swallowfield

INTERIM REPORT 2017

SWALLOWFIELD PLC IS A MARKET LEADER IN THE DEVELOPMENT, FORMULATION, AND SUPPLY OF PERSONAL CARE AND BEAUTY PRODUCTS.

INTERIM RESULTS

FOR THE 28 WEEKS ENDED 7 JANUARY 2017

Swallowfield plc, a market leader in the development, formulation, and supply of personal care and beauty products, including its own portfolio of brands, announces its interim results for the 28 weeks ended 7 January 2017.

£m unless otherwise stated	2017	2016
Reported results[1]		
Revenue	£39.7m	£27.5m
Revenue (constant currency)[2]	£37.9m	-
Adjusted operating profit[1]	£2.54m	£0.64m
Adjusted basic earnings per share[1]	11.3p	4.1p
Statutory results		
Revenue	£39.7m	£27.5m
Operating profit	£2.20m	£1.19m
Basic earnings per share	9.7p	8.5p
Total dividend per share	1.7p	0.8p
Net debt	£5.5m	£4.9m

1 Adjusted operating profit and adjusted earnings per share are calculated before exceptional items.

2 Revenue translated at 2016 exchange rates.

FINANCIAL HIGHLIGHTS

- Strong revenue growth of +44% (+12% excluding The Brand Architekts acquisition) to £39.7m (2016: £27.5m), sterling weakness benefits the top-line with revenue growth on a constant currency basis of +38% and +7% respectively.
- Owned brands now representing 25% of revenues.
- Adjusted operating profit increased by 297% year on year to £2.54m (2016: £0.64m).
- Adjusted EPS increased by 176% year on year to 11.3 pence (2016: 4.1 pence).
- Net Debt of £5.5m (2016: £4.9m), inclusive of £2.0m additional term-loan funding to support acquisition.
- Interim dividend increased by 113% to 1.7 pence (2016: 0.8 pence).

OPERATIONAL HIGHLIGHTS

- The Brand Architekts acquisition now successfully integrated with continuing strong growth momentum driven by several successful new product launches and excellent sell through of Christmas gifting ranges.
- Original Swallowfield brands also showing strong growth and extending retail distribution.
- Manufacturing business performing robustly underpinned by successful launches for global brand owners.
- Strong financial performance allowing investment in brand support and organisational capability whilst still delivering significantly improved profitability.
- Cost optimisation projects progressing as planned.

Brendan Hynes, Non-Executive Chairman, commented:
"The first half year has seen further, significant progress made in repositioning Swallowfield plc as a stronger, more profitable business with greater control over its own destiny.
The completion of the transformational acquisition of The Brand Architekts, combined with the strong performance of our Manufacturing business, means Swallowfield is well positioned for the future."

Chris How, Chief Executive, commented:
"It has been a very successful first half. We are delighted with the way that the Swallowfield and Brand Architekts teams have worked together to further accelerate growth. The exciting potential of combining our resources identified at the time of acquisition is now being realised. We are also very pleased that our capability within the manufacturing business to satisfy the innovation, service and quality requirements of our customer base is being rewarded with good growth and a steady stream of new business wins and contract renewals."

BUSINESS REVIEW

Revenue showed growth of 44% at £39.7m (2016: £27.5m) and, 12% excluding the acquisition of The Brand Architekts which completed on 27 June 2016. The weakness of Sterling has increased sales revenue by £1.8m, with £1.1m of this coming from US dollar denominated sales and £0.7m from the Euro, so revenue growth on a constant currency basis would have been 38%, and 7% excluding the acquisition.

Direct contribution margins – defined as net sales less materials, direct labour, and other direct costs – increased to 31.7% (prior year 31.3%). The favourable currency impact on revenue has been offset by an adverse currency impact on costs of goods, reflecting the Group's natural hedge profile, plus inflationary pressures on GBP purchases. This maintained position reflects the success of our Product Category Prioritisation, the introduction of a number of innovative new products in our manufacturing business and the contribution of our portfolio of Swallowfield owned brands.

The overall re-shaping of the business towards stronger growth and margins has enabled us to deliver a three-fold increase in adjusted operating profit at a time when we have also increased investment in organisational capability and brand support.

The net effect is that the Group made an adjusted operating profit of £2.54m (2016: £0.64m). Adjusted profit before tax increased to £2.38m (2016: £0.51m).

The exceptional item of £0.34m in the current period relates to "one off" costs incurred in the acquisition of The Brand Architekts Ltd. In 2016 there was an exceptional credit of £0.55m relating to the closure to future accrual of the defined benefit pension scheme.

The overall effective rate of Group taxation for the period was 19.6% (2016: 10.0%) of pre-tax profits. The prior year benefitted from brought-forward UK tax losses which were fully utilised in the last financial year. The current year tax charge reflects standard UK and the Czech Republic rates of taxation.

This results in adjusted earnings per share of 11.3p (2016: 4.1p).

PROGRESS VS STRATEGY

'CREATING FOR TOMORROW, DELIVERING FOR TODAY'

Since 2014, we have been successfully executing on the four strategic pillars of 'Creating for Tomorrow' represented by:

- Product category focus
- Core business innovation
- Swallowfield owned brands
- Cost base optimisation

The acquisition of The Brand Architekts in June 2016 has accelerated the owned brands pillar and brought critical mass to our owned brands portfolio, representing 25% of Group revenues in the period. We have also introduced two reportable business segments, manufacturing and brands, so have therefore evolved the strategic pillars of 'Creating for Tomorrow' to reflect this change.

Within our manufacturing business, which remains focused on the development, formulation and production of quality products for many of the world's leading personal care and beauty brands the three pillars have evolved to:

- Innovation, quality and service to global brand owners
- Drive category focus
- Cost base optimisation

Within our owned brands business, the three pillars will become:

- New product development (NPD)
- Leverage Swallowfield resources
- International Expansion

The following is a review of progress against these evolved strategic pillars in the period:

OWNED BRANDS

The integration, and indeed performance, of The Brand Architekts has been very positive. The team at Teddington is settled and well-focused on continuing the excellent growth story that attracted us prior to the acquisition, and the ability to bring relevant new products to retailer shelves at pace remains hugely impressive. Pre-acquisition growth momentum is continuing and even further improving with all key brands in growth. The sell through of Christmas gift ranges was particularly strong. The founders are also working extremely well in their consultancy capacity.

Original Swallowfield owned brands (Real Shaving Company, Bagsy, MR., Tru) are also performing well, showing a combined revenue growth of c.50%, albeit from a modest base. We have relocated the management of these brands to our Teddington office ahead of schedule and they are benefitting from being managed in such a brand and retailer focused environment.

New Product Development (NPD)
Fast paced NPD that quickly identifies and responds to market trends is a core element of The Brand Architekts business model. We are pleased that this responsiveness continues as part of the Swallowfield Group and that retailer appetite remains as high as ever. 35 new products were launched in the reporting period across 9 different brands. Particular successes include the indulgent Senspa Thai Rituals and Argan+ Moroccan Spice ranges and the more performance driven Dr. Ceuticals Foot Rescue SOS cream and Good Things Pore-fectly Clear range. Impressively a new brand, Hill & Noble hand-care, was created, designed, produced and shipped within 12 weeks to realise an opportunity in a leading national retailer.

Progress also continues on the original Swallowfield brands. The Bagsy Savannah Miller collection was launched in November. The Real Shaving Company new gift range was launched and sold well over the Christmas period which contributed to a very positive year on year sales growth. MR., our premium male hair loss brand, has doubled its rate of sale on a year on year basis and looks set to continue its strong growth trend on the back of some innovative digital marketing activity. In the value sector, our small portfolio of brands such as Tru, are also showing significant year on year growth (from modest beginnings) and we have extended retail distribution.

Leverage Swallowfield Resources
At the time of acquisition of The Brand Architekts, we identified a number of opportunities to either drive revenue growth or create savings by leveraging the existing resources and capabilities of the parent business. We are pleased to have started to realise many of these opportunities in the first six months of operating together.

The first Swallowfield produced products (Body Sprays and Fragrance for Dirty Works) are now on shelf. Several others will follow in the second half. Much work has been completed to build improved web sites and e-commerce capability for key acquired brands such as Dirty Works, Kind Natured and Quick Fix, we have also consolidated PR agencies across the brand portfolio to create better quality coverage at a lower cost. Margin improvement programmes with pre-existing suppliers to Brand Architekts are in process and are expected to bring benefits in H2 and beyond. We are leveraging our materials and packaging sourcing network (including our China purchasing office), our knowledge of best practice production processes, and our expertise in product design and formulation to drive cost improvements. Further, we have identified quite significant annual savings in freight and duty on shipments from China by combining our expertise and our buying power.

International Expansion
Growth in international revenues has been strong, led in particular by export sales to the USA and Turkey. Across the full portfolio of our brands, international sales now account for 23% of total and we are investing to grow this further still. We have put in place dedicated resource to grow

this area and are pleased to have opened new distributors in the period in Austria, Netherlands, and Chile. In February and March respectively, we are participating at major trade fairs in Monaco and Bologna, with an expectation of building further new business.

MANUFACTURING

Innovation

Our manufacturing business relies on our ability to bring innovative new products to our customer base. In the period, we introduced 92 Swallowfield developed new products and expect a similar amount to be launched in the second half. This level of innovation activity compares favourably to prior year. Volumes on our innovative Plastic aerosol products continued to grow in the period and we are pleased to be working on two projects which may see the technology introduced by other customers in the future.

Drive category focus

In the reporting period, we have seen particularly strong growth in Personal Care Aerosols, Cosmetic Pencils, and Premium Liquids. In each case, recently won contracts to support new product launches have been a major contributor, underlining our position as a reliable partner for major global brand owners. The success of our partnership with a major European cosmetics company has supported a project which is now in progress to increase wood pencil capacity and cost efficiency to meet growing demand. Further improvements in capacity and cost competitiveness are being planned with particular focus on Personal Care aerosols.

Cost base optimisation

Energy saving improvements continue at the Wellington site and line efficiency programmes continue to contribute to margin improvement across all sites. The investment in pencil automation in Bideford decreases cost per unit and increases capacity. The flexibility of our site footprint has enabled us to accommodate the needs of a major customer who needed to transfer sourcing from a dollar denominated supply chain out of China to a euro-denominated supply chain.

Work is ongoing to assess in-house production of selected Brand Architekts products and is expected to bring financial benefits in FY18.

NET DEBT AND CASH FLOW

Net debt increased from a year-end position of £4.3m to £5.5m (2016: £4.9m). This includes an additional £2m five-year term loan facility taken out to support the acquisition of The Brand Architekts Ltd. The components of working capital reflect the impact of the four major product launches in our manufacturing business across the June year-end and into this first half, plus the statement of financial position now includes The Brand Architekts working capital components. The increase in tax paid reflects the payment of The Brand Architekts prior-year corporation tax, and the re-introduction of quarterly instalments across the enlarged Group.

Financing costs of £0.16m (2016: £0.12m) comprised interest expense of £0.09m (2016: £0.07m) plus a pension scheme notional finance charge of £0.07m (2016: charge £0.05m).

Capital expenditure was £0.5m which was £0.2m below depreciation. We expect capital expenditure to be broadly in line with depreciation in this financial year as we have made a number of investments to improve line efficiencies and support incremental new customer contracts which will impact the second-half.

Defined benefit pension scheme

The defined benefit pension scheme underwent its last triennial valuation as of 5 April 2014. The deficit on a statutory funding basis was £1.3m and the Group entered into a revised deficit recovery plan and schedule of contributions in July 2015. The deficit reduction payment will be £108k per annum (previously £111.5k per annum) for ten years. The scheme was subsequently closed to future accrual with effect from 31 December 2015.

For accounting purposes at 7 January 2017, the Group recognised under IAS19 ‘employee benefits’, a deficit of £8.75m (25 June 2016: £4.50m). The Accounting Standards require the discount rate to be based on yields on high quality (usually AA-rated) corporate bonds of appropriate currency, taking into account the term of the relevant pension scheme’s liabilities. Corporate bond indices are used as a proxy to determine the discount rate.
At the reporting date, the yields on bonds of all types were lower than they were at 25 June 2016. This has resulted in lower discount rates being adopted for accounting purposes compared to last year, which has been coupled with an increase in expectations of long term inflation, with the combination materially increasing the fair value of the scheme liabilities, with the strong investment return performance only partially mitigating. This has translated into an increased liability under the IAS19 methodology.

DIVIDENDS

The Board is pleased to announce that it has approved an interim dividend of 1.7 pence per share (2016: 0.8 pence). This dividend will be paid on 26 May 2017 to shareholders on the register on 5 May 2017. The Shares will go ex-dividend on 4 May 2017.

The Directors' intention is to have a progressive dividend policy that aligns future dividend payments to the underlying earnings and cash flow of the business, taking in to account the gearing and the operational requirements of the business.

OUTLOOK

We have delivered another significant improvement in performance in the first half year helped by the acquisition of The Brand Architekts and four major new product launches in our Manufacturing business.

We expect the strong momentum in our branded business to continue, supported by a steady stream of new products, that signal not only continuing innovation flow, but also continued strong support for our brands across our retail customers.

In our Manufacturing business, the outlook is solid with a steady flow of new contract wins and launches. This needs to be balanced against the expected normalisation of volumes in the second half of this year and the first half of next year, having had the benefit of four major launches during calendar 2016, which will be hard to repeat and which have created strong comparators.

In line with the Industry, both business segments are being challenged by increasing material and packaging costs resulting from the fall in sterling and global inflationary pressures. Whilst this does bring some uncertainty in the months ahead, we remain confident that our strong overall trading momentum will compensate in the current year.

We therefore expect to see further sales and profitability growth for the full year, as planned.

Having successfully integrated Brand Architekts, we continue to be alert to further acquisition opportunities should they offer the potential to build incremental shareholder value.

GROUP STATEMENT OF COMPREHENSIVE INCOME

Continuing operations	Notes	**28 weeks ended 7 Jan 2017 (unaudited) £'000**	28 weeks ended 9 Jan 2016 (unaudited) £'000	12 months ended 25 June 2016 (audited) £'000
Revenue	2	**39,708**	27,507	54.455
Cost of sales		**(32,264)**	(23,538)	(46,393)
Gross profit		**7,444**	3,969	8,062
Commercial and administrative costs		**(4,905)**	(3,333)	(6,269)
Operating profit before exceptional items		**2,539**	636	1,793
Exceptional items	3	**(343)**	554	645
Operating profit		**2,196**	1,190	2,438
Finance income		**1**	–	55
Finance costs	4	**(163)**	(123)	(219)
Profit before taxation		**2,034**	1,067	2,274
Taxation		**(398)**	(107)	(273)
Profit after taxation		**1,636**	960	2,001
Other comprehensive (loss)/income for the period:				
Re-measurement of defined benefit liability		**(3,469)**	(1,290)	(2,160)
Items that will be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations		**79**	70	162
Gain on available for sale financial assets		**256**	93	170
Other comprehensive (loss) for the period		**(3,134)**	(1,127)	(1,828)
Total comprehensive (loss) / income for the period		**(1,498)**	(167)	173
Profit attributable to:				
Equity shareholders		**1,636**	960	2,001
Total comprehensive (loss) / income attributable to:				
Equity shareholders		**(1,498)**	(1,67)	173
Earnings per share				
– basic	5	**9.7p**	8.5p	17.7p
– diluted	5	**9.5p**	8.3p	17.4p
Dividend				
Paid in period (£'000)		**388**	226	317
Paid in period (pence per share)		**2.3p**	2.0p	2.8p
Proposed (£'000)	6	**287**	90	388
Proposed (pence per share)		**1.7p**	0.8p	2.3p

GROUP STATEMENT OF CHANGES IN EQUITY

Group	Share Capital £'000	Share Premium £'000	Available for Sale Financial Assets £'000	Exchange Reserve £'000	Net defined benefit liability £'000	Retained Earnings £'000	Total Equity £'000
Balance as at June 2016	**566**	**3,830**	**416**	**(290)**	**(2,197)**	**10,467**	**12,792**
Dividends	–	–	–	–	–	(388)	(388)
Issue of new shares	278	7,914	–	–	–	–	8,192
Share based payments	–	–	–	–	–	28	28
Transactions with owners	278	7,914	–	–	–	(360)	7,832
Profit for the period	–	–	–	–	–	1,636	1,636
Other comprehensive income:							
Re-measurement of defined benefit liability	–	–	–	–	(3,469)	–	(3,469)
Exchange difference on translating foreign operations	–	–	–	79	–	–	79
Gain on available for sale financial assets	–	–	256	–	–	–	256
Total comprehensive income for the year	–	–	256	79	(3,469)	1,636	(1,498)
Balance as at 7 January 2017	**844**	**11,744**	**672**	**(211)**	**(5,666)**	**11,743**	**19,126**
Balance as at June 2015	**566**	**3,830**	**246**	**(452)**	**(37)**	**8,771**	**12,924**
Dividends	–	–	–	–	–	(226)	(388)
Share based payments	–	–	–	–	–	8	8
Transactions with owners	–	–	–	–	–	(218)	(218)
Profit for the year	–	–	–	–	–	960	960
Other comprehensive income:							
Re-measurement of defined benefit liability	–	–	–	–	(1,290)	–	(1,290)
Exchange difference on translating foreign operations	–	–	–	70	–	–	70
Gain on available for sale financial assets	–	–	93	–	–	–	93
Total comprehensive income for the year	–	–	93	70	(1,290)	960	(167)
Balance as at 9 January 2016	**566**	**3,830**	**339**	**(382)**	**(1,327)**	**9,513**	**12,539**

Group	Share Capital £'000	Share Premium £'000	Available for Sale Financial Assets £'000	Exchange Reserve £'000	Net defined benefit liability £'000	Retained Earnings £'000	Total Equity £'000
Balance as at June 2015	**566**	**3,830**	**246**	**(452)**	**(37)**	**8,771**	**12,924**
Dividends	–	–	–	–	–	(317)	(317)
Share based payments	–	–	–	–	–	12	12
Transactions with owners	–	–	–	–	–	(305)	(305)
Profit for the year	–	–	–	–	–	2,001	2,001
Other comprehensive income:							
Re-measurement of defined benefit liability	–	–	–	–	(2,160)	–	(2,160)
Exchange difference on translating foreign operations	–	–	–	162	–	–	162
Gain on available for sale financial assets	–	–	170	–	–	–	170
Total comprehensive income for the year	–	–	170	162	(2,160)	2,001	173
Balance as at June 2016	**566**	**3,830**	**416**	**(290)**	**(2,197)**	**10,467**	**12,792**

GROUP STATEMENT OF FINANCIAL POSITION

	Notes	**As at 7 Jan 2017 (unaudited) £'000**	As at 9 Jan 2016 (unaudited) £'000	As at 25 June 2016 (audited) £'000
ASSETS				
Non-current assets				
Property, plant and equipment		**10,754**	11,087	10,852
Intangible assets		**9,231**	1,153	1,167
Deferred tax assets		**1,472**	600	710
Investments		**816**	483	560
Total non-current assets		**22,273**	13,323	13,289
Current assets				
Inventories		**12,096**	7,521	9,043
Trade and other receivables		**15,892**	10,521	15,358
Cash and cash equivalents		**825**	928	798
Current tax receivable		**166**	66	104
Total current assets		**28,979**	19,036	25,303
Total assets		**51,252**	32,359	38,592
LIABILITIES				
Current liabilities				
Trade and other payables		**18,728**	15,560	20,540
Deferred consideration	8	**1,850**	–	–
Interest-bearing loans and borrowings		**529**	139	141
Current tax payable		**426**	14	122
Total current liabilities		**21,533**	15,713	20,803
Non-current liabilities				
Interest-bearing loans and borrowings		**1,783**	501	442
Post-retirement benefit obligations	9	**8,745**	3,550	4,495
Deferred tax liabilities		**65**	56	60
Total non-current liabilities		**10,593**	4,107	4,997
Total liabilities		**32,126**	19,820	25,800
Net assets		**19,126**	12,539	12,792
EQUITY				
Share capital		**844**	566	566
Share premium		**11,744**	3,830	3,830
Revaluation of investment reserve		**672**	339	416
Exchange reserve		**(211)**	(382)	(290)
Re-measurement of defined benefit liability		**(5,666)**	(1,327)	(2,197)
Retained earnings		**11,743**	9,513	10,467
Total equity		**19,126**	12,539	12,792

GROUP CASH FLOW STATEMENT

	Notes	**28 weeks ended 7 Jan 2017 (unaudited) £'000**	28 weeks ended 9 Jan 2016 (unaudited) £'000	12 months ended 25 June 2016 (audited) £'000
Cash flow from operating activities				
Profit before taxation		**2,034**	1,067	2,274
Depreciation		**661**	615	1,152
Amortisation		**123**	32	67
Loss on disposal of property plant and equipment		**-**	-	41
Defined benefit pension scheme curtailment gain		**-**	(774)	(870)
Finance income		**(1)**	-	(55)
Finance cost		**163**	123	219
(Increase) in inventories		**(637)**	(1,028)	(2,550)
Decrease / (increase) in trade and other receivables		**1,974**	30	(4,956)
Decrease / (increase) in trade and other payables		**(2,572)**	1,679	7,374
Contributions to defined benefit plan		**(54)**	(209)	(321)
Current service cost of defined benefit plan		**-**	206	305
Cash generated from operations		**1,691**	1,741	2,680
Finance expense paid		**(89)**	(71)	(134)
Taxation (paid)		**(724)**	(55)	(10)
Net cash flow from operating activities		**878**	1,615	2,536
Cash flow from investing activities				
Finance income received		**1**	-	55
Purchase of property, plant and equipment		**(432)**	(871)	(1,181)
Purchase of intangibles		**-**	(4)	(34)
Purchase of subsidiary	8	**(9,378)**	-	-
Net cash flow from investing activities		**(9,809)**	(875)	(1,160)
Cash flow from financing activities				
Proceeds from new loan		**2,000**	-	-
(Repayment) / proceeds of invoice discounting facility		**(575)**	346	(272)
Repayment of loans		**(271)**	(80)	(137)
Net cash proceeds / (repayment) of borrowings		**1,154**	226	(409)
Issue of new share capital		**8,192**	-	-
Dividends paid		**(388)**	(266)	(317)
Net cash flow from financing activities		**8,958**	40	(726)
Net increase in cash and cash equivalents		**27**	780	650
Cash and cash equivalents at beginning of period		**798**	148	148
Cash and cash equivalents at end of period		**825**	928	798

NOTES TO THE ACCOUNTS

NOTE 1 BASIS OF PREPARATION

The Group has prepared its interim results for the 28 week period ended 7 January 2017 in accordance with the recognition and measurement principles of International Financial Reporting Standards (IFRS) as adopted by the European Union and also in accordance with the recognition and measurement principles of IFRS issued by the International Accounting Standards Board.

The Directors have considered trading and cash flow forecasts prepared for the Group, and based on these, and the confirmed banking facilities, are satisfied that the Group will continue to be able to meet its liabilities as they fall due for at least one year from the date of approval of the Interim Report. On this basis, they consider it appropriate to adopt the going concern basis in the preparation of these accounts.

As permitted, this interim report has been prepared in accordance with the AIM rules and not in accordance with IAS34 'Interim Financial Reporting'.

These interim financial statements do not constitute full statutory accounts within the meaning of section 434 of the Companies Act 2006 and are unaudited.

The unaudited interim financial statements were approved by the Board of Directors on 27 February 2017.

The consolidated financial statements are prepared under the historical cost convention as modified to include the revaluation of certain non-current assets. The accounting policies used in the interim financial statements are consistent with IFRS and those which will be adopted in the preparation of the Group's Annual Report and Financial Statements for the year ended June 2017.

The statutory accounts for the year ended June 2016, which were prepared under IFRS, have been filed with the Registrar of Companies. These statutory accounts carried an unqualified Auditors Report and did not contain a statement under Section 498(2) or 498(3) of the Companies Act 2006

NOTE 2 SEGMENTAL ANALYSIS

The Group is a market leader in the development, formulation, and supply of personal care and beauty products.

The reportable segments of the Group are aggregated as follows:

- Brands – we leverage our skilled resources to develop and market a growing portfolio of Swallowfield owned and managed brands. These include organically developed Bagsy, MR. and Tru, plus the acquisitions of The Real Shaving Company (in 2015) and the portfolio of brands included in The Brand Architekts acquisition, acquired at the start of this financial year. This latter acquisition brings critical mass to our owned brands and has therefore changed the segmental analysis for this year.

- Manufacturing – the development, formulation and production of quality products for many of the world's leading personal care and beauty brands.

- Eliminations and Central Costs. Other Group-wide activities and expenses, including defined benefit pension costs (closed defined benefit scheme), LTIP expenses, interest, taxation and eliminations of intersegment items, are presented within 'Eliminations and central costs'.

This is the basis on which the Group presents its operating results to the Executive Directors, which is considered to be the CODM for the purposes of IFRS 8.

No comparative figures are shown as it is only since the acquisition of The Brand Architekts that this segmentation has been adopted. Prior to this brand performance was not considered to be sufficiently material to be separately reported.

a) Principal measures of profit and loss – Income Statement segmental information:

28 weeks ended 7 January 2017	Brands	Manufacturing	Eliminations and Central Costs	Total
	£'000	£'000	£'000	**£'000**
UK revenue	7,543	17,283	–	**24,826**
International revenue	2,289	12,593	–	**14,882**
Revenue – External	9,832	29,876	–	**39,708**
Revenue – Internal	–	605	(605)	–
Total revenue	**9,832**	**30,481**	**(605)**	**39,708**
Profit/(loss) from operations	1,845	2,104	(1,410)	**2,539**
Exceptional costs	–	–	(343)	**(343)**
Net borrowing costs	–	–	(162)	**(162)**
Profit/(loss) before taxation	**1,845**	**2,104**	**(1,915)**	**2,034**
Tax charge			(398)	**(398)**
Profit/(loss) for the period	**1.845**	**2,104**	**(2,313)**	**1,636**

The segmental Income Statement disclosures are measured in accordance with the Group's accounting policies as set out in note 1.

Inter segment revenue earned by Manufacturing from sales to Brands is determined on normal commercial trading terms as if Brands were any other third party customer.

All defined benefit pension costs and LTIP expenses are recognised for internal reporting to the CODM as part of Group-wide activities and are included within 'Eliminations and central costs' above. Other costs, such as Group insurance and auditors' remuneration which are incurred on a Group-wide basis are recharged by the head office to segments on a reasonable and consistent basis for all periods presented, and are included within segment results above.

b) Other Income Statement segmental information

The following additional items are included in the measures of profit and loss reported to the CODM and are included within (a) above:

28 weeks ended 7 January 2017	Brands	Manufacturing	Eliminations and Central Costs	Total
	£'000	£'000	£'000	£'000
Depreciation	18	643	–	661
Amortisation	83	40	–	123
LTIP charges	–	–	434	434

c) Principal measures of assets and liabilities

The Groups assets and liabilities are managed centrally by the CODM and consequently there is no reconciliation between the Group's assets per the statement of financial position and the segment assets.

d) Additional entity-wide disclosures

The distribution of the Group's external revenue by destination is shown below:

Geographical segments	**28 weeks ended 7 Jan 2017 (unaudited) £'000**	28 weeks ended 9 Jan 2016 (unaudited) £'000	12 months ended 25 June 2016 (audited) £'000
UK	**24,826**	18,510	31,868
Other European Union countries	**11,619**	7,593	20,577
Rest of the World	**3,263**	1,404	2,010
	39,708	27,507	54,455

In the 28 weeks ended 7 January 2017, the Group had two customers that exceeded 10% of total revenues, being 11.8% and 11.2% respectively. In the 28 weeks ended 9 January 2016, the Group had one customer that exceeded 10% of total revenues, this being 23.4%.

NOTE 3 EXCEPTIONAL ITEMS

Under exceptional Items we have recognised costs associated with The Brand Architekts acquisition which completed on 27 June 2016.

The prior-year reflecting an exceptional curtailment gain, representing a reduction in liabilities on closure of the defined benefit pension scheme to future accrual, offset by one-off costs incurred during the process. This net amount was excluded from adjusted Group operating profit, as this was a one-off gain and is unrelated to the underlying performance of the Group.

NOTE 4 FINANCE COSTS

	28 weeks ended 7 Jan 2017 (unaudited) £'000	28 weeks ended 9 Jan 2016 (unaudited) £'000	12 months ended 25 June 2016 (audited) £'000
Finance Costs			
Bank loans and overdrafts	**89**	71	134
Notional pension scheme costs	**74**	52	85
	163	123	219

NOTE 5 EARNINGS PER SHARE

	28 weeks ended 7 Jan 2017 (unaudited)	28 weeks ended 9 Jan 2016 (unaudited)	12 months ended 25 June 2016 (audited)
Basic and diluted			
Profit for the period (£'000)	**1,636**	960	2,001
Basic weighted average number of ordinary shares in issue during the period	**16,865,401**	11,306,416	11,306,416
Diluted number of shares	**17,182,330**	11,531,535	11,531,535
Basic earnings per share	**9.7p**	8.5p	17.7p
Diluted earnings per share	**9.5p**	8.3p	17.4p

Basic earnings per share has been calculated by dividing the profit for each financial period by the weighted average number of ordinary shares in issue in the period. There is a difference at 9 January 2016 and June 2016 between the basic net earnings per share and the diluted net earnings per share due to the 225,119 share options awarded. The difference at 7 January 2017 includes the LTIP share options awarded in July 2016, to give a total of 316,929 share options that could be issued.

Adjusted earnings per share			
Profit for the period (£'000)	**1,636**	960	2,001
Add back: Exceptional items	**343**	(554)	(650)
Notional tax charge on exceptional items	**(69)**	56	83
Adjusted profit before exceptional items	**1,910**	462	1,430
Basic weighted average number of ordinary shares in issue during the period	**16,865,401**	11,306,416	11,306,416
Diluted number of shares	**17,182,330**	11,531,535	11,531,535
Adjusted basic earnings per share	**11.3p**	4.1p	12.6p
Adjusted diluted earnings per share	**11.1p**	8.3p	17.4p

Adjusted earnings per share has been calculated by dividing the adjusted profit (after allowing for the notional tax charge on exceptional items) by the weighted average number of shares in issue in the period. There is a difference at 9 January 2016 and June 2016 between the basic net earnings per share and the diluted net earnings per share due to the 225,119 share options awarded. The difference at 7 January 2017 includes the LTIP share options awarded in July 2016, to give a total of 316,929 share options that could be issued.

NOTE 6 DIVIDENDS

The Directors have declared an interim dividend payment of 1.7p per share (2016: Interim: 0.8p; Final: 2.3p).

NOTE 7 RECONCILIATION OF CASH AND CASH EQUIVALENTS TO MOVEMENT IN NET DEBT

	28 weeks ended 7 Jan 2017 (unaudited) £'000	28 weeks ended 9 Jan 2016 (unaudited) £'000	12 months ended 25 June 2016 (audited) £'000
Increase in cash and cash equivalents in the period	**27**	780	650
Net cash (inflow) / outflow from (increase) / decrease in borrowings	**(1,154)**	(266)	409
Change in net debt resulting from cash flows	**(1,127)**	514	1,059
Net debt at the beginning of the period	**(4,331)**	(5,390)	(5.390)
Net debt at the end of the period	**(5,458)**	(4,876)	(4,331)

NOTE 8 ACCOUNTING POLICIES

The accounting policies used in the interim financial statements are consistent with IFRS and those which will be adopted in the preparation of the Group's Annual Report and Financial Statements for the year ended June 2017.

Acquisition of subsidiary: The Brand Architekts

On 27 June 2016, the Group acquired 100% of the issued share capital of The Brand Architekts Ltd. The total consideration for the acquisition along with the fair value of the identified assets and assumed liabilities is shown below:

Recognised amounts of identifiable assets acquired and liabilities assumed	Book value £'000	Fair Value adjustments 7 January 2017 £'000	Provisional Fair Value £'000
Tangible assets			
Fixed assets	30	–	30
Inventory	2,416	–	2,416
Trade and other receivables	3,332	–	3,332
Bank and cash balances	832	–	832
Trade and other payables	(2,737)	–	(2,737)
Intangible assets	–	6,737	6,737
Sub total	3,837	6.737	10,610
Goodwill	–	–	1,450
Total Fair Value recognised	**–**		**12,060**

Net cash paid on acquisition

	£'000's
Purchase of subsidiary	(12,060)
Deferred consideration	1,850
Cash on acquisition	832
Net cash paid on acquisition	**(9,378)**

The acquisition consideration is subject to a deferred payment of £1.85m based on a margin performance target for the 12 months immediately following acquisition. Management believe that the margin target will be achieved and as such the fair value of the transaction assumes payment of this deferred consideration in full. The acquisition costs, including due diligence costs, that relate to the transaction have been expensed as operating costs in compliance with IFRS3 and shown as exceptional items.

The portfolio of brand names is considered to have an indefinite life and is tested for impairment annually. This is on the basis that there is no foreseeable limit on the period of time over which it is expected to contribute to cash flow. Customer relationships are amortised on a straight-line basis over ten years.

Goodwill of £1.45m has been recognised on acquisition and is attributable to future product launches and assembled workforce at point of acquisition.

NOTE 9 IAS 19 'EMPLOYEE BENEFITS'

Expected future cash flows to and from the Scheme:

The Scheme is subject to the scheme funding requirements outlined in UK legislation. The last scheme funding valuation of the Scheme was as at 5 April 2014 and revealed a funding deficit of £1.3m. The liabilities of the Scheme are based on the current value of expected benefit payment cash flows to members of the Scheme over the next 60 to 80 years. The average duration of the liabilities is approximately 20 years.

In accordance with the schedule of contributions dated 3 July 2015 the Company is expected to pay contributions to the Scheme to make good any shortfalls in funding and has agreed to pay £108k per annum for 10 years from 18 July 2015 to eliminate the deficit. The magnitude of such payments will be reviewed following the next scheme funding valuation as at April 2017. Prior to July 2015 the Company was paying £111.5k per annum.

In addition, the Company has agreed to meet the cost of administrative expenses and Pension Protection Fund insurance premiums for the Scheme.

Payments made by the Company to the Scheme and in respect of Scheme liabilities were:

	28 weeks ended 7 January 2017 £'000's	28 weeks ended 9 January 2016 £'000's	12 months ended 25 June 2016 £'000's
Company pension contributions	–	155	213
Deficit recovery payments	54	54	108
Scheme administrative expenses	71	44	101
Pension Protection Fund premium	240	211	211
Total	**365**	464	633

The amounts expensed in the Group Statement of Comprehensive Income were:

	28 weeks ended 7 January 2017 £'000's	28 weeks ended 9 January 2016 £'000's	12 months ended 25 June 2016 £'000's
In Operating profit:			
Company pension contributions	–	206	305
Scheme administrative expenses	71	41	86
Pension Protection Fund premium	120	106	211
	191	353	602
In Finance costs:			
Unwinding of notional discount factor	74	52	85
Total	**265**	**405**	**687**

IAS 19 requires a separate valuation of the Scheme on a different basis to the funding valuation referred to above. The effects of the application of IAS19 on the statement of financial position at 7 January 2017 are:

	7 January 2017 £000's
Increase in pension and other benefit obligations	(4,250)
Decrease in deferred tax	761
Decrease in equity	**(3,489)**

The Accounting Standards require the discount rate to be based on yields on high quality (usually AA-rated) corporate bonds of appropriate currency, taking into account the term of the relevant pension scheme's liabilities. Corporate bond indices are often used as a proxy to determine the discount rate. At the reporting date, the yields on bonds of all types were lower than they were at June 2016. This has resulted in lower discount rates being adopted for accounting purposes compared to last year, this was coupled by an increase in expectations of long term inflation, the combination of these two factors has translated into an increased liability.

The key assumptions used were:

	As at 7 January 2017	As at 9 January 2016	As at 25 June 2016
Discount Rate	2.80%	3.85%	3.35%
Rate of inflation (RPI)	3.45%	3.05%	2.90%
Rate of inflation (CPI)	2.45%	2.05%	1.90%

The amounts recognised in the Group statement of financial position were:

	As at 7 January 2017 £000's	As at 9 January 2016 £000's	As at 25 June 2016 £000's
Present value of funded obligations	(30,891)	(22,975)	(24,694)
Fair value of scheme assets	22,146	19,425	20,199
(Deficit)	**(8,745)**	**(3,550)**	**(4,495)**

NOTE 10 ANNOUNCEMENT OF RESULTS

These results were announced to the London Stock Exchange on 28 February 2017.
The Interim Report will be sent to shareholders and is available to members of the public at the Company's Registered Office at Swallowfield House, Station Road, Wellington, Somerset, TA21 8NL.

INDEPENDENT REVIEW REPORT TO SWALLOWFIELD PLC

INTRODUCTION

We have been engaged by the Group to review the condensed set of financial statements in the half-yearly financial report of Swallowfield plc for the twenty eight weeks ended 7 January 2017 which comprises the Group statement of comprehensive income, the Group statement of changes in equity, the Group statement of financial position, the Group cash flow statement and the related explanatory notes. We have read the other information contained in the half-yearly financial report which comprises the Chief Executive's Statement and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Group, in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board. Our review work has been undertaken so that we might state to the Group those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group for our review work, for this report, or for the conclusion we have formed.

DIRECTORS' RESPONSIBILITIES

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The AIM rules of the London Stock Exchange require that the accounting policies and presentation applied to the financial information in the half-yearly financial report are consistent with those which will be adopted in the annual accounts having regard to the accounting standards applicable for such accounts.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with the basis of preparation in Note 1.

OUR RESPONSIBILITY

Our responsibility is to express to the Group a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the twenty eight weeks ended 7 January 2017 is not prepared, in all material respects, in accordance with the basis of accounting described in Note 1.

Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Southampton
27 February 2017.

CORPORATE DIRECTORY

DIRECTORS

B M Hynes *(Non-Executive Chairman)*
C G How *(Chief Executive Officer)*
J M Fletcher *(Group Sales and Marketing Director)*
M W Warren *(Group Finance Director)*
F P Berrebi *(Non–Executive Director)*
R S McDowell *(Non-Executive Director)*
E J Beale *(Non-Executive Director)*

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FINANCIAL CALENDAR

Interim Dividend Paid	**26th May 2017**
Final Results	**September 2017**
2016 AGM	**November 2017**
Final Dividend Paid	**December 2017**