For immediate release **20 March 2020**

ScS Group plc
("ScS" or the "Group")

Interim results for the 26 weeks ended 25 January 2020

YEAR TO DATE TRADING IN LINE WITH THE BOARD'S EXPECTATIONS

Further to the trading update announced on 17 March 2020, ScS, one of the UK's largest retailers of upholstered furniture and floorings, is pleased to announce its interim results for the 26 weeks ended 25 January 2020.

Financial highlights:

- Gross sales increased 0.5% to £160.1m (2019: £159.2m)
- Gross profit increased 0.3% to £71.7m (2019: £71.5m)
- Underlying EBITDA from continuing operations, on a comparable pre-IFRS 16 basis, improved by £0.4m to £3.8m (2019: £3.4m)
- Strong balance sheet with cash of £61.5m (2019: £62.5m)
- Interim dividend of 5.50p per share (2019: 5.50p per share)

	H1 FY20 Post IFRS 16 £m	IFRS 16 adj. £m	H1 FY20 Pre-IFRS 16 £m	H1 FY19 IAS 17 £m	Change
Gross sales	**160.1**	**-**	**160.1**	**159.2**	**0.5%**
Revenue	**152.0**	**-**	**152.0**	**151.4**	**0.3%**
Gross profit	**71.7**	**-**	**71.7**	**71.5**	**0.3%**
Gross margin	**44.8%**	**-**	**44.8%**	**44.9%**	**(0.1%)**
Underlying EBITDA	**16.6**	**12.8**	**3.8**	**3.4**	**0.4**
Underlying operating profit	**1.7**	**0.7**	**1.0**	**0.8**	**0.2**
Operating profit	**1.2**	**0.7**	**0.5**	**0.4**	**0.1**
Statutory (loss)/profit before tax	**(0.6)**	**(1.3)**	**0.7**	**0.5**	**0.2**
Underlying (loss) / earnings per share	**(0.3p)**	**(2.6p)**	**2.3p**	**2.2p**	**0.1p**
Statutory (loss) / earnings per share	**(1.4p)**	**(2.6p)**	**1.2p**	**0.4p**	**0.8p**

Please refer to the footnote of this highlights statement regarding the Group's adoption of IFRS16. For the purposes of a comparison with H1 FY19, the impact of the transition to IFRS 16, as well as IAS 17 pro-forma numbers have been presented.

Operational highlights:

- Like-for-like order intake down 4.4%
- Two year like-for-like order intake down 2.9%
- Investment in our e-commerce offering has driven an online sales increase of 24.5% to £9.8m (2019: £7.8m)
- Continued focus on customer service with "Excellent" Trustscore maintained on Trustpilot with over 200,000 reviews, one of only four companies in the UK to reach this milestone
- Centralised our customer experience team to support the entire branch network following the successful roll-out of our new in-store sales app

Current trading and outlook:

- Order intake up 3.3% on a like-for-like basis for the first seven weeks of the second half of the year to 14 March 2020. This strengthening performance has meant the year to date like-for-like order intake decline has reduced since the half year and is now down 3.0% for the 33 weeks to 14 March 2020
- Year to date trading in line with the Board's expectations

- We are mindful of the developing situation with the coronavirus (COVID-19), and the potential impact on deliveries and demand. This is covered further in the Financial Review.

David Knight, Chief Executive Officer of ScS, commented:

"Trading has strengthened since our market update on 29 January 2020, with like-for-like order intake in the last seven weeks growing 3.3%. This is a significant improvement on trading for the first 26 weeks of the year, which had a like-for-like order intake decline of 4.4%. This has resulted in a like-for-like order intake decrease of 3.0% for the 33 weeks ended 14 March 2020.

Whilst consumer confidence remains low, the Group has been successful in sustaining profitable growth and increasing its resilience. Trading in the early part of the year was particularly challenging. However, the improvement and return to growth seen over the key winter sales period and for the first six weeks of the second half was encouraging. In the past week we have seen reduced footfall and we are mindful of the developing situation with COVID-19 and the potential impact on deliveries and demand. However, we believe the Group is as well positioned as it can be.

We continue to focus on providing excellent value, quality and choice for our customers, and are committed to our strategy. We remain confident in the future success of the Group."

Note on IFRS 16:

In the current period, the Group has adopted the new accounting standard IFRS 16. This requires operating leases to be shown as right-of-use assets and lease liabilities to be recognised on the balance sheet. The Group, therefore, now recognises depreciation and interest costs in respect of these leases in the income statement for the period, rather than the rental charges, previously recognised under IAS 17. As we explained in the 2019 Annual Report, the Group has adopted the modified retrospective approach and therefore in line with the standard comparative disclosures have not been restated for IFRS 16. In order to aid comparison, a reconciliation between the two different bases of reporting is set out in Note 4 to the statements and wherever possible we have referred throughout this statement to numbers reported as though IFRS 16 had not been adopted.

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ScS Group plc's Interim Results 2020 are available at www.scsplc.co.uk

Notes to editors

ScS is one of the UK's largest retailers of upholstered furniture and floorings, promoting itself as the "Sofa Carpet Specialist", seeking to offer value and choice through a wide range of upholstered furniture and flooring products. The Group's product range is designed to appeal to a broad customer base with a mid-market priced offering and is currently traded from 100 stores.

The Group's upholstered furniture business specialises primarily in fabric and leather sofas and chairs. ScS sells a range of branded products which are not sold under registered trade marks and a range of branded products which are sold under registered trade marks owned by ScS (such as Endurance, Inspire and SiSi Italia). The Group also offers a range of third party brands (which include La-Z-Boy, G Plan and Celebrity). The Company's flooring business includes carpets, as well as laminate and vinyl flooring.

BUSINESS REVIEW

The Group is now in the second year of its strategy for growth, and it has continued to deliver further progress in the 26 weeks ended 25 January 2020. The business has faced challenging market conditions during the period, driven by the political and economic uncertainty, which has created a period of very low consumer confidence. Whilst this led to a decrease in order intake in the first half of the year, a larger opening order book and reduced product lead times, coupled with the flexibility of the Group's cost base, has resulted in an increase in both sales and profit in the first half of the year.

Performance

The Group's like-for-like order intake decreased 4.4% in the first half of the financial year, with a two year like-for-like order intake decrease of 2.9%. The first 17 weeks of the period saw a like-for-like order intake decline of 7.1%. Encouragingly, the following nine weeks to 25 January 2020, which included the key winter sales period, saw like-for-like order intake growth of 1.2%, despite being impacted, as expected, by the loss of one post-Christmas trading day in the Boxing Day week.

Despite the order decline, the Group has achieved an increase in revenue, gross profit and EBITDA in the period. Total gross sales grew from £159.2m to £160.1m, an increase of 0.5%, gross profit improved from £71.5m to £71.7m and underlying EBITDA grew from £3.4m to £3.8m, on a pre-IFRS 16 basis. The reduction in order intake in the period was offset by a larger opening order book, following the stronger trading we saw at the end of the previous financial year, and a reduction in product lead times from our suppliers, due to increased capacities reflecting the softer market conditions. Gross margin fell slightly from 44.9% to 44.8%, reflecting the Group's increasingly promotional pricing.

The Group has made significant improvements to its operational efficiency in the first half of the year, largely as a result of the centralisation of the majority of administrative tasks from each of our individual stores to our head office in Sunderland. This will help reduce the impact of ongoing wage inflation pressures.

Board changes

As announced on 29 January 2020, after 32 years in the business, David Knight notified the Board of his intention to retire as Group CEO. He has given 12 months' notice in accordance with his contract and is prepared to be flexible should the appointment of his successor and a smooth handover require a little longer. A search process to identify David's successor is underway.

On 11 February 2020, the Group announced that Parlour Products Holdings (LUX) S.A.R.L ("Parlour") had sold its entire holding in the Group. Paul Daccus, who was Parlour's representative on the Board of the Company, stood down from the Board on the same date.

Strategic priorities

The Group has remained focused on its seven key strategic priorities, and we have outlined the progress against these objectives below.

Building and inspiring an outstanding team

Our people continue to be at the heart of our strategy for growth, and we have made further improvements during the period in the recruitment and retention of our teams. Recruiting the right people has been a strong area of focus for the Group through the first half of the year, most significantly by successfully adding a team of 80 colleagues to our head office in Sunderland to operate our new central customer experience team. We have strengthened a number of our in-store sales teams where we saw an opportunity to improve store performance, and the Group has recently announced its decision to further strengthen the Operating Board, by beginning the search for both a technology and a marketing director as it looks to build on the digital improvements made in the last two years.

We remain focused on improving staff retention, with the year-to-date metrics continuing to show a decrease in staff turnover, particularly across our distribution networks where turnover has fallen by over 10% since the same point last year. We have focused on delivering changes requested by our colleagues, and have continued to improve staff training, induction and development.

Our 2019 culture survey was recently concluded, and our teams are now working to deliver nationwide workshops to identify and deliver key actions which can improve our employees' day-to-day experience and general wellbeing. Our HR learning and development business partners are now embedded within our business, with a focus on promoting best practice and helping our sales teams achieve their potential. Our retail management team (including all our branch managers) have been further supported by the 'Olympic experience' training programme that we have been delivering throughout the year with business coaches and former Olympians Steve Backley and Roger Black.

Delivering an exceptional customer experience

The Group has made significant improvements to our customers' journey in the first half of the year, which will help improve their experience as well as providing the business with continued efficiencies.

As detailed in our 2019 Annual Report, the start of the year was notable for the introduction of our nYwhere in-store sales app, which was a significant investment by the business, and one that has streamlined the initial sales ordering process for both our in-store teams and customers. nYwhere allows a salesperson to complete an order from a tablet-friendly, intuitive and easy to navigate tile-based interface which links directly to our core system. Our sales staff and customers benefit from the simple step-by-step process, increased speed and order accuracy levels, and the convenience of receiving electronic copies of orders, finance agreements and product terms and conditions. We continue to update and improve nYwhere through store and customer feedback.

The introduction of nYwhere has helped facilitate the most significant change the business has made in the past five years, with the centralisation of our retail administrators. As nYwhere removed the need for orders to be manually input into our system in-store, this facilitated moving many of the other processes handled in-store by small teams of administrative employees to a specialist central customer experience team. This means that our customers benefit from a larger team available for a wider timeframe, providing a more consistent service.

The initial centralisation process concluded at the end of November. Whilst the preceding three month period of change will have impacted in-store morale and focus, the conclusion of the change meant the business was ready to maximise the opportunity in the important winter sale trading period. Furthermore, as many of our administrative processes are now managed centrally, we have already identified areas where we can improve the customer experience and efficiencies further.

The Group's Trustpilot rating remains key to measuring customer experience. Following the changes to Trustpilot's scoring system during the first half of the year which implemented 'half-stars', the Group now holds a 4.5 star "Excellent" rating. Underlying, we have maintained our 4.7 out of 5.0 TrustScore, and we have now achieved over 200,000 individual reviews.

Optimising our product strategy

The Group continues to focus on achieving our vision of being Britain's best value sofa and carpet retailer. We have therefore continued to work with our suppliers to ensure we improve our value range offering, both in terms of offering the best price we can to our customers, and maximising the quality of the product to meet and exceed our customers' expectations.

The first half of the year has brought an opportunity to work with our suppliers to provide our customers with shorter lead times for products. The industry-wide fall in the furniture market has provided capacity which our suppliers have been able to utilise to provide the Group with products more quickly, and pass this benefit on to our customers. We do expect that as the furniture market recovers, lead times will return to previous levels.

In 2019, 29% of our furniture product came directly from China, and several of our other suppliers also source their raw materials from China. Following the COVID-19 outbreak, we have been working with our Chinese suppliers closely over the recent weeks to manage the impact on their factories of new Government regulation and restrictions. As China begins to adapt, lead times have increased, however, at this point we expect these lead times to return to normal before the year end.

Driving sales densities in our ScS network

Driving our sales densities remains vital to maximising growth. As online shopping continues to transform the retail market, the tactile nature, high average order value and long holding period of our product, coupled with the customers' desire to come in-store and try before they buy, means in-store sales remain 93.9% of the Group's gross sales (2019: 95.1%). For these reasons, a proportion of our online sales are also completed after the customer has visited a store.

Average furniture order values remained stable at £1,540 (2019: £1,543), as we continue to focus on value in our product mix. In-store gross furniture sales grew 1.4% to £131.6m against the same period in the prior year. Disappointingly, our in-store flooring sales fell 13.2% to £18.7m and the actions we are taking to address this are set out below. Sales density per square foot at our ScS stores for the period grew slightly to £111 (2019: £109).

Market research indicates that customers continue to look for a promotion when entering the market. We continue to tailor our offer to reflect this, with more 'event days' and increasing the frequency, but reducing the length, of our promotional campaigns. These events offer extended opening hours and increased incentives, ensuring our customers can achieve the best prices available. We are also able to promote them effectively with targeted traditional and social media messaging, emphasising urgency.

The centralisation of our store administration and subsequent removal of the unused in-store desks has allowed the business to maximise floor space adding additional product ranges, giving our customers even more choice.

The Group successfully opened its latest store in Kirkcaldy in September 2019, and continues to review a number of potential new store locations across the UK, where we feel there are opportunities for expansion with the right level of return on investment. We also continue to monitor store by store performance of the existing portfolio.

Creating a market leading website and digital awareness

Our online sales channel continues to grow, representing 6.1% of total sales (2019: 4.9%), with gross sales in the period increasing by 24.5% to £9.8m (2019: £7.8m). We continue to see the benefit from our investment made in previous years in our team and platforms, with consistently increasing website visitor traffic driving both increases in sales online, and benefits to our in-store sales as customers research products prior to visiting a store.

Our in-house photography studio was established in the prior year, bringing increasing levels of visualisation to our customers. This is a key area of focus for the business, with improvements targeted in the quality and the interactive nature of the media we are using to showcase our products.

The future re-platforming of our website remains on track. We are planning its launch carefully to minimise any potential disruption and ensure a smooth transition from the current site, whilst realising the potential the new platform will bring.

Accelerating our flooring growth

The economic and political uncertainty has placed significant pressures on the flooring market, with reduced consumer confidence and further reductions in the volume of housing transactions, a key driver for flooring sales, together with increasingly aggressive competition between the two largest market specialists. This level of competition has driven pressure on pricing which is likely to be unsustainable in the long term, and we have therefore refrained as a Group from competing at a level where we do not feel it provides an adequate return. As a result, our in-store flooring sales decreased 13.2% to £18.7m (2019: £21.6m).

Whilst we are disappointed in this performance, we are fully committed to the flooring market and confident in our future plans. We have added functionality to nYwhere to allow carpet surveyors to complete orders in the customer's home, and we continue to trial an increased online sampling offering. Furthermore, whilst we have specialist flooring sales professionals in many of our stores, we are keen to increase this, supplemented further by increasing flooring specific training to upskill all our sales teams. We remain confident that alongside our well-established supplier and fitter relationships and the ongoing potential we have for crossover furniture and flooring sales, we can begin to grow this area of the business again as the market recovers.

Improving our profitability

The Group's business model continues to ensure that improvements in revenue are matched by improved profits, margins and resilience. Key to this is maintaining our flexible cost base. Whilst the Group saw a small drop in gross profit margin to 44.8% (2019: 44.9%), the underlying pre-IFRS 16 EBITDA margin increased to 2.4% (2019: 2.2%) reflecting the reduction in performance related pay due to lower than targeted like-for-like order intake performance in the period and continued strong cost control. Recent trading has shown that customers continue to shop where they find value and the Group remains committed to this promotional pricing policy, which will result in the gross margin for the full year being slightly below the prior year.

The Group is currently rolling out a 'business intelligence' platform across the retail network, providing improved reporting to our teams, including branch managers. This information will provide greater insight down to order, brand, product and salesperson level, helping identify and implement best practices and drive further profitability improvements in our stores as we target organic growth opportunities.

Current trading and outlook

Trading has strengthened since our market update on 29 January 2020, with like-for-like order intake in the last seven weeks growing 3.3%. This is a significant improvement on trading for the first 26 weeks of the year, which had a like-for-like order intake decline of 4.4%. This has resulted in a like-for-like order intake decrease of 3.0% for the 33 weeks ended 14 March 2020.

Whilst consumer confidence remains low, the Group has been successful in sustaining profitable growth and increasing its resilience. Trading in the early part of the year was particularly challenging. However, the improvement and return to growth seen over the key winter sales period and for the first six weeks of the second half was encouraging. In the past week we have seen reduced footfall and we are mindful of the developing situation with COVID-19 and the potential impact on deliveries and demand. However, we believe the Group is as well positioned as it can be.

We continue to focus on providing excellent value, quality and choice for our customers, and are committed to our strategy. We remain confident in the future success of the Group.

FINANCIAL REVIEW

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

	26 weeks ended 25 January 2020 (Post IFRS 16) £m	26 weeks ended 25 January 2020 (Pre-IFRS 16) £m	26 weeks ended 26 January 2019 (IAS 17) £m	52 weeks ended 27 July 2019 (IAS 17) £m
Gross sales	160.1	160.1	159.2	333.3
Revenue	152.0	152.0	151.4	317.4
Gross profit	**71.7**	**71.7**	**71.5**	**149.9**
Distribution costs	(9.1)	(9.1)	(8.6)	(17.3)
Administration expenses before exceptionals	(60.9)	(61.6)	(62.1)	(118.3)
Total operating expenses before exceptionals	(70.0)	(70.7)	(70.7)	(135.6)
Underlying operating profit from continuing operations	**1.7**	**1.0**	**0.8**	**14.3**
Exceptional items	(0.5)	(0.5)	(0.4)	(0.3)
Net finance (expense)/ income	(1.8)	0.2	0.1	0.3
(Loss)/profit before tax from continuing operations	**(0.6)**	**0.7**	**0.5**	**14.3**
Income tax charge	-	(0.2)	(0.2)	(2.9)
(Loss)/profit after tax from continuing operations	**(0.6)**	**0.5**	**0.3**	**11.4**
Loss from discontinued operation	-	-	(0.1)	-
(Loss)/profit after tax for the period	**(0.6)**	**0.5**	**0.2**	**11.4**
Underlying EBITDA from continuing operations	**16.6**	**3.8**	**3.4**	**19.7**

Impact of IFRS 16 on the interim financial statements

The following financial information and commentary have been presented on a constant accounting basis and do not reflect the impact of IFRS 16. The impact of the new standard on the Group interim financial statements is shown in note 4.

Gross sales and revenue

Gross sales increased by £0.9m (0.5%) to £160.1m (2019: £159.2m) and is attributable to:

- An increase in upholstered furniture sales in ScS stores of 1.4% to £131.6m (2019: £129.8m);
- A decrease in flooring sales in ScS stores of 13.2% to £18.7m (2019: £21.6m), and
- An increase in online sales of 24.5% to £9.8m (2019: £7.8m).

Revenue, which represents gross sales less charges relating to interest free credit sales (see note 5 – Segmental information), increased by 0.3% to £152.0m (2019: £151.4m).

Gross profit

The gross profit increase of £0.2m, or 0.3%, has been driven by the increases in volume noted above, offset partly by a decrease in gross margin.

Gross margin (gross profit as a percentage of gross sales) decreased to 44.8% (2019: 44.9%). The decrease of 12 basis points is largely due to the Group's increasingly promotional pricing and value offers.

Distribution costs

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

Distribution costs increased 5.8% to £9.1m in the period (2019: £8.6m). This increase has been driven by property and staffing cost pressure, coupled with a 3.0% increase in furniture deliveries. As a percentage of revenue for the period, distribution costs were 6.0% (2019: 5.7%).

Administrative expenses before exceptionals

Administrative expenses comprise:

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

Administration expenses for the period totalled £61.6m, compared to £62.1m in the prior period. Administration expenses as a percentage of revenue were 40.5%, compared to 41.0% in the prior period.

The decrease in expenses of £0.5m was driven by the following:

- A £0.3m decrease in payroll costs, being a £0.4m decrease in performance related pay due to lower than targeted like-for-like order intake performance, offset by a £0.1m increase in basic payroll and pension costs;
- A £0.2m increase in marketing spend, and
- A reduction in property and other costs of £0.4m.

The control of costs remain a key focus for the Group, as does maintaining the level of flexibility in our cost base.

Flexible costs

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

Total costs before interest, tax, depreciation and amortisation for the year were £156.3m (2019: £155.8m).

Of this total, 76% (2019: 75%), or £118.5m (2019: £117.6m), are variable or discretionary, and are made up of:

- £88.4m cost of goods sold, including finance and warranty costs (2019: £87.8m);
- £9.1m distribution costs (2019: £8.6m);
- £14.5m marketing costs (2019: £14.3m), and
- £6.5m performance related payroll costs (2019: £6.9m).

Semi-variable costs totalled £19.9m, or 13% of total costs, for the year (2019: £20.0m; 13%) and are predominantly other non-performance related payroll costs and store costs. On a pre-IFRS 16 basis, rent, rates and utilities make up the remaining £17.9m (11%) of total costs (2019: £18.2m; 12%).

Underlying operating profit

The operating profit before exceptional costs was £1.0m for the first half of the financial year, compared to an operating profit of £0.8m for the same period last year, driven by increased gross profit, with the increased distribution costs being offset by reduced administration expenses.

Underlying EBITDA from continuing operations

An analysis of underlying EBITDA is as follows:

	26 weeks ended 25 January 2020 (Post IFRS 16)	26 weeks ended 25 January 2020 (Pre-IFRS 16)	26 weeks ended 26 January 2019 (IAS 17)	52 weeks ended 27 July 2019 (IAS 17)
	£m	£m	£m	£m
Underlying operating profit from continuing operations	1.7	1.0	0.8	14.3
Depreciation and amortisation	14.9	2.8	2.6	5.4
Underlying EBITDA from continuing operations	**16.6**	**3.8**	**3.4**	**19.7**
Exceptional costs	(0.5)	(0.5)	(0.3)	(0.3)
EBITDA from continuing operations	**16.1**	**3.3**	**3.1**	**19.4**

Exceptional costs

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

Taxation

The pre-IFRS 16 tax charge is higher than if the standard rate of corporation tax had been applied, mainly due to charges not deductible for tax purposes, principally the share-based payment charge and depreciation on capital expenditure that does not qualify for capital allowances.

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.

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

	26 weeks ended 25 January 2020	26 weeks ended 26 January 2019	52 weeks ended 27 July 2019
	£m	£m	£m
Cash generated from operating activities	31.3	22.0	24.1
Payment of capital and interest elements of leases	(12.9)	-	-
Net capital expenditure	(2.4)	(2.2)	(5.6)
Net taxation and interest payments	(2.7)	(1.0)	(2.5)
Free cash flow	**13.3**	**18.8**	**16.0**
Dividends	(4.3)	(4.4)	(6.5)
Purchase of own shares	(5.2)	-	-
Net cash generated	**3.8**	**14.4**	**9.5**

The Group continued to be cash generative in the period with a net cash inflow from operating activities of £31.3m (2019: £22.0m). However, it should be noted that the different presentation under IFRS 16 improves the reported number as a result of removing rent charges. On an IAS 17 comparable basis, net cash flow from operating activities was £18.4m.

Free cash flows are £5.5m lower than last year due to the one-off benefit in the prior year from the cash inflow following the stock sales as part of the House of Fraser concession closure and the expected one-off outflow relating to changes to the quarterly corporation tax payments.

During the period the Group acquired £5.2m worth of its own shares. £4.4m of these shares were purchased from related party Parlour Product Holdings (LUX) S.A.R.L, and were subsequently cancelled. The remaining £0.8m of shares were bought into treasury for the purposes of satisfying Long Term Incentive Plan (LTIP) awards. More information can be found in note 14.

Dividend

The Group has continued to generate strong cash flows, deliver growth and build a balance sheet of increasing resilience. As a consequence, the Board is pleased to announce an interim dividend of 5.50p per ordinary share (2019: 5.50p). This dividend will be payable on 7 May 2020 to shareholders on the register on 17 April 2020. The ex-dividend date is 18 April 2020.

Principal risks and uncertainties

Save as set out below, the principal risks and uncertainties which the Group faces are unchanged from those detailed on pages 38 to 45 of the Annual Report for 2019, which is dated 30 September and is available from the ScS Group plc website: www.scsplc.co.uk.

Potential impact of COVID-19

The Group is closely monitoring developments regarding COVID-19. However, it is very difficult to predict with any certainty how the situation will evolve in the coming days and weeks. An update on the current situation in relation to key stakeholders is set out below.

Our people

The welfare of all colleagues and stakeholders is of paramount importance to the Group. We have started to implement actions to protect the well-being of our teams, including considering alternative working practices, such as splitting teams across different locations and encouraging people to work from home where this is practical. We have also minimised non-essential travel to Europe, the Far East and within the UK. We are supporting our colleagues to self-isolate in the event that they either display symptoms of the virus, have close contact with a confirmed case of the virus, or have recently returned from one of the virus hot-spots. We continually remind our colleagues of the need to maintain the highest possible standards of hygiene and are encouraging our teams to avoid large gatherings or meetings.

Risk

There is a risk that we may need to close stores, our head office or a distribution centre. Such a closure could be very short-term in the event of a deep clean and re-opening, or potentially longer if advised by the appropriate authorities or where we have resourcing issues due to the spread of the virus. The closure of stores will lead to lower orders and the closure of a distribution centre will mean deliveries, and therefore sales to customers will be delayed.

Our customers

Following the Chinese New Year, we have seen delays with our products that we source from the Far East. These delays have been communicated to our customers well in advance of the expected delivery date and the customers have been very understanding of the situation the UK faces.

Risk

There is a risk that footfall to our stores will reduce as potential customers decide to stay away from public areas including retail parks. With the key trading periods of Easter and the May Bank Holidays still to come, this may have a material impact on the result for the year. As experienced previously, we often see a period of stronger order intake following a period of subdued trading as pent up demand flows through.

Our suppliers

We have carried out due diligence on the sourcing of the component parts of our products for suppliers in the Far East, the UK and Europe and we are comfortable they hold reasonable levels of stock at this point.

In the UK, all our manufacturing suppliers are operating as usual and at present we have seen no delays from the COVID-19 outbreak. The potential risk is that one of these factories needs to close for a period of time, impacting our supply chain, creating delivery delays and lengthening product lead times.

Deliveries from our Far East suppliers are currently between 3 and 4 weeks delayed. Encouragingly, our current visibility indicates that production levels are returning to a more normal level and transportation to the UK has commenced, with plans to increase this in the next couple of weeks with the aim of reducing current delays.

At this point, following conversations with our manufacturing supplier base, the indications are that lead times should return to normal levels prior to our year end in July. We appreciate this may change as the situation develops.

Risk

There is a risk that manufacturing delays are not caught up in time for orders to be delivered by the year end, reducing sales, profit and cash flow for the year.

Potential impact

Using last year as a reference point, the potential key impacts are quantified as follows:

1. ***Reduced sales and deliveries***

Order intake in the final 19 weeks of the previous financial year was £102m, of which £25m was taken in the last six weeks, which, due to average lead times, would normally be delivered post the year end and be the Group's opening order book for the following financial year.

In line with accounting standards, the Group only recognises sales and profit on goods at the point they are delivered.

With regards to delivered sales, in the final 19 weeks of the previous financial year, the Group delivered £126.3m of goods (including c. £77m of orders booked in the final 19 weeks) to customers. This includes flooring and products from the Far East. A 10% fall in orders booked between now and the year-end could reduce delivered sales by £7.7m and EBITDA by £3.1m.

Using a simple average, a one week delay in all product deliveries (with no reduction in order intake) would lead to reduced sales of £6.6m, which equates to an EBITDA reduction of £2.6m.

2. ***Far East delays***

The impact of delays in all product from the Far East would be as follows, assuming deliveries in line with the prior year:

Delay length	Gross sales impact	EBITDA impact at 40%
	£'000	£'000
2 weeks	4,067	1,627
4 weeks	6,479	2,591

In light of the potential risks, the Group is looking at any expenditure it can defer, including reducing advertising spend if customers are not visiting retail parks.

Our focus in recent years on building a business with increasing resilience is reflected in the strength of our balance sheet, which at 25 January 2020 had £61.5m of cash and no debt. We cannot predict the impact of COVID-19 but we believe the Group is as well positioned as it can be.

David Knight
Chief Executive Officer
19 March 2020

STATEMENT OF DIRECTORS RESPONSIBILITIES

The directors confirm that these condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the first 26 weeks and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining 26 weeks of the financial year; and
- material related-party transactions in the first 26 weeks and any material changes in the related-party transactions described in the last annual report.

The directors of ScS Group plc are listed on pages 46 and 47 of the Annual Report 2019 dated 30 September 2019.

A list of current directors is maintained on the ScS Group plc website: www.scsplc.co.uk.

By order of the Board

Chris Muir
Company Secretary
19 March 2020

Independent review report to ScS Group plc

Report on the interim financial statements

Our conclusion

We have reviewed ScS Group Plc's interim financial statements (the "interim financial statements") in the interim results of ScS Group Plc for the 26 week period ended 25 January 2020. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Emphasis of matter – going concern

Without modifying our conclusion on the interim financial statements, as described in note 3 to the Group's interim financial statements, the Directors have considered the potential impact that the COVID-19 outbreak could have on the Group, and have considered a severe but plausible downside involving a period of significantly reduced or nil revenue, due to the UK government's latest guidance to the public, which may erode the Group's current cash reserves. These conditions, along with the other matters explained in note 3 to the Group's interim financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The interim financial statements do not include any adjustments that would result if the Group was unable to continue as a going concern.

What we have reviewed

The interim financial statements comprise:

- the condensed consolidated balance sheet as at 25 January 2020;
- the condensed consolidated statement of comprehensive income for the period then ended;
- the condensed consolidated cash flow statement for the period then ended;
- the condensed consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the interim results have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The interim results, including the interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim results in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the interim results based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, 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.

What a review of interim financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the interim results and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
Newcastle upon Tyne
19 March 2020

ScS Group plc

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Unaudited 26 weeks ended 25 January 2020 IFRS 16	Unaudited 26 weeks ended 26 January 2019 IAS 17	Audited 52 weeks ended 27 July 2019 IAS 17
		£'000	£'000	£'000
Gross sales	5	160,074	159,203	333,267
Revenue	5	151,962	151,442	317,406
Cost of sales		(80,307)	(79,992)	(167,547)
Gross profit		**71,655**	**71,450**	**149,859**
Distribution costs		(9,064)	(8,564)	(17,310)
Administrative expenses including exceptional items		(61,379)	(62,475)	(118,610)
Operating profit		**1,212**	**411**	**13,939**
Analysed as:				
Underlying operating profit		1,745	763	14,291
Exceptional items	6	(533)	(352)	(352)
Operating profit		1,212	411	13,939
Finance costs	4	(2,035)	(48)	(96)
Finance income		228	182	417
Net finance (costs)/income		**(1,807)**	**134**	**321**
(Loss)/profit before taxation		**(595)**	**545**	**14,260**
Income tax credit/(charge)	10	35	(260)	(2,880)
(Loss)/profit from continuing operations		**(560)**	**285**	**11,380**
Loss from discontinued operations	16	-	(121)	(4)
(Loss)/profit for the period		**(560)**	**164**	**11,376**
(Loss)/profit is attributable to:				
Owners of the parent		**(560)**	**164**	**11,376**
Underlying (loss)/earnings per share:				
Basic (loss)/earnings per share (pence)	11	(0.3p)	2.2p	30.3p
Diluted (loss)/earnings per share (pence)	11	(0.3p)	2.1p	29.1p
Statutory (loss)/earnings per share:				
Basic (loss)/earnings per share (pence)	11	(1.4p)	0.4p	28.5p
Diluted (loss)/earnings per share (pence)	11	(1.4p)	0.4p	27.4p

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

There are no other sources of comprehensive income.

ScS Group plc

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the parent						
	Share capital	Share premium	Capital redemption reserve	Merger reserve	Treasury shares	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 29 July 2018	**40**	**16**	**13**	**25,511**	**(268)**	**11,990**	**37,302**
Profit for the period	-	-	-	-	-	164	164
Share-based payment expense	-	-	-	-	-	139	139
Treasury shares (note 14)	-	-	-	-	91	(91)	-
Dividend paid	-	-	-	-	-	(4,349)	(4,349)
Balance at 26 January 2019	**40**	**16**	**13**	**25,511**	**(177)**	**7,853**	**33,256**
Balance at 27 January 2019	**40**	**16**	**13**	**25,511**	**(177)**	**7,853**	**33,256**
Profit for the period	-	-	-	-	-	11,212	11,212
Share-based payment expense	-	-	-	-	-	626	626
Treasury shares (note 14)	-	-	-	-	86	(86)	-
Dividend paid	-	-	-	-	-	(2,198)	(2,198)
Balance at 27 July 2019	**40**	**16**	**13**	**25,511**	**(91)**	**17,407**	**42,896**
Balance at 28 July 2019	**40**	**16**	**13**	**25,511**	**(91)**	**17,407**	**42,896**
Loss for the period	-	-	-	-	-	(560)	(560)
Impact of change in accounting policy	-	-	-	-	-	(5,825)	(5,825)
Tax impact of change in accounting policy	-	-	-	-	-	990	990
Share-based payment expense	-	-	-	-	-	267	267
Purchase of own shares	-	-	-	-	-	(4,425)	(4,425)
Treasury shares	-	-	-	-	(91)	(663)	(754)
Cancellation of repurchased shares	(2)	-	2	-	-	-	-
Dividend paid	-	-	-	-	-	(4,336)	(4,336)
Balance at 25 January 2020	**38**	**16**	**15**	**25,511**	**(182)**	**2,855**	**28,253**

ScS Group plc

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	Unaudited as at 25 January 2020 IFRS 16	Unaudited as at 26 January 2019 IAS 17	Audited as at 27 July 2019 IAS 17
		£'000	£'000	£'000
Non-current assets				
Intangible assets		1,716	1,235	1,642
Property, plant and equipment		19,568	20,286	21,065
Right of use asset	4	126,710	-	-
Deferred tax asset		671	-	-
Total non-current assets		148,665	21,521	22,707
Current assets				
Inventories		19,707	19,230	19,209
Trade and other receivables		5,314	7,385	8,754
Tax receivable		816	-	-
Cash and cash equivalents		61,458	62,518	57,666
Total current assets		87,295	89,133	85,629
Total assets		**235,960**	**110,654**	**108,336**
Current liabilities				
Current income tax liabilities		-	872	1,951
Trade and other payables	12	70,758	69,324	56,624
Lease liabilities	4	20,917	-	-
Total current liabilities		91,675	70,196	58,575
Non-current liabilities				
Trade and other payables		496	6,721	6,413
Deferred tax liability		-	481	452
Lease liabilities	4	115,536	-	-
Total non-current liabilities		116,032	7,202	6,865
Total liabilities		207,707	77,398	65,440
Capital and reserves attributable to the owners of the parent				
Share capital		38	40	40
Share premium		16	16	16
Capital redemption reserve		15	13	13
Merger reserve		25,511	25,511	25,511
Treasury shares	14	(182)	(177)	(91)
Retained earnings		2,855	7,853	17,407
Equity attributable to the owners of the parent		28,253	33,256	42,896
Total equity		28,253	33,256	42,896
Total equity and liabilities		**235,960**	**110,654**	**108,336**

ScS Group plc

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited 26 weeks ended 25 January 2020 IFRS 16	Unaudited 26 weeks ended 26 January 2019 IAS 17	Audited 52 weeks ended 27 July 2019 IAS 17
Cash flows from operating activities	£'000	£'000	£'000
Profit before taxation	(595)	545	14,260
Adjustments for:			
Loss from discontinued operations before tax (note 16)	-	(149)	(5)
Depreciation of property plant and equipment	2,357	2,618	4,824
Depreciation - right-of-use assets	12,054	-	-
Amortisation of intangible assets	417	149	676
Share-based payments	267	139	765
Finance costs	2,035	48	96
Finance income	(228)	(182)	(417)
	16,307	3,168	20,199
Changes in working capital:			
(Increase)/decrease in inventories	(498)	2,635	2,656
Decrease/(increase) in trade and other receivables	(320)	1,150	(220)
Increase in trade and other payables	15,818	15,005	1,486
Cash generated from operating activities	31,307	21,958	24,121
Interest paid	(48)	(48)	(96)
Income taxes paid	(2,865)	(1,174)	(2,774)
Net cash flow generated from operating activities	28,394	20,736	21,251
Cash flows from investing activities			
Purchase of property, plant and equipment	(1,955)	(1,962)	(4,377)
Payments to acquire intangible assets	(491)	(251)	(1,240)
Interest received	228	182	417
Net cash outflow from investing activities	(2,218)	(2,031)	(5,200)
Cash flows from financing activities			
Interest paid on lease liabilities	(1,987)	-	-
Dividends paid	(4,336)	(4,349)	(6,547)
Purchase of own shares (note 14)	(5,180)	-	-
Payment of capital element of leases	(10,881)	-	-
Net cash flow used in financing activities	(22,384)	(4,349)	(6,547)
Net increase in cash and cash equivalents	3,792	14,356	9,504
Cash and cash equivalents at beginning of period	57,666	48,162	48,162
Cash and cash equivalents at end of period	**61,458**	**62,518**	**57,666**

Notes to the unaudited condensed consolidated financial statements

1. General information

ScS Group plc (the “Company”) is incorporated and domiciled in the UK (Company registration number 03263435). The address of the registered office is 45-49 Villiers Street, Sunderland, SR1 1HA. The principal activity of the Company and its subsidiaries (the “Group”) is the provision of upholstered furniture and flooring, trading under the name ScS.

The 2019 audited financial statements for the Group have been filed with Companies House.

2. Basis of preparation

This interim report has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority (previously the Financial Services Authority) and IAS 34 "Interim Financial Reporting" as adopted by the European Union. The financial reporting framework used is the same as that of the full annual financial statements of the Group, being the International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The condensed consolidated financial statements for the 26 weeks ended 25 January 2020 should be read in conjunction with the Annual Report 2019 dated 30 September 2019 (the “Annual Report 2019”).

The report of the auditors for the financial statements for the 52 weeks ended 27 July 2019, included in the Annual Report 2019, was unqualified, did not contain an emphasis of matter paragraph and did not include a statement under Section 498 of the Companies Act 2006.

The Group's interim condensed consolidated financial information is not audited and does not constitute statutory financial statements as defined in Section 434 of the Companies Act 2006.

These condensed interim financial statements were approved for issue on 19 March 2020.

3. Going concern

The interim financial statements have been prepared on a going concern basis.

At 25 January 2020, the Group’s cash balance totalled £61.5m and £24.7m was owed as trade payables for goods delivered to the Group. At 22 February, cash on the balance sheet totalled £62.0m and trade payables were £22.8m.

As a precautionary measure, on 17 March 2020, the Group drew down £12m from its revolving credit facility (RCF). The RCF is subject to certain covenants in respect of fixed charge cover, leverage and capital spending. Including the £12m inflow from the RCF, as at 19 March 2020, the Group held £75.7m in cash.

As part of the Group’s ongoing review of going concern, Management have modelled the Group’s cash flow forecasts to March 2021. The Group’s cash flow forecasts for that period include assumptions in relation to customer demand, the availability of product and the estimated impact of the recent outbreak of COVID-19 on the Group’s performance. The existing principal risks and uncertainties are set out in the Group’s Annual Report for 2019 and further detail is provided on the potential risk from COVID-19 in the Financial Review above.

Whilst it is difficult to estimate the impact COVID-19 might have on the Group’s business, management have considered a severe but plausible downside sensitivity scenario. This scenario includes the possibility of the Group’s stores and distribution network being forced to close for between three and four months, followed by a period of gradual recovery, only returning to normal levels by March 2021.

The sales order intake reductions modelled were as follows:

Period	Sales order intake reduction compared to the Group's original (pre COVID-19) forecast
22 March to end of March 2020	100%
April	100%
May	100%
June	100%
July	75%
August	65%
September	55%
October	45%
November	35%
December	25%
January 2021	15%
February	5%
March	0%

The downside scenario also reflects the risk that current orders cannot be delivered. The Group has included within the model associated reductions in advertising, capital spend, management and staff bonus costs and sales related commission payments. No fixed cost reductions were taken into consideration should sites be closed, with the exception of the application of the government's 12-month business rates holiday for all retail businesses in England, as announced on 17 March 2020. The modelling indicates that without further mitigating actions, the Group would breach its RCF covenants in August 2020.

These mitigating actions include requesting support from the business loans announced by the Government on 17 March 2020, claiming business interruption insurance, and consideration of more severe cost savings.

Management acknowledge it is difficult to predict the overall outcome and impact of COVID-19 at this stage, but the above downside scenario in relation to store closures and sales is considered severe but plausible.

This downside scenario described above indicates the existence of a material uncertainty, which may cast significant doubt on the Group's ability to continue as a going concern. The interim financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

4. Accounting policies

The Group's principal accounting policies used in preparing this information are as stated in note 2 to the Consolidated Financial Statements on pages 83 to 87 of the Annual Report 2019. There has been no change to any accounting policy from the date of the Annual Report, apart from those noted below.

Except for the first time adoption of IFRS 16 detailed below, there are no new or amended standards effective in the period which has had a material impact on the interim consolidated financial information.

Amended accounting policies

IFRS 16 Leases

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

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

a) Lease recognition

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

On transition to IFRS 16, the Group elected to apply the practical expedient allowing the standard to be applied only to contracts that were previously identified as leases under IAS17 and IFRIC 4. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 28 July 2019.

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

For leases of properties in which the Group is a lessee, it has applied the practical expedient permitted by IFRS16 and will account for each lease component and any associated non-lease components as a single lease component.

b) Right of use assets

The Group recognises right-of-use assets at the commencement date of the lease. The right-of-use asset is initially measured at cost, which includes the amount of lease liabilities recognised, adjusted for any lease payments made at or before the commencement date, less any lease incentives received. Under IFRS 16, the right-of-use assets are tested for impairment in accordance with IAS 36 'Impairment of Assets'. This replaces the previous requirement to recognise a provision for onerous leases. An impairment assessment of the cash generating unit ("CGU") assets was performed on transition at 28 July 2019 with an initial impairment of £5.8m, net of the reclassified onerous lease provision, charged through opening reserves.

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

c) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of the lease payments to be made over the lease term. Lease payments include fixed payments less any lease incentives receivable and variable lease payments that depend on an index or rate. Any variable lease payments that do not depend on an index or rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. Generally the Group uses its incremental borrowing rate as the discount rate. As it has no external borrowings judgement is required to determine an approximation, calculated based on UK Government Gilt rates of an appropriate duration and adjusted by an indicative credit premium. The average incremental borrowing rate applied was 2.9%.

After the commencement date, the lease liability is increased to reflect the accretion of interest and reduced for lease payments made. In addition, the carrying amount of lease liabilities is re-measured 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.

d) Impact on the financial statements

The group leases both properties and cars.

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

(i) Balance sheet

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

	28 July 2019
	£000
Property plant and equipment	(480)
Right-of-use assets	126,287
Deferred tax asset	990
Lease Liabilities	(134,857)
Prepayments	(3,760)
Accruals	6,985
Retained earnings	4,835

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

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

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

The carrying amounts of right-of-use assets are as below:

	Property	**Vehicles**	**Total**
	£000	**£000**	**£000**
Balance at 28 July 2019	122,970	3,317	126,287
Balance at 25 January 2020	122,093	4,617	126,710

The Group presents right-of-use assets separately in the consolidated balance sheet.

(ii) Income statement

The Group has recognised depreciation and interest costs in respect of leases that were previously classified as operating leases in the income statement for the period, rather than rental charges of £12,756,000. During the 26 weeks ended 25 January 2020, the Group recognised £12,054,000 of depreciation charges and £1,984,000 of interest costs in respect of these leases.

(iii) Reserves

As the group has chosen to implement IFRS 16 using the modified transition approach, whereby the initial right-of-use asset values were equal to the present value of the remaining lease payments there is no impact on reserves at the date of transition.

(iv) Cash flow statement

Whilst the implementation of IFRS16 is an accounting change only and does not impact cash flows it has necessitated some re-categorisation within the cash flow statement between operating and financing activities.

5. Segmental information

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

The directors consider the business to be one main type of business generating revenue; the retail of upholstered furniture and flooring. All segment revenue, profit before taxation, assets and liabilities are attributable to the principal activity of the Group and other related services. All revenues are generated in the United Kingdom, and recognised at the point in time the goods and any associated warranty contracts have been delivered to the customer. Warranty services, once sold, are subsequently provided by third parties. There have been no changes to the director's determination of segments since those disclosed in the Annual Report 2019.

Analysis of gross sales is as follows:

	26 weeks ended 25 January 2020	26 weeks ended 26 January 2019	52 weeks ended 27 July 2019
	£'000	£'000	£'000
Sale of goods	149,057	148,232	309,932
Associated warranties	11,017	10,971	23,335
Gross Sales	**160,074**	**159,203**	**333,267**
Less: costs of interest free credit	(8,112)	(7,761)	(15,861)
Revenue	**151,962**	**151,442**	**317,406**

6. Exceptional items

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

The exceptional costs recognised in the current period comprise amounts payable for loss of office incurred relating to the centralisation of administrative support from each of our individual stores to our head office in Sunderland.

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

7. Estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The fair value of trade and other receivables is approximate to their carrying value. The fair value of financial liabilities approximates their carrying value due to short maturities.

In preparing these condensed interim financial statements, the more important judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the historical financial information in the Annual Report, with the exception of those required as part of the transition to IFRS 16. The key significant judgement required for the implementation of this new standard is the determination of the incremental borrowing rate used to measure lease liabilities.

8. Financial risk management

The Groups activities expose it to a variety of financial risks which include funding and liquidity risk, credit risk, interest rate risk and other price risk. The condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements and they should be read in conjunction with the Annual Report 2019. There has been no change to the risk management procedures or the accounting policies from those included in the Annual Report 2019.

9. Seasonality of operations

Due to the seasonal nature of this retail segment, higher revenues and operating profits are usually expected in the second half of the year than the first half. In the 26 weeks ended 26 January 2019, 48% of revenues accumulated in the first half of the year and an operating profit of £0.4m was generated. In the second half of the 52 weeks ended 27 July 2019, 52% of total revenue was earned and an operating profit of £13.5m was generated.

10. Taxation

The tax credit from continuing operations for the 26 weeks ended 25 January 2020 is based on an estimated effective tax rate for the period of 5.9% (26 weeks ended 26 January 2019: tax charge 47.7%; 52 weeks ended 27 July 2019: tax charge 20.2%). The tax credit is lower than if the standard rate of corporation tax had been applied, mainly due to charges not deductible for tax purposes, principally the share based payment charge and depreciation on capital expenditure that does not qualify for capital allowances. In line with previous years, we expect the tax rate for the full year to be slightly higher than the statutory rate.

The UK corporation tax standard rate for the period was 19% (2019: 19%). The March 2016 budget announced a further reduction in the corporation tax rate to 17% from 1 April 2020. Accordingly, deferred tax at 25 January 2020 has been calculated based on the rate of 17% at which the temporary differences are expected to reverse. Subsequent to the balance sheet date, the Chancellor has confirmed in the March 2020 budget that the rate of corporation tax will remain at 19% from 1 April 2020. The increase would not have a material impact on the financial statements for the period.

11. Earnings per share

	26 weeks ended 25 January 2020	26 weeks ended 26 January 2019	52 weeks ended 27 July 2019
	pence	pence	Pence
a) Basic earnings per share attributable to the ordinary equity holders of the company			
From underlying continuing operations	(0.3p)	1.6p	29.4p
From underlying discontinued operation	-	0.6p	0.9p
Total basic earnings per share from underlying operations	**(0.3p)**	**2.2p**	**30.3p**
From exceptional costs	(1.1p)	(1.8p)	(1.8p)
Total basic earnings per share	**(1.4p)**	**0.4p**	**28.5p**
b) Diluted earnings per share attributable to the ordinary equity holders of the company			
From underlying continuing operations	(0.3p)	1.5p	28.3p
From underlying discontinued operation	-	0.6p	0.8p
Total diluted earnings per share from underlying operations	**(0.3p)**	**2.1p**	**29.1p**
From exceptional costs	(1.1p)	(1.7p)	(1.7p)
Total diluted earnings per share	**(1.4p)**	**0.4p**	**27.4p**

	26 weeks ended 25 January 2020	26 weeks ended 26 January 2019	52 weeks ended 27 July 2019
	£'000	£'000	£'000
c) Reconciliations of earnings used in calculating earnings per share			
(Loss)/profit from continuing operations	(560)	285	11,380
- Add back exceptional costs net of tax	432	352	352
(Loss)/profit from underlying continuing operations	**(128)**	**637**	**11,732**
Loss from discontinued operation	-	(121)	(4)
- Add back exceptional costs net of tax	-	359	359
Profit from underlying discontinued operations	**-**	**238**	**355**
Total profits from underlying operations	**(128)**	**875**	**12,087**
Total (loss)/profit from operations	**(560)**	**164**	**11,376**

d) Weighted average number of shares used as the denominator

	26 weeks ended 25 January 2020	26 weeks ended 26 January 2019	52 weeks ended 27 July 2019
	Number	Number	Number
Weighted average number of shares in issue for the purposes of basic earnings per share	38,993,561	39,903,315	39,934,853
Effect of dilutive potential ordinary shares:			
- share options	-	1,816,364	1,563,000
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**38,993,561**	**41,719,679**	**41,497,853**

A total of 1,659,458 potential ordinary shares have not been included within the calculation of diluted earnings per share for the 26 weeks ended 25 January 2020 as they are antidilutive.

12. Trade and other payables current

	As at 25 January 2020	As at 26 January 2019	As at 27 July 2019
	£'000	£'000	£'000
Trade payables	24,748	24,703	25,859
Payments received on account	24,081	25,004	14,697
Other tax and social security payable	6,298	7,407	4,063
Accruals	15,631	12,210	12,005
	70,758	**69,324**	**56,624**

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

13. Dividend

The Board has declared an interim dividend of 5.50p (2019: 5.50p) per share. It will be paid on 7 May 2020 to shareholders on the register on 17 April 2020. The interim dividend, amounting to £2.1m has not been recognised as a liability in this interim financial information. It will be recognised in shareholders' equity in the year to 25 July 2020.

14. Treasury shares and share buyback

During the first half of the financial year to 25 January 2020, the Group's Employee benefit Trust purchased 324,582 ordinary shares of 0.1 pence each in the Group at an average price of 232.2 pence per ordinary share for the purpose of satisfying management share incentive awards. Across the same period 290,025 of these shares were used to satisfy awards, with the remaining 77,275 held as treasury shares.

On 8 November 2019, the Group acquired 1,996,454 ordinary shares at a price of 220.0 pence per ordinary share from related party Parlour Product Holdings (LUX) S.A.R.L for a total consideration of £4.4m. Following this purchase, the ordinary shares purchased by the Company were cancelled, and the Company's issued share capital subsequently consists of 38,012,655 ordinary shares, each with one voting right.

15. Post balance sheet event

At the beginning of the period, Parlour Product Holdings (LUX) S.A.R.L held 16,103,024 ordinary shares in the Group, being 40.25% of the issued share capital of the Group. Following an initial sale of 6,250,000 ordinary shares on 8 November 2019 at a price of 220 pence per share, on 11 February 2020, subsequent to the period end, Parlour Product Holdings (LUX) S.A.R.L sold the remaining 9,853,024 ordinary shares they held in the Group at a price of 220 pence per share. Following completion of the sale, Parlour Product Holdings (LUX) S.A.R.L no longer holds any shares in the Group.

On 17 March 2020, the Group requested and received a full drawdown of its £12,000,000 revolving credit facility. This is a precautionary measure only, given the Group currently holds substantial cash reserves.

16. Discontinued operations

In the prior year following the closure of the final House of Fraser concession in January 2019, in accordance with IFRS accounting standards, the results of the House of Fraser concessions were presented as discontinued operations.

The income statement relating to the discontinued operations is set out below:

Income statement of discontinued operations

	Unaudited 26 weeks ended 25 January 2020	Unaudited 26 weeks ended 26 January 2019	Audited 52 weeks ended 27 July 2019
	£'000	£'000	£'000
Gross Sales	-	7,279	7,279
Revenue	-	7,193	7,193
Cost of sales	-	(3,956)	(3,956)
Gross profit	**-**	**3,237**	**3,237**
Distribution costs	-	(575)	(575)
Administrative expenses	-	(2,811)	(2,667)
Operating loss	**-**	**(149)**	**(5)**
Analysed as:			
Operating profit before exceptional items	-	294	438
Exceptional items*	-	(443)	(443)
Operating loss	**-**	**(149)**	**(5)**
Loss before taxation	**-**	**(149)**	**(5)**
Taxation	-	28	1
Loss from discontinued operations	**-**	**(121)**	**(4)**
Attributable to:			
Owners of the parent	-	(121)	(4)
Loss attributable and total comprehensive loss for the period	**-**	**(121)**	**(4)**
Net cash inflow/(outflow) from operating activities	-	1,492	1,492
Net increase/(decrease) of cash generated from discontinued operation	**-**	**1,492**	**1,492**

Underlying EBITDA

An analysis of underlying EBITDA is as follows:

	Unaudited 26 weeks ended 25 January 2020	Unaudited 26 weeks ended 26 January 2019	Audited 52 weeks ended 27 July 2019
	£'000	£'000	£'000
Operating profit before exceptional items	-	294	438
Depreciation	-	86	86
Underlying EBITDA from discontinued operations	**-**	**380**	**524**
Exceptional items*	-	(443)	(443)
EBITDA from discontinued operations	-	(63)	81

*Exceptional costs disclosed within discontinued operations comprise amounts payable for loss of office and other costs incurred relating to the closure of the House of Fraser concessions.