

AIM: CFX
24 January 2017

COLEFAX GROUP PLC
(“Colefax” or the “Group”)

Half Year Results
for the six months ended 31 October 2016

Colefax is an international designer and distributor of furnishing fabrics & wallpapers and owns a leading interior decorating business. The Group trades under five brand names, serving different segments of the soft furnishings marketplace; these are Colefax and Fowler, Cowtan & Tout, Jane Churchill, Manuel Canovas and Larsen.

Key Points

- Group sales of £39.53m (2015: £37.98m)
- Group pre-tax profit of £1.90m (2015: £3.27m) affected by:
 - challenging conditions in core US market
 - hedging losses following decline in Sterling
- Earnings per share of 12.50p (2015: 21.60p)
- Net cash increased to £8.0m (2015: £7.8m)
- Interim dividend increased to 2.30p per share (2015: 2.20p)
- Core Fabric Division sales up 4.7% to £34.87m but down by 7.3% on constant currency basis, reflecting difficult trading conditions in US
- New showroom opened in Boston in October, with showroom in Atlanta to open in February
- Decorating Division opening new Pimlico Road showroom in February

David Green, Chairman, said:

“Results reflect the challenging trading conditions in our core US market, where sales declined by 10% on a constant currency basis. Our decision to hedge our US Dollar exposure also incurred losses and will continue to adversely affect results this financial year and next.

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

The Group has a strong balance sheet and we will continue to invest with confidence in our diverse portfolio of brands”

The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the Market Abuse Regulations.

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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

COLEFAX GROUP PLC**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

COLEFAX GROUP PLC

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 year	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 year	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

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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
	9,135	7,571	7,586
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
	34,453	30,740	31,782
Current liabilities:			
Trade and other payables	16,617	10,631	11,258
Current corporation tax	27	424	163
	16,644	11,055	11,421
Net current assets	17,809	19,685	20,361
Total assets less current liabilities	26,944	27,256	27,947
Non-current liabilities:			
Deferred rent	2,003	1,426	1,459
Pension liability	177	104	170
Deferred tax liability	115	-	-
Net assets	24,649	25,726	26,318
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	24,649	25,726	26,318

COLEFAX GROUP PLC

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	1,279	1,040	2,187
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	2,547	(191)	(582)
Cash generated from operations	2,195	3,054	7,195
Taxation paid			
UK corporation tax paid	(132)	(232)	(556)
Overseas tax paid	(623)	(525)	(781)
	(755)	(757)	(1,337)
Net cash inflow from operating activities	1,440	2,297	5,858
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	-	3	2
Net cash outflow from investing	(1,678)	(1,064)	(2,252)
Financing activities			
Purchase of own shares	(2,583)	-	(324)
Interest paid	-	-	(1)
Equity dividends paid	(244)	(248)	(483)
Net cash outflow from financing	(2,827)	(248)	(808)
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

COLEFAX GROUP PLC

NOTES

1. The Group prepares its annual financial statements in accordance with International Financial Reporting Standards (IFRS). These interim results have been prepared in accordance with the accounting policies expected to be applied in the next annual financial statements for the year ending 30 April 2017.

These standards and interpretations are subject to ongoing review and endorsement by the EU or possible amendment by interpretive guidance from the International Financial Reporting Interpretations Committee ('IFRIC') and are therefore still subject to change.

2. During the financial period ended 31 October 2016, the Company paid a final dividend for the year ended 30 April 2016 of 2.40p per ordinary share amounting to £244,000.

The proposed interim dividend of 2.30p (2015: 2.20p) per share is payable on 10 April 2017 to qualifying shareholders on the register at the close of business on 3 March 2017.

3. Basic earnings per share have been calculated on the basis of earnings of £1,275,000 (2015: £2,327,000) and on 10,207,315 (2015: 10,767,500) ordinary shares being the weighted average number of ordinary shares in issue during the period.

4. Diluted earnings per share have been calculated on the basis of earnings of £1,275,000 (2015: £2,327,000) and on 10,207,315 (2015: 10,767,500) ordinary shares being the weighted average number of ordinary shares in the period adjusted to assume conversion of all dilutive potential ordinary shares of nil (2015: nil).

5. The financial information for the year ended 30 April 2016 does not constitute the full statutory accounts for that period. The Annual Report and Financial Statements for the year ended 30 April 2016 have been filed with the Registrar of Companies. The Independent Auditors' Report on the Annual Report and Financial Statements for the year ended 30 April 2016 was unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006.

6. Copies of the interim report are being sent to shareholders and will be available from the Company's website on www.colefaxgroupplc.com. Copies will also be made available on request to members of the public at the Company's registered office at 19-23 Grosvenor Hill, London W1K 3QD.