



CHURCHILL CHINA plc
(“Churchill China” or the “Company” or the “Group”)

PRELIMINARY RESULTS
For the year ended 31 December 2016

Churchill China plc (AIM: CHH), the manufacturer and global distributor of performance ceramic and related products to hospitality and retail markets, is pleased to announce its preliminary results for the year ended 31 December 2016.

Key Highlights:

- Group revenue up 9% to £51.1m (2015: £46.8m)
 - Hospitality revenue growth 13% (2015: 8%)
- Operating profit up 29% to £6.4m (2015: £5.0m)
- Profit before tax up 30% to £6.5m (2015: £5.0m)
- Basic earnings per share up 29% to 48.2p (2015: 37.3p)
- Proposed final dividend up 16% to 14.8p (2015: 12.7p)
- Cash generated from operations £6.7m (2015: £5.3m)
- Good progress against key strategic objectives

Alan McWalter, Chairman of Churchill China, commented:

“2016 was a year of strong performance across our business. We continue to believe that our strategy is well founded and that it can continue to be successfully executed. We look forward to the coming year with confidence.”

For further information, please contact:

Churchill China plc
David O'Connor / David Taylor

Tel: 01782 577566

Buchanan
Mark Court / Sophie Cowles / Jane Glover

Tel: 020 7466 5000

N+1 Singer
Richard Lindley

Tel: 0207 496 3000

This announcement contains information which, prior to its disclosure, was considered inside information for the purposes of Article 7 of Regulation (EU) No 596/2014 (MAR)

CHAIRMAN'S STATEMENT

Introduction

I am pleased to announce that our 2016 results again show a strong performance across our business. The strategies we have developed and implemented over several years continue to deliver strong returns. We have prioritised market development in export, product innovation and a shift towards added value ranges. All of these, together with our traditional strengths of service and efficiency, have combined to deliver substantial value. 2016 has undoubtedly been a successful year and we have reached many of our targets earlier than we expected. We intend to continue to build on this success with further development and investment although this is likely to be against a general backdrop of increased economic uncertainty across a number of our markets.

Financial Review

Total revenues increased by 9% to £51.1m (2015: £46.8m) with strong growth in Hospitality exports. More favourable exchange rates contributed £1.6m to this improvement.

Gross margins have improved with much of our increased revenue coming from sales of value added product. Margins on export business also benefited from weaker sterling.

Operating profit increased by 29% to £6.4m (2015: £5.0m). Operating margins improved to 12.5% (2015: 10.6%) due to our continued focus on developing profitable business across all our markets and careful management of our cost base. The positive impact of favourable currency rates on operating profit was £0.9m with the benefit to revenue partially offset by increased overhead and buying costs denominated in foreign currency. We have continued to invest in support of our strategic targets. Earnings before interest, tax, depreciation and amortisation increased by 26% to £8.1m (2015: £6.5m).

Profit before tax rose by 30% to £6.5m (2015: £5.0m), which was largely a result of our improved operating performance. Our share of the operating profit of our associate company also increased.

Basic earnings per share improved by 29% to 48.2p (2015: 37.3p).

We have once again generated strong operating cash flows. Operating cash generation was £6.7m (2015: £5.3m). Working capital requirements were neutral despite an increase in inventory to support higher sales and service levels. The cash spend on capital projects increased to £2.5m (2015: £1.2m) with the completion of new building projects and the expansion of capacity in the manufacture of added value products. We expect capital spend to rise again in 2017 as we continue to invest in capacity, capability and efficiency. At the year end, net cash and deposit balances had risen by £0.9m to £12.7m (2015: £11.8m).

The present value of the deficit in our defined benefit pension scheme increased during the year by £4.8m to £8.7m as a result of a fall in the discount rate on liabilities following substantial reductions in gilt and bond yields. We have accelerated payments into the scheme to provide more flexibility and security and deficit reduction payments increased by £0.7m to £1.4m in the year. The scheme was closed to future accrual in 2006.

Dividend and shareholder return

The Board is recommending a 16% increase in the final dividend to 14.8p per share (2015: 12.7p), giving a total of 21.1p for the year (2015: 18.3p). We are pleased that the growth in profitability and continued strong cash generation in the year has allowed us to again raise the dividend at an above average rate. If approved, the final dividend will be paid on 24 May 2017 to shareholders on the register on 28 April 2017, with the ex-dividend date being 27 April 2017.

Total shareholder returns have again been good, reflecting both dividend growth and our improved share price performance. Overall returns were 22% (2015: 33%) during the year.

Business

Revenues have increased across our business with strong progress in Hospitality more than offsetting a further planned contraction in Retail activity. Exports now represent 49% of Group sales.

Total sales to our Hospitality customers increased by £5.2m (13%) and reached a new record of £44.0m (2015: £38.8m). Contribution to Group operating profits rose by 29% to £9.2m from £7.2m.

The exceptional performance in export markets reported in the first half of 2016 was matched by further growth in the second half. Overall export sales grew by 31%. Whilst there has undoubtedly been some additional benefit from currency this year our progress over the medium term has been good, with export sales increasing by a compound annual rate in excess of 20% over a three year period. This progress has been driven by a combination of extending our distribution networks, investment in sales resource and a strong pipeline of new product introductions. Growth has been strongest in Europe, the region where we first prioritised export development and where we have benefited from Anti-Dumping Duties on imports from China, but has also been good in North America and the Rest of the World.

As we expected, progress in the UK has been more difficult to sustain as hospitality market growth has slowed. The rate of opening of new hospitality outlets has reduced and there is less clarity in relation to future growth prospects. We have retained our market leading position and continue to benefit from long term replacement sales.

The strength of our established relationships with end users, distributors and agents in the UK and worldwide continues to be of great value to the business.

Retail has continued to perform at a satisfactory level in line with our expectations and established strategy. Revenues reduced from £8.0m to £7.1m reflecting lower licensed sales and an increase in UK manufactured product. Higher margins on manufactured ranges have offset lower profitability on product sourced in US dollars. Contribution to Group profit was again maintained at £0.9m.

The core of our strategy has been to progressively move the mix of product we offer away from price competitive areas towards higher value added ranges offering profit opportunities to our customers as well as to Churchill. These products retain our existing technical performance benefits, but also increasingly deliver a differentiated range to customers. This has required a long term investment in both design and process innovation as well as in our people and operations. The rate of progress of new product sales across our markets has exceeded our expectations, with our hand-crafted Stonecast range becoming our most successful product in the three years since its launch.

We have a forward programme of new product development targeted at continuing this process of change and re-positioning.

Operations

Our manufacturing and logistics operations have performed well against demanding targets. The record level of hospitality revenue and the changing mix of production has required significant development and effort to deliver. We have made progress in refining our long term objectives and clearly aligning our fulfilment functions with the strategic aims of the business. Our ability to bring innovative new products from inception and through manufacture to market has been fundamental to the delivery of this year's performance. Our UK manufacturing operations will remain a key driver and facilitator of our strategy.

A number of important manufacturing projects, including the completion of additional production space, the improvement of process flow and the installation of additional capacity, have been delivered on time and on budget. In 2016 capital expenditure on manufacturing and operations was £2.3m (2015: £1.1m). We have also strengthened our team in this area during the year both through the development of our workforce and selective recruitment. We expect to make further progress and investment during 2017.

People

The Company continues to benefit from the effort and commitment of our workforce. In an industry reliant on craft, skill, knowledge and experience we greatly appreciate the substantial advantage that our people bring to us.

Training and development have been prioritised at all levels across our business and we have committed further resource to building the capability of our workforce. The business' objectives increasingly require our employees to operate with autonomy and new skills. Our Masterclass process, which identifies opportunities to improve our quality and output, is working well beyond our original expectations and has identified several incremental improvements to our operations.

We have supplemented the development of our staff with targeted recruitment where there are opportunities to accelerate our rate of progress. Important long term appointments have been made in sales, marketing and in operations during the year.

We have previously noted the retirement of Jonathan Morgan after nine years of service as a Non Executive Director and the recruitment of Angela Bromfield to the Board, again in a Non Executive role. Once more we thank Jonathan for his contribution and welcome Angela.

Prospects

2016 was a year of strong performance across our business. The progress we made during the year was faster than we originally expected with profit growth ahead of long term average levels. We continue to believe that our strategy is well founded and that it can continue to be successfully executed.

Our markets continue to develop and a number of initiatives are in place which we expect to consolidate progress made to date and to provide further opportunities for future profitable growth. Our strategy of innovation, our focus on value added products and the competitive advantage

brought by our established position remain important. We expect to continue to expand export revenues, but are more cautious in relation to prospects for the UK.

We have clear long term strategic goals in relation to design, quality and service. These encourage us to continue to invest steadily and progressively to deliver long term value to our customers, our employees and also to our shareholders. We look forward to the coming year with confidence.

Alan McWalter
Chairman
27 March 2017

Churchill China plc
Consolidated Income Statement
for the year ended 31 December 2016

		Audited Year to 31 December 2016 £000	Audited Year to 31 December 2015 £000
	Note		
Revenue		<u>51,102</u>	<u>46,829</u>
Operating profit	1	6,398	4,959
Share of results of associate company		157	135
Finance income	2	80	82
Finance costs	2	<u>(120)</u>	<u>(162)</u>
Profit before income tax		6,515	5,014
Income tax expense	3	<u>(1,230)</u>	<u>(928)</u>
Profit for the year		<u>5,285</u>	<u>4,086</u>
		Pence per share	Pence per share
Basic earnings per ordinary share	4	48.2	37.3
Diluted basic earnings per ordinary share	4	47.8	36.9

All the above figures relate to continuing operations

Churchill China plc
Consolidated Statement of Comprehensive Income
for the year ended 31 December 2016

	Audited Year to 31 December 2016 £000	Audited Year to 31 December 2015 £000
Other comprehensive (expense) / income		
Items that will not be reclassified to profit or loss:		
Actuarial (loss) / gain on retirement benefit obligations	(5,188)	104
Items that may be reclassified subsequently to profit or loss:		
Impact of change in UK tax rate on deferred tax on revaluation reserve	12	24
Currency translation differences	<u>60</u>	<u>16</u>
Other comprehensive (expense) / income	(5,116)	144
Profit for the year	5,285	4,086
Total comprehensive income for the period	<u>169</u>	<u>4,230</u>
Attributable to:		
Equity holders of the Company	<u>169</u>	<u>4,230</u>

All the above figures relate to continuing operations

Churchill China plc
Consolidated Balance Sheets
as at 31 December 2016

	Audited 31 December 2016 £000	Audited 31 December 2015 £000
Assets		
Non Current assets		
Property, plant and equipment	14,897	14,046
Intangible assets	89	59
Investment in associates	1,388	1,231
Deferred income tax assets	1,658	848
	<u>18,032</u>	<u>16,184</u>
Current assets		
Inventories	9,102	8,360
Trade and other receivables	9,479	8,648
Other financial assets	3,005	2,500
Cash and cash equivalents	9,734	9,307
	<u>31,320</u>	<u>28,815</u>
Total assets	<u>49,352</u>	<u>44,999</u>
Liabilities		
Current liabilities		
Trade and other payables	(10,310)	(8,721)
Current income tax liabilities	(852)	(580)
	<u>(11,162)</u>	<u>(9,301)</u>
Non current liabilities		
Deferred income tax liabilities	(834)	(936)
Retirement benefit obligations	(8,731)	(3,837)
	<u>(9,565)</u>	<u>(4,773)</u>
Total liabilities	<u>(20,727)</u>	<u>(14,074)</u>
Net assets	<u>28,625</u>	<u>30,925</u>
Equity attributable to owners of the Company		
Issued share capital	1,103	1,101
Share premium account	2,348	2,348
Treasury shares	(575)	(144)
Other reserves	1,544	1,439
Retained earnings	24,205	26,181
	<u>28,625</u>	<u>30,925</u>

Churchill China plc
Consolidated Statement of Changes in Equity
as at 31 December 2016

	Retained earnings	Share capital	Share premium account	Treasury shares	Other reserves	Total
	£000	£000	£000	£000	£000	£000
Balance at 1 January 2015	23,654	1,096	2,348	(224)	1,532	28,406
Comprehensive income						
Profit for the period	4,086	-	-	-	-	4,086
Other comprehensive income	-	-	-	-	-	-
Depreciation transfer - gross	12	-	-	-	(12)	-
Depreciation transfer - tax	(2)	-	-	-	2	-
Deferred tax - change in rate	-	-	-	-	24	24
Actuarial gains - net	104	-	-	-	-	104
Currency translation	-	-	-	-	16	16
Total comprehensive income	4,200	-	-	-	30	4,230
Transactions with owners						
Dividends	(1,816)	-	-	-	-	(1,816)
Proceeds of share issue	-	5	-	5	-	10
Share based payment	250	-	-	-	(123)	127
Deferred tax - share based payment	102	-	-	-	-	102
Treasury shares	(209)	-	-	75	-	(134)
Total transactions with owners	(1,673)	5	-	80	(123)	(1,711)
Balance at 31 December 2015	26,181	1,101	2,348	(144)	1,439	30,925
Comprehensive income						
Profit for the period	5,285	-	-	-	-	5,285
Other comprehensive income						
Depreciation transfer - gross	12	-	-	-	(12)	-
Depreciation transfer - tax	(2)	-	-	-	2	-
Deferred tax - change in rate	-	-	-	-	12	12
Actuarial losses - net	(5,188)	-	-	-	-	(5,188)
Currency translation	-	-	-	-	60	60
Total comprehensive income	107	-	-	-	62	169
Transactions with owners						
Dividends	(2,085)	-	-	-	-	(2,085)
Proceeds of share issue	-	2	-	2	-	4
Share based payment	117	-	-	-	43	160
Deferred tax - share based payment	27	-	-	-	-	27
Treasury shares	(142)	-	-	(433)	-	(575)
Total transactions with owners	(2,083)	2	-	(431)	43	(2,469)

Balance at 31 December 2016	24,205	1,103	2,348	(575)	1,544	28,625
-----------------------------	--------	-------	-------	-------	-------	--------

Churchill China plc
Consolidated Cash Flow Statement
for the year ended 31 December 2016

	Audited Year to 31 December 2016 £000	Audited Year to 31 December 2015 £000
Cash flows from operating activities		
Cash generated from operations (note 5)	6,744	5,316
Interest received	80	82
Interest paid	(1)	(1)
Income tax paid	(813)	(922)
Net cash generated from operating activities	<u>6,010</u>	<u>4,475</u>
Cash flows from investing activities		
Purchases of property, plant and equipment	(2,436)	(1,214)
Proceeds on disposal of property, plant and equipment	93	52
Purchases of intangible assets	(81)	(27)
Net cash used in investing activities	<u>(2,424)</u>	<u>(1,189)</u>
Cash flows from financing activities		
Issue of ordinary shares	4	10
Purchase of treasury shares	(575)	(134)
Dividends paid	(2,085)	(1,816)
Sale of other financial assets	2,500	1,500
Purchase of other financial assets	(3,005)	(2,500)
Net cash used in financing activities	<u>(3,161)</u>	<u>(2,940)</u>
Net increase in cash and cash equivalents	425	346
Cash and cash equivalents at the beginning of the year	9,307	8,961
Exchange gains on cash and cash equivalents	2	-
Cash and cash equivalents at the end of the year	<u>9,734</u>	<u>9,307</u>

**1. Segmental analysis
for the year ended 31 December 2016**

	Hospitality £000	Retail £000	Unallocated £000	Group £000
Revenue	43,961	7,141	-	51,102
Contribution to group overheads excluding depreciation and amortisation	10,630	986	(3,502)	8,114
Depreciation and amortisation	(1,408)	(113)	(195)	(1,716)
Operating profit	9,222	873	(3,697)	6,398
Share of results of associate company				157
Finance income				80
Finance costs				(120)
Profit before income tax				6,515
Income tax expense				(1,230)
Profit for the period				5,285

12 months to 31 December 2015

Revenue	38,859	7,970	-	46,829
Contribution to group overheads excluding depreciation and amortisation	8,182	1,121	(2,849)	6,454
Depreciation and amortisation	(1,033)	(225)	(237)	(1,495)
Operating profit	7,149	896	(3,086)	4,959
Share of results of associate company				135
Finance income				82
Finance costs				(162)
Profit before income tax				5,014
Income tax expense				(928)
Profit for the period				4,086

2. Finance income and costs

	Audited Year to 31 December 2016 £000	Audited Year to 31 December 2015 £000
Finance income		
Interest income on cash and cash equivalents	80	82
Finance income	<u>80</u>	<u>82</u>
Finance cost		
Interest on pension scheme	(119)	(161)
Other interest	(1)	(1)
Finance costs	<u>(120)</u>	<u>(162)</u>

The interest cost arising from pension schemes is a non cash item.

3. Income tax expense

	Audited Year to 31 December 2016 £000	Audited Year to 31 December 2015 £000
Current taxation	1,086	803
Deferred taxation	144	125
Income tax expense	<u>1,230</u>	<u>928</u>

4. Earnings per ordinary share

Basic earnings per ordinary share is based on the profit on ordinary activities after income tax of £5,285,000 (2015: £4,086,000) and on 10,972,257 (2015: 10,956,828) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

Diluted basic earnings per ordinary share is based on the profit on ordinary activities after income tax of £5,285,000 (2015: £4,086,000) and on 11,067,101 (2015: 11,064,046) ordinary shares, being the weighted average number of ordinary shares in issue during the year of 10,972,257 (2015:10,956,828) increased by 94,844 (2014:107,218) shares, being the weighted average number of ordinary shares which would have been issued if the outstanding options to acquire shares in the Group had been exercised at the average price during the period.

5. Reconciliation of operating profit to net cash inflow from continuing activities

	Audited Year to 31 December 2016 £000	Audited Year to 31 December 2015 £000
Cash flows from operating activities		
Operating profit	6,398	4,959
Adjustments for		
Depreciation	1,716	1,495
(Profit) / loss on disposal of property, plant and equipment	(8)	4
Charge for share based payment	160	128
Defined benefit pension cash contribution	(1,430)	(758)
Changes in working capital		
Inventory	(742)	(86)
Trade and other receivables	(750)	(371)
Trade and other payables	1,400	(55)
Net cash inflow from operations	6,744	5,316

6. Dividend

The final dividend, which has not been provided for, has been calculated on 10,955,172 (2015: 10,986,230) ordinary shares, being those in issue at 31 December 2016 qualifying for dividend and at a rate of 14.8p (2015: 12.7p) per 10p ordinary share. The dividend will be paid on 24 May 2017 to shareholders on the register at 28 April 2017, subject to approval at the Company's Annual General Meeting.

The total dividend paid and proposed in respect of the year is 21.1p (2015: 18.3p).

7. Basis of preparation and accounting policies

The financial information included in the preliminary announcement for year to 31 December 2016 has been audited and an unqualified audit report has been issued.

The preliminary financial statements represent extracts from those audited accounts but do not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006.

The Group's financial statements have been prepared in accordance with IFRS as adopted by the European Union, IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS, under the historical cost convention as modified by the revaluation of land and buildings, available for sale financial assets, and financial assets and liabilities (including derivative instruments) at fair value through the profit and loss account. The same accounting policies,

presentation and methods of computation are followed in the preliminary financial statements as were applied in the Group's financial statements for the year ended 31 December 2015.

Statutory accounts for the year ended 31 December 2015 have been delivered to the Registrar of Companies. Statutory accounts for the year ended 31 December 2016 will be delivered to the Registrar of Companies after the Company's Annual General Meeting and will also be available on the Company's website (www.churchill1795.com) on or around 24 April 2017 and will be sent to shareholders on the same date.