

# Simonds Farsons Cisk plc

# Interim Report 2017

SIX MONTHS ENDED 31 JULY 2017

## INTERIM DIRECTORS' REPORT

### TRADING PERFORMANCE

The board of directors is pleased to present the results of the Farsons Group for the six months ended 31 July 2017.

The group has maintained its momentum of growth in its performance, with turnover and profits once again exceeding those attained in the comparable period of the previous year.

Group turnover exceeded €49 million, an increase of 7.5% over last year. Operating profit increased by €387,000, whilst profit after tax for the period from continuing operations, at €5.7 million, exceeded last year's figure by 3.9%. Net profit margins have been compressed by extremely competitive market conditions and a very tight labour market.

The continued year on year increase in turnover and profitability has been achieved across all business segments of the group. This improvement particularly reflects the continuous focus on innovation in the manufacturing segment, where efficiencies are being registered following the commissioning of the beer packaging facility. Attention is also being directed at understanding and responding to changing consumer trends in the food and beverage industry, together with rigorous controls over

the operating expenses of the group. These internal factors were bolstered by the growth in Malta's economy and the further increases in the number of tourists visiting our Island.

The group's beverage importation company delivered an improved profit margin together with higher turnover. With respect to the group's food businesses, its franchised operations, spread across the company's 14 restaurants, registered a marked growth in turnover and profitability. Likewise, the food importation subsidiary maintained a steady growth in both turnover and profitability, despite continuous intense competition on both products and margins.

The positive performance across all segments within the group has yielded improved results when compared to the robust results registered in the previous year. Earnings per share increased by 4.3% to €0.193 for the six-month period.

### BOND ISSUE

The recent €20 million bond issue, which closed on 5 September 2017, attracted strong demand with total applications of over €49 million, reflecting public confidence and trust in the group. €15 million of the proceeds have been used to redeem the maturing bonds,

while the remaining amount of €5 million will be used for general corporate purposes including the funding of the capital investment programme planned for the next few years.

### INVESTMENTS

Farsons continues to invest in the ongoing improvement of its plant and logistics centre. The investment in the logistics centre, incorporating new loading bays and the extension to the existing warehouse is nearing completion, providing a more efficient working environment. Whilst the loading bays have already been in use over the summer months, the warehouse extension and the new truck depot are due to be completed during autumn. Recognising the importance of enhancing the working environment of all employees, the investment in the administrative office block has reached its final stages, and the majority of employees have now

moved to the new offices. Work on a new kegging plant has commenced, and this new plant is expected to be commissioned by the end of this financial year.

These investments are considered essential to be able to fulfil the export strategy and the group's plans for continuous growth in a competitive market.

### TRIDENT ESTATES LTD

During the Annual General Meeting held on 27 June 2017, the shareholders approved the spin-off of the company's shareholding in Trident Estates Limited, to be effected through the payment of a dividend in kind on a pro-rata basis to its shareholders. The shareholders also authorised the board of directors to take all measures that may be necessary or expedient to implement the spin-off.

Following this approval, the necessary formalities for the transfer of the properties, the allotment of shares to existing Farsons shareholders, and the listing of the Trident Estates shares on the Malta Stock Exchange are all at an advanced stage, and are expected to be completed by the end of this year.

The Planning Authority hearing to consider the approval of the planning application to develop the Trident Park along Mdina Road is set for the 5 October 2017. In parallel, the company is assessing the various tender submissions received in anticipation of the requisite planning permission.

### BUSINESS OUTLOOK

The year on year growth in turnover and profitability of the group sets a high standard for continuous innovation and efficiency gains in order to maintain this positive trend. The group's business is highly dependent on consumer spending power and product choices, the economic climate, together with the performance of the tourism sector. The Malta market remains highly competitive, with constant pressures on volumes and margins as the consumer base remains relatively static.

The challenges of operating in a relatively small economy are constant, and in order to achieve growth through other channels, the group remains committed to ongoing innovation and further internationalising its business through exports. Exports from an Island present challenges, particularly as the group has to compete with global and local operators who benefit from significant economies of scale and distribution effectiveness. Nevertheless the group recognises the opportunities for growth and the board is committed to continue its focus on this front.

The group's turnover and profitability is dependent on the country's economy and consumer behavioural patterns. The ongoing national debate on waste management will present challenges which need to be addressed by all industries and citizens. Addressing the waste management challenge requires an environment where effective enforcement is visible and operative in order to ensure a level playing field for all. The current enforcement measures are far from ideal, thus creating disparity between operators. The directors remain concerned that any new measures intended to control packaging waste should not further aggravate the disparity caused by inadequate enforcement of regulations. Farsons has long recognised the importance of protecting the environment and will continue to fulfil its responsibilities in this regard. The positive performance of the first six months has been encouraging, and the group remains committed to continue to enhance shareholder value in a challenging market environment.

### DIVIDENDS

On 27 June 2017, following approval at the Annual General Meeting, the company paid a final dividend to the ordinary shareholders, out of tax-exempt profits, of €2.4 million in respect of the financial year ended 31 January 2017.

The board of directors is recommending a net interim dividend of €1 million

(2016: €1 million) in respect of the financial year ending 31 January 2018, payable on 18 October 2017 to the ordinary shareholders who will be on the Register of Members of the company as at 4 October 2017. The interim dividend will be paid out of tax-exempt profits and is equivalent to €0.0333 (2016: €0.0333) per share.

### STATEMENT PURSUANT TO LISTING RULE 5.75.3 ISSUED BY THE LISTING AUTHORITY

I hereby confirm that to the best of my knowledge:

- The condensed interim financial information gives a true and fair view of the financial position of the group as at 31 July 2017, and of its financial performance and cash flows for the period then ended, in accordance with International Financial Reporting Standards as adopted by the EU applicable to interim financial reporting (IAS34); and
- The Interim Directors' Report includes a fair review of the information required in terms of Listing Rules 5.81 to 5.84.

*Luis Farrugia*

Louis A. Farrugia – Chairman  
27 September 2017

### CONDENSED CONSOLIDATED INCOME STATEMENT SIX MONTHS ENDED 31 JULY 2017

	Group	
	31 July 2017 (unaudited)	31 July 2016 (unaudited)
	€'000	€'000
<b>Continuing operations:</b>		
Revenue	49,205	45,789
Gross profit	19,708	18,212
Operating profit	6,838	6,451
Finance costs	(768)	(710)
Profit before tax	6,070	5,741
Tax expense	(354)	(242)
Profit for the period from continuing operations	5,716	5,499
<b>Discontinued operations:</b>		
Profit for the period from discontinued operations	62	41
Profit for the period	5,778	5,540
Earnings per share	€0.193	€0.185

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# Farsons

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME SIX MONTHS ENDED 31 JULY 2017

	Group	
	31 July 2017 (unaudited)	31 July 2016 (unaudited)
	€'000	€'000
<b>Profit for the period</b>	<b>5,778</b>	5,540
<b>Other comprehensive income:</b>		
Items that may be subsequently reclassified to profit or loss:		
Cash flow hedges net of deferred tax	115	(37)
<b>Other comprehensive income for the period</b>	<b>115</b>	(37)
<b>Total comprehensive income for the period</b>	<b>5,893</b>	5,503

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 JULY 2017

	Group	
	31 July 2017 (unaudited)	31 January 2017 (audited)
	€'000	€'000
<b>ASSETS</b>		
Non-current assets	121,660	117,993
Current assets	41,944	33,682
Non-current assets classified as held for sale	33,436	31,266
<b>Total assets</b>	<b>197,040</b>	182,941
<b>EQUITY AND LIABILITIES</b>		
Capital and reserves attributable to owners of the company	126,764	123,271
Non-current liabilities	17,326	33,236
Current liabilities	48,040	24,297
Liabilities directly attributable to non-current assets held for sale	4,910	2,137
<b>Total liabilities</b>	<b>70,276</b>	59,670
<b>Total equity and liabilities</b>	<b>197,040</b>	182,941

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY SIX MONTHS ENDED 31 JULY 2017

Group	Share capital	Hedging reserve	Revaluation and other reserves	Retained earnings	Total
	€'000	€'000	€'000	€'000	€'000
<b>Period ended 31 July 2017</b>					
Balance at 1 February 2017	9,000	(705)	59,146	55,830	123,271
<b>Comprehensive income</b>					
Profit for the six months ended 31 July 2017	-	-	-	5,778	5,778
Cash flow hedges net of deferred tax	-	115	-	-	115
<b>Transactions with owners</b>					
Dividends	-	-	-	(2,400)	(2,400)
<b>Balance at 31 July 2017</b>	<b>9,000</b>	<b>(590)</b>	<b>59,146</b>	<b>59,208</b>	<b>126,764</b>
<b>Period ended 31 July 2016</b>					
Balance at 1 February 2016	9,000	(919)	54,099	47,006	109,186
<b>Comprehensive income</b>					
Profit for the six months ended 31 July 2016	-	-	-	5,540	5,540
Cash flow hedges net of deferred tax	-	(37)	-	-	(37)
<b>Transactions with owners</b>					
Dividends	-	-	-	(2,200)	(2,200)
<b>Balance at 31 July 2016</b>	<b>9,000</b>	<b>(956)</b>	<b>54,099</b>	<b>50,346</b>	<b>112,489</b>

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS SIX MONTHS ENDED 31 JULY 2017

	Group	
	31 July 2017 (unaudited)	31 July 2016 (unaudited)
	€'000	€'000
Net cash generated from operating activities	7,878	1,938
Net cash used in investing activities	(6,269)	(6,181)
Net cash (used in)/generated from financing activities	(2,587)	3,463
<b>Net movement in cash and cash equivalents</b>	<b>(978)</b>	(780)
<b>Cash and cash equivalents at beginning of period</b>	<b>(1,342)</b>	1,166
<b>Cash and cash equivalents at end of period</b>	<b>(2,320)</b>	386

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

- This report is being published pursuant to the terms of Chapter 5 of the Listing Rules and the Prevention of Financial Markets Abuse Act 2005.
- The financial information being published has been extracted from the Simonds Farsons Cisk plc's unaudited interim financial statements for the six months ended 31 July 2017, prepared in accordance with accounting standards adopted for use in the European Union for reported interim financial information (IAS 34 - Interim Financial Reporting). In terms of Listing Rule 5.75.5, this interim report has not been audited by the group's independent auditors.
- The accounting policies used in the preparation of the interim financial information are consistent with those used in the annual financial statements for the year ended 31 January 2017.
- The group's operations consist of the brewing, production and sale of beer and branded beverages, the importation, wholesale and retail of food and beverages, including wines and spirits, the operation of franchised food retailing establishments and property management. These operations are carried out, primarily, on the local market. An analysis by business segment of the group's turnover and operating profit is set out below:

	Brewing, production and sale of beer & branded beverages	Importation, wholesale & retail of food & beverages including wines & spirits	Operation of franchised food retailing establishments	Property management	Group
	€'000	€'000	€'000	€'000	€'000
<b>Period ended 31 July 2017</b>					
<b>Revenue</b>	27,663	17,550	7,715	27	<b>52,955</b>
Less: inter-segmental sales	(1,104)	(2,646)	-	-	<b>(3,750)</b>
	26,559	14,904	7,715	27	<b>49,205</b>
Segment results	5,724	1,410	668	2	<b>7,804</b>
Unallocated costs					<b>(966)</b>
Operating profit from continuing activities					<b>6,838</b>
Net finance costs					<b>(768)</b>
<b>Profit before tax</b>					<b>6,070</b>
Tax expense					<b>(354)</b>
<b>Profit from continuing operations</b>					<b>5,716</b>
<b>Profit from discontinued operations</b>	-	-	-	62	<b>62</b>
<b>Profit for the period</b>					<b>5,778</b>

	Brewing, production and sale of beer & branded beverages	Importation, wholesale & retail of food & beverages including wines & spirits	Operation of franchised food retailing establishments	Property management	Group
	€'000	€'000	€'000	€'000	€'000
<b>Period ended 31 July 2016</b>					
<b>Revenue</b>	25,792	16,650	7,032	-	<b>49,474</b>
Less: inter-segmental sales	(1,125)	(2,560)	-	-	<b>(3,685)</b>
	24,667	14,090	7,032	-	<b>45,789</b>
Segment results	5,695	1,130	567	-	<b>7,392</b>
Unallocated costs					<b>(941)</b>
Operating profit from continuing activities					<b>6,451</b>
Net finance costs					<b>(710)</b>
<b>Profit before tax</b>					<b>5,741</b>
Tax expense					<b>(242)</b>
<b>Profit from continuing operations</b>					<b>5,499</b>
<b>Profit from discontinued operations</b>	-	-	-	41	<b>41</b>
<b>Profit for the period</b>					<b>5,540</b>

- Earnings per share is based on the profit after tax attributable to the ordinary shareholders of Simonds Farsons Cisk plc divided by the weighted average number of ordinary shares in issue during the period and ranking for dividend. approved investment plan that comprises the new administration offices, the extension of the logistics warehouse and truck depot, the new kegging line packaging facility and the rehabilitation of the old brewhouse.
- The board has approved capital expenditure not provided for in these condensed financial statements amounting to €15 million. These capital commitments relate to the