IG Design Group plc

INTERIM REPORT

2021

We are Design Group

Our purpose is to help people create and celebrate the good things in life

OUR GOALS ARE

Customers

to be the 'partner of choice' across an increasing range of products and categories where our customers value our fast pace, innovation, market focus and flexibility

Team

to have a creative and winning culture focused on developing a team that looks to accomplish great things

Suppliers

to build relationships with suppliers who provide capacity, enable us to compete profitably and share our passion for design and innovation

Investors

to continue to grow our Group and deliver returns well above market performance

WHAT'S INSIDE

Overview

A summary of the Group's progress and highlights for the six months ended 30 September 2021.

Financials – Group

The Group's condensed consolidated financial statements and comprehensive notes covering the six months ended 30 September 2021.

KPIs

Revenue

$483.9m +11%

H1 2021: $434.6m

Adjusted profit before tax[a]

$19.9m -34%

H1 2021: $30.2m

Reported profit before tax

$18.9m +11%

H1 2021: $17.1m

Adjusted EBITDA[a]

$39.8m -20%

H1 2021: $49.7m

Net debt

$58.8m

H1 2021: $23.2m

Interim dividend

1.25p

H1 2021: 3.00p

Adjusted earnings per share[a]

13.6¢

H1 2021: 22.0¢

1.68¢

H1 2021: 3.89¢

Reported diluted earnings per share

12.3¢

H1 2021: 11.4¢

(a) For definitions please refer to detailed financial review on page 12.

Alternative performance measures (APMs): we use both statutory reported and adjusted measures in our strategic report. Adjusted measures in management's view reflect the underlying performance of the business and provide a more meaningful comparison of how the business is managed and measured day-to-day. The definition of adjusted measures, along with a full reconciliation between our reported and adjusted results, is provided in our alternative performance measures section on pages 12 and 13. In order to show when such measures have been used, the APMs are highlighted in blue throughout the executive review.

We're all around the world

Revenue by customer destination

Americas

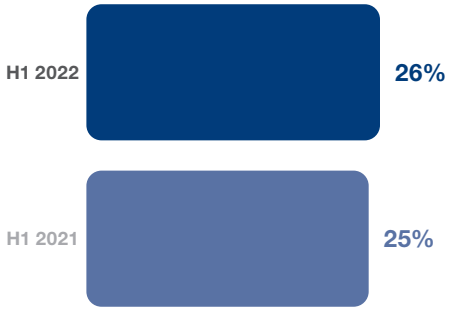
$356.6m

H1 2021: $324.4m

International

$127.3m

H1 2021: $110.2m



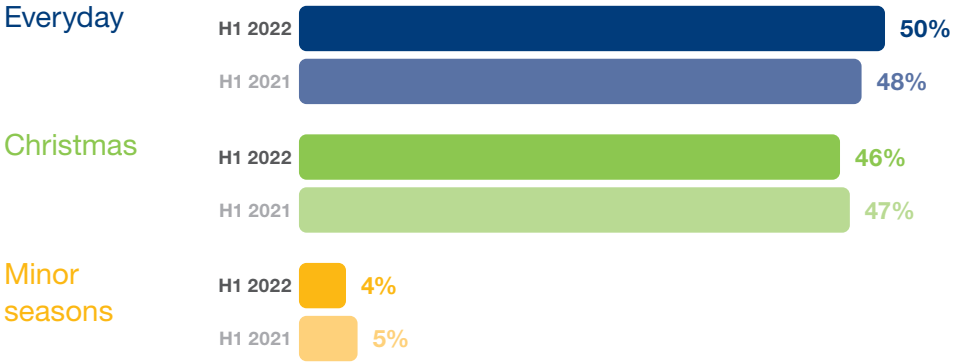
We have more than **11,000** customers worldwide

Products sold across **210,000** stores

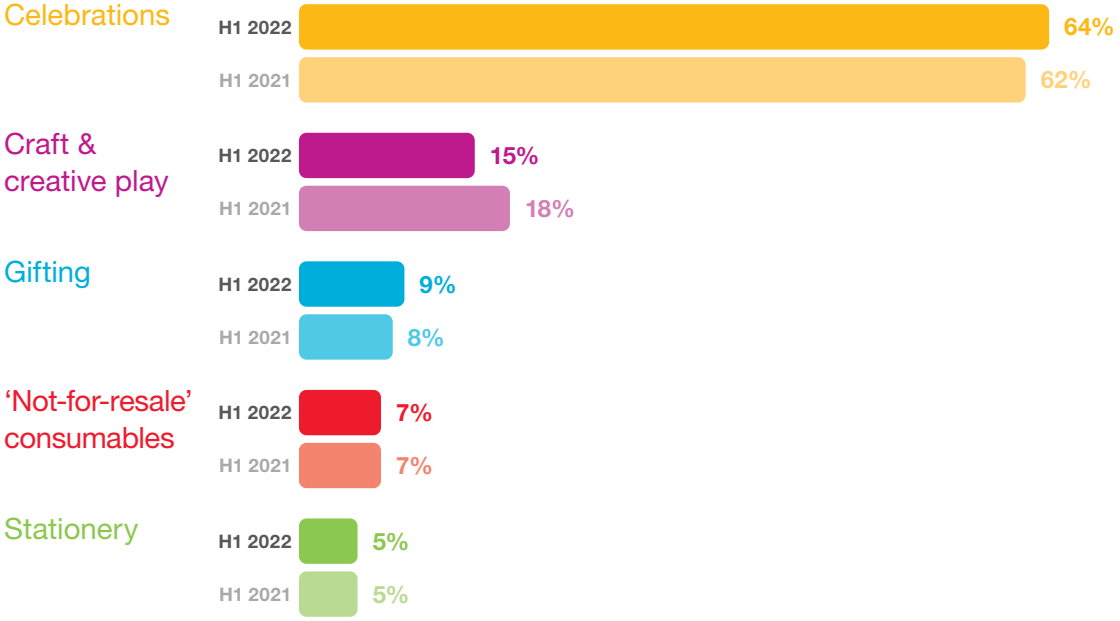
We operate in more than **80** countries

We benefit from considerable market presence around the world.

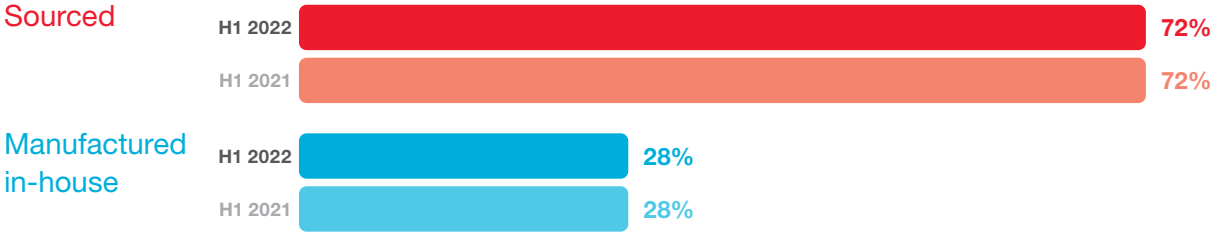
Revenue by season



Revenue by product[(a)]



Revenue by source



(a) Prior year figures have been restated to reflect more appropriate comparatives.

Paul Fineman
Chief Executive Officer

Giles Willits
Chief Financial Officer

A challenging first half but customer demand remains strong

Overview

This has been a challenging first half for the Group. Despite continued strong demand from our customers, we have seen bottom line performance decline year-on-year as the business navigates unprecedented cost headwinds and ongoing supply chain availability issues. However, our 'Working with the winners' strategy continues to underpin the Group's performance, and this has proven ever more critical during this period of current economic uncertainty.

We have retained our focus on maintaining strong customer service and have received positive feedback from our customers in response to all we are doing for them. The revenue growth in the first half is testament to the hard work throughout the Group from all of our teams as they work with our customers and suppliers to minimise, as best possible, the incremental supply chain costs and logistical challenges impacting the world economy.

Summary 2022 interim results

Revenue increased by 11% in the first half of the financial year to $483.9 million (H1 2021: $434.6 million) driven by a particularly strong four months of trading to July which saw sales up over 25% against the softer Covid-19 impacted performance in the prior year. However, despite our robust order book, trading in the next two months of August and September, which are traditionally the largest trading months of the financial year, was severely impacted by supply chain issues, most significantly the availability and related costs of sea freight containers to ship customers' seasonal orders. This resulted in first half revenues missing our expectations as the timing of deliveries was pushed into the second half of the financial year. **Revenue** in the period is also up 5% on proforma revenues (including CSS prior to ownership) for the six months to 30 September 2019.

Adjusted profit before tax at $19.9 million (H1 2021: $30.2 million) was down 34% year-on-year despite the stronger revenues, reflecting the significant impact that the operating cost headwinds have had on operating margins across the Group. The largest challenge has been the rapid increase in sea container rates, which are up over 500% year-on-year, alongside substantially increased raw material costs, in particular paper and polypropylene, as well as labour shortages which have resulted in inflationary pressures in our manufacturing and distribution operations.

As a result, **Adjusted earnings per share** was 13.6 cents (H1 2021: 22.0 cents) following the reduced Adjusted profit trend.

The Group ended the half year with net debt at $58.8 million (H1 2021: $23.2 million). The increase in net debt at the period end reflects the expected working capital requirements of the business, as the size of the order book year-on-year increases, particularly in manufacturing, which was most impacted by Covid-19 in the prior year.

Profit before tax at the half year was up 11% year-on-year at $18.9 million (H1 2021: $17.1 million) primarily as a result of the significant reduction in Adjusting items to $1.0 million in the period (H1 2021: $13.1 million), delivering **diluted earnings per share** up 8% at 12.3 cents (H1 2021: 11.4 cents).

The Board is pleased to declare an interim dividend of 1.25 pence (1.68 cents) in respect of the period to 30 September 2021, in line with the Group's dividend policy. The final dividend of 5.75 pence (7.92 cents) in relation to the year ended 31 March 2021 was paid in October 2021.

Outlook

The Group continues to see strong demand with its order book at the end of October up on the prior year at 91% of full-year forecast and Christmas deliveries remaining on track. However, the impact of the globally incurred cost headwinds continue to be felt throughout the Group alongside increased expectations of Covid-19 lockdowns in Europe.

Operating margins in the second half are expected to continue to be depressed compared with the prior year. The Board is taking a prudent stance and is forecasting that these challenges will continue into 2023, although it remains difficult, at this time, to estimate the financial impact. As such, as previously communicated, the Group continues to expect 2022 full year operating margins to be 175-225 basis points lower year-on-year, resulting in full year earnings being significantly below the prior year. In the longer term, the strong demand from customers and our commitment to maintaining first-class customer service positions the Group well to exploit any improvement in market conditions. We remain committed to the goals outlined in the Growth Plan announced in June.

Board update

Stewart Gilliland and Clare Askem joined the Board in July and Stewart became Chair of the Group as John Charlton stepped down at our AGM in September. In July, the Group also announced that Elaine Bond would be stepping down from the Board at the end of December and the search for a Non-Executive Director to replace Elaine is well underway.

As per the Group's announcement in August, Giles Willits will be leaving the Group in February 2022 and the search for his replacement is progressing well.

Regional highlights

Overall, **revenue** has grown across all areas of the Group as every region recovers from the impact of Covid-19 in the prior year and customer demand returns to pre-pandemic levels; however, **Adjusted operating profit** at $22.2 million (H1 2021: $32.4 million) is down, reflecting the operational challenges seen around the business, primarily being significantly increased freight, raw material and labour costs.

			Segmental revenue			Adjusted operating profit			Adjusted operating margin	
% Group revenue			**30 Sep 2021**	30 Sep 2020	% growth	**30 Sep 2021**	30 Sep 2020	% growth	**30 Sep 2021**	30 Sep 2020
72%	DG Americas	$m	**347.5**	321.6	8%	**13.1**	19.5	(33%)	**3.8%**	6.1%
28%	DG International	$m	**136.9**	115.5	19%	**11.5**	15.1	(24%)	**8.4%**	13.1%
0%	Elims/Central costs	$m	**(0.5)**	(2.5)	—	**(2.4)**	(2.2)	—	**—**	—
100%	**Total**	$m	**483.9**	434.6	11%	**22.2**	32.4	(32%)	**4.6%**	7.5%

Regional highlights continued

Design Group Americas

In the first half of the financial year **revenue** grew 8% to $347.5 million (H1 2021: $321.6 million) as customer orders normalised post the Covid-19 pandemic in the prior year, particularly with growth in sales of décor, paper and 'impulse buy' offerings with key customers. However, **Adjusted operating profit** at $13.1 million is down compared to last year (H1 2021: $19.5 million) with **Adjusted operating margin** declining to 3.8% (H1 2021: 6.1%) primarily as a result of the aforementioned significant cost challenges in freight costs and the raw material and labour wage rate inflation. Whilst the US business has undertaken mitigating actions in the period, the unprecedented scale of the increases has outweighed these initiatives.

The US business continues to focus on the consolidation and integration of the Design Group Americas team post the CSS acquisition, which was completed at the end of the 2020 financial year. The integration, which was planned over three years, has continued to make good progress in the period, although some projects have been delayed as a result of the impact of Covid-19, alongside operational challenges in the current year. The first half of the 2022 financial year has seen a further strengthening of the management team with the addition of both Chief Commercial Officer and Chief Revenue Officer roles. This allows the business to focus on growing revenues with key customers whilst underpinning one of the key pillars of our strategy, 'design & innovation', through further improvements in our product portfolio.

An example of this was the team winning a Louie Award for Best Greeting Card Design for our NIQUEA.D™ premium greeting card range.

The CSS integration of operations continues to deliver, with specific site closures and consolidation being the key activities in the first half. The move of our Midway distribution facility to Shorewood was successfully completed at the beginning of the financial year, with the majority of the Americas group's catalogue and replenishment businesses now being run solely from one facility. All costs associated with this move were incurred in the prior year.

Furthermore, there has also been ongoing work in bringing the Americas group's printing, converting and wrap distribution under one roof in Byhalia, Mississippi. The second phase of the project commenced in the first half of this year, moving the converting business from our Memphis facility with the intention to move our UTECO printing press in the second half of the year. The costs associated with this move have been treated as an Adjusting item. These moves will see increased efficiencies and help manage the increased volumes that are being produced. Future areas of focus include the consolidation of the sewing patterns business into one site in the US, which is in its early stages of preparation as at 30 September 2021.

As the world starts to resume 'business as usual' post Covid-19, the Americas team has made good progress with regard to unused CSS buildings. Specifically, at the design office in Budd Lake, New Jersey, the majority of the office space has now been exited with part of the original lease cancelled, delivering savings to the business in rental cash outflows going forward. In addition, cash savings will be made from the sub-letting of the former CSS head office at Plymouth Meeting. The relevant proportions of impairments taken in respect of these properties have been reversed in the period through Adjusting items. In respect of other sites exited as part of the acquisition and the corresponding asset impaired, that have not yet been sub-let, these continue to be actively marketed.

Covid-19 continues to impact our Americas manufacturing and distribution sites. We therefore remain vigilant in implementing Covid-19 protocols to ensure we meet the primary objective of employee safety.

As the business navigates the cost challenges presented in the current environment, the focus remains on executing our Christmas deliveries to customers, while also expanding the Group's cross-selling opportunities around both the Americas group as well as the International business and continuing to build our online presence, in particular with the launch of SomethingDelightful.com this year, a holistic platform for our craft brands.

Design Group International

We are continuing to see the benefits of the integrated operational and management structure from the combination of our UK, European and Australian businesses under the Design Group International (International) umbrella. This accounts for over a quarter of the Group's total revenues in the first half of the financial year.

Revenues for the International business grew year-on-year following the decline seen in the prior year due to the impact of Covid-19. First half **revenues** were up 19% on the prior year at $136.9 million (H1 2021: $115.5 million). **Adjusted operating profit**, however, reduced year-on-year to $11.5 million (H1 2021: $15.1 million), reflecting the same additional operational cost challenges that have also been experienced in the Americas. In addition, the prior year included $3.6 million of government assistance received which has not been replicated in the first half of the current financial year.

Revenue growth has been seen across all parts of the International business. The UK business has seen sales of the Eco-nature™ products progressing well, with items quickly selling out in stores. This is extremely encouraging and forms part of the focus of the Group's Commercial Forum as we concentrate on the design of more sustainable products for roll out across the Group. As with the rest of the Group, the main focus of the UK business is the shipping of our customers' Christmas commitments, with particular pressure as a result of labour shortages alongside freight delays. In Europe, our business continues to grow through its focus on working with the winning customers who have resumed their growth plans post the pandemic. In addition, productivity and efficiency in our manufacturing facilities continue to improve following capital investment in prior years.

Despite starting the financial year strongly, progress in our Australian business has slowed as a result of multiple and prolonged lockdowns in many regions across the country. Non-essential retail remained closed from July through to September whilst the Australian Government focused, and continues to focus, on improving vaccination rates. This has slowed sales growth in the territory; however despite this, the business continues to perform well, with sales still ahead of the prior year.

Our products and brands

Despite the supply chain challenges experienced in the first half, it is good to see growth in our Celebrations and Gifting categories as families and friends come back together to celebrate life's special occasions. The Group prides itself on having a well-diversified portfolio, which has supported us throughout the pandemic as our 'stay-at-home' products in the Craft & creative play category kept families and individuals entertained throughout multiple lockdowns. It is therefore not a surprise to see Craft & creative play year-on-year category sales normalise compared to the higher volumes experienced during prolonged lockdowns in 2020.

In the first half, as always, our seasonality drives the overall product mix, with Christmas products making up 46% of the first half sales. However, this is lower than the prior year, reflecting the later than planned seasonal shipments, as a result of container availability and other global supply chain limitations. Everyday products continue to make up 50% of our product mix in the first half and this trend is expected to continue throughout the remainder of the year.

Revenue by product category		30 Sep 2021		30 Sep 2020
Celebrations	**64%**	**$311.6m**	62%	$267.6m
Craft & creative play	**15%**	**$73.2m**	18%	$79.3m
Gifting	**9%**	**$42.3m**	8%	$35.4m
'Not-for-resale' consumables	**7%**	**$32.4m**	7%	$32.2m
Stationery	**5%**	**$24.4m**	5%	$20.1m
Total		**$483.9m**		$434.6m

Note: Prior year figures have been restated to reflect more appropriate comparatives.

EXECUTIVE REVIEW
CONTINUED

Detailed financial review

The Group performance is behind expectations for the first half of the year as a result of the cost headwinds, operational challenges faced by the Group and the wider macroeconomic environment.

	30 Sep 2021			30 Sep 2020		
	Reported $m	Adjusting items $m	Adjusted $m	Reported $m	Adjusting items $m	Adjusted $m
Revenue	**483.9**	**—**	**483.9**	434.6	—	434.6
Gross profit	**78.6**	**(0.1)**	**78.5**	83.7	0.9	84.6
Overheads	**(57.2)**	**0.9**	**(56.3)**	(64.4)	12.2	(52.2)
Operating profit	**21.4**	**0.8**	**22.2**	19.3	13.1	32.4
Finance charge	**(2.5)**	**0.2**	**(2.3)**	(2.2)	—	(2.2)
Profit before tax	**18.9**	**1.0**	**19.9**	17.1	13.1	30.2
Tax	**(5.2)**	**0.3**	**(4.9)**	(4.8)	(2.9)	(7.7)
Profit after tax	**13.7**	**1.3**	**15.0**	12.3	10.2	22.5

Group **revenue** for the period of $483.9 million grew 11% year-on-year, reflecting a bounce back in sales post the pandemic that impacted the first half of the prior year. **Adjusted operating profit** for the Group decreased by 32% to $22.2 million (H1 2021: $32.4 million) with **Adjusted operating margin** down year-on-year at 4.6% (H1 2021: 7.5%). **Gross margin** fell in the half year, as a result of increased operational costs, to 16.2% (H1 2021: 19.3%). Adjusted overheads as a percentage of revenue decreased slightly to 11.6% (H1 2021: 12.0%). Overall **Adjusted profit before tax** decreased 34% to $19.9 million (H1 2021: $30.2 million).

Half year **profit before tax** was up 11% at $18.9 million (H1 2021: $17.1 million) primarily reflecting the reduction in Adjusting items by $12.1 million to $1.0 million (H1 2021: $13.1 million) offset by the impact of the lower adjusted operating margins.

Finance expenses

After adjusting for $0.2 million of lease liability interest relating to impaired exited Americas' properties, finance costs at $2.3 million are only marginally higher than the prior year at $2.2 million, reflecting good cash management despite supporting an increased level of seasonal working capital.

Adjusting items

Adjusting items are material items of unusual or non-recurring nature which represent gains or losses which are separately presented by virtue of their nature, size and/or incidence. The Group has Adjusting items in the period to 30 September 2021 totalling $1.0 million (H1 2021: $13.1 million). These items are as follows:

	30 Sep 2021	30 Sep 2020
Losses/(gains) and transaction costs relating to acquisitions and disposals of businesses	**$3.6m**	$0.9m
Acquisition integration and restructuring (income)/costs	**($2.0m)**	$5.5m
(Reversal of impairment)/impairment of assets	**($0.9m)**	$0.1m
Incremental Covid-19 costs	**—**	$2.0m
Insurance income from IT security incident	**($0.7m)**	—
Amortisation of acquired intangibles	**$1.4m**	$2.2m
Share-based payments (credits)/charges	**($0.4m)**	$2.4m
Total	**$1.0m**	$13.1m

Losses/(gains) and transaction costs relating to acquisitions and disposals of businesses – $3.6 million (H1 2021: $0.9 million)

In the period, the Group has incurred expenditure relating to potential and previous acquisitions in the first half totalling $3.3 million. In particular, $3.1 million of costs were incurred in relation to an aborted transaction. In addition, the final tranche of acquisition related employee payments which lock in and incentivise legacy talent relating to the Impact Innovations Inc. transaction in 2019 have been incurred ($0.3 million) as we celebrate our third anniversary of the acquisition.

Acquisition integration and restructuring (income)/costs – $(2.0) million credit (H1 2021: $5.5 million)
The main costs continue to relate to the integration of CSS into the enlarged DG Americas.

The CSS business includes a large portfolio of owned and leased sites, and part of the integration project includes the consolidation of these locations. As certain sites were closed and exited since acquisition, in the absence of being able to sub-lease or break leases, this resulted in impairments of lease assets in the prior financial year. In the period to 30 September 2021 we have been able to partially exit some of the property we lease in Budd Lake, New Jersey as well as sub-lease our site in Plymouth Meeting. This has resulted in a reversal of the lease asset impairments of $2.2 million through Adjusting items. Ongoing costs associated with the properties we have exited continue to be treated as Adjusting items. The total value of assets relating to the remaining impaired properties as at 30 September 2021 is $7.0 million.

Other costs associated with the ongoing consolidation of operations around the group, have been incurred as the enlarged printing and converting business has been moved from Memphis to a larger facility in Byhalia, Mississippi that also houses distribution which before was performed out of temporary warehouses.

(Reversal of impairment)/impairment of assets – $(0.9) million credit (H1 2021: $0.1 million)
As at 31 March 2021, the Group was carrying $1.5 million of provisions in relation to the impairment of trade receivables and $3.3 million in respect of inventory due to the impact of Covid-19 on the ability to collect receivables and sell-through inventory. During the period, $0.9 million of receivables impairment has been reversed as it is no longer required.

Incremental Covid-19 costs – $nil (H1 2021: $2.0 million)
In the prior year, the Group identified certain costs relating to direct labour costs that were incremental as a result of the pandemic, and these were included in Adjusting items. The most significant element of these costs related to additional 'hazard pay' labour costs across our manufacturing facilities in the USA and Mexico in order to ensure our employees returned to work. No incremental costs associated with Covid-19 have been treated as Adjusting items in the first half of 2022.

Insurance income from IT security incident – $(0.7) million credit (H1 2021: $nil)
The IT security incident which occurred in the Americas in October 2020 resulted in one-off costs being incurred, specifically in relation to crisis management and legal support, the costs of engaging a negotiator, forensics and containment costs, data recovery costs including specialists and server/hardware repair and replacement. In order to manage the crisis, we also had the IT teams working 24/7 to get systems back online. As well as the costs of the incident recovery, there are also fines and penalties from delayed shipments to customers and expedited freight costs to avoid some delays. These costs were all treated as Adjusting items in the second half of the prior year. The Group also incurred lost sales associated with the IT outage which did not form part of our Adjusting items costs.

The Group has made insurance claims under two policies in relation to the incident. As at 30 September 2021, both claims had been filed with the relevant insurer. On 1 October, the Group received confirmation from one insurer that they would be paying £0.5 million ($0.7 million) in full for the claim. As such, this met the definition of an asset as at the period end and the Group recognised this income in Adjusting items as at the half year.

Amortisation of acquired intangibles – $1.4 million (H1 2021: $2.2 million)
Under IFRS, as part of the acquisition of a company, it is necessary to identify intangible assets such as customer relationships and brands which form part of the intangible value of the acquired business but are not part of the acquired balance sheet. These intangible assets are then amortised to the income statement over an appropriately judged period. These are not operational costs relating to the running of the acquired business and are directly related to the accounting for the acquisition. These include trade names and brands acquired as part of the acquisition of Impact Innovations Inc. and CSS Industries Inc. in the USA. As such, we include these as Adjusting items.

Share-based payments (credits)/charges – $(0.4) million credit (H1 2021: $2.4 million)
As part of our senior management remuneration, the Group operates a Long Term Incentive Plan (LTIP), including the Value Creation Scheme (VCS) created in the prior year, in the form of options for ordinary shares of the Group. In accordance with accounting principles, despite this plan not being a cash cost to the business, a share-based payments charge or credit is taken to the income statement. We consider that these credits and charges do not form part of the underlying operational costs and therefore include these as Adjusting items.

Based on the latest outlook for the business no charge has been accrued in relation to either the performance-based LTIP or the VCS in the first half and all prior year accruals have been released. As a result there is a share-based payment credit for the period of $(0.4) million which consists of a principal IFRS 2 credit of $(0.1) million and a credit in relation to employer's social security of $(0.3) million based on the share price at the end of the reporting period.

Taxation

The taxation charge for the half year was $5.2 million (H1 2021: $4.8 million) with the effective tax rate on **profit before tax** at 27.5% (H1 2021: 28.1%). The effective rate on **Adjusted profit before tax** is 24.4% (H1 2021: 25.4%). The rate change in the UK from 19% to 25%, effective April 2023, has been substantively enacted as at the reporting date, and as such the deferred tax assets which will unwind from 1 April 2023 have been remeasured at the new rate. This has resulted in a reduction to the tax charge for the period. The potential federal tax rate increase in the USA has not yet been enacted; however, if approved before 31 March 2022, it may increase the Group's overall effective tax rate for the full year.

Earnings per share

Adjusted earnings per share at 13.6 cents are down 38% on the prior year (H1 2021: 22.0 cents) primarily as a result of the lower profits. **Diluted earnings per share** are 12.3 cents (H1 2021: 11.4 cents). The reconciliation between **reported** and **Adjusted earnings per share** can be seen below:

	30 Sep 2021	30 Sep 2020
Earnings attributable to equity holders of the Company	**$12.1m**	$11.2m
Adjustments		
Adjusting items (net of non-controlling interest effect)	**$1.0m**	$13.2m
Tax charge/(relief) on adjustments (net of non-controlling interest effect)	**$0.3m**	($2.9m)
Adjusted earnings	**$13.4m**	$21.5m
Weighted average number of shares		
Basic weighted average number of shares outstanding	**98.1m**	97.7m
Dilutive effect of employee share option plans	**0.1m**	0.3m
Diluted weighted average ordinary shares	**98.2m**	98.0m
Earnings per share		
Basic earnings per share	**12.3c**	11.5c
Adjustment	**1.4c**	10.5c
Basic adjusted earnings per share	**13.7c**	22.0c
Diluted earnings per share	**12.3c**	11.4c
Adjusted earnings per share	**13.6c**	22.0c

Cash flow and net debt

As at 30 September 2021, net debt (excluding IFRS 16 lease liabilities) was $58.8 million, higher than the prior year of $23.2 million as a result of the recovery of trading post the pandemic and the resultant higher working capital requirements of the Group.

	30 Sep 2021	30 Sep 2020
Adjusted EBITDA	**$39.8m**	$49.7m
Movements in working capital	**($152.3m)**	($104.9m)
Adjusted cash used by operations	**($112.5m)**	($55.2m)
Adjusting items	**($4.5m)**	($10.4m)
Cash used by operations	**($117.0m)**	($65.6m)
Capital expenditure (net of disposals of property, plant and equipment)	**($3.1m)**	($3.4m)
Tax (paid)/received	**($3.5m)**	$2.9m
Interest paid (including Adjusting items)	**($1.8m)**	($1.9m)
Lease liabilities principal repayments	**($8.4m)**	($7.2m)
Dividends paid (including non-controlling interests)	**($2.7m)**	—
FX and other	**$1.2m**	($0.4m)
Movement in net cash	**($135.3m)**	($75.6m)
Opening net cash	**$76.5m**	$52.4m
Closing net cash	**($58.8m)**	($23.2m)

Working capital

Despite the increased Everyday business, the Group still has a significant level of seasonal activity and although revenues accrue relatively evenly in both halves of the year, working capital requirements, including inventory levels, increase steadily in the first half from July as manufacturing, distribution and shipping of Christmas products builds, peaking in October. The second half of the year sees the borrowing of the Group decline and move to typically a cash positive position as we collect our debtors through January to March.

The net working capital outflow in the half year was $152.3 million (H1 2021: $104.9 million). This higher working capital movement reflects the expected increased year-on-year seasonal working capital build as a result of a recovery in revenues to more normalised levels as prior year revenues were impacted by Covid-19. The Group, however, continues to maintain good cash management discipline including actively monitoring our debtors and credit risk profiles.

Adjusting items

During the first half of the year there was a $4.5 million (H1 2021: $10.4 million) net cash outflow in relation to Adjusting items, of which $1.7 million related to cash outflow for costs deferred from previous years. The significant majority of the total outflow related to the restructuring and synergy realisation costs associated with the CSS acquisition.

Capital expenditure

During the first half of the year the Group invested $3.1 million (H1 2021: $3.4 million). This spend was relatively even around the Group and related to smaller, maintenance-type spend.

Cash tax

The Group made tax payments of $3.5 million, which compares to a tax repayment of $2.9 million in the prior year, which was the result of US tax repayments following claims made by DG Americas under the CARES Act.

Dividend payments

The outflow in the first half of the financial year relates to a dividend paid from DG Australia, which is 50% owned by the Group, to the other 50% shareholder. In the prior year no dividends had been paid or received in the first half of the year as part of the Covid-19 cash management undertaken by the Group.

Financial position and going concern basis

The Group has a banking facility, extended in May 2021, which runs to June 2023 and includes a revolving credit facility (RCF) of $95 million, a further flexible RCF of up to £130 million, flexible to meet working capital requirements during peak manufacturing, and a maximum limit of $18 million invoice financing arrangement in Hong Kong. The Group also has access to supplier financing arrangements which we utilise at certain times of the year.

The Group has been fully compliant with all banking covenants associated with these facilities and has not required, nor requested, any covenant waivers associated with the impact of Covid-19 on the Group results.

The Group prepared budgets and plans for 2022 and 2023 at 31 March 2021 and these have been refined and revisited during the period; most recently ahead of the Group's trading update in October. A going concern assessment as at 30 September 2021 has been produced using these latest forecasts which have been reviewed by the Board, and take into account the significant seasonal working capital cycle of the business and the cost headwinds the Group is currently experiencing. These forecasts show the Group operating within the existing facilities and complying with covenants for the forecast periods, and accordingly the financial statements have been prepared on a going concern basis.

These latest forecasts are not without risk as the Group completes its seasonal peak trading period to 31 December 2021, and although these forecasts have built in the later profile of cash receipts from customers to reflect the delayed sales experienced in the first half and the anticipated incremental costs, there remains uncertainty in relation to the scale of certain cost headwinds and timing in net cash receipts in the forecast.

For the purposes of assessing a severe but plausible downside to the base case projections, these forecasts have been sensitised by including a longer continuation and further worsening of the cost headwinds the Group has seen in the first half which could result in an adverse impact on forecast EBITDA and net debt. The severe but plausible downside case has been used to assess immediate and longer-term compliance with the Group's banking covenants, as well as ensuring the Group has sufficient liquidity within its existing loan facilities. Further details on the facilities and the financial covenants attached are included in note 7. The Board has also considered, and implemented as required, mitigating actions available to the Group including further cost-saving initiatives and more stringent cash management strategies to ensure the Group maintains sufficient headroom against its financial covenants.

After considering the severe but plausible downside case, the Directors have a reasonable expectation that they will meet the immediate and longer-term covenant tests ensuring the Group has access to sufficient liquidity.

EXECUTIVE REVIEW
CONTINUED

Statement of Directors' responsibilities

The Directors confirm to the best of their knowledge that these condensed interim financial statements have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related-party transactions in the first six months and any material changes in the related-party transactions described in the last annual report.

Alternative performance measures

This review includes alternative performance measures (APMs) that are presented in addition to the standard IFRS metrics. The Directors believe that these APMs provide important additional information regarding the adjusted performance of the business including trends, performance and position of the Group. APMs are used to enhance the comparability of information between reporting periods and segmental business units by adjusting for exceptional or uncontrollable factors which affect IFRS measures, to aid the understanding of the Group's performance. Consequently, APMs are used by the Directors and management for strategic and performance analysis, planning, reporting and reward setting. APMs reflect the results of the business excluding Adjusting items, which are items that are material and of an unusual or non-recurring nature.

The APMs and the definitions used are listed below:

- **Adjusted EBITDA** – EBITDA before Adjusting items
- **Adjusted operating profit** – Profit before finance charges, tax and Adjusting items
- **Adjusted profit before tax** – Profit before tax and Adjusting items
- **Adjusted profit after tax** – Profit after tax before Adjusting items and associated tax effect
- **Adjusted earnings per share** – Fully diluted earnings per share before Adjusting items and associated tax effect

In addition, the Group uses APMs in order to calculate other key performance metrics including:

- **Adjusted operating margin** – Adjusted operating profit divided by revenue

Adjusting items

Further details of the items categorised as Adjusting items are disclosed in note 3.

A full reconciliation between our **adjusted** and **reported** results is provided below:

	30 Sep 2021	30 Sep 2020
Adjusted EBITDA	**$39.8m**	$49.7m
Adjusting items	**($1.6m)**	($10.0m)
EBITDA	**$38.2m**	$39.7m
Adjusted operating profit	**$22.2m**	$32.4m
Adjusting items	**($0.8m)**	($13.1m)
Reported operating profit	**$21.4m**	$19.3m
Adjusted profit before tax	**$19.9m**	$30.2m
Adjusting items	**($1.0m)**	($13.1m)
Reported profit before tax	**$18.9m**	$17.1m
Adjusted profit after tax	**$15.0m**	$22.5m
Adjusting items	**($1.3m)**	($10.2m)
Reported profit after tax	**$13.7m**	$12.3m
Adjusted earnings per share	**13.6c**	22.0c
Adjusting items	**(1.3c)**	(10.6c)
Reported diluted earnings per share	**12.3c**	11.4c

By order of the Board

Paul Fineman
Chief Executive Officer
23 November 2021

Giles Willits
Chief Financial Officer
23 November 2021

Helping design a better future

Last year we launched our sustainability framework 'helping design a better future' to help shape the Group's approach to sustainability and enable us to demonstrate, monitor and improve our environmental, social and governance (ESG) performance. By the end of 2022 we aim to further refine the sustainability framework along with the priorities, KPIs and goals that we will hold ourselves accountable to. We will also begin to track the progress of each of our key target areas and endeavour to report on these.

People

People are at the heart of our success

- Employee engagement, talent and skill
- Health, safety and wellbeing
- Diversity, equality and inclusion
- Giving back to our communities

Product

Environmentally conscious product and packaging

- Responsible sourcing
- Sustainable product and packaging
- Innovative designs and solutions

Planet

Innovating to lower our negative impact

- Reducing our environmental footprint
- Design with the environment in mind

Community
We continue to give back to our local communities and charities around us in all regions that we are based

Plastic free
We are delighted to offer 100% plastic-free packaging celebration product solutions

Water-based printing
We exclusively use water-based inks in our manufacturing facilities

Employees
It is important to us that our 4,000 employees feel valued, with employee wellbeing being more paramount than ever

Responsible sourcing
Our products are responsibly sourced

Zero landfill
There is zero landfill from our Wales manufacturing site

Progress

Communication
In the first half of the year, Design Group UK has launched a new sustainability website which articulates their response to key sustainability matters using case studies and measuring KPIs against internally set targets **(www.igdesigngroup.uk/sustainability)**.

Achievement
Design Group UK has been awarded Tesco Supplier Partner Award 2021 for Sustainability. This shows our continuing alignment and contribution to the sustainability objectives of one of the UK's major retailers.

Collaboration
The Design Group sustainability forum has relaunched this year and has met (virtually) twice since April 2021. The Group-wide forum will enable us to share best practice, define milestones and targets for achieving set goals and formulate a commercially led plan for ESG.

The Group actively monitors the risks related to its business and the environment in which it operates

Design Group's risk management framework, along with the principal risks and uncertainties faced by the Group, remain in line with those set out on pages 48 to 53 of our annual report and financial statements 2021. The Group operates a decentralised model where risk management is embedded within strategic and operational decision making, with an overarching role played by the Group team and the Board to ensure oversight in the risk management process.

Operational challenges faced by the Group

The Group, along with the wider macroeconomic environment, has experienced unprecedented supply chain challenges in the first half of the year. This is a result of the impact of Covid-19 on the global market and economy and the resultant impact on our principal risks remains significant.

Although consumer spending patterns are beginning to normalise, the operational challenges as a result of Covid-19 are increasingly heightened for the Group, as they are for many other businesses.

The principal risks which have increased in the first six months of the year are explored in more detail on the right. Risks and business outlook will continue to be actively monitored as the global economy recovers.

Unchanged principal risks from 31 March 2021

- Strategy ↔
- Acquisition investment ↔
- Financing capacity ↔
- Consumers ↔
- Service and quality ↔
- Information security ↔
- Financial control ↔
- Governance and compliance ↔

Emerging risks

In the 2021 annual report, climate change was identified as an emerging risk from both a physical and transition risk perspective. This risk still remains an emerging one to the Group.

Principal risks

Macroeconomic uncertainty

Global economic developments including political and social change may result in a significant impact on our business trading and operations which could affect our main costs areas of raw materials, freight and people

↑ Covid-19

The global economy is still recovering from Covid-19 and still presents uncertainty.

In particular for the first half of the year, macroeconomic uncertainty has resulted in increased supply chain challenges and costs for the Group.

Manufacturing operations

An inability to deliver lowest cost manufacturing could restrict our competitive advantage

↑ Covid-19

As the economy recovers from the Covid-19 pandemic, the job market is also recovering, resulting in labour wage inflation. Increasing labour rates as well as a labour shortage in the UK post Brexit are increasing manufacturing pressures which could ultimately lead to a loss of margin.

Supply chain and sourcing

An inability to access the right terms, quality and compliance from our suppliers alongside a lack of a resilient supply chain could lead to a loss of revenue and margin

↑ Covid-19

There are currently significant operational challenges, in particular due to the shortage of containers at key points around the globe. This additional pressure affects the Group's ability to import and deliver orders on time. It also causes considerable increases in freight costs, with container rates increasing year-on-year, resulting in a loss of margin.

People

Inability to attract, retain and develop key personnel could affect the Group's ability to meet its strategic objectives

↑ Covid-19

The recovery of the job market following the pandemic, in addition to a labour shortage in the UK post Brexit, is challenging the Group's ability to source labour.

The continued risk of disengagement and demotivation of staff due to Covid-19 also remains.

Key: Covid-19 risk

CONDENSED CONSOLIDATED INCOME STATEMENT
SIX MONTHS ENDED 30 SEPTEMBER 2021

	Note	**Unaudited six months ended 30 Sep 2021 $000**	Unaudited six months ended 30 Sep 2020 $000	Twelve months ended 31 Mar 2021 $000
Revenue	2	**483,908**	434,635	873,216
Cost of sales		**(405,287)**	(350,937)	(719,396)
Gross profit		**78,621**	83,698	153,820
Selling expenses		**(21,792)**	(21,584)	(43,909)
Administration expenses		**(35,859)**	(46,480)	(93,659)
Other operating income	4	**427**	3,909	4,066
(Loss)/profit on disposal of property, plant and equipment		**(17)**	10	(256)
Loss on disposal of subsidiary		**—**	(208)	(208)
Operating profit	3	**21,380**	19,345	19,854
Finance expenses		**(2,495)**	(2,265)	(5,179)
Profit before tax		**18,885**	17,080	14,675
Income tax	5	**(5,191)**	(4,801)	(4,234)
Profit for the period		**13,694**	12,279	10,441
Attributable to:				
Owners of the Parent Company		**12,063**	11,222	8,207
Non-controlling interests		**1,631**	1,057	2,234

Earnings per ordinary share

	Note	**Unaudited six months ended 30 Sep 2021 $000**	Unaudited six months ended 30 Sep 2020 $000	Twelve months ended 31 Mar 2021 $000
Basic	8	**12.3c**	11.5c	8.4c
Diluted	8	**12.3c**	11.4c	8.4c

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
SIX MONTHS ENDED 30 SEPTEMBER 2021

	Unaudited six months ended 30 Sep 2021 $000	Unaudited six months ended 30 Sep 2020 $000	Twelve months ended 31 Mar 2021 $000
Profit for the period	**13,694**	12,279	10,441
Other comprehensive (expense)/income:			
Items that will not be reclassified to profit or loss			
Remeasurement of defined benefit pension and health benefit schemes	**—**	—	(32)
Items that may be reclassified subsequently to profit or loss			
Exchange difference on translation of foreign operations (net of tax)	**3,799**	(4,144)	(15,769)
Transfer to profit and loss on maturing cash flow hedges (net of tax)	**58**	127	863
Net unrealised gain/(loss) on cash flow hedges (net of tax)	**395**	(391)	(1,269)
	4,252	(4,408)	(16,175)
Other comprehensive income/(expense) for the period, net of tax	**4,252**	(4,408)	(16,207)
Total comprehensive income/(expense) for the period, net of tax	**17,946**	7,871	(5,766)
Attributable to:			
Owners of the Parent Company	**16,616**	6,143	(9,081)
Non-controlling interests	**1,330**	1,728	3,315
	17,946	7,871	(5,766)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

SIX MONTHS ENDED 30 SEPTEMBER 2021

	Attributable to the owners of the Parent Company								
	Share capital $000	Share premium and capital redemption reserve $000	Merger reserve $000	Hedging reserve $000	Translation reserve $000	Retained earnings $000	Shareholders' equity $000	Non-controlling interests $000	Total $000
At 1 April 2021	**6,667**	**239,142**	**44,600**	**(86)**	**(21,239)**	**114,438**	**383,522**	**8,497**	**392,019**
Profit for the period	**—**	**—**	**—**	**—**	**—**	**12,063**	**12,063**	**1,631**	**13,694**
Other comprehensive income/(expense)	**—**	**—**	**—**	**453**	**4,100**	**—**	**4,553**	**(301)**	**4,252**
Total comprehensive income for the period	**—**	**—**	**—**	**453**	**4,100**	**12,063**	**16,616**	**1,330**	**17,946**
Transactions with owners in their capacity as owners									
Equity-settled share-based payments	**—**	**—**	**—**	**—**	**—**	**(121)**	**(121)**	**—**	**(121)**
Tax on equity-settled share-based payments	**—**	**—**	**—**	**—**	**—**	**(237)**	**(237)**	**—**	**(237)**
Options exercised	**11**	**—**	**—**	**—**	**—**	**(11)**	**—**	**—**	**—**
Equity dividends paid	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(2,650)**	**(2,650)**
Exchange differences on opening balances	**(149)**	**(5,339)**	**(996)**	**—**	**—**	**—**	**(6,484)**	**—**	**(6,484)**
At 30 September 2021	**6,529**	**233,803**	**43,604**	**367**	**(17,139)**	**126,132**	**393,296**	**7,177**	**400,473**

SIX MONTHS ENDED 30 SEPTEMBER 2020

	Attributable to the owners of the Parent Company								
	Share capital $000	Share premium and capital redemption reserve $000	Merger reserve $000	Hedging reserve $000	Translation reserve $000	Retained earnings $000	Shareholders' equity $000	Non-controlling interests $000	Total $000
At 1 April 2020	5,974	215,417	40,175	320	(4,389)	113,703	371,200	4,643	375,843
Profit for the period	—	—	—	—	—	11,222	11,222	1,057	12,279
Other comprehensive (expense)/income	—	—	—	(264)	(4,815)	—	(5,079)	671	(4,408)
Total comprehensive income for the period	—	—	—	(264)	(4,815)	11,222	6,143	1,728	7,871
Transactions with owners in their capacity as owners									
Equity-settled share-based payments	—	—	—	—	—	2,309	2,309	—	2,309
Tax on equity-settled share-based payments	—	—	—	—	—	(266)	(266)	—	(266)
Recognition of non-controlling interests	—	—	—	—	—	—	—	276	276
Options exercised	14	—	—	—	—	(14)	—	—	—
Exchange differences on opening balances	268	9,647	1,799	—	—	—	11,714	—	11,714
At 30 September 2020	6,256	225,064	41,974	56	(9,204)	126,954	391,100	6,647	397,747

YEAR ENDED 31 MARCH 2021

	Attributable to the owners of the Parent Company								
	Share capital $000	Share premium and capital redemption reserve $000	Merger reserve $000	Hedging reserve $000	Translation reserve $000	Retained earnings $000	Shareholders' equity $000	Non-controlling interests $000	Total $000
At 1 April 2020	5,974	215,417	40,175	320	(4,389)	113,703	371,200	4,643	375,843
Profit for the year	—	—	—	—	—	8,207	8,207	2,234	10,441
Other comprehensive (expense)/income	—	—	—	(406)	(16,850)	(32)	(17,288)	1,081	(16,207)
Total comprehensive (expense)/income for the year	—	—	—	(406)	(16,850)	8,175	(9,081)	3,315	(5,766)
Transactions with owners in their capacity as owners									
Equity-settled share-based payments	—	—	—	—	—	3,668	3,668	—	3,668
Tax on equity-settled share-based payments	—	—	—	—	—	214	214	—	214
Recognition of non-controlling interests	—	—	—	—	—	—	—	539	539
Options exercised	34	—	—	—	—	(34)	—	—	—
Equity dividends paid	—	—	—	—	—	(11,288)	(11,288)	—	(11,288)
Exchange differences on opening balances	659	23,725	4,425	—	—	—	28,809	—	28,809
At 31 March 2021	6,667	239,142	44,600	(86)	(21,239)	114,438	383,522	8,497	392,019

CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 SEPTEMBER 2021

	Note	Unaudited as at 30 Sep 2021 $000	Unaudited restated[a] as at 30 Sep 2020 $000	As at 31 Mar 2021 $000
Non-current assets				
Property, plant and equipment		**83,098**	89,505	88,203
Intangible assets		**111,066**	116,025	114,874
Right-of-use assets		**89,388**	105,882	95,380
Long-term assets		**6,321**	6,308	5,721
Deferred tax assets		**16,116**	19,039	18,357
Total non-current assets		**305,989**	336,759	322,535
Current assets				
Inventory		**259,893**	215,220	176,165
Trade and other receivables		**298,009**	281,556	129,219
Income tax receivable		**1,283**	15,138	2,368
Derivative financial assets	9	**375**	556	207
Cash and cash equivalents	6	**96,340**	76,770	132,760
Total current assets		**655,900**	589,240	440,719
Total assets	2	**961,889**	925,999	763,254
Equity				
Share capital		**6,529**	6,256	6,667
Share premium		**231,999**	223,327	237,296
Capital redemption reserve		**1,804**	1,737	1,846
Merger reserve		**43,604**	41,974	44,600
Hedging reserve		**367**	56	(86)
Translation reserve		**(17,139)**	(9,204)	(21,239)
Retained earnings		**126,132**	126,954	114,438
Equity attributable to owners of the Parent Company		**393,296**	391,100	383,522
Non-controlling interests		**7,177**	6,647	8,497
Total equity		**400,473**	397,747	392,019

(a) In the preparation of these interim financial statements, comparative amounts have been restated to reflect the finalisation of the CSS acquisition accounting made in the year ended 31 March 2021 financial statements.

	Note	Unaudited as at 30 Sep 2021 $000	Unaudited restated[a] as at 30 Sep 2020 $000	As at 31 Mar 2021 $000
Non-current liabilities				
Loans and borrowings	7	**(195)**	(389)	(103)
Lease liabilities		**85,647**	99,946	94,582
Deferred income		**627**	586	486
Provisions		**5,222**	5,422	5,742
Other financial liabilities		**19,963**	9,354	15,526
Deferred tax liabilities		**2,513**	1,572	2,115
Total non-current liabilities		**113,777**	116,491	118,348
Current liabilities				
Bank overdraft	6	**70,511**	45,180	57,033
Loans and borrowings	7	**84,840**	55,219	(620)
Lease liabilities		**18,687**	19,799	19,340
Deferred income		**839**	496	424
Provisions		**1,446**	1,479	1,617
Income tax payable		**8,444**	13,522	10,061
Trade and other payables		**223,821**	229,188	120,763
Other financial liabilities		**39,051**	46,878	44,269
Total current liabilities		**447,639**	411,761	252,887
Total liabilities	2	**561,416**	528,252	371,235
Total equity and liabilities		**961,889**	925,999	763,254

(a) In the preparation of these interim financial statements, comparative amounts have been restated to reflect the finalisation of the CSS acquisition accounting made in the year ended 31 March 2021 financial statements.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
SIX MONTHS ENDED 30 SEPTEMBER 2021

	Note	Unaudited six months ended 30 Sep 2021 $000	Unaudited six months ended 30 Sep 2020 $000	Twelve months ended 31 Mar 2021 $000
Cash flows from operating activities				
Profit for the period		13,694	12,279	10,441
Adjustments for:				
Depreciation and impairment of property, plant and equipment		6,916	6,678	13,535
Depreciation of right-of-use assets		6,783	9,370	24,047
Amortisation of intangible assets		3,158	4,258	6,918
Finance expenses		2,495	2,265	5,179
Income tax charge		5,191	4,801	4,234
Loss on disposal of a business		—	208	208
Loss/(profit) on sales of property, plant and equipment		17	(10)	165
Loss on disposal of intangible fixed assets		—	1	106
Equity-settled share-based payments		(418)	2,477	4,192
Operating profit after adjustments for non-cash items		37,836	42,327	69,025
Change in trade and other receivables		(171,325)	(169,524)	(11,914)
Change in inventory		(85,790)	(42,133)	1,772
Change in trade and other payables, provisions and deferred income		104,669	105,217	(4,504)
Cash (used by)/generated from operations		(114,610)	(64,113)	54,379
Tax (paid)/received		(3,464)	2,857	14,353
Interest and similar charges paid		(1,994)	(1,927)	(4,082)
Net cash (outflow)/inflow from operating activities		(120,068)	(63,183)	64,650
Cash flow from investing activities				
Proceeds from sale of property, plant and equipment		128	30	147
Acquisition of intangible assets		(236)	(737)	(1,000)
Acquisition of property, plant and equipment		(2,968)	(2,729)	(7,390)
Net cash outflow from investing activities		(3,076)	(3,436)	(8,243)
Cash flows from financing activities				
Repayment of secured borrowings		—	(1,025)	(1,158)
Net movement in credit facilities		85,441	55,730	—
Lease liabilities principal repayments		(10,532)	(8,772)	(19,184)
Loan arrangement fees		(494)	—	—
Equity dividends paid		—	—	(11,288)
Dividends paid to non-controlling interest		(2,650)	—	—
Net cash inflow/(outflow) from financing activities		71,765	45,933	(31,630)
Net (decrease)/increase in cash and cash equivalents		(51,379)	(20,686)	24,777
Cash and cash equivalents at beginning of the period		75,727	52,197	52,197
Effect of exchange rate fluctuations on cash held		1,481	79	(1,247)
Cash and cash equivalents at end of the period	6	25,829	31,590	75,727

NOTES TO THE INTERIM FINANCIAL STATEMENTS
SIX MONTHS ENDED 30 SEPTEMBER 2021

1 Accounting policies

Basis of preparation

The financial information contained in this interim report does not constitute statutory accounts as defined in Section 435 of the Companies Act 2006 and is unaudited.

On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards (UK IFRS), with future changes being subject to endorsement by the UK Endorsement Board. The Group transitioned to UK IFRS in its consolidated financial statements on 1 April 2021. This change constitutes a change in accounting framework. However, there is no impact on recognition, measurement or disclosure in the period reported as a result of the change in framework. This condensed consolidated interim financial report for the half-year reporting period ended 30 September 2021 has been prepared in accordance with the UK adopted International Accounting Standard 34, Interim Financial Reporting and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority. The financial information for the year ended 31 March 2021 is extracted from the statutory accounts of the Group for that financial year. The auditor's report was: (i) unqualified; (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report; and (iii) did not contain a statement under Section 498 (2) of the Companies Act 2006. The interim report does not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements for the year ended 31 March 2021. The audited annual accounts have been delivered to the Registrar of Companies.

The preparation of financial statements that conform with adopted UK IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expense during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and future periods if relevant.

For the purposes of these financial statements, 'Design Group' or 'the Group' means IG Design Group plc ('the Company') and its subsidiaries. The Company's ordinary shares are listed on the Alternative Investment Market (AIM).

Seasonality of the business

The business of the Group is seasonal and although revenues accrue relatively evenly in both halves of the year, working capital requirements, including inventory levels, increase steadily in the first half from July and peak in October as manufacturing and distribution of Christmas products builds ahead of shipping. The second half of the year sees the borrowing of the Group decline and move to typically a cash positive position as we collect our debtors through January to March.

Restatement of comparative amounts

In the preparation of these interim financial statements, comparative amounts have been restated to reflect the finalisation of the CSS acquisition accounting made in the year ended 31 March 2021 financial statements.

Presentation currency

The currency translation reserve was set to zero at 1 April 2006 on transition to IFRS and has been restated as if the Group had reported in US dollars since that date. Share capital, share premium, capital redemptions reserve, merger reserve and hedging reserve are translated into US dollars at the rates of exchange at the balance sheet date and the resulting exchange differences are included in other reserves.

The functional currency of the Parent Company remains as sterling as it is located in the United Kingdom and substantially all of its cash flows, assets and liabilities are denominated in sterling, as well as its share capital. As such, the Parent Company's functional currency differs to that of the Group's reporting currency.

Going concern

Information regarding the financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the detailed financial review on pages 8 to 13. Cash balances and borrowings are detailed in notes 6 and 7.

On 5 June 2019, to meet the funding requirements of the Group, the business refinanced with a banking group comprising HSBC, NatWest, Citigroup (who replaced BNP Paribas), Truist Bank (as successor by merger to SunTrust Bank) and PNC Bank as part of a three-year deal.

1 Accounting policies continued

Going concern continued

This facility was then subsequently amended and extended on 17 January 2020 with the same banking group to accommodate the acquisition of CSS. The facilities were then further extended in May 2021 to run to June 2023 and comprise of a revolving credit facility (RCF) of $95.0 million, a further flexible RCF of up to £130.0 million to meet the Group's working capital requirements during peak manufacturing, and a maximum limit of $18.0 million invoice financing arrangement in Hong Kong. We also have access to supplier financing arrangements from certain customers which we utilise at certain times of the year. These supplier financing arrangements are subject to the continuing support of the customers' banking partners and therefore could be withdrawn at short notice.

The Group prepared budgets and plans for 2022 and 2023 at 31 March 2021 and these have been refined and revisited during the period; most recently ahead of the Group's trading update in October. A going concern assessment as at 30 September 2021 has been produced using these latest forecasts which have been reviewed by the Board, and take into account the significant seasonal working capital cycle of the business and the cost headwinds the Group is currently experiencing. These forecasts show the Group operating within the existing facilities and complying with covenants for the forecast periods, and accordingly the financial statements have been prepared on a going concern basis.

These latest forecasts are not without risk as the Group completes its seasonal peak trading period to 31 December 2021, and although these forecasts have built in the later profile of cash receipts from customers to reflect the delayed sales experienced in the first half and the anticipated incremental costs, there remains uncertainty in relation to the scale of certain cost headwinds and timing in net cash receipts in the forecast.

For the purposes of assessing a severe but plausible downside to the base case projections, these forecasts have been sensitised by including a longer continuation and further worsening of the cost headwinds the Group has seen in the first half which could result in an adverse impact on forecast EBITDA and net debt. The severe but plausible downside case has been used to assess immediate and longer-term compliance with the Group's banking covenants, as well as ensuring the Group has sufficient liquidity within its existing loan facilities. Further details on the facilities and the financial covenants attached are included in note 7. The Board has also considered, and implemented as required, mitigating actions available to the Group including further cost-saving initiatives and more stringent cash management strategies to ensure the Group maintains sufficient headroom against its financial covenants.

After considering the severe but plausible downside case, the Directors have a reasonable expectation that they will meet the immediate and longer-term covenant tests ensuring the Group has access to sufficient liquidity.

This disclosure has been prepared in accordance with the Financial Reporting Council's UK Corporate Governance Code.

Significant accounting policies

The accounting policies adopted in the preparation of the interim report are consistent with those followed in preparation of the Group's annual financial statements for the year ended 31 March 2021.

2 Segmental information

The Group has one material business activity, being the design, manufacture and distribution of Celebrations, Craft & creative play, Stationery, Gifting and 'Not-for-resale' consumable products.

The business operates under two reporting segments which are reported to, and evaluated by, the Chief Operating Decision Makers for the Group. The DG Americas segment includes overseas operations in Asia, Australia, the UK, India and Mexico, being the overseas entities of US companies. The DG International segment comprises the consolidation of the separately owned UK, European and Australian businesses.

Inter-segment pricing is determined on an arm's length basis. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Financial performance of each segment is measured on Adjusted operating profit before management recharges. Interest and tax are managed on a Group basis and not split between reportable segments. However, the related financial liability and cash has been allocated out into the reportable segments as this is how they are managed by the Group.

Segment assets are all non-current and current assets, excluding deferred tax and income tax, which are shown in the eliminations column. Inter-segment receivables and payables are not included within segmental assets and liabilities as they eliminate on consolidation.

	DG Americas[a] $000	DG International $000	Central & eliminations $000	Group $000
Six months ended 30 September 2021				
Revenue – external	347,502	136,406	—	483,908
– inter-segment	16	468	(484)	—
Total segment revenue	347,518	136,874	(484)	483,908
Segment result before Adjusting items and management recharges	13,116	11,495	(2,439)	22,172
Adjusting items (note 3)				(792)
Operating profit				21,380
Finance expenses				(2,297)
Finance expense treated as an Adjusting item (note 3)				(198)
Income tax				(5,191)
Profit for the six months ended 30 September 2021				13,694
Balances at 30 September 2021				
Segment assets	586,279	282,985	92,625	961,889
Segment liabilities	(321,138)	(146,704)	(93,574)	(561,416)
Capital expenditure additions				
– property, plant and equipment	1,866	1,062	40	2,968
– intangible assets	185	51	—	236
– right-of-use assets	2,281	591	—	2,872
Depreciation – property, plant and equipment	3,877	3,032	7	6,916
Amortisation – intangible assets	3,087	71	—	3,158
Depreciation – right-of-use assets	6,250	2,714	10	8,974
Impairment – right-of-use assets	—	—	22	22
Reversal of impairment – right-of-use assets	(2,213)	—	—	(2,213)

	DG Americas[a] $000	DG International $000	Central & eliminations $000	Group $000
Six months ended 30 September 2020				
Revenue – external	321,572	113,063	—	434,635
– inter-segment	—	2,443	(2,443)	—
Total segment revenue	321,572	115,506	(2,443)	434,635
Segment result before Adjusting items and management recharges	19,550	15,140	(2,224)	32,466
Adjusting items (note 3)				(13,121)
Operating profit				19,345
Finance expenses				(2,265)
Income tax				(4,801)
Profit for the six months ended 30 September 2020				12,279
Balances at 30 September 2020				
Segment assets (restated[b])	562,889	282,583	80,527	925,999
Segment liabilities (restated[b])	(315,781)	(148,970)	(63,501)	(528,252)
Capital expenditure additions				
– property, plant and equipment	1,519	1,210	—	2,729
– intangible assets	700	37	—	737
– right-of-use assets	29,639	679	—	30,318
Depreciation – property, plant and equipment	3,917	2,760	1	6,678
Amortisation – intangible assets	3,988	270	—	4,258
Depreciation – right-of-use assets	6,756	2,579	35	9,370

2 Segmental information continued

	DG Americas[a] $000	DG International $000	Central & eliminations $000	Group $000
Year ended 31 March 2021				
Revenue – external	613,909	259,307	—	873,216
– inter segment	66	5,995	(6,061)	—
Total segment revenue	613,975	265,302	(6,061)	873,216
Segment result before Adjusting items and management recharge	21,015	25,767	(4,760)	42,022
Adjusting items (note 3)				(22,168)
Operating profit				19,854
Finance expenses				(5,016)
Finance expenses treated as an Adjusting item (note 3)				(163)
Income tax				(4,234)
Profit for the year ended 31 March 2021				10,441
Balances at 31 March 2021				
Segment assets	469,192	230,590	63,472	763,254
Segment liabilities	(216,940)	(86,553)	(67,742)	(371,235)
Capital expenditure additions				
– property, plant and equipment	4,589	2,711	90	7,390
– intangible assets	963	37	—	1,000
– right-of-use assets	30,207	2,733	—	32,940
Depreciation – property, plant and equipment	7,760	5,774	1	13,535
Amortisation – intangible assets	6,510	408	—	6,918
Depreciation – right-of-use assets	12,739	5,265	74	18,078
Impairment – right-of-use assets	5,969	—	—	5,969

(a) Including overseas entities for the Americas operating segment.
(b) In the preparation of these interim financial statements, comparative amounts have been restated to reflect the finalisation of the CSS acquisition accounting made in the year ended 31 March 2021 financial statements.

3 Operating profit and Adjusting items

	Unaudited six months ended 30 Sep 2021 $000	Unaudited six months ended 30 Sep 2020 $000	Twelve months ended 31 Mar 2021 $000
Operating profit analysed as:			
Adjusted operating profit	**22,172**	32,466	42,022
Adjusting items	**(792)**	(13,121)	(22,168)
Operating profit	**21,380**	19,345	19,854

Adjusting items

Six months ended 30 September 2021	Cost of sales $000	Selling expenses $000	Admin expenses $000	Loss on disposal $000	Other finance expenses $000	Total $000
Losses/(gains) and transaction costs relating to acquisitions and disposals of businesses[1]	—	—	3,612	—	(15)	3,597
Acquisition integration and restructuring (income)/costs[2]	(146)	—	(2,076)	31	213	(1,978)
(Reversal of impairment)/impairment of assets[3]	—	(942)	—	—	—	(942)
Insurance income from IT security incident[5]	—	—	(687)	—	—	(687)
Amortisation of acquired intangibles[6]	—	—	1,418	—	—	1,418
Share-based payment (credits)/charges[7]	—	—	(418)	—	—	(418)
Adjusting items	**(146)**	**(942)**	**1,849**	**31**	**198**	**990**

Six months ended 30 September 2020	Cost of sales $000	Selling expenses $000	Admin expenses $000	Loss on disposal $000	Other finance expenses $000	Total $000
Losses/(gains) and transaction costs relating to acquisitions and disposals of businesses[1]	—	—	674	208	—	882
Acquisition integration and restructuring costs[2]	33	—	5,478	—	—	5,511
Impairment of assets[3]	—	52	—	—	—	52
Incremental Covid-19 costs[4]	926	—	1,048	—	—	1,974
Amortisation of acquired intangibles[6]	—	—	2,225	—	—	2,225
Share-based payment charges[7]	—	—	2,477	—	—	2,477
Adjusting items	959	52	11,902	208	—	13,121

Year ended 31 March 2021	Cost of sales $000	Selling expenses $000	Admin expenses $000	Loss on disposal $000	Other finance expenses $000	Total $000
Losses/(gains) and transaction costs relating to acquisitions and disposals of businesses[1]	—	—	74	208	—	282
Acquisition integration and restructuring costs[2]	993	(162)	14,402	91	163	15,487
(Reversal of impairment)/impairment of assets[3]	(3,709)	(2,100)	—	—	—	(5,809)
Incremental Covid-19 costs[4]	603	—	913	—	—	1,516
IT security incident costs[5]	1,107	—	1,093	—	—	2,200
Amortisation of acquired intangibles[6]	—	—	4,463	—	—	4,463
Share-based payment charges[7]	—	—	4,192	—	—	4,192
Adjusting items	(1,006)	(2,262)	25,137	299	163	22,331

Adjusting items are separately presented by virtue of their nature, size and/or incidence (per each operating segment). These items are material items of an unusual or non-recurring nature which represent gains or losses and are presented to allow for the review of the performance of the business in a consistent manner and in line with how the business is managed and measured on a day-to-day basis and allow the reader to obtain a clearer understanding of the underlying results of the ongoing Group's operations. They are typically gains or costs associated with events that are not considered to form part of the core operations, or are considered to be a 'non-recurring' event (although they may span several accounting periods).

3 Operating profit and Adjusting items continued

Adjusting items continued

These losses/(gains) relating to the period ended 30 September 2021 are broken down as follows:

(1) **Losses/(gains) and transaction costs relating to acquisitions and disposals of businesses**
Costs directly associated with acquisitions, including legal and advisory fees on deals, form part of our reported results on an IFRS basis. These costs, however, in the Board's view, form part of the capital transaction, and as they are not attributed to investment value under IFRS 3, they are included as an Adjusting item. Similarly, where acquisitions have employee related payments (exclusive of Long Term Incentive Plans) which lock in and incentivise legacy talent, we also include these costs as Adjusting items. Furthermore, gains or losses on the disposal of businesses, including any transaction costs associated with the disposal, are treated as Adjusting items.

In the period, the Group has incurred expenditure relating to acquisitions in the first half totalling $3.3 million, of which $113,000 related to previous acquisitions and the balance to aborted acquisitions. In addition, the final tranche of acquisition related employee payments which lock in and incentivise legacy talent relating to the Impact Innovations Inc. transaction in 2019 have been incurred ($278,000) as we celebrate our third anniversary of the acquisition.

In the year to 31 March 2021 an additional $208,000 of transaction costs associated with the disposal of Zhejiang Shaoxing Royal Arts and Crafts Co. Ltd (Shaoxing) were incurred during the year along with expenditure in relation to any other potential acquisitions reviewed in the year.

(2) **Acquisition integration and restructuring (income)/costs**
In order to realise synergies from acquisitions, integration projects are undertaken that aim to deliver future savings and efficiencies for the Group. These are projects outside of the normal operations of the business and typically incur one-time costs to ensure successful implementation. As such, the Board considers it is appropriate that costs associated with projects of this nature be included as Adjusting items.

The main costs in the period related to the integration of CSS into the enlarged DG Americas.

The CSS business includes a large portfolio of owned and leased sites, and part of the integration project includes the consolidation of these locations. As certain sites were closed and exited since acquisition, in the absence of being able to sub-lease or break leases this resulted in impairments of lease assets in the prior financial year. In the period to 30 September 2021, we have been able to partially exit some of the property we lease in Budd Lake, New Jersey as well as sub-lease our site in Plymouth Meeting. This has resulted in a reversal of the lease asset impairments of $2.2 million through Adjusting items. Ongoing costs associated with the properties we have exited continue to be treated as Adjusting items.

In respect of the remaining vacant leased properties, marketing for sub-tenancy is ongoing. As at 30 September 2021, the Group has had no offers from potential sub-tenants and given that this position is expected to continue for the foreseeable future, these leased properties remain impaired in full. The total value of assets relating to the remaining impaired properties as at 30 September 2021 is $7.0 million.

Other costs associated with the ongoing consolidation of operations around the Group have been incurred as the enlarged printing and converting business has been moved from Memphis to a larger facility in Byhalia, Mississippi that also houses distribution which before was performed out of temporary warehouses.

The main costs in the year to 31 March 2021 also related to the integration of CSS into the enlarged DG Americas business. These included integration consultancy expenditure, severance and temporary labour costs, as the newly integrated team structures following the acquisition have been established, and the impact of the impairment of the lease assets and costs associated with the closure of excess sites.

The tax refund as a result of the US Covid-19 Coronavirus Aid, Relief and Economic Security (CARES) Act attracted interest income which was recognised in Adjusting items in the prior year.

Furthermore, in the UK and Australia, as a result of Covid-19, workforce restructuring costs were treated as Adjusting items in the year to 31 March 2021.

(3) **(Reversal of impairment)/impairment of assets**
In light of the unknown impact of Covid-19 on the business, a review of inventory, trade receivables and fixed assets was undertaken at the last two financial year ends. As at 31 March 2021, the Group was carrying $1.5 million of provisions in relation to the impairment of trade receivables and $3.3 million in respect of inventory due to the impact of Covid-19 on the ability to collect receivables and sell-through inventory. During the period, $942,000 of receivables impairment has been reversed as it is no longer required.

As at 31 March 2021, $2.4 million of the trade receivables impairment had been reversed as it is no longer required and following a review of sell-through rates in respect of inventory $4.0 million was released. These releases were partially offset by $599,000 of additional Covid-19 related impairment charges taken during the year.

(4) **Incremental Covid-19 costs**
The Covid-19 outbreak developed rapidly in 2020 and continued into the first calendar quarter of 2021, with measures taken around the world to contain the virus affecting economic activity. The Group was affected in every territory in which we operate and the impact on the general economic environment and the reduced demand of goods from our customers as well as the closures of our businesses has had a significant impact. Certain incremental costs relating to direct labour equal to $1.5 million were included in Adjusting items in the year to 31 March 2021. The most significant element of these costs relate to additional 'hazard pay' labour costs across our manufacturing facilities in the USA and Mexico in order to ensure our employees returned to work.

In addition, laws were passed in India and Mexico that meant no workforce reductions were allowed during closed/lockdown periods, which meant higher employee costs were being incurred than ordinarily would have in that situation. This resulted in the business incurring direct incremental costs of labour whilst not producing anything and incurring periods of significant downtime. When employees returned to work post-lockdown labour costs were paid again once production started, effectively doubling the costs to produce.

(5) **Insurance income from IT security incident**
The IT security incident which occurred in the Americas business in October/November 2020 resulted in one-off costs specifically in relation to crisis management, legal, forensic, and data recovery costs including server/hardware repair and replacement. In addition, there were IT overtime costs, customer penalties from delayed shipments and expedited freight costs to avoid delays. These costs were treated as an Adjusting item in the year to 31 March 2021. The lost sales associated with the IT outage did not form part of the Adjusting items.

The Group has made insurance claims under two policies in relation to the incident. As at 30 September 2021, both claims had been filed with the relevant insurer and, on 1 October, the Group received confirmation from one insurer that they would be paying $687,000 (£500,000) in full for the claim. As this income met the virtually certain threshold, the Group recognised this income in Adjusting items.

(6) **Amortisation of acquired intangibles**
Under IFRS, as part of the acquisition of a company, it is necessary to identify intangible assets such as customer relationships and brands which form part of the intangible value of the acquired business but are not part of the acquired balance sheet. These intangible assets are then amortised to the income statement over an appropriately judged period. These are not operational costs relating to the running of the acquired business and are directly related to the accounting for the acquisition. These include trade names and brands acquired as part of the acquisition of Impact Innovations Inc. and CSS Industries Inc. in the USA. As such, we include these as Adjusting items.

In addition, in accordance with IFRS 3, on acquisition, businesses need to be fair valued, which can result in an uplift to stock on hand relating to sales orders already attached to the acquired stock. This uplift will distort the margins associated with the stock, and typically unwinds quickly as stock is sold soon after acquisition. The unwind of the stock uplift ($1.4 million) associated with the CSS acquisition was included as an Adjusting item in the year to 31 March 2021, consistent with the treatment adopted with the Impact acquisition. This fully unwound as at 31 March 2021.

(7) **Share-based payment (credits)/charges**
As part of our senior management remuneration, the Group operates a Long Term Incentive Plan (LTIP), including the newly created Value Creation Scheme (VCS), in the form of options for ordinary shares of the Group. In accordance with accounting principles, despite this plan not being a cash cost to the business (except for associated social security costs), a share-based payment charge or credit is taken to the income statement. We consider that these charges do not form part of the underlying operational costs and therefore include these as Adjusting items. The share-based payment credit for the period was ($418,000) which consists of a principal IFRS 2 credit of ($121,000) and a credit in relation to employer's social security charge of ($297,000). The credit in the principal charge relates to the reversal of charges in the prior year associated with the VCS, based on current outlook for 2023, and this, plus the share price at the end of the reporting period, has also led to a credit in relation to employer's social security charge.

At 31 March 2021, the share-based payment charge for the year was $4.2 million, which consisted of a principal IFRS 2 charge of $3.7 million and an employer's social security charge of $524,000.

The cash flow effect of Adjusting items

There was a $4.5 million net outflow in the current period's cash flow (H1 2021: $10.4 million) relating to Adjusting items which included $1.7 million (H1 2021: $4.5 million) deferred from prior years.

4 Other operating income

	Unaudited six months ended 30 Sep 2021 $000	Unaudited six months ended 30 Sep 2020 $000	Twelve months ended 31 Mar 2021 $000
Grant income received	**—**	64	130
Sub-lease rentals income	**325**	178	559
Government assistance	**101**	3,578	3,263
Other	**1**	89	114
Total other operating income	**427**	3,909	4,066

5 Taxation

Recognised in the income statement

	Unaudited six months ended 30 Sep 2021 $000	Unaudited six months ended 30 Sep 2020 $000	Twelve months ended 31 Mar 2021 $000
Current tax charge			
Current income tax charge	2,999	8,625	6,004
Deferred tax charge/(credit)			
Relating to origination and reversal of temporary differences	2,192	(3,824)	(1,770)
Total tax in the income statement	5,191	4,801	4,234
Total tax charge/(credit) on Adjusting items			
Total tax on profit before Adjusting items	4,844	7,677	9,410
Total tax on Adjusting items	347	(2,876)	(5,176)
Total tax in the income statement	5,191	4,801	4,234

The tax expense has been calculated by applying the weighted average tax rate across jurisdictions which is expected to apply to the Group for the year ended 31 March 2022 using rates substantively enacted by 30 September 2021. The tax effects of Adjusting items are recognised in the same period as the relevant Adjusting item.

In May 2021, the Finance Act 2021 was substantively enacted which included an increase in the UK corporation tax rate to 25% from 1 April 2023. The calculation of the estimated effective tax rate for the year ended 31 March 2022 for adjusted profit before tax includes a credit of $754,000 which relates to the estimated remeasurement of deferred tax items expected to unwind at 25%. The estimated remeasurement of the deferred tax asset recognised in relation to share-based payments which is expect to unwind after 1 April 2023 results in a credit of $223,000 and $125,000 in the period through tax on Adjusting items and through the statement of changes in equity respectively.

6 Cash and cash equivalents/bank overdrafts

	Unaudited six months ended 30 Sep 2021 $000	Unaudited six months ended 30 Sep 2020 $000	Twelve months ended 31 Mar 2021 $000
Cash and cash equivalents	96,340	76,770	132,760
Bank overdrafts	(70,511)	(45,180)	(57,033)
Cash and cash equivalents per cash flow statement	25,829	31,590	75,727

Net cash

	Unaudited six months ended 30 Sep 2021 $000	Unaudited six months ended 30 Sep 2020 $000	Twelve months ended 31 Mar 2021 $000
Cash and cash equivalents	25,829	31,590	75,727
Bank loans and overdrafts	(85,441)	(55,802)	—
Loan arrangement fees	796	972	723
Net (debt)/cash as used in the financial review	(58,816)	(23,240)	76,450

The bank loans and overdrafts are secured by a fixed charge on certain of the Group's land and buildings, a fixed charge on certain of the Group's book debts and a floating charge on certain of the Group's other assets. See note 7 for further details of the Group's loans and borrowings.

7 Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings.

	Unaudited six months ended 30 Sep 2021 $000	Unaudited six months ended 30 Sep 2020 $000	Twelve months ended 31 Mar 2021 $000
Non-current liabilities			
Secured bank loans	—	—	—
Loan arrangement fees	(195)	(389)	(103)
	(195)	(389)	(103)
Current liabilities			
Asset backed loan	5,477	10,451	—
Revolving credit facilities	79,964	45,279	—
Current portion of secured bank loans	—	72	—
Bank loans and borrowings	85,441	55,802	—
Loan arrangement fees	(601)	(583)	(620)
	84,840	55,219	(620)

Secured bank facilities

On 5 June 2019, the Group entered into a new three-year Group facility with a club of five banks chosen to reflect and support the geographical spread of the Group. The banks within the club are HSBC, NatWest, Citigroup (who replaced BNP Paribas), Truist Bank (as successor by merger to SunTrust Bank) and PNC.

On 17 January 2020, a facility increase was agreed to support the acquisition of CSS on 3 March 2020 and to accommodate the enlarged Group.

The facilities, which were extended in May 2021 to run to June 2023, comprise:

- a revolving credit facility (RCF A) of $95.0 million;
- a further flexible revolving credit facility (RCF B) with availability varying from month to month of up to £130.0 million. This RCF is flexed to meet our working capital requirements during those months when inventory is being built within our annual business cycle and is £nil when not required, minimising carry costs; and
- an invoice financing arrangement in Hong Kong, maximum limit $18.0 million but dependent on level of eligible receivables.

In total, the peak accessible facilities are approximately $283.3 million (maximum $288.0 million) and are more than sufficient to cover our peak requirements. Being partially denominated in US dollars they also provide a hedge against currency movements. The facilities, which do not amortise with time, include an additional uncommitted amount to finance potential acquisitions.

Invoice financing arrangements are secured over the trade receivables that they are drawn on. The RCF facilities are secured with a fixed and floating charge over all other assets of the Group. Amounts drawn under revolving credit facilities are classified as current liabilities as the Group expects to settle these amounts within twelve months.

There are financial covenants, tested quarterly, attached to the existing facilities as follows:

- interest cover, being the ratio of Adjusted earnings before interest, depreciation and amortisation (EBITDA), as defined by the banking facility, to interest on a rolling twelve-month basis; and
- leverage, being the ratio of debt to Adjusted EBITDA, as defined by the banking facility, on a rolling twelve-month basis.

Covenants are measured on pre-IFRS 16 accounting definitions.

There is a further covenant tested monthly in respect of the working capital RCF by which available asset cover must not fall below agreed levels relative to amounts drawn.

Loan arrangement fees represent the unamortised costs in arranging the Group facilities. These fees are being amortised on a straight line basis over the terms of the facilities.

The Group is party to supplier financing arrangements with one of its key customers and the associated balances are recognised as trade receivables until receipt of the payment from the bank, at which point the receivable is derecognised. At 30 September 2021, $34.9 million had been drawn down on this arrangement (H1 2021: $8.5 million).

8 Earnings per share

	Unaudited six months ended 30 Sep 2021 $000	Unaudited six months ended 30 Sep 2020 $000	Twelve months ended 31 Mar 2021 $000
Earnings			
Earnings attributable to equity holders of the Company	**12,063**	11,222	8,207
Adjustments			
Adjusting items (net of non-controlling interest effect)	**990**	13,199	22,358
Tax charge/(relief) on adjustments (net of non-controlling interest effect)	**347**	(2,899)	(5,184)
Adjusted earnings attributable to equity holders of the Company	**13,400**	21,522	25,381

In thousands of shares	30 Sep 2021	30 Sep 2020	31 Mar 2021
Weighted average number of shares			
Basic weighted average number of shares outstanding	**98,118**	97,700	97,700
Dilutive effect of employee share option plans	**79**	327	440
Diluted weighted average ordinary shares	**98,197**	98,027	98,140

	30 Sep 2021 Cents	30 Sep 2020 Cents	31 Mar 2021 Cents
Earnings per share			
Basic earnings per share	**12.3**	11.5	8.4
Adjustment	**1.4**	10.5	17.6
Basic adjusted earnings per share	**13.7**	22.0	26.0
Diluted earnings per share	**12.3**	11.4	8.4
Diluted adjusted earnings per share	**13.6**	22.0	25.9

Adjusted earnings per share is provided to reflect the underlying earnings performance of the Group.

In thousands of shares	Unaudited six months ended 30 Sep 2021	Unaudited six months ended 30 Sep 2020	Twelve months ended 31 Mar 2021
Issued ordinary shares at 1 April	**96,858**	96,367	96,367
Shares relating to share options	**1,260**	1,333	1,333
Weighted average number of shares at the end of the period	**98,118**	97,700	97,700

Diluted earnings per share

The diluted earnings per share is calculated taking into account LTIP awards whose specified conditions were satisfied at the end of the reporting period of 79,000 (H1 2021: 327,000) share options. At 30 September 2021, the diluted number of shares was 98.2 million (H1 2021: 98.0 million).

9 Financial instruments

Derivative financial instruments

The fair value of forward exchange contracts is assessed using valuation models taking into account market inputs such as foreign exchange spot and forward rates, yield curves and forward interest rates.

Fair value hierarchy

Financial instruments which are recognised at fair value subsequent to initial recognition are grouped into Levels 1 to 3 based on the degree to which the fair value is observable. The three levels are defined as follows:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

All other financial assets and liabilities are measured at amortised cost.

The Group held the following financial instruments at 30 September 2021, which were measured at Level 2 fair value subsequent to initial recognition:

Forward exchange contracts carrying amount	**Unaudited six months ended 30 Sep 2021 $000**	Unaudited six months ended 30 Sep 2020 $000	Twelve months ended 31 Mar 2021 $000
Derivative financial assets	**375**	556	207
Derivative financial liabilities	**—**	(538)	(293)

10 Capital commitments

At 30 September 2021, the Group had outstanding authorised capital commitments to purchase plant and equipment for $553,000 (H1 2021: $1.1 million).

11 Related parties

As at 30 September 2021, there are no changes to the related parties or types of transactions as disclosed at 31 March 2021.

12 Non-adjusting post balance sheet events

After the end of the reporting period, and prior to the authorisation of this interim report on 23 November 2021, the Group has declared an interim dividend of 1.25 pence (1.68 cents) per share (H1 2021: 3.0 pence (3.9 cents)).

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