swallowfield

HALF YEARLY REPORT

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Swallowfield plc
("Swallowfield" or the "Group")
Interim results

Swallowfield, a market leader in the development, formulation, and supply of personal care and beauty products, whose customers include many of the world's leading brands, announces its interim results for the 28 weeks ended 9 January 2016

£m unless otherwise stated	2016	2015
Reported results [1]		
Revenue	£27.5m	£26.0m
Revenue (constant currency) [2]	£27.6m	£26.0m
Operating profit [1]	£0.64m	£0.16m
Adjusted basic earnings per share [1]	4.1p	0.4p
Statutory results		
Revenue	£27.5m	£26.0m
Operating profit	£1.19m	£0.16m
Basic earnings per share	8.5p	0.4p
Total Dividend per share	0.8p	-
Net debt	£4.9m	£3.1m

[1] Adjusted operating profit and adjusted earnings per share are calculated before exceptional items.
[2] Revenue translated at 2015 exchange rates.

Financial highlights

- Revenue growth of 5.9%, with 'drive' and 'build' product categories growing by 9.0%.
- Strong increase in contribution margin (31.3% vs 27.7% prior year), enabling good net profit growth whilst investing in brand support and organisational capability.
- Profitability increased significantly with an adjusted operating profit of £0.64m (2015: £0.16m).
- Net Debt of £4.9m (2015: £3.1m), a reduction from the 30 June 2015 position of £5.4m, after £0.9m of capital expenditure.
- Interim dividend re-instated at 0.8 pence (2015: Nil).
- Defined benefit pension scheme closed to future accrual, generating a one-off, exceptional gain of £0.55m.

Operational highlights

- Good contribution from core business with new contracts and further business innovation.
- Secured future supply agreements for innovative haircare products which will positively impact business in fiscal 2017.
- Four Swallowfield owned brands now launched, in market and building steadily with new collaborations entered into.
- Cost optimisation projects progressing as planned.

Brendan Hynes, Non-executive Chairman, commented:
"The first half year profitability is significantly ahead of last year and in line with our expectations as we continue to show measurable progress with our 'building a better Swallowfield' strategy.

This gives us confidence that we can continue to grow our business and build shareholder value in both the medium and long term."

Chris How, Chief Executive, commented:
"We are pleased to have delivered sales growth, margin growth and a significant improvement in profitability. This has been driven by growth in both the core business and Swallowfield owned brands. It is particularly pleasing that we have been able to deliver this improved profitability whilst at the same time absorbing investments in brand support and organisational capability that will deliver future business growth."

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Business review

Revenue showed growth of 5.9% at £27.5m (2015: £26.0m). The weakness of the Euro has reduced sales revenue by £0.3m, but this impact has been offset by a broadly equal level of increase on US Dollar denominated sales, so revenue growth on a constant currency basis would have been 6.1%.

Direct contribution margins - defined as net sales less materials, direct labour, and other direct costs - increased by 360 basis points to 31.3% (prior year 27.7%). This reflects the success of our Product Category Prioritisation, the introduction of a number of innovative new products in our core business and the growing contribution of our portfolio of Swallowfield owned brands.

We are pleased to report that our core contract manufacturing business delivered growth in both sales and contribution margin. Within Swallowfield owned brands we successfully integrated the Real Shaving Company brand (acquired in May 2015) and executed the launches of our Bagsy and MR. brands into Debenhams and Boots respectively.

The overall re-shaping of the business towards stronger growth and margins has enabled us to increase profitability 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 £0.64m (2015: £0.16m). Adjusted profit before tax increased to £0.51m (2015: £0.06m).

The overall effective rate of Group taxation for the period was 10% of pre-tax profits. This represents the current tax payable in the Czech Republic and also the expectation that, in the UK, the taxable profit in the current year is anticipated to exceed the £1.1m of brought forward tax losses which will be fully utilised as a consequence. This results in an adjusted earnings per share of 4.1p (2015: 0.4p).

The Group's strategic investment of a 19% shareholding in Shanghai Colour Cosmetics Technology Company Limited (SCCTC) was re-valued upwards by £0.09m during the period, to fair value based on SCCTC's 31 December 2015 net assets. The initial cost of this investment was £0.14m and this is now valued at £0.48m. This improved valuation is in addition to the dividend income received since acquisition.

Net debt and cash flow

Net debt decreased from a year-end position of £5.4m to £4.9m (2015: £3.1m, prior year reflected a one-off receipt timing benefit). We have continued our focus on working capital with good results achieved.

Financing costs of £0.12m (2015: £0.11m) comprised interest expense of £0.07m (2015: £0.06m) plus a pension scheme finance charge of £0.05m (2015: charge £0.05m).

Capital expenditure was £0.9m which was £0.3m above depreciation. We expect capital expenditure to be higher than depreciation in this financial year as we have made a number of investments to improve line efficiencies and support incremental new customer contracts.

Dividends

The Board is pleased to announce that it has approved an interim dividend of 0.8 pence per share (2015: Nil). This dividend will be paid on 27 May 2016 to shareholders on the register on 6 May 2016. The Shares will go ex-dividend on 5 May 2016.

This reinstatement of the interim dividend reflects the Board's confidence and progress on our strategy which is designed to build shareholder value in the medium and long term.

However, as previously advised, it is the Directors' intention to have a 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.

Defined benefit pension scheme

During the reporting period the Group closed the existing defined benefit scheme to future accrual.

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.

Subsequent to finalising the valuation the Group entered in to a formal consultation with the members to close the scheme to future accrual with effect from 31 December 2015, and this negotiation was concluded in the period. As a consequence, in the period ended 9 January 2016, we have recognised a credit of £0.77m (2015: £nil) relating to a curtailment gain, which represents a reduction in liabilities on closure to future accrual and is accounted for as a past service credit under IAS 19. One-off costs of £0.22m were incurred during this process which have been netted against this gain. We have therefore excluded the net amount of £0.55m from adjusted Group operating profit, as this is a one-off gain and is unrelated to the underlying performance of the Group.

For accounting purposes at 9 January 2016, the Group recognised under IAS19 'employee benefits', a deficit of £3.55m (30 June 2015: £2.66m). 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 30 June 2015. This has resulted in lower discount rates being adopted for accounting purposes compared to last year, offset by a reduction in expectations of long term inflation, this coupled with the volatile market conditions at the accounting date impacting fair value asset valuations, has translated into an increased liability under IAS19.

Progress vs strategy

'Creating for Tomorrow, Delivering for Today'

Our business strategy is developed on two complimentary platforms. The first 'Creating for Tomorrow' identifies the strategic pillars that we believe will help us create a stronger business in the mid and long term. The second 'Delivering for Today' identifies some key operational focus areas that we need to drive in order to deliver our more immediate (i.e. current fiscal) performance.

The 4 strategic pillars of 'Creating for Tomorrow' are:

Product category focus

The business is focusing on a select number of 'drive' and 'build' product categories where Swallowfield has an existing and sustainable competitive advantage. Investment of both human and financial resources is prioritised to drive higher growth and profitability in each of these categories at the expense of our 'service' product categories which we are seeking to de-prioritise/exit.

Our 'drive' categories include personal care aerosols, hot pour products (for lips, face, hair and underarm) and roll-ons. Our 'build' categories include cosmetic pencils, fragrance, gifting and premium liquids.

In the reporting period our drive and build categories combined delivered 9% sales growth versus prior year. Percentage contribution margin growth was particularly strong in our drive categories which underpinned the 360 basis point improvement in the reported number.

Core business innovation

Our core customers are brand owners who require a constant stream of product innovation to remain competitive and we have built a reputation as a valuable partner to them in this process.

During the reporting period we were pleased to introduce a number of new products across a range of key customers and also secure agreements for future supply of several innovative haircare products to major premium brand owners which will positively impact business performance in fiscal 2017.

We have also seen growth in volumes of the innovative 'world first' plastic aerosol foaming shower gel which was successfully introduced last year.

Furthermore, we delivered our first order under a partnership arrangement entered into with a leading US aerosol manufacturer. This arrangement enables the production of Swallowfield formulations in the USA adapted to US regulatory requirements in a cost effective way to allow our European based customers to launch their products into North America. Swallowfield receive a commission and satisfy an increasingly common customer need.

Swallowfield owned brands

As well as our core work we are also utilising our product development, manufacturing, and distribution expertise to create innovative ranges of products which are being taken to market under our own brand names. These are positioned to avoid any direct conflict with our existing valued customer base. Through highly targeted campaigns and the use of cost-effective customer engagement channels such as social media, we believe we can build strong brand awareness to support product sales with moderate and sustainable investment levels.

The Real Shaving Company brand (acquired in May 2015) has been fully integrated into the business and sales and margins are contributing positively. A new aerosol product was added to the range and launched in October in the UK and will be introduced in Canada in the Spring. The addition of the aerosol is a great example of how Swallowfield can add value to brands through applying its existing product expertise and intellectual property. A new sampling campaign will be executed in the second half and we have entered into an exciting sponsorship package with Somerset County Cricket Club, which will run through the 2016 season.

Our premium beauty brand, 'Bagsy', was successfully rolled out in October to 36 Debenhams stores on full display units. Sales have been building steadily and we have a number of interesting in-store promotions planned through the Spring and Summer which will be backed up by digital advertising and PR. Further distribution extensions are being worked on, both in the UK and internationally, and we are excited to announce that we have entered into an exclusive agreement with the well-known fashion designer Savannah Miller. We will be co-developing a number of new products to be launched later in the year under the 'Savannah Miller for Bagsy' name.

Our premium and innovative new male haircare brand 'MR.' was launched into 350 Boots stores in October and sales have also been building steadily. Again, a range of in-store promotions and digital advertising / promotion through the Spring and Summer are expected to build further consumer awareness and sales.

Our value brand Tru continues to generate sales in existing outlets and we are seeking to further extend its retail distribution.

Cost base optimisation

We aim to improve our asset utilisation across our locations, which will reduce the cost base and improve productivity. We have identified a project to implement a coordinated upgrade of our energy and waste infrastructure at our main Wellington site, which aims to generate savings of approximately £0.15m per annum. This work is now underway, with the installation of a new compressor and boiler complete and waste treatment trial in progress. This is all expected to be completed during the current financial year.

Acquisition strategy

The Company continues to explore further acquisition opportunities where we could leverage our product expertise, intellectual property and distribution relationships to create value for all stakeholders.

Outlook

Despite challenging retail conditions and the increasing macro-economic uncertainty we have delivered a significant increase in profitability in the period. We expect to see continued growth in both sales and profitability for the full year, as planned.

The progress being delivered against our 'building a better Swallowfield' strategy gives us confidence that we will continue to strengthen and grow our business and build further shareholder value in the medium and longer term.

Group Statement of Comprehensive Income

Continuing operations	Notes	**28 weeks ended 9 Jan 2016 (unaudited) £'000**	28 weeks ended 10 Jan 2015 (unaudited) £'000	12 months ended 30 June 2015 (audited) £'000
Revenue	2	**27,507**	25,975	49,447
Cost of sales		**(23,538)**	(23,321)	(43,609)
Gross profit		**3,969**	2,654	5,838
Commercial and administrative costs		**(3,333)**	(2,490)	(4,842)
Operating profit before exceptional items		**636**	164	996
Exceptional items	3	**554**	-	-
Operating profit / (loss)		**1,190**	164	996
Finance income	4	**-**	-	18
Finance costs	4	**(123)**	(108)	(200)
Profit / (loss) before taxation		**1,067**	56	814
Taxation		**(107)**	(7)	(68)
Profit after taxation		**960**	49	746
Other comprehensive (loss) / income for the period:				
Re-measurement of defined benefit liability		**(1,290)**	(2,142)	(316)
Items that will be reclassified subsequently to profit or loss				
Exchange differences on translating foreign operations		**70**	(54)	(137)
Gain / (loss) on available for sale financial assets		**93**	63	68
Other comprehensive (loss) / income for the period		**(1,127)**	(2,133)	(385)
Total comprehensive (loss) / income for the period		**(167)**	(2,084)	361
Profit / (loss) attributable to:				
Equity shareholders		**960**	49	746
Total comprehensive (loss) / income attributable to:				
Equity shareholders		**(167)**	(2,084)	361
Earnings per share				
- basic	5	**8.5p**	0.4p	6.6p
- diluted	5	**8.3p**	-	6.5p
Dividend				
Paid in period (£'000)		**226**	-	-
Paid in period (pence per share)		**2.0p**	-	-
Proposed (£'000)	6	**90**	-	226
Proposed (pence per share)		**0.8p**	-	2.0p

Group Statement of Changes in Equity

Group	Share Capital £'000	Share Premium £'000	Exchange Reserve £'000	Retained Earnings £'000	Available for Sale Financial Assets £'000	Net defined benefit liability /(asset) £'000	Total Equity £'000
Balance as at 30 June 2015	**566**	**3,830**	**(452)**	**8,771**	**246**	**(37)**	**12,924**
Dividends	-	-	-	(226)	-	-	(226)
Share based payments	-	-	-	8	-	-	8
Transactions with owners	-	-	-	(218)	-	-	(218)
Profit/(loss) for the year	-	-	-	960	-	-	960
Other comprehensive income:							
Re-measurement of defined benefit liability/(asset)	-	-	-	-	-	(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	-	-	70	960	93	(1,290)	(167)
Balance as at 9 January 2016	**566**	**3,830**	**(382)**	**9,513**	**339**	**(1,327)**	**12,539**

	Share Capital	Share Premium	Exchange Reserve	Retained Earnings	Available for Sale Financial Assets	Net defined benefit liability /(asset)	Total Equity
Group	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Balance as at 30 June 2014	**566**	**3,830**	**(315)**	**8,022**	**178**	**279**	**12,560**
Dividends	-	-	-	-	-	-	-
Share based payments	-	-	-	-	-	-	-
Transactions with owners	-	-	-	-	-	-	-
Profit/(loss) for the year	-	-	-	49	-	-	49
Other comprehensive income:							
Re-measurement of defined benefit liability/(asset)	-	-	-	-	-	(2,142)	(2,142)
Exchange difference on translating foreign operations	-	-	(54)	-	-	-	(54)
Gain on available for sale financial assets	-	-	-	-	63	-	63
Total comprehensive income for the year	-	-	(54)	49	63	(2,142)	(2,084)
Balance as at 10 January 2015	**566**	**3,830**	**(369)**	**8,071**	**241**	**(1,863)**	**10,476**

	Share Capital	Share Premium	Exchange Reserve	Retained Earnings	Available for Sale Financial Assets	Net defined benefit liability /(asset)	Total Equity
Group	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Balance as at 30 June 2014	**566**	**3,830**	**(315)**	**8,022**	**178**	**279**	**12,560**
Dividends	-	-	-	-	-	-	-
Share based payments	-	-	-	3	-	-	3
Transactions with owners	-	-	-	3	-	-	3
Profit/(loss) for the year	-	-	-	746	-	-	746
Other comprehensive income:							
Re-measurement of defined benefit liability/(asset)	-	-	-	-	-	(316)	(316)
Exchange difference on translating foreign operations	-	-	(137)	-	-	-	(137)
Gain on available for sale financial assets	-	-	-	-	68	-	68
Total comprehensive income for the year	-	-	(137)	746	68	(316)	361
Balance as at 30 June 2015	**566**	**3,830**	**(452)**	**8,771**	**246**	**(37)**	**12,924**

Group Statement of Financial Position

	Notes	**As at 9 Jan 2016 (unaudited) £'000**	As at 10 Jan 2015 (unaudited) £'000	As at 30 June 2015 (audited) £'000
ASSETS				
Non-current assets				
Property, plant and equipment		**11,087**	10,676	10,743
Intangible assets		**1,153**	145	1,200
Deferred tax assets		**600**	887	378
Investments		**483**	384	390
Total non-current assets		**13,323**	12,092	12,711
Current assets				
Inventories		**7,521**	6,403	6,493
Trade and other receivables		**10,521**	8,890	10,839
Cash and cash equivalents		**928**	512	148
Current tax receivable		**66**	1	-
Total current assets		**19,036**	15,806	17,480
Total assets		**32,359**	27,898	30,191
LIABILITIES				
Current liabilities				
Trade and other payables		**15,560**	12,338	13,823
Interest-bearing loans and borrowings		**139**	-	137
Current tax payable		**14**	21	9
Total current liabilities		**15,713**	12,359	13,969
Non-current liabilities				
Interest-bearing loans and borrowings		**501**	-	583

Post-retirement benefit obligations	8	**3,550**	5,002	2,662
Deferred tax liabilities		**56**	61	53
Total non-current liabilities		**4,107**	5,063	3,298
Total liabilities		**19,820**	17,422	17,267
Net assets		**12,539**	10,476	12,924
EQUITY				
Share capital		**566**	566	566
Share premium		**3,830**	3,830	3,830
Other components of equity		**339**	241	246
Exchange reserve		**(382)**	(369)	(452)
Re-measurement of defined benefit liability		**(1,327)**	(1,863)	(37)
Retained earnings		**9,513**	8,071	8,771
Total equity		**12,539**	10,476	12,924

Group Cash Flow Statement

	28 weeks ended 9 Jan 2016 (unaudited) £'000	28 weeks ended 10 Jan 2015 (unaudited) £'000	12 months ended 30 June 2015 (audited) £'000
Cash flow from operating activities			
Profit / (loss) before taxation	**1,067**	56	814
Depreciation	**615**	503	1,101
Amortisation	**32**	26	48
Defined benefit pension scheme curtailment gain		-	-
	(554)	-	-
Finance income	**-**	-	(18)
Finance cost	**123**	108	200
(Increase) / decrease in inventories	**(1,028)**	662	572
Decrease in trade and other receivables	**30**	3,315	2,108
Increase / (decrease) in trade and other payables	**1,459**	(2,099)	(2,249)
Contributions to defined benefit plan	**(209)**	(200)	(399)
Current service cost of defined benefit plan	**206**	230	361
Cash generated from operations	**1,741**	2,601	2,538
Finance expense paid	**(71)**	(59)	(112)
Taxation received / (paid)	**(55)**	199	(80)
Net cash flow from operating activities	**1,615**	2,741	2,346
Cash flow from investing activities			
Finance income received	**-**	-	18
Purchase of property, plant and equipment	**(871)**	(756)	(1,543)
Purchase of intangible assets	**(4)**	(57)	(1,134)
Sale of property, plant and equipment	**-**	-	-
Net cash flow from investing activities	**(875)**	(813)	(2,659)
Cash flow from financing activities			
Proceeds from new loan	**-**	-	720
Proceeds / (repayment) of debt facility	**346**	(1,949)	(792)
Repayment of loans	**(80)**	-	-
Dividends paid	**(226)**	-	-
Net cash flow from financing activities	**40**	(1,949)	(72)
Net increase / (decrease) in cash and cash equivalents	**780**	(21)	(385)
Cash and cash equivalents at beginning of period	**148**	533	533
Cash and cash equivalents at end of period	**928**	512	148
Cash and cash equivalents consist of:			
Cash	**928**	512	148
Cash and cash equivalents at end of period	**928**	512	148

Notes to the Accounts

Note 1 Basis of preparation
The Group has prepared its interim results for the 28 week period ended 9 January 2016 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 29 February 2016.

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 30 June 2016.

The statutory accounts for the year ended 30 June 2015, 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 operates in one reportable segment as all sales, purchasing, production and operational decisions are taken based on the overall Group operating performance. The results of this segment are as reported through the Group Statement of Comprehensive Income, Group Statement of Financial Position, Group Statement of Changes in Equity and Group Cash Flow Statement.

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

Geographical segments	**28 weeks ended 9 Jan 2016 (unaudited) £'000**	28 weeks ended 10 Jan 2015 (unaudited) £'000	12 months ended 30 June 2015 (audited) £'000
UK	**18,510**	15,904	30,308
Other European Union countries	**7,593**	9,152	16,700
Rest of the World	**1,404**	919	2,439
	27,507	25,975	49,447

In the 28 weeks ended 9 January 2016, the Group had one customer that exceeded 10% of total revenues, this being 23.4%, this reflected the timing of new launches and strong re-orders falling in our first half, which is anticipated will normalise over the full year. In the 28 weeks ended 10 January 2015, the Group had two customers that exceeded 10% of total revenues, being 13.5% and 10.8% respectively.

Note 3 Exceptional items

Under exceptional Items we have recognised a credit of £0.77m (2015: £nil) relating to a curtailment gain, which represents a reduction in liabilities on closure of the DB scheme to future accrual. One-off costs of £0.22m were incurred during this closure process, which have been netted against this gain. We have therefore excluded the net amount of £0.55m from adjusted Group operating profit, as this is a one-off gain and is unrelated to the underlying performance of the Group.

Note 4 Finance income and costs	**28 weeks ended 9 Jan 2016 (unaudited) £'000**	28 weeks ended 10 Jan 2015 (unaudited) £'000	12 months ended 30 June 2015 (audited) £'000
Finance Income			
Other income	**-**	-	18
	-	-	18
Finance costs			
Bank loans and overdrafts	**71**	59	112
Net pension scheme costs	**52**	49	88
	123	108	200

Note 5 Earnings per share	**28 weeks ended 9 Jan 2016 (unaudited)**	28 weeks ended 10 Jan 2015 (unaudited)	12 months ended 30 June 2015 (audited)
Basic and diluted			
Profit for the period (£'000)	**960**	49	746
Basic weighted average number of ordinary shares in issue during the period	**11,306,416**	11,306,416	11,306,416
Diluted number of shares	**11,531,535**	11,531,535	11,531,535
Basic earnings per share	**8.5p**	0.4p	6.6p
Diluted earnings per share	**8.3p**	0.4p	6.5p

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 30 June 2015 and 9 January 2016 between the basic net earnings per share and the diluted net earnings per share due to the 225,119 share options awarded.

Adjusted earnings per share

Profit for the period (£'000)	**960**	49	746
Add back: Exceptional items	**(554)**	-	-
Notional tax charge on exceptional items	**56**	-	-
Adjusted profit before exceptional items	**462**	49	746
Basic weighted average number of ordinary shares in issue during the period	**11,306,416**	11,306,416	11,306,416
Diluted number of shares	**11,531,535**	11,531,535	11,531,535
Adjusted basic earnings per share	**4.1p**	0.4p	6.6p
Adjusted diluted earnings per share	**4.0p**	0.4p	6.5p

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 30 June 2015 and 9 January 2016 between the adjusted basic net earnings per share and the adjusted diluted net earnings per share due to the 225,119 share options awarded.

Note 6 Dividends

The Directors have declared an interim dividend payment of 0.8p per share (2015: Interim: nil; Final: 2.0p).

Note 7 Reconciliation of cash and cash equivalents to movement in net debt

	28 weeks ended 9 Jan 2016 (unaudited) £000's	28 weeks ended 10 Jan 2015 (unaudited) £000's	12 months ended 30 June 2015 (audited) £000's
Increase / (decrease) in cash and cash equivalents in the period	**780**	(21)	(385)
Net cash outflow / (inflow) from decrease / (increase) in borrowings	**(266)**	1,949	72
Change in net debt resulting from cash flows	**514**	1,928	(313)
Net debt at the beginning of the period	**(5,390)**	(5,077)	(5,077)
Net debt at the end of the period	**(4,876)**	(3,149)	(5,390)

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 30 June 2016.

<u>IAS 19 'Employee Benefits'</u>

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 £1,298k. 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 9 January 2016 £000's	28 weeks ended 10 January 2015 £000's	12 months ended 30 June 2015 £000's
Company pension contributions	155	144	287
Deficit recovery payments	54	56	112
Scheme administrative expenses	44	56	121
Pension Protection Fund premium	211	98	98
Total	**464**	**354**	**618**

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

	28 weeks ended 9 January 2016 £000's	28 weeks ended 10 January 2015 £000's	12 months ended 30 June 2015 £000's

In Operating profit:			
Company pension contributions	206	230	361
Scheme administrative expenses	41	61	138
Pension Protection Fund premium	106	49	123
	353	340	622
In Finance costs:			
Unwinding of discount factor	52	49	88
Total	**405**	**389**	**710**

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 9 January 2016 are:

	9 January 2016
	£000's
Increase in pension and other benefit obligations	(888)
Decrease in deferred tax	323
Decrease in equity	**(565)**

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 30 June 2015. This has resulted in lower discount rates being adopted for accounting purposes compared to last year, offset by a reduction in expectations of long term inflation, this coupled with the volatile market conditions at the accounting date impacting fair value asset valuations, has translated into an increased liability.

The key assumptions used were:

	As at 9 January 2016	As at 10 January 2015	As at 30 June 2015
Discount Rate	3.85%	3.45%	4.10%
Rate of inflation (RPI)	3.05%	2.95%	3.30%
Rate of inflation (CPI)	2.05%	2.00%	2.30%

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

	As at 9 January 2016	As at 10 January 2015	As at 30 June 2015
	£000's	£000's	£000's
Present value of funded obligations	(22,975)	(24,775)	(22,970)
Fair value of scheme assets	19,425	19,773	20,308
(Deficit) / surplus	**(3,550)**	**(5,002)**	**(2,662)**

Note 9 Announcement of results
These results were announced to the London Stock Exchange on 1 March 2016. 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 9 January 2016 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 9 January 2016 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
29 February 2016