CAMELLIA PLC

Interim Results

Camellia Plc (AIM:CAM) announces its interim results for the six months ended 30 June 2019.

Malcolm Perkins, Chairman of Camellia, stated:

"The oversupply of tea at the end of 2018 has had a direct impact on global tea prices and hence on the revenues and profitability of our tea operations in the first half. Our increasing agricultural diversity has however helped to temper the impact of the tea market on our results and I am pleased that we are able to increase the interim dividend. The in principle agreement and today's payment of wages in Kenya and India relating back to 2014 has allowed us to release the excess of the associated provisions, resulting in a profit for the period broadly in line with the comparable period of 2018."

Financial highlights

	Six months ended 30 June 2019	Six months ended 30 June 2018	Year ended 31 December 2018
	£'m	£'m	£'m
Revenue – continuing operations	117.3	127.6	309.8
Underlying (loss)/profit before tax*	(4.1)	6.1	38.1
Provision releases	8.0	-	14.4
(Loss)/profit from discontinued operation	-	(0.3)	0.2
Profit for the period	3.6	3.7	32.3
Cash and cash equivalents net of loans	80.6	86.6	105.7
Earnings per share	50.7p	18.1p	912.4
Earnings/(loss) per share - continuing operations	50.7p	29.0p	919.6
Dividend per share	42p	40p	142p

* Underlying profit/(loss) before tax is profit before tax from continuing operations excluding separately disclosed provision releases

Highlights

- Results reflect the oversupply of tea in the market and consequential weak prices
- Good progress with strategic initiatives in Agriculture following:
  - completion of Assam garden acquisitions; and
  - agreement to acquire additional land in South Africa
- Provision releases following wage settlements in India and Kenya
- Significant EPS growth reflects derivation of profits
- Financial position remains very strong
- Interim dividend up by 5%

This announcement contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) No. 596/2014.

The interim report will be available to download from the investor relations section on the Company's website www.camellia.plc.uk

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CHAIRMAN'S STATEMENT

Our results for the first half show a profit before tax from continuing operations of £3.9 million (2018 H1: £6.1 million). This includes a gain of £8.0 million arising from the release of wage provisions for previous years in Kenya and India. Without these gains, the trading loss reflects the continuing weakness of the tea market in Kenya and Malawi and poor prices for teas brought forward from last season's production in India and Bangladesh.

Dividend
The Board has declared an interim dividend of 42p (2018: 40p) payable on 27 September 2019 to shareholders registered at the close of business on 30 August 2019.

Strategic objectives
We continue to pursue our strategic objectives in line with the statements made in the 2018 Annual report. During the first half we completed the acquisition of two tea estates in Assam and signed an agreement to acquire an additional 466Ha farm in South Africa. We continue to make a number of medium and long-term investments in Agriculture in order to leverage our expertise and diversify our supply base in crops and countries where we believe there to be potential. Additional information is included in the Operating Review. We live with political uncertainty in many of our areas of operation. Inevitably it slows down investment and development and there is no doubt that the uncertainty which continues to surround Brexit is having an impact in the UK.

Outlook
Given that the majority of our agricultural production and sales take place in the second half of the year and the difficulty in predicting tea prices in the current market, it is not possible to give meaningful guidance for the full year.

Malcolm Perkins
Chairman
14 August 2019

OPERATING REVIEW

The underlying loss before tax from continuing operations in the first half was £4.1 million (H1 2018: profit before tax £6.1 million) on revenues of £117.3 million (H1 2018: £127.6 million). The factors behind this are set out in the individual business reviews below. Overall the profit before tax was improved by:

- a signed agreement with the Kenyan Plantation and Agricultural Workers Union on the principal terms of a settlement in respect of the previously outstanding Collective Bargaining Agreement years of 2014/15, 2016/17 and 2018/19. Whilst the final settlement is subject to registration by the Minister of Labour in Kenya, we believe that this will occur in due course and we have therefore today paid the outstanding amounts to all unionisable staff. The 2017 wage award in West Bengal is also now final. Together these settlements have led to £8.0 million of provisions relating to previous years being released through cost of sales

- the weakening of sterling against all our major operating currencies compared with the first half of 2018 which has led to a beneficial impact of approximately £0.4 million

Our cash and cash equivalents balance at the end of the period stood at £88.9 million (31 December 2018: £109.6 million). Loans outstanding increased to £8.3 million (31 December 2018: £3.9 million). The reduction in our net cash position reflects the acquisitions in India and the effect of trading in the period. Lease liabilities, which are reflected for the first time, amounted to £10.7 million. Further details are set out in note 2.

Agriculture

Tea

Overall our tea production in the first half was marginally lower than the same period of 2018 at 43.2m Kg (H1 2018: 43.6m Kg), although this varied widely by geography. Our average prices were significantly lower than 2018 due to an over supplied market resulting from record global crop production in 2018.

India: Production in the first half of the year was 23% ahead of last year, helped by good rainfall and a significant increase in Bought Leaf production. Average prices are 8% lower than last year. This is a result of very low prices achieved for the brought forward stock of 2018 teas and lower prices than last year for new season teas, except in Assam where the market has firmed, particularly for orthodox teas. Significant increases in labour rates during the second half of 2018 also impacted margins, although this was partially offset by increased efficiency.

Bangladesh: Production was up by 29% in the first half due to the combination of the increase in our maturing young tea areas coupled with benign weather conditions. Average prices however were 5% below last year. Prices for new season teas continue to be significantly lower than in 2018 due to high levels of national production and an increase in import volumes.

Kenya: Production (including smallholder and managed client volumes) was 25% below that of last year as a result of the drier weather across the country during the first quarter. Total auction volumes in Mombasa however, have continued at record levels for much of this calendar year due to large stocks carried forward from last year. This has resulted in a 17% reduction in our average price in the first half compared to that of the same period in 2018. Prices improved slightly during May but then declined again in June and have continued at these lower levels.

Malawi: Production (including smallholder volumes) was similar to 2018 but average prices in the first half were 13% lower than for the same period last year.

Macadamia
Our combined macadamia harvest has been better this year with volumes estimated at 6% higher than in 2018. Prices in the market are ahead of those seen last year and appear to be holding at this stage. Discussions with the land claimant community continue at Wales Estate in South Africa with little sign of progress towards signing a new lease. The expectation now is to discontinue operations on the estate after the 2020 season harvest.

An agreement for the purchase of an additional farm close to our estates in the Levubu district of South Africa has been concluded and a clearance certificate is now awaited from the local municipality in order to proceed with the land transfer process. It is our plan to plant 180Ha of macadamia and 120Ha of avocado here over the next 5 years.

Avocado
Production volumes in the period from our own avocado orchards were 8% below last year but average prices have been higher. As we now move into our main Hass cropping season, we have seen the market rise significantly due to the lower volumes of production entering Europe from Peru and South Africa.

Speciality Crops
Overall, our speciality crops have had a mixed start to the year with some good production being offset by issues largely outside our control. It is worth noting the following:

- prices for natural rubber, which we grow in Bangladesh, have declined in the first half, and the business remains lossmaking albeit cash generative.

- wine grape production volumes from our estate in South Africa were up 24% on those in the same period of 2018 which was adversely impacted by the drought in the Western Cape region. Sales however, were significantly lower in the first half.

- the soya crop in Brazil has done well, but our maize and oat crops have been adversely impacted by pest and fungal infections.

- in California, our Murcott volumes were more than twice those of last year and volumes of Navels were up 15%. However, our average citrus prices have been 40% lower. This is an 'off' year for pistachios.

Other strategic developments

As part of our strategy for Agriculture to utilise our estates to the full, expand our production capability in core crops and exploit our expertise, we are undertaking the following initiatives:

- our 10Ha trial of blueberries at Kakuzi in Kenya is progressing well and we anticipate the first harvest in Q4 of 2019
- the Simpson dam wall and spillway project on our Mambedi estate in South Africa is now completed
- the trial planting of avocado near Kitale in Kenya continues with encouraging early results
- we continue to make progress with registration of the land purchase in Tanzania

Engineering

AJT Engineering continues to improve with the recovery of the oil sector and the development of the Site Services division. Revenue in the first half of the year was up 21% on the same period last year.

Revenues from Abbey Metal Finishing and its subsidiary Atfin are 6% below that of the equivalent period last year. Brexit stockpiling by customers in Q1 followed by uncertainty in the market, led to overall lower sales volumes in the period and is expected to further impact profits in the second half of the year.

Food Service

In the first half ACS&T traded in line with expectations but has seen weaker trading at the start of the second half.

Jing Tea is operating in line with expectations as we continue to invest in the brand and the growth of the business.

Revenue in 2018 included Affish and Wylax which were sold in 2018.

Investments and Associates

Our investment portfolio, which consists principally of listed equities, is now valued at £43.5 million (31 December 2018: £39.6 million) largely due to strong equity markets and the falling value of Sterling.

Our share of profits from associates is estimated at £3.3 million (H1 2018: £2.2 million) reflecting significantly improved results at BF&M in the first quarter of 2019. BF&M's improved results were due to the strong performance of its Property and Casualty and Life and Health businesses.

Summary

In Agriculture, the first half of the year was affected by the global oversupply of tea and the resultant low prices at the auctions. The impact of this was partially mitigated by increases in efficiency, and importantly by our continuing strategy of crop diversification.

Despite the adverse impact of the performance of Agriculture, the performance from our businesses in Engineering and Food Service, together with an improved result from our associate, BF&M, produced an increase in EPS.

We remain financially strong, with significant net cash, and have the resources to complete our development plans in line with our strategy.

Tom Franks
Chief Executive

14 August 2019

INTERIM MANAGEMENT REPORT

The Chairman's Statement and the Operating Review form part of this report and include important events that have occurred during the six months ended 30 June 2019 and their impact on the financial statements set out herein.

Principal risks and uncertainties
The Report of the Directors in the statutory financial statements for the year ended 31 December 2018 (the accounts are available on the Company's website: www.camellia.plc.uk) highlighted risks and uncertainties that could have an impact on the Group's businesses. These risks and uncertainties continue to be relevant for the remainder of the year. In addition, the Chairman's Statement and the Operating Review included in this report refers to certain specific risks and uncertainties that the Group is presently facing.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors confirm that these condensed financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union, and that the interim management report herein includes a fair review of the information required by sections 4.2.7 and 4.2.8 of the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

The Directors of Camellia Plc are listed in the Camellia Plc statutory financial statements for the year ended 31 December 2018. There have been no subsequent changes of Directors and a list of current Directors is maintained on the Group's website at www.camellia.plc.uk.

By order of the Board

Malcolm Perkins
Chairman
14 August 2019

CONDENSED CONSOLIDATED INCOME STATEMENT
for the six months ended 30 June 2019

	Notes	Six months ended 30 June 2019 £'m	*Six months ended 30 June 2018 £'m*	*Year ended 31 December 2018 £'m*
Continuing operations				
Revenue	4	117.3	*127.6*	*309.8*
Cost of sales		(92.2)	*(100.3)*	*(209.2)*
Gross profit		25.1	*27.3*	*100.6*
Other operating income		2.3	*2.1*	*4.0*
Distribution costs		(6.3)	*(5.1)*	*(17.2)*
Administrative expenses		(22.4)	*(22.1)*	*(45.1)*
Trading (loss)/profit	4	(1.3)	*2.2*	*42.3*
Share of associates' results	6	3.3	*2.2*	*7.6*
Provisions and impairment of property, plant and equipment		–	*(0.1)*	*(0.2)*
Loss on disposal of subsidiaries		–	*–*	*(0.4)*
Profit on disposal of financial assets		0.2	*0.2*	*0.3*
Operating profit – continuing operations		2.2	*4.5*	*49.6*
Investment income		0.4	*0.4*	*0.8*

Finance income		2.1	*2.0*	*4.0*
Finance costs		(0.6)	*(0.1)*	*(0.6)*
Net exchange gain/(loss)		0.2	*(0.1)*	*0.2*
Employee benefit expense		(0.4)	*(0.6)*	*(1.5)*
Net finance income	7	1.3	*1.2*	*2.1*
Profit before tax from continuing operations		3.9	*6.1*	*52.5*
Comprising				
– underlying (loss)/profit before tax	5	(4.1)	*6.1*	*38.1*
– release of provisions for wage increases	5	8.0	*–*	*5.4*
– release of provision for post-employment benefit obligations	5	–	*–*	*9.0*
		3.9	*6.1*	*52.5*
Taxation	8	(0.3)	*(2.1)*	*(20.0)*
Profit after tax from continuing operations		3.6	*4.0*	*32.5*
Loss from discontinued operation		–	*(0.3)*	*(0.2)*
Profit for the period		3.6	*3.7*	*32.3*
Profit attributable to:				
Owners of Camellia Plc		1.4	*0.5*	*25.2*
Non-controlling interests		2.2	*3.2*	*7.1*
		3.6	*3.7*	*32.3*
Earnings per share – basic and diluted	10	50.7p	*18.1p*	*912.4p*
Earnings per share – continuing operations	10	50.7p	*29.0p*	*919.6p*
Earnings/(loss) per share – discontinued operation	10	–p	*(10.9)p*	*(7.2)p*

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2019

	Six months ended 30 June 2019 £'m	*Six months ended 30 June 2018 £'m*	*Year ended 31 December 2018 £'m*
Profit for the period	3.6	*3.7*	*32.3*
Other comprehensive income/(expense):			
Items that will not be reclassified subsequently to profit or loss:			
Financial assets at fair value through other comprehensive income:			
Fair value adjustment released on disposal	(0.3)	*–*	*(3.8)*
Profit on disposal	1.1	*–*	*3.9*
	0.8	*–*	*0.1*
Changes in the fair value of financial assets	3.5	*0.1*	*(5.6)*
Deferred tax movement in relation to fair value adjustments	(0.4)	*–*	*1.5*
Remeasurements of post employment benefit obligations	3.9	*12.1*	*(0.7)*
Deferred tax movement in relation to post employment benefit obligations	(0.1)	*(0.6)*	*(0.3)*
	7.7	*11.6*	*(5.0)*

Items that may be reclassified subsequently to profit or loss:			
Foreign exchange translation differences	(1.8)	*1.9*	*11.6*
Share of other comprehensive income of associates	–	*–*	*0.8*
	(1.8)	*1.9*	*12.4*
Other comprehensive income for the period, net of tax	5.9	*13.5*	*7.4*
Total comprehensive income for the period	9.5	*17.2*	*39.7*
Total comprehensive income attributable to:			
Owners of Camellia Plc	8.1	*13.3*	*30.7*
Non-controlling interests	1.4	*3.9*	*9.0*
	9.5	*17.2*	*39.7*

CONDENSED CONSOLIDATED BALANCE SHEET

at 30 June 2019

	Notes	30 June 2019 £'m	*30 June 2018 £'m*	*31 December 2018 £'m*
ASSETS				
Non-current assets				
Intangible assets		10.9	*8.3*	*9.5*
Property, plant and equipment	11	227.5	*219.9*	*226.3*
Right-of-use assets	2	17.6	*–*	*–*
Investment properties		17.5	*17.7*	*18.0*
Biological assets		13.9	*12.3*	*14.5*
Prepaid operating leases		–	*0.9*	*1.0*
Investments in associates		67.9	*57.2*	*65.7*
Deferred tax assets		0.2	*0.3*	*–*
Financial assets at fair value through other comprehensive income		35.7	*42.3*	*32.7*
Financial assets at fair value through profit or loss		4.7	*5.2*	*3.7*
Financial assets at amortised cost		3.1	*3.3*	*3.0*
Other investments – heritage assets		9.7	*9.4*	*9.5*
Retirement benefit surplus	14	0.4	*0.3*	*0.3*
Trade and other receivables		2.8	*2.1*	*2.7*
Total non-current assets		411.9	*379.2*	*386.9*
Current assets				
Inventories		64.8	*56.5*	*52.7*
Biological assets		4.3	*5.8*	*8.8*
Trade and other receivables		44.0	*41.9*	*48.5*
Financial assets at amortised cost		0.1	*–*	*0.2*
Current income tax assets		0.8	*1.5*	*0.7*
Cash and cash equivalents (excluding bank overdrafts)		95.8	*94.2*	*112.4*
		209.8	*199.9*	*223.3*
Assets classified as held for sale		0.9	*4.1*	*0.2*
Total current assets		210.7	*204.0*	*223.5*

	Notes	30 June 2019 £'m	*30 June 2018 £'m*	*31 December 2018 £'m*
LIABILITIES				
Current liabilities				

Financial liabilities – borrowings	12	(8.3)	*(4.0)*	*(3.4)*
Lease liabilities	2	(2.0)	*–*	*–*
Trade and other payables		(54.2)	*(56.0)*	*(53.5)*
Current income tax liabilities		(6.1)	*(5.5)*	*(8.0)*
Employee benefit obligations	14	(1.0)	*(1.0)*	*(1.0)*
Provisions	13	(13.6)	*(21.5)*	*(18.5)*
		(85.2)	*(88.0)*	*(84.4)*
Liabilities directly associated with assets classified as held for sale		–	*(1.8)*	*–*
Total current liabilities		(85.2)	*(89.8)*	*(84.4)*
Net current assets		125.5	*114.2*	*139.1*
Total assets less current liabilities		537.4	*493.4*	*526.0*
Non-current liabilities				
Financial liabilities – borrowings	12	(6.9)	*(3.6)*	*(3.3)*
Lease liabilities	2	(8.7)	*(0.1)*	*(0.1)*
Deferred tax liabilities		(44.3)	*(40.8)*	*(46.3)*
Employee benefit obligations	14	(21.3)	*(18.3)*	*(24.0)*
Total non-current liabilities		(81.2)	*(62.8)*	*(73.7)*
Net assets		456.2	*430.6*	*452.3*
EQUITY				
Called up share capital		0.3	*0.3*	*0.3*
Share premium		15.3	*15.3*	*15.3*
Reserves		385.2	*363.4*	*379.9*
Equity attributable to owners of Camellia Plc		400.8	*379.0*	*395.5*
Non-controlling interests		55.4	*51.6*	*56.8*
Total equity		456.2	*430.6*	*452.3*

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

for the six months ended 30 June 2019

	Notes	Six months ended 30 June 2019 £'m	*Six months ended 30 June 2018 £'m*	*Year ended 31 December 2018 £'m*
Cash generated from operations				
Cash flows from operating activities	15	(3.5)	*6.4*	*35.3*
Interest received		2.3	*2.0*	*3.9*
Interest paid		(0.7)	*(0.1)*	*(0.5)*
Income taxes paid		(5.1)	*(5.6)*	*(14.2)*
Net cash flow from operating activities		(7.0)	*2.7*	*24.5*
Cash flows from investing activities				
Purchase of intangible assets		(0.3)	*–*	*–*
Purchase of property, plant and equipment		(8.0)	*(10.7)*	*(20.5)*
Proceeds from sale of non-current assets		0.9	*0.1*	*0.7*
Additions to investment property		(0.1)	*(0.3)*	*(0.9)*
Biological assets: non-current – additions		–	*(0.1)*	*(0.9)*
Payment for acquisition of a business/subsidiary net of cash acquired	16	(9.4)	*(6.4)*	*(6.4)*
Proceeds from sale of subsidiaries net of cash disposed		–	*–*	*3.6*
Proceeds from sale of assets held for sale –		–	*0.7*	*0.7*

investment property				
Investment in associates		(0.7)	–	*(1.0)*
Dividends received from associates		1.8	*1.6*	*2.8*
Purchase of investments		(7.9)	*(3.4)*	*(7.2)*
Proceeds from sale of investments		8.7	*0.9*	*11.4*
Income from investments		0.4	*0.4*	*0.8*
Purchase of other investments – heritage assets		(0.1)	–	*(0.1)*
Net cash flow from investing activities		(14.7)	*(17.2)*	*(17.0)*
Cash flows from financing activities				
Equity dividends paid		–	–	*(3.8)*
Dividends paid to non-controlling interests		(2.7)	*(1.9)*	*(3.1)*
New loans		4.6	–	–
Loans repaid		(0.3)	*(0.3)*	*(0.6)*
Payments of lease liabilities		(0.2)	–	–
Net cash flow from financing activities		1.4	*(2.2)*	*(7.5)*
Net decrease in cash and cash equivalents from continued operations		(20.3)	*(16.7)*	–
Net cash outflow from discontinued operation		–	*(0.2)*	*(0.2)*
Cash and cash equivalents at beginning of period		109.6	*106.8*	*106.8*
Exchange (losses)/gains on cash		(0.4)	*0.9*	*3.0*
Cash and cash equivalents at end of period	17	88.9	*90.8*	*109.6*

For the purposes of the cash flow statement, cash and cash equivalents are included net of overdrafts repayable on demand.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2019

	Attributable to the owners of Camellia Plc							
	Share capital £'m	Share premium £'m	Treasury shares £'m	Retained earnings £'m	Other reserves £'m	Total £'m	Non-controlling interests £'m	Total equity £'m
At 1 January 2018	0.3	15.3	(0.4)	323.8	29.4	368.4	49.5	417.9
Total comprehensive income for the period	–	–	–	12.0	1.3	13.3	3.9	17.2
Dividends	–	–	–	(2.7)	–	(2.7)	(1.9)	(4.6)
Companies joining the Group	–	–	–	–	–	–	0.1	0.1
At 30 June 2018	0.3	15.3	(0.4)	333.1	30.7	379.0	51.6	430.6
At 1 January 2018	0.3	15.3	(0.4)	323.8	29.4	368.4	49.5	417.9
Total comprehensive income for the period	–	–	–	30.5	0.2	30.7	9.0	39.7
Dividends	–	–	–	(3.8)	–	(3.8)	(3.1)	(6.9)
Companies joining the Group	–	–	–	–	–	–	1.4	1.4
Share of associate's other equity movements	–	–	–	0.2	–	0.2	–	0.2
At 31 December 2018	0.3	15.3	(0.4)	350.7	29.6	395.5	56.8	452.3
Total comprehensive income for the period	–	–	–	6.7	1.4	8.1	1.4	9.5
Dividends	–	–	–	(2.8)	–	(2.8)	(2.8)	(5.6)
At 30 June 2019	0.3	15.3	(0.4)	354.6	31.0	400.8	55.4	456.2

NOTES TO THE ACCOUNTS

1 Basis of preparation

These financial statements are the interim condensed consolidated financial statements of Camellia Plc, a company registered in England, and its subsidiaries (the “Group”) for the six month period ended 30 June 2019 (the “Interim Report”). They should be read in conjunction with the Report and Accounts (the “Annual Report”) for the year ended 31 December 2018.

The financial information contained in this Interim Report has not been audited and does not constitute statutory accounts within the meaning of Section 435 of the Companies Act 2006. A copy of the statutory accounts for the year ended 31 December 2018 has been delivered to the Registrar of Companies. The auditors’ opinion on these accounts was unqualified and does not contain an emphasis of matter paragraph or a statement made under Section 498(2) and Section 498(3) of the Companies Act 2006.

The interim condensed financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) including IAS 34 “Interim Financial Reporting”. For these purposes, IFRS comprise the Standards issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Standards Interpretations Committee (“IFRS IC”) that have been adopted by the European Union.

The share of associates’ results in the condensed consolidated income statement for the six month period ended 30 June 2019 and the investments in associates figure in the condensed consolidated balance sheet include an estimate of BF&M Limited’s result for the six months ended 30 June 2019. This estimate incorporates BF&M’s actual quarter one result and includes an estimate for quarter two. BF&M Limited’s results will not be reported to the Bermuda Stock Exchange until mid September 2019.

(a) A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies but did not make any retrospective adjustments as a result of adopting IFRS 16 Leases standard. The impact of the adoption of the leasing standard and the new accounting policies are disclosed in note 2. The other standards did not have any impact on the Group’s accounting policies and did not require retrospective adjustments.

These interim condensed consolidated financial statements were approved by the Board of Directors on 14 August 2019. At the time of approving these financial statements, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue to operate for the foreseeable future. They therefore continue to adopt the going concern basis of accounting in preparing the financial statements.

2 Changes to accounting policies

This Interim Report has been prepared on the basis of accounting policies consistent with those applied in the financial statements for the year ended 31 December 2018. The Group has adopted IFRS 16 from 1 January 2019, but has not applied it retrospectively, as permitted under the specific transitional provisions in the standard. The reclassifications arising from the new leasing rules are recognised in the opening balance sheet on 1 January 2019.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 Leases. These right-of-use assets and lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate.

For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date.

Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease

Adjustments recognised on adoption of IFRS 16

The effect of adopting IFRS 16 on 1 January 2019 was to recognise additional right-of-use assets and lease liabilities in the sum of £10.7 million, and recategorise assets with a carrying amount of £3.5 million and finance leases of £0.1 million.

In doing so, the Group used incremental borrowing rates of between 4.25% to 10% on lease terms ranging from 1 to 125 years.

Impact of IFRS 16

For the six months to 30 June 2019:

- depreciation expense increased by £0.4 million relating to the depreciation of additional right-of-use assets recognised
- rent expense decreased by £0.5 million relating to previous operating leases
- finance costs increased by £0.3 million relating to the interest expense on additional lease liabilities recognised
- income tax expense decreased by less than £0.1 million relating to the tax effect of those changes
- retained profits decreased by £0.2 million relating to the excess of interest and depreciation over rent expense and tax

Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of IFRS 16:

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional terms. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g. a change in business strategy).

3 Cyclical and seasonal factors

Due to climatic conditions the Group's tea operations in India and Bangladesh produce most of their crop during the second half of the year. Tea production in Kenya remains at consistent levels throughout the year but in Malawi the majority of tea is produced in the first six months.

Soya in Brazil and citrus in California are generally harvested in the first half of the year. In California the pistachio crop occurs in the second half of the year and has 'on' and 'off' years. The majority of the macadamia crop is harvested in the first half but processed and sold in the second half of the year. Avocados in Kenya are mostly harvested in the second half of the year.

There are no other cyclical or seasonal factors which have a material impact on the trading results.

4 Segment reporting – continuing operations

	Six months ended	*Six months ended*	*Year ended*

	30 June 2019		*30 June 2018*		*31 December 2018*	
	Revenue	Trading profit/(loss)	*Revenue*	*Trading profit/(loss)*	*Revenue*	*Trading profit/(loss)*
	£'m	£'m	*£'m*	*£'m*	*£'m*	*£'m*
Agriculture (see note 5)	90.5	2.4	*96.6*	*6.7*	*245.3*	*51.0*
Engineering	10.8	(0.3)	*10.0*	*(0.9)*	*22.2*	*(0.6)*
Food Service	15.6	0.9	*20.7*	*0.9*	*41.5*	*1.6*
Other operations	0.4	–	*0.3*	*–*	*0.8*	*0.1*
	117.3	3.0	*127.6*	*6.7*	*309.8*	*52.1*
Unallocated corporate expenses		(4.3)		*(4.5)*		*(9.8)*
Trading (loss)/profit		(1.3)		*2.2*		*42.3*
Share of associates' results		3.3		*2.2*		*7.6*
Provisions and impairment of property, plant and equipment		–		*(0.1)*		*(0.2)*
Loss on disposal of subsidiaries		–		*–*		*(0.4)*
Profit on disposal of financial assets		0.2		*0.2*		*0.3*
Investment income		0.4		*0.4*		*0.8*
Net finance income		1.3		*1.2*		*2.1*
Profit before tax from continuing operations		3.9		*6.1*		*52.5*
Taxation		(0.3)		*(2.1)*		*(20.0)*
Profit from continuing operations after tax		3.6		*4.0*		*32.5*

5 Underlying (loss)/profit

The Group seeks to present an indication of the underlying performance which is not impacted by exceptional items or items considered non-operational in nature. This measure of profit is described as 'underlying' and is used by management to measure and monitor performance.

The following items have been excluded from the underlying (loss)/profit measure and have been separately disclosed:

- an £8.0 million gain (2018: six months £nil – year £5.4 million gain) from the release of provisions for wage increases relating to prior years in our Agriculture operations following progress on negotiations
- the release of a £nil (2018: six months £nil – year £9.0 million) provision in Bangladesh for post-employment benefit obligations from which the tea industry has been exempted.

6 Share of associates' results

The Group's share of the results of associates is analysed below:

	Six months ended 30 June 2019	*Six months ended 30 June 2018*	*Year ended 31 December 2018*
	£'m	*£'m*	*£'m*
Profit before tax	3.8	*2.6*	*8.4*
Taxation	(0.5)	*(0.4)*	*(0.8)*
Profit after tax	3.3	*2.2*	*7.6*

7 Finance income and costs

	Six months ended 30 June 2019 £'m	*Six months ended 30 June 2018 £'m*	*Year ended 31 December 2018 £'m*
Interest payable on loans and bank overdrafts	(0.3)	*(0.1)*	*(0.6)*
Interest on right-of-use assets	(0.3)	*–*	*–*
Finance costs	(0.6)	*(0.1)*	*(0.6)*
Finance income – interest income on short-term bank deposits	2.1	*2.0*	*4.0*
Net exchange gain/(loss) on foreign currency balances	0.2	*(0.1)*	*0.2*
Employee benefit expense	(0.4)	*(0.6)*	*(1.5)*
Net finance income	1.3	*1.2*	*2.1*

8 Taxation on profit on ordinary activities

	Six months ended 30 June 2019 £'m	*Six months ended 30 June 2018 £'m*	*Year ended 31 December 2018 £'m*
Current tax			
Overseas corporation tax	3.0	*2.6*	*14.1*
Deferred tax			
Origination and reversal of timing differences			
Overseas deferred tax	(2.7)	*(0.5)*	*5.9*
Tax on profit on ordinary activities	0.3	*2.1*	*20.0*

Tax on profit on ordinary activities for the six months to 30 June 2019 has been calculated on the basis of the estimated annual effective rate for the year ending 31 December 2019.

9 Equity dividends

	Six months ended 30 June 2019 £'m	*Six months ended 30 June 2018 £'m*	*Year ended 31 December 2018 £'m*
Amounts recognised as distributions to equity holders in the period:			
Final dividend for the year ended 31 December 2018 of 102p (2017: 98p) per share	2.8	*2.7*	*2.8*
Interim dividend for the year ended 31 December 2018 of 40p per share			*1.1*
			3.9

Dividends amounting to £0.1 million (2018: six months £0.1 million – year £0.1 million) have not been included as Group companies hold 62,500 issued shares in the Company. These are classified as treasury shares.

Proposed interim dividend for the year ended 31 December 2019 of 42p (2018: 40p) per share	1.2	*1.1*	

The proposed interim dividend was approved by the Board of Directors on 14 August 2019 and has not been included as a liability in these financial statements.

10 Earnings/(loss) per share (EPS)

	Six months ended 30 June 2019		*Six months ended 30 June 2018*		*Year ended 31 December 2018*	
	Earnings £'m	EPS Pence	Earnings/ (loss) *£'m*	*EPS Pence*	Earnings/ (loss) *£'m*	*EPS Pence*
Attributable to ordinary shareholders	1.4	50.7	*0.5*	*18.1*	*25.2*	*912.4*
Attributable to ordinary shareholders – continuing operations	1.4	50.7	*0.8*	*29.0*	*25.4*	*919.6*
Attributable to ordinary shareholders – discontinued operation	–	–	*(0.3)*	*(10.9)*	*(0.2)*	*(7.2)*

Basic and diluted earnings per share are calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue of 2,762,000 (2016: six months 2,762,000 – year 2,762,000), which excludes 62,500 (2018: six months 62,500 – year 62,500) shares held by the Group as treasury shares.

11 Property, plant and equipment

During the six months ended 30 June 2019 the Group acquired assets with a cost of £8.0 million (2018: six months £10.7 million – year £20.5 million). Assets with a carrying amount of £0.8 million were disposed of during the six months ended 30 June 2019 (2018: six months £0.4 million – year £0.5 million).

12 Borrowings

Borrowings (current and non-current) include loans of £8.3 million (loans 2018: six months £4.2 million – year £3.9 million) and bank overdrafts of £6.9 million (2018: six months £3.4 million – year £2.8 million). The following loans were taken and repaid during the six months ended 30 June 2019:

	£'m
Balance at 1 January 2019	3.9
Exchange differences	0.2
New loans	4.6
Repayments	(0.4)
Balance at 30 June 2019	8.3

13 Provisions

	Wages and salaries £'m	Others £'m	Total £'m
At 1 January 2018	18.5	1.2	19.7
Exchange differences	0.4	–	0.4
Utilised in the period	–	(0.3)	(0.3)
Provided in the period	1.6	0.1	1.7
At 30 June 2018	20.5	1.0	21.5
At 1 January 2018	18.5	1.2	19.7
Exchange differences	0.6	–	0.6

Utilised in the period	(4.9)	(0.6)	(5.5)
Provided in the period	8.6	0.6	9.2
Unused amounts reversed in period	(5.4)	(0.1)	(5.5)
At 31 December 2018	17.4	1.1	18.5
Exchange differences	0.1	–	0.1
Utilised in the period	(0.6)	(0.1)	(0.7)
Provided in the period	3.4	0.3	3.7
Unused amounts reversed in period	(8.0)	–	(8.0)
At 30 June 2019	12.3	1.3	13.6
Current:			
At 30 June 2019	12.3	1.3	13.6
At 31 December 2018	*17.4*	*1.1*	*18.5*
At 30 June 2018	*20.5*	*1.0*	*21.5*

The wages and salaries provisions are in respect of ongoing wage and bonus negotiations in India, Bangladesh, and pending registration by the Minister of Labour of the Collective Bargaining Agreements for years 2014/15, 2016/17 and 2018/19, in Kenya.

£8.0 million (2018: six months £nil – year £5.4 million) was reversed from the wages and salaries provision following progress on negotiations in Kenya and India.

Others relate to provisions for claims and dilapidations.

14 Employee benefit obligations

The UK defined benefit pension scheme for the purpose of IAS 19 has been updated to 30 June 2019 from the valuation as at 31 December 2018 by the actuary and the movements have been reflected in this Interim Statement. Overseas pension schemes operated in Group subsidiaries located in Bangladesh and India have also been updated to 30 June 2019 from the valuation as at 31 December 2018 by the actuaries and the movements have also been reflected in this Interim Statement.

The gratuity and medical benefit schemes located in Bangladesh and India have been updated to 30 June 2019 by the actuaries and the movements have been reflected in this Interim Statement.
An actuarial gain of £3.9 million was realised in the period in relation to the Group's employee obligations of which £5.2 million related to the UK defined benefit pension scheme. In relation to the UK defined benefit pension scheme a gain of £19.7 million was realised in relation to the scheme assets and a loss of £14.8 million was realised in relation to changes in the underlying actuarial assumptions. The assumed discount rate has decreased to 2.20% (31 December 2018: 2.75%). There has been no change in the inflation and mortality assumptions used.

15 Reconciliation of profit from continuing operations to cash flow

	Six months ended 30 June 2019	*Six months ended 30 June 2018*	*Year ended 31 December 2018*
	£'m	*£'m*	*£'m*
Profit from continuing operations	2.2	*4.5*	*49.6*
Share of associates' results	(3.3)	*(2.2)*	*(7.6)*
Depreciation and amortisation	8.4	*8.0*	*15.5*
Impairment of assets and provisions	0.2	*0.1*	*0.2*
Realised movements on biological assets – non-current	0.3	*1.0*	–

Profit on disposal of non-current assets	(0.1)	–	*(0.1)*
Loss on disposal of subsidiaries	–	–	*0.4*
Profit on disposal of financial assets	(0.2)	*(0.2)*	*(0.3)*
Movement in provisions	(4.9)	*1.8*	*(1.2)*
Increase in working capital	(6.2)	*(6.2)*	*(12.9)*
Difference between employee benefit obligations funding contributions and cost charged	0.1	*(0.4)*	*(8.3)*
Cash generated from continuing operations	(3.5)	*6.4*	*35.3*

16 Acquisition and disposal of businesses

	Acquisitions Six months ended 30 June 2019 £'m Fair value	*Acquisitions Six months ended 30 June 2018 £'m Fair value*	*Acquisitions Year ended 31 December 2018 £'m Fair value*	*Disposals Year ended 31 December 2018 £'m Net book value*
Fair value of assets and liabilities				
Property, plant and equipment	5.7	*0.5*	*0.5*	*0.6*
Right-of-use assets	3.8	–	–	–
Deferred tax asset	–	*1.1*	*1.1*	*0.1*
Inventories	0.1	*0.8*	*0.8*	*1.6*
Trade and other receivables	0.1	*1.5*	*1.5*	*0.9*
Current income tax assets	–	–	–	*0.2*
Cash and cash equivalents	–	*0.4*	*0.4*	*0.2*
Assets classified as held for sale	–	–	–	*2.4*
Trade and other payables	(0.4)	*(1.6)*	*(1.6)*	*(1.3)*
Employee benefit obligations	(0.5)	–	–	*(0.3)*
Deferred tax liability	(0.8)	*(1.1)*	*(1.1)*	–
	8.0	*1.6*	*1.6*	*4.4*
Identifiable intangible assets – Brands	–	*6.6*	*6.6*	–
Intangible asset – Goodwill	1.4	–	–	–
Non-controlling interest	–	*(1.4)*	*(1.4)*	*(0.1)*
Loss on disposal	–	–	–	*(0.5)*
	9.4	*6.8*	*6.8*	*3.8*
Satisfied by:				
Cash consideration and costs	9.4	*6.8*	*6.8*	*3.8*
Net cash outflow arising on acquisitions/disposals:				
Cash consideration	(9.4)	*(6.8)*	*(6.8)*	*3.8*
Less: cash and cash equivalent balances acquired/(disposed)	–	*0.4*	*0.4*	*(0.2)*
	(9.4)	*(6.4)*	*(6.4)*	*3.6*

The acquisitions in 2019 relates to tea estates in Assam, India which were purchased by our Indian subsidiaries for cash, funded in part by local borrowings.

17 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise:

	Six months ended 30 June	*Six months ended 30 June*	*Year ended 31 December*

	2019	*2018*	*2018*
	£'m	*£'m*	*£'m*
Cash and cash equivalents	95.8	*94.2*	*112.4*
Overdrafts repayable on demand (included in current liabilities – borrowings)	(6.9)	*(3.4)*	*(2.8)*
	88.9	*90.8*	*109.6*

18 Contingencies

In India, assessments have been received for excise duties of £4.1 million and of £1.3 million for income tax matters. These are being contested on the basis that they are without technical merit.

In India, a long running dispute between our local subsidiaries and the Government of West Bengal over the payment of a land tax, locally called, "Salami", remains unresolved. Lawyers acting for the Group have advised that payment of Salami does not apply, accordingly no provisions have been made. The sum in dispute, excluding fines and penalties, amounts to £1.5 million.

The Group operates in certain countries where its operations are potentially subject to a number of legal claims. When required, appropriate provisions are made for the expected cost of such claims.

19 Related party transactions

There have been no related party transactions that had a material effect on the financial position or performance of the Group in the first six months of the financial year.