



**CHURCHILL CHINA plc**

("Churchill China" or the "Company" or the "Group")

**PRELIMINARY RESULTS**

***For the year ended 31 December 2017***

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 2017.

**Key Highlights:**

- Group revenue up 5% to £53.5m (2016: £51.1m)
  - Hospitality revenue growth 8% (2016: 13%)
  - Group export revenues up 19% (2016: 27%)
  - Exports represent 55% (2016: 49%) of Group revenue
- Operating profit before exceptional item up 17% to £7.5m (2016: £6.4m)
- Profit before exceptional item and tax up 15% to £7.5m (2016: £6.5m)
- Adjusted earnings per share up 15% to 55.3p (2016: 48.2p)
- Exceptional profit on disposal of surplus property £0.3m (2016: £nil)
- Profit before tax £7.8m (2016: £6.5m)
- Basic earnings per share up 21% to 58.4p (2016: 48.2p)
- Proposed final dividend up 16% to 17.2p (2016: 14.8p)
- Cash generated from operations £7.7m (2016: £6.7m)
- Good progress against key strategic objectives

**Alan McWalter, Chairman of Churchill China, commented:**

"I am pleased that I can once again report a strong performance in the year. We have continued to make progress against our long term targets and further invested in our business. We look forward to the coming year with confidence."

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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 that I can once again report a strong performance in the year. We have continued to make progress against our long term targets and have delivered good returns from the development of our strong market position. In export markets we have increased the proportion of value added products within our product range and further invested across our operations. Our aim is always to deliver a balance between improved performance year on year and to maintain investment in support of our long term strategies. We are pleased to have achieved this again during 2017.

### **Financial Review**

Total revenues increased by 5% to £53.5m (2016: £51.1m) with further strong growth in Hospitality export revenues offsetting lower Retail sales as the balance of our business changed in line with our strategic aims. UK revenues were 8% lower at £24.0m (2016: £26.2m). Export revenues were £4.6m higher (+19%) at £29.5m (2016: £24.9m) of which £1.9m was due to more favourable exchange rates.

Gross margins have improved with much of our increased revenue coming from sales of value added product.

Operating profit before exceptional items increased by 17% to £7.5m (2016: £6.4m). Operating margins improved to 13.9% (2016: 12.5%). Operating profit benefitted from a further move towards added value, differentiated products and from favourable exchange rates. We have used much of the additional margin to accelerate our investment in market development and in reorganising our approach to key markets with an overall rise in sales and marketing expenditure of £0.7m .

Earnings before interest, tax, depreciation and amortisation increased by 12% to £9.1m (2016: £8.1m).

Profit before exceptional items and tax rose by 15% to £7.5m (2016: £6.5m), as a result of our improved operating performance.

Adjusted earnings per share improved by 15% to 55.3p (2016: 48.2p).

During the year we disposed of surplus property at Whieldon Road, Stoke on Trent for a total consideration of £1.1m. The proceeds will be reinvested into our main Sandyford site. The profit on disposal of £0.3m has been treated as exceptional.

Profit before tax and after exceptional items rose to £7.8m from £6.5m in 2016.

Basic earnings per share, including the above exceptional profit, improved by 21% to 58.4p (2016: 48.2p)

We have also continued to generate strong operating cash flows. Operating cash generation was £7.7m (2016: £6.7m). Working capital requirements were slightly higher than last year at £0.2m (2017: £0.1m) mainly due to a further increase in inventory to support higher sales, a wider product range and customer service. The cash spend on capital projects was £2.1m (2016: £2.5m). We expect capital spend to rise in 2018 as we continue to invest in capacity, capability and efficiency. At the year end, net cash and deposit balances had risen by £2.9m to £15.6m (2016: £12.7m).

### **Dividend and shareholder return**

The Board is recommending a 16% increase in the final dividend to 17.2p per share (2016: 14.8p), giving a total of 24.6p for the year (2016: 21.1p). 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 2018 to shareholders on the register on 27 April 2018, with the ex-dividend date being 26 April 2018.

Good shareholder returns have again been achieved, reflecting both dividend growth and share price performance. Overall Total Shareholder Returns were 36% (2016: 22%) 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 55% of Group revenues.

Total sales to our Hospitality customers increased by £3.4m (8%) and reached a new record of £47.4m (2016: £44.0m). Hospitality sales now represent almost 90% of Group revenue.

The strong performance in export markets reported in the first half of 2017 has been followed by further growth in the second half. Overall export sales grew by 19%. Whilst there has been some further benefit from currency this year, we continue to generate real growth in our target overseas markets. Progress over the medium term has been very good with exports increasing by a compound annual rate in excess of 20% over the last three years. Targeted new product introductions have been supported by market development covering both extra sales resource and the planned development of our international distribution network. Growth has again been strongest in Europe, the region where we have prioritised development and where we have benefited from Anti-Dumping Duties on imports from China. Growth in North America and the Rest of the World has also been positive.

As we expected, the UK has been affected by more difficult conditions with a reduction in new restaurant openings. Revenues in this market have reduced by 6%. We have reviewed our UK market position and changed our approach to reflect current activity levels. We have adapted our management focus and increased the amount of marketing support, including new product development, allocated to the UK. We have retained our market leading position and continue to benefit from a consistent level of 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.

We have again increased the proportion of our revenue represented by added value products, building on the trend established over several years. Stonecast and Studio Prints continue to perform well and to gain wide market acceptance.

Retail has continued to perform at a satisfactory level in accordance with our strategic targets. Revenues were lower at £6.1m (2016: £7.1m) with the majority of the reduction attributable to the UK. We have maintained margin levels at the expense of lower volumes.

The main drivers of our strategy remain to progressively increase the proportion of revenue represented by higher added value ranges offering profit opportunities both to our customers and to Churchill and additionally to extend the reach of our operations, building a more broad based business. Our products offer a well designed and differentiated range to our customers and deliver considerable technical performance benefits.

## **Operations**

Our manufacturing and logistics operations continue to support the development of the business. The improvement in our market position has generated a matching requirement to change and improve the operation of the fulfilment side of our business to meet revised needs. We have made significant progress in addressing new challenges in relation to capacity, product and process capability, quality and customer service across a wider product range and a more extended geographic footprint.

A number of important manufacturing and logistics projects have been completed during the year. We have increased our capacity to manufacture added value products, improved process flow in production and increased our ability to meet higher customer service requirements during peak demand periods.

We expect to make further progress during 2018 in relation to the expansion of capacity at our UK manufacturing site and in supporting the continued growth of our export business.

### **People**

One of the major objectives in our forward plan is to ensure that we have the right people across our business to meet our aspirations. We continue to believe that we have a skilled, loyal and well motivated workforce and once again I thank them for their effort and commitment across the year.

During the year we have increased our focus on the assessment of future requirements for workforce skills and experience across our business. We have elevated the training and development of our staff as a core element of our strategy and have reflected this in our management structure. We operate a number of continuous improvement programmes which, whilst principally designed to increase our operational effectiveness, also give an important opportunity for staff to learn new skills.

### **Prospects**

We are pleased with the progress we made in 2017 both in terms of the reported performance for the year and, perhaps more importantly, in the progress we have made in support of the future development of Churchill. Additional margin has allowed us to make further investments across a number of areas which we believe will generate profitable growth. We expect to generate a return from this expenditure in 2018 and beyond. We do, however, recognise that there is a higher level of general uncertainty in a number of markets and we have reflected this within our strategic process.

The focus of our strategy remains continued innovation to improve the value our products offer to our customers and investment across the business to allow us to extend the breadth of the markets we serve. We continue to develop new investment opportunities in support of our future aspirations. Our business has a good position in attractive markets, is well invested and has a strong financial base. Performance in the year to date has been good and we look forward to the coming year with confidence.

Alan McWalter  
Chairman  
27 March 2018

**Churchill China plc**  
**Consolidated Income Statement**  
**for the year ended 31 December 2017**

		<b>Audited Year to 31 December 2017 £000</b>	<b>Audited Year to 31 December 2016 £000</b>
<b>Revenue</b>	<b>Note</b>	<b>53,530</b>	<b>51,102</b>
<b>Operating profit before exceptional item</b>		<b>7,460</b>	<b>6,398</b>
Exceptional item – profit on disposal	2	315	-
<b>Operating profit</b>		<b>7,775</b>	<b>6,398</b>
Share of results of associate company		159	157
Finance income	3	66	80
Finance costs	3	(225)	(120)
<b>Profit before exceptional item and income tax</b>		<b>7,460</b>	<b>6,515</b>
Exceptional item – profit on disposal	2	315	-
<b>Profit before income tax</b>		<b>7,775</b>	<b>6,515</b>
Income tax expense	4	(1,361)	(1,230)
<b>Profit for the year</b>		<b>6,414</b>	<b>5,285</b>
		<b>Pence per share</b>	<b>Pence per Share</b>
Basic earnings per ordinary share	5	<b>58.4</b>	48.2
Adjusted earnings per ordinary share	5	<b>55.3</b>	48.2
Diluted basic earnings per ordinary shares	5	<b>57.9</b>	47.8
Adjusted diluted earnings per ordinary share	5	<b>54.8</b>	47.8

**Churchill China plc**  
**Consolidated Statement of Comprehensive Income**  
**for the year ended 31 December 2017**

	<b>Audited Year to 31 December 2017 £000</b>	Audited Year to 31 December 2016 £000
<b>Other comprehensive income / (expense)</b>		
<b>Items that will not be reclassified to profit or loss:</b>		
Actuarial gain / (loss) on retirement benefit obligations	1,344	(5,188)
<b>Items that may be reclassified subsequently to profit or loss:</b>		
Impact of change in UK tax rate on deferred tax on revaluation reserve	-	12
Currency translation differences	(33)	60
	<hr/>	<hr/>
<b>Other comprehensive income / (expense)</b>	1,311	(5,116)
Profit for the year	6,414	5,285
	<hr/>	<hr/>
<b>Total comprehensive income for the period</b>	<u>7,725</u>	<u>169</u>
Attributable to:		
<b>Equity holders of the Company</b>	<u>7,725</u>	<u>169</u>

All the above figures relate to continuing operations

**Churchill China plc**  
**Consolidated Balance Sheets**  
**as at 31 December 2017**

	<b>Audited</b> <b>31 December</b> <b>2017</b> <b>£000</b>	Audited 31 December 2016 £000
<b>Assets</b>		
<b>Non Current assets</b>		
Property, plant and equipment	14,542	14,897
Intangible assets	101	89
Investment in associates	1,547	1,388
Deferred income tax assets	1,197	1,658
	<u>17,387</u>	<u>18,032</u>
<b>Current assets</b>		
Inventories	9,816	9,102
Trade and other receivables	8,650	9,479
Other financial assets	3,000	3,005
Cash and cash equivalents	12,577	9,734
	<u>34,043</u>	<u>31,320</u>
<b>Total assets</b>	<u>51,430</u>	<u>49,352</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade and other payables	(10,024)	(10,310)
Current income tax liabilities	(831)	(852)
	<u>(10,855)</u>	<u>(11,162)</u>
<b>Total current liabilities</b>	<u>(10,855)</u>	<u>(11,162)</u>
<b>Non-current liabilities</b>		
Deferred income tax liabilities	(775)	(834)
Retirement benefit obligations	(5,907)	(8,731)
	<u>(6,682)</u>	<u>(9,565)</u>
<b>Total non-current liabilities</b>	<u>(6,682)</u>	<u>(9,565)</u>
<b>Total liabilities</b>	<u>(17,537)</u>	<u>(20,727)</u>
<b>Net assets</b>	<u>33,893</u>	<u>28,625</u>
<b>Equity attributable to owners of the Company</b>		
Issued share capital	1,103	1,103
Share premium account	2,348	2,348
Treasury shares	(579)	(575)
Other reserves	1,565	1,544
Retained earnings	29,456	24,205
	<u>33,893</u>	<u>28,625</u>

**Churchill China plc**  
**Consolidated Statement of Changes in Equity**  
**as at 31 December 2017**

	Retained earnings	Share capital	Share premium account	Treasury shares	Other reserves	Total
	£000	£000	£000	£000	£000	£000
<b>Balance at 1 January 2016</b>	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 gains - 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)
<b>Balance at 31 December 2016</b>	24,205	1,103	2,348	(575)	1,544	28,625
Comprehensive income						
Profit for the period	6,414	-	-	-	-	6,414
Other comprehensive income						
Depreciation transfer – gross	12	-	-	-	(12)	-
Depreciation transfer - tax	(2)	-	-	-	2	-
Deferred tax - change in rate	-	-	-	-	-	-
Actuarial losses - net	1,344	-	-	-	-	1,344
Currency translation	-	-	-	-	(33)	(33)
Total comprehensive income	7,768	-	-	-	(43)	7,725
Transactions with owners						
Dividends	(2,433)	-	-	-	-	(2,433)
Proceeds of share issue	-	-	-	3	-	3
Share based payment	123	-	-	-	64	187
Deferred tax - share based payment	57	-	-	-	-	57
Treasury shares	(264)	-	-	(7)	-	(271)
Total transactions with owners	(2,517)	-	-	(4)	64	(2,457)
<b>Balance at 31 December 2017</b>	29,456	1,103	2,348	(579)	1,565	33,893



**Churchill China plc**  
**Consolidated Cash Flow Statement**  
**for the year ended 31 December 2017**

	<b>Audited Year to 31 December 2017 £000</b>	Audited Year to 31 December 2016 £000
<b>Cash flows from operating activities</b>		
Cash generated from operations (note 6)	7,743	6,744
Interest received	66	80
Interest paid	-	(1)
Income tax paid	(1,198)	(813)
<b>Net cash generated from operating activities</b>	<u>6,611</u>	<u>6,010</u>
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment	(2,155)	(2,436)
Proceeds on disposal of property, plant and equipment	1,139	93
Purchases of intangible assets	(54)	(81)
<b>Net cash used in investing activities</b>	<u>(1,070)</u>	<u>(2,424)</u>
<b>Cash flows from financing activities</b>		
Issue of ordinary shares	3	4
Purchase of treasury shares	(271)	(575)
Dividends paid	(2,433)	(2,085)
Net sale / (purchase) of other financial assets	5	(505)
<b>Net cash used in financing activities</b>	<u>(2,696)</u>	<u>(3,161)</u>
<b>Net increase in cash and cash equivalents</b>	2,845	425
<b>Cash and cash equivalents at the beginning of the year</b>	9,734	9,307
Exchange (loss) / gain on cash and cash equivalents	(2)	2
<b>Cash and cash equivalents at the end of the year</b>	<u><b>12,577</b></u>	<u><b>9,734</b></u>

## 1. Segmental analysis for the year ended 31 December 2017

As noted in the Company's statutory accounts for the year ended 31 December 2016 the format of reporting to the Chief Operating Decision Maker, the Board of Churchill China plc, changed from 1 January 2017. As the degree of integration of the Company's previously identified business segments has increased, the ability to determine an allocation of costs and profits objectively between them has reduced. The majority of operations within the Group, including people, assets and processes, are now merged and managed on a single market basis. The allocations necessary to produce segmental profit figures are no longer analysed internally. The Chief Operating Decision Maker now reviews profitability on a Group basis and makes management decisions on a single entity basis.

The figures given below analyse Group revenue between markets and geographic regions.

	Audited Year to 31 December 2017 £000	Audited Year to 31 December 2016 £000
<b>Revenue</b>		
Hospitality	47,395	43,961
Retail	6,135	7,141
	<u>53,530</u>	<u>51,102</u>
<b>Revenue</b>		
United Kingdom	24,016	26,207
Rest of Europe	17,688	14,605
North America	6,470	4,966
Rest of the World	5,356	5,324
	<u>53,530</u>	<u>51,102</u>

## 2. Exceptional item

During the year the Group disposed of surplus property at Whieldon Road, Stoke on Trent for a total consideration of £1,100,000. The profit arising on this sale has been treated as exceptional given its size and nature. A deferred tax credit of £28,000 arising on the sale has also been treated as exceptional.

## 3. Finance income and costs

	Audited Year to 31 December 2017 £000	Audited Year to 31 December 2016 £000
<b>Finance income</b>		
Interest income on cash and cash equivalents	66	80
Finance income	<u>66</u>	<u>80</u>
<b>Finance cost</b>		
Interest on pension scheme	(225)	(119)
Other interest	-	(1)
Finance costs	<u>(225)</u>	<u>(120)</u>

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

#### 4. Income tax expense

	Audited Year to 31 December 2017 £000	Audited Year to 31 December 2016 £000
Current taxation	1,177	1,086
Deferred taxation	184	144
Income tax expense	<u>1,361</u>	<u>1,230</u>

#### 5. Earnings per ordinary share

Basic earnings per ordinary share is based on the profit on ordinary activities after income tax of £6,414,000 (2016: 5,285,000) and on 10,964,462 (2016: 10,972,257) ordinary shares, being the weighted average number of ordinary shares in issue during the year. Adjusted earnings per share is calculated after adjusting for the post tax effect of the exceptional profit on disposal of property of £343,000 (2016: nil) (Note 2).

	Audited Year to 31 December 2017	Audited Year to 31 December 2016
Pence per share		
Basic earnings per share	58.4	48.2
Less: Exceptional item – profit on disposal	(3.1)	-
Adjusted earnings per share	<u>55.3</u>	<u>48.2</u>

Diluted basic earnings per ordinary share is based on the profit on ordinary activities after income tax of £6,414,000 (2016: £5,285,000) and on 11,062,013 (2016: 11,067,101) ordinary shares, being the weighted average number of ordinary shares in issue during the year of 10,964,462 (2016: 10,972,257) increased by 97,551 (2016: 94,844) 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. Adjusted diluted earnings per share is calculated after adjusting for the post tax effect of the exceptional profit on disposal of property of £343,000 (2016: £nil) (Note 2).

	Audited Year to 31 December 2017	Audited Year to 31 December 2016
Pence per share		
Basic earnings per share	57.9	47.8
Less: Exceptional item – profit on disposal	(3.1)	-
Adjusted earnings per share	<u>54.8</u>	<u>47.8</u>

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

	Audited Year to 31 December 2017 £000	Audited Year to 31 December 2016 £000
<b>Cash flows from operating activities</b>		
<b>Operating profit</b>	<b>7,775</b>	6,398
Adjustments for:		
Depreciation	1,621	1,716
(Profit) / loss on disposal of property, plant and equipment	(317)	(8)
Charge for share based payment	187	160
Defined benefit pension cash contribution	(1,430)	(1,430)
Changes in working capital		
Inventory	(714)	(742)
Trade and other receivables	785	(750)
Trade and other payables	(164)	1,400
<b>Net cash inflow from operations</b>	<b>7,743</b>	6,744

## 7. Dividend

The final dividend, which has not been provided for, has been calculated on 10,962,323 (2016: 10,955,172) ordinary shares, being those in issue at 31 December 2017 qualifying for dividend and at a rate of 17.2p (2016: 14.8p) per 10p ordinary share. The dividend will be paid on 24 May 2018 to shareholders on the register at 27 April 2018, subject to approval at the Company's Annual General Meeting.

The total dividend paid and proposed in respect of the year is 24.6p (2016: 21.1p).

## 8. Share buybacks

The Company bought back 27,000 shares during the year and may consider making further similar sized, ad hoc share buybacks going forward at the discretion of the Board and subject to shareholder authorities being renewed at the forthcoming Annual General Meeting.

## 9. Basis of preparation and accounting policies

The financial information included in the preliminary announcement for year to 31 December 2017 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 2017.

Statutory accounts for the year ended 31 December 2016 have been delivered to the Registrar of Companies. Statutory accounts for the year ended 31 December 2017 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](http://www.churchill1795.com)) on or around 23 April 2018 and will be sent to shareholders on the same date.