AUDIT COMMITTEE REPORT

Section C of the Financial Reporting Council's UK Corporate Governance Code 2016 (the 'Code') requires that:

- the board should present a fair, balanced and understandable assessment of the company's position, performance and prospects;
- the board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management and internal control systems; and
- the board should establish formal and transparent arrangements for considering how they should apply corporate reporting, risk management and internal control principles and for maintaining an appropriate relationship with the company's auditor.

The Board has delegated day to day responsibility for these matters to the Audit Committee (the 'Committee') and this report sets out how the Committee has discharged its responsibilities.

Members of the Committee have continued to take an active role including spending time with the operations teams in the field and also participating in key discussions on areas of financial judgement. These actions have allowed the Committee to have an even greater input and to develop greater awareness of the day-to-day challenges that the business faces and the potential consequences of such challenges.

Set out below are details on the processes in place to safeguard the independence and objectivity of our relationship with the external auditor and the role played by internal audit to ensure we have effective control and risk management processes.

Composition of the Committee

The Committee meets at least three times per year and also meets in private with the external auditors. The Committee was chaired during the year by myself, with Paul Moody (Chairman of the Company) and Nick Gregg (Independent Non-Executive Director) both being members of the Committee. As Paul Moody was considered independent on appointment as Chairman of the Company, membership of the Committee is in accordance with the Code.

During the year a formal evaluation of the Committee was conducted by means of a questionnaire being sent to members of the Committee. The responses were reviewed by myself and, where appropriate, actions to improve the effectiveness of the Committee are agreed and implemented accordingly. The results of these reviews were discussed by the Board as a whole, with action taken as appropriate.

By virtue of my former executive and current non-executive roles (full details of which are set out on page 22), together with the results of the above evaluation, the Board considers that I have recent and relevant financial experience. The Board further concluded that the Committee, as a whole, has sufficient competence relative to the sector in which the Company operates.

Responsibilities of the Committee

The Committee is responsible for:

- ensuring that the interests of Shareholders are protected in relation to financial reporting and internal control;
- monitoring the financial reporting process and the integrity of the annual and interim financial statements;
- monitoring any formal announcements relating to the Company's financial performance;
- reviewing and challenging, as necessary, the judgements and actions of management in relation to the financial statements;
- monitoring, reviewing and concluding upon the system of internal control, including the work of internal audit;
- ensuring the maintenance of a control environment and the appropriate management of risk;
- recommendation of appointment of, and liaison with, the external auditor;
- reviewing and setting the terms of engagement and the remuneration of the external auditor;
- annual review and monitoring of the external auditor's independence and objectivity and the effectiveness of the audit process;
- development and implementation of policy on the engagement of the external auditor to supply non-audit services;
- reviewing the Group's systems and controls for the prevention and detection of fraud or bribery; and
- reviewing of arrangements under which employees may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters ensuring that arrangements are in place for the proportionate and independent investigation and appropriate follow-up action.

The Committee reports to the Board on how we have discharged our responsibilities.

The full terms of reference are available on the Company's website, or on request to the Company Secretary.

What the Committee did in 2017

In 2017, the Committee discharged its responsibilities by:

- reviewing the Group's draft financial statements, preliminary announcements and interim results statement prior to Board approval and reviewing the external auditor's reports thereon;
- reviewing and considering the significant issues in relation to the financial statements, as further detailed on page 32;
- reviewing the plan of the external auditor for the audit of the Consolidated and Company financial statements, confirmations of auditor independence and proposed audit fee, approving terms of engagement for the audit and considering the reappointment of PwC as auditor;
- considering and agreeing the annual internal audit plan;
- reviewing internal audit's progress and reports on its work during the year;
- considering the review of material business risks, including reviewing internal control processes used to identify and monitor principal risks and uncertainties;
- reviewing the Executive and Non-Executive Directors' expenses;
- monitoring the reporting, and follow up of items reported, on the employee hotline established in line with the Code of Ethics; and
- reviewing the Committee's composition and confirming that there is sufficient expertise and resource for it to fulfil its responsibilities effectively.

The Committee considered the 2017 Annual Report and Accounts in the context of whether they were fair, balanced and understandable and were able to report to the Board that the 2017 Annual Report and Accounts, when taken as a whole, were fair, balanced and understandable on the basis that the description of the business agrees with our own understanding, the risks reflect the issues that concern us, appropriate weight has been given to the 'good and bad' news, the discussion of performance properly reflects the 'story' of the year and that there is a clear and well-articulated link between all areas of disclosure.

AUDIT COMMITTEE REPORT CONTINUED

Significant Matters Considered in Relation to the Financial Statements

During the year the Committee, management and the external auditor considered and concluded on what the significant risks and matters were in relation to the financial statements and how these would be addressed.

Segment Reporting

Prior to its disposal on 4 January 2017, the Drycleaning business comprised a single reporting segment with all other operating businesses being reported within the 'Textile Rental' reporting segment. In addition, the Group also provided analysis for two further reporting segments: 'Discontinued Operations' and 'All Other Segments'. As a result of the Drycleaning disposal, the Committee considered whether it remained appropriate to continue reporting under the remaining segments.

The Committee discussed the aggregation criteria set out within IFRS 8, 'Operating Segments', which allows for two or more operating segments to be combined as a single reporting segment if:

(1) aggregation provides financial statement users with information that allows them to evaluate the business and the environment in which it operates; and

(2) they have similar economic characteristics (e.g. similar long-term average gross margins would be expected) and are similar in each of the following respects:
- the nature of the products and services;
- the nature of the production processes;
- the type or class of customer for their products and services;
- the methods used to distribute their products or provide their services; and
- the nature of the regulatory environment (i.e. banking, insurance or public utilities), if applicable.

After careful consideration, the Committee deemed it appropriate to introduce two new reporting segments (in addition to 'Discontinued Operations' and 'All Other Segments'), being:

(1) Workwear: comprising of our Apparelmaster business only; and

(2) Hotel, Restaurants and Catering ('HORECA'): comprising of our Stalbridge, London Linen, Afonwen (including PLS) and Bourne businesses, each of which are a separate operating segment.

The Committee's rationale for aggregating the Stalbridge, London Linen, Afonwen and Bourne operating segments into a single reporting segment is set out below:
- the gross margins of each operating segment are within a similar range, with the long-term average margin expected to further align;
- the nature of the customers, products and production processes of each operating segment are very similar;
- the nature of the regulatory environment is the same due to the similar nature of products, processes and customers involved; and
- distribution is via exactly the same method across each operating segment.

The 2017 segmental analysis has, therefore, been prepared as described above and, in accordance with IFRS 8, the 2016 segmental analysis has been adjusted to reflect the position had these changes been in place throughout the year ended 31 December 2016.

Acquisition Accounting

During the year, the Group acquired 100% of the share capital of Clayfull Limited (trading as Professional Linen Services) and 100% of the share capital of StarCounty Textile Services Limited.

The Committee considered the methodology and assumptions used by management in determining the fair value of the customer contracts and customer relationships acquired, as this was considered by the Committee to be the area of most significant judgement. The Committee were satisfied that the fair value had been calculated based upon relevant historical and prospective information and financial data specific to each business combination, with an appropriate discount factor applied. The Committee further considered the accounting policy alignment adjustments and, again, considered them to be reasonable.

The Committee also reviewed the proposed disclosures relating to the acquisitions for inclusion within the Annual Report and Accounts and were in agreement that the requirements of IFRS 3, 'Business Combinations' had been satisfied.

Post-employment Benefit Obligations

The valuation of all post-employment benefit obligations is based on statistical and actuarial calculations, using various assumptions including discount rates, inflation, life expectancy of scheme members and cash commutations. The Committee reviewed the actuarial assumptions underpinning the valuation and were satisfied that all assumptions are within ranges considered generally acceptable given the size, demographic and duration of the Group scheme.

Accounting for Complex Customer Arrangements

As in previous years, the Group offers rebates to certain customers based on agreed fixed rates relating to the volume of services provided and goods purchased. The Committee does not consider the Group's rebates to be highly complex as: they are volume related; there are generally written agreements in place; and historical estimates of rebates have been seen to be accurate. However, following current FRC guidance; this has been highlighted as an area of focus. The Committee has discussed any judgements made in accruing customer rebates with management and the auditors. The Committee is satisfied that the amounts of expense accrued are appropriate.

Income Taxes

Judgement is required in determining the provision for income taxes as there are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Committee discussed the effective tax rate for the year and noted that it was lower than the standard rate of UK taxation, primarily as a result of adjustments made in respect of prior years and changes to the UK tax rate, offset, to a lesser extent, by the effect of expenses that were not deductible for tax purposes. The Committee concluded that the judgements made in relation to taxation were reasonable.

Going Concern

The Committee considered the Group's going concern review, in particular, the appropriateness of key judgements, assumptions and estimates underlying the budgets that underpin the review, together with a review of the level of forecast available headroom against the Group's committed borrowing facilities and compliance with key financial covenants.

After making enquiries, the Committee were satisfied that the Group has adequate resources to continue in operational existence for the 12 months from the date of approval of this Annual Report and Accounts and that, for this reason, the Group should continue to adopt the going concern basis in preparing the financial statements.

Assessment of External Auditor Effectiveness

The Committee reviewed the external auditor's performance and on-going independence, taking into account input from management, consideration of responses to questions from the Committee and the audit findings reported to the Committee.

Based on this information the Committee concluded that the external audit process was operating effectively and PricewaterhouseCoopers LLP ('PwC') continued to prove effective in its role as external auditor.

Appointment of the External Auditor and Approach to how Objectivity and Independence are Safeguarded

The Company has adopted a policy on the independence of the auditor which is consistent with the ethical standard published by the Financial Reporting Council. A key issue for the Committee that may impair auditor independence, and the auditor's objective opinion on the Group's financial statements, is the engagement of the external auditor for the provision of non-audit services.

Non-Audit Services

The Committee has adopted a policy on the engagement of the external auditor for the provision of non-audit services and reviews this annually. The policy is designed to ensure that such engagements do not result in the creation of a mutuality of interest between the external auditor and the Company, that a transparent process and reporting structure is established to enable the Committee to monitor policy compliance and that unnecessary restrictions on the engagement of the external auditor for non-audit services is avoided where the provision of advice is commercially sensible. The policy categorises the provision of non-audit services into three areas:

- normally performed by the auditor;
- may be performed by the auditor; and
- normally performed by another provider.

With reference to this policy, the selection of professional service firms for non-audit work is at the discretion of management, taking into account which firm is best placed to perform such work to meet the interests of the Company and Shareholders and with regard to ensuring that independence is not compromised.

The total fees payable to the external auditor in respect of the year under review amount to £481,000 (2016: £683,000), of which £199,000 (2016: £324,000) related to non-audit services. Of these non-audit services, fees of £147,000 (2016: £101,000) related to tax compliance and advisory services and fees of £31,000 (2016: £197,000) related to one-off and non-recurring services, largely in relation to the acquisition of Clayfull Limited (trading as Professional linen Services) and StarCounty Textile Services Limited (2016: acquisition of Zip Textiles (Services) Limited, Chester Laundry Limited and Portgrade Limited and also the disposal of the retail drycleaning business), in each case where it was considered by the Committee to be commercially sensible and more cost effective to use PricewaterhouseCoopers LLP rather than an alternative provider. Further details are set out in Note 3 to the consolidated financial statements.

Independence Safeguards

The external auditor is required to adhere to a rotation policy whereby the Senior Statutory Auditor (audit engagement partner) is rotated after five years. The current Senior Statutory Auditor was appointed in 2015 and, in accordance with best practice and professional standards, will be replaced no later than 2020. The external auditor is also required to assess periodically whether, in their professional opinion, they are independent and those views are shared with the Committee. The Committee has authority to take independent advice, as it determines necessary, in order to resolve issues on auditor independence. No such advice was required during the year.

Independence Assessment by the Committee

PwC have been the Company's auditors from the date of the Company's incorporation, which exceeds the 20 years stated within recent EU legislation, and no formal tender has taken place since that date. In assessing and concluding upon the independence of PwC the Committee take this period of tenure into account, however, the Committee is satisfied that the independence of the external auditor is not impaired due to the fact that the audit engagement partner and senior staff rotation policy has been complied with, the level of fees paid for non-audit services was of a level that does not present any on-going threat to their independence and separate external firms are appointed for certain other advisory services. In addition, the Committee meets with the external auditor during the year without the presence of management and I have had regular contact with the audit engagement partner during the year.

Re-appointment of the External Auditor

The re-appointment of PricewaterhouseCoopers LLP as the Group's external auditor was reviewed during the year. The Committee has assessed the performance, objectivity and independence of the external auditor, which underpins its recommendation to the Board to propose to shareholders the re-appointment of PricewaterhouseCoopers LLP as auditor until the conclusion of the AGM in 2019. Full details are set out in the Notice of Annual General Meeting on pages 114 to 123. There are no contractual restrictions over choice of auditor.

Role of Internal Audit

Internal audit has a Group-wide remit and is independent of the business operations. It undertakes an on-going programme to provide assurance on the adequacy of internal control and risk management processes across the Group's operations. Internal audit is responsible for reviewing and reporting on the effectiveness of internal controls and risk management systems to the Committee and, ultimately, the Board. Internal audit attend Committee meetings to present the findings of such reviews at regular intervals throughout the year and report on performance against the agreed annual internal audit plan, such plans being agreed during the year by the Committee.

Internal Control and Risk Management

The Board is ultimately responsible for the overall system of internal control for the Group and for reviewing its effectiveness. The Board has delegated day to day responsibility for this to the Committee. The Committee carries out a review, at least annually, covering all material controls, including financial, operational and compliance controls, and the risk management systems. The system of internal control is designed to mitigate, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

There is an on-going process for identifying, evaluating and managing the Group's significant risks that has been in place throughout the financial year and up to the date of approval of the financial statements. The Committee receives reports setting out key performance and risk indicators and considers possible control issues brought to its attention by early warning mechanisms which are embedded within the operational units and reinforced by risk awareness training.

AUDIT COMMITTEE REPORT CONTINUED

The key elements of the Group's on-going processes for the provision of effective internal control and risk management systems, in place throughout the year and at the date of this Report, include:

- regular Board meetings to consider matters reserved for Directors' consideration;
- regular management reporting, providing a balanced assessment of key risks and controls;
- an annual Board review of corporate strategy, including a review of material business risks and uncertainties;
- established organisational structure with clearly defined lines of responsibility and levels of authority;
- an internal audit function which implements the annual internal audit plan and provides independent assurance to management, the Committee and the Board on the effectiveness of internal controls and risk management;
- documented policies and procedures;
- regular review by the Board of financial budgets, forecasts and covenants with performance reported to the Board monthly; and
- a detailed investment process for major projects, including capital investment coupled with a post investment appraisal analysis.

In reviewing the effectiveness of the system of internal control the Committee has:

- received six-monthly reports, compiled by the Company Secretary following discussion with key senior managers, that set out the key risks facing the Group and indicate whether controls and risk management processes in each business unit have operated satisfactorily. These returns are reviewed in detail, challenged where appropriate and approved by the Committee for use in the Annual Report;
- regularly reviewed the financial and accounting controls;
- reviewed the internal audit reports; and
- monitored management's responsiveness to the findings and recommendations of internal audit.

No significant failings or weaknesses were identified.

In respect of Group financial reporting, the finance department is responsible for preparing the Group financial statements using a well-established consolidation process and ensuring that accounting policies are in accordance with International Financial Reporting Standards. There is a detailed budgeting process with an annual budget both challenged and approved by the Board. Monthly results are reported against the corresponding figures for the budget and the previous year with corrective action initiated by the Board as appropriate. All financial information published by the Group is subject to approval by the Committee.

The Group's treasury activities are operated within Board approved guidelines. Facilities are approved by the Board and all transactions are controlled and monitored. Monthly summaries of treasury management activities are prepared for the Board. Speculative transactions are not undertaken.

There have been no changes in the Company's internal control over financial reporting during the year under review that have materially affected, or are reasonably likely to materially affect, the Company's control over financial reporting.

The Board, with advice from the Committee, is satisfied that an effective system of internal controls and risk management processes are in place which enable the Company to identify, evaluate and manage key risks. These processes have been in place since the start of the financial year and up to the date of approval of the accounts. Further details of risk management frameworks and specific material risks and uncertainties facing the business can be found on pages 18 to 21.

Bribery Act 2010

The Bribery Act 2010 (the 'Act') came into force on 1 July 2011, and repealed all previous statutory and common law provisions in relation to bribery, instead replacing them with the crimes of bribery, being bribed, the bribery of foreign public officials, and the failure of a commercial organisation to prevent bribery on its behalf. However, a defence to any such corporate failure offence is possible if it can be shown that adequate procedures were in place at the time.

The Group is committed to conducting its business with the highest degree of integrity. This commitment includes a zero tolerance approach towards all forms of bribery, corruption, fraud and theft.

The Group has in place an appropriate policy and regularly re-enforces its code of ethics. Appropriate Board approved procedures are in place to prevent employees and other associated persons committing offences under the Act. Engaging in fraud, bribery or corruption is unlawful and any employee, director or officer found to have breached the code of conduct will be liable to disciplinary action which may result in dismissal or other serious sanctions. Breaches of the code of conduct by third parties may result in immediate termination for breach of all contracts with the Group. These procedures are subject to regular monitoring and review.

Modern Slavery Act

We are committed to implementing and enforcing effective systems and controls to ensure slavery and human trafficking is not taking place anywhere in our supply chains or in any part of our business. To ensure a high level of understanding of the risks of modern slavery and human trafficking in our supply chains and our business, all Directors have been briefed on the subject and we provide training to relevant members of staff. Further details can be found on page 15.

Whistleblowing

The Group is committed to developing a culture of openness, honesty and accountability and believes that it is fundamental that any concerns our employees have about the Company can be raised without fear of victimisation. To this end, the Group has in place a whistleblowing policy which encourages employees to report any malpractice, illegalities, wrongdoing or matters of similar concern (together 'ethical wrongdoing') by other employees, former employees, contractors, suppliers or advisers. Examples of ethical wrongdoing include bribery, corruption, fraud, dishonesty and illegal practices which may endanger employees or other parties. There have been no material instances of whistleblowing during the year under review.

Bill Shannon
Chairman, Audit Committee
27 February 2018