For immediate release **5 October 2021**

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

Audited preliminary results for the 53 weeks ended 31 July 2021

STRONG YEAR OF RECOVERY; REFRESHED STRATEGY TO DRIVE FUTURE GROWTH

ScS, one of the UK's largest retailers of upholstered furniture and floorings, is pleased to announce its audited preliminary results for the 53 weeks ended 31 July 2021.

Financial highlights:

- Gross sales* increased 21.0% to £324.5m (2020: £268.1m)
- Revenue up 21.6% to £310.6m (2020: £255.5m)
- Gross profit increased 22.9% to £147.0m (2020: £119.6m)
- Gross margin* improved to 45.3% (2020: 44.6%)
- Operating profit of £26.8m (2020: £0.7m)
- Underlying profit before tax* of £18.4m (2020: £0.9m)
- Profit before tax of £22.7m (2020: loss of £3.1m)
- Underlying earnings per share* of 41.3p (2020: 2.6p)
- Statutory earnings per share of 50.4p (2020: loss per share 5.8p)
- The result includes business rates relief of £10.2m (2020: £3.4m), and CJRS benefit of £nil (2020: £5.0m)
- Strong balance sheet with cash of £87.7m (2020: £82.3m)
- Recommended final dividend of 7.0p per share, which if approved, would give a full year dividend of 10.0p per share (2020: nil)

Operational highlights:

- One year like-for-like* order intake down only 1.5%, despite being closed for 17 weeks in 2021, compared with 9 weeks in 2020
- Like-for-like* order intake down only 6.5% on 2019, despite being closed for 17 weeks in 2021
- Online sales increase of 146.0% to £46.9m (2020: £19.1m) following continued investment in our online business coupled with an increase in online shopping during the periods of store closures
- "Excellent" TrustScore maintained on Trustpilot with 300,000 reviews
- Closing order book (including VAT) of £103.5m (2020: £104.7m), £60.6m higher than at the same point in 2019
- Repayment of the £3.0m furlough grants claimed under the Coronavirus Job Retention Scheme during the year following the successful re-opening of the Group's stores
- Launch of refreshed strategy

Current trading and outlook:

- Year to date trading has been in line with the Board's expectations
- Order intake up 11.9% on a two year like-for-like* basis for the first nine weeks of the new financial year to 2 October 2021, one year like-for-like* order intake down 21.0% with the prior year benefiting from pent up demand following the end of the first national lockdown in late May 2020
- Positive about prospects for the full year although we are mindful of the ongoing disruption to supply chains and cost inflation

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

*This report includes Alternative Performance Measures (APMs) which are defined and reconciled to IFRS information, where possible, within the Financial Review.

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

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Presentation and Webcast
A virtual briefing for analysts will be held at 9.30am today, Tuesday 5 October, via Zoom Webinar. If you would like to join the briefing, please contact Buchanan at scs@buchanan.uk.com to request dial in details.

ScS Group plc's Preliminary Results 2021 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.

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CHAIR'S LETTER

Dear Shareholder,

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

Overview

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

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

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

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

Dividend

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

*This report includes Alternative Performance Measures (APMs) which are defined and reconciled to IFRS information, where possible, within the Financial Review.

Summary

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

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

Yours sincerely,

Alan Smith
Chairman
4 October 2021

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CHIEF EXECUTIVE'S REPORT

Overview

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

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

2021 operational highlights

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

Results

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

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

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

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

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

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

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

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COVID-19 response and moving forward

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

Safety first

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

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

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

Colleague focus

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

In November, we carried out our employee survey, utilising the improved technology of a new partner. The survey was shorter, simpler and smarter than previous years, allowing us to obtain and interpret the views and opinions of all 1,572 respondents (83% of our team). It is of utmost importance to us that our colleagues are engaged and have a clear understanding of the Group's strategy and their role in it. We were very encouraged to see that our employee satisfaction score was above the national average when benchmarked against similar companies. Our employees felt particularly strongly that they 'understand how their work contributes to ScS' success', 'understand how ScS plans to achieve its goals' and that ScS 'does a good job of communicating with employees'. Most importantly, we recognise their key feedback areas, and we are currently developing appropriate action plans to further improve employee satisfaction.

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

Digital refresh

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

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

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

With video calls becoming increasingly popular and store closures preventing customers trying our product for themselves, we wanted to bring our customers into our stores from the comfort of their own homes. In January, we launched MyScSLive, a web-based solution that enables our customers to video call with a colleague based in-store, at a time convenient to them. Although we acknowledge that not all customers will want to utilise this technology instead of

visiting a store, our experienced and knowledgeable retail professionals are able to give product demonstrations, review product options and explain product features to those customers who value this safe and convenient option.

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

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

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

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

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

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

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

- ***Outstanding team***
  To ensure that we attract and retain great talent we will be reviewing and improving our employee proposition. We will invest in capabilities to expand our teams so that we have the right people in the right roles to help the business achieve future growth, and we will develop our leadership skills across the business. Enhancing our culture, aligned with our RIGHT values, is key to retaining our people. Alongside increasing colleague engagement to ensure that our people feel empowered and know that their opinions are heard and taken into consideration when making decisions that affect them, we will continue to champion diversity and inclusion across the business and ensure that our colleagues receive the right support.

- ***Customer driven***
  A key focus is to improve the customer experience across all our touchpoints (showrooms, digital, delivery teams and aftercare teams) to maintain great customer satisfaction and build deeper relationships with them. By enhancing the use of customer data we will improve both the service and the product range for our customers. We will look to broaden our customer base by refreshing the ScS brand to further reinforce the proposition and channel improvements we will make.

- ***Inspiring ranges***
  We will continue to provide broad choice and outstanding value for money to our customers by innovating our sofa range, introducing new design aesthetics, exciting new brands and by expanding our dining range. We will test new supply options including faster delivery options. As we continue to update, improve and expand our ranges we aim to broaden our appeal within our wide existing core customer demographic.

- ***Digitally optimised***
  Our new and improved website offers good underlying functionality and a solid foundation from which we can grow our business digitally, both in channel and by encouraging customers into our stores. To support this

growth we will strengthen our digital leadership and invest in growing the team. There will be an increased focus on digital marketing investment, which will be underpinned by improved analytical tools, modelling and targeting. Online conversion from our existing site will be optimised by improving user experience and engagement. Our aim is to offer a seamless omnichannel experience for customers who browse online and purchase in store or vice versa, underpinned by enhanced digital technology.

- ***Engaging showrooms***
  In an omnichannel world, stores remain the backbone of the business. Our showrooms will undergo a refresh to create a simpler, more inspiring experience to showcase latest developments in range and brands. We will consider relocating from less profitable locations, whilst continuing to actively manage rent costs in our existing portfolio. We will also explore white space opportunities where appropriate.

- ***Strengthen the core***
  We will remain focused on trading the existing successful business model and drive sales by continuing to offer customers outstanding value for money and great service. By utilising data and analytics we will drive store and product performance, including margin protection. Alongside this we will maintain focus on driving cost efficiencies and retaining our lean operating model. We will also seek to optimise processes in core operational disciplines including investing in new technology where relevant.

Environmental, Social and Governance

Good progress has been made during the year with regards to the Group's impact on the environment and communities. The recruitment of a specialist Supply Chain Sustainability Manager is a key part of that strategy. The year has seen the Group audited and admitted to the Furniture Industry Sustainability Programme (FISP), join the Leather Working Group and develop new terms of engagement with our furniture suppliers which include sustainable and environmental targeting. During the year the business also moved the supply of all its electricity to renewable sources to reduce its carbon footprint and recycled or diverted from landfill 99.9% of all waste.

Employees and our local communities remained at the heart of our culture, the year saw the Group support local and national charities who are helping tackle physical and mental health challenges and social deprivation, including providing 10,000 school meals to children in the North East of England. We trained a number of our employees to become mental health first aiders and launched our 'Team Mates in Mind' support programme. We repaid any furlough money claimed in the year and continued to ensure all staff were paid 100% of their full salary despite our stores being closed for 17 weeks in the year.

The year also saw the Group enhance its existing strong internal control systems. Our internal Audit, Risk and Compliance team were supported by a third party to review our risk management processes and cyber security credentials. Our risk based audit approach flexed appropriately to reflect the change in working practices and risk profile seen across the Group. Institute of Occupational Safety and Health training was rolled out across a wider population than ever before, with our regional auditors and management teams in our distribution network completing accredited training. Consideration has commenced with regards to the proposed changes from the department for Business, Energy and Industrial Strategy (BEIS) and the potential impact of the implementation of a UK variant of the US Sarbanes Oxley Act.

The business has also accelerated its plans for the development of a formal Environmental, Social, and Corporate Governance (ESG) strategy, including the UN's Guiding Principles on Human Rights, which builds on our RIGHT values and integrates sustainability throughout all aspects of the business. We have made positive steps in this area and look forward to the further progress that will be made over the coming months and years. In the coming year we will set out a sustainability roadmap.

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Current trading and outlook

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

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

Steve Carson
Chief Executive Officer
4 October 2021

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FINANCIAL REVIEW

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

Overview

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

Gross sales and revenue

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

Sales by channel were are follows:

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

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

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

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

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

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

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

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

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

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

Administration costs for the year totalled £116.0m, compared to £106.3m in the prior year. Administrative costs were 35.7% of gross sales*, down from 39.6% in the prior year.

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

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

Government support
The Group's result for the year has benefited from £10.2m of retail business rates relief provided in response to the COVID-19 outbreak. Our retail property rates bill is a significant cost to the business, and the government's initial response to the impact of COVID-19 to cut 100% of retail business rates bill for the 2020 to 2021 tax year (1 April 2020 to 31 March 2021) was followed with further savings on rates for the 2021 to 2022 years. The Group expects to receive a further £2.6m benefit in the next financial year.

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

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

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

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

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

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

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

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

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

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

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

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

Earnings/loss per share (EPS/LPS)
Statutory basic EPS for the year ended 31 July 2021 was 50.4p compared to a LPS of 5.8p in the previous year.

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

A full reconciliation of EPS/(LPS) is shown in note 8.

*This report includes Alternative Performance Measures (APMs) which are defined and reconciled to IFRS information, where possible, within the Financial Review.

Cash and cash equivalents
The Group operates a negative working capital business model whereby:

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

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

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

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

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

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

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

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

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

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

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

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

Principal risks and uncertainties
The principal risks and uncertainties which the Group faces are detailed on pages 36 to 48 of the Annual Report for 2020, which is dated 1 October 2020 and is available from the ScS Group plc website: www.scsplc.co.uk.

A summary of the principal risks has been provided below:

- Changes in consumer confidence
- Currency and interest rate fluctuations could lead to cost pressure
- COVID-19 or similar pandemic risk
- Competition with other retailers and failing to respond to key changes in the competitive environment
- External factors adversely affecting footfall in our stores over key trading periods
- Regulatory and compliance risk
- Disruption to the Group's IT systems
- Supply chain and sourcing risk
- Challenges in retaining and developing our colleagues
- Protecting our brand and reputation
- Liquidity and credit risk

Alternative Performance Measures ("APMs")

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

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

APM	**Definition**	**Reconciliation**		
Like-for like order growth	'Like-for-like' order growth comprises total orders (inclusive of VAT) in a financial period compared to total orders achieved in a prior period excluding new or closed stores to ensure comparability.	N/A		
Gross sales	Gross sales represents turnover on the sale of goods and warranties before deduction of interest free credit.		**FY21 £'000**	FY20 £'000
		Revenue	310,566	255,491
		Add back: costs of interest free credit	13,953	12,628
		Gross sales (note 3)	**324,519**	268,119
Gross margin	Gross profit as a percentage of gross sales.		**FY21 £'000**	FY20 £'000
		Revenue	310,566	255,491
		Add back: costs of interest free credit	13,953	12,628
		Gross sales (note 3)	**324,519**	268,119
		Gross profit	146,987	119,580
		Gross margin	**45.3%**	44.6%
Free cash flow	Net increase in cash before the impacts of dividends paid and the purchase of own shares.		**FY21 £'000**	FY20 £'000
		Net increase in cash and cash equivalents	5,368	24,616
		Dividends	1,133	4,336
		Purchase of own shares	410	5,180
		Sale of own shares	(35)	-
		Free cash flow	**6,876**	34,132

Non-underlying items	Certain costs or incomes that derive from events or transactions that fall outside the normal activities of the Group and are excluded by virtue of their size and nature to reflect management's view of the performance of the Group.		**FY21 £'000**	FY20 £'000
		Operating exceptional items (note 4)	4,242	(3,989)
EBITDA and underlying EBITDA	Earnings before interest, tax, depreciation & amortisation (EBITDA). Underlying EBITDA is before the effect of non-underlying items in the period.		**FY21 £'000**	FY20 £'000
		Statutory operating profit	26,773	719
		Depreciation/amortisation:		
		On tangible fixed assets	3,980	4,847
		On right-of-use assets	21,149	22,787
		On intangible assets	865	647
		EBITDA	**52,767**	29,000
		Non-underlying items	(4,242)	3,989
		Underlying EBITDA	**48,525**	32,989
Underlying operating profit	Underlying operating profit is based on operating profit before the impact of certain costs or incomes that derive from events or transactions that fall outside the normal activities of the Group and are excluded by virtue of their size and nature to reflect management's view of the performance of the Group.		**FY21 £'000**	FY20 £'000
		Statutory operating profit	26,773	719
		Non-underlying items	(4,242)	3,989
		Underlying operating profit	**22,531**	4,708
Underlying profit before tax	Underlying profit before tax is based on profit before tax, before the impact of certain costs or incomes that derive from events or transactions that fall outside the normal activities of the Group and are excluded by virtue of their size and nature to reflect management's view of the performance of the Group.		**FY21 £'000**	FY20 £'000
		Statutory profit/(loss) before tax	22,674	(3,121)
		Non-underlying items	(4,242)	3,989
		Underlying profit before tax	**18,432**	868
Underlying basic earnings per share (EPS)	Underlying basic EPS is based on earnings per share before the impact of certain costs or incomes that derive from events or transactions that fall outside the normal activities of the Group and are excluded by virtue of their size and nature to reflect management's view of the performance of the Group.		**FY21 £'000**	FY20 £'000
		Profit/(loss) for the period	19,064	(2,223)
		Non-underlying items net of tax	(3,436)	3,231
		Underlying profit after tax	**15,628**	1,008
		Number of shares (000's)	**37,829**	38,464
		Underlying EPS	**41.3p**	2.6p

ScS Group plc
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	**Audited 53 weeks ended 31 July 2021**	Audited 52 weeks ended 25 July 2020
		£'000	£'000
Gross sales	3	**324,519**	268,119
Revenue	3	**310,566**	255,491
Cost of sales		**(163,579)**	(135,911)
Gross profit		**146,987**	119,580
Distribution costs		**(18,680)**	(16,988)
Administrative expenses including exceptional items		**(101,534)**	(101,873)
Operating profit		**26,773**	719
Analysed as:			
Underlying operating profit		**22,531**	4,708
Operating exceptional items included within administrative expenses	4	**4,242**	(3,989)
Operating profit		**26,773**	719
Finance costs	5	**(4,180)**	(4,195)
Finance income	6	**81**	355
Net finance costs		**(4,099)**	(3,840)
Profit/(loss) before taxation		**22,674**	(3,121)
Income tax (charge)/credit	7	**(3,610)**	898
Profit /(loss) for the period		**19,064**	(2,223)
Profit/(loss) is attributable to:			
Owners of the parent		**19,064**	(2,223)
Underlying earnings per share:			
Basic earnings per share (pence)	8	**41.3p**	2.6p
Diluted earnings per share (pence)	8	**39.8p**	2.6p
Statutory (loss)/earnings per share:			
Basic earnings/(loss) per share (pence)	8	**50.4p**	(5.8p)
Diluted earnings/(loss) per share (pence)	8	**48.6p**	(5.8p)

All amounts relate to continuing operations.

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

ScS Group plc

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 July 2021 £'000	As at 25 July 2020 £'000
Non-current assets			
Intangible assets		**2,243**	2,358
Property, plant and equipment		**18,381**	17,209
Right of use assets		**102,630**	118,499
Deferred tax asset		**2,024**	722
Total non-current assets		**125,278**	138,788
Current assets			
Inventories		**17,328**	18,207
Trade and other receivables		**4,947**	4,804
Current income tax receivable		**-**	358
Cash and cash equivalents		**87,650**	82,282
Total current assets		**109,925**	105,651
Total assets		**235,203**	244,439
Current liabilities			
Current income tax liabilities		**1,171**	-
Trade and other payables	9	**71,818**	81,169
Provisions		**488**	125
Lease liabilities		**22,693**	24,167
Total current liabilities		**96,170**	105,461
Non-current liabilities			
Trade and other payables		**-**	137
Provisions		**1,155**	1,084
Lease liabilities		**93,368**	112,253
Total non-current liabilities		**94,523**	113,474
Total liabilities		**190,693**	218,935
Capital and reserves attributable to the owners of the parent			
Share capital		**38**	38
Share premium		**16**	16
Capital redemption reserve		**15**	15
Merger reserve		**25,511**	25,511
Treasury reserve	11	**(549)**	(182)
Retained earnings		**19,479**	106
Equity attributable to the owners of the parent		**44,510**	25,504
Total equity		**44,510**	25,504
Total equity and liabilities		**235,203**	244,439

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 reserve	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
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**
Loss and total comprehensive expense	-	-	-	-	-	(2,223)	(2,223)
Share-based payment credit	-	-	-	-	-	(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**
Balance at 26 July 2020	**38**	**16**	**15**	**25,511**	**(182)**	**106**	**25,504**
Profit and total comprehensive income	-	-	-	-	-	19,064	19,064
Share-based payment charge	-	-	-	-	-	1,450	1,450
Purchase of treasury shares (note 11)	-	-	-	-	(410)	-	(410)
Sale of treasury shares	-	-	-	-	43	(8)	35
Dividend paid	-	-	-	-	-	(1,133)	(1,133)
Balance at 31 July 2021	**38**	**16**	**15**	**25,511**	**(549)**	**19,479**	**44,510**

ScS Group plc

CONSOLIDATED STATEMENT OF CASH FLOWS

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

Notes to the audited 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 2020 audited financial statements for the Group have been filed with Companies House.

2. Basis of preparation

The Board approved the preliminary announcement on 4 October 2021.

The results for the financial year ended 31 July 2021, including comparative financial information, have been prepared and approved by the directors in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 (IFRS) and the applicable legal requirements of the Companies Act 2006. Additionally, the Financial Conduct Authority's Disclosure Guidance and Transparency Rules require the directors to prepare the group financial statements in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

The financial information set out above does not constitute the Group's statutory accounts for the years ended 31 July 2021 or 25 July 2020, but is derived from those accounts. Statutory accounts for 2020 have been delivered to the Registrar of Companies, and those for 2021 will be delivered in due course. The auditors have reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

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 25 July 2020, 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 31 July 2021, the Group's cash balance totalled £87.7m, and £15.4m was owed as trade payables for goods delivered. The Group has no drawn down debt, and further liquidity is available through the £20.0m CLBILS revolving credit facility (RCF) granted on 25 August 2020. This facility is committed for a term of 36 months and would be renegotiated well in advance of this maturity date. The RCF is subject to certain covenants in respect of fixed charge cover, liquidity, leverage and capital spending.

Cash flows

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

- A 'base case' scenario to July '24 that includes assumptions in relation to customer demand, the availability of product and the estimated continued impact of the recovery of the UK economy on the Group's performance. We assume no further lockdown periods or direct impact on our store and distribution operation. We expect order levels to return to those experienced pre-pandemic, and assume continued availability of product and no other significant impacts of COVID-19.
- A 'severe but plausible' downside sensitivity scenario which sees a further wave of COVID-19 during winter which requires a further UK lockdown. We have assumed stores are required to close for our key winter trading period – from Boxing Day until the end of January 2022, although distribution operations continue to be permitted. Stores reopen in February 2022, with a limited period of additional demand, although we have prudently assumed only a third of lost orders are recovered.

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

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

Throughout the 'severe but plausible downside' scenario, the Group would have significant cash headroom, with the cash low point at the end of July 2022 still being substantial at £47.6m, before use of the £20m RCF. Furthermore, forecasts show sufficient headroom on all of the financial covenants and no requirement for any additional sources of financing (including any drawdown on the RCF).

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

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

New standards, amendments and interpretations

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

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

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

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.

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

Going concern has been removed as a critical accounting judgement.

Critical accounting estimates and assumptions

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

Stock provisions

The Group holds £17,328,000 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. Where impairment losses have previously been treated as exceptional, a related impairment reversal is also treated as exceptional.

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 2020.

Analysis of gross sales is as follows:

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

4. Exceptional items included within administrative expenses

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

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

Impairment reversal/(charge)

Current year exceptional items include a credit of £4,242,000 which relates to the reversal of previous impairment to the Group's stores. The majority of the current year credit reverses the impairment taken in the prior year as a consequence of reduced forecasts following the impact of COVID-19, with an additional element reversing historic store impairment following stronger forecast store performance as a result of encouraging trading and increased opportunities in our markets. This has been split between the right-of-use asset (£2,932,000) and tangible assets (£1,310,000), apportioned based on net book value.

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

Restructuring costs

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

5. Finance costs

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

6. Finance income

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

7. Taxation

The total tax charge for the financial year of £3.6m (2020: credit of £0.9m) comprises a corporation tax charge of £4.9m (2020: credit of £0.7m) and a deferred tax credit of £1.3m (2020: £0.2m). The tax charge is an effective rate of 15.9%, which is lower (2020: 28.8% - higher) than if the standard rate of corporation tax had been applied, mainly due to an increase in the deferred tax asset relating to management share options outstanding but unexercised at year end, and the increase in the rate used to measure the Group's deferred tax asset.

The UK corporation tax standard rate for the period was 19% (2020: 19%). The UK Government in its 2021 Budget announced that the main UK corporate rate would be maintained at 19% until 31 March 2023, before being increased to 25% from 1 April 2023.These changes were substantively enacted at the balance sheet date and hence have been reflected in the measurement of deferred tax balances resulting in deferred tax being calculated using an effective rate of 22%.

8. Earnings/(loss) per share

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

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

d) Weighted average number of shares used as the denominator

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

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

9. Trade and other payables current

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

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

10. Dividend

An interim dividend of 3.0p (2020: £nil) per ordinary share was declared by the Board of Directors on 16 June 2021. The strength of the Group's balance sheet, coupled with the robust trading experienced since showrooms re-opened in April 2021, provided the Board with the confidence to recommence dividends and as such a final dividend of 7.0p (2020: £nil) has been proposed and, if approved, will be recorded within the financial statements for the year ended 30 July 2022.

11. Treasury shares and share buyback

During the financial year, the Group's Employee benefit Trust purchased 200,000 ordinary shares of 0.1 pence each in the Group at an average price of 204.4 pence per ordinary share for the purpose of satisfying management share incentive awards.

Subsequently, 19,861 of these shares were used in satisfaction of the exercise of vested share options, with the remaining 257,414 held as treasury shares.