



COLEFAX GROUP PLC

INTERIM RESULTS
FOR THE SIX MONTHS TO 31 OCTOBER 2016

CHAIRMAN'S STATEMENT

Financial Results

Group sales for the six months to 31 October 2016 increased by 4% to £39.53 million (2015: £37.98 million) but decreased by 6.5% on a constant currency basis. Pre-tax profits decreased to £1.90 million (2015: £3.27 million). Earnings per share decreased to 12.5p (2015: 21.6p). The Group ended the half year with net cash of £8.0 million (2015: £7.8 million).

The main reason for the decline in profits in the first six months was challenging trading conditions in our core US market where sales declined by 10% on a constant currency basis. In addition, our decision to hedge our US Dollar exposure meant that we did not benefit from the significant decline in Sterling after the Brexit vote and incurred hedging losses of £755,000. Excluding hedging losses, operating profits declined by 19% to £2.66 million. Trading conditions in the UK were relatively stable after the Brexit vote and sales increased by 1% during the period. In Europe trading conditions remained challenging and sales declined by 6% on a constant currency basis.

During the period the Group purchased and cancelled 537,000 shares at a cost of £2.57 million and representing 5% of the Group's issued share capital.

In line with our progressive dividend policy the Board has decided to increase the interim dividend by 5% to 2.30p per share (2015: 2.20p). The interim dividend will be paid on 10 April 2017 to shareholders on the register at the close of business on 3 March 2017.

Product Division

- **Fabric Division – Portfolio of Five Brands: “Colefax and Fowler”, “Cowtan and Tout”, “Jane Churchill”, “Manuel Canovas” and “Larsen”**

Sales in the Fabric Division, which represent 88% of the Group's sales, increased by 4.7% to £34.87 million (2015: £33.33 million) but decreased by 7.3% on a constant currency basis. Excluding hedging losses of £755,000 operating profits decreased by 18.5% to £2.73 million (2015: £3.35 million) reflecting difficult trading conditions in our core US market.

Sales in the US, which represent 59% of the Fabric Division's turnover, increased by 6% in reported terms but decreased by 10% on a constant currency basis. This reflects uncertain trading conditions in the run up to the US election. We have continued to invest in the US market and opened our new showroom in Boston in October and will open a new showroom in Atlanta in February. Previously we have sold through agents in these two major territories.

Sales in the UK, which represent 19% of the Fabric Division's turnover, were up by 1% compared to last year and so far sales do not seem to have been adversely impacted by the Brexit vote. We are concerned by the slowdown in high end housing transactions as a result of the increase in stamp duty that was introduced in December 2014 because trading tends to lag changes in the high end housing market.

Sales in Continental Europe, which represent 19% of the Fabric Division's turnover, increased by 9% on a reported basis but were down by 6% on a constant currency basis. Trading conditions overall have remained challenging, but there are some significant variations between countries. In France, which is our largest market, constant currency sales increased by 4% which was better than expected partly due to a significant contract order in the period. In Germany which is our second largest market sales declined by 1.6% and in Italy which is our third largest market sales declined by just 0.2%.

Sales in the rest of the world, which represent just 3% of the Fabric Division's turnover, decreased by 14% on a constant currency basis. The major territories in the rest of the world are China, Russia and the Middle East, although they represent a small part of overall sales.

- **Furniture – Kingcome Sofas**

Sales for the six months to October 2016 decreased by 9% to £1.15 million (2015: £1.26 million) with all of the decrease attributable to a contract order in the prior year. Operating profit was just £9,000 compared to £74,000 in 2015. The order book was down 6% at the period end, but is currently ahead of last year despite very competitive market conditions for high end furniture.

Interior Decorating Division

Decorating sales, which account for 9% of Group turnover, increased by 3% during the period and the Division made a reduced first half loss of £84,000 compared to a loss of £148,000 for the prior year.

The Decorating Division had a demanding six months due to preparations for the move out of 39 Brook Street, where it had been based for over 80 years, to new premises at 89-91 Pimlico Road. The office move was successfully completed in December and the new showroom will open in early February. The business will continue to sell high quality decorative antiques but on a smaller scale than in Brook Street with significantly lower inventory. We are optimistic about trading prospects at the new location which is synonymous with high end decorating in London.

Customer deposits increased throughout the period and remain at a healthy level. The significant devaluation of Sterling following the Brexit vote has increased the attractiveness of the business to overseas customers both for projects in the UK and overseas.

Prospects

The major issue for the Group over the last six months has been the decline in Fabric Division sales in our core US market and this will weigh on our results this year. We did not foresee the Brexit result and our decision to hedge our US Dollar exposure for this year and part of next year will result in an expected pre-tax charge of approximately £2 million for the current financial year and £1.4 million next year. Longer term, if Sterling weakness persists the Group will be a major beneficiary due to the fact that over 75% of Group sales are made in overseas markets and mostly invoiced in local currency.

We have continued to invest in our business with significant one-off capital expenditure this year and we expect to see a positive benefit from our new US showrooms in Boston and Atlanta and our new Decorating Division premises in London.

The Group has a strong balance sheet with cash of £8.0 million and we will continue to invest with confidence in our diverse portfolio of brands.

David Green
Chairman
24 January 2017

Registered Office: 19-23 Grosvenor Hill, London, W1K 3QD

INTERIM GROUP INCOME STATEMENT

	Unaudited Six months to 31 Oct 2016 £'000	Unaudited Six months to 31 Oct 2015 £'000	Audited Year to 30 April 2016 £'000
Revenue	39,529	37,985	76,879
Profit from operations	1,903	3,273	5,013
Finance income	–	3	3
Finance expense	–	–	–
	–	3	3
Profit before taxation	1,903	3,276	5,016
Tax expense	(628)	(949)	(1,555)
Profit for the period attributable to equity holders of the parent	1,275	2,327	3,461
Basic earnings per share	12.5p	21.6p	32.2p
Diluted earnings per share	12.5p	21.6p	32.2p

INTERIM GROUP STATEMENT OF COMPREHENSIVE INCOME

	Unaudited Six months to 31 Oct 2016 £'000	Unaudited Six months to 31 Oct 2015 £'000	Audited Year to 30 April 2016 £'000
Profit for the period	1,275	2,327	3,461
Other comprehensive income/(expense):			
Items that will not be reclassified to profit and loss:			
Exchange differences on translation of foreign operations	2,543	(61)	642
Remeasurement of defined benefit pension scheme	–	–	(100)
Tax relating to items that will not be reclassified to profit and loss	(617)	(15)	(106)
	1,926	(76)	436
Items that will or may be reclassified to profit and loss:			
Cash flow hedges:			
(Losses)/gains recognised directly in equity	(3,309)	78	(805)
Transferred to profit and loss for the period	755	(120)	144
Tax relating to items that will or may be reclassified to profit and loss	511	8	132
	(2,043)	(34)	(529)
Total other comprehensive income/(expense)	(117)	(110)	(93)
Total comprehensive income for the period attributable to equity holders of the parent	1,158	2,217	3,368

INTERIM GROUP STATEMENT OF FINANCIAL POSITION

	Unaudited At 31 Oct 2016 £'000	Unaudited At 31 Oct 2015 £'000	Audited At 30 April 2016 £'000
Non-current assets:			
Property, plant and equipment	9,135	7,264	7,551
Deferred tax asset	–	307	35
	<u>9,135</u>	<u>7,571</u>	<u>7,586</u>
Current assets:			
Inventories and work in progress	13,825	13,333	12,518
Trade and other receivables	12,604	9,630	9,179
Cash and cash equivalents	8,024	7,777	10,085
	<u>34,453</u>	<u>30,740</u>	<u>31,782</u>
Current liabilities:			
Trade and other payables	16,617	10,631	11,258
Current corporation tax	27	424	163
	<u>16,644</u>	<u>11,055</u>	<u>11,421</u>
Net current assets	<u>17,809</u>	<u>19,685</u>	<u>20,361</u>
Total assets less current liabilities	<u>26,944</u>	<u>27,256</u>	<u>27,947</u>
Non-current liabilities:			
Deferred rent	2,003	1,426	1,459
Pension liability	177	104	170
Deferred tax liability	115	–	–
Net assets	<u>24,649</u>	<u>25,726</u>	<u>26,318</u>
Capital and reserves attributable to equity holders of the Company:			
Called up share capital	1,022	1,083	1,076
Share premium account	11,148	11,148	11,148
Capital redemption reserve	1,852	1,791	1,798
ESOP share reserve	(113)	(113)	(113)
Foreign exchange reserve	3,485	987	1,559
Cash flow hedge reserve	(2,526)	12	(483)
Retained earnings	9,781	10,818	11,333
Total equity	<u>24,649</u>	<u>25,726</u>	<u>26,318</u>

INTERIM GROUP STATEMENT OF CASH FLOWS

	Unaudited Six months to 31 Oct 2016 £'000	Unaudited Six months to 31 Oct 2015 £'000	Audited Year to 30 April 2016 £'000
Operating activities			
Profit before taxation	1,903	3,276	5,016
Finance income	–	(3)	(3)
Finance expense	–	–	–
Depreciation	<u>1,279</u>	<u>1,040</u>	<u>2,187</u>
Cash flows from operations before changes in working capital	3,182	4,313	7,200
Increase in inventories and work in progress	(862)	(1,047)	(127)
(Increase)/decrease in trade and other receivables	(2,672)	(21)	704
(Increase)/decrease in trade and other payables	<u>2,547</u>	<u>(191)</u>	<u>(582)</u>
Cash generated from operations	<u>2,195</u>	<u>3,054</u>	<u>7,195</u>
Taxation paid			
UK corporation tax paid	(132)	(232)	(556)
Overseas tax paid	<u>(623)</u>	<u>(525)</u>	<u>(781)</u>
	<u>(755)</u>	<u>(757)</u>	<u>(1,337)</u>
Net cash inflow from operating activities	<u>1,440</u>	<u>2,297</u>	<u>5,858</u>
Investing activities			
Payments to acquire property, plant and equipment	(1,705)	(1,090)	(2,278)
Receipts from sales of property, plant and equipment	27	23	24
Interest received	<u>–</u>	<u>3</u>	<u>2</u>
Net cash outflow from investing	<u>(1,678)</u>	<u>(1,064)</u>	<u>(2,252)</u>
Financing activities			
Purchase of own shares	(2,583)	–	(324)
Interest paid	–	–	(1)
Equity dividends paid	<u>(244)</u>	<u>(248)</u>	<u>(483)</u>
Net cash outflow from financing	<u>(2,827)</u>	<u>(248)</u>	<u>(808)</u>
Net (decrease)/increase in cash and cash equivalents	(3,065)	985	2,798
Cash and cash equivalents at beginning of period	10,085	6,861	6,861
Exchange gains/(losses) on cash and cash equivalents	1,004	(69)	426
Cash and cash equivalents at end of period	8,024	7,777	10,085

