kavanagh's letter of appointment is dated 26 September 2022.

Andy Kemp's letter of appointment is dated 1 February 2023. John Walden's letter of appointment is dated 1 March 2023. Swarupa Pathakji's letter of appointment is dated 2 May 2023.

The appointment letters provide that no other compensation is payable on termination.

Insurance

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

Directors' report

Activities and results

The Directors present their Annual Report, together with the audited consolidated financial statements for the year ended 29 July 2023. ScS Group plc is one of the UK's leading furniture and flooring retailers. Trading as the ScS brand from 100 stores principally located in modern retail park locations across the country. Our new Snug business trades from three stores, a number of ScS concessions and a further seven concessions in third-party stores.

Management report

The Directors' report, together with the Strategic report, set out on pages 1 to 66, form part of the Management report for the purposes of Disclosure Guidance and Transparency Rule (DTR) 4.1.5R.

Statutory information contained elsewhere in the Annual Report

As permitted by legislation, the Group has chosen to include certain matters in its Strategic report that would otherwise be required to be included in the Directors' report, as the Board considers them to be of strategic importance. The Strategic report can be found on pages 1 to 66.

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

Information	Page(s)
Future developments	1 to 6
Colleague engagement	32 to 33
Stakeholder engagement	32 to 37
Greenhouse gas emissions	46 to 46
Section 172 statement	48 to 49
Risk and risk management	57 to 64
Financial risk management	154
Viability statement	65 to 66
Going concern	137
Corporate governance statement	72 to 82
Statement of Directors' responsibilities	124
Post balance sheet event	155

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

Listing Rule	Listing Rule requirement	Disclosure
9.8.4(1)	Interest capitalised by the Group and any related tax relief	Not applicable
9.8.4(2)	Unaudited financial information (LR 9.2.18R)	Strategic report, page 1 to 66
9.8.4(4)	Long-term incentive schemes (LR 9.4.3R)	Directors' remuneration report, pages 101 to 102
9.8.4(5)	Directors' waivers of emoluments	Not applicable
9.8.4(6)	Directors' waivers of future emoluments	Not applicable
9.8.4(7)	Non pre-emptive issues of equity for cash	Not applicable
9.8.4(8)	Non pre-emptive issues for cash by any unlisted major subsidiary undertaking	Not applicable
9.8.4(9)	Parent company participation in a placing by a listed subsidiary	Not applicable
9.8.4(10)	Contract of significance in which a Director is or was materially interested	Not applicable
9.8.4(11)	Contract of significance between the Company (or one of its subsidiaries) and a controlling Shareholder	Not applicable
9.8.4(12)	Waiver of dividends by a shareholder	Directors' report, page 121
9.8.4(13)	Waiver of future dividends by a shareholder	Directors' report, page 121
9.8.4(14)	Board statement in respect of relationship agreement with the controlling shareholder	Not applicable

Non-financial information statement
In addition to the above referenced sections of the Annual Report, the Section 172 statement and non-financial and sustainability information sections of the Annual Report set out on pages 48 to 49 are intended to help stakeholders understand the Group's development, performance and impact of its activities, information relating to the environment, employee, social, respect for human rights, anti-corruption and anti-bribery matters in accordance with the non-financial reporting requirements contained in sections 414CA and 414CB of the Companies Act 2006.

Results and dividend
The financial statements set out the Group's results for the year ended 29 July 2023 and are contained in pages 125 to 162. The Group's profit after tax for the financial year ended 29 July 2023 of £4.5m (2022: £13.6m) is reported in the consolidated statement of comprehensive income on page 133.

The Group continues to maintain a strong balance sheet which, coupled with the strategic progress to date provides further confidence in the Group's future and as a consequence the Board announced an interim dividend of 4.5p per share paid in May 2023. The Board is also recommending a final dividend of 10.0p per ordinary share which, together with the interim dividend, results in a full-year dividend of 14.5p. This dividend, if approved, will be paid on 15 December 2023 to shareholders on the register on 17 November 2023. The ex-dividend date is 16 November 2023.

Movements in reserves are shown in the consolidated statement of changes in equity on page 135.

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

Capital structure
Details of the Company's issued share capital are shown in note 20 to the financial statements on page 152.

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

Details of outstanding employee share options and the operation of relevant schemes are shown in note 22 to the financial statements on pages 152 to 153.

Share buyback programme
On 25 November 2022, the Group announced a share buyback programme of up to £3.1m. The Group announced the completion of this programme on 17 February 2023. This programme, together with a previous programme announced by the Group on 22 March 2022, has seen a total of 4,057,981 ordinary shares purchased and cancelled, representing 10.7% of the Group's issued share capital as at 22 March 2022. In total, ScS has returned £7m to shareholders.

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

At the start of the year, the Group also held non-EBT shares in treasury in relation to the share buyback programme. The Group's total shares held in treasury at the start of the year (EBT and non-EBT) was 327,663. During the financial year to 29 July 2023, 74,932 shares which were purchased into treasury (non-EBT) in the prior year have subsequently been cancelled as part of the share buyback programme (and therefore transferred to retained earnings in the period, at an average price of 154.56p per ordinary share). During the period, the Group's EBT purchased a further 106,637 ordinary shares of 0.1p each in the Group at an average price of 139.00p per ordinary share, and 228,008 ordinary shares were used to satisfy management incentive awards.

All other non-EBT shares held in treasury purchased during the year were subsequently cancelled as part of the share buyback programme. 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. 131,360 ordinary shares in the Company remained held as treasury shares at 29 July 2023.

Significant agreements – change of control

With the exception of the revolving credit facility (RCF), the Group is not party to any significant agreements that would take effect, alter or terminate upon a change in control of the Company following a takeover. The Group's existing RCF contains a standard change of control clause that will be triggered once the acquisition completes. This could result in the facility being withdrawn. The Directors are not aware of any agreements between any member of the Group and its Directors and employees that provide for compensation for loss of office or employment that occurs following a takeover bid, except that provisions of the Group's share plans may cause options and awards granted under such plans to vest on a takeover.

Directors and their interests

Details of the Directors of the Company as at 29 July 2023 are shown on pages 68 to 71 and their interests in shares and share awards made to them under share incentive schemes in respect of the Company's shares are shown in the Directors' remuneration report on pages 101 to 103, all of which form part of this report.

The Directors of the Company who were in office during the year and up to the date of signing the financial statements unless otherwise stated were:

Alan Smith	Non-Executive Chair
John Walden	Non-Executive Chair Designate (appointed on 1 March 2023)
Ron McMillan	Non-Executive Director
Angela Luger	Non-Executive Director
Carol Kavanagh	Non-Executive Director (appointed on 26 September 2022)
Andy Kemp	Non-Executive Director (appointed on 1 February 2023)
Swarupa Pathakji	Non-Executive Director (appointed on 2 May 2023)
Steve Carson	Chief Executive Officer
Chris Muir	Executive Director
Mark Fleetwood	Chief Financial Officer (appointed on 4 September 2023)

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

Appointment and replacement of Directors

The appointment and replacement of Directors is governed by the Company's Articles of Association, the UK Corporate Governance Code, the Companies Act 2006 and related legislation. With the exception of Alan Smith and Ron McMillan, who will both step down on 1 December 2023 after completing nine years as Board members, and Chris Muir whom has resigned and will leave after completing his notice period on 1 December 2023, all of the Directors will seek election or re-election at the Annual General Meeting (AGM). A Director may be appointed by ordinary resolution of the shareholders or by the Board. The Board may from time to time appoint a Director to fill a vacancy or as an additional Director, provided that the individual seeks election at the next AGM.

Directors' indemnities

As permitted by the Company's Articles of Association, the Directors have the benefit of a non qualifying third party indemnity provision which is applicable in certain circumstances. The Company also purchased and maintains Directors' and Officers' liability insurance. Both the insurance and indemnities applied throughout the financial year ended 29 July 2023 and through to the date of approval of the financial statements.

Employment policies

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.

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 disability (including colleagues who may have become disabled during service), gender, sexual orientation, pregnancy or maternity, race, religion or age. See page 82 for more information on our diversity and inclusion policy.

All of our applicants and colleagues are treated fairly and we have a zero-tolerance approach, not only to harassment but also to discrimination and bullying of any kind. 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.

We also encourage colleagues to become involved in the financial performance of our business through a variety of share and bonus schemes. Employee engagement is considered further within the Section 172 statement on pages 48 to 49.

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

Charitable and political donations
During the year, the Group made charitable cash donations of £67,000 (2022: £64,000). The Group also launched a partnership with Shelter, the national housing and homelessness charity to support their efforts to emphasise the importance of home. Since the partnership's inception in April 2023, through providing stock no longer required by the business, helping Shelter to generate £56,000 in sales.

No political donations, expenditure or contributions have been made or incurred (2022: £nil).

Major interest in shares
As at 10 October 2023 the following shareholders have notified the Company of their interest in 3% or more of the Company's issued share capital:

	Number of shares held	% of issued share capital
M&G Investments	4,582,414	13.50
Huntington Management	4,196,904	12.36
Artemis Investment Management	2,634,543	7.76
Premier Miton Investors	1,719,766	5.06
Valentum	1,550,845	4.57
David Knight	1,528,615	4.50
Stadium Capital Management	1,168,825	3.44
Kanen Wealth Management	1,054,860	3.11

Annual general meeting (AGM)
A notice convening the Company's upcoming AGM on 1 December 2023 will be issued to shareholders separately.

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

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

Offer process
On 24 October 2023, the Board announced a recommended offer for the Company of 270p per share in cash, from a wholly-owned subsidiary of Poltronesofà S.p.A. In addition, shareholders who are on the register at the close of business on the register on 17 November 2023 will be entitled to receive the final dividend of 10.0p (in respect of the year ended 29 July 2023).

The offer provides liquidity to shareholders with the opportunity to exit in full and in cash at a significant premium to the current share price, in a time of continued macroeconomic uncertainty.

It is intended that the acquisition will be implemented by way of a Court-sanctioned scheme of arrangement under Part 26 of the Companies Act. Cerezzola Limited (a wholly-owned subsidiary of Poltronesofà S.p.A.) has indicated its intention (subject to the requisite acceptance thresholds being achieved referred to in the announcement of 24 October 2023) to delist the Company from the London Stock Exchange as soon as practicable following the cancellation of listing and trading of the Company's shares. This process will take place following the release of the Annual Report and is targeted to complete in the first quarter of 2024.

By order of the Board

Richard Butts
Company Secretary
24 October 2023

Statement of Directors' responsibilities in respect of the financial statements

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with UK-adopted international accounting standards and the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under Company law, Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. In preparing the financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- State whether applicable UK-adopted international accounting standards 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 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 also responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006.

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

Directors' confirmations

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

- The Group financial statements, which have been prepared in accordance with UK-adopted international accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Group;
- The Company financial statements, which have been prepared in accordance with United Kingdom Accounting Standards, comprising FRS 101, give a true and fair view of the assets, liabilities and financial position of the Company; and
- The Directors' report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

In the case of each Director in office at the date the Directors' report is approved:

- So far as the Director is aware, there is no relevant audit information of which the Group's and Company's auditors are unaware; and
- They have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group's and Company's auditors are aware of that information.

By order of the Board

Richard Butts
Company Secretary
24 October 2023

Financial statements

Independent auditors' report to the members of ScS Group plc

Report on the audit of the financial statements

Opinion

In our opinion:

- ScS Group plc's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 29 July 2023 and of the group's profit and the group's cash flows for the 52 week period (the "year") then ended;
- the group financial statements have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report & Accounts (the "Annual Report"), which comprise: the Consolidated and Company statements of financial position as at 29 July 2023; the Consolidated statement of comprehensive income, the Consolidated and Company statements of changes in equity; and the Consolidated statement of cash flows for the period then ended; and the Consolidated and Company 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.

Other than those disclosed in note 4 to the financial statements, we have provided no non-audit services to the company in the period under audit.

Material uncertainty related to going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 2 to the group financial statements and note 2 to the company financial statements concerning the group's and the company's ability to continue as a going concern. As outlined in note 2 to the group and company financial statements, on 24 October 2023, the ScS plc group announced a recommended offer for the company from a wholly owned subsidiary of Poltronesofà S.p.A. Assuming the process continues as expected, the transaction is forecast to complete in the first quarter of 2024, which is within 12 months of the approval of these financial statements. The current Directors will not have full control over the acquired group and therefore they do not have full knowledge of the new ultimate parent undertaking's future intentions and funding plans in relation to the group and company. These conditions, along with the other matters explained in those notes to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the group's and the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the group and the company were unable to continue as a going concern.

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

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

- Obtaining management forecasts for the period to July 2026 and evaluating management's downside scenario, being a severe but plausible scenario, and challenging their appropriateness and underlying assumptions;
- Testing the mathematical accuracy of the models obtained;

- Evaluating the level of forecast liquidity and forecast compliance with the bank facility covenants;
- Reviewing the disclosures relating to going concern in the Annual Report; and
- Obtaining and reviewing correspondence in relation to the offer for the Company.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, other than the material uncertainty identified in note 2 to the group financial statements and note 2 to the company financial statements, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting, or in respect of the directors' identification in the financial statements of any other material uncertainties to the group's and the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Our audit approach

Overview

Audit scope

- We performed an audit of the complete financial information of the group's trading entity A Share & Sons Limited as the only financially significant component, contributing to 98.7% of the group's revenue. We have also audited the group consolidation adjustments as a full scope component. We audited specific balances within ScS Group plc to obtain sufficient coverage across the group, being share-based payments and equity.

Key audit matters

- Material uncertainty related to going concern (group and parent)
- Impairment of assets in relation to loss making stores (group)
- Carrying value of investment (parent)

Materiality

- Overall group materiality: £1,425,000 (2022: £3,250,000) based on 1% of revenue capped at 20% of adjusted profit before tax.
- Overall company materiality: £700,000 (2022: £708,000) based on 1% of total assets.
- Performance materiality: £1,068,750 (2022: £2,437,500) (group) and £525,000 (2022: £529,000) (company).

The scope of our audit

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

Key audit matters

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

In addition to going concern, described in the Material uncertainty related to going concern section above, we determined the matters described below to be the key audit matters to be communicated in our report. This is not a complete list of all risks identified by our audit.

The key audit matters below are consistent with last year.

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

Key audit matter	How our audit addressed the key audit matter
Impairment of assets in relation to loss making stores (group) Refer to pages 93 (Audit Committee Report) and 143 (Critical accounting estimates and assumptions – Impairment of property, plant and equipment and right-of-use assets). ScS Group plc has 100 ScS-branded stores at year end (2022: 99 stores). The directors are required to consider if there has been any indicators of impairment on a store by store basis. Where there is an indicator of impairment in a store's value, management test the carrying value of assets by reference to the future discounted cash flows that the store is expected to generate. For the year ended 29 July 2023 ScS has recorded impairment of £2.4m (2022: £nil).There are a number of judgements and estimates involved in the impairment of asset calculation, including forecasting of future results, length of leases, allocation of costs and use of an appropriate discount rate. As such, the judgements and estimates involved in the impairment of asset calculation were an area of focus for our audit.	• We obtained the impairment workings from management and checked their arithmetical accuracy. • We have agreed the inputs to the workings to board approved budgets. • We agreed the allocation of fixed assets on a sample basis by vouching to invoice for any new additions and fixed asset register for owned assets. • We assessed the store by store allocation of revenue and direct costs for reasonableness by comparing to previous year actuals. • We agreed that central costs had been allocated on a reasonable basis to the underlying stores, and all material costs had been allocated on a reasonable basis to the underlying stores, and all material costs have been allocated. • We agreed that the rental charge was correctly excluded from the stores cash flows. There were no issues noted with the underlying data used in calculating the impairment provision. Management's assessment of which stores were at risk of impairment were based on the forecasted future performance of individual stores in the group's portfolio. • We agreed the FY24 forecasted results used in the asset impairment calculation were consistent with board approved budgets. • We assessed the reasonableness of the assumptions used in the calculation and performed sensitivities where appropriate. This included, but was not limited to, assessment of discount rate and store growth rates with reference to macro-economic and industry predictions. We concluded that the level of impairment of fixed assets and right of use assets in the store portfolio was materially correct. • We have assessed the completeness and accuracy of the related disclosures within the financial statements. We are satisfied the assumptions made by management in determining the asset carrying value and the related disclosures in the financial statements are appropriate.
Carrying value of investment (parent) Refer to pages 93 (Audit Committee Report) and 158 (Critical accounting estimates and assumptions – carrying value of investments). ScS Group plc (parent) has a £70.0m investment balance held on the company's balance sheet and as at the date of our testing the market capitalisation of the group was below the carrying value of the investment. Management concluded that this was an impairment trigger and therefore have prepared an assessment of the recoverable amount of the investment. There are a number of judgements and estimates involved in the assessment, including assessment of market capitalisation and control premiums, and assessment of the group's discounted cash flows. As such, the judgements and estimates involved in the assessment were an area of focus for our audit.	• We agreed with management's assessment that there was an impairment trigger based on market capitalisation being lower than the carrying value of investments. • We obtained management's impairment assessment which included an analysis of the market capitalisation of the group and an assessment of the group's discounted cash flows. • We have reviewed management's paper and assessed management's use of the market capitalisation and control premium judgements to support the investment value. • We have also obtained the discounted cash flow model, tested the inputs to the model by assessing forecast cash flows through comparing these to board approved budgets. We tested the integrity of the model and its mathematical accuracy. • We assessed the reasonableness of the assumptions used in the calculation and performed sensitivities where appropriate. • We have assessed the completeness and accuracy of the related disclosures within the financial statements. We are satisfied the assumptions made by management in determining the asset impairment and the related disclosures in the financial statements are appropriate.

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.

We have performed an audit of the complete financial information of A Share & Sons Limited, which is the only financially significant component within the group. This provides 98.7% coverage of the group's revenue. We have also audited the group consolidation adjustments as a full scope component.

The impact of climate risk on our audit

Climate change is expected to present both risks and opportunities for the group. As explained in the "Responsibility and sustainability report" section within the Strategic Report, the group is mindful of its impact on the environment and is focussed on ways to reduce climate-related impacts as management continues to develop its plans towards Net Zero by 2050. Management's climate change initiatives and commitments will impact the group in a variety of ways, and while the group has started to quantify some of the impacts that may arise on its net zero pathway, the future financial impacts are clearly uncertain given the medium to long term horizon. Disclosure of the impact of climate change risk based on management's current assessment is incorporated in the Task Force on Climate-related Financial Disclosures ('TCFD') section of the Annual Report.

As part of our audit, we made enquiries of management to understand the extent of the potential impact of climate change on the group's business and the financial statements, including reviewing management's climate change risk assessment which was prepared with support from management's external expert. We used our knowledge of the group to evaluate the risk assessment performed by management.

We assessed that the key areas in the financial statements which are more likely to be materially impacted by climate change are those areas that are based on future cash flows. As a result, we particularly considered how climate change risks and the impact of climate commitments made by the group could impact the assumptions made in the forecasts. Our procedures did not identify any material impact on our audit for the year ended 29 July 2023. We also checked the consistency of the disclosures in the TCFD section of the Annual Report with the relevant financial statement disclosures, including the going concern section of the accounting policies, and with our understanding of the business and knowledge obtained in the audit.

We confirmed with management and the Audit Committee that the estimated financial impacts of climate change will be reassessed prospectively and our expectation is that climate change disclosures will evolve as the understanding of the actual, and potential, impacts on the group's future operations are established with greater certainty.

Materiality

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

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

	Financial statements – group	Financial statements – company
Overall materiality	£1,425,000 (2022: £3,250,000).	£700,000 (2022: £708,000).
How we determined it	1% of revenue capped at 20% of adjusted profit before tax	1% of total assets
Rationale for benchmark applied	Based on our professional judgement and our knowledge of the client, materiality was based on 1% of revenue which is a standard materiality benchmark particularly in low margin businesses such as ScS Group plc. However it is important that we are mindful of our materiality level in the context of the business's profitability. Consequently we capped the materiality level applied at 20% of the adjusted profit before tax (2022: profit before tax).	Based on our professional judgement and our knowledge of the client our materiality was based on 1.0% (2022: 1.0%) of total assets. We used this as the benchmark for our materiality calculations due to the entity being a holding company with limited activity and our judgement around what would affect the decisions of the members.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was £1,000,000 – £1,290,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in

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

determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2022: 75%) of overall materiality, amounting to £1,068,750 (2022: £2,437,500) for the group financial statements and £525,000 (2022: £529,000) for the company financial statements.

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

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £71,250 (group audit) (2022: £162,500) and £35,400 (company audit) (2022: £35,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

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, which includes reporting based on the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

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

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

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the period ended 29 July 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Directors' Remuneration

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

Corporate governance statement

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

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and, except for the matters reported in the section headed 'Material uncertainty related to going concern', we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least

twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the group's and company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

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

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:
- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Companies Act 2006, the Listing Rules and UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to overstate revenue or the company's EBITDA, and management bias through judgements and assumptions in significant accounting estimates. Audit procedures performed by the engagement team included:
- Discussion with management, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;

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

- Review of board minutes;
- Review of legal expenditure in the year to identify potential non-compliance with laws and regulation;
- Evaluation of management's controls designed to prevent and detect irregularities;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations which enhance EBITDA; and
- Challenging assumptions and judgements made by management in their accounting estimates, in particular stock provisions and impairment of assets.

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

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the directors on 3 November 2009 to audit the financial statements for the year ended 31 July 2009 and subsequent financial periods. The period of total uninterrupted engagement is 15 years, covering the years ended 31 July 2009 to 29 July 2023. The audit went out to competitive tender for the year ended 27 July 2019 and we were reappointed as auditors on 21 November 2018.

Other matter

As required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditors' report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.

Andy Ward (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne
24 October 2023

Consolidated statement of comprehensive income
For the year ended 29 July 2023

	Note	**52 weeks ended 29 July 2023 £'000**	52 weeks ended 30 July 2022 £'000
Gross sales	3	**343,457**	344,710
Revenue	3	**325,865**	331,569
Cost of sales		**(173,467)**	(175,305)
Gross profit		**152,398**	156,264
Distribution costs		**(21,828)**	(21,304)
Administrative expenses		**(122,224)**	(114,761)
Operating profit	4	**8,346**	20,199
Analysed as:			
Underlying operating profit (non-GAAP measure)		**9,593**	17,629
Adjusting items included within administrative expenses	5	**(1,247)**	2,570
Operating profit		**8,346**	20,199
Finance costs	7	**(4,322)**	(3,856)
Finance income	8	**1,961**	15
Net finance costs		**(2,361)**	(3,841)
Profit before taxation		**5,985**	16,358
Income tax charge	9	**(1,535)**	(2,774)
Profit and total comprehensive income for the year		**4,450**	13,584
Attributable to:			
Owners of the parent			
Profit and total comprehensive income for the year		**4,450**	13,584
Earnings per share (expressed in pence per share):			
Basic earnings per share (pence)	10	**12.8p**	36.2p
Diluted earnings per share (pence)	10	**12.1p**	35.0p

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

Consolidated statement of financial position
As at 29 July 2023

	Note	As at 29 July 2023 £'000	As at 30 July 2022 £'000
Non-current assets			
Goodwill and other intangible assets	11, 19	**3,753**	2,494
Property, plant and equipment	12	**21,303**	18,076
Right-of-use assets	13	**88,960**	96,996
Deferred tax asset	17	**1,873**	1,845
Total non-current assets		**115,889**	119,411
Current assets			
Inventories	14	**24,633**	19,791
Trade and other receivables	15	**6,336**	6,011
Cash and cash equivalents		**69,538**	70,819
Total current assets		**100,507**	96,621
Total assets		**216,396**	216,032
Current liabilities			
Current income tax liabilities		**159**	309
Trade and other payables	16	**68,047**	57,328
Provisions	18	**231**	303
Lease liabilities	13	**20,246**	19,721
Total current liabilities		**88,683**	77,661
Non-current liabilities			
Provisions	18	**1,048**	1,192
Lease liabilities	13	**81,098**	87,012
Total non-current liabilities		**82,146**	88,204
Total liabilities		**170,829**	165,865
Capital and reserves attributable to the owners of the parent			
Share capital	20	**34**	37
Share premium	20	**16**	16
Capital redemption reserve	20	**19**	16
Treasury reserve	28	**(203)**	(681)
Merger reserve		**25,511**	25,511
Retained earnings		**20,190**	25,268
Equity attributable to the owners of the parent		**45,567**	50,167
Total equity		**45,567**	50,167
Total equity and liabilities		**216,396**	216,032

The notes on pages 137 to 155 are an integral part of these consolidated financial statements.

The financial statements on pages 133 to 155 were approved by the Board and authorised for issue on 24 October 2023 and signed on its behalf by:

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

Consolidated statement of changes in equity
For the year ended 29 July 2023

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Merger reserve £'000	Treasury reserve £'000	Retained earnings £'000	Total equity £'000
At 1 August 2021	**38**	**16**	**15**	**25,511**	**(549)**	**19,479**	**44,510**
Profit and total comprehensive income	–	–	–	–	–	13,584	13,584
Total comprehensive income	–	–	–	–	–	13,584	13,584
Share-based payment charge (note 22)	–	–	–	–	–	153	153
Repurchase of own shares (note 20)	–	–	–	–	–	(2,201)	(2,201)
Cancellation of repurchased shares (note 20)	(1)	–	1	–	–	–	–
Purchase of treasury shares (note 28)	–	–	–	–	(1,476)	–	(1,476)
Issue of treasury shares to employees (note 28)	–	–	–	–	1,344	(1,304)	40
Dividend paid (note 21)	–	–	–	–	–	(4,443)	(4,443)
Total transactions with shareholders	(1)	–	1	–	(132)	(7,795)	(7,927)
At 30 July 2022	**37**	**16**	**16**	**25,511**	**(681)**	**25,268**	**50,167**
At 31 July 2022	**37**	**16**	**16**	**25,511**	**(681)**	**25,268**	**50,167**
Profit and total comprehensive income	–	–	–	–	–	4,450	4,450
Total comprehensive income	–	–	–	–	–	4,450	4,450
Share-based payment charge (note 22)	–	–	–	–	–	598	598
Repurchase of own shares (note 20)	–	–	–	–	–	(4,776)	(4,776)
Cancellation of repurchased shares (note 20, 28)	(3)	–	3	–	116	(116)	–
Purchase of treasury shares (note 28)	–	–	–	–	(148)	–	(148)
Issue of treasury shares to employees (note 28)	–	–	–	–	510	(510)	–
Dividend paid (note 21)	–	–	–	–	–	(4,724)	(4,724)
Total transactions with shareholders	(3)	–	3	–	478	(9,528)	9,050
At 29 July 2023	**34**	**16**	**19**	**25,511**	**(203)**	**20,190**	**45,567**

Consolidated statement of cash flows
For the year ended 29 July 2023

	Note	**52 weeks ended 29 July 2023 £'000**	52 weeks ended 30 July 2022 £'000
Cash flows from operating activities			
Profit before taxation		**5,985**	16,358
Adjustments for:			
Depreciation of property, plant and equipment	12	**4,179**	4,162
Depreciation of right-of-use assets	13	**20,269**	21,523
Amortisation of intangible assets	11	**1,185**	882
Impairment of non-current assets	5	**2,438**	–
Loss on disposal of tangible and intangible assets		**270**	–
Profit on termination of lease of right-of-use assets		**(346)**	–
Share-based payment charge	22	**598**	153
Finance costs	7	**4,322**	3,856
Finance income	8	**(1,961)**	(15)
		36,939	46,919
Changes in working capital:			
Increase in inventories	14	**(4,715)**	(2,463)
Increase in trade and other receivables	15	**(325)**	(1,064)
Increase/(decrease) in trade and other payables		**9,881**	(14,908)
Cash generated from operating activities		**41,780**	28,484
Income taxes paid		**(1,713)**	(3,457)
Net cash flow generated from operating activities		**40,067**	25,027
Cash flows used in investing activities			
Acquisition of business combination	19	**(875)**	–
Purchase of property, plant and equipment		**(7,550)**	(3,741)
Payments to acquire intangible assets		**(1,708)**	(1,004)
Interest received	8	**1,961**	15
Net cash flow used in investing activities		**(8,172)**	(4,730)
Cash flows used in financing activities			
Dividends paid	21	**(4,724)**	(4,443)
Purchase of own shares	20, 28	**(4,924)**	(3,677)
Sale of treasury shares	20, 28	**–**	40
Interest paid	7	**(265)**	(418)
Interest paid on lease liabilities	7	**(4,057)**	(3,438)
Payment of capital element of leases		**(19,206)**	(25,192)
Net cash flow used in financing activities		**(33,176)**	(37,128)
Net decrease in cash and cash equivalents		**(1,281)**	(16,831)
Cash and cash equivalents at beginning of year		**70,819**	87,650
Cash and cash equivalents at end of year		**69,538**	70,819

Notes to the consolidated financial statements

1. General information

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

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

2. Accounting policies

Basis of preparation

The financial statements are prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards. The Group's financial statements are presented in sterling and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated. They are prepared on the historical cost basis, except for share-based payments that have been measured at fair value. The financial statements for the year have been prepared for the 52 weeks ended 29 July 2023 (2022: 52 weeks ended 30 July 2022). The accounting policies which follow have been applied in preparing the financial statements for the year ended 29 July 2023. These policies have been consistently applied to all of the years presented, unless otherwise stated.

Going concern

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

Liquidity

The most significant factor in considering whether current resources are adequate is to consider the Group's liquidity. At 29 July 2023, the Group's cash balance totalled £69.5m and £33.3m was owed as trade payables for goods delivered. The Group has no drawn down debt, and further liquidity is available through the £12.0m revolving credit facility (RCF) granted on 6 October 2022. This facility is committed for a term of 36 months and would be renegotiated well in advance of this maturity date. The RCF is subject to certain covenants in respect of fixed charge cover, liquidity and leverage.

Cash flows

As part of the Group's ongoing review of going concern, the Directors have reviewed the results for the 12 months to 29 July 2023 and have modelled cash flow forecasts under the following scenarios:

- A 'base case' scenario to July 2026 which reflects the challenging economic environment whilst also recognising the impact of our strategic progress on the Group's results. We assume no further lockdown periods or direct impact on our store and distribution operation.
- A minor sensitivity which sees a reduction in revenue due to a downturn in consumer confidence whilst being able to maintain our assumed gross margin as per the 'base case' scenario.
- A moderate sensitivity which sees a reduction in gross margin versus 'base case' representing an increasingly challenging economic environment.
- A 'severe but plausible' downside sensitivity which models much more significant reductions in sales and margin, together with the assumption that our suppliers have the credit insurance they use to support their payment terms with the Group withdrawn, seeing our suppliers request earlier payment dates to alleviate their working capital challenges.

Under each sensitivity, the Group has modelled associated reductions in marketing and distribution costs, bonus costs and sales-related commission payments in response to the downturn in the Group's performance brought on by the challenging economic environment, and the Group maintains suitable liquidity headroom. Under the 'severe but plausible downside' scenario more severe cash preservation methods are implemented, such as reducing capital expenditure, suspending shareholder returns and reducing headcount.

Throughout the 'severe but plausible downside' scenario, the Group would have significant cash headroom. Including the withdrawal of supplier credit insurance, the cash low point at the end of July 2024 remains substantial at £21.2m. Forecasts show there is no requirement for any additional sources of financing throughout the extended viability period.

Following the year end, on 24 October 2023 a wholly-owned subsidiary of Poltronesofà S.p.A. announced a recommended cash offer for the Company of 270p per share. It is intended that the acquisition will be implemented by way of a Court-sanctioned scheme of arrangement under Part 26 of the Companies Act and is expected to complete in the first quarter of 2024.

2. Accounting policies continued

Going concern continued

The Group's existing committed debt facilities contain a standard change of control clause that will be triggered once the acquisition completes. This could result in the existing committed debt facilities being withdrawn. The Group does not have visibility of the post completion funding for the Group at this time. Therefore, this could create some uncertainty as to the Group's going concern.

The Directors note the Poltronesofà S.p.A. intention statements included within the announcement on 24 October 2023, which state that following completion of the acquisition, Poltronesofà S.p.A. intends to support the Group by leveraging its significant, pan-European industry expertise and providing the capital necessary to accelerate the Group's strategy. Poltronesofà S.p.A. is highly supportive of the management's vision for the business and the long-term ambitions of being the UK's best value-for-money home retailer and recognises and values the strong strategic, operational and product positioning and setup of the Group, as well as the expertise of its management team and employees. Poltronesofà S.p.A. therefore intends to work closely with the Group's senior management to undertake a strategic review of the Group in order to determine how its short and long-term objectives can best be delivered or exceeded.

Notwithstanding Poltronesofà S.p.A.'s stated intentions, the current Directors will not have full control over the acquired Group and therefore they do not currently have full knowledge of the new ultimate parent undertaking's future intentions and funding plans in relation to the Group. Therefore the change of control position indicates a material uncertainty which may cast significant doubt upon the Group and the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group and the Company were unable to continue as a going concern.

Having considered all of the above, the Board is of the opinion that the going concern basis adopted in the preparation of the consolidated statements is appropriate.

New standards, amendments and interpretations

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

Basis of consolidation

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

The financial year represents the 52 weeks ended 29 July 2023 (prior financial year 52 weeks ended 30 July 2022).

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Transactions eliminated on consolidation

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

Adjusting items

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

Gross sales and revenue

For the purposes of managing its business the Group focuses on gross sales, which is defined as the total amount payable by customers excluding discounts, returns, value added taxes and amounts payable to third parties relating to warranty products for which the Group acts as an agent. Gross sales is also stated prior to any accounting adjustments for interest-free credit fees. The Board believes gross sales is a more transparent measure of the activity levels and performance of its showrooms and online channels as it is not affected by customer preferences on payment options. Accordingly, gross sales is presented in this Annual Report, in addition to statutory revenue, as an alternative performance measure, with a reconciliation between the two measures provided in note 3.

2. Accounting policies continued

Gross sales and revenue continued

Revenue is measured as the total amount payable by the customer net of discounts, returns and value added taxes. Revenue is measured net of the charges associated with interest-free credit sales and amounts payable to third parties relating to warranty products for which the Group acts as an agent.

Both gross sales and revenue are recognised at a point in time when the Group has satisfied its performance obligations by transferring control of the goods or service to the customer. This is deemed to be when the goods have been delivered to the customer before which payment is received. Warranty services, once sold, are subsequently provided by third parties. The Group does not control warranty products before they are transferred to the customer and therefore acts as an agent in these transactions. Amounts recognised in gross sales and revenue where the Group acts as an agent represent the net income receivable by the Group.

The Group operates a negative working capital model whereby customers pay a deposit at the point of order and, unless the order is to be financed using consumer credit, settle outstanding balances before delivery. Payment of part of the consideration is often, therefore, taken before the Group has fulfilled its performance obligation. These deposits taken from customers are referred to as contract liabilities under IFRS 15, and are presented as payments received on account within current liabilities, until the goods or services are delivered. A very small number of deposits are refunded without delivery of product, and therefore, materially, the value of customer deposits will be realised within 12 months. Where the outstanding balance is settled subsequent to the delivery of goods via consumer credit, the full financed balance is received within two working days of delivery from our third-party finance providers, who are then responsible for collecting subsequent payments from the customer.

The Group holds a sales return provision in the consolidated statement of financial position to provide for expected levels of returns on sales made before the year end but returned after the year end. The Group recognises the expected value of revenue relating to returns within sales provisions and the expected value of cost of sales relating to the returned items is included within inventories.

Segmental reporting

In accordance with IFRS 8 'Operating Segments' the results of Snug have been aggregated with the rest of the Group into one reportable segment (see note 3 – Segment analysis).

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred for the acquisition of a subsidiary comprises the:
- Fair values of the assets transferred;
- Liabilities incurred to the former owners of the acquired business;
- Equity interests issued by the Group;
- Fair value of any asset or liability resulting from a contingent consideration arrangement; and
- Fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the:
- Consideration transferred;
- Amount of any non-controlling interest in the acquired entity; and
- Acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill.

Intangible assets

Goodwill

Goodwill represents the excess of the consideration paid over the fair value of the identifiable assets (including intangible assets) of the acquired entity at the date of the acquisition. Goodwill is recognised as an asset and assessed for impairment annually or as triggering events occur. Any impairment in value is recognised within the income statement.

Acquired intangible assets

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

Intellectual Property	10% straight-line per annum
Commercial records	33% straight-line per annum

2. Accounting policies continued

Intangible assets continued

Intangible assets

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

Computer software	20-33% straight-line per annum

Assets in the course of construction are not amortised until they are brought into use.

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

Property, plant and equipment

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

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

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

Leases

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

Lease liabilities

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

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

The lease liability is subsequently measured at amortised cost using the effective interest rate method. It is remeasured, with a corresponding adjustment to the right-of-use asset, if there is a modification, a change in the lease term or a change in the fixed lease payments. Interest charges are included in finance costs in the consolidated income statement.

Right-of-use assets

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

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

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value and consist of finished goods held for resale. Where necessary, provision is made for obsolete, slow-moving and defective stocks.

2. Accounting policies continued

Inventories continued

Cost comprises the purchase price of goods and other directly attributable costs incurred in bringing the product to its present location and condition. Net realisable value is the estimated selling price less any further costs to be incurred to disposal.

Trade receivables

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

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. As a requirement of applying IFRS 9, the Group has applied an expected credit loss (ECL) model when calculating impairment losses on its trade and other receivables.

The majority of the trade receivables are due from finance houses with which there is a very low likelihood, and no previous history, of default, and therefore, there has been no material impact of the ECL model.

Trade payables

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

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

Borrowings

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

Cash and cash equivalents

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

Treasury shares

Treasury shares are those shares bought back by the Company. Shares in the Company held in treasury are included in the balance sheet 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 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 also included in the balance sheet as treasury shares.

Share capital and reserves

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.

The Group accounts for share buybacks using the cost method. Under this method, the consideration paid for the repurchased shares, including transaction costs directly attributable to the buyback, is recorded as a reduction in shareholders' equity in the Group's consolidated statement of financial position.

The merger reserve was created following a Group capital reorganisation exercise as part of the preparation for the IPO of ScS Group plc in January 2015.

The Group can redeem shares by repaying the market value to the shareholder, whereupon the shares are cancelled. The capital redemption reserve represents the nominal value of shares redeemed.

Store 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.

2. Accounting policies continued

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. The balance receivable at year end is included within other receivables within the consolidated statement of financial position.

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

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

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

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

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

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

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

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

Dividends
Interim and final dividends are recognised when they are paid to the Group's shareholders.

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

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

2. Accounting policies continued

Critical accounting estimates and assumptions

Management considers that accounting estimates and assumptions made in relation to the following items have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities.

Stock provisions

The Group holds £24.6m of inventory at the year end, and the majority of this stock is held for display in our showrooms. Due to the nature of this stock, it will often be subject to the wear and tear associated with use in a showroom environment, and some items may have also been in our showroom for an extended period of time. As such, this stock is often unable to achieve the same margin as the 'special order' stock purchased and delivered directly to our customers, and may occasionally be sold at a level lower than cost following a business decision to refresh the range or better utilise the space. The Group's policy in relation to stock provisioning is, therefore, to provide for obsolete, slow-moving and defective stock, and therefore, ensure that stock is held at the most appropriate estimate of net realisable value.

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

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

Management considers each store to be a cash-generating unit (CGU). At each balance sheet date, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets and intangible assets to determine whether there is any indication of impairment at a store following poor performance. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Recoverable amounts for CGUs are the higher of fair value less costs of disposal, and value in use. Value in use is calculated from discounted cash flow projections based on the Group's internal budgets extrapolated over the remaining showroom lease length, and management's expectations of estimated growth rates.

The key estimates for the value in use calculations are those regarding the discount rate used and expected changes to future cash flows. Management considers the potential impact of changes in these key estimates in performing sensitivity analysis. Management sets the budgets based on past experiences and expectations of future changes in the market and estimates discount rate using pre-tax rates that reflect the current market assessment of the time value of money and the risks specific to the CGUs, deriving from the Group's post-tax weighted average cost of capital. If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or CGU in prior years. A reversal of an impairment loss is recognised as income immediately.

As a consequence of the current view of future projections for the business an impairment charge of £2,438,000 has been recognised on the assets associated with a number of our stores. This has been split between the right-of-use asset, £1,930,000, and tangible assets, £508,000, apportioned based on net book value.

If the discount rate of 11.75% applied in management's calculations at 29 July 2023 were to increase or decrease by 1%, this would have led to the recognition of an additional impairment charge of £217,000 or reversal of £210,000 in these financial statements. At 30 July 2022, an equivalent increase/decrease would not have resulted in an impairment charge being recognised in the prior year.

3. Segment analysis

The Board has determined the operating segments based on the operating reports reviewed by the Executive Board (the Executive Directors and the other Directors of the trading subsidiaries, A. Share & Sons Limited and Snug Furniture Limited), that are used to assess both performance and strategic decisions. The Board has identified that the Executive Board are the chief operating decision makers in accordance with the requirements of IFRS 8 'Operating Segments'.

The Board determined that although Snug is identifiable as an operating segment, it meets all of the aggregation criteria under IFRS 8 and as such, has been aggregated into one reportable operating segment with the rest of the Group. The Board considers that the Group, including Snug, operates one type of business generating gross sales and revenue from the retail of furniture and flooring. All gross sales and revenue profit before taxation, assets and liabilities are attributable to the principal activity of the Group and other related services. All gross sales and revenues are generated in the United Kingdom.

An analysis of gross sales and revenue is as follows:

	52 weeks ended 29 July 2023 £'000	52 weeks ended 30 July 2022 £'000
Sale of goods	**340,998**	340,580
Associated sale of warranties	**2,459**	4,130
Gross sales	**343,457**	344,710
Less: costs of interest-free credit	**(17,592)**	(13,141)
Revenue	**325,865**	331,569

Of which:	**52 weeks ended 29 July 2023 £'000**	52 weeks ended 30 July 2022 £'000
In-store furniture	**263,541**	269,781
In-store flooring	**28,940**	31,704
Online	**33,384**	30,084
Revenue	**325,865**	331,569

4. Operating profit

Operating profit is stated after charging/(crediting):

	52 weeks ended 29 July 2023 £'000	52 weeks ended 30 July 2022 £'000
Fees payable to the Company auditors for the audit of Company and consolidated financial statements	**40**	30
Fees payable to the Company's auditors and their associates for other services to the Group		
• audit of the Company's subsidiaries pursuant to legislation	**200**	171
• other services (see Audit Committee report on page 95 for further information)	**30**	25
Loss on disposal of tangible and intangible assets	**270**	–
Profit on termination of lease of right-of-use assets	**(346)**	–
Depreciation of property, plant and equipment – owned	**4,179**	4,162
Depreciation of right-of-use assets	**20,269**	21,523
Amortisation of intangible assets	**1,185**	882
Impairment of property, plant and equipment and right-of-use assets	**2,438**	–

During the year, the Group received retail business rates relief from the UK government of £nil (2022: £2,570,000) in response to the COVID-19 outbreak.

5. Operating adjusting items included within administrative expenses

In order to provide a clearer understanding of underlying profitability, underlying operating profit excludes adjusting items, this non-statutory measure relates to costs that, either by their size or nature, require separate disclosure in order to give a fuller understanding of the Group's financial performance. Adjusting items, booked to operating costs, comprised the following:

	52 weeks ended 29 July 2023 £'000	52 weeks ended 30 July 2022 £'000
Impairment charge associated with stores	**(2,438)**	–
Snug acquisition and pre-trading costs	**(849)**	–
Business interruption insurance claim	**1,250**	–
Exit of the Cambridge store	**790**	–
Business rates relief	**–**	2,570
Total adjusting items	**(1,247)**	2,570

5. Operating adjusting items included within administrative expenses continued

Impairment charge associated with stores

As a consequence of the current view of future projections for the business an impairment charge of £2,438,000 has been recognised on the assets associated with a number of our stores. This has been split between the right-of-use asset, £1,930,000, and tangible assets, £508,000, apportioned based on net book value.

Snug acquisition and pre-trading costs

Adjusting items include £849,000 of costs relating to the acquisition costs (including legal and professional fees) and pre-trading expenses.

Business interruption insurance claim

The Group received a business interruption insurance payment of £1,250,000 in relation to loss of profit as a result of the initial lockdown period during the COVID-19 pandemic.

Exit of the Cambridge store

The Group exited its Cambridge store in July 2023, ahead of the lease expiry date. As part of the exit agreement, a termination payment of £650,000 was received from the landlord. The Group also realised an IFRS 16 gain on disposal of the lease of £341,000 offset partly by disposal of assets with a remaining net book value of £201,000. Given the one-off nature of the transaction, the profit from the exit has been disclosed as an adjusting item.

Business rates relief

During the prior period, the Group benefitted from £2,570,000 of retail business rates relief provided in response to the COVID-19 outbreak. No further benefit was received in the year ended 29 July 2023.

6. Employees and Directors

6.1 Staff costs

The aggregate remuneration of all employees including Directors comprises:

	52 weeks ended 29 July 2023 £'000	52 weeks ended 30 July 2022 £'000
Wages and salaries	**59,687**	58,062
Social security costs	**6,081**	5,901
Other pension costs	**1,409**	1,304
Share-based payment charge (note 22)	**598**	153
	67,775	65,420

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

	52 weeks ended 29 July 2023	52 weeks ended 30 July 2022
Sales	**721**	722
Office and managerial	**527**	500
Services and warehousing	**518**	546
Cleaning	**35**	34
Total	**1,801**	1,802

Details of Directors' remuneration, share options, long-term incentive schemes and pension entitlements are disclosed in the Directors' remuneration report on pages 97 to 119.

6.2 Key management compensation

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

The key management compensation is as follows:

	52 weeks ended 29 July 2023 £'000	52 weeks ended 30 July 2022 £'000
Short-term employee benefits	**2,333**	2,648
Defined contribution pension cost	**167**	112
Share-based payment charge	**598**	153

Further detail on the above can be found in the Directors' remuneration report along with details of shares exercised by the highest paid Director.

The share-based payment charge of £598,000 (2022: £153,000) relates to the Group's trading performance against the EPS targets under the Group's Long-Term Incentive Plan as set out in note 22.

7. Finance costs

	52 weeks ended 29 July 2023 £'000	52 weeks ended 30 July 2022 £'000
Bank facility renewal fee	**49**	–
Bank facility non-utilisation fees	**194**	413
Other finance costs	**22**	5
Interest on lease liability	**4,057**	3,438
	4,322	3,856

8. Finance income

	52 weeks ended 29 July 2023 £'000	52 weeks ended 30 July 2022 £'000
Bank interest received	**1,961**	15

9. Income tax charge

(a) Analysis of tax charge in the year

	52 weeks ended 29 July 2023 £'000	52 weeks ended 30 July 2022 £'000
Current tax:		
UK corporation tax on profits for the year	**1,435**	2,571
Adjustments in respect of prior years	**128**	24
Total current tax charge	**1,563**	2,595
Deferred tax:		
Origination and reversal of temporary differences	**190**	243
Adjustments in respect of prior years	**(218)**	(64)
Total deferred tax (credit)/charge (note 17)	**(28)**	179
Income tax charge in the consolidated statement of comprehensive income	**1,535**	2,774

(b) Factors affecting tax charge for the year

The tax charge (2022: charge) assessed on the profit (2022: profit) for the year is higher (2022: lower) than the standard rate of corporation tax in the UK of 21.00% (2022: 19.00%). The differences are explained below:

	52 weeks ended 29 July 2023 £'000	52 weeks ended 30 July 2022 £'000
Profit before taxation	**5,985**	16,358
Profit before tax at 21.00% (2022: 19.00%)	**1,257**	3,108
Effects of:		
Other expenses not deductible	**187**	39
Amounts not deductible/(deductible) in relation to depreciation and impairment	**251**	(232)
Amounts (deductible)/not deductible in relation to share options	**(102)**	56
Adjustments in respect of prior years	**(90)**	(40)
Impact of changes in tax rates	**32**	(157)
Income tax charge in the consolidated statement of comprehensive income	**1,535**	2,774

The total tax charge for the financial year results in an effective rate of 25.6%, which is higher (2022: 17.0% – lower) than if the standard rate of corporation tax had been applied, mainly due to the impact of non-qualifying depreciation on assets, and non-deductible expenses. The prior year benefitted from the capital allowances super deduction on qualifying additions and the increase in the rate used to measure the Group's deferred tax asset.

(c) Factors that may affect future tax charges

The Finance Act 2021 maintained the main rate of UK corporation tax at 19% until 31 March 2023, before increasing it to 25% from 1 April 2023. These changes were substantively enacted at the balance sheet date, 29 July 2023, and hence have been reflected in the measurement of deferred tax balances, resulting in deferred tax being calculated using an effective rate of 25% as at 29 July 2023.

10. Earnings per share

	52 weeks ended 29 July 2023	52 weeks ended 30 July 2022
a) Basic earnings per share attributable to the ordinary equity holders of the Company		
Basic earnings per share from underlying operations	**15.9p**	30.7p
From adjusting items	**(3.0p)**	5.5p
Total basic earnings per share	**12.8p**	36.2p
b) Diluted earnings per share attributable to the ordinary equity holders of the Company		
Diluted earnings per share from underlying operations	**15.0p**	29.6p
From adjusting items	**(2.9p)**	5.4p
Total diluted earnings per share	**12.1p**	35.0p

	52 weeks ended 29 July 2023 £'000	52 weeks ended 30 July 2022 £'000
c) Reconciliations of earnings used in calculating earnings per share		
Profit from operations	**4,450**	13,584
Adjusting items net of tax	**1,055**	(2,082)
Total profits from underlying operations	**5,505**	11,502

	52 weeks ended 29 July 2023 number	52 weeks ended 30 July 2022 number
d) Weighted average number of shares used as the denominator		
Weighted average number of shares in issue for the purposes of basic earnings per share	**34,690,701**	37,498,925
Effect of dilutive potential ordinary shares:		
Share options (note 22)	**2,031,118**	1,354,896
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**36,721,819**	38,853,821

11. Goodwill and other intangible assets

	Goodwill acquired from business combination £'000	Other intangible acquired from business combination £'000	Computer Software £'000	Total £'000
Cost				
At 31 July 2022	–	–	**8,817**	**8,817**
Additions	**500**	**250**	**1,725**	**2,475**
Disposals	–	–	**(1,512)**	**(1,512)**
As at 29 July 2023	**500**	**250**	**9,030**	**9,780**
Accumulated amortisation				
At 31 July 2022	–	–	**6,323**	**6,323**
Charge for the year	–	**21**	**1,164**	**1,185**
Disposals	–		**(1,481)**	**(1,481)**
At 29 July 2023	**–**	**21**	**6,006**	**6,027**
Net book amount				
At 29 July 2023	**500**	**229**	**3,024**	**3,753**
At 30 July 2022	–	–	**2,494**	**2,494**

	Compute Software £'000	Total £'000
Cost		
At 1 August 2021	8,645	8,645
Additions	1,133	1,133
Disposals	(961)	(961)
At 30 July 2022	8,817	8,817
Accumulated amortisation		
At 1 August 2021	6,402	6,402
Charge for the year	882	882
Depreciation on disposals	(961)	(961)
At 30 July 2022	6,323	6,323
Net book amount		
At 30 July 2022	2,494	2,494
At 31 July 2021	2,243	2,243

Amortisation is charged through the administration expense line. Included in the note are assets under construction with a carrying value of £767,000 at 29 July 2023 (30 July 2022: nil). These assets relate to systems development and related software.

11. Goodwill and other intangible assets continued

Other intangibles acquired from business combinations relate to the intellectual property rights and commercial records from the purchase of Snug. Goodwill also relates the business combination of Snug, See note 19 for further details.

12. Property, plant and equipment

	Freehold land and buildings £'000	Leasehold improvements £'000	Computer equipment £'000	Fixtures and fittings £'000	Total £'000
Cost					
At 31 July 2022	159	54,593	3,651	34,816	93,219
Additions	–	5,321	1,048	1,784	8,153
Disposals	–	(3,604)	(1,083)	(4,026)	(8,713)
At 29 July 2023	**159**	**56,310**	**3,616**	**32,574**	**92,659**
Accumulated depreciation and impairment					
At 31 July 2022	103	43,861	3,069	28,110	75,143
Charge for the year	3	2,233	319	1,624	4,179
Depreciation on disposals	–	(3,416)	(1,083)	(3,975)	(8,474)
Impairment charge	–	28	–	480	508
At 29 July 2023	**106**	**42,706**	**2,305**	**26,239**	**71,356**
Net book amount					
At 29 July 2023	**53**	**13,604**	**1,311**	**6,335**	**21,303**
At 30 July 2022	56	10,732	582	6,706	18,076
Cost					
At 1 August 2021	159	55,172	5,003	34,675	95,009
Additions	–	1,323	395	2,139	3,857
Disposals	–	(1,902)	(1,747)	(1,998)	(5,647)
At 30 July 2022	**159**	**54,593**	**3,651**	**34,816**	**93,219**
Accumulated depreciation and impairment					
At 1 August 2021	100	43,546	4,295	28,687	76,628
Charge for the year	3	2,217	521	1,421	4,162
Depreciation on disposals	–	(1,902)	(1,747)	(1,998)	(5,647)
At 30 July 2022	**103**	**43,861**	**3,069**	**28,110**	**75,143**
Net book amount					
At 30 July 2022	**56**	**10,732**	**582**	**6,706**	**18,076**
At 31 July 2021	59	11,626	708	5,988	18,381

The net book value of leasehold improvements is as follows:

	As at 29 July 2023 £'000	As at 30 July 2022 £'000
Short leaseholds (up to 25 years)	**13,553**	10,681
Long leaseholds (greater than 25 years)	**51**	51
	13,604	10,732

Impairment of property, plant and equipment

During year the impairment review which compared the value in use of each CGU based on the Group's budget and forecast cash flows to the carrying values as at 29 July 2023 resulted in an impairment of £508,000 (2022: Nil) against property, plant and equipment and was recognised as an adjusting item (see note 5).

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

13. Leases

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

Consolidated statement of financial position

The consolidated statement of financial position as at 29 July 2023 shows the following amounts relating to leases.

13. Leases continued

Consolidated statement of financial position continued

Right-of-use assets

	Leasehold property £'000	Motor vehicles £'000	Total £'000
Cost			
At 31 July 2022	152,467	6,783	159,250
Additions[1]	13,057	2,837	15,894
Disposals	(2,594)	(1,889)	(4,483)
At 29 July 2023	**162,930**	**7,731**	**170,661**
Accumulated depreciation			
At 31 July 2022	57,929	4,325	62,254
Charge for the year	18,470	1,799	20,269
Depreciation on disposals	(1,000)	(1,752)	(2,752)
Impairment	1,930	–	1,930
At 29 July 2023	**77,329**	**4,372**	**81,701**
Net book amount			
At 29 July 2023	**85,601**	**3,359**	**88,960**
At 30 July 2022	94,538	2,458	96,996
Cost			
At 1 August 2021	138,802	6,602	145,404
Additions[1]	15,179	710	15,889
Disposals	(1,514)	(529)	(2,043)
At 30 July 2022	**152,467**	**6,783**	**159,250**
Accumulated depreciation			
At 1 August 2021	39,766	3,008	42,774
Charge for the year	19,677	1,846	21,523
Depreciation on disposals	(1,514)	(529)	(2,043)
At 30 July 2022	**57,929**	**4,325**	**62,254**
Net book amount			
At 30 July 2022	**94,538**	**2,458**	**96,996**
At 31 July 2021	99,036	3,594	102,630

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

Impairment of right-of-use assets

During the year the impairment review which compared the value in use of each CGU based on the Group's latest budget and forecast cash flows to the carrying values as at 29 July 2023 resulted in an impairment of £1,930,000 (2022: Nil) against right-of-use assets and was recognised as an adjusting item (see note 5).

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

Lease liabilities

The following tables show the discounted lease liabilities included in the Group consolidated statement of financial position and a maturity analysis of the contractual undiscounted lease payments:

	As at 29 July 2023 £'000	As at 30 July 2022 £'000
Current	**20,246**	19,721
Non-current	**81,098**	87,012
	101,344	106,733

Maturity analysis – contractual undiscounted lease payments:

	As at 29 July 2023 £'000	As at 30 July 2022 £'000
Group		
Within one year	**24,201**	22,971
Within two to five years	**66,787**	68,414
After five years	**25,278**	27,922
Total undiscounted lease payments	**116,266**	119,307

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

Consolidated statement of comprehensive income

The Group has recognised depreciation and interest costs in respect of leases, rather than rental charges of £24,138,000 (2022: £24,403,000). During the year, the Group recognised £20,269,000 (2022: £21,523,000) of depreciation charges and £4,057,000 (2022: £3,438,000) of interest costs in respect of these leases. Leases of low value assets and short-term leases of 12 months or less are expensed to the Group income statement.

14. Inventories

	As at 29 July 2023 £'000	As at 30 July 2022 £'000
Finished goods	**24,633**	19,791

The cost of inventories before cash discounts and volume rebates, as an expense and included in cost of sales relating to continued operations amounted to £177,144,000 (2022: £180,827,000).

Inventories include a provision of £2,864,000 (2022: £2,945,000). Write-downs of inventories to net realisable value amounted to £789,475 (2022: £931,000). These were recognised as an expense during the period and were included in cost of sales in the consolidated statement of comprehensive income.

15. Trade and other receivables

	As at 29 July 2023 £'000	As at 30 July 2022 £'000
Trade receivables	**234**	314
Other receivables	**3,732**	3,092
Prepayments	**2,370**	2,605
	6,336	6,011

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

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

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

The bad debt provision is not considered material for disclosure.

16. Trade and other payables – current

	As at 29 July 2023 £'000	As at 30 July 2022 £'000
Trade payables	**33,267**	18,374
Payments received on account	**18,906**	25,540
Other taxation and social security payable	**4,729**	2,236
Accruals	**11,145**	11,178
	68,047	57,328

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

Payments received on account represent deposits taken from customers at the point of order and in advance of the Group fulfilling its performance obligations to provide goods and services for customer orders. They will be realised in the next 12 months. The brought forward balance of payments received on account was recognised as revenue during the year.

17. Deferred tax asset

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

	As at 29 July 2023 £'000	As at 30 July 2022 £'000
Opening deferred tax asset	**1,845**	2,024
Adjustments in respect of prior years	**218**	64
Adjustment to profit and loss account arising from the origination and reversal of temporary differences	**(190)**	(243)
Closing deferred tax asset	**1,873**	1,845

Deferred taxation has been fully recognised in respect of:

	As at 29 July 2023 £'000	As at 30 July 2022 £'000
Accelerated capital allowances	**(1,484)**	(675)
Losses	**2,430**	1,463
Other timing differences	**215**	167
Capital gains held over	**(30)**	(30)
Adjustment on initial application of IFRS 16	**742**	920
Closing deferred tax asset	**1,873**	1,845

17. Deferred tax asset continued

The deferred tax assets include an amount of £2,430,000 (2022: £1,463,000) which relates to carried-forward tax losses. The Group has concluded that the deferred assets will be recoverable using the estimated future taxable income based on the approved business plans and budgets. The Group expects to continue generating taxable income. The losses can be carried forward indefinitely and have no expiry date. There is £99,000 (2022: £99,000) of historic unused losses in the Group's non-trading subsidiaries which have not been recognised due to uncertainty that there will be eligible taxable income to offset the losses against. Deferred tax assets are expected to be utilised in more than 12 months from 29 July 2023.

18. Provisions

	Property obligations £'000	Total £'000
At 31 July 2022	**1,495**	**1,495**
Provisions made during the year	68	68
Provisions used during the year	(305)	(305)
Unwinding of discount	21	21
At 29 July 2023	**1,279**	**1,279**

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

	As at 29 July 2023 £'000	As at 30 July 2022 £'000
Current	**231**	303
Non-current	**1,048**	1,192
	1,279	1,495

19. Business combination

On 10 January 2023, the Group announced it had acquired the brand, domain names, website, intellectual property and stock of Snugsofa.com ('Snug') from the administrators of Snug Shack Limited for consideration of £875,000.

The acquisition of Snug represents further progression in Group's strategy. Snug's strong brand and differentiated digital-first offering will complement the Group's existing proposition, further diversifying its customer base and increase market share.

The purchase has been accounted for as a business combination. Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	£'000
Purchase consideration	
Cash paid	**875**
Total purchase consideration	**875**

The assets recognised as a result of the acquisition are as follows:

	Fair Value £'000
Intangible asset	**250**
Inventories	**125**
Total identifiable assets	**375**
Goodwill	**500**
Total asset value	**875**

The goodwill is attributable to Snug's strong brand, innovative digital capabilities, and synergies expected to arise after the Group's acquisition of the new subsidiary. It has been allocated to the furniture retail segment.

During the year, the goodwill was assessed for impairment, comparing Snug's (the CGU) value in use based on the latest budget and forecast cash flows to the carrying value as at 29 July 2023, resulting in no impairment charge. The discount rate used is consistent with the rate used in the Group's assessment of asset impairment. If the discount rate used increased by 1%, then this would not lead to the recognition of an impairment charge. Likewise, if future estimated cash flows decreased by 10% each year into perpetuity, this would not lead to an impairment charge.

19. Business combination continued

Snug's first year-end date is 31 December 2023, which is 12 months from the date of incorporation. We intend to align Snug's year end with the rest of the Group going forward. Snug contributed revenues of £4,121,000 and a net losses of £2,787,000 from the period from 10 January 2023 to 29 July 2023.

Pre-trading and acquisition-related costs

Pre-trading and acquisition-related costs of £849,000 are included in administrative expenses in profit or loss.

20. Share capital and share premium

	Number of shares	Ordinary shares £'000	Share premium £'000	Capital redemption reserve £'000
At 1 August 2021	**38,012,655**	**38**	**16**	**15**
Cancellation of repurchased shares	(1,242,208)	(1)	–	1
At 30 July 2022	**36,770,447**	**37**	**16**	**16**
Cancellation of repurchased shares	(2,815,773)	(3)	–	3
At 29 July 2023	**33,954,674**	**34**	**16**	**19**

Authorised, allotted and fully paid share capital is 33,954,674 of £0.001 each (2022: 36,770,447 of £0.001 each).

At the beginning of the year, the Group held 74,932 shares in treasury that were subsequently cancelled as part of the share buyback scheme (note 28). During the year the Group acquired 2,740,841 ordinary shares at an average share price of 171.6 pence per ordinary share for a total consideration (including associated fees) of £4,776,000. Following this purchase, the ordinary shares purchased by the Group were cancelled and the Group's issued share capital subsequently consists of 33,954,674 ordinary shares, each with one voting right.

21. Dividends

A final dividend for the year ended 30 July 2022 of 9.0 pence resulted in a payment of £3,198,000 which was made on 9 December 2022. It has been recognised in shareholders' equity in the year to 29 July 2023.

An interim dividend of 4.5 pence (2022: 4.5 pence) per ordinary share was declared by the Board on 21 March 2023 and resulted in a payment of £1,522,000 which was made on 11 May 2023. It has been recognised in shareholders' equity in the year to 29 July 2023.

During the year dividend equivalents were paid on the vesting of LTIPs totalling £4,000.

Given the strength of the Group's balance sheet coupled with the resilient result for the year a final dividend of 10.0p has been proposed and, if approved, will be recorded within the financial statements for the year ending 27 July 2024. Approval of the proposed dividend of 10.0p would result in a payment of £3,395,000.

22. Share-based payments

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

Post-admission incentive arrangements

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

(i) Market value options under an HMRC approved Company Share Option Plan (CSOP) conditional on the IPO taking place (approved on 21 January 2015).

(ii) Performance-based £nil cost options granted on 14 October 2019. The performance condition is based on EPS of the Group for the financial year ended 30 July 2022.

(iii) Performance-based £nil cost options granted on 12 October 2020. The performance condition is based on EPS of the Group for the financial year ended 29 July 2023.

(iv) Performance-based £nil cost options granted on 18 October 2021. The performance condition is based on EPS of the Group for the financial year ended 27 July 2024.

(v) Performance-based £nil cost options granted on 21 April 2023. The performance condition is based on EPS of the Group for the financial year ended 26 July 2025.

Fair value of awards

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

The expected life is the estimated time period to exercise. The expected volatility is calculated by reference to the historic volatility of the Group from

22. Share-based payments continued

Fair value of awards continued

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 (CSOP market value options)		2021, 2022 and 2023 LTIP (Directors' awards)		LTIP (all awards)	
	Share awards	Average exercise price	Share awards	Average exercise price	Share awards	Average exercise price
Outstanding as at 31 July 2021	27,652	£1.75	1,407,414	£0.000001	1,435,066	£0.033
Granted	–	–	584,670	£0.000001	584,670	£0.000001
Lapsed	–	–	(59,998)	£0.000001	(59,998)	£0.000001
Forfeited	–	–	(81,342)	£0.000001	(81,342)	£0.000001
Exercised	(22,772)	£1.75	(500,728)	£0.000001	(523,500)	£0.08
Outstanding as at 30 July 2022	**4,880**	**£1.75**	**1,350,016**	**£0.000001**	**1,354,896**	**£0.006**
Granted	–	–	1,106,789	£0.000001	1,106,789	£0.000001
Lapsed	–	–	(223,034)	£0.000001	(223,034)	£0.000001
Forfeited	–	–	–	£0.000001	–	£0.000001
Exercised	–	–	(207,533)	£0.000001	(207,533)	£0.000001
Outstanding as at 29 July 2023	**4,880**	**£1.75**	**2,026,238**	**£0.000001**	**2,031,118**	**£0.004**
Exercisable at 29 July 2023	**4,880**	**£1.75**	**–**	**–**	**4,880**	**£1.75**
Exercisable at 30 July 2022	4,880	£1.75	–	–	4,880	£1.75
Weighted average remaining contractual life (months)	–	–	21	–	21	–
Weighted average share price at exercise	–	£1.75	–	–	–	£1.75

As at 29 July 2023, 377,518 of the outstanding LTIP share options relate to the 2021 LTIP, which vested as at the year-end date. Due to the Group's EPS being higher than the minimum target set, a proportion of these options will be awarded. Further information on the LTIP is available in the Directors' remuneration report on pages 101 to 102.

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

	2015	2020	2021	2022	**2023**
Grant date	21 Jan 2015	14 Oct 2019	12 Oct 2020	18 Oct 2021	**21 Apr 2023**
Share price at grant date	£1.75	£2.36	£2.00	£2.63	**£1.77**
Exercise price	£1.75	£nil	£nil	£nil	**£nil**
Number of employees	6	7	6	6	**8**
Shares granted	68,659	562,340	627,163	584,670	**1,106,789**
Expected volatility	36.2%	–[1]	–[1]	–[1]	**–[1]**
Expected life (years)	5	3	3	3	**3**
Risk-free interest rate	1.06%	–[1]	–[1]	–[1]	**–[1]**
Expected dividend yield	8%	–[1]	–[1]	–[1]	**–[1]**
Fair value per share	£0.24	£2.36	£2.00	£2.63	**£1.77**
Actual/estimated vesting	100%	48%	33%	0%	**53%**

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 £598,000 (2021: £153,000) which is in relation to equity-settled share-based payment transactions. There are no liabilities arising from share-based payment transactions.

23. Capital commitments

Capital commitments contracted for but not provided amounted to £1,455,000 in relation to property plant and equipment and £371,000 in relation to intangible assets, totalling £1,826,000 (2022: £643,000).

24. Pension commitments

The Group operates several defined contribution pension schemes for the benefit of its staff. The assets of the schemes are held separately from those of the Group in independently administered funds. The pension charges represent contributions payable by the Group to these funds and are shown in note 6. Amounts outstanding at the year end were £349,000 (2022: £353,000) and are held in accruals.

25. Financial instruments – risk management

Financial risk management policy

The Group's principal financial instruments comprise cash and cash equivalents. The main purpose of these financial instruments is to provide funds for the Group's operations. The Group has other financial instruments being trade receivables and trade payables that arise directly from its operations.

It is the Group's policy that no trading in financial instruments shall be undertaken. The Group has not entered into derivative transactions during the years under review. The Group does not undertake any speculative transactions and continues to pursue prudent treasury policies by investing surplus funds only with reputable UK financial institutions.

Credit risk

The finance for all the Group's credit sales is provided from external financing companies who bear the whole risk of customer defaults on repayment. The Group's financial assets which are past due and not impaired are deemed not material for disclosure. The remaining balance is deemed fully recoverable due to the use of finance houses to mitigate the risk of recoverability. There have been no gains/losses on financial liabilities.

Cash and deposits are invested with Lloyds Bank plc.

Liquidity risk

The Group's exposure to liquidity risk is low as historically working capital requirements have been funded entirely by self-generated cash flow.

At 29 July 2023, the Group's cash balance totalled £69.5m, and £33.3m was owed as trade payables for goods delivered. The Group has no drawn down debt, and further liquidity is available through the £12.0m RCF granted on 6 October 2022. This facility is committed for a term of 36 months and would be renegotiated well in advance of this maturity date. The RCF is subject to certain covenants in respect of fixed charge cover, liquidity, leverage and capital spending.

Financial instruments by category

Financial assets and liabilities are classified in accordance with IFRS 9. No financial instruments have been reclassified or derecognised in the year. There are no financial assets which are pledged or held as collateral. The Group does not hold any financial assets or liabilities held as fair value through the income statement, defined as being in a hedging relationship or any available for sale financial assets. The Group's main financial assets comprise cash and cash equivalents and trade receivables (note 15) arising from the Group's activities.

These financial assets all meet the conditions to be recognised at amortised cost under IFRS 9.

Other than trade and other payables (note 16) and provisions (note 18), the Group had no financial liabilities within the scope of IFRS 9 as at 29 July 2023 (2022: £nil). Balances within trade and other payables will mature within one year and lease liabilities are measured at amortised cost.

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

Capital management

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

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

26. Related parties

Holdings in subsidiaries and any relevant related party transactions are disclosed in the Company financial statements in note 5. Only ScS Furnishings Limited and the ScS Group plc Employee Benefit Trust are not included in the consolidation on the grounds of materiality.

27. Contingent liabilities

The subsidiary undertakings of the Group are party to a debenture with Lloyds Bank plc which grants fixed and floating charges over the assets of each subsidiary undertaking.

28. Treasury reserve

	£'000
As at 1 August 2021	**549**
Purchase of own shares	1,476
Sale of treasury shares	(51)
Issue of shares to employees	(1,293)
As at 30 July 2022	**681**
Purchase of own shares	148
Cancellation of treasury shares	(116)
Issue of shares to employees	(510)
As at 29 July 2023	**203**

During the period, the Group's Employee Benefit Trust purchased a further 106,637 ordinary shares of 0.1 pence each in the Group at an average price of 139.00 pence per ordinary share, and 228,008 ordinary shares were used to satisfy management incentive awards.

74,932 shares which were purchased into treasury in the prior year have subsequently been transferred to retained earnings in the period, at an average price of 154.56 pence per ordinary share, and cancelled as part of the share buyback programme.

As at 29 July 2023 the Group holds 131,360 of its own ordinary shares of 0.1 pence each in the Group at an average purchase price of 154.9 pence.

During the prior year, the Group's Employee Benefit Trust purchased 624,453 ordinary shares of 0.1 pence each in the Group at an average price of 236.4 pence per ordinary share, and 554,204 shares were used to satisfy management incentive awards. As at 30 July 2022 the Group held 327,663 of its own ordinary shares of 0.1 pence each in the Group at an average purchase price of 207.7 pence.

29. Net debt

	As at 29 July 2023 £'000	As at 30 July 2022 £'000
Cash and cash equivalents	**69,538**	70,819
Lease liabilities	**(101,344)**	(106,733)
Net debt	**(31,806)**	(35,914)

As a result of IFRS 16, the Group is in a net debt position due to the recognition of a lease liability.

The change in lease liabilities from £106,733,000 to £101,344,000 was a result of £4,057,000 (2022: £3,438,000) interest charged, £23,263,000 (2022: £28,630,000) principal and interest repayments and lease modifications of £13,817,000 (2022: £15,864,000).

30. Post balance sheet events

Subsequent to the 29 July 2023, a further £1,250,000 business interruption insurance payment was received relating to loss of profit as a result of the COVID-19 pandemic. As at the year end the Group did not have a high level of certainty that this payment would be received, or the timeframe on which it may do so, and therefore did not disclose it is a receivable. As such, in line with the treatment of the £1,250,000 received during the year to 29 July 2023, we expect to recognise and disclose this item as an adjusting item to consolidated income in the year to 27 July 2024.

On 24 October 2023, a wholly-owned subsidiary of Poltronesofà S.p.A. announced a recommended offer for the entire issued and to be issued share capital of the Company of 270p per share in cash. In addition, shareholders who are on the register at the close of business on 17 November 2023 will be entitled to receive the final dividend of 10.0p (in respect of the year ended 29 July 2023).

It is intended that the acquisition will be implemented by way of a Court-sanctioned scheme of arrangement under Part 26 of the Companies Act. Cerezzola Limited (a wholly-owned subsidiary of Poltronesofà S.p.A.) has indicated its intention (subject to the requisite acceptance thresholds being achieved referred to in the announcement of 24 October 2023) to delist the Company from the London Stock Exchange as soon as practicable following the cancellation of listing and trading of the Company's shares. This process will take place following the release of the Annual Report and is targeted to complete in the first quarter of 2024.

Company statement of financial position
As at 29 July 2023

	Note	As at 29 July 2023 £'000	As at 30 July 2022 £'000
Non-current assets			
Investments	5	**70,000**	70,000
Total non-current assets		**70,000**	70,000
Current assets			
Trade and other receivables	6	**27**	32
Deferred tax asset	7	**1,111**	813
Cash at bank and in hand		**–**	–
Total current assets		**1,138**	845
Total assets		**71,138**	70,845
Current liabilities			
Trade and other payables	8	**25,319**	19,193
Total current liabilities		**25,319**	19,193
Total liabilities		**25,319**	19,193
Capital and reserves			
Called-up share capital	9	**34**	37
Share premium account	9	**16**	16
Capital redemption reserve	9	**19**	16
Treasury share reserve	12	**(203)**	(681)
Retained earnings		**45,953**	52,264
Total shareholders' funds		**45,819**	51,652
Total equity		**45,819**	51,652
Total equity and liabilities		**71,138**	70,845

The notes on pages 158 to 161 form an integral part of these financial statements.

The total comprehensive income for the year included within the financial statements of the Company is £3,815,000 (2022: £3,451,000).

The financial statements on pages 156 to 161 were approved by the Board and authorised for issue on 24 October 2023 and signed on its behalf by:

Steve Carson
Chief Executive Officer

Company statement of changes in equity
For the year ended 29 July 2023

	Called-up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Treasury reserve £'000	Retained earnings £'000	Total equity £'000
At 1 August 2021	**38**	**16**	**15**	**(549)**	**56,761**	**56,281**
Profit and total comprehensive income	–	–	–	–	3,451	3,451
Repurchase of own shares (note 9)	–	–	–	–	(2,201)	(2,201)
Cancellation of repurchased shares (note 9)	(1)	–	1	–	–	–
Purchase of treasury shares (note 12)	–	–	–	(1,476)	–	(1,476)
Issue of treasury shares to employees (note 12)	–	–	–	1,344	(1,304)	40
Dividend paid (note 10)	–	–	–	–	(4,443)	(4,443)
At 30 July 2022	**37**	**16**	**16**	**(681)**	**52,264**	**51,652**
At 31 July 2022	**37**	**16**	**16**	**(681)**	**52,264**	**51,652**
Profit and total comprehensive income	–	–	–	–	3,815	3,815
Repurchase of own shares (note 9)	–	–	–	–	(4,776)	(4,776)
Cancellation of repurchased shares (note 9)	(3)	–	3	116	(116)	–
Purchase of treasury shares (note 12)	–	–	–	(148)	–	(148)
Issue of treasury shares to employees (note 12)	–	–	–	510	(510)	–
Dividend paid (note 10)	–	–	–	–	(4,724)	(4,724)
At 29 July 2023	**34**	**16**	**19**	**(203)**	**45,953**	**45,819**

Notes to the Company financial statements

1. General information

ScS Group plc (the 'Company') is a company limited by shares incorporated and domiciled in England, within the UK (Company registration number 03263435). The address of the registered office is 45-49 Villiers Street, Sunderland, SR1 1HA. The Company's principal activity is to act as a holding company for its subsidiaries, and its shares are listed on the London Stock Exchange (LSE).

2. Accounting policies

The principal accounting policies applied in the preparation of these financial statement are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Statement of compliance with FRS 101

These financial statements were prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The Company meets the definition of a qualifying entity under FRS 100, 'Application of Financial Reporting Requirements' as issued by the Financial Reporting Council.

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006 as applicable to companies using FRS 101.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to business combinations, financial instruments, capital management, presentation of comparative information in respect of certain assets, standards not yet effective, impairment of assets and related party transactions. Where required, equivalent disclosures are given in the consolidated financial statements of ScS Group plc.

Going concern

The Company is the ultimate holding company to a group which is highly cash generative, and which holds sufficient medium and long-term facilities in place to enable it to meet its obligations as they fall due. The Directors are, therefore, satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future.

Further information on the Group's going concern and ongoing viability is provided in note 2 of the Group financial statements.

Following the year end, on 24 October 2023 the Board announced a recommended offer for the Company of 270p per share in cash, from a wholly-owned subsidiary of Poltronesofà S.p.A. It is intended that the acquisition will be implemented by way of a Court-sanctioned scheme of arrangement under Part 26 of the Companies Act and is forecast to complete in the first quarter of 2024. The Group's existing committed debt facilities contain a standard change of control clause that will be triggered once the acquisition completes. This could result in the existing committed debt facilities being withdrawn. The Group does not have visibility of the post completion funding for the Group at this time. Therefore, this could create some uncertainty as to the Group's going concern.

The Directors note the detailed intentions statement included within the announcement on 24 October 2023, which state that following completion of the acquisition, Poltronesofà S.p.A. intends to support the Group by leveraging its significant, pan-European industry expertise and providing the capital necessary to accelerate the Group's strategy. Poltronesofà S.p.A. is highly supportive of management's vision for the business and the long-term ambitions of being the UK's best value-for-money home retailer and recognises and values the strong strategic, operational and product positioning and setup of the Group, as well as the expertise of its management team and employees. Poltronesofà S.p.A. therefore intends to work closely with the Group's senior management to undertake a strategic review of the Group in order to determine how its short and long-term objectives can best be delivered or exceeded.

Notwithstanding Poltronesofà S.p.A.'s stated intentions, the current Directors will not have full control over the acquired Group and therefore they do not currently have full knowledge of the new ultimate parent undertaking's future intentions and funding plans in relation to the Group. Therefore the change of control position indicates a material uncertainty which may cast significant doubt upon the Group and the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group and the Company were unable to continue as a going concern.

Having considered all of the above, the Board is of the opinion that the going concern basis adopted in the preparation of the consolidated statements is appropriate.

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.

2. Accounting policies continued

Carrying value of the investment

Management has considered the carrying value of the investment and calculated a value in use from cash flow projections based on the Group's internal budgets, which are then extrapolated into perpetuity and discounted using the Group's cost of capital. The key estimates for the value in use calculations are those regarding the discount rate used and expected future cash flows. Management utilised the budget and discount rate consistent with those use in the Group's assessment of asset impairment. Management's value in use calculation provided significant headroom over the carrying investment value and if the discount rate increased or decreased by 1%, this would not have led to the recognition of an impairment charge or reversal in these financial statements. Similarly, if future estimated cash flows decreased by 10% each year into perpetuity, this would not lead to an impairment charge.

Capital management

The Company follows the same capital management as the Group – see page 154 in the Group financial statements.

New standards, amendments and interpretations

For the latest amendments and interpretations, please refer to page 138 in the Group financial statements.

Fixed asset investments

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

Trade receivables

Trade receivables for the Company refer to prepayments made for services performed in the ordinary course of business. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Treasury shares

Treasury shares are those shares bought back by the Company. Shares in the Company held in treasury are included in the balance sheet 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 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 also included in the balance sheet as treasury shares.

Taxation

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

Related parties

In these financial statements, the Company has taken advantage of the following disclosure exemptions available under FRS 101:

- The requirement of paragraph 17 of IAS 24 'Related Party Transactions'; and
- The requirements in IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is party to the transaction is a wholly-owned by such a member.

3. Income statement and statement of cash flow exemption

The Company has elected to take the exemption under section 408 of the Companies Act 2006 from presenting the Income Statement or a Statement of Comprehensive Income for the Company. Total comprehensive income for the Company for the year was £3,815,000 (2022: £3,451,000).

The Company has taken advantage of the disclosure exemptions under FRS 101 in relation to the requirements of IAS 7 'Statement of Cash Flows'.

4. Directors' emoluments

No Executive Directors received any remuneration for their services to the Company (2022: £nil). All Executive Directors' remuneration was borne by another Group company, A. Share & Sons Limited. These costs have been consolidated into the Group's financial statements and are disclosed, along with the Non-Executive Directors' fees, within the Directors' remuneration report on page 108.

The Company does not employ any staff other than the Non-Executive Directors noted above.

Notes to the Company financial statements continued

4. Directors' emoluments continued

The aggregate remuneration of the Non-Executive Directors comprises:

	52 weeks ended 29 July 2023 £'000	52 weeks ended 30 July 2022 £'000
Wages and salaries	**351**	262
Social security costs	**43**	33
Other pension costs	**–**	–
Total	**394**	295

5. Investments

	Subsidiary undertaking £'000
Cost and net book value	
At 30 July 2022 and 29 July 2023	70,000

The subsidiaries, which were owned and incorporated in the United Kingdom are as follows:

Name	Principal activity	Class of shares held	% of holdings
Parlour Product Topco Limited	Holding company	Ordinary	100%
Held by subsidiary undertakings			
Parlour Product Holding Limited	Holding company	Ordinary	100%
A. Share & Sons Limited	Specialist retailer of upholstered furniture	Ordinary	100%
ScS Furnishings Limited	Dormant company	Ordinary	100%
Snug Furniture Limited	Specialist retailer of upholstered furniture	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 management's value in use model (see note 2).

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

Parent company guarantee

For the year ended 29 July 2023, Snug Furnishings Limited is exempt from the requirement of the Companies Act 2006 relating to the audit of individual accounts by virtue of Section 479A of that act relating to subsidiary companies.

6. Trade and other receivables

	As at 29 July 2023 £'000	As at 30 July 2022 £'000
Prepayments	**27**	32

7. Deferred tax asset

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

	As at 29 July 2023 £'000	As at 30 July 2022 £'000
Opening deferred tax asset	**813**	442
Credited to profit and loss account arising from the origination and reversal of temporary differences	**298**	371
Closing deferred tax asset	**1,111**	813

Deferred taxation has been fully recognised in respect of:

	As at 29 July 2023 £'000	As at 30 July 2022 £'000
Losses	**1,111**	813
Closing deferred tax asset	**1,111**	813

8. Trade and other payables

	As at 29 July 2023 £'000	As at 30 July 2022 £'000
Amounts owed to Group undertakings	**24,942**	18,785
Accruals and deferred income	**377**	408
	25,319	19,193

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

9. Share capital and share premium

	Number of shares	Ordinary shares £'000	Share premium £'000	Capital redemption reserve £'000
At 31 July 2022	36,770,447	37	16	16
Cancellation of repurchased shares	(2,815,773)	(3)	–	3
At 29 July 2023	**33,954,674**	**34**	**16**	**19**

Authorised, allotted and fully paid share capital is 33,954,674 of £0.001 each (2022: 36,770,447 of £0.001 each).

At the beginning of the year, the Group held 74,932 shares in treasury that were subsequently cancelled as part of the share buyback scheme. During the year the Group acquired 2,740,841 ordinary shares at an average share price of 171.6 pence per ordinary share for a total consideration including associated fees of £4,776,000. Following this purchase, the ordinary shares purchased by the Group were cancelled and the Group's issued share capital subsequently consists of 33,954,674 ordinary shares, each with one voting right.

10. Dividends

A final dividend for the year ended 30 July 2022 of 9.0 pence resulted in a payment of £3,198,000 which was made on 9 December 2022. It has been recognised in shareholders' equity in the year to 29 July 2023.

An interim dividend of 4.5 pence (2022: 4.5p) per ordinary share was declared by the Board on 21 March 2023 and resulted in a payment of £1,522,000 which was made on 11 May 2023. It has been recognised in shareholders' equity in the year to 30 July 2023.

During the year dividend equivalents were paid on the vesting of LTIPs totalling £4,000.

Given the strength of the Group's balance sheet coupled with the resilient result for the year a final dividend of 10.0p has been proposed and, if approved, will be recorded within the financial statements for the year ending 27 July 2024. Approval of the proposed 10.0p dividend would result in a payment of £3,390,000.

11. Financial instruments

The Company has financial instruments, being trade receivables and trade payables that arise directly from its operations. The financial instruments – risk management policy has been included in note 25 of the Group financial statements.

12. Treasury share reserve

Details of the Company's share capital and share buybacks are given in note 28 of the Group financial statements.

13. Post balance sheet events

Details of the Company's post balance sheet events are given in note 30 of the Group financial statements.

Company information

Registered office

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Company number

Registered in England: 03263435

Listing

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

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