CHURCHILL

CHINA PLC

INTERIM REPORT 2017

KEY HIGHLIGHTS

- Group revenue up 8% to £25.8m (H1 2016: £24.0m)
  – Hospitality revenue growth 11% (H1 2016: 13%)
- Operating profit up 33% to £2.7m (H1 2016: £2.0m)
- Profit before tax up 30% to £2.7m (H1 2016: £2.0m)
- Basic earnings per share up 32% to 19.6p (H1 2016: 14.8p)
- Interim dividend up 17% to 7.4p (H1 2016: 6.3p)
- Cash and deposits £10.3m (June 2016: £9.6m)
- Further progress against key strategic objectives

A J McWalter
Chairman of Churchill China commented

"Our results in the first six months of the year continue to demonstrate both a strong increase in profitability and further progress against our strategic objectives."

CHAIRMAN'S STATEMENT

Introduction
Our results in the first six months of the year continue to demonstrate both a strong increase in profitability and further progress against our strategic objectives. We have once again grown Hospitality revenues in overseas markets, increased the proportion of sales represented by higher margin added value products and further invested in the long term development of our business. Whilst our overall results have also benefited from the weakness of sterling in the short term, we remain confident that we are implementing the right strategies for the long term success of the business.

Financial Review
Total revenues increased by 8% to £25.8m (H1 2016: £24.0m) with growth across each of our Hospitality export markets. This targeted growth in overseas sales more than offset a more muted performance in the UK and generally in Retail markets. Revenue growth in constant currency terms was 2%.

Gross margins have improved with a substantial part of our increased revenue coming from sales of value added product. Long term investment in our business has allowed us to meet increased demand effectively.

Operating profit increased by 33% to £2.7m (H1 2016: £2.0m). Operating margins improved to 10.3% (H1 2016: 8.4%). The returns from our market and product development over the longer term have increased our confidence in our approach and as a result we have brought forward further planned investments to support future expansion.

The positive impact of favourable currency rates on revenue was £1.3m. Operating profit was improved by £0.3m with the benefit to revenue offset by the translational effect on imported materials, products and overheads purchased in currency.

Earnings before interest, tax, depreciation and amortisation increased by 31% to £3.6m (H1 2016: £2.8m).

Profit before tax rose by 30% to £2.7m (H1 2016: £2.0m), largely a result of our improved operating performance.

Basic earnings per share improved by 32% to 19.6p (H1 2016: 14.8p).

Operating cash flow was sound, with working capital demands, as normal, higher in the first half of the year. The cash spend on capital projects was lower at £1.1m (H1 2016: £1.6m). We expect a higher spend in the second half of the year as a number of projects are completed. Net cash and deposit balances were higher than the comparable figure in 2016 at £10.3m (H1 2016: £9.6m).

Dividend
The Board is declaring a 17% increase in the interim dividend to 7.4p per share (H1 2016: 6.3p). We are pleased that the growth in our profitability and strong cash position has allowed us to again raise the dividend. The interim dividend will be paid on 5 October 2017 to shareholders on the register on 8 September 2017, with the ex-dividend date being 7 September 2017.

Business
Overall revenues have increased across our business with strong export growth in Hospitality more than offsetting a quieter UK market and a further planned contraction in Retail activity. Exports now represent 57% of revenue.

Total revenue from Hospitality customers increased by £2.3m (11%) and reached a new high of £22.8m (H1 2016: £20.5m); within this exports grew by £2.6m (24%) to £13.2m (H1 2016: £10.6m). Export growth in constant currency terms was 12% (H1 2016: 24%).

We have continued to progress well against our strategic aim of growing our position in Europe, with revenue increasing by £1.7m (24%) in the first half year. We identified Europe as a market for development several years ago and we have delivered strong and consistent growth from our focus and investment. We have improved our distribution in key regional markets and increased the level of resource applied to the market as a whole. We now have a strong, scalable presence in Europe, but believe our relatively small market share will continue to allow us to generate further growth opportunities.

We have also delivered increased revenues from our other target export regions, North America and the Rest of the World. In the first half year Hospitality sales to these markets grew by 20% and 27% respectively and whilst they are at an earlier stage of development, we have refined our forward development plans to reflect the growing number of opportunities that we are beginning to identify.

As we expected, UK revenues continued to be impacted by a slowing of growth in the market, particularly in respect of the rate of new investment by major end users. Product replacement sales continue to be satisfactory. We have reflected this change in our forward plans and aim to continue to maintain our market leading position.

Retail revenues have declined from £3.5m to £2.9m as we switched manufacturing resource to Hospitality in line with our strategic emphasis.

Alongside our plan to grow revenues in Hospitality, particularly in export markets, we have prioritised a re-positioning of our product range towards added value differentiated products. We believe this move both improves the sustainability of our market position and offers long term profit returns. New product development remains a key element of our overall business plan alongside our traditional virtues of service and product performance. Over the last five years we have progressively increased the percentage of our Hospitality sales represented by added value product and we have again made good progress in this area in the first half of 2017. Our Stonecast range continues to grow and sales of the Studio Prints range have benefited from the launch of our new Raku product. New product introductions have been well received and our development pipeline remains good.

The improvements we have seen in both the scale and spread of revenue and the breadth of our product range requires consistent re-investment of additional margin in distribution and market development. We have therefore accelerated investment in sales, marketing and development resources in key market areas.

Operations

Manufacturing and logistics have performed well in the first half year meeting increased demands from the business in terms of volume, new product introductions and project planning and implementation. Our key strategic target is to increase our productivity and capability through a focus on quality, process change and capital investment. Our investment in engineering and logistics skills is beginning to deliver benefits.

Whilst capital spend was lower than anticipated in the first half year we have made good progress on a number of investments. We expect to complete three key projects in the second half of the year, which will provide increments to production capacity, better process flow, improved quality and customer service. We have also begun work on our 2018 programme which is expected to increase manufacturing space and process automation, again linked to our target of ongoing productivity improvement.

People

We would like to express our thanks to our employees for their continued efforts during the period, particularly those involved in the Masterclass continuous improvement programme. The development of our business has been supported by a matching commitment from our staff as we continue to emphasise and invest in training and personal development across our team.

Prospects

Our trading in the first six months of 2017 maintained our record of improved performance established over several years. Given the opportunities available to us, we expect to continue to grow and diversify our export sales and to increase the proportion of well designed and differentiated products sold by our business. Additionally we believe that there are substantial rewards to be gained from our focus on productivity and customer service.

We continue to expect a relatively stable UK market and are also planning for the changes in the UK's relationship with Europe. We believe our core strategies provide a sustainable and resilient business model serving an increasingly diverse spread of markets with innovative performance products.

Trading momentum has been maintained since 30 June 2017 and we approach the key trading period in the year with confidence. We continue to expect that we will meet our targets for the second half year and remain positive in relation to our prospects for further progress.

A J McWalter
Chairman
31 August 2017

CONSOLIDATED INCOME STATEMENT
for the six months ended 30 June 2017

	Note	**Unaudited Six months to 30 June 2017 £000**	Unaudited Six months to 30 June 2016 £'000	Audited Twelve months to 31 December 2016 £'000
Revenue		**25,796**	23,980	51,102
Operating profit	1	**2,668**	2,011	6,398
Share of results of associate company		**82**	62	157
Finance income	2	**33**	46	80
Finance costs	2	**(123)**	(75)	(120)
Profit before income tax		**2,660**	2,044	6,515
Income tax expense	3	**(516)**	(417)	(1,230)
Profit for the period		**2,144**	1,627	5,285

		Pence per share	Pence per share	Pence per share
Basic earnings per ordinary share	4	**19.6**	14.8	48.2
Diluted basic earnings per ordinary share	4	**19.4**	14.7	47.8

All the above figures relate to continuing operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the six months ended 30 June 2017

	Unaudited Six months to 30 June 2017 £000	Unaudited Six months to 30 June 2016 £'000	Audited Twelve months to 31 December 2016 £'000
Other comprehensive (expense)/income			
Items that will not be reclassified to profit and loss:			
Actuarial gain on retirement benefit obligations	**–**	–	(5,188)
Items that may be reclassified subsequently to profit and loss:			
Impact of change in UK tax rate on deferred tax on revaluation	**–**	–	12
Exchange differences	**(19)**	35	60
Other comprehensive (expense)/income	**(19)**	35	(5,116)
Profit for the period	**2,144**	1,627	5,285
Total comprehensive income for the period	**2,125**	1,662	169
Attributable to:			
Equity holders of the Company	**2,125**	1,662	169

All the above figures relate to continuing operations.

CONSOLIDATED BALANCE SHEET
as at 30 June 2017

	Unaudited 30 June 2017 £000	Unaudited 30 June 2016 £'000	Audited 31 December 2016 £'000
Assets			
Non current assets			
Property, plant and equipment	**15,050**	15,106	14,897
Intangible assets	**59**	57	89
Investment in associate	**1,470**	1,293	1,388
Deferred income tax assets	**1,570**	791	1,658
	18,149	17,247	18,032
Current assets			
Inventories	**9,655**	8,980	9,102
Trade and other receivables	**9,589**	8,466	9,479
Other financial assets	**5,129**	3,000	3,005
Cash and cash equivalents	**5,226**	6,631	9,734
	29,599	27,077	31,320
Total assets	**47,748**	44,324	49,352
Liabilities			
Current liabilities			
Trade and other payables	**(9,075)**	(8,170)	(10,310)
Current income tax liabilities	**(658)**	(578)	(852)
Total current liabilities	**(9,733)**	(8,748)	(11,162)
Non current liabilities			
Deferred income tax liabilities	**(810)**	(948)	(834)
Retirement benefit obligations	**(8,139)**	(3,912)	(8,731)
Total non current liabilities	**(8,949)**	(4,860)	(9,565)
Total liabilities	**(18,682)**	(13,608)	(20,727)
Net assets	**29,066**	30,716	28,625
Shareholders' equity			
Issued share capital	**1,103**	1,103	1,103
Share premium account	**2,348**	2,348	2,348
Treasury shares	**(484)**	(575)	(575)
Other reserves	**1,476**	1,431	1,544
Retained earnings	**24,623**	26,409	24,205
	29,066	30,716	28,625

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
as at 30 June 2017

	Retained earnings £000	Share capital £000	Share premium £000	Treasury shares £000	Other reserves £000	Total £000
Balance at 1 January 2016	26,181	1,101	2,348	(144)	1,439	**30,925**
Comprehensive income						
Profit for the period	1,627	–	–	–	–	**1,627**
Other comprehensive income						
Depreciation transfer – gross	6	–	–	–	(6)	**–**
Depreciation transfer – tax	(1)	–	–	–	1	**–**
Currency translation	–	–	–	–	35	**35**
Total comprehensive income	1,632	–	–	–	30	**1,662**
Transactions with owners						
Dividends	(1,395)	–	–	–	–	**(1,395)**
Proceeds of share issue	–	2	–	2	–	**4**
Share based payment	117	–	–	–	(38)	**79**
Deferred tax – Share based payment	16	–	–	–	–	**16**
Treasury shares	(142)	–	–	(433)	–	**(575)**
Total transactions with owners	(1,404)	2	–	(431)	(38)	**(1,871)**
Balance at 30 June 2016	26,409	1,103	2,348	(575)	1,431	**30,716**
Comprehensive income						
Profit for the period	3,658	–	–	–	–	**3,658**
Other comprehensive income						
Depreciation transfer – gross	6	–	–	–	(6)	**–**
Depreciation transfer – tax	(1)	–	–	–	1	**–**
Deferred tax – change in rate	–	–	–	–	12	**12**
Remeasurements of post employment benefit obligation – net	(5,188)	–	–	–	–	**(5,188)**
Currency translation	–	–	–	–	25	**25**
Total comprehensive income	(1,525)	–	–	–	32	**(1,493)**
Transactions with owners						
Dividends	(690)	–	–	–	–	**(690)**
Share based payment	–	–	–	–	81	**81**
Deferred tax – Share based payment	11	–	–	–	–	**11**
Total transactions with owners	(679)	–	–	–	81	**(598)**
Balance at 31 December 2016	24,205	1,103	2,348	(575)	1,544	**28,625**
Comprehensive income						
Profit for the period	2,144	–	–	–	–	**2,144**
Other comprehensive income						
Depreciation transfer – gross	5	–	–	–	(5)	**–**
Depreciation transfer – tax	(1)	–	–	–	1	**–**
Currency translation	–	–	–	–	(19)	**(19)**
Total comprehensive income	2,148	–	–	–	(23)	**2,125**
Transactions with owners						
Dividends	(1,621)	–	–	–	–	**(1,621)**
Share based payment	123	–	–	–	(45)	**78**
Deferred tax – Share based payment	32	–	–	–	–	**32**
Treasury shares	(264)	–	–	91	–	**(173)**
Total transactions with owners	(1,730)	–	–	91	(45)	**(1,684)**
Balance at 30 June 2017	24,623	1,103	2,348	(484)	1,476	**29,066**

CONSOLIDATED CASH FLOW STATEMENT
for the six months ended 30 June 2017

	Unaudited Six months to 30 June 2017 £000	Unaudited Six months to 30 June 2016 £'000	Audited Twelve months to 31 December 2016 £'000
Cash flows from operating activities			
Cash generated from operations (note 5)	**1,089**	1,634	6,744
Interest received	**33**	46	80
Interest paid	**–**	–	(1)
Income tax paid	**(614)**	(332)	(813)
Net cash generated from operating activities	**508**	1,348	6,010
Investing activities			
Purchases of property, plant and equipment	**(1,105)**	(1,541)	(2,436)
Proceeds on disposal of property, plant and equipment	**25**	33	93
Purchases of intangible assets	**(17)**	(51)	(81)
Net cash used in investing activities	**(1,097)**	(1,559)	(2,424)
Financing activities			
Issue of ordinary shares	**3**	4	4
Purchase of treasury shares	**(176)**	(575)	(575)
Dividends paid	**(1,621)**	(1,395)	(2,085)
Sale of other financial assets	**1,126**	2,000	2,500
Purchase of other financial assets	**(3,250)**	(2,500)	(3,005)
Net cash used in financing activities	**(3,918)**	(2,466)	(3,161)
Net (decrease)/increase in cash and cash equivalents	**(4,507)**	(2,677)	425
Cash and cash equivalents at the beginning of the year	**9,734**	9,307	9,307
Exchange (losses)/gains on cash and cash equivalents	**(1)**	1	2
Cash and cash equivalents at the end of the year	**5,226**	6,631	9,734

NOTES TO THE INTERIM RESULTS
for the six months ended 30 June 2017

1. Segmental analysis

for the six months ended 30 June 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, has changed in 2017. As the degree of integration of the Company's two businesses, Hospitality and Retail, has increased, the ability to determine an allocation of costs objectively between Hospitality and Retail markets has reduced. The majority of operations within the Group, including people, assets and processes, are now merged and managed on a single segment 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.

	Unaudited Six months to 30 June 2017 £000	Unaudited Six months to 30 June 2016 £'000	Audited Twelve months to 31 December 2016 £'000
Revenue			
Hospitality	**22,838**	20,527	43,961
Retail	**2,958**	3,453	7,141
	25,796	23,980	51,102
Revenue			
United Kingdom	**11,067**	11,656	26,207
Rest of Europe	**8,989**	7,536	14,605
North America	**2,897**	2,473	4,966
Rest of the World	**2,843**	2,315	5,324
	25,796	23,980	51,102

2. Finance income and costs

	Unaudited Six months to 30 June 2017 £000	Unaudited Six months to 30 June 2016 £'000	Audited Twelve months to 31 December 2016 £'000
Finance income			
Other interest receivable	**33**	46	80
Finance income	**33**	46	80
Finance cost			
Interest on pension scheme	**(123)**	(75)	(119)
Other interest	**–**	–	(1)
Finance costs	**(123)**	(75)	(120)

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

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016

3. Income tax expense

	Unaudited Six months to 30 June 2017 £000	Unaudited Six months to 30 June 2016 £'000	Audited Twelve months to 31 December 2016 £'000
Current taxation	**420**	332	1,086
Deferred taxation	**96**	85	144
Income tax expense	**516**	417	1,230

4. Earnings per ordinary share

Basic earnings per ordinary share is based on the profit after taxation of £2,144,000 (June 2016: £1,627,000; December 2016: £5,285,000) and on 10,958,489 (June 2016: 10,982,793; December 2016: 10,972,257) ordinary shares, being the weighted average number of ordinary shares in issue during the period.

Diluted basic earnings per ordinary share is based on the profit after taxation of £2,144,000 (June 2016: £1,627,000; December 2016: £5,285,000) and on 11,056,040 (June 2016: 11,077,581; December 2016: 11,067,101) ordinary shares, being the weighted average number of ordinary shares in issue during the year of 10,958,489 (June 2016: 10,982,793; December 2016: 10,972,257) increased by 97,551 (June 2016: 94,788; December 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.

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

	Unaudited Six months to 30 June 2017 £000	Unaudited Six months to 30 June 2016 £'000	Audited Twelve months to 31 December 2016 £'000
Cash flow from operations			
Operating profit	**2,668**	2,011	6,398
Adjustments for			
Depreciation	**945**	755	1,716
Loss/(profit) on disposal of property, plant and equipment	**3**	3	(8)
Charge for share based payment	**78**	79	160
Decrease in retirement benefit obligations	**(715)**	–	(1,430)
Changes in working capital			
Inventory	**(553)**	(620)	(742)
Trade and other receivables	**(127)**	228	(750)
Trade and other payables	**(1,210)**	(822)	1,400
Cash inflow from operations	**1,089**	1,634	6,744

6. Basis of preparation and accounting policies

The interim financial information for the period to 30 June 2017 has not been audited or reviewed and does not constitute statutory accounts within the meaning of Section 435 of the Companies Act 2006. The Company's statutory accounts for the year ended 31 December 2016, prepared in accordance with accounting standards adopted for use in the European Union (International Financial Reporting Standards - IFRS), have been delivered to the Registrar of Companies; the report of the auditors on these accounts was unqualified and did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006.

The interim 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 interim financial statements as were applied in the Group's last audited financial statements.

The figures included in the statements in respect of Retirement Benefit Obligations are those calculated under IAS 19 (Revised) as at 31 December 2016 as adjusted for notional interest charges derived at that date and cash payments in the period to 30 June 2017. Asset and liability figures have not been recalculated to reflect changes in market conditions since 31 December 2016. The next full IAS 19 Revised calculation will be undertaken at 31 December 2017.

SHAREHOLDER NOTES

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