For immediate release **29 September 2020**

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

Preliminary results for the 52 weeks ended 25 July 2020

RESILIENT PERFORMANCE IN UNPRECEDENTED CONDITIONS
OPPORTUNITY IN A RECOVERING MARKET

ScS, one of the UK's largest retailers of upholstered furniture and floorings, today announces its unaudited preliminary results for the 52 weeks ended 25 July 2020.

Impact of COVID-19
Results for the year ended 25 July 2020 were significantly impacted by the COVID-19 pandemic. The period of national lockdown from late March to late May led to the temporary closure of our stores and distribution centres. Whilst order intake was very strong post the lockdown, the period of closure led to a reduction in deliveries and therefore sales recognised in the year. As would be expected, this reduction in sales had a material impact on the gross profit and EBITDA achieved in the year. Government support amounting to £8.4m has been recognised in the current year result.

Financial highlights:
- Gross sales decreased 19.5% to £268.1m (2019: £333.3m)
- Gross profit decreased 20.2% to £119.6m (2019: £149.9m)
- Gross margin fell slightly to 44.6% (2019: 45.0%)
- Underlying EBITDA from continuing operations, on a comparable pre-IFRS 16 basis, declined by £12.5m to £7.2m (2019: £19.7m)
- Underlying earnings per share of 2.6p (2019: 30.3p)
- Statutory loss per share of 5.8p (2019: earnings per share of 28.5p)
- Underlying cash flows from operating activities of £39.5m (2019: £24.1m)
- Strong balance sheet with cash of £82.3m (2019: £57.7m)

	Year ended 25 July 2020 (Post IFRS 16) £m	IFRS 16 adj. £m	Year ended 25 July 2020 (Pre-IFRS 16) £m	Year ended 27 July 2019 (IAS 17) £m	Change
Gross sales	**268.1**	**-**	**268.1**	**333.3**	**(19.5%)**
Revenue	**255.5**	**-**	**255.5**	**317.4**	**(19.5%)**
Gross profit	**119.6**	**-**	**119.6**	**149.9**	**(20.2%)**
Gross margin	**44.6%**	**-**	**44.6%**	**45.0%**	**(0.4%)**
Underlying EBITDA	**33.0**	**25.8**	**7.2**	**19.7**	**(12.5)**
Underlying operating profit	**4.7**	**3.0**	**1.7**	**14.3**	**(12.6)**
Operating profit/(loss)	**0.7**	**2.2**	**(1.5)**	**13.9**	**(15.4)**
Statutory (loss)/profit before tax	**(3.1)**	**1.7**	**(1.4)**	**14.3**	**(15.7)**
Underlying earnings per share	**2.6p**	**(1.7p)**	**4.3p**	**30.3p**	**(26.0p)**
Statutory (loss) / earnings per share	**(5.8p)**	**(2.0p)**	**(3.8p)**	**28.5p**	**(32.3p)**

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

Operational highlights:
- Order intake down only 5.9% during the year, despite a two month national lockdown forcing all 100 stores to close
- Investment in our e-commerce offering drove online sales increase of 13.6% to £19.1m (2019: £16.8m), despite the period of closure

- Continued focus on customer service with "Excellent" TrustScore maintained on Trustpilot with over 230,000 reviews
- Centralised our customer experience operations 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 45.8% on a like-for-like basis for the first nine weeks of the new financial year to 26 September 2020
- Year to date trading has continued to exceed the Board's expectations, but we are mindful of the developing situation with COVID-19, and the potential impact on the wider economy

David Knight, Chief Executive Officer of ScS, commented:
"We are delighted with the strong trading since the start of the new financial year. However, we are now entering our key autumn trading period and it remains difficult to predict the potential impact of the increased economic uncertainty, including the cessation of the government's Coronavirus Job Retention Scheme at the end of October.

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

Note on IFRS 16:
In the current year, 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 2 to the financial statements and, wherever possible, we have referred throughout this statement to numbers reported as though IFRS 16 had not been adopted.

Enquiries:

ScS Group PLC **c/o Buchanan +44 (0)20 7466 5000**
David Knight, Chief Executive Officer
Chris Muir, Chief Financial Officer

Buchanan **Tel: +44 (0)20 7466 5000**
Richard Oldworth **scs@buchanan.uk.com**
Tilly Abraham
Charlotte Slater

Analyst Meeting
An analyst briefing will be held at 9.30am on the morning of the results via live webcast, which can be accessed via the link: https://webcasting.buchanan.uk.com/broadcast/5f525a92b14d87262643f08b

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

For further information, please contact Buchanan at scs@buchanan.uk.com.

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 trademarks and a range of branded products which are sold under registered trademarks 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 and G Plan). The Group's flooring business includes carpets, as well as laminate and vinyl flooring.

CHAIRMAN'S LETTER

Dear Shareholder,

This report covers our 2019/20 financial year, which ended 25 July 2020 and, whilst strategic progress was made throughout the year, our results are naturally dominated by the effects of the global outbreak of COVID-19 in the second half of the year. Nevertheless, the Group has responded to the unprecedented challenge in a positive and determined manner.

Overview

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

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

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

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

Dividends

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

Board

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

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

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

Summary

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

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

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

Yours sincerely,

Alan Smith
Chairman

CHIEF EXECUTIVE'S REPORT

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

Overview

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

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

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

Results

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

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

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

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

*like-for-like order intake declined 6.0%

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

Year in review

Autumn

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

A transformative change for the business then followed, with the centralisation of administration from our individual stores to a dedicated central team. This step naturally followed the introduction of nYwhere, as the app removed the need for orders to be manually input into our system in-store. A specialist central customer experience team was created and customers now benefit from a larger team, available for a wider timeframe, providing a more consistent service. On

top of the efficiencies achieved, taking all support requests in to one team has enabled the business to identify areas where the customer journey can be further improved, which was more difficult when support was split across the UK in 100 stores. This was a big change for the Group, as a number of the local administrators had been in the business for some time and we appreciate this was a significant period of change for our store teams.

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

Winter

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

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

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

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

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

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

Spring

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

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

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

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

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

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

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

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

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

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

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

Summer

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

To help manage customer flow and the number of people in store we also introduced an appointment system to allow customers a specific time slot with a dedicated salesperson, removing the need for a customer to queue. The appointment system also had noticeable benefits on our in-store conversion. The steps we have taken have been very positively received by our customers, as can be seen through our Trustpilot reviews.

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

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

The COVID-19 outbreak has allowed us to take a step back and to consider how we do things as a company in terms of culture, work habits and in our day to day operations. For example the increased activity through the website has seen

us introduce web only products and reinforced the importance of a strong online presence. We also appreciate that these are truly unprecedented times and our colleagues have had to adapt to new ways of working and to re-adjust back into their work routines. With this in mind we have trained 30 employees to become mental health first aiders to support our people post lockdown.

Current trading and outlook

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

We are delighted with the strong trading since the start of the new financial year. However, we are now entering our key autumn trading period and it remains difficult to predict the potential impact of the increased economic uncertainty, including the cessation of the government's Coronavirus Job Retention Scheme (CJRS) at the end of October. Despite the uncertainty, our value led proposition is underpinned by a strong balance sheet, and our clear offering has continued to prove successful. We are confident it will continue to appeal to our customers who want to buy great products at the lowest possible price.

David Knight
Chief Executive Officer

FINANCIAL REVIEW

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

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

Underlying EBITDA from continuing operations

An analysis of underlying EBITDA is as follows:

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

Impact of IFRS 16 on the financial statements

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

Overview

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

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

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

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

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

The lower volume year on year resulted in a decrease in gross profit of £30.3m (20.2%).

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

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

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

Administrative expenses before exceptional items and government support
Administrative expenses comprise:

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

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

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

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

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

- £5.0m received via the Coronavirus Job Retention Scheme (CJRS). This government grant provided support for 80% of employees' payroll costs of over 1,400 employees who were 'furloughed' during the period the Group's operations were required to close. We took the decision to top-up the salaries of our colleagues to their normal

levels in order to support them through such an unprecedented period. The last colleague was brought back from furlough on 1 August, and therefore the Group has had no further claims under the CJRS, and

- £3.4m of retail business rates relief. Our retail property rates bill is a significant cost to the business, and the government's response to the impact of COVID-19 to cut 100% of retail business rates bill for the 2020 to 2021 tax year (1 April 2020 to 31 March 2021) has enabled a significant cash saving. As the Group continues to utilise this benefit into the new financial year, it expects to receive a further £7.2m benefit.

Flexible costs

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

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

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

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

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

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

Underlying operating profit

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

Exceptional costs

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

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

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

Taxation

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

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

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

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

A full reconciliation of EPS is shown in note 8.

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

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

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

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

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

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

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

Cash flows also include returns to investors made during the first half of the year. The Group paid a £4.3m final dividend relating to the previous financial year, and also acquired £5.2m worth of its own shares. £4.4m of these shares were purchased from Parlour Product Holdings (LUX) S.A.R.L, and were subsequently cancelled. The remaining £0.8m of shares were bought into treasury for the purposes of satisfying Long Term Incentive Plan (LTIP) awards. More information can be found in note 11.

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

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

We will continue to assess when it is appropriate to recommence dividend payments.

Principal risks and uncertainties
Many of the principal risks and uncertainties which the Group faces have increased as a result of the COVID-19 pandemic. The Group's current published principal risks and uncertainties are 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.

Ongoing impact of COVID-19

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

Our people

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

Risk

There is a risk that in the event of a localised or national 'second wave', 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

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

Risk

There is a risk that footfall to our stores could reduce as potential customers stay away from retail parks, or that potential customers are affected by challenges in the wider economic environment and are unable to make a purchase. With the key trading periods in the run up to Christmas, and through the winter period, this may have a material impact on the result for the year.

Our suppliers

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

Risk

There is a risk that manufacturing delays cause issues with our customers, and result in compensation or cancellations, reducing sales, profit and cash flow for the year.

ScS Group plc

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	**Unaudited 52 weeks ended 25 July 2020**	Audited 52 weeks ended 27 July 2019
		£'000	£'000
Gross sales	3	**268,119**	333,267
Revenue	3	**255,491**	317,406
Cost of sales		**(135,911)**	(167,547)
Gross profit		**119,580**	149,859
Distribution costs		**(16,988)**	(17,310)
Administrative expenses including exceptional items		**(101,873)**	(118,610)
Operating profit		**719**	13,939
Analysed as:			
Underlying operating profit		**4,708**	14,291
Exceptional items	4	**(3,989)**	(352)
Operating profit		**719**	13,939
Finance costs	5	**(4,195)**	(96)
Finance income	6	**355**	417
Net finance (costs)/income		**(3,840)**	321
(Loss)/profit before taxation		**(3,121)**	14,260
Income tax credit/(charge)	7	**898**	(2,880)
(Loss)/profit from continuing operations		**(2,223)**	11,380
Loss from discontinued operations	12	-	(4)
(Loss)/profit for the period		**(2,223)**	11,376
(Loss)/profit is attributable to:			
Owners of the parent		**(2,223)**	11,376
Underlying earnings per share:			
Basic earnings per share (pence)	8	**2.6p**	30.3p
Diluted earnings per share (pence)	8	**2.6p**	29.1p
Statutory (loss)/earnings per share:			
Basic (loss)/earnings per share (pence)	8	**(5.8p)**	28.5p
Diluted (loss)/earnings per share (pence)	8	**(5.8p)**	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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**Unaudited as at 25 July 2020**	Audited as at 27 July 2019
		£'000	£'000
Non-current assets			
Intangible assets		**2,358**	1,642
Property, plant and equipment		**17,209**	21,065
Right of use asset	2	**118,499**	-
Deferred tax asset		**722**	-
Total non-current assets		**138,788**	22,707
Current assets			
Inventories		**18,207**	19,209
Trade and other receivables		**4,804**	8,754
Current income tax receivable		**358**	-
Cash and cash equivalents		**82,282**	57,666
Total current assets		**105,651**	85,629
Total assets		**244,439**	108,336
Current liabilities			
Current income tax liabilities		**-**	1,951
Trade and other payables	9	**81,169**	56,624
Provisions		**125**	-
Lease liabilities	2	**24,167**	-
Total current liabilities		**105,461**	58,575
Non-current liabilities			
Trade and other payables		**137**	6,413
Deferred tax liability		**-**	452
Provisions		**1,084**	-
Lease liabilities	2	**112,253**	-
Total non-current liabilities		**113,474**	6,865
Total liabilities		**218,935**	65,440
Capital and reserves attributable to the owners of the parent			
Share capital		**38**	40
Share premium		**16**	16
Capital redemption reserve		**15**	13
Merger reserve		**25,511**	25,511
Treasury shares	11	**(182)**	(91)
Retained earnings		**106**	17,407
Equity attributable to the owners of the parent		**25,504**	42,896
Total equity		**25,504**	42,896
Total equity and liabilities		**244,439**	108,336

ScS Group plc

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**
Total comprehensive income	-	-	-	-	-	11,376	11,376
Share-based payment expense	-	-	-	-	-	765	765
Treasury shares (note 11)	-	-	-	-	177	(177)	-
Dividend paid	-	-	-	-	-	(6,547)	(6,547)
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**
Impact of change in accounting policy	-	-	-	-	-	(5,826)	(5,826)
Tax impact of change in accounting policy	-	-	-	-	-	990	990
Balance at 28 July 2019 (restated)	**40**	**16**	**13**	**25,511**	**(91)**	**12,571**	**38,060**
Total comprehensive loss	-	-	-	-	-	(2,223)	(2,223)
Share-based payment expense	-	-	-	-	-	(818)	(818)
Purchase of own shares	-	-	-	-	-	(4,425)	(4,425)
Treasury shares (note 11)	-	-	-	-	(91)	(663)	(754)
Cancellation of repurchased shares	(2)	-	2	-	-	-	-
Dividend paid	-	-	-	-	-	(4,336)	(4,336)
Balance at 25 July 2020*	**38**	**16**	**15**	**25,511**	**(182)**	**106**	**25,504**

*unaudited

ScS Group plc

CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited Year ended 25 July 2020 IFRS 16	Audited Year ended 27 July 2019 IAS 17
Cash flows from operating activities	£'000	£'000
(Loss)/profit before taxation	**(3,121)**	14,260
Adjustments for:		
Loss from discontinued operations before tax (note 12)	**-**	(5)
Depreciation of property plant and equipment	**4,847**	4,824
Depreciation - right-of-use assets	**22,787**	-
Amortisation of intangible assets	**647**	676
Impairment on non-current assets	**3,376**	-
Share-based payments	**(818)**	765
Finance costs	**4,195**	96
Finance income	**(355)**	(417)
	31,558	20,199
Changes in working capital:		
Decrease in inventories	**1,002**	2,656
Decrease/(increase) in trade and other receivables	**191**	(220)
Increase in trade and other payables	**26,715**	1,486
Cash generated from operating activities	**59,466**	24,121
Interest paid	**(215)**	(96)
Income taxes paid	**(1,595)**	(2,774)
Net cash flow generated from operating activities	**57,656**	21,251
Cash flows from investing activities		
Purchase of property, plant and equipment	**(2,694)**	(4,377)
Payments to acquire intangible assets	**(1,151)**	(1,240)
Interest received	**355**	417
Net cash outflow from investing activities	**(3,490)**	(5,200)
Cash flows from financing activities		
Dividends paid	**(4,336)**	(6,547)
Purchase of own shares (note 11)	**(5,180)**	-
Interest paid on lease liabilities	**(3,980)**	-
Payment of capital element of leases	**(16,054)**	-
Proceeds from bank loan	**12,000**	-
Repayment of borrowings	**(12,000)**	-
Net cash flow used in financing activities	**(29,550)**	(6,547)
Net increase in cash and cash equivalents	**24,616**	9,504
Cash and cash equivalents at beginning of period	**57,666**	48,162
Cash and cash equivalents at end of period	**82,282**	**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

The Board approved the preliminary announcement on 28 September 2020.

The results for the year ended 25 July 2020, including comparative financial information, have been prepared in accordance with EU endorsed International Financial Standards ("IFRS"), IFRIC interpretations and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

While the financial information included in this announcement has been prepared in accordance with the recognition and measurement criteria of IFRS, this announcement does not itself contain sufficient information to comply with IFRS. The Group expects to publish full financial statements that comply with IFRS in October 2020. The financial information for the year ended 27 July 2019 is derived from the statutory accounts for that year which have been delivered to the Registrar of Companies. The auditors, PricewaterhouseCoopers LLP, reported on those accounts and their report was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under Section 498 (2) or (3) of the Companies Act 2006.

The statutory accounts for the year ended 25 July 2020 will be finalised on the basis of the financial information presented by the Directors in these preliminary results and will be delivered to the Registrar of Companies following the Annual General Meeting of ScS Group plc.

Other than noted below the same accounting policies and methods of computation are followed as in the latest published audited accounts for the year ended 27 July 2019, which are available on the Group's website at www.scsplc.co.uk

Going concern

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

Liquidity

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

Cash flows

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

Whilst the Group believes its initial cash flow forecasts are cautious, and current trading has exceeded those forecasts, the Group also recognises that there is considerable uncertainty as to the continued impacts of COVID-19. Whilst it is difficult to estimate the impact COVID-19 might have on the business, management have considered a further severe but plausible downside sensitivity scenario. The downside scenario includes the assumption that the Group's stores and distribution network are forced to close for a further eight weeks, including across the crucial pre-Christmas trading period, followed by a period of gradual recovery, only

returning to normal levels by July 2021. The scenario does not include any pent-up demand increase, despite the order increase experienced following the first lockdown period.

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

Throughout this 'severe but plausible downside' scenario, the Group would have significant cash headroom, with the cash low point at the end of July ’21 being substantial, before use of the £20m RCF. Furthermore, forecasts show sufficient headroom on all of the financial covenants and no requirement for any additional sources of financing (including any drawdown on the RCF).

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

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

New standards, amendments and interpretations

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

The following standards and amendments were adopted in the current financial year:
- IFRS 16 ‘Leases’, which has been applied using the modified retrospective transition approach
- ‘Covid-19-Related Rent Concessions amendment to IFRS 16’

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

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.

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 IFRS 16 and will account for each lease component and any associated non-lease components as a single lease component.

Adjustments recognised on adoption of IFRS 16
The impact on the balance sheet on transition is summarised below:

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

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

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

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

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

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

	Land & buildings Year ended 27 July 2019 £'000	**Plant & machinery Year ended 27 July 2019 £'000**
Group		
Within one year	23,872	1,458
Within two to five years	76,661	1,794
After five years	46,175	-
	146,708	3,252

Accounting policy for leases
The Group's new accounting policy for leases is set out below:

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

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

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

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

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

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

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

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.

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

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

Stock provisions
The Group holds £18,207,000 of inventory at the year end, and the majority of this stock is held for display in store. Due to the nature of this stock, it will often be subject to the wear and tear associated with use in a showroom environment, and some items may have also been in store for an extended period of time. As such, this stock is often unable to achieve the same margin as the 'special order' stock purchased and delivered directly to our customers, and may occasionally be sold at a level lower than cost following a business decision to refresh the range or better utilise the space. The Group's policy in relation to stock provisioning is therefore to provide for obsolete, slow-moving and defective stock, and therefore ensure that stock is held at the most appropriate estimate of net realisable value.

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

Impairment of property, plant and equipment and right-of-use assets
Management consider each store to be a cash-generating unit. At each balance sheet date, the Group reviews the carrying amounts of it's right-of-use assets and property plant and equipment 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 cash-generating units are the higher of fair value less costs of disposal, and value in use. Value in use is calculated from cash flow projections based on the Group's internal budgets, which are then extrapolated over the remaining store lease length, and management's expectations of estimated growth rates.

The key estimates for the value in use calculations are those regarding the discount rate used and expected changes to future cash flows. Management sets the budgets based on past experiences and expectations of future changes in the market and estimates discount rate using pre-tax rates that reflect the current market assessment of the time value of money and the risks specific to the cash-generating units, deriving from the Group's post-tax weighted average cost of capital. If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount.

An impairment loss is recognised as an expense immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or CGU in prior years. A reversal of an impairment loss is recognised as income immediately.

Discount rates utilised within IFRS 16 accounting
In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. Generally the Group uses its incremental borrowing rate as the discount rate. As it has no external borrowings management are required to determine an approximation, calculated based on UK Government Gilt rates of an appropriate duration and adjusted by an indicative credit premium.

Critical judgements in applying the Group's accounting policies
Use of the going concern assumption with consideration of the impacts of COVID-19
Management have set out their going concern assumptions within the basis of preparation above. After considering the forecasts, sensitivities and mitigating actions available to management and having regard to the risks and uncertainties to which the Group is exposed, management have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, and operate for a period of at least 12 months from the date of signing the financial statements. Accordingly, the financial statements continue to be prepared on the going concern basis

3. 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:

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

4. Exceptional items

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

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

Impairment charges associated with stores

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

Restructuring costs

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

Professional fees

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

5. Finance costs

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

6. Finance income

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

7. Taxation

The total tax credit for the financial year of £0.9m (2019: charge of £2.9m) comprises a corporation tax credit of £0.7m (2019: charge of £3.1m) and a deferred tax credit of £0.2m (2019: £0.2m). The tax charge is an effective rate of 28.8%, which is higher (2018: 20.2% - higher) than if the standard rate of corporation tax had been applied, mainly due to the non-deductible share based payment credit and a deduction due to the exercise of management share options, offset partly by depreciation on capital expenditure that does not qualify for capital allowances.

The UK corporation tax standard rate for the period was 19% (2019: 19%). The Chancellor confirmed in the March 2020 budget that the rate of corporation tax will remain at 19% from 1 April 2020, and consequently deferred tax at 25 July 2020 has been calculated based on the rate of 19%.

8. (Loss)/earnings per share

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

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

d) Weighted average number of shares used as the denominator

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

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

9. Trade and other payables current

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

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

10. Dividend

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

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

At 25 July 2020 the retained earnings of the Company amounted to £57.7m.

11. Treasury shares and share buyback

In the first six months of the financial year, 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.

12. 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

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

Underlying EBITDA

An analysis of underlying EBITDA is as follows:

	Year ended 25 July 2020	Year ended 27 July 2019
	£'000	£'000
Operating profit before exceptional items	**-**	438
Depreciation	**-**	86
Underlying EBITDA from discontinued operations	**-**	**524**
Exceptional items*	**-**	(443)
EBITDA from discontinued operations	**-**	81

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